

March 8, 2022

Dear Shareholders,

**Matters Disclosed on the Internet
Related to the
Notice of Convocation of
the 23rd Ordinary General Meeting of Shareholders**

1) Matters Relating to the Formulation of a System to Ensure Appropriate Corporate Actions.....	2
2) Overview of the State of the Operations of a System to Ensure Appropriate Corporate Actions.....	5
3) Consolidated Statement of Changes in Equity.....	6
4) Notes on Consolidated Financial Statements.....	7
5) Non-consolidated Statement of Changes in Equity	20
6) Notes on Non-Consolidated Financial Statements	22

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

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

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

- 1) The Company shall enact the “SUMCO CHARTER” as the supreme code of conduct for officers and employees to ensure that their duties comply with laws and regulations, and the Articles of Incorporation of the Company and fulfill their social responsibility. The Company shall also educate officers and employees to familiarize them with the “SUMCO CHARTER.”
- 2) The Chief Compliance Officer shall be assigned as the supreme officer responsible for supervising compliance with the “SUMCO CHARTER.” Each General Manager who is the head of an organization in the Company shall supervise compliance in his or her organization and submit regular reports on compliance with the CHARTER to the Chief Compliance Officer.
- 3) The Company shall establish an internal hotline for reporting violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities.
- 4) The Internal Auditing Department shall perform periodic audits to verify compliance in each department.
- 5) The Company shall further disseminate to its officers and employees the understanding of not having any connections with antisocial forces and refusing their improper solicitations as clearly stated in the “SUMCO CHARTER.”

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

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

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

- 1) The Company shall establish the “Risk Management Basic Rules” that stipulate basic issues on risk management, and based on them, the Company shall set up an information distribution route to be used upon occurrence of major risks and develop a system for installing Emergency Response Team.
- 2) The Company shall establish a “Business Security Committee (BSC)” that supervises overall risk management, to formulate a cross-sectional risk management policy and confirm the progress in addressing risks.
- 3) The Company shall establish internal regulations to appropriately manage individual risks related to information leakage, financial markets and product quality based on the Risk Management Basic Rules.

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

- 1) The Company shall employ the executive officer system under which management decision-making and supervisory functions are separated from executive functions. Under the system a Board of Directors shall carry out decision-making on important matters such as management

policy and monitor the execution of duties by Directors as well as the performance of duties by executive officers, while the executive officers shall perform their duties delegated by a Board of Directors.

- 2) Important matters relating to management shall be deliberated at Management Conferences whose members shall consist of individuals holding the position of managing executive officer or higher.
 - 3) The Company shall stipulate and clarify the criteria for submitting proposals to a Board of Directors and stipulate the authority of executive officers in internal regulations clarifying the responsibilities and authority of them.
 - 4) A Board of Directors shall formulate management strategies and management plans and the executive officers shall execute duties aimed at achieving the objectives set forth in them. Directors also serving as executive officers shall periodically report on their duties to a Board of Directors.
- (5) System to ensure proper business practices by the corporate group comprised of the Company, its parent company, and its subsidiaries**
- 1) By making every subsidiary of the Company establish its own CHARTER as the supreme code of conduct equivalent to the “SUMCO CHARTER,” compliance in each subsidiary as a member of the corporate group shall be established. Respective subsidiaries are requested to periodically report on their compliance with their CHARTERS.
 - 2) The Company shall assign a department to manage subsidiaries and clarify subsidiary management standards in internal regulations in an effort to improve the soundness and effectiveness of management both in each of them and in the SUMCO Group as a whole. In addition, respective subsidiaries are requested to report on violations of laws and regulations and Articles of Incorporation or a probability of such violations, or matters that can cause serious losses to them, besides the performance, financial conditions and other important management information, etc.
 - 3) Respective subsidiaries are requested to formulate basic policies related to risk management and promote their response to risks. They are requested to report on the state of the implementation of risk management at the “Business Security Committee (BSC).” In addition, respective subsidiaries are requested to establish a communication route in case that a serious risk occurs.
 - 4) The Company shall establish an internal hotline which is independent from the executive office of the Company to allow employees of the subsidiaries to directly report violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities, etc.
 - 5) The Internal Auditing Department shall perform periodic internal audits of the subsidiaries.

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

- 1) The Company shall establish an Audit and Supervisory Committee Office and deploy staff as employees assisting the Audit and Supervisory Committee in their duties.
- 2) In order to ensure the independence of the staff for an Audit and Supervisory Committee Office, prior approval of the Audit and Supervisory Committee shall be required for personnel changes, and performance appraisals shall be conducted by full-time Audit and Supervisory Committee Members.
- 3) The staff for an Audit and Supervisory Committee Office shall follow only the instructions of Audit and Supervisory Committee Members and the Audit and Supervisory Committee when executing their duties.

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

- 1) Directors (excluding Directors who are Audit and Supervisory Committee Members) shall stipulate in internal regulations matters to be reported to an Audit and Supervisory Committee, such as matters that significantly affect the management and results of the Company, and do so appropriately.
- 2) Subsidiaries shall establish a system for reporting in which Directors or employees of subsidiaries report to the department responsible for the management of subsidiaries and an Audit and Supervisory Committee of the Company in case that a violation of laws and regulations and Articles of Incorporation or a probability of such a violation, or a matter that can cause a serious loss to subsidiaries occurs in subsidiaries. In addition, the department responsible for the management of subsidiaries that received reports from Directors or employees of the subsidiary shall report to an Audit and Supervisory Committee.
- 3) Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries may report to an Audit and Supervisory Committee of the Company, if they recognize the necessity.
- 4) An Audit and Supervisory Committee of the Company may directly request reports from Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries, if it recognizes the necessity.
- 5) The Company shall clearly stipulate in the regulations, etc., that employees will not be subject to disadvantageous treatment for their reporting to an Audit and Supervisory Committee.

