
Survey on Planned Capital Spending

For Fiscal Years 2014, 2015 and 2016

(Conducted in June 2015)

The fourth straight year of increase led by manufacturers

Trend in domestic fields rising on the back of brisk earnings

August 4, 2015



Economic & Industrial Research
Department

Outline of the survey

1. Survey subjects

(1) Planned capital spending

Carried out since 1956, the survey provides a basic picture of capital spending in Japan by analyzing capital spending activity by Japanese firms (domestic non-consolidated; domestic and overseas consolidated). Studies are made of investment trends, motivating factors, and other items on an industry-specific basis.

(2) Opinion poll

This survey is mainly designed to identify the attitude and perspective of firms on key current issues. This year's survey focuses on (1) present situation of facilities and workforce, (2) prospects for business activities in Japan and overseas, (3) attempts at growth and competitiveness.

2. Companies surveyed

The survey was directed at private corporations capitalized at JPY 1 billion or more, excluding those in the agriculture, forestry and finance and insurance industries.

(For the regional breakdowns, corporations with capital of from JPY 100 million to less than JPY 1 billion were added.)

3. Survey period

June 25, 2015. Most of the responses to the questionnaire were obtained in June.

4. Response

Number of firms giving responses on domestic capital spending, 2,203 (response rate, 68.7%)

(of which: Number of firms giving responses on overseas capital spending: 1,132)

Number of firms giving responses for the opinion poll: major firms 1,257 (response rate, 39.2%), medium-sized firms 2,606 (response rate, 31.4%)

5. Detailed results

Please visit: <http://www.dbj.jp/investigate/equip/index.html>

1. Trends in Domestic Capital Spending

1-1. Trends in Domestic Capital Spending

- Planned domestic capital spending for FY2015 in industry as a whole shows an increase (up 13.9%), with investment rising in both manufacturing (up 24.2%) and non-manufacturing (up 8.7%). The fourth straight year of increase is expected, led by manufacturing.
- Actual domestic capital spending in FY2014 showed a year-on-year increase of 6.3%, which is the third straight year of increase. Manufacturers saw an increase of 3.7%, driven by automobiles, chemicals and iron & steel, while electric machinery and general machinery saw a decrease. Non-manufacturers experienced a 7.5% increase, sustaining a rising trend for the third straight year.

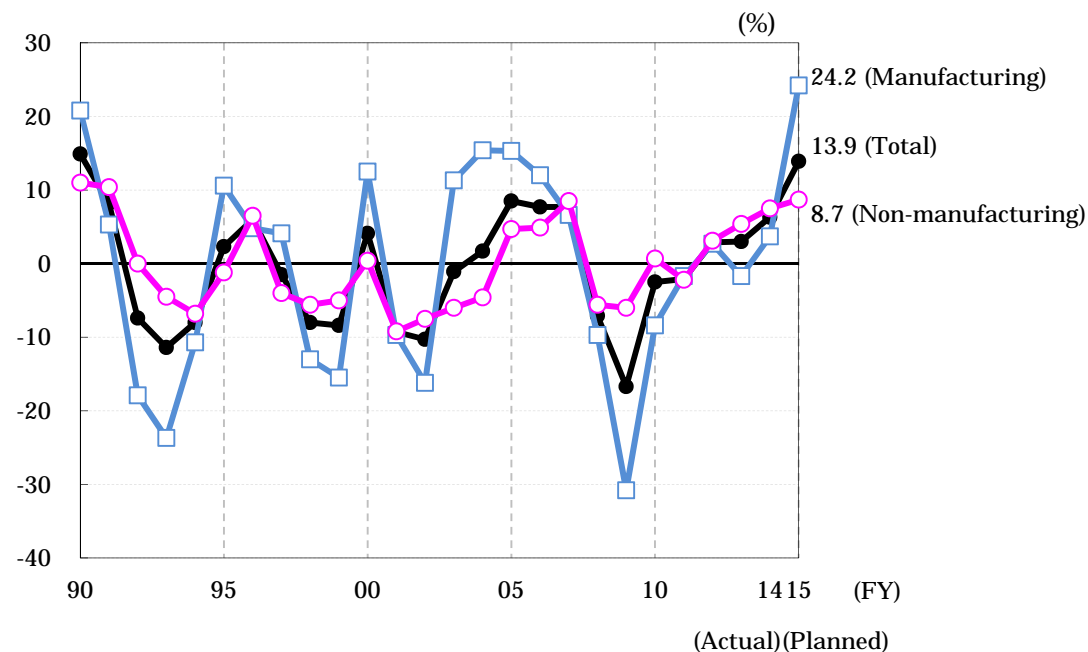
Figure 1-1. Domestic Capital Spending

(Percentage change from previous year. Figures in parentheses are contribution ratios.)

	FY 2014 (actual) (2,089 firms)	FY 2015 (planned) (2,203 firms)
Total	6.3	13.9
[excluding electric power]	7.0	12.1
Manufacturing	3.7	24.2 (8.1)
Non-manufacturing	7.5	8.7 (5.8)
[excluding electric power]	9.1	5.0 (2.9)

Notes: Based on the DBJ Survey on Planned Capital Spending ; same hereafter unless otherwise noted.

Figure 1-2. Growth in Capital Spending (FY1990-FY2015)



1-2. Trends in the Manufacturing Sector①

Driven by electric machinery, automobiles and chemicals

- All manufacturing sectors except iron & steel are expected to boost capital spending and, in particular, electric machinery, automobiles and general machinery are the drivers of the increase in the manufacturing sector as a whole.
- In the electric machinery sector, substantial growth is planned due mainly to larger spending in semiconductors and displays for smartphones and in-car devices, and construction of data centers. Automobiles is seeing an increase driven by spending for new and higher-functioning products for eco-cars in both finished auto and parts manufacturers. The supply to non-affiliated companies overseas is increasing. The increase of general machinery is led by spending for new and higher-functioning products for aircraft and automobiles.

Figure 1-3. Sectors with Greatest Contribution (Planned for FY2015)

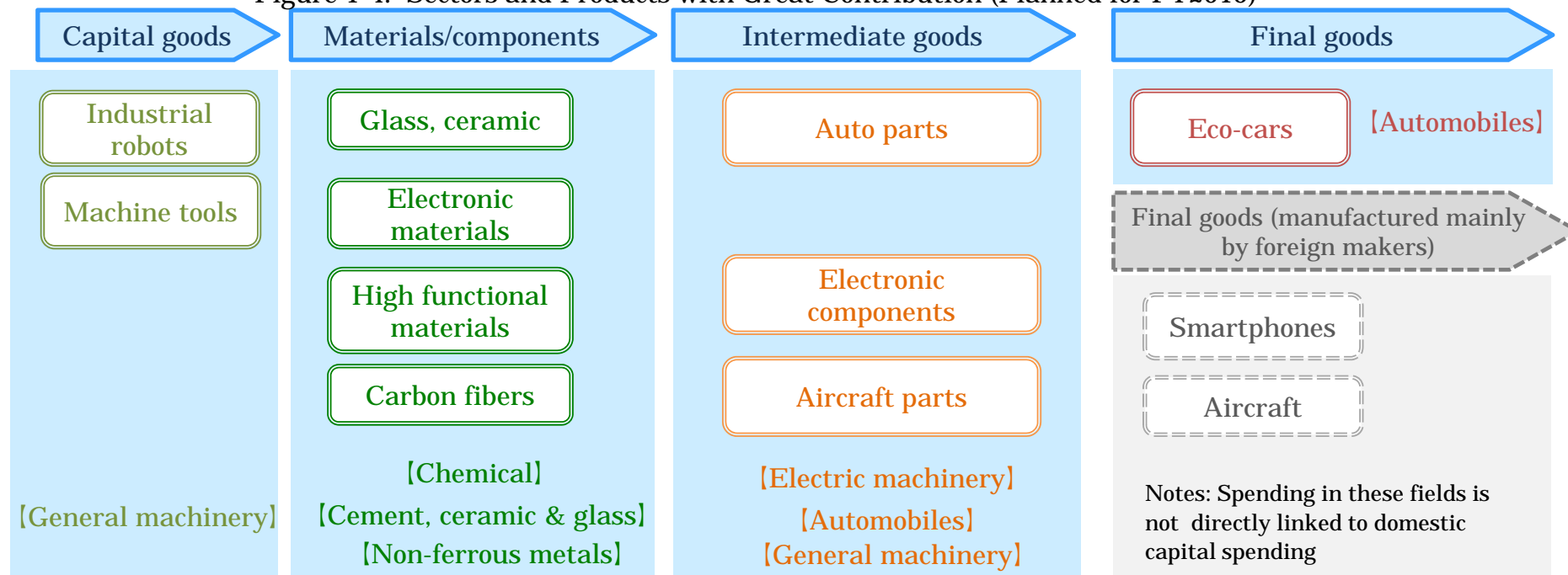
(%)	year-on-year	Contribution ratio	Drivers for the increase/decrease
Electric machinery	61.3	3.24	Semiconductors and displays for smartphones and in-car devices, construction of cloud data centers
Automobiles	25.7	1.70	New and higher-functioning products for eco-cars in both finished auto and parts manufacturers
General machinery	22.9	0.83	New and higher-functioning products for the aircraft and automobiles, construction of development facilities for office and consumer equipment
Manufacturing as a whole	24.2		
(Other) Iron & steel	-0.3	-0.01	Revamping projects of blast furnaces have been completed, while spending for rationalization and maintenance & repair is increasing

1-3. Trends in the Manufacturing Sector②

Expansion of spending in materials, intermediate goods and capital goods for growing fields

- Japanese firms have competitiveness in materials, components, intermediate goods and capital goods which are essential for producing final goods such as aircraft and smartphones, the majority of which, however, are manufactured by foreign firms.
- Economic growth of developing countries is pushing up the demand for final goods such as aircraft, eco-cars and smartphones, which results in growth in demand for components and parts of Japanese firms. The growing demand leads to an increase in capital spending, coupled with improved cost competitiveness due to depreciation of the yen.

Figure 1-4. Sectors and Products with Great Contribution (Planned for FY2015)



1-4. Trends in the Non-manufacturing Sector①

Driven by infrastructure investment

- In the non-manufacturing sector, infrastructure investment in electric power & gas, transportation and real estate is driving an increase.
- In particular, investment in Shinkansen and railway improvement; air and marine transportation; and commercial and logistics facilities are the drivers. Large-scale urban development is also one of the drivers.

Figure 1-5. Sectors with Greatest Contribution (Planned for FY2015)

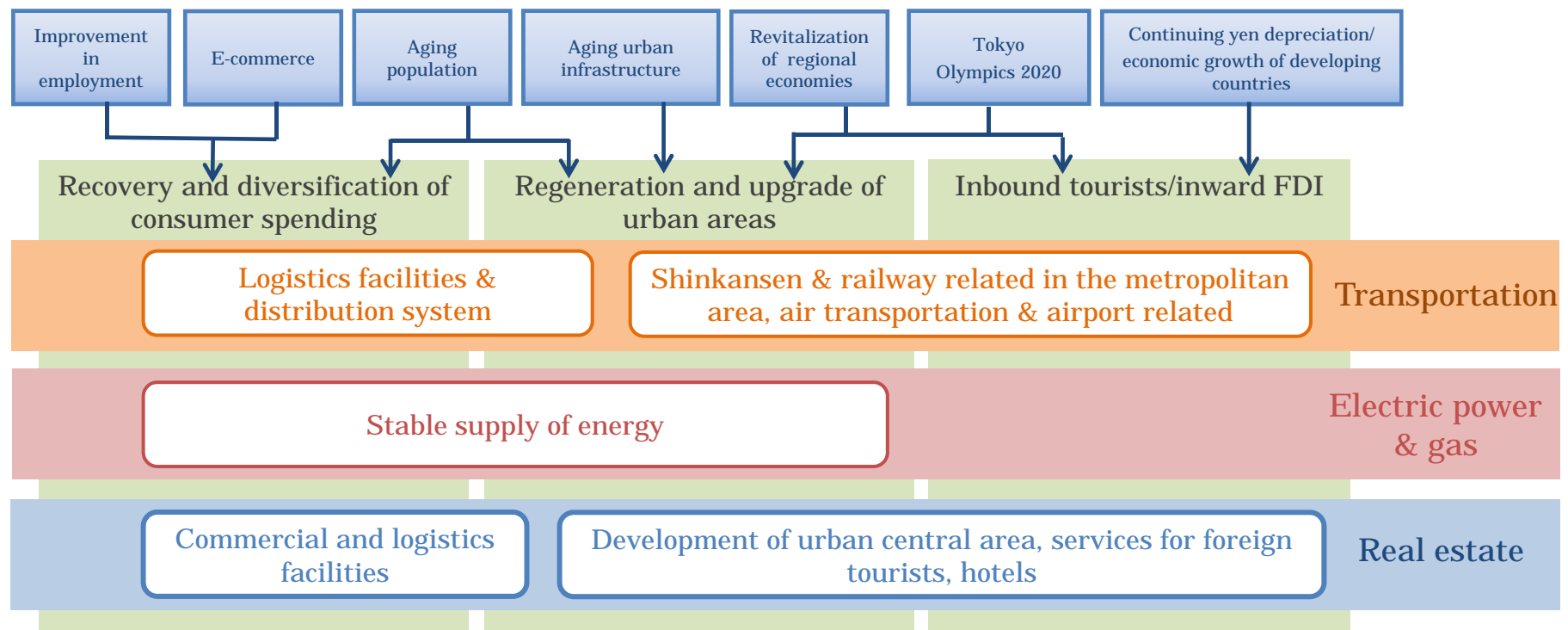
(%)	year-on-year	Contribution ratio	Drivers for the increase/decrease
Electric power & gas	30.1	3.26	Power facilities aiming at more stable supply and higher-efficiency and ensured safety, distribution facilities
Transportation	19.7	3.06	Shinkansen, railway improvement and real estate development in railways, ongoing spending for commercial and logistics facilities
Real estate	11.7	0.96	Large-scale urban development
Non-manufacturing as a whole	8.7		
(Other) Telecommunications & information	-12.1	-2.10	A lull in spending for LTE base stations

1-5. Trends in the Non-manufacturing Sector②

Rising spending for stable supply of electric power, railways and real estate

- In the non-manufacturing sector, an increase is led by spending for stable supply of electric power, safety measures and Shinkansen in railways, in addition to real estate development in the Tokyo metropolitan area.
- Consumer diversification-driven investment and infrastructure investment in which Tokyo Olympics 2020 is taken into consideration are leading to an increase, while decline in demand owing to a falling population is a negative factor of stagnant consumption.

