



# **Business Results and Review of Long-Term Management Plan (Fiscal Years 2007 to 2011)**

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Taiheiyo Kouhatsu Incorporated

## Business Results for Fiscal Years 2007 and 2008

### ■ FY2007

Operating and ordinary incomes on both unconsolidated and consolidated basis exceeded the Plan.

### ■ FY2008

While sales increased considerably, operating income fell below the Plan on both unconsolidated and consolidated bases.

(¥ million)

		FY2007			FY2008		
		Actual	Plan	Change	Actual	Plan	Change
Un-consolidated	Sales	22,344	22,867	(523)	30,715	24,141	6,574
	Operating income	635	557	78	475	696	(221)
	Ordinary income	663	464	199	595	506	89
Consolidated	Sales	33,630	34,133	(503)	41,072	35,209	5,863
	Operating income	1,220	1,145	75	760	1,243	(483)
	Ordinary income	1,386	1,037	349	927	1,027	(100)

## **Review of FY2007 and FY2008**

- **Adversely affected in part by the global recession that began in late 2008.**
  - **Sharp decline in the price of imported coal particularly depressed earnings (i.e. decrease in inventory valuation).**
- **Divisions with stable earnings progressed as projected.**
  - **Income of the leasing, condominium management and insurance divisions remained stable.**
- **“Silver” business also progressed as projected.**
  - **While labor costs increased, marketing efforts ensured ultimate profits.**
- **Condominium development project in Obihiro concluded at the end of March, 2009 with 12 units remaining unsold.**
  - **Even though the property did not sell out during the project, the remaining units are now expected to be sold during the first half of FY2009.**
- **Two deficit-ridden consolidated subsidiaries were wound up.**
  - **This will result in no more consolidated subsidiaries with deficits.**
- **Launching of new businesses fell through.**

## Revised Plan for FY2009 to FY2011

### ■ FY2009 to FY2011

- The Plan was reviewed based on economic environment and industry trends.
- Sales, operating income and ordinary income in the Revised Plan to be below the projections in the original plan.
- Projections in the Revised Plan to be the minimum targets to aim for in order to increase profits.

(¥ 100 million)

		FY2009			FY2010			FY2011		
		Revised Plan	Original plan	Change	Revised plan	Original plan	Change	Revised Plan	Original plan	Change
Un-con-soli-dated	Sales	213.9	269.2	(55.3)	250.0	283.5	(33.5)	276.7	300.6	(23.9)
	Operating income	4.2	10.5	(6.3)	5.2	12.0	(6.8)	6.3	13.1	(6.8)
	Ordinary income	7.9	8.5	(0.6)	5.4	9.6	(4.2)	6.3	11.0	(4.7)
Con-soli-dated	Sales	302.0	386.4	(84.4)	363.3	402.8	(39.5)	393.4	423.8	(30.4)
	Operating income	8.5	17.2	(8.7)	10.4	19.5	(9.1)	11.6	21.1	(9.5)
	Ordinary income	11.6	15.1	(3.5)	10.1	17.0	(6.9)	11.4	18.9	(7.5)

## Revised Plan vs. Original Plan (Operating income-based) 1/2

### ■ FY2009 (current year)

#### [Unconsolidated]

(¥ 100 million)

Business Category	Amount	Main Reason
● Leasing	(3.0)	• Rents and building management fee revenues in the Tokyo area reduced.
● Condominiums	(2.4)	• New condominium sale in the Sapporo and Obihiro areas excluded from the Revised Plan.
● Other	(0.9)	
<b>Total</b>	<b>(6.3)</b>	

#### [Consolidated]

(¥ 100 million)

Company	Amount	Main Reason
● Taiheiyo Kouhatsu (Unconsolidated)	(6.3)	• See “Unconsolidated” above.
● Taiheiyo Silver Service	(0.9)	• Labor costs for helpers increased.
● Kunneppu Sekkai Kogyo	(0.5)	• Gross profits from products for fertilizers and snow melting reduced.
● Taiheiyo Coal Service and Transportation	(0.3)	• Outsourced management business for oil storage facilities reduced.
● Other	(0.7)	
<b>Total</b>	<b>(8.7)</b>	

