

Message from our President



Ikuo Uchiyama

President

To our Shareholders, Investors, and Stakeholders

Nippon Chemi-Con will implement global reforms to rapidly solidify our position in new markets created by the 4th industrial revolution and establish a platform for leaping into the next stage of growth.

Currently, we are implementing our 8th medium-term management plan, a three-year plan aimed at fulfilling the targets set for FY2019.

Viewing the 4th industrial revolution as an opportunity for growth, we positioned FY2017, the first year of the plan, as a year for laying the foundation for future growth and implemented numerous reforms to this effect.

As a result, we were able to achieve significant year-on-year improvements in the growth rates for both net sales and operating income by expanding sales of aluminum electrolytic capacitors and other new

products on the automotive electronics market and thanks to the rapid recovery of the power electronics market.

During FY2018, we will focus on improving profitability, accelerate new product development periods, and increase our ratio of new products. We will further expand on our business management system to promote speedy business management.

We will continue to promote global reforms aimed at establishing a platform for leaping into the next stage of growth.

The 8th medium-term management plan first-year review and FY2018 targets

FY2017 results

FY2017 net sales increased year on year by 14.7% to 133.3 billion yen thanks to favorable conditions on nearly all markets. This marked the first time in 10 years that net sales exceeded 130.0 billion yen.

In particular, the industrial devices market was +22% and the home appliance market was +20%, indicating very high growth rates for both segments.

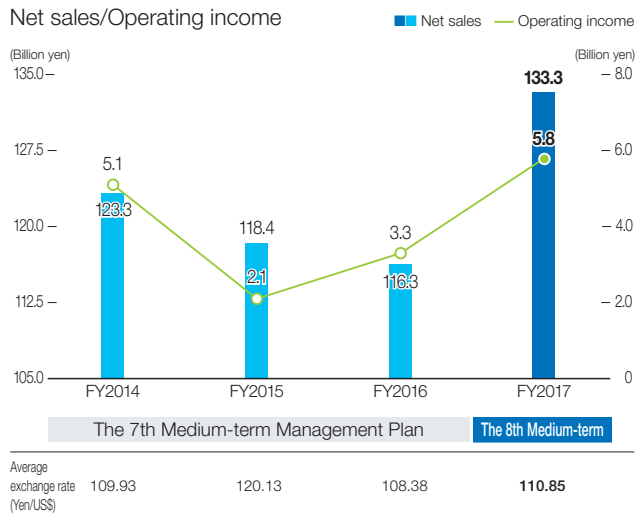
The automotive electronics market has seen the acceleration of various new factors that are driving the market, including new segments such as autonomous

vehicles and connected cars, the transition to xEV in China and Europe, and the trend in Europe towards the 48V standard for vehicle power sources.

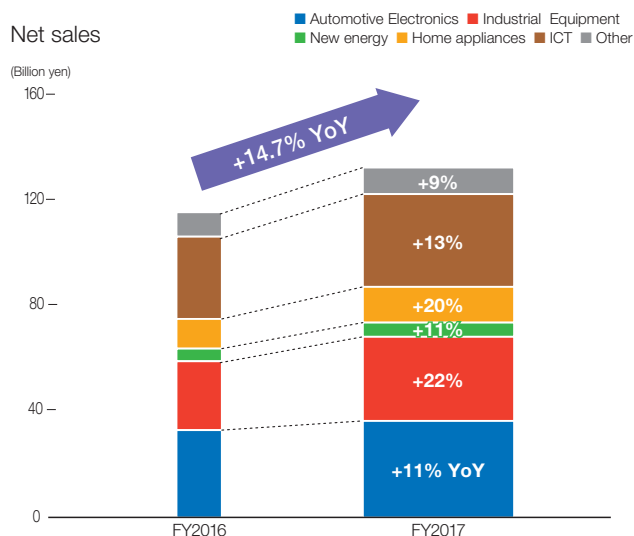
Operating income also boasted a high rate of growth thanks to firm increase in sales, increasing by 74.3% to 5.8 billion yen.

Viewing the 4th industrial revolution as an unparalleled opportunity, we will inject the market with numerous new products, including conductive polymer capacitors and hybrid capacitors, as we aim for further growth.

