

March 8, 2017

Dear Shareholders,

**Matters Disclosed on the Internet
Related to the
Notice of Convocation of
the 18th Ordinary General Meeting of Shareholders**

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

SUMCO CORPORATION

Consolidated Statement of Changes in Equity

(From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	138,718	23,384	48,502	(11)	210,594
Changes during period					
Dividends from surplus			(4,399)		(4,399)
Net income attributable to owners of the Parent			6,588		6,588
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes during period	-	-	2,188	(0)	2,188
Balance at end of period	138,718	23,384	50,691	(11)	212,783

	Accumulated other comprehensive income						Non-controlling interests	Total equity
	Net unrealized gain on available-for-sale securities	Deferred 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)	2,816	1,753	(3,481)	1,088	32,857	244,540
Changes during period								
Dividends from surplus								(4,399)
Net income attributable to owners of the Parent								6,588
Purchase of treasury stock								(0)
Net changes of items other than shareholders' equity	0	(2,483)	70	(1,516)	(112)	(4,042)	149	(3,893)
Total changes during period	0	(2,483)	70	(1,516)	(112)	(4,042)	149	(1,704)
Balance at end of period	0	(2,484)	2,886	236	(3,593)	(2,954)	33,007	242,836

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: 16

Names of major consolidated subsidiaries:

SUMCO TECHXIV CORPORATION

SUMCO Phoenix Corporation

FORMOSA SUMCO TECHNOLOGY CORPORATION

(2) Number and names of non-consolidated subsidiaries

Number of non-consolidated subsidiaries: 4

Name of major non-consolidated subsidiary:

SUMCO Korea Corporation

[Reason for exclusion from the scope of consolidation]

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

2. Application of the equity method

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

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

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

Name of major non-consolidated subsidiary or affiliate:

SUMCO Korea Corporation

[Reason for non-application of the equity method]

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

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

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

4. Summary of significant accounting policies

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

(a) Marketable securities

Available-for-sale securities

Securities with market value:

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

Securities without market value:

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

(b) Derivatives

We employ the market value method.

(c) Inventories

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

(2) Method of depreciation of major depreciable assets

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

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

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

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

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

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

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

(3) Standard for provision of major allowances

(a) Allowance for doubtful accounts

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

(b) Reserve for bonuses

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

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

(a) Accounting method for retirement benefits

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

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

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

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

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

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

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

(c) Major hedge accounting

(Method of hedge accounting)

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

(Hedging instrument and hedged item)

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

(Hedging policy)

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

(Method of assessment of effectiveness of hedges)

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

(d) Method and period for amortization of goodwill

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

(e) Accounting for consumption taxes

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

5. Changes in accounting policies

Adoption of Accounting Standard for Business Combinations

The Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. effective from the fiscal year under review. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. Additionally the presentation method of net income was amended and the reference to “Minority interests” was changed to “Non-controlling interests.”

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Accordingly, these changes are effective from the beginning of the fiscal year under review.

Those changes had no impact on the consolidated financial statements for the fiscal year under review.

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Accompanying tax reform, the Company and its domestic subsidiaries have applied “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (PITF No. 32, June 17, 2016) in its consolidated financial statements beginning with the fiscal year under review. As a result, the Company and its domestic subsidiaries have changed their method of depreciation for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change in accounting principles on the consolidated financial statements for the fiscal year under review was not material.

6. Changes to presentations

- (1) Since the materiality of “Insurance income,” which had been included in “Other” under non-operating income on the consolidated statement of income for the previous consolidated fiscal year, increased in the consolidated fiscal year under review, it is now presented separately. Please note that “Insurance income” included in “Other” in the previous consolidated fiscal year is 2 million yen.
- (2) Since the materiality of the items that had been presented separately as “Compensation income” under non-operating income on the consolidated statement of income for the previous consolidated fiscal year decreased in the consolidated fiscal year under review, they are now included in “Other.”

Please note that “Compensation income” included in “Other” in the consolidated fiscal year under review is 45 million yen.

- (3) Since the materiality of “Foreign exchange loss,” which had been included in “Other” under non-operating income on the consolidated statement of income for the previous consolidated fiscal year, increased in the consolidated fiscal year under review, it is now presented separately. Please note that “Foreign exchange loss” included in “Other” in the previous consolidated fiscal year is 12 million yen.

7. Additional information

Temporary Differences relating to Dividends from Undistributed Earnings of Consolidated Foreign Subsidiaries

Tax obligations arising from future dividends from the undistributed earnings of consolidated foreign subsidiaries were recorded as deferred tax liabilities at estimated amounts. In 2016, Japan and Taiwan have completed the development of laws to implement the matters prescribed in the “Agreement between the Interchange Association and the Association of East Asian Relations for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income” and, in accordance with the “Cabinet Order that stipulates the date on which part of the Act for Partial Amendment of Income Tax, etc. comes into effect” which was promulgated on July 1, 2016, the withholding tax rate on dividend distributed on or after January 1, 2017, changed to 10% from the previous rate of 20%.

