

Dear Shareholders,

Other Matters Provided Electronically for
the 24th Ordinary General Meeting of Shareholders
(Information Omitted from Written Documents Delivered)

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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 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.

Consolidated Statement of Changes in Equity

(From January 1, 2022 to December 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	199,034	85,285	185,069	(19)	469,370
Cumulative effects of changes in accounting policies			54		54
Restated balance	199,034	85,285	185,123	(19)	469,424
Changes during period					
Dividends from surplus			(21,010)		(21,010)
Net income attributable to owners of the Parent			70,205		70,205
Repurchase of treasury stock				(0)	(0)
Other		0			0
Net changes of items other than shareholders' equity					
Total changes during period	—	0	49,195	(0)	49,195
Balance at end of period	199,034	85,285	234,319	(19)	518,620

	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	(1)	2,885	4,941	(1,048)	6,778	46,694	522,842
Cumulative effects of changes in accounting policies								54
Restated balance	0	(1)	2,885	4,941	(1,048)	6,778	46,694	522,896
Changes during period								
Dividends from surplus								(21,010)
Net income attributable to owners of the Parent								70,205
Repurchase of treasury stock								(0)
Other								0
Net changes of items other than shareholders' equity	(0)	962		6,850	341	8,154	11,237	19,391
Total changes during period	(0)	962	—	6,850	341	8,154	11,237	68,587
Balance at end of period	0	961	2,885	11,792	(706)	14,932	57,931	591,484

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 other than shares, etc. that do not have a market price:

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).

Shares, etc. that do not have a market price:

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

(b) Derivatives

We employ the market value method.

(c) Inventories

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

(2) Method of depreciation of major depreciable assets

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

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

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

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

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

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

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

(3) Standard for provision of major allowances

(a) Allowance for doubtful accounts

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

(b) Reserve for bonuses

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

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

(a) Accounting method for retirement benefits

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

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

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

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

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

(b) Standards for 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 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021), 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.

(c) 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.

(d) 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.

(e) Method and period for amortization of goodwill

Goodwill is evenly amortized over a period of 15 years.

(f) Application of the consolidated taxation system

Starting from the consolidated fiscal year under review, the Company and some of its consolidated subsidiaries have applied the consolidated taxation system.

5. Changes in accounting policies

Application of Accounting Standard for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019; hereinafter, “Fair Value Measurement Standard”), etc. have been applied from the beginning of the consolidated fiscal year under review. The new accounting policies stipulated in the Fair Value Measurement Standard and its implementation guidance will be applied prospectively in accordance with the transitional procedure stipulated in paragraph 19 of the Fair Value Measurement Standard and in paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019). This change has no impact on the consolidated financial statements.

In addition, notes on items such as breakdown of fair value of financial instruments by level will be provided in “IV. Notes Regarding Financial Instruments.”

Application of lease accounting standard ASC 842 of the U.S. Financial Accounting Standards Board (FASB)

Overseas subsidiaries adopting the US-GAAP accounting standard began to apply lease accounting standard ASC 842 from the consolidated fiscal year under review.

With this change, if an overseas subsidiary leases assets (lessee), in principle all the leases must be represented on the balance sheet as a liability and as a right-of-use asset.

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing on the starting date of application the cumulative effects of applying this standard.

As a result, as of the start of the consolidated fiscal year under review, right-of-use assets are presented as “Other” under “Property, plant and equipment” and lease liabilities are presented as “Other” under “Current liabilities” and “Other” under “Long-term liabilities”; accordingly, the impact on retained earnings balance at the beginning of the current fiscal year is not material.

The impact on the consolidated statement of income in the consolidated fiscal year under review is not material.

6. Changes to presentations

Application of the Accounting Standard for Revenue Recognition, etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the consolidated fiscal year under review. The Revenue Recognition Standard published on March 30, 2018 has been applied since the beginning of the fiscal year ended December 31, 2021.

Due to the application of the Revenue Recognition Standard, etc. “Contract assets,” which was included in “Other” under current assets in the consolidated balance sheet for the previous consolidated fiscal year, is now included in “Notes and accounts receivable - trade, and contract assets” in the consolidated balance sheet for the consolidated fiscal year under review.