## Revised Plan vs. Original Plan (Operating income-based) 2/2

### ■ FY2011 (Final year of the Long-Term Plan)

#### [Unconsolidated]

(¥ 100 million)

Business Category	Amount	Main Reason
● Leasing	(3.5)	• Rents and building management fee revenues in the Tokyo area reduced.
● Condominiums	(3.2)	• New condominium sale in the Sapporo area excluded from the Revised Plan.
● Other	(0.1)	
Total	(6.8)	

#### [Consolidated]

(¥ 100 million)

Company	Amount	Main Reason
● Taiheiyo Kouhatsu (Unconsolidated)	(6.8)	• See “Unconsolidated” above.
● Taiheiyo Silver Service	(1.8)	• Labor costs for helpers increased.
● Kunneppu Sekkai Kogyo	(0.8)	• Gross profits from products for fertilizers and snow melting reduced.
● Other	(0.1)	
Total	(9.5)	

# Vision of Management

## Three Pillars

### ■ Pillar One: **Housing**

To become a lifestyle service company that is stable and contributes to local communities through the assurance of stable earnings in the leasing and condominium management businesses and adaptive promotion of fee-based nursing home business.

Note: The expression “aggressively promoting” in the original Plan was changed to the expression “adaptively promoting” in the Revised Plan.

### ■ Pillar Two: **Energy**

To aim to be a comprehensive energy service company through increased earnings based on the expansion of coal importing business taking advantage of being a Hokkaido company and efficient coal transportation business based on extensive experience.

### ■ Pillar Three: **New business**

To establish the third pillar in addition to the Housing and Energy by FY2011 in new business areas.

# Management Goals

## 1. To achieve the projections of the Revised Plan

Using the projections of the Revised Plan as the minimum targets, the Company and its group companies shall rise to the challenge of increasing profits while reducing overall management costs.

## 2. To establish a strong framework for the continuing payment of dividends

The entire group shall strive to establish a strong framework for continuing to pay dividends in FY2009 (ending in March, 2010) and beyond.

## 3. To invest in highly profitable businesses

The Company shall make investments to secure future sources of profits upon careful examination of the profitability of invested businesses and with a view to collaboration with major companies. Areas of investment include existing businesses (including leasing, condominium management, fee-based nursing homes) and new businesses.

## 4. To improve cash flow and expand fund raising capacity

The Company shall build a stable management environment through efficient fund management to improve cash flow and expand its fund raising capacity.

## 5. To ensure compliance and implement a thorough internal control system

The Company shall aim to be a consistently trustworthy company through rigorous promotion of the importance of compliance and internal control.



# Business Strategies (1)

## 1. Fee-based nursing home business

The Revised Plan expects no new homes either in Tokyo or Hokkaido area due to difficulties in newly launching profitable facilities in addition to detrimental factors, such as government restrictions on new facilities, increased construction costs and increased labor costs for helpers. Modification of the plan will be considered if the environment changes.

### (1) Hokkaido

- To increase the occupancy rate of Silver City Tokiwadai Hills which opened in Kushiro in November, 2007 so as to turn profits in FY2009.
- The construction of the second home will proceed upon determining its profitability.

### (2) Tokyo

- To concentrate efforts on the operation of the existing seven facilities and maintain a high occupancy rates so as to meet the targets.
- To construction an extension to Seiseki-Sakuragaoka to ensure early improvement of the occupancy rate.

## **Business Strategies (2)**

### **2. Coal import business**

- To focus on stable transactions to avoid risks in an unstable market environment
- To increase purchasing from Australia; To secure a new supply of Indonesian coal and continue importing Russian coal required for blending with Hokkaido coal
- To purchase and sell coal flexibly by taking advantage of friendly relationships with coal dealers in Hokkaido
- To promote sales through collaboration with major dealers in Hokkaido which own coal storage yards for a flexible response to the demand for coal from users
- To achieve sales targeted at 1,889,000 tons in FY2011 (an increase of 625,000 tons from FY2009).

