

May 26, 2017
Kuroda Electric Co., Ltd.
Koichi Hosokawa
President & Chief Operating Officer

**About “New Medium-term Management Plan” of Kuroda Electric Co., Ltd.
 (“the Company”)**

After the Company announced the Mid-term Management Plan (FY2015-FY2017) on the Company’s web site in May 2015, business environment surrounding the Company and its group has significantly changed. Given the circumstance, the Company has conducted a comprehensive review and formulated the New Medium-term Management Plan (FY2017-FY2019) (“the New Plan”) as presented.

In the past few years, electronic components specialists in the wholesale industry has been facing so-called “Commoditization” which accelerates the trend of requiring value-added services and products by customers in addition to providing the basic functions such as credits, inventory, and logistics. Under these circumstances, our main client company has changed its business policy significantly that forced the Company revised its earnings estimates downward during the earlier period. In this manner, the Company recognizes the business model relied on seeking sustainable growth based on the simple expansion of the sales revenue comes to an end.

To meet those challenges in our business environment, the Company has conducted thorough analysis of our strengths and weaknesses and arrived at a conclusion that the Company needs to make a drastic shift of the policy in the New Plan in order to realize sustainable growth by maximizing our group performance advantage.

For the next three years during the New Plan, the Company will focus on increase of Operating Profit by increasing Operating Profit Margin (“OPM”) as a basic policy and will not pursue to enlarge the size of sales revenue nor increase Operating Profit accompanied by reduced OPM.

While we will not cease our Trading business, the Company will achieve the objectives by aiming to transform itself into a “Not-only a specialized whole-seller company” meaning to become a business enterprise with continued improvement of the existing business model and creation of the next core business to provide higher value-added services and products to customers. In addition, the Company will reorganize to downsize its head office function and will realize the Operating Profit of ¥8.8 billion with OPM of 4.9% at the end of FY 2019 with an aim to establish business base which can consistently earn annual Operating Profit of ¥10 billion in the future.

End

New Mid-term Management Plan

Change and Creation

(FY2017 – FY2019)

