March 5, 2020

Dear Shareholders,

Matters Disclosed on the Internet Related to the Notice of Convocation of the 21st Ordinary General Meeting of Shareholders

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In accordance with the laws and regulations and Article 14 of Articles of Incorporation of the Company, matters above are deemed to be provided to the shareholders by being available on the Company's website (https://www.sumcosi.com).

SUMCO CORPORATION

Matters Relating to the Formulation of a System to Ensure Appropriate Corporate Actions

(1) System to ensure compliance with laws and regulations and the Articles of Incorporation of the Company by Directors and employees when executing their duties

1) The Company shall enact the "SUMCO CHARTER" as the supreme code of conduct for officers and employees to ensure that their duties comply with laws and regulations, and the Articles of Incorporation of the Company and fulfill their social responsibility. The Company shall also educate officers and employees to familiarize them with the "SUMCO CHARTER."

2) The Chief Compliance Officer shall be assigned as the supreme officer responsible for supervising compliance with the "SUMCO CHARTER." Each General Manager who is the head of an organization in the Company shall supervise compliance in his or her organization and submit regular reports on compliance with the CHARTER to the Chief Compliance Officer.

3) The Company shall establish an internal hotline for reporting violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities.

4) The Internal Auditing Department shall perform periodic audits to verify compliance in each department.

5) The Company shall further disseminate to its officers and employees the understanding of not having any connections with antisocial forces and refusing their improper solicitations as clearly stated in the "SUMCO CHARTER."

(2) System for the preservation and management of information regarding the execution of duties by Directors

The Company shall appropriately preserve and manage information regarding the execution of duties by Directors, in accordance with laws and regulations, the Articles of Incorporation and internal regulations under a system that enables the access to and duplication of the said information by Directors, Accounting Auditors, etc.

(3) Regulations and other systems for managing the risk of loss

1) The Company shall establish the "Risk Management Basic Rules" that stipulate basic issues on risk management, and based on them, the Company shall set up an information distribution route to be used upon occurrence of major risks and develop a system for installing Emergency Response Team.

2) The Company shall establish a "Business Security Committee (BSC)" that supervises overall risk management, to formulate a cross-sectional risk management policy and confirm the progress in addressing risks.

3) The Company shall establish internal regulations to appropriately manage individual risks related to information leakage, financial markets and product quality based on the Risk Management Basic Rules.

(4) System to ensure the effective execution of duties by Directors

1) The Company shall employ the executive officer system under which management decision-making and supervisory functions are separated from executive functions. Under the system a

Board of Directors shall carry out decision-making on important matters such as management policy and monitor the execution of duties by Directors as well as the performance of duties by executive officers, while the executive officers shall perform their duties delegated by a Board of Directors.

2) Important matters relating to management shall be deliberated at Management Conferences whose members shall consist of individuals holding the position of managing executive officer or higher.

3) The Company shall stipulate and clarify the criteria for submitting proposals to a Board of Directors and stipulate the authority of executive officers in internal regulations clarifying the responsibilities and authority of them.

4) A Board of Directors shall formulate management strategies and management plans and the executive officers shall execute duties aimed at achieving the objectives set forth in them. Directors also serving as executive officers shall periodically report on their duties to a Board of Directors.

(5) System to ensure proper business practices by the corporate group comprised of the Company, its parent company, and its subsidiaries

1) By making every subsidiary of the Company establish its own CHARTER as the supreme code of conduct equivalent to the "SUMCO CHARTER," compliance in each subsidiary as a member of the corporate group shall be established. Respective subsidiaries are requested to periodically report on their compliance with their CHARTERs.

2) The Company shall assign a department to manage subsidiaries and clarify subsidiary management standards in internal regulations in an effort to improve the soundness and effectiveness of management both in each of them and in the SUMCO Group as a whole. In addition, respective subsidiaries are requested to report on violations of laws and regulations and Articles of Incorporation or a probability of such violations, or matters that can cause serious losses to them, besides the performance, financial conditions and other important management information, etc.

3) Respective subsidiaries are requested to formulate basic policies related to risk management and promote their response to risks. They are requested to report on the state of the implementation of risk management at the "Business Security Committee (BSC)." In addition, respective subsidiaries are requested to establish a communication route in case that a serious risk occurs.

4) The Company shall establish an internal hotline which is independent from the executive office of the Company to allow employees of the subsidiaries to directly report violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities, etc.

5) The Internal Auditing Department shall perform periodic internal audits of the subsidiaries.

(6) Matters regarding employees requested by an Audit and Supervisory Committee to assist their duties, matters regarding the independence of those employees from other Directors (excluding Directors who are Audit and Supervisory Committee Members) of the Company, and matters relating to ensuring the effectiveness of instructions of an Audit and Supervisory Committee to such employees

1) The Company shall establish an Audit and Supervisory Committee Office and deploy staff as employees assisting the Audit and Supervisory Committee in their duties.

2) In order to ensure the independence of the staff for an Audit and Supervisory Committee Office, prior approval of the Audit and Supervisory Committee shall be required for personnel changes, and performance appraisals shall be conducted by full-time Audit and Supervisory Committee Members.

3) The staff for an Audit and Supervisory Committee Office shall follow only the instructions of Audit and Supervisory Committee Members and the Audit and Supervisory Committee when executing their duties.

