

Known for its ease of use:

Industrial Competitiveness Enhancement Act

“Bring out the Strength of Japan!”

Japan's businesses are facing various challenges related to their business development stages.

The Industrial Competitiveness Enhancement Act helps overcome such challenges and lead Japan towards revitalization.

This article explains the characteristics and key points of the Act by focusing on the areas of “business restructuring” and “regulatory reforms,” for which new frameworks are established.

● Overview of the Industrial Competitiveness Enhancement Act

For those considering business restructuring → P.03

- Promotion of business restructuring

For those with issues regarding regulations → P.07

- System to Remove Gray Zone Areas
- System of Special Arrangements for Corporate Field Tests

For those considering capital investment

- Tax incentive to promote capital investment to improve productivity
- Tax incentive to promote investment in SMEs
- Support for investment in cutting-edge facilities using lease methods

For those considering financing for venture funds

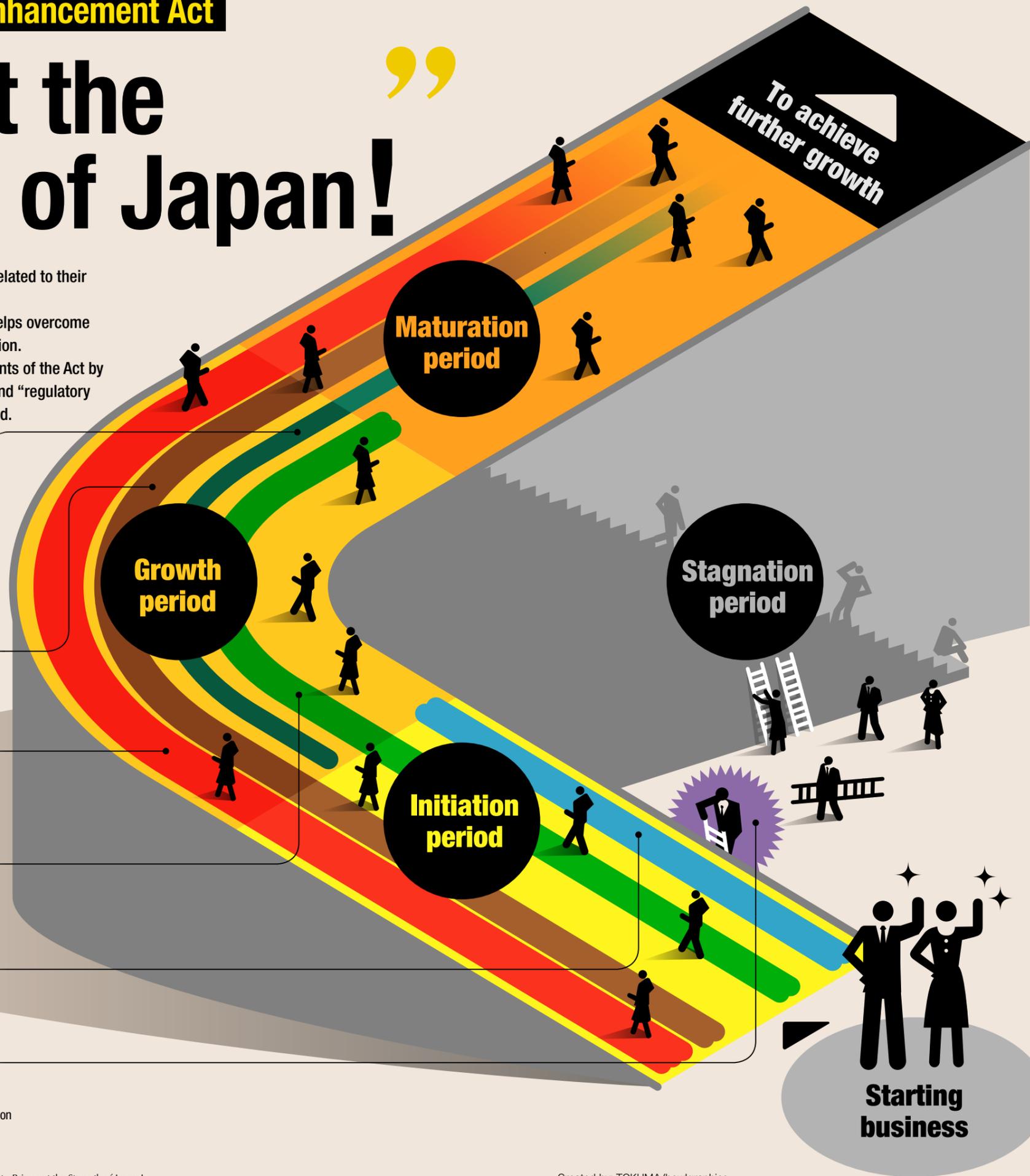
- Tax incentive to promote corporate investment in venture businesses
- Enhancement of support for investment in venture businesses by the Innovation Network Corporation of Japan