Figure 1-6. Non-manufacturing Value Chain and Ripple Effects of Spending



1-6. Investment Motives (Manufacturing)

Increase in weights of “product development and upgrading” and “research and development”

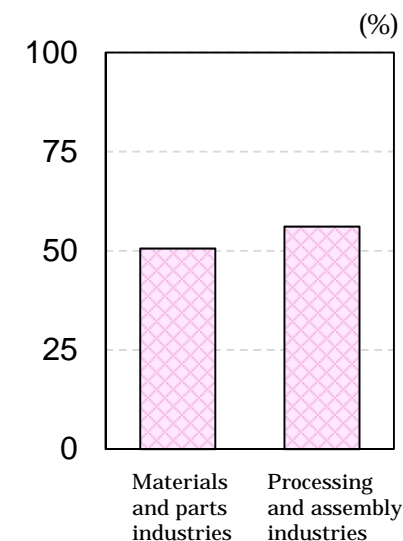
- In the manufacturing sector, the weight of “maintenance and repair” is decreasing for FY2015, although it still has the largest share.
- The weight of “expansion of production capacity” has continuously decreased to 22%, the lowest since 1956 when the survey started, taking a cautious stance to increasing quantity. On the other hand, the weights of “product development and upgrading” and “research and development” considered forward-looking investment are planned to increase.

Figure1-7. Long-term Trend of Investment Motives (Manufacturing)

(FY)						(%)
1990	32.0	16.2	10.5	17.1	9.4	14.8
2000	31.8	16.7	8.3	14.7	14.8	13.7
07	42.8	12.3	6.2	10.0	16.6	12.1
12	24.9	16.8	9.0	12.1	24.7	12.4
13	23.1	16.4	8.8	11.5	25.6	14.6
14	22.8	16.2	8.2	12.4	25.9	14.6
15	22.2	16.4	9.6	12.9	24.4	14.6
【Planned】	Expansion of production capacity	Product development and upgrading	Research and development	Rationalization and labor saving	Maintenance and repair	Other

Notes: Share of each investment motive in total capital spending in terms of value.

Productivity-enhancing Effects of Maintenance and Repair (Manufacturing)



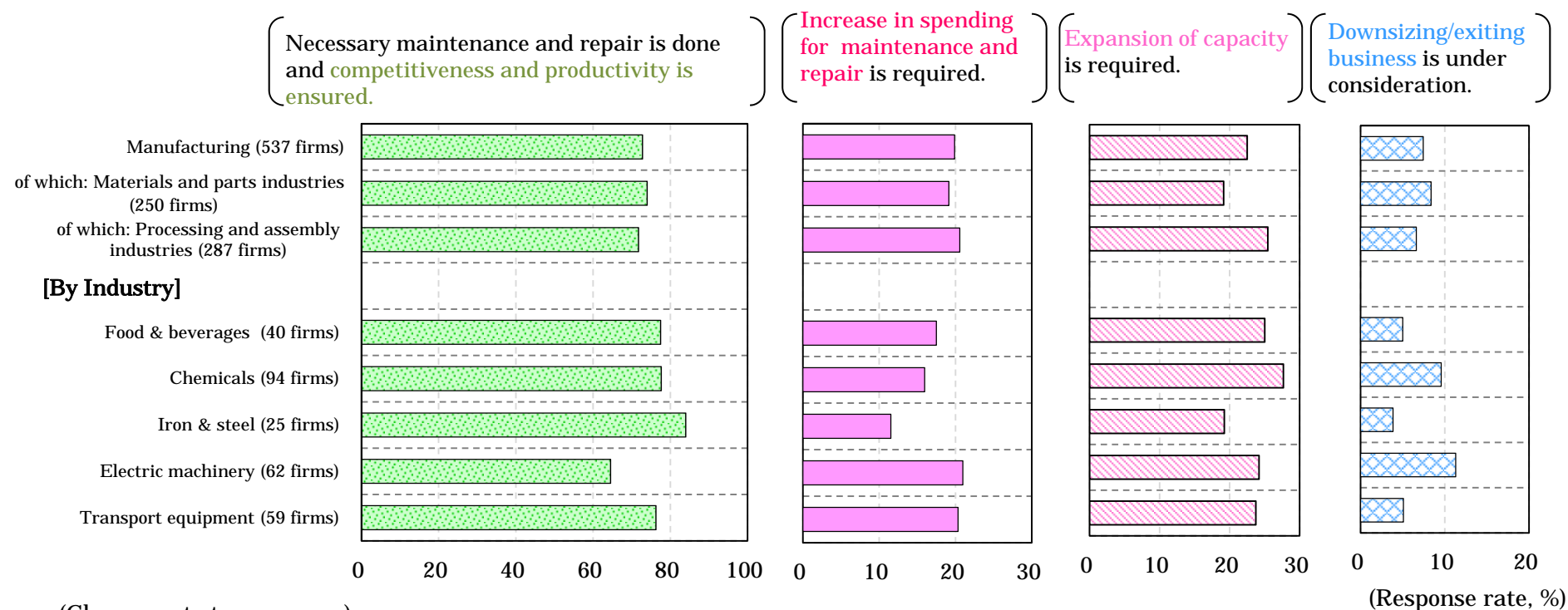
Notes: Percentage of the firms whose investment in maintenance and repair results in productivity improvement.

1-7. Current Situation of Primary Domestic Production/Sales Base

70% of the manufacturers have already done necessary maintenance and repair

- About 70% of the firms are maintaining competitiveness and productivity, having already addressed maintenance and repair issues. Meanwhile, 20% of the firms of both in materials and parts and in processing and assembly industries need an increase in spending for maintenance and repair, which suggests potential capital spending. Firms considering downsizing or exiting business, on the other hand, account for less than 10%.

Figure 1-8. Recognition of Current Situation of Primary Domestic Production/Sales Base



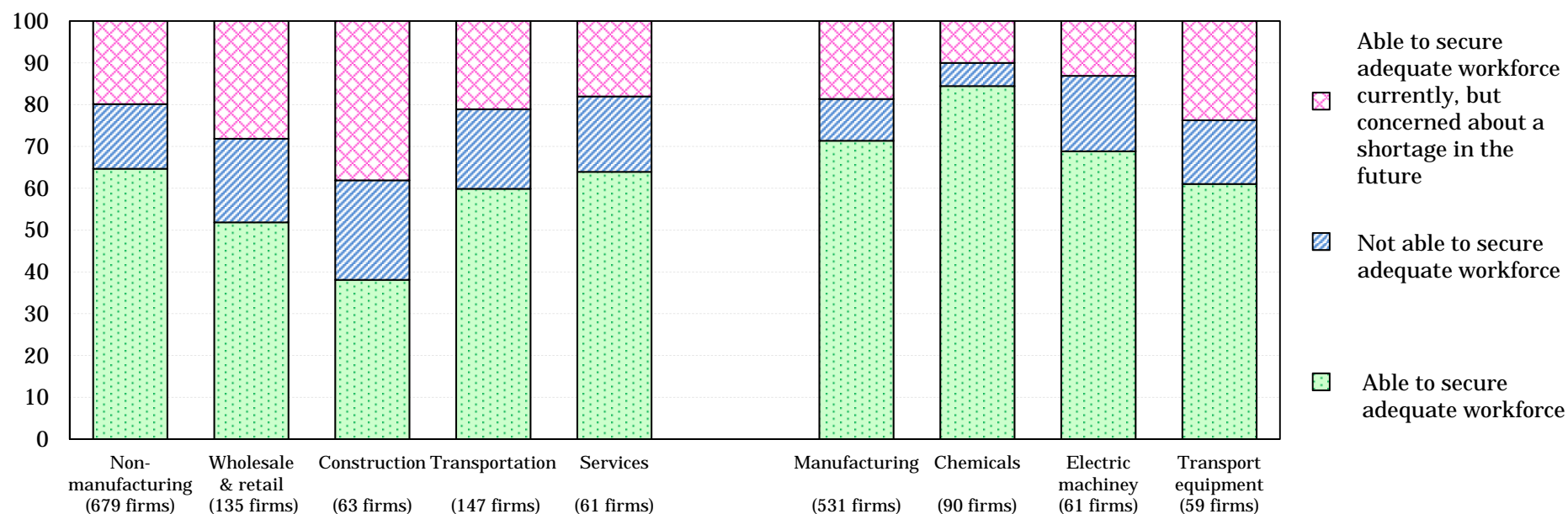
1-8. Situation of Securing Workforce

Construction sector concerned with the possibility of a shortage of workforce in the future

- Although the situation differs by industry, it points to a trend that more firms are concerned about a shortage of workforce in the future than those concerned about current shortage.
- The implication of the shortage is remarkable particularly in construction and wholesale & retail.

Figure 1-9. Current Situation of Securing Workforce

(Response rate, %)

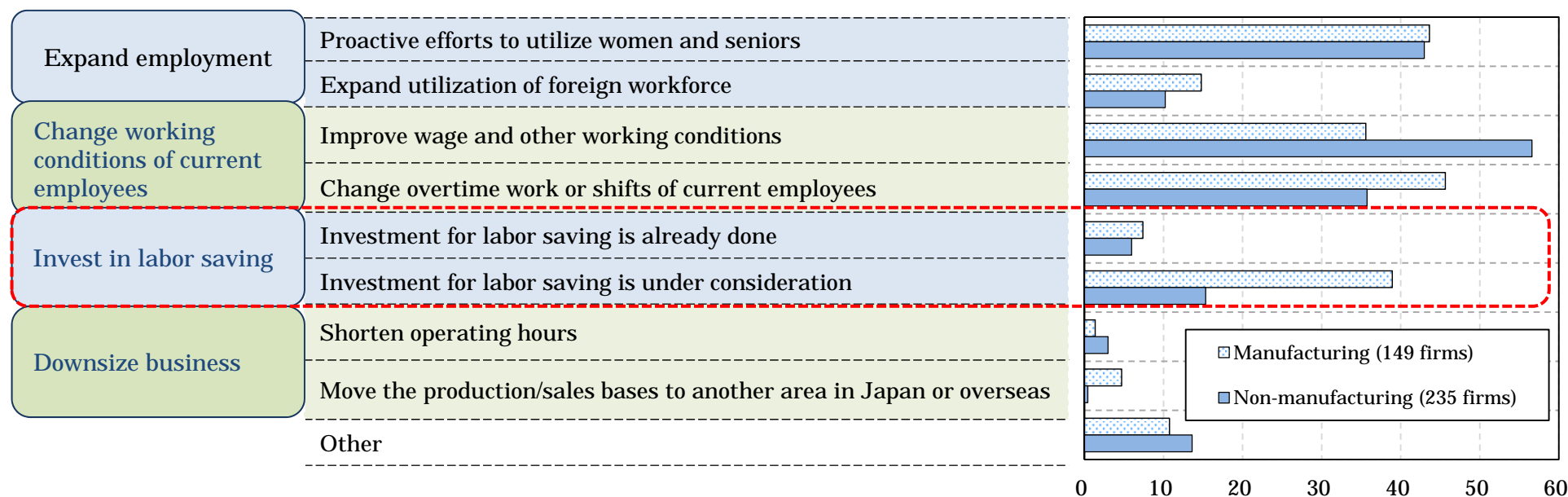


1-9. Countermeasures for Workforce Shortage

Expansion of employment, change in working conditions of current employees, and investment for labor saving are taken as measures

- It has been shown that Japanese firms are more active in utilizing women and seniors than foreign workforce when taking expansion of employment as a measure.
- Changing overtime work and shifts of current employees are chosen by many firms in addition to change on wage and other working conditions.
- Investment in labor saving also accounts for a certain share of the total, especially in manufacturing.

Figure 1-10. Countermeasures for Workforce Shortage



(Choose up to three answers)

(Response rate, %)

1-10. R&D Expenditure

R&D expenditure is increasing with higher growth rates as well as capital spending

- Planned R&D expenditure for FY2015 (on a consolidated basis) is expected to rise 6.0%, led by transport equipment and electric machinery with an increase of 6.2% and 6.5% respectively.
- Development of next-generation vehicles and technology related to environment and safety continue to be the focus of R&D in transport equipment. In electric machinery, R&D in core business and in growing fields are promoted on the back of improvement of business performance.

Figure 1-11. R&D Expenditure (Consolidated Basis) (%)

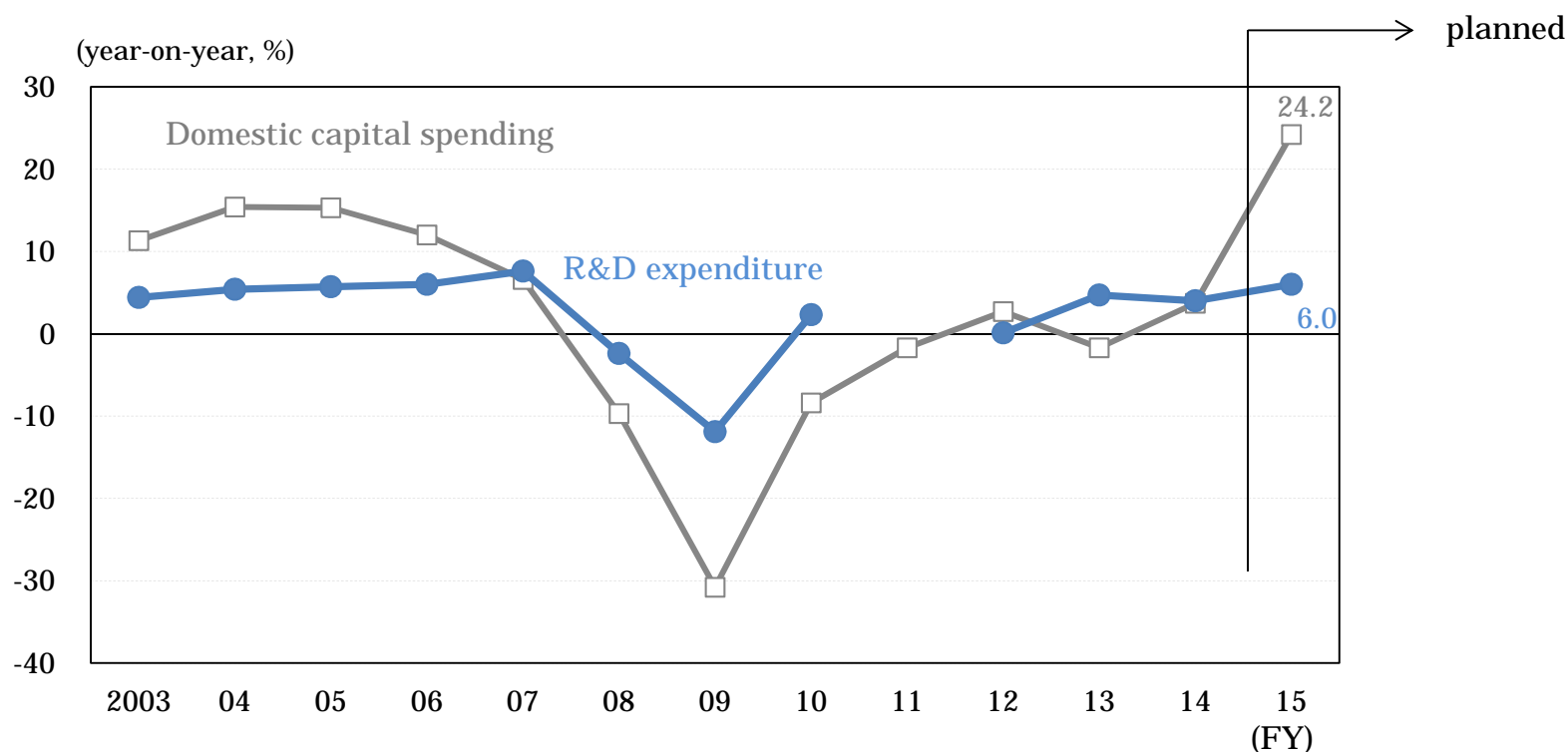
	FY2014 (actual) year-on-year (758 firms)	FY2015 (planned) year-on-year (824 firms)	Composition ratio, FY2015
Total	3.9	6.0	100.0
Manufacturing	4.0	6.0	98.7
Transport equipment	7.1	6.2	39.6
General machinery	4.0	4.7	10.9
Electric machinery	- 0.4	6.5	27.9
Chemicals	3.7	5.1	14.0
Non-manufacturing	0.8	4.5	1.3

Notes: For the purpose of this survey, R&D expenditure comprises all costs related to R&D, such as personnel cost, raw materials cost, depreciation cost and allocated overhead.

