

Hitachi Metals, Ltd. (July 27, 2012)

http://www.hitachi-metals.co.jp

1-2-1 Shibaura, Minato-ku, Tokyo, Japan

Consolidated Financial Report for the first quarter ended June 30, 2012

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Listed Stock Exchanges: Tokyo and Osaka (First Section, Code 5486)(ISIN : JP3786200000)

1. Performance over the year, April 1, 2012 to June 30, 2012 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	6/2012(quarter)	6/2011(quarter)	(Change)
Net sales (million yen)	141,114	129,413	9.0%
Operating income (million yen)	10,250	10,911	(6.1%)
Income before income taxes (million yen)	11,691	9,985	17.1%
Net income (million yen)	7,262	6,239	16.4%
Net income per share (yen)	20.61	17.70	
Diluted net income per share (yen)	—	—	

Note: Total Comprehensive Income(6/2012 3,555 million yen 6/2011 4,909 million yen)

(2) Consolidated Financial Position	6/2012(quarter)	3/2012
Total assets (million yen)	564,119	579,862
Net assets (million yen)	241,649	240,395
Equity ratio (%)	39.3	38.0
Net assets per share (yen)	629.00	625.04

Note: Shareholders' equity (6/2012: 221,678 3/2012: 220,282)

2. Dividend	6/2012(quarter)	6/2011(quarter)	3/2013(Planned)	3/2012
Annual dividend per share (yen)	—	—	14.00	12.00
Interim (yen)	—	—	7.00	6.00
End of period (yen)	—	—	7.00	6.00

3. Forecasts of results for the term, April 1, 2012 to March 31, 2013

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	284,000	8.5%	590,000	5.9%
Operating income (million yen)	22,000	33.1%	50,000	11.4%
Income before income taxes	21,000	37.5%	46,000	26.3%
Net income (million yen)	12,500	84.1%	28,500	59.3%
Net income per share (yen)	35.47	—	80.87	—

4. Other

- (1) Changes in major subsidiaries during the period under review: None
- (2) Application of special accounting methods for preparation for the consolidated financial statements: Yes
- (3) Changes in accounting policies, accounting estimates and retrospective restatements in the consolidated financial statements
 - [1] Changes due to revisions in accounting standards: No
 - [2] Changes other than those in [1]: Yes
 - [3] Changes in accounting estimates: Yes
 - [4] Retrospective restatements: No
- (4) Numbers of shares issued (Common stock)

Number of shares outstanding at end of term (including treasury stock) 6/2012: 366,557,889 3/2012: 366,557,889

Number of treasury stock outstanding at end of term 6/2012: 14,130,388 3/2012: 14,128,047

Number of shares average at end of term 6/2012: 352,428,383 6/2011: 352,439,309

* This quarterly consolidated financial report is not subject to the quarterly review procedure by external auditors that are based on Financial Instruments and Exchange Act. The quarterly review procedure has not yet finished at the point of releasing this financial

*The forecast figures, with the exception of actual results, are based on certain assumptions and predictions of the management at the time of preparation. Changes in business conditions or underlying assumptions may cause actual results may differ from those projected. Please refer to "Qualitative Information Regarding Consolidated Forecast" on page 4 for precondition and assumption as

【Financial Performance】

1. Qualitative Information Regarding Financial Results for the First Quarter, Ended June 30, 2012

(1) Qualitative Information Regarding Consolidated Business Results

The global economy generally slowed down during the first quarter of the fiscal year ending March 31, 2013. European economies stagnated amid financial instability stemming from the debt crisis. The U.S. economy recovered slightly despite lackluster personal consumption. Economic growth decelerated in China and other emerging nations as their domestic demand expansions waned. On the other hand, the Japanese economy has been slowly picking up on solid domestic demand owing to such factors as disaster reconstruction.