### **3. New business**

- To launch a new business by FY2011 from a long-term point of view.
- To rebuild the promotional system for new business development by the end of the current year.

## **Business Strategies (3)**

### **3. Condominium business**

#### **(1) Sapporo Branch**

- To settle all earthquake safety issues by the end of the current fiscal year.
- To freeze, for the present, new condominium projects in the Sapporo area where the real estate market is depressed.

#### **(2) Obihiro Branch**

- To complete the sell-out of Pacific Nishi-Rokujo East Wing, currently on the market, during the first half of the current fiscal year.
- Afterwards, to continue carrying out business as a locally-rooted and sole condominium marketer in the city upon careful examination of marketability and profitability of any project.
- Taking market size into consideration, to put a 40-unit condominium on the market basically every other year; aim to report sales of next project in FY2010.

## **Business Strategies (4)**

### **4. Condominium business**

- To focus on obtaining new contracts after securing the existing ones in an increasingly competitive market.
- At the Sapporo Branch which ranks high on the managed unit basis, to aim to obtain additional new contracts through aggressive marketing efforts.
- To maintain friendly relationships with condominium owners associations and actively provide suggestions so as to ensure receiving contracts for major repair and upgrading projects.
- To develop employees with strong marketing skills and a wide range of expertise through education and training so as to meet diverse customer needs.

### **5. Leasing business**

- To continue marketing efforts during the current recession so as to minimize the effects of increasing pressures for termination and a lower rent on the bottom line.
- To consider investment in new leasing properties depending of fund availability (not included in the Revised Plan).

## **Business Strategies (5)**

### **6. Shipping business/Marketing and transportation of oil**

- To make the effort to establish stable earnings by ensuring efficient allocation of ships.
- To aim for stable transactions unaffected by market trends in the marketing of oil.

### **7. Insurance agency business**

- To make efforts to obtain new insurance contracts through painstaking marketing activities while maintaining existing contracts.

# Subsidiaries

- Goal: All subsidiaries (consolidated) should turn profits in FY2009 and beyond.
- Business goals for major subsidiaries:
  - (a) **Taiheiyo Coal Service and Transportation Co., Ltd.**
    - To expand commercial warehouse and concessionaire businesses and maintain the consignment terminal business to ensure earnings.
  - (b) **Taiheiyo Seisakusho Inc.**
    - To steadily win orders for production and maintenance of mining equipment and various equipment.
  - (c) **Taiheiyo Unyu inc.**
    - To establish a strong profit culture unaffected by fuel pricing by building an efficient transportation system.
  - (d) **Kunneppu Sekkai Kogyo Inc.**
    - To implement the new business of the manufacturing and marketing of agglomerated ammonium sulfate products as planned.
  - (e) **Taiheiyo Silver Service Co., Ltd.**
    - To increase the occupancy rate at soon-to-be-expanded Seiseki-Sakuragaoka facility, and operate the existing seven facilities as planned.
  - (f) **Taiheiyo Silver Service Hokkaido Co., Ltd.**
    - To strive to increase occupancy rates and management efficiency to turn profits in FY2009.

## Finally...

### ■ To meet the targets of the revised Long-Term Management Plan

- The Company and all subsidiaries shall spare no effort to meet the targets of the Long-Term Management Plan which was revised upon a review of business environment and industry trends.
- The Company will take a strong initiative to lead the group companies to ensure the achievement of the goals of the revised Plan.

### ■ To tackle the issue of the debt of Taiheiyo Coal Mining

- Lands owned by Taiheiyo Coal Mining will be utilized (e.g. sale and/or leasing) with a view to retiring its debt which affects the performance of the Company, and the top-level management will act aggressively to develop a drastic solution.



**Accepting the challenge, with all our strength, we will develop a corporate group built on a stable management base to meet expectations of all the stakeholders.**