Consolidated statement of income

- (1) Since the materiality of “Commission expenses” (8 million yen in the previous consolidated fiscal year) that had been included in “Other” under “Non-operating expenses” in the previous consolidated fiscal year increased, it is presented separately in the consolidated fiscal year under review.
- (2) Since the materiality of “Subsidy income” (12 million yen in the consolidated fiscal year under review) that had been presented separately under “Non-operating income” in the previous consolidated fiscal year decreased, it is included in “Other” in the consolidated fiscal year under review.

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	135,461	90,770
Advance payments	2,593	2,557
Long-term advance payments	28,525	28,525

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.)

Regarding polycrystalline silicon, stated, in the previous consolidated fiscal year, in “7. Significant accounting estimates, Valuation of polycrystalline silicon” under “Notes on Consolidated Financial Statements, I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc.” that the method of devaluating its book value on a regular basis was applied based on the projection that it would be held over a long period due to its limited application, its importance has, however, diminished after selling most of the relevant inventory during the consolidated fiscal year under review.

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 mainly for automotive use and data centers application. 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	8,333

- (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. With respect to the transition to the group tax sharing system established by the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8, 2020), the Company and some of its consolidated subsidiaries submitted notice to the competent district director of tax office that they will not transition to the group tax sharing system during the consolidated fiscal year under review, and will transition to a non-consolidated taxation system from the following consolidated fiscal year. 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 non-consolidated taxation system is applied.

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

Deferred income tax assets as of December 31, 2022 recorded by the Company and SUMCO TECHXIV CORPORATION amounted to 1,534 million yen and 961 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, the 300mm semiconductor silicon wafer market is expected to see inventory adjustments for memory applications due to weakening demand in the PC and smartphone end-product markets. Varying demand is forecast for logic applications depending on the customer, but the correction phase is expected to be relatively short. Meanwhile, solid demand is forecast to continue for automotive and industrial applications.

In the 200 mm wafer market, weak demand is seen for smartphone use, etc., but strong automotive and industrial use demand is forecast. For wafers of 150mm and smaller, a correction phase is expected to continue, mainly for consumer needs.

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	300,371
Intangible assets	8,235

- (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 semiconductor silicon wafers is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors mainly for automotive use and data centers application. 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

Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Non-consolidated Taxation System

With respect to the transition to the group tax sharing system established by the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8, 2020), the Company and some of its consolidated subsidiaries submitted notice to the competent district director of tax office that they will not transition to the group tax sharing system during the consolidated fiscal year under review, and will transit to a non-consolidated taxation system from the following consolidated fiscal year.

Accordingly, in accordance with the treatments stipulated in Paragraph 33 of the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), tax effect accounting is applied to the consolidated financial statements for the end of the consolidated fiscal year under review on the assumption that the non-consolidated taxation system will be applied from the following consolidated fiscal year.

Corporate merger by acquisition

The Company has approved a resolution at the Board of Directors meeting held on October 28, 2022 to acquire the semiconductor polysilicon business of Mitsubishi Materials Corporation (hereinafter, "Mitsubishi Materials").

A new company established by Mitsubishi Materials (High-Purity Silicon Corporation; hereinafter, "High-Purity Silicon") will assume the semiconductor polysilicon business of Mitsubishi Materials, along with the shares held by Mitsubishi Materials in Mitsubishi Polycrystalline Silicon America Corporation (hereinafter, "Mitsubishi Polysilicon America") and in NIPPON AEROSIL CO., LTD. (hereinafter, "Nippon Aerosil"), after which SUMCO will acquire the shares of High-Purity Silicon.

The share transfers are scheduled to take place on March 31, 2023. Assuming the share transfers take place, from that day High-Purity Silicon and Mitsubishi Polysilicon America will become consolidated subsidiaries of the Company, and Nippon Aerosil will become an equity method affiliate.