For industries in which the Group operates, the domestic automobile sector performed well, benefiting from eco-car subsidies and other policies. The American market was positive. In contrast, growth slowed in China and other emerging nations, along with the European markets being plunged. The overall cell phone market dwindled slightly despite higher smartphone demand. The semiconductor industry enjoyed brisk demand for smartphones and tablets but suffered from sluggish markets for LCD televisions and personal computers. The domestic steel market improved somewhat on reconstruction demand, while overseas market continued to expand. Housing construction picked up in Japan, with public investment holding steady, partly because of the impact of the supplementary budget.

Against this backdrop, quarterly consolidated net sales for the Hitachi Metals Group were ¥141,114 million, up 9.0% from the previous corresponding period. Operating income decreased ¥661 million, to ¥10,250 million. This mainly reflected slow demand for electronics products, which offset an overall demand recovery for automobile-related products. Income before income taxes and minority interests rose ¥1,706 million, to ¥11,691 million. Net income rose ¥1,023 million, to ¥7,262 million, reflecting ¥3,177 million in insurance income for flood damage in Thailand.

Results by business segment are as follows. Note that sales include intersegment sales and transfers. As of the first quarter of the fiscal year ending March 31, 2013, reporting categories changed and amounts for the first quarter of the previous fiscal year have been restated to enable segment comparisons.

High-Grade Metal Products and Materials

Sales in this segment were ¥57,716 million, down 5.3% compared with the previous corresponding period. Operating income was down ¥2,015 million, to ¥4,416 million.

Sales of major products in this segment are as follows.

<Molds and Tool Steels>

For molds and tool steels, overall segment sales declined as a delayed demand turnaround overseas overshadowed favorable domestic demand for automobile-use molds.

<Alloys for Electronic Products>

Sales of LCD panel-related materials dropped again amid a global slump in demand for LCD televisions.

Sales of semiconductor and other package materials decreased owing to sluggish demand for semiconductors.

<Industrial Equipment and Energy-Related Materials>

Sales of automotive-related materials were basically unchanged, as a recovery in domestic production offset sluggish demand in the European market.

Overall sales of energy-related materials decreased, as higher demand for aircraft parts and energy-related offerings were insufficient to offset downturns in other industrial equipment.

<Rolls>

Sales of rolls fell, as the yen's appreciation prevented a recovery in domestic production.

<Injection Molding Machine Parts>

Sales of injection molding machine parts were generally favorable where domestic demand continued and outweighed the impact of a slight slowdown in overseas demand.

<Amorphous Materials>

Sales of amorphous increased on significantly higher demand in the key Chinese and Indian markets.

<Cutting Tools>

Sales of cutting tools declined despite firm demand from automotive-related industries—key customers for these products—reflecting unfavorable foreign exchange rates and declining overseas demand.

Electronics and IT Devices

Sales in the electronics and IT devices segment in the period under review were up 40.2%, to ¥41,746 million. Operating income increased ¥967 million, to ¥4,948 million.

Sales of major products in this segment are as follows.

<Magnets>

Sales of rare earth magnets surged in light of higher demand and price revisions for automotive-use electronic components, offsetting the impact of adjustments in the production of factory automation-related products and household appliance parts.

Sales of ferrite magnets also grew, reflecting demand for alternatives to rare earth magnets in household appliance parts and favorable sales of automotive-use electronic components.

<Soft Magnetic Materials>

Sales of soft ferrite materials benefited from favorable demand for automotive-use electronic components and parts for solar power generation systems. Sales of FINEMET® were down owing to industrial machinery-related demand adjustments, overshadowing positive demand trends in parts for solar power generation systems.

<Information and Telecommunications Equipment Components>

Sales of information and telecommunications equipment components dropped amid production adjustments linked to revised customer sales plans for cell phones and sluggish adoptions of components used in products that are growing in popularity.

High-Grade Functional Components and Equipment

Sales in this segment increased 7.8%, to ¥41,779 million, while operating income advanced ¥95 million, to ¥2,177 million.

Sales of major products in this segment are as follows.

<High-Grade Ductile Iron Products>

Sales of high-grade ductile iron products increased overall on surging sales of regular automobiles in Japan owing to the impact of eco-car subsidies and other policies, while demand in the United States and elsewhere overseas remained strong.

<Heat-Resistant Exhaust Casting Components>

Sales of heat-resistant exhaust casting components declined, owing largely to an economic downturn in the key European market, dampening exports.

