

REVIC to Provide Support to Nakayama Steel Works, Ltd.

March 28th, 2013

Regional Economy Vitalization Corporation of Japan

The Regional Economy Vitalization Corporation of Japan (“REVIC”), has decided to provide support to Nakayama Steel Works, Ltd. under Article 25, Clause 4 of the Regional Economy Vitalization Corporation of Japan Act (Act 63, of 2009, hereafter “the REVIC Act”),

1. Name of company concerned

Nakayama Steel Works, Ltd. (hereafter “Nakayama Steel Works”)

2. Name of financial institution jointly applying for rehabilitation support with Nakayama Steel Works

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (hereafter “BTMU”)

3. Outline of business revitalization plan

Please see appendix.

4. Debt purchase application period

From Thursday, March 28th, 2013 for receipt by REVIC no later than Thursday, June 20th, 2013.

5. Request for temporary suspension

Under Article 27, Clause 1 of the REVIC Act, related financial institutions as specified in Article 26, Clause 1 of the act, 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 4 above.

6. Treatment of trade creditors

The decision by REVIC to provide support involves requesting the waiver of debt only from the financial institutions providing loans to Nakayama Steel Works. No request for support will be made with regard to trade debt. Therefore there will be no impact on the trade creditors.

7. Basis for decision to support

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

(1) Rationale

Nakayama Steel Works is a medium-sized steel maker which has operated for approximately 90 years in Taisho Ward, Osaka. The company possesses an excellent customer base, currently servicing more than 450 end-user clientele.

Leveraging advanced expertise developed since its years as blast furnace maker, Nakayama Steel Works and its subsidiaries (hereafter referred to as “Group Subsidiaries”, and collectively with Nakayama Steel Works as “Nakayama Steel Works Group”), are involved in high-grade steel bars, sheets and plates of metal and other products with unique characteristics. The Nakayama Steel Works Group has revenues among the highest of electric furnace manufacturers in Japan.

The Group also has a significant competitive advantage in fabricated products, with the largest domestic share held by consolidated subsidiaries Nakayama Mitsubishi Steel Products, Ltd. in C type channel steel and Sansen-Shear Co., Ltd. in checkered plate.

REVIC believes that the abovementioned customer base and competitive advantage inherent in Nakayama Steel Works are a valuable business resource to Osaka city. Moreover, by implementing the business revitalization plan, Nakayama Steel Works will work to reduce its supply capacity with the aim of optimizing and slimming down its operations, and this is expected to lead to a reduction in domestic structural oversupply.

Taking into consideration the numerous raw materials trading companies and cooperative companies (contracted manufacturing and logistics, etc.), the total number of personnel associated with Nakayama Steel Works is substantial. In the event of the collapse of Nakayama Steel Works, there would be significant impact on the employment of a large number of people, causing a widespread effect on the economy of Osaka.

Considering that it possesses business resources of value to Osaka city, has continued to contribute to the development of the local economy since its establishment, and continues to support the stable employment of numerous personnel associated with its business, REVIC believes there is ample merit in supporting the revitalization of Nakayama Steel Works as a means of revitalizing the local economy and ensuring stable employment in the local community.

(2) The Role of REVIC

In deciding to support Nakayama Steel Works, REVIC’s planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Support the execution of the business revitalization plan

With regard to (1) above, REVIC will coordinate activities which Nakayama Steel Works have found difficult to execute independently, including reconciling the interests of the Group Subsidiaries, related financial institutions, sponsors, and other related parties from a fair and neutral standpoint. REVIC will pursue the smooth progress of the revitalization Nakayama Steel Works' business, by asking the financial and other institutions concerned to provide financial assistance, including debt forgiveness, to reduce the level of excessive interest-bearing debt and improve the financial state of Nakayama Steel Works, and by asking the numerous sponsors to implement capital injection at Nakayama Steel Works to secure sufficient capital for restructuring and capital expenditure. Support for the revitalization of Nakayama Steel Works is very strong, including financial assistance from related financial institutions and a capital injection from sponsors of around 9.0 billion yen scheduled in the business revitalization plan. Upon agreement to manage or dispose of debt in accordance with the business revitalization plan, Nakayama Steel Works is scheduled to continue to receive support from related financial institutions, and in the event of an application to purchase debt by related financial institutions, a debt purchase will also be implemented by REVIC.

With regard to (2), REVIC is scheduled to support Nakayama Steel Works in building stable management foundations.

REVIC will not provide Nakayama Steel Works with financing or provision of management personnel.

*Reason for disclosure

The company name involved with this matter have been disclosed with permission from Nakayama Steel Works and The Bank of Tokyo Mitsubishi UFJ, so as to avoid trust damage of Nakayama Steel Works, otherwise, as a listed corporation, and because it will contribute to the revitalization of it.