(7) System for reporting to an Audit and Supervisory Committee

1) Directors (excluding Directors who are Audit and Supervisory Committee Members) shall stipulate in internal regulations matters to be reported to an Audit and Supervisory Committee, such as matters that significantly affect the management and results of the Company, and do so appropriately.

2) Subsidiaries shall establish a system for reporting in which Directors or employees of subsidiaries report to the department responsible for the management of subsidiaries and an Audit and Supervisory Committee of the Company in case that a violation of laws and regulations and Articles of Incorporation or a probability of such a violation, or a matter that can cause a serious loss to subsidiaries occurs in subsidiaries. In addition, the department responsible for the management of subsidiaries that received reports from Directors or employees of the subsidiary shall report to an Audit and Supervisory Committee.

3) Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries may report to an Audit and Supervisory Committee of the Company, if they recognize the necessity.

4) An Audit and Supervisory Committee of the Company may directly request reports from Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries, if it recognizes the necessity.

5) The Company shall clearly stipulate in the regulations, etc., that employees will not be subject to disadvantageous treatment for their reporting to an Audit and Supervisory Committee.

(8) Matters relating to the procedure for advance payment or redemption of the cost incurred by the execution of duties by Audit and Supervisory Committee Members (limited to that regarding the execution of duties by an Audit and Supervisory Committee), and other policies for treating the costs or liabilities incurred by the execution of the said duties

When Audit and Supervisory Committee Members claim the advance payment of the costs incurred by the execution of their duties or its redemption and others (limited to that regarding the execution of duties by an Audit and Supervisory Committee), the Company shall respond to the

said claim without delay.

(9) Other systems for ensuring effective audits by an Audit and Supervisory Committee

1) The Audit and Supervisory Committee shall exchange opinions with Chairman & Chief Executive Officer and President & Chief Operating Officer periodically or whenever necessary.

2) The Company shall proactively create opportunities for Audit and Supervisory Committee Members to attend the Management Conference and other important meetings.

Overview of the State of the Operations of a System to Ensure Appropriate Corporate Actions

The outline of the state of the operations of a system to ensure appropriate corporate actions executed during the consolidated fiscal year under review is as below.

1) During the consolidated fiscal year under review, meetings of the Board of Directors were held 16 times, in which the Board determined matters stipulated by laws and regulations and other important matters regarding management including the formulation of the budget. Directors who serve as executive officers concurrently reported on the state of execution of their duties regularly.

2) During the consolidated fiscal year under review, meetings of the Audit and Supervisory Committee were held 13 times to discuss and determine audit policies and audit plans. Full-time Audit and Supervisory Committee Members reported on the state of execution of duties and compliance with laws and regulations by Directors (excluding Directors who are Audit and Supervisory Committee Members), which they understood through attending important internal meetings and auditing the state of duties and properties.

3) With regard to the "SUMCO CHARTER," which was established as the supreme code of conduct to ensure that the execution of duties by officers and employees complies with laws and regulations and Articles of Incorporation and fulfills social responsibilities, the Company educated the subsidiaries as well as the Company itself to familiarize them with the CHARTER. In addition, the Company confirmed the state of compliance in the corporate group as a whole during the consolidated fiscal year under review.

4) The progress of the management of risks that may affect the business continuity of the Company and subsidiaries was confirmed in the "Business Security Committee (BSC)" that supervises all risk management.

5) In order to confirm the initial response system and the communication system in case of a large-scale disaster such as an earthquake, trainings were held at each base based on the respective disaster response manuals.

Consolidated Statement of Changes in Equity

(From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	138,718	30,763	117,812	(12)	287,282
Cumulative effects of changes in accounting policies			20		20
Restated balance	138,718	30,763	117,833	(12)	287,303
Changes during period					
Dividends from surplus			(16,716)		(16,716)
Net income attributable to owners of the Parent			33,112		33,112
Purchase of treasury stock				(0)	(0)
Other		0			0
Net changes of items other than shareholders' equity					
Total changes during period	—	0	16,395	(0)	16,395
Balance at end of period	138,718	30,763	134,228	(12)	303,698

	Accumulated other comprehensive income						Non-controlling interests	Total equity
	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Land revaluation surplus	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	0	(0)	2,885	(1,227)	(3,944)	(2,285)	40,548	325,545
Cumulative effects of changes in accounting policies				0		0	(0)	20
Restated balance	0	(0)	2,885	(1,227)	(3,944)	(2,285)	40,548	325,566
Changes during period								
Dividends from surplus								(16,716)
Net income attributable to owners of the Parent								33,112
Purchase of treasury stock								(0)
Other								0
Net changes of items other than shareholders' equity	(0)	0		(412)	1,190	778	(1,590)	(811)
Total changes during period	(0)	0	—	(412)	1,190	778	(1,590)	15,583
Balance at end of period	0	(0)	2,885	(1,639)	(2,753)	(1,507)	38,958	341,149

Notes on Consolidated Financial Statements

I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc.

1. Scope of consolidation

(1) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries: 14

Names of major consolidated subsidiaries:

SUMCO TECHXIV CORPORATION
SUMCO Phoenix Corporation
FORMOSA SUMCO TECHNOLOGY CORPORATION

(2) Number and names of non-consolidated subsidiaries

Number of non-consolidated subsidiaries: 4

Name of major non-consolidated subsidiary:

SUMCO Korea Corporation

[Reason for exclusion from the scope of consolidation]

All of these non-consolidated subsidiaries are exempt, as they are small in scale and none of the total of their total assets, net sales, net income (loss) (appropriate amount corresponding to equity ownership) and retained earnings (appropriate amount corresponding to equity ownership) significantly affect the consolidated financial statements.

