Annual Securities Report

(Pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan)

For the Fiscal Year ended December 31, 2020
(January 1, 2020– December 31, 2020)

SUMCO Corporation

1-2-1 Shibaura, Minato-ku, Tokyo

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Place for public inspection:	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

Section 1: Information on the Company

I. Overview of the Company

1. Trends in major management indicators

(1) Consolidated management indicators

Term		18th term	19th term	20th term	21st term	22nd term
Fiscal year ended		December, 2016	December, 2017	December, 2018	December, 2019	December, 2020
Net sales	(¥ million)	211,361	260,627	325,059	299,460	291,333
Ordinary income	(¥ million)	9,919	36,709	83,068	48,310	35,650
Net income attributable to owners of the parent	(¥ million)	6,588	27,016	58,580	33,112	25,505
Comprehensive income	(¥ million)	4,122	39,255	63,976	38,701	27,965
Net assets	(¥ million)	242,836	281,623	325,545	341,149	355,003
Total assets	(¥ million)	493,243	530,906	588,250	578,511	593,443
Net assets per share	(¥)	715.46	822.53	971.76	1,030.39	1,082.22
Earnings per share	(¥)	22.46	92.12	199.74	112.90	87.48
Diluted earnings per share	(¥)	—	—	—	—	—
Shareholders' equity ratio	(%)	42.5	45.4	48.4	52.2	53.1
Return on equity	(%)	3.1	12.0	22.3	11.3	8.3
Price-earnings ratio	(times)	67.23	31.35	6.14	16.17	25.87
Cash flows from operating activities	(¥ million)	27,322	51,808	93,602	77,664	84,188
Cash flows from investing activities	(¥ million)	(18,003)	(15,750)	(52,244)	(61,184)	(55,193)
Cash flows from financing activities	(¥ million)	(9,120)	(7,615)	(35,424)	(24,825)	(16,236)
Cash and cash equivalents at end of period	(¥ million)	45,565	74,640	78,900	70,020	81,864
Number of employees (Average number of temporary employees not included in the above)	(Number)	7,520 (358)	7,711 (612)	8,017 (892)	8,142 (824)	8,199 (767)

Notes: 1. Net sales do not include consumption taxes.

2. Diluted earnings per share is not provided because dilutive securities did not exist.

(2) Managing indicators of the Reporting Company

Term		18th term	19th term	20th term	21st term	22nd term
Fiscal year ended		December, 2016	December, 2017	December, 2018	December, 2019	December, 2020
Net sales	(¥ million)	167,138	205,471	260,551	251,244	242,883
Ordinary income	(¥ million)	2,345	20,926	51,314	46,118	29,701
Net income	(¥ million)	3,667	19,147	42,286	41,962	27,155
Capital stock	(¥ million)	138,718	138,718	138,718	138,718	138,718
Total number of shares issued						
Common share	(shares)	293,285,539	293,285,539	293,285,539	293,285,539	291,181,239
Net assets	(¥ million)	186,010	203,240	231,450	256,696	272,378
Total assets	(¥ million)	436,850	463,577	513,660	508,983	521,514
Net assets per share	(¥)	634.24	693.00	789.18	875.27	935.45
Cash dividends per-share						
Common share	(¥)	10.00	28.00	62.00	35.00	27.00
(Of which, interim dividend per-share)		(5.00)	(10.00)	(30.00)	(25.00)	(18.00)
Earnings per share	(¥)	12.51	65.29	144.19	143.08	93.14
Diluted earnings per share	(¥)	—	—	—	—	—
Shareholders' equity ratio	(%)	42.6	43.8	45.1	50.4	52.2
Return on equity	(%)	2.0	9.8	19.5	17.2	10.3
Price-earnings ratio	(times)	120.70	44.23	8.51	12.76	24.30
Dividend payout ratio	(%)	79.9	42.9	43.0	24.5	29.0
Number of employees	(Number)	3,501	3,616	3,855	3,981	4,011
(Average number of temporary employees not included in the above)		(181)	(303)	(435)	(412)	(432)
Total shareholder return	(%)	164.5	316.7	143.6	212.2	262.4
(Comparative indicator: Dividend-included TOPIX)	(%)	(100.3)	(122.6)	(103.0)	(121.7)	(130.7)
Highest share price	(¥)	1,618	3,160	3,345	1,950	2,484
Lowest share price	(¥)	590	1,436	1,128	1,116	1,041

Notes: 1. Net sales do not include consumption taxes.

2. Diluted earnings per share is not provided because dilutive securities did not exist.

3. The Company acquired its 2,104,300 common shares between February 19, 2020 and March 19, 2020, and cancelled all of them as of April 10, 2020.

4. The highest and lowest share prices were those recorded in the Tokyo Stock Exchange (First Section).

2. History

The Company was established in July 1999 through joint investment by Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corporation), Mitsubishi Materials Corp., and its subsidiary, Mitsubishi Materials Silicon Corp., (50-50 investment by Sumitomo Metal Industries, Ltd. and the Mitsubishi Materials Group) to develop and manufacture 300 mm silicon wafers (hereinafter, "300 mm wafers").

In February 2002, acquiring the silicon wafer business of Sumitomo Metal Industries, Ltd. (Sitix Division) and merging with Mitsubishi Materials Silicon Corp., which engaged in the silicon business, to fully integrated the two companies' silicon wafer businesses into its own business, the Company became a manufacturer specializing in the manufacture and sales of various kinds of silicon wafers.

Month/year	Events
July 1999	Founded as Silicon United Manufacturing Corp. through joint investment by Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corp.), Mitsubishi Materials Corp., and Mitsubishi Materials Silicon Corp.
October 2001	Began the production of 300 mm wafers.
January 2002	Established SUMCO USA Corp. as a holding company in the U.S.
February 2002	Acquired the silicon wafer business (Sitix Division) of Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corp.), merged with Mitsubishi Materials Silicon Corp., and changed the trade name to Sumitomo Mitsubishi Silicon Corp.
August 2005	Changed the trade name to SUMCO Corporation.
November 2005	The Company shares were listed on the First Section of the Tokyo Stock Exchange.
October 2006	Acquired a majority stake in Komatsu Electronic Metals Co., Ltd. (the current SUMCO TECHXIV Corp.) by tender offer, making it a subsidiary.
October 2006	Dissolved SUMCO Oregon Corp.
January 2007	Dissolved SUMCO USA Corp.
December 2007	FORMOSA SUMCO TECHNOLOGY CORPORATION shares were officially listed on the Taiwan Stock Exchange.
May 2008	Made SUMCO TECHXIV Corp. a wholly-owned subsidiary through a share exchange.
August 2008	Acquired the sales and technology divisions of SUMCO TECHXIV Corp. through a company split.
February 2011	Closed the Amagasaki Plant.
November 2012	Merged and absorbed Japan Super Quartz Corporation (the current JSQ Division of the Company) into the Company.
March 2013	Dissolved SUMCO Solar Corporation.
July 2013	Closed the Ikuno Plant.
March 2016	Became a company with an Audit and Supervisory Committee.

Notes: 1. In October 2012, Sumitomo Metal Industries, Ltd. was merged with Nippon Steel Corporation and became Nippon Steel & Sumitomo Metal Corporation.

2. In April 2019, Nippon Steel & Sumitomo Metal Corporation changed its trade name to Nippon Steel Corporation.

The histories of the former Sitix Division of Sumitomo Metal Industries, Ltd. and the former Mitsubishi Materials Silicon Corp. before their business integration in February 2002 are as follows.

(1) Former Sitix Division of Sumitomo Metal Industries, Ltd.

Month/year	Events
January 1962	Began the production of silicon wafers at the Amagasaki Plant of Osaka Titanium Co., Ltd. (which subsequently became the Company's Amagasaki Plant).
August 1973	Osaka Titanium Co., Ltd. and Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corp.) established Kyushu Electronic Metal Co., Ltd. as a jointly owned manufacturing company of silicon wafers.
October 1992	Osaka Titanium Co., Ltd. conducted an acquisition-type merger with Kyushu Electronic Metal Co., Ltd. and integrated their silicon business.
January 1993	Osaka Titanium Co., Ltd. changed its trade name to Sumitomo Sitix Corporation.
October 1998	Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corp.) and Sumitomo Sitix Corporation merged and established the Sitix Division at Sumitomo Metal Industries, Ltd.

Notes: 1. In October 2012, Sumitomo Metal Industries, Ltd. was merged with Nippon Steel Corporation and became Nippon Steel & Sumitomo Metal Corporation.
2. In April 2019, Nippon Steel & Sumitomo Metal Corporation changed its trade name to Nippon Steel Corporation.

(2) Former Mitsubishi Materials Silicon Corp.

Month/year	Events
December 1958	Shin-Nippon Chisso Hiryo K.K. (the current Chisso Corporation) established Nicchitsu Electronic Chemicals Corp. to manufacture and sell high-purity silicon used in semiconductors.
October 1959	Mitsubishi Metal Mining Co., Ltd. (the current Mitsubishi Materials Corporation) and others established Japan Electronic Metals Co., Ltd. to manufacture and sell high-purity silicon used in semiconductors. Production began in the Noda Plant of Nicchitsu Electronic Chemicals Corp.
March 1964	Shin-Nippon Chisso Hiryo K.K. (the current Chisso Corporation) established Chisso Electronic Chemicals Corp.
August 1964	Nicchitsu Electronic Chemicals Corp. was dissolved and transferred its assets to Chisso Electronic Chemicals Corp.
February 1974	Mitsubishi Metal Mining Co., Ltd. (the current Mitsubishi Materials Corporation) made Chisso Electronic Chemicals Corp. its subsidiary. At the same time, Chisso Electronic Chemicals Corp. changed its trade name to Toyo Silicon Co., Ltd.
February 1978	Toyo Silicon Co., Ltd. changed its trade name to Japan Silicon Co., Ltd.
January 1979	Japan Silicon Co., Ltd. acquired the silicon business of Japan Electronic Metals Co., Ltd.
October 1991	Japan Silicon Co., Ltd. changed its trade name to Mitsubishi Materials Silicon Corp.
October 2001	Mitsubishi Materials Silicon Corp. made Mitsubishi Materials Quartz Corporation (the current the JSQ Division of the Company) its subsidiary.

Notes: 1. In December 1973, Mitsubishi Metal Mining Co., Ltd. changed its trade name to Mitsubishi Metal Corporation.
2. In December 1990, Mitsubishi Metal Corporation merged with Mitsubishi Mining & Cement Co., Ltd., resulting in the change of their trade names to Mitsubishi Materials Corporation.

3. Description of business

The Company's related companies consist of eight domestic subsidiaries (six consolidated subsidiaries and two non-consolidated subsidiaries) and ten overseas subsidiaries (eight consolidated subsidiaries and two non-consolidated subsidiaries).

The business of the group comprising the Company and its subsidiaries (hereinafter, the "Group") is a single segment, which is high-purity silicon business, centered on the manufacturing and sales of silicon wafers for semiconductor (*1) manufacturers.

(1) High-purity silicon business

Semiconductor silicon wafers manufactured and sold by the Group are used as a substrate material when semiconductor manufacturers, which the Group's customers belong to, manufacture various types of semiconductors including memory and MPU semiconductors.

In the manufacturing process of semiconductors, the larger the diameter of silicon wafers is, the greater the number of semiconductors is that are cut out from each piece of silicon wafer. This means that the manufacturing of silicon wafers with larger diameters improves productivity. It also improves production yields because the ratio of the areas in the periphery that are wasted when cutting out semiconductors decreases. As a result, the diameter of silicon wafers has become larger in each generation from 100 mm to 125 mm to 150 mm to 200 mm to 300 mm, in response to the cost reduction demand of semiconductor manufacturers.

Against this background, the Group manufactures in its domestic and overseas manufacturing sites products such as polished wafers of different diameters (Note 2) and epitaxial wafers made by applying special treatment to the surface of polished wafers (Note 3).

(2) The Group's production and sales structures

(Manufacturing process and method of semiconductor silicon wafers)

The manufacturing process of semiconductor silicon wafers is roughly divided into the monocrystal pulling process and wafer fabrication process. In the monocrystal pulling process, monocrystalline silicon ingots are produced by slowly pulling up polycrystalline silicon melted with heat in a high-purity quartz crucible (Note 4) installed in a crystal growing furnace as it grows into monocrystal. In the ensuing wafer fabrication process, monocrystalline silicon ingots produced in the monocrystal pulling process are sliced into discs with a thickness of no more than 1 mm. These discs are then put through processes such as lapping, polishing, and cleaning to produce silicon wafers (polished wafers). Furthermore, we produce products such as epitaxial wafers which are made by applying special treatment to the surface of polished wafers.

(The Group's production structure)

The Group has manufacturing sites in Imari-shi, Saga, Kohoku-machi, Kishima-gun, Saga, Yonezawa-shi, Yamagata, Omura-shi, Nagasaki (SUMCO TECHXIV Corporation), and Taiwan (FORMOSA SUMCO TECHNOLOGY CORPORATION) for 300 mm wafers.

For 200 mm or smaller wafers, the Group has manufacturing sites in Imari-shi, Saga, Kohoku-machi, Kishima-gun, Saga, Yonezawa-shi, Yamagata, Chitose-shi, Hokkaido, Omura-shi, Nagasaki (SUMCO TECHXIV Corporation), Miyazaki-shi, Miyazaki (SUMCO TECHXIV Corporation), the United States (SUMCO Phoenix Corporation and its manufacturing subsidiaries), Indonesia (PT. SUMCO Indonesia), and Taiwan (FORMOSA SUMCO TECHNOLOGY CORPORATION).

(The Group's sales structure)

To supply products to semiconductor manufacturers worldwide, the Group has adopted the following sales structure.
In Japan, the Group has operational bases in Tokyo, Osaka, and Fukuoka, while its sales function has been established in SUMCO Phoenix Corporation for the North American region. In Asia, the Group has subsidiaries in Taiwan and Singapore, which engage in sales activities, while those in Taiwan and South Korea provide technological support. In Europe and its neighboring regions, SUMCO Europe Sales Plc, a sales subsidiary in the United Kingdom, engages in sales activities.

Note 1: Semiconductor

The word *semiconductor* does not generally refer to a substance or physical property. It refers to a diode or transistor made of semiconductor or an integrated circuit (IC) of transistors, and so on (these may be collectively referred to as *devices*).

Note 2: Polished wafer

To produce polished wafers, monocrystalline ingots are sliced into discs and their surface is polished to a mirror-smooth state. Wafers in this state are called *polished wafers*.

Note 3: Epitaxial wafers

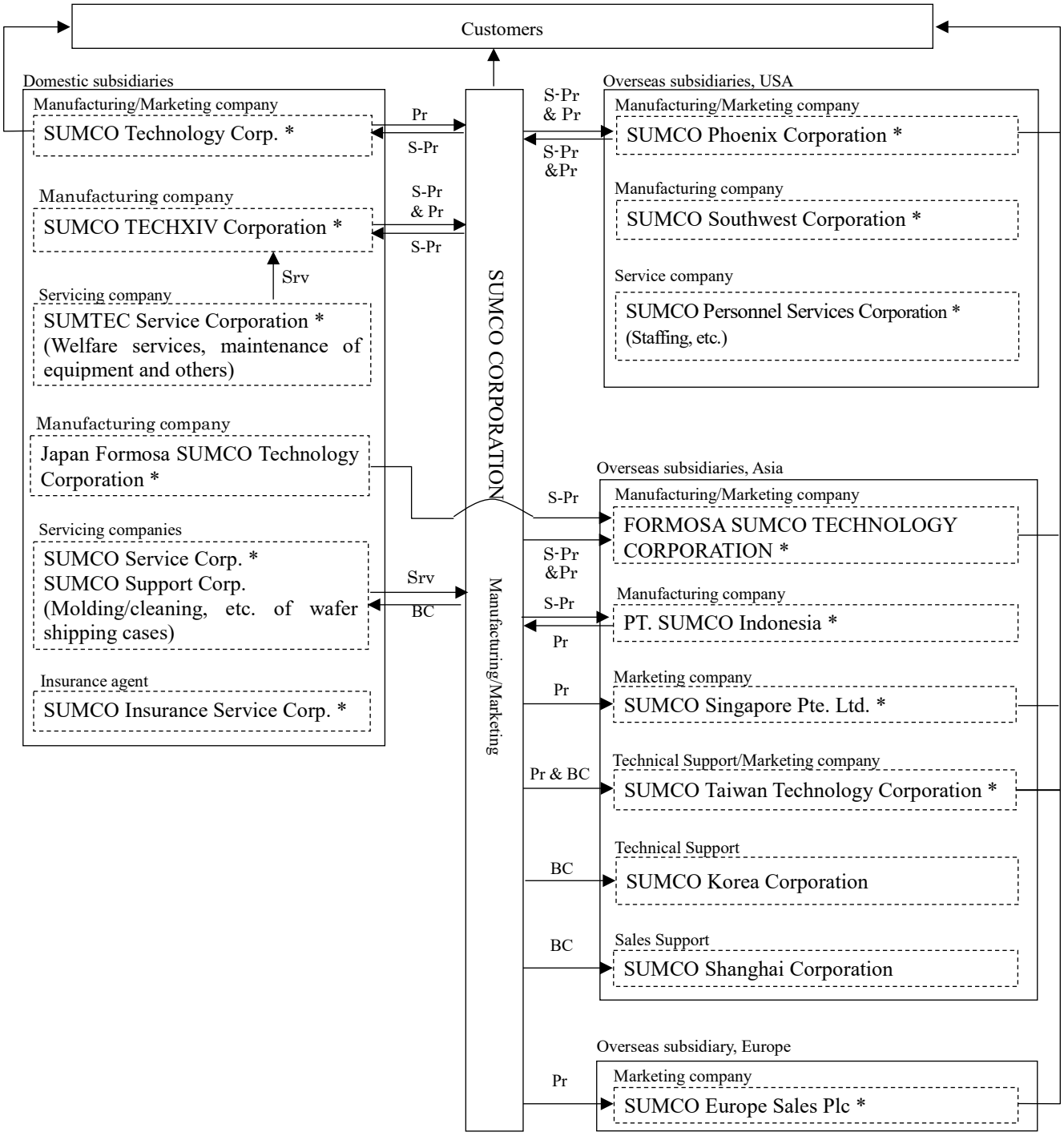
Epitaxial wafers are produced by creating a thin monocrystalline silicon layer on the surface of polished wafers using the vapor growth method in a reactor to provide a higher quality surface.

Note 4: High-purity quartz crucible

A high-purity quartz crucible is used when manufacturing monocrystalline silicon because no impure substance other than silicon is allowed to be mixed with the raw materials melted by heat.

(Business Structure)

The business structure of the SUMCO Group is as follows: ("*" indicates consolidated subsidiaries)



Pr=Product, S-Pr=Semi-finished product, Srv=Service, BC=Business consignment

Mitsubishi Materials Corporation, which had been one of the major shareholders as of the end of the previous consolidated fiscal year, was not a major shareholder as of the end of the fiscal year under review.

4. Status of related companies

Name	Address	Capital stock (¥ million)	Description of main business	Ratio of voting rights the Company has or the relevant company has in the Company (%)	Relationship
(Consolidated subsidiaries) SUMCO TECHXIV CORPORATION (Note 1)	Omura-shi, Nagasaki	100	Manufacturing of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes Loan: Yes
SUMCO Technology Corporation	Noda-shi, Chiba	12	Reclamation of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes
SUMCO Service Corp.	Kohoku-machi, Kishima-gun, Saga	12	Cleaning, etc. of silicon wafer transport containers	100	Concurrent appointment of officers, etc.: Yes
SUMTEC Service Corp.	Omura-shi, Nagasaki	18	Benefit and welfare service, etc.	100 (100)	–
SUMCO Insurance Service Corp.	Omura-shi, Nagasaki	8	Non-life insurance agency and life insurance solicitation, etc.	100 (100)	–
Japan Formosa SUMCO Technology Corp. (Note 4)	Imari-shi, Saga	499	Manufacturing of silicon ingots for semiconductors	100 (100)	Concurrent appointment of officers, etc.: Yes
SUMCO Phoenix Corporation (Notes 1 & 3)	Phoenix, Arizona, USA	USD4 thousand	Manufacturing and sales of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes
SUMCO Southwest Corporation (Notes 1 & 3)	Phoenix, Arizona, USA	USD420,695 thousand	Manufacturing of semiconductor silicon wafers	100 (100)	Concurrent appointment of officers, etc.: Yes
SUMCO Personnel Services Corporation (Note 3)	Phoenix, Arizona, USA	USD10 thousand	Personnel management, etc.	100 (100)	Concurrent appointment of officers, etc.: Yes
SUMCO Europe Sales Plc	London, UK	USD22,700 thousand	Sales of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes
PT. SUMCO Indonesia	Chikarang Barat, Indonesia	USD10,000 thousand	Manufacturing of semiconductor silicon wafers	100 (0)	Concurrent appointment of officers, etc.: Yes Debt guarantees: Yes
SUMCO Singapore Pte. Ltd.	Singapore	USD57 thousand	Sales of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes

FORMOSA SUMCO TECHNOLOGY CORPORATION (Notes 1 & 4)	Yunlin County, Taiwan	TWD3,878 million	Manufacturing and sales of semiconductor silicon wafers	46 (46)	Concurrent appointment of officers, etc.: Yes
SUMCO Taiwan Technology Corporation	Hsinchu City, Taiwan	TWD10 million	Technical support and sales of semiconductor silicon wafers	100	Concurrent appointment of officers, etc.: Yes

Notes: 1. The companies fall under specified subsidiaries.

2. The figures in parentheses in the column of voting rights shows the ratio of voting rights held indirectly, which are included in figures above.

3. Net sales (excluding net sales for internal transactions between consolidated companies) of SUMCO Phoenix Corporation (consolidated subsidiary) account for more than 10% of consolidated net sales.

Key performance information, etc.: (1) Net sales ¥ 39,500 million
(2) Ordinary income ¥ 2,326 million
(3) Net income ¥ 1,735 million
(4) Net assets ¥ 28,146 million
(5) Total assets ¥ 33,697 million

4. Net sales (excluding net sales for internal transactions between consolidated companies) of FORMOSA SUMCO TECHNOLOGY CORPORATION (consolidated subsidiary) account for more than 10% of consolidated net sales.

Key performance information, etc.: (1) Net sales ¥ 43,322 million
(2) Ordinary income ¥ 6,926 million
(3) Net income ¥ 5,735 million
(4) Net assets ¥ 73,330 million
(5) Total assets ¥ 83,739 million

5. Status of employees

Segment information is not provided because the Group has only one segment, “high-purity silicon.”

(1) Status of consolidated Group companies

As of December 31, 2020

Segment name	Number of employees
High purity silicon	8,199 (767)

Note: The number of employees represents the number of people currently working for the Group (i.e., the Group employees who are currently on secondment outside the Group are excluded, while people seconded to the Group from outside the Group and regular, part-time employees are included). As for the number of temporary employees (which includes temporary staff dispatched from staffing agencies and excludes regular, part-timers), their annual average number is provided in parentheses. This number is not included in the number of employees.

(2) Status of the Company

As of December 31, 2020

Number of employees	Average age	Average years of service	Average annual salary (¥)
4,011 (432)	43.6	17.1	6,489,106

Notes: 1. The number of employees represents the number of people currently working for the Company (i.e., the Company employees who are currently on secondment outside the Company are excluded, while people seconded to the Company from outside the Company and regular, part-time employees are included). As for the number of temporary employees (which includes temporary staff dispatched from staffing agencies and excludes regular, part-timers), their annual average number is provided within parentheses. This number is not included in the number of employees.

2. The average annual salary includes bonuses and extra wages.

3. The Company took over the former employees of Mitsubishi Materials Silicon Corp. after the merger as of February 6, 2002. All the people seconded from Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corp.) and Mitsubishi Materials Corp. became the Company employees as of January 1, 2003. Years of service in these companies is included in the total years of service in computing average years of service.

(3) Status of the labor union

The SUMCO Labor Union (with 3,331 members) has been organized across the Company and some of the Group companies. In addition, the SUMCO TECHXIV Union (with 1,605 members) has been organized mainly by the employees of SUMCO TECHXIV Corporation. Both labor unions belong to the Japan Federation of Basic Industry Workers’ Unions.

Labor-management relationships are favorable in both cases and there is no specific issue to be commented.

II. State of Business

1. Management policies, business environment, issues to address, etc.

Forward-looking statements herein are based on the Group's judgement as of the end of the consolidated fiscal year under review.

(1) Basic management policies

Based on the mission statemant of "to be the world's No. 1 silicon wafer supplier by exceeding the expectations of our customers and stockholders, by recognizing the value of our employees, and by being good neighbors in comminuties," the Group has developed technological capabilities and abilities to roll out a wide range of products for the manufacturing of high-quality large- to small-diameter silicon wafers used in making semiconductor devices. By taking full advantage of these strengths to create a stable supply capability, the Group seeks to contribute to the advancement of society. Making especially strong efforts to raise its technological capabilities to meet the extremely strict quality and cost demands of its customers, the Group seeks to maintain and improve its standing in the silicon wafer industry.