(8) Matters relating to the procedure for advance payment or redemption of the cost incurred by the execution of duties by Audit and Supervisory Committee Members (limited to that regarding the execution of duties by an Audit and Supervisory Committee), and other policies for treating the costs or liabilities incurred by the execution of the said duties
When Audit and Supervisory Committee Members claim the advance payment of the costs incurred by the execution of their duties or its redemption and others (limited to that regarding the execution of duties by an Audit and Supervisory Committee), the Company shall respond to the said claim without delay.

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

- 1) The Audit and Supervisory Committee shall exchange opinions with Chairman & Chief Executive Officer and President & Chief Operating Officer periodically or whenever necessary.
- 2) The Company shall proactively create opportunities for Audit and Supervisory Committee Members to attend the Management Conference and other important meetings.

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

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

- 1) During the consolidated fiscal year under review, meetings of the Board of Directors were held 16 times, in which the Board determined matters stipulated by laws and regulations and other important matters regarding management including the formulation of the budget. Directors who serve as executive officers concurrently reported on the state of execution of their duties regularly.
 - 2) During the consolidated fiscal year under review, meetings of the Audit and Supervisory Committee were held 13 times to discuss and determine audit policies and audit plans. Full-time Audit and Supervisory Committee Members reported on the state of execution of duties and compliance with laws and regulations by Directors (excluding Directors who are Audit and Supervisory Committee Members), which they understood through attending important internal meetings and auditing the state of duties and properties.
 - 3) With regard to the “SUMCO CHARTER,” which was established as the supreme code of conduct to ensure that the execution of duties by officers and employees complies with laws and regulations and Articles of Incorporation and fulfills social responsibilities, the Company conducted training throughout the Company itself and each subsidiary to familiarize them with the CHARTER. In addition, the Company confirmed the state of compliance in the corporate group as a whole during the consolidated fiscal year under review.
 - 4) The progress of the management of risks that may affect the business continuity of the Company and subsidiaries was confirmed in the “Business Security Committee (BSC)” that supervises all risk management.
 - 5) In order to confirm the initial response system and the communication system in case of a large-scale disaster such as an earthquake, trainings were held at each base based on the respective disaster response manuals.
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Consolidated Statement of Changes in Equity

(From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	138,718	27,463	151,559	(12)	317,729
Cumulative effects of changes in accounting policies			(58)		(58)
Restated balance	138,718	27,463	151,501	(12)	317,671
Changes during period					
Issuance of new shares	60,315	60,315			120,631
Dividends from surplus			(7,553)		(7,553)
Net income attributable to owners of the Parent			41,120		41,120
Repurchase of treasury stock				(2,500)	(2,500)
Cancellation of treasury stock		(2,492)		2,492	—
Other		0			0
Net changes of items other than shareholders' equity					
Total changes during period	60,315	57,822	33,567	(7)	151,698
Balance at end of period	199,034	85,285	185,069	(19)	469,370

	Accumulated other comprehensive income						Non-controlling interests	Total equity
	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Land revaluation surplus	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	0	(0)	2,885	(3,224)	(2,277)	(2,615)	39,888	355,003
Cumulative effects of changes in accounting policies								(58)
Restated balance	0	(0)	2,885	(3,224)	(2,277)	(2,615)	39,888	354,945
Changes during period								
Issuance of new shares								120,631
Dividends from surplus								(7,553)
Net income attributable to owners of the Parent								41,120
Repurchase of treasury stock								(2,500)
Cancellation of treasury stock								—
Other								0
Net changes of items other than shareholders' equity	0	(0)		8,165	1,228	9,393	6,805	16,198
Total changes during period	0	(0)	—	8,165	1,228	9,393	6,805	167,897
Balance at end of period	0	(1)	2,885	4,941	(1,048)	6,778	46,694	522,842

Notes on Consolidated Financial Statements

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

1. Scope of consolidation

(1) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries: 14

Names of major consolidated subsidiaries:

SUMCO TECHXIV CORPORATION

SUMCO Phoenix Corporation

FORMOSA SUMCO TECHNOLOGY CORPORATION

(2) Number and names of non-consolidated subsidiaries

Number of non-consolidated subsidiaries: 3

Name of major non-consolidated subsidiary:

SUMCO Korea Corporation

[Reason for exclusion from the scope of consolidation]

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

2. Application of the equity method

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

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

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

Name of major non-consolidated subsidiary or affiliate:

SUMCO Korea Corporation

[Reason for non-application of the equity method]

The number of non-consolidated subsidiaries and affiliates to which the equity method is not applied is 3. All 3 companies are exempt from application of the equity method as their influences on net income (appropriate amount corresponding to equity ownership) and retained earnings (appropriate amount corresponding to equity ownership) are minor, and basically insignificant as a whole.

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

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

4. Summary of significant accounting policies

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

(a) Marketable securities

Available-for-sale securities

Securities with market value:

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

Securities without market value:

We mainly employ the cost method based on the “moving average cost” method.

(b) Derivatives

We employ the market value method.