2. Application of the equity method

(1) Number and names of non-consolidated subsidiaries and affiliates to which the equity method is applied

We do not have any non-consolidated subsidiary or affiliate to which the equity method is applied.

(2) Names of non-consolidated subsidiaries and affiliates to which the equity method is not applied

Name of major non-consolidated subsidiary or affiliate:

SUMCO Korea Corporation

[Reason for non-application of the equity method]

The number of non-consolidated subsidiaries and affiliates to which the equity method is not applied is 4. All 4 companies are exempt from application of the equity method as their influences on net income (appropriate amount corresponding to equity ownership) and retained earnings (appropriate amount corresponding to equity ownership) are minor, and basically insignificant as a whole.

3. Consolidated subsidiaries' business year-end, etc.

The business year of all the consolidated subsidiaries coincides with the Company's consolidated fiscal year.

4. Summary of significant accounting policies

(1) Standards for and method of evaluation of major assets

(a) Marketable securities

Available-for-sale securities

Securities with market value:

We employ the market value method (using the "net assets" method of accounting for valuation differences, and working out the cost by the "moving average cost" method) based on the market price at the balance sheet date, etc.

Securities without market value:

We mainly employ the cost method based on the "moving average cost" method.

(b) Derivatives

We employ the market value method.

(c) Inventories

We mainly employ the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

(2) Method of depreciation of major depreciable assets

(a) Property, plant and equipment (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

We mainly employ the straight-line method for buildings and structures, and the constant percentage method for other property, plant and equipment; however, we mainly employ the constant percentage method for structures which were acquired before March 31, 2016.

Service life for buildings and structures is mainly set at 31 years and service life for machinery and transport equipment is mainly set at 5 years.

(b) Intangible assets (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

As for software, we employ the straight-line method based on the usable period (5 years) set within the Company.

(c) Lease assets (lease assets pertaining to non-ownership-transfer finance lease transactions)

We employ the straight-line method in which the lease period is used as the service life and residual value of the relevant asset falls to zero at the end of the service life.

(3) Standard for provision of major allowances

(a) Allowance for doubtful accounts

In anticipation of potential losses from bad debts, the estimated irrecoverable amount is provided in accordance with the loan loss ratio for general credits and through the individual examination of recoverability for particular credits such as claims to obligors with high possibility of business failure.

(b) Reserve for bonuses

Reserve for bonuses is provided for payment of bonuses to employees in the amount of estimated bonuses, which is attributable to the current fiscal year.

(4) Other important matters for the preparation of consolidated financial statements

(a) Accounting method for retirement benefits

As net defined benefit liability, the difference between retirement benefit obligations and plan assets is recorded based on the estimated amounts as of the end of the consolidated fiscal year under review to provide for payment of retirement benefits to employees. If the amount of plan assets exceeds retirement benefit obligations, the difference is recorded as net defined benefit asset.

In the calculation of retirement benefit obligations, the benefit formula basis is principally used to attribute the estimated amount of retirement benefits to the period up to the end of the consolidated fiscal year under review.

Past service cost is mainly amortized from the time of accrual using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence.

Actuarial difference is mainly amortized using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence, commencing from the next fiscal year of incurrence.

Unrecognized actuarial difference and unrecognized past service cost are recorded as remeasurements of defined benefit plans under accumulated other comprehensive income in equity section after adjusting for tax effects.

(b) Standards for translation of major foreign currency-denominated assets and liabilities into Japanese yen

Values of foreign currency-denominated receivables and payables are translated into Japanese yen at the spot rates of foreign exchange markets on the closing dates of accounting for the respective companies, and translation differences are charged to income. Values of assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot rates of foreign exchange markets on the closing dates of accounting for the respective companies; revenues and expenses are converted to Japanese yen at the average market rates during the periods. Translation differences are inclusively posted in the foreign currency translation adjustments account and non-controlling interests in the equity section.

(c) Major hedge accounting

(Method of hedge accounting)

Deferred hedge processing is performed. Special processing is adopted for interest rate swaps that satisfy the requirements for special processing.

(Hedging instrument and hedged item)

Interest rate swaps are used to avert a risk of fluctuations in market interest rates for borrowed funds and currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

(Hedging policy)

Mainly based on our own risk management policy, we hedge against a risk of fluctuations in market interest rates and a risk of currency fluctuations. As for a risk of fluctuations in market interest rates, we maintain the ratio of borrowings with fixed interest rates to total borrowings above a certain level. Also, as for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

(Method of assessment of effectiveness of hedges)

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions. However, the effectiveness assessment process is curtailed when important conditions such as the principal, interest rate, period and currency are identical in the hedging instrument and the hedged item as, in such a case, it is obvious that the particular hedge is highly effective.

(d) Method and period for amortization of goodwill

Goodwill is evenly amortized over a period of between 15 and 20 years.

(e) Accounting for consumption taxes

The tax exclusion method is adopted for accounting for consumption taxes and local consumption taxes.

