

January 30, 2015

Tokuyama Corporation

Notice concerning the Causes behind Posting an Impairment Loss

Tokuyama Corporation (hereafter referred to as “Tokuyama” or “the Company”) announced details of its decision to post an impairment loss in connection with the polycrystalline silicon first plant (PS-1) of its consolidated subsidiary Tokuyama Malaysia Sdn. Bhd., located in Sarawak, Malaysia, on October 31, 2014. As a result, an investigative committee mainly comprising the Audit & Supervisory Board (including external auditors) was established the same day. This committee then delivered a report on its investigation of the relevant facts leading up to the Company’s decision as well as an analysis of the causes that led to the posting of an impairment loss. In addition to reviewing this report, Tokuyama conducted a further investigation and analysis. Brief details are presented as follows.

By undertaking an analysis of the causes behind the posting of an impairment loss, this report also serves to ensure that the Company carries out all necessary improvement and reform measures to prevent a recurrence of this incident. At the same time, the report provides the impetus through which Tokuyama will work diligently to restore its credibility and to maintain its presence as a going concern and a company that contributes to society going forward.

1. Based on polycrystalline silicon market conditions at the time the plan was first proposed, the Company factored in the risk of a future decline in prices and decided to invest in a business plan that was disproportionately large when compared with its business scale. Thereafter, however, fluctuations in market conditions far exceeded expectations highlighting deficiencies in the Company’s deliberations to offset risk with respect to its investment amount.
2. Moving forward and with the emergence of each issue resulting from shifts in its operating environment, Tokuyama took steps to reconsider the commercial viability of the plan as well as changes to its strategy and other factors. Despite these endeavors, the Company was unable to implement the necessary changes and revisions to offset deterioration in conditions.
3. Despite considering all technical aspects as well as associated risks with respect to such key aspects as the selection of critical equipment, and while allocating an appropriate amount of time and human resources to match the substantial scale of the business plans, the Company’s efforts were insufficient to ensure that the plan would be brought to fruition. This reflected the Company’s focus on carrying out the business in a timely manner as well as cost competitiveness.

Moreover, and when considering the selection of critical equipment, Tokuyama believed that its production and operating technologies and know-how were sufficient to ensure high-purity production even in the event of certain difficulties. Coupled with the focus on speed, the Company's considerations were lacking at that time. This deficiency in initial considerations with regard to such factors as the aforementioned selection of critical equipment was a major factor in the subsequent problems and issues that arose at the plant.

4. At the same time, the distribution of information to certain parts of the organization was lacking when management undertook decisions relating to these issues. As a result, the ability of the organization of the project to introduce multi-faceted and objectives as inherently intended and to provide support as and when required failed to fully function.
5. With respect to the introduction of human resources and efforts to promote the project, the structure of the organization, which entailed top management assuming responsibility, had some positive effect. However, the result was a lack of appropriate changes and revisions to the subsequent deterioration in operating conditions and each issue.

Looking ahead, Tokuyama will put in place and carry out improvement measures.

There are no indications of any breach from a compliance perspective as a result of the investigation by the committee.

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