For SMEs starting businesses

- Enhancement of regional support system for business startups
- Investment in venture funds by national universities

For those considering business revitalization

- Enhancement of SME business revitalization support
- Expansion of alternative dispute resolution (ADR) system for business revitalization



The Industrial Competitiveness Enhancement Act, which is exactly what its name suggests,

has come into effect with the Japan Revitalization Strategy, the third “arrow” of Abenomics as its background. The Industrial Competitiveness Enhancement Act is the basis for securely implementing this Strategy, which aims to “create new frontiers through participation by all and by bringing forth the strength of the private sector to the fullest extent.”

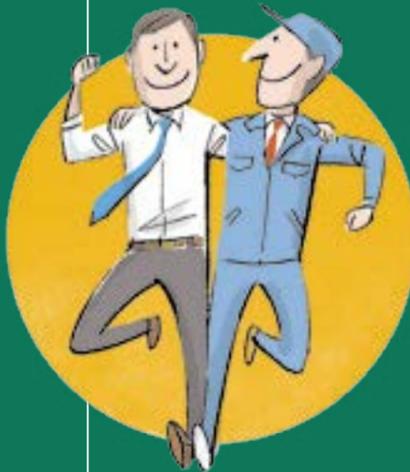
So, who can use the support measures provided by this Act? The answer may be “any company/business.”

As shown in the graphic on the left, the main feature of the Industrial Competitiveness Enhancement Act is that there is a concentrated wide variety of measures according to different business development stages. It contains measures to support businesses in their initiation period, growth period, maturation period and stagnation period in a balanced manner. Naturally, not only major companies but also small- and medium-sized enterprises as well as sole proprietors are the targets of these support measures.

While the Industrial Competitiveness Enhancement Act is comprised of various different measures, the underlying basic policy is to correct three distortions in the Japanese economy, namely, over-regulation, under-investment and delay in consolidation. In reality, one or more of these three problems cause business challenges to many companies, and the resolution of such challenges is precisely the aim of this Act. Therefore, business operators' perspectives were prioritized when the measures were designed to ensure their ease of use of such systems. On the following pages, we will introduce some examples of utilization and assumed cases regarding business restructuring and regulatory reforms. Please take a look at these measures, while thinking about how the Industrial Competitiveness Enhancement Act can be used by your company.

Promotion of business restructuring

Supporting positive business restructuring through a wide variety of tax incentives and financing measures



In cases where business cannot be developed as intended by the company on its own, or there are shortages and problems in terms of funds and technology, collaboration with other companies having different characteristics and strengths could be an effective measure. By fusing the management resources of one's own company with other companies, further growth can be expected. The Industrial Competitiveness Enhancement Act supports these kinds of the positive efforts. Specifically, efforts aiming to improve productivity and to cultivate a new market by taking the business

of one's own company and consolidating it with the business of other companies will be approved as a "specified business restructuring plan." Such efforts will be supported through measures such as tax incentives and financial support, including the tax incentive for promoting business restructuring. Further, not only measures taken by multiple companies but also the positive efforts of a single company, such as restructuring within a group, will also be supported by approving them as a business restructuring plans.

CLICK! • Promotion of business restructuring

What are the advantages?



Support measures regarding business restructuring

Tax incentives

Reducing financial costs associated with business restructuring through tax incentives!

- Tax incentive to promote business restructuring

(Reserve for specified business restructuring investment loss)

Business operators that receive specified business restructuring plan approval can post the loss of the investment and loans to joint venture corporations and others as the reserve for a loss (the loss can be posted up to 70% of the invested or loaned value, and for ten years at most). Because corporation tax is deferred, the cash can be invested into other areas.