Ends

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Name of company

Nakayama Steel Works Co., Ltd. (Hereafter “Nakayama Steel Works”)

1.2 Head Office

1-1-66 Funamachi, Taisho Ward, Osaka

1.3 Date of establishment

December 22, 1923

1.4 Capital

¥15,538,509,066

1.5 Shares

Total number of authorized shares: 300,000,000 shares

Total number of issued shares: 131,383,661 shares

1.6 Key shareholders

Name	Relationship	No. of shares held	% of total
Nippon Steel & Sumitomo Metal Corporation	Customer	12,875,957	9.80%
Nakayama Foundation	Incorporated foundation established by company founder	10,683,195	8.13%
Bank of Tokyo Mitsubishi UFJ Limited	Main bank	4,966,901	3.78%
Nakayama Shareholders Association	Shareholders' association	2,939,211	2.23%
Nakayama Steel Works Co., Ltd.	Own shares	2,673,422	2.03%
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank Japan Ltd.)	Investor	2,655,000	2.02%
Amagasaki Seikan Co., Ltd.	Customer	1,992,554	1.51%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	Investor	1,903,000	1.44%
Nippon Steel Trading Co., Ltd.	Customer	1,698,000	1.29%
Sumitomo Life Insurance Company (Standing proxy: Japan Trustee Services Bank, Ltd.)	Investor	1,501,000	1.14%
Total		43,888,240	33.40%

1.7 Main business

Steel business, engineering business, real estate business

1.8 Consolidated subsidiaries

Nakayama Mitsuboshi Steel Products, Ltd., Nakayama Trading Co., Ltd., Mitsuboshi-Shoji Co., Ltd., Mitsuboshi Kaiun Kaisha, Ltd., Sansen-Shear Co., Ltd., Nakayama Kosan, Co. Ltd.

1.9 Number of employees

518 full-time employees and 20 temporary employees (as of January 1, 2013)

1.10 Main facility locations

Head Office and Funamachi Plant (1-1-66 Funamachi, Taisho Ward, Osaka)

1.11 Banks

Bank of Tokyo Mitsubishi UFJ, Limited	Mitsubishi UFJ Trust and Banking, Corporation	Sumitomo Mitsui Trust Bank, Limited
Aozora Bank, Ltd	The Bank of Fukuoka, Ltd.	Development Bank of Japan Inc.
The Shoko Chukin Bank, Ltd.	Resona Bank, Limited.	The Senshu Ikeda Bank, Ltd.
The Shizuoka Bank, Ltd.	Bank of Kyoto, Ltd.	The Nanto Bank, Ltd.
Japan Securities Finance Co., Ltd.	The Minato Bank, Ltd.	The Bank of Iwate, Limited.
Shinsei Bank, Limited.	The Hyakugo Bank, Ltd.	The Yamaguchi Bank, Ltd.
The Hachijuni Bank, Ltd.	The Iyo Bank, Ltd.	The Hiroshima Bank Ltd.
The Daisan Bank, Ltd.	The Fukui Bank, Ltd.	Osaka Prefectural Credit Federation of Agricultural Co-Operative.
The Hyakujushi Bank, Ltd.	The Aichi Bank, Ltd.	Kiyo Bank, Ltd.
The Ashikaga Bank, Ltd.	The San-in Godo Bank, Ltd.	The Daishi Bank, Ltd.
The Kagoshima Bank, Ltd.	The Ogaki Kyoritsu Bank, Ltd.	The Nishi-Nippon City Bank, Ltd.
Joyo Bank, Ltd.	Shinkin Central Bank	The Chiba Bank, Ltd.
Shiga Bank, Ltd.	The Juroku Bank, Ltd.	North Pacific Bank, Ltd.
The Toho Bank, Ltd.	Total: 40 banks	

1.7 Financial overview

(Non consolidated financial results for year ended March 31, 2012)

Sales	¥113,881 million
Ordinary income	(¥8,343 million)
Net income	(¥12,817 million)
Net assets	¥14,031 million

Total assets

¥136,112 million

Section 2: Background to the request for support

Although Nakayama Steel Works' business made a relatively strong recovery following its restructuring in 2002 to become an electric furnace maker, its business conditions suddenly deteriorated due to the sudden drop in demand for steel as a result of the global recession in 2008 that stemmed from the collapse of Lehman Brothers. In 2009, it recorded an operating loss.

Nakayama Steel Works restructured its business in to achieve an operating profit. It suspended the operations of its revolving furnace plant and coke plant, reorganized its energy supply systems, and achieved significant cost savings.

Despite these efforts, serious problems remained. The company owned factory sites and non-working facilities from its days as a blast furnace maker, and it was unable to free itself from its complex, high-cost personnel structure. The deterioration in the company's financial situation as a result of the collapse of Lehman Brothers and other factors meant that it was no longer able to service the additional interest-bearing debt that it had taken on for new investment in a hot rolling mill from 2006 onwards. These various problems facing the company on the business front, financial front and on the managerial and organizational front came to a head. From 2009, the company recorded significant operating losses for three consecutive financial periods. At present, Nakayama Steel Works has been granted its third postponement of the repayment of the principal of the interest-bearing debt from related financial institutions.

In consultation with its main bank, BTMU, Nakayama Steel Works applied to REVIC for support. With the support of REVIC, the company will seek to avoid harming the value of its business, it will rely on financial assistance from the related financial institutions obtained through fair and transparent procedures, it will obtain capital from its sponsors, and it will thoroughly restructure its business and work to maximize corporate value.

