

Progress of 2020 Mid-term Business Plan

Overview of 1H FY2017 and Actions in 2H

**"Let's transform ourselves,
and bridge to the future! 2020 Mid-term"**

Fujikura Ltd.

Masahiko Ito, President & CEO

October 27, 2017

➤ We will continue to maintain and strengthen "earning power".
FY2017 is a true starting year .

Goals to be achieved in FY2020

- **Ratio of operating income to net sales: 7.0% or higher**
- **Net sales: 900 billion yen**
- **ROE: 10% or higher**
- **D/E ratio: 40:60 (0.66 times)**

Contents

- 1. Review of 1H FY2017 Financial Results and FY2017 Forecasts**
- 2. Progress of Key Measures of 2020 Business Plan and Their Progress**
- 3. Research & Development Topics**
- 4. Return to Shareholders**

1. Review of 1H FY2017 Financial Results **and FY2017 Forecasts**

(1) 1H FY2017 Financial Results

(Unit: Yen in billion)

	FY2016			FY2017			FY2017 (Released on May 9)	
	1H	2H	FY2016	1H	2H Forecasts	FY2017 Forecasts	1H	FY2017
Net Sales	305.2	348.5	653.7	359.7	370.2	730.0	340.0	700.0
Operating Income	13.8	20.4	34.2	17.5	20.4	38.0	16.0	38.0
Ratio of Operating Income to Net Sales (%)	4.5	5.9	5.2	4.9	5.5	5.2	4.7	5.4
Share of other comprehensive income of entities accounted for using equity method	0.0	1.0	1.0	0.6	0.8	1.4	0.8	1.8
Ordinary Income (Loss)	11.9	20.5	32.5	17.6	18.3	36.0	15.5	36.0
Net Income (Loss) Attributable to Owners of Parent	1.8	11.0	12.9	12.6	7.3	20.0	8.0	20.0
Net Income per Share (JPY)	6.21	38.40	44.61	44.36	25.75	70.11	28.05	70.11
Dividend per Share (JPY)	5.00	5.00	10.00	7.00	7.00	14.00	7.00	14.00
ROE (%)	1.9	—	6.4	10.0	—	9.3	—	9.0
Exchange Rate (JPY/USD)	105.21	111.52	108.36	111.06	110.00	—	110.00	110.00
CU Base ('000JPY/ton)	544	664	604	709	750	—	650	650

(2) Review of 1H FY2017 and Evaluation

➤ Evaluation of 1H FY2017

✓ Maintained and strengthened "earning power"

- Both net sales and operating income increased on a YoY basis.
Ratio of operating income to net sales was 4.9%
+ 0.4% on a YoY basis and +0.2% compared with the original plan
- Increased net sales and operating income of Power & Telecommunication Systems Company and Electronics Business Company covered the unexpected deteriorating profitability of Automotive Products Company.

✓ Overview of each business

- **Power & Telecommunication Systems Company** ... Both net sales and operating income increased because of the continued high performance owing to the constant strong optical fiber related demand in worldwide.
- **Electronics Business Company** ... Both net sales and operating income increased owing to the smooth launch of this year's model of major customers.
- **Automotive Products Company** ... Operating income decreased on a YoY basis and the original plan was not achieved due to the continuous increased costs by labor issue in Eastern Europe since the previous quarter, although the market was steady and orders from customers were also as planned.

(3) Regarding Automotive Products Company

➤ Responding to unexpected deterioration in profitability

✓ Analysis of deteriorated profitability

- Labor has been mobilized in Eastern European countries, and the number of turn over rapidly increased due to the migrant workers to the former Western Bloc countries in EU. This resulted in hike of labor cost because of difficulties of recruitment, low productivity and additional expenses.
- However, there was no significant change in the market environment and the order from customers.

✓ Short-term countermeasures and their progress

- Reduce operation at a difficult site and transfer production to new or existing sites.
- Continue to implement various measures to secure human resources and strengthen training for new employees.

It took more time to recover than the initial expectation, but a profit in September became positive as a result of the above countermeasures.