5. Changes in accounting policies

Adoption of Accounting Standard for Revenue From Contracts With Customers

At overseas subsidiaries adopting the US-GAAP, ASC 606, Revenue From Contracts With Customers is applied from the beginning of the consolidated fiscal year under review.

As a result of this change, revenue is recognized at the time the promised goods or services are transferred to the customer, in an amount that reflects the consideration expected to be rightfully received in exchange for the goods or services.

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing the cumulative effects of applying this standard on the starting date of application, adjusting "Retained earnings" at the beginning of the consolidated fiscal year under review.

As a result, "Retained earnings" balance at the beginning of the consolidated fiscal year under review increased by 27 million yen. The impact on profit and loss in the consolidated fiscal year under review is minor.

Adoption of Accounting Standard for Leases

At overseas subsidiaries adopting IFRS, IFRS 16 Leases is applied from the beginning of the consolidated fiscal year under review.

As a result of this change, all leases are in principle recognized as right-of-use assets indicating the right to use the underlying assets, and as lease liabilities representing the obligation to make lease payments. After recognizing right-of-use assets and lease liabilities, the depreciation costs of the right-of-use assets and the interest costs of the lease liabilities are booked.

On the consolidated balance sheet, the right-of-use assets are included in "Property, plant and equipment: other" and lease liabilities are included in "Long-term lease obligations."

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing the cumulative effects of applying this standard on the starting date of application, adjusting "Retained earnings" at the beginning of the consolidated fiscal year under review.

As a result, "Retained earnings" at the beginning of the consolidated fiscal year under review declined by 6 million yen. The impact on profit and loss in the consolidated fiscal year under review is minor.

6. Changes to presentations

Consolidated Balance Sheet

The Company adopted the "Ministerial Order to Partially Amend the Ordinance for Enforcement of the Companies Act and the Rules of Corporate Accounting" (March 26, 2018, Ministry of Justice Order No. 5 of 2018) based on the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the consolidated fiscal year under review. Accordingly, "Deferred income tax assets" are presented under "Investments and other assets," and "Deferred income tax liabilities" are presented under "Long-term liabilities."

As a result, "Deferred income tax assets" of 6,549 million yen recorded under "Current assets" on the consolidated balance sheet for the previous consolidated fiscal year is now included in "Deferred income tax assets" under "Investments and other assets."

Consolidated Statement of Income

(1) Since the materiality of "Foreign exchange loss" that had been included in "Other" under non-operating expenses on the consolidated statement of income for the previous consolidated fiscal year increased in the consolidated fiscal year under review, it is now presented separately.

Please note that "Foreign exchange loss" included in "Other" in the previous consolidated fiscal year is 120 million yen.

(2) Since the materiality of "Commission for syndicate loan" that had been included in "Other" under non-operating expenses on the consolidated statement of income for the previous consolidated fiscal year increased in the consolidated fiscal year under review, it is now presented separately.

Please note that "Commission for syndicate loan" included in "Other" in the previous consolidated fiscal year is 6 million yen.

7. Additional information

Transfer of retirement benefit plan

As the Company's defined benefit pension plan was transferred to a defined contribution pension plan excluding some portions on April 1, 2019, the Company applied "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2, February 7, 2007).

As a result, gain on revision of retirement benefit plan of 917 million yen was posted as extraordinary income for the consolidated fiscal year under review.

II. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

874,750 million yen

2. Guarantee obligation

Guarantee for employee borrowings from financial institution	205 million yen

3. Land revaluation

We carried out a revaluation of the land owned by the merged company for business use based on the Land Revaluation Law (Law No. 34 of March 31, 1998) and posted the tax equivalent amount on the relevant revaluation difference to the liabilities section as "Deferred income tax liabilities on revaluation reserve for land," and at the same time posted the amount with the tax equivalent portion deducted to the net assets section as "Land revaluation surplus."

Method of revaluation

A revaluation was carried out with a reasonable adjustment made for the assessed value of non-current assets as stipulated in Article 2, Item 3 of the Enforcement Order for the Land Revaluation Law (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation: March 31, 2000

Difference between market value of land at the end of the consolidated fiscal year under review and book value after revaluation: (3,375) million yen

4. Long- and short-term borrowings

(1) The Company has borrowings from financial institutions that are subject to financial covenants. These covenants require that the net assets on the Company's consolidated and non-consolidated balance sheet be maintained at certain levels.

The amount borrowed as of the end of the consolidated fiscal year under review is as follows.

Long-term debt	2,500 million yen
[Current portion (inclusive in the above)]	[－ million yen]

(2) In order to obtain flexible financing for operating funds, the Company has entered into a commitment line agreement with financial institutions. Financial covenants are attached to the agreement that require net assets in the Company's consolidated and non-consolidated balance sheet and the cash flows from operating activities in the Company's consolidated statement of cash flows to be maintained at certain levels.

The unexecuted loan commitment associated with the commitment line agreement as of the end of the consolidated fiscal year under review is as follows.

Total loan commitment	30,000 million yen
Used commitment	3,000 million yen
Unexecuted loan commitment	27,000 million yen

5. Others

In order for the Company and some of its consolidated subsidiaries to secure polycrystalline silicon, which is the main raw material of silicon wafers, they entered into long-term purchase contracts with polycrystalline silicon producers. In accordance with the contracts, the Company and some of its consolidated subsidiaries have made advance payments to some of the producers.

