June 30, 2021

Notice of Significant Deficiencies in Internal Control over Financial Reporting that Should be Disclosed

Ferrotec Holdings Corporation (hereinafter "the Company") announces that the Company has identified significant deficiencies to be disclosed in the internal control report for the fiscal year ended March 2021 submitted on June 30, 2021 and indicated that the Company's internal control over financial reporting is not valid pursuant to Article 24-4-4 (1) of the Financial Instruments and Exchange Act. Details are as follows.

1. Details of the significant deficiencies to be disclosed

(1) Deficiency in company-level internal control in a U.S. subsidiary and the Company

Our U.S. subsidiary, Ferrotec (USA) Corporation (hereinafter "FTU"), did not keep records on progress in establishing a framework for internal control over business administration control via telecommuting environment in the wake of the COVID-19 pandemic and the implementation status of the internal control was not evaluated in a timely manner by the end of the current consolidated fiscal year. The internal control manager of FTU did not understand the situation, and the Company as the parent company did not properly manage and instruct FTU, failing to perform proper check functions. This is a deficiency associated with information dissemination and monitoring in company-level internal control at FTU and the Company, and we consider it as a significant deficiency to be disclosed.

(2) Deficiency in the financial closing and reporting process at Chinese subsidiaries

The Company identified matters that should be corrected regarding the accounting process for part of share-based compensation expenses and revised the relevant summary of business results on June 8, 2021 accordingly. The reason behind the correction is that the Company has decided to evenly apportion, for the five years starting in December 2020, the share-based compensation expenses arising in the current consolidated fiscal year at two of our consolidated subsidiaries, Ferrotec (Ningxia) Advanced Quartz Material Co., Ltd. (hereinafter "AQMN") and Hangzhou Dunyuan Juxin Semiconductor Technology Co., Ltd., in relation to the third-party allotment of shares to the employee shareholding association consisting of the directors and employees of the Chinese subsidiaries, as a result of the verification of the coverage period based on discussion with the auditing firm although we recorded the expenses in a lump in the summary of business results issued on May 14, 2021. The revision to the summary of business results resulting from the correction to the accounting process of the non-routine and significant transaction of share-based payment, which is a related-party transaction, is ascribed to the deficiency in the financial closing and reporting process, which we have considered as a significant deficiency to be disclosed.

2. Reason that we failed to correct the deficiencies by the end of the current fiscal year

The Company failed to correct both of the significant deficiencies to be disclosed by the end of the current fiscal year because we identified them thereafter.

3. Policies on correcting the significant deficiencies to be disclosed

Being aware of the importance of internal control over financial reporting, the Company intends to enhance our internal control framework and ensure reliability of our financial reports.

(1) Deficiency in company-level internal control in a U.S. subsidiary and the Company

As the Company is aware that the deficiency was caused because the internal control manager of FTU lacked knowledge of Japan's internal control reporting system and the Company did not sufficiently manage or instruct our group companies regarding internal control, we will take the following preventive measures:

1. The capability of FTU's internal control manager will be improved and the number of the Company's employees responsible for management and instructions regarding internal control of the group companies will be increased.
2. Records of internal control over business administration control at FTU will be maintained while the Company checks how the records are maintained.
3. The Company's internal audit department educates FTU's internal audit manager.
4. The Company will strengthen management by our internal audit department regarding how FTU's internal audit plans are implemented (through quarterly monitoring).

(2) Deficiency in the financial closing and reporting process at Chinese subsidiaries

As the Company is aware that the deficiency was caused because the number of people engaging in accounting at AQMN and the Company was insufficient and the process of managing and verifying non-routine transactions in financial reports was unsatisfactory, we will take the following preventive measures:

1. The number of people in charge of accounting at AQMN and the Company will be increased, and AQMN will be educated in accounting, such as the International Financial Reporting Standards (IFRS), in order to enhance its knowledge.
2. The Company will strengthen our management of AQMN's financial closing and reporting process associated with non-routine transactions.

4. Impact on consolidated financial statements and other documents

The Company has properly revised the consolidated financial statements in order to reflect the items that need to be corrected due to the significant deficiencies to be disclosed.

5. Audit opinions in audit reporting for consolidated financial statements and other documents

The audit opinion is unqualified opinion.