Under these basic policies, the Group is committed to further strengthening its business foundations and meeting its mandate from stakeholders, aiming for sustainable growth of its business.

(2) Target management indicators and medium- to long-term management strategies

The semiconductor silicon wafers market is expected to grow in the medium to long term along with the growth of the semiconductor market, although there will be factors causing short-term market fluctuations. Driving this growth are 300 mm wafers that meet leading-edge scaling needs. Meanwhile, demand for 200 mm wafers is rapidly recovering especially for automotive, despite the global economic slowdown caused by the spread of COVID-19 infections. Depending on its demand for consumer and industrial applications, a full-fledged recovery in demand for 200 mm wafers is expected from 2021 onward.

In this business environment, the Group will promote further differentiation of its mainstay 300 mm wafers through technology development and investments designed to meet the increasingly tough requirements its customers have for higher precision and better quality products along with advances in scaling technology. In response to the issue of demand exceeding production capacity, the Group will make individual, disciplined capital investments at appropriate times, giving all due consideration to their economic rationality. As for wafers of 200 mm or below, the Group will continue ensuring that its production capability is commensurate with the market environment. In addition to strengthening cost competitiveness, the Group will pursue differentiation from its competitors by concentrating its management resources in the fields where demand is expected to grow including wafers for the IoT and fifth-generation (5G) mobile communications system.

Given that semiconductor silicon wafers are part of business areas with a volatile market environment, the Group will continue making efforts to improve profitability and work on building business foundations that can promptly and effectively respond to changes in the demand environment.

Thanks to the improvements the Group has made to its financial position, the Group achieved at the end of 2019 the medium-term financial targets it had set in 2015 at the time of the capital increase through public offering. These were the equity-to-asset ratio of 50% or higher and the gross D/E ratio of 0.5 times or lower. With this achievement, the Group reviewed its shareholder return policy and, in addition to the existing dividend payout ratio of 30%, it has started providing a shareholder return of 10% through the purchase of treasury stock.

(3) Business environment and issues to address

With respect to 300 mm silicon wafers used in semiconductors, in the short term, the supply-demand tightness is expected to intensify for logic semiconductor applications as demand will be driven by applications for 5G, smartphones, and data centers. In addition, robust demand for 200 mm wafers is anticipated to continue with a rapid recovery in demand for automotive and consumer.

In this environment, the Group, in line with its Vision, will continue striving to maintain its strong presence among customers through technology development to meet customer needs for higher precision products and to achieve product differentiation, while improving profitability through the increased productivity, optimized pricing, and cost reduction. The Group will also carefully and closely monitor changes in the market environment amid concerns over the impact of the COVID-19 pandemic, US-China trade friction, and other issues.

With respect to capital investments, to fulfill its responsibility to customers as a supplier, the Group will implement disciplined capital investments as needed in line with SUMCO's market share, taking into consideration matters such as supply and demand forecasts of the wafer market on each occasion and the lead-time required to newly install or increase production

facilities.

The Group is currently holding excess inventories of polycrystalline silicon, the main raw material of silicon wafers. This is attributable to the discrepancy that has arisen between the demand forecasts made at the time the Group concluded long-term purchasing contracts and the consumption outlook as a result of rapid changes in the market. The inventory balance peaked at the end of the fiscal 2016 and then began to decline. It is expected to return to an appropriate level in the medium to long term. The balance of raw materials and supplies, including raw material inventories, shrank by ¥ 7.3 billion year on year to ¥ 142.1 billion .

<SUMCO Vision>

1. World’s Best in Technology
2. Deficit-Resistant Even during Economic Downturns
3. Empower Employee; Awareness of Profit
4. Competitiveness in Overseas Markets

2. Business and other risks

Of the matters concerning the status of business, status of accounting, and other issues presented in this securities report, major risks that the Group's management (hereinafter the "Management") recognizes as potentially having a material impact on the Group's financial position, business results, and cash flows are described below. The possibility and timing of these risks becoming evident are not stated if it is difficult to predict them in a reasonable manner.

The following is not an exhaustive list of all the risks related to the Group. There are other risks not stated below. Furthermore, forward-looking statements in the following items are based on the Group's estimate as of the end of the consolidated fiscal year under review. Actual results may differ from the statements, which are inherently subject to uncertainties.

(1) Operating environment

The silicon wafers that the Group manufactures and sells are used for semiconductor substrates, etc. installed in mobile devices such as personal computers, smartphones, and tablets, in automobiles, and in various products including other consumer products. As a result, they may be affected by a number of factors specific to the semiconductor industry and associated industries. Among these factors are accelerated advancements in technological innovation, product obsolescence, rapid changes in product structure, and drops in product prices.

To address these short-term, potential changes in the business environment, the Group is creating business foundations that can speedily and accurately adapt to market trends, while endeavoring to further strengthen its financial fundamentals.

(2) SUMCO Group's products

Prices of semiconductors that use products manufactured by the Group generally tend to decline after their release into the market, due in part to their spread and subsequent growth in sales volumes. A more-than-expected price decline due mainly to a sudden deterioration of supply-demand balance may affect the Group's business results, etc.

In order to increase its ability to deal with market fluctuations, the Group prepares business plans aimed at offsetting the expected decline in the prices of its products. These include efforts to improve productivity through the use of AI technology and to raise production yields by continuously improving technologies.

In addition to the above factors, events such as declined sales volumes or market shares resulting from serious complaints about product quality, or production disruption or significant production delay caused by large-scale facility accidents or system errors attributable to causes such as computer virus infections may affect the Group's business results, etc.

In response, the Group takes measures to avoid risks of reducing the entire Group's production capacity or making the supply of products difficult. These include continuous communication with customers to comprehend changes in the required quality in a timely manner, periodical preventive maintenance of production facilities, and regular updates of antivirus software and restrictions on taking into offices portable memory devices such as USB memory sticks to prevent large-scale system errors.

(3) Credit management

The Group takes every possible precaution to manage the credits it extends to its customers. If the financial position of a customer with a large amount of accounts payable deteriorates and the customer cannot make payments on due dates or the Group cannot recover the accounts receivable due to their bankruptcy, this may affect the Group's business results, financial position, etc. Although recognizing that it can foresee signs of these risks becoming evident to a certain extent, the Group cannot say all of them are necessarily avoidable.

The Group has established a system in place to conduct credit research on a periodical basis and to manage risks associated with customers' financial conditions and business stability.

(4) Procurement of raw materials

The Group has concluded long-term purchasing agreements on polycrystalline silicon, the main material used to produce silicon wafers, with the world's major polycrystalline silicon manufacturers to ensure stable procurement of raw materials. Due to a discrepancy that has arisen between the demand forecasts made at the time the Group concluded the long-term purchasing agreements and the consumption outlook, however, the Group is currently holding excess inventories. Opportunities to reduce the cost of raw materials may be limited until these contracts expire and the Group's inventories return to a proper level. An outlook for raw materials and supplies, including raw material inventories, is described in "(3) Business environment and issues to address" in "1. Management policies, business environment, and issues to address, etc." Any change in consumption amounts or any implementation of necessary accounting processes due to significant changes in the business environment or other reasons may affect the Group's business results, financial condition, etc.

In light of the above risks associated with the procurement of raw materials, the Group endeavors to maintain an appropriate level of raw material inventories.

(5) Stable procurement of key manufacturing equipment

Key manufacturing equipment used by the Group includes polishing machines and other equipment of which the Group may not be able to find alternative suppliers in a short time. Any problem hindering the smooth procurement of such manufacturing equipment may affect the Group's business results, etc. In addition, if capital investments the Group makes do not generate positive change to manufacturing as fast as expected due to reasons such as the prolonged delivery of manufacturing equipment, this may affect the Group's business development, business results, etc. Furthermore, any difficulty in the smooth procurement of manufacturing equipment due to factors such as abrupt economic changes, natural disasters, the spread of infectious diseases, or export restrictions placed due to geopolitical changes may affect the Group's business development, business results, etc.

To prepare for these risks becoming evident, the Group takes measures to avoid the risk of supply chain disruption to ensure the stable procurement of manufacturing equipment. These measures include the enhancement and creation of relationships with major equipment suppliers and information sharing on the medium- to long-term stable supply of manufacturing equipment.

(6) Supply chains

A supplier's bankruptcy or operation stoppage due to reasons such as abrupt changes in economic conditions, natural disasters, or accidents involving manufacturing equipment may cause problems to the procurement of materials the Group uses and ultimately affect the Group's performance, financial position, etc.

The Group therefore takes measures to avoid the risk of procurement disruption such as making purchases from multiple suppliers and keeping sufficient inventories.

(7) Capital investment

The Group's business development, business results, etc. may be affected by any future surplus of equipment capacity or obsolescence of existing or newly introduced equipment caused by market fluctuations, changing requirements of customers, and other changes in the environment surrounding the semiconductor industry.

To prevent these risks associated with capital investment, the Group makes capital investment based on factors such as the demand forecast factoring in medium- to long-term macro economic trends and the technological trends of customers comprehended through continuous communication with them.

(8) Financing

Some of the Group's bank loans, and its commitment line agreements are subject to financial covenants. Any significant deterioration in the Group's financial condition that could result in the breach of those covenants, trigger the cancellation of those agreements and demands for repayment, and cause the Group to forfeit the benefit of time, may affect its financing.

In addition, any failure to raise finance at the desired time or under the desired terms due to interest rate levels, market conditions, or other factors may affect the Group's business results, etc.

To address and mitigate these risks, the Group endeavors to maintain a sufficient level of liquidity in hand. In addition, it is taking advantage of the current low interest rate environment, mainly taking out long-term, fixed-rate loans. The Group will continue raising finance based on interest rate levels and market environment and endeavor to maintain favorable relationships with partner financial institutions.

(9) Technology and R&D

The semiconductor industry is characterized by rapid advances in technology. As semiconductors feature increasingly high circuit densities and fine line widths and their applications become more diverse and advanced, customers' demands for the silicon wafers the Group supplies are growing more diverse and sophisticated. To meet such customer demands, the Group conducts R&D activities with a focus on technologies related to 300 mm wafers whose demand is expected to grow in the medium to long term. By product category, its R&D activities focus on technologies related to epitaxial wafers and other high-value-added products, as well as on technologies pertaining to next-generation wafer products.

If, however, its R&D activities do not produce the expected benefits or it falls behind its competitors in terms of technology development, the Group will be unable to respond to technological advances in the semiconductor industry and find it difficult to meet customer demands. This may affect the Group's business development, business results, etc.

To supply wafer products that meet the escalating customer demands in a timely manner, the Group needs to endeavor to constantly update its understanding of customer needs and technological trends in the semiconductor industry, and promote R&D activities, anticipating their future needs. The Group enhances a structure to systematically comprehend technological trends of the semiconductor industry and its customers and to provide this information to the Group's R&D sections in a timely manner. At the same time, the Group conducts cutting-edge R&D activities utilizing joint research activities with universities

and technological information obtained through academic conferences and other opportunities. To conduct advanced R&D activities, the capabilities of engineers are no doubt important. The Group therefore develops engineers through its fine-tuned educational programs. The Group strengthens these structures so that it does not fall behind its competitors in meeting customer requirements.

(10) Intellectual property rights

The Group recognizes that securing patents and other intellectual property rights is vital to competition with other silicon wafer manufacturers. It thus holds a large number of patents, including those pending, both in Japan and abroad.

There is, however, a risk that the Group loses its technological advantages due to the insufficient protection of intellectual property rights. In addition, there is a risk of infringement on the intellectual property right of a third party if a patent has been granted without the Group's awareness. In this case, the Group may be required to cease the use of the technology and sued for damages. Any of these risks becoming evident may affect the Group's business development, business results, etc. including its marketing, production, sales, and financial positions.

For this reason, the Group conducts research on its competitors' patents to foresee any potential risks. In addition, the Group endeavors to minimize risks through measures such as strategically securing intellectual property rights and developing alternative technologies that circumvent its competitors' patents.

(11) Overseas operations

The Group has bases for production and sales in North America, Europe, and Asia as well as in Japan, which supply silicon wafers to major semiconductor manufacturers and other entities worldwide. These production and sales activities may be affected by the diminished operation of plants and other developments arising from economic or political conditions, conflicts, terrorism, disasters, etc. in the countries or regions. Furthermore, major changes in various regulations including those concerning taxation, foreign exchange, tariffs, and export or import may affect its business results, etc.

The Group hedges risks associated with changes in global situations with flexible production allocation through the established multiple-base production system and examination of country risks.

(12) Laws and regulations

The Group is subject to various laws and regulations in the countries where it operates. These include regulations on labor, taxes, import and export, product liability, competition, environment, and governmental approvals and licenses necessary for businesses and investments. Any future tightening of these laws and regulations, or stricter application or interpretation thereof may increase compliance-related costs, restrict the Group's business development, and thus affect its business results, etc.

Based on internal rules, the Group therefore designates sections in charge of the laws and regulations that are relevant to the execution of their business, and creates a structure for these sections to continue monitoring and quickly respond to the establishment, amendment, and repeal of laws and regulations, so as to minimize the impact of risks associated with the strengthening of laws and regulations, etc.

(13) Fluctuations in foreign exchange rates

The Group conducts transactions in foreign currencies, such as in product exporting. It also translates financial data of overseas consolidated subsidiaries from foreign currencies into yen when creating consolidated financial statements. The Group's business results, financial position, etc. may be affected by fluctuations in foreign exchange rates.

To avoid foreign currency risks that transactions to be conducted in foreign currencies are exposed to, the Group executes foreign exchange forwards on a regular basis.

(14) Environmental laws and regulations

The Group's operations, in particular at its manufacturing sites, are subject to environmental laws and regulations in Japan and abroad governing such matters as energy consumption, gas emissions, wastewater discharges, the use and storage of harmful chemical substances, the disposal of industrial wastes, the testing of soil and groundwater pollution, and the removal of the contaminants. Pursuant to these laws and regulations, the Group may be held legally responsible to pay certain expenses or compensate for damages, etc.

There has been a trend in recent years to tighten such regulations on environment, etc. It is an undeniable possibility that new environmental laws and regulations may be enacted in Japan or other countries. In such cases, the Group may incur additional expenses for complying therewith, including the payment of costs for environmental conservation and taxes. This may affect the Group's business development, business results, etc.

To prepare for risks associated with the future tightening of environmental laws and regulations, the Group works on

initiatives to reduce its environmental footprints. These include the promotion of the use of renewable energy to reduce greenhouse gas emissions and making improvements of production technologies to decrease the consumption of substances subject to regulations.

(15) Natural disasters and accidents

In the event of natural disasters, such as typhoons, torrential rains, earthquakes, tsunamis, and volcanic activities, or of accidents, fires, infectious diseases, or terrorism, the Group's manufacturing sites may encounter unexpected problems such as damage to equipment, limited access to water and electricity, and human sufferings, which may halt production and cause problems with the manufacturing and selling of products. If any of the Group's key manufacturing sites is affected by the above natural disasters, accidents, fires, etc., the Group's manufacturing and sales activities may be hindered, which affects its business development, business results, etc.

To address these risks associated with natural disasters and accidents, the Group prepares a Business Continuity Plan (BCP). The BCP clarifies the earthquake resistant and seismic isolation measures for its equipment and the procedures for stockpiling extra materials, organizing disaster prevention equipment and supplies, and resuming operations, and promotes actions such as disaster drills. The progress status of these measures and reviews of their details are reported to a company-wide committee, the Business Security Committee, each year for a review by the Management.

(16) Acquisition of other companies

Acquisitions of other companies may entail unexpected problems such as a rapid deterioration in the acquired company's business results due to dramatic changes in the business environment and an impairment loss of goodwill, which may affect the Group's business development, business results, etc.

When considering acquisition of other companies, the Group endeavors to minimize risks by performing due diligence on financial conditions, etc. of the target company.

(17) Novel coronavirus (COVID-19) infections

The current global pandemic of COVID-19 exposes the Group to the risk of global economic downturn and the risk of diminished business operations in the event its employees contract the virus. Both these risks may affect the Group's business results, etc.

In response to this pandemic, the Group will take every measure that is considered effective in reducing the risk of infections. These include teleworking in certain regions, infection prevention measures, and the promotion of vaccinations to its employees. The Group's manufacturing sites are currently operating without any problem. If infections spread and start affecting the Group's operations due to, for instance, the emergence of a cluster in any part of the Group's production process, the Group will take measures to minimize their impact on its operations, business results, etc. These measures may include adjusting work shifts or reassigning personnel for the affected process.

(18) Other risks

The following events resulting from changes in the business environment and other developments may affect the Group's business results, financial position, etc.

(i) Major changes in the business environment necessitating business or organizational restructuring or other actions
(ii) Significant changes in the actuarial assumptions used in calculating retirement benefit obligations
(iii) Deterioration in earnings or significant changes in projections of future earnings caused by changes in the economic environment or other developments, which necessitate relevant accounting treatment
(iv) Failure to recruit the human resources needed for the operations of the Group
(v) Lawsuits or other legal actions brought against the Group for defects in its products or other reason
(vi) Failure of its internal control to function effectively

3. Management analysis of financial position, business results, and cash flows

(1) Overview of business results, etc.

An overview of the financial position, business results, and cash flows (hereinafter, the "business results, etc.") of the Group (SUMCO and its consolidated subsidiaries) during the consolidated fiscal year under review is as follows.

(i) Financial position and business results

The semiconductor silicon wafer market grew during the consolidate fiscal year under review despite the global economic slowdown caused by the US-China trade friction and the COVID-19 pandemic. There was a strong demand for 300 mm wafers due to an increase in communication volume resulting from the widespread adoption of teleworking and 5G. The supply-demand tightness continued for silicon wafers used in logic semiconductors as demand was driven by personal computers, smartphones, and datacenters. Demand for silicon wafers used in memory chips showed a tendency to recover. Demand for 200 mm or smaller wafers stagnated for automotive and consumer due to the impact of the COVID-19 pandemic but started recovering quickly from the year-end.

In this environment, the Group, in line with the SUMCO Vision, sought to maintain its strong presence among its customers by promoting technology development designed to meet customer demands for higher precision products and to achieve product differentiation. The Group also endeavored to improve its profitability by reducing costs.

As a result, the Group performance for the consolidated fiscal year under review were: net sales of ¥ 291,333 million (down 2.7% year on year), operating income of ¥ 37,897 million (down 25.2% year on year), ordinary income of ¥ 35,650 million (down 26.2% year on year), and net income attributable to owners of the parent of ¥ 25,505 million (down 23.0% year on year).

Segment information is omitted because the Group has only one business segment.

At the end of the consolidated fiscal year under review, total assets stood at ¥ 593,443 million (up ¥ 14,931 million year on year), total liabilities ¥ 238,439 million (up ¥ 1,078 million year on year), and total equity ¥ 355,003 million (up ¥ 13,853 million year on year).

(ii) Cash flows

Cash and cash equivalents at the end of the fiscal year under review increased ¥ 11,843 million year on year to ¥ 81,864 million. This was due to net cash provided by operating activities of ¥ 84,188 million, net cash used in investing activities of ¥ 55,193 million, net cash used in financing activities of ¥ 16,236 million, and foreign currency translation adjustments on cash and cash equivalents of negative ¥ 914 million.

(iii) Production, orders received, and sales

Segment information is not provided because the Group has only one business segment, "high-purity silicon."

a. Production results

Production results for the consolidated fiscal year under review are as follows.

Segment name	Consolidated fiscal year ended December 31, 2020 (January 1, 2020–December 31, 2020)	
	Amount (¥ million)	YoY change (%)
High purity silicon	227,775	102.2

Notes: 1. The amount is based on the cost of manufacturing.
2. The above amount does not include consumption taxes.

b. Orders Received

The size of orders received is not stated either in terms of monetary value or volume because most of the products produced and sold by the Group are not made to order.

c. Sales results

Sales results for the consolidated fiscal year under review are as follows.

Segment name	Consolidated fiscal year ended December 31, 2020 (January 1, 2020–December 31, 2020)	
	Amount (¥ million)	YoY change (%)
High purity silicon	291,333	97.3

Notes: 1. The above amount does not include consumption taxes.

2. Sales to major customers during the last two consolidated fiscal years and their shares in total sales are as follows.

Customers	Consolidated fiscal year ended December 31, 2019 (January 1, 2019–December 31, 2019)		Consolidated fiscal year ended December 31, 2020 (January 1, 2020–December 31, 2020)	
	Amount (¥ million)	Share (%)	Amount (¥ million)	Share (%)
Sumitomo Corporation	47,758	15.9	52,104	17.9
Samsung Electronics Co., Ltd.	42,130	14.1	39,035	13.4

(2) Analysis and examination of business results, etc. from Management's perspective

The details of the understanding, analysis, and examination of the business results, etc. of the Group from the Management's perspective are as follows.

Forward-looking statements are based on the Group's estimate as of the end of the consolidated fiscal year under review.

(i) Understanding, analysis, and examination of financial position and business results

a. Analysis of business results

During the consolidated fiscal year under review, demand for semiconductor silicon wafers, especially 300 mm wafers, grew on a full-year basis, despite supply-demand adjustments in the semiconductor industry in the first six months of the period, amid the economic recession resulting from the impact of the global COVID-19 pandemic and the ongoing geopolitical risks. Demand for wafers used in most advanced logic semiconductors expanded, especially for 5G. In addition, demand for those used in memory chips recovered albeit moderately.

The Group recorded year-on-year falls in both revenues and profits during the consolidated fiscal year under review partly due to an increase in costs for launching the production process of cutting-edge, high precision 300 mm products and an increase in depreciation costs for investing in the production capacity increase for high precision wafers. The Group recorded operating income of ¥ 37,897 million, net income attributable to owners of the parent of ¥ 25,505 million, and an operating income margin of 13.0%.

b. Analysis of financial position

(Assets)

Assets at the end of the consolidated fiscal year under review increased ¥ 14,931 million year on year to ¥ 593,443 million. Major changes include ¥ 19,800 million reduction in securities, ¥ 32,747 million increase in cash and time deposits, and ¥ 7,269 million increase in property, plant and equipment.

(Liabilities)

Liabilities at the end of the consolidated fiscal year under review increased ¥ 1,078 million year on year to ¥ 238,439 million. Major changes include ¥ 9,480 million decrease in long-term debt, ¥ 7,946 million increase in short-term borrowings, and ¥ 2,104 million increase in notes and accounts payable-trade.

(Equity)
Net assets at the end of the consolidated fiscal year under review increased ¥ 13,853 million year on year to ¥ 355,003 million. Major changes include ¥ 3,300 million decrease in capital surplus due to cancellation of treasury stock, and ¥ 17,331 million increase in retained earnings due to factors such as net income attributable to owners of the parent.

c. Objective indicators to assess the degree to which management policies, business strategies, and management goals are pursued
As stated in "(2) Target management indicators and medium- to long-term management strategies" in "1. Management policies, business environment, and issued to address," the Group aims to achieve an equity-to-asset ratio of 50% or more and a gross D/E ratio of 0.5 times or lower as its medium-term financial fundamental goals.
The Group's equity-to-asset ratio was 53.1% and gross D/E ratio was 0.48 times at the end of the consolidated fiscal year under review.

(ii) Analysis and examination of cash flows and information on the source of capital and liquidity of funds

a. Analysis and examination of cash flows

(Cash flows from operating activities)
Net cash provided by operating activities in the consolidated fiscal year under review increased ¥ 6,524 million year on year to ¥ 84,188 million. This mainly reflects the cancellation fees paid in the previous consolidated fiscal year for an early termination of a long-term polycrystalline silicon purchasing agreement, increase (decrease) in notes and accounts receivable - trade, and increase (decrease) in notes and account payable - trade.

(Cash flows from investing activities)
Net cash used in investing activities in the consolidated fiscal year under review was ¥ 55,193 million, down by ¥ 5,991 million year on year. The main factor contributing to the decrease was smaller expenditures for the purchase of property, plant and equipment and intangible assets.

(Cash flows from financing activities)
Net cash used in financing activities in the consolidated fiscal year under review was ¥ 16,236 million. This mainly reflects dividends paid of ¥ 8,173 million, dividends paid to non-controlling interests of ¥ 2,638 million, and payment for purchases of treasury stock of ¥ 3,300 million.

b. Source of capital and liquidity of funds

(Basic concept behind financial strategies)
The Group in principle generates cash flows from operating activities by improving business results and reducing raw material inventories, and then makes necessary capital investments within the scope of available cash flows from operating activities. In addition, the Group will continue providing shareholder return through dividends and the acquisition of treasury stock.
The Group's gross D/E ratio improved to 0.48 times as of the end of the consolidated fiscal year under review. The Group will continue improving its financial fundamentals through the reduction of interest-bearing liabilities.

(Main funding requirements)
The Group requires funds to pay its operating capital and to make capital investments to enhance production capacity, improve product precision, and conduct R&D activities.

