

(Note) This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 12, 2016

Company name: Tokuyama Corporation

Representative: Hiroshi Yokota,

President and Representative Director

(Code No. 4043, First Section TSE)

Contact: Taro Kobayashi, General Manager

Corporate Communications & Investor Relations Dept.

TEL: +81-3-5207-2552

Notice concerning Issuance of Class Shares by Third-Party Allotment, Partial Amendments to the Articles of Incorporation, Reduction of Amounts of Capital Stock, Legal Capital Surplus and Legal Retained Earnings, Appropriation of Surplus, and Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

Tokuyama Corporation (hereinafter referred to as the “Company,” “Tokuyama” or “we”) hereby announces that the Board of Directors of the Company, at its meeting held on May 12, 2016 (hereinafter, the “Board of Directors Meeting”) made a resolution for items of the following (1) to (5) as follows:

- (1) The Company enters into a subscription agreement (hereinafter, the “Agreement”) with Japan Industrial Solutions Fund I, which is an investment limited partnership, (hereinafter, the “Planned Allottee”) to issue, through a third-party allotment, a total of 20,000,000,000 yen of Class A shares (hereinafter, the “Capital Increase by Third-Party Allotment”).
- (2) The Company partially revises the Articles of Incorporation regarding the establishment of Class A shares, Class B shares, and Class C shares, etc. (hereinafter, the “Amendments to the Articles of Incorporation”).
- (3) The Company decreases capital stock, legal capital surplus, and legal retained earnings (hereinafter, the “Reduction of Capital Stock, etc.”) and offsets a deficit in retained earnings brought forward with a portion of other capital surplus generated by the Reduction of Capital Stock, etc. and general reserve (hereinafter, the “Appropriation of Surplus”).
- (4) On condition that the Capital Increase by Third-Party Allotment takes effect, the Company reduces the amounts of capital stock and legal capital surplus by all of an increase of capital stock and legal capital surplus accompanying inclusion of the paid-in amount for Class A shares in capital stock and legal capital surplus (hereinafter, the “Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares”).
- (5) The Company submits the following proposals to the 152nd Ordinary General Meeting of Shareholders scheduled to be held on June 24, 2016 (hereinafter, the “Ordinary General Meeting of Shareholders”): (i)

Reduction of Capital Stock, etc; (ii) Appropriation of Surplus; (iii) Amendments to the Articles of Incorporation; and (iv) the Capital Increase by Third-Party Allotment.

The Capital Increase by Third-Party Allotment is subject to approval at the Ordinary General Meeting of Shareholders of the proposals of the Amendments to the Articles of Incorporation and the Capital Increase by Third-Party Allotment. The Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares is subject to the Capital Increase by Third-Party Allotment taking effect. In addition, payment for Class A shares by the Planned Allottee is subject to approval at the Ordinary General Meeting of Shareholders of the proposals: Amendments to the Articles of Incorporation; Capital Increase by Third-Party Allotment; Reduction of Capital Stock, etc.; Appropriation of Surplus; election of one person named by the Planned Allottee as External Director of the Company, and others.

I. Issuance of Class A Shares

1. Overview of Offer of Class A Shares

| | |
|--|---|
| (1) Payment date | June 27, 2016 |
| (2) Number of shares to be issued | 20,000 shares |
| (3) Issue value | 1,000,000 yen per share |
| (4) Amounts of procurement funds | 20,000,000,000 yen |
| (5) Method of offering or allotment (Planned Allottee) | Allotted by a third-party allotment method. Japan Industrial Solutions Fund I 20,000 shares |
| (6) Other | <p>The dividend rate of Class A shares is set at 5.0% a year until March 31, 2017, 5.5% a year from April 1, 2017 to March 31, 2018, 6.0% a year from April 1, 2018 to March 31, 2019, and 6.5% a year on and after April 1, 2019. Class A shareholders are entitled to receive dividends in preference to common shareholders and in the same priority as Class B shareholders and Class C shareholders. Dividends for Class A shareholders are cumulative. In principle, Class A shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred dividends.</p> <p>Put options, the consideration for which is cash and Class B shares, put options, the consideration for which is common shares, call options, the consideration for which is cash, and call options, the consideration for which is cash and Class C shares, are attached to Class A shares.</p> <p>Class A shares have no voting rights and share transfers are restricted.</p> <p>The dividend rate of Class B shares is set at 5.0% a year. Class B shareholders are entitled to receive dividends in preference to common shareholders and in the same priority as Class A shareholders and Class C shareholders. Dividends for Class B shareholders are cumulative. In principle, Class B shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred</p> |

dividends.

Put options, the consideration for which is common shares, and call options, the consideration for which is cash, are attached to Class B shares.

Class B shares have no voting rights and share transfers are restricted.

The dividend rate of Class C shares is set at 5.0% a year. Class C shareholders are entitled to receive dividends in preference to common shareholders and with the same priority as Class A shareholders and Class B shareholders. Dividends for Class C shareholders are cumulative. In principle, Class C shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred dividends.

Put options, the consideration for which is cash and Class B shares, put options, the consideration for which is common shares, and call options, the consideration for which is cash, are attached to Class C shares.

Class C shares have no voting rights and share transfers are restricted.

Put options, the consideration for which is cash and Class B shares, are attached to Class A shares. If the put options are exercised, cash in the amount calculated by adding Class A accumulated unpaid dividends and Class A daily prorated unpaid dividends to the amount equivalent to the paid-in amount at the time of acquisition, per Class A share (hereinafter, the "Amount of Class A Residual Assets to Be Distributed") and a certain number of Class B shares in accordance with the said timing of the exercise of options will be delivered. If put options, the consideration for which is cash and Class B shares, attached to all Class A shares, are exercised, and put options, the consideration for which is common shares, attached to all Class B shares that are delivered by the aforementioned exercise of options, are exercised, the maximum dilution rate will be approximately 9.1% under the situation where Class B accumulated unpaid dividends and Class B daily prorated unpaid dividends do not exist, depending on the timing of exercising put options, the consideration for which is cash and Class B shares, attached to Class A shares, and the market price of common shares of the Company at the time of exercising put options, the consideration for which is common shares, attached to Class B shares.

Put options, the consideration for which is cash and Class B shares, attached to Class A shares, are to redeem the Amount of Class A Residual Assets to Be Distributed in cash and additionally to redeem the portion of the call premium that may reach 22% of the amount equivalent to the paid-in amount at maximum in Class B shares. By attaching such put options, the financing burden on the Company can be mitigated, compared with redeeming the total amount including the portion of the call premium in cash, as well as reducing the dilution, compared with the case whereby Class A shares are converted directly into common shares.

In addition, put options, the consideration for which is common shares of the Company, are attached separately to Class A shares. However, the said

| | |
|--|--|
| | <p>put options cannot be exercised if the distributable amount of the Company on the last day of each fiscal year on or after the end of March 2017 exceeds the amount calculated by multiplying the amount equivalent to the paid-in amount for all Class A shares and Class C shares already issued (excluding treasury shares for both) by 1.05. If the said put options attached to all Class A shares are exercised, the maximum dilution rate will be approximately 41.3% under the situation where Class A accumulated unpaid dividends and Class A daily prorated unpaid dividends does not exist.</p> <p>While call options, the consideration for which is cash and Class C shares, are attached to Class A shares, the contents of put options, the consideration for which is cash and Class B shares, attached to Class C shares, and put options, the consideration for which is common shares, attached to Class C shares, are in principle the same as those of put options, the consideration for which is cash and Class B shares, attached to Class A shares, and put options, the consideration for which is common shares, attached to Class A shares. Therefore, in respect of all Class C shares that will be delivered as a result of all Class A shares acquired, based on call options, the consideration for which is cash and Class C shares, (i) if put options, the consideration for which is cash and Class B shares, are exercised, thereby delivering Class B shares, and then put options, the consideration for which is common shares, of all the above Class B shares are exercised, and (ii) if put options, the consideration for which is common shares, are exercised, the maximum dilution rate of each case will be the same as the above.</p> <p>The Company and the Planned Allottee, in the Agreement, have agreed on (i) the conditions for exercising put options, the consideration for which is cash and Class B shares, attached to Class A shares, and put options, the consideration for which is common shares, attached to Class A shares, and (ii) the conditions for exercising put options, the consideration for which is cash and Class B shares, attached to Class C shares, and put options, the consideration for which is common shares, attached to Class C shares. On and after July 1, 2019, in principle, Class B shares will be delivered by exercising put options, the consideration for which is cash and Class B shares, attached to Class A shares or Class C shares, or when common shares are delivered by exercising put options, the consideration for which is common shares, attached to Class A shares or Class C shares.</p> <p>The Capital Increase by Third-Party Allotment is subject to approval at the Ordinary General Meeting of Shareholders of the following proposals: Amendments to the Articles of Incorporation and Capital Increase by Third-Party Allotment.</p> |
|--|--|

2. Purpose of and Reason for Issuing Class A Shares

(1) Background to and purpose for issuing Class A shares

Based on the key words “Accelerating Our Growth Strategies,” the Company put in place a three-year

management plan in May 2012 and made efforts to build a structure to accelerate growth and address issues. According to the plan, we aimed to expand the polysilicon business at Tokuyama Malaysia Sdn. Bhd., in order to reinforce the strategic growth business. However, due to the failure to ensure the stabilization of the quality and productivity of semiconductor-grade polysilicon and a worsening business environment caused by a slump in the market of solar-grade polysilicon, we posted large impairment losses for the manufacturing facilities for both grades as a result of considering investment collectability. Consequently, the Company posted extraordinary losses of 88.4 billion yen and 125.7 billion yen in its consolidated financial results for the fiscal year ended March 31, 2015 and the fiscal year ended March 31, 2016, respectively. As a result, consolidated net assets plummeted to 60.2 billion yen (fiscal year ended March 31, 2016) from 236.4 billion yen (fiscal year ended March 31, 2014), and our consolidated shareholders' equity ratio was reduced to 29.3% for the fiscal year ended March 31, 2015 and 12.8% for the fiscal year ended March 31, 2016. To quickly restore the trust of our stakeholders, including business partners with whom we have had close transactions for a long time, it is imperative for us to reinforce the deteriorated shareholders' equity and strengthen the financial platform.

