

April 26, 2017

To all parties concerned

Company Name: Hitachi Koki Co., Ltd.  
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(Securities Code 6581 First Section of the Tokyo Stock Exchange)  
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**Announcement Concerning Share Consolidation, and  
Abolishment of Share Unit Number Provisions and  
Partial Amendment to the Articles of Incorporation**

Hitachi Koki Co., Ltd. (the “Company”) announces that the Company resolved at the Board of Directors meeting on April 26, 2017 to convene an Annual General Meeting of Shareholders (the “Annual General Meeting of Shareholders”) on June 27, 2017 and submit the First Proposal, for the Share Consolidation, and the Second Proposal, for the Partial Amendment to the Articles of Incorporation, to the Annual General Meeting of Shareholders.

The common shares of the Company (the “Company Shares”) will come to fall under the delisting criteria prescribed in the Securities Listing Regulations of the Tokyo Stock Exchange through the above procedures. Therefore, the Company Shares will be designated as stock to be delisted for the period from June 27, 2017 to July 23, 2017 and delisted on July 24, 2017. Please note that after the delisting, the Company Shares may not be traded on the Tokyo Stock Exchange.

I. Share Consolidation

1. Purpose of and Reason for Consolidation of Shares

As announced on March 23, 2017 titled “Announcement Concerning Results of the Tender Offer for the Shares of Hitachi Koki Co., Ltd. by HK Holdings Co., Ltd., and Changes in the Parent Company, the Largest Shareholder among the Major Shareholders, and a Major Shareholder,” HK Holdings Co., Ltd. (“HK Holdings”) executed the tender offer (the “Tender Offer”) for the Company Shares and the share options issued based on the resolutions passed at the Board of Directors meeting on July 28, 2015 (the “Share Options”) (together with the Company Shares, the “Company Shares and Options”) for the period from January 30, 2017 to March 22, 2017. As a result, HK Holdings came to hold 91,039,406 shares of the Company Shares (the holding ratio of voting rights to the number of voting rights of all shareholders of the Company: 89.89% (rounded to the second decimal place)) on the settlement commencement date (March 29, 2017). In calculating the holding ratio of voting rights, 1,012,820 rights, which is the number of voting rights of all shareholders as of March 31, 2017, the record date for the exercise of the voting rights at the Annual General Meeting of Shareholders, has been used as the denominator.

HK Holdings is a stock company (*kabushiki kaisha*) established on November 10, 2016, with the primary goal of supporting and managing the business activities of the Company following completion of the Tender Offer, through which HK Holdings will acquire and hold the Company Shares and Options, and KKR HK Investment L.P. (“KKR Fund”), a limited partnership established under the laws of the Cayman Islands on November 4, 2016, holds all issued shares of HK Holdings. KKR Fund is an investment fund belonging to Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates and other related entities, “KKR”).

As announced on January 13, 2017 titled “Announcement Concerning Opinion Regarding the Tender Offer for the Shares of Hitachi Koki Co., Ltd. by HK Holdings Co., Ltd.” (as amended by the announcement on January 27, 2017 titled “Announcement Regarding the Implementation of the Tender Offer for the Shares of Hitachi Koki Co., Ltd. (Securities Code 6581) and Amendments to the Press Release titled ‘Announcement

Regarding the Tender Offer for the Shares of Hitachi Koki Co., Ltd. (Securities Code 6581) and the announcement on February 28, 2017 titled “Announcement Concerning Provisional Settlement of Accounts, and Partial Amendments to ‘Announcement of the Issuance of Dividends (the Special Dividend), the Establishment of the Record Date for the Issuance of Dividends (the Special Dividend) and Amendments to the Predicted Dividends for the Period Ending March 31, 2017’ and ‘Announcement Concerning Opinion Regarding the Tender Offer for the Shares of Hitachi Koki Co., Ltd. by HK Holdings Co., Ltd.’”; the “Opinion Press Release”), in the electric power tool industry to which the Company belongs, cordless tools are becoming increasingly prevalent, and this trend is expected to continue in the future. Further, due to the influence of the so-called IoT (Internet of Things), electric power tool products which can connect to the Internet are becoming popular, and efforts are being directed toward increasing customer satisfaction by enhancing various features to enable management of these products using the Internet. This situation has resulted in intensifying market conditions, inside and outside Japan, with increasing competition being seen in the development/introduction of new products and in expansion of sales and marketing as well as pricing competition among competitors. In response to the above situation faced by the Company with the trend toward cordless products, KKR believes that faster growth is possible through reform of the Company’s manufacturing/development, sales and service systems, such as the development and introduction of new products with a focus on cordless products utilizing batteries and circuitry technologies developed in-house, reinforcement of a sales/marketing strategy aimed at having the Company’s high technological superiority recognized by customers, improvement of efficiency by integrating overseas manufacturing and sales operation bases as part of the structural reform which is in progress, and additional non-linear growth opportunities centered on M&A.

Due to the current state of the industry, in early April 2016 Hitachi, Ltd. (“Hitachi”) consulted with the Company regarding its intention to cooperate with the Company for the achievement of a capital structure consistent with the Company’s strategy for future growth, with a view to increasing the Company’s competitiveness and enhancing its enterprise value. The Company, in response to Hitachi’s initiative, consulted with a number of companies in mid-April 2016 regarding the sale of the Company Shares, including Hitachi’s shares in the Company; accordingly, KKR participated in the bidding process in mid-May 2016. Thereafter, KKR conducted due diligence on the Company’s business, finances and legal matters, and then interviewed the Company’s management and conducted further analysis regarding the Company Shares during late October 2016 and late November 2016. Based on this analysis conducted during late November 2016 and mid-December 2016, KKR Fund submitted a final offer of terms and conditions to all of the Company Shares, including an appraisal value of ¥1,450 per Company Share, and the Company selected HK Holdings as the final Tender Offer candidate in late December 2016.

Thereafter, HK Holdings proceeded with discussions and negotiations with the Company and Hitachi regarding the scheme and the terms and conditions of a series of the transactions such that the Company will become a wholly-owned subsidiary of HK Holdings (such transactions, the “Transaction”) respectively, including the amount of a special dividend of ¥580 per Company Share (here and hereinafter, before any withholding tax deduction) (the “the Special Dividend”) subject to the completion of the Tender Offer, with a record date for the Special Dividend of January 29, 2017 and with March 31, 2017 being the effective date and its implementation. Based on the discussions and negotiations with Hitachi and the Company, HK Holdings began to explain the Transaction, the transaction scheme and the terms and conditions of the Transaction, including the appraisal value of the Company Shares and the amount of the Special Dividend and its implementation to the independent committee established by the Company (please refer to the section below titled “(III) The Company has established an independent committee to obtain an opinion regarding the Transaction” under “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest” under “3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation”). As a result, HK Holdings, the Company and Hitachi respectively came to an agreement regarding the transaction scheme and the terms and conditions of the Transaction, including the appraisal value of the Company Shares, the amount of the Special Dividend and its implementation, and HK Holdings decided to enter into a tender agreement (the “Tender Agreement”) with Hitachi and Hitachi Urban Investment, Ltd., Hitachi’s subsidiary (“Hitachi Urban Investment”)

(together with Hitachi, the “Tendering “Shareholders,” and each, individually, a “Tendering Shareholder”) on January 13, 2017 pursuant to which Hitachi will tender all of its Company Shares (the number of the Company Shares: 40,827,162 shares) and Hitachi Urban Investment will tender all of its Company Shares (the number of the Company Shares: 11,058,191 shares), respectively, in the Tender Offer and to conduct the Tender Offer in the event that the following conditions are satisfied (or have been waived by HK Holdings):

- (1) Submission by the independent committee established by the Company of a report approving the Transaction, which has not been withdrawn;
- (2) Adoption of a resolution at a meeting of the Board of Directors of the Company with the affirmative vote of all directors who do not have an interest in the Transaction to support the Transaction; and no adoption of a resolution withdrawing that resolution or stating contrary to that resolution;
- (3) Adoption of a resolution at a meeting of the Board of Directors of the Company to issue the Special Dividend and no adoption of a resolution withdrawing that resolution or stating contrary to that resolution; and determination of the record date of the Special Dividend being in accordance with the applicable laws and arrival of such record date; and
- (4) Fulfillment of certain other conditions (note) (these items (1) to (4), the “Conditions Precedent to the Tender Offer”) contained in the Tender Agreement.

