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**Convocation Notice for Bondholders Meeting of
Covalent Materials Corporation 1st Series Unsecured Bond
(with Inter-Bond Pari Passu Clause)**

To Bondholders:

September 14, 2012
Covalent Materials Corporation

The bondholders are hereby invited to attend the bondholders meeting (the “Bondholders Meeting”) in person or by proxy, to be held in relation to the 1st Series Unsecured Bond (with the inter-bond pari passu clause) (ISIN code: JP330135A829) (the “Bond”) of Covalent Materials Corporation (the “Company”) under the provisions of Article 717 of the Companies Act as follows. If the bondholders are unable to attend the Bondholders Meeting, the bondholders may exercise their voting rights in written form submitted in advance.

1. Date and time of the Bondholders Meeting
October 5, 2012 (Friday) at 2:00 PM (Tokyo time)

2. Venue for the Bondholders Meeting
”Basho” room, U-Port 6th floor
4-13, Nishi-Gotanda 8-chome, Shinagawa-ku, Tokyo

3. Purpose of the Bondholders Meeting
Partial amendment to the Terms and Conditions of the Bond

(1) Substance of the Proposal

The Terms and Conditions of the Bond shall be amended as follows:

(The underlined parts indicate the portions to be amended)

Current	Amended
4. Interest Rate 2.87% per annum	4. Interest Rate 2.87% per annum <u>on or before February 18,</u> <u>2013, and 4.25% per annum on or after</u>

	<u>February 19, 2013</u>
6. Redemption Price <u>JPY 100 per face value of JPY 100 of Each Bond</u>	6. Redemption Price <u>The redemption price shall be as provided in Condition 8.</u>
8. Methods and Date of Redemption <u>(1) The Company shall redeem all principal amount of the Bonds on February 18, 2013 (the “Maturity Date”).</u> <u>(2) If the date on which the Bonds shall be redeemed falls on a bank holiday, the Bonds shall be redeemed on the business day preceding such Redemption Date.</u> <u>(3) The Bonds may be purchased and cancelled at any time on or after the date following the Payment Date, unless otherwise provided by the Book-Entry Institution set forth in Condition 20.</u>	8. Methods and Date of Redemption <u>(1) The Company shall redeem part of the principal amount of the Bonds, in the aggregate amount to the nearest but not exceeding the amount whichever is higher obtained by either of (i) deducting (x) the aggregate amount paid or to be paid for the Bonds agreed to be purchased by the Company during the period from October 15, 2012 to December 31, 2012 in accordance with the purchase offer for all holders of the Bonds (the “Bondholders”) at the purchase price of JPY 76 per face value of JPY 100 of Each Bond with the maximum purchase amount of JPY 28,000,000,000 in the face value from (y) JPY 21,300,000,000, or (ii) deducting (x) JPY 3,000,000,000 and the aggregate purchase price of the Bonds through the purchase offer as set forth above (excluding the amount already paid) from (y) the aggregate amount of the cash and deposit and liquidity securities as shown on the consolidated balance sheet of the Company as of December 31, 2012, at JPY 100 per face value of JPY 100 of Each Bond. The redemption amount per Each Bond shall be the maximum</u>

JPY 1,000,000 or an integral multiple thereof as calculated by the above formula. The Company shall make a public notice of the redemption amount per Each Bond by January 31, 2013.

(2) With regard to the remaining principal amount of the Bonds, the total amount shall be redeemed at JPY 110 per remaining principal amount of JPY 100 of Each Bond on February 18, 2017. However, with regard to the early redemption and the redemption at the option of the Bondholders, the amount to be redeemed shall be as provided in this Condition, Item (3) and Item (4).

(3) The Company may redeem, before maturity, all or part of the principal amount of the then outstanding Bonds, along with the payment of accrued interest up to the relevant redemption date at the price per face value of JPY 100 of Each Bond set forth in Item (5) below on any interest payment date commencing on February 18, 2013 by making a three weeks prior public notice.