Section 3: Outline of business revitalization plan

1. Basic policy of the business plan

The Nakayama Steel Works Group is a medium-sized steel manufacturer and is one of the top electric furnace makers in Japan in terms of sales (with consolidated sales of

171.8 billion yen in the year ended March 31, 2012). Moreover, while many electric furnace makers handle general-purpose steel bars, Nakayama Steel Works is involved with high-grade steel bars, sheets and plates of metal and other products that have specific characteristics.

The business revitalization plan aims to improve the profitability of Nakayama Steel Works' steel materials business (sheet metal and steel bars) which is the company's main business. The plan seeks to achieve this aim by: 1) planning thorough cost reductions; 2) building a business base that is resistant to the influence of market conditions including exchange rates; 3) strengthening the integrated management of the Group so it can utilize its excellent customer base (Nakayama Steel Works' customer base consists of more than 450 end-user clientele); and 4) improving the company's financial state.

The business revitalization plan contains the following three basic policies

(1) Establish the best low-cost management in the industry

Nakayama Steel Works will thoroughly slim its organization by withdrawing from unprofitable products and businesses, including the suspension of its steel plate works, and will switch over to the importation of cheap raw materials by diversifying its sources of iron ore. It will increase the efficiency of its plant operations, and will significantly reduce staffing levels as it aims to create the lowest-cost management structure in the electric furnace industry.

Nakayama Steel Works will alter and renew its organizational management structure. It will concentrate decentralized authority and speed up the decision-making process by slimming the number of directors from the six at present down to three. New directors will be elected, including two from the external organizations.

(2) Demonstrate the company's total strength by improving the integrated management of the Group

Through integration with its Group Subsidiaries, Nakayama Steel Works will achieve a further lowering of costs. The company will integrate the sales power that is a competitive advantage of the Group Subsidiaries, and demonstrate the total strength of the Nakayama Steel Works Group.

In addition, the distribution functions and internal divisions of the Nakayama Steel

Works Group will be integrated

(3) Improve the financial state of the company to one of financial health

The company will improve its financial state by receiving approximately 60.2 billion yen in financial assistance from related financial institutions to reduce the level of its interest-bearing debt to about 30.6 billion yen, and by receiving a capital injection totaling 9 billion yen from its sponsors. In addition, BTMU will establish new lines of credit for the company, up to a limit of 1.5 billion yen; therefore, REVIC has no concerns that the company will become short of funding.

2. Corporate restructuring

(1) Exchange of shares

With the aim of selecting and concentrating the Group's overall management resources and strengthening the system of corporate governance, Nakayama Steel Works will carry out an exchange of shares (hereafter the "share exchange") between Nakayama Mitsuboshi Steel Products, Ltd., Nakayama Trading Co., Ltd., Mitsuboshi Shoji Co., Ltd., Mitsuboshi Kaiun Kaisha, Ltd., and Sansen-Shear Co., Ltd., making these companies wholly owned subsidiaries of Nakayama Steel Works.

(2) Increase allocation of shares to third parties

Assuming that the share exchange goes ahead, Nakayama Steel Works will make a third-party share issue to its sponsors, as summarized below.

Sponsors	Percentage of voting rights in the share allocation plan	Percentage of voting rights (the sponsor's current holdings are included)
Nippon Steel & Sumitomo Metal Corporation	17.4%	19.8%
Nippon Steel Trading Co., Ltd.	9.7%	10.0%
Hanwa Co., Ltd.	14.8%	14.9%
Air Water Inc.	8.6%	8.7%
Osaka gas Co., Ltd.	3.6%	3.6%
Daiwa PI Partners Co., Ltd.	10.0%	10.0%
Total	64.1%	67.0%

The actual number of shares issued and the amount paid for them will be finalized following consideration of the total number of Nakayama Steel Works shares that will be outstanding following the share exchange. Therefore, it is possible that the above-mentioned number of shares that the sponsors will receive, the percentage of voting rights they will obtain, and the amount they will pay for the shares may change. As a result of the above-mentioned allocation of shares to its sponsors, Nakayama Steel Works will procure a total of 9 billion yen in funding needed to carry out the business revitalization plan, and the sponsors' percentage of Nakayama Steel Works voting rights will exceed two-thirds in total.

REVIC will give the sponsors the maximum assistance and cooperation they require to carry out the business revitalization plan.

(3) Reduction in capital surplus to compensate for retained earnings

To eliminate its retained losses as quickly as possible, Nakayama Steel Works will aim to reduce its capital surplus in the first half of the year ending March 31, 2014 and transfer the amount of this reduction to its retained earnings (to offset its retained losses).

3. System of corporate governance, etc.

In principle, all Nakayama Steel Works' directors and standing statutory auditors will retire, to clearly take management responsibility for the predicaments that have been the causes of Nakayama Steel Works' difficulties. However, from among the current directors, Mr. Kazuaki Hakomori will be appointed as a full-time director to support the implementation of the business revitalization. In addition, some directors who have been responsible for formulating the policies of the business revitalization plan will remain in the business, after being demoted from their directorships, in order to complete the relevant policies.

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