HK Holdings has also decided that for the Tender Offer (a) the appraisal value per Company Share is set as ¥1,450; (b) the purchase price per Company Share in the Tender Offer (the “Share Purchase Price”) is set as ¥870 subject to the payment of the Special Dividend (¥580 per Company Share); and (c) based on these prices, the purchase price per Share Option is set as ¥144,900 (the “Share Option Purchase Price”). The scheme of the Transaction, including the implementation of the Special Dividend and the amount of the Special Dividend (¥580 per Company Share), was determined through discussions with HK Holdings that were based on proposals from HK Holdings and consideration of the distributable funds of the Company while also taking into account the cash held by the Company and the levels of cash needed to continue operating the business.

Note: According to the press release issued by HK Holdings on January 13, 2017 titled “Announcement of the Tender Offer for the Shares of Hitachi Koki Co., Ltd. (Securities Code 6581),” condition (4) above includes, among other conditions, the following:

- (i) The agreement between Hitachi and the Company regarding provision by Hitachi to the Company of a transition services agreement regarding IT and systems services and use of the Hitachi brand remains valid;
- (ii) Confirmation by the Company that all material information (as defined in Article 166, Paragraph 2 of the Financial Instruments and Exchange Law) regarding the Company’s business has been disclosed (as defined in Article 166, Paragraph 4 of the Financial Instruments and Exchange Law);
- (iii) No decision has been rendered or is likely to be rendered by a judicial or administrative organ in Japan, the European Union, Russia, the United States or Australia restricting or prohibiting the Tender Offer or the Tendering Shareholders’ tendering of their shares in the Tender Offer;
- (iv) The Tendering Shareholders have duly performed or complied with in all material respects all of their obligations to be performed or complied with under the Tender Agreement; and
- (v) The representations and warranties of the Tendering Shareholders are true and correct in all material respects.

In response to and based on Hitachi’s intent to sell its shareholding, the Company, with a view to increasing the Company’s competitiveness and enhancing its enterprise value as announced in the Opinion Press Release, carefully examined the proposed terms and conditions of the Transaction from the perspective of enhancing enterprise value. The Company (a) implemented the measures described in the section below titled “(3)

Measures to ensure the fairness of the Transaction and avoid conflicts of interest” under “3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation,” (b) took into account the share valuation report (the “Share Valuation Report”) obtained from a third party financial advisor, SMBC Nikko Securities Inc. (“SMBC Nikko Securities”), and legal advice from the Company’s legal advisor, Mori Hamada & Matsumoto, and (c) took into full consideration the report (the “Report”) submitted by the independent committee established by the Company to serve as an advisory body to the Company’s Board of Directors in examining the proposal concerning the Transaction. For details regarding the members of the independent committee and the matters of inquiry, see the section titled “(III) The Company has established an independent committee to obtain an opinion regarding the Transaction” under “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest” under “3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation.”

After examining the proposal received during late November 2016 and mid December 2016 from KKR, who had participated in the bidding process, the Company discussed and negotiated the transaction value with KKR, including the Special Dividend, and other terms and conditions of the Transaction, and the Company consequently reached the below conclusions. The Company has decided that, in response to the current business environment with a trend toward cordless products, taking the following measures proposed by KKR and utilizing KKR’s knowhow and resources will contribute to further enhancement of the Company’s enterprise value. The measures include: a transformation of the Company’s manufacturing/development, sales and service systems, such as the development and introduction of new products with a focus on cordless products utilizing batteries and circuitry technologies developed in-house, reinforcement of a sales/marketing strategy aimed at having the Company’s high-technology superiority further recognized by customers, improvement of efficiency by integrating overseas manufacturing and sales operation bases, as part of the structural reform currently in progress, and the pursuit of a non-linear growth opportunities centered on M&A. As stated above, structural reform of the Company’s manufacturing/development, sales and service systems and the increase of the Company’s growth are urgent matters needed to overcome intensifying market conditions, inside and outside Japan, with increasing competition being seen in the development/introduction of new products and in expansion of sales and marketing as well as pricing competition among competitors. While the Company deems it essential to implement the above measures in order to continuously improve its enterprise value, certain costs and time are required for the effect of such measures to become apparent. Moreover, as additional investments would need to be made, Company shareholders and the Share Option holders may be exposed to a reduced share price due to a temporary drop in the Company’s performance caused by such upfront investments and the ongoing highly competitive business environment. The Company’s goal is to become one of the global leaders of the increasingly competitive electronic power tools industry, and with the industry’s continuing trend towards cordless products and increasing competition, the Company believes that now is the ideal time to implement the above measures, strengthen the Company’s business foundations through the implementation of related measures and increase the Company’s growth prospects. Therefore, with the understanding that it is best for the Company to operate its business with a mid- to long-term outlook and with HK Holdings as a new partner who is consistent with the Company’s future growth strategy, the Company has investigated the possibility of privatization.

In addition to the points listed above, the Company has determined that the Tender Offer will provide its shareholders and the Share Option holders with a reasonable opportunity to sell their shares and the Share Options in light of the following considerations regarding the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share):

- (i) the total amount of the Share Purchase Price and the Special Dividend exceeds the upper range of calculation results for the share price of the Company Shares based on the market share price method and is within the range of calculation results based on the comparable company method and the discounted cash flow method (the “DCF Method”) as contained in the Share Valuation Report provided by SMBC Nikko Securities (as described in the section titled “(I) The Company has procured a share valuation report from an independent third-party financial

advisor” under “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest” under “3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation”);

- (ii) the total amount of the Share Purchase Price and the Special Dividend is deemed to contain an appropriate premium considering other precedents of tender offer transactions provided by SMBC Nikko Securities, because the total amount of the Share Purchase Price and the Special Dividend represents (x) a discount of 4.10% (rounded to the second decimal place; hereinafter the same as to the premium and discounted figures) on ¥1,512, the closing price of the Company Shares on the Tokyo Stock Exchange on January 12, 2017, the business day immediately preceding the date of the announcement of the Tender Offer (January 13, 2017); a premium of 7.89% on ¥1,344 (rounded to the nearest whole number; hereinafter the same as to the average closing prices), the one-month average closing price immediately preceding the date of the announcement of the Tender Offer; a premium of 35.26% on ¥1,072, the three-month average closing price immediately preceding the date of the announcement of the Tender Offer ; and a premium of 62.37% on ¥893, the six-month average closing price immediately preceding the date of the announcement of the Tender Offer, and (y) a premium of 96.21% on ¥739, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of October 4, 2016, which was the business day immediately preceding October 5, 2016, when media reports regarding Hitachi’s sale of its Company Shares were released; a premium of 100.00% on ¥725, the one-month average closing price through October 4, 2016; a premium of 108.93% on ¥694, the three-month average closing price through October 4, 2016; and a premium of 108.03% on ¥697, the six-month average closing price through October 4, 2016 and (z) a premium of 15.72% on ¥1,253, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of December 27, 2016, which was the business day immediately preceding December 28, 2016, when further media reports regarding Hitachi’s sale of its Company Shares were released; a premium of 27.08% on ¥1,141, the one-month average closing price through December 27, 2016; a premium of 50.41% on ¥964, the three-month average closing price through December 27, 2016; and a premium of 76.40% on ¥822, the six-month average closing price through December 27, 2016;
- (iii) the Company has taken measures to ensure the fairness of the Tender Offer and has taken into consideration the interests of minority shareholders as described in the section titled “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest” under “3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation”; and
- (iv) the Tender Offer Prices were determined after taking measures to ensure the fairness of the Tender Offer described in the preceding item (iii).