1-11. Trend of Growth of R&D Expenditure

- Although the growth rate of R&D expenditure exhibits relatively less volatility than capital spending as it comprises costs such as personnel cost, it is expected to sustain the upward trend, increasing for the third consecutive year.

Figure 1-12. Trends of Growth Rate of R&D Expenditure and Domestic Capital Spending



Notes: 1. The survey, conducted in August in 2003, has been conducted in June since 2004, except in July 2011.

2. Consolidated basis since FY2012. No data on non-consolidated basis available for FY2011.

1-12. Investment in Information Technology

IT investment also exhibits strong growth

- Planned IT investment for FY2015 is up 18.7% as a whole, with investment rising in both manufacturing (up 19.7%) and non-manufacturing (up 17.8%).
- Non-manufacturing shows higher growth compared to capital spending (Figure 1-1.), especially in wholesale & retail, which actively invest in IT in order to expand client services.

Figure 1-13. Plan on IT Investment

(year-on-year, %)

Industry (1,116 firms)	FY2015 (planned)
Total	18.7
Manufacturing	19.7
Non-manufacturing	17.8

Notes: IT investment includes costs of acquiring intangible assets and software recorded as expenses.

Figure 1-14. IT Investment and Tangible Fixed Assets (Planned for FY2015)
(%)

		IT investment (year-on-year)	IT investment/ capital spending
Manufacturing	Transport equipment	16.9	9.2
	Electric machinery	25.6	10.9
	Chemicals	36.0	4.4
	Food & beverages	66.1	9.8
Non-manufacturing	Wholesale & retail	23.0	25.6
	Electric power & gas	49.4	8.6
	Telecommunications & information	14.1	14.5
	Transportation	13.5	2.9

2. Business Development in Japan and Overseas

2-1. Capital Spending Overseas

- Planned capital spending overseas for FY2015 shows an increase of 5.8% in industry as a whole.
- In the manufacturing sector, a lull in spending of automobiles is a negative driver; however, an increase is expected due largely to the rising spending of general machinery, chemicals and electric machinery. Led by real estate and retail, spending of non-manufacturing is expected to rise for the sixth consecutive year.

Figure 2-1. Trend of Capital Spending Overseas (Consolidated Basis)

	FY2014 (actual) (882 firms)	FY2015 (planned) (1,041 firms)	Composition ratio, FY2015
Total	0.4	5.8	100.0
Manufacturing	-0.9	4.1	67.2
Automobiles	0.8	-3.1	29.9
Chemicals	-29.2	15.1	6.6
Electric machinery	19.5	7.6	5.7
General machinery	0.2	23.5	7.4
Non-manufacturing	3.6	9.6	32.8
Real estate	99.2	67.1	6.4
Retail	-11.5	78.7	3.2
Mining	6.0	9.5	18.6

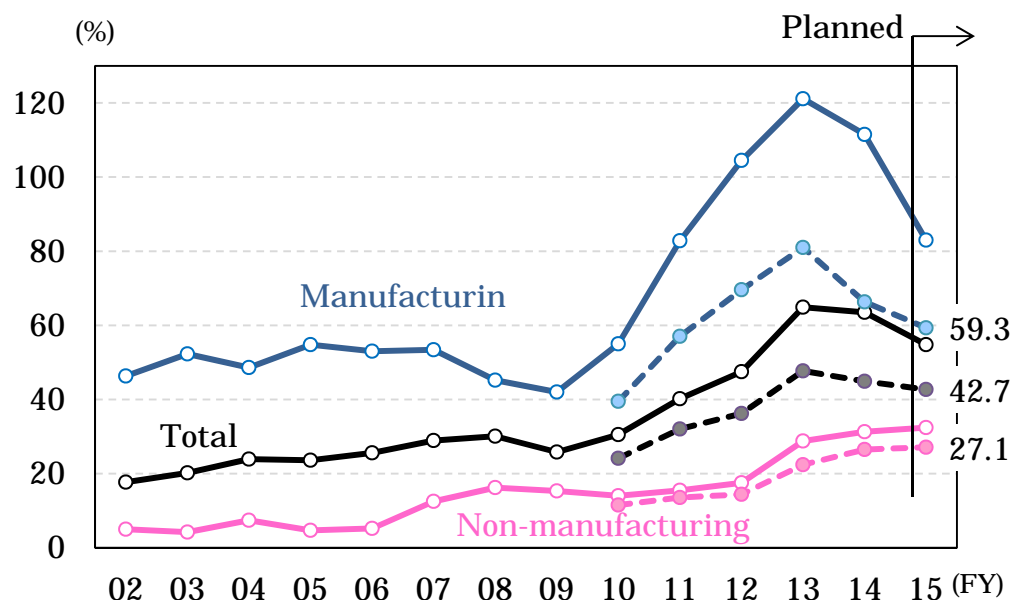
Notes: Figures are given as percentages.

2-2. Overseas/Domestic Capital Spending Ratio

A pause can be seen in upward trend of the overseas/domestic capital spending ratio

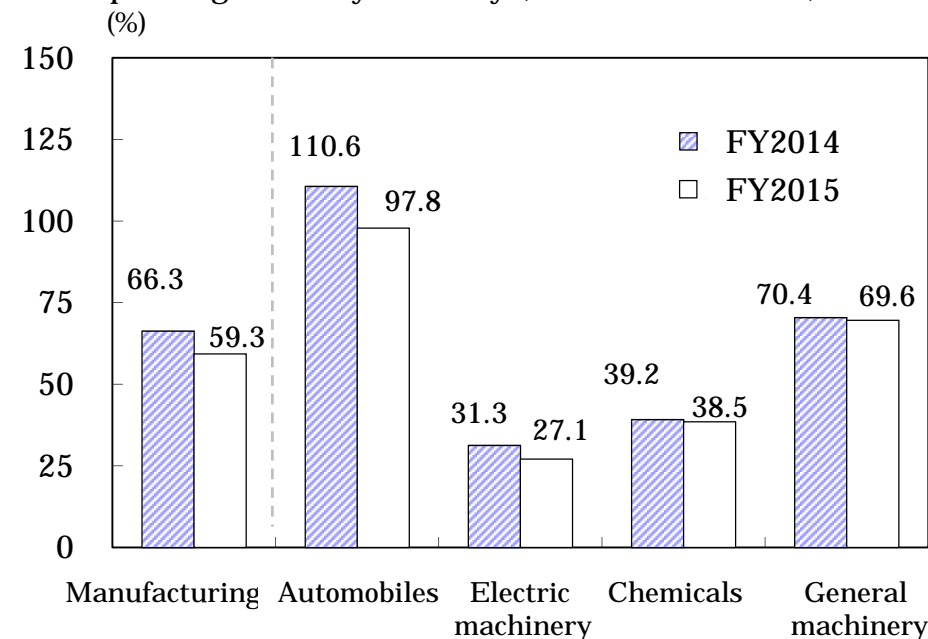
- The overseas/domestic capital spending ratio (consolidated basis) for FY2015 is 42.7% in total and 59.3% in manufacturing. A decline for the second consecutive year is planned due to the growth rate of domestic spending surpassing that of spending overseas.
- By industry, the decline is observed in the ratio of automobiles and electric machinery, which carry considerable weight in manufacturing.

Figure 2-2. Trend of Overseas/Domestic Capital Spending Ratio



Notes: Solid lines: overseas/domestic capital spending ratio = consolidated overseas capital spending/non-consolidated domestic capital spending.
Dotted lines: overseas/domestic capital spending ratio = consolidated overseas capital spending/consolidated domestic capital spending (data available since the FY2010 survey).

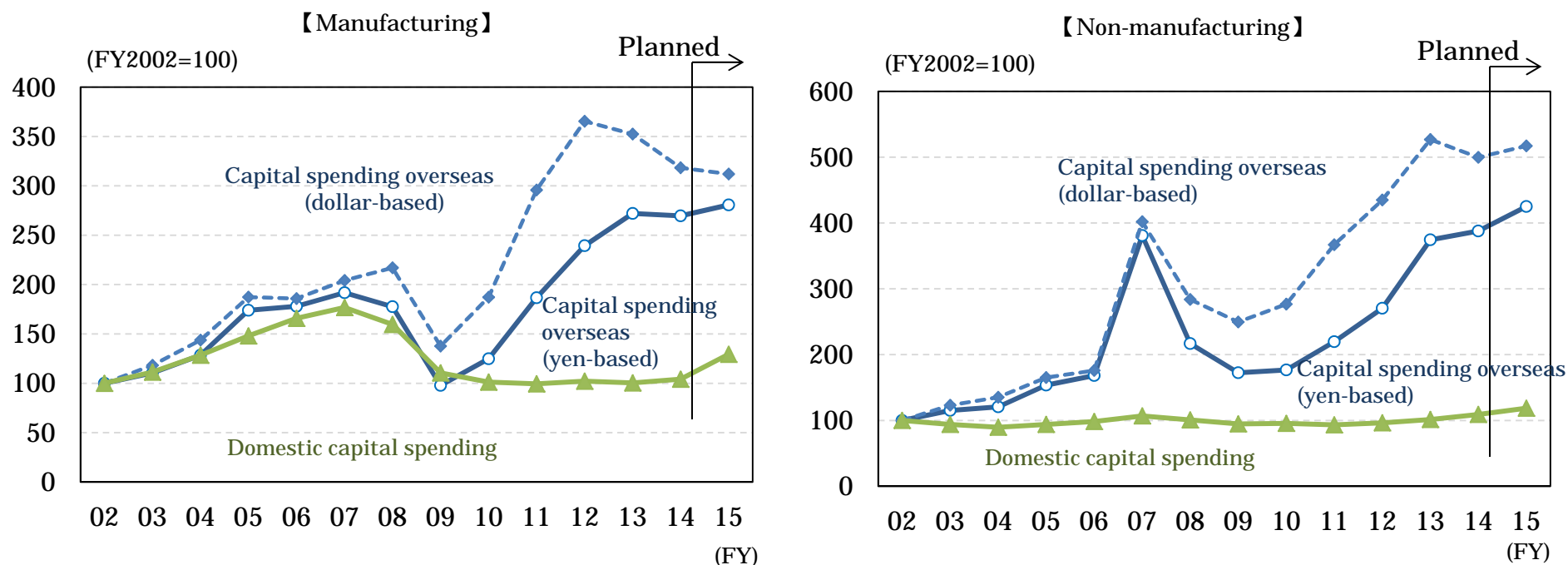
Figure 2-3. Actual and Planned Overseas/Domestic Capital Spending Ratio, by Industry (Consolidated Basis)



2-3. Trend of Capital Spending Overseas

- Converted into US dollars, the growth rate of capital spending for FY2014 is assumed to be -9.7% in manufacturing and -5.2% in non-manufacturing.
- Planned capital spending overseas for FY2015 in dollar terms is expected to remain roughly flat on a year-on-year basis. However, it continues to exceed the FY2007 level, whereas domestic spending remains under the level seen before the global economic crisis hit.

Figure 2-4. Trend of Capital Spending Overseas



Notes: 1. Dotted line: Estimated figures in US dollars calculated using growth rate of dollar-yen rate.

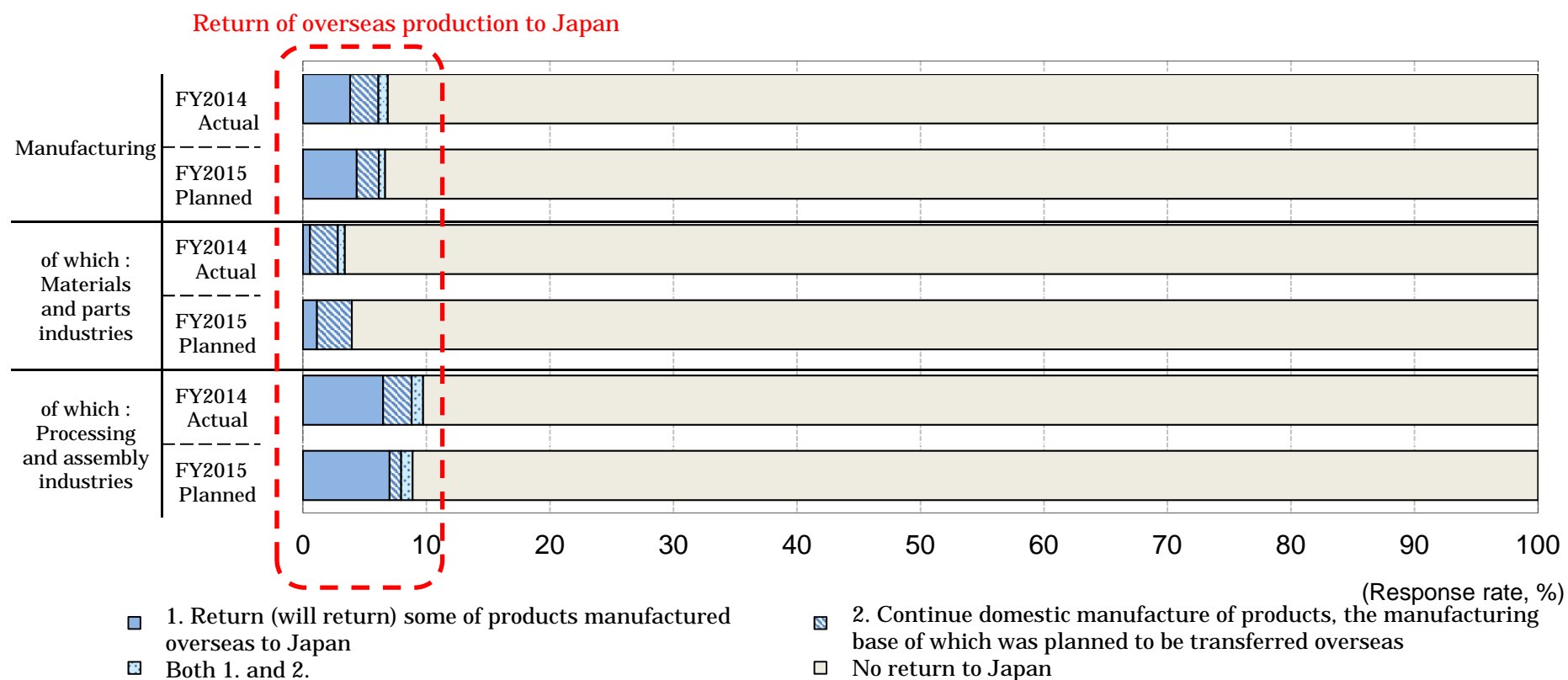
2. An assumed exchange rate of 100 yen to the dollar obtained in the survey (\$1=116.9) is used for FY2015.