(4) Redemption at the option of the Bondholders

(a) If (i) the aggregate number of voting rights registered on the Company's shareholders' register of Carlyle Japan Partners II, L.P., Carlyle Japan International Partners II, L.P., CJP Co-Investment II A, L.P., CJP Co-Investment II B, L.P., Unison Capital Partners II, (F), L.P., Unison Capital

Partners II, L.P., UC Mask Investors 2 (F) L.P., UC Mask Investors L.P. and UC Mask Investors (F), L.P. falls below two-thirds of the aggregate number of voting rights of all shareholders of the Company, or (ii) the Company sells or transfers all or substantially all of assets or business or suspends all or substantially all of its business (except in connection with or in pursuance of a merger, consolidation, amalgamation or other corporate or group reorganization and the surviving corporation, the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Company under the Bonds) (collectively, the “Change of Control Event”), the bondholders may, at any time thereafter, request the Company to repay the Bonds at any time thereafter. In this case, the Company shall redeem all of the Bonds requested for redemption at the price per face value of JPY 100 of Each Bond set forth in Item (5) below within 30 days after the effective date of such request.

(b) The Company shall make a public notice of the occurrence of the Change of Control Event and other matters the Company deems necessary in accordance with Condition 15 and notify the same to the Paying Agent set forth in Condition 13 promptly after the occurrence of the Change of Control Event.

(c) A Bondholder who intends to request redemption shall notify its request for redemption to the Company in

accordance with the reasonable procedure set forth by the Company.

(d) The request for redemption of the Bonds shall become effective when the notice of matters required therefor reaches the Company.

(5) The redemption amount when the Company redeems the Bonds pursuant to Items (3) and (4) shall be the following amount per face value of JPY 100 of Each Bond:

(i) JPY 101.25 during the period from February 19, 2013 to August 18, 2013

(ii) JPY 102.50 during the period from August 19, 2013 to February 18, 2014

(iii) JPY 103.75 during the period from February 19, 2014 to August 18, 2014

(iv) JPY 105 during the period from August 19, 2014 to February 18, 2015

(v) JPY 106.25 during the period from February 19, 2015 to August 18, 2015

(vi) JPY 107.50 during the period from August 19, 2015 to February 18, 2016

(vii) JPY 108.75 during the period from February 19, 2016 to August 18, 2016

(ix) JPY 110 during the period from August 19, 2016 to February 18, 2017

(6) When the Bonds are redeemed partially pursuant to Item (1) or (3), Each Bond shall be redeemed partially on pro-rata basis.

(7) If the date on which the Bonds shall be redeemed (including the date on which the Bonds are redeemed before maturity in accordance with Item (3) above, the “Redemption Date”) falls on a bank

	<p>holiday, the Bonds shall be redeemed on the business day preceding such Redemption Date.</p> <p>(8) The Bonds may be purchased and cancelled at any time on or after the date following the Payment Date, unless otherwise provided by the Book-Entry Institution set forth in Condition 20.</p>
<p>11. Financial Covenants</p> <p>(1) Negative Pledge Provisions</p> <p><u>In case the Company create any security interest on the unsecured bonds issued or to be issued by the Company in Japan other than the Bonds, the Company must accord or procure to accord the Bonds the same security as is granted in respect of such bonds in accordance with the Act on Trust for Secured Bonds, unless such bonds carries a provision as to alteration into secured bonds as defined in item (2) below.</u></p> <p>(2) <u>Other provisions</u></p> <p><u>The Bonds do not have any provision as to alteration into secured bonds and other financial covenants. The provision as to alteration into secured bonds means a provision setting forth that the Company shall create security interest on the bonds or may create security interest on the bonds at any time for the purpose to waive the acceleration due to certain triggering event regarding the financial indices of the Company.</u></p>	<p>11. Financial Covenants</p> <p>(1) Negative Pledge Provisions</p> <p><u>So long as any of the Bonds remains outstanding, the Company shall not, and shall procure that no subsidiary of the Company will, create any security interest other than the Permitted Liens upon the Company's or such subsidiary's assets, present or future, to secure any debt or debts (as defined below) without in any such case at the same time according or procuring to be accorded to the Bonds the same security as is granted to in respect of such debt or debts, provided however that the Company may create security interest for the borrowing for the purpose of procurement of funds for the full redemption of the Bonds. In addition, the Company or its subsidiaries may create security interest upon any of the properties or assets of the Company or its subsidiaries to secure any debt or debts in an aggregate amount at any time outstanding not greater than JPY 3,000,000,000.</u></p> <p><u>Permitted liens are:</u></p>

including the covenants to maintain certain level of net assets or that the Company.