Therefore, the Company believes that by implementing the Transaction, including the Tender Offer, HK Holdings will increase the enterprise value of the Company and that, based on factors (i) through to (iv) above, the Share Purchase Price is valid. However, in light of the fact that, following the aforementioned media reports, the closing price of the Company Shares (¥1,456 ~ ¥1,512) on the First Section of the Tokyo Stock Exchange from December 28, 2017 has been greater than the total amount of the Share Purchase Price and the Special Dividend, it was decided to leave the decision of whether or not to tender into the Tender Offer to the Company’s shareholders and that the Company takes a neutral position whether to recommend the Company’s shareholders to tender into the Tender Offer. Based on the above factors, at a meeting held on January 13, 2017, the Company’s Board of Directors issued a resolution, in its judgment based on circumstances on January 13, 2017, supporting the Tender Offer and leaving the decision of whether or not to tender into the Tender Offer once the Tender Offer has been commenced to the Company’s shareholders. Additionally, the Share Options are also subject to the Tender Offer, and the Company believes that the Share Option Purchase Price, which has been set as ¥144,900 (obtained by multiplying (a) by (b) below), is valid.

However, the Company's Board of Directors resolved that, in light of the fact that, following the aforementioned media reports, the closing price of the Company Shares (¥1,456 ~ ¥1,512) on the First Section of the Tokyo Stock Exchange from December 28, 2016 has been greater than the total amount of the Share Purchase Price and the Special Dividend, the decision of whether or not to tender in the Tender Offer has been left to the Share Option holders.

- (a) ¥1,449, which is the difference between (x) total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share), and (y) ¥1, the exercise price per Company Share subject to the Share Option; and
- (b) 100, which is the number of the Company Shares subject to one Share Option.

Also, according to the press release issued by HK Holdings on January 27, 2017 titled "Announcement Concerning the Implementation of the Tender Offer for the Shares of Hitachi Koki Co., Ltd. (Securities Code 6581) and Amendments to the Press Release titled 'Announcement Concerning the Tender Offer for the Shares of Hitachi Koki Co., Ltd. (Securities Code 6581)'," as it has been confirmed that the Conditions Precedent to the Tender Offer have been fulfilled, HK Holdings has decided to commence the Tender Offer on January 30, 2017, as planned, and the Company's Board of Directors has issued a resolution affirming that its opinion formed as of January 13, 2017 with regard to the Tender Offer has not changed, and that the Board of Directors of the Company supports the Tender Offer and leaves the decision of whether or not to tender into the Tender Offer once the Tender Offer has been commenced to the Company's shareholders and Share Option holders.

Although the Tender Offer was completed as described above, HK Holdings was unable to acquire all of the Company Shares (excluding the treasury shares held by the Company) in the Tender Offer. In light of the result of the Tender Offer, and at the request of HK Holdings, the Company, based on the Tender Offer executed as part of the Transaction through the process described above being completed and other reasons, decided to undertake procedures to cause only HK Holdings to be the Company's shareholder. Specifically, the Company will carry out a consolidation of shares (the "Share Consolidation") by which 11,264,672 shares of the Company Shares are consolidated to one share subject to the approval of the Shareholders at the Annual General Meeting of Shareholders.

Due to the Share Consolidation, the number of the Company Shares held by the shareholders other than HK Holdings will be a fraction less than one share.

As an offer for waiver of the Share Options has been made before today, all of the Share Options have been extinguished.

For the details of the Transaction, please also refer to (i) the Opinion Press Release, (ii) the announcement on January 13, 2017 titled "Announcement of the Issuance of Dividends (the Special Dividend), the Establishment of the Record Date for the Issuance of Dividends (the Special Dividend) and Amendments to the Predicted Dividends for the Period Ending March 31, 2017" (including the amendment by the announcement on February 28, 2017 titled "Announcement Concerning Provisional Settlement of Accounts, and Partial Amendments to 'Announcement of the Issuance of Dividends (the Special Dividend), the Establishment of the Record Date for the Issuance of Dividends (the Special Dividend) and Amendments to the Predicted Dividends for the Period Ending March 31, 2017' and 'Announcement Concerning Opinion Regarding the Tender Offer for the Shares of Hitachi Koki Co., Ltd. by HK Holdings Co., Ltd.'"), and (iii) the announcement on March 23, 2017 titled "Announcement Concerning Results of the Tender Offer for the Shares of Hitachi Koki Co., Ltd. by HK Holdings Co., Ltd., and Changes in the Parent Company, the Largest Shareholder among the Major Shareholders, and a Major Shareholder."

## 2. Summary of Share Consolidation

(1) Schedule of share consolidation

(i)	Record date for the Annual General Meeting of Shareholders	March 31, 2017
(ii)	Date of resolution by the Board of Directors	April 26, 2017
(iii)	Date of the Annual General Meeting of Shareholders	June 27, 2017 (scheduled)
(iv)	Date of designation as stock to be delisted	June 27, 2017 (scheduled)
(v)	Last trading date	July 21, 2017 (scheduled)
(vi)	Delisting date	July 24, 2017 (scheduled)
(vii)	Effective date of the Share Consolidation	July 27, 2017 (scheduled)

(2) Details of share consolidation

(i) Class of shares to be consolidated

Common stock

(ii) Ratio of consolidation

11,264,672 shares of the Company Shares held by the shareholders entered or recorded in the register of shareholders of the Company as of the end of July 26, 2017 will be consolidated to one share on July 27, 2017 (scheduled).

(iii) Total number of issued shares to be decreased

101,382,039 shares

(iv) Total number of issued shares before the share consolidation takes effect

101,382,048 shares

Note: As the Company resolved at the Board of Directors meeting on April 26, 2017 to cancel 21,690,728 treasury shares as of May 11, 2017 (all of the treasury shares that the Company holds as of March 31, 2017), the “total number of issuable shares before the share consolidation takes effect” represents the total number of issued shares after such cancellation.

(v) Total number of issued shares after the share consolidation takes effect

9 shares

(vi) Total number of authorized shares on the effective date

36 shares

(vii) Method of handling of fractions less than one share, and amount expected to be delivered to the shareholders as a result of the handling of fractions

As described in “1. Purpose of and Reason for Consolidation of Shares” above, due to the Share Consolidation, the number of the Company Shares held by each of the shareholders other than HK Holdings will be a fraction less than one share.

With respect to a fraction less than one share arising from the Share Consolidation, the Company will sell the shares equivalent to the total number of such fractional shares (with such aggregate sum rounded down to the nearest whole number), and deliver the proceeds from such sale to the shareholders who hold less than one share in accordance with such fraction. Upon such sale, the Company intends to sell the shares to HK Holdings with permission from a court in accordance with the provisions of Article 234, Paragraph 2 of the Companies Act which applies *mutatis mutandis* through Article 235, Paragraph 2 of the Companies Act, or to purchase the shares with permission from a court in accordance with the provisions of Article 234, Paragraph 2 and 4 of the Companies Act which applies *mutatis mutandis* through Article 235, Paragraphs 2 of the Companies Act.

If the permission is obtained from a court as described above, as planned, the sale price will equal to the amount that the shareholders, entered or recorded in the register of shareholders of the Company as of the end of July 26, 2017, the day immediately prior to the effective date of the Share Consolidation, may receive the amount equal to the number of the Company Shares held by them multiplied by 870 yen, the Share Purchase Price. However, if the permission is not obtained from a court, if it is necessary to adjust fractions in calculation, or if other events occur, then the amount to be actually delivered may be different from the amount described above.

3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation
  - (1) Grounds and reason for the amount expected to be delivered to the shareholders as a result of the handling of fractions
    - (i) Matters to be noted so that the interests of the shareholders other than the parent company and subsidiaries (if any) are not impaired

Due to the fact that HK Holdings has entered into the Tender Agreement with Hitachi, the parent of the Company, and Hitachi Urban Investment, Hitachi's subsidiary, and given the fact that HK Holdings is expected to be the Company's parent company as a result of the Tender Offer, HK Holdings and the Company have implemented the measures described in the section titled "(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest" from the perspective of ensuring the fairness of the Transaction including the Tender Offer, eliminating arbitrariness in the process of decision-making resulting in the execution of the Transaction and avoiding conflicts of interest.

