Winter 2012

Linking Japan

Quarterly Investment Insights

2012
Japan Amidst Global Uncertainty

Seven Bank
Convenient banking that keeps evolving

Thailand Flooding Report
On site follow-up on the aftermath

Tobu Railways
Set and ready to reach next destination

Key Coffee
Ideal blend of market awareness and devotion

Publisher's Note

What a year 2011 was? Earthquakes, floods, a nuclear disaster, Olympus' malfeasance and on, not a great year for positive news in Japan. Combine that with floods, tornadoes, new definitions for transparent, honest accounting practices in the European Union and other calamities outside of Japan could very well lead investors and businessmen down the road of depression. Despite these facts, there are good successful stories among the array of companies around the world that have taken advantage of opportunities that exist despite these obstacles and had successful years and or laid the tracks for successful years to come.

Our goal at Linking Japan is to publish a quarterly magazine that assists the Japanese corporation deliver its message to the investor in a coherent form along with insightful articles about Japan and thus help Japanese firms navigate the information noise of today.

It is a daunting task as Japanese firms have never been keen on disclosure to their Japanese investors let alone overseas investors, but we intend to provide valuable insight for our readers.

Despite 30 plus years in Japan, I personally am open to advice and recommendations on how we can shape this medium in the future. We look forward to becoming a publication relied upon by the investment community in the future.

J. Michael Owen
President
Transpacific Enterprises

Linking Japan

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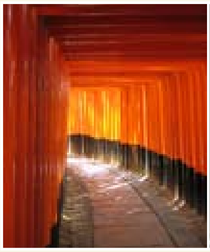
On the Cover
Japan's new landmark tower Tokyo Sky Tree will open in May 2012 as the world's tallest tower at 634 meters. Photo by Yuji Ozeki.

Contents

Winter 2012

2012

Japan Amidst Global Uncertainty

From the Great East Japan Earthquake and the Fukushima nuclear accident to damage of Japanese companies with local facilities caused by Thailand flooding... Japan truly suffered from a variety of disasters in 2011. And in 2012, there is a slew of domestic problems yet to be resolved: recovery from the earthquake, compensation and aid for victims of the nuclear accident, tax increases via the consumption tax hike, addressing the Trans-Pacific Partnership (TPP), reform aimed at integrating taxes and social security, etc. What's more, the ongoing contraction of the global economy that began with the European debt crisis is also a concern.

Which way is Japan headed in 2012? As a quarterly journal linking Japanese companies and foreign institutional investors, Linking Japan has made its own predictions regarding the Japanese economy and trends in the nation's industry for 2012.

The Japanese Economy

Short-Term Recovery with Earthquake Reconstruction Demand; Treading Water in the Long Term

First of all, we'd like to look at trends in the Japanese economy. With respect to 2011, the economy was damaged significantly by the Great East Japan Earthquake and despite the economy rapidly rebounding from the post-quake slump, it slowed down again in the fall with the flooding in Thailand and the European debt crisis. The supply chain though began to recover in June. It has suffered a significant blow as a result of the two disasters and the European economy – and in 2012, it will not be possible to escape from these problems.

To start with the conclusion, reconstruction demand related to the Great East Japan Earthquake will bolster the economy in 2012, but that will be counteracted by the downward pressure from Europe's economy that started with the European debt crisis.

In response to the Great East Japan Earthquake that occurred in March of last year, a first supplementary budget (4 trillion yen), second supplementary budget (2 trillion yen), and third supplementary budget (12 trillion yen) were passed during the year, focusing on disaster recovery support measures such as rubble disposal, temporary housing construction, etc. With these supplementary budgets being on a significantly larger scale than the supplementary budgets at the time of the Great Hanshin-Awaji Earthquake (total of 3.2 trillion yen), it is expected that they will bolster the economy in 2012.

There are also promising signs in the United States, including the gradual improvement in the employment situation, and the effects of monetary easing taking root. Given that the American economy should turn upward in the second half of 2012, and given that the Chinese economy is also recovering after turning to monetary easing, it is thought that Japanese exports to the U.S. and China will remain strong.

On the other hand, the increasingly uncertain outlook stemming from the European debt problem has made companies cautious about capital investment, which could enter a correction phase in 2012. With regard to domestic personal consumption, some are of the measured opinion that since there is no employment/wage recovery in sight, consumer confidence will be sensitive to any economic slowdown, causing consumers to pull back on spending. Also, when it comes to the reconstruction demand expected to bolster the economy, there is a risk that it will take some time for it to produce results that actually do bolster the economy because of delays in rubble disposal, delays in reconstruction plan formulation, etc.

There is also the global economic contraction accompanying adjustment to the European debt problem, and the impact on developing nations such as China. Furthermore, there is a risk of a domino effect, whereby the continued strong yen and decline in exports will hinder economic growth in Japan.

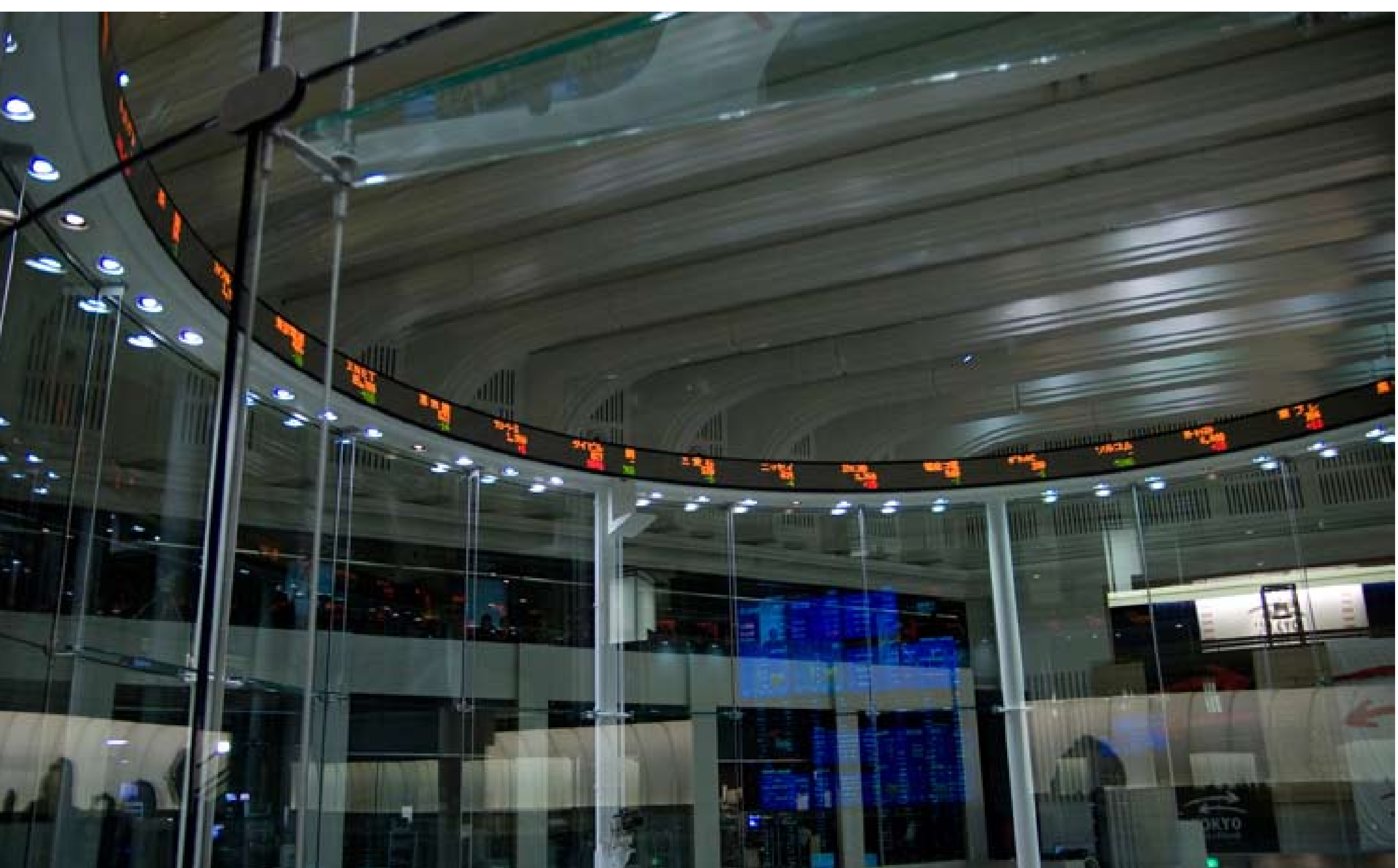
The shrinking of the labor force due to the declining birthrate, aging population, and mass retirement of baby boomers is deteriorating Japan's growth potential and weakening its international competitiveness. Companies suffering from the pressure of the strong yen are also moving overseas.

While Japan's economy may turn upward in the short term thanks to reconstruction demand, it is entangled in a variety of problems – the European debt issue, the U.S. economy, the economies of China and other developing countries, the strong yen, etc. – and over the long term, it may remain mired in mediocrity.

The Stock Market

Nikkei Stock Average to Reach 10,000 Yen – Conditional on Europe, Developing Countries and Other Factors

Since 2012 commenced, the global stock markets have started to improve. At the end of January, the Nikkei stock average is fast approaching the 9,000 yen level, but with many long-term causes for concern, such as the European debt problem, the situation is volatile. In the New York market, the Dow Jones Industrial Average has gained in value since July last year, and, in the context of growth



in Europe, Brazil, etc., there has been a turnaround in business confidence centered on the U.S.

There are various outlooks for the market, from cautious predictions that the Nikkei stock average will fluctuate between 7,500 yen and 10,000 yen to forecasts indicating the average may exceed 10,000 yen by mid-year. In all cases, however, the outlook is conditional on the direction of the European economy, the recovery of developing nations' markets, and, domestically, economic support from reconstruction demand.

In 2011, foreign investors continued to be net buyers for 29 straight weeks until May, but in the latter half of the year, they changed to net sellers. Looking at domestic institutional investors, Japanese financial institutions, pension funds, and so forth were also cautious, and it is said that they will not become aggressive buyers.

What can be taken as positive signs are stocks related to the developing nations on which the global economy recovery is centered, Internet-related stocks such as SNSs, and general contractor- and energy-related stocks benefiting from reconstruction demand.

Currency Exchange

Entrenchment of Strong Yen; Major Corporations Have Already Taken Measures; Also Benefits Overseas M&As

In 2011, the yen continued to be strong, squeezing the profits of many companies that are reliant on exporting. It spurred companies – notably in the automobile industry – to shift production overseas and procure parts from other countries. There is growing concern about domestic hollowing accompanying this trend. Cases such as Nissan Motors completely shifting production of its compact car March to Thailand have made headlines, but there are not that many examples of companies moving all aspects of production; rather, there are many examples of companies bringing up their foreign procurement rate or pushing forward plans for foreign procurement. Major corporations have been repeatedly declaring for some time that their profits will disappear because of the strong yen – but, meanwhile, they are robustly implementing currency exchange-related measures.