✓ Medium- and long-term perspective - reviewing and strengthening European operation

- Review and strengthen European operation
 - a. Review factory location and assignation of products
 - b. Strengthen organizational capabilities, develop human resources
 - c. Recover cost competitiveness by strengthening the foundation for manufacturing and plant management

(4) FY2017 forecasts and actions in 2H

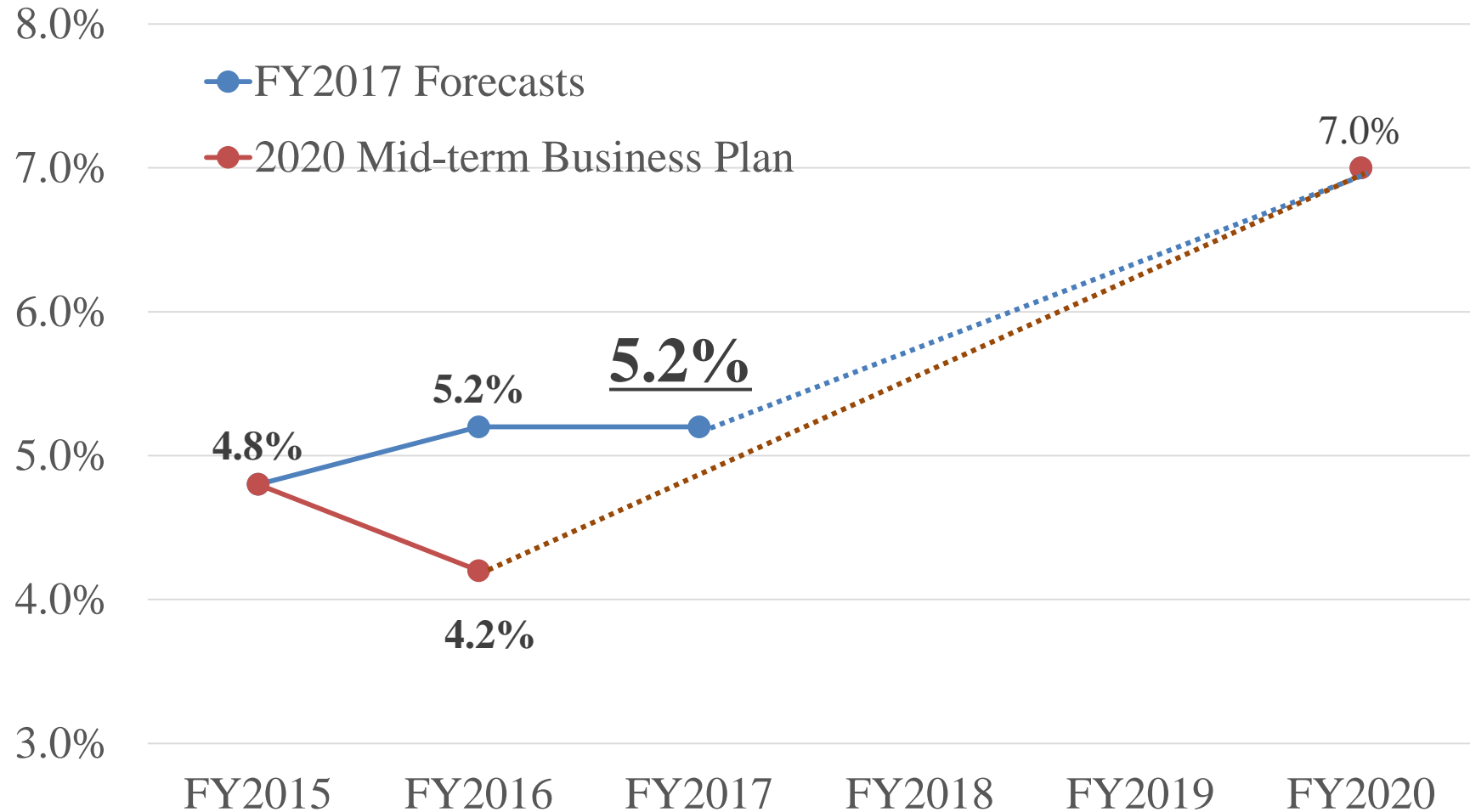
- **Continue to maintain and strengthen "earning power"**
 - Ratio of operating income to net sales is forecasted to be 5.2% which is in line with that of FY2016.
 - FY 2017 forecasts for operating income, ordinary income and net income attributable to owners of parent are unchanged, although net sales is expected to increase in nominal terms owing to the effects of foreign exchange rate and the price of copper.
 - FY2018, the interim year of 2020 Mid-term, is the important year for the success of the mid-term. We will put a prospect for challenges of this mid-term including large scale investment and structural reform so far.
- **Actions of each in-house company**
 - Power & Telecommunication Systems Company
 - Prepare steadily for increasing production capacity of optical fibers
 - Strengthen sales and production of SWR / WTC
 - Continue reform of domestic power business
 - Electronics Business Company
 - Carry out thorough "quality first" as framework of business management
 - Respond to customers' high trust and prepare for the next fiscal year
 - Automotive Products Company
 - Solve the issue in Eastern Europe quickly.
 - Return to the growth strategy