May 26, 2017

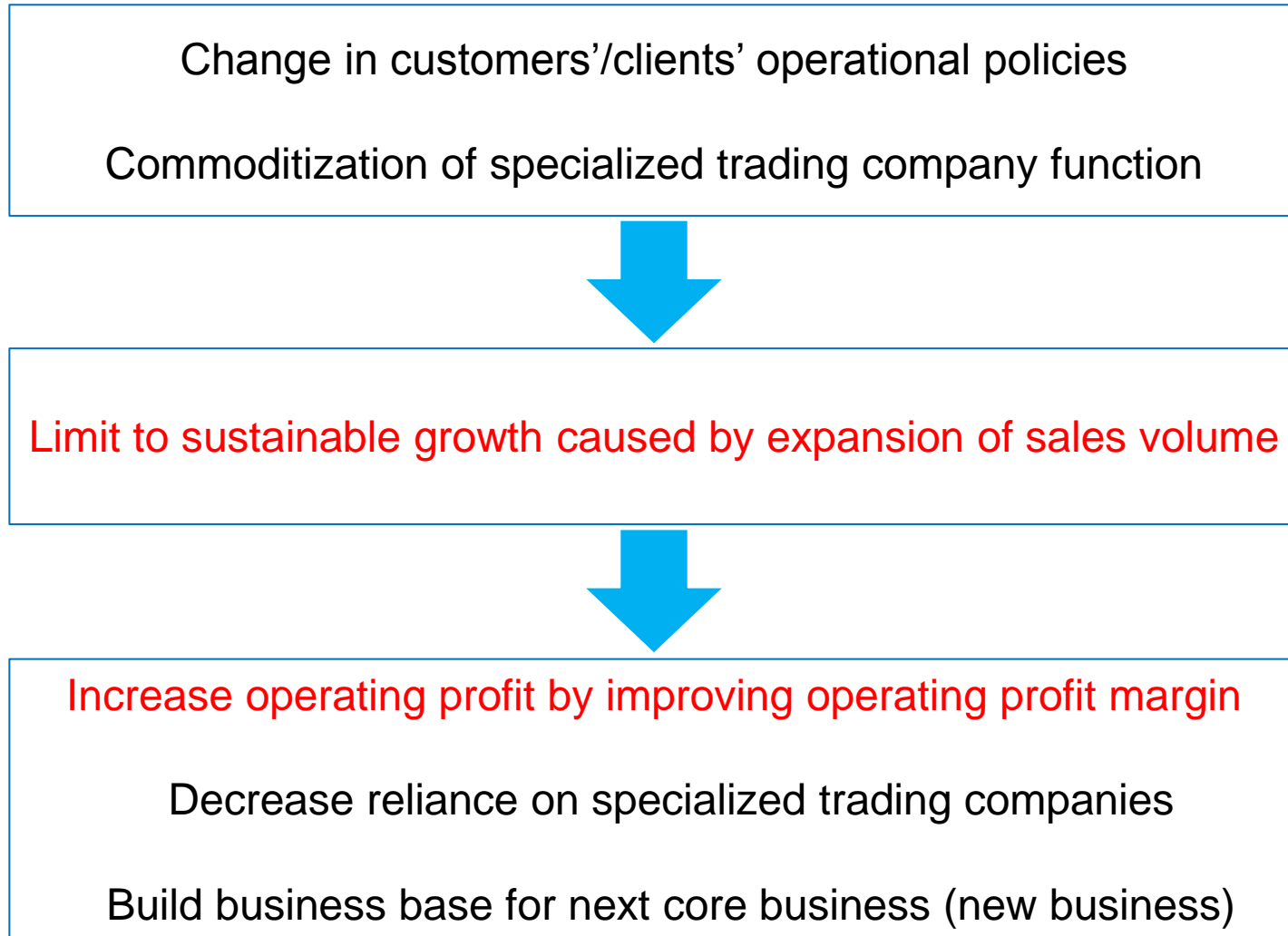
Koichi Hosokawa

President & Chief Operating Officer (COO)

Kuroda Electric Co., Ltd.

Table of Contents	
1. Context of the New Mid-term Management Plan	3
2. Performance and summary of the previous Mid-term Management Plan	4
3. Basic policy of New Three-year Mid-term Management Plan	6
4. Numerical targets	7
5. Business structure	
(1) Segment strategy	8
(2) Regional strategy	9
6. Business growth strategy	
(1) Existing business	
a. Key accounts strategy	10
b. Mfg./proc.	11
(2) Next core business (new business)	
a. Approach and goals	12
b. Specific examples	13
7. Management infrastructure	
(1) Streamlining and restructuring head office functions	14
(2) Human resources/diversity	15
(3) Governance	16
8. Financial strategy	
(1) Target indicators	17
(2) Growth investment	18
(3) Shareholder return policy	19
(4) Financial plan	20

1. Context of the New Mid-term Management Plan



2. Performance and summary of the previous Mid-term Management Plan (1)

FY2017 Numerical targets

Sales: ¥400 billion Operating profit: ¥13 billion (announced May 2015)

Sales: ¥160 billion Operating profit: ¥5.7 billion (announced May 2017)

Investment plan

(Cumulative total for 3 years: ¥16 billion)

Performance for 2 years

M&A:	¥11 billion or more	None
Capital investment, etc.:	¥5.0 billion or more	¥4.2 billion