Net sales/Operating income



Net sales

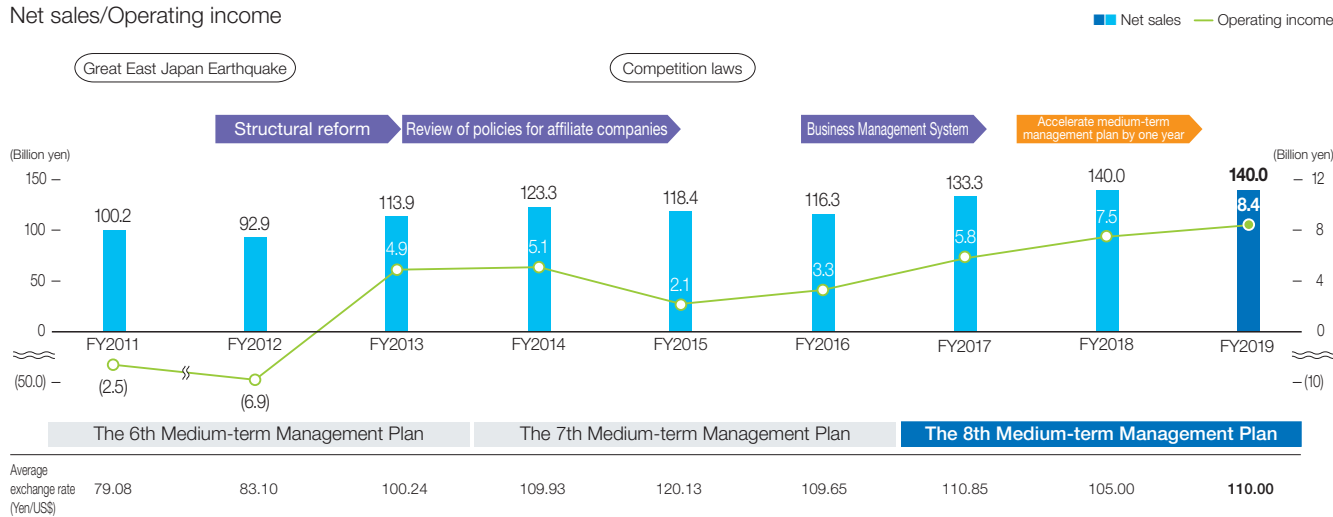


FY2018 targets

Targets for FY2018 as the second year of the 8th medium-term management plan are net sales of 140.0 billion yen and operating income of 7.5 billion yen

(currency rate assumption: US \$1 = 105 yen). This forecast means fulfilling the net sales target for the final year of the plan one year ahead of schedule.