(Liquidity of funds)
The Group considers that a sufficient level of liquidity is maintained to meet the necessary funding requirements given the level of cash and cash equivalents the Group holds and the commitment line agreements the Group has concluded with major financial institutions.

(Financing)
The Group effectively uses its own funds and external funds to ensure secure financing sources needed to maintain and expand its business activities.
The Group also considers the ability to stably raise finance from external sources as an important management issue and maintains favorable relationships with partner financial institutions.

(iii) Important accounting estimates and assumptions used

The Group's consolidated financial statements are prepared in accordance with the generally accepted accounting principles in Japan. In preparing its consolidated financial statements, the Group makes estimates and judgments that affect the status of assets, liabilities, revenue, and expenses, considering various factors that are deemed reasonable based on the past results and information available at the time of the estimates or judgments. Due to the inherent uncertainty of estimates, however, actual results may differ from the estimates.

Of the accounting policies it has adopted, the Group considers that the following accounting policies and estimates have an especially material impact on its consolidated financial statements.

a. Inventories

The Group evaluates inventories mainly at costs determined by the gross average method (Amounts recorded in the balance sheet are calculated by devaluating the book values based on their decreased profitability). A large valuation loss on inventories may occur if the net sale value at the term end is lower than the book value due to an unexpected fall in market price or a decline in demand, or if inventories remain unsold or become obsolete.

b. Recoverability of deferred income tax assets

An allowance is provided for any portion of deferred income tax assets that is not expected to be realized in the future. The valuation of deferred income taxes relies on an estimate of future taxable income. If future taxable income differs from the predicted amount due to factors such as changes in the economic environment, the amount of deferred income tax assets may be adjusted accordingly.

c. Impairment loss on non-current assets

The Group applies the "Accounting Standard for Impairment of Fixed Assets (Business Accounting Council; August 9, 2002)" and the "Revised Guidance on Accounting Standard for Impairment of Fixed Assets (Accounting Standards Board of Japan) (March 27, 2009)" (ASBJ Guidance No. 6 (Revised 2009)). If operating revenues significantly decrease due to considerable deterioration in the economic environment or other reasons, an impairment loss may arise.

d. Retirement benefit expenses and obligations

Expenses and obligations associated with retirement benefits of employees are calculated mainly based on actuarial assumptions. These assumptions factor in the average remaining employment period of employees, yields on long-term Japanese government bonds, and the expected rate of pay rise, among other factors. If actual results differ from these assumptions or if these assumptions have been changed, this may affect expenses and obligations associated with future retirement benefits.

4. Important business contracts, etc.

(1) The Group procures the key material for silicon wafers, polycrystalline silicon, from the world's major polycrystalline silicon manufactures. The Group has long-term purchasing agreements with some of these manufacturers. These agreements require polycrystalline silicon manufacturers to supply a certain volume over a certain period and the Group to purchase them.

(2) SUMCO TECHXIV CORPORATION concluded an agreement with FORMOSA PLASTICS CORPORATION and ASIA PACIFIC INVESTMENT CO. on August 4, 1995 for SUMCO TECHXIV to operate FORMOSA SUMCO TECHNOLOGY CORPORATION as a joint company.

5. R&D activities

The Group's fundamental policy is to offer high-value-added products to customers by promoting value creation and differentiation from customers' perspectives, thereby honing its competitive edge. Based on this policy, the Group carries out technology development of semiconductor substrates anticipating next-generation needs, while continuing to rationalize costs and improve productivity, primarily for 300 mm wafers, toward greater mass production quality and profitability.

During the consolidated fiscal year under review, the Group promoted R&D activities to become the *World's Best in Technology* under the following development policies.

(i) Establish the superiority in advanced products and key products by speedily responding to customer demands and proactively proposing technologies to customers.
(ii) Strengthen technological foundations to improve productivity and create future technologies by taking advantage of quality engineering, IIoT (Industrial IoT), and business intelligence (BI) tools.
(iii) Strengthen human resource development with a focus on passing along technologies and skills to younger engineers.
(iv) Continue global business activities through technology exchanges with overseas customers and overseas bases.

Regarding items on future technology development, the Group continues drawing on not only internal resources but outside institutions through commissioned or joint research.

R&D expenses in the consolidated fiscal year under review totaled ¥ 4,857 million, representing 1.7% of consolidated net sales.

Segment information is not provided because the Group has only one business segment, "high-purity silicon."

III. Status of facilities

1. Overview of capital investments, etc.

Capital investments the Group made during the fiscal year under review totaled ¥ 53,333 million. The Group mainly invested in enhancing production facilities of cutting-edge 300 mm high-precision wafers used in semiconductors.

2. Major facilities

The status of the Group's major facilities as of the end of the fiscal year under review is as described below.
Segment information is not provided because the Group has only one segment, "high-purity silicon."

(1) The company

As of December 31, 2020

Name of plant (Location)	Details of facilities	Book value (¥ million)					Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (1,000 sq.m.)	Other	Total	
Kyushu Factory Imari (Imari-shi, Saga)	Manufacturing facilities of semiconductor wafers	40,574	51,792	4,897 (571)	23,208	120,472	2,400 (324)
Kyushu Factory Saga (Kohoku-machi, Kishima-gun, Saga)	Manufacturing facilities of semiconductor wafers	3,008	1,259	641 (73)	1,129	6,040	508 (27)
Yonezawa Plant (Yonezawa-shi, Yamagata)	Manufacturing facilities of semiconductor wafers	4,732	1,015	1,277 (104)	391	7,417	315 (10)

(2) Domestic subsidiaries

As of December 31, 2020

Company name	Name of office/plant (Location)	Details of facilities	Book value (¥ million)					Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (1,000 sq.m.)	Other	Total	
SUMCO TECHXIV Corporation	Head office/plant (Omura-shi, Nagasaki)	Manufacturing facilities of semiconductor wafers	4,763	5,356	2,486 (173)	1,582	14,189	970 (123)

(3) Overseas subsidiaries

As of December 31, 2020

Company name	Name of office/plant (Location)	Details of facilities	Book value (¥ million)					Number of employees (Number)
			Buildings and structures	Machinery, equipment and vehicles	Land (1,000 sq.m.)	Other	Total	
FORMOSA SUMCO TECHNOLOGY CORPORATION	Head office/plant (Yunlin County, Taiwan)	Manufacturing facilities of semiconductor wafers	7,487	18,359	444 (66)	4,519	30,810	1,353 (－)

Notes: 1. Other in book value refers to tools, furniture and fixtures, leased assets, and construction in progress. The amount does not include consumption taxes.

2. The figures in parentheses in the column for the number of employees show the annual average number of temporary employees, which are not included in figures above.

3. There is no other major rental and leased facilities.

3. Plans for building, retirement, etc. of facilities

The Group makes its capital investment plans comprehensively taking into account factors such as economic forecasts, industry trends, and investment efficiency.

Its plans for building, retirement, etc. of key facilities as of December 31, 2020 are as follows.

Segment information is not provided because the Group has only one segment, “high-purity silicon.”

(1) Building of key facilities

Not applicable.

(2) Important renovation

Not applicable.

(3) Retirement

The Group does not have any plan for retirement, etc. of its key facilities, other than retirement, etc. associated with ordinary replacement of facilities.

IV. Status of the Reporting Company

1. Shares

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of authorized shares
Common share	804,000,000
Total	804,000,000

(ii) Shares issued

Class	Number of shares outstanding at end of fiscal year (December 31, 2020)	Number of shares issued as of the date of submission of this report (March 25, 2021)	Name of listing financial instruments exchange or name of authorized financial instruments firms association registered	Details
Common share	291,181,239	291,181,239	Tokyo Stock Exchange, Inc. (First Section)	Share trading unit: 100 shares
Total	291,181,239	291,181,239	–	–

(2) Share options, etc.

(i) Stock options

Not applicable.

(ii) Description of rights plan

Not applicable.

(iii) Other share options, etc.

Not applicable.

(3) Conversion of moving strike convertible bonds, etc.

Not applicable.

(4) Trends in total number of shares issued, changes in capital stock, etc.

Date	Change in total number of shares issued	Total number of shares outstanding	Change in capital stock (¥ million)	Capital stock balance (¥ million)	Change in legal capital surplus (¥ million)	Legal capital surplus balance (¥ million)
April 10, 2020 Note	(2,104,300)	291,181,239	―	138,718	―	3,611

Note: Decreased due to cancellation of Common shares.

(5) Shareholding by shareholder category

As of December 31, 2020

Category	Status of shares (number of shares for one unit: 100 shares)								Number of shares less than one unit
	National and local governments	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders	—	62	55	573	641	115	67,611	69,057	—
Number of shares held (units)	—	726,253	172,624	326,598	1,216,092	1,134	468,309	2,911,010	80,239
Percentage of shareholding	—	24.95	5.93	11.22	41.78	0.04	16.09	100.00	—

Notes: 1. Out of 7,715 shares of treasury stock, 77 units are stated in “Individuals and others” and 15 shares are stated in “Number of shares less than one unit.”

2. “Other corporations” includes 2 units of shares in the name of the Japan Securities Depository Center, Inc.

(6) Major shareholders

As of December 31, 2020

Shareholder Name or Title	Address	Number of Shares Held (thousand shares)	Percentage of total number of shares issued (excluding treasury stock)
Mitsubishi Materials Corporation	3-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan	28,846	9.91
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	23,263	7.99
Custody Bank of Japan, Ltd. (trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	19,624	6.74
MSCO CUSTOMER SECURITIES (standing proxy: Morgan Stanley MUFG Securities Co., Ltd.)	1585 BROADWAY NEW YORK, NEW YORK 10036, U.S.A. (Otemachi Financial City South Tower, 1-9-7 Otemachi, Chiyoda-ku, Tokyo)	11,341	3.90
SSBTC CLIENT OMNIBUS ACCOUNT (standing proxy: Custody and Clearing, Tokyo Branch of Hongkong & Shanghai Banking Corporation)	ONE LINCOLN STREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi, Chuo-ku, Tokyo, Japan)	8,319	2.86
STATE STREET BANK CLIENT OMNIBUS OM04 (standing proxy: Custody and Clearing, Tokyo Branch of Hongkong & Shanghai Banking Corporation)	338 PITT STREET SYDNEY NSW 2000 AUSTRALIA (3-11-1 Nihonbashi, Chuo-ku, Tokyo, Japan)	4,831	1.66
STATE STREET BANK AND TRUST COMPANY 505001 (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	P.O.BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (Shinagawa Intercity Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	4,765	1.64
GOVERNMENT OF NORWAY (standing proxy: Citibank, N.A., Tokyo Branch)	BANKPLASSEN 2, 0107 OSLO 1 OSLO 0107 NO (6-27-30 Shinjuku, Shinjuku-ku, Tokyo)	4,453	1.53
Custody Bank of Japan, Ltd. (trust account 5)	1-8-12 Harumi, Chuo-ku, Tokyo	4,016	1.38
SMBC Nikko Securities Inc.	3-3-1 Marunouchi, Chiyoda-ku, Tokyo, Japan	3,840	1.32
Total	–	113,303	38.91

Notes: 1. Unable to fully ascertain the numbers of shares related to trust businesses of trust banks, etc., the Company describes the numbers of shares in their names in its shareholder registry as the numbers of shares they hold.

2. Mitsubishi Materials Corporation, which was one of the major shareholders as of the end of the previous fiscal year, is not as of the end of the fiscal year under review.

(7) Voting rights

(i) Shares issued

As of December 31, 2020

Category	Number of shares		Number of voting rights	Details
Non-voting shares		—	—	–
Shares with restricted voting rights (treasury stock, etc.)		—	—	–
Shares with restricted voting rights (others)		—	—	–
Shares with full voting rights (treasury stock, etc.)	Common share	7,700	—	Share trading unit: 100 shares
Shares with full voting rights (others)	Common share	291,093,300	2,910,933	Same as above
Shares less than one unit	Common share	80,239	—	Same as above
Total number of shares issued		291,181,239	—	–
Voting rights of all shareholders		—	2,910,933	–

Notes: 1. Common shares in "Shares with full voting rights (others)" include 200 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes two voting rights attributable to shares with full voting rights in the name of Japan Securities Depository Center, Inc.

2. Common shares in "Shares less than one unit" include 15 shares in the name of the Company.

(ii) Treasury stock, etc.

As of December 31, 2020

Name or title of shareholder	Shareholder address	Number of shares held in own name	Number of shares held in other names	Total number of shares held	Percentage of total number of shares issued
SUMCO Corporation	1-2-1 Shibaura, Minato-ku, Tokyo	7,700	—	7,700	0.00
Total	–	7,700	—	7,700	0.00

2. Acquisition of treasury stock

Classes of shares: Acquisitions of common share falling under Article 155, Item 3 and acquisitions of common share falling under Article 155, Item 7 of the Companies Act.

(1) Acquisitions by resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisitions by resolution of Board of Directors meetings

Category	Number of shares	Total amount (¥)
Resolution of the Board of Directors' meeting (February 18, 2020) (Acquisition period: February 19, 2020 to March 24, 2020)	2,180,000	3,300,000,000
Acquired treasury stock prior to the fiscal year	―	―
Acquired treasury stock during the fiscal year	2,104,300	3,299,985,900
Total number and value of remaining shares resolved to acquire	75,700	14,100
Unexercised rate at the end of the fiscal year	3.47	0.00
Acquired treasury stock during the current period	―	―
Unexercised rate at the filing date	3.47	0.00

Category	Number of shares	Total amount (¥)
Resolution of the Board of Directors' meeting (February 19, 2021) (Acquisition period: February 22, 2021 to March 23, 2021)	1,270,000	2,500,000,000
Acquired treasury stock prior to the fiscal year	―	―
Acquired treasury stock during the fiscal year	―	―
Total number and value of remaining shares resolved to acquire	―	―
Unexercised rate at the end of the fiscal year	―	―
Acquired treasury stock during the current period	223,300	559,309,200
Unexercised rate at the filing date	82.4	77.6

Note: The acquired treasury stock during the current period does not include shares acquired from March 1, 2021 to the filing date of this report.

(3) Acquisitions not based on resolution of General Meeting of Shareholders or the Board of Directors' meeting

Acquisition of common shares that falls under Article 155, Item 7 of the Companies Act

Category	Number of shares	Total amount (¥)
Acquired treasury stock during the fiscal year	80	141,320
Acquired treasury stock during the current period	20	46,860

Note: The acquired treasury stock during the current period does not include shares acquired at request for acquisition of shares less than one unit from March 1, 2021 to the filing date of this report.

(4) Cancellation and holding of acquired treasury stock

Category	Fiscal year under review		Current period	
	Number of shares	Total cancellation amount (¥)	Number of shares	Total cancellation amount (¥)
Acquired treasury stock for which subscribers have been solicited	—	—	—	—
Acquired treasury stock canceled	2,104,300	3,300,504,469	—	—
Acquired treasury stock transferred due to merger, share exchange, share issuance or company split	—	—	—	—
Other (-)	—	—	—	—
Number of treasury stock held	7,715	—	231,035	—

Notes: The treasury stock held during the current period does not include shares acquired or sold from March 1, 2021 to the filing date of this report.

3. Dividend policy

The Company regards appropriate distribution of profit to shareholders as a priority management issue. For dividend payouts, the Company's policy is to reward shareholders flexibly and actively by comprehensively considering factors such as profit levels in each fiscal year, outlook for the next fiscal year and beyond, required funds for capital expenditures and situations of retained earnings.

Thanks to the improvements the Group has made to its financial position, at the end of 2019 we achieved our medium-term financial targets we had set in 2015 at the time of the capital increase through public offering. These were an equity-to-asset ratio of 50% or higher and a gross D/E ratio of 0.5 times or lower. With this achievement, we have reviewed our shareholder return policy and, in addition to the existing dividend payout ratio of 30%, we are currently providing a shareholder return of 10% through the purchase of treasury stock.

Based on the above policy, for the dividend of the year under review, we resolved in the Board of Directors' meeting on February 19, 2021 on a year-end dividend of ¥ 9, resulting in an annual dividend of ¥ 27 per share with the interim dividend of ¥ 18. At the meeting on the same day, the Board resolved on the acquisition of treasury stock of up to 1,270,000 shares for up to ¥ 2,500 million during the period from February 22, 2021 to March 23, 2021, and on the cancellation of all the shares to be so acquired.

The Articles of Incorporation stipulate that the Company be able to make decisions on matters stipulated in each Item of Article 459, Paragraph 1 of the Companies Act, including dividends from surplus and the acquisition of treasury stock, by resolution of the Board of Directors' meeting, unless otherwise provided by laws and regulations.

The Articles of Incorporation also stipulates that the Company be able to pay year-end dividends to shareholders or registered share pledgees recorded in the shareholder register as of the last day of each fiscal year and interim dividends to shareholders or registered share pledgees recorded in the shareholder register as of June 30 of each year.

Dividends from surplus for the fiscal year under review are as follows.

Date of resolution	Total dividends (¥ million)	Per-share dividend (¥)
Board of Directors' meeting on August 6, 2020	5,241	18.00
Board of Directors' meeting on February 19, 2021	2,620	9.00

4. Corporate governance

(1) Overview of corporate governance

(i) Basic stance on corporate governance

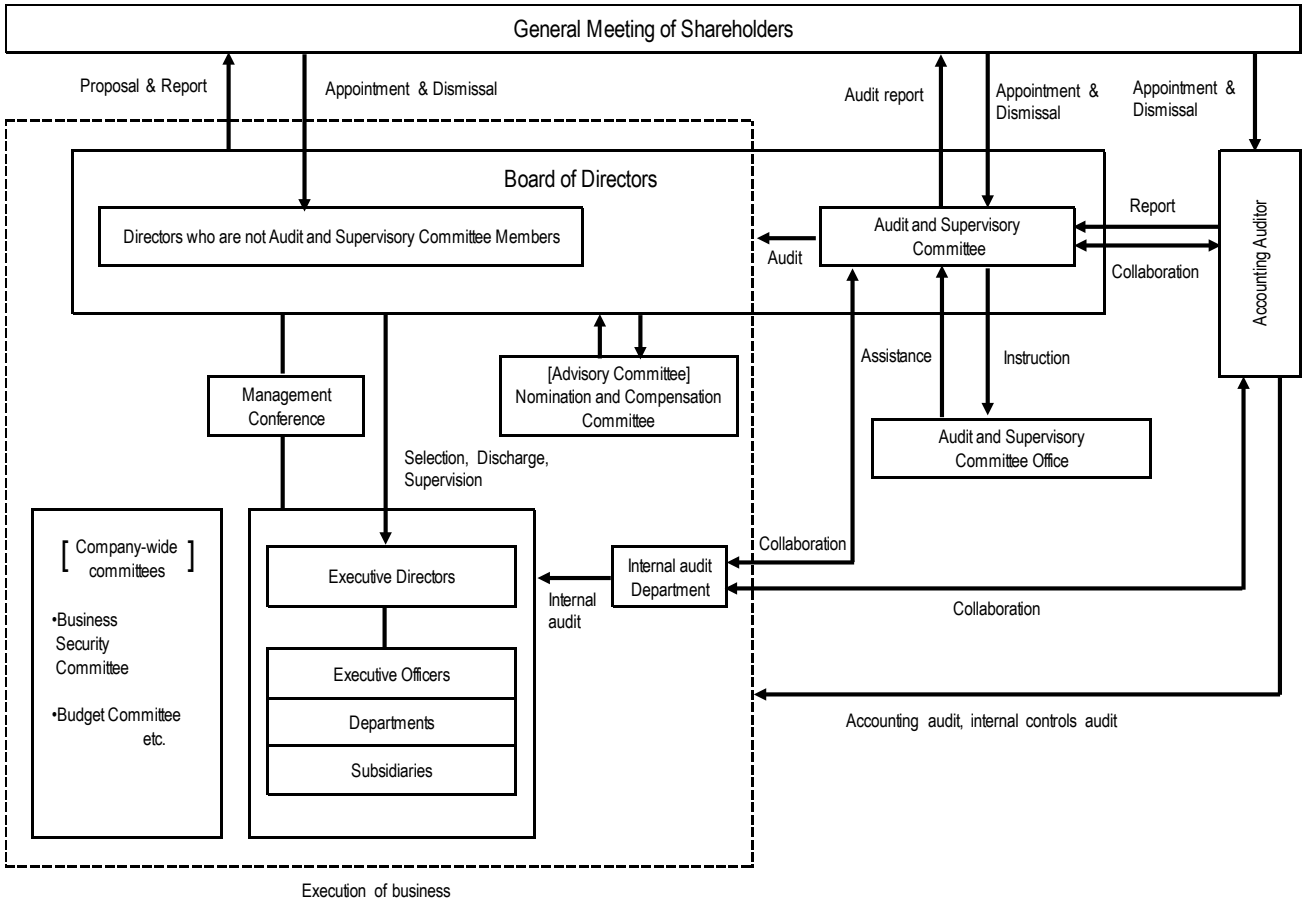
The Company recognizes it is its most important management goal to contribute to the development of industry and the improvement in people's quality of life through the provision of high quality silicon wafers, which forms the foundation for semiconductor devices, and at the same time to meet the expectations of shareholders by improving corporate value and build and maintain good relationship with stakeholders other than shareholders. Based on such recognition, we work to ensure swift management decision making and transparency and fairness in the performance of duties by carrying out various measures regarding corporate governance, including measures to reinforce audit and supervisory functions of the Board of Directors, secure efficiency of Directors' performance of duties and enhance internal control of the Group. Furthermore, we'll continue to conduct information disclosure in a timely and appropriate manner in order to improve transparency of management.

With regards to the promotion of corporate activities, we have adopted the SUMCO Charter of Corporate Conduct for the Company, its executives, employees, etc. to follow in order to not just comply with relevant laws and regulations but also engage in sound corporate activities in accordance with social norms. Furthermore, the Company aims to bring together efforts of all employees to become an excellent company, and has worked out the SUMCO Vision to achieve this.

<SUMCO Vision>

1. World's Best in Technology
2. Deficit-Resistant Even during Economic Downturns
3. Empower Employee; Awareness of Profit
4. Competitiveness in Overseas Markets

[Overview of corporate governance]



(ii) Overview of corporate governance structure and reason it has been adopted

a. Overview of corporate governance structure

(Board of Directors)

The Board of Directors consists of five Directors (except Directors who are Audit and Supervisory Committee members; one of the five is an Independent Outside Director) and five Directors who are members of the Audit and Supervisory Committee (four of whom are Outside Directors). In accordance with laws and regulations, the Articles of Incorporation and the Rules of the Board of Directors, the Board of Directors makes decisions on management strategies, management plans, and other important matters relating to management. It receives reports from every Director on the status of the performance of duties and it supervises important business execution at related companies, compliance, operational status of internal control and risk management. With the participation of Outside Directors, the Board of Directors also engages in the free exchange of opinions regarding the appropriate evaluation of company performance and related matters, and reflects that evaluation in the personnel evaluation of senior Management members. The composition of the Board of Directors as of the date of submission of this report is as follows.

Position	Name
Representative Director [Chairman of the Board]	Mayuki Hashimoto
Representative Director	Michiharu Takii
Representative Director	Hisashi Furuya
Representative Director	Kazuo Hiramoto
Independent Outside Director	Akane Kato
Director Full-time Audit and Supervisory Committee member	Fumio Inoue
Independent Outside Director Audit and Supervisory Committee member	Hitoshi Tanaka
Independent Outside Director Audit and Supervisory Committee member	Masahiro Mitomi
Independent Outside Director Audit and Supervisory Committee member	Shinichiro Ota
Independent Outside Director Audit and Supervisory Committee member	Akio Fuwa

It is also our basic company policy that performance of important duties relating to the General Meeting of Shareholders, matters relating to financial closing and so on, matters relating to management plans, and matters relating to internal control, etc. should be decided after adequate discussion at the Board of Directors meetings, with the attendance of Independent Outside Directors. For this reason, the Articles of Incorporation do not stipulate that decisions on the execution of important business be able to be delegated to each Director.

The Company has appointed the following five Outside Directors: a person with expert knowledge of human resource development and organizational operation acquired through an experience as a human resources development consultant, as well as with experience in corporate management; an attorney; a management consultant with an experience of working as a certified public accountant; a person with wide experience and knowledge cultivated through experience in the public sector as well as with many years of engagement in corporate management; and a person with knowledge as an expert in the field of metallic material research and with many years of service as a university professor. The Outside Directors provide advice based on their own knowledge and take the perspective of stakeholders such as minority shareholders in supervising management. They participate in important decision-making by the Board of Directors, and supervise business execution by the Management and others as well as conflicts of interest between the Company and the Management, etc.

Board of Directors' meeting in principle is held once every month, and extraordinary meetings as necessary.

(Audit and Supervisory Committee)
The Company's Audit and Supervisory Committee is made up of five Directors who are Audit and Supervisory Committee members (four, a majority, of whom are Independent Outside Directors). In order to ensure the effectiveness of the Committee activities, a full-time Audit and Supervisory Committee member is put in place by mutual voting among the Committee members. The composition of the Audit and Supervisory Committee as of the date of submission of this report is as follows.

