# Fujikura Ltd.

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***Awabuki* (Sweet Viburnum) tree commemorating the founding of the Company**

Even after 130 years with Fujikura, we still treat it with great care.


VEGETABLE OIL INK

Printed in Japan




Fujikura

# 2017 Annual Report

Year Ended March 31, 2017

# “Tsunagu” Technology



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## Fujikura Group Corporate Philosophy

### Mission

The Fujikura Group’s mission is to create exceptional value for our customers around the world using “Tsunagu” (the Japanese word meaning “connecting”) technologies.
We dedicate ourselves to providing exceptional products and solutions earning our customers’ trust and contributing to society.

### Vision

- Fujikura’s vision is to be the most trusted partner in our markets, to continuously develop innovative and relevant products and solutions, and to positively impact our communities.
- We strive to become the leading player in our markets by utilizing our “Tsunagu” technologies, tirelessly developing innovative and useful products and solutions.
- Each individual within the company will endeavor to become an essential player, thus developing a team that can truly help Fujikura make its mark on the world stage.

### Core Values

- **Customer Satisfaction**
  “Are you doing enough to ensure customers are perfectly satisfied?”
- **Change for the Better**
  “Are you willing to take up challenges to drive progress?”
- **Collaboration**
  “As a Fujikura associate, are you driven to work together with others to deliver the best possible result for our company?”

### Behavior Standards

- Always consider the customer first. Make customer satisfaction your highest priority.
- Consider what to accept and what to reject.
- Identify and demonstrate clear goals.
- Stay ahead of emerging technologies and connect people and solutions to the communities we serve.
- Choose your actions based on facts.

# Fujikura's History

In November 1883, Zenpachi and his brother went to see the arc light demonstration held on Nihonbashi-dori. They subsequently embarked on the electrical wire business after noticing the similarities in braiding technology for the hair ornaments in Zenpachi's home business and the insulation for electrical wire.

Over the more than 130 years since then, Fujikura has been the first to succeed in many things, both in Japan and worldwide. Fujikura was the first company in Japan to manufacture of rubber insulation for wires and "Fujikousen" electrical wire for aircraft prior to the war, then was the first to discover the ultra low-loss area of the optical fiber sector after the war. This achievement by Fujikura and other companies was recognized as an IEEE Milestone.

Contributing to the prosperity of society by supplying highly reliable products to the world through innovative technologies, and maintaining high product quality through the unbroken succession of exacting standards of monozukuri (craftsmanship) from our predecessors is what has ensured a relationship of trust between Fujikura and its customers right up to the present.

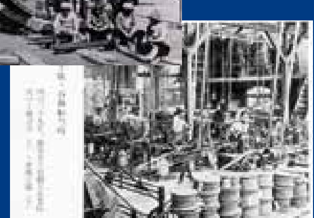
This is the point from which Fujikura started and by which it lives today.

## Beginning

1883 November 3
Zenpachi Fujikura goes to see a demonstration of the arc light on the balcony of the postal service and telegraph office on Nihonbashi-dori with his youngest brother, Tomekichi, and takes an interest in electricity.

1885 Zenpachi Fujikura begins manufacturing silk and cotton insulated winding wires.

1886 Tomekichi Fujikura travels to USA.



Founder, Zenpachi Fujikura

## Establishment

1890 Tomekichi Fujikura returns from the USA.

1893 Launch of manufacture of first rubber-insulated wires in Japan.

1901 Founder, Zenpachi Fujikura passes away (59).
Reorganization as an unlimited partnership named Fujikura Electric Wire & Rubber Co., Ltd. was founded.
Representative: Tomekichi Matsumoto
Capital: 25,000 yen

1903 Appointment of Fujikura plant as a Japan's first rubber-insulation factory by the Department of Communication.

1910 Establishment of Fujikura Electric Wire Corporation.
Representative: Tomekichi Fujikura
Capital: 500,000 yen

1916 Launch of copper refining, rolling and wiring operations.

1918 Acquisition of the patent for multi-layered rubber-insulated wires.

1919 Established "Fujikura Gakuen", a special facility for mentally-challenged children, on Oshima island.

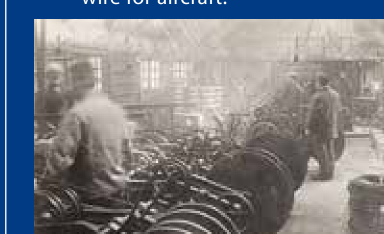
## Restoration after the Earthquake and Fujikura of Technology

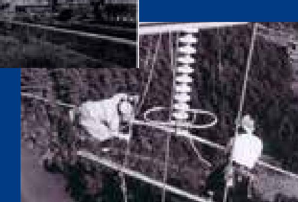
1923 Completion of the Fukagawa head office and plant.
Total destruction of the Fukagawa head office and plant by fire in the aftermath of the Great Kanto Earthquake.

1925 Delivery of 1200 mm twisted pair cables made of domestically manufactured insulated paper to the Department of Communication.

1930 Launch manufacturing of unit-type city cables.

1931 Launch manufacturing of "Fujikousen", Japan's first electric wire for aircraft.





## Postwar and high economic growth period

1945 Complete destruction of Fukagawa plant in Tokyo Air Raid.

1949 Delivery of Japan's first 24-core TV camera cables to NHK (Japan Broadcasting Corporation).

1957 Launch of wiring harness manufacturing.

1958 First-time delivery of 154 kV OF cables to Tokyo Electric Power Co., Inc.
Establishment of Tama Fujikura Gakuen.

1964 Development of equipment for the manufacture of SZ-twisted telecommunications cable.

1965 Launch manufacturing of printed circuits using a die stamp method.

1968 Relocation of head office to the Kasumigaseki Bldg.

## Period of upheaval and hardships

1975 Joint optical fiber research agreement signed by Nippon Telegraph and Telephone Public Corporation, Furukawa Electric Co., Ltd., Sumitomo Electric Industries, Ltd. and Fujikura.
Development of Japan's first flat-type elevator cables.