There are also some companies which are aggressively using the strong yen as a weapon to pursue overseas M&As. Raising funds is also easy at the moment, with the interest rate on new loans being low for companies with a certain level of cash reserves. An example is Takeda Pharmaceutical Company, which acquired a major Swiss pharmaceutical firm. The purchase amount exceeded 1 trillion yen, but it is thought that it will serve as a bridgehead for full-scale expansion into developing markets such as Russia, Eastern Europe and Brazil. Similarly, there are cases of companies continuing to establish footholds in emerging markets while benefiting from the strong yen, such as a beer and drinks manufacturer that has moved forward with M&As focused on the Asia-Pacific region.

The strong yen is expected to become more firmly entrenched, and the market is assuming that the dollar-yen exchange rate will fluctuate between 70 yen and 85 yen. It has been noted that the euro-yen rate, influenced by the instability in Europe, could rise to 90 yen.

Interest

Government Bond Interest to Gradually Rise to 1%

The European debt problem and the fiscal issues of various European nations are expected to take several years to resolve and could contract the global economy. The issue of the strong yen also cannot be resolved overnight. Under these circumstances, there is a strong possibility that monetary easing will continue. In this context, when reconstruction funds are put to use domestically, bank lending will increase and the trend toward buying government bonds will ease off. This in turn will contribute to interest rate hikes. On the market, interest rates are expected to return to around 1% in the first half of 2012 and 1.0% to 1.5% in the second half.

Domestic financial institutions will feel the impact of this trend. With the first half of 2011 being a phase of interest lowering, megabanks secured latent profits from national bonds and acquired gains from the sales of securities. However, there were few regional banks and other institutions, which lack funding ability that reaped

benefits from this. If interest rates rise, it will become difficult to secure a profit by selling bonds. As well, reconstruction demand will not continue forever. Regional banks and the like based in areas hit by the earthquake face a difficult path ahead.

Industrial Policy: Trends in the Industrial Sector

1: TPP

In the latter half of last year, an issue that attracted much attention was the government's response concerning participation in Trans-Pacific Partnership (TPP) negotiations. Without having carried out sufficient debate on the issue, it made a political decision to begin talks with relevant countries aimed at joining the negotiations. However, the TPP is just one free-trade agreement (FTA) among many. Negotiations with the WTO have stalled, but progress is being made on bilateral FTAs and regional FTAs, and many have already been implemented. FTAs between Japan and ASEAN and Japan and India are already in effect, while negotiations are also underway with Australia. Under the framework of the TPP, negotiations will be entered with countries such as New Zealand, the U.S., Canada, Chile, Peru, and Mexico.

South Korea is actively pursuing FTAs. It has been reported that talks over a China-South Korea FTA will begin in August, which could lead the way toward a Japan-China-South Korea FTA or free trade framework within the East Asian region. South Korea has FTAs with the U.S. and E.U. Henceforth, Japan will likely pursue negotiations with a number of FTAs in mind, including the TPP, a Japan-China-South Korea FTA, the East Asia Free Trade Agreement (EAFTA/ASEAN+3), Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+60), and the Free Trade Area of the Pacific (FTAAP).

2: Power Shortages

If the nuclear reactors currently undergoing regular inspections do not resume operations, nuclear power will be cut all over Japan this spring. Progress is being made toward resumption of operation, but considerable hurdles remain. If summer arrives while all the reactors remain shut down, there is no questioning that there will be power shortages equivalent to or exceeding those of last year. While, in relative terms, Tohoku Electric Power Company (northern Japan), Chubu Electric Power Company (central Japan), and Chugoku Electric Power Company (western Japan) are thought to have some excess power capacity, it is said that Tokyo Electric Power Company and Kansai Electric Power Company (Osaka, Kobe, etc.) are expected to run a supply shortfall. As a result, there are rumors that the power restriction regulations that were centered on eastern Japan last year may be applied to all of Japan this year. If such a situation occurs, it will be a blow to companies with manufacturing bases domestically; given the impact of the strong yen as well, the movement of manufacturing bases to foreign countries is unlikely to stop.

Meanwhile, some are saying that the power shortage should be addressed by increasing the operation rate of thermal power plants. Last year, due to widespread claims that there was going to be a power shortage, many citizens cut back on using air-conditioning in the summer and switched to energy-saving home electronics. As a result, no large-scale power cuts occurred which significantly affected people's everyday lives – but what will happen this year? Anxiety is growing among ordinary citizens. Certainly, if there is no power shortage, then doubts will likely be raised about the necessity of nuclear generation. This too is sure to influence the nation's energy policy.

3: Finance

Banks' interim financial results are healthy. The five major banking groups – the megabanks plus Resona Holdings and Sumitomo Mitsui Trust Holdings – posted substantial profits from buying and selling of national bonds in the first half of 2011. While lending is down in the industry, this is being offset by the buying and selling of national bonds. However, stocks are stagnating. The cause of this is financial nervousness triggered by the European debt crisis. If the crisis continues, there is no denying that it could cause a recurrence of A Lehman Shock type event.

The situation looks difficult for the securities industry. Investor confidence has cooled off due to the European debt crisis, the slowdown in the U.S. economy, and other factors. Also investors are presently net sellers, meaning funds are being withdrawn from the Japanese market. What's more, investment trust sales are dragging. The Brazilian economy, which had been experiencing sustained rapid economic growth, is gradually losing momentum, and Brazil's currency (the real) is dropping rapidly against the yen; as its base value decreases, cancelation of contracts are increasing. Amid this predicament, large-scale downsizing continues in the securities industry. There is also a possibility that further restructuring will occur.

Life insurance companies are concerned about the European debt crisis. Five European countries dealing with fiscal instability are reducing their national debt, but there are fears that the debt crisis will become protracted and grow bigger. What's more, with the stagnation of the domestic market, the latent profits of domestic stocks are being reduced. There is a strong expectation that there will be expansion into developing markets such as South-East Asia and India.

Non-life insurance companies are struggling with an unprecedented series of catastrophes: the Great East Japan Earthquake, typhoons, and major flooding in Thailand. Meanwhile, automobile insurance rates – a stable and significant source of insurance revenue – have been reviewed and will undergo a substantive increase.

4: Energy

Japan's energy policy has been undermined to its very core. Under the Basic Energy Plan formulated by the Democratic Party in 2010, the percentage of the nation's energy accounted for by nuclear power, which was approximately 30% at the time, was to be raised to 50% within 30 years. That plan has been withdrawn. Currently, the government – led by the Energy and Environment Council – is conducting a thorough review of energy policy, and a detailed proposal is scheduled for release in the summer of 2012.

Rapid population increases in developing nations have created an imbalance in supply and demand for petro-chemical fuels; the price of crude oil has risen and remains high. Crude oil is expected in many circles to run dry after a few decades, and it is becoming unsustainable for economic reasons. While the safety of nuclear generation has attracted much attention with last year's accident, it has also been pointed out that it is not practical from a cost perspective.

As a matter of course, the emphasis is shifting to renewable energy and natural energy. Large-scale solar power plants are being built in the deserts of Europe and Africa, while plans to use this energy source are moving forward in Europe, Africa, and the Middle East. The U.S. and China are said to be the world's two largest wind power-generating nations. There is a gradual global trend toward non-fuel-consuming solar and wind power.

5: Automobiles and Eco-Cars

With their supply chain disrupted by the Great East Japan Earthquake and the flooding in Thailand, domestic manufacturers have been forced to cut production on a global scale. The strong yen is further aggravating the situation. As a result, various companies are rapidly moving ahead with expansion of development and production systems in emerging markets. No competitive edge is gained by manufacturing in advanced nations and then exporting to developing markets, so this approach is not viable. Each company is therefore seeking to stay alive with production and development in emerging markets. Today, with Korean automobiles increasing their share in the U.S. market and becoming a threat to Toyota and Honda, manufacturers with fundamental weaknesses face a difficult road ahead. The domestic market has continued to shrink for over 20

years, but with export prospects also worsening, boosting sluggish domestic sales is becoming an issue of increasing concern.

At January's National American International Auto Show 2012 held in Detroit, companies focused on exhibiting concept cars, with green technology such as HVs and PHVs. There is no question that collaboration revolving around green technology continues to progress, whether domestically or internationally – for example, between Toyota and BMW. Toyota is strong in battery technology for hybrid cars, BMV in high-performance diesel fuel technology. This kind of mutually complementary strategic collaboration is also beneficial from the user's perspective. The number of options is expanding, with six types of green vehicle currently available in Japan: low fuel-conserving light cars, next-generation gasoline engine cars, HV cars, PHV cars, clean diesel cars, and electric cars.

6: Communications

The focus is on whether NTT Docomo will go ahead with offering the iPhone. If this teaming up of the most powerful mobile device maker and the most powerful carrier comes to fruition, its impact will be akin to a realignment of the industry. However, even if iPhone users purchase music, movies, apps, and so forth, the fees will go to Apple; they will not represent turnover for Docomo. And Apple is standing firm on its bullish sales forecast. Running device development through service content, Docomo's business model under the company's own leadership will have to change. That's the reason why Docomo is also independently venturing into the field of integrated services, such as music and video downloading and online shopping, without taking the step of selling the iPhone.

However, since Softbank launched the iPhone in Japan, it has taken over Docomo's position as the fastest-growing mobile carrier, and sales of the latter's mobile devices and smartphones have been sluggish. Meanwhile, some believe that Apple, interested in Docomo's high-speed communications network, will revise its strategy following the passing of Steve Jobs. Assuming that Apple and Docomo do join forces, there will be no avoiding competition with Softbank and KDDI, who are already offering the iPhone; the battle over services and pricing will be fierce. The beneficiaries of this conflict will be Apple and app developers.

7: Medical Products

In response to the problem encountered in 2010, when there was a convergence of expiring patents for blockbuster drugs, various companies have invested in new products, and the domestic market has become more robust. However, there is an uphill battle in the overseas market due to the dramatic rise in the yen's value. There are more and more cases of companies whose domestic profits are being wiped out by overseas losses, so the market as a whole is flat.

Takeda Pharmaceutical Company, however, has taken aggressive steps in the international market by turning the strong yen to its advantage. It has acquired Swiss firm Nycomed, which has a strong presence in Eastern Europe, thereby enhancing its sales channels in the European market. Similarly, Daichi Sankyo acquired Plexxikon, opening up an avenue into the American market. Expansion into the international market and emerging markets is an important growth strategy since the domestic market is maturing.

