

ETIC to Provide Support to Yamagiwa Corporation

April 15th, 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Yamagiwa Corporation under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”).

1. Name of persons or companies concerned
Yamagiwa Corporation (hereafter “Yamagiwa”)
2. Name of the financial institution jointly applying for rehabilitation support with Yamagiwa
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (hereafter “BTMU”)

3. Outline of business revitalization plan
Please see appendix

4. Comments from State Ministers in charge of ETIC
Prime Minister, Minister of Internal Affairs and Communications, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: *“I have no objection to the decision to support Yamagiwa. However, I ask that after reaching the decision to support, ETIC should encourage Yamagiwa to discuss the situation with employees of the company as soon as possible. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC should aim to ensure that Yamagiwa complies with related laws and regulations, and that Yamagiwa also provides adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”*

5. Comment from State Minister supervising business activities
Minister of Economy, Trade and Industry: *“Currently, LED lighting technology is progressing rapidly, and given the high degree of freedom available in the design and specification process, the LED lighting segment is expected to shift toward high added-value products with superior functionality and design. Yamagiwa has an*

excellent track record in the field of lighting design, and revitalizing the company in a way that leverages this strength also has merit as a means of guiding the direction of growth for Japan's LED lighting industry. For this, I hope that ETIC should guide the company to the steady progress in the revitalization."

6. Debt purchase application period

From Friday, April 15th, 2011 for receipt by ETIC no later than Wednesday, June 22nd, 2011

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt purchase period as per item 6 above.

8. Treatment of trade and general credits

The decision by ETIC to provide support involves requesting financial support only from the financial institutions providing the loans to Yamagiwa. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade and general creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Yamagiwa's core business is in lighting products, where the company's brand is widely known as high added value lighting equipment ("brand strength") provider. The company also focuses on lighting for high quality architectural spaces, specializing in designing and manufacturing to special order lighting solutions that meet the particular needs of individual building layouts, and highly recognized for its work in art galleries, high-end hotels and other facilities requiring sophisticated lightings ("superior customer base"). Based on the company's aforementioned brand strength and sophisticated lighting solutions, and leveraging the company's high-end building design office and skilled design professionals, Yamagiwa has built up a strong customer base of superior clients operating at the leading edge of lighting quality ("superior customer base"). The brand strength, sophisticated lighting solutions and superior customer base are intrinsic to Yamagiwa, and need to be leveraged to help develop Japan's lighting industry in the midst of a turning

point for the industry worldwide.

By making use of the management resources noted above, Yamagiwa is not only selling high quality lighting equipment for the high end of the market, but is also contributing to improving the quality of Japan's culture and lifestyle by using its design skills and product quality in medical facilities, museums, art galleries and other public institutions ("improving culture and lifestyles"). At the same time, by promoting the development of high quality next-generation LED products in recent years, Yamagiwa has been contributing to the adoption of pro-environment technology ("promoting green technology").

In addition, in the context of the substantial physical, personal, and economic damages sustained by Japan in the recent earthquake and tsunami on the Pacific northeast coast, Yamagiwa, as part of the lighting equipment industry, can be expected to play an active role in supporting the restorations of the affected region, which means that the decision to support the company will contribute in some part to realizing the earliest possible recovery from the disaster ("providing "lights" for city infrastructure and contributing to restoration").

9.2 Role of ETIC

In deciding to support Yamagiwa, ETIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Implement a capital injection of ¥500 million
- (3) Guarantee 50% of a maximum of ¥500 million in new financing
- (4) Supply management personnel

With regard to (1) above, ETIC will reduce excessive interest-bearing debt and improve the financial condition of Yamagiwa by requesting debt forgiveness from financial institutional creditors. With regard to (2), ETIC will underwrite the issue of ¥500 million in ordinary shares, thereby providing funding necessary for structural reform and other such matters. (The underwriting amount is the total from acquiring shares in the Continuing Company (see attached information) and injecting capital in that company). With regard to (3), ETIC will facilitate funding procurement by guaranteeing 50% of a maximum total of ¥500 million in new financing planned to be provided by BTMU and Resona Bank. With regard to (4), ETIC will place management personnel in the Continuing Company after the capital injection, thereby supporting the business revitalization process.