Return to the break even in 2H, and aim to go back to the growth strategy to achieve goals of the 2020 Mid-term Business Plan.

We will not pursue business scale. Profitability is a priority.

(5) Progress of 2020 Mid-term Business Plan Ratio of Operating Income to Net Sales

Ratio of operating income to net sales



2. Progress of Key Measures of 2020 Business Plan and their progress

(1) Key measures of 2020 Mid-term Business Plan and their progress

As a company creating customer value,
we will become a promising company with a future
with "strong earning power" and "power of strong invention"!

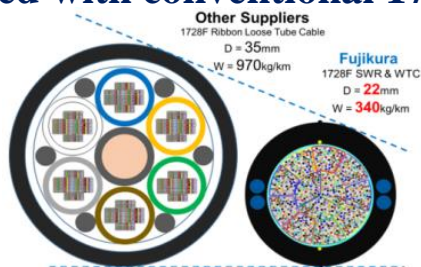
<p>Developing deeper ties with strategic customers</p>	<ul style="list-style-type: none"> ■ Developing deeper ties with strategic customers - Work to achieve greater business growth - Seize new business opportunities 	<ul style="list-style-type: none"> i) Accelerate developing ties with customers by providing strategic products (SWR/WTC) ii) Electronics Business; Win strategic customers' trust to be the best partner
<p>Accelerate new business creation</p>	<ul style="list-style-type: none"> ■ Strengthen the structure for promoting new business ■ Key areas <ul style="list-style-type: none"> - Automotive related - Industrial machinery - Medical devices 	<ul style="list-style-type: none"> i) Find out potential needs from conventional business - Cable business field ii) High- density and ultra small device embedded printed-wiring board <p style="text-align: center;">Actions for WABE</p>
<p>Open innovation</p>	<ul style="list-style-type: none"> ■ Supply the missing pieces of portfolios and value chains and create new value for customers ■ Speed up technology development, business development and business growth 	<p>New actions to create innovation</p> <ul style="list-style-type: none"> - Work with the Plug and Play Japan
<p>Management reform & business structural reform</p>	<ul style="list-style-type: none"> ■ Response to Corporate Governance Code ■ Improve the quality and speed of decision-making in a diverse range of business ■ Strengthen the management base 	<p>Transited to a company with an audit and supervisory committee</p> <ul style="list-style-type: none"> - Speed-up of decision-making - Strengthened audit and supervisory function

(2) Developing deeper ties with strategic customers

- Accelerate developing ties with customers by providing strategic products (Spider Web Ribbon/Wrapping Tube Cable)
 - Response to potential and apparent needs in hyper-scale data centers
 - ⇒ Securing the further data bandwidth in limited space
 - ⇒ Thin and light super multi-core cable which is easy to install

Thin and light super multi-core cable which is easy to install.