Furthermore, the industry's self-imposed regulation prohibiting the entertainment of physicians for sales purposes (to be introduced in April 2012) and the price reduction for ethical drugs (in April) will have an unexpected impact. The prohibition on providing entertainment to physicians is an unprecedentedly strict rule, and it will subtly alter the relationship between doctors and medical representatives (MRs) accustomed to such sales practices. The view is being expressed that MRs will become more mobile, because more physicians will be gathering information via the Internet without relying on MRs. Foreign manufacturers are also poised to launch a slew of new medications. There is a noticeable gradual shift toward outsourcing MR activities, and manufacturers who do not produce new medications will suffer a blow from the drug price revisions, and so on.

8: LCCs

All Nippon Airways (ANA) and Japan Airlines (JAL) are entering the low-cost carrier (LCC) sector.

Starting from March, Peach Aviation – financed by ANA, a Hong Kong investment firm, the Innovation Network Corporation of Japan, and others – will operate services to Sapporo, Hokkaido (three round-trip flights daily) and Fukuoka, Kyushu (four round-trip flights daily) based out of Kansai International Airport. Compared to even the cheapest tickets for the two main Japanese carriers, fares are around half the price or less: a one-way flight on the Fukuoka route is 3,780 yen to 11,780 yen, while the cost is similar for the Sapporo (New Chitose) route, at 4,780 yen to 14,780 yen. The next LCC after Peach – likewise financed by ANA, along with Malaysia's AirAsia – is AirAsia Japan. From August, it will offer services out of Narita Airport to Sapporo, Fukuoka, and Naha, Okinawa. In October it will also begin operating Seoul (Incheon) and Busan routes. JAL has founded Jetstar Japan via joint financing with the Qantas Group and Mitsubishi Corporation, and is aiming to launch services during 2012.

Due to the appearance of these LCCs, the kind of price wars that until now have been restricted to short-haul routes elsewhere in Asia will begin over domestic routes. As they are currently losing customers due to the expansion of bullet train services, the two major carriers (ANA and JAL) are surely aiming to get out of this situation by generating new demand and bringing back customers who have switched to the bullet train with low pricing – but with the overall price level decreasing, profits could be squeezed unless they do manage to increase new demand. A major structural change may be in the offing.

9: Distribution, Supermarkets and Convenience Stores

Amid continued deflation and ongoing price wars, it is becoming tougher for regional supermarkets to survive on their own. Last year, the merger of Arks (Hokkaido) and Universe (Aomori, northern Japan), Aeon's acquisition of Marunaka (Kagawa, Shikoku), and other transactions were widely covered. With the scale of the market shrinking as the population continues to age, there is also a tendency for mid-sized supermarkets to seek mergers with large chains.

The convenience store sector remains in good health. Reconstruction demand appears to still be continuing, while the number of elderly and female customers is said to be rising since the Great East Japan Earthquake. With the number of convenience stores having reached 46,000 the domestic market is close to its saturation point. As a result, conversion of convenience stores into grocery supermarkets is progressing in the domestic market. Major distributors Aeon and Seven & i Holdings continue to be aggressive in opening small food supermarkets and online supermarkets. In fact, the number of Ito-Yokado online supermarket members is said to have surpassed one million.

Moreover, stores are opening in the international market at an even faster rate than in the domestic market. Seven-Eleven and Family Mart have more outlets abroad than they do in Japan. Most notably, the opening of new stores is being aggressively pursued in South Korea, Thailand, and China.

Compiled by Junichi Hashimoto

Seven Bank

Convenient Banking

Against the advice of friends and despite uncertainty about the viability of the unprecedented business model, Takashi Anzai – who'd spent more than three decades at the Bank of Japan and presided over the exhausting rehabilitation of the Long Term Credit Bank – decided to end his short sabbatical and grab the reins of an entirely new banking venture. IY Bank Co., Ltd. was established in 2001 – with Anzai serving as Chairman and Representative Director – to manage ATMs installed at Ito Yokado and Seven Eleven locations in Japan. Today the company is known as Seven Bank, Ltd. (8410), operating under Seven & i Holdings – formed through a stock transfer between Ito Yokado and Seven Eleven Japan in 2005 – and has over 16,000 ATMs in operation nationwide.

It is built upon a unique B2B2C business model, deriving over 95% of its revenue from ATM usage fees paid by more than 570 financial institutions with which it has established partnership agreements. The company's FY2011 Q2 financial results, released in November, show revenue and profit up year-on-year, with ordinary profit exceeding forecasts and driving an upward revision in the full-year outlook for ordinary profit and net income. The interim dividend and full-year dividend outlook are both according to plan.

In December, Seven Bank began trading on the first section of the Tokyo Stock Exchange, with the goals of increasing liquidity, expanding its shareholder base, and accessing individual shareholders who are also users of its ATMs. Anzai, President and Representative Director Kensuke Futagoishi, and the other executives aren't fretting about the share price though – Seven Bank is founded on the premise of customer service, and the belief that if the customer is happy, the stock will reflect that.

Networked ATMs, which allow customers to directly access their accounts, began appearing in the late 1970s, and demand for this service bloomed, driving technological advances that brought engineering and manufacturing costs down and led to the spread of ATMs out of bank branches and into retail locations. According to the Automatic Teller Machine Industry Association (ATMIA), the total number of ATMs installed worldwide is approaching 1.8 million. Naturally, many of these can be found installed in neighborhood convenience stores which, combined with the many other products and services the store provides, makes it nigh impossible for us to pass a single day without a visit.

> "The greater the concerns for the failure of banking functions, the greater the importance of the secure, quick and efficient conversion of deposits to cash."
> **Takashi Anzai**
> **Chairman and Representative Director**

Formative Years

In 2001, Ito Yokado – Japan's largest supermarket company at the time – teamed with Seven Eleven Japan to create IY Bank Co., Ltd. for the purpose of managing ATMs installed at Ito Yokado and Seven Eleven locations domestically. In the face of opposition from members of the BANCs ATM network and despite delays in obtaining a license, Ito Yokado persevered and successfully launched the venture. IY Bank grew quickly, the initial investment recouped within a few years. In 2005, when Seven & i Holdings was formed through a stock transfer involving Ito Yokado, Seven Eleven Japan and Denny's Japan – another Ito Yokado subsidiary – IY Bank Co., Ltd. became Seven

Bank, Ltd. and continued to grow. Today it operates over 16,000 ATMs across the country, providing customers with access to their own bank accounts through the user interface provided by their bank, with earnings coming from ATM usage fees paid by the partner institutions – enabling the company to withstand more severe economic fluctuations. Its parent company is Japan's largest retailer, fifth largest in the world, and #131 on the 2011 Fortune Global 500.

Service Offerings

Seven Bank's ATM installation locations are open 24/7, offering unbeatable access and convenience. Customers can access funds from their own bank account via the Seven Bank ATM, using their own bank card and navigation is a breeze as each partner bank provides its own user interface which the customer is most accustomed to seeing. Transaction fees are set by the partner banks, which then pay Seven Bank usage fees.

Banks partnering with Seven Bank enjoy the ability to offer virtually the same suite of services that would be available to them via ATMs at bank branches; the safety and security of Seven Bank's ATM network, which in the end also functions as a backup ATM network for partner banks; a significant reduction in ATM maintenance costs; and most of all, extended reach, as they are now accessible on a much broader scale and can be regarded by their own customers as more convenient.

Customers are offered access to funds 24 hours a day, 365 days a year; the convenience of not having to open a Seven Bank account (though this is an option, and required in order to use the bank's new international money transfer service) as they can use their own bank card to do their banking; the ability to conduct credit-related transactions; increased limits in the personal loan service, from 100,000 yen up to 300,000 or 500,000 yen; and an easy-to-use, multi-lingual interface. Further, many banks have lowered their own usage fees – in some cases, transactions conducted during the daytime, even on weekends, are free of any fees.

It Doesn't Get Any Easier Than This

In March of 2011, Seven Bank launched its international money transfer service, primarily targeting foreign residents in and visitors to Japan. Initially only available through its Internet and mobile banking platforms, the service was made accessible through its ATMs in July. Unlike similar services offered by other institutions, Seven Bank's service essentially enables quick and easy transfer any time of day, any day of the year. Customers can conduct transactions totaling up to 500,000 yen per day/month, and up to 3 million yen per year. Service charges generally vary by region and according to the amount transferred, and range between 990 and 8,500 yen – though Seven Bank does offer a flat rate of 1,500 yen regardless of region for a transfer of 50,000 yen, a very common amount. Though the person transferring the funds must establish a Seven Bank account, no account of any kind is required for the recipient to collect on the other end. And thanks to Seven Bank's alliance with Western Union, funds can

The Convergence of Convenience

It's difficult these days to take a 10-minute walk just about anywhere in Japan and not pass at least one convenience store. They are absolutely and permanently woven into the fabric of our daily lives, allowing us to pursue other tasks more aggressively and effectively – according to our own schedules – by centralizing so many vital functions and services. The idea was born in 1927 on a street corner in Dallas, Texas, as an employee of the Southland Ice Company decided to offer sales of certain daily items after supermarkets had closed. Operating out of an ice house – from 7AM to 11PM – this ambitious, initially small-scale enterprise has grown over the course of 85 years into the world's largest convenience store franchise, with some 40,000 locations globally.

Though it took time for the first Seven Eleven store to appear in Japan – it made its debut in Koto Ward, Tokyo in 1974 thanks largely to the efforts of current Seven & i Holdings Chairman and CEO Toshiyuki Suzuki, who at the time was executive manager in Ito Yokado's new business development division – there are now more Seven Eleven locations here than in any other country in the world, including the U.S. And the pace of growth shows no signs whatsoever of slowing down. The five major convenience store chains all plan aggressive expansions in 2012, even exceeding already ambitious forecasts released in 2011. Seven Eleven leads the way, planning for a net increase of 750 stores by the end of the fiscal year – featuring, of course, Seven Bank ATMs.

Continuing Growth of Convenience Stores

Franchise	FY	New Store Openings	Net Increase (factoring in closures)
Seven Eleven Japan	2012	1,350	750
	2011	1,200	650
Lawson	2012	800–900	400–600
	2011	680	310
Family Mart	2012	800	500
	2011	540	240
Circle K Thanks	2012	360	130
	2011	330	90
Mini Stop	2012	150–200	100–150
	2011	120	64

Source: Nihon Keizai Shimbun – December 28, 2011

> “The earthquake gave me a renewed appreciation of the role of ATMs as part of the infrastructure.”
> **Kensuke Futagoishi**
> **President and Representative Director**

be transferred in local currencies to over 400,000 locations in about 200 countries, in just minutes.

“Foreign workers confront inconveniences and other difficulties when they conduct face-to-face transactions in bank branches, while, for their part, banks are more interested in handling large remittances for corporations,”

notes Kensuke Futagoishi, Seven Bank President and Representative Director.

