

REVIC to Provide Support to Kotobuki Industries Co., Ltd.

September 13th, 2013
Regional Economy Vitalization Corporation of Japan

The Regional Economy Vitalization Corporation of Japan (“REVIC”), has decided to provide support to Kotobuki Industries Co., 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
Kotobuki Industries Co., Ltd. (hereafter “Kotobuki Industries”)
2. Name of financial institutions jointly applying for rehabilitation support with Kotobuki Industries
The Momiji Bank, Ltd., The Hiroshima Bank, Ltd., Kure Shinkin Bank, and Shoko Chukin Bank, Ltd.
3. Outline of business revitalization plan
Please see appendix.
4. Debt purchase application period
From Friday, September 13th, 2013 for receipt by REVIC no later than Friday, November 29th, 2013.
5. Request for temporary suspension
Under Article 27, Clause 1 of the REVIC Act, related 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 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 Kotobuki Industries. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.
7. Basis for decision to support
REVIC’s basis for deciding to provide support is as follows.

(1) Rationale

Kotobuki Industries is one of Japan’s leading manufacturers of forged steel products, steel materials and cast iron, with a history dating back more than 70 years and a large number of end-user customers, including industrial machinery manufacturers, construction machinery manufacturers, automakers and shipbuilders. The company has established a stable and high-quality customer base as a main supplier, and possesses high-level technical capabilities, process patents and specialist know-how which has placed it in high demand both domestically and around the world.

Kotobuki Industries and its consolidated subsidiaries with which it holds business relationships (hereafter “Kotobuki Industries Business Group”), are the only manufacturers in the steel products business in Asia that conduct direct sales of semi-finished special steel frames, making them highly valuable to large scale steelmakers

as well as small and medium scale castings manufacturers.

Kotobuki Industries owns an anchor and chain manufacturing plant, which it operates domestically in competition with only two other companies, and therefore is in a valuable position as a supplier to domestic ship manufacturers.

The Kotobuki Industries Business Group employs approximately 400 personnel, mainly in Kure-shi, Hiroshima, and as such the revitalization of Kotobuki Industries will help to achieve stable employment conditions in the region. Additionally, Kotobuki Industries holds supply and outsourcing relationships with approximately 200 SMEs in the region, and in the event of the collapse of Kotobuki Industries, the impact on the regional economy would be considerable.

Considering the above, REVIC believes there is ample merit in supporting the revitalization of Kotobuki Industries as a means of revitalizing the local economy.

(2) The Role of REVIC

In deciding to support Kotobuki Industries, REVIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Provide a capital increase totaling ¥500 million
- (3) Provide new loans totaling ¥350 million
- (4) Appoint new management personnel

With regard to (1) above, REVIC will reduce excessive interest-bearing debt and improve the financial condition of Kotobuki Industries by requesting debt forgiveness from financial institutional creditors. With regard to (2), REVIC will provide capital for structural reform initiatives by acquiring ¥500 million of ordinary shares and providing funds sufficient for the company to continue operations. With regard to (3), REVIC will provide new loans totaling ¥350 million to enable the company to conduct capital investment and structural reform. With regard to (4), REVIC will place management staff within the company after REVIC has acquired shares in line with (2) above, to support steady implementation of the business revitalization plan.

*Reason for disclosure

The company names involved with this matter have been disclosed with permission from Kotobuki Industries and financial institutions jointly applying for support, so as to avoid damaging trust in Kotobuki Industries, and because it will contribute to the revitalization of it.

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Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1. Names of company	Kotobuki Industries Co., Ltd.
2. Head Office	1-8-1 Shinjuku, Shinjuku-ku, Tokyo, Japan
3. Date of establishment	September 26 th , 1951
4. Capital	48 million yen
5. Shares	Total number of authorized shares: 160,000 shares Total number of issued shares: 96,000 shares
6. Key shareholders	Hiroe Shimizu (75.0% of total) Seiichiro Okuhara (25.0% of total)
7. Main business	Manufacture and sale of steel products and castings, etc.
8. Number of employees	(Non consolidated) 56 full time, 20 temporary, and 2 contract employees (Consolidated) 319 full time, 48 temporary, and 19 contract employees (as of November 30, 2012)
9. Consolidated subsidiaries	Kotobuki Steel Co., Ltd., Kotobuki Machinery Co., Ltd., Kotobuki Chemical & Environmental Machinery Co., Ltd., Kotobuki Casting Co., Ltd., Kotobuki Chain Anchor Co., Ltd., Nihon Chain Anchor Co., Ltd.
10. Main facility locations	Hiroshima Hiro Works (1-2-43 Hiroshiratake, Kure-City, Hiroshima)
11. Main banks	The Momiji Bank, Ltd., The Hiroshima Bank, Ltd., Kure Shinkin Bank, and Shoko Chukin Bank, Ltd.
12. Financial overview (Non consolidated financial results for year ended November 2012)	Sales: 17,128 million yen, Ordinary income: (1,496 million yen) Net income: (2,487 million yen) Net assets: 512 million yen, Total assets: 31,373 million yen (Ref) Excluding losses from Kitakyushu Business: Sales: 15,780 million yen, Ordinary income: 320 million yen

Section 2: Background to the request for support

Between 2007 and 2009, Kotobuki Industries decided to establish a business in Kitakyushu-shi for the manufacture and sale of large castings for components used in the marine industry.

