

ETIC decides to support Yamanishi Co., Ltd.

February 9, 2012

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Yamanishi Co., Ltd. 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 company concerned

Yamanishi Co., Ltd. (Hereafter, “Yamanishi”)

2. Name of financial institution jointly applying for rehabilitation support with Yamanishi

The 77 Bank, Ltd. (Hereafter, “77 Bank”)

3. Outline of business revitalization plan

Please see appendix

4. Comment from State Ministers in charge of ETIC

Prime Minister, Minister of Internal Affairs, Minister of Finance: No opinion expressed

Minister of Health, Labour and Welfare: “I have no objection to the decision to support Yamanishi. However, I ask that after reaching the decision to support, ETIC should encourage Yamanishi to discuss the situation with employees 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 Yamanishi complies with related laws and regulations, and that the company also provides adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”

Minister of Economy, Trade and Industry: “I hope that the revitalization of Yamanishi’s business can contribute to the speedy restoration of the local economy and society, so that residents can once again

live without anxiety. Due consideration should also be given to the impact on trading partners of Yamanishi.”

5. Comment from State Ministers supervising business activities

Minister of Land, Infrastructure, Transport and Tourism: ”Not only is Yamanishi the only ship builder in southern Tohoku that is capable of building large commercial ships, it also plays a major role in maintaining and developing the local marine industry.

Many small-scale marine businesses that build and repair fishing boats rely on Yamanishi for the base load of their business, and through the formation of a wide trade network, the industry has worked to maintain industry scale and improve technological standards. Yamanishi holds trade relationships with several local companies in Ishinomaki City, and has maintained a significant role in supporting local employment and the local economy, not only through the company itself but also through the companies that it holds relationships with.

As mentioned above, the revitalization of Yamanishi is vital for the future development of the expanding marine-related industry in the Tohoku region, and as a leader for economic recovery in Ishinomaki City, it is considered to be of extremely high importance. I hope to see steady progress in the business revitalization plan.”

6. Debt purchase application period

From Thursday February 9, 2012 for receipt by ETIC no later than Thursday March 29, 2012.

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, other than those permitted under the corporate revitalization plan, before the end of the debt purchase period as per item 6 above.

8. Treatment of trade creditors

The decision by ETIC to provide support involves requesting forgiving of debt and other such measures from the financial institutions and lease companies providing loans or leases

to Yamanishi. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.

9. Basis for decision to support

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

9.1 Rationale

With a history dating back 90 years, Yamanishi is one of Japan's foremost coastal shipbuilders, having built up a strong customer base and technological base in Ishinomaki region. Yamanishi was historically known as Hokutensen-no-Yamanishi (Yamanishi Northern Pacific Long-Distance Ocean Trawlers), a builder of strong ships which could withstand rough seas, and the company's reputation for high-quality products continues to be extremely strong today. Yamanishi plays an important role in forming the foundations of the shipbuilding industrial cluster in Ishinomaki, and has a major influence on the industrial cluster and employment in the region.

Yamanishi suffered substantial damage as a result of the tsunami caused by the Great East Japan Earthquake in March 11, 2011. However, the company's strong customer and technological base has remained untarnished, and considering that Yamanishi continues to possess effective management resources for Ishinomaki region following the disaster, ETIC has determined that there is ample merit in supporting the revitalization of Yamanishi. The company can contribute to the revitalization of regional employment and other aspects of regional business, through the sustainable recovery of the shipbuilding industrial cluster in the Ishinomaki region.

9.2 Role of ETIC

In deciding to support Yamanishi, ETIC will be actively involved in the development of the business revitalization plan, and will promote smooth progress of the revitalization plan by facilitating the provision of additional capital from 77 Bank and others, and coordinating activities which Yamanishi would have found difficult to execute alone. Under this business revitalization plan, ETIC will not purchase debt from financial institutions, and will not provide financing or a capital injection.