“The international money transfer services that we have begun are intended to fill this need, and, in this area also, we are working to draw on the strengths of Seven Bank to meet customer needs.”

Powering Up Convenience

Seven Bank is currently in transition from its existing ATM model (2nd generation) to its advanced 3rd generation machine. Though it had initially planned to have 1,200 units installed and operational within FY2011, it has revised this figure upward to 2,500.

The new machines will offer faster operation, with immediate wake-up from eco sleep mode and bill processing speed doubled from six to 12 bills per second, resulting in the hourly transaction capability increasing from 80 to 100. The positions and angles of the screens have also been changed slightly for more comfortable viewing, security camera sensors have been enhanced, and the shields on either side of the unit each cover a larger area for enhanced protection of privacy. The machine also features higher-quality components, ensuring longer service life and lower maintenance costs.

The 3rd generation ATMs have been designed to hold more cash storage cassettes which can be replaced individually, greatly enhancing flexibility and reducing maintenance and management hassles, and keeping the ATM active longer as interruptions for cassette replacement – as well as field visits by security and maintenance personnel – are needed less frequently.

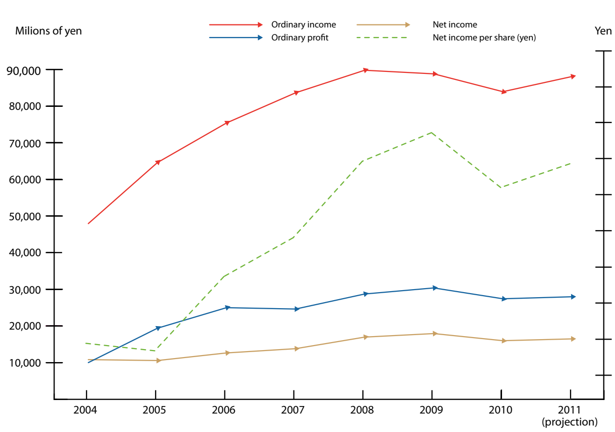
Combined with its other services, such as manned outlets where inexperienced customers can consult with experts, and cash pickup and delivery and easy deposit of sales proceeds for corporate clients, it’s clear that Seven Bank has developed a suite of services that focuses first and foremost on customer service and satisfaction – offering a broad array of options, convenient access and ease of use while ensuring the lowest possible fees keeps people coming back.

March 11, 2011

The effects of the Great East Japan Earthquake – a massive 9.0 tremor that triggered a destructive tsunami – were widespread and devastating. Transportation infrastructure was significantly impacted, which resulted in fragmenting of the supply chain – supermarkets nationwide began to struggle to keep items on the shelves, driving more and more people to convenience stores in the hopes of finding needed items. This was a key motivation in the aggressive new-store planning by the five major convenience store franchises in Japan for FY2012.

Seven Bank suffered direct damage to a few hundred of its ATMs, and a total of a little over 2,000 were out of service – mostly in the regions directly affected by the disaster. Its remaining 13,000 or so ATMs continued to function normally, providing all standard services thanks to the two computer system/ATM call centers situated in Tokyo and Osaka, hundreds of kilometers from the stricken areas. Operations at the Tokyo center were temporarily disrupted, but the Osaka center was able to handle the burden in the interim and overall operations proceeded as usual. Seven Bank recovered quickly – the number of ATMs initially rendered inoperable or inaccessible due to damage suffered by the stores

Financial Highlights (Fiscal 2004–2011)



Mobile ATMs

When April arrived, the out-of-service ATMs were limited to areas in which power and telephone service had not yet been restored, and where stores had been most severely damaged, conditions that prevent the installation of a standard ATM. One solution, explains Futagoishi, was mobile ATM units. "We completed the preparations for these mobile units in just one month, installing only a minimum of equipment, but by providing for security, they went into service in May. Electric power and telephone lines had not been restored to service in these areas, and we received words of encouragement, such as "We are amazed that you could do this!" Other banks asked us how we could provide mobile service so quickly, but we believe that it was due to Seven Bank's rejection of preconceived notions and ability to move fast."

The first of Seven Bank's mobilized ATMs went into service in Shiogama, Miyagi Prefecture, on May 21, 2011. It was set up in the back of a 2-ton truck, into which customers climbed to conduct transactions. Virtually all services were available, despite damage to communications infrastructure in the area, thanks to the implementation of a wireless system.
Seven Eleven and Seven Bank staff posted and held signs to inform passers by that the service was available. As of June 2011 Seven Bank mobile ATMs were in service in Shiogama, Ishinomaki, Minamisanriku and Kesennuma cities in Miyagi Prefecture.

in which they were installed dropped to 400 a week and a half after the quake, and to 70 by month's end. And the bank has addressed the ongoing concern regarding constraints in electrical power, engineering its 3rd generation ATMs to consume 48% less energy than the current models thanks to LED backlighting and other technical advances.

Growth Strategies for the Next Decade

The central pillar of Seven Bank's operating philosophy is customer service, so it recognizes the need to constantly evolve and expand based on customer needs and changes in environment. The company will continue its aggressive ATM installation plan and accelerate its transition to 3rd generation machines, while at the same time working to add new institutions to its partner roster, particularly in areas where Seven Eleven is not yet established. Seven Bank is also aware of the need to continuously search for and develop new potential key revenue streams, as most recently evidenced by its launch of the international money transfer service via its Internet and mobile platforms and ATMs as well, and by raising the limits available through its personal loan service. The company is also presently considering a foray into Asia, where it could possibly develop ATM operations and pursue banking service outsourcing opportunities. And, confident in the synergy with its core retail business, Seven Bank will look to develop and roll out a diverse selection of financial services. The parent company, Seven & i Holdings, has its eye on aggressive expansion globally – according to chairman and CEO Toshiyuki Suzuki, it's possible that the total number of Seven Eleven locations worldwide could increase by half, from the present 40,000 to 60,000, by the end of FY2015.

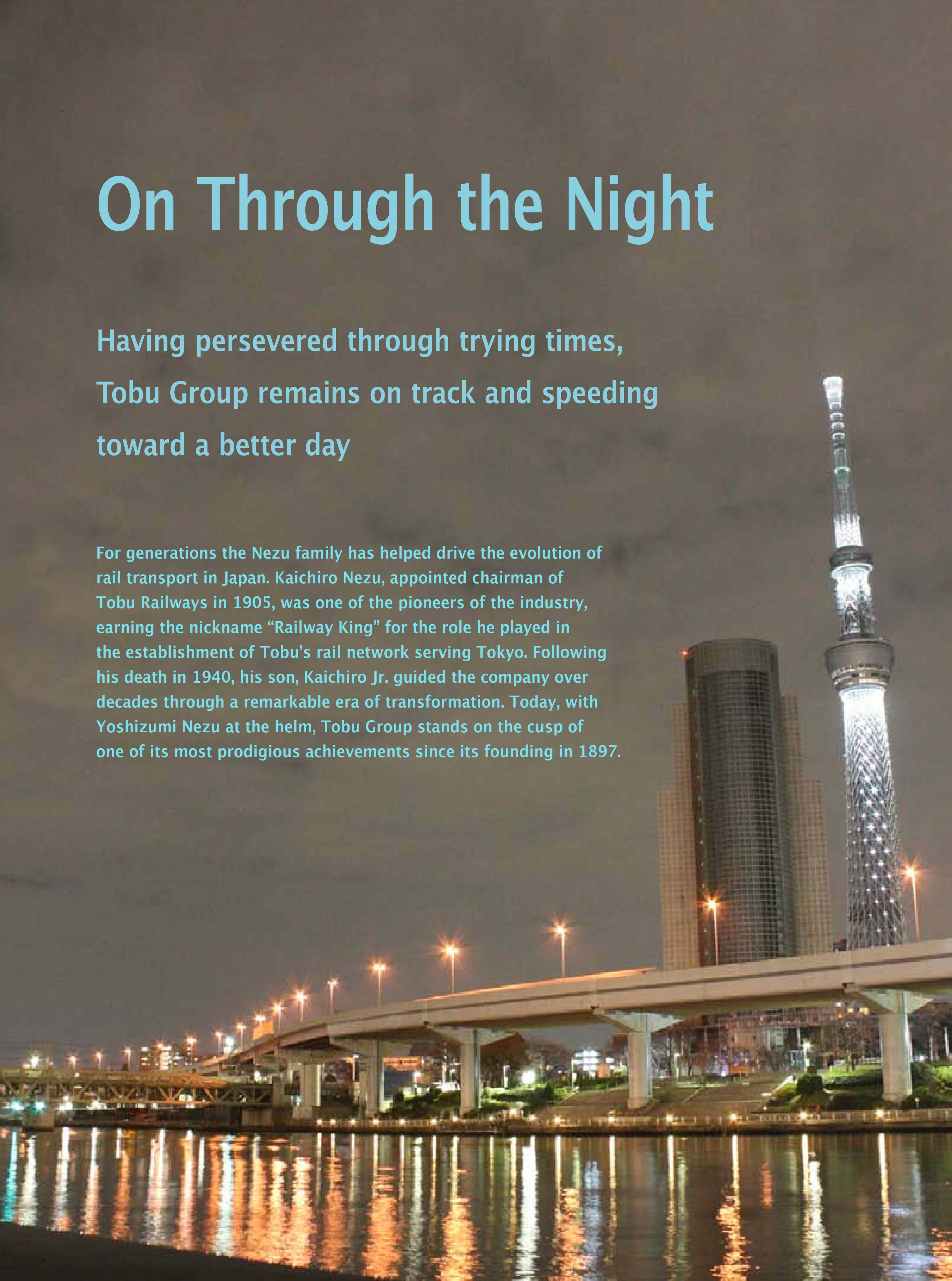
Full-year Forecast

Based on first-half performance, Seven Bank has revised its outlook upward for the full year ending March 31, 2012. It expects ordinary income of 88.1 billion yen (4.9% higher than previously forecasted), operating profit of 28 billion yen (+2%), net income of 16.5 billion yen (+3%) and net income per share of 13,855 yen.
While non-bank ATM transactions have been decreasing, the company feels that the decline has leveled off, and with new installations and the phasing in of its high-efficiency 3rd generation machines, it expects a year-on-year increase of 3.4 billion yen in ATM fee income for FY2011.
Seven Bank, which in the ten years since its founding has weathered initial growing pains, opposition to and skepticism of its radical business model, a global financial crisis and one of the most devastating natural disasters ever to strike Japan – and come out of it all stronger than ever – is poised and eager to enter the next phase of corporate evolution.