- Reduction of registration and license tax

When mergers and company splits are implemented according to the business restructuring plan and specified business restructuring plan, they become eligible for reductions in the registration and license tax. For example, for the "establishment of a company and an increase in the amount of stated capital," the tax is reduced from the usual 0.7% to 0.35%. This is effective in reducing the burden of the initial cost, which can also be an obstacle for business consolidation.

Financial support

Long-term, low-interest loans and debt guarantees by the Organization for Small & Medium Enterprises and Regional Innovation are also available

Long-term, low-interest loans for funds necessary for the implementation of a business restructuring plan will be available from the Development Bank of Japan Inc. There is also a system for debt guarantee by the Organization for Small & Medium Enterprises and Regional Innovation for a certain loan ratio (50% at maximum, up to 2.5 billion yen) (both should fulfill certain conditions).

Others

Restructuring is supported also through the special provisions of the Company Act and the Civil Code

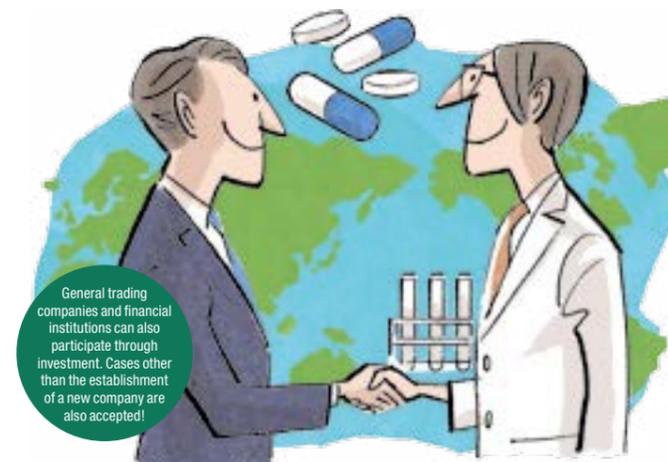
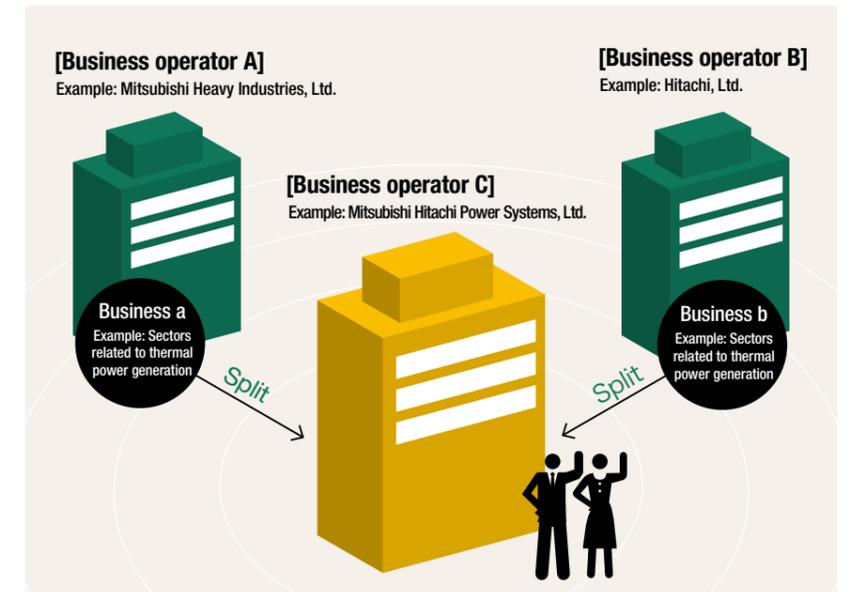
Special provisions will be established in the Company Act and the Civil Code covering matters such as investments in kind, consolidation of shares, facilitation of procedures to acquire 100% ownership of a subsidiary, etc. to support smooth business restructuring.

Specified Business Restructuring Plans

Cultivation of demand and the improvement of productivity are critical to gain approval!