As announced on May 12, 2016, the Company has set "New Foundation" as its vision, and aims to become the world's No. 1 in the field of advanced materials through unique technologies in its growth businesses (Specialty Products, Life & Amenity, and new businesses) and attain Japan's top position in its traditional businesses (Chemicals and Cement) in terms of competitiveness by 2025. As the cornerstone of the Group's revitalization toward achieving those goals, we have formulated a five-year medium-term management plan covering from fiscal 2016 to fiscal 2020. The Company aims to achieve 335.0 billion yen in net sales and 36.0 billion yen in operating income in fiscal 2020 by implementing operational measures in line with the positioning of growth businesses and traditional businesses, as well as carrying out cross-business measures for strengthening the competitiveness of the Tokuyama Factory.

We believe that appropriate and strategic capital expenditures are important to consistently carry out the five-year medium-term management plan for building the "cornerstone of the Group's revitalization" and achieve the plan's numerical targets of net sales and operating income. In the medium-term management plan, we plan to invest a total of 116.0 billion yen over five years, including aggressive investments for expansion of capacity and sales, as well as investments in maintenance and renewal, and for strategic investments limit in M&As, etc. of 20.0 billion yen.

We intend to further expand our businesses and achieve growth by steadily implementing the five-year medium-term management plan, rapidly improving shareholders' equity, which has been impaired to 12.8%, and maintaining and enhancing the trust of stakeholders including our business partners.

Taking such circumstances into account, since February of this year, the Company has investigated and reviewed multiple investors who could contribute the funds required to reinforce the Company's capital. From a small number of candidate allottees who could afford to pay the amount required for the increase in capital, the Planned Allottee who is feasible to meet the conditions has been selected. The Board of Directors

Meeting resolved to issue a total of 20,000,000,000 yen of Class A shares to the said allottee. We consider that this resolution will pave the way for recovering the equity to the former level and stabilizing our financial position as a result, as well as securing the necessary funds for capital expenditures to expand capacity and sales of advanced materials, rationalize investments for strengthening the competitiveness of the Tokuyama Factory, make strategic M&A investments, which will be used specifically for the expansion of aluminum nitride manufacturing facility, which is a part of the aforementioned capital expenditure limit, and some of funds required for M&As, thus contributing to reinforcing the revenue base of the Company's group and enhancing shareholder value in the long run. Through this reinforcement of shareholders' equity, we will fulfill the expectations of our stakeholders, including our shareholders.

(2) Reason for procuring funds through Class A shares

The Company had investigated various options from the perspective of considering the impact on existing shareholders, while attempting to stabilize its financial position at an early stage. Consequently, as mentioned above in "(1) Background to and purpose for issuing of Class A shares," to improve our financial platform against the background of the Company's shareholders' equity being significantly impaired in the financial results for the fiscal year ended March 31, 2016, we believe that it is necessary and appropriate to increase shareholders' equity by procuring funds in the form of capital.

Furthermore, with regard to financing methods, considering the management environment surrounding the Company, its financial position and business performance, and its share price, the Company decided that a capital increase through a public offering of the common shares of the Company and a capital increase through a third-party allotment of its common shares would be inappropriate, because shareholder value could be adversely affected due to the significant dilution of common shares. The Company has concluded that it is more effective to raise funds by issuing class shares, in order to constrain a dilution of common shares, procure the necessary funds with certainty, and stabilize its financial position. To achieve this, we considered experience of investments in class shares, characteristics of investors, amount of financing required, and economic conditions, and investigated investors who were likely to positively study the Company's capital increase through our class shares. Consequently, the Company has judged that the best option is to issue Class A shares to the Planned Allottee, an investor who can agree to the above conditions and understand the Company's business purpose and management policy.

(3) Overview of Class A shares, Class B shares and Class C shares

Class A shares have preference over common shareholders in terms of dividend, and a preferred dividend rate that varies depending on the period is set.

In addition, (i) put options, the consideration for which is cash and Class B shares, (ii) put options, the consideration for which is common shares, (iii) call options, the consideration for which is cash, and (iv) call

options, the consideration for which is cash and Class C shares, are attached to Class A shares. The Planned Allottee cannot exercise put options, the consideration for which is cash and Class B shares, and put options, the consideration for which is common shares, until July 1, 2019, except where certain events occur.

Call options, the consideration for which is cash, attached to Class A shares, are designed to enable partial redemption of 5.0 billion yen. Besides, if the acquisition date based on the said call options and the date of request for acquisition of consideration related to the put options, the consideration for which is cash and Class B shares, or the put options, consideration for which is common shares, are the same and prior to June 30, 2019, the said call options have priority.

By attaching call options, the consideration for which is cash and Class C shares, to Class A shares, if the distributable amount of the Company is greater than a certain amount on the last day of each fiscal year after March 31, 2018, this scheme is designed to reduce the preferred dividend compared to Class A shares and decrease the premium in the case of exercising call options, the consideration for which is cash, by converting an amount equivalent to the paid-in amount for Class A shares to Class C shares.

The Company aims to strengthen its financial base by increasing profits, and make all redemptions in cash.

Individual overviews of Class A shares, Class B shares, and Class C shares are as described below.

Overview of Class A Shares

(i) Preferred Dividends

The preferred dividend rate of Class A shares is set at 5.0% a year until March 31, 2017, 5.5% a year from April 1, 2017 to March 31, 2018, 6.0% a year from April 1, 2018 to March 31, 2019, and 6.5% a year on and after April 1, 2019. Class A shareholders are entitled to receive dividends in preference to common shareholders and in the same priority as Class B shareholders and Class C shareholders. If dividends for Class A shareholders are insufficient in a fiscal year, the said shortfall will be carried over to the following fiscal year and after and cumulative. In principle, Class A shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred dividends.

(ii) Put options, the consideration for which is cash and Class B shares

Put options, the consideration for which is cash and Class B shares, are attached to Class A shares. Although the terms and conditions of the Class A share issuance allow Class A shareholders to request that the Company, at any time on and after the payment date, acquire all or a part of the Class A shares, the consideration of which is cash and Class B shares, the Planned Allottee, through a provision in the Agreement, is entitled to exercise put options, the consideration for which is cash and Class B shares, only on and after July 1, 2019. However, in the Agreement, it has been agreed that the Planned Allottee is entitled to exercise put options, the consideration for which is cash and Class B shares, at any time, even before July 1, 2019, (i) if the Company

and consolidated subsidiaries of the Company breach either financial covenants or any other event of defaults (except minor breaches), set forth in certain loan contracts, etc., as the contracting parties, and the said breach is not remedied within a certain period, (hereinafter, the “Conversion Restriction Removal Reason (i)”), (ii) the Company fails to fulfill its obligations under the Agreement or breaches representations and warranties (except minor breaches) (hereinafter, the “Conversion Restriction Removal Reason (ii)”), or (iii) the Company’s distributable amount, as provided in Article 461, Paragraph 2 of the Companies Act, as of the end of the fiscal year, falls below the amount calculated by multiplying the total numbers of Class A shares and Class C shares, which have been issued (except treasury shares for each share), by 1,050,000 yen, on the day the Company’s Board of Directors approves the financial statements for the latest fiscal year of the fiscal years ending on and after March 31, 2017 (hereinafter, the “Conversion Restriction Removal Reason (iii),” and Conversion Restriction Removal Reason (i) through (iii) shall be collectively referred to as the “Conversion Restriction Removal Reasons.” If the Company becomes aware of any Conversion Restriction Removal Reason occur, or if it receives a notice with regard to the exercise of put options, the consideration for which is cash and Class B shares, the Company will promptly disclose it.