III. Notes to Consolidated Statement of Changes in Equity

1. Class and total number of issued shares and class and total number of shares of treasury stock

(Shares)

	Number of shares as of the beginning of the consolidated fiscal year under review	Increase during the consolidated fiscal year under review	Decrease during the consolidated fiscal year under review	Number of shares as of the end of the consolidated fiscal year under review
Issued shares				
Common shares	293,285,539	—	—	293,285,539
Total	293,285,539	—	—	293,285,539
Treasury stock				
Common shares (Note)	7,575	60	—	7,635
Total	7,575	60	—	7,635

(Note) The 60-share increase in the number of shares of common treasury stock is due to the purchase of shares less than one unit.

2. Particulars concerning dividends from surplus

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors Meeting on February 19, 2019	Common shares	9,384	32.00	December 31, 2018	March 8, 2019
Board of Directors Meeting on August 6, 2019	Common shares	7,331	25.00	June 30, 2019	September 6, 2019

(2) Dividends with the record date in the consolidated fiscal year under review, and effectiveness of which falls in the next consolidated fiscal year

The following proposal will be submitted to the Board of Directors Meeting scheduled for February 18, 2020.

Resolution expected	Dividend resource	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors Meeting on February 18, 2020	Retained earnings	Common shares	2,932	10.00	December 31, 2019	March 6, 2020

IV. Notes Regarding Financial Instruments

1. Status of financial instruments

(1) Policy for measures relating to financial instruments

The Group limits the fund investments to short-term deposits at financial institutions or the like. It raises funds through borrowings from banks, in particular. It uses derivatives to avert the below-mentioned risk and does not conduct speculative transactions.

(2) Detail of financial instruments and associated risk and risk management system

Notes and accounts receivable are exposed to customer credit risk. For such risk, the Group has systems enabling the management of due dates and balances of each trading partner as well as the constant monitoring of operating status thereof. Such accounts denominated in foreign currencies are exposed to currency fluctuation risk. In order to mitigate such risk, we use currency forward contracts as a hedging instrument. Marketable securities consist of negotiable certificates of deposit with maturities of within three months that are readily convertible into cash and have an immaterial risk of price fluctuation. Investment securities are primarily the shares in companies with which we have business relationships, and are exposed to market price fluctuation risk. We consistently review the holding status of such shares taking into account the market condition and the relationships with each trading partner.

Basically, notes and accounts payable and accrued income taxes, as well as notes and accounts payable – construction, have due dates arriving within six months. Borrowings with floating interest rates are exposed to interest rate fluctuation risk in accordance with the future interest rate hike in the interest rate market. In order to avert such risk and fix interest expenses, we use interest rate swaps for each of a portion of long-term borrowings as a hedging instrument.

The execution and management of derivative transactions are conducted by the department responsible for financing upon approval of approval authority, pursuant to the internal rules governing authority and maximum amounts of such transactions. In order to mitigate relevant credit risk, counterparties of derivative transactions are limited to financial institutions with high credit ratings. The outline of hedge accounting is as shown in “4. Summary of significant accounting policies, (4) Other important matters for the preparation of consolidated financial statements, (c) Major hedge accounting” under “I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc.”

We manage liquidity risk in association with financing (risk of failure to execute payment on due date) by means of preparing financial plans every month or by other means.

(3) Supplementary explanation about fair values of financial instruments

The fair values of financial instruments include values based on market prices, or, if there are no market prices, they include reasonably estimated values. Because estimations of such values incorporate changeable factors, applying different assumptions can in some cases change such values. The contracted amounts of derivatives referred to in “2. Fair values of financial instruments” below should not be in themselves considered indicative of the volume of market risk associated with the derivative transactions.

2. Fair values of financial instruments

Amounts on consolidated balance sheet and fair values as of December 31, 2019 and the differences between them are as follows.

Items whose fair value is deemed to be extremely difficult to determine are not included in the following table (Please refer to Note 2.).

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and time deposits	50,220	50,220	—
(2) Notes and accounts receivable – trade	57,416	57,416	—
(3) Marketable securities and investment securities	19,801	19,801	—
Total assets	127,438	127,438	—
(1) Notes and accounts payable – trade	23,511	23,511	—
(2) Short-term borrowings (*1)	3,000	3,000	—
(3) Accrued income taxes	2,753	2,753	—
(4) Notes and accounts payable – construction	15,965	15,965	—
(5) Long-term debt (*1)	148,098	148,333	234
(6) Lease obligations	928	928	(0)
Total liabilities	194,258	194,492	234
Derivative transactions (*2)			
(i) Those to which hedge accounting is not applied	(191)	(191)	—
(ii) Those to which hedge accounting is applied	(0)	(0)	—
Total derivative transactions	(191)	(191)	—

(*1) Current portion of long-term debt is not included in (2) Short-term borrowings, but included in (5) Long-term debt.

(*2) Receivables and payables arising out of derivative transactions are shown on the net basis. The items that are net debt in total are shown in parentheses.

(Notes) 1. Measurement of fair values of financial instruments

Assets

(1) Cash and time deposits, and (2) Notes and accounts receivable – trade

Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

(3) Marketable securities and investment securities

Marketable securities consist of negotiable certificates of deposit. Because their settlement periods are short and their fair values are almost the same as their book values, the relevant book values are used. Investment securities consist of stocks. Their fair values are based on the prices on stock exchanges.