There are several patterns within the specified business restructuring plans, including the establishment of a new company following business splits of multiple companies and mergers between wholly owned subsidiaries. The point is to cultivate new demand and to aim for significant improvements in the productivity. There are conditions imposed, such as to improve the revised return and assets (ROA), tangible fixed asset turnover, and added value per employee to a certain level within three years.

In February 2014, Mitsubishi Heavy Industries, Ltd. and Hitachi, Ltd. split their businesses related to thermal power generation and created a new company. The plan envisages sales of new products/services, which could not have been generated without the integration, to reach 4% of the total by FY2015. The new company aims to come out on top of the world in this area by taking advantage of synergy created. * Details are explained on the next page.



General trading companies and financial institutions can also participate through investment. Cases other than the establishment of a new company are also accepted!

Pharmaceutical products are globally marketed by a chemical manufacturer and a general trading company

model case 1

A general trading company invests in a wholly owned subsidiary that is already established by a chemical manufacturer that is engaged in the pharmaceutical products business, and cooperates in cultivating sales channels abroad utilizing the general trading company's network. Combining the knowledge of the chemical manufacturer in the area of biotechnology and the sales network of the general trading company, the business aims to market pharmaceutical products globally. This is a case covered by the specified business restructuring plan even if no new company is being established.

A major cosmetics manufacturer supports the cosmetics business of a local brewery

model case 2

A local sake brewing company (SME) develops a cosmetics product using the yeast for sake, and splits up the company to pursue the new business area. A major cosmetics manufacturer makes a financial contribution to this new company, and at the same time develops and sells the products by mainly targeting the domestic market through management support such as the introduction of sales channels and the provision of cosmetics manufacturing technologies.



Small and medium enterprises, or products targeted to domestic markets are also accepted!

Mitsubishi Heavy Industries, Ltd.

Aiming to become a company that can win global competition through integration welcomed by the market

Atsushi Maekawa
Member of the Board and Senior Executive Vice President



How can we compete in a global market? Giving serious consideration to this question, the answer would be “through business integration.” In the thermal power generation field, where our two businesses were integrated, GE in the U.S. and Siemens in Germany are the two giants. The feeling was that “We lose out in the global market if we do nothing.” There was such a strong sense of crisis behind the establishment of Mitsubishi Hitachi Power Systems, Ltd. (MHPS), the new company. Conversely, if both companies integrated our thermal power generation businesses, we could have the power to compete in the global market. The synergy effect in terms of products, regional strategies and technical strength is immense. Aiming for the “No.1 player in the world” is the most important goal of this integration.

However, this integration was decided for the convenience of the company. Therefore, we should seek a way to ensure that the integration is truly welcomed by our customers as well. I believe that we must respond to the needs of customers by taking full advantage of the effects of this synergy in terms of quality, price and services.

Fortunately, MHPS was the first company approved to utilize the specified business restructuring plan under the Industrial Competitiveness Enhancement Act. There have been multiple advantages with the utilization of the system, in terms of responding to requests from the market. One of the largest advantages was the

Atsushi Maekawa was born in 1951. After graduating from the School of Engineering at Osaka University, he joined Mitsubishi Heavy Industries, Ltd. in 1976. After assuming posts such as the Head of Takasago Machinery Works, Deputy Head of Power Systems Headquarters, and Head of General Machinery & Special Vehicles, he assumed the positions of Member of the Board and Senior Executive Vice President in 2013. He is also the President and CEO of Energy & Environment.

reduction of the registration and licensing tax. Deferral of corporate tax under the tax program for facilitating business restructuring is also highly effective. Basically, what is necessary for a new company to fulfill its needs and achieve growth is access to cash. There are many facets of an enterprise in which investment is necessary, including technical development and global marketing. Naturally, our company is cooperating with MHPS to develop new technologies and systems is also a possible option. The effect of having enough cash on hand is extremely large. That is common to any company seeking business restructuring. The Industrial Competitiveness Enhancement Act is expected to create a broad trend which provides opportunity for the Japanese economy to accelerate business restructuring and result in an increase in globally competitive companies. We are pleased to be playing a part in accelerating such a trend.

CLICK! ●Mitsubishi Heavy Industries, Ltd.