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

(all information as of December 31st, 2010 unless otherwise stated)

1.1 Name of company

Yamagiwa Corporation (hereafter “Yamagiwa”)

1.2 Head office

4-5-4 Hachobori, Chuo-ku, Tokyo

1.3 Date of establishment

December 24th, 1946

1.4 Capital

¥94,233,600 (as of January 7th, 2011)

1.5 Shares

Number of shares authorized: 28,110,960 shares

Number of shares issued and outstanding: 6,282,240 shares (as of January 7th, 2011)

1.6 Main shareholders (as of March 31, 2010)

| Name of Shareholder | Number of shares held | Percentage of total |
|---|-----------------------|---------------------|
| YAMAGIWA SHOMEI ZOKEI BIJUTSU SHINKOKAI | 1,831,160 | 29.15% |
| Hyogo Konagaya | 1,732,180 | 27.57% |
| Tsuneyuki Yamagiwa | 1,042,075 | 16.59% |

1.7 Main business

Development and sale of specialized lighting and original lighting, and import and sale of general lighting and interior products

1.8 Number of employees

264

1.9 Main facility locations

| | |
|----------------------|-----------------------|
| Head office | Chuo-ku, Tokyo |
| New Tokyo showroom | Chuo-ku, Tokyo |
| Kinki sales division | Chuo-ku, Osaka city |
| Nagoya sales office | Naka-ku, Nagoya city |
| Fukuoka sales office | Chuo-ku, Fukuoka city |

1.10 Main banks

The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Resona Bank, Ltd.; Mizuho Bank, Ltd.; others

1.11 Affiliated companies

Yamagiwa International, Corp.; Yamagiwa Interior Development Corp.;
Yamagiwa Engineering Co., Ltd.; TL LABORATORY INC.; Color Kinetics
Japan Incorporated; 3 other overseas affiliate companies

1.12 Financial overview (financial results for the year ended February 28th, 2010)

Unit: ¥ million

| | |
|------------------|----------|
| Net sales | ¥14,095 |
| Gross profit | ¥4,922 |
| Operating income | ¥131 |
| Ordinary income | (¥385) |
| Net income | (¥2,071) |
| Net assets | ¥2,446 |
| Total assets | ¥25,114 |

Section 2: Background and circumstances leading to request for ETIC support

Yamagiwa was an electronic materials wholesaler on establishment, after which it expanded into lighting equipment sales. From the outset, Yamagiwa differentiated itself from major lighting equipment manufacturers by dealing in high added value lighting equipments. Backed by a full lineup of such quality products, the company successfully moved into retail outlets for general customers, and at its peak had 11 retail lighting equipment stores nationwide. Yamagiwa maintained its strong differentiation from others in the business, building a strong brand and becoming widely known as a leading high-end lighting equipment maker in Japan despite its smaller scale. It achieved this by insisting on going beyond mere 'illumination' to instead provide lighting that delivered atmosphere and spectacle. Moreover, in addition to its original lighting equipment business, Yamagiwa focused on lighting for high quality architectural spaces, specializing in designing and manufacturing special order lighting solutions that meet the particular needs of individual building layouts, and becoming highly recognized for its work in the art galleries, the high-end hotels and other facilities requiring top quality lightings ("sophisticated lighting solutions").

Leveraging the company's high-end building design office and skilled design professionals, Yamagiwa built up a strong customer base of superior clients operating at the leading edge

of lighting quality (“superior customer base”).

However, after the collapse of Japan’s economic bubble consumer demand declined and the retail side of the business slumped. The burden of interest-bearing debt, which had been borrowed from the financial institutions to finance business development, placed a severe strain on the company’s financial situation. From 2002 onwards, the company sold its consumer electronics and software operations, sold its retail network’s real estate and took other such steps to rapidly reduce interest-bearing debt, but the global recession following the 2008 Lehman Shock put further pressure on consumer spending and reduced construction activity, with the result that sales declined significantly. Further restructuring was implemented, including merging three affiliated companies in the manufacturing division to reduce production unit costs and procurement costs, withdrawing completely from retail operations, and at the same time reducing staff numbers and salaries to reflect the lower sales, but these measures were insufficient to cover the impact of the reduced scale of operations. Poor administrative management led to a worsening of the excessive inventory problem, and without a clear strategy to respond to the shrinking of the business, it was decided that the excess of interest-bearing debt in relation to revenues meant that a comprehensive business restructuring presented difficulties.

Accordingly, Yamagiwa, after discussions with main banks BTMU and Resona, resolved to apply for support from ETIC, and with the support of ETIC aim to minimize damage to enterprise value while adopting transparent, fair procedures to request support from financial institutions as part of comprehensive business restructuring to maximize the value of the company.