Market environment

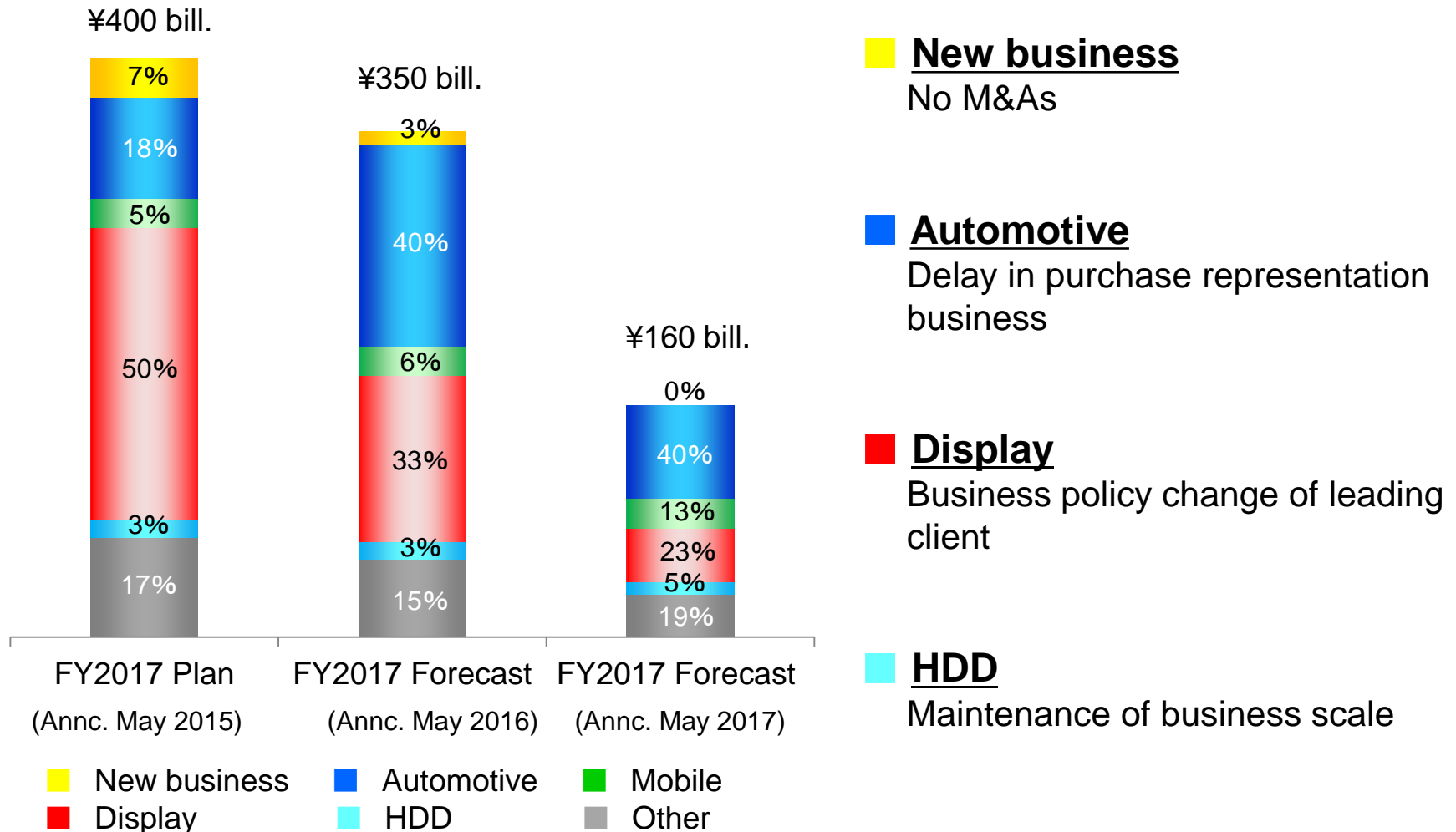
- Commoditization of specialized trading company function
- Withdrawal of Japanese companies from general-purpose products
- Evolution of the automotive related industry (ADAS, services, environmental friendliness)

Customer/client changes

- Business structure, procurement policies, sales policies

2. Performance and summary of the previous Mid-term Management Plan (2)

Analysis of variance between sales by segment and plan



3. Basic policy of New Three-year Mid-term Management Plan

In order to cope with the Company's changing business environment,

we will approach things from a “forward-looking” perspective and discard “insistences” in all our initiatives,