- a. security interest for the purpose of borrowing from Japan Bank For International Cooperation (against exported goods) and such provision of security interest is required by laws or regulations
- b. security interest for the borrowing for the acquisition of property and upon such property
- c. security interest existing on property at the time of its acquisition (including through merger, share exchange, share transfer, corporate split or other corporate reorganization proceedings)
- d. security interest on property of any subsidiary of the Company existing at the time when such subsidiary became a subsidiary of the Company
- e. security interest existing as of September 13, 2012 (the debt secured by such security interest is hereinafter referred to as the “Existing Secured Debt”)
- f. security interest on borrowings as renewal or refinancing of the Existing Secured Debt or Permitted Liens, including replacement of assets for lien
- g. security interest for the sellers of raw materials and other

security interest necessary for the ordinary course of business

In this Item (1), Condition 11, the “debt or debts” means bonds, loan or other indebtedness.

(2) Sinking Fund

(i) 75% of Excess Cash Flow (as defined below) for 6 months ending on the end of each annual or semi-annual fiscal period starting with the period ending September 30, 2013 (if the amount obtained by deducting 75% of Excess Cash Flow from Cash and Deposit on consolidated basis on the end of such fiscal period or semi-annual fiscal period is less than JPY 3,000,000,000, the amount obtained by deducting JPY 3,000,000,000 from such Cash and Deposit, and if Cash and Deposit is not more than JPY 3,000,000,000, zero) and (ii) 90% of net proceeds (the amount obtained by deducting the amount repaid for the debt secured by the relevant assets and reasonable fees and costs from sales price) from any asset sales (other than those assets subject to any Permitted Liens, sale of assets during the ordinary course of business of the Company, or the sales the net proceeds of which is less than ¥100,000,000) will sweep into the Sinking Fund for the benefit of the holders or creditors of the Bonds and Existing Secured Debt within 7 business days after the date of the announcement of financial information for the period ending such dates (in the case of (i)) or actual receipt of such proceeds (in

the case of (ii)), as the case may be. All money swept into the Sinking Fund will be set aside and kept in a bank account of the Company separately opened for the purpose therefor, and shall be maintained with a financial institution with which the Company does not have credit facilities, except that, while the Existing Secured Debt remains outstanding, the bank account for the Sinking Fund may be maintained with the creditor of the Existing Secured Debt. The Company shall not use such money swept into the Sinking Fund for any purpose other than redemption or repayment of the Bonds or the Existing Secured Debt. The deposit may be pledged in favor of the creditor of the Existing Secured Debt, while the Existing Secured Debt remains outstanding an only in the amount of the Existing Secured Debt.

In this Item (2), Condition 11, "Excess Cash Flow" means the amount obtained by deducting Purchases of Tangible and Intangible Fixed Assets, Cash Interest Expense, mandatory principal repayments on secured indebtedness, Cash Taxes, Changes in Trade Receivables, Changes in Inventory Assets and Changes in Account Payables (increase or decrease in Trade Receivables and Inventory Assets shall be deducted or added, respectively, and decrease or increase in Account Payables shall be deducted or added, respectively) from

	<p><u>the total amount of Operating Income, Depreciation and Amortization based on annual or semiannual consolidated financial statements of the Company (if the obtained amount is less than zero, the amount shall be zero).</u></p> <p>(3) <u>Restricted payments</u></p> <p><u>So long as any of the Bonds remains outstanding, the Company shall not pay the principal nor interest of any debt subordinated to the Bonds, acquire any preferred shares (including acquisition by the Company of the shares pursuant to the exercise of the rights to request the Company to acquire shares) or distribute dividends to its shareholders.</u></p> <p>(4) <u>Restriction on indebtedness</u></p> <p><u>So long as any of the Bonds remains outstanding, the Company shall not incur any debt (bonds and any indebtedness for borrowed money) other than those related to Permitted Liens</u></p>
<p>14. Covenants in respect of Event of Default</p> <p>(2) The Company defaults in the performance or observance of the provisions of Condition 11, <u>item (1).</u></p>	<p>14. Covenants in respect of Event of Default</p> <p>(2) The Company defaults in the performance or observance of the provisions of Condition 11, <u>and such default is not remedied within 30 days;</u></p>
<p>(New)</p>	<p><u>22. Regular Reports to the Bondholders</u></p> <p>(1) <u>The company shall publish the semi-annual financial statements by posting to the Company's website no</u></p>

	<p><u>later than 45 days after the close of each half fiscal year.</u></p> <p>(2) <u>The Company shall announce the annual financial statements by posting to the Company's website no later than 60 days after the close of each fiscal year.</u></p> <p>(3) <u>The Company shall hold annual and semi-annual earnings conference as soon as practicable, but in no event no later than 10 days after the posting of financial statements on the Company's website. Conference calls will include an earnings presentation given by relevant Company management and question time thereafter for the Bondholders. The Company shall make reasonable effort to make it possible for the Bondholders to participate in the conference through telephone conference system.</u></p>
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(2) Reason for the Proposal