1976 Development of world's first long-wavelength/ultralow loss optical fiber in cooperation with Nippon Telegraph and Telephone Public Corporation.

1977 Relocation of the head office to the Fujikura Bldg. in Gotanda.

1979 Launch manufacture of FPCs for electronic devices.
World's first transmission loss of only 0.27 dB/km achieved with a low-loss single-mode optical fiber.

1980 Development of single-mode optical fusion splicers.

1981 Development of heat pipes for snow melting.
Development of Japan's first OPGWs (Optical Fiber Composite Overhead Ground Wire).

1982 Development of semiconductor pressure sensors.
Launch of membrane switch manufacturing.

1983 Delivery of optical fiber for the Pan-Japan (longitudinal) optical fiber transmission line.

1985 Development of the world's first core alignment fusion splicer.

1987 Successful fabrication of oxide superconducting wires.

1988 Development of world's first CS trolley wires.
Development of world's first multi optical fiber fusion splicers.

1990 Development of EDFA (erbium-doped optical fiber amplifier).
Completion of New Fukagawa Head Office Building.

## Globalization newtech

1992 The corporate name changed to Fujikura Ltd.

1993 Delivery of 500 kV CV cables and Hokkaido-Honshu optical fiber integrated submarine cables.

1995 Development of super low loss multi-fiber optical connectors.

1998 Delivery of World's largest 500 kV DC OF submarine cables to Kansai Electric Power Co., Inc. and J Power (Electric Power Development Co., Ltd.)
Development of the first recyclable, ecological electrical wire in the world

1999 Development of a new signal cable for the "Shinkansen" bullet train.

2000 Completion of a major urban redevelopment project on the site of the previous Fukagawa Plant, and opening of the "Fukagawa Gatharia" complex.

2001 Commercialization and marketing of FTTH optical fiber products.
Development of a seat sensor for automobiles.

2002 Live wire insulation diagnostic device for high-voltage CV cables wins Shibusawa Award.
Delivery of cables for a deep-earth exploration vessel.

2003 Development of dye-sensitized solar cells.

2004 Delivery of cables for ultra-high speed elevators.

## Period of major global competition

2005 Adoption of corporate philosophy: "MVCV (Mission, Vision, Core Value)"
Establishment of VISCAS Corporation, a joint venture company in high voltage business with Furukawa Electric Co., Ltd.
Establishment of Fujikura Dia Cable Ltd. in a joint venture with Mitsubishi Cable Industries Ltd.

2007 Shatters the critical current record with an yttrium-based oxide superconducting wire.

2010 Completion of 'Fukagawa Gatharia' (Fukagawa re-development project)
Open "Millennium Woods", Fujikura Bio-Garden.

2011 Damage from floods in the Kingdom of Thailand.

2013 Introduction of in-house company system through organizational restructuring.

2015 Establishment of AFLIG, LLC, a company in the U.S. that manufactures and sells optical fiber splicing products.
The VAD method is recognized as a milestone by the IEEE.

2016 Consolidation of all manufacture and sale of industrial electrical wire in Fujikura Dia Cable Ltd.
Reorganization of VISCAS Corporation and transfer of the distribution line and overhead power line business to Fujikura.

The diversification and globalization of its business led Fujikura to establish many overseas locations from the 1980s to the present. The Fujikura Group currently operates 140 companies in 29 countries.

Of particular note is Fujikura Electronics (Thailand) Ltd., which is part of the Electronics Business Company and was established in 1984. Since that time, the Kingdom of Thailand has been one of Fujikura's main manufacturing locations. It was damaged by flooding in 2011, but Fujikura succeeded in restoring operations within a short period of time.

Fujikura's Automotive Products Company has kept pace with the global expansion of our customers by establishing and operating locations overseas.

# President's Message

**This fiscal year is key to achieving the 2020 Mid-term Business Plan. We will put forth our best effort on this as we also prepare for future growth by continuing to work on strengthening and maintaining the earning power of the Fujikura Group and focus on return regardless of scale in FY2017.**

# Bridge to the future


**Masahiko Ito**
President & CEO

The business environment during FY2016 produced stiff headwinds as demand for electronics products from major customers fell in the face of exchange rate volatility stemming from Brexit and the inauguration of the Trump administration. However, market demand was strong, primarily in telecommunications, and this resulted in a growth in profit despite the decline in revenue. The operating margin also increased by 0.4 percentage point to 5.2% and it is my view that the company has taken another step toward a recovery in earning power.

When it was first announced last year, the 2020 Mid-term Business Plan called for a year-on-year decline in both revenues and profits during FY2016. However, the positive effects of various measures implemented brought about this improvement. As demonstrated by the electronics segment, I believe this shows that the company has reached the point of being able to maintain a profit margin at or above a certain level even in the face of a decline in demand, and demonstrates the benefits achieved from the structural reform of our business, which was completed in FY2015.

While FY2016 provided a steady start to the 2020 Mid-term Business Plan as the initial fiscal year in that plan, the favorable results were due to results achieved during the 2015 Mid-term Business Plan. I therefore regard FY2017 as the true start of the 2020 Mid-term Business Plan.

FY2017 is the second year of the 2020 Mid-term Business Plan, and will be the year during which the results of measures initiated since I became the company president will begin to emerge in stages.

During FY2017, my aim is to achieve a solid launch of the increased production capacity that Fujikura has invested in since last year and to maintain a sense of urgency in meeting market demand, particularly in the telecommunications business, which will benefit from a tailwind. The Fujikura Group will continue to build an unshakeable foundation for the core pillars of our business, not just during this 2020 Mid-term Business Plan but also in the next, 2025 Mid-term Business Plan.

We anticipate demand stemming from the debut of new models by major customers in the electronics business this year. However, we will still continue our work on reinforcement to create a corporate structure with solid earning power by being prepared to react swiftly to fluctuations in demand, just as we did in FY2016.

We project an operating margin of 5.4% in FY2017, a 0.2 percentage point increase compared to FY2016 due to the initiatives detailed above and to a change in the method of depreciation, and intend to make steady progress toward achieving an operating margin of 7.0%, which is a goal of the 2020 Mid-term Business Plan.