(c) Inventories

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

(2) Method of depreciation of major depreciable assets

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

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

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

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

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

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

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

(3) Standard for provision of major allowances

(a) Allowance for doubtful accounts

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

(b) Reserve for bonuses

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

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

(a) Accounting method for deferred assets

Share issuance costs are fully charged to expenses at the time of the expenditure.

(b) Accounting method for retirement benefits

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

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

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

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

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

(c) Standards for recording major revenues and expenses

The Company and its consolidated subsidiaries in Japan have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018), and thereby recognizes revenue when control of promised goods or services has been transferred to customers at the amount expected to be received in exchange for those goods or services.

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

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

(e) Major hedge accounting

(Method of hedge accounting)

Deferred hedge processing is performed.

(Hedging instrument and hedged item)

Currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

(Hedging policy)

Mainly based on our own risk management policy, we hedge against a risk of currency fluctuations. As for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

(Method of assessment of effectiveness of hedges)

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions.

(f) Method and period for amortization of goodwill

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

(g) Accounting for consumption taxes

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

5. Changes in accounting policies

Application of the Accounting Standard for Revenue Recognition, etc.

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018; hereinafter referred to as the “Revenue Recognition Accounting Standard”) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) became applicable from the beginning of a consolidated fiscal year beginning on or before March 31, 2021. In line with this, we applied the Revenue Recognition Accounting Standard, etc. from the beginning of the consolidated fiscal year under review and decided to recognize revenue when control of promised goods or services has been transferred to customers at the amount expected to be received in exchange for those goods or services.

With the exception of consignment goods, the Company and its consolidated subsidiaries in Japan had previously recognized revenue at the time of shipment with regard to domestic sales, and at the time of export clearance as to export sales; however, due to this application, we changed to a method of recognizing revenue at the time when products arrive at customers as to domestic sales, and at the time when products arrive at a point agreed with customers as to export sales, deeming that performance obligations have been fulfilled at these points of time.

As to sales for certain customers, control over assets is transferred to customers over a certain period of time, and therefore we changed to a method of recognizing revenue over a certain period of time according to the progress of manufacturing.

In addition, we had previously applied a method of recording sales commission and other consideration payable to customers as selling, general and administrative expenses; however, we changed to a method of subtracting such consideration from trading prices.

For the application of the Revenue Recognition Accounting Standard, etc., we have followed the transitional treatment prescribed in the provision of Paragraph 84 of the Revenue Recognition Accounting Standard, and the cumulative effect of retrospectively applying the new accounting policies to the periods prior to the beginning of the consolidated fiscal year under review has been added to or subtracted from retained earnings at the beginning of the consolidated fiscal year under review, and the new accounting policies have not been retrospectively applied to the contracts in which almost all revenue was recognized under the previous accounting treatment prior to the beginning of the consolidated fiscal year under review.

Additionally, applying the method stipulated in item (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, modifications to the contracts that had been made prior to the beginning of the consolidated fiscal year under review were accounted for based on terms and conditions that reflect all the modifications, and the resulting cumulative effect is added to or subtracted from retained earnings at the beginning of the consolidated fiscal year under review.

As a result, the impact on retained earnings at the beginning of the consolidated fiscal year under review is not material.

For the consolidated fiscal year under review, the impact of these changes on the consolidated financial statements is not material.

6. Changes to presentations

Application of the Accounting Standard for Disclosure of Accounting Estimates

The “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied beginning from the consolidated financial statements pertaining to the end of the consolidated fiscal year under review, and notes on significant accounting estimates are provided in the consolidated financial statements.

7. Significant accounting estimates

Valuation of polycrystalline silicon

- (1) Amounts recorded in the consolidated financial statements for the consolidated fiscal year under review

(Millions of yen)

	Consolidated fiscal year under review	Polycrystalline silicon inclusive in the left
Raw materials and supplies	134,987	99,551
Advance payments	2,437	2,428
Long-term advance payments	31,082	31,082

With regard to polycrystalline silicon, which is the main raw material of silicon wafers, due to abrupt changes in the market, a disparity existed between the demand forecasts upon entering into long-term purchase contracts and the current consumption forecasts. Consequently, we have held excess inventories.

The inventory balance has been declining since 2017 in step with the production increase at the Company, but it still remains at a high level.

Polycrystalline silicon is a material that does not deteriorate over time due to its very stable physical properties.

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

- (2) Information about the contents of significant accounting estimates for the identified item

For the valuation of inventories, the Group mainly applies the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

For the valuation of polycrystalline silicon that is projected to be held over a long period, due to its limited applications, the Group applies the method of devaluating its book value on a regular basis. Estimated holding period of the said material as of December 31, 2021 was approximately nine years and its book value amounted to 6,411 million yen. In addition, the write-down amount of the said material in the consolidated fiscal year under review is 921 million yen.

The business environment surrounding silicon wafers that the Group manufactures is heavily reliant on the market demand for semiconductor devices. Accordingly, demand for silicon wafers is affected by factors intrinsic to the semiconductor and its peripheral industries, such as rapid progress in technological innovations, obsolescence of products, rapid changes in product mix and declines in product prices.

Demand for semiconductor silicon wafers is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors for 5G, smartphones, data centers and automotive use. Nonetheless, if the net realizable value as of a fiscal year-end has fallen below the book value, or the inventories have become stagnant and obsolete as a result of unexpected decline of market prices, weakening in demand and other factors, loss on valuation of inventories may be recorded.

