

ETIC to Provide Support to OHARA GENERAL HOSPITAL

February 10th 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”), has decided to provide support to OHARA GENERAL HOSPITAL 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
OHARA GENERAL HOSPITAL (hereafter “Ohara Hospitals”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with Ohara Hospitals
The Toho Bank, Ltd.
3. Outline of business revitalization plan
Please see appendix.
4. Comments from State Ministers in charge of ETIC
Prime Minister, Minister of Internal Affairs, 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 Ohara Hospitals. However, I ask that after reaching the decision to support, ETIC should encourage Ohara Hospitals 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 Ohara Hospitals complies with related laws and regulations, and that Ohara Hospitals 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 Health, Labour and Welfare: “Although Ohara Hospitals operates in the northern prefectural medical region, an area that has an oversupply of hospital beds, the institution plays a central role in providing secondary emergency medical care and perinatal care in the region. I therefore have no objection to the decision to provide support.

In implementing the revitalization plan, I ask that due consideration is given to the opinion of the Governor of Fukushima Prefecture, who is working to ensure that a proper structure exists for the provision of medical services in the region, and that all necessary medical functions continue to be delivered and an appropriate scale in terms of available hospital beds and other such factors be realized.”

6. Debt purchase application period

From Thursday, February 10th, 2011 for receipt by ETIC no later than Wednesday, February 23rd, 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 debt

The decision by ETIC to provide support involves requesting the waiver of debt only from financial institutions providing loans to Ohara Hospitals. 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

Ohara Hospitals is an incorporated foundation, which offers general acute medical care and psychiatric hospital facilities in Fukushima city, Fukushima Prefecture. The facilities operated by Ohara Hospitals provide local residents with a range of medical services, and have a high degree of community and social relevance.

The Ohara General Hospital (hereafter “General Hospital”) makes a particularly important contribution to the community, as it plays a central role as a regional support hospital and regional perinatal medical care center, providing emergency maternity and pediatric healthcare services to the northern region of the prefecture, including Fukushima city.

Business failure of Ohara Hospitals, if associated with the cessation of its medical services, would have a significant effect on inpatients and others relying on the facility,

as well as a deep impact on the wider community and region.

Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of Ohara Hospitals as a means of contributing to the stable provision of medical services in the region. Moreover, there are relatively few examples in Japan of private revitalization of healthcare corporations, and ETIC believes that successfully undertaking this support program should provide a useful rehabilitation business model for the sector. By undertaking this support program together with a local financial institute ETIC aims to contribute to the overall development and accumulation of experience in the revitalization of regional hospitals.

9.2 Role of ETIC

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

- (1) Act as a coordinator among the financial institutions involved (debt purchase)
- (2) Guarantee a ¥1 billion maximum refinancing package (guaranteeing 50%)
- (3) Strengthen the management structure by supplying management personnel.

With regard to (1) above, ETIC will reduce excessive interest-bearing debt and improve the financial condition of Ohara Hospitals by requesting debt forgiveness from financial institutional creditors. With regard to (2), ETIC will coordinate with The Toho Bank, Ltd., the main bank of Ohara Hospitals, to secure financing of working capital etc., with the aim of stabilizing cash flows and enabling the steady implementation of business revitalization. With regard to (3), ETIC will place management staff within the organization to strengthen its management structure, while supporting Ohara Hospitals in the establishment of stable management.

Ends

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

OHARA GENERAL HOSPITAL

1.2 Main Business

Operation of hospitals, clinics, nurses' training schools, and visiting nurse stations

1.3 Main medical and geriatric facilities

(1) Ohara General Hospital

6-11 Omachi, Fukushima city, Fukushima-ken

(2) Ohara Medical Center (hereafter "Medical Center")