# At a Glance

Net Sales: **¥653 billion**

Ratio of Operating Income to Net sales: **5.2%**

## Power & Telecommunication Systems

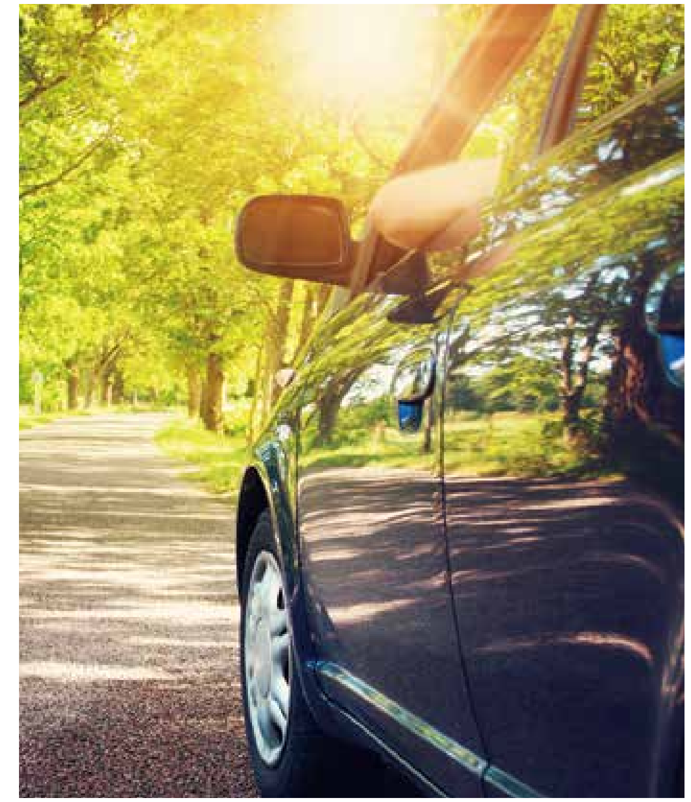
Net Sales: **¥349 billion**

Ratio of Operating Income to Net sales: **5.8%**

## Electronics Business

Net Sales: **¥156 billion**

Ratio of Operating Income to Net sales: **4.8%**



## Automotive Products

Net Sales: **¥133 billion**

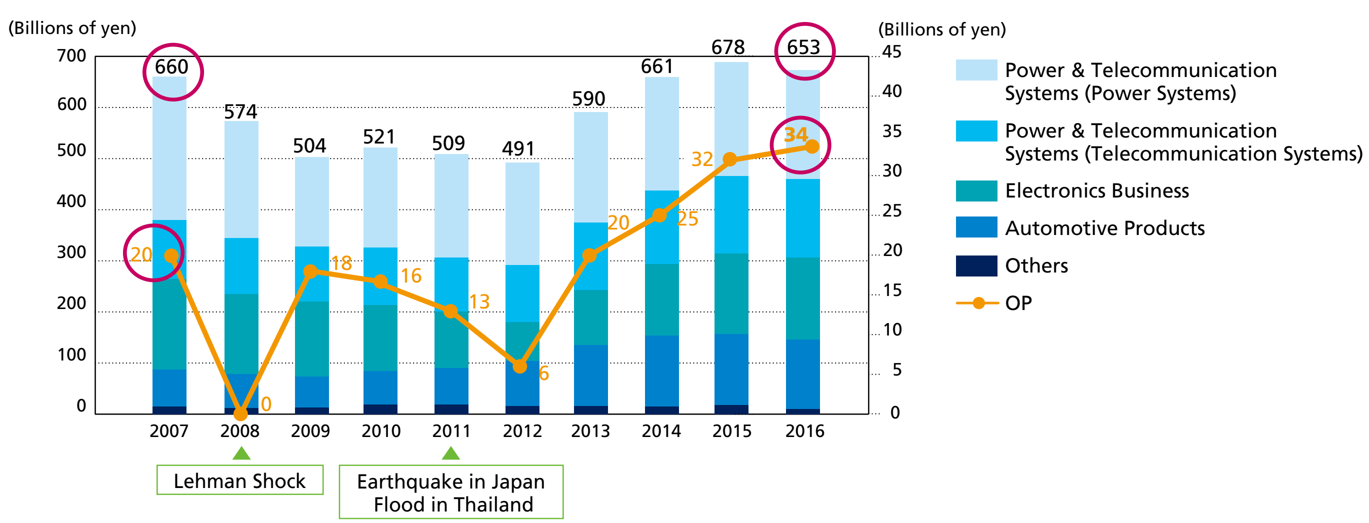
Ratio of Operating Income to Net sales: **1.9%**

## Real Estate Business

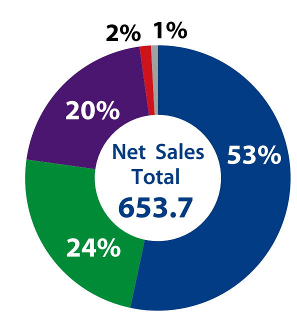
Net Sales: **¥10 billion**

Ratio of Operating Income to Net sales: **45.8%**

## 10 Years of Business Trend



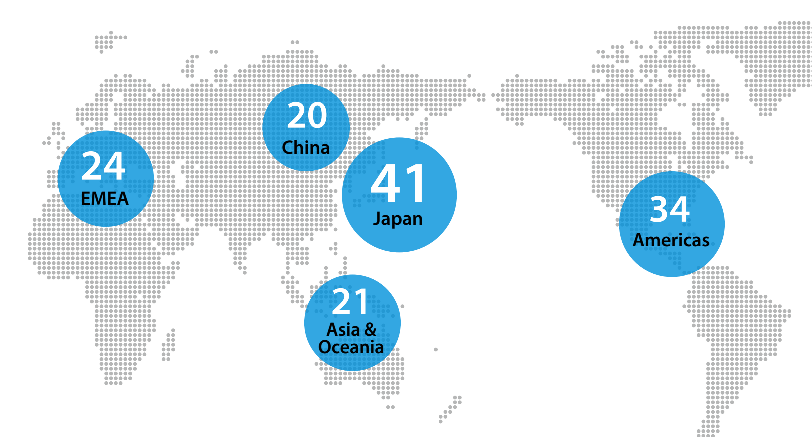

## Net Sales by Segment




(Billions of yen)

