

ETIC to Provide Support to Aizu Bus Co., Ltd.

December 2nd, 2010

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Aizu Bus 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(s) of persons or companies concerned

Aizu Bus Co., Ltd. (hereafter, “Aizu Bus”), Aizu Bus Kanko ATS Co., Ltd., Aizu Bus Auto Service Co., Ltd. (collectively, the “Aizu Bus Companies”)

2. Name(s) of financial institutions jointly applying for rehabilitation support with the Aizu Bus Companies

The Toho Bank, Ltd. (hereafter “Toho Bank”)

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 transaction. However, I ask that after reaching the decision to support, ETIC should encourage Aizu Bus 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 Aizu Bus complies with related laws and regulations, and that Aizu Bus 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 Land, Infrastructure and Transport: *“Passenger bus services play a role in supporting the lives of the local population, so it is important to be able to maintain the necessary transportation network within the region. I ask that due consideration be*

given to this point when implementing the business revitalization. In particular, when investigating the elimination or adjustment of passenger bus routes, I ask that the parties concerned make use of regional councils and other such forums, and that adequate opportunities are provided for discussions with regional stakeholders with regard to maintaining and securing the life line transportation infrastructure.

With regard to taxi services, the Aizu Transportation Zone was designated as a Specified Area on October 1, 2009, and regional stakeholders have been taking steps to reduce an oversupply of taxis. However, given that taxi oversupply remains an issue, in implementing the business revitalization plan I ask that consideration be given to any means by which taxi oversupply in the region can be eliminated or improved as much as the situation permits..”*

*Under the “Special Ordinance on Optimization and Revitalization of Regular Passenger Vehicle Transportation Services in Specified Areas” enacted October 1, 2009, regions are designated as “Specified Areas” if an oversupply of taxi services prevents functioning properly as a means of regional public transportation, and measures are being adopted to optimize and revitalize such services by reducing supply, etc.

Aizu Bus Kanko ATS Co., Ltd., Aizu Bus Auto Service Co., Ltd.: No opinion expressed

6. Debt purchase application period

From Thursday, December 2nd, 2010 until the receipt by ETIC no later than Wednesday, February 2nd, 2011

7. Request for temporary suspension

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

8. Treatment of trade and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to the Aizu Bus Companies. No request for support will be made with regard to the trade debt. Therefore there will be no influence 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

The Aizu Bus Companies provide a range of services in the Aizu region, which comprises various towns and villages around Aizuwakamatsu City in Fukushima Prefecture. Operations include local bus services, highway bus services, charter bus services and taxis. Aizu Bus is the sole operator of passenger bus services covering the greater region, and the local bus service provides indispensable support to the lives of the local populace. The highway bus service, meanwhile, provides a long distance transportation link between Aizuwakamatsu City and Fukushima, Koriyama, Sendai, Niigata and Tokyo, and is an important part of the social infrastructure in the Aizu region, which does not enjoy the convenience of an extensive railroad network.

The Aizu region is a well-known tourist destination, home to famous sightseeing locations, local food delicacies, cultural relics, hot springs and others. With more than three million visitors per year Aizu is one of Japan's leading destinations, and the Aizu Bus Companies are widely used by tourists as a means of travelling within the region.

The collapse of the Aizu Bus Companies would make it difficult to maintain the public transportation infrastructure outlined above, and as well as having a considerable negative impact on local lives would also have an adverse impact on corporate activity in the region. The negative ramifications would be particularly felt by those so called "the traffic weak" without private motor vehicles, including the elderly, students and others without sufficient independent transportation capabilities. Failure of the Aizu Bus services would also remove an important method of transporting visitors, affecting one of the region's primary assets—its tourism.

Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of the Aizu Bus Companies as companies that play a valuable role in society.

9.2 Role of ETIC

In deciding to support the Aizu Bus Companies, ETIC's planned role is as follows:

- (1) Coordinate among the financial institutions involved
- (2) Implement a capital injection of ¥100 million
- (3) Guarantee a ¥200 million maximum refinancing facility(guaranteeing its maximum 50%)

(4) Strengthen the management structure by providing management personnel.

With regard to (1) above, ETIC will reduce excessive interest-bearing debt and improve the financial condition of the Aizu Bus Companies by requesting debt forgiveness from financial institution creditors. With regard to (2), ETIC will provide funding for business restructuring and related expenses by underwriting the issue of ¥50 million of ordinary shares and ¥50 million of preferred shares. With regard to (3), ETIC will provide a credit guarantee covering 50% of a planned ¥200 million maximum credit facility to be established with Toho Bank, thereby facilitating funding procurement. With regard to (4), ETIC will support the business revitalization process by seconding personnel to Aizu Bus concomitant after the capital injection described in (2).

