

Business and Other Risks

Set out below are those matters relevant to the Tokuyama Group's business status and financial conditions that could potentially have a significant influence on investor decisions. Please note that the matters listed do not cover all risks relevant to the Tokuyama Group, and it is thought that there are risks other than those matters listed that could potentially influence investor decisions.

The matters listed are those regarded as relevant as at June 24, 2019.

(1) Procurement/Market Conditions of Raw Materials and Fuels, etc.

Tokuyama Group procures the raw materials and fuels essential to conduct production operations from various areas in the world. Also, for some of its products, Tokuyama Group uses special raw materials and materials which have a limited number of suppliers. With regard to the procurement of raw materials and fuels, Tokuyama Group engages in long-term, stable, low-cost procurement by combining, for example, medium- to long-term contracts and purchases on spot markets. However, in the event that a soaring market or resource nationalism causes the tight supply of raw materials and fuels or delays in delivery hinders Tokuyama Group's production operations causing manufacturing costs to rise drastically, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(2) Electronic Materials Business Market Environment

While the Electronic Materials Business is one of Tokuyama Group's main businesses, in the event that the economical trough in the information and electronics industry leads to a deterioration of the earnings from Electronics Materials Business, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(3) Environmental Regulations, etc.

Tokuyama Group operates a range of businesses that use natural resources and energy in large quantities. Tokuyama Group enhances the investment in resource recycling systems and the facility designed to reduce its environmental impact and accepts waste as an alternative fuel and raw materials. At the same time, Tokuyama Group also works to reduce its environmental impact by, for example, promoting Zero Emission initiatives and improving its unit energy consumption. However, in the event that more stringent environment-related regulation is approved or a new social responsibility for environmental protection becomes required, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(4) Contractual Disputes/Litigation

The Legal & Credit Management Department and the Intellectual Property Department of Tokuyama Groups take lead in day-to-day precaution against patent or contract disputes and litigation. However, in both its domestic and overseas businesses, there exists the possibility that Tokuyama Group becomes the subject of a legal dispute or litigation. In the event that a major lawsuit is filed, there is the possibility that such a situation greatly affects Tokuyama Group's business performance and financial condition.

(5) Effect of Disasters/Accidents

Tokuyama Group performs day-to-day and periodic facility maintenance to minimize the adverse effects from any disruption to its production operations. Such maintenance, however, is unable to completely prevent or may not effectively reduce the adverse effects on production facilities from disasters or accidents (including earthquakes and other natural disasters). Also, while Tokuyama Group manufactures products for which alternative production arrangements could not immediately be made, should events lead to a significant decrease in production volume or, in the worst case, Tokuyama Group be forced to discontinue production for a protracted period, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(6) Product Liability

Tokuyama Group makes an honest effort to ensure the proper quality in accordance with product characteristics. However, in the event that, due to unexpected circumstances, a quality problem leads to a product recall or a product safety-related product liability (PL) issue arises, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(7) Market Economic Trends/Conditions

The supply of and demand for Tokuyama Group products are subject to the trends of their respective markets, which are primarily the chemical industries, the construction and construction material industries as well as the information and electronic industries. The products from Tokuyama Group are sold mainly in Japan, the United States, Asia, and Europe, and the economic conditions in such country could exert a great influence on the sales. Tokuyama Group targets production improvements and higher quality and also promotes cost reductions however a fall in demand in the market and industries or an economic slowdown in the sales area may greatly affect Tokuyama Group's business performance and financial condition.

(8) Price Competitiveness

In each of the business that Tokuyama Group conducts, similar products may be available from competitors. Tokuyama Group supplies products to customers maintaining a competitive advantage in terms of quality and price. However, in the event that low-cost imported products flood the market or a price war breaks out between rival companies due to unforeseen circumstances, and that the situation continues for a prolonged period of time deteriorating Tokuyama Group's profitability, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(9) Overseas Business Development

The polycrystalline silicon factory that Tokuyama Group built in the Malaysian state of Sarawak is comparatively larger in scale than Tokuyama Group's other existing overseas facilities. In the event that the stable operation or sales is disturbed, unexpected changes are made to the society system, laws and regulations or labor-management problems arise, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(10) Financing Arrangements

Tokuyama Group arranges financing through loans or issuance of unsecured bonds, and in preparation for changes in the market environment such as interest rates, in principle, measures to mitigate risks by hedging transactions such as fixed rate contracts or fixed interest rate swaps, however, there is a possibility that with some borrowing, cost of financing arrangements could increase due to changes in the market environment such as interest rate, which may have a significant impact on the performance and financial contents of the Tokuyama Group. In addition to changes in the market environment such as interest rates, depending on the credit ratings or other conditions, there is no guarantee that the financing is always available under same conditions in arranging financing through a new loan from a financial institution or the issuance of unsecured bonds.

(11) Fluctuation of Exchange Rate

Tokuyama Group exports products and imports raw materials, fuels, etc in foreign currencies. Although Tokuyama Group has taken measures to reduce risks by currency exposure management by balancing assets and liabilities denominated in foreign currencies or hedging transactions such as forward exchange contracts, there is a possibility that performance and financial content of the Tokuyama Group will be greatly affected by fluctuations in exchange rates. There is also the possibility that it will adversely affect the yen converted value of the financial statements of overseas consolidated subsidiaries when preparing consolidated financial statements.

(12) Impairment of Fixed Assets

Tokuyama Group adopts the accounting standard for impairment of fixed assets. In the event that there is a significant deterioration in the business environment or a decline in real estate prices, etc, there is a possibility that performance and financial content of the Tokuyama Group will be greatly affected by the recognition of impairment loss.