Kotobuki Industries invested a significant amount of funds, sourced through loans from related financial institutions, to establish Asia Special Steel Co., Ltd. (hereafter "Asia SS"), a joint venture with a Korean company, for the manufacture of special steel base material for use in ingot for the Korean market and at the Kitakyushu Works. Kotobuki Industries constructed the Kitakyushu Works on the same premises as the Asia SS plant, and worked together with Asia SS to grow Asian-bound sales of large-size steel castings for marine use (hereafter referred to as the "Kitakyushu Business").

The Kitakyushu Business was put forward as a project to increase competitiveness by combining the manufacturing operations of both the Kitakyushu Works and Asia SS. However the global financial crisis struck midway through the construction of the plants, and although both plants launched operations in October 2009, due to the decline in

demand and foreign exchange rate impact which peaked during the global financial crisis, the rate of facility operations of the Kitakyushu Business fell behind, and the business became unprofitable. Although Kotobuki Industries and Asia SS implemented staff reductions and other restructuring, the large capital investment became a major burden for both companies (both companies received loans from financial institutions to fund the construction of both plants, and Kotobuki Industries was named as guarantor of the loans received by Asia SS). Just three years after its establishment, the prospects for continuing the Kitakyushu Business became bleak, and the companies were forced to withdraw from the business, leaving only large sums of debt.

As a result, Asia SS applied for bankruptcy proceedings in April 2012, and Kotobuki Industries' Kitakyushu Works was liquidated and operations were suspended in July 2012. Accordingly, in order to rebuild its business, and following discussions with its main banks The Momiji Bank, Ltd., The Hiroshima Bank, Ltd., Kure Shinkin Bank, and Shoko Chukin Bank, Ltd., Kotobuki Industries resolved to apply for support from REVIC.

Section 3: Outline of business revitalization plan

1. Basic policy/key measures of the business plan

A Succeeding Company will receive and continue the core business operations of the Kotobuki Industries through a company separation (absorption separation) using the second company method. The following measures will be implemented at the Succeeding Company with the aim of revitalizing the business.

- (1) Maintain and expand sales and profit in the steel manufacturing business
Kotobuki Industries will work to reinforce business with its main customers, aiming to maintain and expand sales and profit.
- (2) Improve profitability of steel castings for marine and industrial use
In addition to existing orders for steel castings for marine use, Kotobuki Industries will aim to increase orders of castings for industrial use, and at the same time strengthen its management systems, and work to improve profitability by better utilizing its limited management resources.
- (3) Streamline capital investment
After ascertaining how to best streamline capital investment, Kotobuki Industries will aim to increase productivity through highly efficient capital investments, while restricting unnecessary capital investments or repairs.
- (4) Organizational management system and HR policy reform
A speedup of Kotobuki Industries' decision making processes will be achieved through consolidation and/or delegation of authority, and at the same time all indirect administrative activities at consolidated subsidiaries that have a business relationship with Kotobuki Industries will be merged. A low-cost business structure will be developed through streamlining of Kotobuki Industries' organization and personnel, so as to develop a structure with improved cost competitiveness across the entire Kotobuki Industries Business Group, and optimize the Group-wide organization.

2. Corporate restructuring

Kotobuki Industries will use the absorption separation method to transfer all operations and bearable debt to a new Succeeding Company established by Kotobuki Industries. Subsequently, following the disposal of real estate assets, Kotobuki Industries will apply for special liquidation.

Following company separation, the Succeeding Company is scheduled to receive a capital injection of ¥500 million from REVIC (including payment to Kotobuki Industries for the value of the shares transferred), and receive an investment in kind for debt (which has been approved by Kotobuki Industries as bearable debt) from creditors who request a debt equity swap. The company is also scheduled to receive a loan facility of ¥350 million from REVIC, and ¥350 million from the Momiji Bank, Ltd. for use as operating cash..

3. System of corporate governance, etc.

With regard to the Board of Directors, the company will work to speed up its decision-making processes by reducing the number of directors. It is also scheduled that new staff will be appointed by the company and REVIC, and the majority of the members of the Board of Directors will be appointed by REVIC.

Furthermore, through the transfer of shares and new shares issued upon third-party allocation, REVIC will retain the Kotobuki Industries' shares, securing governance at the company and ensuring the progress of the business revitalization plan as a shareholder.

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