2-4. Movement of shifting production back to Japan

Less than 10% of the manufacturers shift production back to Japan

- The phenomenon of “reshoring” seems limited for the periods of FY2014 and FY2015, with less than 10% in processing and assembly industries and even less than 7% in manufacturing as a whole.

Figure 2-5. Movement of Shifting Production Back to Japan (Manufacturing: 392 firms for FY2014, 390 firms for FY2015)

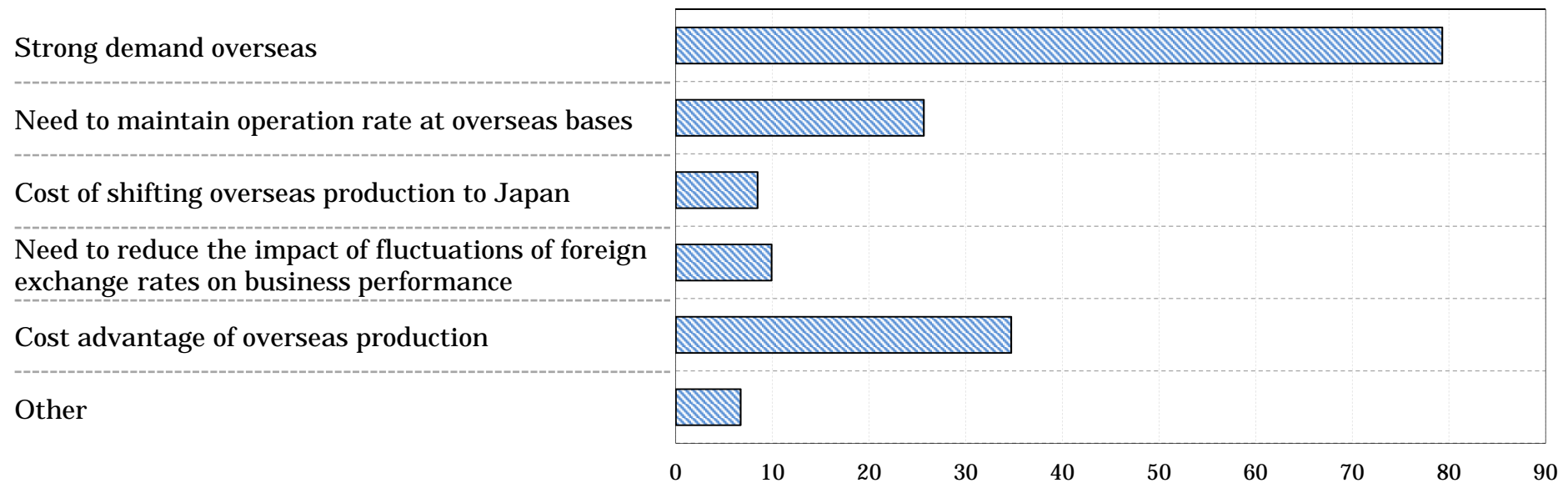


2-5 . Reasons for the Phenomenon of Limited “Reshoring”

Great demand overseas is the strongest reason

- The strongest reason for the phenomenon of limited reshoring production to Japan is increased demand overseas, followed by cost advantage of overseas production despite the progressive depreciation of the yen.

Figure 2-6. Reasons for Not Shifting Overseas Production to Japan (Manufacturing 342 firms)



(Choose up to three answers)

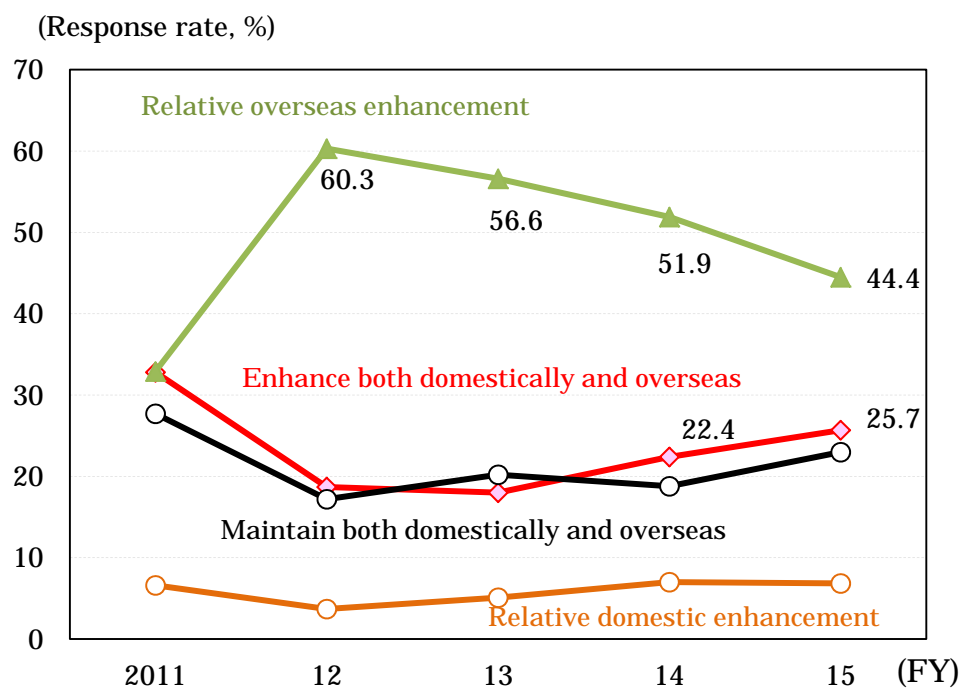
(Response rate, %)

2-6 . Domestic and Overseas Operation: Medium-term Outlook (Manufacturing)

The share of overseas enhancement declines but is still the largest

- In the medium term, the supply capacity of Japanese firms will continue to be characterized by “relative overseas enhancement”; however, this category’s share has been taking a downward trend.
- Although “relative domestic enhancement” remains low (under 10%), “enhance both domestically and overseas” is on the upward trend for the second straight year, reaching a quarter of the total along with brisk earnings.

Figure 2-7. Medium-term Domestic and Overseas Supply Capacity (Manufacturing)



< FY2015 >

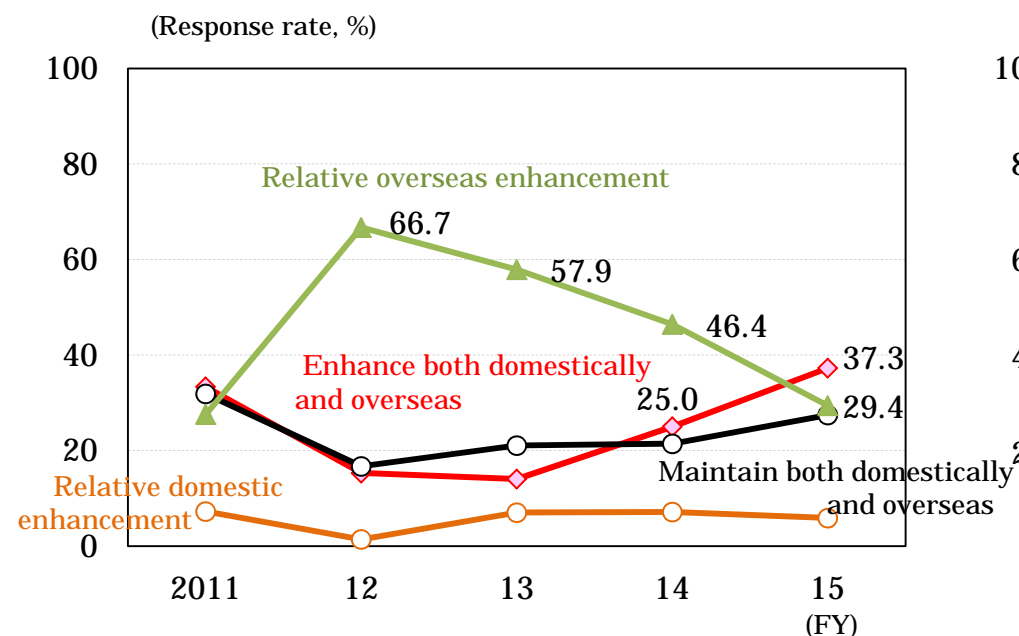
		Domestic			Total
		Increase	Maintain	Decrease	
Overseas	Increase	25.7	37.7	5.6	69.1
	Maintain	5.1	23.0	1.0	29.2
	Decrease	1.2	0.5	0.0	1.7
Total		32.1	61.3	6.6	100.0

(408 firms)

2-7 . Domestic and Overseas Operation: Medium-term Outlook (Electric Machinery and Automobiles)

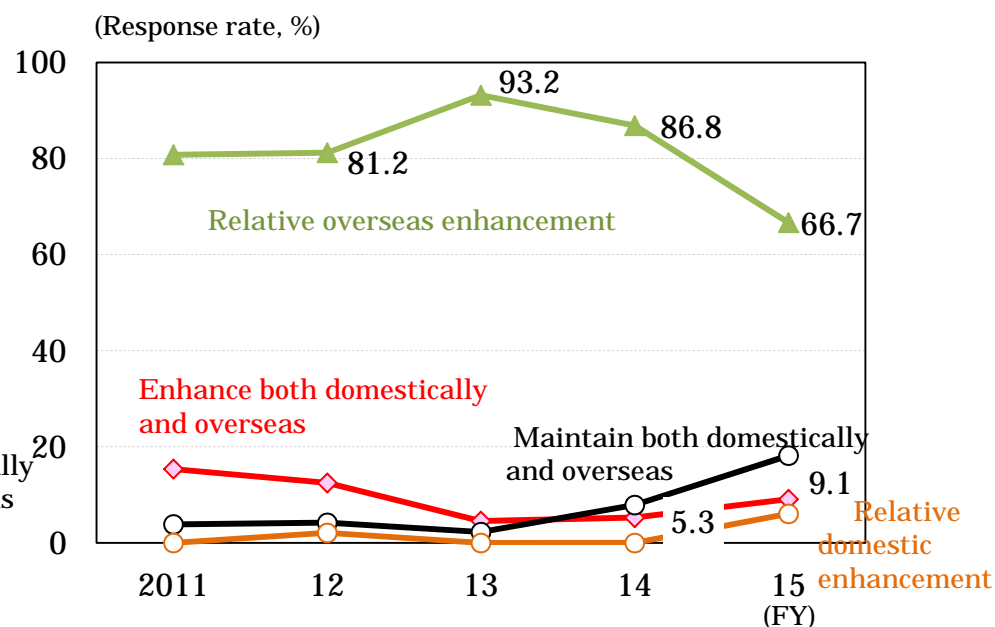
Figure 2-8. Medium-term Domestic and Overseas Supply Capacity (Electric Machinery and Automobiles)

【Electric machinery】 (FY2015: 51 firms)



		Domestic			Total
		Increase	Maintain	Decrease	
Overseas	Increase	37.3	23.5	5.9	66.7
	Maintain	5.9	27.5	0.0	33.3
	Decrease	0.0	0.0	0.0	0.0
Total		43.1	51.0	5.9	100.0

【Automobiles】 (FY2015: 33 firms)



		Domestic			Total
		Increase	Maintain	Decrease	
Overseas	Increase	9.1	42.4	21.2	72.7
	Maintain	3.0	18.2	3.0	24.2
	Decrease	3.0	0.0	0.0	3.0
Total		15.2	60.6	24.2	100.0

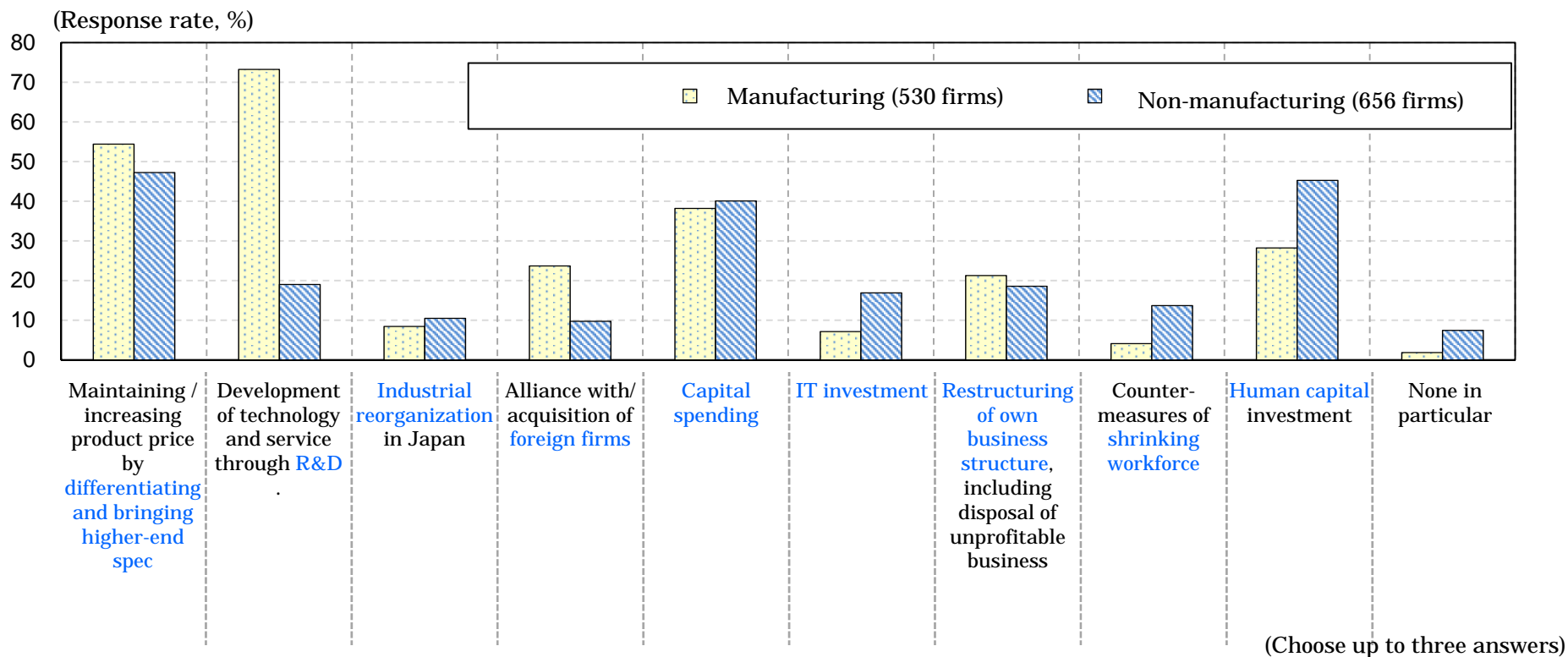
3. Growth and Competitiveness Initiatives

3-1. Initiatives for Future Growth

R&D is deemed most important in manufacturing and human capital spending in non-manufacturing

- “Maintaining/increasing product price by differentiating and bringing higher-end spec” is commonly cited as a focus in both manufacturing and non-manufacturing as a measure to realize future growth and strengthen competitiveness.
- Manufacturing placing the finest focus on R&D and non-manufacturing on human capital spending are the major characteristics found.