Even though HK Holdings has not set a minimum number of shares (the so-called "Majority of Minority") to be purchased, the Company believes that the interests of the Company's minority shareholders have been adequately considered. Although the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share) represents a discount of 4.10% on ¥1,512, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange on January 12, 2017, which was the business day immediately preceding the date of the announcement of the Tender Offer (January 13, 2017), (i) the Company believes that the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share) is sufficiently valid and represents a premium on the listed share price (see below Note), because such total amount takes into consideration the effect of the media reports on October 5, 2016 and December 28, 2016, prior to the announcement of the implementation of the Tender Offer on January 13, 2017, regarding Hitachi's sale of its Company Shares, which influenced the listed share price of the Company Shares, as well as periods in which the impact of such reports was limited, (ii) HK Holdings was selected through a fair bidding process, including price competition, conducted by the Company, and, (iii) regarding the Tender Offer,



HK Holdings and Company have implemented the measures described below.

- (Note) The total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share) represents (x) a premium of 7.89% on ¥1,344, the one-month average closing price through January 12, 2017, the business day immediately preceding the date of the announcement of the Tender Offer (January 13, 2017); a premium of 35.26% on ¥1,072, the three-month average closing price through January 12, 2017; and a premium of 62.37% on ¥893, the six-month average closing price through January 12, 2017, and (y) a premium of 96.21% on ¥739, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of October 4, 2016, which was the business day immediately preceding October 5, 2016, when media reports regarding Hitachi's sale of its Company Shares were released; a premium of 100.00% on ¥725, the one-month average closing price through October 4, 2016; a premium of 108.93% on ¥694, the three-month average closing price through October 4, 2016; and a premium of 108.03% on ¥697, the six-month average closing price through October 4, 2016 and (z) a premium of 15.72% on ¥1,253, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of December 27, 2016, which was the business day immediately preceding December 28, 2016, when further media reports regarding Hitachi's sale of its Company Shares were released; a premium of 27.08% on ¥1,141, the one-month average closing price through December 27, 2016; a premium of 50.41% on ¥964, the three-month average closing price through December 27, 2016; and a premium of 76.40% on ¥822, the six-month average closing price through December 27, 2016.
- (ii) Method of handling of fractions less than one share, and amount expected to be delivered to the shareholders as a result of the handling of fractions and matters relating to the appropriateness of such amount

As described in the section titled “(vii) Method of handling of fractions less than one share, and amount expected to be delivered to the shareholders as a result of the handling of fractions” under “(2) Details of share consolidation” under “2. Summary of Share Consolidation” above, the amount expected to be delivered to the shareholders, entered or recorded in the register of shareholders of the Company as of the end of July 26, 2017, the day immediately prior to the effective date of the Share Consolidation, as a result of the handling of fractions will be the amount equal to the number of the Company Shares held by them, multiplied by 870 yen, the Share Purchase Price.

As described in the Opinion Press Release, the Company considers that the Share Purchase Price is reasonable in light of the following considerations regarding the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share):

- (i) the total amount of the Share Purchase Price and the Special Dividend exceeds the upper range of calculation results for the share price of the Company Shares based on the market share price method and is within the range of calculation results based on the comparable company method and the DCF Method as contained in the Share Valuation Report provided by SMBC Nikko Securities (as described in the section titled “(I) The Company has procured a share valuation report from an independent third-party financial advisor” under “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest”);
- (ii) the total amount of the Share Purchase Price and the Special Dividend is deemed to contain an appropriate premium considering other precedents of tender offer transactions provided by SMBC Nikko Securities, because the total amount of the Share Purchase Price and the Special Dividend represents (x) a discount of 4.10% on ¥1,512, the closing price of the Company Shares on the Tokyo Stock Exchange on January 12, 2017, the business day immediately preceding the date of the announcement of the Tender Offer (January 13, 2017); a premium of 7.89% on ¥1,344, the one-month average closing price immediately preceding the date of the announcement of the Tender Offer; a premium of 35.26% on ¥1,072, the three-month average

- closing price immediately preceding the date of the announcement of the Tender Offer; and a premium of 62.37% on ¥893, the six-month average closing price immediately preceding the date of the announcement of the Tender Offer, and (y) a premium of 96.21% on ¥739, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of October 4, 2016, which was the business day immediately preceding October 5, 2016, when media reports regarding Hitachi's sale of its Company Shares were released; a premium of 100.00% on ¥725, the one-month average closing price through October 4, 2016; a premium of 108.93% on ¥694, the three-month average closing price through October 4, 2016; and a premium of 108.03% on ¥697, the six-month average closing price through October 4, 2016 and (z) a premium of 15.72% on ¥1,253, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of December 27, 2016, which was the business day immediately preceding December 28, 2016, when further media reports regarding Hitachi's sale of its Company Shares were released; a premium of 27.08% on ¥1,141, the one-month average closing price through December 27, 2016; a premium of 50.41% on ¥964, the three-month average closing price through December 27, 2016; and a premium of 76.40% on ¥822, the six-month average closing price through December 27, 2016;
- (iii) the Company has taken measures to ensure the fairness of the Tender Offer and has taken into consideration the interests of minority shareholders as described in the section titled “(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest”; and
  - (iv) the Tender Offer Prices were determined after taking measures to ensure the fairness of the Tender Offer described in the preceding item (iii).

After the Company issued a resolution supporting the Tender Offer and leaving the decision of whether or not to tender into the Tender Offer to the Company's shareholders and share option holders at the meetings of the Board of Directors of the Company held on January 13, 2017 and January 27, 2017, the Company confirmed that no material change has occurred with respect to the terms and conditions of the basis of calculation of the Share Purchase Price before the Board of Directors meeting was held on April 26, 2017 in which it was resolved to convene the Annual General Meeting of Shareholders.

Based on the above, the Company considers that the amount expected to be delivered to the shareholders as a result of the handling of fractions is appropriate.

- (iii) Disposal by the Company of Material Assets, Assumption of Material Debts, and Other Events That Materially Affect the Company's Financial Condition After the Last Day of the Last Fiscal Year

(A) Tender Offer and special dividends

As described in “1. Purpose of and Reason for Consolidation of Shares,” HK Holdings executed the Tender Offer during the tender offer period, the 37 business days from January 30, 2017 to March 22, 2017. As a result, HK Holdings came to hold 91,039,406 shares of the Company Shares (the holding ratio of voting rights to the number of voting rights of all shareholders of the Company: 89.89%) on the settlement commencement date (March 29, 2017).

As the Tender Offer was completed, the Company distributed a dividend of ¥580 per Company Share (the total amount of dividends is 58.8 billion yen) (the Special Dividend), with a record date for the Special Dividend of January 29, 2017 and with March 31, 2017 being the effective date.

(B) Provisional settlement

The total amount of the Special Dividend has been found to possibly exceed the distributable amount of the Company. Accordingly, to ensure the sufficiency of the distributable amount with regard to the Special Dividend, the Company conducted a provisional settlement of accounts as follows at the

Board of Directors meeting held on February 28, 2017 in order to include in the calculation of the distributable amount the income generated by the Company (on a non-consolidated basis) through the end of the third quarter of the fiscal year ending March 2017 (from April 1, 2016 to December 31, 2016).