The amount of cash to be distributed if the put options, the consideration for which is cash and Class B shares, are exercised will always be the amount calculated by multiplying the number of Class A shares related to the said put options by the Amount of Class A Residual Assets to Be Distributed. The number of Class B shares to be distributed will be: (i) the number calculated by multiplying the number of the Class A shares related to the said put options by 0.16 if the said put options are requested to be exercised from June 27, 2016 of the payment date to June 30, 2018; (ii) the number calculated by multiplying the number of the Class A shares related to the said put options by 0.18 if the said put options are requested to be exercised from July 1, 2018 to June 30, 2019; (iii) the number calculated by multiplying the number of the Class A shares related to the said put options by 0.20 if the said put options are requested to be exercised from July 1, 2019 to June 30, 2020; and (iv) the number calculated by multiplying the number of the Class A shares related to the said put options by 0.22 if the said put options are requested to be exercised on and after July 1, 2020.

By attaching the said put options, the consideration for which is cash and Class B shares, to Class A shares, it became possible for the Amount of Class A Residual Assets to Be Distributed to be redeemed in cash, so this scheme is designed to restrict dilution compared with the exercise of put options, the consideration for which is common shares. In addition, it has been agreed in the Agreement that if the date of a request for the acquisition of the consideration related to the said put options and the cash consideration redemption date related to call options, the consideration for which is cash which is described later (Class A Cash Consideration Redemption Date), or the date of the acquisition of consideration related to the call options, the consideration for which is cash and Class C shares (Cash and Class C Shares Consideration Acquisition Date), are the same and prior to June 30, 2019, the said call options have priority. Furthermore, by distributing Class B shares as a call premium, in addition to cash in the Amount of Class A Residual Assets to Be Distributed, the preferred dividend rate of Class A shares can be limited to a certain level. Thus, the scheme is designed to ease the financial burden on the Company, compared with the exercise of call options, the consideration for

which is cash. In addition, even if the share price of the Company falls after the issuance of Class A shares, dilution can be limited to a certain level because the lower limit of the acquisition price, which is used for calculations when converting Class B shares into common shares, is fixed to a certain amount, as mentioned below. As described later, it has been confirmed that the Planned Allottee is studying the preferred exercising of the said put options, the consideration for which is cash and Class B shares, after July 1, 2019, in which the Planned Allottee is entitled to exercise the said put options, the consideration for which is cash and Class B shares, voluntarily.

(iii) Put options, the consideration for which is common shares

Put options, the consideration for which is common shares, are attached to the Class A shares. Although the terms and conditions of the Class A share issuance, in principle, allow Class A shareholders to request that the Company, at any time on and after the payment date, acquire all or a part of the Class A shares, the consideration of which is common shares of the Company, the Planned Allottee, through a provision in the Agreement, in principle, is entitled to exercise the put options, the consideration for which is common shares, only on and after July 1, 2019. However, if both of either Conversion Restriction Removal Reason (i) or (ii) and the Conversion Restriction Removal Reason (iii) occur, the Planned Allottee is entitled to exercise the put options, the consideration for which is common shares of the Company, even before July 1, 2019.

In addition, put options, the consideration for which is common shares, can be exercised even after July 1, 2019 only if Conversion Restriction Removal Reason (iii) occurs.

If the Company becomes aware of any Conversion Restriction Removal Reasons occur, or if it receives a notice with regard to the exercise of put options, the consideration for which is common shares, the Company will promptly disclose it.

If put options, the consideration for which is common shares, are exercised, the Company will distribute to Class A shareholders the number of common shares of the Company that are determined by multiplying the number of Class A shares that Class A shareholders requested to be exercised by the Amount of Class A Residual Assets to Be Distributed, and then dividing that product by the acquisition price. The acquisition price in this case is initially 174.8 yen (hereinafter, the "Class A Initial Acquisition Price"), equivalent to the average value of the Volume Weighted Average Price (hereinafter, the "VWAP") in ordinary trading of the common shares of the Company, publicly announced on the Tokyo Stock Exchange, Inc. (hereinafter, the "TSE") over 20 consecutive trading days prior to May 12, 2016. However, the acquisition price will be revised to a value equivalent to 90% of the average VWAP in ordinary trading of the common shares of the Company publicly announced on the TSE over 20 consecutive trading days prior to the date when put options, the consideration for which is common shares first become effective after December 27, 2016 and every six months after the said date (however, the revised acquisition price will neither be less than 80% (139.8 yen) of Class A Initial Acquisition Price, nor greater than 120% (209.8 yen) of Class A Initial Acquisition Price).

The Planned Allottee is not entitled to exercise put options, the consideration for which is common shares,

until June 30, 2019 unless both of either Conversion Restriction Removal Reason (i) or (ii) and the Conversion Restriction Removal Reason (iii) occur. Therefore, the Company aims to avoid a dilution caused by the put options, the consideration for which is common shares, as much as possible by building up its internal reserves and redeeming Class A shares mandatorily using the call options, the consideration for which is cash. In addition, it has been agreed in the Agreement that if the date of the request for acquisition of the consideration regarding said put options and the cash consideration redemption date related to call options, the consideration for which is cash (Class A Cash Consideration Redemption Date), which is described later, are the same, such call options have priority.

Further, when revising the acquisition price, the lower limit of the revised acquisition price is fixed at a certain amount. Therefore, if the Company's share price declines, dilution by put options, the consideration for which is common shares, can be limited to a certain level.

As mentioned above, we believe that sufficient consideration has been also paid to the impact on existing shareholders from the dilution of common shares caused by the issuance of Class A shares.

(iv) Call options, the consideration for which is cash

Any time on and after June 27, 2016, the Company may acquire all or part of the Class A shares in exchange for cash to the extent permissible under laws and regulations on a day to be determined separately by the Company's Board of Directors (hereinafter, the "Class A Cash Consideration Redemption Date"). The amount to be paid by the Company in this case will be the amount calculated by multiplying the amount equivalent to the paid-in amount for Class A shares by the redemption coefficient that is determined depending on the timing of the Class A Cash Consideration Redemption Date, and then adding that product to the Class A accumulated unpaid dividends and the Class A daily prorated unpaid dividends. Specifically, the redemption coefficient is: (i) 1.07, if the Class A Cash Consideration Redemption Date falls between June 27, 2016 and June 30, 2017; (ii) 1.13, if the date falls between July 1, 2017 and June 30, 2018; (iii) 1.19, if the date falls between July 1, 2018 and June 30, 2019; (iv) 1.25, if the date falls between July 1, 2019 and June 30, 2020; and (v) 1.30, if the date is on and after July 1, 2020. In addition, it has been agreed in the Agreement, that if the Class A Cash Consideration Redemption Date and the date of request for acquisition of the consideration related to put options, the consideration for which is cash and Class B shares, attached to Class A shares and Class C shares, are the same and after July 1, 2019, the said put options have priority.

(v) Call options, the consideration for which is cash and Class C shares

Call options, the consideration for which is common shares, are attached to Class A shares. Although the terms and conditions of the Class A share issuance allow the Company to acquire all of the Class A shares in exchange for cash and Class C shares to the extent permissible under laws and regulations, on a day to be determined separately by the Company's Board of Directors (hereinafter, the "Cash and Class C Shares

Consideration Acquisition Date") any time after the day when the Company's Board of Directors approves the financial statements of the Company related to the fiscal year ending March 31, 2018. However, the Company, by a provision in the Agreement, is entitled to acquire all of the Class A shares, based on call options, the consideration for which is cash and Class C shares, only if the Company's distributable amount, as provided in Article 461, Paragraph 2 of the Companies Act, as of the end of the fiscal year, exceeds the amount calculated by multiplying the number of issued Class A shares (excluding treasury shares) by 1,000,000 yen, and then adding 40.0 billion yen to that product, on the day the Company's Board of Directors approves the financial statements for the latest fiscal year of the fiscal years ending on and after March 31, 2018. In addition, it has been agreed in the Agreement that if Cash and Class C Shares Consideration Acquisition Date and the date of request for acquisition of the consideration related to put options, the consideration for which is cash and Class B shares, attached to Class A shares and Class C shares are the same and after July, 1, 2019, the said put options have priority.

The cash to be distributed if Class A shares are acquired based on call options, the consideration for which is cash and Class C shares, will be the total of the Class A accumulated unpaid dividends and the Class A daily prorated unpaid dividends. The number of Class C shares to be distributed will be the ratio of one unit of Class C share to one unit of Class A share.

By attaching the said call options, the consideration for which is cash and Class C shares, to Class A shares, if the distributable amount of the Company is greater than a certain amount on the last day of each fiscal year after March 31, 2018, this scheme is designed to reduce the preferred dividend rate compared with Class A shares and decrease the premium in the case of exercising call options, the consideration for which is cash, by converting an amount equivalent to the paid-in amount for Class A shares to Class C shares.

(vi) Voting rights and restrictions on transfer

The Class A shares do not have voting rights. Any transfer of the Class A shares by requires the approval of the Company's Board of Directors.