- Power & Telecommunication Systems: 349.6 (Power Systems: 196.0 Telecommunication Systems: 153.6)
- Electronics Business: 156.7
- Automotive Products: 133.1
- Real Estate Business: 10.1
- Other: 4.1

## Global Operation Network (Number of group companies)



# Financial Highlights

## For the Year

(Billions of yen)

| | |
|---|---|
| **653.7** | Net Sales **−3.6%** |
| **34.2** | Operating Income **+4.9%** |
| **12.9** | Net Income Attributable to Owners of Parent **+14.0%** |
| **45.6** | Capital Expenditures **+42.7%** |
| **15.6** | R&D Expenditures **−3.7%** |
| **62.7** | EBITDA **+16.8%** |
| **6.4%** | ROE **+18.4%** |

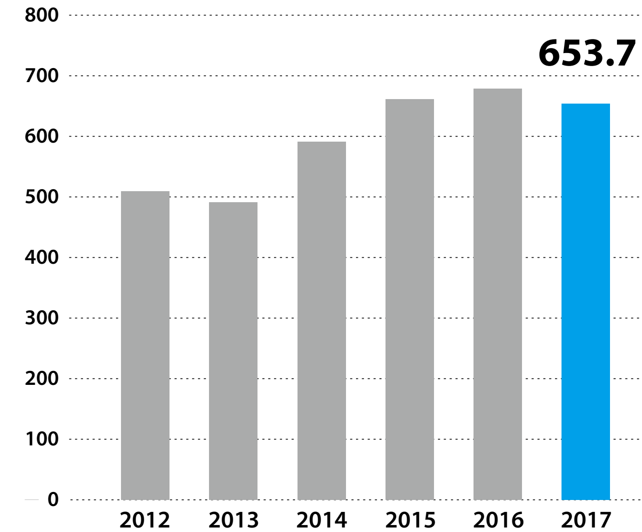
## At Year-End

| | |
|---|---|
| **588.6** | Total Assets **+6.5%** |
| **224.5** | Total Net Assets **+3.0%** |
| **56,961** | Number of Employees **+5.3%** |

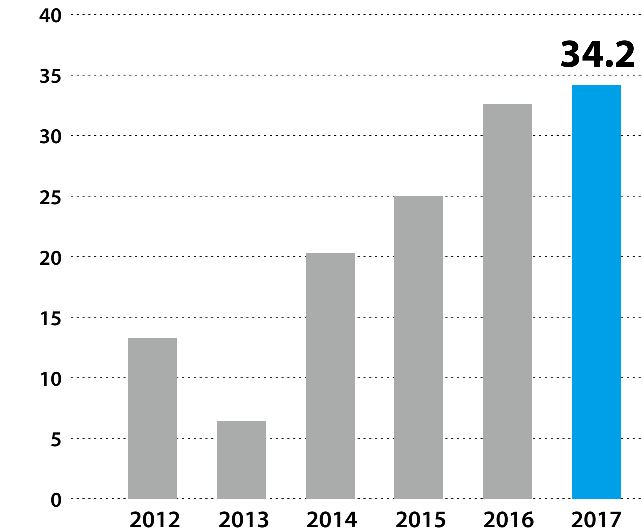
## Per Share Data

| | |
|---|---|
| **44.61** | Net Income (Loss)—Primary **+20.6%** |
| **–** | Net Income—Fully Diluted |
| **¥10.00** | Cash Dividends |

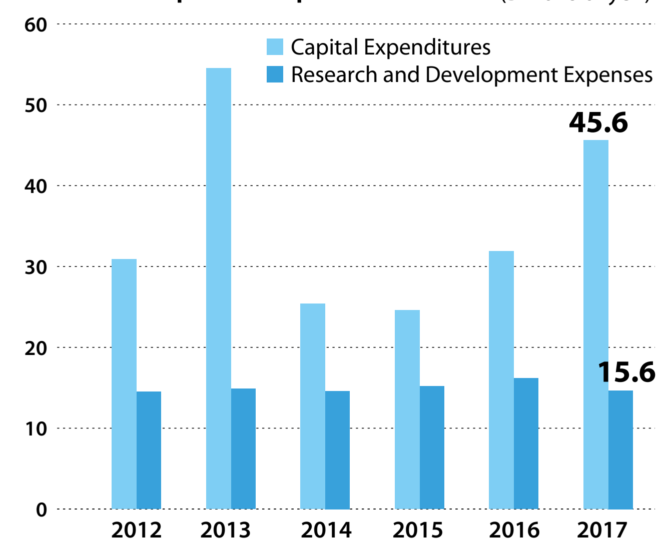
**Net Sales** (Billions of yen)