(a) Provisional settlement date

December 31, 2016

(b) Summary of provisional financial statements

(unit: millions of yen)

	Category	Amount
As of December 31, 2016	Total assets	158,497
	Total net assets	103,346
	Retained earnings	77,587
From April 1, 2016 to December 31, 2016	Net sales	61,078
	Operating income	1,173
	Ordinary income	2,721
	Net income for the provisional period	2,837

(C) Borrowing of funds

The Company issued a resolution at the Board of Directors meeting held on March 28, 2017 to the effect that for the purpose of raising money including, but not limited to, funds for the Special Dividends and repayment of existing loans (including funds for the acquisition of metabo GmbH), and operating capital, it would borrow funds from HK Holdings under the Loan Agreement regarding Japanese-yen Loan (Commitment Amount: ¥11,558,800,000) (the “Loan Agreement (Yen-Denominated No. 1),” the Loan Agreement regarding Japanese-yen Loan (Commitment Amount: ¥41,639,200,000) (the “Loan Agreement (Yen-Denominated No. 2)” and the Loan Agreement regarding Japanese-yen Loan (Commitment Amount: ¥15,000,000,000) (the “Loan Agreement (Yen-Denominated No. 3),” and the Loan Agreement regarding US Dollar Loan (Commitment Amount: \$157,500,000) (the “Loan Agreement (US Dollar-Denominated)”); together with Loan Agreement (Yen-Denominated No. 1), Loan Agreement (Yen-Denominated No. 2) and Loan Agreement (Yen-Denominated No. 3), the “Loan Agreements”) that were executed with HK Holdings on March 29, 2017.

(a) Loan under the Loan Agreement (Yen-Denominated No. 1)

Lender	HK Holdings Co., Ltd.
Loan Amount	11,558,800,000 yen
Method of Repayment	To be repaid in installments during the loan term
Drawdown Date	March 29, 2017
Interest Rate	Floating rate
Final Repayment Date	March 28, 2024
Security	No security or guarantee.

(b) Loan under the Loan Agreement (Yen-Denominated No. 2)

Lender	HK Holdings Co., Ltd.	
Loan Amount	29,238,700,000 yen	12,400,500,000 yen
Method of Repayment	To be repaid in full on maturity	
Drawdown Date	March 29, 2017	May 31, 2017
Interest Rate	Floating rate	
Final Repayment Date	March 28, 2024	
Security	No security or guarantee.	

(c) Loan under the Loan Agreement (Yen-Denominated No. 3)

Lender	HK Holdings Co., Ltd.	
Loan Amount	8,304,000,000 yen	6,300,000,000 yen
Method of Repayment	To be repaid in full on maturity (one-month roll-over)	
Drawdown Date	March 29, 2017	April 7, 2017
Interest Rate	Floating rate	
Final Repayment Date	April 28, 2017	May 6, 2017
Security	No security or guarantee.	

Note: In addition to the loan described above, the Company will separately and individually make borrowings up to 396,000,000 yen after determining the terms of such separate and individual loans such as loan amount, drawdown date and repayment date according to the Company's needs for procuring operating capital in the future.

(d) Loan under the Loan Agreement (US Dollar-Denominated)

Lender	HK Holdings Co., Ltd.	
Loan Amount	157,500,000 US dollar	
Method of Repayment	To be repaid in full on maturity	
Drawdown Date	May 31, 2017	
Interest Rate	Floating rate	
Final Repayment Date	March 28, 2024	
Security	No security or guarantee.	

(D) Refinance of Substantial Amount of the Existing Loan

The Company resolved at the Board of Directors meeting on March 28, 2017, to repay (to conduct refinance of), as of May 31, 2017, as planned, the existing loan (the funds for the acquisition of metabo GmbH) based on the funds borrowed from HK Holdings, as a lender,

(E) Cancellation of Treasury Shares

The Company resolved at the Board of Directors meeting on April 26, 2017 to cancel 21,690,728 treasury shares that the Company holds as of May 11, 2017 (all of the treasury shares that the Company holds as of March 31, 2017). The total number of issued shares after cancellation will be 101,382,048 shares.

(F) Issue of Dividend

The Company resolved at the Board of Directors meeting on May 10, 2016 to distribute a dividend of ¥12 per Company Share (the total amount of dividends is 1.2 billion yen) (the year-end dividend for the fiscal year ending March 31, 2016), with a record date for the dividend of March 31, 2016 and with May 31, 2016 being the effective date, and implemented such distribution.

The Company resolved at the Board of Directors meeting on October 26, 2016 to distribute a dividend of ¥12 per Company Share (the total amount of dividends is 1.2 billion yen) (the interim dividend for the fiscal year ending March 31, 2017), with a record date for the dividend of September 30, 2016 and with November 30, 2016 being the effective date, and implemented such distribution.

(2) Expected delisting

(i) Delisting

As described in “1. Purpose of and Reason for Consolidation of Shares” above, the Company will execute the Share Consolidation and cause only HK Holdings to be the Company’s shareholder subject to the approval of the Shareholders at the Annual General Meeting of Shareholders. As a result, the Company Shares will be delisted through prescribed procedures in accordance with the delisting criteria of the Tokyo Stock Exchange. According to the schedule, the Company Shares will be designated as stock to be delisted for the period from June 27, 2017 to July 23, 2017 and delisted on July 24, 2017. After the delisting, the Company Shares may not be traded on the Tokyo Stock Exchange.

(ii) Reason for the purpose of delisting

As described in “1. Purpose of and Reason for Consolidation of Shares” above, the Company has decided that, in response to the current business environment with a trend toward cordless products, taking the following measures proposed by KKR and utilizing KKR’s knowhow and resources will contribute to further enhancement of the Company’s enterprise value. The measures include: a transformation of the Company’s manufacturing/development, sales and service systems, such as the development and introduction of new products with a focus on cordless products utilizing batteries and circuitry technologies developed in-house, reinforcement of a sales/marketing strategy aimed at having the Company’s high-technology superiority further recognized by customers, improvement of efficiency by integrating overseas manufacturing and sales operation bases, as part of the structural reform currently in progress, and the pursuit of a non-linear growth opportunities centered on M&A. As stated above, structural reform of the Company’s manufacturing/development, sales and service systems and the increase of the Company’s growth are urgent matters needed to overcome intensifying market conditions, inside and outside Japan, with increasing competition being seen in the development/introduction of new products and in expansion of sales and marketing as well as pricing competition among competitors. While the Company deems it essential to implement the above measures in order to continuously improve its enterprise value, certain costs and time are required for the effect of such measures to become apparent. Moreover, as additional investments would need to be made, Company shareholders and the Share Option holders may be exposed to a reduced share price due to a temporary drop in the Company’s performance caused by such upfront investments and the ongoing highly competitive business environment. The Company’s goal is to become one of the global leaders of the increasingly competitive electronic power tools industry, and with the industry’s

continuing trend towards cordless products and increasing competition, the Company believes that now is the ideal time to implement the above measures, strengthen the Company's business foundations through the implementation of related measures and increase the Company's growth prospects. Therefore, with the understanding that it is best for the Company to operate its business with a mid- to long-term outlook and with HK Holdings as a new partner who is consistent with the Company's future growth strategy, the Company has investigated the possibility of privatization.

(iii) Effect on the minority shareholders and opinion thereon

As described in the section titled "(III) The Company has established an independent committee to obtain an opinion regarding the Transaction" under "(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest," the Company has obtained an opinion from an independent committee to the effect that the Transaction does not oppress minority shareholders on January 13, 2017 (the opinion states that it is not disadvantageous to the minority shareholders of the Company, if the Board of Directors of the Company expresses a supporting opinion with respect to the Tender Offer, resolves to leave the decision of whether or not to tender into the Tender Offer to the Company's shareholders and Share Option holders).

(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest

(I) The Company has procured a share valuation report from an independent third-party financial advisor

In order to ensure the fairness of the decision-making process concerning the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share) presented by HK Holdings, the Company had the share value of the Company Shares calculated by SMBC Nikko Securities, a third-party financial advisor independent from the Company and HK Holdings, and obtained the Share Valuation Report regarding the calculation results on January 13, 2017. SMBC Nikko Securities is not a related party of the Company or HK Holdings and does not have any material interest in the Tender Offer. The Company has not obtained a fairness opinion regarding the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share).

SMBC Nikko Securities calculated the share value of the Company Shares by using (a) the market share price method, as the Company Shares are listed on the First Section of the Tokyo Stock Exchange and therefore have a market price, (b) the comparable company method, as there are certain number of listed companies which operate relatively similar businesses and it is possible to draw analogies with the share prices of comparable companies, and (c) the DCF Method, to reflect the intrinsic value of future business activities in the appraisal. The value ranges per Company Share as calculated by using the aforementioned methods are as provided below. The prices set forth below are the reasonable per-share prices of the Company Shares and do not reflect deduction of the Special Dividend.