Recoverability of deferred income tax assets

- (1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

(Millions of yen)

	Consolidated fiscal year under review
Deferred income tax assets	12,500

- (2) Information about the contents of significant accounting estimates for the identified item

In the recording of deferred income tax assets, the Group determines which company category the Company falls into based primarily on the requirements as provided for in ASBJ Guidance No. 26 “Implementation Guidance on Recoverability of Deferred Tax Assets,” and in accordance with this category, determines an amount of deferred income tax assets expected to be recovered.

Recoverability of deferred income tax assets for future deductible temporary differences and tax loss carried forward is recognized to the extent that it is offset against the amount of estimated taxable income before adjustment for temporary differences, etc. based on future earning power and the estimated amount of future taxable temporary differences to be eliminated and that it is considered probable that it reduces the amount of tax burden. In addition, the Company and some of its consolidated subsidiaries filed an approval request for the application of the consolidated taxation system in the consolidated fiscal year under review, and the consolidated taxation system will be applied from the next consolidated fiscal year onward. Accordingly, recoverability of deferred income tax assets for future deductible temporary differences and tax loss carried forward for the consolidated fiscal year under review is calculated assuming that the consolidated taxation system is applied.

The Company and SUMCO TECHXIV CORPORATION, which are consolidated taxable entities, have recorded amounts that are expected to be recovered in the next fiscal year.

Deferred income tax assets as of December 31, 2021 recorded by the Company and SUMCO TECHXIV CORPORATION amounted to 5,928 million yen and 1,064 million yen, respectively.

Future business forecast, which serves as a basis for estimating taxable income before adjustment for temporary differences, etc. based on earning power, is formulated with certain factors taken into account, including the projected sales prices and sales volume in the next fiscal year and the effect of exchange rates. These factors have taken into consideration the trend of semiconductor silicon wafers market and trends in demand of end products, manufacturing capacity and operation rates of each factory, as well as the status of long-term sales contracts signed with customers. With regard to the market environment, which serves as a basis for the business forecast, supply of 300 mm silicon wafers for semiconductor will continue to fall short of demand. For silicon wafers of 200 mm and smaller as well, it is expected that a tight supply-demand situation will continue backed by strong demand.

Impairment loss of non-current assets

- (1) Amounts recorded in the consolidated financial statements for the consolidated fiscal year under review

(Millions of yen)

	Consolidated fiscal year under review
Property, plant and equipment	226,502
Intangible assets	8,655

- (2) Information about the contents of significant accounting estimates for the identified item

The Group groups its property, plant and equipment and intangible assets into the smallest identifiable unit that generates cash flows that are largely independent of cash flows of other assets or other asset groups.

When an indication of impairment of an asset group is identified such as consecutive operating losses, an impairment loss is recognized if the total undiscounted future cash flows estimated to result from the asset group falls below its book value, and the book value is reduced to the recoverable value. Such reduction is recorded as an “impairment loss” under “extraordinary loss” for the fiscal year.

In the calculation of recoverable amounts, as a general rule, a net realizable value is used for idle assets, and the higher of either a value in use or a net realizable value for other assets.

A value in use is a present value calculated by discounting future cash flows with a discount rate. The future cash flows are estimated in light of the current usage status and reasonable plans for the use of each asset or asset group, based on information on external factors such as the business environment and internal information.

The Group determined that there is no indication of impairment loss in the consolidated fiscal year under review.

Demand for silicon wafers for semiconductor is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors for 5G, smartphones, data centers and automotive use. Nonetheless, an impairment loss may be recorded in the event of a substantial decline in operating income due to significant deterioration in the economic environment and others.

8. Additional information

Accounting treatment for the introduction of the consolidated taxation system

The Company and some of its consolidated subsidiaries filed an approval request for the application of the consolidated taxation system in the consolidated fiscal year under review, and the consolidated taxation system will be applied from the next consolidated fiscal year onward. Accordingly, beginning from the consolidated fiscal year under review, accounting treatment is based on the application of the consolidated taxation system, pursuant to the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF No. 5, January 16, 2015) and the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No. 7, January 16, 2015).

The Company and some of its consolidated subsidiaries have calculated the amounts of deferred income tax assets and deferred income tax liabilities in accordance with the provisions of tax laws prior to the amendments based on the treatments stipulated in Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020), instead of applying the provision of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) regarding the transition to group tax sharing system provided for in the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

II. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

960,806 million yen

2. Guarantee obligation

Guarantee for employee borrowings from
financial institution

138 million yen

3. Land revaluation

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

Method of revaluation

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

Date of revaluation:

March 31, 2000

Difference between market value of land at the end of the consolidated fiscal year under review and book value after revaluation:

(3,158) million yen

4. Long- and short-term borrowings

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

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

Long-term debt	2,500 million yen
[Current portion (inclusive in the above)]	[625 million yen]

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

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

Total loan commitment	30,000 million yen
Used commitment	- million yen
Unexecuted loan commitment	30,000 million yen

5. Others

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

III. Notes to Consolidated Statement of Changes in Equity

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

(Shares)

	Number of shares as of the beginning of the consolidated fiscal year under review	Increase during the consolidated fiscal year under review	Decrease during the consolidated fiscal year under review	Number of shares as of the end of the consolidated fiscal year under review
Issued shares				
Common shares (Note 1)	291,181,239	60,000,000	1,006,100	350,175,139
Total	291,181,239	60,000,000	1,006,100	350,175,139
Treasury stock				
Common shares (Note 2)	7,715	1,006,240	1,006,100	7,855
Total	7,715	1,006,240	1,006,100	7,855

(Notes) 1. The 60,000,000-share increase in the number of shares of common issued shares is due to the issuance of new shares through public offering with October 18, 2021 as the payment date. The 1,006,100-share decrease in the number of shares of common issued shares is due to the cancellation of treasury stock by a resolution of the Board of Directors.