I also serve as the Chairman of Mitsubishi Hitachi Power Systems, Ltd (MHPS). What I feel from the management meetings and exchanges with mid-level or young employees in the company is the high potential of the new company. For instance, there are the advantages of being in the same business, including the possibility of expanding the product lineup and reinforcing global bases. The multiplayer effect that these advantages have on each other is an important factor. Another is the value derived from the differences between the companies. On many occasions we are impressed with each other, especially when learning what the other company is doing in areas such as materials procurement, design, and production technology. In short, we can share the advantages of both companies through this integration. Because thermal power plants are a kind of civil and social infrastructure, it is important for us to build relationships of trust steadily all over the world. If the accumulated knowledge and experience of both companies can be shared through business integration, confidence in the new company will grow higher. With combining mutual capabilities, promotion of EPC (engineering, procurement, and construction) businesses in which the contractor arranges the entire process of plant construction will be facilitated. This

CLICK! ●Mitsubishi Hitachi Power Systems, Ltd.

can lead to the development of further new service businesses, and the utilization of the IT of Hitachi Group can also be considered. In the case of such a large-scale integration, parent companies tend to bear a large burden, especially in terms of financing. In this context, the Industrial Competitiveness Enhancement Act was a great help. Although it may be difficult to resolve every issue in a single legal system or mechanism, supportive measures under this Act are highly user-friendly. With measures such as tax reduction and deferment, we can work on the reinforcement of a certain business while capitalizing on other businesses. Because our case was the first to be authorized, there have been some points at which we were unsure of how to proceed due to a lack of precedents, but the Ministry of Economy, Trade and Industry has given us advice and fine-tuned support, and we have been able to obtain the approval. In the area of thermal power generation systems business, in addition to Western companies, manufacturers in emerging countries are also coming to the forefront. We must survive this global competition no matter what. Our company would like to create the best practice of industrial restructuring, for others to follow. By sharing our achievements, we want to motivate and energize Japan. All our employees are working with this kind of determination.

CLICK! ●Hitachi, Ltd.

Koji Tanaka was born in 1952. After graduating from the Faculty of Engineering, the University of Tokyo, he joined Hitachi, Ltd. in 1974. After assuming posts such as the General Manager of Hitachi Works and President & CEO of Power Systems, he became the Representative Executive Officer, Executive Vice President and Executive Officer in 2011. He is in charge of Strengthening of Products.

Hitachi, Ltd.

Creating the best practice of industrial restructuring by taking advantage of mutual strengths

Koji Tanaka
Representative Executive Officer, Executive Vice President and Executive Officer



MITSUBISHI HITACHI POWER SYSTEMS, LTD.



The strength of Mitsubishi Heavy Industries, Ltd. is its large-scale gas turbine business and its sales channels in Southeast Asia and the Middle East. A wide range of solutions can be provided by fusing Mitsubishi's strengths with the middle- and small-scale gas turbine business of Hitachi, Ltd. and its sales channels in Europe and Africa. The combined business aims to achieve a 30% share of the global gas turbine market.

The key to the expansion of the small and medium-size gas turbine business, which is Hitachi, Ltd.'s strong point, is the development of after-sales service. The new company will be able to respond to the needs of customers by utilizing the overseas service bases and service business know-how of Mitsubishi Heavy Industries, and introduce its service systems.