Position	Name
Director Full-time Audit and Supervisory Committee member [Audit and Supervisory Committee Chairperson]	Fumio Inoue
Independent Outside Director Audit and Supervisory Committee member	Hitoshi Tanaka
Independent Outside Director Audit and Supervisory Committee member	Masahiro Mitomi
Independent Outside Director Audit and Supervisory Committee member	Shinichiro Ota
Independent Outside Director Audit and Supervisory Committee member	Akio Fuwa

The Audit and Supervisory Committee exercises its statutory right of investigation and conducts audit to examine whether Directors properly perform their duties in compliance with laws and regulations as well as the Articles of Incorporation by inspecting and confirming the status of compliance with laws and regulations, Articles of Incorporation, etc., and by supervising the status of development and operation of the internal control system, including of financial reporting.

A system is in place in which the Audit and Supervisory Committee receives reports periodically from the Internal Audit Department on the status of implementation and the results of internal audits, and, as appropriate, also from Directors, Executive Officers, and operation division of the Company and other Group companies regarding matters that seriously affect management, performance, etc.

(Nomination and Remuneration Committee)
The Company has the Nomination and Compensation Committee in place composed of two Representative Directors and two Independent Outside Directors to serve as a discretionary advisory body for the Board of Directors. The composition of the Nomination and Remuneration Committee as of the date of submission of this report is as follows.

Position	Name
Representative Director [Nomination and Remuneration Committee Chairperson]	Mayuki Hashimoto
Representative Director	Michiharu Takii
Independent Outside Director Audit and Supervisory Committee member	Hitoshi Tanaka
Independent Outside Director Audit and Supervisory Committee member	Masahiro Mitomi

The Nomination and Compensation Committee, in response to the consultations by the Board of Directors, discusses the appropriateness of the selection process for candidate directors, their qualifications, the reasons for their designation, the structure of remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers, etc., taking into consideration the evaluation of the Company’s business results, etc, and submits a report to the Board of Directors. The Board of Directors, receiving the report of the Nomination and Compensation Committee, designates candidate Directors, and decides on the remuneration of Directors (excluding Directors who are Audit and Supervisory Committee members) and related matters.

The Nomination and Compensation Committee convened three times in fiscal 2020, with full attendance each time. The

main activities undertaken by the Nomination and Compensation Committee are as follows:

- Deliberation over the selection of candidate Directors and personnel matters concerning Executive Officers
- Deliberation over the system for compensation of Directors (excluding directors who are Audit and Supervisory Committee Members) and Executive Officers
- Deliberation over the individual compensation amounts of Directors (excluding Directors who are Audit and Supervisory Committee Members)

(Management Conference)
The Management Conference, which consists of Managing Executive Officers or above, deliberates on important management matters. The Conference in principle meets every week.

(Execution of business)
The Company has adopted the executive officer system, thereby separating the decision-making and supervisory functions of the Board of Directors from the function of implementing the decisions. This system aims to enhance the Company's flexibility in responding to changes in the business environment and assure the promptness of decision-making. Each operating unit has an Executive Officer in charge with appropriate administrative procedures defined in internal rules, such as designation of individual unit's authorities and persons in charge.

b. Reason for using the current structure
The Company has adopted the company with audit and supervisory committee system. We consider it is able to enhance the effectiveness of audits and supervision through audits conducted by audit and supervisory committee members with voting rights as Directors, as well as to enhance the effectiveness of internal control through audits conducted with the Internal Audit Department utilized.

Besides, by adopting the executive officer system and thereby separating the executing function from decision-making and supervisory functions, we aim to heighten the Company's flexibility in responding to changes in the business environment and assure the promptness of decision-making.

In addition, we have appointed five Outside Directors who have expert knowledge and experience and meet the Company's independence criteria. They provide advice based on their own knowledge and take the perspective of stakeholders such as minority shareholders in supervising management. They participate in important decision-making by the Board of Directors, and supervise business execution by the Management and others as well as conflicts of interest between the Company and the Management, etc. With this, we aim to reinforce the function of supervising and monitoring the management by incorporating the viewpoint of outsiders. Furthermore, we consider the adoption of the above-mentioned executive officer system ensures quick decision-making as well as transparency and fairness of performance of duties.

(iii) Efforts to strengthen function of Audit and Supervisory Committee

a. The Company has established the Audit and Supervisory Committee Office with staff to support the performance of the Committee's duties. As a way to ensure the independence of Audit and Supervisory Committee Office staff, their transfers require prior consent from the Audit and Supervisory Committee and their performance evaluation is done by full-time Audit and Supervisory Committee member.

b. Four of the five Audit and Supervisory Committee members are Outside Directors, who satisfy the "Criteria of Independence" established by the Company and meet the requirements of Tokyo Stock Exchange for independent directors, and have no possibility to be involved in conflicts of interest with general shareholders.
Note: The "Criteria of Independence" is as described below in "(iii) Content of criteria or policies regarding independence from the Company in appointing Outside Directors, (2) [Directors]" .

c. One of the Audit and Supervisory Committee members is a certified public accountant and has considerable knowledge of finance and accounting.

d. The full-time Audit and Supervisory Committee member attends important meetings, including Management Conferences, works to grasp and shares with other members the situation of performance of management duties. Matters that must be reported to the Audit and Supervisory Committee, including matters that may materially affect the Company's operation, performance, etc., are specified in internal rules and are appropriately reported to the Committee.

(iv) Basic views about internal control system and situation of its development

The Board of Directors resolves on the basic policies on the internal control system.

a. Structure to ensure that performance of duties by the Directors and employees complies with laws and regulations as well as the Articles of Incorporation

1) The Company has established and familiarized with officers and employees the SUMCO Charter of Corporate Conduct as a code of conduct to ensure that performance of duties by officers and employees complies with laws and regulations as well as the Articles of Incorporation, and that they fulfill social responsibilities.
2) The Company appoints the Chief Compliance Officer to serve as a person with ultimate responsibility for the Company's compliance with the Charter. Supervisors at respective divisions regularly report to the Chief Compliance Officer on how well the Charter is observed.
3) The Company has a whistleblower desk to accept reports on violations, doubtful acts, etc. regarding laws and regulations as well as the Articles of Incorporation.
4) An internal audit division conducts periodic audits of the compliance situation of each division.
5) The Company works to raise executives' and employees' awareness of the SUMCO Charter of Corporate Conduct's call to break off any kind of relationship with antisocial forces and reject any of their undue demands.

b. Structure for storing and managing information on performance of duties by Directors

The Company requires that information on performance of duties by the Directors be appropriately stored and managed in accordance with laws and regulations as well as the Articles of Incorporation, and works to maintain the information in a way that makes it available for Directors, the Accounting Auditor, etc. to view or duplicate it.

c. Rules on managing risk of losses and other structures

1) The Company has drawn up the Basic Rules on Risk Management, which defines basic rules on risk management, and has established information communication routes, emergency response headquarters, etc. when significant risk materializes.
2) The Company has established the Business Security Committee (BSC) as a body overseeing the Company's overall risk management. It formulates the Company's risk management policies and assesses the progress of introduction of measures to address risks.
3) Specific risks, such as those regarding information leakage, financial markets, and product quality have been appropriately controlled with dedicated internal rules based on the Basic Rules on Risk Management.

d. Structure to ensure Directors perform duties efficiently

1) The Company has an executive officer system that separates the executing function from the decision-making and supervisory functions. The Board of Directors makes decisions on important matters, including operational policies, and oversees performance of duties by the Directors and execution of business by Executive Officers. Executive Officers execute businesses in accordance with division of responsibilities decided by the Board of Directors.
2) Important management matters are deliberated at the Management Conference, which consists of Managing Executive Officers or above.
3) Matters to be submitted for deliberation by the Board of Directors are defined by the relevant standards, while the responsibility and authority of Executive Officers are specified by internal rules.
4) The Board of Directors work out management strategies and plans, while Executive Officers carry out their duties to achieve their goals. Directors doubling as Executive Officers periodically report the situations of performance of duties at the Board of Directors' meetings.

e. Structure to ensure appropriateness of operation of the corporate group consisting of the Company, its parent company, and its subsidiaries

1) The Group ensures commitment to corporate ethics and maintains a compliance structure by making each subsidiary establish a charter of corporate conduct equal to the SUMCO Charter of Corporate Conduct. We require subsidiaries to periodically report on the situation of compliance with their respective charters.
2) We work to improve soundness, efficiency, etc. of management at subsidiaries as well as of the entire group by maintaining a division dedicated to manage subsidiaries and clarifying standards for the management of subsidiaries through internal rules. We also require subsidiaries to report on important management information including performance and financial situations, any actual or potential violation of laws and regulations as well as the Articles of Incorporation, and matters that may cause material losses to subsidiaries.
3) We require each subsidiary to establish basic policies on risk management and prepare for risks. We also require them to report on their situations in this regard at Business Security Committee (BSC) meetings. We have also established information communication routes when important risks materialize at subsidiaries.

4) We have set up a whistleblower desk that is independent from operation divisions and to which subsidiary employees can directly report on any actual or potential violation of laws and regulations or the Articles of Incorporation.
5) The company's internal audit division periodically conducts audits of subsidiaries.

f. Matters regarding the employees when the Audit and Supervisory Committee requests to appoint employees to assist the performance of its duties, matters regarding independence of the employees from the Company's other Directors (except Directors who are Audit and Supervisory Committee members), and matters regarding the securement of effectiveness of the Audit and Supervisory Committee's directions to the employees
1) The Company has established the Audit and Supervisory Committee Office and assigns staff to support the performance of the Committee's duties.
2) As a way to ensure independence of Audit and Supervisory Committee Office staff, their transfers require prior consent from the Audit and Supervisory Committee and their performance evaluation is done by full-time Audit and Supervisory Committee members.
3) In performing their tasks, the Audit and Supervisory Committee Office staff exclusively follow directions by the Audit and Supervisory Committee members and the Committee.

g. Structure for reporting to Audit and Supervisory Committee
1) Matters that must be reported to the Audit and Supervisory Committee, including matters that may materially affect the Company's operation, performance, etc., are specified in internal rules and are appropriately reported to the Committee by Directors (except those who are Audit and Supervisory Committee members).
2) We have a system under which any actual or potential violation of laws and regulations or the Articles of Incorporation, or any occurrence of events that may cause significant damage to subsidiaries is reported to the subsidiary-managing division and the Audit and Supervisory Committee by directors or employees of the subsidiary. Upon receiving a report from subsidiary directors or employees, the subsidiary-managing division in turn reports to the Audit and Supervisory Committee.
3) The Company's Directors (except those who are Audit and Supervisory Committee members) and employees, as well as directors, auditors and employees of subsidiaries, may report to the Audit and Supervisory Committee if doing so is deemed necessary.
4) The Audit and Supervisory Committee can directly request the Company's Directors (except those who are Audit and Supervisory Committee members) and employees, as well as directors, auditors and employees of its subsidiaries, to give reports to it.
5) We have rules, etc. that clearly state that individuals will not be treated unfavorably because they have reported to the Audit and Supervisory Committee.

h. Matters regarding policies on procedures of prior payment or reimbursement for expenses that may be incurred by Audit and Supervisory Committee members in their performance of duties (restricted to expenses associated with performance of duties by the Committee members) or on processing of other expenses or debts that may arise in relation to performance of their duties
1) We promptly respond to any request by Audit and Supervisory Committee members for prior payment or reimbursement of expenses associated with their performance of duties (restricted to expenses related to the Committee members' performance of duties).

i. Other structures to ensure Audit and Supervisory Committee's audits are conducted effectively
1) The Audit and Supervisory Committee, Chairman and Chief Executive Officer, and President and Chief Operating Officer exchange views periodically as well as when deemed necessary.
2) We actively create opportunities for Audit and Supervisory Committee members to attend important meetings, including Management Conferences.

(v) Requirements for extraordinary resolution of General Meeting of Shareholders

The Articles of Incorporation requires at least two-thirds of votes by shareholders in attendance representing at least one-third of all voting rights held by shareholders for the resolution stipulated in Article 309, Paragraph 2 of the Companies Act. This is aimed at ensuring smooth operation of General Meeting of Shareholders by relaxing the quorum required for extraordinary resolutions at General Meeting of Shareholders.

(vi) Number of Directors

The Articles of Incorporation stipulate that the number of the Directors who are not members of the Audit and Supervisory Committee not exceed 14, and the Directors who are members of the Audit and Supervisory Committee should not exceed

six.

(vii) Requirements for election of Directors

The Articles of Incorporation stipulate regarding election of Directors that majority votes be required of shareholders in attendance representing at least one-third of all voting rights, that Directors who are Audit and Supervisory Committee members and those who are not be separately elected, and that cumulative voting is prohibited.

(viii) Decision on dividends from surplus, etc.

In order to allow capital and dividend policies to be carried out flexibly, the Articles of Incorporation stipulate that the Company be able to make decisions on matters stipulated in each Item of Article 459, Paragraph 1 of the Companies Act, including dividends from surplus and the acquisition of treasury stock, by resolution of the Board of Directors, unless otherwise provided by laws and regulations.

(ix) Overview of limited liability agreements signed with non-executive Directors

In order to ensure that the Company can take in helpful individuals from outside the Company and such individuals can play their roles to the maximum degree possible, the Articles of Incorporation stipulate that it be able to enter into agreements with non-executive Directors that limit their liability for damages caused to the Company, in accordance with Article 427, Paragraph 1 of the Companies Act. Under this stipulation, the Company has signed such a limited liability agreement with each of non-executive Directors Akane Kato, Hitoshi Tanaka, Masahiro Mitomi, Shinichiro Ota and Akio Fuwa. The details of the agreement is as described below:

- If a non-executive Director is liable in good faith and without gross negligence for any of the damages specified in Article 423, Paragraph 1 of the Companies Act, the total of the amounts specified in Article 425, Paragraph 1 of the Act shall be the maximum limit of the Director’s liability, and the Director shall not be liable for any amount in excess of the limit to the Company.

(2) Officers

(i) List of Directors

Nine men and one woman (Ratio of women officers: 10.0%)

Position	Name	Date of birth	Career summary	Term of office	Number of shares held
Representative Director Chairman & Chief Executive Officer Chairman of the Board	Mayuki Hashimoto	January 10, 1951	April 1976 Joined Mitsubishi Metal Corporation (the current Mitsubishi Materials Corporation) April 2005 General Manager of Silicon Div., Electronic Materials & Components Company, Mitsubishi Materials Corporation Outside Corporate Auditor, the Company June 2005 Executive Officer, General Manager of Corporate Strategy Dept., Mitsubishi Materials Corporation June 2006 Managing Executive Officer, President of Electronic Materials & Components Company, Mitsubishi Materials Corporation June 2007 Managing Director (Representative Director), President of Electronic Materials & Components Company, Mitsubishi Materials Corporation April 2010 Outside Director , the Company June 2011 Executive Vice President (Representative Director) of Mitsubishi Materials Corporation April 2012 President (Representative Director), the Company March 2016 Representative Director, Chairman & Chief Executive Officer, the Company (present post)	(Note) 3	21,700
Representative Director and Vice Chairman	Michiharu Takii	February 10, 1950	April 1974 Joined Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corporation) April 2005 Managing Executive Officer, Assistant General Manager of Wakayama Steel Works, Sumitomo Metal Industries, Ltd. October 2005 Managing Executive Officer, General Manager of Corporate Planning Dept., Sumitomo Metal Industries, Ltd. April 2006 Outside Director , the Company April 2009 Senior Managing Executive Officer of Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corporation) June 2009 Director, Senior Managing Executive Officer of Sumitomo Metal Industries, Ltd. April 2012 Executive Vice President (Representative Director), the Company March 2016 Representative Director, President & Chief Operating Officer, the Company March 2018 Representative Director, Vice Chairman, the Company (present post)	(Note) 3	19,900
Representative Director President & Chief Operating Officer General Manager of Technology Div.	Hisashi Furuya	October 30, 1954	April 1983 Joined Mitsubishi Metal Corporation (the current Mitsubishi Materials Corporation) April 2005 General Manager of Crystal Engineering Dept., Production & Technology Div., the Company April 2007 General Manager of Yonezawa Plant Production & Technology Div., the Company April 2008 Executive Officer, General Manager of Yonezawa Plant, Production & Technology Div., the Company April 2011 Managing Executive Officer, General Manager of Solar Div., the Company April 2012 Managing Executive Officer, Deputy General Manager of Production & Technology Div., the Company October 2012 Managing Executive Officer, General Manager of Technology Div., the Company April 2013 Director, Managing Executive Officer, General Manager of Technology Div., the Company March 2014 Director, Senior Managing Executive Officer, General Manager of Technology Div., the Company March 2017 Director, Executive Vice President, General Manager of Technology Div., the Company	(Note) 3	17,200

Position	Name	Date of birth	Career summary		Term of office	Number of shares held
			January 2018	Director, Executive Vice President, General Manager of Technology Div., General Manager of AI Promotion Div., the Company		
			March 2018	Representative Director, President & Chief Operating Officer, the Company		
			January 2020	Representative Director, President & Chief Operating Officer, General Manager of Technology Div., the Company (present post)		
Representative Director and Executive Vice President	Kazuo Hiramoto	September 13, 1956	April 1982	Joined Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corporation)	(Note) 3	11,000
			April 2005	General Manager of Wafer Engineering Dept., Production & Technology Div., the Company		
			April 2007	General Manager of Kansai Factory, Production & Technology Div., the Company		
			April 2008	Executive Officer, General Manager of Kansai Factory, Production & Technology Div., the Company		
			February 2011	Executive Officer, Deputy General Manager of Production & Technology Div., the Company		
			April 2011	Director, Managing Executive Officer, Deputy General Manager of Production & Technology Div., the Company		
			October 2012	Director, Managing Executive Officer, General Manager of Production Div., the Company		
			March 2014	Director, Senior Managing Executive Officer, General Manager of Production Div., the Company		
			January 2018	Director, Senior Managing Executive Officer, General Manager of Production Div., Deputy General Manager of AI Promotion Div., the Company		
			March 2018	Representative Director, Executive Vice President, General Manager of Production Div., General Manager of AI Promotion Div., the Company		
			March 2019	Representative Director and President, SUMCO TECHXIV CORPORATION		
			January 2020	Representative Director, Executive Vice President, General Manager of Production Div., the Company		
			March 2021	Representative Director and Executive Vice President, the Company (present post)		
Director	Akane Kato	September 3, 1963	November 1984	Joined ALL NIPPON AIRWAYS CO., LTD.	(Note) 3	100
			July 1994	Instructor, Inflight Services Training Dept., Inflight Services Center, ALL NIPPON AIRWAYS CO., LTD.		
			July 2007	Chief, Training Div., ANA Learning Co., Ltd. (the current ANA Business Solutions Co., Ltd.)		
			April 2012	Manager of VIP Service Dept., Tokyo Airport Branch, ALL NIPPON AIRWAYS CO., LTD. (the current ANA AIRPORT SERVICES CO., LTD.)		
			July 2014	Representative Director of AKANE IDENTITIES INC. (present post)		
			June 2016	Outside Director, SAN-EI Corporation (present post)		
			April 2018	Part-time Lecturer, Toho College of Music (present post)		
			August 2019	Registered as a Career Consultant		
			March 2020	Outside Director, the Company (present post)		
Director (Audit and Supervisory Committee member)	Fumio Inoue	August 22, 1957	April 1981	Joined Sumitomo Metal Industries, Ltd. (the current Nippon Steel Corporation)	(Note) 5	8,600
			April 2007	General Manager of Corporate Controller & Group Companies Management Dept., the Company		
			April 2009	General Manager of Corporate Controller & Group Companies Management Dept., General Manager of Corporate Planning Dept., the Company		
			February 2010	General Manager of Corporate Strategy Div., General Manager of Corporate Controller & Group Companies Management Dept., the Company		
			April 2011	Executive Officer, General Manager of Corporate Strategy Div., General Manager of Corporate Controller & Group Companies Management Dept., the Company		

Position	Name	Date of birth	Career summary	Term of office	Number of shares held
			October 2012 Executive Officer, General Manager of Corporate Planning Dept., Corporate Strategy Div., the Company March 2014 Managing Executive Officer, In charge of Accounting & Budget Control Dept., General Manager of Finance Dept., Corporate Strategy Div., the Company March 2015 Director, Managing Executive Officer, General Manager of Corporate Planning Dept., Corporate Strategy Div., the Company March 2017 Director, Managing Executive Officer, General Manager of Corporate Strategy Div., General Manager of Corporate Planning Dept., the Company March 2018 Director, Senior Managing Executive Officer, General Manager of Corporate Strategy Div., General Manager of Corporate Planning Dept., the Company March 2019 Senior Managing Executive Officer, General Manager of Corporate Strategy Div., General Manager of Corporate Planning Dept., the Company March 2020 Senior Managing Executive Officer, General Manager of Corporate Strategy Div., the Company March 2021 Director (Full-time Audit and Supervisory Committee member) (present post)		
Director (Audit and Supervisory Committee member)	Hitoshi Tanaka	July 28, 1950	April 1976 Registered as Attorney at Law Joined Narutomi Law Office (the current Marunouchi Minami Law Office) October 2003 Representative of Narutomi Law Office (present post) April 2005 Outside Corporate Auditor, the Company June 2014 Outside Director of TOKYO ENERGY & SYSTEMS INC. (present post) March 2016 Outside Director (Audit and Supervisory Committee member), the Company (present post)	(Note) 4	1,700
Director (Audit and Supervisory Committee member)	Masahiro Mitomi	February 13, 1964	October 1987 Joined the Tokyo office of Arthur Andersen March 1991 Registered as a certified public accountant September 1991 Senior staff of San Francisco office, Arthur Andersen September 1994 Manager of Seattle office, Arthur Andersen March 1996 Senior Manager of Atlanta office, Arthur Andersen May 2001 Representative Director of Value Create Inc. (present post) April 2009 Part-time Lecturer of Keio Business School (present post) March 2014 Outside Director , the Company March 2016 Outside Director (Audit and Supervisory Committee member), the Company (present post) March 2017 Outside Director (Audit and Supervisory Committee member), Otsuka Kagu, Ltd.	(Note) 4	5,400
Director (Audit and Supervisory Committee member)	Shinichiro Ota	May 13, 1946	July 1969 Joined Ministry of International Trade and Industry (the current Ministry of Economy, Trade and Industry) June 1998 Director-General of Environmental Protection and Industrial Location Bureau, Ministry of International Trade and Industry September 1999 Director-General of Machinery and Information Industries Bureau, Ministry of International Trade and Industry January 2001 Director-General of Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry July 2002 Commissioner of Japan Patent Office, Ministry of Economy, Trade and Industry September 2003 Advisor, Sompo Japan Insurance Inc. (the current Sompo Japan Insurance Inc.) June 2005 Executive Vice President, Electric Power Development Co., Ltd. June 2013 Senior Counselor, Electric Power Development Co., Ltd.	(Note) 4	1,000

Position	Name	Date of birth	Career summary		Term of office	Number of shares held
			March 2016	Outside Director (Audit and Supervisory Committee member), the Company (present post)		
			August 2017	Representative Director and President, New Generation Small Rocket Development Planning Co. Ltd. (the current SPACE ONE Co., Ltd.)		
			June 2018	Senior Counselor of Electric Power Development Co., Ltd. (present post)		
Director (Audit and Supervisory Committee member)	Akio Fuwa	August 27, 1946	July 1974	Joined Mitsubishi Metal Corporation (the current Mitsubishi Materials Corporation)	(Note) 4	900
			March 1980	Resigned from Mitsubishi Metal Corporation		
			April 1980	Full-time lecturer, Materials Engineering Department, School of Science and Engineering (the current Faculty of Science and Engineering), Waseda University		
			April 1988	Professor, Waseda University		
			March 2017	Retired from Waseda University		
			April 2017	Professor Emeritus, Waseda University (present post)		
			March 2018	Outside Director (Audit and Supervisory Committee member), the Company (present post)		
					Total	87,500

Notes: 1. Directors Akane Kato, Hitoshi Tanaka, Masahiro Mitomi, Shinichiro Ota and Akio Fuwa are Outside Directors.

2. The current members of the Audit and Supervisory Committee are:
Fumio Inoue, Hitoshi Tanaka, Masahiro Mitomi, Shinichiro Ota and Akio Fuwa
Fumio Inoue is a full-time Audit and Supervisory Committee member. The Company appoints a full-time Audit and Supervisory Committee member to reinforce the Committee's audit and supervisory function.

3. From the Ordinary General Meeting of Shareholders on March 25, 2021 until the conclusion of the Ordinary General Meeting of Shareholders to be held in March 2022.

4. From the Ordinary General Meeting of Shareholders held on March 26, 2020 until the conclusion of the Ordinary General Meeting of Shareholders to be held in March 2022.