2. The 1,006,240-share increase in the number of shares of common treasury stock consists of an increase of 1,006,100 shares due to the repurchase of treasury stock by a resolution of the Board of Directors, and an increase of 140 shares due to the purchase of shares less than one unit. The 1,006,100-share decrease in the number of shares of common treasury stock is due to the cancellation of treasury stock by a resolution of the Board of Directors.

2. Particulars concerning dividends from surplus

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors Meeting on February 19, 2021	Common shares	2,620	9.00	December 31, 2020	March 5, 2021
Board of Directors Meeting on August 5, 2021	Common shares	4,932	17.00	June 30, 2021	September 3, 2021

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

The following proposal will be submitted to the Board of Directors Meeting scheduled for February 21, 2022.

Resolution expected	Dividend resource	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors Meeting on February 21, 2022	Retained earnings	Common shares	8,404	24.00	December 31, 2021	March 9, 2022

IV. Notes Regarding Financial Instruments

1. Status of financial instruments

(1) Policy for measures relating to financial instruments

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

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

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

Basically, notes and accounts payable and accrued income taxes, as well as notes and accounts payable – construction, have due dates arriving within six months.

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

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

(3) Supplementary explanation about fair values of financial instruments

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

2. Fair values of financial instruments

Amounts on consolidated balance sheet and fair values as of December 31, 2021 and the differences between them are as follows.

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

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and time deposits	218,173	218,173	—
(2) Notes and accounts receivable – trade	75,590	75,590	—
(3) Marketable securities and investment securities	6,501	6,501	—
Total assets	300,266	300,266	—
(1) Notes and accounts payable – trade	30,743	30,743	—
(2) Short-term borrowings (*1)	—	—	—
(3) Accrued income taxes	5,244	5,244	—
(4) Notes and accounts payable – construction	17,451	17,451	—
(5) Long-term debt (*1)	140,883	140,978	94
(6) Lease obligations	183	183	—
Total liabilities	194,506	194,601	94
Derivative transactions (*2)			
(i) Those to which hedge accounting is not applied	(406)	(406)	—
(ii) Those to which hedge accounting is applied	(1)	(1)	—
Total derivative transactions	(407)	(407)	—

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

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

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

Assets

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

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

(3) Marketable securities and investment securities

Marketable securities consist of negotiable certificates of deposit. Because their settlement periods are short and their fair values are almost the same as their book values, the relevant book values are used.

Investment securities consist of stocks. Their fair values are based on the prices on stock exchanges.

Liabilities

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

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

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

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

Derivative transactions

Currency forward contracts are used for currency-related transactions.

The fair value of derivatives is based on the assessed value presented to the Company by counterparty financial institutions.

2. Because unlisted stocks, etc. (amount on consolidated balance sheet: 86 million yen) have no market prices and their fair values are deemed to be extremely difficult to determine, the amount is not included in "Assets (3) Marketable securities and investment securities."

V. 'Per Share' Information

- | | |
|--------------------------|--------------|
| 1. Net assets per share: | 1,359.77 yen |
| 2. Net income per share: | 135.86 yen |

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

Net income attributable to owners of the Parent (millions of yen)	41,120
Average number of common shares outstanding during the period (shares)	302,673,480

VI. Notes to Revenue Recognition

The main business of the Group is the manufacture and sales of silicon wafers for semiconductor manufacturers. With regard to the sales of products, the Group mainly recognizes revenue at the time when products arrive at customers for domestic sales, at the time when products arrive at a point agreed with customers for export sales, and at the time of the acceptance by customers for sales of consignment goods, deeming that performance obligations have been fulfilled at these points of time.

As to sales for certain customers, control over assets is transferred to customers over a certain period of time, and therefore the Group recognizes revenue over a certain period of time according to the progress of manufacturing.

Non-consolidated Statement of Changes in Equity

(From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Capital reserve	Other capital surplus	Total capital surplus	Retained earnings reserve	Other retained earnings Retained earnings carried forward	Total retained earnings		
Balance at beginning of period	138,718	3,611	16,472	20,084	5,578	105,123	110,701	(12)	269,492
Cumulative effects of changes in accounting policies						(278)	(278)		(278)
Restated balance	138,718	3,611	16,472	20,084	5,578	104,845	110,423	(12)	269,214
Changes during period									
Issuance of new shares	60,315	60,315		60,315					120,631
Accumulation of retained earnings reserve					755	(755)	—		—
Dividends from surplus						(7,553)	(7,553)		(7,553)
Net income						40,471	40,471		40,471
Repurchase of treasury stock								(2,500)	(2,500)
Cancellation of treasury stock			(2,492)	(2,492)				2,492	—
Net changes of items other than shareholders' equity									
Total changes during period	60,315	60,315	(2,492)	57,822	755	32,163	32,918	(7)	151,049
Balance at end of period	199,034	63,927	13,979	77,906	6,333	137,008	143,341	(19)	420,263