(1) Overview of the corporate merger

- 1) Names of the acquired companies and their main business operations
 - a) Name: High-Purity Silicon Corporation
Main business operations: Manufacturing and sale of semiconductor polysilicon, silicon tetrachloride, trichlorosilane, dichlorosilane, and other related products
 - b) Name: Mitsubishi Polycrystalline Silicon America Corporation
*To be renamed to High-Purity Silicon America Corporation following acquisition
Main business operations: Manufacturing and sale of semiconductor polysilicon, silicon tetrachloride, trichlorosilane, and other related products
- 2) Main reasons for the corporate merger
For the Company, semiconductor polysilicon and trichlorosilane are key raw materials essential for manufacturing silicon wafers. By acquiring the capability for developing and manufacturing these in the SUMCO Group, we will become able to carry out total manufacturing from raw materials to the final silicon wafer products, which we have determined will contribute toward raising the corporate value of the Group in the future.
- 3) Date of the corporate merger
March 31, 2023 (planned)
- 4) Legal form of corporate merger
Acquisition of shares in exchange for cash
- 5) Company name after the merger
No change
- 6) Share of voting rights to be acquired
100%
- 7) Grounds for determining acquired company
The Company is acquiring the acquired company's shares in exchange for cash.

- (2) Acquisition price of the acquired companies and breakdown by consideration type
The acquisition price and consideration are not made public due to confidentiality obligations in the contract between the parties.
- (3) Description and amount of major acquisition-related expenses
Advisory costs, etc. (approximate sum) 400 million yen
- (4) Amount of goodwill to be accrued, reason for accrual, amortization method and amortization period
These have not been determined at the present time.
- (5) Amounts of assets and debts assumed on the day of the corporate merger, and main breakdown
These have not been determined at the present time.

II. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

1,020,540 million yen

2. Guarantee obligation

Guarantee for employee borrowings from
financial institution

89 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: (3,170) 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	1,875 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
<hr/>	
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	350,175,139	—	—	350,175,139
Total	350,175,139	—	—	350,175,139
Treasury stock				
Common shares (Note)	7,855	85	—	7,940
Total	7,855	85	—	7,940

(Note) The increase of 85 shares in the number of common treasury stock is due to the purchase of shares less than one unit.

2. Particulars concerning dividends from surplus

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors Meeting on February 21, 2022	Common shares	8,404	24.00	December 31, 2021	March 9, 2022
Board of Directors Meeting on August 4, 2022	Common shares	12,606	36.00	June 30, 2022	September 2, 2022

(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, 2023.

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, 2023	Retained earnings	Common shares	15,757	45.00	December 31, 2022	March 9, 2023

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 “I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc., 4. Summary of significant accounting policies, (4) Other important matters for the preparation of consolidated financial statements, (d) Major hedge accounting.”

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

Because estimations of the fair values of financial instruments incorporate variable 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, 2022 and the differences between them are as follows.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
Long-term debt (*2)	141,049	140,729	(320)
Total liabilities	141,049	140,729	(320)
Derivative transactions (*3)			
(i) Those to which hedge accounting is not applied	2,443	2,443	—
(ii) Those to which hedge accounting is applied	1,380	1,380	—
Total derivative transactions	3,824	3,824	—

(*1) “Cash and time deposits” are omitted because they are cash, and “Notes and accounts receivable – trade,” “Marketable securities,” “Notes and accounts payable – trade,” “Short-term borrowings,” “Accrued income taxes,” and “Notes and accounts payable – construction” are omitted because they are settled in short periods and their fair values approximate their book value.

(*2) Current portion of long-term debt is included in Long-term debt.

(*3) 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.

(*4) Stocks, etc. without a market price are not included in the table above. The amount on the consolidated balance sheet of the relevant financial instruments is as follows.

Category	Consolidated balance sheet amount (millions of yen)
Unlisted stocks, etc.	87

3. Breakdown of fair value of financial instruments by level

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure the fair value.

Level 1 fair value: Fair value calculated based on (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 fair value: Fair value calculated using directly or indirectly observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value calculated using important and unobservable inputs

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified to the level with the lowest priority in the calculation of fair value among the levels to which each of those inputs belongs.

(1) Financial assets and financial liabilities stated on the consolidated balance sheet at fair value

Category	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative transactions currency-related	—	3,824	—	3,824
Total assets	—	3,824	—	3,824

(2) Financial assets and financial liabilities not stated on the consolidated balance sheet at fair value

Category	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term debt	—	140,729	—	140,729
Total liabilities	—	140,729	—	140,729

(Notes) Explanations of the evaluation techniques and inputs used to calculate fair value

Derivative transactions

The fair value of currency forward contracts is calculated using the discounted cash flow method based on observable inputs, such as interest rates and exchange rates, and is classified as Level 2.