Liabilities

(1) Notes and accounts payable – trade, (2) Short-term borrowings, (3) Accrued income taxes and (4) Notes and accounts payable – construction

Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

(5) Long-term debt, and (6) Lease obligations

The fair values of these items are measured based on the present value of future cash flows of the total of principal and interest for the residual period, discounted at an interest rate that would be charged for a new similar borrowing or lease.

Derivative transactions

Currency forward contracts are used for currency-related transactions and interest rate swaps are used for interest rate-related transactions.

The fair value of derivatives is based on the assessed value presented to the Company by counterparty financial institutions. Because interest rate swaps that are accounted for by special processing are incorporated, when accounting, with long-term debt that are the hedged items, the fair value of such swaps is included in the fair value of such long-term debt.

2. Because unlisted stocks, etc. (amount on consolidated balance sheet: 100 million yen) have no market prices and their fair values are deemed to be extremely difficult to determine, the amount is not included in "Assets (3) Marketable securities and investment securities."

V. 'Per Share' Information

1. Net assets per share: 1,030.39 yen
2. Net income per share: 112.90 yen

(Note) The calculation basis of net income per share is as follows.

Net income attributable to owners of the Parent (millions of yen)	33,112
Average number of common shares outstanding during the period (shares)	293,277,926

Non-consolidated Statement of Changes in Equity

(From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Capital reserve	Other capital surplus	Total capital surplus	Retained earnings reserve	Other retained earnings: Retained earnings carried forward	Total retained earnings		
Balance at beginning of period	138,718	3,611	19,772	23,384	3,089	63,384	66,473	(12)	228,564
Changes during period									
Accumulation of retained earnings reserve					1,671	(1,671)	—		—
Dividends from surplus						(16,716)	(16,716)		(16,716)
Net income						41,962	41,962		41,962
Purchase of treasury stock								(0)	(0)
Net changes of items other than shareholders' equity									
Total changes during period	—	—	—	—	1,671	23,574	25,246	(0)	25,245
Balance at end of period	138,718	3,611	19,772	23,384	4,760	86,958	91,719	(12)	253,810

	Variance of valuation/translation, etc.			Total equity
	Deferred gain (loss) on derivatives under hedge accounting	Land revaluation surplus	Total variance of valuation/translation, etc.	
Balance at beginning of period	(0)	2,885	2,885	231,450
Changes during period				
Accumulation of retained earnings reserve				—
Dividends from surplus				(16,716)
Net income				41,962
Purchase of treasury stock				(0)
Net changes of items other than shareholders' equity	0		0	0
Total changes during period	0	—	0	25,246
Balance at end of period	(0)	2,885	2,885	256,696

Notes on Non-Consolidated Financial Statements

I. Notes on Major Accounting Policies

1. Standards for and method of evaluation of assets

(1) Marketable securities

(a) Stocks of subsidiaries and affiliates

We employ the cost method based on the "moving average cost" method.

(b) Available-for-sale securities

Securities with market value:

We employ the market value method (using the "net assets" method of accounting for valuation differences, and working out the cost by the "moving average cost" method) based on the market price at the balance sheet date, etc.

Securities without market value:

We employ the cost method based on the "moving average cost" method.

(2) Derivatives

We employ the market value method.

(3) Inventories

We employ the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

2. Method of depreciation of non-current assets

(1) Property, plant and equipment (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

We employ the straight-line method for buildings and structures, and the constant percentage method for other property, plant and equipment; however, we employ the constant percentage method for structures which were acquired before March 31, 2016.

Service life for buildings is mainly set at 31 years and service life for other property, plant and equipment is mainly set at 5 years.

(2) Intangible assets (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

Software

We employ the straight-line method based on the usable period (5 years) set within the Company.

Other intangible assets

We employ the straight-line method.

(3) Lease assets (lease assets pertaining to non-ownership-transfer finance lease transactions)

We employ the straight-line method in which the lease period is used as the service life and residual value of the relevant asset falls to zero at the end of the service life.

3. Standard for provision of allowances

(1) Allowance for doubtful accounts

In anticipation of potential losses from bad debts, the estimated irrecoverable amount is provided in accordance with the loan loss ratio for general credits and through the individual examination of recoverability for particular credits such as claims to obligors with high possibility of business failure.

(2) Reserve for bonuses

Reserve for bonuses is provided for payment of bonuses to employees in the amount of estimated bonuses, which is attributable to the current business year.

(3) Liability for retirement benefits

Liability for retirement benefits is provided for payment of retirement benefits to employees in the amount deemed accrued at the current business year-end, based on the projected retirement benefit obligation and the fair value of plan assets at the current business year-end. If the amount of plan assets exceeds retirement benefit obligations after adjusting for any unrecognized actuarial gain or loss, the difference is recorded as prepaid pension cost.

Past service cost is amortized from the time of accrual using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence.

Actuarial difference is amortized using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence, commencing from the next business year of incurrence.

4. Other important matters for the preparation of non-consolidated financial statements

(1) Hedge accounting

(Method of hedge accounting)

Deferred hedge processing is performed. Special processing is adopted for interest rate swaps that satisfy the requirements for special processing.