	Variance of valuation/translation, etc.			Total equity
	Deferred gain (loss) on derivatives under hedge accounting	Land revaluation surplus	Total variance of valuation/translation, etc.	
Balance at beginning of period	(0)	2,885	2,885	272,378
Cumulative effects of changes in accounting policies				(278)
Restated balance	(0)	2,885	2,885	272,100
Changes during period				
Issuance of new shares				120,631
Accumulation of retained earnings reserve				—
Dividends from surplus				(7,553)
Net income				40,471
Repurchase of treasury stock				(2,500)
Cancellation of treasury stock				—
Net changes of items other than shareholders' equity	(0)		(0)	(0)
Total changes during period	(0)	—	(0)	151,048
Balance at end of period	(1)	2,885	2,884	423,148

Notes on Non-Consolidated Financial Statements

I. Notes on Major Accounting Policies

1. Standards for and method of evaluation of assets

(1) Marketable securities

(a) Stocks of subsidiaries and affiliates

We employ the cost method based on the “moving average cost” method.

(b) Available-for-sale securities

Securities with market value:

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

Securities without market value:

We employ the cost method based on the “moving average cost” method.

(2) Derivatives

We employ the market value method.

(3) Inventories

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

2. Method of depreciation of non-current assets

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

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

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

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

Software

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

Other intangible assets

We employ the straight-line method.

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

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

3. Standard for provision of allowances

(1) Allowance for doubtful accounts

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

(2) Reserve for bonuses

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

(3) Liability for retirement benefits

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

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

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

4. Standards for recording revenue and expenses

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018), and thereby recognizes revenue when control of promised goods or services has been transferred to customers at the amount expected to be received in exchange for those goods or services.

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

(1) Accounting method for deferred assets

Share issuance costs are fully charged to expenses at the time of the expenditure.

(2) Hedge accounting

(Method of hedge accounting)

Deferred hedge processing is performed.

(Hedging instrument and hedged item)

Currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

(Hedging policy)

Based on our own risk management policy, we hedge against a risk of currency fluctuations. As for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

(Method of assessment of effectiveness of hedges)

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions.

(3) Accounting for retirement benefits

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

(4) Accounting for consumption taxes

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

6. Changes in accounting policies

Application of the Accounting Standard for Revenue Recognition, etc.

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018; hereinafter referred to as the “Revenue Recognition Accounting Standard”) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) became applicable from the beginning of a business year beginning on or before March 31, 2021. In line with this, we applied the Revenue Recognition Accounting Standard, etc. from the beginning of the business year under review and decided to recognize revenue when control of promised goods or services has been transferred to customers at the amount expected to be received in exchange for those goods or services.

With the exception of consignment goods, the Company had previously recognized revenue at the time of shipment with regard to domestic sales, and at the time of export clearance as to export sales; however, due to this application, we changed to a method of recognizing revenue at the time when products arrive at customers as to domestic sales, and at the time when products arrive at a point agreed with customers as to export sales, deeming that performance obligations have been fulfilled at these points of time.

As to sales for certain customers, control over assets is transferred to customers over a certain period of time, and therefore we changed to a method of recognizing revenue over a certain period of time according to the progress of manufacturing.

In addition, we had previously applied a method of recording sales commission and other consideration payable to customers as selling, general and administrative expenses; however, we changed to a method of subtracting such consideration from trading prices.

For the application of the Revenue Recognition Accounting Standard, etc., we have followed the transitional treatment prescribed in the provision of Paragraph 84 of the Revenue Recognition Accounting Standard, and the cumulative effect of retrospectively applying the new accounting policies to the periods prior to the beginning of the business year under review has been added to or subtracted from retained earnings at the beginning of the business year under review, and the new accounting policies have not been retrospectively applied to the contracts in which almost all revenue was recognized under the previous accounting treatment prior to the beginning of the business year under review.

Additionally, applying the method stipulated in item (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, modifications to the contracts that had been made prior to the beginning of the business year under review were accounted for based on terms and conditions that reflect all the modifications, and the resulting cumulative effect is added to or subtracted from retained earnings at the beginning of the business year under review.

As a result, the impact on retained earnings at the beginning of the business year under review is not material.

For the business year under review, the impact of these changes on the non-consolidated financial statements is not material.

In addition, “Advances received” recorded up until the previous business year are classified as “Contractual liabilities” from the business year under review, and are now included in “Other” under current liabilities.

7. Changes to presentations

Application of the Accounting Standard for Disclosure of Accounting Estimates

The “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied beginning from the non-consolidated financial statements pertaining to the end of the business year under review, and notes on significant accounting estimates are provided in the non-consolidated financial statements.

Non-consolidated statement of income

Since the materiality of “Subsidy income” that had been included in “Other” under non-operating income on the non-consolidated statement of income for the previous business year increased in the business year under review, it is now presented separately.

Please note that “Subsidy income” included in “Other” in the previous business year is 63 million yen.

8. Significant accounting estimates

Valuation of polycrystalline silicon

(1) Amounts recorded in the non-consolidated financial statements for the business year under review

(Millions of yen)

	Business year under review	Polycrystalline silicon inclusive in the left
Raw materials and supplies	112,530	93,443
Advance payments	2,428	2,428
Long-term advance payments	31,082	31,082

With regard to polycrystalline silicon, which is the main raw material of silicon wafers, due to abrupt changes in the market, a disparity existed between the demand forecasts upon entering into long-term purchase contracts and the current consumption forecasts. Consequently, we have held excess inventories.

The inventory balance has been declining since 2017 in step with the production increase at the Company, but it still remains at a high level.