System to Remove Gray Zone Areas

System of Special Arrangements for Corporate Field Tests

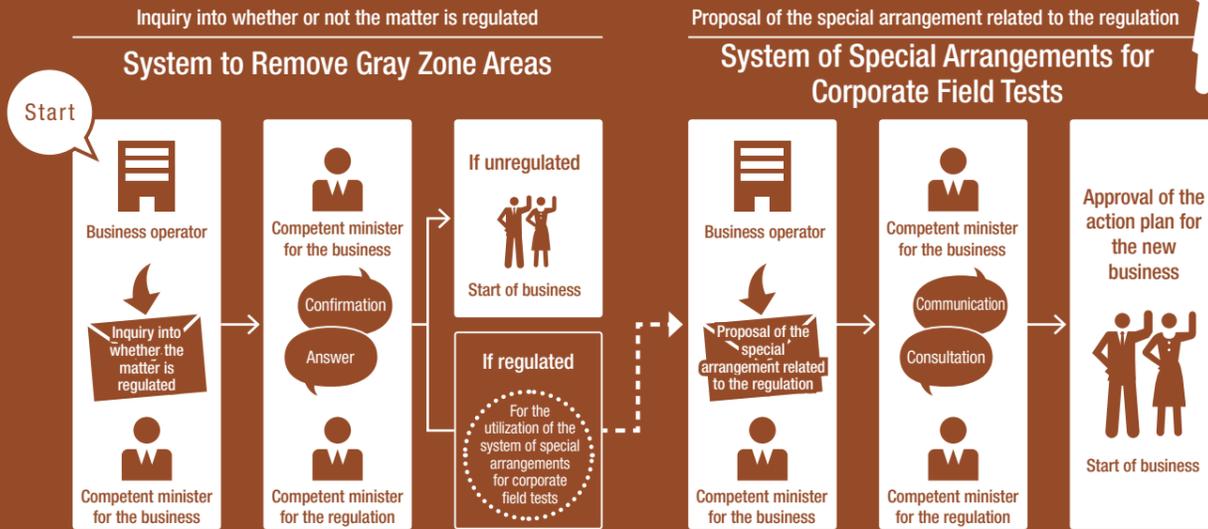
Supporting companies' challenges through the clarification of regulations and special arrangements

"We are thinking of starting a new business but not sure if it is subject to regulation," "We want to introduce some of the latest equipment but the use of some of the parts is unapproved in Japan..." For companies facing such issues, new systems to facilitate prompt "confirmation of the presence of regulations" or "consideration of use of special arrangements" have been created. These are the "system to remove gray zone areas" and the "system of special arrangements for corporate field tests." It is difficult to maintain a balance between new challenges that companies face with the original objectives of regulations. Developing a business-friendly environment is one of the pillars

of the growth strategy of Japan. The two newly established systems aim to carry forward regulatory reform based on the energetic proposals of individual companies. Various benefits can be expected through the use of special arrangements, not only in the form of the development of new products and services, but also the improvement of safety by using the most advanced technology allowed.

CLICK! • System of special arrangements for corporate field tests and system to remove gray zone areas

Tell us the specific procedures!



When an inquiry is made on whether a new business is regulated or not, a confirmation is made and an answer is given between the relevant ministries, and the business operator is notified of the results.

An "action plan for the new business" including the proposal of the special arrangement related to the regulation is formulated and submitted to the competent ministry for the business. Notification of whether the plan is approved will be given based on discussions among relevant ministries and agencies.

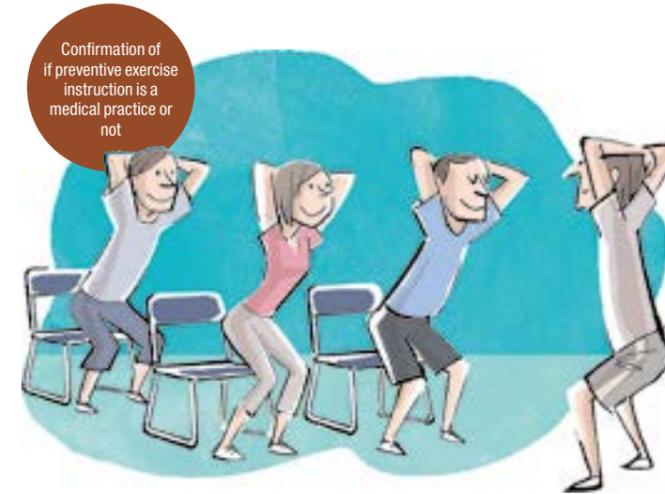
* It is also possible to use the system of special arrangements for corporate field tests individually without going through the system to remove gray zone areas.

System to Remove Gray Zone Areas

It is sometimes unclear whether the existing laws and regulations will be applied to unprecedented efforts, products and services, because of their innovativeness. On such occasions, a system to remove gray zone areas will be useful.

In this system, the competent ministry for the business confirms whether the matter is regulated or not to the competent ministry of the regulation on behalf of the company. The period from application to response is within one month in general. This prompt response is one

of the attractive features of the system. A minimal-risk environment will be developed for new businesses, so that the enterprises can devote themselves to technological innovation and the development of products and services with sense of security.