33 Kamata-Nakae, Fukushima city, Fukushima-ken

(3) Shimizu Hospital

16-3 ji Maeda, Minamisawamata Fukushima city, Fukushima-ken

(4) Ohara Health Clinic

Meijiseimei Fukushima Bldg., 7-11 Omachi, Fukushima city, Fukushima-ken

(5) Ohara Research Laboratory

33 Kamata-Nakae, Fukushima city, Fukushima-ken

(6) Ohara College of Nursing

7-3 Kamata-Haragiwa, Fukushima city, Fukushima-ken

(7) Ohara Visiting Nurse Station

6-11 Omachi, Fukushima city, Fukushima-ken

(8) Angel Childcare center

35-1 Watari-Tenjin, Fukushima city, Fukushima-ken

1.4 Head office

6-11 Omachi, Fukushima city, Fukushima-ken

1.5 Number of employees

Full-time employees: 688 (including 77 doctors and 383 nurses/assistant nurses)

Non full-time: 98 (including 54 nurses/assistant nurses)

1.6 Labor union

A labor union is operating

1.7 Affiliated companies

None

1.8 Main banks

Toho Bank, Ltd.

Welfare and Medical Service Agency

1.9 Financial overview (financial results for year ended March 31, 2010)

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|--------------------------|----------------|
| Medical practice revenue | ¥8,599 million |
| Operating income | ¥15 million |
| Interest-bearing debt | ¥7,585 million |

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

As a result of separating part of its medical care department and establishing a new Medical Center in 1990, Ohara Hospitals' interest-bearing debt rose to ¥9.7 billion (FY1993/3), and it produced an operating loss of ¥900 million in the year ended March 1991.

In 1991 Toho Bank requested that the foundation consider ways to secure revenue and strengthen its management structure. As a result, the founding family of directors resigned from the board of directors, and directors and management personnel were sourced from Toho Bank. In 1994, a new chief director was brought in from Takada Kosei Hospital.

Under this structure, operating income recovered to a maximum of ¥200 million, and debt was reduced from a maximum of ¥9.7 billion down to ¥7.5 billion in 2006. However starting from around that time, operating income declined precipitously, as the utilization of sickbeds at the General Hospital and Medical Center began to decline. In 2008 and 2009, the foundation was unable to secure sufficient cash flow.

In response to this crisis, in 2009 the doctor who worked as the director of the Fukushima Prefectural Aizu General Hospital was called in as the new director. This resulted in an improvement in revenues, which had been declining from 2006, and revenues recovered to the point that operating income of ¥100 million has been forecast for the year to March 2011.

The Ohara Hospitals main facility, the General Hospital building, is now over 37 years old (part of the building is over 56 years old), and the building shows signs of significant deterioration. Reconstruction of the building has become a major issue, because the old structure of the building means that modern large-scale medical equipment cannot be introduced to the hospital. Ohara Hospitals has therefore become unable to provide necessary medical services.

Moreover, the emergency medical diagnostic functions are split between the General Hospital and the Medical Center, and are considered insufficient for a general hospital and emergency medical facility.

Ohara Hospitals has a vision to combine the General Hospital and Medical Center and establish a new hospital within five years. However with significant financial liabilities including debt of ¥7.4 billion and a net capital deficiency of ¥4.1 billion, it is not in a position to implement new investment. Taking into account the plans to establish a new hospital, Ohara Hospitals made the decision to apply for support from ETIC.

Section 3: Outline of business revitalization plan

1. Basic policy

In the first year, the business revitalization plan will seek to reduce excessive interest-bearing debt by requesting debt forgiveness from financial institutional creditors. Additionally, a plan will be launched to create the new integrated hospital, and in order to secure the necessary revenue generating capacity to realize this plan, diagnostic facilities at each center will be enhanced to improve operating revenues while ensuring the continued provision of medical services.

2. Main Initiatives

(1) Management structure

The Ohara Hospitals will strengthen its relationship with the Prefectural Medical University and secure a stable supply of doctors. Moreover, the director of the General Hospital, which has experienced an improvement in operating conditions, will provide overall supervision of the foundation as part of measures to improve the general management structure. In addition, directors and trustees will be supplied from ETIC and Toho Bank, and an appropriate monitoring system will be put in place for the implementation of the business revitalization plan.