Polycrystalline silicon is a material that does not deteriorate over time due to its very stable physical properties.

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

(2) Information about the contents of significant accounting estimates for the identified item

For the valuation of inventories, the Company mainly applies the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

For the valuation of polycrystalline silicon that is projected to be held over a long period, due to its limited applications, the Company applies the method of devaluating its book value on a regular basis. Estimated holding period of the said material as of December 31, 2021 was approximately nine years and its book value amounted to 6,411 million yen. In addition, the write-down amount of the said material in the business year under review is 921 million yen.

The business environment surrounding silicon wafers that the Company manufactures is heavily reliant on the market demand for semiconductor devices. Accordingly, demand for silicon wafers is affected by factors intrinsic to the semiconductor and its peripheral industries, such as rapid progress in technological innovations, obsolescence of products, rapid changes in product mix and declines in product prices.

Demand for semiconductor silicon wafers is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors for 5G, smartphones, data centers and automotive use. Nonetheless, if the net realizable value as of a fiscal year-end has fallen below the book value, or the inventories have become stagnant and obsolete as a result of unexpected decline of market prices, weakening in demand and other factors, loss on valuation of inventories may be recorded.

Recoverability of deferred income tax assets

- (1) Amount recorded in the non-consolidated financial statements for the business year under review

(Millions of yen)

	Business year under review
Deferred income tax assets	5,928

- (2) Information about the contents of significant accounting estimates for the identified item

In the recording of deferred income tax assets, the Company determines which company category the Company falls into based primarily on the requirements as provided for in ASBJ Guidance No. 26 “Implementation Guidance on Recoverability of Deferred Tax Assets,” and in accordance with this category, determines an amount of deferred income tax assets expected to be recovered.

Recoverability of deferred income tax assets for future deductible temporary differences and tax loss carried forward is recognized to the extent that it is offset against the amount of estimated taxable income before adjustment for temporary differences, etc. based on future earning power and the estimated amount of future taxable temporary differences to be eliminated and that it is considered probable that it reduces the amount of tax burden. In addition, the Company filed an approval request for the application of the consolidated taxation system in the business year under review, and the consolidated taxation system will be applied from the next business year onward. Accordingly, recoverability of deferred income tax assets for future deductible temporary differences and tax loss carried forward for the business year under review is calculated assuming that the consolidated taxation system is applied.

The Company has recorded an amount that is expected to be recovered in the next business year.

Future business forecast, which serves as a basis for estimating taxable income before adjustment for temporary differences, etc. based on earning power, is formulated with certain factors taken into account, including the projected sales prices and sales volume in the next business year and the effect of exchange rates. These factors have taken into consideration the trend of semiconductor silicon wafers market and trends in demand of end products, manufacturing capacity and operation rates of each factory, as well as the status of long-term sales contracts signed with customers. With regard to the market environment, which serves as a basis for the business forecast, supply of 300 mm silicon wafers for semiconductor will continue to fall short of demand. For silicon wafers of 200 mm and smaller as well, it is expected that a tight supply-demand situation will continue backed by strong demand.

Impairment loss of non-current assets

- (1) Amounts recorded in the non-consolidated financial statements for the business year under review

(Millions of yen)

	Business year under review
Property, plant and equipment	163,037
Intangible assets	6,667

- (2) Information about the contents of significant accounting estimates for the identified item

The Company groups its property, plant and equipment and intangible assets into the smallest identifiable unit that generates cash flows that are largely independent of cash flows of other assets or other asset groups.

When an indication of impairment of an asset group is identified such as consecutive operating losses, an impairment loss is recognized if the total undiscounted future cash flows estimated to result from the asset group falls below its book value, and the book value is reduced to the recoverable value. Such reduction is recorded as an “impairment loss” under “extraordinary loss” for the business year.

In the calculation of recoverable amounts, as a general rule, a net realizable value is used for idle assets, and the higher of either a value in use or a net realizable value for other assets.

A value in use is a present value calculated by discounting future cash flows with a discount rate. The future cash flows are estimated in light of the current usage status and reasonable plans for the use of each asset or asset group, based on information on external factors such as the business environment and internal information.

The Company determined that there is no indication of impairment loss in the business year under review.

Demand for silicon wafers for semiconductor is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors for 5G, smartphones, data centers and automotive use. Nonetheless, an impairment loss may be recorded in the event of a substantial decline in operating income due to significant deterioration in the economic environment and others.

9. Additional information

Accounting treatment for the introduction of the consolidated taxation system

The Company filed an approval request for the application of the consolidated taxation system in the business year under review, and the consolidated taxation system will be applied from the next business year onward. Accordingly, beginning from the business year under review, accounting treatment is based on the application of the consolidated taxation system, pursuant to the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF No. 5, January 16, 2015) and the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No. 7, January 16, 2015).