Figure 3-1. Areas Deemed Increasingly Important for Future Growth and Strengthening Competitiveness

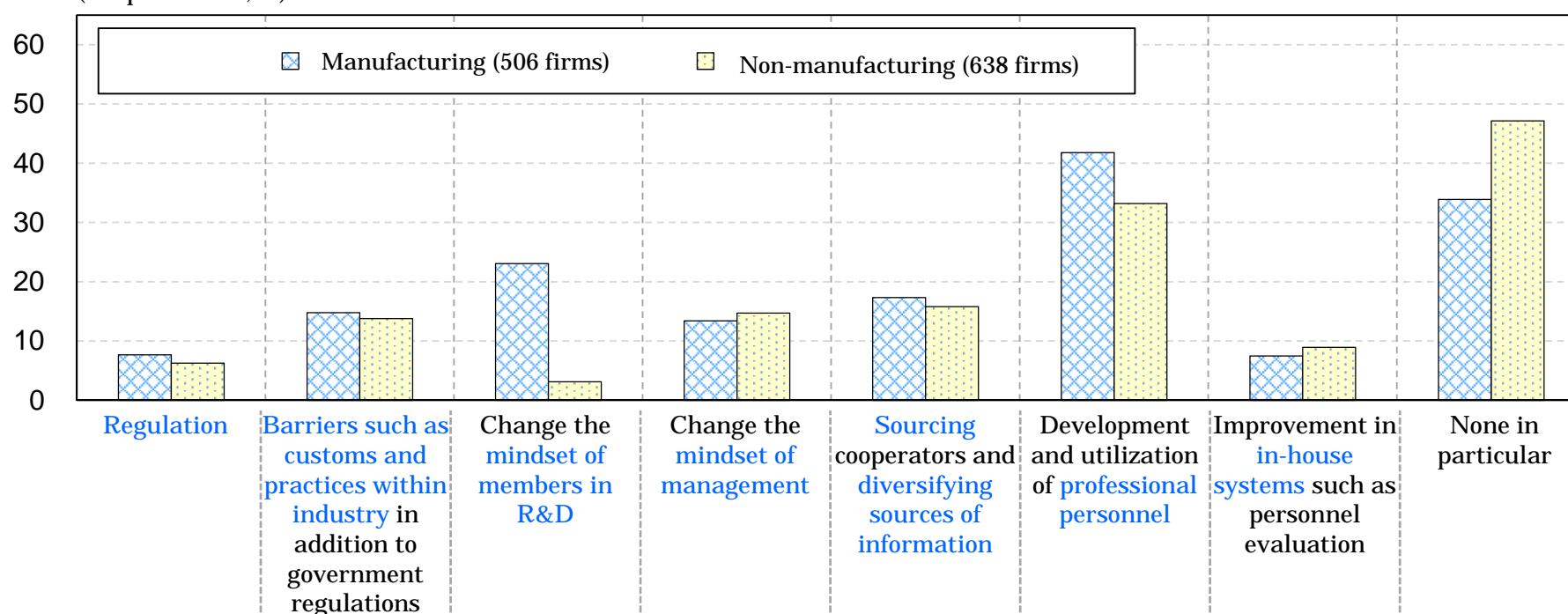


3-2. Open Innovation and Cross-sectional Cooperation

Lack of development and utilization of professional personnel is the major barrier

- Lack of “development and utilization of professional personnel” seems the preliminary barrier discouraging open innovation and cross-sectional cooperation in both manufacturing and non-manufacturing. Change of the mindset both of R&D members and of management, which are internal issues, are also chosen by a certain number of the firms.

Figure 3-2. Barriers Discouraging Open Innovation and Cross-sectional Cooperation



Notes: Open innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively.

(Choose up to three answers)

3-3. Utilization of Big Data and IoT

Firms using or considering the use of IoT remain a minority

- The firms utilizing and considering the utilization of IoT remain low at about 20%. These firms are expecting the use of IoT to develop new products and services. Additionally, it is also expected to produce improvement in productivity and services.

Figure 3-3. Use of Big Data and IoT

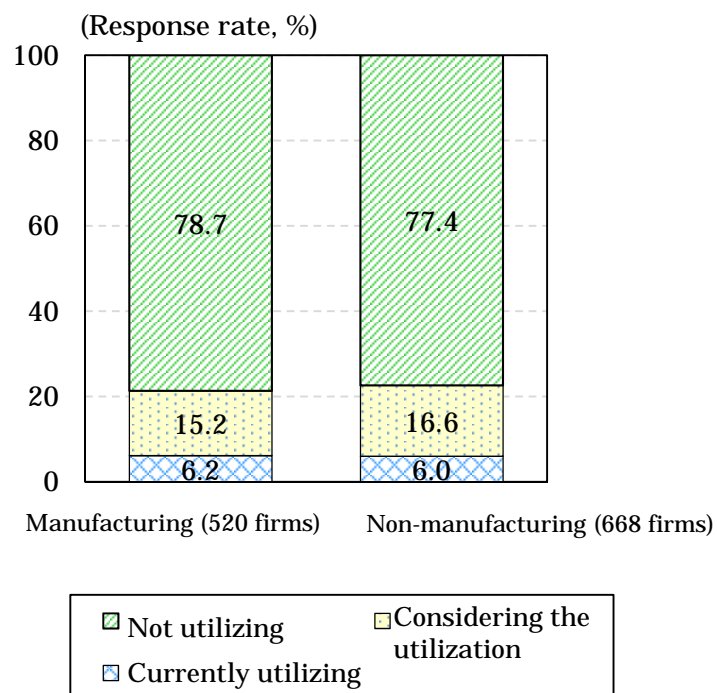
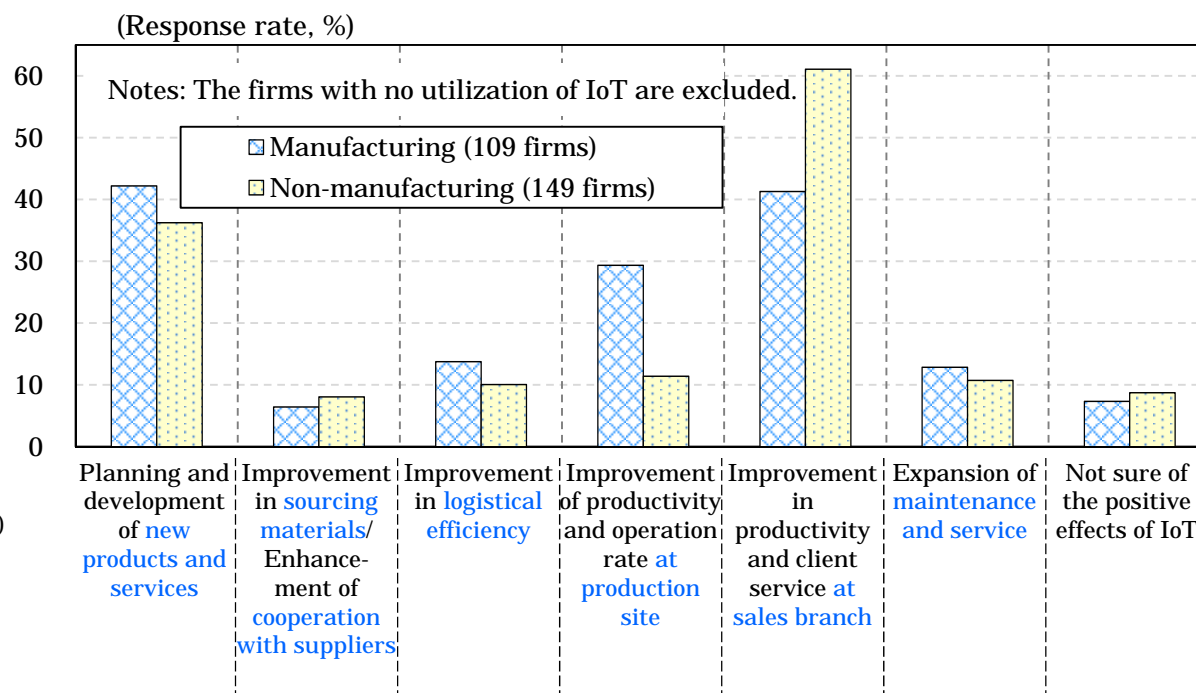


Figure 3-4. Fields for which the Use of Big Data and IoT Is Exerting a Positive Effect



Notes: IoT stands for the "Internet of Things".

3-4. Approach to Growing Fields in the Medium Term

Less than half of the firms develop growing fields apart from core business

- 45% and 33% of the firms in manufacturing and non-manufacturing respectively are developing growing fields.
- “Expectation of securing profit in core business” and “expectation of growth in core business by overseas expansion” are the primary reasons chosen by the firms which are not developing growing fields. On the other hand, human capital and financial reasons are minor reasons.

Figure 3-5. Developing Growing Fields in the Medium Term

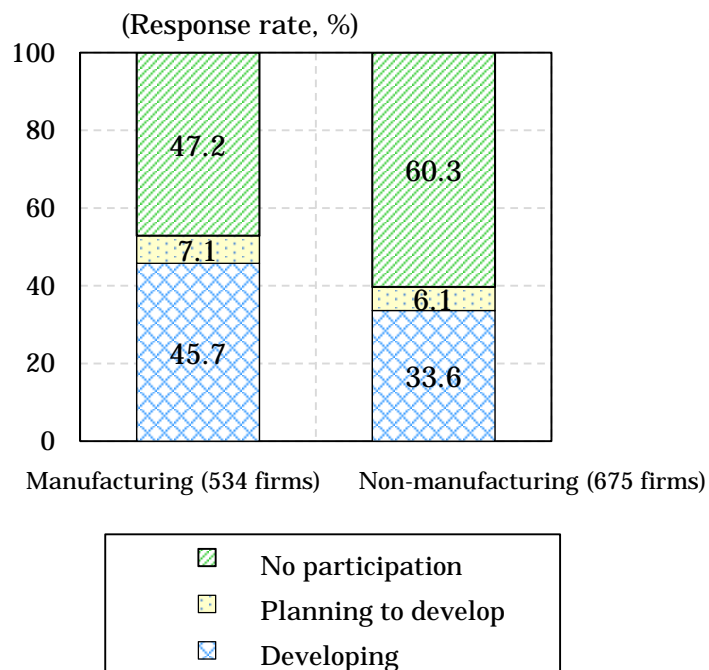
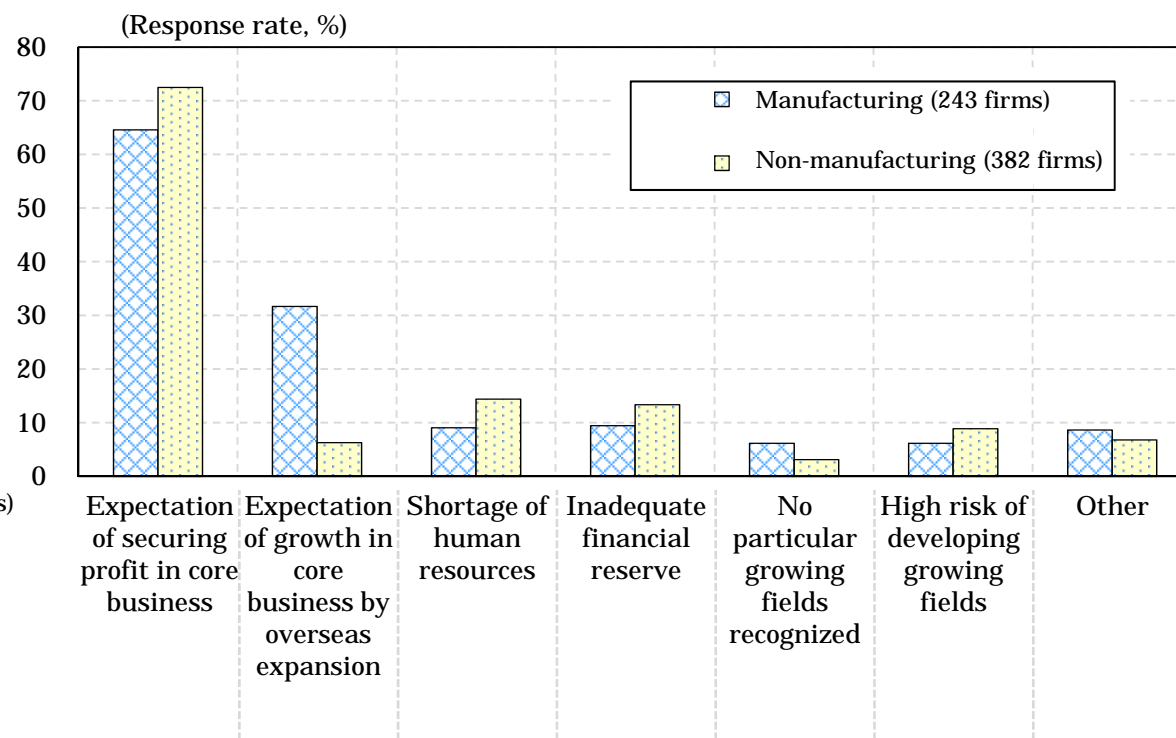


Figure 3-6. Reasons for Not Developing Growing Fields



(Choose up to two answers)