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Appendix: Outline of Business Revitalization Plan

Section 1: Overview of company receiving support

1.1 Name of company

Yamanishi Co., Ltd. (Hereafter, "Yamanishi")

1.2 Headquarters

1-2 Nishihama-cho, Ishinomaki-shi, Miyagi-ken

1.3 Date established

March 23, 1920

1.4 Capital

¥100 million

1.5 Shareholders

Yamanishi Mochikabukai (11.3% share), 77 Bank Ltd. (5% share), others

1.6 Main business

Ship building, ship repair, and steel structure production

1.7 Number of employees

Full-time employees: 202 (including 24 temporary staff) (as of December 31, 2012)

1.8 Main facilities

Head office, Tokyo office, Ishinomaki branch office

1.9 Main banks and other financing organizations

The 77 Bank Ltd.

1.10 Financial Overview

	FY2011/3
Sales	¥16,191 million
Ordinary income	(¥459 million)
Net income	(¥3,098 million)
Net assets	(¥1,799 million)
Total assets	¥13,188 million

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

Amidst a sharp downturn in the business environment, with continued appreciation of the yen stemming from global economic changes, and a downturn in demand for ships, Yamanishi suffered extensive damage to its production facilities as a result of the Great East Japan Earthquake and tsunami, bringing production operations to an almost complete halt at its main plant. Extensive damage was suffered, including some partially completed ships

that were destroyed by the tsunami.

In order to restart operations and achieve a recovery, Yamanishi will require a substantial amount of funding for operations and capital investment. Considering that financial support will be necessary in order to receive new loans, and after discussions with its main bank 77 Bank, Yamanishi resolved to apply for support from ETIC.

Section 3: Outline of business revitalization plan

1. Basic policy

(1) Restoration of facilities

Yamanishi must quickly implement the restoration of its facilities after the extensive damage caused by the Great East Japan Earthquake and tsunami.

(2) Core business plan

① Establish a model for the sustainable recovery of the Ishinomaki shipbuilding industrial cluster

In order to create a steady and sustainable recovery of business, the shipbuilding capacity will be comprehensively reformed and downsized compared to its status prior to the earthquake. Specifically, close attention will be given to the assessment and close management of processes and variable costs associated with each type of work in the construction process, with the aim of creating a flexible structure that minimizes losses from unutilized capacity while enabling profitable operations on the basis of receiving orders and undertaking construction of two vessels per year.

A critical element in achieving the recovery and ongoing sustainability of Yamanishi will be securing the cooperation and collaboration of other companies that comprise the important shipbuilding industrial cluster in the Ishinomaki region. Accordingly, cooperative arrangements will be made with cluster companies to guarantee a certain volume and period of work per year.

② Rapid restoration of damaged facilities

In working to maintain and improve the enterprise value of Yamanishi it is vital that facilities be restored without delay. Reconstruction work will commence as soon as possible, with a target of completing the head office and Omagari factory by

September 2012 and finishing post-restoration construction of the first vessel to contract specification by March 2013.

③ Flexibly adjust focus of ship building expertise according to market demand

Overseas market demand and pricing for vessels varies according to global freight volumes and foreign currency exchange rates. Meanwhile, demand in the domestic market is expected to arise from the need to replace older vessels. Accordingly, the strategy for external markets will be to maintain a close watch on exchange rates and other factors influencing demand, and sales efforts will for the present time be focused on the domestic market.

④ Comprehensively strengthen cost competitiveness

While pursuing high levels of product quality, thorough measures will be taken to develop a structure that addresses previous deficiencies in purchasing and cost control. These measures will include taking a unified approach to reforming productivity during planning and production, significantly improving unit price planning and administration, strengthening production technology, reducing personnel levels in accordance with the downsizing of production capacity required to ensure stable recovery and sustainability, and rigorously reducing costs, including expenses and procurement costs.

(3) Reform of management structure and personnel policy

Reforms will be introduced to reconstruct the governance system, clarify management indices and define progress markers.

2. Business restructuring

This business revitalization plan does not include plans for business restructuring.