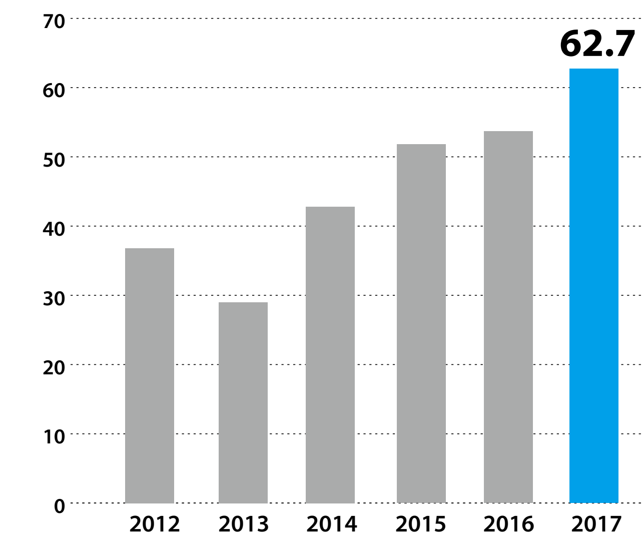

**Operating Income** (Billions of yen)



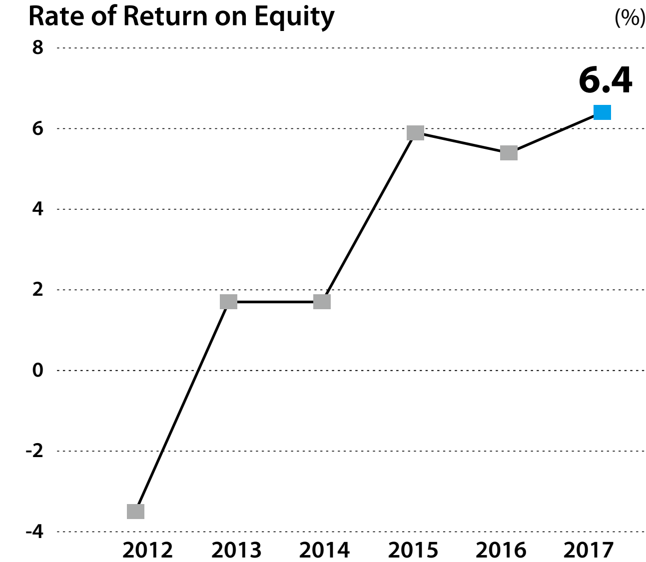

**Capital Expenditures, Research and Development Expenses** (Billions of yen)



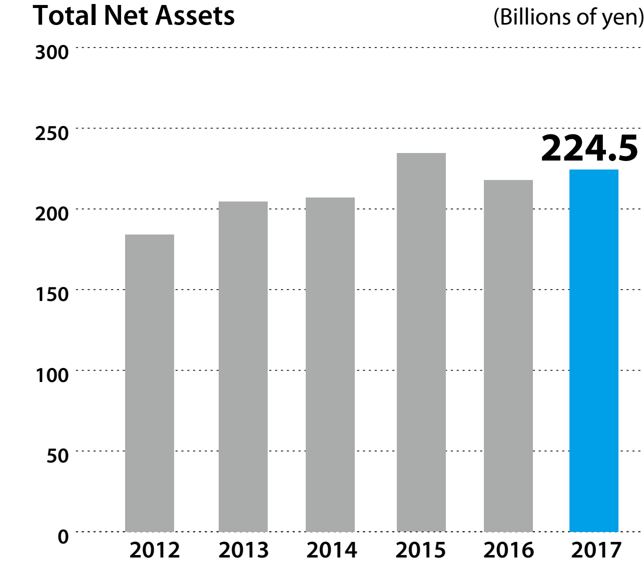

**EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)** (Billions of yen)




**Rate of Return on Equity** (%)




**Total Net Assets** (Billions of yen)



# Progress of 2020 Mid-term Business Plan

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

## 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)**

## Growth Strategy and Key Measures

We have adopted the following growth strategy to achieve the goals of the mid-term plan.

**Developing deeper ties with strategic customers**

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

See the next page for further details.

i) Strengthen EPC/ service business
ii) Approach to overseas key customers by providing strategic products (SWR/WTC)
iii) Strengthen relation with strategic customers further

**Speed up new business creation**

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

Actions in Fiber laser business
- Introduce more competitive products
- Strengthening marketing capabilities

**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

New actions to create innovation
- Develop 2030 Vision
- Hold a matching event with start-up companies

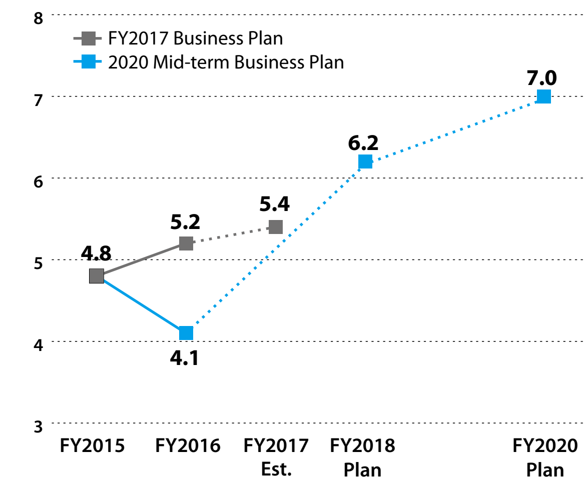
**Management reform & business structural reform**

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

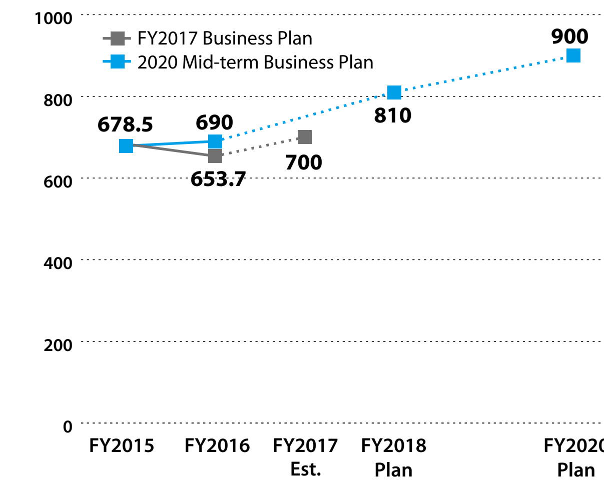
i) Structural reform for domestic cable & wire business
- Viscas Corporation reorganization
- Fujikura Dia Cable Ltd. business integration

ii) Corporate governance reform

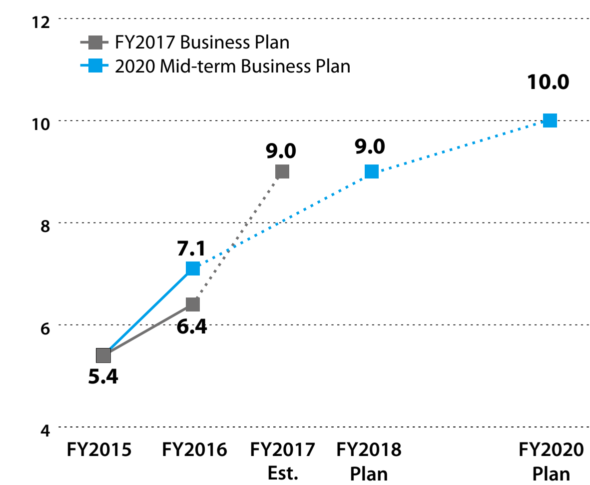
**Ratio of operating income to net sales** (%)