- Market share price method: ¥893 to ¥1,344
- Comparable company method: ¥1,336 to ¥2,033
- DCF Method: ¥1,196 to ¥1,570

Based on the market share price method, using January 12, 2017 as the reference date, the per-share value of the Company Shares has been estimated to range from ¥893 to ¥1,344, based on the one month average closing price (¥1,344), the three-month average closing price (¥1,072), and the six-month average closing price (¥893), respectively, of the Company Shares on the Tokyo Stock Exchange immediately preceding such reference date.

Based on the comparable company method, the value of the Company Shares has been evaluated by comparing the market share prices, and financial statements showing profitability and other factors of listed companies that are engaged in businesses that are relatively similar to the Company's business. According to this evaluation method, the per-share value of the Company has been estimated to range from ¥1,336 to ¥2,033.

Based on the DCF Method, using September 30, 2016 as the Reference Date, the enterprise value of the Company and the value of the Company Shares have been evaluated, and the per-share value of the Company Shares has been estimated to range from ¥1,196 to ¥1,570. This evaluation method considered the free cash flows of the Company from the third quarter results for the period ending March 31, 2017 based on the future earnings forecast of the Company for the three fiscal years from the fiscal year ending March 31, 2017 to the fiscal year ending March 31, 2019, and determining the present value of such free cash flows by discounting them by a certain discount rate. The consolidated financial forecasts (in accordance with International Financial Reporting Standards and in billions of yen) based on the Company's business plans that SMBC Nikko Securities used as the basis of its DCF Method calculations (the "Business Plans") are as follows. The Business Plans anticipate an increase in profits and revenues throughout the period of the Business Plans through progress in fundamental reforms and cost reduction, strengthened cash flow due to reforms in supply chain management, quickly and fully realizing the effects of synergy with metabo GmbH and the development of products aimed at new markets. These forecasts based on the Business Plans are not based on the assumption of implementation of the Transaction.

(Units: Billions of Yen)

	Fiscal Year Ending March 31, 2017	Fiscal Year Ending March 31, 2018	Fiscal Year Ending March 31, 2019
Revenues	1,770	1,870	2,040
Operating Income	73	130	187
Net Income Attributable to Shareholders of the Parent Company	44	90	132

Note: In the earnings projections that were announced on October 26, 2016, the consolidated earnings projections figures for the period ending March 31, 2017 (in accordance with International Financial Reporting Standards and in billions of yen) stated sales as ¥180.0 billion and net income attributable to shareholders of the parent company as ¥4.3 billion. The Business Plans state that market conditions, especially in the Asia region, including the Middle East, China and Australia could be harsher than expected and take this possibility into account in the above revenues figures. The Business Plans also state that such Asian region in comparison to developed countries has a small impact on revenues and that structural cost reform is proceeding as planned, and these are taken into account in the above figures for net income attributable to shareholders of the parent company.

Furthermore, although the Share Options are also subject to the Tender Offer, since the Share Option Purchase Price has been set as ¥144,900 (obtained by multiplying (a) by (b) below), no valuation report for the Share Options has been obtained from any third-party financial advisors.

- (a) ¥1,449, which is the difference between (x) the appraisal value of ¥1,450 per Company Share), and (y) ¥1, the exercise price per Company Share subject to the Share Option; and
- (b) 100, which is the number of the Company Shares subject to one Share Option.

(II) The Company has obtained the advice of an outside law firm

In order to ensure the transparency and reasonableness of the decision-making process concerning the Transaction, including the Tender Offer, the Company has appointed Mori Hamada & Matsumoto as an outside legal advisor. The Company has been receiving necessary legal advice from such law firm concerning the method and process of decision-making regarding the Transaction, including the Tender Offer, and other related matters.

(III) The Company has established an independent committee to obtain an opinion regarding the Transaction

On September 29, 2016, the Company established an independent committee for the purpose of eliminating arbitrariness in decision-making for the Transaction and ensuring the fairness, transparency, and objectivity of the Company's decision-making process. The independent committee is comprised of three members who do not have any interest in the Company, Hitachi or HK Holdings. The members of the independent committee are: Ms. Haruko Shibumura (outside director and independent director of the Company); Mr. Taisuke Senoo (outside director and independent director of the Company); and Mr. Noboru Yamamoto (outside director and independent director of the Company). The members of the independent committee have not changed since the establishment of the committee. On December 20, 2016, the Company requested that the independent committee advise the Company as to (i) whether the purpose of the Transaction is justifiable and reasonable; (ii) whether the fairness of the procedures for the Transaction has been ensured; (iii) whether the fairness and propriety of the terms of the Transaction (including the amounts of the Tender Offer Prices and the Special Dividend) have been ensured; and (iv) whether, regarding the Transaction, it is not disadvantageous to the minority shareholders of the Company (a) that its Board of Directors expresses an opinion to support the Tender Offer, recommends tendering shares therein, and issues the Special Dividend or (b) that, after completion of the Tender Offer, depending on HK Holdings, the Company may approve the Demand for the Sale of Shares and carry out the Share Consolidation (the "Matters of Inquiry").

The independent committee has met 6 times since September 29, 2016 until January 13, 2017 to discuss and consider the Matters of Inquiry. Specifically, the independent committee collected information regarding the Transaction for consideration and discussion as follows: (i) the independent committee received an explanation from HK Holdings regarding the content of HK Holdings' proposal, the purpose of the Transaction and the expected synergies resulting from the Transaction, and conducted a question-and-answer session; (ii) the independent committee received an explanation from the Company as to its thoughts regarding the background to the proposal for the Transaction received from the Directors of the Company, the purpose of the Transaction, and the content of HK Holdings' proposal, as well as the influence of the Transaction on the Company's enterprise value and conducted a question-and-answer session; (iii) the independent committee received an explanation from SMBC Nikko Securities regarding the results of its share value calculations and the Transaction scheme and conducted a question-and answer session; and (iv) related information regarding the Transaction was collected.

Based on these considerations, the independent committee consulted with each other and considered the Matters of Inquiry, and as a result, as of January 13, 2017, the independent committee, with a unanimous resolution, rendered and submitted an opinion to the Board of Directors of the Company stating that, after considering "(i) whether the purpose of the Transaction is justifiable and reasonable; (ii) whether the fairness of the procedures for the Transaction has been ensured; (iii) whether the fairness and propriety of the terms of the Transaction (including the amounts of the Tender Offer Prices and the Special Dividend) have been ensured; and (iv) whether, regarding the Transaction, it is not disadvantageous to the minority shareholders of the Company (a) that its Board of Directors expresses an opinion to support the Tender Offer, recommends tendering shares therein, and issues



the Special Dividend; or (b) that, after completion of the Tender Offer, depending on HK Holdings, the Company may approve the Demand for the Sale of Shares and carry out the Share Consolidation,” the independent committee has concluded that (i) the purpose of the Transaction is justifiable and reasonable; (ii) the fairness of the procedures for the Transaction has been ensured; (iii) the fairness and propriety of the terms of the Transaction (including the amounts of the Tender Offer Prices and the Special Dividend) have been ensured; and (iv) regarding the Transaction, it is not disadvantageous to the minority shareholders of the Company (a) if the Board of Directors of the Company expresses a supporting opinion with respect to the Tender Offer, resolves to leave the decision of whether or not to tender into the Tender Offer to the Company’s shareholders and Share Option holders and resolves to issue the Special Dividend or (b) that, after completion of the Tender Offer, depending on HK Holdings, the Company may approve the Demand for the Sale of Shares and carry out the Share Consolidation.

