February 10, 2021

Notice of Extraordinary Gain and Loss, and Revision to Consolidated Full-Year Business Forecasts and Year-End Dividend Forecasts for the Fiscal Year Ending March 2021

The Company has recorded extraordinary gain and loss as follows for the third quarter of the fiscal year ending March 2021. Accordingly, we have revised our consolidated full-year business forecasts and the year-end dividend forecasts for the fiscal year ending March 2021 that we provided in "Summary of Business Results for the Second Quarter Ended September 30, 2020 [Japan GAAP] (Consolidated)" dated November 13, 2020. Details are as follows.

1. Extraordinary gain

As announced in "Notice of Change of Specific Subsidiaries that Manufacture Semiconductor Wafers" as of today, the ratio of voting rights that the Group holds to Hangzhou Semiconductor Wafer Co., Ltd. (hereinafter, "FTHW"), the Company's subsidiary that manufactures semiconductor wafers, has gone down to 29.5% following the transfer of some shares of FTHW to third parties and third-party allotment, and therefore, the Company has resolved to change FTHW and its subsidiary from consolidated subsidiaries to equity-method affiliates. The Company posted as capital surplus the difference between the amount of decrease in equity of FTHW held by the Group that resulted from the transfer of some shares of FTHW and the sale value of the equity; however, in response to the aforementioned change, the Company recorded the difference between the nominal sale value through third-party allotment of FTHW's equity that the Group held and the carrying amount on the consolidated balance sheet as "gain on change in equity" under extraordinary gain, which amounted to about 5.2 billion yen, in the third quarter of the fiscal year ending March 2021. We believe that the transformation of FTHW into an equity-method affiliate will allow the semiconductor wafer business, which is expected to remain in the red for the time being with regard to operating income, to contribute to increases in operating income and ordinary income of the Group.

2. Extraordinary loss

(1) Reason for the impairment loss

In the third quarter of the fiscal year ending March 2021, the Company recorded impairment losses associated with the Photovoltaic Business and the CVD-SiC Business as extraordinary loss. Regarding the Photovoltaic Business, the Company withdrew from the business following structural reforms, ceasing production of our original products, and currently engages only in manufacturing under original equipment manufacturer (OEM) contracts, and we conducted detailed examination of the future cash flows of the two businesses and decided to write down the book value to the recoverable amount. In addition, as announced in "Notice of Withdrawal from CVD-SiC Business at Korean Subsidiaries" dated April 16, 2019, the Company withdrew from the business at a Korean subsidiary manufacturing CVD-SiC products, which are consumables used in semiconductor wafer manufacturing equipment, and it is difficult to estimate at the moment whether or not the buildings, and machinery and equipment at the subsidiary that have been unused can be used in other businesses. We, therefore, have resolved to write down the book value of those assets to the recoverable amount.

(2) Calculation of recoverable amount

The Company has determined the recoverable amount based on the value in use calculated by subtracting future cash flows for the Photovoltaic Business, and based on the net realizable value for the CVD-SiC Business. We deem the net realizable value to be zero for items that are difficult to use or sell for other purposes.

(3) Details of the impairment loss

Company	Shanghai Shenhe Thermo-Magnetics Electronics Co., Ltd.	Ferrotec (Ningxia) New Energy Co., Ltd.	Ferrotec Advanced Materials Korea Corporation
Business	Photovoltaic Business	Photovoltaic Business	CVD-SiC Business
Application	Manufacturing of silicon wafers on consignment	Processing of single crystal ingots on consignment	Manufacturing and sale of CVD-SiC products

Type	Machinery, equipment and vehicles, etc.	Machinery, equipment and vehicles, etc.	Buildings and structures, machinery, equipment and vehicles, etc.
Place	Shanghai, China	Yinchuan, China	Dangjin City, Chungcheongnam-do, South Korea
Impairment loss	Approx. 470 million yen	Approx. 270 million yen	Approx. 260 million yen

3. Revision to consolidated full-year business forecasts

(1) Revision to consolidated full-year business forecasts for the fiscal year ending March 2021 (April 1, 2020 to March 31, 2021)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
Previous forecasts (A)	Million yen 85,000	Million yen 6,500	Million yen 5,500	Million yen 1,500	Yen 40.41
Revised forecasts (B)	89,000	9,000	8,000	7,000	188.37
Change (B-A)	4,000	2,500	2,500	5,500	
Change rate (%)	4.71	38.46	45.45	366.67	
(Reference) Previous results (FY3/20)	81,613	6,012	4,263	1,784	47.35

(2) Reasons for the revision

Following the escalating semiconductor demand driven by worldwide expansion of the application range of information and communication technology, including IoT, AI, and 5G, and enhancement by the Chinese government of its policy on manufacturing of semiconductor wafers in China in the wake of the trade friction between the United States and China, the market of semiconductor manufacturing equipment is booming thanks to the high-level utilization rate and improved capital investment at semiconductor manufacturers, and the Company steadily receives orders for our semiconductor material products. Furthermore, amid the continuing global spread of COVID-19, the demand for thermo-electric module products for optical communication devices used at 5G base stations and for medical testing equipment, such as polymerase chain reaction (PCR) testing instruments, is growing on a continuous and steady basis.

Meanwhile, gains and losses in the semiconductor wafer business at the aforementioned three subsidiaries have been recorded as investment gains and losses on the equity method, based on which the Company expects that business results will be significantly better than the consolidated full-year business forecasts that we previously released on a profit front(Note).

Accordingly, the Company has revised the consolidated full-year business forecasts for the current fiscal year as described above by taking into account the status of business performance at our subsidiaries and the financial impact that the change to the subsidiaries manufacturing semiconductor wafers in order to make them our affiliated companies accounted for using the equity method will have on our consolidated business performance (including gain on change in equity). Regarding the impact of the ongoing spread of COVID-19 on our business activities, we continuously adopt the premise that the pandemic will linger for a while in the following consolidated fiscal year (ending March 2022).

(Note) Please see <Reference> below for the financial impact that the change made to FTHW in order to make it an affiliated company accounted for using the equity method has on our company's consolidated full-year business forecasts.

<Reference> Financial impact that the change made to FTHW in order to make it an affiliated company accounted for using

the equity method has on our company's consolidated full-year business forecasts

	Consolidated full-year business forecasts		
	a. When a change is made to FTHW in order to make it an affiliated company accounted for using the equity method (this time)	b. When FTHW is kept as a consolidated subsidiary	Difference (a–b)
Net sales	Million yen 89,000	Million yen 91,000	Million yen (2,000)
Operating income	9,000	7,500	＋1,500
Ordinary income	8,000	6,500	+1,500
Net income attributable to owners of parent	7,000	2,500	+4,500
Depreciation	9,000	10,000	(1,000)

4. Revision to year-end dividend forecasts

	Dividend per share		
	End of the 2Q	Year-end	Annual
Previous forecasts (Announced on November 13, 2020)		Yen 12.00	Yen 24.00
Revised forecasts		14.00	26.00
Results of this term	12.00		
Previous results (FY3/20)	12.00	12.00	24.00

The Company's basic policy on dividend payment is to continue returning profits to our shareholders on a stable basis while comprehensively taking into account such matters as our consolidated business performance and dividend payout ratio. In view of the status of business performance at our subsidiaries, the year-end dividend and annual dividend are to be 14.00 yen per share and 26.00 yen per share, respectively, for this fiscal year.

*The business forecasts in this material are based on the information available as of the date on which this notice is published; therefore, actual results may differ from the above forecasts due to various factors.