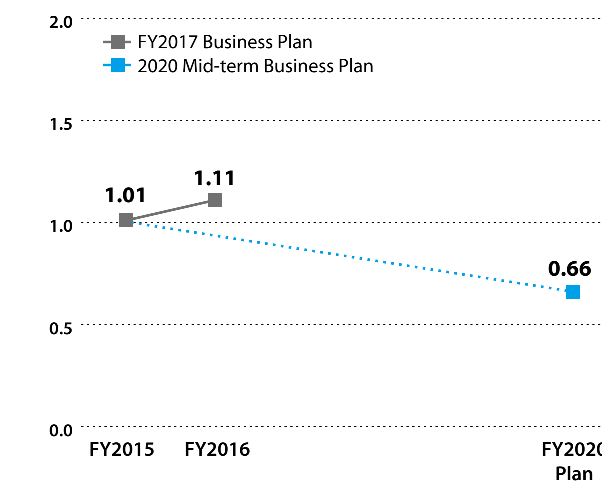

**Net sales** (billion yen)




**ROE** (%)




**D/E ratio** (times)

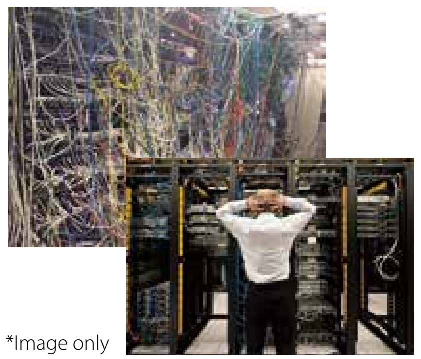


## Responding to strong demand of the growing data center business

■ DC's demand is expected to be stable in the future

(i) Scope of the Company
- → Capture optical interconnection solution business in DCs market thoroughly
- → Market is of a wide range (Connector, terminal, ultra multi-core cable etc.)

(ii) Contribution of AFLIG acquired in December 2015
- → Started to work for a globally expanding hyper scale/enterprise DC customers



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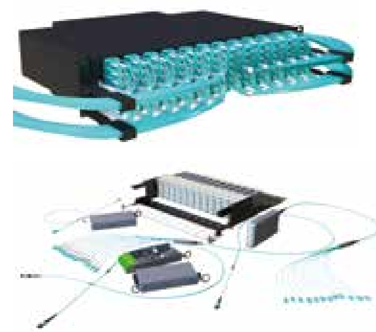


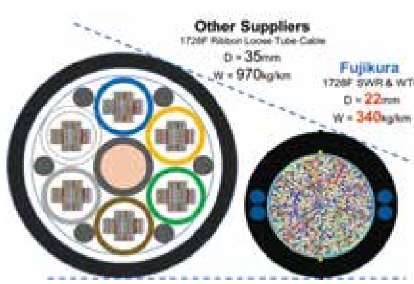
## Approach to overseas key customers by providing strategic products (Spider Web Ribbon/Wrapping Tube Cable)

■ We have been recognized by customers since last year. Expect revenue growth in FY2017

■ We will improve optical cable business's profitability by introducing high value added products

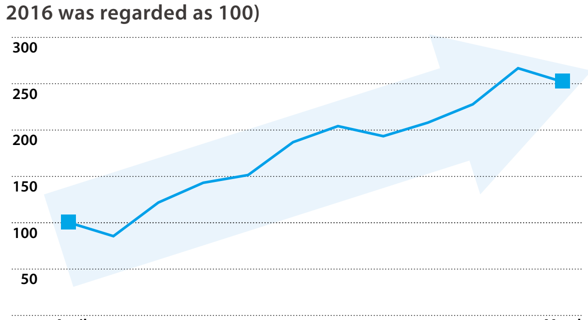
Thin and light super multi- core cable which is easy to install

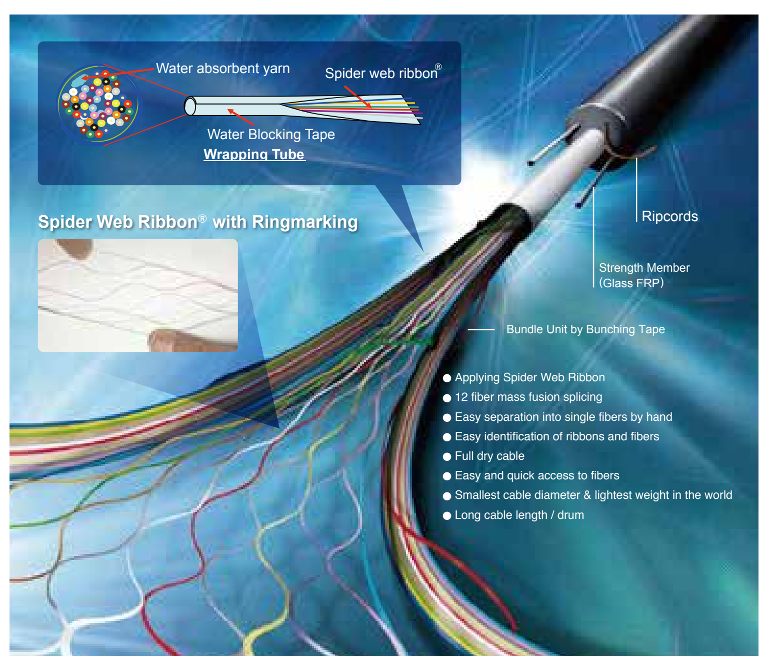
Reduced -external diameter- by 37% and -weight- by 64% compared with conventional 1728-core-cable