(Hedging instrument and hedged item)

Interest rate swaps are used to avert a risk of fluctuations in market interest rates for borrowed funds and currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

(Hedging policy)

Based on our own risk management policy, we hedge against a risk of fluctuations in market interest rates and a risk of currency fluctuations. As for a risk of fluctuations in market interest rates, we maintain the ratio of borrowings with fixed interest rates to total borrowings above a certain level. Also, as for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

(Method of assessment of effectiveness of hedges)

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions. However, the effectiveness assessment process is curtailed when important conditions such as the principal, interest rate, period and currency are identical in the hedging instrument and the hedged item as, in such a case, it is obvious that the particular hedge is highly effective.

(2) Accounting for retirement benefits

The accounting method for the remaining amounts of unrecognized actuarial difference and unrecognized past service cost in relation to retirement benefits is different from the accounting method for those amounts in the consolidated financial statements.

(3) Accounting for consumption taxes

The tax exclusion method is adopted for accounting for consumption taxes and local consumption taxes.

5. Changes to presentations

Non-consolidated Balance Sheet

The Company adopted the "Ministerial Order to Partially Amend the Ordinance for Enforcement of the Companies Act and the Rules of Corporate Accounting" (March 26, 2018, Ministry of Justice Order No. 5 of 2018) based on the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the business year under review. Accordingly, "Deferred income tax assets" are presented under "Investments and other assets," "Deferred income tax liabilities" are presented under "Long-term liabilities," and changes have been made to Notes Regarding Deferred Tax Accounting.

As a result, "Deferred income tax assets" of 4,424 million yen recorded under "Current assets" on the non-consolidated balance sheet for the previous business year is now included in "Deferred income tax assets" under "Investments and other assets."

In addition, the content described in the annotation (Note 8) (excluding total valuation allowance) and annotation (Note 9) of the "Accounting Standard for Tax Effect Accounting" that are set forth in Paragraph 3 through Paragraph 5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" has been added to Notes Regarding Deferred Tax Accounting.

Non-consolidated Statement of Income

(1) Since the materiality of the item that had been presented separately as "Royalty income" under non-operating income on the non-consolidated statement of income for the previous business year decreased in the business year under review, it is now included in "Other." Please note that "Royalty income" included in "Other" in the business year under review is 1,030 million yen.

(2) Since the materiality of "Commission for syndicate loan" that had been included in "Other" under non-operating expenses on the non-consolidated statement of income for the previous business year increased in the business year under review, it is now presented separately. Please note that "Commission for syndicate loan" included in "Other" in the previous business year is 6 million yen.

6. Additional information

Transfer of retirement benefit plan

As the Company's defined benefit pension plan was transferred to a defined contribution pension plan excluding some portions on April 1, 2019, the Company applied "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2, February 7, 2007).

As a result, gain on revision of retirement benefit plan of 917 million yen was posted as extraordinary income for the business year under review.

II. Notes to Non-consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

522,724 million yen

2. Guarantee obligation

Guarantee for employee borrowings from financial institution	205	million yen

3. Accounts receivable from and payable to subsidiaries and affiliates

Short-term accounts receivable	29,217	million yen
Long-term accounts receivable	26,009	million yen
Short-term accounts payable	49,360	million yen

4. Land revaluation

We carried out a revaluation of the land owned by the merged company for business use based on the Land Revaluation Law (Law No. 34 of March 31, 1998) and posted the tax equivalent amount on the relevant revaluation difference to the liabilities section as "Deferred income tax liabilities on revaluation reserve for land," and at the same time posted the amount with the tax equivalent portion deducted to the net assets section as "Land revaluation surplus."

Method of revaluation:

A revaluation was carried out with a reasonable adjustment made for the assessed value of non-current assets as stipulated in Article 2, Item 3 of the Enforcement Order for the Land Revaluation Law (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation: March 31, 2000

Difference between market value of land at the end of the business year under review and book value after revaluation: (3,375) million yen

5. Long- and short-term borrowings

(1) The Company has borrowings from financial institutions that are subject to financial covenants. These covenants require that the net assets on the Company's consolidated and non-consolidated balance sheet be maintained at certain levels.

The amount borrowed as of the end of the business year under review is as follows.

Long-term debt	2,500	million yen
[Current portion (inclusive in the above)]	[－	million yen]

(2) In order to obtain flexible financing for operating funds, the Company has entered into a commitment line agreement with financial institutions. Financial covenants are attached to the agreement that require net assets in the Company's consolidated and non-consolidated balance sheet and the cash flows from operating activities in the Company's consolidated statement of cash flows to be maintained at certain levels.
The unexecuted loan commitment associated with the commitment line agreement as of the end of the business year under review is as follows.

Total loan commitment	30,000	million yen
Used commitment	3,000	million yen
Unexecuted loan commitment	27,000	million yen

6. Others

In order for the Company to secure polycrystalline silicon, which is the main raw material of silicon wafers, it entered into long-term purchase contracts with polycrystalline silicon producers. In accordance with the contracts, the Company has made advance payments to some of the producers.

III. Notes to Non-consolidated Statement of Income

1. Volume of transactions with subsidiaries and affiliates

Amount of sales	54,202	million yen
Amount of purchase	72,454	million yen
Transactions other than operational transactions	25,598	million yen

IV. Note to Non-consolidated Statement of Changes in Equity

Class and total number of shares of treasury stock

(Shares)

	Number of shares as of the beginning of the business year under review	Increase during the business year under review	Decrease during the business year under review	Number of shares as of the end of business year under review
Treasury stock				
Common shares (Note)	7,575	60	—	7,635
Total	7,575	60	—	7,635

(Note) The 60-share increase in the number of common treasury shares is due to the purchase of shares less than one unit.