According to the Report received from the independent committee, the main factors considered by the independent committee in forming the above opinion were as follows:

- (i) The content of the explanations regarding the purpose of the Transaction from the Company and HK Holdings were not unreasonable. Additionally, the transaction purposes are fair and reasonable, because, with regard to the business environment of the Company, cooperation with HK Holdings to undertake the privatization of the Company through the Transaction and operating the Company’s business with a mid- to long-term outlook will contribute to the enhancement of the Company’s enterprise value.
- (ii) The fairness of the procedures for the Transaction has been ensured considering following matters:
  - (a) In order to ensure the fairness of the decision-making process concerning the total amount of the Share Purchase Price and the Special Dividend (¥1,450 per Company Share) presented by HK Holdings, the Company obtained the Share Valuation Report from SMBC Nikko Securities, a third party financial advisor independent from the Company and HK Holdings.
  - (b) In order to ensure the transparency and reasonableness of the decision-making process concerning the Transaction, including the Tender Offer, the Company has appointed Mori Hamada & Matsumoto as an outside legal advisor. The Company has been receiving necessary legal advice from such law firm concerning the method and process of decision-making regarding the Transaction, including the Tender Offer, and other related matters.
  - (c) The establishment of an independent committee to serve as an advisory body to the Company’s Board of Directors in examining the proposal concerning the Transaction for the purpose of eliminating arbitrariness in decision-making regarding the Transaction and ensuring the fairness, transparency and objectivity of the Company’s decision-making process, and the discussion and consideration of the Matters of Inquiry
  - (d) In order to avoid any actual or potential conflicts of interest with regard to the intention of the Board of Directors of the Company to issue a resolution expressing an opinion regarding the Tender Offer, only six out of the seven members of the Board of Directors of the Company considered the matter (excluding Mr. Shinjiro Iwata, a member of the Board of Directors of the Company, who was employed by Hitachi at the time of the resolution).
- (iii) (a) The appraisal value per Company Share submitted in HK Holdings’ final proposal for the Transaction, was the highest price in comparison to the appraisal value of the other candidate bidders, the Share Valuation Report and its explanations given by SMBC Nikko Securities were not unreasonable, and the total amount of the

- Share Purchase Price and the Special Dividend (¥1,450 per Company Share) exceeds the upper range of the price per Company Share based on the market share price method and is within the price per shares range of numerical values based on the comparable company method and the DCF Method as contained in the Share Valuation Report.
- (b) The total amount of the Share Purchase Price and the Special Dividend (¥1,450 per common share) represents:
- (x) a discount of 4.10% on ¥1,512, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange on January 12, 2017, which was the business day immediately preceding the date of the announcement of the Tender Offer, a premium of 7.89% on ¥1,344, the one-month average closing price through January 12, 2017, a premium of 35.26% on ¥1,072, the three-month average closing price through January 12, 2017, and a premium of 62.37% on ¥893, the six-month average closing price through January 12, 2017;
  - (y) a premium of 96.21% on ¥739, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of October 4, 2016, which was the business day immediately preceding October 5, 2016, when media reports regarding Hitachi's sale of its Company Shares were released, a premium of 100.00% on ¥725, the one-month average closing price through October 4, 2016, a premium of 108.93% on ¥694, the three-month average closing price through October 4, 2016, and a premium of 108.03% on ¥697, the six-month average closing price through October 4, 2016; and
  - (z) a premium of 15.72% on ¥1,253, the closing price of the Company Shares on the First Section of the Tokyo Stock Exchange as of December 27, 2016, which was the business day immediately preceding December 28, 2016, when further media reports regarding Hitachi's sale of its Company Shares were released; a premium of 27.08% on ¥1,141, the one-month average closing price through December 27, 2016; a premium of 50.41% on ¥964, the three-month average closing price through December 27, 2016; and a premium of 76.40% on ¥822, the six-month average closing price through December 27, 2016.
- (c) The exercise price for each Share Option (¥1 per share) is below the appraisal value of ¥1,450 per Company Share as of January 13, 2017, and taking into consideration HK Holdings considers that the appraisal value of ¥1,450 per Company Share is the base price for the Transaction, the purchase price per Stock Option is set to be ¥144,900 that is obtained by multiplying (a) ¥1,449, which is the difference between (x) the appraisal value of ¥1,450 per Company Share, and (y) ¥1, the exercise price per Company Share subject to the Share Option by (b) 100, which is the number of the Company Shares subject to one Share Option, and accordingly the calculation method could not be seen as unreasonable.
- (d) The implementation of the Special Dividend as part of the Transaction could not be seen as unreasonable in light of the following considerations:
- (w) The total amount of the Special Dividend intended to be issued to the Company shareholders is within the distributable amount of the Company.
  - (x) The implementation of the Special Dividend has been determined through discussions with HK Holdings in consideration of the distributable funds of the Company while also taking into account the cash held by the company and the levels of cash needed to continue operating the business.
  - (y) The scheme to issue the Special Dividend, consisting of a portion of the Company's distributable funds, would result in the Special Dividend being issued equally to all of the Company shareholders.

- (z) The explanation of SMBC Nikko Securities regarding the Transaction scheme is not unreasonable, and there is no indication that the Transaction scheme, including the Special Dividend, would materially disadvantage minority shareholders.

In accordance with points (a), (b), (c), and (d) above, the total amount of the Share Purchase Price and the Special Dividend and the Share Option Purchase Price are valid, the implementation of the Special Dividend as part of the Transaction cannot be seen as unreasonable, and that the fairness and validity of the Transaction's terms and conditions are ensured.

- (iv) (a) According to points (i), (ii), and (iii) above, the Tender Offer will provide its shareholders and Share Option holders with a reasonable opportunity to sell their shares and Share Options, the implementation of the Transaction, including the Tender Offer, by HK Holdings will contribute to the enhancement of the Company's enterprise value, the total amount of the Share Purchase Price and the Special Dividend, as well as the Share Option Purchase Price, are valid, and the implementation of the Special Dividend as part of the Transaction cannot be seen as unreasonable. For the aforementioned reasons, the announcement of the Board of Directors of the Company supporting the Tender Offer and the implementation of the Special Dividend as part of the Transaction are not considered disadvantageous to the minority shareholders of the Company.

As stated above, the independent committee has found that the implementation of Transaction, including the Tender Offer, by HK Holdings will contribute to the enhancement of the Company's enterprise value and the total amount of the Share Purchase Price and the Special Dividend are valid. However, following the media reports of December 28, 2016 regarding the sale of Hitachi's Company Shares, the closing price of the Company Shares (¥1,456 ~ ¥1,512) on the First Section of the Tokyo Stock Exchange from December 28, 2016 has been greater than the total amount of the Share Purchase Price and the Special Dividend. Accordingly, it is not disadvantageous to the Company's minority shareholders for the Board of Directors of the Company to resolve to leave the decision of whether or not to tender into the Tender Offer to the Company's shareholders and Share Option holders.

- (b) The process through which the Company would become a wholly-owned subsidiary of HK Holdings, its method, content, and remedy for minority shareholders have been disclosed in advance. Under such process, it has been clearly stated that the Offer will deliver (x) to minority shareholders, an amount of cash consideration per share equal to the Share Purchase Price, and (y) to Share Option holders, an amount of cash consideration per Share Option equal to the Share Option Purchase Price. Accordingly, because consideration has been given to avoid disadvantageous treatment of minority shareholders, the independent committee does not believe that it would be disadvantageous to the minority shareholders for HK Holdings to approve a Demand for the Sale of Shares and conduct the Share Consolidation following the completion of the Tender Offer.

- (IV) The Transaction has received the unanimous approval of the directors with no interest in the Company

The Company's Board of Directors has carefully discussed and examined the terms and conditions of the Transaction from the perspective of the enhancement of enterprise value, taking into consideration the details of the Share Valuation Report and the legal advice from Mori Hamada & Matsumoto, as well as giving serious consideration to the Report by the independent committee.

As a result, as set forth above, the Company has concluded that (i) the Share Purchase Price and Share Option Purchase Price are valid and (ii) the implementation of the special dividend has been determined through discussions with HK Holdings that were based on proposals from HK Holdings and consideration of the distributable funds of the Company while also taking into account the cash held by the company and the levels of cash needed to continue operating the business. However, as stated above, (i) although the Company believes that the Share Purchase Price and the Share Option Purchase Price are valid and that the scheme to issue the Special Dividend, consisting of a portion of the Company's distributable fund, equally to all of our shareholders is not unreasonable, and (ii) the Company's Board of Directors has issued a resolution, in its judgment based on circumstances on January 13, 2017, supporting the Tender Offer, in light of the fact that, following the media reports on December 28, 2016, the closing price of the Company Shares (¥1,456 ~ ¥1,512) on the First Section of the Tokyo Stock Exchange from December 28, 2016 has been greater than the total amount of the Share Purchase Price and the Special Dividend, leaving the decision of whether to tender into the Tender Offer to the Company's shareholders and Share Option holders, once it has been commenced.