5. As his assumption of office is due to his predecessor's resignation, his term of office is, as stipulated in the Articles of Incorporation, until the expiration of his predecessor's term of office.
The predecessor's term of office expires at the conclusion of the Ordinary General Meeting of Shareholders to be held in March 2022.

(Executive Officers)

The Company has adopted the executive officer system. The current Executive Officers are the 24 individuals listed below.

Title	Name	Area(s) of responsibility
* Chairman & Chief Executive Officer	Mayuki Hashimoto	Chief Executive Officer Overall control
* Vice Chairman	Michiharu Takii	Assistant to the Chairman Chief Financial Officer
* President & Chief Operating Officer	Hisashi Furuya	Chief Operating Officer General Manager of Technology Div.
* Executive Vice President	Kazuo Hiramoto	Assistant to the Chairman Head of AI Promotion Div.
Executive Vice President	Toshihiro Awa	General Manager of Sales & Marketing Div.
Senior Managing Executive Officer	Seiji Miyachi	General Manager of Production Div. General Manager of Kyushu Factory, Production Div. Head of Equipment & Facility Engineering
Senior Managing Executive Officer	Jiro Ryuta	President of SUMCO Phoenix Corporation
Managing Executive Officer	Kazuhiro Ikezawa	Assistant General Manager of Production Div. In charge of Safety & Disaster Prevention Dept. Representative Director and President of SUMCO Technology Corporation
Managing Executive Officer	Makoto Itoh	General Manager of JSQ Div.
Managing Executive Officer	Shinichi Kubozoe	General Manager of Corporate Strategy Div.
Managing Executive Officer	Atsuro Fujii	Head of General Affairs and Human Resources Chief Compliance Officer
Managing Executive Officer	Takashi Atami	In charge of Saga Plant, Nagasaki Plant and Yonezawa Plant Head of Crystal Engineering
Managing Executive Officer	Naoki Ikeda	Head of Customer Product Engineering Dept., Quality Assurance Dept. Advanced Evaluation & Technology Development Dept., Engineering Planning Dept. and Intellectual Property Dept.
Managing Executive Officer	Naruya Hirota	In charge of Imari Factory I, Imari Factory II, Kubara Factory and Chitose Plant Head of Wafer Engineering and Epitaxial Engineering
Executive Officer	Akihiro Yukawa	General Manager of General Affairs Dept.
Executive Officer	Daizo Horie	General Manager of Procurement Dept.
Executive Officer	Hiroshi Shibaya	Deputy General Manager of Production Div.
Executive Officer	Satoshi Matsuda	General Manager of Human Resources Dept.
Executive Officer	Kazuya Takahashi	General Manager of Plant Engineering Dept.
Executive Officer	Yasuharu Sasaki	Deputy General Manager of Sales & Marketing Div. General Manager of International Sales & Marketing Dept.
Executive Officer	Masayasu Hara	General Manager of Kubara Factory

Title	Name	Area(s) of responsibility
Executive Officer	Fumihiko Yoshida	General Manager of Imari Factory I
Executive Officer	Tomoaki Tajiri	General Manager of Imari Factory II
Executive Officer	Takeo Kato	General Manager of AI Promotion Div. General Manager of Productivity Promotion Dept.

Note:* These Executive Officers double as Directors.

(ii) Overview of interests between the Company and its Outside Directors, including personal, capital or business relationships

The Company has the following five Outside Directors: Akane Kato, Representative Director of AKANE IDENTITIES INC.; Hitoshi Tanaka, Representative of Marunouchi Minami Law Office; Masahiro Mitomi, Representative Director of Value Create Inc.; Shinichiro Ota, Special Counsellor of Electric Power Development Co., Ltd., and Representative Director and President of SPACE ONE Co., Ltd.; and Akio Fuwa, Professor Emeritus of Waseda University. None of them has any personal relationship with the Company, is a person involved in any of the Company's related, large shareholders or major business partners, or has received from the Company any assets, including money, other than director remuneration. We have therefore judged that they have no risk of being involved in conflicts of interest with general shareholders, and thus have designated them as independent directors defined by the rules of the Tokyo Stock Exchange and reported thereto.

With regards to capital relationships between the Outside Directors and the Company, Outside Directors Akane Kato, Hitoshi Tanaka, Masahiro Mitomi, Shinichiro Ota and Akio Fuwa own shares in the Company. The number of the shares owned by each them is shown in the "Number of shares held" column of the "(i) List of management members" under "(2) Directors."

(iii) Content of criteria or policies regarding independence from the Company in appointing Outside Directors

The Company has established "Criteria for Independence" for electing Outside Directors as shown below. As Outside Directors Akane Kato, Hitoshi Tanaka, Masahiro Mitomi, Shinichiro Ota and Akio Fuwa all satisfy both the Company's Criteria for Independence and requirements for independent directors stipulated by the rules of the Tokyo Stock Exchange, we have judged that the independence of the Outside Directors is secured.

< Criteria for Independence >

The Company deems persons who fall under any of the following criteria, in addition to the criteria for independence stipulated by the Tokyo Stock Exchange, as lacking independence from the Company.

1. A person who currently falls under any of (i) to (vii) below:
   (i) A major shareholder (a shareholder with 10% or more of total voting rights) of the Company or a business executor thereof
   (ii) A business executor of a major creditor of the Company (a creditor with a loan amount equivalent to 2% or more of total consolidated assets)
   (iii) A business executor of the lead underwriter of the Company
   (iv) A business executor of a business partner of the Company (a business partner whose transactions with the Company account for 1% or more of consolidated net sales of either the Company or the business partner),
   (v) A partner of the Accounting Auditor of the Company or an employee who engages in the auditing of the Company,
   (vi) An expert in or consultant for law, accounting, taxation, etc. who receives more than ¥ 5 million for compensation for a year, excluding director remuneration, from the Company (If the recipient is an organization such as an artificial person or association, the business executor of the organization when the said annual compensation exceeds the smaller of the following two amounts: ¥ 10 million or 1% of the total annual net sales of the organization)
   (vii) A business executor of an organization that receives more than ¥ 5 million for a year as donations from the Company
2. A person who has fallen under any of (i) to (vii) above at any time in the past three years

(3) Audits

(i) Audits by Audit and Supervisory Committee

The status of audits by the Audit and Supervisory Committee is as described in "a. Overview of corporate governance" of "(ii) Overview of corporate governance structure and reason it has been adopted," under "(1) Overview of corporate governance."

The rate of Audit and Supervisory Committee members' attendance at the Audit and Supervisory Committee meetings held in the fiscal year under review is as shown in the table below:

Position	Name	Rate of attendance at Audit and Supervisory Committee meetings in the fiscal year under review
Director Full-time Audit and Supervisory Committee member	Hiroshi Yoshikawa	100% (13 out of 13)
Director Full-time Audit and Supervisory Committee member	Atsuro Fujii	100% (10 out of 10)
Independent Outside Director Audit and Supervisory Committee member	Hitoshi Tanaka	100% (13 out of 13)
Independent Outside Director Audit and Supervisory Committee member	Masahiro Mitomi	100% (13 out of 13)
Independent Outside Director Audit and Supervisory Committee member	Shinichiro Ota	100% (13 out of 13)
Independent Outside Director Audit and Supervisory Committee member	Akio Fuwa	100% (13 out of 13)

Notes: The number of times Atsuro Fujii was to attend the Audit and Supervisory Committee meetings is different from that of the other members because he assumed the post of Director and full-time Audit and Supervisory Committee member on the day of the 21th Ordinary General Meeting of Shareholders (March 26, 2020).

The Audit and Supervisory Committee produces audit reports mainly after design of annual audit plans, examination based thereon of the status of development and operation of the internal control system, and examination of the validity of methods and results of audits by the Accounting Auditor.

In addition, the Audit and Supervisory Committee decides its views on election, dismissal and resignation, remuneration, etc. of Directors who are not Audit and Supervisory Committee members, and expresses them at General Meetings of Shareholders.

Activities by full-time Audit and Supervisory Committee members include attendance at important meetings, such as Management Conferences, and examination of important approved documents. In addition, they audit the status of execution of businesses, etc. through methods including interviews with directors, employees, etc. of the Company and its subsidiaries, and report the results to the Audit and Supervisory Committee.

(ii) Internal audits

Internal audits are conducted by the Internal Auditing Department (five staff members) to check the efficiency of management, status of compliance, etc. in accordance with the internal auditing rules and annual audit plans. The audit results are reported to the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and notified to the audited departments. Those departments are, as necessary, then requested to take corrective measures, whose results are examined and confirmed as appropriate.

The Audit and Supervisory Committee and the Internal Auditing Department meet regularly to share audit results and to exchange information and opinions to closely collaborate for efficient auditing. The Audit and Supervisory Committee, the Internal Auditing Department and the Accounting Auditor share information and exchange views with each other by mutually reporting or explaining plans, progress and results of their audits.

(iii) Accounting audits

a. Name of auditing firm

Deloitte Touche Tohmatsu LLC

b. Consecutive auditing period

Since 1999

c. Certified public accountants who have performed audits

Masato Shoji

Yosuke Naganuma

d. Assistants for auditing work

Assistants involved in the Company's accounting audit work are 20 certified public accountants and 25 others.

e. Policy and reason for selection of auditing firm

In view of the Company's global business, the Audit and Supervisory Committee decides whether or not to reappoint the Accounting Auditor by comprehensively considering its independence, quality control systems, audit plans, audit systems, audit fees, etc.

If the Accounting Auditor is deemed to fall under any of the Items under Article 340, Paragraph 1, of the Companies Act, the Audit and Supervisory Committee may dismiss it by a unanimous vote of all the Committee members. If this happens, the Committee member selected by the Audit and Supervisory Committee will report on the dismissal of the Accounting Auditor and the reason at the first General Meeting of Shareholders to convene after the dismissal. The Audit and Supervisory Committee may decide the content of a proposal of dismissing or not reappointing the Accounting Auditor to be submitted to the General Meeting of Shareholders if it is deemed necessary to do so due to such circumstances as there is a problem in the Accounting Auditor's performance of its duties.

The Audit and Supervisory Committee has judged that Deloitte Touche Tohmatsu LLC is appropriate and selected it as the Accounting Auditor after collecting information and reviewing it in accordance with the above policy.

f. Evaluation of Accounting Auditor by Audit and Supervisory Committee

In accordance with the "Practical guidelines for auditors' evaluation of accounting auditors and formulation of selection criteria" by the Japan Audit & Supervisory Board Members Association (October 13, 2017), the Audit and Supervisory Committee annually evaluates independence, quality control systems, audit plans, global audit systems, audit fees, etc. of the Accounting Auditor to determine whether these aspects are appropriate. The Committee has judged that Deloitte Touche Tohmatsu LLC is appropriate and adequate as an Accounting Auditor.

(iv) Details of audit fees, etc.

a. Fees paid to auditing certified public accountants, etc.

Category	Previous consolidated fiscal year		Consolidated Fiscal year under review	
	Fees for audit attestation services (¥ million)	Fees for non-audit services (¥ million)	Fees for audit attestation services (¥ million)	Fees for non-audit services (¥ million)
The Company	85	—	94	—
Consolidated subsidiaries	25	—	25	—
Total	110	—	119	—

b. Fees paid to the same network (Deloitte Touche Tohmatsu) that auditing certified public accountants, etc. belong to (excluding a.)

Category	Previous consolidated fiscal year		Consolidated Fiscal year under review	
	Fees for audit attestation services (¥ million)	Fees for non-audit services (¥ million)	Fees for audit attestation services (¥ million)	Fees for non-audit services (¥ million)
The Company	7	4	7	2
Consolidated subsidiaries	95	50	90	39
Total	103	55	98	42

Non-audit services for the Company include filing of tax returns for employees on overseas assignments.

Fees for non-audit services paid by consolidated subsidiaries are mainly for filing of income tax returns and services regarding transfer pricing taxation.

c. Fees for other important audit attestation services

Not applicable.

d. Policy on determining audit fees

The Company decides fees for auditing certified public accountants, etc. by comprehensively taking into account factors, including the numbers of days for auditing, the Company's size, business characteristics, etc.

e. Reason Audit and Supervisory Committee agreed audit fees, etc. paid to Accounting Auditors

After obtaining necessary documents and reports from Directors, relevant divisions and the Accounting Auditor, and confirming and examining the Accounting Auditor's audit plans, performance of duties, basis of cost estimates, etc., the Audit and Supervisory Committee has judged that all these factors are appropriate and given a consent as specified in Article 399, Paragraph 1 of the Companies Act to the amounts of fees, etc. paid to the Accounting Auditor.

(4) Director remuneration, etc.

(1) Matters regarding policy on amounts of remuneration and other payments to Directors and determination of calculation method

(i) Details of the remuneration policy

The Company employs a system where the remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members) are determined with a view to encouraging them to contribute to the improvement of business results and the enhancement of corporate value. Remuneration for Directors is within the total amount determined by resolution of the General Meeting of Shareholders, and linked to the Company's most recent performance on the basis of fixed remuneration level according to their office and rank. The Company regularly reviews the remuneration level to reflect the long-term performance. The Company has not adopted a system of using its stock as a payment of remuneration for Directors, but encourages management that increases motivation to contribute to the improvement of performance and enhancement of the corporate value over the medium- to long-term by promoting the acquisition and holding of the Company's stocks through the Officers' Shareholding Association.

The Company considers it appropriate to use the semi-annual net-income attributable to owners of the parent as an index for performance-linked remuneration and finalizes the amount in accordance with the calculation method, taking into account the individual assessment.

In a meeting on February 19, 2021, the Board of Directors resolved on a policy of targeting the ratio of fixed remuneration to performance-linked remuneration for Directors (excluding Directors who are Audit and Supervisory Committee members) at about six to one, applying the actual fiscal 2020 net-income attributable to owners of the parent, which is set as the index for performance-liked remuneration levels.

The results of the index pertaining to performance-linked remuneration of Directors (excluding Directors who are Audit and Supervisory Committee members) for the fiscal year under review are ¥ 16,821 million in total for the first and second quarters and ¥ 8,683 million for the third and fourth quarters.

The Directors who are Audit and Supervisory Committee members receive only a fixed remuneration from the perspective of ensuring the appropriate conduct of their duties such as auditing and the supervision of the business execution. The remuneration is determined through deliberations of the Audit and Supervisory Committee members within the total amount determined by resolution of the General Meeting of Shareholders. The role and duties of each such director and whether he or she is a full-time or part-time member are taken into account.

(ii) Remuneration determination process

The amounts of remuneration and other payments to Directors (excluding Directors who are Audit and Supervisory Committee members) or their calculation methods are discussed by the Nomination and Compensation Committee consisting of two Representative Directors and two Outside Directors, and finalized with the resolution of the Board of Directors meeting. The Nomination and Compensation Committee, in response to the consultations by the Board of Directors, discusses the appropriateness of the compensation structure, etc. of the Company's Directors, taking into consideration the evaluation of the Company's performance, etc, and submits a report to the Board of Directors. Upon receiving the report from the Nomination and Compensation Committee, the Board of Directors determines remuneration and other payments to Directors (excluding Directors who are Audit and Supervisory Committee Members).

In the fiscal year under review, the Board of Directors' meeting held on April 28, 2020, after discussions and considerations in three meetings by the Nomination and Compensation Committee in accordance with the above procedures, resolved on the policy and determination method of remuneration and other payments to Directors as recommended by the Nomination and Compensation Committee, and the Board of Directors' meetings held on June 30 and December 25 approved the individual amounts taking into consideration the semi-annual business results.

(2) Amount of remuneration in the most recent fiscal year (disclosure by officer category)

Remuneration for Directors for fiscal year under review

Officer category	Number of officers	Total amount of remuneration and other payments by type (¥ thousand)		Total amount of remuneration and other payments (¥ thousand)
		Basic remuneration	Performance-linked remuneration	
Directors (excluding Directors who are Audit and Supervisory Committee members)	5	250,494	40,348	290,842
(of which, Outside Directors)	(1)	(7,200)	(－)	(7,200)
Directors who are Audit and Supervisory Committee members	6	86,532	－	86,532
(of which, Outside Directors)	(4)	(38,400)	(－)	(38,400)
Total	11	337,026	40,348	377,374
(of which, Outside Directors)	(5)	(45,600)	(－)	(45,600)

Notes: 1. The upper limit of the total annual remuneration for all Directors (excluding Directors who are Audit and Supervisory Committee Members) is ¥ 460 million (excluding employee salary) pursuant to the resolution at the 17th Ordinary General Meeting of Shareholders held on March 29, 2016.

2. The upper limit of the total annual remuneration for all Directors who are Audit and Supervisory Committee members is ¥ 110 million pursuant to the resolution at the 17th Ordinary General Meeting of Shareholders held on March 29, 2016.

3. As of the end of the fiscal year under review, there were five Directors (excluding Directors who are Audit and Supervisory Committee members) and six Directors who are Audit and Supervisory Committee members.

(5) Shareholding

(i) Standards and concept applied to the classification of investment shares

The Company classifies the shares invested in exclusively for the gains from fluctuations in share prices or dividends as "shares held for pure investment purpose" and the others as "shares held for purposes other than pure investment."

(ii) Shares held for purposes other than pure investment

a. Shareholding policy, method for verifying rationality of holding shares and verification by the Board of Directors, etc. of appropriateness of holding of individual issues

When acquiring or already holding listed shares for purposes other than pure investment, the Company decides whether to acquire or continue to hold the shares after comprehensively considering business strategies, business relationships, etc. and confirming that doing so will help improve the Group's corporate value from a medium- to long-term perspective.

The Company's Board of Directors annually examines major listed shares held in accordance with the above policy to assess effects of holding, etc. from the perspectives of medium- to long-term economic rationale, future outlook of the holding, and maintaining and strengthening comprehensive relationships with business partners.

The Company has set up a retirement benefit trust with one of the issues held for purposes other than pure investment. The Board of Directors periodically examines the status of investment in the shares from the perspective of securing pension funds, and judges appropriateness of the holding.

b. Number of issues and balance sheet amounts

	Number of issues	Total amount booked on balance sheet (¥ million)
Unlisted shares	1	3
Shares other than unlisted shares	—	—

(Issues that increased in number of shares in fiscal year under review)

	Number of issues	Total acquisition cost regarding the increase in number of shares held (¥ million)	Reason for increase
Unlisted shares	–	–	–
Shares other than unlisted shares	–	–	–

(Issues that decreased in number of shares in fiscal year under review)

	Number of issues	Total sale value regarding decrease in number of shares (¥ million)
Unlisted shares	–	–
Shares other than unlisted shares	–	–

c. Information on the number of shares and amount booked on balance sheet, etc. of specified investment shares and deemed holding shares by issue

Specified investment shares

Not applicable.

Deemed holding shares

As of December 31, 2020

Issue name	Fiscal year under review	Previous fiscal year	Purpose of holding, quantitative effect of holding, and reasons for the increase in number of shares	Whether the investee holds the Company's shares
	Number of shares (Note) 1	Number of shares (Note) 1		
	Amount booked on balance sheet (¥ million) (Note) 2	Amount booked on balance sheet (¥ million) (Note) 2		
Miraial Co., Ltd.	688,100	688,100	A trust has been set up with the shares in Miraial Co., Ltd. for retirement benefit. Although it is difficult to describe the quantitative benefits of holding the shares, the Board of Directors periodically examines the rationale of the holding.	Yes
	758	956		

Notes: 1. Number of shares that carry voting rights

2. The amount booked on balance sheet is the market price of the deemed holding share at the end of the fiscal year multiplied by the number of shares carrying voting rights.

(iii) Investment shares held for pure investment purpose

Not applicable.

V. Accounting

1. Method of preparing consolidated and non-consolidated financial statements

(1) The Company's consolidated financial statements have been prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).

(2) The Company's non-consolidated financial statements have been prepared in accordance with the Regulation on Terminology, Forms and Methods of Preparation of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter referred to as the "Regulation on Financial Statements").
The Company is categorized as a special company submitting financial statements, and prepares the non-consolidated financial statements in accordance with Article 127 of the Regulation on Financial Statements.

2. Audit certification

As required by Article 193-2, Paragraph1, of the Financial Instruments and Exchange Act, the Company's consolidated financial statements for the consolidated fiscal year ended December 31, 2020 and non-consolidated financial statements for the fiscal year ended December 31, 2020 were audited by Deloitte Touche Tohmatsu LLC.

3. Special efforts to ensure appropriateness of consolidated financial statements

The Company makes special efforts to ensure the appropriateness of the consolidated financial statements. For example, in order to appropriately grasp the content of accounting standards, etc. and accurately respond to changes in accounting standards, etc., the Company has joined the membership of the Financial Accounting Standards Foundation and participates in its seminars.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(¥ million)

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Assets		
Current assets		
Cash and time deposits	50,220	82,968
Notes and accounts receivable - trade	57,416	60,405
Securities	19,800	—
Finished products	17,032	18,645
Work in process	17,938	19,642
Raw materials and supplies	149,446	142,185
Other	※6 7,386	※6 7,222
Allowance for doubtful accounts	(10)	(9)
Total current assets	319,230	331,061
Non-current assets		
Property, plant and equipment		
Buildings and structures	201,448	203,908
Accumulated depreciation	(130,607)	(135,465)
Buildings and structures, net	70,841	68,443
Machinery, equipment and vehicles	802,288	838,115
Accumulated depreciation	(730,541)	(755,421)
Machinery, equipment and vehicles, net	71,746	82,693
Land	※3 20,316	※3 20,261
Construction in progress	32,167	30,732
Other	15,312	15,338
Accumulated depreciation	(13,601)	(13,416)
Other, net	1,711	1,921
Total property, plant and equipment	196,782	204,052
Intangible assets		
Goodwill	3,562	1,936
Software	5,643	7,245
Other	1,689	937
Total intangible assets	10,894	10,120
Investments and other assets		
Investment securities	※1 102	※1 101
Long-term advance payments	※6 35,835	※6 33,511
Long-term prepaid expenses	2,680	2,861
Deferred tax assets	11,634	10,468
Retirement benefit asset	648	615
Other	※1 985	※1 926
Allowance for doubtful accounts	(282)	(275)
Total investments and other assets	51,603	48,209
Total non-current assets	259,280	262,381
Total assets	578,511	593,443

(¥ million)

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	23,511	25,615
Short-term borrowings	※5 30,234	※5 38,180
Current portion of long-term lease obligations	591	192
Accrued income taxes	2,753	3,392
Reserve for bonuses	1,600	1,308
Notes and accounts payable - facilities	15,965	15,572
Other	12,312	12,918
Total current liabilities	86,970	97,180
Long-term liabilities		
Long-term borrowings	※4 120,864	※4 111,383
Long-term lease obligations	336	141
Deferred tax liabilities	2,484	2,635
Deferred tax liabilities for land revaluation surplus	※3 1,342	※3 1,342
Net defined benefit liability	24,495	24,851
Other	867	904
Total long-term liabilities	150,391	141,259
Total liabilities	237,361	238,439
Net assets		
Shareholders' equity		
Capital stock	138,718	138,718
Capital surplus	30,763	27,463
Retained earnings	134,228	151,559
Treasury stock	(12)	(12)
Total shareholders' equity	303,698	317,729
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on hedges	(0)	(0)
Land revaluation surplus	※3 2,885	※3 2,885
Foreign currency translation adjustments	(1,639)	(3,224)
Remeasurements of defined benefit plans	(2,753)	(2,277)
Total accumulated other comprehensive loss	(1,507)	(2,615)
Non-controlling interests	38,958	39,888
Total net assets	341,149	355,003
Total liabilities and net assets	578,511	593,443

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(¥ million)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Net sales	299,460	291,333
Cost of sales	※1 221,311	※1 226,161
Gross profit	78,148	65,171
Selling, general and administrative expenses	※2,※3 27,512	※2,※3 27,274
Operating income	50,636	37,897
Non-operating income		
Interest income	684	297
Dividend income	32	52
Subsidy income	14	636
Other	226	177
Total non-operating income	958	1,164
Non-operating expenses		
Interest expenses	1,064	967
Foreign exchange losses	1,189	1,723
Loss on sales and retirement of non-current assets	532	475
Other	497	245
Total non-operating expenses	3,284	3,411
Ordinary income	48,310	35,650
Extraordinary income		
Gain on revision of retirement benefit plan	※4 917	—
Total extraordinary income	917	—
Income before income taxes	49,228	35,650
Income taxes - current	8,287	5,955
Income taxes - deferred	2,997	1,049
Total income taxes	11,284	7,005
Net income	37,943	28,644
Net income attributable to non-controlling interests	4,831	3,139
Net income attributable to owners of the parent	33,112	25,505

Consolidated Statement of Comprehensive Income

(¥ million)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Net income	37,943	28,644
Other comprehensive income		
Net unrealized gain (loss)on available-for-sale securities	(0)	0
Deferred loss (gain) on hedges	0	(0)
Foreign currency translation adjustments	(440)	(1,203)
Remeasurements of defined benefit plan, net of tax	1,198	524
Total other comprehensive loss (income)	※ 757	※ (679)
Comprehensive income	38,701	27,965
Total comprehensive income attributable to:		
Owners of the parent	33,890	24,396
Non-controlling interests	4,810	3,568