Overview of Class B Shares

(i) Preferred dividends

The preferred dividend rate of Class B shares is set at 5.0% a year. Class B shareholders are entitled to receive dividends in preference to common shareholders and in the same priority as Class A shareholders and Class C shareholders. If dividends for Class B shareholders are insufficient in a fiscal year, the shortfall will be carried over to the following fiscal year and after and cumulative. In principle, Class B shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred dividends.

(ii) Put options, the consideration for which is common shares

Put options, the consideration for which is common shares of the Company, are attached to Class B shares. Class B shareholders are entitled to request that the Company, at any time, acquire all or a part of the Class B shares, the consideration for which is common shares of the Company. Besides, it has been agreed in the Agreement that if the date of a request for the acquisition of the consideration related to the said put options and the cash consideration redemption date related to call options, the consideration for which is cash, which is described later (Class B Cash Consideration Redemption Date) are the same, the said call options have priority.

If Class B shareholders exercise the put options, the consideration for which is common shares of the Company, the Company will distribute to Class B shareholders the number of common shares of the Company that are determined by multiplying the number of Class B shares that Class B shareholders requested to be exercised by the total of an amount equivalent to the amount to be paid in, Class B accumulated unpaid dividends, and the Class B daily prorated unpaid dividends, and then dividing that product by the acquisition price. The acquisition price in this case is initially 174.8 yen (hereinafter, the “Class B Initial Acquisition Price”), equivalent to the average value of the VWAP in ordinary trading of the common shares of the Company publicly announced on the TSE over 20 consecutive trading days prior to May 12, 2016. However, the acquisition price will be revised to a value equivalent to 90% of the average VWAP in ordinary trading of the common shares of the Company publicly announced on the TSE over 20 consecutive trading days prior to the date when put options, the consideration for which is common shares, first become effective after December 27, 2016 and every six months after the said date (however, the revised acquisition price will neither be less than 80% (139.8 yen) of Class B Initial Acquisition Price nor greater than 120% (209.8 yen) of Class B Initial Acquisition Price).

(iii) Call options, the consideration for which is cash

Any time on and after the issuance date of Class B shares, the Company may acquire all Class B shares in exchange for cash to the extent permissible under laws and regulations on a day to be determined separately by the Company’s Board of Directors (hereinafter, the “Class B Cash Consideration Redemption Date”). The amount to be paid by the Company in this case will be the amount calculated by multiplying the amount equivalent to the paid-in amount for Class B shares by the redemption coefficient that is determined depending on the timing of the Class B Cash Consideration Redemption Date, and then adding that product to the Class B accumulated unpaid dividends and the Class B daily prorated unpaid dividends. Specifically, the redemption coefficient is: (i) 1.07, if the Class B Cash Consideration Redemption Date falls between June 27, 2016 and June 30, 2017; (ii) 1.13, if the date falls between July 1, 2017 and June 30, 2018; (iii) 1.19, if the date falls between July 1, 2018 and June 30, 2019; (iv) 1.25, if the date falls between July 1, 2019 and June 30, 2020; and (v) 1.30, if the date is on and after July 1, 2020.

(iv) Voting rights and restrictions on transfer

Class B shares do not have voting rights. Any transfer of the Class B shares requires the approval of the

Company's Board of Directors.

Overview of Class C Shares

(i) Preferred dividends

The preferred dividend rate of Class C shares is set at 5.0% a year. Class C shareholders are entitled to receive dividends in preference to common shareholders and in the same priority as Class A shareholders and Class B shareholders. If dividends for Class C shareholders are insufficient in a fiscal year, the said shortfall will be carried over to the following fiscal year and after and cumulative. In principle, Class C shareholders are not entitled to receive dividends of common shares of the Company in addition to the said preferred dividend.

(ii) Put options, the consideration for which is cash and Class B shares

Put options, the consideration for which is cash and Class B shares, are attached to Class C shares. Although the terms and conditions of the Class C share issuance allow Class C shareholders to request that the Company, at any time after the issuance date of Class C shares, acquire all or part of Class C shares, the consideration of which is cash and Class B shares, the Planned Allottee, through a provision in the Agreement, is entitled to exercise put options, the consideration for which is cash and Class B shares, only on and after July 1, 2019. However, if any Conversion Restriction Removal Reasons occur, the Planned Allottee is entitled to exercise the put options, the consideration for which is cash and Class B shares, even before July 1, 2019. If the Company becomes aware of any Conversion Restriction Removal Reasons occur, or if it receives a notice with regard to the exercise of put options, the consideration for which is cash and Class B shares, the Company will promptly disclose it.

In addition, it has been agreed in the Agreement that if the date of a request for the acquisition of the consideration related to the said put options and the cash consideration redemption date related to call options, the consideration for which is cash which is described later (Class C Cash Consideration Redemption Date) are the same and prior to June 30, 2019 the said call options have priority.

The amount of cash to be distributed if the put options, the consideration for which is cash and Class B shares, are exercised will always be the amount calculated by multiplying the number of Class C shares related to the said put options by a total of the amount equivalent to the paid-in amount for Class C shares, the Class C accumulated unpaid dividends, and the Class C daily prorated unpaid dividends. The number of Class B shares to be distributed will be: (i) the number calculated by multiplying the number of Class C shares related to the said put options by 0.16 if the said put options are requested to be exercised before June 30, 2018; (ii) the number calculated by multiplying the number of the Class C shares related to the said put options by 0.18 if the said put options are requested to be exercised from July 1, 2018 to June 30, 2019; (iii) the number calculated by multiplying the number of the Class C shares related to the said put options by 0.20 if the said put options are requested to be exercised from July 1, 2019 to June 30, 2020; and (iv) the number calculated by multiplying the number of the Class C shares related to the said put options by 0.22 if the said put options are

requested to be exercised on and after July 1, 2020.

(iii) Put options, the consideration for which is common shares

Put options, the consideration for which is common shares, are attached to Class C shares. Although the terms and conditions of the Class C share issuance, in principle, allow Class C shareholders to request that the Company, at any time after the issuance of Class C shares, acquire all or part of Class C shares, the consideration of which is the common shares of the Company, the Planned Allottee, through a provision in the Agreement, in principle, is entitled to exercise the put options, the consideration for which is common shares, only on and after July 1, 2019. However, if both of either the Conversion Restriction Removal Reason (i) or (ii), and the Conversion Restriction Removal Reason (iii) occur, the Planned Allottee is entitled to exercise put options, the consideration for which is common shares of the Company, even before July 1, 2019.

In addition, put options, the consideration for which is common shares, can be exercised even after July 1, 2019 only if the Conversion Restriction Removal Reason (iii) occurs.

If the Company becomes aware of any Conversion Restriction Removal Reasons occur, or if it receives a notice with regard to the exercise of put options, the consideration for which is common shares, the Company will promptly disclose it.

In addition, it has been agreed in the Agreement that if the date of a request for the acquisition of the consideration related to the said put options and the cash consideration redemption date related to call options, the consideration for which is cash which is described later (Class C Cash Consideration Redemption Date) are the same, the said call options have priority.

If put options, the consideration for which is common shares, are exercised, the Company will distribute to Class C shareholders the number of common shares of the Company that are determined by multiplying the number of Class C shares that Class C shareholders requested to be exercised by the total of an amount equivalent to the paid-in amount, the Class C accumulated unpaid dividends and the Class C daily prorated unpaid dividends, and then dividing that product by the acquisition price. The acquisition price in this case will initially be 174.8 yen (hereinafter, the "Class C Initial Acquisition Price"), equivalent to the average value of the VWAP in ordinary trading of the common shares of the Company publicly announced on the TSE over 20 consecutive trading days prior to May 12, 2016. However, the acquisition price will be revised to a value equivalent to 90% of the average VWAP in ordinary trading of the common shares of the Company publicly announced on the TSE over 20 consecutive trading days prior to the date when put options, the consideration for which is common shares, first become effective after December 27, 2016 and every six months after the said date (however, the revised acquisition price will neither be less than 80% (139.8 yen) of Class C Initial Acquisition Price nor greater than 120% (209.8 yen) of Class C Initial Acquisition Price).

(iv) Call options, the consideration for which is cash

Any time on and after the issuance date of Class C shares, the Company may acquire all or part of Class C shares in exchange for cash to the extent permissible under laws and regulations on a day to be determined separately by the Company's Board of Directors (hereinafter, the "Class C Cash Consideration Redemption Date"). The amount to be paid by the Company in this case will be the amount calculated by multiplying the amount equivalent to the paid-in amount for Class C shares by the redemption coefficient that is determined depending on the timing of the Class C Cash Consideration Redemption Date and then adding that product to the Class C accumulated unpaid dividends and the Class C daily prorated unpaid dividends. Specifically, the redemption coefficient is: (i) 1.10, if the Class C Cash Consideration Redemption Date is before June 30, 2018; (ii) 1.16, if the date falls between July 1, 2018 and June 30, 2019; (iii) 1.18, if the date falls between July 1, 2019 and June 30, 2020; and (iv) 1.20, if the date is after July 1, 2020. It has been agreed in the Agreement that if the Class C Cash Consideration Redemption Date and the date of request for acquisition of the consideration related to put options, the consideration for which is cash and Class B shares, attached to Class A shares and Class C shares are the same and after July 1, 2019, the said put options have priority.