Exercise instruction based on a doctor's advice at a gym

Competent ministry for the business: Ministry of Economy, Trade and Industry
Competent ministry for the regulation: Ministry of Health, Labour and Welfare

case 1

Question of whether or not exercise instruction given by the staff at a fitness club, but based on a doctor's instruction/advice falls under the category of medical practice. It was confirmed that there aren't any problems to give instructions unaccompanied by medical judgment and skills, such as teaching stretching exercises based on a doctor's instruction/advice.

Simple blood test service using self-collected blood

Competent ministry for the business: Ministry of Economy, Trade and Industry
Competent ministry for the regulation: Ministry of Health, Labour and Welfare

case 2

There was an inquiry from a blood testing company about simple blood tests using self-collected blood samples. It was confirmed that self-blood collection and notification of the result of the test and the recommendation from the business operator to seek more a detailed medical examination do not fall under the category of medical practice.



Driving automobiles equipped with dead man devices on public roads

Competent ministry for the business: Ministry of Economy, Trade and Industry
Competent ministry for the regulation: Ministry of Land, Infrastructure, Transport and Tourism

case 3

Dead man devices are systems which stop vehicles on road shoulders automatically and safely in case of emergencies. There are inquiries from automobile manufacturers regarding how such device would be handled from a legal perspective, because such an automatic driving function is not covered in the existing laws. The ruling was that such device would be subject to car safety inspections.



System of Special Arrangements for Corporate Field Tests

The system of special arrangements for corporate field tests is a system created with the intention to provide strong support for companies which face these new challenges. Under the system, relaxations of regulations that are seen as bottlenecks are considered in

relation to each business individually, while ensuring safety. We endeavor to encourage flexible thinking in companies to support prompt commercialization. What is different from conventional deregulation is that special arrangements can be applied to

individual companies if safety and other requirements are satisfied. In addition to individual companies, the entities comprised of more than one company can also apply for this process. The period from application to ruling is very short: within one month as a general rule.

case

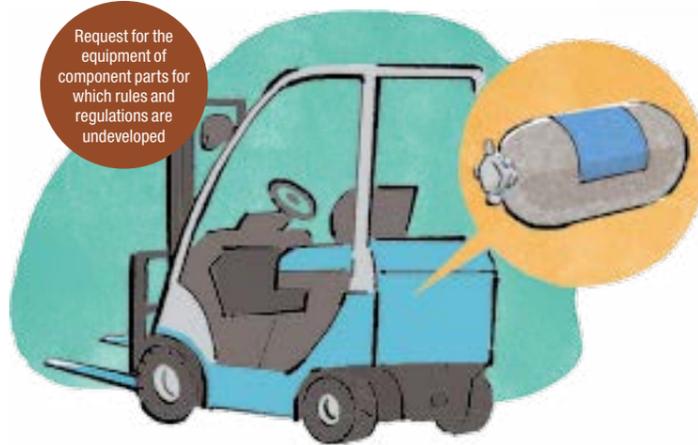
1 Introducing an advanced inspection method for gas containers used in manufacturing semiconductors

Competent ministry for the business Ministry of Economy, Trade and Industry
Competent ministry for the regulation Ministry of Economy, Trade and Industry

A new inspection method to increase the efficiency of safety inspections high purity gas containers used for the production of semiconductors has become available. If innovative methods such as ultrasonic inspection can be introduced under this special arrangement, the cost and period necessary for inspection can be reduced significantly.



Request for the equipment of component parts for which rules and regulations are undeveloped



case

2 Utilizing new models of hydrogen tanks for fuel cell forklifts

Competent ministry for the business Ministry of Economy, Trade and Industry
Competent ministry for the regulation Ministry of Economy, Trade and Industry

A new path has opened for the use of low-production-cost all-metal hydrogen tanks so as to accelerate the utilization of a fuel cell forklift in Japan. With increased use of fuel cell forklifts, reductions in CO2 emissions can be realized.

case

3 Motor-assisted bicycles with trailers that have stronger assistance power than the standard on public roads

Competent ministry for the business Ministry of Economy, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism
Competent ministry for the regulation National Police Agency

Delivery companies are allowed to use more powerful electric-motor-assisted bicycles. Such vehicles contribute to reducing the burden on female and elderly staff, promoting employment, and reducing CO2 emissions.