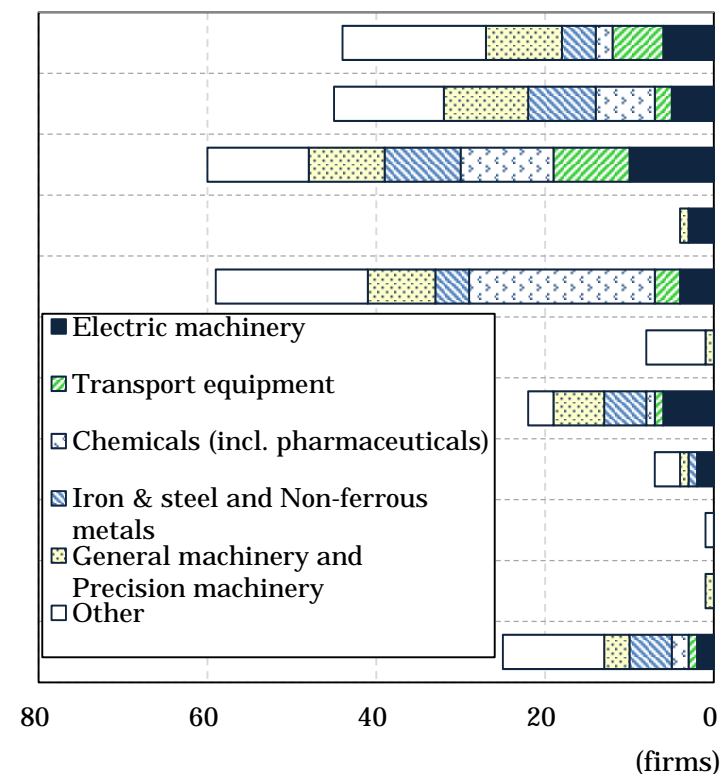
3-5. Areas of Focus in Domestic Growing Fields

Participation in fields remotely related to core business is observed

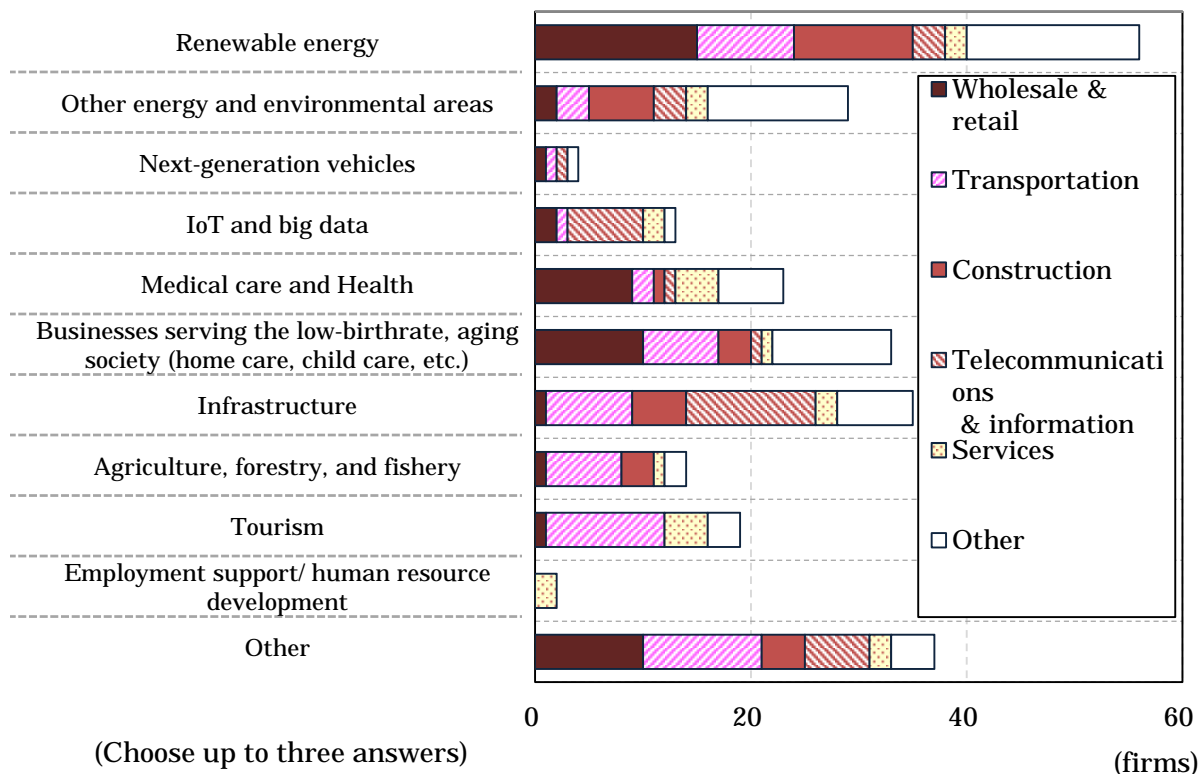
- Next-generation vehicles and medical care & health in manufacturing and renewable energy in non-manufacturing are the most focused growing fields respectively.
- In some industries, business activity in fields which are not necessarily related to core business is observed.

Figure 3-7. Domestic Growing Fields Firms Participating/Considering Participation in, in the Medium Term

【Manufacturing】 (267 firms)



【Non-manufacturing】 (258 firms)

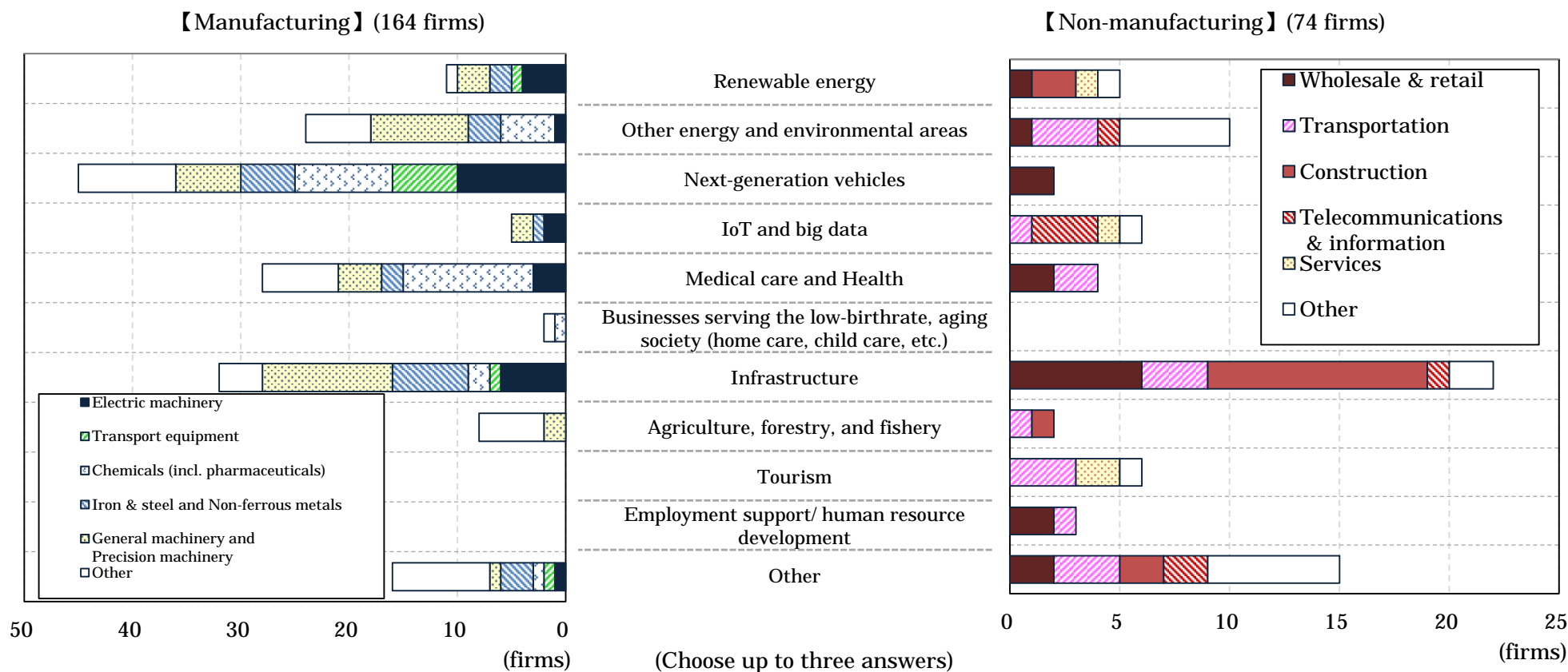


3-6. Areas of Focus in Growing Fields Overseas

Fields of infrastructure and next-generation vehicles are the most focused overseas

- When exploiting overseas markets, next-generation vehicles in manufacturing and infrastructure in non-manufacturing are the reasons given by the largest number of firms respectively.

Figure 3-8. Growing Fields Overseas Firms Participating/Considering Participation in, in the Medium Term



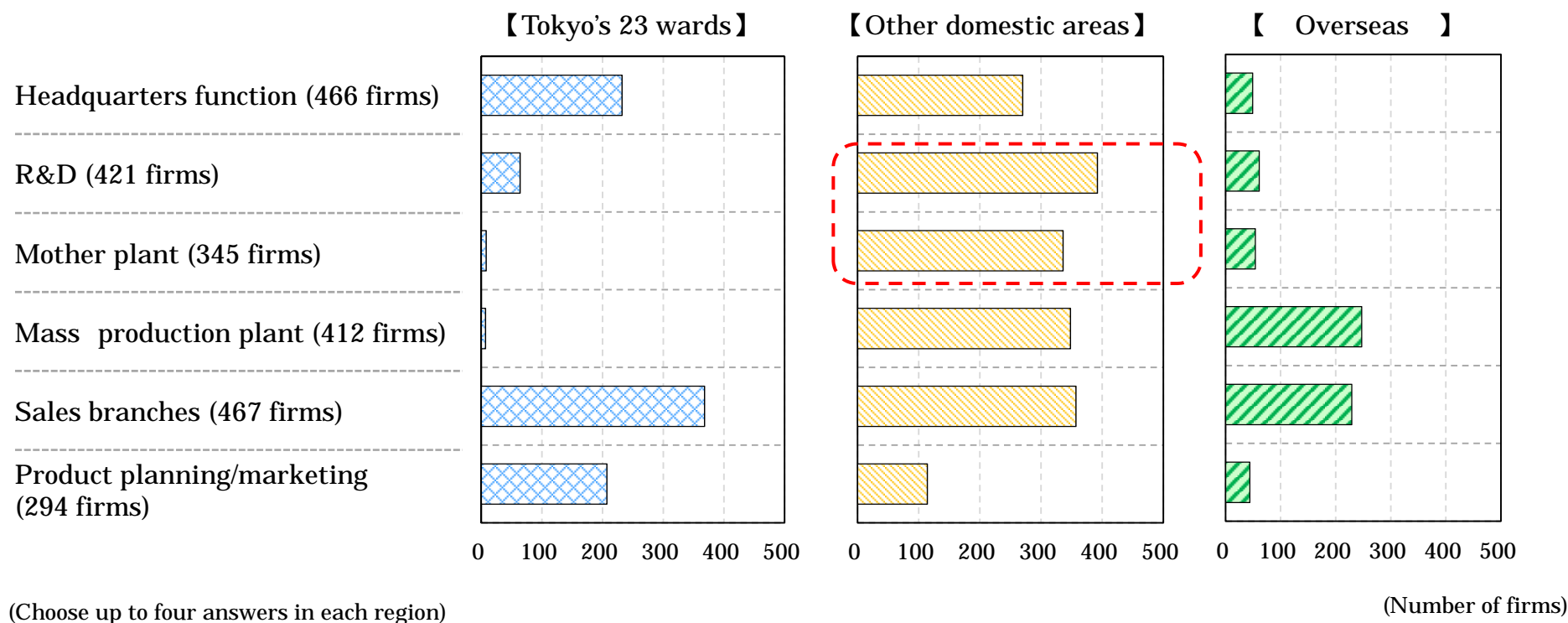
4. Stance on Regional Revitalization

4-1. Location of Each Function (Manufacturing)

Local areas are important for production and R&D

- Many of the firms locate their headquarters functions such as business planning, financing and marketing, in Tokyo.
- Local areas have the largest number of R&D functions and mother plants; however, overseas areas are also have a high number for mass production.

Figure 4-1. Location Area of Each Function (Manufacturing)

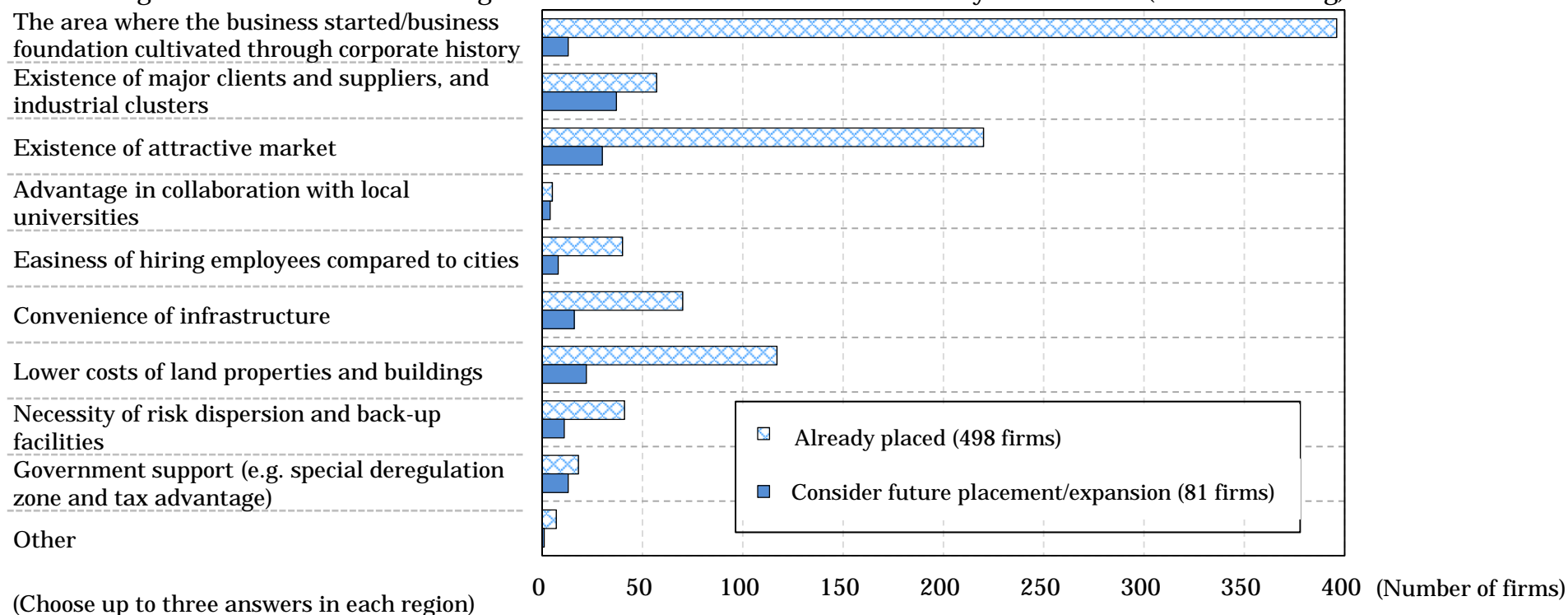


4-2. Local Sites of Manufacturers

Business Foundation for Many Years is the Commonest

- Business foundation for many years is commonly cited as a reason for placement of business functions in local areas. Existence of attractive market is mainly taken into account when considering the location of sales base.
- As for future placement or expansion, “existence of major clients and suppliers, and industrial clusters” has the largest number of responses. In addition, although few in number, the firms choosing “necessity of risk disparity and back-up facilities” and “government support” are observed.