(v) Voting rights and restrictions on transfer

Class C shares do not have voting rights. Any transfer of the Class C shares requires the approval of the Company's Board of Directors.

3. Amounts, Purpose and Planned Time of Spending Funds Procured

(1) Amounts of funds to be procured

| | |
|----------------------------------|--------------------|
| (i) Total paid-in amount | 20,000,000,000 yen |
| (ii) Estimated issuance expenses | 300,000,000 yen |
| (iii) Estimated retained balance | 19,700,000,000 yen |

* The major components of "Estimated issuance expenses" are registration costs, financial advisers' fees, legal advisers' fees and value analysis costs.

(2) Specific purpose of funds to be procured

| Specific usage | Amount (million yen) | Planned time of spending |
|---|----------------------|--------------------------|
| (i) Investment for introduction and expansion of equipment to realize higher quality and improve productivity toward increasing sales of advanced materials | 9,500 | July, 2016 to June, 2018 |
| (ii) Investment for maintenance and renewal of machinery and equipment, etc., rationalization and others to improve the competitiveness of the Tokuyama Factory | 4,800 | July, 2016 to June, 2019 |
| (iii) Strategic investment in M&A, etc. that will lead to the establishment of stable markets overseas and industrial reorganization. | 5,400 | July, 2016 to June, 2019 |

* The funds will be managed in a bank account until they are actually to be disbursed.

4. Practical Approach to the Reasonableness of Purpose of Funds

By appropriating funds procured by the issuance for the Capital Increase by Third-Party Allotment to capital expenditure for expanding sales of advanced materials, rationalization expenditures for reinforcing the competitiveness of the Tokuyama Factory and investment for growth through strategic M&A investments, etc., we aim to become the world's No. 1 in the field of advanced materials through unique technologies in respect of growth businesses (Specialty Products, Life & Amenity, and new businesses) and attain Japan's top position in traditional businesses (Chemicals and Cement) in terms of competitiveness. This will reinforce the future earnings base and contribute to enhancing our corporate value. Therefore, the Company believes that using the funds as indicated above is reasonable.

5. Reasonableness of Issuing Condition, etc.

(1) Calculation ground for amount to be paid in and its specific contents

In determining the issuing conditions of Class A shares, the Company requested that PLUTUS CONSULTING Co., Ltd. (hereinafter, "PLUTUS CONSULTING"), which is a third party valuation organ independent of the Company, calculate the value of Class A shares to ensure fairness, and obtained a calculation report for Class A shares (hereinafter, the "Calculation Report") from PLUTUS CONSULTING. Under certain assumptions (dividend rate of the Class A shares, put options, the consideration for which is common shares, put options, the consideration for which is cash and Class B shares, call options, the consideration for which is cash, call options, the consideration for which is cash and Class C shares, the Company's share price and its volatility, credit spreads, etc.), PLUTUS CONSULTING has calculated the fair value of the Class A shares using the Monte Carlo Simulation, which is a general calculation model for valuing share options. The Calculation Report states that the price per Class A share is 1,013,000 yen.

Details of the results of the calculation for Class A shares are as follows.

(i) The valuation of Class A shares is 1,013,000 yen per share.

(ii) Main issuing conditions considering the valuation of Class A shares

| Description | Numerical value | Overview of numerical value adopted |
|--|--------------------|---|
| Number of shares to be issued | 20,000 shares | As per the terms and conditions of the Class A share issuance |
| Total issue value | 20,000 million yen | As per the terms and conditions of the Class A share issuance |
| Issue value | 1,000,000 yen | As per the terms and conditions of the Class A share issuance |
| Preferred dividends | 5.0 to 6.5 % | As per the terms and conditions of the Class A share issuance |
| Put options, the consideration for which is cash and Class B shares | - | As per the terms and conditions of the Class A share issuance |
| Put options, the consideration for which is common shares | - | As per the terms and conditions of the Class A share issuance |
| Call options, the consideration for which is cash | - | As per the terms and conditions of the Class A share issuance |
| Call options, the consideration for which is cash and Class C shares | - | As per the terms and conditions of the Class A share issuance |

* Regarding put options, the consideration for which is common shares, and call options, the consideration for which is cash and Class C shares, it is not possible to objectively evaluate the probability of exercising these options while satisfying certain conditions. Therefore, the evaluation is made assuming that these options are not exercised.

(iii) Overview of numerical values adopted

| Description | Numerical value | Overview of numerical value adopted |
|----------------------------------|---------------------|---|
| Class A initial conversion price | 174.8 yen per share | As per the terms and conditions of the Class A share issuance |
| Class B initial conversion price | 174.8 yen per share | As per the contents of the Class B shares |
| Class C initial conversion price | 174.8 yen per share | As per the contents of the Class C shares |
| Duration until maturity | 5.4 years | Duration in consideration of presumable premises of behavior of parties concerned |
| Share price | 171 yen per share | Closing price at the TSE on the valuation record day |
| Share price volatility | 48.17 % | Calculated by seeing share information |

| Description | Numerical value | Overview of numerical value adopted |
|----------------|-----------------|---|
| | | in the most recent period that corresponds to the period up to maturity, on a weekly basis |
| Dividend yield | 0 % | Calculated based on the most recent dividend of common shares |
| Risk free rate | -0.242 % | Used the distribution yield rate of medium-term Japanese government bonds that corresponds to the period up to maturity |

(iv) Valuation model used

| Description | Numerical value | Overview of numerical values adopted |
|--------------------------------|-----------------|---|
| Action by the Company | - | Preferred dividends for each class shares is assumed to be paid in each term. If the Company receives a request for acquisition, the consideration for which is cash and Class B shares, from the allottee, the Company will accept such request. It is assumed that, in a situation where the allottee retains Class B shares, if the conversion price to common shares exceeds the upper limit, the Company will exercise call options and acquire all residual Class B shares. In addition, for certain reasons, which are the conditions for conversion to Class C shares, it is not possible to objectively evaluate the probability of occurrence. Therefore, it is assumed that call options, the consideration for which is cash and Class C shares, will not be exercised. |
| Action by the Planned Allottee | - | It is assumed that the allottee will exercise put options, the consideration for which is cash and Class B shares, appropriately in view of the fund continuance period after the issuance of Class A shares. The evaluation is made on the assumption that in case the share price of the Class B shares acquired is higher than the conversion price to common shares, such class shares will be converted to common shares, as needed, by 10% of the average trading volume and sold in the market, and in case Class B shares remain at the end of the fund continuance period, all of such residual |

| Description | Numerical value | Overview of numerical values adopted |
|-------------------------|-----------------|---|
| | | Class B shares will be sold to any third party at the price to which a specified discount is applied. |
| Calculation method used | - | Monte Carlo Simulation, which is a general calculation model for valuing share options |

The Company determined that the Capital Increase by Third-Party Allotment would not be deemed to be a favorable issuance by comprehensively considering the above valuation results in the Calculation Report of PLUTUS CONSULTING, which is a third party evaluation organ independent of the Company, and considering that the issuing conditions for Class A shares was decided through consultations and negotiations with the Planned Allottee, taking into account the Company's business environment and financial condition. However, because there are no objective market prices for Class A shares, the valuation of class shares is very advanced and complex, and various ways of thinking are possible with regard to the valuation of class shares, the possibility that the paid-in amount for Class A shares under the Companies Act might be favorable for the Planned Allottee in particular cannot totally be denied. Therefore, considering that it was appropriate to confirm the intentions of shareholders, the Company decided to issue Class A shares on the condition that approval by a special resolution at the Ordinary General Meeting of Shareholders would be obtained, for prudence.

(2) Grounds on which the Company determined that the amounts to be issued and the size of the share dilution is reasonable

The Company is financing a total of 20,000,000,000 yen by issuing 20,000 shares of Class A shares.

Considering that the purpose of issuing the Class A shares and the usage of funds, as mentioned above, are reasonable, the Company has determined that the amounts of class shares to be issued are also reasonable.