Comparison of cross section of optical cables

Rapidly growing net sales of SWR/WTC (Net sales in April in 2016 was regarded as 100)

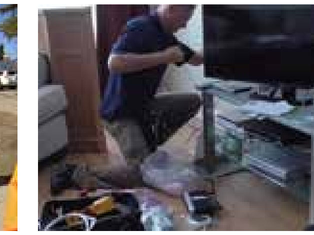



## Strengthen EPC/ service business

■ Business expansion and strengthening of profitability has been bearing fruits steadily

1. EPC service for overseas large telecommunication companies



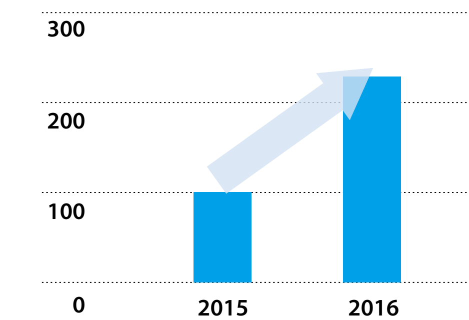
(i) FTTH engineering for cities is 2 times up YoY

(ii) Construction in a big city in the country

(iii) New entry into FTTH construction for an electric power company

2. Emerging countries (Myanmar, Brazil)
   Receiving orders by market environment improvement

Number of construction project in cities
FY2015 indexed to 100




## Aggressive response to customers' requirements in FPC Business

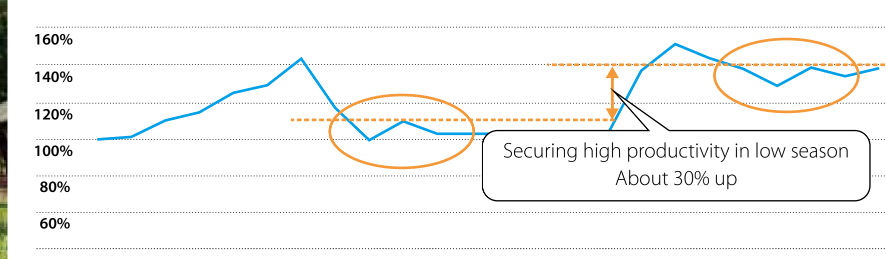
■ Respond to customers' requirements by high quality products and technologies as well as flexible production system

Building flexible production system

(i) Turning fixed cost into variable cost

(ii) Manpower saving by automatization of inspection process and other method
Improvement in productivity per capital

Improving productivity
Productivity indexed to April 2015 = 100




### We will enhance improvement further in FY2017

## Entering a New Phase of Growth

The Power & Telecommunication System Company implemented structural reform in our businesses and reallocated resources to growth areas to become a highly profitable and innovative company. FY2017 is the year in which we will complete that structural reform.

FY2016 saw an increase in demand for optical fiber, mainly in China and North America, from brisk investment in data center wiring, mobile communication networks, FTTx networks, and other communications infrastructure. The global optical fiber shortage is expected to persist in FY2017 as well. We will invest in increased production capacity for optical fiber and optical cable as we ascertain the trends in demand for these.

Rapid growth in the electric power infrastructure market is projected in Myanmar and other Southeast Asian countries and in Brazil and neighboring countries in FY2017. Fujikura will join hands with partners in those countries to promote engineering, procurement, and construction businesses.

We will invest many resources in development of new products and production technologies, strive to differentiate our businesses in terms of quality, cost, delivery and service (QCDS), and create new businesses capable of competing worldwide.

We will complete most preparations for the key measures the Company will implement to achieve the 2020 Mid-term Business Plan during FY2017.

***This fiscal year we will reach our goal of completing the structural reforms, product differentiation, and development of production technology we embarked on last fiscal year. We will also move forward with putting the infrastructure in place to enable rapid response to robust demand from the communications market, and will strengthen our earning power.***

**Hideyuki Hosoya**
Senior Vice President &
Member of the Board

### High-Density Optical Termination Rack

A high-density optical termination rack for multifiber cables that can be placed in a small space such as limited floor space of a data center.

### Field Installable Optical Connector

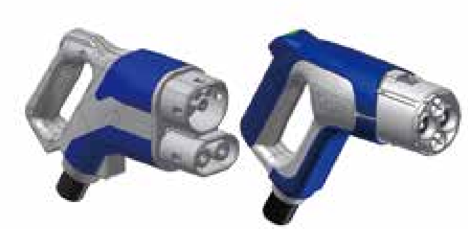
Field installable optical connectors that can resolve cabling congestion in an optical termination rack.

### 3,456

We launched sales of a small-diameter, lightweight 3,456-fiber WTC optical cable that is easy to handle. It increases the data transmission capacity of existing line conduits.

### Double

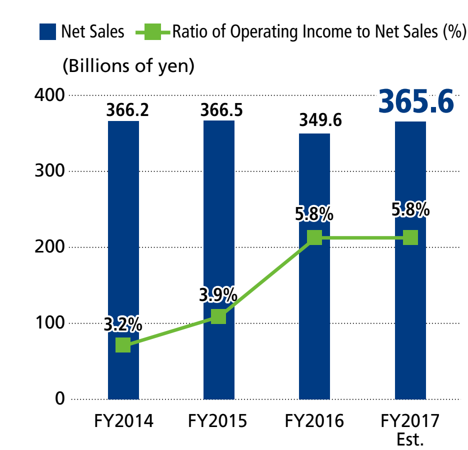
Electrical transmission capacity can be doubled simply by replacing overhead transmission lines with Invar conductor wires of the same size. It eliminates the need to install new transmission lines and is economical.



### CCS (Combined Charging System) Rapid Charger Connector

We have obtained CE certification for the CCS rapid charger connectors in addition to CHAdeMO. They can be used in many types of electric vehicles.

