

Progress of 2020 Mid-term Business Plan

Overview of FY2017 and Actions in FY2018

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

Fujikura Ltd.

Masahiko Ito, President & CEO

May 11, 2017

➤ We will continue to maintain and strengthen "earning power".

Third year of 2020 Mid-term

**Important year for determining the success of
the 2020 Mid-term Business Plan**

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)**

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1. Review of FY2017 Financial Results and FY2018 Forecast

(1) Review of FY2017 Financial Results and FY2018 Forecast

(Unit: Yen in billion)

	FY2017 Results	1H FY2018 Forecast	FY2018 Forecast	FY2018 Forecasts —FY2017 Results Change
Net Sales	740.0	360.0	750.0	+10.0
Operating Income	34.3	17.0	39.0	+4.7
Ratio of Operating Income to Net Sales (%)	4.6	4.7	5.2	+0.6
Share of Profit of Entities Accounted for Using Equity Method	1.5	1.0	2.0	+0.5
Ordinary Income (Loss)	34.1	16.0	37.0	+2.9
Net Income (Loss) Attributable to Owners of Parent	18.3	10.0	23.0	+4.7
Net Income per Share (JPY)	64.36	35.06	80.63	+16.27
Dividend per Share (JPY)	14.00	8.00	16.00	+2.00
ROE (%)	8.7	—	10.1	+1.4
Exchange Rate (JPY/USD)	110.86	105.00	105.00	—
CU Base (1000JPY/ton)	757	780	780	—

(2) Review of FY2017 and Evaluation

➤ Evaluation of FY2017

✓ FY2017 message

**We will continue to maintain and strengthen
“earning power”. FY2017 is the true starting year!**

We attained operating income of 34.3 billion yen, a growth of 4.6% YoY, versus our plan at the start of the fiscal year for operating income of 38.0 billion yen or a growth of 5.4%. This reflects the following:

1. Deterioration in the Automotive Products Company (operating income underperformed the initial plan by **5.7 billion yen**)
2. In the Telecommunication Systems and the Electronics Business Company posted an increase in sales and profit, and developed into major pillars of growth
⇒ Overall **fortifying our earning power**
3. Metabolism of our business and structural reform
⇒ **Executed structural reform in Power Systems**

(3) FY2018 Forecast and Actions

Important year for determining the success of the 2020 Mid-term Business Plan!

➤ Maintain and strengthen “earning power”

- ✓ In 2H FY2018, aim to achieve ratio of operating income to net sales of **5.6%** (80% of the goal in the 2020 Mid-term Business Plan)
 1. Launch optical fiber related business, which was the focus of upfront investments, and contribute to profits
 2. Attain sales and profit growth by boosting production volume in the electronics business.
 3. In the automotive business, achieve recovery, revitalize operations and return to profit in 2H FY2018