On Through the Night

Having persevered through trying times, Tobu Group remains on track and speeding toward a better day

For generations the Nezu family has helped drive the evolution of rail transport in Japan. Kaichiro Nezu, appointed chairman of Tobu Railways in 1905, was one of the pioneers of the industry, earning the nickname “Railway King” for the role he played in the establishment of Tobu’s rail network serving Tokyo. Following his death in 1940, his son, Kaichiro Jr. guided the company over decades through a remarkable era of transformation. Today, with Yoshizumi Nezu at the helm, Tobu Group stands on the cusp of one of its most prodigious achievements since its founding in 1897.



Tobu Railways

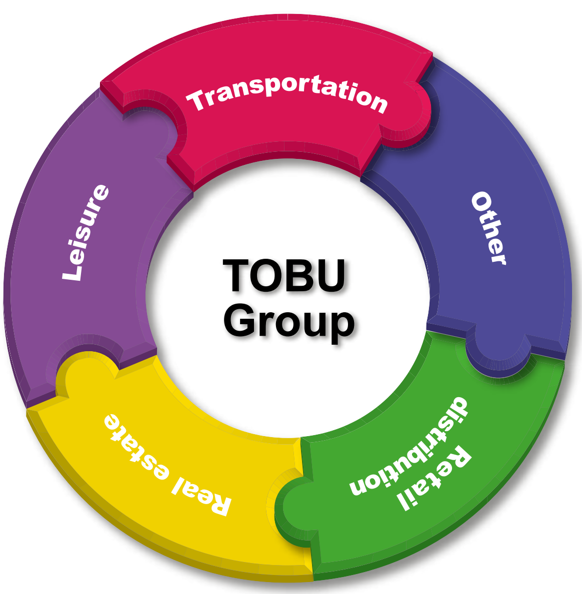
In its 115th year in business, Tobu Railways operates the second longest private railway network in the country (excluding the Japan Railways Group – formerly Japan National Railways, privatized in 1987), at 463.3km. The company's train lines offer service in Tokyo, as well as in Chiba, Saitama, Tochigi and Gunma prefectures, serving numerous major railway stations which are either renowned business or entertainment districts or have been transformed into such areas thanks largely to the foresight, planning and execution of Tobu itself.

With the Japanese economy still stagnant and unemployment remaining relatively high, revenues for the fiscal year ending March 2011 totaled 555,147 million yen – this does represent a 3.8% drop against the preceding year, but the company implemented a variety of cost-reduction and efficiency-enhancing initiatives in fiscal 2011 that were extremely successful and helped mitigate the impact on corporate performance – evidenced by the 2.7% year-on-year increase in operating income, to 30,779 million yen.

Taking into account the devastating earthquake and tsunami of March 2011, and the nature of Tobu Railways' operations, there can't help but be a noticeable effect on fiscal 2012 performance. Though service has been steady and major difficulties have not been experienced to this point in the regions in which Tobu operates, electric power is an ongoing concern. However, supply chain operation nationwide has essentially returned to pre-quake efficiency, and consumer confidence has rebounded dramatically, due to the strength and spirit of the Japanese people. Through the 1st half of fiscal 2012 (April 1 – September 30, 2011), Tobu Railways revenues totaled 263,489 million yen, only off 4.8% against the corresponding period the previous year, while operating income was at 13,711 million yen, down 9.7%.

Full-year projections for the year ending March 2012 show revenues expected to total 538,000 million yen (-3.4%) and operating income forecast at 27,000 million yen (-12.3%). Yoshizumi Nezu, who joined Tobu Railways in 1974 and has served as president and representative director since 1999, says, "Although operating results for the current fiscal year are expected to be even more harsh, mainly reflecting the impact of the devastating earthquake and tsunami, the Tobu Group will continue to boost operating results through aggressive sales promotion activities in all businesses, laborsaving activities, and rigorous cost reductions."

The global economic crisis naturally reached Japan's shores as well, and significantly impacted consumer confidence and behavior. However, since then the company has proactively and successfully reduced operating expenses and maintained a steady operating margin.



The Tobu group is comprised of 93 companies and 14 affiliates. Its key enterprise is Tobu Railway Co., Ltd. (9001), but the group is extremely diverse, with other companies operating as Tobu Railways subsidiaries in the transportation space, as well as firms in leisure, real estate, retail distribution and other areas such as construction.

Business by Segment

Transportation

The company's core railway service manages a total of 203 stations, and serves nearly two and a half million people each day – Tobu's train lines act as lifelines for business commuters, students and tourists alike throughout the Kanto region. These lines also serve as the axes of Tobu group's overall operations, supporting and sustaining its leisure, real estate, retail and other activities. In fiscal 2011 Tobu Railways introduced new trains on selected lines, and increased the frequency of trains, including more express trains during rush hours and increased service on holidays and during events.

In addition to rail service, Tobu also operates long-distance bus lines, which have been very active in terms of enhancements and innovations. The Tobu Bus Group continued its efforts toward barrier-free service, introduced online fare search capability to give customers easier access to information, and put into use an eco-drive management system, which gathers and analyzes vehicle operational data, enabling more intelligent use of energy and more efficient operation. Tobu also now operates buses to and from Haneda Airport, which offers 24-hour operation and is becoming a hub for long- and medium-haul international flights.

Transportation division operating revenues for fiscal 2011 totaled 207,262 million yen (+0.4%) and operating income was at 20,769 million yen (+8.4%).

Leisure

The Tobu group is active in hotel management, and also operates amusement parks, sports clubs and other attractions, and is currently closing in on the grand opening of Tokyo Sky Tree. Declines in division operating revenues, at 68,605 million yen (-14.2%) and operating income at 1,121 million yen (-2.8%) were attributable to organizational restructuring within the division, but group companies in this domain worked hard to introduce new, innovative, convenient services to attract new customers and maximize customer satisfaction.

Real Estate

Tobu group's real estate operations encompass leasing and subdivision activities, including the Narihirabashi/Oshiage Development Project, with Tokyo Sky Tree at the core.

Along its axes of train lines, Tobu constructs shopping malls and other retail properties, always looking at newer and more efficient ways to utilize land beneath elevated railway tracks, as well as unused land and land that it assesses to be under-utilized. It also leases land along its train lines and in its station buildings, knowing that bringing in attractive tenants will lead to increased traffic. The group developed new retail facilities, renovated existing ones and implemented enhancements and reorganization with the goal of increasing traffic – and subsequently revenue – at its station buildings and stores. Tobu also makes use of land along its railway lines for development of condominiums and homes, or simply sells the land outright.

The Narihirabashi/Oshiage Development Project got underway in the summer of 2008, and the many years of planning and efforts will culminate in the grand opening of Tokyo Sky Tree on May 22, 2012. Located in Sumida Ward, Tokyo, the approximately 3.7-hectare area is adjacent to popular tourist destinations Asakusa, Ueno and Ryogoku. People will easily be able to come from these popular and heavily trafficked areas and enjoy more modern entertainment at Tokyo Sky Tree and the surrounding Tokyo Sky Tree Town, which will feature numerous entertainment and cultural facilities in a complex called Tokyo Solamachi, as well as a new office building, Tokyo Sky Tree East Tower.

Real estate division operating revenues for fiscal 2011 totaled 47,901 million yen, a year-on-year decrease of 16.7% due primarily to a drop in sales of condominiums and pre-built homes, and operating income fell to 4,274 million yen (-28.1%).

Retail Distribution

Tobu Department Store in Ikebukuro, currently the company's flagship retail establishment, is situated near one of Japan's busiest train stations. It is one of four in the Kanto area, and is easily accessible for those living in Saitama Prefecture via the Tobu Tojo train line. Tobu Railways subsidiary Tobu Store Co., Ltd. operates a supermarket chain, with 60 locations – 80% of which offer 24-hour operation or are open until around midnight – in Tokyo, Saitama and Chiba. Tobu Shoji Co., Ltd. is an operator of general stores, convenience stores and vending machines. Tobu has endeavored to broaden product lineups, open at new locations, and conduct events and promotions to increase traffic.

Operating revenues for the retail distribution division in fiscal 2011 totaled 210,648 million yen – a drop of 2.6% against the previous year due to the recovery in consumer spending being weaker than expected. However, on the strength of cost-cutting initiatives, the division posted an impressive 122.6% rise in operating income, to 2,293 million yen.

Other

Tobu is also involved in construction, renovation, building management and other operations. In fiscal 2011 Tobu group companies conducted numerous renovation projects and acquired new management contracts, but as there were fewer large-scale construction projects, division operating revenues fell slightly, down 3.3% to 74,699 million yen, with operating income at 2,871 million yen, down 15.4%.

Medium-term Business Plan

Tobu Group's current medium-term business plan was launched in fiscal 2010, and at its core is the Group's massive development project centered on Tokyo Sky Tree. The focus of the plan is to enhance corporate value and that of its railways, to optimize operational efficiency, to solidify the Group's financial situation, and to achieve sustained growth.

The crown jewel of the plan is the Narihirabashi/Oshiage Development Project, which encompasses an area of about 3.7 hectares and will feature Tokyo Sky Tree, a commercial facility called Tokyo Solamachi, and the Tokyo Sky Tree East Tower office complex. This project is hugely significant not only for

Tobu Group, but for the immediate and surrounding areas as well. The project represents an unprecedented merging of tourism and commerce, with visitors expected not only from the immediate vicinity, but with Tobu's enhancements to its railway network, from all across the Kanto area and even from abroad. Tobu hopes to attract 25 million visitors annually to Tokyo Sky Tree and the adjacent area. It also anticipates people coming to the area will visit the neighboring Asakusa and Ryogoku areas and patronize the many traditional Japanese businesses there, providing a welcome economic boost.

The Group is in the process of renovating several of its key railway stations, and is also working to improve service, comfort and safety on its railway lines, renew and expand commercial facilities in and around station buildings, expand its bus operations, and implement numerous other measures in a broad-ranging upgrade. Through this aggressive enhancement activity, Tobu Group hopes by fiscal 2013 to achieve 20,000 million yen in net income, an outstanding balance of interest-bearing liabilities of 810,000 million yen, and a ratio of interest-bearing liabilities to EBITDA of about 8.

The Fruits of Tobu's Labors

The 333-meter Tokyo Tower, since its completion in 1958, has been not only an icon but has also served as a broadcast solution for Japanese television or radio stations. However, economic growth brought one skyscraper after another into the area, resulting in signal interference. It was then decided that a higher tower was needed so that signals would be unobstructed, and the plan for a new tower was born – in line with which Japan's TV stations decided to make a complete transition from analog to digital broadcasting. Initial plans had the tower stretching to a height of about 600 meters, which also supported "one-segment broadcasting" of TV signals to mobile devices.