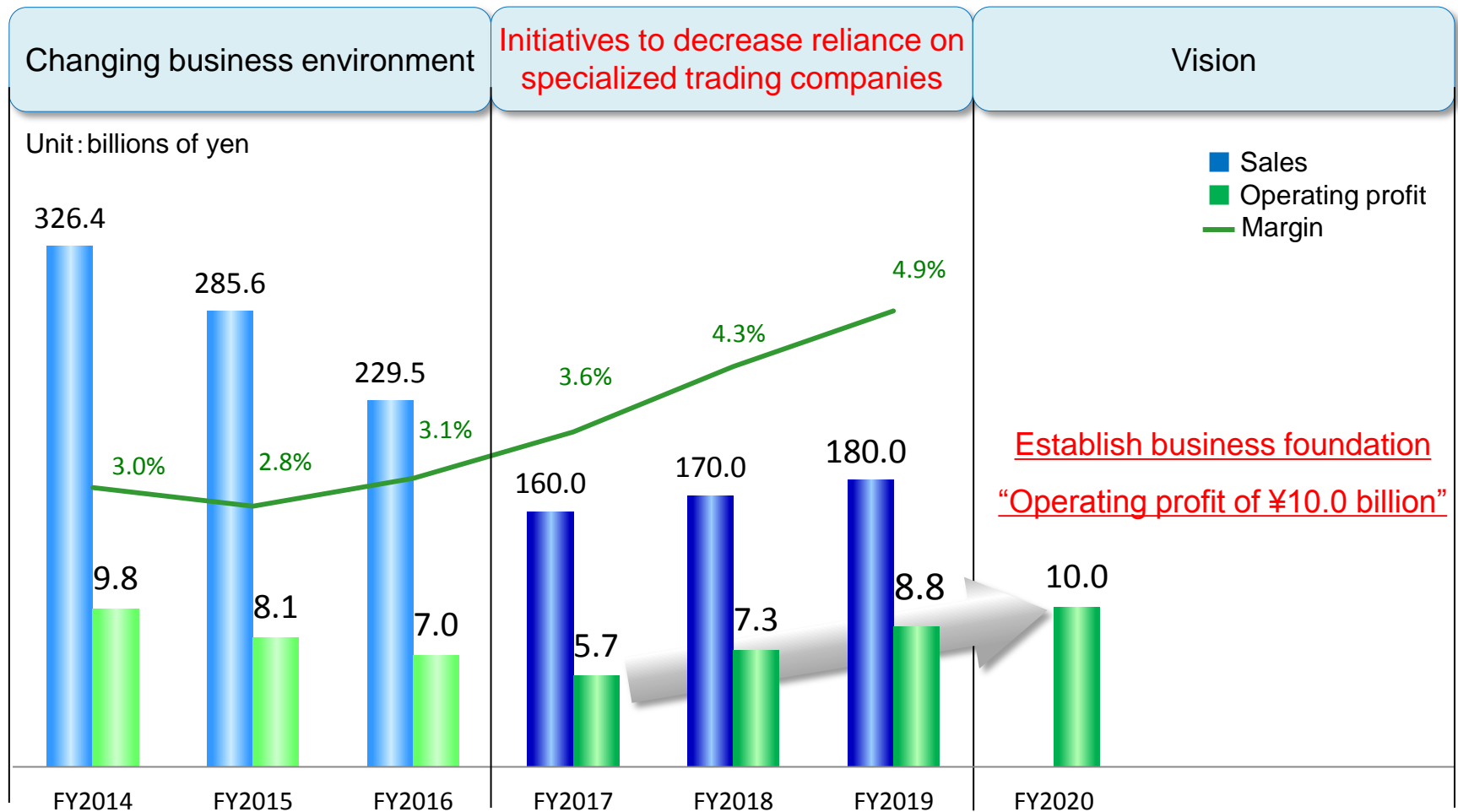
with the aim of **increasing operating profit** by **improving our operating profit margin**.

Decrease reliance on specialized trading companies

- Keep improving our existing business model
- Create **our next core business (new business)**
- Streamline and restructure head office functions

4. Numerical targets

FY2019: ¥8.8 bill. operating profit, 4.9% operating profit margin



5. Business structure:

(1) Segment strategy

In the new Mid-term Management Plan, segment strategy is divided into five areas.