➤ Revitalization of the automotive business

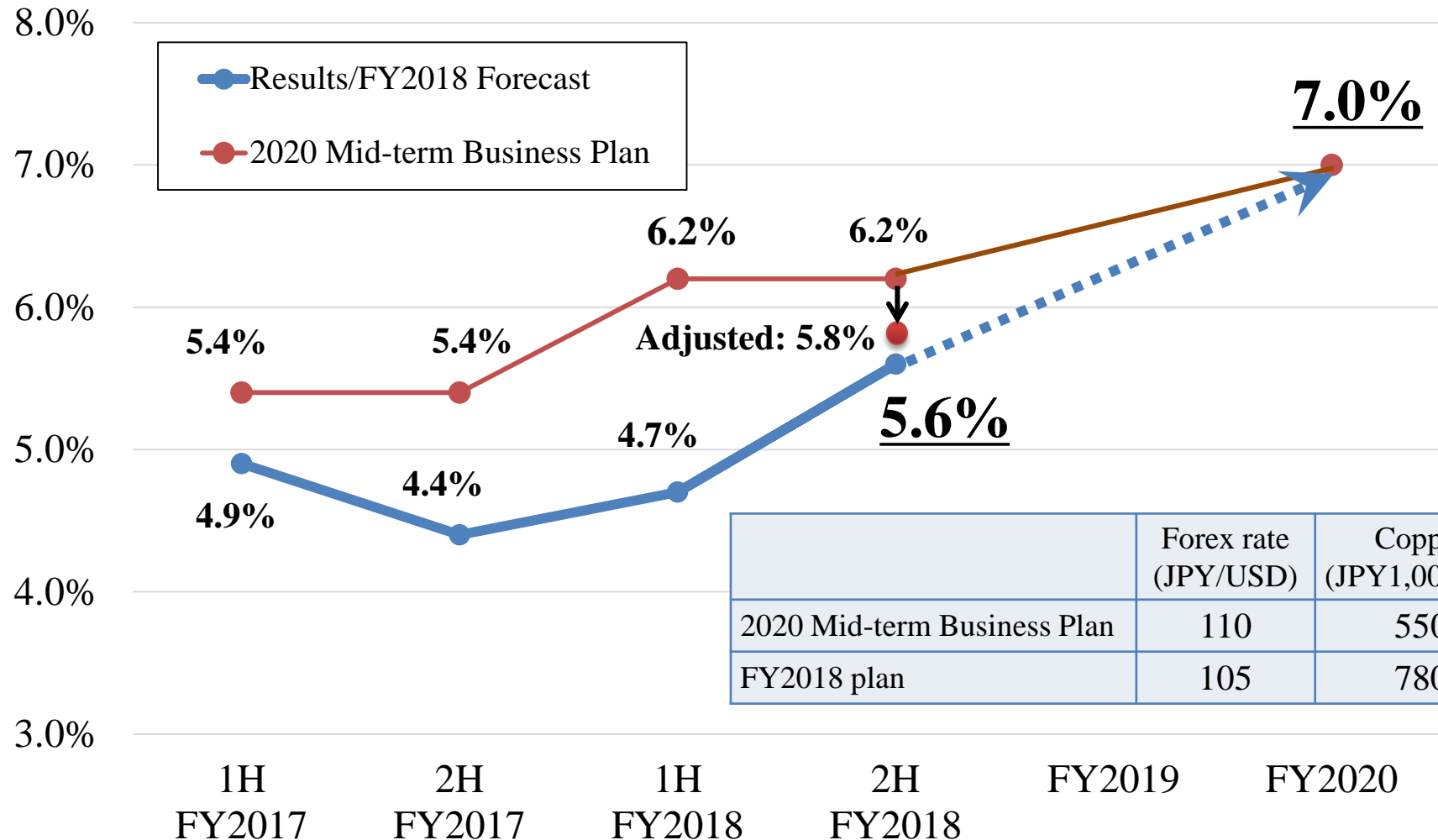
- ✓ Fujikura as a whole is putting all its efforts into solving the prolonged issues in Europe
 1. Review order strategy and execute business site strategies in line with demand
 - Production transfer and allocation to LCC (Ukraine, Moldova)
 2. Solve labor issues (hiring challenges, soaring wages)
 - Proper personnelization through through improvements of productivity
 3. Accelerate actions for new energy vehicles
 - Strengthen cross-business actions and establish an automotive products R&D center

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

2. Progress of Key Measures of 2020 Business Plan

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

Ratio of Operating Income to Net Sales



	Forex rate (JPY/USD)	Copper (JPY1,000/ton)
2020 Mid-term Business Plan	110	550
FY2018 plan	105	780

(2) Progress of 2020 Mid-term Business Plan: Key Measures

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

Developing deeper ties with strategic customers

- Developing deeper ties with strategic customers
 - Work to achieve greater business growth
 - Seize new business opportunities

1. Accelerate developing ties with customer by providing strategic products (SWR/WTC)
2. Win customer trust with differentiating quality

Accelerate new business creation

- Strengthen the structure for promoting new business
- Key areas
 - Automotive related
 - Industrial machinery
 - Medical devices

1. Strengthen products, technologies, and solutions for which automobiles are the platform
2. Work on the healthcare and fiber laser business

Open innovation

- Supply the missing pieces of portfolios and value chains and create new value for customers
- Speed up technology development, business development and business growth

1. Open innovation that creates value
 - Work with accelerators for start-up business
 - Set up an innovation hub

Management reform & business structural reform

- Response to Corporate Governance Code
- Improve the quality and speed of decision-making in a diverse range of businesses
- Strengthen the management base

1. Transition to a company with an audit and supervisory committee
2. Enhance diversity of members on the Board of Directors
3. Employ "Scandal Prevention Principles" and full-fledged compliance
4. Take ESG* measures

(3) Developing Deeper Ties with Strategic Customers: SWR/WTC

➤ Accelerate developing tie with customers by providing strategic products

(Spider Web Ribbon/Wrapping Tube Cable)