Net sales/Operating income



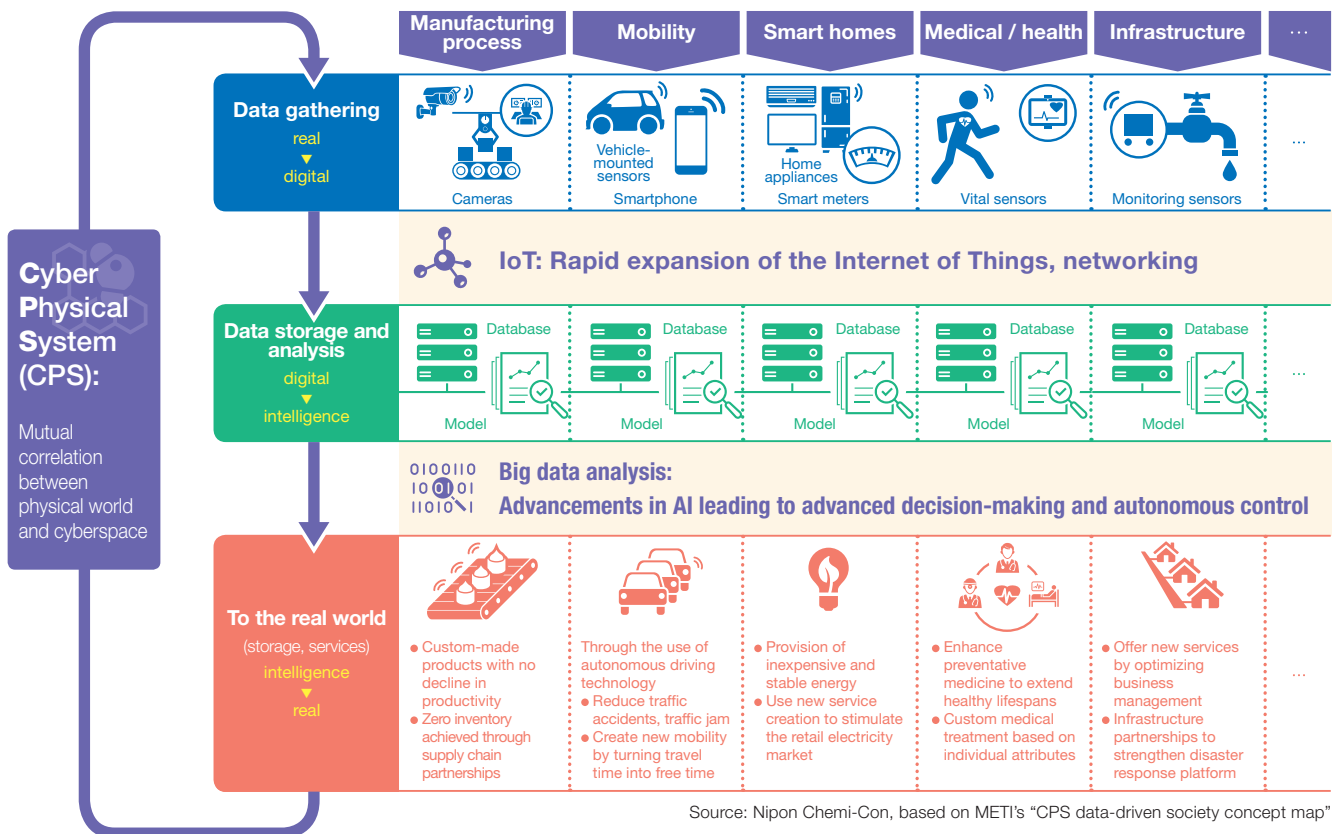
Message from our President

The 4th industrial revolution and Nippon Chemi-Con initiatives

The development of and advancements in internet and digital technology has enabled many things previously believed to be impossible. The 4th industrial revolution has enabled the combination of numerous technologies such as AI, big data, IoT, robots, and sharing economies, which has led to the creation of new lifestyles and given rise to various new services around the world.

It would not be an overstatement to say that we are seeing the birth of new industry that cannot be simply categorized within the framework of the manufacturing industry. Amid such a global movement, change is unavoidable. This is the new reality. To face this reality head-on and continue to grow as a corporation, we must further stimulate both the individual and the organization, and align our corporate organization, rules, and workstyles with the realities of today.

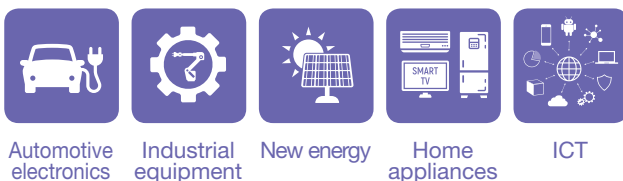
► Concept map for new market creation driven by the 4th industrial revolution



Nippon Chemi-Con basic policies

Generating profits by effective use of management resources (people, things, money and information)

Provide optimal solutions to customers (five strategic markets)



Our mission is becoming the No. 1 company for capacitors in the energy field.

Amid the ongoing 4th industrial revolution, we have positioned the automotive electronics market and the power electronics market as our priority target markets. From marketing to development and manufacturing, we will effectively utilize the links between management resources (people, things, money, and information) to generate income and achieve sustainable improvements to our corporate value.

Clarification of Growth Strategies—Nippon Chemi-Con initiatives to address new demand in our five strategic markets