Section 1: Overview of the companies receiving support

1.1 Name of company

Aizu Bus Co., Ltd. (hereafter, "Aizu Bus"); Aizu Bus Kanko ATS Co., Ltd.; Aizu Bus Auto Service Co., Ltd. (collectively, the "Aizu Bus Companies"). Unless otherwise stated, information in this Overview refers to Aizu Bus.

1.2 Head quarter

Byakkomachi195 Banchi, Aizu Wakamatsu-shi, Fukushima Prefecture (Head office: Oshiage 1-chome, Sumida-ku, Tokyo)

1.3 Year of establishment

1943

1.4 Capital

¥90 million

1.5 Shares

Number of shares authorized: 13,000,000 shares

Number of shares issued and outstanding: 3,375,000 shares

1.6 Main business

Fixed route passenger bus services

Charter bus services

Taxi services

1.7 Number of employees

Drivers: 328; Office staff: 91; Other: 7 (as of end August 2010)

1.8 Main facility locations

Wakamatsu sales office, Kitakata sales office, Sakashita sales office, Nozawa sales office, Inawashiro sales office, Tajima sales office, Yamaguchi sales office, Koriyama Konan sales office

1.9 Main banks

The Toho Bank, Ltd.

1.10 Affiliated companies

Aizu Staff Co., Ltd. (owned 100% by Aizu Bus and affiliated parties)

Bandai Kankosen Co., Ltd. (approximately 95% owned by Aizu Bus and subsidiaries)

1.11 Financial overview (non-consolidated, for the year ended March 2010)

Net sales ¥2,040,490,000

Operating income (loss)	(¥209,380,000)	(after subsidies)
Ordinary income (loss)	(¥165,780,000)	(after subsidies)
Net assets	¥580,080,000)	
Total assets	¥2,156,530,000	

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

Amid a declining trend in the number of passenger bus customers on regular routes, the Aizu Bus Companies used the opportunity arising from revisions to the Road Transportation Law in 2000 to enter the highway charter bus business, but has not been able to secure sufficient earnings from the highway bus service to cover losses in the regular bus service. Furthermore, when the economy entered a harsh recession from the latter part of 2008, a number of large companies closed factories in Aizuwakamatsu City, leading to a succession of business closures in the central business district of the city, which had a severe impact not only on passenger bus services but also on taxi services and charter bus services as demand for leisure activities fell. As a result, managing the business became extremely difficult.

Faced with this operating environment, the company sold idle real asset and other such assets to provide funding, and in 2005 began a large scale restructuring that included the elimination of 44 bus routes. However, while the scale of the business shrank with the closure of routes, insufficient progress was made in cutting costs. The businesses were further weakened when sales fell with the sudden onset of the recession, and with capital required to maintain the fleet at minimum necessary safety standards, interest-bearing debt continued to increase.

As a result, in June 2010 Aizu Bus was faced with having to ask financial institution creditors for an extension of debt repayment terms, with the prospect of the business being unable to continue and an associated impact on the local populace and the tourism industry. Accordingly, the Aizu Bus Companies, after discussions with main bank Toho Bank, applied to ETIC for support with the aim of pursuing a transparent, fair and comprehensive business revitalization while minimizing damage to corporate value.

Section 3: Outline of business revitalization plan

1. Basic policy

The core aim of this business revitalization plan is to maintain the businesses' public

transportation infrastructure role while making use of the Aizu region's strong tourism assets to realize growth as an integral part of the region. More specifically, the plan aims to develop a regional passenger bus service revitalization model based on the following two elements:

- (1) Improve earnings and efficiency, focusing on making improvements to each bus route (short-term initiative)

Based on an awareness of the role Aizu Bus plays in the regional transportation infrastructure, management will work with local bodies and other organizations to improve revenues and maximize economic efficiency.

Specific aspects of this will include eliminating routes run by Aizu Bus that do not show the potential to become profitable, while reviewing regional subsidized routes. Concomitant with this, vehicle, personnel and depot numbers will be streamlined.

Other measures will include matching the transportation fleet with current demand by disposing of older vehicles in the fleet, abolishing inefficient procedures, and eliminating overlapping functions within the group.