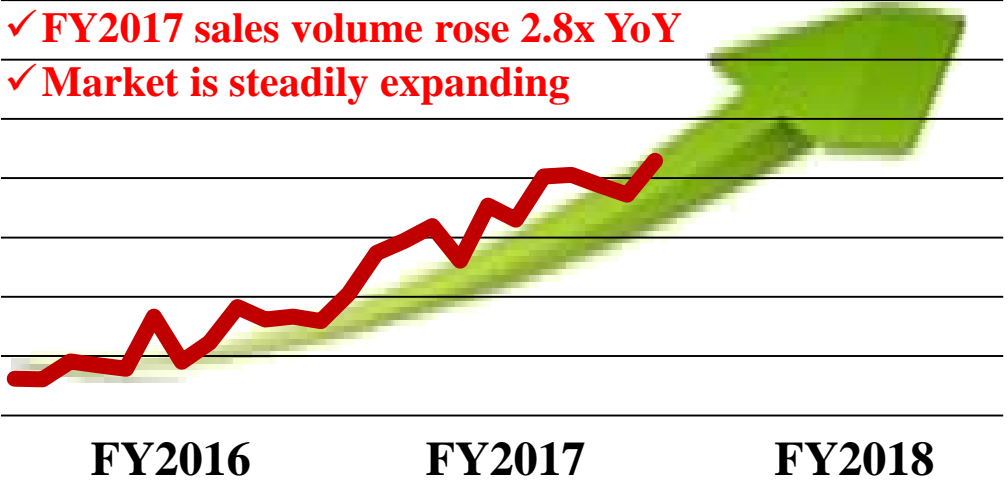
- Secure further growth and pave way for the future
- Upcoming opportunities for expansion in demand and become the defacto standard in the market

- Advancements in 5G and IoT and further accelerate FTTx, mainly in North America
- Hyper scale data centers reaching a level of higher density
 - Solove lack of cable ducts and rise in requests for joint use of electrical poles



- Increase number of optical fiber cores that can be installed in one cable duct
- Effective use of existing facilities (*no need for additional construction work)
- Thin, light weight cables ⇒ Easy installation, can lay long lengths of cable, compact drums (reduce transport cost)

Shipment volume converted from optical fiber core length

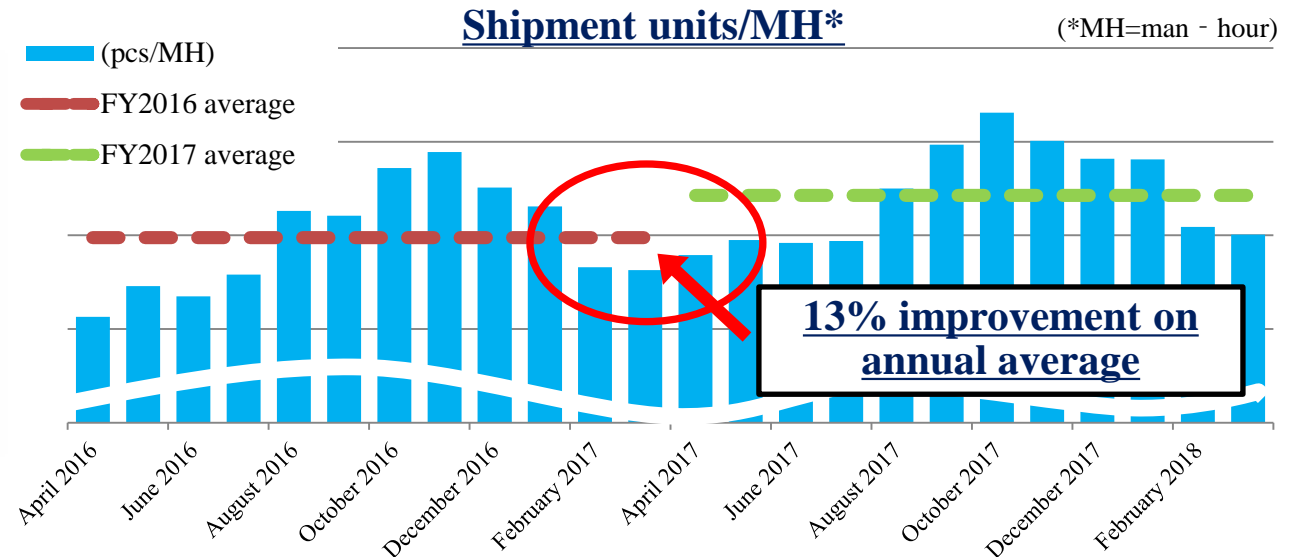


(4) Developing Deeper Ties with Strategic Customers: Electronics

➤ Aim to achieve sound growth by strengthening bond of trust with strategic customers

