

# COVALENT

Covalent Materials Corporation  
Nissei Bldg., 6-3, Osaki 1-chome, Shinagawa-ku,  
Tokyo 141-0032, Japan

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This press release may not be published, distributed or diffused in the United States of America.

This press release is not an extension into the United States of the offer mentioned herein. Please see the important notice at the end of this press release.

August 21, 2012

To Bondholders:

Covalent Materials Corporation

**Re: Offer to Purchase the 1<sup>st</sup> Series Unsecured Bonds**

At its board of directors meeting held today, Covalent Materials Corporation (the "Company") passed a resolution to implement procedures of offer to purchase ¥55 billion (outstanding balance of ¥53.3 billion) in total of the 1<sup>st</sup> Series Unsecured Bonds of the Company (with inter-bond pari passu clause) that the Company issued on February 18, 2008 (ISIN Code: JP330135A829) (the "Bonds") from all bondholders, on the condition, among other things, that amendments the terms and conditions of the Bonds, including the extension of the maturity date (the "Term Amendment"), are approved at a bondholders meeting (the "Bondholders Meeting"). The offer to purchase (the "Purchase Offer") will be made under the conditions set forth below, and will commence after the court approval of the resolution on the Term Amendment at the Bondholders Meeting. The Company plans to cancel the entire amount of the Bonds purchased through the Purchase Offer promptly after such purchase.

This offer is only open to existing bondholders and any other persons with an entitlement to the Bonds. No new bonds will be issued to any new investors upon the Term Amendment.

For the detail of the Term Amendment and the Bondholders Meeting, please refer to the press release "Re: Holding of Bondholders Meeting concerning Amendment to the Terms and Conditions (Extension of Maturity Date, etc.) of the 1<sup>st</sup> Series Unsecured Bond", dated July 30, 2012 (the "July 30 Release").

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## 1. Bonds to be Purchased

Covalent Materials Corporation the 1<sup>st</sup> Series Unsecured Bonds (with inter-bond pari passu clause)  
(ISIN Code: JP330135A829)

Overview of the Bonds (for reference)

Issue date:	February 18, 2008
Total issue amount:	¥55 billion (outstanding balance ¥53.3 billion)
Maturity date:	February 18, 2013 (before the Term Amendment) (see note below)
Interest rate:	2.87% per annum

(Note) The following changes are proposed for the Term Amendment:

- |                       |  |
|-----------------------|--|
| (1) February 18, 2013 | Redemption of ¥40 million per ¥100 million of each Bond<br>(current maturity date) |
| (2) February 18, 2017 | Redemption of ¥20 million per ¥100 million of each Bond                            |
| (3) February 18, 2018 | Redemption of ¥20 million per ¥100 million of each Bond                            |
| (4) February 18, 2019 | Redemption of ¥20 million per ¥100 million of each Bond                            |

The interest rate of the Bonds will not change from the current rate of 2.87% per annum.

## 2. Purchase Price

¥60 million per ¥100 million of each Bond

## 3. Maximum amount of Bonds to be Purchased

¥53.3 billion (total amount of outstanding balance of the Bonds)

## 4. Scheduled for Procedures relating to the Purchase Offer

The Company plans to commence the procedures of offer to purchase the Bonds for all bondholders after the Term Amendment is approved at the Bondholders Meeting and such resolution is approved by the court, on the condition, among other things, that financing for the purchase through the Purchase Offer can be expected with certainty. The Company intends to promptly inform the bondholders of the commencement date and end date of the offer period relating to the Purchase Offer, the settlement date for purchase, and the details of the procedures of the Purchase Offer after the court approval above. The settlement date for purchase is to be a date no later than the day before February 18, 2013, which is the first redemption date after the Term Amendment.

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## 5. Purpose of the Purchase Offer

The Company is proposing the Term Amendment to all bondholders of the Bonds, and the Company intends to implement the Purchase Offer in order to offer to all bondholders of the Bonds an opportunity to recover their funds at the purchase price for the Bonds at an earlier date by means of the Purchase Offer, in addition to the option to hold the Bonds after the Term Amendment.

## 6. Other

The Company plans to commence the Purchase Offer for all bondholders, on the condition that the Term Amendment is approved at the Bondholders Meeting in its original form and such resolution is approved by the court.

Further, for the purpose of implementation of the Purchase Offer, the Company has received letters of intent, from Aozora Bank, Ltd. and The Tokyo Star Bank, Limited that they intend to make a loan for the purpose only to the funding for the purchase of the Bonds through the Purchase Offer on a certain conditions, and letters of intent from the fund to which Carlyle Japan LLC provides advisory service and Unison Capital group that they intend to provide funding through SPV co-founded by them for the purpose only to the funding for the purchase of the Bonds through the Purchase Offer on a certain conditions. The Company has reached a basic agreement with each lenders or fund providers in regard to discussion and other proceedings hereafter toward entering into definitive agreements related to the above-mentioned financing arrangement.

## 7. Briefing Session for Bondholders

The Company plans to hold on August 29, 2012 the briefing session as announced in the press release “Re: Briefing Session for Bondholders of the 1<sup>st</sup> Series Unsecured Bonds”, dated August 10. At the meeting, the Company intends to also explain the Term Amendment and the Purchase Offer. For details regarding such meeting, please refer to the press release “Re: Briefing Session for Bondholders of the 1<sup>st</sup> Series Unsecured Bonds”, dated August 10. You are cordially invited to attend.

In addition, as stated in the July 30 Release, the Company may make further communications with individual bondholders for coming notification. For that purpose, bondholders who have not heretofore provided such information are kindly requested to send the following information by email or facsimile to the Company at the contacts listed below: (1) trade name, headquarters location and name of representative (for corporations) or name and address (for individuals), (2) contact information (person in charge, address, telephone number, facsimile number and email address) and (3) information on the amount of Bonds held. After hearing from you, the Company

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intends to send notices directly to you to the extent reasonably possible.

In addition to seeking the support of financial institutions, the Company is presently pushing forward on a number of fronts to improve financial strength and stability, and making every effort to build a corporate platform designed to ensure profitability and continued growth. The Company deeply apologizes for causing tremendous burdens and issues for bondholders and will act to implement a thorough business restructuring with the strongest resolve. The Company hopes to receive your continued support in the future.

\* For inquiries regarding the bondholders meeting, purchase offer and briefing session for bondholders:

Accounting & Finance, Finance Group,

Covalent Materials Corporation

(E-mail: IR-contact@covalent.co.jp TEL: +81-3-5437-8405 FAX: +81-3-5437-7254 )

**Note:**

**This press release may not be published, distributed, diffused or otherwise sent into the United States of America (including its territories and possessions, every State in the United States and the District of Columbia). This press release does not constitute an extension into the United States of the tender offer mentioned in this press release.**

**The contents of this press release have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this press release, you should obtain independent professional advice.**

**Nothing in this press release is intended to be an offering of any Bonds or any form of securities in Hong Kong, by means of any document. Any offer to repurchase the Bonds is only available to existing holders of the Bonds who are (a) "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made thereunder; or (b) in other circumstances which do not result in the press release or any accompanying document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong ("CO") or which do not constitute an offer to the public within the meaning of the CO.**

**No advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been or will be issued other than with respect the Bonds which are or are intended to be acquired only from persons outside Hong Kong or only from existing holders of the Bonds who are "professional investors" as defined in the SFO and any rules made thereunder or whose dealings are otherwise permitted under the SFO or the CO.**