<Aluminum Wheels>

Sales jumped for aluminum wheels, reflecting the impact of eco-car subsidies and other policies and higher production of vehicles for export in Japan, while demand was favorable in the United States and elsewhere overseas.

<Pipefittings>

Sales of pipefittings decreased despite having been observed signs of a recovery in housing starts.

<Stainless Steel and Plastic Piping Components>

Sales of stainless steel and plastic piping components were down slightly despite having been observed slow reconstruction demand in the aftermath of the Great East Japan Earthquake.

<Construction Components>

Sales of construction components increased amid robust public investment and gradual recoveries in construction and capital investment.

Other

In this segment, sales dropped 29.1%, to ¥911 million, while operating income was down ¥87 million, to ¥116 million.

(2) Qualitative Information Regarding Consolidated Financial Condition

At the end of the period under review, cash and cash equivalents (hereinafter “net cash”) were ¥30,134 million, an increase of ¥2,168 million compared with the end of the previous fiscal year.

The status of cash flows during the period under review and the primary factors responsible for those results are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥14,517 million. This was mainly attributable to ¥8,940 million in income taxes paid, which offset the impacts of ¥11,691 million in income before income taxes and a ¥7,210 million decrease in accounts receivable-trade and other working capital.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥7,417 million. This was mainly attributable to ¥8,141 million in expenditures for the purchase of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥3,901 million. This was mainly attributable to ¥2,441 million in cash dividends and a decrease of ¥1,000 million in commercial paper.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 6/2012	End of 3/2012	(difference)
ASSETS			
Current assets			
Cash and deposits	25,424	25,733	(309)
Notes and accounts receivable-trade	105,842	115,362	(9,520)
Finished products	48,158	48,007	151
Work in process	34,456	33,925	531
Raw materials	64,417	71,116	(6,699)
Deposit paid in subsidiaries and affiliates	4,578	1,660	2,918
Other	26,353	29,954	(3,601)
Allowance for doubtful accounts	(448)	(489)	41
Total current assets	308,780	325,268	(16,488)
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	48,179	49,096	(917)
Machinery, equipment and vehicles, net	64,484	65,275	(791)
Land	49,755	49,879	(124)
Other	15,435	11,251	4,184
Total property, plant and equipment	177,853	175,501	2,352
Intangible assets			
Goodwill	38,070	38,744	(674)
Other	6,863	7,224	(361)
Total intangible assets	44,933	45,968	(1,035)
Total investments and other assets	32,553	33,125	(572)
Total noncurrent assets	255,339	254,594	745
Total assets	564,119	579,862	(15,743)
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	84,043	87,867	(3,824)
Short-term loans payable	56,171	57,081	(910)
Commercial Paper	10,000	11,000	(1,000)
Current portion of long-term loans payable	17,130	14,108	3,022
Current portion of bonds	4,000	4,000	0
Income taxes payable	4,757	9,258	(4,501)
Allowance for directors' bonuses	101	233	(132)
Asset retirement obligations	65	72	(7)
Other	34,717	40,266	(5,549)
Total current liabilities	210,984	223,885	(12,901)
Noncurrent liabilities			
Bonds payable	30,000	30,000	0
Convertible bond-type bonds with subscription rights to shares	4,495	4,495	0
Long-term loans payable	45,323	48,548	(3,225)
Provision for retirement benefits	22,389	22,776	(387)
Other provision	3,179	3,188	(9)
Asset retirement obligations	257	408	(151)
Other	5,843	6,167	(324)
Total noncurrent liabilities	111,486	115,582	(4,096)
Total liabilities	322,470	339,467	(16,997)
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	0
Capital surplus	41,245	41,244	1
Retained earnings	189,274	184,127	5,147
Treasury stock	(10,711)	(10,707)	(4)
Total shareholders' equity	246,092	240,948	5,144
Valuation, translation adjustments			
Net unrealized holding gains (losses) on available-for-sale	2,743	3,595	(852)
Deferred gains on hedges	1	6	
Foreign currency translation adjustments	(24,703)	(21,812)	(2,891)
Other	(2,455)	(2,455)	0
Total accumulated other comprehensive income	(24,414)	(20,666)	(3,748)
Minority interests	19,971	20,113	(142)
Total Net Assets	241,649	240,395	1,254
Total liabilities and net assets	564,119	579,862	(15,743)