1. Mfg./proc. in Japan 2. Mfg./proc. outside Japan 3. Domestic trading business 4. Overseas trading business 5. Next core business (new business)

(Unit: billions of yen)

		Strategy	Operating profit goals	
			FY2017	FY2019
Existing business	Mfg./proc. in Japan	<ul style="list-style-type: none"> R&D into new technologies 	2.5	3.0
	Mfg./proc. outside Japan	<ul style="list-style-type: none"> Capital investment for automotive related business 	1.5	2.0
	Domestic trading business	<ul style="list-style-type: none"> Concentrate on key accounts Accelerate commercial rights acquisition investment business 	0.6	1.3
	Overseas trading business	<ul style="list-style-type: none"> Expand non-Japanese company business through non-overlapping areas 	1.1	1.5
Next core business (new business)	Trading business / services	<ul style="list-style-type: none"> Create new demand through cross-industrial collaboration 	0	0.6
	Development / manufacturing		0	0.4
Total			5.7	8.8

* Sales to key accounts for trading company business, including the portion for “Overseas trading companies,” is recorded under “Japanese trading companies.”

5. Business structure:

(2) Regional strategy

In the new Mid-term Management Plan, regional strategy is divided into four areas.

1. Japan 2. China 3. Asia 4. North America/Europe

(Unit: billions of yen)

	Strategy	Operating profit goals	
		FY2017	FY2019
Japan	<ul style="list-style-type: none"> Concentrate on key accounts Create next core business (new business) 	3.1	5.1
China*	<ul style="list-style-type: none"> Change business structure: displays → automotive related business Improve productivity through capital investment 	1.0	1.3
Asia	<ul style="list-style-type: none"> Expand non-Japanese company business through non-overlapping areas Make new investments in automotive related business 	1.6	2.3
North America/Europe	<ul style="list-style-type: none"> Restructure business foundation 	0	0.1
Total		5.7	8.8

* China (including Taiwan and Hong Kong)

* Sales to key accounts for trading business, including the portion for “Overseas trading business,” is recorded under “Domestic trading business.”

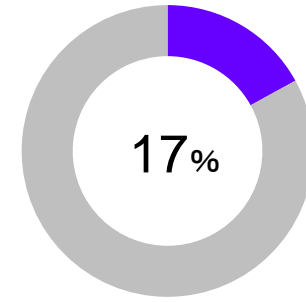
6. Business growth strategy:

(1) Existing business: a. Key accounts strategy

FY2019 goal

Key accounts strategy: ¥1.3 bill.

(Domestic trading business: ¥0.9 bill., Overseas trading business: ¥0.3 bill., Mfg./proc.: ¥0.1 bill.)



FY2019 operating profit: ¥7.8 bill.

Narrow key accounts to three client groups.

- Annual sales of client groups: ¥21 trillion (of which ¥6 trillion is automotive related business)

Respond globally to all client needs

- Focus the investment of management resources (personnel, funds, **functions**)
- Establish a uniform management system for **functions** (trading business, mfg./proc., R&D, services)

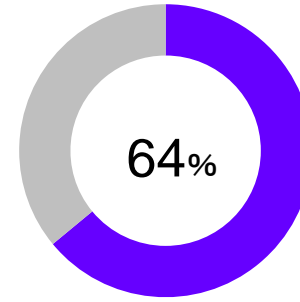
6. Business growth strategy:

(1) Existing business: b. Mfg./proc.

FY2019 goal

Mfg./proc. business: ¥5.0 bill.

- Investments that anticipate customer demands
- Continuation of cost reduction
- Securing and developing engineers



FY2019 operating profit: ¥7.8 bill.

(Unit: billions of yen)

	Strategy	Operating profit	
		FY2017	FY2019
Development/mfg.	R&D into new technologies	2.0	2.3
Mfg./proc. (data storage)	Horizontal expansion into SSD field	0.9	1.0
Mfg./proc. (automotive)	Improve productivity through capital investment	0.5	1.0
Mfg./proc. (other)	Secure stable revenue	0.6	0.7
Total		4.0	5.0

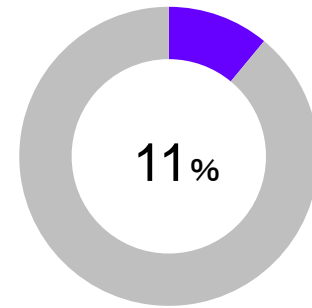
6. Business growth strategy:

(2) Next core business (new business): a. Approach and goals

FY2019 goal

Next core business (new business) ¥1.0 bill.