Reduced -external diameter- by **37%** and -weight- by **64%** compared with conventional 1728-core-cable



Comparison of cross section of optical cables



Toward super multi-core fibers



From current 3,456 cores to 6,912 cores toward the domain that conventional products do not exist.

Line-up not only cables but also accessories and components

(3) Developing deeper ties with strategic customers

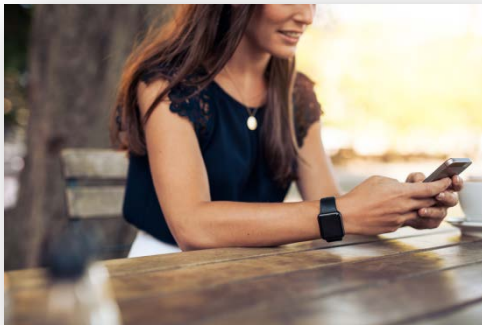
➤ Win trust of strategic customers in electronics business to deepen the ties to be the best partner

- Materialize customers' needs with close relationship from the initial stage of development of new model
⇒ Acquire additional value with the view for mass-production from the development stage

Higher sophistication with generation transitions

⇒ Response to **more integrated, more complicated and thinner products**

⇒ **Solve development issues with customers,**
Foster a trusting relationship
Create virtuous cycle



2007	~	2017
		Highly sophisticated
		Strengthen interface Sense of touch
		Strengthening authentication function
		Development for higher functionality of camera (Compound eye and higher pixels)
		Development for larger screen and higher resolution

Dramatic sophistication and evolution of smartphones

(4) Accelerate new business creation

➤ Cable business field

- Find out potential needs from conventional business
- Contribution to "diagnosis service"

<p>SECURITY 安心ゾーン 診断技術</p>	<p>SAFETY 安全ゾーン 防災製品</p>	<p>EASILY 簡単ゾーン 簡単施工</p>	<p>CONVENIENT 便利ゾーン 無線通信</p>
 <p>取組品 ・事故原因調査装置 ・経路診断装置 ・部分放電測定装置</p>	 <p>取組品 ・陸揚ケーブル ・エコケーブル ・33kV~66kVシールドSP(AL)ケーブル ・防災区間敷設増設工事</p>	 <p>取組品 ・するするケーブル ・アルミ導体ケーブル(GOV ALG) ・極径・径差専用管(EHLMGP) ・フラット分岐ケーブル(ミニマシマ) ・トンネル照明用ワンタッチボックス ・鉛線管・直立型引込ケーブル(LIG) ・5.8GHz帯用漏れ電線管(LWG-50)</p>	 <p>取組品 ・ケーブル選アンテナ(WBLGX) ・複製用WiFiシステム(ARCHIGX) ・基地局用同軸ケーブル(WFH/WFLGX)</p>
<p>電力ケーブルの老朽化は、停電事故、更には火災の引き金になる恐れがあります。フジクラ・ダイヤケーブルは、診断技術で安心を提供します。</p>	<p>火災が発生した場合、無防備なケーブルは大災害への導火線となりかねません。フジクラ・ダイヤケーブルは、あらゆる防災製品で安全を確保します。</p>	<p>2020年に向け工事の需要が増加する中、工期の短縮が求められています。フジクラ・ダイヤケーブルは、簡単施工製品で工事の省力化に寄与します。</p>	<p>いかなる状況、どんな場所においても無線通信は欠かせない存在となっています。フジクラ・ダイヤケーブルは、便利で快適な無線環境をお届けします。</p>

- Safety zone: Example of diagnosis equipment for risks of troubles of old cables
 - Higher conscious of preparation for risks including suspension of operation