- Continue to implement business operations with quality as its foundation
- In addition to converting fixed costs to variable costs to address fluctuations in demand, we implement **manufacturing innovations through automation and IoT**

- Earn the trust of customers by preventing mixing of defective products
⇒ Moreover, improve profit margins by further enhancing internal quality
- Promote automation of manufacturing/inspections → Improve productivity by manpower saving

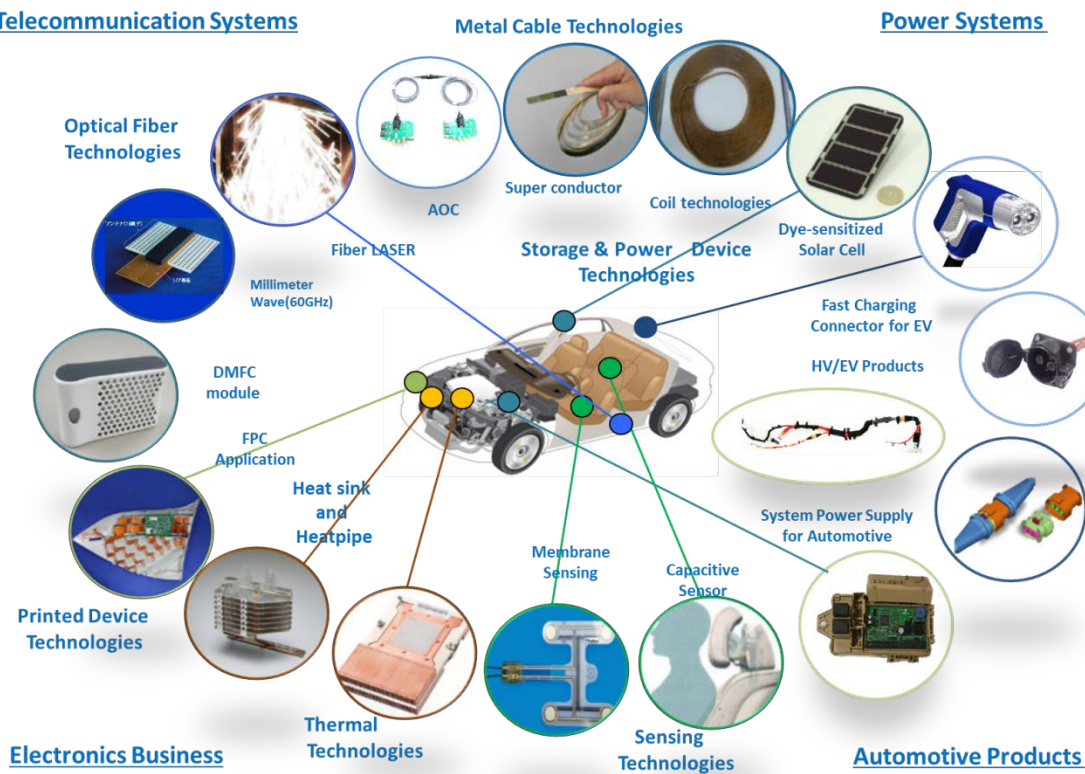


(5) Accelerate New Business Creation

➤ Strengthen development capabilities of products, technologies, and solutions for automotive market

- ✓ Companywide provision of products and technological solutions to customers
 - Establish automotive product R&D center in the Corporate R&D Unit
 - Establish Fujikura Technology Europe GmbH in Europe

Fujikura automotive related products and technologies



- ✓ **Redefine Fujikura's core technologies**
- ✓ **Propose total solutions responding to customer needs**
- ✓ **Collaborations beyond the boundaries of the businesses**