As a result, a certain portion of deferred tax liabilities recorded until June 30, 2016 was reversed. The effect of this was to decrease income taxes-deferred by 593 million yen, and increase net income attributable to owners of the Parent by the same amount for the year ended December 31, 2016.

II. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

814,745 million yen

2. Guarantee obligation

Guarantee for employee borrowings from financial institution

396 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 end of year of revaluation and book value after revaluation:

(3,645) 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, as well as the cash flows from operating activities on the Company's consolidated statements of cash flows, 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	18,536 million yen
(Repayment of above scheduled within one year)	(13,236 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 December 31, 2016 is as follows.

Total loan commitment	59,300 million yen
Used commitment	4,078 million yen
Unexecuted loan commitment	55,221 million yen

5. Others

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

III. Notes to Consolidated Statement of Changes in Equity

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

(Shares)

	Number of shares as of the beginning of the consolidated fiscal year under review	Increase during the consolidated fiscal year under review	Decrease during the consolidated fiscal year under review	Number of shares as of the end of the consolidated fiscal year under review
Issued shares				
Common shares	293,285,539	–	–	293,285,539
Total	293,285,539	–	–	293,285,539
Treasury stock				
Common shares (Note)	6,766	280	–	7,046
Total	6,766	280	–	7,046

(Note) The 280-share increase in the number of shares of common treasury stock is due to the purchase of shares less than one unit.

2. Particulars concerning dividends from surplus

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 29, 2016	Common shares	2,932	10.00	December 31, 2015	March 30, 2016
Board of Directors Meeting on August 5, 2016	Common shares	1,466	5.00	June 30, 2016	September 28, 2016

(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 22, 2017.

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 22, 2017	Retained earnings	Common shares	1,466	5.00	December 31, 2016	March 9, 2017

IV. Notes Regarding Financial Instruments

1. Status of financial instruments

(1) Policy for measures relating to financial instruments

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

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

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

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

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

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

(3) Supplementary explanation about fair values of financial instruments

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

2. Fair values of financial instruments

Amounts on consolidated balance sheet and fair values as of December 31, 2016 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	39,065	39,065	–
(2) Notes and accounts receivable – trade	44,927	44,927	–
(3) Marketable securities and investment securities	6,501	6,501	–
Total assets	90,494	90,494	–
(1) Notes and accounts payable – trade	27,764	27,764	–
(2) Short-term borrowings (*1)	4,078	4,078	–
(3) Accrued income taxes	1,053	1,053	–
(4) Notes and accounts payable – construction	3,296	3,296	–
(5) Long-term debt (*1)	168,406	169,511	1,105
(6) Lease obligations	4,601	4,581	(19)
Total liabilities	209,200	210,286	1,086
Derivative transactions (*2)			
(i) Those to which hedge accounting is not applied	(1,906)	(1,906)	–
(ii) Those to which hedge accounting is applied	(2,484)	(2,484)	–
Total derivative transactions	(4,390)	(4,390)	–

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

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

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

Assets

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

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

(3) Marketable securities and investment securities

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

Liabilities

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

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

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

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

Derivative transactions

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

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

2. Because unlisted stocks, etc. (amount on consolidated balance sheet: 80 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: 715.46 yen
2. Net income per share: 22.46 yen

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

Net income attributable to owners of the Parent (millions of yen)	6,588
Average number of common shares outstanding during the period (shares)	293,278,695

Non-consolidated Statement of Changes in Equity

(From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Capital reserve	Other	Total capital surplus	Retained earnings reserve	Other retained earnings Retained earnings carried forward	Total retained earnings		
Balance at beginning of period	138,718	3,611	19,772	23,384	801	23,445	24,247	(11)	186,339
Changes during period									
Accumulation of retained earnings reserve					439	(439)	–		–
Dividends from surplus						(4,399)	(4,399)		(4,399)
Net income						3,667	3,667		3,667
Purchase of treasury stock								(0)	(0)
Net changes of items other than shareholders' equity									
Total changes during period	–	–	–	–	439	(1,171)	(731)	(0)	(731)
Balance at end of period	138,718	3,611	19,772	23,384	1,241	22,273	23,515	(11)	185,607

	Variance of valuation/translation, etc.			Total equity
	Deferred loss on derivatives under hedge accounting	Land revaluation surplus	Total variance of valuation/translation, etc.	
Balance at beginning of period	(0)	2,816	2,815	189,155
Changes during period				
Accumulation of retained earnings reserve				–
Dividends from surplus				(4,399)
Net income				3,667
Purchase of treasury stock				(0)
Net changes of items other than shareholders' equity	(2,483)	70	(2,413)	(2,413)
Total changes during period	(2,483)	70	(2,413)	(3,145)
Balance at end of period	(2,484)	2,886	402	186,010

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. Fair value of plan assets is recorded as prepaid pension cost in the balance sheet in the current business year as it exceeds the amount to/from which unrecognized actuarial gains/losses are added/subtracted in retirement benefit obligation.