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st quarter fiscal 2012 (Jun.30.12)	Ratio to Sales (%)	1st quarter fiscal 2011 (Jun.30.11)	Ratio to Sales (%)	(difference) (%)
Net sales	141,114	100.0	129,413	100.0	109
Cost of sales	112,397	79.6	100,546	77.7	112
Gross profit	28,717	20.4	28,867	22.3	99
Selling, general and administrative expenses	18,467	13.1	17,956	13.9	103
Operating income	10,250	7.3	10,911	8.4	94
Non-operating income					
Interest income	74		99		75
Dividends income	75		74		101
Gain on sales of marketable securities	509		—		—
Other	537		538		100
Total non-operating income	1,195	0.8	711	0.5	168
Non-operating expenses					
Interest expenses	492		462		106
Exchange losses	998		336		297
Other	648		836		78
Total non-operating expenses	2,138	1.5	1,634	1.3	131
Extraordinary income					
Insurance income	3,177		—		—
Gain on transfer to defined contribution pension plans	—		224		—
Total extraordinary income	3,177	2.3	224	0.2	1,418
Extraordinary loss					
Loss on disaster	268		—		—
Loss on Liquidation of Affiliates	—		227		—
Restructuring charge	525		—		—
Total extraordinary losses	793	0.6	227	0.2	349
Income (loss) before income taxes	11,691	8.3	9,985	7.7	117
Income taxes	4,131	2.9	3,353	2.6	123
Income before minority interests	7,560	5.4	6,632	5.1	114
Minority interests in income (loss)	298	0.2	393	0.3	76
Net income (loss)	7,262	5.1	6,239	4.8	116

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	1st quarter fiscal 2012 (Jun.30.12)	1st quarter fiscal 2011 (Jun.30.11)
Income before minority interests	7,560	6,632
Other comprehensive income:		
Net unrealized holding gains on available-for-sale securities	(1,206)	(103)
Deferred gains on hedges	(5)	2
Foreign currency translation adjustments accounted for using equity method	(3,201)	(1,627)
	<u>407</u>	<u>5</u>
Total other comprehensive income (loss)	(4,005)	(1,723)
Comprehensive income	3,555	4,909
Comprehensive income attributable to:		
Shareholders of the parent company	3,514	4,557
Minority shareholders	41	352

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 6/12	End of 6/11
Cash flows from operating activities		
Income before income taxes and minority interests	11,691	9,985
Depreciation and amortization	5,692	6,598
Amortization of goodwill and negative goodwill	667	656
Loss on disaster	268	—
Cost of structural reform	525	—
Interest and dividends income	(149)	(173)
Insurantee income	(3,177)	—
Interest expenses	492	462
Decrease (increase) in notes and accounts receivable-trade	10,520	837
Decrease (increase) in inventories	1,737	(12,834)
Decrease (increase) in notes and accounts payable-trade	(5,047)	6,438
Decrease in accrued expenses	(3,034)	(3,745)
Other, net	3,382	1,208
Subtotal	23,567	9,432
Income taxes paid	(8,940)	(4,011)
Proceeds from insurance income	861	—
Payments for loss on disaster	(268)	—
Amounts paid for structural reform	(703)	—
Net cash provided by operating activities	14,517	5,421
Cash flows from investing activities		
Proceeds from sales of investment securities	655	—
Purchase of property, plant and equipment	(8,141)	(4,903)
Proceeds from sales of property, plant and equipment	112	96
Purchase of intangible assets	(70)	(133)
Interest and dividends income received	149	172
Other, net	(122)	357
Net cash used in investment activities	(7,417)	(4,411)
Cash flows from financing activities		
Net decrease (increase) in short-term loans payable	(64)	2,758
Net decrease in Commercial Paper	(1,000)	—
Proceeds from long-term loans payable	201	—
Repayment of long-term loans payable	(91)	(67)
Interest paid	(503)	(484)
Purchase of treasury stock	(4)	(5)
Proceeds from sale of treasury stock	1	—
Cash dividends paid	(2,115)	(2,115)
Cash dividends paid to minority shareholders	(326)	(146)
Net cash used in financing activities	(3,901)	(59)
Effect of exchange rate change in cash and cash equivalents	(1,031)	(438)
Net increase in cash and cash equivalents	2,168	513
Cash and cash equivalents at beginning of period	27,966	33,994
Cash and cash equivalents at end of period	30,134	34,507