Accelerate and strengthen measures leading up to next mid-term plan

(6) Accelerate New Business Creation

➤ Business activities in the field of healthcare

- ✓ Core technologies are imaging and miniaturizing

Example: Direct imaging technology in the body

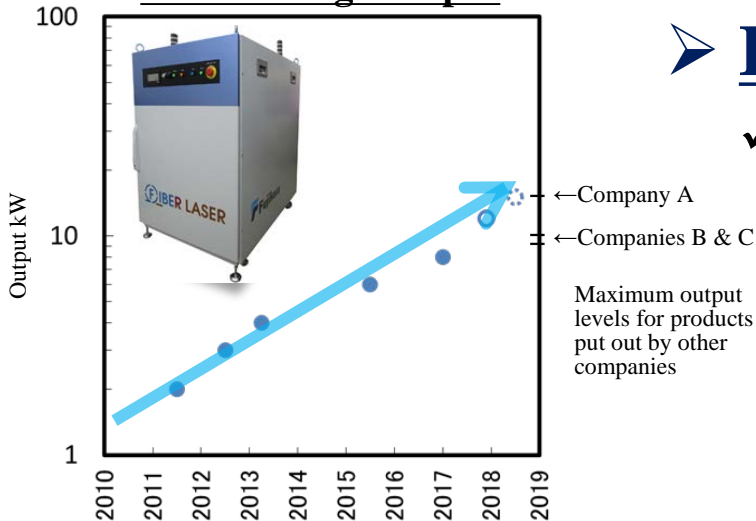
- Fujikura **nearly covers all methods for invasive imaging in detailed areas inside the body**
 - ⇒ Recommend optimal solutions to customers
(Small diameter CMOS imager, imaging fiber optics, OCT, endoscopic ultrasound)
- Extremely small diameter CMOS image sensor scope
 - ⇒ Further strengthen solution proposals



Example: CMOS endoscopy camera with extremely narrow diameter of $\phi 1.3\text{mm}$

*OCT = Optical Coherence Tomography

Trend of high output



➤ Fiber laser business activities

- ✓ **High output** multi-mode fiber laser

⇒ **High speed cutting, high quality cross section**

- Succeeded in achieving the highest standard for high power in the industry
- Achieved competitive prices

(7) Open Innovation

➤ Currently expanding and deploying actions to achieve 2030 vision

—Fujikura will solve the challenges of the future society in the four markets—

- Effective utilization of external resources
- Practice open innovation of "value co-creation type"

→ Start collaborations with two venture accelerators and several start-up companies

1. Collaborate with two venture accelerators

- Implementing collaboration with start-up

creww

creww...Verifying or discussing POC with four companies
PLUG AND PLAY JAPAN...discussing POC with several companies



PLUG AND PLAY JAPAN



2. Newly open innovation hub in July

- Provide an open space to inside and outside the company as a venue for value creation (Tokyo R&D Center, 7th floor, roughly 800 m²)
- Site for open innovation!



<Image>

(8) Management Reform: Governance Reform

- **Completed transition to a company with an audit and supervisory committee in June 2017**
 - Speed-up decision-making and strengthen audit and supervisory functions
 - ✓ Reform of the board of directors: Narrow down discussion items, strengthen audit and supervisory functions
 - ✓ Drastic delegation of authority to executive directors: Improve accountability and speed-up decision-making
 - ✓ Secure transparency: Establish a Nominating Advisory Committee and Remuneration Advisory Committee for the Board of Directors
- **Strengthen diversity of the Board of Directors**
 - ✓ Hired outside directors with experience in corporate management (June 2017)
 - ✓ Hire a director from the United States (June 2018)
- **Employ "Scandal Prevention Principle" which Japan Exchange Group suggested since March, 2018 and further thorough compliance**
 - ✓ As a listed company, implement prevention measures to ensure corporate value

(9) Management Reform: ESG Initiatives

➤ Management policies on ESG

(1) Make "Realization of sustainable society" and "Continuous success in our businesses" compatible.

(President's message in the CSR report)

(2) Maximize corporate value through ESG

(Management policy in the 2020 Mid-term Management Plan)

(3) Participate in global CSR framework

(UN Global Compact; SDGs)

➤ UN SDGs* and CSV* initiatives

(1) Expand eco-friendly products

✓ Manufacturing and sale of eco-friendly products

⇒ Make "Reduce environmental hazard" and "Attain high level of profit" compatible

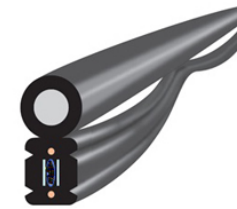
(2) Develop compatible electric power and communication infrastructures which is a social issue in Myanmar

✓ Participate in training for human assets who will become the cornerstone of the country, focus on becoming capable of dealing with their own country's issues in the future

✓ Award scholarships to students at 4 science and engineering universities

✓ Donate construction materials to government institutions and provide construction training

⇒ Make "contribute to development of the country" and "expand business operations" compatible.