Figure 4-2. Reasons for Placing Business Functions in Areas out of Tokyo's 23 Wards (Manufacturing)



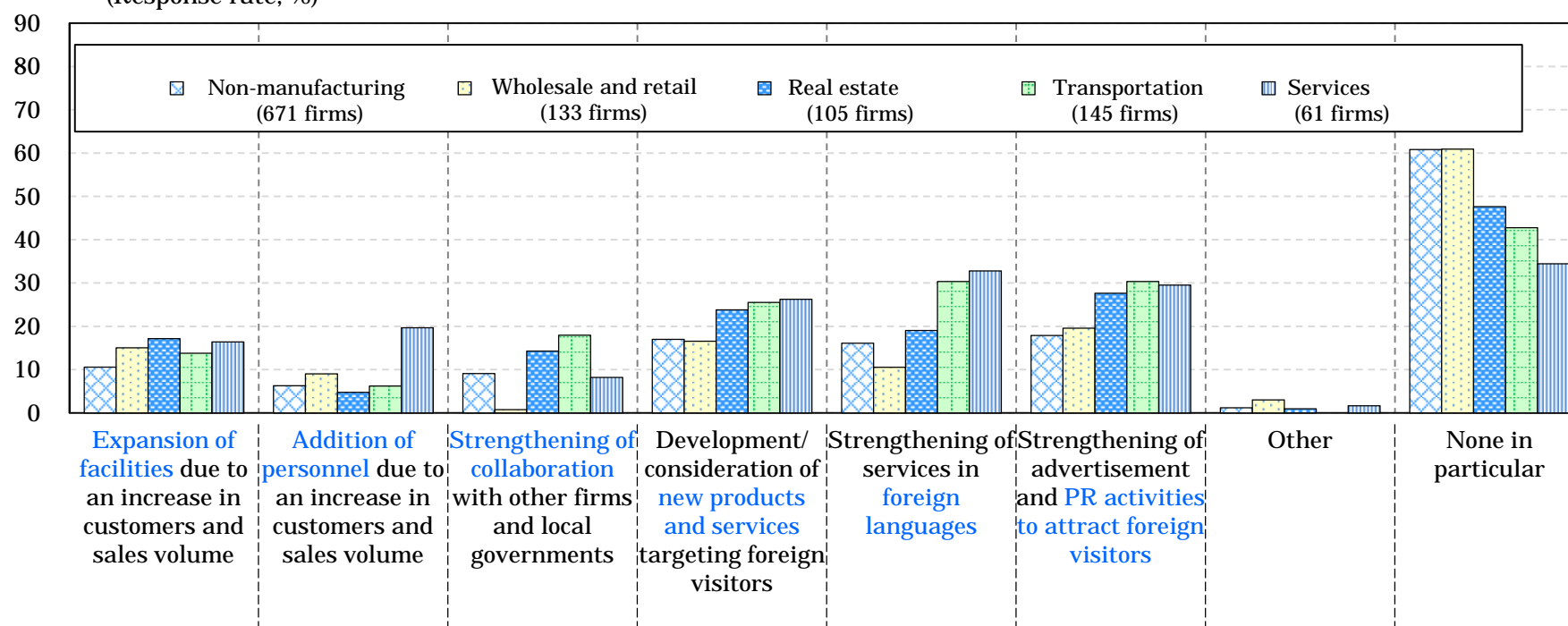
4-3. Efforts to Seize the Business Opportunity of Increasing Inbound Visitors

A certain extent of efforts are observed in services and transportation

- Although “none in particular” has been cited by the largest number of firms, in order to actively seize the business opportunity of increasing inbound visitors, efforts such as increasing capital spending, increasing personnel figures, providing services exclusive to foreign visitors and strengthening PR activities are seen especially in services, transportation and wholesale & retail which tend to have frequent contact with foreign visitors.

Figure 4-3. Efforts to Seize the Business Opportunity of Increasing Inbound Visitors

(Response rate, %)



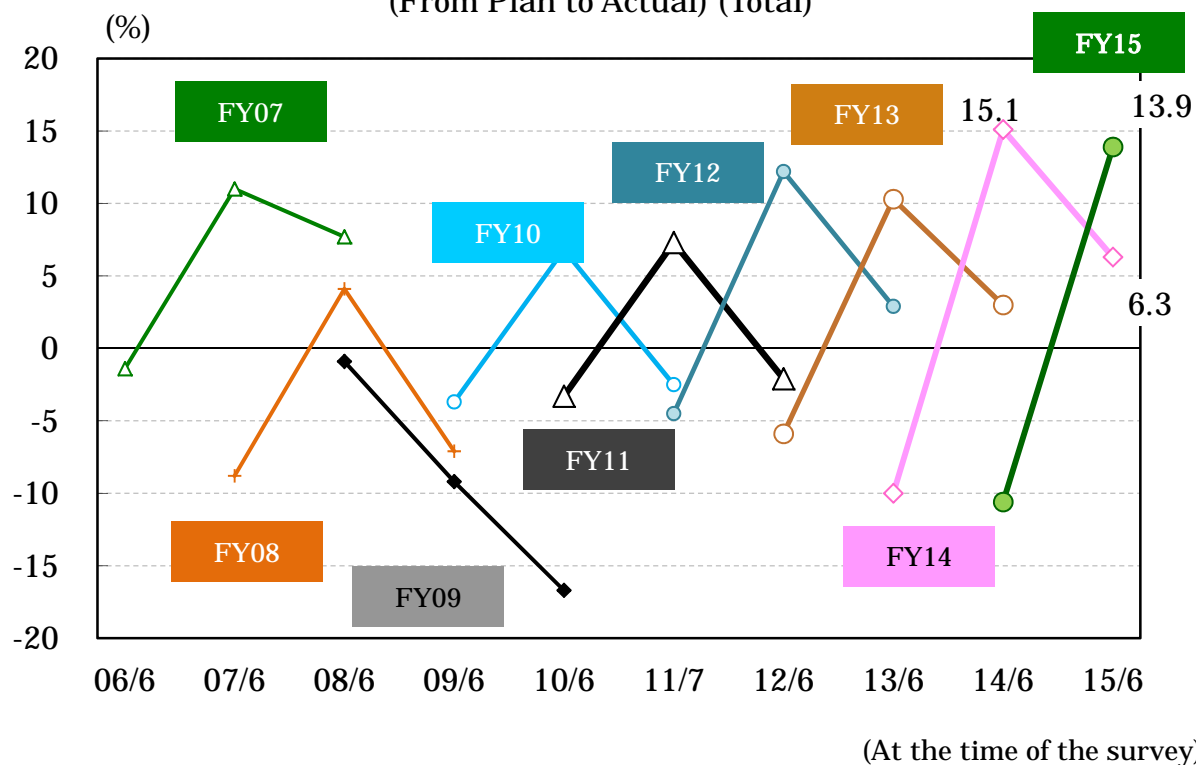
(Choose up to three answers)

Appendix

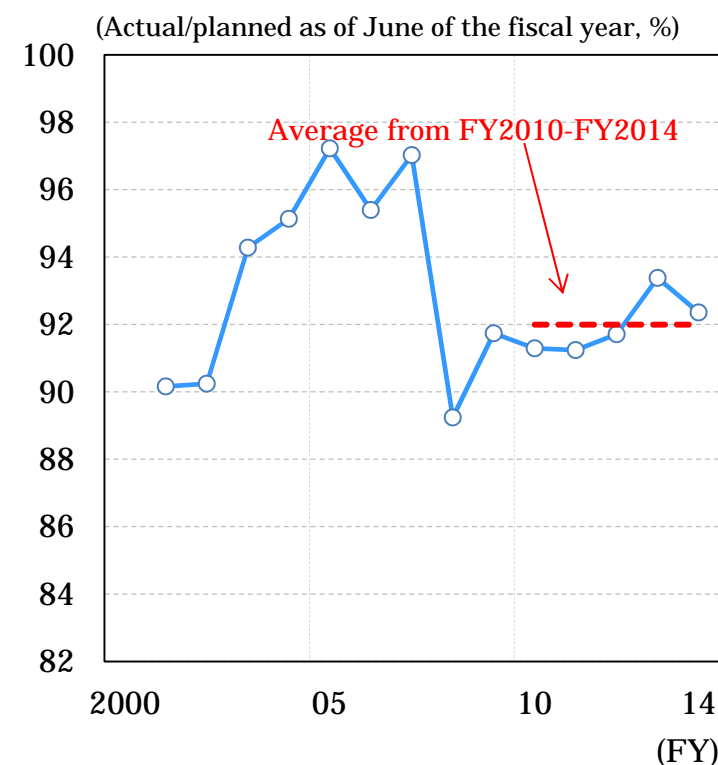
< Appendix > Pattern of Revision to Capital Spending Growth

- The surveyed firms tend to overestimate spending in the planning phase, followed later by a more moderate revision of the planned spending due to reassessment of investment and delay in construction schedule which may cause cancellation or deferment of investment.

Appendix 1-1. Pattern of Revision to Capital Spending Growth
(From Plan to Actual) (Total)



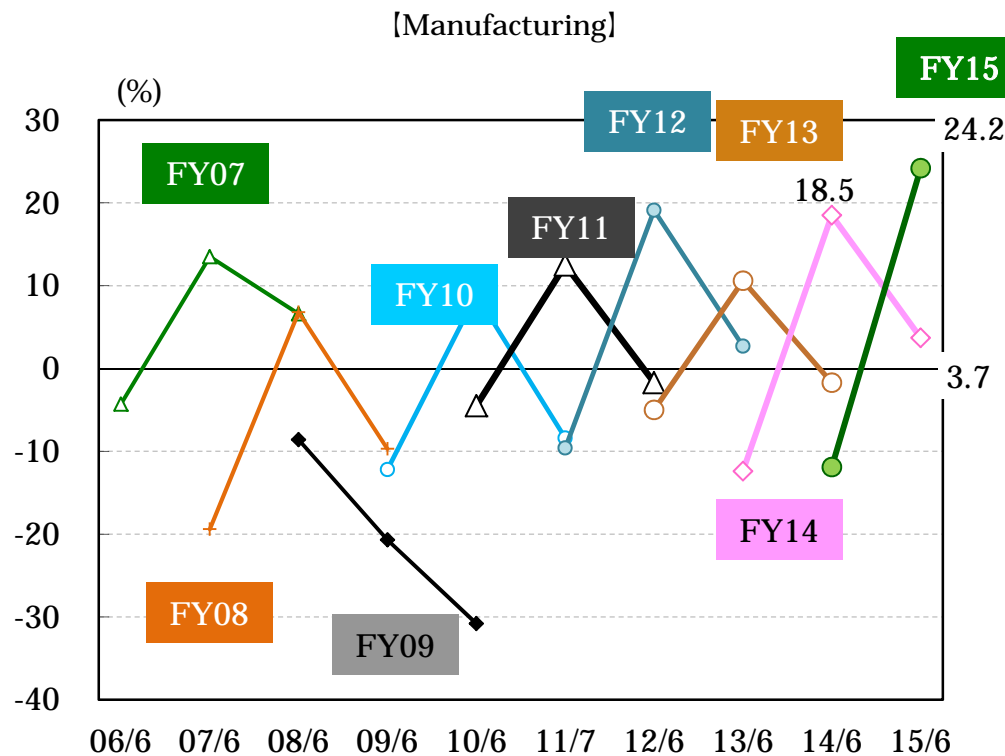
Appendix 1-2. Achievement Rate (Total)



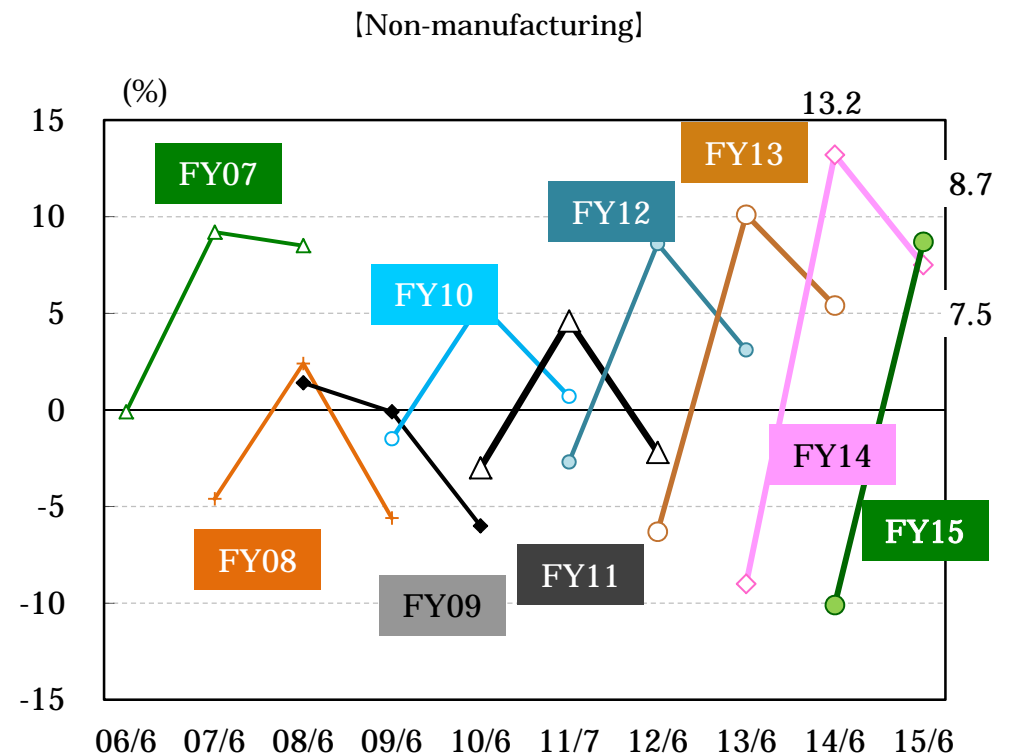
Notes: Capital spending for a given fiscal year is subject to three surveys, from the planning to the actual stages (since FY2007).