Fault locator



LINDA



LISSA

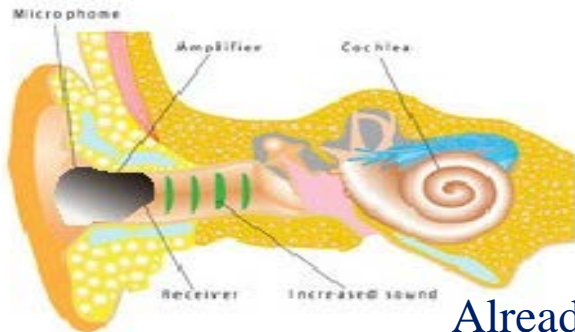
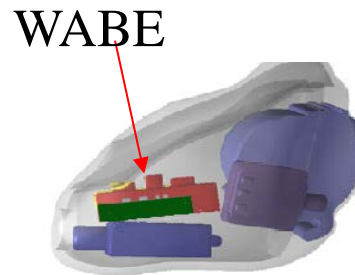
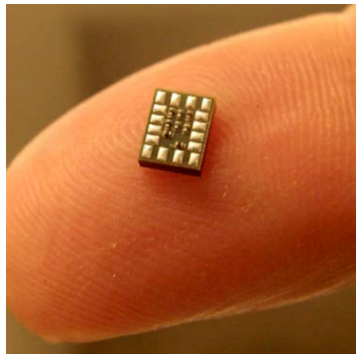
- A show-room was built at FDC Kumagaya factory.

People can see, touch and experience things here.

(5) Accelerate new business creation

➤ Actions for "WABE"* , high-density and ultra small device embedded printed-wiring board

- ✓ Provide the most adequate solution for the field that small and thin electric circuits are highly required including wearable and medical/healthcare equipment.



Already started to provide WABE to an overseas hearing aid maker.

HEARING AIDS IN THE CANAL

*Wafer AND Board level EMBEDDED Technology

(6) Open innovation

➤ Concluded an agreement with the Plug and Play Japan as a founder partner

- ✓ Promote open innovation to create new value and accelerate reinvention
- ✓ Actively take part in various eco-systems and enhance activities in four market domains (Advanced Communication, Energy & Industry, Life-Assistance, Vehicle) to realize "2030 Vision"

Plug and Play...a start-up accelerator at the world top level that supports to and invest in venture companies based on Silicon Valley. It has an important role in building a global venture eco-system.

Share the vision among concerned players and act together with cooperation and expansion of the mechanism



(7) Management reform

➤ Management reform

Governance reform

○ Transited to a company with an audit and supervisory committee

→Speed-up decision-making and strengthen audit and supervisory function

→Resolved the transition at the shareholders meeting on June 29, 2017

✓ Reform of the board of directors and strengthen audit and supervisory function

- Narrowing down of the discussion items to the important matters such as statutory items and business plans

- Strengthen audit and supervisory function:

Increased the number of outside directors 1→4

✓ Drastic delegation of authority to executive directors:

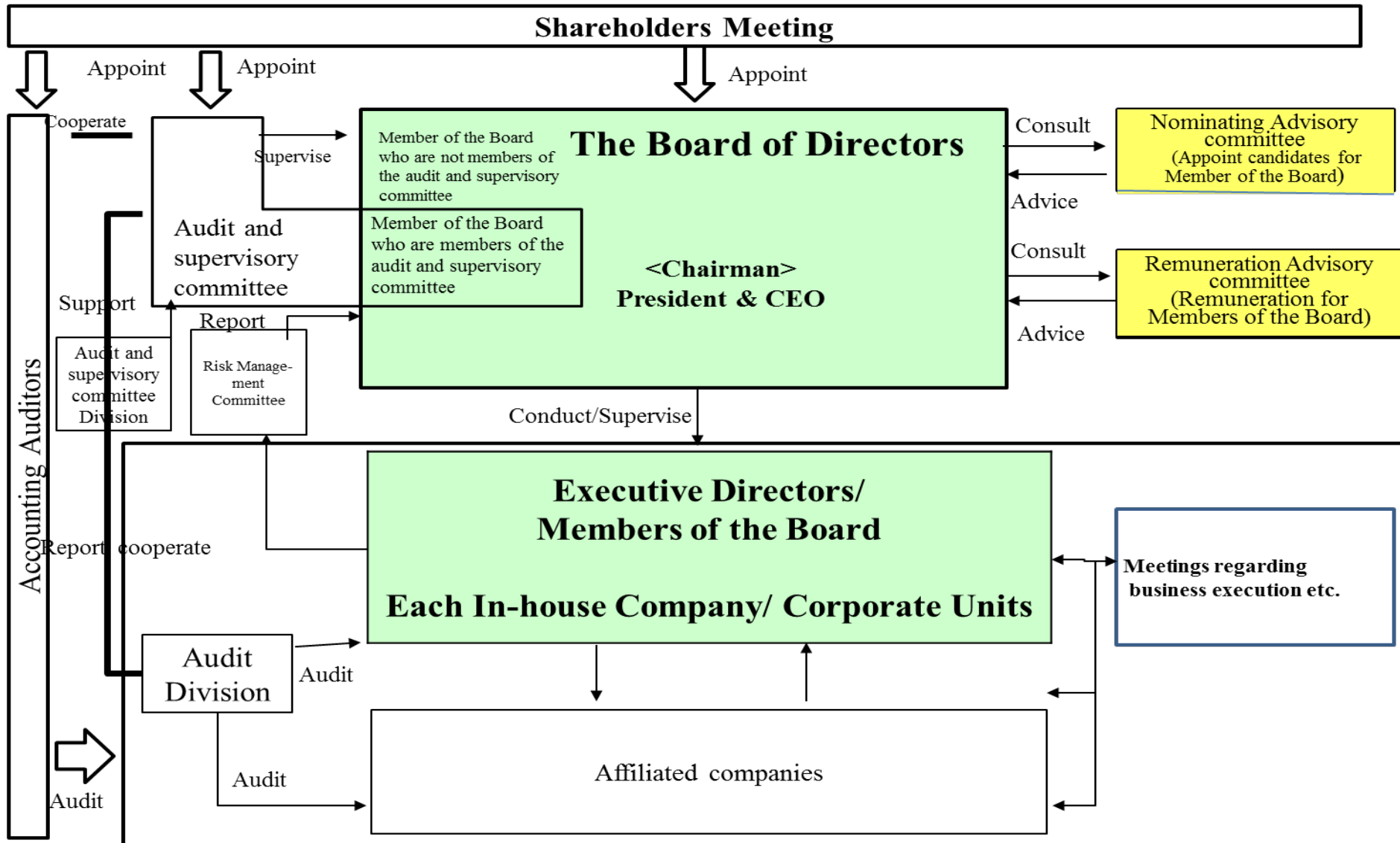
Speed-up decision making

✓ Establishment of Nominating Advisory Committee and Remuneration Advisory Committee

More than half of their members are outside directors and they evaluate each director's business execution in an objective way.

(8) Management reform

➤ Outline of new governance system



3. Research & Development Topics

(1) Research & Development Topics

➤ Develop a single-mode fiber laser

Contribute to the creation of new fields of laser processing

✓ Response to the growing demand for fiber lasers with high output power

→ Realized **the world strongest output power of 5kW** with single stage method^{*1} and **long delivery cables**^{*2}.

Technology of control SRS (stimulated Raman scattering), basic technology, contributed.



→ Highly regarded both in Japan and overseas
Top downloaded paper for consecutive three months
in SPIE -The International Society for Optical Engineering-
Achievement Award by the Laser Society of Japan

✓ Made it possible to work on things which were difficult with laser processing before.

→ Application to 3D modeling and processing materials other than metal

^{*1} Single stage: Method that does not use amplification by an amplifier
Easy to control stimulated Raman scattering

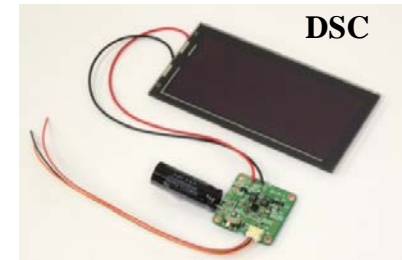
^{*2} Delivery cables: Optical cables that transmit laser beam from the source of laser light to the processing point