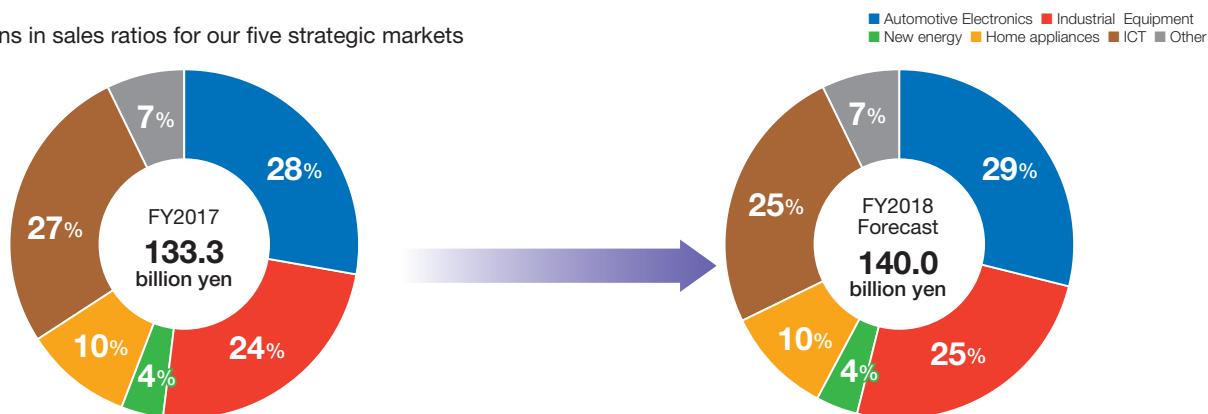
In last year's report, we explained that the past 10 years have seen major changes in our portfolio in terms of sales by market segment. In FY2007, consumer device market (ICT market), which includes personal computers, flat screen TVs, gaming consoles, etc., represented approximately 50% of sales. With the dissemination of smartphones, demand among consumer electronics for aluminum electrolytic capacitors contracted. We projected the consumer device market sales ratio would decline to 23% by FY2017 and just 21% by FY2018. However, with strong demand from cloud servers for data centers, the sales ratio for the consumer electronics market was 27% in FY2017 and is projected to be 25% in FY2018.

We also saw a rapid recovery in demand from the industrial equipment market thanks to the dissemination of IoT and advancements in robotics and factory automation. Sales of large-sized aluminum

electrolytic capacitors and other products increased, and the segment account for 24% of sales in FY2017. We forecast a sales ratio of 25% in FY2018.

The sales ratio for the automotive electronics market was 12% in FY2007 but grew to 28% by FY2017. We project a sales ratio of 29% in FY2018. Growth in the number of vehicles sold and new demand, including the dissemination of autonomous vehicles and the EU move to the 48V standard for vehicle-mounted power sources, had a significant impact on the adoption of new products such as conductive polymer capacitors, hybrid capacitors, and camera modules. Moving forward, we will work to expand sales of large-sized aluminum electrolytic capacitors for use in xEV onboard chargers and charging facilities as we aim to create a platform for leaping into the next stage of growth.

► Transitions in sales ratios for our five strategic markets



► New demand in five strategic markets and Nippon Chemi-Con strategies

Strategic market		Market environment		Business strategy
	Automotive electronics	↗	<ul style="list-style-type: none"> Advancement in autonomous driving technology Development of connected cars EU switch to 48V standard for vehicle power supplies Engagement in xEV market 	<ul style="list-style-type: none"> Grow sales for SMD-type aluminum electrolytic capacitors, conductive polymer capacitors, hybrid capacitors Grow sales for large-sized aluminum electrolytic capacitors for xEV Grow sales for EDLC for power source backups Grow camera module sales
	Industrial equipment	↗	<ul style="list-style-type: none"> IoT growth (infrastructure investments) Focus on device power saving Increased FA investments Advancements in robotics 	<ul style="list-style-type: none"> Large-sized aluminum electrolytic capacitors Develop highly heat-resistant products, ultra-high voltage resistant products Grow EDLC, camera module, ceramic capacitor, varistor, and coil sales
	New energy	↘	<ul style="list-style-type: none"> Solar power generation Stagnancy in China and market growth in India	<ul style="list-style-type: none"> Large-sized aluminum electrolytic capacitors Develop long-lasting products, high voltage resistant products
	Home appliances	↗	<ul style="list-style-type: none"> Air conditioner Expansion of luxury home appliances Increase in use of inverters in China EU market expansion driven by global warming	<ul style="list-style-type: none"> Large-sized aluminum electrolytic capacitors Promote cost reductions, SCM optimization
	ICT	↗	<ul style="list-style-type: none"> Growth of cloud server market Growth of communications infrastructure market 5G dissemination 	<ul style="list-style-type: none"> Further expand conductive polymer capacitor sales Grow sales of hybrid capacitors

Message from our President

Strengthen business management platform and improve earnings

To strengthen our business management platform for achieving growth, we will promote speedy management (further enhance business management system), promote consolidated management (strengthen governance of affiliates, strengthen governance functions in China), reinforce our earnings structure, and conduct investments in growth businesses. As a KPI (key performance indicator) for business management platform enhancements and to ensure future growth potential, we will aim for sales to the automotive electronics market to represent 29% of sales in FY2018 with the goal of achieving 30% and higher as soon as possible.