(Trading business / services: ¥0.6 bill.,
Development/mfg.: ¥0.4 bill.)



FY2019 operating profit: ¥8.8 bill.

Existing business

In response to **existing demand**, improve the operating profit margin and achieve higher operating profit through more choices and concentration, reform of business structure, and investment for acquisition of commercial rights.

Next core business (new business)

In growth fields or niche fields, multiple our group's strengths by other companies' **(dissimilar) strengths, to create new demand (attract demand)**.

We began detailed investigations of several proposals last year.

6. Business growth strategy:

(2) Next core business (new business): b. Specific examples

- Business creation through cross-industrial collaboration
- Leveraging the strengths of a collaboration partner and Kuroda Electric

1. EMS for automotive related business in Southeast Asia

Str. Company	Trading company function	Mfg. function	Customer base	Industry expertise	R&D abilities	Technical capabilities	Financial power
Kuroda	○		○	○	○		○
Partner A		○		○	○	○	

2. Service business related to security in Japan

Str. Company	Trading company function	Mfg. function	Customer base	Industry expertise	R&D abilities	Technical capabilities	Financial power
Kuroda	○	○	○				○
Partner B			○	○	○	○	○
Partner C					○		

3. 3D printing business for doctor 's offices in Japan

Str. Company	Trading company function	Mfg. function	Customer base	Industry expertise	R&D abilities	Technical capabilities	Financial power
Kuroda	○	○					○
Partner D					○	○	
Partner E			○	○			

7. Management infrastructure:

(1) Streamlining and restructuring head office functions

Narrow tasks **to be** done by **clarifying** that which **must** be done and that which it would be **better** to do.

Issue	Item
Clarify shared parts and customizations	<ul style="list-style-type: none">• Uniform management of service functions at group companies• Effective utilization of digital technology
Optimization of resource allocation	<ul style="list-style-type: none">• Priority allocation to highly profitable business• Visualization of profitability by business and clarification of business responsibility
Strengthening of strategy planning meeting	<ul style="list-style-type: none">• Strengthening of think-tank function• Swift decision-making

7. Management infrastructure: (2) Human resources/diversity

Biggest management resource:

Human resources

Business operations based on mutual respect and trust

- Strengthen “organizational dynamism” by sharing similar and dissimilar qualities
- Promote diversity
 - Recruitment and assignment of diverse human resources; mid-career recruitment; support for active involvement of foreign and female employees
- Develop human resources who can have dreams and hopes
- Create added value through the utilization of technical human resources
- Develop environments where employees can work in safety and health

7. Management infrastructure:

(3) Governance

Efforts for continual improvement of corporate governance

- Company with nominating committee, etc.
 - Advantage of separating the management supervisory function and business execution function
 - Maintain/continue a board of directors composition with a majority of independent, outside directors
- Guarantee effectiveness of the board of directors
 - Conduct and disclose the results of evaluations of the effectiveness of the board of directors by an outside organization
 - Formulate and implement improvement measures based on the results of the effectiveness evaluation
- Corporate Action Committee
 - Promotes initiatives related to compliance, risk management, and the environment.
 - Promotes initiatives aimed at environmental (E), social (S), and governance (G) improvements by taking into consideration global standards such as the 10 Principles of the Global Compact, Sustainable Development Goals (SDGs), and the Electric Industry Code of Conduct (EICC).
- Strength the risk management system
 - Continue compliance initiatives

8. Financial strategy:

(1) Target indicators

Achieve financial targets by improving the operating profit margin

Financial targets

New Mid-term Management Plan

	FY2016	FY2017	FY2018	FY2019	FY2020
ROE*1	6.5%	4.8%	6.5%	7.6%	8.4%
Sales (Unit: millions of yen)	229,571	160,000	170,000	180,000	200,000
Operating profit (Unit: millions of yen)	7,088	5,700	7,300	8,800	10,000
Operating profit margin	3.1%	3.6%	4.3%	4.9%	5.0%
ROIC*2	6.1%	4.4%	6.0%	7.1%	7.8%
Net profit per share	¥128	¥95	¥132	¥159	¥181