The Company has completed a business transfer of its silicon wafer business to Sino-American Silicon Products Inc., (Taiwan) on March 29, 2012, and is currently concentrating its corporate resources on the highly competitive ceramics business, and focusing on establishing corporate structures that ensure profitability and lead to continuous growth as a specialized ceramics manufacturer. However, as at the end of March 2012, the Company did not hold sufficient funds to cover the redemption amount of 53.3 billion yen of the outstanding Bonds by the redemption date of February 18, 2013. Therefore, there was a situation that could lead to doubts in the Company's status as a going concern at the end of the latest fiscal year. This situation has not changed to this day. In order to overcome this situation, the Company has implemented structural reforms, led by the radical review of unprofitable businesses, special invitations for early retirement, a reduction of fixed charges, and seeking to enhance the Company's profitability and stabilize its cash management including funding. However, the

Company is facing difficulty in funding the redemption amounts of all of the outstanding Bonds by the redemption date in February 2013. The financial condition of the Company must be promptly stabilized and doubts in the Company's status as a going concern need to be promptly dispelled, in order for the Company to continue business. For this purpose, the Company has examined various options including partial extension of maturity date of the Bonds. Based on these examinations, the Company, with the intention to provide the bondholders who desire to recover their investment at an early date with an opportunity to sell the Bonds, made a decision to make an offer to purchase the Bonds at a discount price of 76 million yen per 100 million yen principle amount of the Bond, up to approximately 21.3 billion yen, the excess cash flow amount after deduction of the required working capital, on or before the end of December 2012, on the condition, among other things, that the agenda is approved at the bondholder meeting and that the court's approval is obtained. In addition to the above, the Company determined to propose to make a partial redemption of the Bonds on February 18, 2013 in the amount obtained by deducting the aggregate amount of the purchase price for the Bond to be acquired through the Purchase Offer from (i) 21.3 billion yen or (ii) the aggregate amount of cash deposit and liquidity securities as at the end of December 2012 (excluding the amount already paid for the Purchase Offer) minus 3 billion yen, whichever is higher, and extension of the maturity date for the remaining amount to February 18, 2017. Simultaneously, in order to obtain the bondholders understanding for the extension of the maturity date, the Company determined to propose amendments to the conditions of the Bonds, including increase in the annual interest rate of the Bond effective on and after February 19, 2013 from 2.87% to 4.25% and semi-annual increase of the redemption amount effective on and after February 19, 2013 at an annual rate of 2.5%.

(3) Supplementary Disclosure

- i. Please send Certification under Article 86 (the document certifying matters set forth in each of the Items of Article 68, Paragraph 3 of the Act on Book-Entry Transfer of Company Bonds, Shares, etc. (the "Book-Entry Transfer Act") delivered by an immediate account management institution or book-entry institution under Article 86, Paragraph 3 of the aforementioned Act) of the Bond to the Company, to the addressee below, as required by the provisions of Article 86, Paragraph 2 of the Book-Entry Transfer Act, no later than September 27, 2012 (Thursday), one week prior to the date of the Bondholders Meeting, if the bondholders wish to vote at the Bondholders Meeting. In addition, Certification under Article 86, submitted by the bondholders, shall be held temporarily by the Company until the end of the Bondholders Meeting. Please present an original "receipt" delivered by the Company to the bondholders in return for the receipt of Certification under Article 86, when

attending the Bondholders Meeting.

- ii. Please make sure to send the voting form to the addressee below no later than 5:00 PM (Tokyo time) on October 4, 2012 (Thursday), if the bondholders wish to exercise their voting rights in writing. In the case where the bondholders exercise their voting rights more than once to the same proposal and such voting differ from each other, then the last exercise of the voting rights shall be treated as effective.
- iii. If no directions for “approval”, “rejection” or “diverse exercise” is given to the voting form, such voting form will be treated as “approval”.
- iv. Please contact the addressee below for the reference materials and the voting form for the Bondholders Meeting.

(Note) Below is the presentation and delivery address for Certification of Article 86 and the voting form, and contact regarding the Bondholders Meeting:

6-3, Osaki 1-chome, Shinagawa-ku, Tokyo 141-0032, Japan
Accounting & Finance, Finance Group,
Covalent Materials Corporation
(TEL +81-3-5437-8405 E-mail IR-contact@covalent.co.jp)