Although the Class A shares do not have voting rights at general meetings of shareholders, as mentioned previously, a dilution impact might affect existing shareholders due to the exercise of put options, the consideration for which is common shares, attached to Class A shares, or the exercise of put options, the consideration for which is common shares, attached to Class B shares, that will be distributed by the exercise of the put option, the consideration for which is cash and Class B shares, attached to Class A shares. If put options, the consideration for which is common shares, are assumed to be exercised at the lower limit of the acquisition price (139.8 yen) regarding all Class A shares, common shares with a maximum of 143,061 voting rights will be distributed under a situation where a Class A accumulated unpaid dividends and Class A daily prorated unpaid dividends do not exist. This means that the ratio to the total amount of 346,371 voting rights related to the Company's issued common shares based on the shareholders' register as of March 31, 2016 will be approximately 41.3%. In the case that put options, the consideration for which is cash and Class B shares, attached to all Class A shares are exercised at the time as most Class B shares are distributed (that is, the said

put options are exercised after July 1, 2020.) , if all put options, the consideration for which is common shares attached to all Class B shares, to be distributed by the exercise of the above options are exercised at the lower limit of the acquisition price (139.8 yen), common shares with a maximum of 31,473 voting rights will be distributed under a situation where a Class B accumulated unpaid dividends and Class B daily prorated unpaid dividends do not exist. This means that the ratio to the total amount of 346,371 voting rights related to the Company's issued common shares based on the shareholders' register as of March 31, 2016, will be approximately 9.1%. Accordingly, the dilution will be smaller than the maximum dilution caused by the exercise of put options, the consideration for which is common shares, attached to all Class A shares.

Although call options, the consideration for which is cash and Class C shares, are attached to Class A shares, the contents of put options, the consideration for which is cash and Class B shares, attached to Class C shares and put options, the consideration for which is common shares, attached to Class C shares are, in principle, the same as those of put options, the consideration for which is cash and Class B shares, attached to Class A shares and put options, the consideration for which is common shares attached to Class A shares. Therefore, in respect of all Class C shares that will be distributed as a result of all Class A shares being acquired, based on call options, the consideration for which is cash and Class C shares, (i) if put options, the consideration for which is cash and Class B shares, are exercised, thereby distributing Class B shares, and then put options, the consideration for which is common shares, of all the above Class B shares are exercised; and (ii) if put options, the consideration for which is common shares, are exercised, the maximum dilution rate of each case will be the same as the above.

Although share dilution may occur if the common shares of the Company are distributed by exercising the put options of Class A shares, Class B shares, or Class C shares, (i) an increase in shareholder's equity through the Capital Increase by Third-Party Allotment contributes to the stability of financial position; (ii) as it has been agreed in the Agreement that unless Conversion Restriction Removal Reasons occur, the Planned Allottee will not exercise put options until July 1, 2019, three years after the payment date, thereby avoiding early dilution of common shares and securing time to enhance corporate value through the reconstruction of business strategies; (iii) even on and after July 1, 2019, put options, the consideration for which is common shares, that can cause a greater dilution cannot be exercised if the Company has a certain distributable amount on the last day of each fiscal year; (iv) Class A shares, Class B shares, and Class C shares are attached with call options, the consideration for which is cash, that the Company is entitled to exercise any time after the issuance date. The Company can make its own judgment on resorting to mandatory redemption of Class A shares, Class B shares, and Class C shares, thereby preventing the exercise of put options, the consideration for which is common shares, or put options, the consideration for which is cash and Class B shares. Thus, this scheme is designed to avoid dilution (furthermore, regarding the period prior to June 30, 2019, if the dates of the request for the acquisition of the consideration related to the put options, the consideration for which is common shares, and put options, the consideration for which is cash and Class B shares, and the cash consideration redemption date related to call options, the consideration for which is cash, are the same, call options, the consideration for which is cash, have priority); and (v) in order to further

reduce the impact of dilution on existing shareholders, measures have been taken, such as setting the lower limit of the revised acquisition price of any put options, the consideration for which is common shares, attached to Class A shares, Class B shares, and Class C shares. From these perspectives, the Company has concluded that the size of the dilution caused by the issuance of Class A shares is also reasonable.

The Company is scheduled to make a redemption in cash for the entire amount, in order to eliminate the possibility of dilution as much as possible. The Company will appropriately procure funds to invest in growth and build a sound financial position through increased profits.

Call options, the consideration for which is cash and Class C shares, are attached to Class A shares. The Company is entitled to acquire all Class A shares, based on call options, the consideration for which is cash and Class C shares, in case the Company's distributable amount, as provided in Article 461, Paragraph 2 of the Companies Act, as of the end of the fiscal year, exceeds the amount calculated by multiplying the number of issued Class A shares (excluding treasury shares) by 1,000,000 yen, and then adding 40.0 billion yen to that product, on the day the Company's Board of Directors approves the financial statements for the latest fiscal year of the fiscal years ending on and after March 31, 2018. The Company believes that it will be able to ensure the aforementioned distributable amount early by implementing the medium-term management plan, and is scheduled to make cash redemption flexibly in the light of its improved financial condition.

6. Reasons for Selecting the Planned Allottee, etc.

(1) Outline of the Planned Allottees

| | | |
|--|--|---------------------------------------|
| (i) Name | Japan Industrial Solutions Fund I | |
| (ii) Location | 2-2-2 Marunouchi, Chiyoda-ku, Tokyo | |
| (iii) Grounds, etc. for incorporation | Limited Partnership Act for Investment | |
| (iv) Purpose of incorporation | Acquisition of securities | |
| (v) Partnership formation date | November 16, 2010 | |
| (vi) Limited liability partners | Development Bank of Japan Inc. Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi Corporation Deutsche Bank AG, Tokyo Branch | |
| (vii) Summary of operating partner (General partnership) (General partner) | Name | Japan Industrial Solutions Co., Ltd. |
| | Location | 2-2-2 Marunouchi, Chiyoda-ku, Tokyo |
| | Name and title of representative | Shinichi Saito, President and CEO |
| | Business | Acquisition and holding of securities |
| | Capital stock | 100,000,000 yen |

| | | |
|--|---|--|
| (viii) Relationships of the Company with the said fund and the operating partner | Relationship between the Company and the said fund | No direct or indirect contribution was made to the said fund by the Company, parties connected with the Company, or affiliated companies of the Company. |
| | Relationships between the Company and the operating partner | There are no capital, personal, or transactional relationships to be described between the Company and the operating partner of the said fund. |

*1 The capital contribution ratio of the limited liability partners is not described, because the Planned Allottee has not disclosed it.

*2 In the representations and warranties in the Agreement, the Planned Allottee has made a written representation that the Planned Allottee, or its limited liability partners have no relationship whatsoever with antisocial forces. In addition, the Company has confirmed that, through the confirmation of the histories, officers, major shareholders, and establishment status of internal controls systems described in the Annual Securities Report for each limited liability partner of the Planned Allottee and through consultations with representative of the general partner of the Planned Allottee, the Planned Allottee or its limited liability partners have no relationship whatsoever with antisocial forces, and a confirmation letter on such matter has been submitted to the TSE.

(2) Reason for selecting the Planned Allottee

As described in the above “2. Purpose of and Reason for Issuing of Class A Shares,” regarding the polysilicon business at Tokuyama Malaysia Sdn. Bhd., due to the failure to ensure the stabilization of the quality and production of the semiconductor-grade products and a worsening business environment caused by a slump in the polysilicon market for solar-grade products, we posted large impairment losses for both grades of product as a result of considering investment collectability. Consequently, the Company posted extraordinary losses of 88.4 billion yen and 125.7 billion yen in its consolidated financial results for the fiscal year ended March 31, 2015 and the fiscal year ended March 31, 2016, respectively. As a result, consolidated net assets plummeted to 60.2 billion yen (fiscal year ended March 31, 2016) from 236.4 billion yen (fiscal year ended March 31, 2014).

Although this erosion of capital is unlikely to affect the Company’s management immediately, the Company investigated and reviewed multiple investors, who could contribute the funds required to reinforce the Company’s capital in the light of the need to turn around this financial conditions at an early stage and cement the competitive edge in our main operations for the future. Among the small number of allottee candidates, we have decided to issue Class A shares to Japan Industrial Solutions Fund I, which can contribute the funds required to increase the capital of the Company, has solid experience of investing in Japan, and has agreed to the management policy of the Company of improving corporate value in the medium and long term, as well as the purpose of offering Class A shares and its marketability.

The Company and the Planned Allottee have agreed to enter into the Agreement on matters regarding contributions to the Company. A summary is below.

1. Matters the Company must comply with

The Company has given the Planned Allottee a pledge: (i) to make its best and reasonable efforts to achieve the Company's business plan; (ii) to submit to the Company's general meeting of shareholders an agenda and proposal to select a person designated by the Planned Allottee as an External Director of the Company, and make its best and reasonable efforts to have such proposal obtain approval, as far as the Planned Allottee holds more than a specified number of Class A shares and Class C shares; (iii) to establish a monitoring meeting regarding the Company's business plan, etc. and decide the contents thereof through discussions with the Planned Allottee; (iv) to make specified reports on financial conditions, etc. to the Planned Allottee; (v) to obtain prior approval from the Planned Allottee in case the Company (and the Company's consolidated subsidiaries for certain matters) conducts specified matters (such as change the Articles of Incorporation, etc., issue shares, etc., acquire treasury shares, distribute dividend of surplus, dispose of specified important properties, carry out specified reorganization, make specified loans or guarantee, etc., launch bankruptcy disposition procedures, etc., or change the business plan, etc.), as far as the Planned Allottee holds more than a specified number of Class A shares and Class C shares; (vi) with the purpose of enabling a dividend of surplus regarding class shares and acquiring class shares in exchange for cash from the Planned Allottee, to endeavor to generate funds required for a dividend of surplus or the said acquisition and distributable amount as much as possible; and (vii) to discuss with the Planned Allottee a necessary review of the business plan in case the Company and consolidated subsidiaries of the Company breach either financial covenants or any other event resulting in default set forth in specified loan contracts, etc. or breach obligations provided in the Agreement, as the contracting parties.

