

August 30, 2019

Notice of Establishment of a New Company in China for Semiconductor Silicon Wafer Recycling Business

At the meeting of the Board of Directors held on August 30, 2019, we resolved that our Chinese subsidiary, Shanghai Shenhe Thermo-Magnetics Electronics Co., Ltd., and Tongling Development Investment Group Co., Ltd., an investment fund under the Chinese government in Tongling City, Anhui Province, will jointly invest in the establishment of a new company in Tongling City, Anhui Province to enter the semiconductor silicon wafer recycling business.

1. Background to establishment of new company

In China, capital expenditures by semiconductor manufacturers are expected to continue to increase due to the rapid diffusion of IoT, 5G, and EV and the acceleration of the trend toward domestic production of semiconductors caused by the trade conflicts between the United States and China. In this situation, in Hangzhou City, Zhejiang Province, we are currently preparing to mass-produce 200mm and 300mm medium and large diameter semiconductor wafers (200mm: monthly production of 350 thousand wafers, and 300mm: monthly production of 30 thousand wafers (pilot line)) from FY2021. On the other hand, Chinese semiconductor manufacturers are seeing rising demand for recycling services for specialized wafers (monitor wafers), which are used in large quantities to stabilize production lines prior to the start of mass production. Under these circumstances, we believe that this recycling business will generate synergies in the future because it is compatible with our existing businesses by transferring the resources of our semiconductor wafer business and the know-how of our precision recycling and cleaning business. On the other hand, from the viewpoint of the sharing of investment burden, we have decided to establish a new company through joint investment to enter the semiconductor silicon wafer recycling service business, with the fund of the city government, which supports the Tongling Plant in Anhui Province, which plays a central role in our precision recycling and cleaning business.

The new company will be capitalized at 500 million yuan (approx. 7.45 billion yen) and will become our specific subsidiary.

2. Outline of the Sub-subsidiary to be Established

(1) Name	Ferrotec (Anhui) Semiconductor Materials Co., Ltd. (tentative)	
(2) Location	Yi'an District, Tongling City, Anhui Province, the People's Republic of China	
(3) Job Title/Name of Representative	He Xian Han, Representative Director	
(4) Business outline	Recycling service for semiconductor wafers	
(5) Capital	500 million yuan (approx. 7.45 billion yen)* Initial paid-in capital: 100 million yuan (approx. 1.5 billion yen)	
(6) Establishment date	September (planned)	
(7) Major Shareholders and Shareholding Ratio (Plan)	<ul style="list-style-type: none"> · Shanghai Shenhe Thermo-Magnetics Electronics Co., Ltd.: 350 million yuan (about 5.2 billion yen)/70% (Of which, 100 million yuan is planned to be invested in cash and 250 million yuan is planned to be invested in kind) · Tongling Development Investment Group Co., Ltd.: 150 million yuan (approx. 2.2 billion yen)/30% 	
(8) Relationship with our company	Capital relationship	A sub-subsidiary of our company in which our wholly-owned subsidiary Shanghai Shenhe Thermo-Magnetics Electronics Co., Ltd. and Tongling Development Investment Group Co., Ltd. jointly invest
	Personal relationship	None applicable
	Business relationship	There are no business relationships to be noted

Note: exchange rate: 1 yuan = 14.90 yen

3. Future outlook

Detailed project plans are currently under discussion with the Government of Tongling City, and we are planning to announce them at the beginning of the next fiscal year. We expect the impact on our consolidated results for the fiscal year ending March 2020 to be minor, but we will promptly announce any information to be disclosed.