Long-term debt

The fair value is calculated using the discounted cash flow method, taking into consideration the sum of principal and interest, the residual period of the liability in question and the credit risk, and is classified as Level 2 fair value.

V. Notes to Revenue Recognition

1. Disaggregation of revenue from contracts with customers

(Millions of yen)

Japan	USA	China	Taiwan	South Korea	Europe and other	Total
85,628	45,226	71,819	136,960	49,487	51,962	441,083

(Note) Net sales are based on the customer's location and categorized by country or region.

2. Basic information for understanding revenue

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.

The consideration for the transactions is generally received within five months of the fulfillment of performance obligations.

3. Information for understanding the amounts of revenue for the consolidated fiscal year under review and next consolidated fiscal years

(1) Contract asset and contract liability balances, etc.

(Millions of yen)

	Consolidated fiscal year under review
Receivables from contracts with customers (beginning balance)	75,590
Receivables from contracts with customers (ending balance)	89,741
Contractual assets (beginning balance)	306
Contractual assets (ending balance)	250
Contractual liabilities (beginning balance)	1,083
Contractual liabilities (ending balance)	25,046

Contract assets relate to the right of the Group to consideration for performance obligations that have been completed but for which an invoice has not yet been issued as of the end of the fiscal period for sales contracts with certain customers. Once the Group has an unconditional right to consideration, it reclassifies contract assets to receivables from contracts with customers.

Contractual liabilities relate to the advances received from customers before the fulfillment of performance obligations, with respect to the sales contracts with said customers. Contractual liabilities are reversed as revenue is recognized. Revenue recognized in the consolidated fiscal year under review that was included in the contractual liability balance as of the beginning of the period was 1,083 million yen. Contractual liabilities in the consolidated fiscal year under review increased mainly because the advances (increase in contractual liabilities) were received by some consolidated subsidiaries due to the conclusion of long-term sales contracts during the consolidated fiscal year under review.

Receivables from contracts with customers and contract assets have been included under “Notes and accounts receivable - trade, and contract assets” on the consolidated balance sheet. In addition, contractual liabilities have been included in “Other” under Current liabilities.

(2) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to unfulfilled performance obligations for the consolidated fiscal year under review amounts to 25,029 million yen. This amount is expected to be recognized as revenue within five years from the next consolidated fiscal year under review.

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations, and does not include in the notes contracts with an original expected duration of one year or less.

VI. ‘Per Share’ Information

1. Net assets per share: 1,523.71 yen
2. Net income per share: 200.49 yen

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

Net income attributable to owners of the Parent (millions of yen)	70,205
Average number of common shares outstanding during the period (shares)	350,167,239

Non-consolidated Statement of Changes in Equity

(From January 1, 2022 to December 31, 2022)

(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	199,034	63,927	13,979	77,906	6,333	137,008	143,341	(19)	420,263
Changes during period									
Dividends from surplus						(21,010)	(21,010)		(21,010)
Net income						60,010	60,010		60,010
Repurchase of treasury stock								(0)	(0)
Net changes of items other than shareholders' equity									
Total changes during period	—	—	—	—	—	39,000	39,000	(0)	39,000
Balance at end of period	199,034	63,927	13,979	77,906	6,333	176,008	182,342	(19)	459,264

	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	(1)	2,885	2,884	423,148
Changes during period				
Dividends from surplus				(21,010)
Net income				60,010
Repurchase of treasury stock				(0)
Net changes of items other than shareholders' equity	962		962	962
Total changes during period	962	—	962	39,962
Balance at end of period	961	2,885	3,847	463,111

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 other than shares, etc. that do not have a market price:

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).

Shares, etc. that do not have a market price:

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 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021), 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) 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.

(2) Accounting for retirement benefits

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

(3) Application of the consolidated taxation system

Starting from the business year under review, the Company has applied the consolidated taxation system.

6. Changes in accounting policies

Application of Accounting Standard for Fair Value Measurement

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019; hereinafter, “Fair Value Measurement Standard”), etc. have been applied from the beginning of the business year under review. The new accounting policies stipulated in the Fair Value Measurement Standard and its implementation guidance will be applied prospectively in accordance with the transitional procedure stipulated in paragraph 19 of the Fair Value Measurement Standard and in paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019). This change has no impact on the non-consolidated financial statements.

