

October 15, 2018

Notice of Capital Investment (Acquisition of Fixed Assets) to a Chinese Subsidiary in the Semiconductor Wafer Business

Ferrotec Holdings Corporation announces that, at the Board of Directors meeting held on October 15, 2018, the Company has resolved to implement capital investment at our subsidiary in China as follows.

1. Background of Capital Investment

In the 200-mm semiconductor wafer business, our subsidiary “寧夏銀和半導體科技有限公司” (original name) (Yinchuan City) is engaged in ingot manufacturing and “上海申和熱磁電子有限公司” (original name) (Shanghai City) is engaged in wafer processing, and we have a monthly production capacity of 100,000 units (primary line). On the other hand, as for future trends in the 200-mm wafer market, vigorous demand is expected not only for logic and memory devices, but also for IoT, automotive sensors and power devices. In response, the Chinese government is actively supporting the development of domestic semiconductor manufacturers to increase the ratio of domestic semiconductor products based on the policy of “China Manufacturing 2025”.

As stated in our press release, "Notice Concerning Alliance with City of Hangzhou and New Company in the Semiconductor Wafer Business," dated September 15, 2017, we established a new company, “杭州中芯晶圓半導體股份有限公司”(original name) (Hangzhou City), as a wholly owned subsidiary of our group, in the “Gangdong Development Zone” in Hangzhou. This is based on an investment agreement with the city of Hangzhou, in order to construct a secondary production system of 200-mm semiconductor wafers with monthly production capacity of 350,000 units. We have made preparations for the selection of facilities and the construction of factories with the technical cooperation of Global Wafers Corporation, the world's third largest semiconductor wafer manufacturer. We hereby announce that the details of the capital investment have been finalized as follows.

In addition, demand for 300-mm wafers, which are targeted for domestic production support by China, is expected to expand to more than 200-mm wafers, and we are currently developing and prototyping ingots at “寧夏銀和半導體科技有限公司” (Yinchuan City) for 300-mm wafers,. The capital investment resolved at this time includes a production line of 300-mm wafers with monthly production capacity of 30,000 units. However, based on the assumption that a mass production system will be established for the 200-mm primary and secondary wafer lines totaling monthly production capacity of 450,000 units, we intend to make careful judgments based on the situation of the technical hurdles that may be bottlenecks, market trends, and the supply-demand gap. At this stage, we have not reached a specific schedule for mass production.

2. Capital investment items

1) Capital investment items

① Build a production system for 200-mm wafers with monthly production capacity of 350,000 units (approx. 51 billion yen) to increase the number of secondary lines

- Ingot production line at “寧夏銀和半導體科技有限公司” (Yinchuan City)
- Wafer processing line at “杭州中芯晶圓半導體股份有限公司” (Hangzhou City)

② Build a production system for pilot lines for 300-mm new wafers with monthly production capacity of 30,000 units (approx. 16 billion yen)

- Ingot production line at “寧夏銀和半導體科技有限公司” (Yinchuan City)
- Wafer processing line at “杭州中芯晶圓半導體股份有限公司” (Hangzhou City)

2) Projected investment amount

Approx. 67.0 billion yen (①+②)

*① includes factory land, buildings, and utilities.

3) Fund Procurement

Plan mainly for loans from financial institutions, leases (deferred payments), government subsidies, and self financing, etc.

*We plan to disclose this information as soon as the resolution is made.

3. Start-up schedule

1) Build a production system for 200-mm wafers with monthly production capacity of 350,000 units to increase the number of secondary lines

- Completion of plant By the end of 2018
- Start of test operation of the equipment FY2019 Q2 period (Chinese year) *Apr-Jun 2019
- Start of mass production FY2019 Q4 period (Chinese year) *Oct-Dec 2019
- Full production system By the end of 2020

2) Build a production system for pilot lines for 300-mm new wafers with monthly production capacity of

30,000 units

- Currently, details such as the schedule have yet to be determined (when the specific timing of development is decided, it is planned to be disclosed)

4. Future outlook

1) 24.0 billion yen, a portion of capital investments for the increase of the 200-mm wafer secondary line, is included in the plan for the fiscal year ending March 2019.

2) We will promptly disclose when arising the impact of this capital investment on our business results in the future.