(iii) Consolidated Statement of Changes in Net Assets

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

(¥ million)

	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)
Cancellation of treasury stock					
Other		0			0
Net changes in items other than shareholders' equity					
Total changes during of 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 net assets
	Net unrealized gain (loss)on available-for-sale securities	Deferred gain (loss) on hedges	Land revaluation surplus	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)		
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)
Cancellation of treasury stock								
Other								0
Net changes in items other than shareholders' equity	(0)	0		(412)	1,190	778	(1,590)	(811)
Total changes during of 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

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

(¥ million)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	138,718	30,763	134,228	(12)	303,698
Cumulative effects of changes in accounting policies					
Restated balance	138,718	30,763	134,228	(12)	303,698
Changes during period					
Dividends from surplus			(8,173)		(8,173)
Net income attributable to owners of the parent			25,505		25,505
Purchase of treasury stock				(3,300)	(3,300)
Cancellation of treasury stock		(3,300)		3,300	—
Other		0			0
Net changes in items other than shareholders' equity					
Total changes during of period	—	(3,300)	17,331	0	14,031
Balance at end of period	138,718	27,463	151,559	(12)	317,729

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gain (loss)on available-for-sale securities	Deferred gain (loss) on hedges	Land revaluation surplus	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)		
Balance at beginning of period	0	(0)	2,885	(1,639)	(2,753)	(1,507)	38,958	341,149
Cumulative effects of changes in accounting policies								
Restated balance	0	(0)	2,885	(1,639)	(2,753)	(1,507)	38,958	341,149
Changes during period								
Dividends from surplus								(8,173)
Net income attributable to owners of the parent								25,505
Purchase of treasury stock								(3,300)
Cancellation of treasury stock								—
Other								0
Net changes in items other than shareholders' equity	0	(0)		(1,584)	476	(1,108)	930	(177)
Total changes during of period	0	(0)	—	(1,584)	476	(1,108)	930	13,853
Balance at end of period	0	(0)	2,885	(3,224)	(2,277)	(2,615)	39,888	355,003

(iv) Consolidated Statement of Cash Flows

(¥ million)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Operating activities:		
Income before income taxes	49,228	35,650
Depreciation and amortization	40,771	45,145
Amortization of goodwill	1,625	1,625
Gain on revision of retirement benefit plan	(917)	—
Increase (decrease) in allowance for doubtful accounts	(1)	0
Decrease in reserve for bonuses	(439)	(291)
Increase in retirement benefit liability	1,356	889
Decrease in retirement benefit asset	10	33
Interest and dividend income	(717)	(349)
Interest expenses	1,064	967
Loss on sales and disposal of non-current asset	519	466
Increase (decrease) in notes and accounts receivable - trade	7,517	(3,468)
Decrease in inventories	2,978	3,617
Decrease (increase) in other current assets	(533)	860
Increase (decrease) in notes and accounts payable - trade	(4,193)	2,817
Increase (decrease) in other current liabilities	(1,292)	666
Other	2,779	2,114
Subtotal	99,756	90,744
Interest and dividends received	711	357
Interest paid	(1,108)	(989)
Cancellation fees paid	(10,000)	—
Income taxes paid	(11,695)	(5,923)
Net cash provided by operating activities	77,664	84,188
Investing activities:		
Payments for purchases of property, plant and equipment, and intangible assets	(62,165)	(53,740)
Other	981	(1,452)
Net cash used in investing activities	(61,184)	(55,193)
Financing activities:		
Decrease in short-term borrowings, net	(2,000)	(2,000)
Proceeds from long-term borrowings	29,500	27,700
Repayments of long-term borrowings	(28,107)	(27,234)
Repayments of lease obligations	(1,101)	(589)
Payments for purchases of treasury stock	(0)	(3,300)
Dividends paid	(16,716)	(8,173)
Dividends paid to non-controlling interests	(6,400)	(2,638)
Net cash used in financing activities	(24,825)	(16,236)
Foreign currency translation adjustments on cash and cash equivalents	(534)	(914)
Net increase (decrease) in cash and cash equivalents	(8,879)	11,843
Cash and cash equivalents at beginning of year	78,900	70,020
Cash and cash equivalents at end of year	※ 70,020	※ 81,864

Notes

(Important matters forming the basis for preparing consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 14

Situations of the subsidiaries are as described in "4. Status of related companies in I. Overview of the Company"

(2) Names of major non-consolidated subsidiaries, etc.

Number of non-consolidated subsidiaries: 4

Names of major non-consolidated subsidiaries

SUMCO Korea Corporation

(Reasons for excluding non-consolidated subsidiaries from the scope of consolidation)

The non-consolidated subsidiaries are excluded from the scope of consolidation because the size of each is small: total assets, sales, net income or loss (amount in proportion to the Company's stake in each) or retained earnings (amount in proportion to the Company's stake in each) of each do not have a significant impact on the Company's consolidated financial statements.

2. Matters concerning application of equity method

(1) Number of non-consolidated subsidiaries and affiliated companies to which equity method is applied and names of major companies, etc.

The Company does not have non-consolidated subsidiaries or affiliated companies to which the equity method is applied.

(2) Names of non-consolidated subsidiaries and affiliated companies to which equity method is not applied, etc.

Names of major companies, etc.

SUMCO Korea Corporation

(Reason for not applying equity method)

The Company has a total of four non-consolidated subsidiaries and affiliated companies to which the equity method is not applied. They are excluded from the scope of the equity method's application because each has only a minor impact on the Company's net income or loss (amount in proportion to the Company's stake in each) or retained earnings (amount in proportion to the Company's stake in each), and their combined impact is not significant, either.

3. Matters concerning fiscal year etc. of consolidated subsidiaries

The closing date of fiscal year of every consolidated subsidiary is the same as the consolidated fiscal year-end date.

4. Matters concerning accounting policies

(1) Valuation standards and methods for significant assets

(a) Securities

Available-for-sale securities

Those with fair value

The Company has adopted the fair value method based on the market price, etc on the fiscal year-end (the full amount of the valuation difference is directly recorded in net assets, with the disposal cost determined by the moving average method).

Those without fair value

The Company has mainly adopted the cost method, costs being determined by the moving average method.

(b) Derivatives

The Company has adopted the fair value method.

(c) Inventories

The Company mainly determines costs by the gross average method (amounts recorded in the balance sheet are calculated by devaluating the book values based on their decreased profitability).

(2) Depreciation or amortization method for significant depreciable or amortizable assets

(a) Property, plant and equipment (excluding leased assets related to finance lease transactions that do not transfer ownership)

In most cases, the straight line method is used for buildings and structures, while the declining balance method is used for other assets. Note that the declining-balance method is mainly used for structures acquired on March 31, 2016 or earlier.

The useful life is mainly 31 years for buildings and structures and mainly five years for machinery, equipment and vehicles.

(b) Intangible assets (excluding leased assets related to finance lease transactions that do not transfer ownership)

Software is amortized using the straight-line method over a useful life in the Company of five years.

(c) Leased assets (related to finance lease transactions that do not transfer ownership)

The straight-line method is used where the lease period is regarded as the useful life and the residual value is zero.

(3) Standards for significant allowances

(a) Allowance for doubtful accounts

To provide for credit losses, an estimated uncollectible amount is recorded based on the historical bad debt ratio for general accounts receivable, and on the individual collectability for specific accounts receivable such as doubtful accounts receivable.

(b) Reserve for bonuses

To provide for employee bonus obligation, an amount accrued for the fiscal year under review in the estimated future obligations is booked in the reserve account.

(4) Accounting for retirement benefits

(a) Period attribution method for estimated retirement benefit amounts

In calculating retirement benefit obligations, the benefit formula basis is mainly used as the method of attributing projected retirement benefits obligations to periods through the end of the fiscal year under review.

(b) Amortization of actuarial gain and loss and prior service costs

Prior service costs are mainly amortized by the straight-line method over a period within the average remaining service years for employees (10 years) at the time of recognition.

Actuarial gain and loss is mainly amortized by the straight-line method over a period within the average remaining service years for employees (10 years) at the time of recognition, and allocated from the fiscal year following the respective fiscal year of recognition.

(c) Accounting method for unrecognized actuarial gain and loss and unrecognized prior service costs

Unrecognized actuarial gain and loss and unrecognized prior service costs are booked as remeasurements of defined benefit plans under accumulated other comprehensive income of the net assets after adjusted for tax effect.

(5) Translation of assets and liabilities in foreign currencies to Japanese currency

Foreign currency-denominated receivables and payables are translated to yen at the spot exchange rates on the fiscal year-end of each company and the translation difference is recognized as a profit or loss. Assets and liabilities of overseas subsidiaries are converted into yen based on the spot exchange rates on the fiscal year-end of each company, and revenues and expenses are translated into yen by using the average exchange rate during the fiscal year, while the differences arising from the translation are recorded in foreign currency translation adjustments and non-controlling interests in the net assets section.

(6) Important hedge accounting methods

(a) Hedge accounting methods

Deferred hedging is applied.

(b) Hedging instruments and hedged items

To avoid foreign currency risks that transactions to be conducted in foreign currencies are exposed to, the Company enters into forward exchange contracts.

(c) Hedging policies

The Company hedges the risk of fluctuations in exchange rates in accordance with its market risk management rules. The Company enters into forward exchange contracts in order to avoid foreign exchange fluctuation risks within the limits of estimated sales.

(d) Methods for assessing effectiveness of hedging

The Company assesses hedging effectiveness of hedging instruments and hedged items for individual transactions.

(7) Amortization method and period for goodwill

Goodwill is amortized over 15 to 20 years on a straight-line basis.

(8) Scope of cash and cash equivalents in the Consolidated Statement of Cash Flows

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of deposits that can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and bear only an insignificant risk of value fluctuation.

(9) Other important matters for preparing consolidated financial statements

(a) Accounting policy for consumption taxes

Transactions subject to consumption tax and local consumption tax are recorded at amounts exclusive thereof

(Accounting standards not yet adopted)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) worked together to develop comprehensive accounting standards on revenue recognition, and each released "Revenue from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. As the IFRS 15 was to be applied in the fiscal year beginning on January 1, 2018 or later and the Topic 606 in the fiscal year beginning after December 15, 2017 or later, the Accounting Standards Board of Japan developed and released comprehensive standards on revenue recognition, along with their implementation guidance.

As a basic policy for developing accounting standards on revenue recognition, the Accounting Standards Board of Japan sought to work out its accounting standards by incorporating the basic principles of IFRS 15 as the starting point in order to ensure comparability between financial statements, which is one of the benefits obtained by achieving compatibility with IFRS 15. The Japanese board's policy also called for introducing alternative treatment within the scope that will not undermine comparability for any item for which past practices, etc. in Japan should be taken into consideration.

(2) Planned date of application

To be applied at the beginning of the fiscal year ending December 2021.

(3) Impact from implementation of the accounting standards, etc.

Implementation of the Revenue Recognition Standard and Guidance is in line with the transitional measures provided in the proviso to Article 84 of the Revenue Recognition Standard. Accordingly, the cumulative impact of the change when the new accounting policy is applied retroactively prior to the beginning of fiscal year 2021 is reflected in retained earnings at the beginning of fiscal year 2021, and the new accounting policy is applied starting from the retained earnings balance at the beginning of fiscal year 2021. The impact on retained earnings at the beginning of the fiscal year is minor.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 of July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 of July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments. (ASBJ Guidance No. 19 of March 31, 2020)

(1) Overview

In light of the detailed similarity of the guidance on fair value measurement given by the International Accounting Standards Board (IASB) and that given by the Financial Accounting Standards Board (FASB) in the United States (in the International Financial Reporting Standards (IFRS), IFRS 13, Fair Value Measurement; and in the U.S. GAAP, Fair Value Measurement (Topic 820) of Accounting Standards Codification), the ASBJ, seeking to achieve consistency of Japan's standards with international accounting standards regarding guidance and disclosure mainly of the fair value of financial instruments, has issued the Accounting Standard for Fair Value Measurement and other statements and guidance.

The basic policy adopted by the ASBJ in developing the Accounting Standard for Fair Value Measurement was to use a uniform estimation method to improve comparability of financial statements of domestic and foreign companies, from this standpoint incorporating essentially all the matters given in IFRS 13, while at the same time indicating additional handling of individual matters, within the scope where such comparability is not greatly affected, in consideration of conventional practices used in Japan up to now.

(2) Date of implementation

The standards will be applied from the beginning of fiscal year 2022 (ending December 31, 2022).

(3) Impact from implementation of the accounting standards

The impact on consolidated financial statements from implementation of the Accounting Standard for Fair Value Measurement, etc. is uncertain at present.

・Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 of March 31, 2020)

(1) Overview

In response to requests to consider requirements in the Japanese accounting standards for disclosure in notes to financial statements of information highly useful to users of the financial statements regarding "sources of estimation uncertainty," as per paragraph 125 in IAS 1 "Presentation of Financial Statements" issued by the IASB in 2003, the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates (hereinafter, "this Accounting Standard").

The basic policy adopted by the ASBJ in developing this Accounting Standard was, rather than expanding each of the notes, to have companies decide the specific matters to be disclosed based on the purpose of the disclosure, with the matters given in IAS 1.125 used as reference in the development.

(2) Date of implementation

The standard will be applied from the end of fiscal year 2021 (ending December 31, 2021).

(Notes on changes in presentation method)

(Consolidated Statement of Income)

"Subsidy income," which was included in the "Other" under "Non-operating income" in the previous fiscal year, appears as a separate entry in the fiscal year under review because its amount exceeded 10% of the total non-operating income.

To reflect this change in presentation, reclassification of some accounts has been made in the consolidated financial statements for the previous fiscal year. As a result, the "other" amount of ¥ 241 million, which was shown under the non-operating income in the Consolidated Statement of Income of the previous fiscal year has been separated into ¥ 14 million in "subsidy income" and ¥ 226 million in the "other" entries.

In addition, the amount of the "commission for syndicate loan" entry in the previous fiscal year is now included in the "other" in the fiscal year under review because it has fallen below 10% of the total non-operating expenses. Note that the amount of "commission for syndicate loan" for the fiscal year under review is ¥ 4 million.

To reflect this change in presentation, reclassification of some accounts has been made in the consolidated financial statements for the previous fiscal year. As a result, "commission for syndicate loan" of ¥ 360 million and "other" of ¥ 137 million shown under the non-operating income in the Consolidated Statement of Income of the previous fiscal year have been combined into ¥ 497 million in "other" entry.

(Additional information)

(Accounting estimates)

Although the spread of COVID-19 may have an impact on the Group's performance in the next fiscal year and beyond, accounting estimates were made for the fiscal year under review on the assumption, based on the current situation and other factors, that there would be no major impact.

Note, however, that changes in the situation of COVID-19 infections and its impact on the economy may extend their influence over the Company's performance.

Notes to Consolidated Balance Sheet

*1 Amounts related to non-consolidated subsidiaries and affiliated companies are as follows:

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Investments and other assets		
Investment securities (shares)	¥ 54 million	¥ 54 million
Other (investments in capital)	55	55

*2 Contingent liabilities

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Debt guarantees on employees' borrowings from financial institutions	¥ 205 million	¥ 167 million

*3 Pursuant to the "Act on Revaluation of Land" (Act No. 34 of March 31, 1998), the Group performed revaluation of land for business use held by merged subsidiaries and booked the amount corresponding to taxes regarding the revaluation difference as "deferred tax liabilities for land revaluation surplus" in the liabilities section and the amount from which this is deducted as "land revaluation surplus" in the net assets section.

Method of revaluation

Reasonable adjustments are made to the assessed value of fixed assets tax pursuant to Article 2, Item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation: March 31, 2000

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Difference between the fiscal year-end fair value of the revaluated land and its post-revaluation book value	(¥ 3,375) million	(¥ 3,404) million

*4 The Company's borrowings from financial institutions have financial covenants that require the Company to maintain certain levels of net assets in its Consolidated and Non-consolidated Balance Sheets.

Relevant outstanding borrowings are as shown in the table below.

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Long-term borrowings	¥ 2,500 million	¥ 2,500 million
(of which, current portion)	(—)	(—)

*5 In order to allow flexible financing of working capital, the Company has entered into commitment line agreements with financial institutions. These agreements include financial covenants that require the Company to maintain certain levels of net assets in its Consolidated and Non-consolidated Balance Sheets and of net cash provided by operating activities in its Consolidated Statement of Cash Flows.

Unused portion of the commitment line agreements is as shown in the table below.

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Total available commitment lines	¥ 30,000 million	¥ 30,000 million
Balance of borrowings	3,000	900
Difference	27,000	29,100

*6 In order to procure polycrystalline silicon, the main raw material for silicon wafer production, the Company has entered into long-term purchase contracts with polycrystalline silicon producers, and made advance payments for some purchases in accordance with these contracts.

Notes to Consolidated Statement of Income

*1 Ending balances of inventories are amounts reflecting book value devaluation associated with a profitability fall, and the following amounts of loss on valuation of inventories are included in the cost of sales.

FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
¥ 3,074 million	¥ 1,935 million

*2 Major items in selling, general and administrative expenses and their amounts are given in the table below.

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Product shipping expenses	¥ 3,200 million	¥ 4,372 million
Salaries, allowances and bonuses	5,625	5,653
Research and development expenses	5,215	4,857

*3 Total research and development expenses
Research and development expenses included in selling, general and administrative expenses

FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
¥ 5,215 million	¥ 4,857 million

*4 Transfer of retirement benefit plans
This is a gain associated with a shift of the Company's defined benefit pension plans to defined contribution pension plans, with some exceptions.

Notes to Consolidated Statement of Comprehensive Income

* Adjustments for reclassification of other comprehensive income and tax effect amount

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Net unrealized gain (loss) on available-for-sale securities:		
Amounts recognized in the period	(¥ 0) million	¥ 0 million
Reclassification adjustments	—	—
Before tax-effect adjustments	(0)	0
Tax effect amount	—	—
Net unrealized gain (loss)on available-for-sale securities	(0)	0
Deferred gain (loss) on hedges:		
Amounts recognized in the period	(0)	(0)
Reclassification adjustments	0	0
Before tax-effect adjustments	0	(0)
Tax effect amount	(0)	0
Deferred gain (loss) on hedges	0	(0)
Foreign currency translation adjustments:		
Amounts recognized in the period	(440)	(1,203)
Reclassification adjustments	—	—
Before tax-effect adjustments	(440)	(1,203)
Tax effect amount	—	—
Foreign currency translation adjustments	(440)	(1,203)
Remeasurements of defined benefit plan, net of tax:		
Amounts recognized in the period	1,008	57
Reclassification adjustments	501	481
Before tax-effect adjustments	1,510	538
Tax effect amount	(312)	(14)
Remeasurements of defined benefit plan, net of tax	1,198	524
Total other comprehensive income (loss)	757	(679)

Notes to Consolidated Statements of Changes in Net Assets

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

1. Matters concerning classes of issued shares and their total number, and classes of treasury stock and their numbers

	Number of shares at beginning of the period	Increase during the period	Decrease during the period	Number of shares at end of the period
Shares issued				
Common share	293,285,539	—	—	293,285,539
Total	293,285,539	—	—	293,285,539
Treasury stock				
Common share (Note)	7,575	60	—	7,635
Total	7,575	60	—	7,635

(Note) The increase of 60 common shares under treasury stock was due to the purchase of shares less than one unit.

2. Matters concerning share acquisition rights and treasury stock acquisition rights

Not applicable

3. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (¥ million)	Dividend per share (¥)	Base date	Effective date
Board of Directors' meeting on February 19, 2019	Common share	9,384	32.00	December 31, 2018	March 8, 2019
Board of Directors' meeting on August 6, 2019	Common share	7,331	25.00	June 30, 2019	September 6, 2019

(2) Dividends whose base date belongs to the fiscal year under review but whose effective date falls into the following fiscal year

Resolution	Class of shares	Total dividends (¥ million)	Source of dividends	Dividend per share (¥)	Base date	Effective date
Board of Directors' meeting on February 18, 2020	Common share	2,932	Retained earnings	10.00	December 31, 2019	March 6, 2020

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

1. Matters concerning classes of issued shares and their total number, and classes of treasury stock and their numbers

	Number of shares at beginning of the period	Increase during the period	Decrease during the period	Number of shares at end of the period
Shares issued				
Common share (Note 1)	293,285,539	—	2,104,300	291,181,239
Total	293,285,539	—	2,104,300	291,181,239
Treasury stock				
Common share (Note 2)	7,635	2,104,380	2,104,300	7,715
Total	7,635	2,104,380	2,104,300	7,715

Notes: 1. The decrease of 2,104,300 common shares issued is due to cancellation of treasury stock under a Board of Directors resolution.

2. The increase of 2,104,380 common shares in treasury stock is the combined total of the increase of 2,104,300 shares due to acquisition of treasury stock under a Board of Directors resolution and an increase of 80 shares due to purchase of shares less than one unit. The decrease of 2,104,300 common shares in treasury stock is due to cancellation of treasury stock under a Board of Directors resolution.

2. Matters concerning share acquisition rights and treasury stock acquisition rights

Not applicable

3. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (¥ million)	Dividend per share (¥)	Base date	Effective date
Board of Directors' meeting on February 18, 2020	Common share	2,932	10.00	December 31, 2019	March 6, 2020
Board of Directors' meeting on August 6, 2020	Common share	5,241	18.00	June 30, 2020	September 4, 2020

(2) Dividends whose base date belongs to the fiscal year under review but whose effective date falls into the following fiscal year

Resolution	Class of shares	Total dividends (¥ million)	Source of dividends	Dividend per share (¥)	Base date	Effective date
Board of Directors' meeting on February 19, 2021	Common share	2,620	Retained earnings	9.00	December 31, 2020	March 5, 2021

Notes to Consolidated Statement of Cash Flows

* Relationship between cash and cash equivalents at end of fiscal year and the amounts of items in the Consolidated Balance Sheets

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Cash and time deposits	¥ 50,220 million	¥ 82,968 million
Time deposits with maturity of more than three months	—	(1,104)
Short-term investments with maturity within three months from date of acquisition (securities)	19,800	—
Cash and cash equivalents	70,020	81,864

Notes to lease transactions

1. Finance lease transactions

(1) Finance lease transactions that transfer ownership

(i) Details of leased assets

Property, plant and equipment

These are semiconductor silicon wafer manufacturing equipment.

(ii) Depreciation method for leased assets

This is as described in "(2) Depreciation or amortization method for significant depreciable or amortizable assets of 4. Matters concerning accounting policies" under "Important matters forming the basis for preparing consolidated financial statements."

(2) Finance lease transactions that do not transfer ownership

(i) Details of leased assets

Property, plant and equipment

These are mainly vehicles and instruments.

(ii) Depreciation method for leased assets

This is as described in "(2) Depreciation or amortization method for significant depreciable or amortizable assets of 4. Matters concerning accounting policies" under "Important matters forming the basis for preparing consolidated financial statements."

2. Operating lease transactions

Future minimum lease payments under non-cancellable operating leases

(¥ million)

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Within 1 year	85	87
Over 1 year	183	99
Total	269	186

(Notes to financial instruments)

1. Matters concerning status of financial instruments

(1) Policies on financial instruments

The Group restricts its investments to short-term deposits, etc. and financing is mainly through banks loans. The policy for derivatives is to use them to avoid risks, as described below, and not to engage in speculative transactions.

(2) Details of financial instruments, risks associated therewith, and risk management structure

Notes and accounts receivable - trade are exposed to credit risk of customers. In order to address the risk, the Company maintains a system under which due dates and balances are managed of individual business partners and their operational statuses are constantly monitored. Those denominated in foreign currencies are exposed to the foreign exchange fluctuation risk. In order to mitigate the risk, the Company uses forward exchange contracts as a hedging means. In general, investment securities are shares in companies that have business relations with us. They are exposed to market price fluctuation risk and we review the situation of holdings, taking into consideration market situations and our relations with the companies on an ongoing basis.

Notes and accounts payable - trade, accrued income taxes, and notes and accounts payable - facilities are due within about six months.

Based on the approval of the authorized personnel, the division in charge of funding executes and manages derivative transactions according to internal rules that specify transaction authorities, transaction limits, etc. In order to mitigate credit risk, we limit contract counterparties to financial institutions with high credit ratings. An outline of hedge accounting is as provided in “(6) Important hedge accounting methods of 4. Matters concerning accounting policies” under “Important matters forming the basis for preparing consolidated financial statements.”

Liquidity risk associated with financing (a risk that payments become impossible at due dates) is managed using methods such as creation of monthly financing plans.

(3) Additional information on matters concerning fair values of financial instruments, etc.