Construction of the New Tokyo Tower got underway in the summer of 2008, and the following year, the name Tokyo Sky Tree was adopted as the popular choice of citizens in a national poll. The height of the tower, 634 meters, is easy for Japanese people to remember – it can be read as "mu" (6) "sa" (3) "shi" (4), which long ago was the name of the region in which the tower stands. The tower will offer two observatory decks – the first at 350 meters and another 100 meters above it. The first deck will offer shopping and dining facilities in addition to a breathtaking view. The structure has captured the attention of the entire country, and advance admission tickets are being snapped up at an impressive pace.

Tokyo Sky Tree Town will comprise the Sky Tree, the Tokyo Solamachi commercial facility, Tokyo Sky Tree East Tower office complex, and other attractions including an aquarium.

Unlike Tokyo Tower, Tokyo Sky Tree will have at its base a small town, and Tobu's aggressive operational optimization activities will allow easy access from around the Kanto plain and – combined with the traditional towns nearby, with their concentrations of classic Japanese food and craftsmen – make the area a place where people of all ages can enjoyably spend an entire day.

The town will feature train stations at each end, both served by Tobu Railway lines, located in convenient proximity to the office and retail centers.

The Journey is the Thing

Tobu's 115-year history is testament to its dedication to its areas of specialty as well as to its ability to adapt to changes in environment without forgetting its roots. Tobu Group has formulated and activated a very intelligent, forward-thinking plan to help it achieve sound financial standing and to create a solid platform for sustained future growth and expansion. It has drawn clear roadmaps for each area of business and moves forward with a singularity of purpose characteristic of a firm that got its start with steam locomotives and now finds itself perennially on the Forbes Global 2000 list.

Tokyo Sky Tree

Rising East

The two wards of Sumida and Taito are famous for Asakusa, the busiest amusement center of the Edo period. The area is representative of the cuisine, sentiments and craftsmanship of Edo culture which had provided the foundation for the development of Tokyo. Tokyo Sky Tree is constructed in a location rich in historical legacy. The symbolic tower will serve to create an affluent community of the new age where people meet and communicate.
On Thursday, November 17, 2011, Guinness World Records officially recognized Tokyo Sky Tree as the tallest tower in the world. At 634 meters, it has taken the title from the 600-meter Canton Tower in Guangzhou, China. Tokyo Sky Tree will open to the public on May 22, 2012. Tobu expects some 25 million visitors to Tokyo Sky Tree annually.

Address:	1-chome, Oshiage, Sumida-ku, Tokyo
Site Area:	36,900m^2 (includes Tokyo Sky Tree and all elements of Tokyo Sky Town)
Main Purposes:	Broadcasting tower, exhibition hall (observatory), stores, restaurants, museum, offices, halls, academic institutes, regional cooling and heating facilities, parking
Design:	Nikken Sekkei Ltd.
Construction:	Obayashi Construction
Operator:	Tobu Tower Skytree Co., Ltd.

Following Up on the Aftermath of Major Flooding in Thailand

～Overcoming Challenges and Taking Steps Toward Recovery～

Report from the Field: Thailand and Japanese Companies Today

In the latter half of 2011, Thailand – the so-called "Land of Smiles" – was hit by massive flooding. There was extensive damage, with over 600 deaths, more than five million victims, and affected farmland covering an area approaching the size of the Kanto Plain. The flooding also reached factories operated by Japanese companies; many businesses suffered from inundation and were forced to shut down operations. Major Japanese companies have reported profits negatively impacted by 700 billion yen. While there was major coverage of the story in Japan for a time, little has been heard about the situation since then. How is Thailand doing? Are Japanese companies gradually rebounding from the flood damage? I made a field visit to Thailand to find out.

Contributed by Masahiro Ito
Born in 1966, Ito became a freelance writer after working as a reporter of a trade paper. Ito has been engaged in covering company reports and documentaries, as well as corporate strategies and social issues.

Vibrant Capital of Bangkok – A City Free of Flood Damage

It was mid-December when I arrived in Thailand's capital of Bangkok. Although it was December, I was sweating from the heat. Day-time temperatures were in excess of 30ºC. While that may be natural, since Thailand is classified as a tropical zone in terms of climate, I could not help feeling a certain physical disorientation, having been in mid-winter Japan just a few days before. In Thailand, the hot season begins in April, with the monsoon season lasting from May to October; after that comes the comparatively cool dry season. December is the coldest time, but although the locals said that the mornings and evenings were "chilly," it was, to say the least, a completely different concept of "cold" from that in Japan.

I went to take a look at the city center right away. In the Japanese media, there were newspapers that ran "Bangkok Sinks" headlines, but, while it was true that the flooding had already ended, there was no trace of anything at all resembling flood damage to be found in the city. Appetizing smells drifted from the stalls lining the streets as the bustle of cars and motorbikes swirled around me – the city was teeming with the vitality and vigor of the ongoing economic growth that began in the 1990s. As I was eating a meal, I listened to what a stall owner had to say about the flooding. First off, waving his hand dismissively, he said, "It had nothing to do with us here. It was only the north-east part of Bangkok that was flooded – there was no damage at all here in the central part." He did say, however, that the effects of the flooding had been felt in Bangkok. In order to "defend" the city against flooding, the Thai government had taken steps to divert the steadily southward-moving waters toward the east and west with dikes and sandbags. Since the areas around Bangkok suffered flood damage as a result, the transport network was disrupted, and the provision of supplies such as foodstuffs was temporarily cut off. There had been some confusion, with quite a few residents, truly fearing a "Bangkok sinks" scenario, temporarily fleeing from the capital. And there was some flooding damage along the banks of the Chao Phraya River that flows through the city, but there was no inundation. "Flooding is like an annual tradition in Thailand – it happens a lot," said the stall owner, laughing. To the Thais, flooding did not seem to be a special event...

Cause: Heaviest Rainfall in 60 Years and Other Factors

The direct cause of the current major flooding was the multiple typhoons caused by La Niña – a change in sea temperatures – from July through October, resulting in heavy rainfall. In the upper basin of the great Chao Phraya River, which traverses Thailand, the rainfall level was about 50% greater than the annual average: "the heaviest rainfall in 60 years," according to Thailand's Royal Irrigation Department. By September, nearly all of the central lowland provinces had suffered the impact of flooding. Water overrunning the Chao Phraya River gradually moved south in the adjacent lowlands, inundating the ruins of renowned World Heritage Site Ayutthaya and, hitting an industrial park occupied by many Japanese companies. Then it reached the northern part of the capital, Bangkok. La Niña is not a weather abnormality but a cyclical phenomenon, and the heavy rain that it causes has frequently hit Thailand with flooding (flooding in Thailand is not like the dramatic swelling of muddy currents in Japan; rather, the water level rises slowly and steadily, leading to an ongoing state of deep flooding). From the Thai people's perspective, flooding is a kind of "traditional event," to the point that the locals say it occurs "once every five years, on a small or large scale." And the heavy rainfall nurtures the rich soil, making it a vital factor in Thailand being the world's leading rice-exporting nation.

On this occasion, however, the rainfall went beyond expectations. Normally, rainwater is collected by dams for the dry season, but in this deluge, the majority of the dams in Thailand approached or exceeded the limit of their water storage capacity by early October. As a result, even though there was a possibility of making the downstream flooding even worse, the amount of water that was drained had to be increased in order to prevent the dams from bursting. This became one of the triggers for the large-scale flooding. As well, in past floods, extensive paddy fields served as natural reservoirs. But some of these paddies and wetlands have been transformed into industrial estates and residential districts developed at a rapid pace by the Thai government. As a result, it is thought that the land's water-holding capability has been significantly reduced. Meanwhile, it has also been noted that, with the occurrence of coup d'états and the like since the turn of the century, the country's administration has been unstable, and the issue of addressing flood control has been neglected.

The fact that the flooding continued for several months was also due to the specific nature of the Chao Phraya River itself. In Japan, streams hurtle down from the mountains to join the rivers, but the gradient of the Chao Phraya is extremely gentle (the difference in elevation between Ayutthaya in the north and Bangkok is only 2m), and since the water flows extremely slowly, the flooding was protracted. Any way you look at it, there seems no doubt that the present major flooding in Thailand occurred due to the intertwining of multiple factors.

Around 450 Japanese Companies Inundated

The current flooding differs from earlier flooding not just in the amount of rainfall and the scale of the damage, including over 600 deaths. The previous major flooding occurred in 1995, but a crucial difference between then and now is the existence of the industrial parks that appeared in the interim. "The fact that the industrial parks were damaged has had a significant impact on not just Thailand's economy but on the global economy," noted a senior Thailand Ministry of Industry official. According to provisional calculations by the World Bank's Bangkok office, damages from the flooding were 1.4 trillion baht, or approx. ¥3.455 trillion, representing over 10% of Thailand's GDP.

Seven industrial parks in the northern part of Bangkok suffered flooding damage. Beginning with the inundation of the northernmost Saha Rattana Nakorn Industrial Estate in early October, the flooding moved south, and by late October, Rojana Industrial Park, Hi-Tech Industrial Estate, Bangpa-in Industrial Estate, Factory Land Industrial Estate, Nava Nakorn Industrial Zone, and Bangkadi Industrial Park were submerged, with around 450 (one-third) of Japanese companies with bases in Thailand suffering damage. It was at this time that images of flooded factory buildings and automobiles were broadcast extensively in Japan. In response to this situation, the Japanese government decided in November to dispatch international emergency teams led by JICA (Japan International Cooperation Agency), and sent ten drainage pump vehicles to Thailand, which commenced drainage operations in mid-November. These operations proved effective – by early December, drainage of the seven submerged industrial parks was more or less complete, and efforts aimed at recovery got underway.

Aiming for Full Resumption of Operations in Spring 2012

How are the industrial parks that were severely damaged doing now? I headed to Nava Nakorn Industrial Zone in Pathum Thani Province, 45km north-northeast of central Bangkok. There are a total of 190 companies, including 104 Japanese companies that suffered flood damage. The first thing I noticed upon entering the park was the desolate condition of the factory premises. Setting aside the fact that no buildings had collapsed, there was no significant difference from the aftermath of an earthquake: objects were strewn about and heaps of rubble could be seen. As it happened, the day I visited had been declared "Big Cleaning Day," and employees from the various factories were busy tidying up and cleaning facilities and equipment that had been exposed to the muddy water. In Nava Nakorn

Industrial Zone, there are Japanese factories related to plastics, aluminum casting, electronic components, semi-conductors, communications devices, electronic clocks, metal processing and agricultural machinery. However, almost all of them were forced to stop operations.

I spoke to Oranut Haripitak (an alias, as are other names below), manufacturing general manager for a major electronic parts maker. "The inundation began when the water overflowed the dikes that we had constructed in preparation for flooding, and the water depth reached two meters," he explained. "Now the water has withdrawn completely and the conditions are dry, but, as we move to resume operations, it's going to be tough from now. We're looking at a lot of time managing the repair or replacement of electrical systems and manufacturing equipment and so forth. We're aiming to resume operations as fast as possible, but we think it will be around April or May 2012 before they're fully resumed."