V. Notes Regarding Deferred Tax Accounting

1. Details on main causes of deferred income tax assets and deferred income tax liabilities

Deferred income tax assets

Stocks of subsidiaries and affiliates	26,111	million yen
Loss carried forward (Note) 2	13,435	million yen
Liability for retirement benefits	3,561	million yen
Non-current assets	2,195	million yen
Inventories	906	million yen
Other	1,337	million yen
Subtotal deferred income tax assets	47,547	million yen
Valuation allowance for tax loss carried forward (Note) 2	(11,144)	million yen
Valuation allowance for the total of future deductible temporary differences, etc.	(32,588)	million yen
Subtotal valuation allowance (Note) 1	(43,732)	million yen
Total deferred income tax assets	3,815	million yen

Deferred income tax liabilities

Prepaid pension cost	(222)	million yen
Non-current assets	(117)	million yen
Total deferred income tax liabilities	(340)	million yen
Net deferred income tax assets	3,475	million yen
Deferred income tax liabilities for land revaluation reserve	(1,342)	million yen

(Note) 1. Compared with the previous business year-end, valuation allowance has decreased by 7,028 million yen. The principal factor for the decrease is the expiration of the period of tax loss carried forward.

(Note) 2. Amounts of tax loss carried forward and related deferred income tax assets by expiration period

Business year under review (as of December 31, 2019)

(Millions of yen)

	Within 1 year	Over 1 year, less than 2 years	Over 2 years, less than 3 years	Over 3 years, less than 4 years	Over 4 years, less than 5 years	Over 5 years	Total
Tax loss carried forward (*1)	2,424	5,471	4,689	662	—	187	13,435
Valuation allowance	(133)	(5,471)	(4,689)	(662)	—	(187)	(11,144)
Deferred income tax assets	2,291	—	—	—	—	—	2,291

(*1) Tax loss carried forward is the amount multiplied by the effective statutory tax rate.

(*2) Deferred income tax assets of 2,291 million yen were recorded for tax loss carried forward of 13,435 million yen (amount multiplied by the effective statutory tax rate). For the said tax loss carried forward, valuation allowance is not recognized for the portion that is deemed to be collectible based on projected future taxable income, etc.

2. Details of main items causing a difference between the effective statutory tax rate and the actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting

Effective statutory tax rate	30.4 %
(Adjustment)	
Exclusion of dividends received from gross profits	(15.3) %
Valuation allowance	(4.0) %
Tax deductions on experimental and research expenses	(0.5) %
Other	0.2 %
Actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting	10.8 %

VI. Note Regarding Related Party Transactions

1. Subsidiaries

Category	Company name	Voting interest (%)	Relationship with the party	Transaction contents	Transaction amount (millions of yen)	Account title	Balance at end of business year (millions of yen)
Subsidiary	SUMCO TECHXIV CORPORATION	100 (direct ownership)	Manufacturer of products, etc.	Purchase of products	64,371	Accounts payable	17,789
				Receipt of dividends	17,214	–	–
						Short-term loans	9,277
				Lending of funds	1,803	Long-term loans receivable from subsidiaries and affiliates (current portion)	29,995 (4,070)
				Repayment of funds	3,617	Short-term borrowings	12,573
Subsidiary	SUMCO Phoenix Corporation	100 (direct ownership)	Sales destination of products, etc.	Selling of products	27,193	Accounts receivable	4,532
				Receipt of dividends	6,103	–	–
				Repayment of funds	2,494	Short-term borrowings	13,147
Subsidiary	SUMCO Europe Sales Plc	100 (direct ownership)	Sales destination of products, etc.	Selling of products	19,191	Accounts receivable	5,335

(Notes) 1. Transaction amount excludes consumption taxes.
2. Trade conditions and policy on decision-making of trade conditions
Prices of trades with the subsidiaries above are determined under the same conditions as general trades taking market prices into consideration.
Interest rates for the lending of funds to, and borrowing of funds from SUMCO TECHXIV CORPORATION and for the borrowing of funds from SUMCO Phoenix Corporation are determined rationally by taking market interest rates into consideration.

2. Sister company

Category	Company name	Voting interest (%)	Relationship with the party	Transaction contents	Transaction amount (millions of yen)	Account title	Balance at end of business year (millions of yen)
Company, a majority of whose voting rights is held by SUMCO's major shareholder	Mitsubishi Materials Techno Corporation	–	Manufacturer of manufacturing equipment, etc.	Purchase of manufacturing equipment	10,277	Accounts payable – construction	1,674

(Notes) 1. Transaction amount excludes consumption taxes.
2. Trade conditions and policy on decision-making of trade conditions
As the manufacturing equipment is designed and manufactured exclusively for the Company, purchase prices are negotiated and determined on each occasion.

VII. 'Per Share' Information

1. Net assets per share: 875.27 yen
2. Net income per share: 143.08 yen

(Note) The calculation basis of net income per share is as follows.

Net income (millions of yen)	41,962
Average number of common shares outstanding during the period (shares)	293,277,926