In addition to values based on market prices, fair values of financial instruments include those reasonably calculated where market prices do not exist. As fluctuation factors are reflected in the calculation of those values, they may fluctuate with different assumptions. Note that amounts of contracts related to derivative transactions in “2. Matters concerning fair values of financial instruments, etc.” do not indicate market risks associated with derivative transactions.

2. Matters concerning fair values of financial instruments, etc.

Amounts booked in the Consolidated Balance Sheet, fair values, and differences between them are as shown in the below table. Note that the table does not include items whose fair values are deemed very difficult to determine (see (Note 2)).

FY2019 (December 31, 2019)

	Amount booked in Consolidated Balance Sheet (¥ million)	Fair value (¥ million)	Difference (¥ million)
(1) Cash and time deposits	50,220	50,220	—
(2) Notes and accounts receivable - trade	57,416	57,416	—
(3) 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 - facilities	15,965	15,965	—
(5) Long-term borrowings (*1)	148,098	148,333	234
(6) Lease obligations	928	928	(0)
Total liabilities	194,258	194,492	234
Derivative transactions (*2)			
(i) Hedge accounting not applied	(191)	(191)	—
(ii) Hedge accounting applied	(0)	(0)	—
Total derivative transactions	(191)	(191)	—

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

(*2) Net receivables and payables resulting from derivative transactions are shown in net amounts. Items that become payable on a net basis in aggregate are shown with parentheses.

(Note 1) Matters concerning methods to calculate fair values of financial instruments as well as securities and derivative transactions

Assets

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

As these are settled in a short period and their fair values are almost equal to book values, the book values are used.

(3) Securities and investment securities

As securities are negotiable certificates of deposit settled in a short period with their fair values almost equal to book values, the book values is used. Investment securities are shares and their fair values are decided based on the prices on exchanges.

For information on securities by holding purpose, see “Notes on securities.”

Liabilities

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

As these are settled in a short period and their fair values are almost equal to book values, the book values are used.

(5) Long-term borrowings, (6) Current portion of long-term lease obligations

Their fair values are calculated by discounting the total amount of principals and interests over the remaining period using an expected interest rate of a similar new loan taken out or a new lease transaction carried out.

Derivative transactions

See “Notes on derivative transactions.”

FY2020 (December 31, 2020)

	Amount booked in Consolidated Balance Sheet (¥ million)	Fair value (¥ million)	Difference (¥ million)
(1) Cash and time deposits	82,968	82,968	—
(2) Notes and accounts receivable - trade	60,405	60,405	—
(3) Investment securities	1	1	—
Total assets	143,375	143,375	—
(1) Notes and accounts payable - trade	25,615	25,615	—
(2) Short-term borrowings (*1)	1,000	1,000	—
(3) Accrued income taxes	3,392	3,392	—
(4) Notes and accounts payable - facilities	15,572	15,572	—
(5) Long-term borrowings (*1)	148,564	148,990	426
(6) Lease obligations	333	333	(0)
Total liabilities	194,479	194,905	426
Derivative transactions (*2)			
(i) Hedge accounting not applied	147	147	—
(ii) Hedge accounting applied	(0)	(0)	—
Total derivative transactions	147	147	—

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

(*2) Net receivables and payables resulting from derivative transactions are shown in net amounts. Items that become payable on a net basis in aggregate are shown with parentheses.

(Note 1) Matters concerning methods to calculate fair values of financial instruments as well as securities and derivative transactions

Assets

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

As these are settled in a short period and their fair values are almost equal to book values, the book values are used.

(3) Investment securities

Investment securities are shares and their fair values are decided based on the prices on exchanges.

For information on securities by holding purpose, see “Notes on securities.”

Liabilities

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

As these are settled in a short period and their fair values are almost equal to book values, the book values are used.

(5) Long-term borrowings, (6) Current portion of long-term lease obligations

Their fair values are calculated by discounting the total amount of principals and interests over the remaining period using an expected interest rate of a similar new loan taken out or a new lease transaction carried out.

Derivative transactions

See “Notes on derivative transactions.”

(Note 2) Financial instruments whose fair values are deemed very difficult to determine

Category	FY2019 (December 31, 2019) (¥ million)	FY2020 (December 31, 2020) (¥ million)
Subsidiary shares		
Unlisted shares	54	54
Available-for-sale securities		
Unlisted shares	46	46

As these have no market prices and their fair values are deemed very difficult to determine, they are not included in "Assets (3) Securities and investment securities."

(Note 3) Expected redemption amounts after fiscal year-end of monetary claims and securities with maturities

FY2019 (December 31, 2019)

Category	Not later than 1 year (¥ million)	Later than 1 year and not later than 5 years (¥ million)	Later than 5 years (¥ millions)
Cash and time deposits	50,220	—	—
Notes and accounts receivable - trade	57,416	—	—
Securities and investment securities			
Available-for-sale securities with maturities			
(1) Other	19,800	—	—
Total	127,437	—	—

FY2020 (December 31, 2020)

Category	Not later than 1 year (¥ million)	Later than 1 year and not later than 5 years (¥ million)	Later than 5 years (¥ million)
Cash and time deposits	82,968	—	—
Notes and accounts receivable - trade	60,405	—	—
Investment securities			
Available-for-sale securities with maturities			
(1) Other	—	—	—
Total	143,374	—	—

(Note 4) Expected repayment amounts after fiscal year-end of long-term borrowings, lease obligations and other interest-bearing liabilities

FY2019 (December 31, 2019)

	Not later than 1 year (¥ million)	Later than 1 year and not later than 2 years (¥ million)	Later than 2 years and not later than 3 years (¥ million)	Later than 3 years and not later than 4 years (¥ million)	Later than 4 years and not later than 5 years (¥ million)	Later than 5 years (¥ million)
Short-term borrowings	3,000	—	—	—	—	—
Long-term borrowings	27,234	37,180	32,084	23,818	18,805	8,976
Lease obligations	591	193	67	50	25	—
Total	30,826	37,374	32,151	23,868	18,830	8,976

FY2020 (December 31, 2020)

	Not later than 1 year (¥ million)	Later than 1 year and not later than 2 years (¥ million)	Later than 2 years and not later than 3 years (¥ million)	Later than 3 years and not later than 4 years (¥ million)	Later than 4 years and not later than 5 years (¥ million)	Later than 5 years (¥ million)
Short-term borrowings	1,000	—	—	—	—	—
Long-term borrowings	37,180	32,534	30,032	26,691	14,509	7,617
Lease obligations	192	66	50	24	—	—
Total	38,372	32,600	30,082	26,715	14,509	7,617

Notes on Securities

Available-for-sale securities

FY2019 (December 31, 2019)

	Type	Amount booked in Consolidated Balance Sheet (¥ million)	Acquisition cost (¥ million)	Difference (¥ million)
Securities whose amount booked in Consolidated Balance Sheet exceed acquisition cost	(1) Shares	1	0	1
	(2) Bonds			
	(i) Government and municipal bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	1	0	1
Securities whose amount booked in Consolidated Balance Sheet do not exceed acquisition cost	(1) Shares	—	—	—
	(2) Bonds			
	(i) Government and municipal bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	19,800	19,800	—
	Subtotal	19,800	19,800	—
Total		19,801	19,800	1

(Note) As unlisted shares (¥ 46 million booked in Consolidated Balance Sheet) have no market prices and their fair values are deemed very difficult to determine, they are not included in the above table.

FY2020 (December 31, 2020)

	Type	Amount booked in Consolidated Balance Sheet (¥ million)	Acquisition cost (¥ million)	Difference (¥ million)
Securities whose amount booked in Consolidated Balance Sheet exceed acquisition cost	(1) Shares	1	0	1
	(2) Bonds			
	(i) Government and municipal bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	1	0	1
Securities whose amount booked in Consolidated Balance Sheet do not exceed acquisition cost	(1) Shares	—	—	—
	(2) Bonds			
	(i) Government and municipal bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		1	0	1

(Note) As unlisted shares (¥ 46 million booked in Consolidated Balance Sheet) have no market prices and their fair values are deemed very difficult to determine, they are not included in the above table.

Notes on derivative transactions

1. Derivative transactions to which hedge accounting is not applied

Currency-related

FY2019 (December 31, 2019)

Category	Type of transaction	Contract amount, etc. (¥ million)	Portion due after 1 year of contract amount, etc. (¥ million)	Fair value (¥ million)	Valuation gain or loss (¥ million)
Non-market transactions	Forward exchange contracts Short position USD	17,147	－	(191)	(191)
Total		17,147	－	(191)	(191)

(Note) Method for calculating fair values

Fair values are calculated based on amounts provided by financial institutions that the Company have contracts with.

FY2020 (December 31, 2020)

Category	Type of transaction	Contract amount, etc. (¥ million)	Portion due after 1 year of contract amount, etc. (¥ million)	Fair value (¥ million)	Valuation gain or loss (¥ million)
Non-market transactions	Forward exchange contracts Short position USD	17,929	－	147	147
Total		17,929	－	147	147

(Note) Method for calculating fair values

Fair values are calculated based on amounts provided by financial institutions that the Company have contracts with.

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related

FY2019 (December 31, 2019)

Hedge accounting method	Type of transaction	Hedged items	Contract amount, etc. (¥ million)	Portion due after 1 year of contract amount, etc. (¥ million)	Fair value (¥ million)
Principle processing method	Forward exchange contracts Short position USD	Accounts receivable - trade	1,304	－	(0)
Total			1,304	－	(0)

(Note) Method for calculating fair values

Fair values are calculated based on amounts provided by financial institutions that the Company have contracts with.

FY2020 (December 31, 2020)

Hedge accounting method	Type of transaction	Hedged items	Contract amount, etc. (¥ million)	Portion due after 1 year of contract amount, etc. (¥ million)	Fair value (¥ million)
Principle processing method	Forward exchange contracts Short position USD	Accounts receivable - trade	1,032	－	(0)
Total			1,032	－	(0)

(Note) Method for calculating fair values

Fair values are calculated based on amounts provided by financial institutions that the Company have contracts with.

(2) Interest rate-related

FY2019 (December 31, 2019)

Not applicable

FY2020 (December 31, 2020)

Not applicable

Notes on retirement benefits

1. Outline of the retirement benefit plans adopted

The Company and some of its consolidated subsidiaries have defined benefit-style plans consisting lump-sum payment plans and defined benefit pension plans, and defined contribution pension plans. In addition, they may provide special retirement benefits to employees upon their retirement.

Under the lump-sum payment plans, they make lump-sum payments commensurate with the employees' qualification and years of service as retirement benefits. The defined benefit pension plans (all funded) make lump-sum payments or provide pensions based on the employee's qualification and years of service. In the defined contribution pension plans, contribution is made based on the employee's qualification and years of service.

The Company has set up a retirement benefit trust.

The Company has transferred its defined benefit pension plans to defined contribution pension plans with exceptions on April 1, 2019, and 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).

Some consolidated subsidiaries use simplified methods to calculate net defined benefit liability and retirement benefit expenses.

2. Defined benefit plans

(1) Adjustment table for balances of retirement benefit obligations at beginning and end of fiscal year (excluding plans to which simplified methods are applied)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Beginning balance of retirement benefit obligations	¥ 42,008 million	¥ 27,159 million
Service costs	1,672	1,463
Interest costs	193	171
Actuarial gain and loss	(66)	(229)
Retirement benefits paid	(1,394)	(1,334)
Decrease associated with shift to defined contribution pension plans	(15,256)	—
Other	1	69
Ending balance of retirement benefit obligations	27,159	27,299

(2) Adjustment table for balances of pension assets at beginning and end of fiscal year (excluding plans to which simplified methods are applied)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Beginning balance of pension assets	¥ 17,549 million	¥ 3,936 million
Expected return	15	14
Actuarial gain and loss	348	(170)
Contribution from employer	226	30
Retirement benefits paid	(505)	(186)
Decrease associated with shift to defined contribution pension plans	(13,704)	—
Other	6	1
Ending balance of pension assets	3,936	3,626

(3) Adjustment table for balances of net defined benefit liability of plans to which simplified methods are applied at beginning and end of fiscal year

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Beginning balance of net defined benefit liability	¥ 480 million	¥ 624 million
Retirement benefit expenses	276	155
Retirement benefits paid	(68)	(71)
Contribution to plans	(74)	(80)
Other	10	(64)
Ending balance of net defined benefit liability	624	563

(4) Balances of retirement benefit obligations and pension assets at end of fiscal year and adjustment table for net defined benefit liabilities and assets for retirement benefits booked in Consolidated Balance Sheet

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Retirement benefit obligations of funded plans	¥ 17,519 million	¥ 17,751 million
Pension assets	(3,936)	(3,626)
	13,582	14,124
Retirement benefit obligations of unfunded plans	10,264	10,111
Net amount of liabilities booked in Consolidated Balance Sheet	23,846	24,236
Retirement benefit asset	(648)	(615)
Net defined benefit liability	24,495	24,851
Net amount of liabilities booked in Consolidated Balance Sheet	23,846	24,236

Note: Including plans to which simplified methods are applied

(5) Retirement benefit expenses and its breakdown

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Service costs	¥ 1,672 million	¥ 1,463 million
Interest costs	193	171
Expected return	(15)	(14)
Amortized actuarial loss	204	184
Amortized prior service costs	297	297
Retirement benefit expenses calculated using simplified methods	276	155
Other	13	15
Retirement benefit expenses for defined benefit plans	2,642	2,273

Note: In addition to the above, ¥ 917 million in gain on revision of retirement benefit plan was booked as extraordinary income in the previous fiscal year in relation to the shift of some of defined benefit pension plans to defined contribution pension plans.

(6) Remeasurements of defined benefit plan, net of tax

Breakdown of remeasurements of defined benefit plans (reported under "other comprehensive income" in the Consolidated Statement of Comprehensive Income) (before tax effect deduction) is as shown below.

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Prior service costs	¥ 297 million	¥ 297 million
Actuarial gain and loss	1,213	241
Total	1,510	538

Note: The amount of actuarial gain and loss in the previous fiscal year includes ¥ 593 million in reclassification adjustments associated with the shift to defined contribution pension plans from defined benefit pension plans.

(7) Remeasurements of defined benefit plans

The breakdown of items booked in remeasurements of defined benefit plans (reported under "accumulated other comprehensive income" in the net assets section in the Consolidated Balance Sheets) (before tax effect deduction) is as follows:

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Unrecognized prior service costs	(¥ 2,287) million	(¥ 1,989) million
Unrecognized actuarial gain and loss	(882)	(640)
Total	(3,169)	(2,630)

(8) Matters concerning pension assets

(i) Major components of pension assets

Rate of key pension asset types to total pension assets are shown in the following table:

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Short-term funds	64%	65%
Shares	30	28
Bonds	5	5
Other	1	2
Total	100	100

Note: Retirement benefit trust accounted for 28% of the total pension assets in the previous fiscal year and 25% in the fiscal year under review.

(ii) Method of setting long-term expected rates of return

In order to decide long-term expected rate of returns of pension assets, the Company considers current and expected allocation of pension assets and current and long-term expected rates of return on a variety of assets that pension assets comprise.

(9) Matters concerning basis of actuarial calculation

Key bases of actuarial calculation

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Discount rate	Mainly 0.5%	Mainly 0.5%
long-term expected rate of return	Mainly 0.0%	Mainly 0.0%
Expected rate of salary increase (Note)	Mainly 4.5%	Mainly 4.5%

Note: A salary increase index based on employees' qualification and years of service is used to estimate salary increase rates.

3. Defined contribution plans

The amounts the Company and consolidated subsidiaries were required to contribute to the defined contribution plans were ¥ 1,409 million in the previous fiscal year and ¥ 1,696 million in the fiscal year under review.

Notes on tax effect accounting

1. Main factors for recognizing deferred tax assets and deferred tax liabilities

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Deferred tax assets		
Losses carried forward (Note) 2	¥ 22,918 million	¥ 17,868 million
Net defined benefit liability	7,748	7,774
Non-current assets	4,796	4,254
Inventories	1,259	1,802
Other	2,288	2,076
Deferred tax assets: Subtotal	39,011	33,776
Valuation allowance for losses carried forward (Note) 2	(15,706)	(11,900)
Valuation allowance for total amount of deductible temporary differences, etc.	(11,317)	(11,060)
Valuation allowance: Subtotal (Note) 1	(27,023)	(22,960)
Deferred tax assets: Total	11,988	10,815
Deferred tax liabilities		
Tax effect of undistributed retained earnings	(2,178)	(2,260)
Retirement benefit asset	(197)	(187)
Other	(463)	(535)
Deferred tax liabilities: Total	(2,838)	(2,983)
Net amount of deferred tax assets (liabilities)	9,149	7,832
Deferred tax liabilities for land revaluation surplus	(1,342)	(1,342)

Note: 1. The valuation allowance decreased ¥ 4,062 million from the previous fiscal year.
The main factor for this decrease was the use of losses carried forward.

Note: 2. Losses carried forward and amount of deferred tax assets by due period

FY2019 (December 31, 2019)

Category	Not later than 1 year (¥ million)	Later than 1 year and not later than 2 years (¥ million)	Later than 2 years and not later than 3 years (¥ million)	Later than 3 years and not later than 4 years (¥ million)	Later than 4 years and not later than 5 years (¥ million)	Later than 5 years (¥ million)	Total (¥ million)
Losses carried forward (*1)	4,302	9,702	5,377	663	584	2,289	22,918
Valuation allowance	(844)	(8,896)	(5,114)	(662)	—	(187)	(15,706)
Deferred tax assets	3,457	806	262	0	584	2,101	(※2) 7,212

(*1) Losses carried forward are shown in the amount multiplied by effective statutory tax rate.

(*2) Deferred tax assets of ¥ 7,212 million were booked for losses carried forward of ¥ 22,918 million (amount multiplied by effective statutory tax rate). Valuation allowance is not recognized for the portion of the losses carried forward judged to be collectible considering estimated future taxable income, etc.

FY2020 (December 31, 2020)

Category	Not later than 1 year (¥ million)	Later than 1 year and not later than 2 years (¥ million)	Later than 2 years and not later than 3 years (¥ million)	Later than 3 years and not later than 4 years (¥ million)	Later than 4 years and not later than 5 years (¥ million)	Later than 5 years (¥ million)	Total (¥ million)
Losses carried forward (*1)	9,149	5,362	663	551	405	1,736	17,868
Valuation allowance	(5,977)	(5,114)	(662)	—	(145)	—	(11,900)
Deferred tax assets	3,171	248	0	551	259	1,736	(※2) 5,967

(*1) Losses carried forward are shown in the amount multiplied by effective statutory tax rate.

(*2) Deferred tax assets of ¥ 5,967 million were booked for losses carried forward for tax purposes of ¥ 17,868 million (amount multiplied by effective statutory tax rate). Valuation allowance is not recognized for the portion of the losses carried forward judged to be collectible considering estimated future taxable income, etc.

2. Major components of differences arising between the effective statutory tax rate and burden rate of income taxes after application of tax-effect accounting

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Effective statutory tax rate	30.4%	30.4%
(Adjustment)		
Valuation allowance	(6.7)	(10.5)
Overseas subsidiary tax rate difference	(2.9)	(2.6)
Amortization of goodwill	1.0	1.4
Other	1.1	1.0
Burden rate of income taxes after application of tax effect accounting	22.9	19.7

Notes on business combination

Not applicable

Segment information, etc.

Segment information

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

Segment information is not described since the Group has only one segment, which is “Crystalline silicon.”

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

Segment information is not described since the Group has only one segment, which is “Crystalline silicon.”

Related information

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

1. Information by product and service

This information is omitted as sales to external customers in the single product or service category exceeds 90% of net sales in the Consolidated Statement of Income.

2. Information by region

(1) Net sales

(¥ million)

Japan	North America	Asia	Europe, etc.	Total
69,079	35,640	170,761	23,978	299,460

Note: Net sales figures are classified into countries or regions based on customer locations.

(2) Property, plant and equipment

(¥ million)

Japan	Asia	Other	Total
155,264	37,294	4,223	196,782

3. Information by major customer

(¥ million)

Name of customer	Net sales	Related segment
Sumitomo Corporation	47,758	Crystalline silicon
Samsung Electronics Co., Ltd.	42,130	Crystalline silicon

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

1. Information by product and service

This information is omitted as sales to external customers in the single product or service category exceeds 90% of net sales in the Consolidated Statement of Income.

2. Information by region

(1) Net sales

(¥ million)

Japan	North America	Asia	Europe, etc.	Total
67,739	30,048	173,697	19,848	291,333

Note: Net sales figures are classified into countries or regions based on customer locations.

(2) Property, plant and equipment

(¥ million)

Japan	Asia	Other	Total
166,058	34,012	3,981	204,052

3. Information by major customer

(¥ million)

Name of customer	Net sales	Related segment
Sumitomo Corporation	52,104	Crystalline silicon
Samsung Electronics Co., Ltd.	39,035	Crystalline silicon

Information concerning impairment losses on non-current assets by reportable segment

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

Not applicable

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

Not applicable

Information concerning amortization of goodwill and unamortized balances by reporting segment

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

Segment information is not described since the Group has only one segment, which is “Crystalline silicon.”

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

Segment information is not described since the Group has only one segment, which is “Crystalline silicon.”

Information concerning gains on negative goodwill by reporting segment

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

Not applicable

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

Not applicable

Information on related parties

1. Transactions with related parties

(1) Transactions between the Company and related parties

Companies, etc. that have the same parent company as the Company, and subsidiaries, etc. of other related companies of the company

FY2019 (Jan. 1, 2019–Dec. 31, 2019)

Type	Names of company	Location	Capital stock or investments in capital (¥ million)	Description of business	Percentage of voting rights held	Relationship with related party	Description of transactions	Transaction amount (¥ million)	Account	Balance at end of period (¥ million)
Companies the majority of whose voting rights is held by the majority shareholder (corporation)	Mitsubishi Materials Techno Corporation	Taito-ku, Tokyo	1,042	Manufacture and sale of machinery, etc.	–	Manufacturer of manufacturing equipment, etc.	Purchase of manufacturing equipment	10,277	Accounts payable - facilities	1,674

Notes: 1. Transaction amounts do not include consumption taxes.

2. Transaction terms and conditions, and policies on deciding them

As manufacturing equipment is unique to the Company, we negotiate purchase prices for each deal.

FY2020 (Jan. 1, 2020–Dec. 31, 2020)

Type	Names of company	Location	Capital stock or investments in capital (¥ million)	Description of business	Percentage of voting rights held	Relationship with related party	Description of transactions	Transaction amount (¥ million)	Account	Balance at end of period (¥ million)
Companies the majority of whose voting rights is held by the majority shareholder (corporation)	Mitsubishi Materials Techno Corporation	Taito-ku, Tokyo	1,042	Manufacture and sale of machinery, etc.	–	Manufacturer of manufacturing equipment, etc.	Purchase of manufacturing equipment	8,239	–	–

Notes: 1. Transaction amounts do not include consumption taxes.

2. Transaction terms and conditions, and policies on deciding them

As manufacturing equipment is unique to the Company, we negotiate purchase prices for each deal.

3. Mitsubishi Materials Techno Corporation ceased to be the Company's related party as Mitsubishi Materials Corporation ceased to be the Company's major shareholder as of December 22, 2020. As a result, transaction amounts during the period in which it was a related party are shown.

(2) Transactions between consolidated subsidiaries of the Company and its related parties

Not applicable

2. Notes on parent company or important affiliated companies

Not applicable

(Per-share information)

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Net assets per share	¥ 1,030.39	¥ 1,082.22
Earnings per share	¥ 112.90	¥ 87.48

Notes: 1. Diluted earnings per share is not described since dilutive shares did not exist.

2. The basis for calculating earnings per share is as follows:

	FY2019 (Jan. 1, 2019–Dec. 31, 2019)	FY2020 (Jan. 1, 2020–Dec. 31, 2020)
Net income attributable to owners of the parent (¥ million)	33,112	25,505
Amount not attributable to Common shareholders (¥ million)	―	―
Net income attributable to owners of the parent related to common share (¥ million)	33,112	25,505
Average number of common shares during period	293,277,926	291,545,355

(Significant subsequent events)

In order to enhance shareholder returns and improve capital efficiency, the Company purchased treasury stock after the Board of Directors resolved on matters regarding acquisition of treasury stock at a meeting on February 19, 2021 in accordance with Article 459, Paragraph 1 of the Companies Act and Article 32 of the Company's Articles of Incorporation. On the same day, the Board of Directors also resolved on matters regarding cancellation of treasury stock in accordance with Article 178 of the Companies Act.

(1) Matters concerning acquisition of treasury stock

Class of shares to be acquired: Common share

Total number of shares that can be acquired: 1,270,000 (maximum)

Total amount for acquisition of shares: ¥ 2,500,000,000 (maximum)

Acquisition period: February 22, 2021 - March 23, 2021

Method of acquisition: Purchase in market transactions at the Tokyo Stock Exchange

As a result of the purchase above, the Company held its 223,300 common shares (purchase price of ¥ 559 million) at the end of the month prior to the month to which the submission date of this Annual Securities Report belongs.