Example of 3D modeling



(2) Research & Development Topics

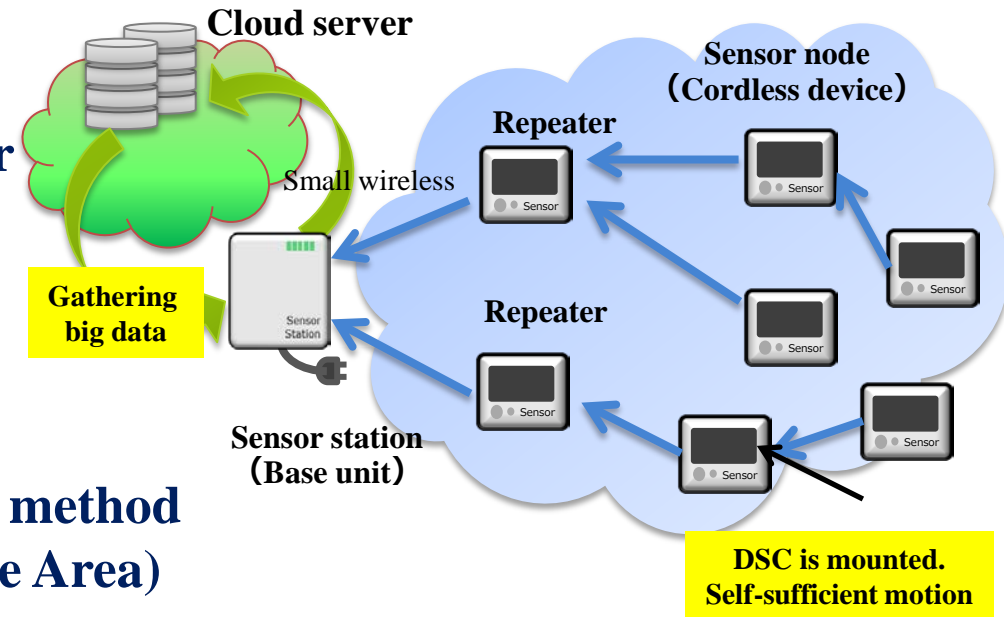
- **Developed solution to respond IoT**
 - **Contributed to solving IoT issues with Dye-sensitized Solar Cell (DSC) and wireless sensor system**



Power management circuit

- **IoT (Sensing) society = Use huge amount of sensors on all sides**

- ✓ **Issue of IoT terminal**
 - ... "electric power source"
 - places where there is no electric power source and/or changing battery is difficult ⇒ DSC+wireless system
- ✓ **Sensing in wide area**
 - ⇒ Multi-hop wireless system
- ✓ **Possible to respond the latest wireless method in IoT field** LPWA (Low Power Wide Area)



Power source/ wiring for data communication is not required
= Contributed to the expansion of IoT foundation

4. Return to Shareholders

(1) Profit Return Basic Policy

Executing well-balanced profit allocation

- Concentrated investment to growing businesses (next growth)
- Improvement of financial strength (capital ratio, D/E ratio)
- Flexible share buyback



Improvement of per-share profit

- Keep stable in dividend
- 2020 Mid-term basic policy : Dividend payout ratio 20%

**Expected dividend: Interim 7.0 yen per share, Year-end 7.0 yen share
(Total 14.0 yen per share)**

As a company creating customer value,
we will become a promising company with a future
with **"strong earning power"**
and **"power of strong reinvention"!**



Special Notes:

Statements in this presentation that relate to future results and events (including statements regarding Fujikura's revenue and earnings guidance) are based on Fujikura's current expectations. Actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These factors include the effects of general economics on the level of demand for Fujikura's products and services, and on Fujikura's ability to manage supply and delivery logistics; the level and intensity of competition in the electronic and telecommunication equipment industries, the pricing pressures that result, the ability of Fujikura to timely and effectively manage product transitions, component/material availability and cost; the ability of Fujikura to develop new products based on new or evolving technology; and the ability of Fujikura to manage its inventory levels to minimize excess inventory.

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