< Appendix > Pattern of Revision to Capital Spending Growth

Appendix 1-3. Pattern of Revision to Capital Spending Growth (From Plan to Actual)



(At the time of the survey)



(At the time of the survey)

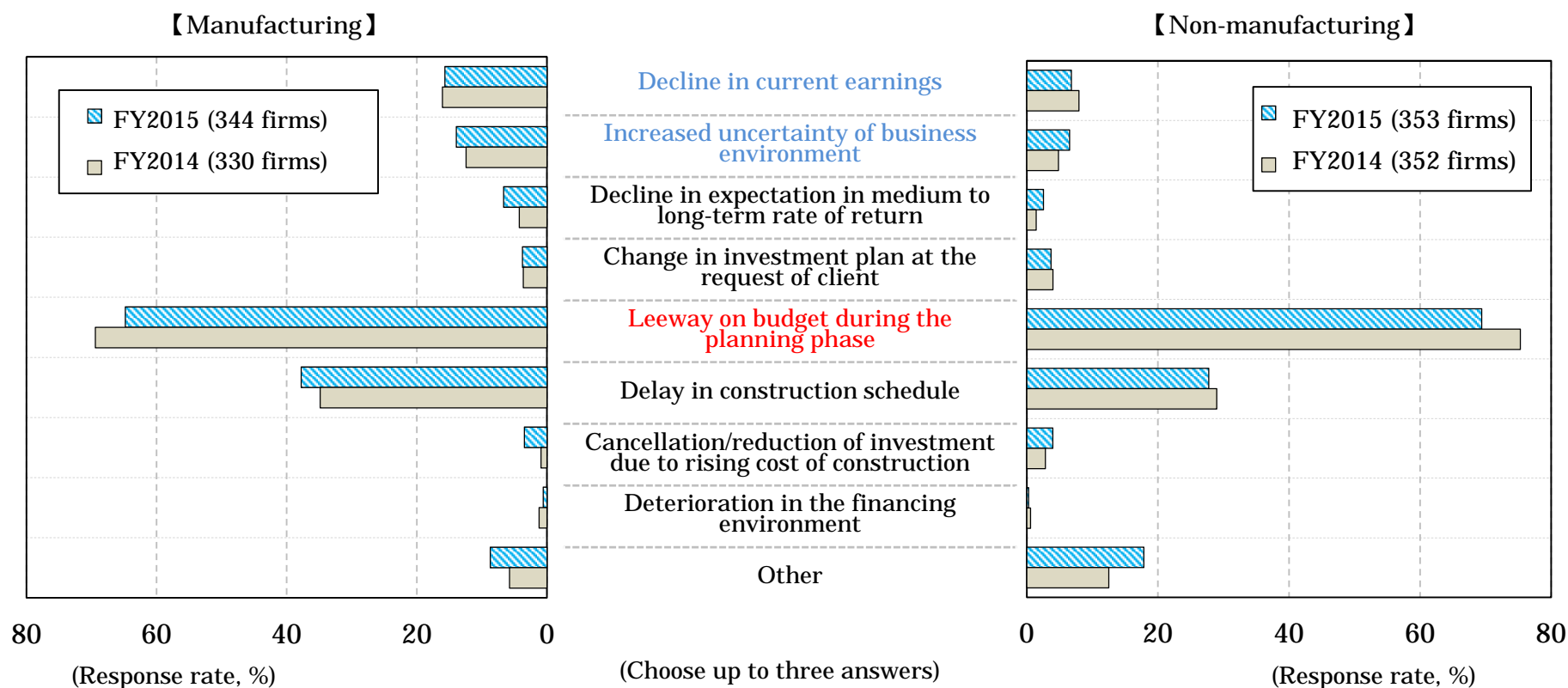
Notes: Capital spending for a given fiscal year is subject to three surveys from the planning to actual stage (since FY2007).

< Appendix > Factors for Downward Revision for FY2014

Leeway on budget chiefly lowered the actual results

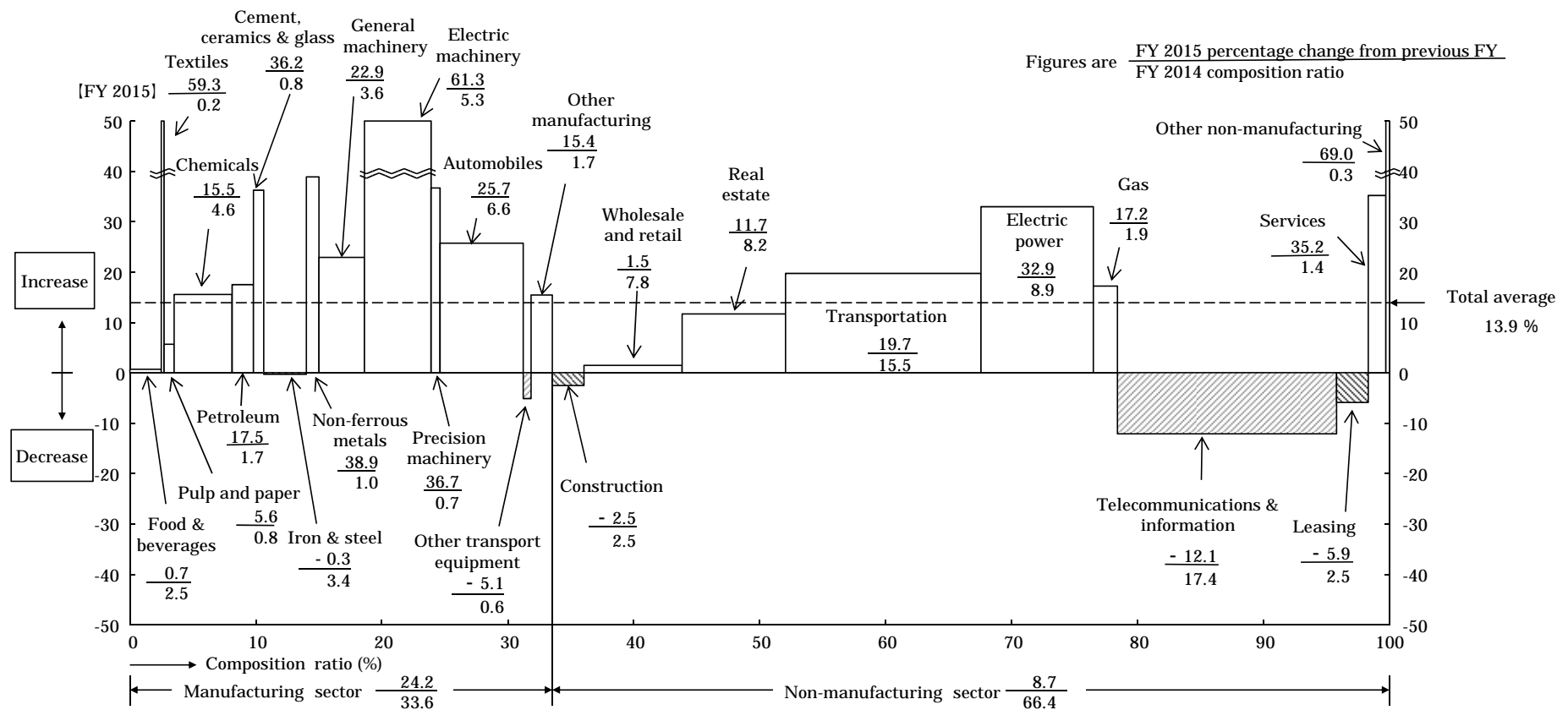
- It shows more than 40% of the firms of both manufacturing and non-manufacturing had “leeway on budget during the planning phase”.
- In addition, “delay in construction schedule”, “decline in current earnings” and “increased uncertainty of business environment” are also given as causes.

Appendix 1-4. Factors for Downward Revision of Planned Capital Spending



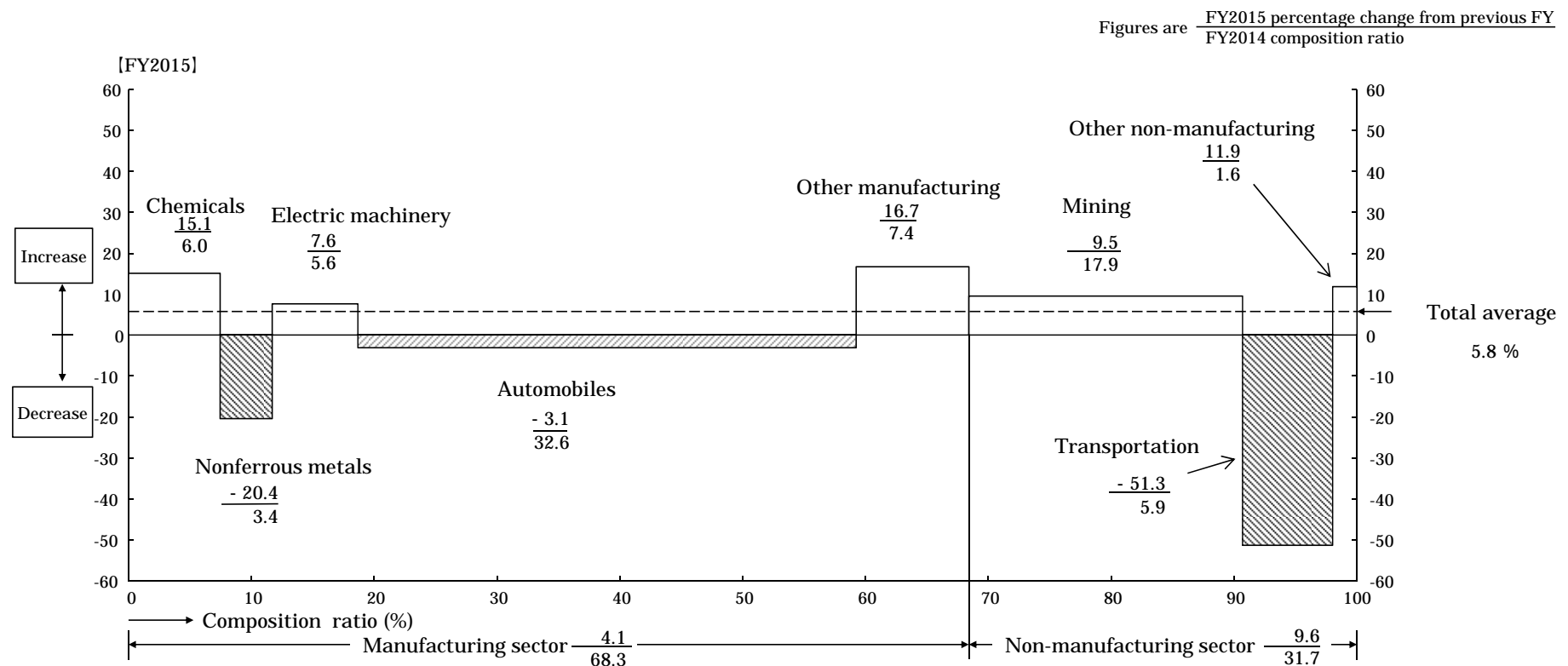
<Appendix> Composition and Growth of Capital Spending, by Industry (Domestic)

Appendix 1-5. Composition and Growth of Capital Spending, by Industry (Domestic)



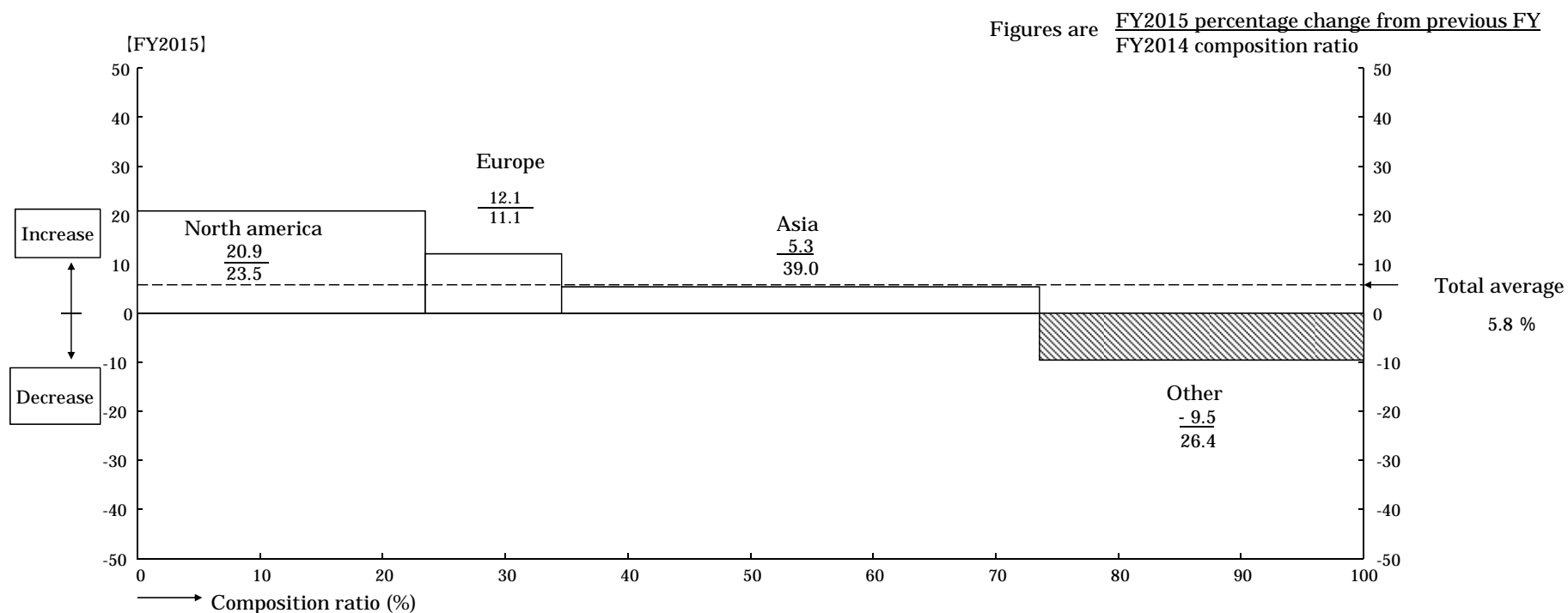
<Appendix> Composition and Growth of Capital Spending, by Industry (Overseas)

Appendix 1-6. Composition and Growth of Capital Spending, by Industry (Overseas)



<Appendix> Composition and Growth of Capital Spending, by Region (Overseas)

Appendix 1-7. Composition and Growth of Capital Spending, by Region (Overseas)



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