Section 3: Outline of business revitalization plan

(1) Business plan

A core Continuing Company (defined below) will receive the ongoing business of Yamagiwa through a company separation (absorption separation) using the second company method, and under the support of ETIC, the Continuing Company will be structured to enable it to operate effectively as a business in the context of an uncertain business environment. The core management resources and unique positioning of the company that were established and maintained through the development of the business—namely, its superior customer base, sophisticated lighting solutions and brand strength—will be enhanced and leveraged, and the company will be revitalized in line with the following basic policy.

The three main points of the business revitalization plan are:

Structure the company to operate effectively in an uncertain business environment

1. Implement reform to change operating structure

Change operating structure by withdrawing from real estate operations, restructuring affiliated companies, and undertaking other such measures necessary to enable revitalization

2. Reform earnings and cost structure

Strengthen cost competitiveness by reducing unit costs, restructuring the domestic logistics network, optimizing personnel numbers and reducing expenses.

Enhance and leverage management resources

3. Strengthen management and organization

Create a strong, dynamic operation by reviewing the management and organizational structure. Implement a marketing strategy to enhance and leverage Yamagiwa's brand and other strengths and develop a differentiated business amid a business environment that can be expected to change.

(2) Business restructuring

Yamagiwa will establish a new company (hereafter, the "Continuing Company") that will receive the lighting equipment and interior business operations of Yamagiwa through a company separation (absorption separation) using the second company method. After the company separation, Yamagiwa will be liquidated through special liquidation proceedings.

(3) Request for financial support

Of the ¥12.2 billion owed to financial institutions by Yamagiwa, financial support of approximately ¥8.3 billion will be requested from financial institutions (Note: The amount of financial support is based on a calculation of the current disposal value of non-operations-related real estate held by the companies. The final amount of financial support will change, as the amount of loan repayment is linked to the achieved real estate disposal values.)

(4) Financing

ETIC will underwrite ¥500 million of ordinary shares issued by the Continuing Company to fund business restructuring expenses. (The amount is the total from acquiring shares in the Continuing Company and implementing a capital injection.) MUFG and Resona Bank will provide the Continuing Company with new financing up to a maximum of ¥500 million. ETIC will provide a credit guarantee for 50% of the actual amount of finance provided.

(5) Numerical Targets

For the fiscal year ending February 2014, forecast net sales are ¥10.9 billion, with forecast ordinary income of ¥250 million.

Section 4. Conformance with standards for support

1. Possession of effective management resources

Yamagiwa possesses effective management resources, including a strong brand, sophisticated lighting solutions, and a superior customer base, for its lighting product business. By making use of these management resources, Yamagiwa is not only selling high quality lighting equipment for the top end of the market, but is also contributing to improving the quality of Japan's culture and lifestyle by using its design skills and product quality in medical facilities, museums, art galleries and other public institutions ("improving culture and lifestyles"). At the same time, by promoting the development of high quality next-generation LED products in recent years, Yamagiwa has been contributing to the adoption of environmentally friendly technology ("promoting green technology").

2. Excessive indebtedness

Yamagiwa carries an excessive amount compared to revenues. Financial support is essential to the revitalization of Yamagiwa.

3. Factors confirming potential for business revitalization

3.1 Agreement of main creditors

The application by Yamagiwa was made jointly with the Bank of Tokyo-Mitsubishi UFJ, Ltd, and The Resona Bank, Ltd.

3.2 Standards for productivity improvement

The required standards for productivity improvement are expected to be met within three years from the day of the implementation of this business revitalization plan.

3.3 Standards for financial soundness

The required standards for financial soundness are expected to be met within three years from the day of the implementation of this business revitalization plan.

4. Comparison with liquidation value

The value of Yamagiwa's debt on liquidation is estimated to be less than the value available through implementation of the business revitalization plan.

5. Potential to refinance and sale of shares within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Yamagiwa, enabling it to reach steady a level of cash flow, and making refinancing and the sale of ETIC's shares highly possible.

6. Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Yamagiwa. Accordingly, the plan has been judged as 'not hindering the resolution of structural oversupply' with reference to Article 19 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation.

7. Status of consultations with unions

As part of the revitalization process it is planned that a meeting with representatives of the labor union will be scheduled promptly after the announcement of the decision by ETIC to provide support, and opportunities will be provided to discuss aspects of the business revitalization plan including employment and working conditions.

Section 5: Responsibility of management

The responsibility of the former management team for the current predicament of Yamagiwa will be reflected through the resignation in principle of all directors, without directors' retirement benefits. They shall have no role in the management of the continuing business after the company separation

Section 6: Responsibility of shareholders

Shareholders of Yamagiwa, during the special liquidation process of the former company after company separation, will not receive any distribution of remaining assets, and will have all their shares cancelled.

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