Business Segment Information

1. Information with Regard to Amount of Net Sales as well as Income and Loss for Each Business Segment Reported

First quarter fiscal 2011 (Apr. 1, 2011 - Jun. 30, 2011)

(Millions of yen)

	Business Segments Reported				Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal				
Sales:								
Unaffiliated customers	60,245	29,735	38,683	128,663	750	129,413	—	129,413
Intersegment	698	51	84	833	535	1,368	(1,368)	—
Total sales	60,943	29,786	38,767	129,496	1,285	130,781	(1,368)	129,413
Operating Income (Loss)	6,431	3,981	2,082	12,494	203	12,697	(1,786)	10,911

First quarter fiscal 2012 (Apr. 1, 2012 - Jun. 30, 2012)

(Millions of yen)

	Business Segments Reported				Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal				
Sales:								
Unaffiliated customers	56,976	41,750	41,773	140,499	615	141,114	—	141,114
Intersegment	740	(4)	6	742	296	1,038	(1,038)	—
Total sales	57,716	41,746	41,779	141,241	911	142,152	(1,038)	141,114
Operating Income (Loss)	4,416	4,948	2,177	11,541	116	11,657	(1,407)	10,250

2. Reporting Segment Change

In keeping with a change in reporting categories, as of the first quarter of the fiscal year ending March 31, 2013, the Soft Magnetic Materials Division, which was part of Electronics and IT Devices, is now part of High-Grade Metal Products and Materials. Segment data for the first quarter of the previous fiscal year has been restated to reflect this segment change.

3. Overview of Business Segments Reported

High-Grade Metal Products and Materials	High-grade specialty steels (molds and tool steels , alloys for electronic products (display-related, semiconductor and other packages) , industrial equipment and energy-related materials, mill rolls , injection molding machine parts , structural ceramic products , steel-frame joints for construction , amorphous metals [Metglas®], cutting tools
Electronics and IT Devices	Magnets (rare-earth magnets [NEOMAX®], ferrite magnetic materials other magnets, and applied products), components for information and telecommunications equipment (multilayered devices, isolators) , IT components and materials , soft magnetic materials (soft ferrite cores and applied products, nanocrystalline magnetic material [FINEMET®] and applied devices, amorphous metals [Metglas®] and applied products)
High-Grade Functional Components and Equipment	High-grade casting components for automobiles (ductile iron products , heat-resistant exhaust casting components , aluminum wheels , other aluminum components) , piping and infrastructure components (pipe fittings, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices) , construction components (access floor systems, structural systems , material handling systems)

Overseas Sales

1st quarter fiscal 2011 (Apr. 1, 2011 - Jun. 30, 2011)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	12,911	32,327	10,777	2,026	58,041
Consolidated sales	—	—	—	—	129,413
Overseas sales as a share of consolidated sales	10.0%	25.0%	8.3%	1.6%	44.8%

1st quarter fiscal 2012 (Apr. 1, 2012 - Jun. 30, 2012)

(Millions of Yen)

Overseas sales	15,848	33,176	9,819	2,122	60,965
Consolidated sales	—	—	—	—	141,114
Overseas sales as a share of consolidated sales	11.2%	23.5%	7.0%	1.5%	43.2%

Note: Overseas sales represent sales made by the parent company and its consolidated subsidiaries in countries or regions other than Japan.