*1 ROE = Current term net profits attributable to majority shareholders ÷ shareholders' equity

*2 ROIC = Current term net profits attributable to majority shareholders ÷ gross capital (= shareholders' equity + borrowed capital (= interest-bearing debt + minority interest))

8. Financial strategy: (2) Growth investment

Growth investment plan **Total: ¥20.0 billion**

(Unit: billions of yen)

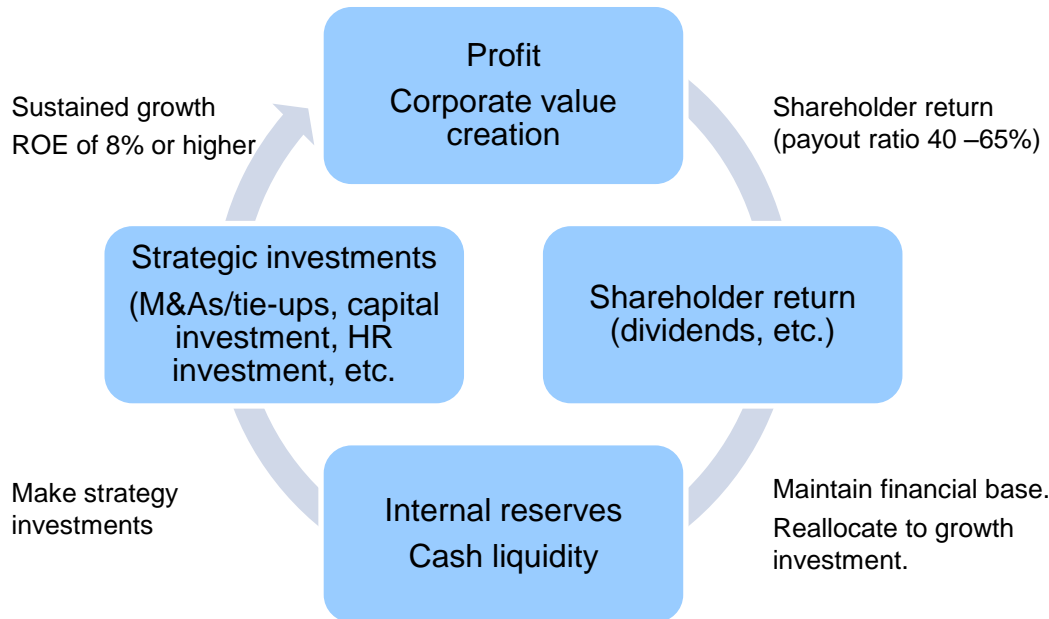
	Content	Cumulative three-year investment	Target operating profit in FY2019
Existing business	<ul style="list-style-type: none"> • Key account strategy investment • Capital investment • Accelerate commercial rights acquisition investment business 	12.0	1.0
Next core business (new business)	<ul style="list-style-type: none"> • Trading business / services • Development / manufacturing 	8.0	1.0
Total		20.0	2.0

8. Financial strategy:

(3) Shareholder return policy

- As a general rule, maintain a payout ratio at the level of 40 – 65% (continue dividend policy announced in July 2015)
- Pursue continual improvement in corporate value in addition to direct shareholder return

Cycle of corporate value and shareholder return



Anticipated dividend/share	
FY2017	¥67
FY2018	¥53 – 86
FY2019	¥63 – 103

8. Financial strategy:

(4) Financial plan

Breakdown of three-year financial plan (purpose of funds)	
Working capital	¥20.0 bill.
Investment in existing business	¥12.0 bill.
Investment in next core business (new business)	¥8.0 bill.
Dividend*1	¥7.0 – ¥10.0 bill.
Total	¥47.0 – ¥50.0 bill.

Breakdown of three-year funding sources (financing)	
Net cash balance*2	¥26.0 bill.
Operating cash flow*3	¥22.0 bill.
Total	¥48.0 bill.

*1 Payout ratio: 40 –65%

*2 Balance at end of FY2016, cash account balance on consolidated BS minus interest-bearing debt

*3 Calculated as ¥14.9 billion forecast for three-year net profits + ¥7.1 billion forecast for depreciation/amortization

Thank you for your attention.