(2) Matters concerning cancellation of treasury stock

Class of shares to be cancelled: Common share

Number of shares to be cancelled: Total number of shares acquired under (1)

Planned date of cancellation: April 14, 2021

(v) Consolidated supplementary schedules

Schedule of corporate bonds

Not applicable

Schedule of borrowings, etc.

Category	Balance at beginning of period (¥ million)	Balance at end of period (¥ million)	Average interest rate (%)	Due date
Short-term borrowings	3,000	1,000	0.3	–
Current portion of long-term borrowings	27,234	37,180	0.6	–
Current portion of long-term lease obligations	591	192	0.9	–
long-term borrowings (excluding current portion)	120,864	111,383	0.6	2022-2027
Lease obligations (excluding current portion)	336	141	1.5	2022-2024
Total	152,027	149,898	—	–

Notes: 1. Average interest rates are weighted relative to the balances at the end of the period.

2. The amounts planned to be repaid of long-term borrowings and lease obligations (excluding those planned to be repaid within a year) in the five years after the fiscal year-end are as follows.

	Later than 1 year and not later than 2 years (¥ million)	Later than 2 years and not later than 3 years (¥ million)	Later than 3 years and not later than 4 years (¥ million)	Later than 4 years and not later than 5 years (¥ million)
Long-term borrowings	32,534	30,032	26,691	14,509
Lease obligations	66	50	24	—

Schedule of asset retirement obligations

This is omitted in accordance with Article 92-2 of the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements as the amount of asset retirement obligations at the beginning and the end of the fiscal year under review is below one-hundredth of the combined total of liabilities and net assets at the beginning and the end of the fiscal year under review.

(2) Other

Quarterly information on fiscal year under review

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Fiscal year under review
Net sales (¥ million)	72,244	147,142	218,745	291,333
Income before income taxes for the quarter or year (¥ million)	11,934	22,650	28,508	35,650
Net income attributable to owners of the parent for the quarter or year (¥ million)	8,490	16,821	20,209	25,505
Earnings per share for the quarter or year (¥)	29.01	57.62	69.29	87.48

(each quarter)	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share for the quarter (¥)	29.01	28.61	11.64	18.19

2. Non-consolidated financial statements, etc.

(1)Non-consolidated financial statements

(i) Non-consolidated Balance Sheet

(¥ million)

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Assets		
Current assets		
Cash and time deposits	20,836	47,601
Accounts receivable - trade	56,104	57,455
Securities	19,800	
Finished products	7,433	9,853
Work in process	11,648	12,908
Raw materials and supplies	129,909	121,567
Advance payments	※5 2,317	※5 2,324
Prepaid expenses	273	548
Short-term loans receivable	13,361	14,227
Accounts receivable - other	4,202	4,161
Other	3,206	2,659
Allowance for doubtful accounts	(3)	(2)
Total current assets	※1 269,091	※1 273,305
Non-current assets		
Property, plant and equipment		
Buildings	52,611	50,598
Structures	1,849	2,071
Machinery and equipment	43,478	55,410
Vehicles	121	135
Tools, furniture and fixtures	418	454
Land	15,370	15,317
Leased assets	31	22
Construction in progress	24,573	25,160
Total property, plant and equipment	138,456	149,171
Intangible assets		
Software	4,596	6,024
Other	1,240	565
Total intangible assets	5,837	6,589
Investments and other assets		
Investment securities	3	3
Shares of related companies	27,077	27,077
Investments in capital of related companies	55	55
Long-term loans receivable from related companies	25,925	25,195
Long-term advance payments	※5 35,835	※5 33,511
Long-term prepaid expenses	1,861	1,994
Prepaid pension costs	731	714
Deferred tax assets	3,475	3,322
Other	781	721
Allowance for doubtful accounts	(147)	(147)
Total investments and other assets	※1 95,599	※1 92,447
Total non-current assets	239,892	248,209
Total assets	508,983	521,514

(¥ million)

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	36,253	36,892
Short-term borrowings	※4 59,469	※4 65,714
Lease obligations	489	112
Accounts payable - other	5,456	6,061
Accrued expenses	264	179
Accrued income taxes	1,023	893
Accounts payable - facilities	13,651	12,603
Advances received	46	314
Other	1,097	891
Total current liabilities	※1 117,751	※1 123,662
Long-term liabilities		
Long-term borrowings	※3 120,864	※3 111,383
Lease obligations	126	14
Deferred tax liabilities for land revaluation surplus	1,342	1,342
Provision for retirement benefits	11,714	12,255
Asset retirement obligations	465	465
Other	22	12
Total long-term liabilities	134,535	125,473
Total liabilities	252,287	249,136
Net assets		
Shareholders' equity		
Capital stock	138,718	138,718
Capital surplus		
Legal capital surplus	3,611	3,611
Other capital surplus	19,772	16,472
Total capital surplus	23,384	20,084
Retained earnings		
Legal retained earnings	4,760	5,578
Other retained earnings		
Retained earnings brought forward	86,958	105,123
Total retained earnings	91,719	110,701
Treasury stock	(12)	(12)
Total shareholders' equity	253,810	269,492
Valuation and translation adjustments		
Deferred loss on hedges	(0)	(0)
Land revaluation surplus	2,885	2,885
Total valuation and translation adjustments	2,885	2,885
Total net assets	256,696	272,378
Total liabilities and net assets	508,983	521,514

(ii) Non-consolidated Statement of Income

(¥ million)

	FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
Net sales	※1 251,244	※1 242,883
Cost of sales	※1 207,967	※1 206,137
Gross profit	43,276	36,746
Selling, general and administrative expenses	※1,※2 19,585	※1,※2 19,825
Operating income	23,691	16,920
Non-operating income		
Interest income	544	363
Dividend income	23,904	13,761
Other	1,202	908
Total non-operating income	※1 25,650	※1 15,034
Non-operating expenses		
Interest expenses	1,440	1,141
Foreign exchange losses	947	589
Loss on sales and retirement of non-current assets	350	334
Other	485	188
Total non-operating expenses	※1 3,223	※1 2,253
Ordinary income	46,118	29,701
Extraordinary income		
Gain on revision of retirement benefit plan	※3 917	—
Total extraordinary income	917	—
Income before income taxes	47,035	29,701
Income taxes - current	3,387	2,392
Income taxes - deferred	1,685	152
Total income taxes	5,072	2,545
Net income	41,962	27,155

Schedule of costs of products manufactured

		FY2019 (Jan. 1, 2019-Dec. 31, 2019)		FY2020 (Jan. 1, 2020-Dec. 31, 2020)	
Category	Note number	(¥ million)	Percentage (%)	(¥ million)	Percentage (%)
I Material costs		47,597	36.0	52,104	37.2
II Labor costs		29,240	22.1	29,468	21.0
III Expenses	*2	55,489	41.9	58,506	41.8
Total manufacturing cost for period		132,327	100.0	140,078	100.0
Beginning work in process		12,705		11,648	
Total		145,033		151,727	
Ending work in process		11,648		12,908	
Transfer to other account	*3	62		135	
Cost of products manufactured		133,323		138,683	

FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
1. Method of cost calculation The Company has adopted continuous process costing for individual product types.	1. Method of cost calculation Same as left
*2. Major expense accounts are as listed below. Power charges ¥ 11,038 million Depreciation and amortization 28,689	*2. Major expense accounts are as listed below. Power charges ¥ 10,616 million Depreciation and amortization 33,089
*3. Breakdown of transfer to other account is as follows. To selling, general and administrative expenses ¥ 48 million To non-operating expenses 13	*3. Breakdown of transfer to other account is as follows. To selling, general and administrative expenses ¥ 120 million To non-operating expenses 14

(iii) Non-consolidated Statement of Changes in Net Assets

FY2019 (Jan. 1, 2019-Dec. 31, 2019)

(¥ million)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought 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									
Provision of legal retained earnings					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)
Cancellation of treasury stock									
Net changes in items other than shareholders' equity									
Total changes during of 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

	Valuation and translation adjustments			Total net assets
	Deferred gain (loss) on hedges	Land revaluation surplus	Total valuation and translation adjustments	
Balance at beginning of period	(0)	2,885	2,885	231,450
Changes during period				
Provision of legal retained earnings				—
Dividends from surplus				(16,716)
Net income				41,962
Purchase of treasury stock				(0)
Cancellation of treasury stock				
Net changes in items other than shareholders' equity	0		0	0
Total changes during of period	0	—	0	25,246
Balance at end of period	(0)	2,885	2,885	256,696

FY2020 (Jan. 1, 2020-Dec. 31, 2020)

(¥ million)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at beginning of period	138,718	3,611	19,772	23,384	4,760	86,958	91,719	(12)	253,810
Changes during period									
Provision of legal retained earnings					817	(817)	—		—
Dividends from surplus						(8,173)	(8,173)		(8,173)
Net income						27,155	27,155		27,155
Purchase of treasury stock								(3,300)	(3,300)
Cancellation of treasury stock			(3,300)	(3,300)				3,300	—
Net changes in items other than shareholders' equity									
Total changes during of period	—	—	(3,300)	(3,300)	817	18,164	18,982	0	15,681
Balance at end of period	138,718	3,611	16,472	20,084	5,578	105,123	110,701	(12)	269,492

	Valuation and translation adjustments			Total net assets
	Deferred gain (loss) on hedges	Land revaluation surplus	Total valuation and translation adjustments	
Balance at beginning of period	(0)	2,885	2,885	256,696
Changes during period				
Provision of legal retained earnings				—
Dividends from surplus				(8,173)
Net income				27,155
Purchase of treasury stock				(3,300)
Cancellation of treasury stock				—
Net changes in items other than shareholders' equity	(0)		(0)	(0)
Total changes during of period	(0)	—	(0)	15,681
Balance at end of period	(0)	2,885	2,885	272,378

Notes

(Important accounting policies)

1. Valuation standards and methods for assets

(1) Securities

(a) Shares of related companies

The Company has adopted the cost method, costs being determined by the moving average method.

(b) Available-for-sale securities

Those with fair value

The Company has adopted the fair value method based on the market price, etc. on the fiscal year-end (the full amount of the valuation difference is directly recorded in net assets, with the disposal cost determined by the moving average method).

Those without fair value

The Company has adopted the cost method, costs being determined by the moving average method.

(2) Derivatives

The Company has adopted the fair value method.

(3) Inventories

The Company determines costs by the gross average method (amounts recorded in the balance sheet are calculated by devaluating the book values based on their decreased profitability).

2. Depreciation method for non-current assets

(1) Property, plant and equipment (excluding leased assets related to finance lease transactions that do not transfer ownership)

The straight line method is used for buildings and structures, while the declining balance method is used for other assets.

Note that the declining-balance method is used for structures acquired on March 31, 2016 or earlier.

The useful life is mainly 31 years for buildings and mainly five years for other assets.

(2) Intangible assets (excluding leased assets related to finance lease transactions that do not transfer ownership)

Software

Software is amortized using the straight-line method over a useful life in the Company of five years.

Other intangible assets

The Company has adopted the straight-line method.

(3) Leased assets (related to finance lease transactions that do not transfer ownership)

The straight-line method is used where the lease period is regarded as the useful life and the residual value is zero.

3. Standards for allowances

(1) Allowance for doubtful accounts

To provide for credit losses, an estimated uncollectible amount is recorded based on the historical bad debt ratio for general accounts receivable, and on the individual collectability for specific accounts receivable such as doubtful accounts receivable.

(2) Reserve for bonuses

To provide for employee bonus obligation, an amount accrued for the fiscal year under review in the estimated future obligations is booked in the reserve account.

(3) Provision for retirement benefits

In order to prepare for employee retirement benefits, the Company has booked accrued retirement benefits at an amount recognized at the end of the fiscal year under review based on the estimated amounts of retirement benefit obligations and pension assets at the end of the fiscal year under review. Note that if the estimated amount of pension assets exceeds the amount of retirement benefit obligations adjusted with unrecognized actuarial gain and loss, prepaid pension costs will be booked.

Prior service costs are amortized by the straight-line method over a period within the average remaining service years for employees (10 years) at the time of recognition.

Actuarial gain and loss is amortized by the straight-line method over a period within the average remaining service years for employees (10 years) at the time of recognition, and allocated from the fiscal year following the respective fiscal year of recognition.

4. Other important matters forming the basis for preparing consolidated financial statements

(1) Hedge accounting method

(a) Hedge accounting methods

Deferred hedging is applied.

(b) Hedging instruments and hedged items

To avoid foreign currency risks that transactions to be conducted in foreign currencies are exposed to, the Company enters into forward exchange contracts.

(c) Hedging policies

The Company hedges the risks of fluctuations in market interest rates and exchange rates in accordance with its market risk management rules. The Company enters into forward exchange contracts in order to avoid foreign exchange fluctuation risks within the limits of estimated sales.

(d) Methods for assessing effectiveness of hedging

The Company assesses hedging effectiveness of hedging instruments and hedged items for individual transactions.

(2) Accounting policies for retirement benefits

Accounting methods for yet-to-be-processed amounts of unrecognized actuarial gain and loss as well as prior service costs related to retirement benefits differ from those adopted for consolidated financial statements.

(3) Accounting policies for consumption taxes

Transactions subject to consumption tax and local consumption tax are recorded at amounts exclusive thereof

(Notes on changes in presentation method)

(Statement of Income)

The “commission for syndicate loan” under non-operating expenses in the previous fiscal year is included in the “other” in the fiscal year under review because its significance fell in the fiscal year under review.

To reflect the change in presentation, some accounts in the financial statements for the previous fiscal year were reclassified. As a result, “commission for syndicate loan” of ¥ 360 million, which was shown under non-operating expenses in the Consolidated Statement of Income of the previous fiscal year, has been included in “other” of ¥ 485 million.

(Additional information)

(Accounting estimates)

Although the spread of COVID-19 may have an impact on the Company’s financial performance in subsequent fiscal years, accounting estimates were made for the fiscal year under review on the assumption, based on the current situation and other factors, that there would be no major impact.

Note, however, that changes in the situation of COVID-19 infections and its impact on the economy may extend their influence over the Company’s performance.

Notes to Non-consolidated Balance Sheet

*1 Monetary claims and monetary debts to related companies

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Short-term monetary claims	¥ 29,217 million	¥ 29,659 million
Long-term monetary claims	26,009	25,242
Short-term monetary debts	49,360	46,311

*2 Contingent liabilities

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Debt guarantees on employees' borrowings from financial institutions	¥ 205 million	¥ 167 million

*3 The Company's borrowings from financial institutions have financial covenants that require the Company to maintain certain levels of net assets in its Consolidated and Non-consolidated Balance Sheets.
Relevant outstanding borrowings are as shown in the table below.

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Long-term borrowings	¥ 2,500 million	¥ 2,500 million
(of which, current portion)	(－)	(－)

*4 In order to allow flexible financing of working capital, the Company has entered into commitment line agreements with financial institutions. These agreements include financial covenants that require the Company to maintain certain levels of net assets in its Consolidated and Non-consolidated Balance Sheets and of net cash provided by operating activities in its Consolidated Statement of Cash Flows.
Unused portion of the commitment line agreements is as shown in the table below.

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Total available commitment lines	¥ 30,000 million	¥ 30,000 million
Balance of borrowings	3,000	900
Difference	27,000	29,100

*5 In order to procure polycrystalline silicon, the main raw material for silicon wafer production, the Company has entered into long-term purchase contracts with polycrystalline silicon producers, and made advance payments for some purchases in accordance with these contracts.

Notes to Non-consolidated Statement of Income

*1 Transaction amounts with related companies

	FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
Amount of transactions through business transactions		
Net sales	¥ 54,202 million	¥ 47,443 million
Cost of goods purchased	72,454	67,422
Amount of transactions through transactions other than business transactions	25,598	14,933

*2 Selling expenses accounted for 36% of selling, general and administrative expenses in the previous fiscal year and 40% in the fiscal year under review, while general and administrative expenses accounted for 64% in the previous fiscal year and 60% in the fiscal year under review.
Major expense accounts and their amounts are given in the table below.

	FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
Sales commission	¥ 2,521 million	¥ 2,684 million
Packing and transportation fees	2,800	3,832
Salaries, allowances and bonuses	2,647	2,652
Depreciation and amortization	386	445
Research and development expenses	4,011	3,915

*3 Revision of retirement benefit plans
This is a gain associated with a shift of the Company's defined benefit pension plans to defined contribution pension plans, with some exceptions.

Notes on Securities

Shares of related companies (¥ 27,077 million booked on the balance sheet for the fiscal year under review and ¥ 27,077 million booked ion the balance sheet for the previous fiscal year) are not described because they do not have market prices and are deemed very difficult to determine their fair value.

Notes on tax effect accounting

1. Main factors for recognizing deferred tax assets and deferred tax liabilities

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Deferred tax assets		
Shares of related companies	¥ 26,111 million	¥ 26,111 million
Losses carried forward	13,435	10,883
Provision for retirement benefits	3,561	3,725
Non-current assets	2,195	1,881
Inventories	906	1,447
Other	1,337	1,260
Deferred tax assets: Subtotal	47,547	45,310
Valuation allowance for losses carried forward	(11,144)	(8,897)
Valuation allowance for total amount of deductible temporary differences, etc.	(32,588)	(32,756)
Valuation allowance: Subtotal	(43,732)	(41,653)
Deferred tax assets: Total	3,815	3,657
Deferred tax liabilities		
Prepaid pension costs	(222)	(217)
Non-current assets	(117)	(117)
Deferred tax liabilities: Total	(340)	(334)
Net amount of deferred tax assets (liabilities)	3,475	3,322
Deferred tax liabilities for land revaluation surplus	(1,342)	(1,342)

2. Major components of differences arising between the effective statutory tax rate and burden rate of income taxes after application of tax-effect accounting

	FY2019 (December 31, 2019)	FY2020 (December 31, 2020)
Effective statutory tax rate	30.4%	30.4%
(Adjustment)		
Exclusion of dividend income from gross profits	(15.3)	(14.1)
Valuation allowance	(4.0)	(7.1)
Tax credit for experimentation and research expenses, etc.	(0.5)	(0.9)
Other	0.2	0.3
Burden rate of income taxes after application of tax effect accounting	10.8	8.6

Notes on business combination

Not applicable

(Per-share information)

	FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
Net assets per share	¥ 875.27	¥ 935.45
Earnings per share	¥ 143.08	¥ 93.14

Notes: 1. Diluted earnings per share is not described since dilutive shares did not exist.

2. The basis for calculating earnings per share is as follows:

	FY2019 (Jan. 1, 2019-Dec. 31, 2019)	FY2020 (Jan. 1, 2020-Dec. 31, 2020)
Net income (¥ million)	41,962	27,155
Amount not attributable to Common shareholders (¥ million)	—	—
Net income related to common share (¥ million)	41,962	27,155
Average number of common shares during period	293,277,926	291,545,355

(Significant subsequent events)

In order to enhance shareholder returns and improve capital efficiency, the Company purchased treasury stock after the Board of Directors resolved on matters regarding acquisition of treasury stock at a meeting on February 19, 2021 in accordance with Article 459, Paragraph 1 of the Companies Act and Article 32 of the Company's Articles of Incorporation. On the same day, the Board of Directors also resolved on matters regarding cancellation of treasury stock in accordance with Article 178 of the Companies Act.

(1) Matters concerning acquisition of treasury stock
Class of shares to be acquired: Common share
Total number of shares that can be acquired: 1,270,000 (maximum)
Total amount for acquisition of shares: ¥ 2,500,000,000 (maximum)
Acquisition period: February 22, 2021 - March 23, 2021
Method of acquisition: Purchase in market transactions at the Tokyo Stock Exchange

As a result of the purchase above, the Company held its 223,300 common shares (purchase price of ¥ 559 million) at the end of the month prior to the month to which the submission date of this Annual Securities Report belongs.

(2) Matters concerning cancellation of treasury stock
Class of shares to be cancelled: Common share
Number of shares to be cancelled: Total number of shares acquired under (1)
Planned date of cancellation: April 14, 2021

(iv) Non-consolidated supplementary schedules

Schedule of property, plant and equipment

(¥ million)

Category	Asset type	Balance at beginning of period	Increase during period	Decrease during period	Amount of depreciation or amortization for period	Balance at end of period	Accumulated depreciation
Property, plant and equipment	Buildings	132,179	2,548	410	4,534	134,316	83,718
	Structures	7,232	352	3	130	7,581	5,509
	Machinery and equipment	475,716	38,777	7,419	26,828	507,074	451,664
	Vehicles	1,281	121	49	106	1,352	1,217
	Tools, furniture and fixtures	4,777	240	100	205	4,918	4,463
	Land	15,370 [4,228]	—	52	—	15,317 [4,228]	—
	Leased assets	49	—	—	9	49	27
	Construction in progress	24,573	42,626	42,040	—	25,160	—
	Total	661,180	84,666	50,075	31,814	695,772	546,600
Intangible assets	Software	30,121	3,472	9	2,044	33,583	27,559
	Other	1,267	2,800	3,472	2	595	29
	Total	31,388	6,272	3,482	2,047	34,179	27,589

Notes: 1. Major factors for increases during period

Machinery and equipment Imari Factory: ¥ 36,658 million

Construction in progress This is mainly related to the acquisition of the above equipment.

2. Major factors for decrease during period

Machinery and equipment Imari Factory: ¥ 6,327 million

Machinery and equipment Yonezawa Plant: ¥ 370 million

3. The figures in brackets in the “Balance at beginning of period” and “Balance at end of period” columns are the differences from the book values before the land revaluation conducted in accordance with the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), and are comprised in the above figures.

4. The figures in the balance at beginning of period and the balance at end of period are acquisition values.

Schedule of allowances

(¥ million)

Account	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period
Allowance for doubtful accounts	150	—	0	150

(2) Components of major assets and liabilities

These are omitted because the consolidated financial statements have been prepared.

(3) Other

Not applicable

VI. Outline of operational procedures for shares of the Company

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Base date	December 31
Base dates for dividends from surplus	June 30 and December 31
Number of shares constituting one unit	100 common shares
Purchase of shares less than one unit	
Location	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan Stock Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited
Administrator of shareholders' register	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan Sumitomo Mitsui Trust Bank, Limited
Place of agency	–
Purchase fees	Free (excludes charges by securities companies)
Method of public notice	Electronic public notice on the Company website. However, public notice will be published in the *Nihon Keizai Shimbun* if electronic public notice is impossible due to accidents or other unavoidable circumstances. (Company website: https://www.sumcosi.com/)
Benefits to shareholders	Not applicable

Notes: In accordance with the Company's Articles of Incorporation, the Company's shareholders cannot exercise any rights regarding shares less than one unit they own other than those listed below:

(1) Rights specified in each item of Article 189, Paragraph 2 of the Companies Act
(2) Right to make claims under Article 166, Paragraph 1 of the Companies Act.
(3) Right to receive an allotment of shares to be offered and of share acquisition rights to be offered according to the number of shares held by the shareholder

VII. Reference Information on the Company

1. Information on parent company, etc. of the Company

The Company does not have a parent company, etc. specified in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other information

The Company has submitted the following documents during a period from the beginning date of the fiscal year under review and the date of submission of this Annual Securities Report.

(1) Annual Securities Report and its attachments, and confirmation
For the 21th term (from January 1, 2019 to December 31, 2019); submitted to the Director-General of the Kanto Local Finance Bureau on March 26, 2020

(2) Internal Control Report and its attachments
Submitted to the Director-General of the Kanto Local Finance Bureau on March 26, 2020

(3) Quarterly Securities Reports and confirmation
For first quarter of 22th term (January 1, 2020-March 31, 2020); submitted to the Director-General of the Kanto Local Finance Bureau on May 15, 2020
For second quarter of 22th term (April 1, 2020-June 30, 2020); submitted to the Director-General of the Kanto Local Finance Bureau on August 12, 2020
For third quarter of 22th term (July 1, 2020-September 30, 2020); submitted to the Director-General of the Kanto Local Finance Bureau on November 13, 2020

(4) Extraordinary Report
Submitted to the Director-General of the Kanto Local Finance Bureau on March 27, 2020.
This is an Extraordinary Report prepared in accordance with Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (outcomes of exercise of voting rights at the General Meeting of Shareholders).
Submitted to the Director-General of the Kanto Local Finance Bureau on January 6, 2021.
This is an Extraordinary Report prepared in accordance with Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 4 of the Cabinet Office Order on Disclosure of Corporate Affairs (changes in major shareholders).

(5) Share Buyback Report
For reporting period from February 1, 2020 to February 29, 2020； submitted to Director-General of the Kanto Local Finance Bureau on March 5, 2020
For reporting period from March 1, 2020 to March 31, 2020; submitted to Director-General of the Kanto Local Finance Bureau on April 6, 2020
For reporting period from February 1, 2021 to February 28, 2021; submitted to Director-General of the Kanto Local Finance Bureau on March 4, 2021

Section 2: Information on Guarantors, etc. of the Company