Significant Subsequent Event

First Quarter of the Fiscal Year Ending March 31, 2013 (from April 1, 2012 to June 30, 2012)

Execution of a Share Exchange Agreement with Hitachi Tool Engineering, Ltd.:

The Company has resolved, at its Board of Directors Meeting held on July 27, 2012, to implement a share exchange (hereafter, the “Share Exchange”) pursuant to a share exchange agreement entered into by Hitachi Tool Engineering, Ltd. (hereafter, “Hitachi Tool”) and the Company (hereafter, the “Share Exchange Agreement”), under which the Company will become a parent company holding 100% ownership of Hitachi Tool and Hitachi Tool will become a wholly owned subsidiary of the Company.

1. Counterparty of the Share Exchange

Trade Name, Location of Head Office, Name of Representative, Capital, Net Assets, Total Assets and Line of Business

(As of March 31, 2012)

Trade Name	Hitachi Tool Engineering, Ltd.
Location of Head Office	2-1, Shibaura 1-chome, Minato-ku, Tokyo
Name of Representative	Hirokazu Tanaka, President and Representative Director
Capital	¥1,455 million
Net Assets (Consolidated)	¥23,864 million
Net Assets (Non-consolidated)	¥21,582 million
Total Assets (Consolidated)	¥30,550 million
Total Assets (Non-consolidated)	¥27,865 million
Line of Business	Manufacturing and sales of chips, cutting tools, wear-resistant products, tools for urban development and various machine tools made of specialty steels, carbide alloys, etc.

2. Purpose of the Share Exchange

The Company currently holds 51.5% (including indirect holdings) of Hitachi Tool’s shares with voting rights and has already made Hitachi Tool a consolidated subsidiary. Both companies keep close cooperative relations in terms of R&D and marketing and endeavor to raise group-wide corporate value of the Hitachi Metals Group through the provision of high-quality products and services by mutually utilizing their respective management resources in an effective manner.

However, the external environment has changed rapidly in recent years and competition is expected to intensify in the market domains where both companies operate their business activities. At present, the Company engages in the molds and tool steels business, whereas Hitachi Tool is in the cemented carbide tools business. Both companies have reached a common recognition that, to ensure the sustainable corporate growth of both companies, each needs to establish its own global structure and strengthen new product development and sales capabilities by mutually drawing on their respective management resources for all processes from product development to sales.

Based on the above recognition, the Company and Hitachi Tool judged that, to ensure future business growth and increase the corporate value of the Hitachi Metals Group, it would be best for them to pursue synergies via the effective utilization of their respective management resources in the tool steels and mold

materials business of the Company and of the tools and surface treatment business of Hitachi Tool, by way of the Company making Hitachi Tool a wholly owned subsidiary thereof.

3. Method of the Share Exchange and Content of Allotment with Respect to the Share Exchange

(1) Method of the Share Exchange

Pursuant to the short-form share exchange procedure provided in Article 796, Paragraph 3, of the Companies Act, the Company intends to implement the Share Exchange without obtaining approval at the General Meeting of Shareholders. Hitachi Tool intends to implement the Share Exchange upon obtaining the approval regarding the Share Exchange Agreement by resolution of the Extraordinary General Meeting of Shareholders scheduled to be held on September 26, 2012.

Board of Directors Meeting to Approve the Share Exchange Agreement (both the Company and Hitachi Tool)	Friday, July 27, 2012
Execution of the Share Exchange Agreement (both the Company and Hitachi Tool)	Friday, July 27, 2012
Date of Public Notice of Record Date for the Extraordinary General Meeting of Shareholders (Hitachi Tool)	Monday, July 30, 2012 (Tentative)
Record Date for the Extraordinary General Shareholders' Meeting (Hitachi Tool)	Tuesday, August 14, 2012 (Tentative)
Extraordinary General Meeting for Shareholders (Hitachi Tool)	Wednesday, September 26, 2012 (Tentative)
Last Trading Day (Hitachi Tool)	Friday, October 26, 2012 (Tentative)
Date of Delisting (Hitachi Tool)	Monday, October 29, 2012 (Tentative)
Scheduled Date of the Share Exchange (Effective Date)	Thursday, November 1, 2012 (Tentative)

Note: The scheduled date of the Share Exchange (Effective date) may be changed upon agreement between the Company and Hitachi Tool.