Operations have restarted at some factories, but at the moment, it's not even close to full resumption. The supply chain has been disrupted as well, which is why the present flooding has impacted not just Thailand and Japan but the global economy. In the world economy, Thailand is a manufacturing hub where "supporting industries" such as materials and parts production are being developed. As a result, when assembly plants toward the end of the supply chain are affected by a disaster and suspend operations, materials and parts makers are forced to curtail production or stop operations, since the demand from assembly plants dries up. Conversely, if materials and parts makers at the beginning or in the middle of the supply chain are affected by a disaster, the supply of materials and parts is stopped, and assembly plants also have to curtail production or stop operations. Due to the flooding of the industrial parks, this vicious cycle has continued for a prolonged period. What kind of measures are Japanese companies taking in response to this situation? According to Paradorn Chindasook, purchasing manager for a major communications device manufacturer, they are not just standing idly by while operations are shut down.

"We have transferred production to factories within Thailand that have not suffered flood damage or to overseas factories," he explains. "But the supply chain is disrupted. In order to maintain our supply lines, besides procuring parts from Japan, we have continued to obtain parts by any means possible, such as placing orders for parts that have always been supplied by one supplier from another supplier who was not affected by the disaster."

Mountain of Supply Chain Problems

Efforts aimed at alternate production and parts procurement are underway at other industrial parks, too. Preparations for restarting operations are in fact progressing at a rate surpassing initial expectations. But there are other problems. Thailand is a country with a marked labor shortage, with an unemployment rate as low as 1%. Companies forced to suspend operations have put their workers on furlough, and, according to Haripitak, "With the resumption of operations in mind, they are paying leave compensation in order to retain their employees." However, if the situation continues for a protracted time, there is a limit to their capacity to pay leave compensation, and the possibility that employees will seek other work and leave their company is by no means small. There's one more issue as well – the problem of insurance. While there's a possibility that the amount paid out by insurance companies for the present flood damage will grow considerably, the situation, as Chindasook explains, is that "the amounts specifically related to flood damage will be decided in the new year, and the results of claims assessments are uncertain." The fact that the amount of compensation is unclear is another factor hampering full resumption of operations.

Meanwhile, one might think that one future option for avoiding disasters would be to "escape" from Thailand. However, one automobile manufacturer executive stated: "We are not considering withdrawing from Thailand at all." For Japanese companies stepping up efforts to disperse their facilities in response to the strong yen and in the wake of the Great East Japan Earthquake, Thailand is an important base. Unlike Vietnam and other countries, Thailand represents an unparalleled materials and parts industry hub. Although in the future, the establishment of a supply chain based on risk dispersal, which would enable parts to be procured from surrounding countries at any time, may be sought. The words Chindasook spoke when we parted made an impression on me: "We're like a family. It's impossible to imagine Japanese companies abandoning their family and leaving here. In fact, our company's top executives have announced that they will not be moving from Nava Nakorn. We love the company. The first task we performed after the waters receded was to clean the company sign that had been dirtied by muddy water. I believe staying here and getting operations fully resumed is our mission."

JICA Working in Farming Villages

Upon returning to Bangkok, I heard information that JICA's international emergency teams were confirmed to work on draining fields. The site was not an industrial park but a farming village in the northern part of Bangkok. In order to observe this operation, I drove to the site the following day. As the view gradually changed from an urban environment to rural scenery, I began to see a lot of water. Thailand is a country with many canals and waterways to begin with, but in the scene before my eyes, the fields all around were submerged. Based on the fact that the roads were clear enough to drive on, it seemed that the waters had receded considerably, but the conditions were not at all conducive to farming. Travelling through this area, I came to the village of Sai Noi in Nonthaburi Province. Several drainage pump vehicles from Japan were draining water accumulated in the paddy fields into waterways. These drainage pump vehicles are powerful enough to drain an amount of water equivalent to a 25-meter pool in around ten minutes.

I spoke to a local who had pitched a tent on a low dike. "Both our fields and homes are under water, and we're living in tents now. The water has finally started to recede, but we don't know when we'll be able to go back to our normal life. But, if the water recedes a little more, it looks like we'll be able to sow seeds." (Thailand's rice is grown not by planting but by sowing.) "We're thankful that relief teams have come from Japan like this – we appreciate it," he said, joining his hands together and lowering his head in a Thai-style acknowledgement.

The Thai government has issued 5,000 baht (approx. ¥12,100) lump sum to each household that suffered damage and initiated support measures for victims. Having said that, it was the Thai government, as mentioned above, that dammed the gradually south-moving waters and diverted them to the east and west in order to "defend" Bangkok from the flooding – causing areas around Bangkok to suffer flood damage. Nonthaburi Province was one of the areas directly affected. In Japan, the flood damage in Bangkok was widely reported, but the damage was markedly more extensive in the countryside, and the 600-plus people who died were all residents of rural areas.

To date, the Thai government has implemented a variety of flooding counter-measures. However, most of them have focused on protecting the capital. Going forward, it is surely necessary to develop a comprehensive plan for dealing with disasters, including a fundamental overhaul of the flood control system, integrated river management, and enhancement of flood prediction capability. What's more, this will be an extremely important factor for Thailand's society and economy in future. It is a nation that has achieved astonishing economic growth from the 1990s onward thanks to direct foreign investment. Reduction of direct foreign investment due to the impact of the flooding is therefore the greatest cause for concern from a Thai perspective. It seems that building a more flood-resistant country will be a key factor in Thailand's economy recovery and subsequent economic growth.

On the day I was to return to Japan, I went out for one more stroll in the streets of Bangkok. The city was bustling with preparations for Christmas and New Year, festive with the upbeat mood typical of tropical countries. I suddenly remembered something. It was when I went for a walk to the ruins of Ayutthaya, which were damaged in the flood. A woman running a souvenir shop pointed to one of her store's pillars, about two meters high. "The water came up to here. It submerged the shop and carried off the merchandise somewhere. At first, the flooding was up to about my knees, but in a while it rose to around my chest, and I thought, 'Whoa, this is kind of dangerous,' and fled elsewhere. But I still intend to keep doing business here," she said, showing her white teeth in a smile. It's an attitude that is not limited to her: the people of Thailand as a whole are cheerful and tough. There's a hardiness behind the happy faces in the "Land of Smiles." The country's economic growth will temporarily slow down, but, the national character will no doubt ensure its successful recovery and revival.

Slow Brew

Key Coffee embodies the ideal blend of market awareness and devotion to its craft

The naturally fierce brand loyalty for which Japanese consumers are known encompasses everything from big-ticket purchases and luxury items on down to toothbrushes and toilet bowl cleaner. Earning such loyalty requires considerable time and expense, but the payoff is potentially huge in the long term. Occasionally, a product surfaces that takes the country by storm. Twitter comes to mind. In 2011 Japan was 3rd globally in Twitter usage, accounting for over 7% of site traffic. Barring a lightning strike such as this, though, successfully establishing brand loyalty demands a more thorough, circumspect approach.

Coffee is not grown in Japan; it got its start here in the latter half of the 19th century, and its acceptance and popularity skyrocketed in the 1950s. The coffee culture in Japan has evolved markedly just in the past three decades. The "kissaten", or Japanese-style café, is a place where a customer knows to expect comfort and a fine cup of coffee, carefully brewed to pretty rigid standards. Many companies in Japan operate in rather tight spaces, not suitable for entertaining business guests, so kissaten have traditionally filled a valuable niche. Since the 1980s, however, consumption of coffee at home and at the office has grown considerably – this shift, along with increased competition in the coffee shop space from foreign entities including Starbucks and Tully's and domestic operators such as Doutor and Pronto, sparked the development of a number of innovative products such as one-cup filter drip and bottled concentrate or ready-to-drink coffee, more economical, time-efficient ways to enjoy quality coffee. It has also driven the evolution of canned coffee, which first appeared in 1969.

Key Coffee, founded in 1920, has played a major role in carving a niche for and establishing coffee as a Japanese cultural mainstay and continues to be an integral part of coffee's development in Japan. Over its history the company has displayed a genuine dedication to its craft; it has gone to great lengths to expand its reach and it has survived the suspension on imports in the 1940s and repeated significant price changes and adjustments, and through it all has remained true to its product and its philosophy.

For the fiscal year ended March 2011, Key Coffee revenues totaled 48,682 million yen, a 3.3% decrease year-on-year. Despite the mild decrease in revenues, operating income (379 million yen, down 55.6%), ordinary income (611 million yen, down 45.9%) and net income (102 million yen, down 71.1%) all declined significantly, attributable to the soaring prices of coffee, sugar and other commodities.

Financial Highlights (Fiscal 2007–2011)

(millions of yen)

	March 2007	March 2008	March 2009	March 2010	March 2011
Revenue	52,872 (+1.4%)	54,051 (+2.2%)	53,135 (–1.7%)	50,328 (–5.3%)	48,682 (–3.3%)
Operating income	1,611 (–20.9%)	263 (–83.7%)	589 (+12.4%)	853 (+44.8%)	379 (–55.9%)
Ordinary income	2,035 (–14%)	666 (–67.3%)	840 (+26.1%)	1,131 (+34.5%)	611 (–45.9%)
Net income	965 (–16.5%)	196 (–79.7%)	353 (+80%)	356 (+0.7%)	102 (–71.1%)

The Makings of Key Coffee

In 1920, Bunji Shibata and Tokitaro Kimura launched Kimura Coffee Company, setting up a roasting factory in Yokohama, and over the next 20 years opened two factories and sales offices in Osaka, Nagoya, Hakata, Kyoto and elsewhere. In 1946 they moved their headquarters to Tokyo. Growth progressed, and the company registered in 1952 under the name Key Coffee Co., Ltd. In 1956, Kimura decided to go it alone, establishing Kimura Coffee Company as a separate entity under which it still exists today.

Key Coffee was Japan's first manufacturer to introduce vacuum-packed coffee, releasing the Key Modern Pack in 1959. In the next decade, the company established itself as a pioneer of automated coffee production in Japan, opening roasting factories in Tsunashima (Yokohama) and Nagoya. However, it needed to secure a steady source of quality green beans, and in the 1970s took the courageous step of developing its own coffee plantation in Sulawesi, Indonesia, which not only purchased and processed beans from local farmers, but provided education and seedlings. Key Coffee's 1978 release of Toarco Toraja coffee in Japan coincided with the opening of its Kanto factory, which at the time featured one of the world's most advanced production systems.