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

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

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

(1) Hedge accounting

(Method of hedge accounting)

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

(Hedging instrument and hedged item)

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

(Hedging policy)

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

(Method of assessment of effectiveness of hedges)

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

(2) Accounting for retirement benefits

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

(3) Accounting for consumption taxes

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

5. Changes in accounting policies

Adoption of Accounting Standard for Business Combinations

The Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. effective from the business year under review. As a result, the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the business year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the business year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the non-consolidated financial statements for the business year in which the business combination occurs.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Accordingly, these changes are effective from the beginning of the business year under review.

Those changes had no impact on the non-consolidated financial statements for the business year under review.

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Accompanying tax reform, the Company has applied “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (PITF No. 32, June 17, 2016) in the non-consolidated financial statements beginning with the business year under review. As a result, the Company has changed their method of depreciation for structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change in accounting principles on the non-consolidated financial statements for the business year under review was not material.

6. Changes to presentations

- (1) Since the materiality of the items that had been presented separately as “Subsidy income” under non-operating income on the non-consolidated statement of income for the previous business year decreased in the business year under review, they are now included in “Other.”

Please note that “Subsidy income” included in “Other” in the business year under review is 71 million yen.

- (2) Since the materiality of “Foreign exchange loss,” which 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 “Foreign exchange loss” included in “Other” in the previous business year is 54 million yen.

II. Notes to Non-consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment

475,325 million yen

2. Guarantee obligation

Guarantee for employee borrowings from
financial institution 396 million yen

3. Accounts receivable from and payable to subsidiaries and affiliates

Short-term accounts receivable 18,940 million yen
Long-term accounts receivable 37,153 million yen
Short-term accounts payable 29,815 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 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 end of year of revaluation and book value after revaluation: (3,645) 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, as well as the cash flows from operating activities on the Company’s consolidated statements of cash flows, be maintained at certain levels.

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

Long-term debt 18,536 million yen
(Repayment of above scheduled within one year) (13,236 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 December 31, 2016 is as follows.

Total loan commitment 59,300 million yen
Used commitment 4,078 million yen

Unexecuted loan commitment 55,221 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	45,678 million yen
Amount of purchase	49,672 million yen
Transactions other than operational transactions	4,225 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)	6,766	280	—	7,046
Total	6,766	280	—	7,046

(Note) The 280-share increase in the number of common treasury shares is due to the purchase of shares less than one unit.

V. Notes Regarding Deferred Tax Accounting

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

Deferred tax assets

Loss carried forward	38,793 million yen
Stocks of subsidiaries and affiliates	26,111 million yen
Non-current assets	3,956 million yen
Liability for retirement benefits	2,624 million yen
Inventories	104 million yen
Other	1,836 million yen
Subtotal deferred tax assets	73,425 million yen
Valuation allowance	(73,425) million yen
Total deferred tax assets	– million yen

Deferred tax liabilities

Non-current assets	(117) million yen
Total deferred tax liabilities	(117) million yen

Net deferred tax liabilities (117) million yen

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

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	32.8%
(Adjustment)	
Valuation allowance	(24.4)%
Exclusion of dividends received from gross profits	(9.5)%
Other	(0.8)%
Actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting	(1.9)%

3. Correction of the amounts of deferred tax assets and deferred tax liabilities following the revision to the corporate income tax rate

The “Act for Partial Amendment of Income Tax, etc.” (2016 Act No. 15) and the “Act for Partial Amendment of Local Tax Act, etc.” (2016 Act No. 13) passed the Diet on March 29, 2016 and the reduction in corporate tax rate, etc. is to be carried out from the business year starting from April 1, 2016 or later. Following this revision, a normal effective statutory tax rate which is used in the calculation of deferred tax assets and deferred tax liabilities will change from the current 32.0% to 30.6% for a temporary actuarial difference, which is expected to be expensed in the business year starting from January 1, 2017 and the business year starting from January 1, 2018, and to 30.4% for that in the business year starting from January 1, 2019 or later.

As a result of this change in the tax rate, the amount of deferred tax liabilities decreased by 6 million yen and the amount of deferred income taxes decreased by the same amount. Deferred income tax liabilities on revaluation reserve for land decreased by 70 million yen and land revaluation surplus increased by the same amount.

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, etc.	39,241	Accounts payable	12,283
				Receipt of dividends	1,026	–	–
				Collection of funds	1,590	Long-term loans receivable from subsidiaries and affiliates (current portion)	40,884 (4,000)
Subsidiary	SUMCO Phoenix Corporation	100 (direct ownership)	Sales destination of products, etc.	Selling of products	20,240	Accounts receivable	4,386
				Borrowing of funds	687	Short-term borrowings	11,649
Subsidiary	SUMCO Europe Sales Plc	100 (direct ownership)	Sales destination of products, etc.	Selling of products	12,186	Accounts receivable	4,412
Subsidiary	JAPAN FORMOSA SUMCO TECHNOLOGY CORPORATION	49 (indirect ownership)	Sales destination of fixed assets	Sales of fixed assets			
				Proceeds from sales of fixed assets	2,493	–	–
				Gain on sales	1,253	–	–

- (Notes)
- Transaction amount excludes consumption taxes.
 - 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 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: 634.24 yen
2. Net income per share: 12.51 yen

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

Net income (millions of yen)	3,667
Average number of common shares outstanding during the period (shares)	293,278,695