2. Restriction on exercising put option

The Planned Allottee is not entitled to exercise put options, the consideration for which is cash and Class B shares, attached to Class A shares and Class C share, unless any Conversion Restriction Removal Reasons occur, and is not entitled to exercise put options, the consideration for which is common shares, attached to Class A shares and Class C shares unless both of either Conversion Restriction Removal Reason (i) or (ii) and Conversion Restriction Removal Reason (iii) occur, from the payment date until June 30, 2019.

In addition, prior to June 30, 2019, if the date of the request for acquisition of the consideration related to the above put options and the consideration redemption (acquisition) date regarding call options are the same, the call options will have priority.

Furthermore, the Planned Allottee is entitled to exercise put options, the consideration for which is common shares, attached to Class A shares and Class C shares, only if Conversion Restriction Removal Reason (iii) occurs, even after July 1, 2019.

3. Restrictions on transfer, etc.

The Planned Allottee, without prior approval in writing from the Company, cannot transfer Class A shares, Class B shares, and Class C shares, owned by the Planned Allottee. In addition, if the Planned Allottee, with

prior approval in writing from the Company, transfers Class A shares, Class B shares, and Class C shares that the Planned Allottee owns, the Planned Allottee is required to ensure that the said purchaser of the shares pledges to comply with the obligations of the Planned Allottee provided in the Agreement.

4. Conditions precedent to the payment obligation

The conditions precedent for the Planned Allottee's obligation to pay for the Class A shares are the case in which the Ordinary General Meeting of Shareholders approves the Amendments to the Articles of Incorporation, Capital Increase by Third-Party Allotment, Reduction of Capital Stock, etc., Appropriation of Surplus, election of one person named by the Planned Allottee as External Director of the Company, and others.

(3) Planned Allottees' policies for holding shares

The Company has received an explanation from the Planned Allottee that the Planned Allottee has the policy of holding the Class A shares in the medium term in principle.

The Planned Allottee cannot exercise put options, the consideration for which is cash and Class B shares, attached to Class A shares unless any Conversion Restriction Removal Reasons occur and put options, the consideration for which is common shares, unless both of either Conversion Restriction Removal Reason (i) or (ii) or Conversion Restriction Removal Reason (iii) occur until June 30, 2019.

It has been confirmed that the Planned Allottee is looking at preferably exercising the put options, the consideration for which is cash and Class B shares, after July 1, 2019. If the Planned Allottee exercises put options, the consideration for which is cash and Class B shares, the Planned Allottee will acquire Class B shares through the said exercise. In that case, there is a possibility that the Planned Allottee will acquire common shares of the Company by exercising the put options, the consideration for which is common shares, attached to the Class B shares.

As mentioned previously, put options, the consideration for which is common shares, may be exercised only if Conversion Restriction Removal Reason (iii) occurs, even after July 1, 2019.

Furthermore, pursuant to the Agreement, the Planned Allottee, without prior approval in writing from the Company, cannot transfer Class A shares, Class B shares and Class C shares, owned by the Planned Allottee. Acquiring Class A shares, Class B shares and Class C shares by transfer requires the approval of the Company's Board of Directors. The Company will obtain written confirmation from the Planned Allottee by the payment date that if all or a part of the Class A shares, Class B shares and Class C shares and the common shares of the Company issued by exercising the put option to be allotted are transferred by the Planned Allottee within two years from the payment date, the Planned Allottee shall report the said transfer to the Company in writing (i.e. the name and the address of the transferee, the number of transferred shares, the transfer date, the transfer price, the reason for transfer, the method of transfer, etc.) without delay, and the Planned Allottee will agree that the Company reports the said contents of the report to the TSE, and the said contents will be made publicly available.

(4) Contents confirmed with regard to funds required for the payment by the Planned Allottee

The Company obtained a report that the Planned Allottee will complete preparation of funds required for the payment by the payment date, and the Company has also concluded that funds for the subscription will be fully secured by the payment date by confirming the financial report of the limited liability partners to the Planned Allottee.

7. Major Shareholders after the Offering and Their Shareholding Ratios

(1) Common shares

The number of dilutive shares of Class A shares is not included in the calculation of the major shareholders and shareholding ratio of the common shares after the offering of the Class A shares as it is difficult to reasonably estimate that number at this moment.

| Before the offering (as of March 31, 2016) | After the offering |
|---|--------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) 5.70% | The same as left. |
| Japan Trustee Services Bank, Ltd. (Trust Account) 3.66% | |
| NIPPON LIFE INSURANCE COMPANY 3.11% | |
| The Yamaguchi Bank, Ltd. 2.36% | |
| Meiji Yasuda Life Insurance Company 2.13% | |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. 2.03% | |
| Sojitz Corporation 1.85% | |
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE - AC) 1.74% | |
| Sumitomo Metal Mining Co., Ltd. 1.69% | |
| Mitsubishi UFJ Trust and Banking Corporation 1.67% | |

(Note) In the shareholding ratio in the table above is based on the shareholders' register as of March 31, 2016 and rounded to the second decimal place.

(2) Class A shares

| Before the offering (as of May 12, 2016) | After the offering |
|--|---|
| Not applicable | Japan Industrial Solutions Fund I 100.00% |

8. Future Outlook

The Company aims to stabilize its financial position on a consolidated and non-consolidated basis for the fiscal year ending March 31, 2017 through the issuance of Class A shares. For details of the future outlook, please see the consolidated performance forecast for the fiscal year ending March 2017 set out in the "Summary of Consolidated Financial Statements for Fiscal 2015" released by the Company on May 12, 2016.

9. Procedures of Ethical Actions of a Corporate

As the issuance of these Class A shares will result in the dilution rate to be 25% or more, the Company plans to obtain an approval by a special resolution at the Ordinary General Meeting of Shareholders as an approval procedure of shareholders in compliance with Article 432 in the Securities Listing Regulations provided for by the TSE.

10. Business Results for and Status of Equity Finance in Recent Three Fiscal Years

(1) Business results for recent three years (consolidated)

| | Fiscal Year Ended March 31, 2014 | Fiscal Year Ended March 31, 2015 | Fiscal Year Ended March 31, 2016 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Consolidated net sales | 287,330 million yen | 302,085 million yen | 307,115 million yen |
| Consolidated operating income | 20,270 million yen | 19,530 million yen | 23,071 million yen |
| Consolidated ordinary income | 14,965 million yen | 12,920 million yen | 17,725 million yen |
| Consolidated profit (loss) attributable to owners of parent | 10,218 million yen | (65,349 million yen) | (100,563 million yen) |
| Consolidated basic earnings (loss) per share | 29.37 yen | (187.85 yen) | (289.10 yen) |
| Dividends per share | 6.00 yen | – yen | – yen |
| Consolidated net assets per share | 660.18 yen | 467.36 yen | 147.98 yen |

(2) Current number of issued shares and number of dilutive shares (as of March 31, 2016)

| | Number of shares | Ratio to total number of issued shares |
|--|--------------------|---|
| Number of issued shares | 349,671,876 shares | 100% |
| Number of dilutive shares at current conversion price (exercise price) | – | – |
| Number of dilutive shares at minimum conversion price (exercise price) | – | – |
| Number of dilutive shares at maximum conversion price (exercise price) | – | – |

(3) Recent share prices

(i) Share prices for recent three years

| | Fiscal Year Ended March 31, 2014 | Fiscal Year Ended March 31, 2015 | Fiscal Year Ended March 31, 2016 |
|---------|-------------------------------------|-------------------------------------|-------------------------------------|
| Opening | 259 yen | 341 yen | 250 yen |
| High | 469 yen | 371 yen | 303 yen |
| Low | 225 yen | 233 yen | 130 yen |
| Closing | 338 yen | 252 yen | 174 yen |

(ii) Share prices for recent six months

| | November 2015 | December 2015 | January 2016 | February 2016 | March 2016 | April 2016 |
|---------|------------------|------------------|-----------------|------------------|---------------|---------------|
| Opening | 244 yen | 264 yen | 259 yen | 166 yen | 159 yen | 176 yen |
| High | 282 yen | 276 yen | 264 yen | 184 yen | 179 yen | 196 yen |
| Low | 243 yen | 254 yen | 213 yen | 130 yen | 153 yen | 151 yen |
| Closing | 263 yen | 263 yen | 236 yen | 158 yen | 174 yen | 186 yen |

(iii) Share price on the business day immediately preceding the date of resolution authorizing the issuance

| | May 11, 2016 |
|---------|--------------|
| Opening | 177 yen |
| High | 177 yen |
| Low | 171 yen |
| Closing | 171 yen |

(4) Equity finance for recent three years

Not applicable.