Small core, aerial optic fiber cable

In comparison with conventional products, the cross section of the cable is 54% smaller, and its weight is 45% lighter.

Packing volume is also 60% smaller thereby boosting transport efficiency.

(SDGs = Sustainable Development Goals, CSV = Creating Shared Value)



Scholarship ceremony in Myanmar

3. Research & Development Topics

(1) Research & Development Topics

➤ Successfully introduced AI into manufacturing processes, which was the most advanced achievement in this industry

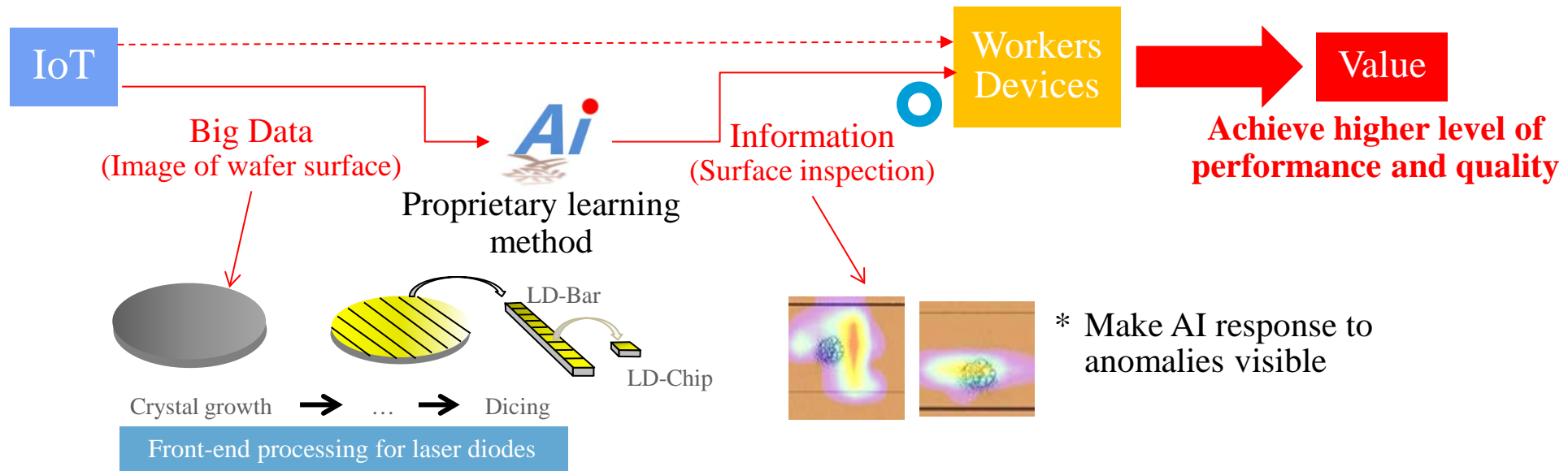
○ Establish AI platform for an inspection process in manufacturing

(1) Fujikura's proprietary AI learning method (2) Make AI model visible

○ Promote "manufacturing innovations" by introducing AI and IoT into manufacturing processes

⇒ Achieve manufacturing strength that allows customers to perceive value = Turn up the appeal of manufacturing

- Appearance determination of each LD elements on semiconductor wafers using AI (97% precision) ⇒ Achieve higher quality
- Possible to replace existing processes with AI ⇒ Expand the solution into other productions



(2) Research & Development Topics

➤ Develop single-mode fiber laser

Contribute to the creation of new application fields of laser processing

○ "Higher output power" and "More applications" are customer needs

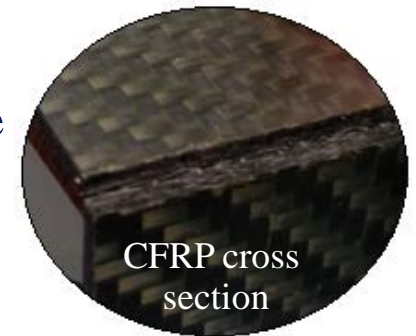
(1) Response to the growing demand for fiber lasers with high output power

→ Achieved **the world highest output power of 5kW** with single stage method*¹ and allow to use **long delivery cables***²

(2) Made it possible to work on things which were difficult with conventional laser processing

→ Increase in inquiries from customers on application to various use

- Example: High speed, high quality CFRP processing ⇒ No degradation of tools which is an issue with conventional methods



Example of CFRP processing

*¹ Single stage: Method that does not use amplification by an amplifier. Excellent suppression of stimulated Raman scattering.