The Company has calculated the amounts of deferred income tax assets and deferred income tax liabilities in accordance with the provisions of tax laws prior to the amendments based on the treatments stipulated in Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020), instead of applying the provision of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) regarding the transition to group tax sharing system provided for in the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

II. Notes to Non-consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

574,765 million yen

2. Guarantee obligation

Guarantee for employee borrowings from
financial institution 138 million yen

3. Accounts receivable from and payable to subsidiaries and affiliates

Short-term accounts receivable 39,178 million yen
Long-term accounts receivable 26,041 million yen
Short-term accounts payable 55,407 million yen

4. Land revaluation

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

Method of revaluation:

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

Date of revaluation: March 31, 2000

Difference between market value of land at the end of the business year under review and book value after revaluation: (3,158) million yen

5. Long- and short-term borrowings

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

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

Long-term debt 2,500 million yen
[Current portion (inclusive in the above)] [625 million yen]

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

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

Total loan commitment 30,000 million yen
Used commitment – million yen

Unexecuted loan commitment 30,000 million yen

6. Others

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

III. Notes to Non-consolidated Statement of Income

1. Volume of transactions with subsidiaries and affiliates

Amount of sales	55,784 million yen
Amount of purchase	79,185 million yen
Transactions other than operational transactions	13,978 million yen

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

Class and total number of shares of treasury stock

	(Shares)			
	Number of shares as of the beginning of the business year under review	Increase during the business year under review	Decrease during the business year under review	Number of shares as of the end of business year under review
Treasury stock				
Common shares (Note)	7,715	1,006,240	1,006,100	7,855
Total	7,715	1,006,240	1,006,100	7,855

(Note) The 1,006,240-share increase in the number of shares of common treasury stock consists of an increase of 1,006,100 shares due to the repurchase of treasury stock by a resolution of the Board of Directors, and an increase of 140 shares due to the purchase of shares less than one unit. The 1,006,100-share decrease in the number of shares of common treasury stock is due to the cancellation of treasury stock by a resolution of the Board of Directors.

V. Notes Regarding Deferred Tax Accounting

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

Deferred income tax assets

Stocks of subsidiaries and affiliates	26,111 million yen
Loss carried forward (Note) 2	5,497 million yen
Liability for retirement benefits	3,797 million yen
Non-current assets	1,719 million yen
Inventories	1,083 million yen
Other	1,617 million yen
Subtotal deferred income tax assets	39,828 million yen
Valuation allowance for tax loss carried forward (Note) 2	(598) million yen
Valuation allowance for the total of future deductible temporary differences, etc.	(32,971) million yen
Subtotal valuation allowance (Note) 1	(33,570) million yen
Total deferred income tax assets	6,257 million yen

Deferred income tax liabilities

Prepaid pension cost	(211) million yen
Non-current assets	(117) million yen
Total deferred income tax liabilities	(329) million yen

Net deferred income tax assets 5,928 million yen

Deferred income tax liabilities for land revaluation reserve (1,342) million yen

(Note) 1. Compared with the previous business year-end, valuation allowance has decreased by 8,082 million yen. The principal factors for the decrease are use and expiration of tax loss carried forward and review of recoverability.

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

Business year under review (as of December 31, 2021)

(Millions of yen)

	Within 1 year	Over 1 year, within 2 years	Over 2 years, within 3 years	Over 3 years, within 4 years	Over 4 years, within 5 years	Over 5 years	Total
Tax loss carried forward (*1)	4,689	662	—	145	—	—	5,497
Valuation allowance	—	(453)	—	(145)	—	—	(598)
Deferred income tax assets	4,689	209	—	—	—	—	(*2) 4,898

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

(*2) Deferred income tax assets of 4,898 million yen were recorded for tax loss carried forward of 5,497 million yen (amount multiplied by the effective statutory tax rate). For the said tax loss carried forward, valuation allowance is not recognized for the portion that is deemed to be collectible based on projected future taxable income, etc.

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

Effective statutory tax rate	30.4 %
(Adjustment)	
Valuation allowance	(17.0) %
Exclusion of dividends received from gross profits	(9.2) %
Tax deductions on experimental and research expenses	(1.7) %
Other	0.6 %
<hr/>	
Actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting	3.1 %

VI. Note Regarding Related Party Transactions

Subsidiaries

Category	Company name	Voting interest (%)	Relationship with the party	Transaction contents	Transaction amount (millions of yen)	Account title	Balance at end of business year (millions of yen)
Subsidiary	SUMCO TECHXIV CORPORATION	100 (direct ownership)	Manufacturer of products, etc.	Purchase of products	68,017	Accounts payable	21,289
				Receipt of dividends	10,328	–	–
						Short-term loans	13,186
				Lending of funds	5,798	Long-term loans receivable from subsidiaries and affiliates (current portion)	32,025 (6,030)
			Borrowing of funds	278	Short-term borrowings	10,655	
Subsidiary	SUMCO Phoenix Corporation	100 (direct ownership)	Sales destination of products, etc.	Borrowing of funds	1,133	Short-term borrowings	15,757
Subsidiary	SUMCO Europe Sales Plc	100 (direct ownership)	Sales destination of products, etc.	Sales of products	20,807	Accounts receivable	7,439

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

VII. 'Per Share' Information

- | | |
|--------------------------|--------------|
| 1. Net assets per share: | 1,208.42 yen |
| 2. Net income per share: | 133.72 yen |

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

Net income (millions of yen)	40,471
Average number of common shares outstanding during the period (shares)	302,673,480

VIII. Notes to Revenue Recognition

The main business of the Company is the manufacture and sales of silicon wafers for semiconductor manufacturers. With regard to the sales of products, the Company mainly recognizes revenue at the time when products arrive at customers for domestic sales, at the time when products arrive at a point agreed with customers for export sales, and at the time of the acceptance by customers for sales of consignment goods, deeming that performance obligations have been fulfilled at these points of time.

As to sales for certain customers, control over assets is transferred to customers over a certain period of time, and therefore the Company recognizes revenue over a certain period of time according to the progress of manufacturing.