JAPAN - GREEN BEAN IMPORTS IN OCTOBER 2011

FROM (Top 5)	VOLUME (kg)	VALUE (1,000 yen)
Brazil	13,130, 617	4,838,641
Indonesia	5,171,859	1,198,529
Vietnam	4,065,526	824,405
Colombia	2,770,793	1,414,791
Guatemala	967,877	472,401
TOTALS	29,817,784	10,541,418

JAPAN - ROASTED BEAN IMPORTS IN OCTOBER 2011

FROM (Top 5)	VOLUME (kg)	VALUE (1,000 yen)
U.S.	262,807	244,852
UK	76,768	134,628
Brazil	63,563	49,424
Guatemala	49,268	47,761
Colombia	27,868	33,596
TOTALS	568,081	714,019

Over the next two decades, the company opened a research laboratory and two new factories, and by the end of the 1990s had listed on the 1st section of the Tokyo Stock Exchange and obtained ISO14001 certification at its newest plant in Chubu.

By this time coffee prices had been in decline for some time, but in 2004 began to recover. In 2004 and 2005, Key Coffee acquired a trucking services provider, an Italian restaurant and bakery chain, and an industrial food product services company to broaden its distribution channels and at the same time optimize efficiency. The company also undertook and completed upgrading and renovation at its Chubu, Kanto and Kyushu factories.

Today Key Coffee comprises just under 1,000 employees and operates four factories, 11 distribution centers, 74 sales offices and a research laboratory domestically, the Toarco Jaya plantation in Indonesia, and a number of affiliates at home and abroad.

Yutaka Shibata, who joined Key Coffee in 1987 straight from the Graduate School of Economics at Keio University, has served as president and representative director since 2002.

Indonesia Project

The company opened its plantation in Sulawesi not just because of the necessity to secure a regular supply of high-quality green beans, but also to revive a coffee that had once been loved but forgotten. Historically, Dutch emigrants had cultivated coffee in the Toraja region of Indonesia that was quite popular among European aristocracy. The coffee, though, disappeared during World War II, and had not yet reemerged at the time the factory was built.

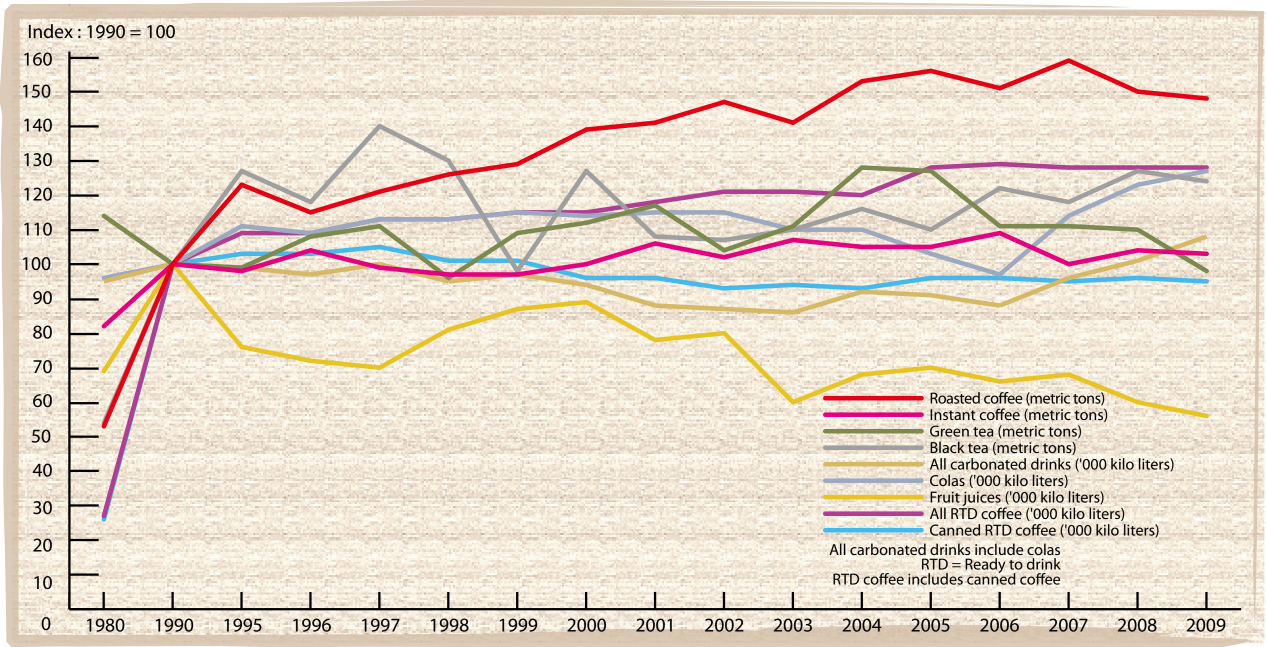
Arabica beans had been grown in the region for local consumption, but now processes had to be refined and quality assured, and once the necessary mechanisms and local infrastructure enhancements were in place Toarco could commence processing and shipping green beans to Japan for roasting at Key Coffee factories. It established strict standards for acceptance of beans produced by local farmers, set up collection facilities in proximity to the farms, and continues to purchase all beans produced provided they comply with the standards.

Toarco spent years working with and educating farmers in coffee cultivation, bean sorting and processing, and pays well for high-quality beans. In the beginning, farmers would bring unacceptable product to collection stations, but Toarco flatly refused to accept them, and the collectors and farmers learned just what quality means to Key Coffee. Later the farmers became capable of producing parchment beans (processing the coffee cherries they harvested).

Exclusive Espresso Partnership

In May of 2011, Key Coffee entered into an exclusive agreement with illycaffe S.p.A. of Italy to market its pre-filled cartridge espresso machines here. Called the METODO IPERSESPRESSO system, it comprises a machine and coffee cartridges, and offers ease of use and a pretty authentic espresso flavor. With the machine initially priced at 44,100 yen and a can of 21 cartridges (each makes one cup) selling for about 2,000 yen, it is likely out of the reach of the average purchaser and is an attempt to establish a long-term customer base among affluent coffee lovers.

Beverage Consumption in Japan 1980 –2009



Source: All Japan Coffee Association (AJCA) website, September 2011

Collectors are stationed relatively close to farmers, reducing the distance farmers must travel, and helping ensure they are able to get the beans delivered promptly – after harvest, beans must be processed, sun-dried and delivered within one day or they won't be purchased.

Once Toarco accepts the beans, they are put through tests, processing and hand picking prior to shipping.

Toarco Jaya earned UTZ CERTIFIED 'Good Inside' status in 2007, and Rainforest Alliance certification in 2009. These achievements are evidence of efforts made to reduce waste, use energy more efficiently and greatly reduce the use of artificial fertilizers and agrochemicals. (Incidentally, Toarco Jaya coffee also recorded a very favorable score at the recent Rainforest Alliance Cupping for Quality against other coffees from Indonesia, as well as coffees produced in Brazil, Peru and North Africa).

Key Coffee's Quality Comes First system ensures consistently superior flavor and quality through the combined application of advanced production technology and the irreplaceable human senses of taste and smell. Production quantities are kept relatively small in order to ensure optimum quality.

Coffee Market at Home and Abroad

Japan does not grow coffee, so it is completely dependent upon imports. Arabica beans account for about two-thirds of those imported into Japan, and are used for higher-quality drip coffees, where robusta beans generally can be found in instant (soluble) and canned coffees. Key Coffee's Padamaran plantation produces Arabica beans for the company's flagship Toarco Toraja coffee, roasted at one of the company's factories here in Japan. Green beans account for the vast majority of imports as Japanese roasting technology is highly advanced.

Unlike other commodities, coffee consumption is not significantly affected by fluctuations in price. Coffee is not an item that people necessarily purchase more or less of if the price or their dispensable income changes. Most coffee drinkers consume pretty steadily once they take a liking to it. And there's no real substitute for coffee – if you're a soda or juice drinker you can choose different flavors, but coffee is different by nature.

Consumption soared in the 80s and 90s and remained steady through a decline in coffee prices lasting several years. Consumption in Japan remains relatively stable, despite a steady

Canned coffee

Canned coffee, very popular in Japan, was first produced and released by UCC in 1969 and is available either hot or cold. There are an estimated 400 brands of canned coffee products, marketed not only by coffee manufacturers, but by beverage companies as well. Canned coffee is available at convenience stores, supermarkets, train station kiosks and elsewhere, but the vast majority of the product is purchased at vending machines.

Key Coffee teamed with Japan Tobacco in 2000 on the Roots brand – Key Coffee has produced a lineup of regular coffee products, while JT markets canned coffee. This was another focused attempt by Key to extend its reach, targeting primarily men – particularly those who smoke. Tobacco and drink vending machines can frequently be found side by side on streets and in train stations.

rise in coffee prices which, according to International Coffee Organization Executive Director Roberio Silva, could continue for another decade. “We do not see a slump in coffee prices, perhaps in the next 10 years, unless something drastic happens in the supply chain.” According to Silva, global coffee consumption should increase by about 1.5% this year, as consumers remain undeterred despite the slowdown in economic growth.

People want to experience café-style coffee at home, and as such products have become available more and more consumers have changed their coffee drinking habits, either in terms of place or volume. Coffeemakers have become a fixture at offices and in school faculty lounges as well. And canned and bottled coffee makes it easy for people to carry it with them, so while people do enjoy quality coffee, they are looking for and finding products that fit their lifestyles.

Once coffee gained acceptance in Japan, consumption grew as quickly as companies could find ways to get the product to the consumer. Over the past two decades overall consumption of coffee has outpaced that of carbonated drinks, fruit juices and even green tea. With Japan’s aging population there are those who believe long-term growth potential may be limited, so the coffee players in this market have to continue to expand their product lines and somehow penetrate every conceivable demographic.

Patience is the Key

FY2012 figures as of Q2 show revenue at 26,085 million yen (5.8% ahead of the previous year’s pace). Declines in operating income (11 million yen, down 97.6%), ordinary income (116 million yen, down 80.1%) and net income (-6 million yen) were due to the continued high price of commodities, and to costs associated with the acquisition of Almond. The company’s full-year forecast for FY2012 has revenue totaling 53,085 million yen (+10.5%), and the declines in operating income (210 million yen, down 44.6%), ordinary income (430 million yen, down 29.7%) and net income (+8 million yen) either slowing significantly or turning around

Key Coffee is a slow-brewed, homegrown enterprise – eight of its directors have been with the company for more than a quarter of a century – that regards the quality of its staff and management in the same way as that of its core product, the same brand it has nurtured lovingly and marketed intelligently for 80 years. It has developed and evolved in deliberately planned, carefully executed steps to ensure the desired results, and has positioned itself well to improve its performance in the short and medium term. Based on the concept of “quality first,” Key Coffee aims to continue to be a leader in providing regular coffee that can be enjoyed by consumers the world over, and going forward will endeavor to create attractive products and strengthen its corporate presence through the development of CSR activities.