

Summary of Board Opinion **Against the Shareholder Proposal**

THE 82nd ORDINARY GENERAL MEETING OF SHAREHOLDERS

June 7, 2017

KURODA ELECTRIC Co., Ltd.

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What is the Proposal?

Election of one Outside Director to push ahead the following:

- 1) Management Integration (business mergers) with other companies
- 2) Corporate Governance improvement
- 3) Share buyback to increase Shareholder-Return and Capital Efficiency

Who is the Proposing Shareholder?

“Reno, Inc.” practically with other 4 joint-holders who filed 35.09% ownership of total outstanding shares of the Company.
(equal to **37.52%** of voting rights at the AGM).

One of the joint-holders is an individual, serving as a legal counsel to the group, who acquired 9.03% of the outstanding shares. however, as seen in the fact based on the filing, 99.32% of such acquisition is from margin transaction making him as the second largest single shareholder of the Company as of the record date for the AGM.

This is a group of shareholders who can be reasonably judged to be under the control of Mr. Yoshiaki Murakami who was found guilty in 2011 for insider trading, as a head of fund manager, and is equal, by substance, to the group requested an Extraordinary Meeting of Shareholders held in August 2015 to elect 4 nominees including Yoshiaki Murakami himself.

On April 21, Yoshiaki Murakami joined the Company – Shareholder meeting to represent one of the joint-holders and coercively led the dialogue.

Chronology of events and dialogues

Date (2017)	Description of events and dialogues
March 29	<ul style="list-style-type: none"> The Requesting Shareholder and the joint holders submitted the Large-Volume Holdings Report (35.09%) The Company conducted a meeting with the Requesting Shareholder, and received a document demanding (i) the promotion of business merger, (ii) the election of outside directors nominated by the Requesting Shareholder to execute business merger certainly. Moreover, the Requesting Shareholder requested the Company to add them as the candidates nominated by the Company.
April 7	<ul style="list-style-type: none"> The Company responded to the aforementioned requests by a written notice stating that the Company would consider such proposals from the Requesting Shareholder and consult those information for business operation depending on the contents of proposals.
April 11	<ul style="list-style-type: none"> The Company received a list of six candidates as Outside Directors of the Company nominated by the Requesting Shareholder including Mr. Yoshiaki Murakami, Mr. Hironao Fukushima who is a representative director of Reno, Inc., and other 4 individuals.
April 21	<ul style="list-style-type: none"> Mr. Yoshiaki Murakami attended a meeting held on a request of the Requesting Shareholder and claimed “the need for pushing ahead management integration (business merger) “ to realize “the expansion of the sales revenue” or “ the pursuit of economy of scale” repeatedly with overbearing behavior. The Nominating Committee in the Company’s Board has discussed the aforementioned request.
April 27	<ul style="list-style-type: none"> The Requesting Shareholder put candidates down only to Mr. Shin Yasunobe from six candidates.
April 28	<ul style="list-style-type: none"> The Company had a meeting with the Requesting Shareholder and Ms. Aya Nomura, who is one of the joint holders. They emphasized “the need for pushing ahead management integration (business merger) “ to realize “the expansion of the sales revenue” or “ the pursuit of economy of scale” again during the meeting.
May 2	<ul style="list-style-type: none"> The Company officially received a shareholder proposal from the Requesting Shareholder. The Requesting Shareholder continued to request the Company to add Mr. Shin Yasunobe as the candidate nominated by the Company.
May 15	<ul style="list-style-type: none"> The Nominating Committee has continuously examined the feasibility of nominating Mr. Shin Yasunobe as a candidate nominated by the Company.and conducted a meeting with Mr. Shin Yasunobe.
May 18	<ul style="list-style-type: none"> The Company requested the Requesting Shareholder to provide “the Provision of Information”.
May 23	<ul style="list-style-type: none"> The Nominating Committee meeting (final) and the Board of Directors meeting were held. The Board of Directors of the Company determined to object to the shareholder proposal.
May 26	<ul style="list-style-type: none"> The Company announced the financial statements and the “New Medium-term Management Plan”.
May 29	<ul style="list-style-type: none"> The Company released the Notice of Ordinary General Meeting of Shareholders (including the shareholder proposal) on the website of the Company as well as Tokyo Stock Exchange and announced the Notice of Opinions of the Company’s Board of Directors on Shareholder’s Proposal as well.

How could this happen? (from the regulatory point of view)

- ◆ **Proxy Access** in Japan is almost “full access”.
- ◆ In principle, Japanese companies must put any nominee(s) proposed by eligible shareholder(s) in its proxy material at the company’s expense including reasons for the proposal as stated by the shareholder.