3. Request for financial support from financial institutions, etc.

First, financial institutions with outstanding loans to Yamanishi will be requested to forgive approximately ¥7.9 billion of the total of approximately ¥8.2 billion in loans owed to those institutions by Yamanishi. (The exact amounts of financial support are subject to change according to the amount of loan repayment achieved through the sale of non-core real estate.) It is planned that the loans remaining after implementation of debt forgiveness will be repaid in full on the final day of March 2013.

With regard to financial institutions operating lease agreements with Yamanishi, debt forgiveness will be sought for approximately ¥200 million of the approximately ¥200 million of leased items destroyed in the earthquake and tsunami, and a request for payment rescheduling will be made for remaining amounts.

In addition, for finance provided to Yamanishi since March 11, 2011 by Japan Finance Corporation totaling ¥550 million, a request will be made to Japan Finance Corporation to change the loan conditions to enable capital management (capital loan) via a debt-to-debt swap.

4. Capital management and requests to 77 Bank.

It is planned that for the period between ETIC deciding to support Yamanishi and the date of decision on debt acquisition, a maximum of ¥4.1 billion for capital expenditure and a maximum of ¥4.1 billion in working capital will be procured from 77 Bank.

After the date of decision on debt purchase, it is planned that 77 Bank will, assuming that Yamanishi is making every effort it can under its own resources, provide the working capital necessary for implementation of the business revitalization plan (envisaged as a maximum of ¥9.5 billion for the period until March 2013, and a maximum of ¥6.9 billion from April 2013 onward). Of this working capital, it is planned that loan conditions for approximately ¥3.45 billion will, during the period of the business revitalization plan, be changed to a loan of a capital nature (capital loan).

Yamanishi is also considering requesting loans and capital injection from other financial institutions, and if such funding of a robust capital nature is procured from other financial institutions, it is planned that the amount of financing requested from 77 Bank will be reduced while reducing the amount for which a change in loan conditions to capital-type loans is requested.

Section 4. Conformance with standards for support

1. Requirements related to standards of support

(1) Possession of effective management resources

With a history dating back 90 years, Yamanishi is one of Japan's foremost costal shipbuilders, having built up a strong customer base and technological base in Ishinomaki region. Yamanishi was historically known as Hokutensen-no-Yamanishi (Yamanishi Northern Pacific Long-Distance Ocean Trawlers), a builder of strong ships which could withstand rough seas, and the company's reputation for

high-quality products continues to be extremely strong today. Accordingly, Yamanishi is considered to possess effective management resources.

(2) Excessive indebtedness

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

2. Conformance with standards for support

(1) Agreement of main creditors

The Yamanishi made a joint application for support with core creditor The 77 Bank Ltd.

(2) Standard for productivity improvement

Successful implementation of this business revitalization plan is expected to increase productivity.

(3) Standards for financial soundness

Successful implementation of this business revitalization plan is expected to enable Yamanishi to meet the required standards with respect to financial soundness.

3. Comparison with liquidation value

The value of Yamanishi's debt upon implementation of the business revitalization plan is estimated to be more than the value available through liquidation.

4. Potential to refinance within three years

There are no plans to conduct financing, capital injection, or debt purchase by ETIC as part of this business revitalization plan.

5. Connection with structural oversupply

Implementation of the business revitalization plan will lead to the substantial downsizing of construction capacity of Yamanishi, contributing to a reduction in structural oversupply. 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

6. Status of consultations with workforce

It is planned that meetings with the union will be scheduled promptly after announcement of the decision to provide support, and opportunities provided to discuss employment conditions and other aspects of the business revitalization plan.

Section 5: Responsibility of management

In consideration of the fact that Yamanishi's difficulties have been caused by significant changes in the business environment, including damage caused by the Great East Japan

Earthquake and resulting tsunami along with the strong yen, there are no plans to pursue measures reflecting the responsibility of management. However, given the current situation in which the management is placed, it is planned that directors will voluntarily reduce their remuneration, while additional director remuneration will be reduced with due consideration to the company's request for financial support.

Section 6: Responsibility of shareholders

In consideration of the significant changes in the business environment, including damage caused by the Great East Japan Earthquake and resulting tsunami, and the strong yen, the business revitalization plan does not include plans to pursue measures reflecting the responsibility of shareholders.

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