7. Changes to presentations

Non-consolidated statement of income

- (1) Since the materiality of “Royalty income” (967 million yen in the previous business year) that had been included in “Other” under “Non-operating income” in the previous business year increased in the business year under review, it is now presented separately in the business year under review.
- (2) Since the materiality of “Subsidy income” (3 million yen in the business year under review) that had been presented separately under “Non-operating income” in the previous business year decreased, it is included in “Other” in the business year under review.

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	108,687	83,486
Advance payments	2,557	2,557
Long-term advance payments	28,525	28,525

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.)

Regarding polycrystalline silicon, stated, in the previous business year, in “8. Significant accounting estimates, Valuation of polycrystalline silicon” under “Notes on Non-Consolidated Financial Statements, I. Notes on Major Accounting Policies” that the method of devaluating its

book value on a regular basis was applied based on the projection that it would be held over a long period due to its limited application, its importance has, however, diminished after selling most of the relevant inventory during the business year under review.

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 mainly for automotive use and data centers application. 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	1,534

- (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 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. With respect to the transition to the group tax sharing system established by the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8, 2020), the Company submitted notice to the competent district director of tax office that it will not transition to the group tax sharing system during the business year under review, and will transition to a non-consolidated taxation system from the following business year. 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 non-consolidated taxation system is applied.

The Company has recorded amounts that are expected to be recovered in the next fiscal 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 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, the 300mm semiconductor silicon wafer market is expected to see inventory adjustments for memory applications due to weakening demand in the PC and smartphone end-product markets. Varying demand is forecast for logic applications depending on the customer, but the correction phase is expected to be relatively short. Meanwhile, solid demand is forecast to continue for automotive and industrial applications.

In the 200 mm wafer market, weak demand is seen for smartphone use, etc., but strong automotive and industrial use demand is forecast. For wafers of 150mm and smaller, a correction phase is expected to continue, mainly for consumer needs.

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	177,004
Intangible assets	6,507

- (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 semiconductor silicon wafers is expected to grow steadily in the future, backed by the continuing strong demand for semiconductors mainly for automotive use and data centers application. 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

Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Non-consolidated Taxation System

With respect to the transition to the group tax sharing system established by the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8, 2020), the Company submitted notice to the competent district director of tax office that it will not transition to the group tax sharing system during the business year under review, and will transition to a non-consolidated taxation system from the following business year. Accordingly, in accordance with the treatments stipulated in Paragraph 33 of the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), tax effect accounting is applied to the non-consolidated financial statements for the end of the business year under review on the assumption that the non-consolidated taxation system will be applied from the following business year.

Corporate merger by acquisition

The Company has approved a resolution at the Board of Directors meeting held on October 28, 2022 to acquire the semiconductor polysilicon business of Mitsubishi Materials Corporation (hereinafter, “Mitsubishi Materials”).

A new company established by Mitsubishi Materials (High-Purity Silicon Corporation; hereinafter, “High-Purity Silicon”) will assume the semiconductor polysilicon business of Mitsubishi Materials, along with the shares held by Mitsubishi Materials in Mitsubishi Polycrystalline Silicon America Corporation (hereinafter, “Mitsubishi Polysilicon America”) and in NIPPON AEROSIL CO., LTD. (hereinafter, “Nippon Aerosil”), after which SUMCO will acquire the shares of High-Purity Silicon.

The share transfers are scheduled to take place on March 31, 2023. Assuming the share transfers take place, from that day High-Purity Silicon and Mitsubishi Polysilicon America will become consolidated subsidiaries of the Company, and Nippon Aerosil will become an equity method affiliate.