(2) General Hospital

Work will be undertaken to improve medical practice revenue by implementing the remaining possible measures to stabilize the number of hospital beds in use.

(3) Medical Center

The operations will be integrated to the General Hospital, reinforcing the structural foundations and human resource framework to stabilize the number of hospital beds in use, and medical practice revenue will be improved by securing doctors and increasing the operational capacity of dialysis treatment.

(4) Shimizu Hospital

The special characteristics of Shimizu Hospital will be utilized to improve medical practice revenue by obtaining additional certification for the treatment of psychiatric conditions and accelerating improvements to the psychiatric daycare facility. Additionally, necessary nursing staff numbers will be secured through both continued employment and mid-career hiring.

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

Of the ¥7,254 million owed to financial institutions and others by Ohara Hospitals (current estimated figure) financial support (effectively, debt forgiveness) will be requested for ¥6,000 million.

4. Financing

The funds for debt repayment under this business revitalization plan will be sourced from operating cash flow and proceeds from the sale of idle real estate. Following the decision on debt purchase, Toho Bank will provide working capital up to a maximum of ¥1,000 million. ETIC will guarantee 50% of this amount.

Section 4. Conformance with standards for support

1. Main clauses in standards for support

1.1 Possession of effective management resources

Ohara Hospitals is officially designated as a regional support hospital and regional perinatal maternal and pediatric medical center, and plays a central role in meeting the growing societal need for emergency, perinatal and pediatric services. Ohara Hospitals also has close links with the region's only prefectural medical school Fukushima Prefectural Medical University, and the Ohara General Hospital in particular hosts a considerable number of doctors with extensive clinical experience in the various medical disciplines.

1.2 Excessive indebtedness

Ohara Hospitals carries an excessive amount of debt compared to its revenues. Debt forgiveness and financial support are essential to the revitalization of Ohara Hospitals.

2. Standards relating to decision to support

2.1 Agreement of main creditors

The application by Ohara Hospitals was made jointly with Toho Bank.

2.2 Standards for productivity improvement

In line with ETIC's proscribed standards, successful implementation of this business revitalization plan is expected to increase ROE by at least two percentage points, increase the tangible fixed asset turnover ratio by at least five percentage points, and increase the added value per employee by at least 6%, within three years of the day of the decision to provide support. The business revitalization plan is therefore deemed to meet the required standards with respect to productivity improvement.

2.3 Standards for financial soundness

Through implementation of this business revitalization plan, the ratio of interest-bearing debt to cash flow is expected to be within ten times, and current revenues are expected to be greater than current expenses, within three years of the day of the decision to provide support. The business revitalization plan is therefore deemed to meet the required ETIC standards with respect to financial soundness.

2.4 Comparison with liquidation value

The value of Ohara Hospitals available through implementation of the business revitalization plan is estimated to be greater than the value available through debt recovery on liquidation.

2.5 Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Ohara Hospitals, enabling it to reach an appropriate level of financial stability for the repayment of debt principal and interest and making refinancing highly possible.

2.6 Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Ohara Hospitals. 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.

2.7 Status of consultations with workforce

There is a labor union connected with Ohara Hospitals. As part of the revitalization process, it is planned that meetings with labor union representatives and employees

will be scheduled promptly after announcement of the decision by ETIC to provide support, and opportunities provided to discuss aspects of the business revitalization plan, along with employment and working conditions.

Section 5: Responsibility of management and governance

Because Ohara Hospitals is an incorporated foundation, without the existence of a principal entity holding the foundation itself, the issue of shareholder responsibility does not arise in the manner it would with the shareholders of a joint-stock company or the employees of a medical corporation

With a view to the construction of new medical facilities, and as a means of strengthening the management structure and ensuring the effective implementation of the business revitalization plan, the application for support will be anization, with all the current directors and trustees of Ohara Hospitals resigning from their positions.

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