(2) Content of Allotment with Respect to the Share Exchange

1.00 shares of the Company will be delivered by allotment for each one (1) share of Hitachi Tool. However, shares will not be allotted through the Share Exchange for 14,033,173 shares of Hitachi Tool held by the Company. Moreover, treasury stock held by the Company (14,112,470 shares as of June 30, 2012) is intended to be used for the allotment of shares to be delivered through the Share Exchange, and the Company will not issue new shares.

4. Calculation Basis Concerning Allotment under the Share Exchange

(1) Calculation Basis

To ensure the fairness of the share exchange rate for the Share Exchange, each of the parties decided to request a separate independent third-party valuation institution to calculate a share exchange rate. For this purpose, the Company appointed Daiwa Securities Co. Ltd. (hereafter, "Daiwa Securities") and Hitachi Tool appointed Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (hereafter, "Mitsubishi UFJ Morgan Stanley Securities").

Daiwa Securities determined that the value of the Company's and Hitachi Tool's stocks should be analyzed using the market price analysis based on the fact that the stocks of both companies are listed on the financial

instruments exchange market and that the market price of the Company's and Hitachi Tool's stocks is readily available. (Daiwa Securities designated July 26, 2012, as the calculation base date and utilized the average closing prices for the one (1), three (3) and six (6) month(s) periods prior to the calculation base date, of the Company's stock on the First Section of the Tokyo Stock Exchange and of Hitachi Tool's stock on the First Section of the Tokyo Stock Exchange.) In addition, Daiwa Securities utilized the discounted cash flow (hereafter, "DCF") analysis to calculate the value of the Company's stock to reflect the status of future business activities.

Meanwhile, Mitsubishi UFJ Morgan Stanley Securities determined that the value of the Company's and Hitachi Tool's stocks should be analyzed using the market price analysis based on the fact that the stocks of both companies are listed on the financial instruments exchange market and that the market price of the Company's and Hitachi Tool's stock is readily available. (Mitsubishi UFJ Morgan Stanley Securities designated July 25, 2012, as the calculation base date and utilized the closing price on the calculation base date, as well as the average closing prices on the respective trading days just one (1) week, one (1), three (3), and six (6) month(s) before the calculation base date, of the Company's stock on the First Section of the Tokyo Stock Exchange and of Hitachi Tool's stock on the First Section of the Tokyo Stock Exchange.) Mitsubishi UFJ Morgan Stanley Securities also utilized the comparable peer company analysis because there were several listed companies comparable with The Company and Hitachi Tool, of which each share value could be determined by analogy through a comparative analysis of peer companies. In addition, Mitsubishi UFJ Morgan Stanley Securities utilized the DCF analysis to calculate the value of the Company's and Hitachi Tool's stock to reflect the status of future business activities.

(2) Calculation Background

The Company and Hitachi Tool engaged in serious negotiations and discussions based on the calculation results and advice regarding the share exchange rate, which was provided by the above third-party valuation institutions, and bearing in mind their respective financial conditions, performance trends and stock price movements, etc. As a result, the Company and Hitachi Tool determined that the share exchange rate (hereafter, "the Share Exchange Rate") set forth in 3. (2) above was reasonable and advantageous to the shareholders of both companies, and decided to implement the Share Exchange pursuant to the Share Exchange Rate at the respective Board of Directors Meeting held on July 27, 2012. On the same date, the Company and Hitachi Tool subsequently entered into the Share Exchange Agreement.

(3) Relationships with the Valuation Institutions

Daiwa Securities, which is the financial advisor (third-party valuation institution) of the Company, is not a related party of the Company or Hitachi Tool and does not have a material interest that needs to be disclosed in connection with the Share Exchange.

Mitsubishi UFJ Morgan Stanley Securities which is the financial advisor (third-party valuation institution) of Hitachi Tool is not a related party of the Company or Hitachi Tool and does not have a material interest that needs to be disclosed in connection with the Share Exchange.