(1) Overview of the corporate merger

- 1) Names of the acquired companies and their main business operations
 - a) Name: High-Purity Silicon Corporation
Main business operations: Manufacturing and sale of semiconductor polysilicon, silicon tetrachloride, trichlorosilane, dichlorosilane, and other related products
 - b) Name: Mitsubishi Polycrystalline Silicon America Corporation
*To be renamed to High-Purity Silicon America Corporation following acquisition
Main business operations: Manufacturing and sale of semiconductor polysilicon, silicon tetrachloride, trichlorosilane, and other related products
- 2) Main reasons for the corporate merger
For the Company, semiconductor polysilicon and trichlorosilane are key raw materials essential for manufacturing silicon wafers. By acquiring the capability for developing and manufacturing these in the SUMCO Group, we will become able to carry out total manufacturing from raw materials to the final silicon wafer products, which we have determined will contribute toward raising the corporate value of the Group in the future.
- 3) Date of the corporate merger
March 31, 2023 (planned)
- 4) Legal form of corporate merger
Acquisition of shares in exchange for cash
- 5) Company name after the merger
No change
- 6) Share of voting rights to be acquired
100%
- 7) Grounds for determining acquired company
The Company is acquiring the acquired company's shares in exchange for cash.

- (2) Acquisition price of the acquired companies and breakdown by consideration type
The acquisition price and consideration are not made public due to confidentiality obligations in the contract between the parties.
- (3) Description and amount of major acquisition-related expenses
Advisory costs, etc. (approximate sum) 400 million yen
- (4) Amount of goodwill to be accrued, reason for accrual, amortization method and amortization period
These have not been determined at the present time.
- (5) Amounts of assets and debts assumed on the day of the corporate merger, and main breakdown
These have not been determined at the present time.

II. Notes to Non-consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

608,810 million yen

2. Guarantee obligation

Guarantee for employee borrowings from
financial institution 89 million yen

3. Accounts receivable from and payable to subsidiaries and affiliates

Short-term accounts receivable 53,300 million yen
Long-term accounts receivable 37,465 million yen
Short-term accounts payable 68,219 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: (3,170) 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 1,875 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

Volume of transactions with subsidiaries and affiliates

Amount of sales	80,973 million yen
Amount of purchase	98,534 million yen
Transactions other than operational transactions	16,577 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)	7,855	85	—	7,940
Total	7,855	85	—	7,940

(Note) The 85-share increase in the number of common treasury stock is due to the purchase of shares less than one unit.

V. Notes Regarding Deferred Tax Accounting

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

Deferred income tax assets

Stocks of subsidiaries and affiliates	26,111	million yen
Liability for retirement benefits	3,812	million yen
Non-current assets	1,531	million yen
Inventories	634	million yen
Other	2,127	million yen
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Subtotal deferred income tax assets	34,218	million yen
Subtotal valuation allowance (Note)	(31,939)	million yen
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Total deferred income tax assets	2,279	million yen

Deferred income tax liabilities

Deferred gain (loss) on derivatives under hedge accounting	(419)	million yen
Prepaid pension cost	(207)	million yen
Non-current assets	(117)	million yen
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Total deferred income tax liabilities	(744)	million yen

Net deferred income tax assets 1,534 million yen

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

(Note) Compared with the previous business year-end, valuation allowance has decreased by 1,630 million yen. The principal factors for the decrease are use of tax loss carried forward, the decrease of future deductible temporary differences and review of recoverability.

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

Effective statutory tax rate	30.4	%
(Adjustment)		
Exclusion of dividends received from gross profits	(5.5)	%
Valuation allowance	(2.1)	%
Tax deductions on experimental and research expenses	(1.3)	%
Other	0.0	%
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Actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting	21.5	%

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	83,069	Accounts payable	25,730
				Receipt of dividends	11,053	–	–
						Short-term loans	15,231
				Lending of funds	16,765	Long-term loans receivable from subsidiaries and affiliates (current portion)	46,745 (9,280)
			Borrowing of funds	1,447	Short-term borrowings	12,102	
Subsidiary	SUMCO Phoenix Corporation	100 (direct ownership)	Sales destination of products, etc.	Borrowing of funds	1,192	Short-term borrowings	19,108
Subsidiary	SUMCO Europe Sales Plc	100 (direct ownership)	Sales destination of products, etc.	Sales of products	32,294	Accounts receivable	10,752

(Note) 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. Notes to Revenue Recognition

Basic information for understanding revenue has been omitted, as the same content has been described in “Notes on Consolidated Financial Statements, V. Notes to Revenue Recognition.”

VIII. ‘Per Share’ Information

- Net assets per share: 1,322.54 yen
- Net income per share: 171.38 yen

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

Net income (millions of yen)	60,010
Average number of common shares outstanding during the period (shares)	350,167,239