11. Schedule for Issuance of Class A Shares

| | |
|-------------------------|--|
| May 12, 2016 (Thursday) | Resolution of the Board of Directors relating to the Capital Increase by Third-party Allotment and conclusion of the Agreement Resolution of the Board of Directors relating to the Capital Increase by Third-Party Allotment submitted to the Ordinary General Meeting of Shareholders |
| June 24, 2016 (Friday) | Resolution at the Ordinary General Meeting of Shareholders (planned) |
| June 27, 2016 (Monday) | Payment date (planned) |

II. Partial Amendments to the Articles of Incorporation

1. Reasons for Amendments to the Articles of Incorporation

To allow Class A shares, Class B shares and Class C shares to be issued, new provisions in relation to Class A shares, Class B shares and Class C shares, i.e., increasing Class A shares, Class B shares and Class C shares as new classes of shares will be added to the Articles of Incorporation.

2. Schedule for Amendments to the Articles of Incorporation

| | |
|-------------------------|--|
| May 12, 2016 (Thursday) | Resolution of the Board of Directors relating to the Amendments to the Articles of Incorporation Resolution of the Board of Directors relating to proposal of the Amendments to the Articles of Incorporation submitted to the Ordinary General Meeting of Shareholders |
| June 24, 2016 (Friday) | Resolution at the Ordinary General Meeting of Shareholders (planned) Effective date of the Amendments to the Articles of Incorporation (planned) |

III. Reduction of Capital Stock, etc.

1. Purpose of the Reduction of Capital Stock, etc.

For the Company to promptly build its healthy financial position and prepare for a dynamic and flexible capital policy in the future, the Company decided on the Reduction of Capital Stock, etc. to transfer: (i) capital stock and legal capital surplus to other capital surplus; and (ii) legal retained earnings to retained earnings brought forward.

2. Terms and Conditions of the Reduction of Capital Stock, etc.

(1) Amount of capital stock to be decreased

43,458,962,788 yen

(2) Amount of legal capital surplus to be decreased

57,670,181,909 yen

(3) Amount of legal retained earnings to be decreased

4,122,180,058 yen

(4) Method of the Reduction of Capital Stock, etc.

After implementing the Reduction of Capital Stock, etc. in accordance with the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act, the Company will transfer: (i) the entire outstanding balances of capital stock and legal capital surplus to other capital surplus; and (ii) the entire outstanding balance of legal retained earnings to retained earnings brought forward.

3. Schedule for the Reduction of Capital Stock, etc.

| | |
|-------------------------|--|
| May 12, 2016 (Thursday) | Resolution of the Board of Directors relating to the Reduction of Capital Stock, etc. Resolution of the Board of Directors relating to proposal of the Reduction of Capital Stock, etc. submitted to the Ordinary General Meeting of Shareholders |
| May 20, 2016 (Friday) | Public notice with respect to statements of objection by creditors (planned) |
| June 20, 2016 (Monday) | Final deadline for statements of objection by creditors (planned) |
| June 24, 2016 (Friday) | Resolution at the Ordinary General Meeting of Shareholders (planned) Effective date of the Reduction of Capital Stock, etc. (planned) |

4. Future Outlook

The Reduction of Capital Stock, etc. is a transfer appropriation in which capital stock and legal capital surplus in net assets are transferred to the account of other capital surplus and in which legal retained earnings in net assets are transferred to the account of retained earnings brought forward, which does not change the Company's net asset amount and does not have any impact on the Company's performance.

IV. Appropriation of Surplus

1. Purpose of the Appropriation of Surplus

The Company, as indicated in "III. Reduction of Capital Stock, etc." above, will implement the Reduction of Capital Stock, etc. The Company also decided to appropriate surplus in accordance with the provisions of Article 452 of the Companies Act to dispose of deficit in retained earnings brought forward by using a portion of other capital surplus generated by the Reduction of Capital Stock, etc. and general reserve.

The Appropriation of Surplus is subject to the Reduction of Capital Stock, etc. taking effect.

2. Terms and Conditions of the Appropriation of Surplus

(1) Items and amounts of surplus to be decreased

| | |
|-----------------------|--------------------|
| Other capital surplus | 81,928,922,351 yen |
| General reserve | 11,571,000,000 yen |

(2) Items and amounts of surplus to be increased

| | |
|-----------------------------------|--------------------|
| Retained earnings brought forward | 93,499,922,351 yen |
|-----------------------------------|--------------------|

3. Schedule for the Appropriation of Surplus

| | |
|-------------------------|--|
| May 12, 2016 (Thursday) | Resolution of the Board of Directors relating to the Appropriation of Surplus Resolution of the Board of Directors relating to proposal of the Appropriation of Surplus submitted to the Ordinary General Meeting of Shareholders |
| June 24, 2016 (Friday) | Resolution at the Ordinary General Meeting of Shareholders (planned) Effective date of the Appropriation of Surplus (planned) |

4. Future Outlook

The Appropriation of Surplus is a transfer appropriation in which other capital surplus and general reserve in net assets are transferred to the account of retained earnings brought forward, which does not change the Company's net asset amount and does not have any impact on the Company's performance.

(Reference)

Capital stock, legal capital surplus, other capital surplus, legal retained earnings and retained earnings brought forward of the Company before and after the effective date of the Reduction of Capital Stock, etc. and the Appropriation of Surplus.

| | Before coming into effect | After coming into effect |
|-----------------------------------|---------------------------|--------------------------|
| Capital stock | 53,458,962,788 yen | 10,000,000,000 yen |
| Legal capital surplus | 57,670,181,909 yen | 0 yen |
| Other capital surplus | 0 yen | 19,200,222,346 yen |
| Legal retained earnings | 4,122,180,058 yen | 0 yen |
| Retained earnings brought forward | (97,622,102,409 yen) | 0 yen |

V. Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

1. Purpose of the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

As described previously in “1. Purpose of the Reduction of Capital Stock, etc.” in “III. Reduction of Capital Stock, etc.,” in order for the Company to promptly build its healthy financial position and prepare for a dynamic and flexible capital policy in the future, the Company decided on the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares to transfer capital stock and legal capital surplus to other capital surplus.

The Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares is subject to the Capital Increase by Third-Party Allotment taking effect.

2. Terms and Conditions of the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

(1) Amounts of capital stock to be decreased

10,000,000,000 yen

(Composition) 10,000,000,000 yen, the amount equivalent to the “amount of capital stock to be increased” through the issuance of Class A shares.

(As the amount of capital stock will increase by 10,000,000,000 yen at the same time as the payment of the amount to be paid in for Class A shares, the amount of capital stock after the effective date will not decrease from the amount of capital stock prior to the effective date.)

(2) Amount of legal capital surplus to be decreased.

10,000,000,000 yen

(Composition) 10,000,000,000 yen, the amount equivalent to the “amount of legal capital surplus to be increased” through the issuance of Class A shares.

(As the amount of legal capital surplus will increase by 10,000,000,000 yen at the same time as the payment of the amount to be paid in for Class A shares, the amount of legal capital surplus after the effective date will not decrease from the amount of legal capital surplus prior to the effective date.)

(3) Method of the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

After implementing the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares in accordance with the provisions of Article 447, Paragraphs 1 and 3 and Article 448, Paragraphs 1 and 3 of the Companies Act, the Company will transfer the respective entire outstanding amounts of capital stock and legal capital surplus to other capital surplus.

3. Schedule for the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares

| | |
|-------------------------|--|
| May 12, 2016 (Thursday) | Resolution of the Board of Directors relating to the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares |
| May 20, 2016 (Friday) | Public notice with respect to statements of objection by creditors (planned) |
| June 20, 2016 (Monday) | Final deadline for statements of objection by creditors (planned) |
| June 27, 2016 (Monday) | Effective date of the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares (Planned) |

4. Future Outlook

The Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares is a transfer appropriation in which capital stock and legal capital surplus in net assets are transferred to the account of other capital surplus, which does not change the Company's net asset amount and does not have any impact on the Company's performance.

(For reference)

Capital stock, legal capital surplus, and other capital surplus of the Company before and after the effective date of the Reduction of Capital Stock, etc., the Appropriation of Surplus and the Reduction of Capital Stock and Legal Capital Surplus Concurrent with Issuance of Shares.

| | Before coming into effect | After coming into effect |
|-----------------------|---------------------------|--------------------------|
| Capital stock | 10,000,000,000 yen | 10,000,000,000 yen |
| Legal capital surplus | 0 yen | 0 yen |
| Other capital surplus | 19,200,222,346 yen | 39,200,222,346 yen |