At the meeting of the Board of Directors referenced above, in order to avoid any actual or potential conflict of interest based on the fact that Mr. Shinjiro Iwata, one of the Company's directors, was employed by Hitachi at the time of the meeting, the Company's Board of Directors unanimously resolved to express the abovementioned opinion with only six out of the seven directors of the Company considering the matter (i.e., excluding Mr. Shinjiro Iwata).

(V) Measures to ensure tender opportunities from other tender offerors

HK Holdings intends for the period of the Tender Offer to be set at 37 business days. This is comparatively long relative to the minimum period of 20 days required by law, and HK Holdings believes that this long period provides each of our shareholders and Share Option holders an appropriate opportunity to consider whether to tender its shares in the Tender Offer and ensures that a potential purchaser other than HK Holdings would have an opportunity to make a competing tender offer. In addition, no agreement has been made between the Company and HK Holdings for the Company to support the Tender Offer and recommend the tendering, and no agreement between the Company and HK Holdings has been executed which includes deal protection provisions to prohibit the Company from having contact with a competing offeror or which otherwise limits the opportunity for a competing offeror to have contact with the Company.

#### 4. Future Outlook

The Company Shares will be delisted in connection with the execution of the Share Consolidation, as stated in the section titled "(2) Expected delisting" under "3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation."

Following the Transaction, the Offeror aims to improve the Company's enterprise value by persevering through the industry's transition stage, which will see continued movement toward cordless products and the spread of the IoT, and by enhancing the foundation for the Company's business growth through non-linear growth opportunities, including M&A. The Company intends to accomplish these goals through the following measures: (a) leveraging the Company's superior technological development capability as well as the advice of KKR Capstone, a business and financial improvement support group that works exclusively for KKR's portfolio companies worldwide and leads these companies toward successful reforms through on-site operations; (b) providing funds; and (c) providing KKR's global resources and know-how, such as end-to-end assistance in M&A, which covers all processes from identifying projects and negotiation to integration after acquisition.

#### 5. Matters Related to Transactions with Controlling Shareholders

Because HK Holdings is the Company's controlling shareholder as of today, the transaction relating to the Share Consolidation constitutes a transaction with a controlling shareholder.

- (1) Suitability of guidelines concerning measures to protect minority shareholders upon the execution of transactions with controlling shareholders

The "Guidelines concerning measures to protect minority shareholders in transactions with controlling shareholders" in the Company's Corporate Governance Report published on April 3, 2017 prescribe that "The Directors and Executive Officers will base their decision-making and the performance of their duties upon the tenet of the Basic Policy on Internal Control Systems that 'The performance of business and transactions of the Company will maintain autonomy from the parent company.' As a matter of policy, transactions with the parent company (including its subsidiaries; the same applies in this press release) will be conducted fairly based on market value. Details of the transactions with the parent company (Related Party Transactions) are to be discussed regularly at the Board of Directors meetings, and new material Related Party Transactions require approval at a Board of Directors meeting before commencement."

As stated in the section titled "(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest" under "3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation" above, the Company has implemented measures that adhere to the policy described above.

- (2) Matters regarding measures to ensure fairness and avoid conflicts of interest

From the perspective of ensuring the fairness of the Transaction and avoiding conflicts of interest, the Company has implemented measures as described in the section titled "(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest" under "3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation."

- (3) Summary of the opinion obtained from a person who has no conflict of interest with the controlling shareholder that the Transaction does not oppress minority shareholders.

As described in the section titled "(III) The Company has established an independent committee to obtain an opinion regarding the Transaction" under "(3) Measures to ensure the fairness of the Transaction and avoid conflicts of interest" under "3. Grounds, Etc. for Amount Expected to be Delivered to the Shareholders as a Result of the Handling of Fractions Relating to the Share Consolidation," the Company obtained an opinion from an independent committee on January 13, 2017 to the effect that the Transaction is not disadvantageous to minority shareholders.

## II. Abolishment of Share Unit Number Provisions

1. Reason for abolishment

If the Share Consolidation takes effect, the total number of issued shares of the Company will be 9 shares, and it is not necessary to provide for the share unit number.

2. Scheduled Abolishment Date

July 27, 2017 (scheduled)

3. Conditions for Abolishment

The provisions will be abolished on the condition that the proposals for the Share Consolidation and the partial amendment to the Articles of Incorporation relating to the abolishment of share unit number provisions

are approved and passed as proposed at the Annual General Meeting of Shareholders, and the Share Consolidation takes effect.

III. Partial Amendment to the Articles of Incorporation

1. Purpose of Amendments to the Articles of Incorporation

- (1) Due to the Share Consolidation, the Articles of Incorporation are deemed to be amended to decrease the total number of issuable Company Shares to 36 shares on July 27, 2017, the effective date of the Share Consolidation. In order to clarify such matter by reflecting it in the terms of the Articles of Incorporation, Article 6 of the Articles of Incorporation (Total Number of Shares Issuable by the Company) will be amended subject to the Share Consolidation taking effect.
- (2) If the Share Consolidation takes effect, the total number of issued shares of the Company will be 9 shares, and it is not necessary to provide for the share unit number. Therefore, in order to abolish, subject to the Share Consolidation taking effect, the share unit number provisions relating to the Company Shares pursuant to which 100 shares constitute one share unit at present, the provisions of Article 8 (Number of Shares Constituting One Unit) and Article 9 (Rights of Shareholders Holding Shares Less Than One Unit) of the Articles of Incorporation will be entirely deleted, and the provisions will be renumbered accordingly.

2. Details of Amendments to the Articles of Incorporation

The details of the amendments are as set forth below.

(Amendments are underlined)

Current Articles of Incorporation	Proposed Changes
Articles 1 through 5 (Omitted)	Articles 1 through 5 (Same as the current provisions)
Article 6 (Total Number of Authorized Shares) The total number of shares authorized to be issued by the Company shall be <u>270 million</u> shares.	Article 6 (Total Number of Authorized Shares) The total number of shares authorized to be issued by the Company shall be <u>36</u> shares.
Article 7 (Omitted)	Article 7 (Same as the current provisions)
<u>Article 8 (Number of Shares Constituting One Unit)</u> <u>One hundred (100) shares of the Company shall constitute one share unit.</u> <u>A shareholder who holds less than one share unit may demand the Company to sell him/her the number of shares that would, when added with his/her shares less than one share unit, constitute one share unit.</u>	(Deleted)
<u>Article 9 (Rights of Shareholders Holding Shares Less Than One Unit)</u> <u>Except as otherwise provided for by laws and regulations or in these Articles of Incorporation, shareholders who hold shares of the Company less than one share unit may not exercise any rights other than those specified below in respect of such shares</u>	(Deleted)

<p><u>less than one share unit:</u></p> <p>(1) <u>The rights specified in each item of paragraph 2 of Article 189 of the Companies Act;</u></p> <p>(2) <u>The right to submit a demand as provided for in paragraph 1 of Article 166 of the Companies Act; and</u></p> <p>(3) <u>The right to receive allotment of shares for subscription and allotment of share options for subscription in accordance with the number of shares held by each shareholder.</u></p> <p>Articles <u>10</u> through <u>31</u> (Omitted)</p>	<p>Articles <u>8</u> through <u>29</u> (Same as the current provisions)</p>
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3. Schedule of Amendment

July 27, 2017 (scheduled)

4. Conditions for Amendments to the Articles of Incorporation

The Articles of Incorporation will be amended on the condition that the proposals for the Share Consolidation are approved and passed as proposed at the Annualthe Share Consolidation takes effect.

End