- (2) Promote public transportation as part of an integrated approach to regional economic revitalization (medium-term initiative)

The plan aims to promote overall regional economic revitalization by actively working with regional governmental bodies, tourist associations and other tourism-related entities to increase external visitor numbers and develop the regional tourism business.

Specific aspects of this will include identifying additional points of interest and other tourism resources to increase the appeal and awareness of the Aizu region and attract more visitors. For its own part, Aizu Bus will improve coordination between highway bus, city bus and transportation hire services to make the regional transportation infrastructure more convenient and stimulate visitation and transportation throughout the region.

2. Business restructuring

Aizu Bus will undergo a 100% capital reduction, and at the same time ETIC will underwrite the issue of ¥50 million in ordinary shares and ¥50 million in preferred

shares in order to provide for working capital, capital expenditure and management restructuring expenses.

Further, Aizu Bus will be transferred the financial debt of two subsidiaries (Aizu Bus Kanko ATS Co., Ltd. and Aizu Bus Auto Service Co., Ltd.) on an indemnified basis, after which a company separation will be implemented, and a new company will be established that will hold the non-operations-related real estate assets of these companies and any debt above and beyond the amount expected to be repayable through business revenues.

After the company separation, the new company will sell the non-operations-related real estate assets and use the funds to repay remaining financial debt. It is planned that the company will then be wound up using special liquidation proceedings after the sale of the aforementioned real estate assets (effectively receiving debt forgiveness).

3. Financial support

Of the ¥1,386,190,000 of debt held by the Aizu Bus Companies, financial support will be sought for approximately ¥510 million. (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

Aizu Bus will implement a bond issue of ¥150 million for use as working capital and capital expenditure. The bond issue will be underwritten by the Utsukushima Mirai Fund.

As a means of covering any insufficiency in working capital that may arise, Aizu Bus will establish a credit line (overdraft facility) with Toho Bank to a maximum of ¥200 million, from which it will borrow as necessary to cover seasonal working capital needs. ETIC will guarantee 50% of this credit amount.

5. Numerical Targets (Summary)

The forecast for the fiscal year ending March 2014 anticipates sales decreasing slightly from current levels, but anticipates a recovery in operating income including subsidies.

Section 4: Conformance with standards for support

1. Possession of effective management resources

Aizu Bus has utilizable management resources, with more than 400 employees engaged in operating passenger bus services (local bus services and highway bus services), as well as charter bus services and taxis that are an important part of the social infrastructure and have a high public interest.

2. Carrying Excessive Debt

Aizu Bus is carrying excessive debt obligation relative to its earnings capacity. Debt forgiveness and other forms of financial support are essential for its business revitalization.

3. Prospects for Business Revitalization

3.1. Consent of Major Creditors

The application for support by Aizu Bus has been made jointly with The Toho Bank, Ltd.

3.2. Standards for Productivity Improvement

Implementation of the business revitalization plan will lead to improvement of 5% or more in tangible fixed asset turnover within three years of the decision to provide support, satisfying the required productivity improvement standard.

3.3. Standards for Financial Soundness

3.3.a. Ratio of interest-bearing debt to cash flow less than 10 times

The ratio of interest-bearing debt to cash flow is projected to be 0.32 times in three years, satisfying the standard of less than 10 times.

3.3.b. Current revenue greater than current expenditures

The ratio of current revenue to current expenditures is projected to be 106.1% in three years, satisfying the standard of current revenue greater than current expenditures.

4. Comparison with Liquidation Value

The recovery rate for debt applicable to the business revitalization plan is greater than the estimated recovery rate through bankruptcy proceedings.

5. Potential for Disposal of Debt, Shares or other Assets Acquired by ETIC within Three Years

The implementation of the business revitalization plan will greatly improve the

financial position of Aizu Bus, and because the company is expected to continue to secure sustainable cash flow, ETIC has determined that there is sufficient possibility of refinancing debt and disposing of shares.

6. Connection with structural oversupply

There is no scope for an increase in supply capacity as a result of the implementation of the business revitalization plan. 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 workforce

As part of the revitalization process, it is planned that meetings with labor unions will be scheduled to discuss the business revitalization plan, and explanatory meetings for employees will be scheduled to explain the main points of the business revitalization plan.

Section 5: Responsibility of Shareholders and Management

All current representative directors and auditors of Aizu Bus will resign from their posts. Because their presence is necessary for the implementation of the business revitalization plan, all directors other than the two representative directors will, upon ceasing to become directors, cooperate as necessary toward the revitalization of the company's business.

Ordinary shares issued by Aizu Bus will be subject to a 100% capital reduction under the reorganization procedures.

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