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

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%

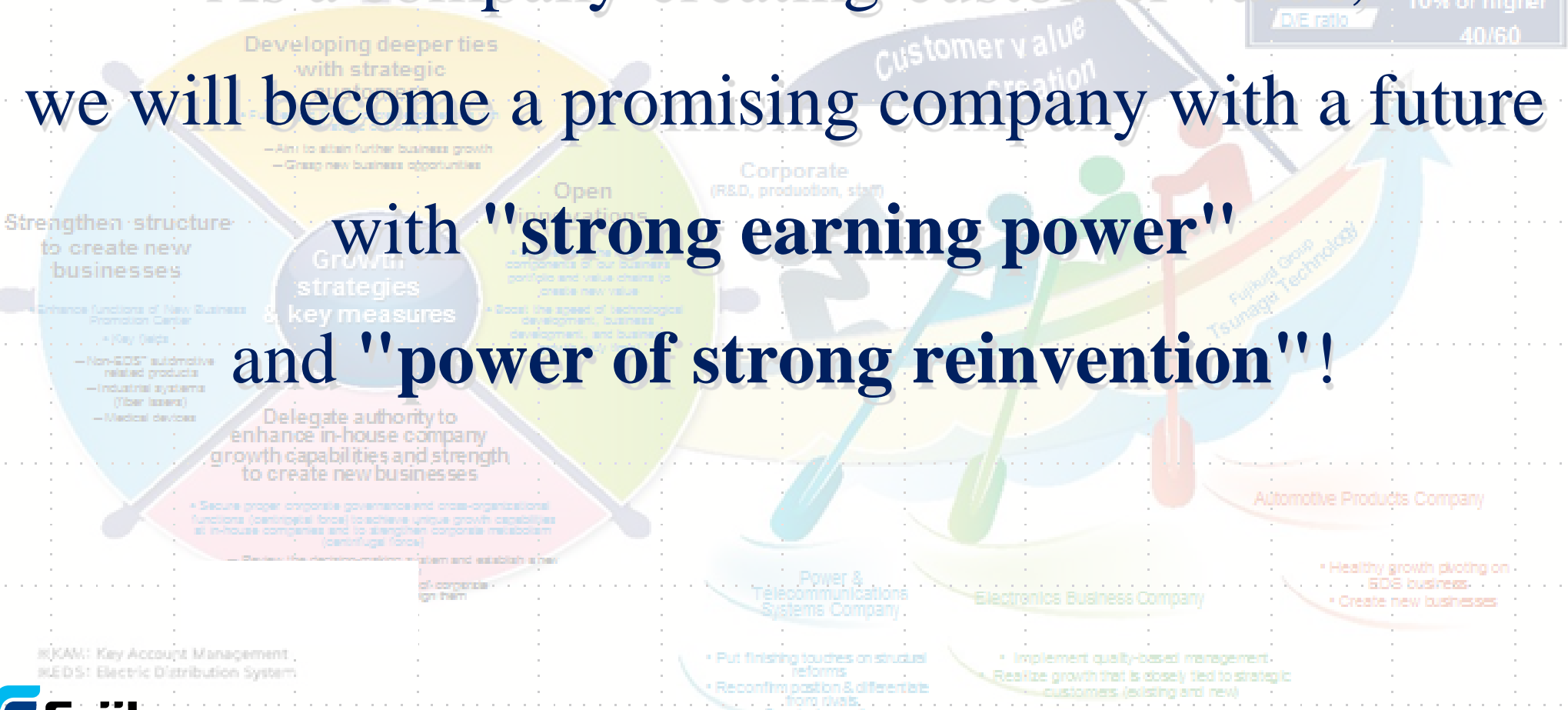
**Expected dividend: Interim 8.0 yen per share, Year-end 8.0 yen share
(Total 16.0 yen per share)**

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

Aim to become a high profit company

FY2020 Strategic Business Goal	
ROE ratio	7.0% or higher
Net Sales	900 billion yen
Operating Profit	10% or higher
D/E ratio	40/60

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



R/KAM: Key Account Management
eGDS: Electric Distribution System



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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