- ◆ **“Creeping Takeover”** tactics is not officially recognized as a threat to minority shareholders’ interests.
- ◆ Almost NO regulatory protection against large-volume share acquisition in the market to the level of a Substantial Controller.

How the shareholder nominee evaluated (by the nominating committee)

On April 27, the Proponent “Reno, Inc.” requested the Company to consider adding its nominee, Mr. Yasunobe, as one candidate for an additional outside director proposed by the Company.

The Company’s nominating committee judged that the candidate can be subject for the consideration based on his stated career (Experience of top management of public companies, Assumed knowledge of Information Technology industry, etc.) and conducted an interview meeting on May 15, 2017.

A. Matters confirmed in the interview meeting:

- ① High level of knowledge and insights as a businessman and management person.
- ② Understanding of the Company’s business and its unique characteristics is not sufficient.
- ③ Based on the same perspective of the proponent, due to the necessity of consolidation of Japan’s electronics components industry, Insisted that the Company needs business mergers.
- ④ Demonstrated his intention to contribute to the Company with his network of contacts to push ahead business mergers.

B. Matters confirmed through the Company’s research:

- ① Relationship with Mr. Yoshiaki Murakami is confirmed through the facts of Large-scale investments by Murakami’s fund in the companies he managed and other public information.
- ② The Company could NOT find any of his management track-record to have increased sustainable corporate value.
- ③ There are no evidence to confirm his knowledge and experience in the value-added field of the Company’s business (Development / Mfg. / proc.) while being recognized as a strong IT person.

Based on the above matters confirmed (A-③④ and B-①), the proposed candidate is highly likely to be under direction of the specific shareholder and therefore carries significant risk of creating impediments against adequately securing interests of general minority shareholders which is considered as top-priority by the Company.

Why does the Board (& Nominating Committee) oppose?

The Company's board is sufficiently independent and well-balanced:

- Nominating committee sees no merit to add non-independent outside director with conflicting missions given by a large shareholder group.

Opacity of the shareholder and its intention:

- Opaque nature of the shareholder group under the influence of a convicted trader.
- Opaque nature of the shareholder's idea on business mergers.

Significant Inconsistencies:

- What the shareholder said in the past in dialogues with the Company on management direction ahead is crucially changed in the proposal.
- It seems that the real intention of the shareholder and its nominee could always be hidden.

No Specifics are presented (Lack of real plan other than a large share buyback):

- If the proposer seriously intends to realize sustainable creation of the Company's shareholder value while challenging the Company's specific mid-term management plan, shouldn't it provide a comparable set of specific and compelling management plan?

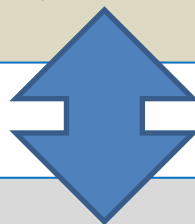


Conclusion: The proposal will likely to give stalling effect to the Company's management actions and carries high risk of destructing medium term corporate value to general minority shareholders and other stakeholders. Therefore, the Board sees no merit to all shareholders this time.

What actions are needed and unneeded for the Company now?

◆ The Company seriously needs to concentrate on the New Mid-Term Management Plan announced on May 26, 2017 to expedite the strategic business reform to focus on Operating Profit Margin.

◆ The Company needs to push ahead business collaborations already being commenced with other industry players to create new value-added business lines for more profitability.



Actions unneeded for enhancing the corporate value of the Company now?

1. To become a pivot leading reorganization in Japanese electronic components industry and trading companies for future development of the Country.
2. To aim at becoming a “Mega-Distributor of electronic components” which substantially differs from the Company’s unique business characteristics.
3. To devote limited management resources on actions differ from what are addressed in the New Mid-Term Management Plan.
4. To implement share buybacks with the financial resources which are supposed to be utilized for growth investments, and increase the voting power of the Requesting Shareholder and the joint holders further.
5. To increase the ratio of Outside Directors in the Board of the Company.