We will aim to increase our gross profit margin from 20.7% in FY2017 to 21.5% in FY2018. We will achieve this by strengthening design and development cost design to reduce procurement expenses, conduct a fundamental review of production processes, and expand our ratio of highly profitable products. We will

aim to lower our SG&A expense ratio from 16.3% in FY2017 to 16.1% in FY2018. We will achieve this by optimizing our supply chain and standardizing workflows to control costs. We also will reduce the cash conversion cycle (CCC) from 100 days in FY2017 to 95 days or lower in FY2018. We will achieve this by using sales and manufacturing order information sharing to reduce lead times.

Nippon Chemi-Con has established goals concerning our ideal cost structure. We will aim to maximize our gross profit margin and optimize SG&A expenses as we take an aggressive approach to improving our cash conversion cycle.

We will continue to promote workflow process visualization and standardization grounded in a focus on utilizing management resources (people, things, money, and information) as we convert into an ideal cost structure and shift to a management direction focused on generating cash.

Strengthening business management platform to promote growth

Speedy management

- Use business management system to speed up decision-making

Promote consolidated management

- Strengthen governance of affiliate companies

Strengthen management functions in China (business model for complete operations within China)

Reinforcement of earnings structure

- Structure that produces profits even at US \$1= 100 yen

Strengthen profitability of low-profit businesses

Improve investment efficiency and asset profitability

Implement supply chain reforms (improve asset rate of return)

Invest in growth businesses

- Current FY: Capital investments of 10.0 billion yen, R&D investments of 4.5 billion yen

Implement growth strategies for each business

FY2018 goals

Strengthen growth potential (improve sales ratio for automotive electronics)

- FY2017 28% ➔ FY2018 29%, aim to quickly exceed 30%

Enhance new product development and conduct capital investments for automotive electronics market

Use speedy management to improve performance (permeate business management system)

- Gross profit margin FY2016: 20.0% ➔ FY2017: 20.7% ➔ FY2018 goal: 21.5%

Strengthen cost planning capabilities and conduct fundamental review of product processes

- SGA (selling, general and administrative expenses ratio) FY2016: 17.1% ➔ FY2017: 16.3% ➔ FY2018 goal: 16.1%

Optimize supply chain and review workflow to eliminate wasteful work steps

- CCC (cash conversion cycle)

FY2016: 108 days ➔ FY2017: 100 days ➔ FY2018 goal: 95 days or less

Optimize supply chain, visualization of order > production > distribution flow, optimize inventory

Solid steps towards achieving goals of 8th medium-term management plan

In the president's message for the previous fiscal year's Chemi-Con Report, I stated that a long-term management perspective was not enough to earn the trust of shareholders and investors. That it is equally vital that we successfully achieve short-term annual targets and fulfill the goals of our medium-term management plan. That the 8th medium-term management plan would focus on achieving stated goals, and that the Nippon Chemi-Con Group was dedicated to uniting towards fulfilling these goals. We established the automotive electronics market and the power electronics market as key target markets and from marketing to development to manufacturing, we focused our management resources on quickly expanding the use of our strategic products in the automotive electronics market. As a result, we were able to further improve both net sales and profitability. Backed by a firm global economy and factors such as advancements in IoT, we also saw the rapid recovery of the power electronics market. In FY2018, we forecast achieving net sales of 140.0 billion yen. This would represent achieving the net sales goal for our

8th medium-term management plan one year ahead of schedule.

Nippon Chemi-Con will continue to uphold our corporate philosophy of contributing to technology that benefits the environment and people as we aim to secure a competitive advantage by building a new business model grounded in innovative manufacturing. We will quickly establish ourselves in the new markets created as a result of this 4th industrial revolution while also implementing the necessary reforms (responding to change) to create a platform from which we will leap into the next stage of growth and increase our corporate value.

We also will apply the capital entrusted to us by our shareholders towards business activities.

More than ever we are aware of the importance of a continued emphasis on constructive communication with shareholders and investors to promote mutual understanding.

We ask for your continued understanding and support.

October 2018