Sustainable Shareholder Return policy needed now

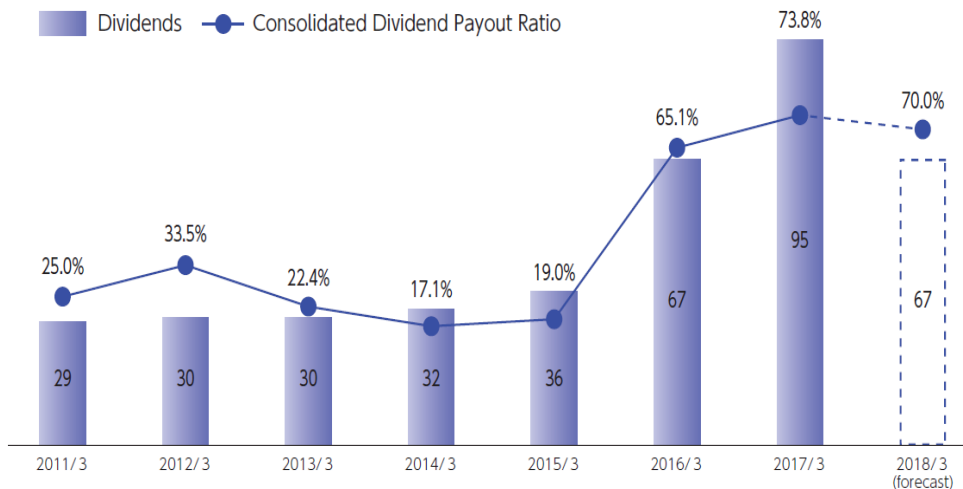
◆ The Company needs to stick with the financial and capital policy to enhance sustainable shareholder returns through competitive and sustainable dividend and investment for sustainable future growth.



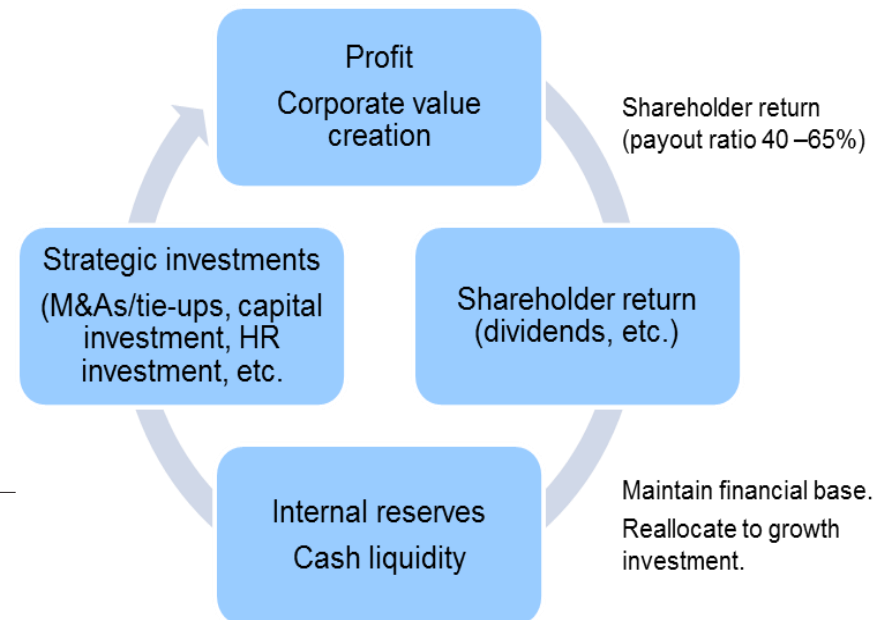
[Objective]

Sustainable Enhancement of Corporate Value and realization of good return to shareholders over the medium to long term

[Company's dividend track records]



Cycle of corporate value and shareholder return



Proposed Board by the Company after the Ordinary General Meeting of Shareholders

Proposed Board will be Two-Third Independent with well-balanced skills, expertise, and experiences.

No.	1	2	3	4	5	6
Name	Koichi Hosokawa	Yasunobu Mori	Kunio Tsuneyama	Shigetoshi Okada	Atsushi Yamashita	Shuichi Shino
Position	Director President and Chief Executive Officer	Director Managing Executive Officer	Outside Director	Outside Director	Outside Director	Outside Director
Independent Director			Independent	Independent	Independent	Independent
Nominating Committee	Member		Member	Member	Chair	
Compensation Committee		Member	Member	Chair	Member	
Audit Committee			Member	Member	Member	Chair
Expertise, experience	Corporate management, Global business management & operations, Sales and marketing	Corporate management, Administration in general	Certified public accountant, Certified tax accountant, Accounting, Audit, Tax, Legal systems	Corporate management, Manufacturing management & operations, International business operations, Quality control	Attorney at law, Legal affairs, Corporate law, Intellectual property management	Corporate finance, Investor Relations / Corporate communications, Corporate governance, Corporate audit

Links to the public information and contact information

【Links】

- Notice of the 82nd Ordinary General Meeting of Shareholders:

<https://www.kuroda-electric.co.jp/asset/22923/view>

- Notice of Opinions of the Company's Board of Directors on Shareholder's Proposal

<https://www.kuroda-electric.co.jp/asset/22929/view>

【Contact Information】

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