**Net Sales and Ratio of Operating Income to Net Sales**

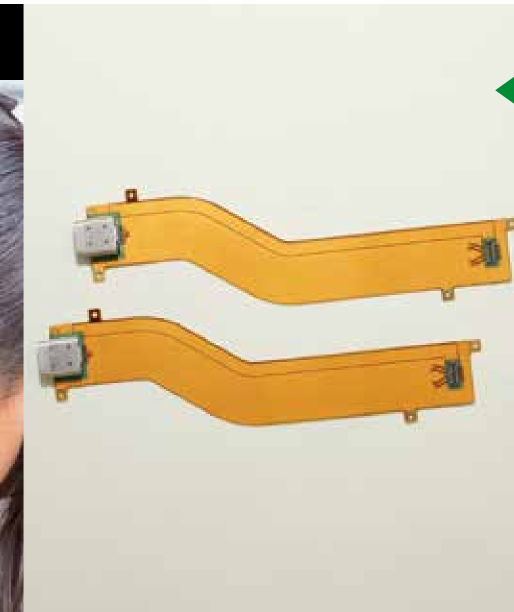


## "Quality" as Framework of Business Management

As the initial year of the 2020 Mid-term Business Plan, FY2016 was an important year as the launching point onto a new path of growth. The business environment was nevertheless extremely severe due to global fluctuation in smartphone demand, high exchange rate volatility, and other factors. Despite such severe conditions, the company came very close to achieving the initial plan by reducing fixed costs, increasing the ratio of variable costs, and engaging in activities focused on improving quality and increasing automation. The Company was consequently able to contribute to group profits again in FY2016, following our full recovery from the flooding in Thailand in FY2015. The Electronics Business is an important pillar of the Fujikura Group, and we will therefore continue to work diligently to steadily improve productivity, increase automation, and adapt to seasonal fluctuations in the future.

FY2017 is the year that true growth will be evident. Customers are looking to our company more than ever before and orders for highly sophisticated products are likewise increasing despite the stiffening competition. We are therefore working diligently on efforts to reduce costs, improve quality, and increase automation to enable the company to meet the expectations of our customers precisely. We will also simultaneously finish sowing the seeds for the future aimed at achieving the goals of the 2020 Mid-term Business Plan. The establishment of a New Electronics Product R&D Center and Production Innovation Center are main facets of this and we will harvest the fruits of these efforts in FY2018 and beyond.

FY2017 plans call for net sales of 171.7 billion yen and operating income of 9.6 billion yen, exceeding FY2016. The entire Company will once again work as one team to achieve the goals for this fiscal year.



### High-speed Transmission Flexible Printed Circuit (FPC)

Fujikura has achieved greater impedance control than before through high-precision circuit formation technology, and developed a multilayer FPC capable of high-speed transmission that uses materials with low dielectric constant and a low dielectric loss tangent as the interlayer adhesive for the multilayer substrate.

*We have recovered from the flood damage and the demands and expectations of our customers have increased even more. We will continue to take on the challenge of "Quality" as the framework of business management in FY2017 as well.*

**Takashi Sato**
Senior Executive Vice President & Representative Director

**33 years**

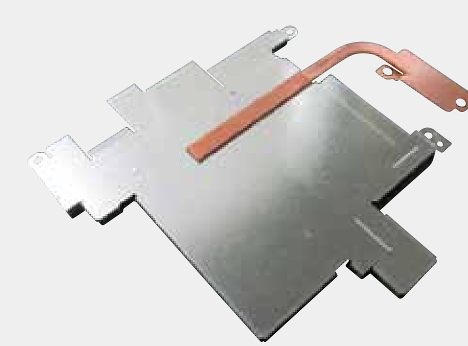
It has been 33 years since the Company first set up operations in Thailand. We have nine manufacturing plants, and employees numbered 40,000 at the peak, but have made progress in improving efficiency and automation since the floods, and currently have around 16,000 employees.

**5/9 plants**

Our Thai employees are growing in skill and we have reached to point where five of our nine plants, including our main plant, are run by a Thai manager. We will also continue to increase localization in the future.

### Board-to-Board Connectors for Automotive and Industrial Use

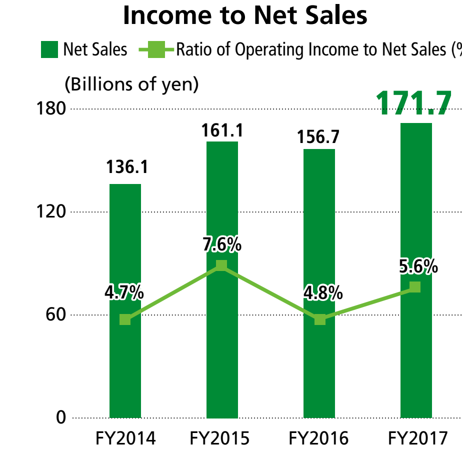
Fujikura has expanded its line-up with a board-to-board connector that features a floating mechanism with the ability to accommodate positional deviation.



### Heat Pipe for Single Lens Reflex Digital Camera

This cooling module using a thin heat pipe cools the high-performance CMOS sensor and image processor efficiently, thereby controlling heat build-up when shooting video over a long period of time.

**Net Sales and Ratio of Operating Income to Net Sales**



## Gear Change in the Auto Business!

Despite growth in volume sales, the company saw a 2.7 billion yen decline in sales to 133.1 billion yen. This represented a decline of 2.0% compared to last fiscal year and resulted from the substantial impact of yen appreciation. We achieved growth in operating income despite difficulties in hiring personnel in Europe during the fourth quarter. This growth was attributable to structural reforms in the Asian region which strengthened the profit structure.

We will continue to put a tri-regional structure into place with regional headquarters for Europe, North and South Americas, and Asia and will check in with these regional headquarters as we develop new products on the automotive platform through the development of electronic components and other integrated products. The Advanced Automotive Technology Center, which was established in 2013, will also work to invent new products and new technologies targeted at the next generation of automobiles based on all-Fujikura technology, and in line with electric vehicle, environmental friendliness, autonomous car, connected cars, and other trends.

During FY2017 we will work to normalize operations in the European region. Many new model launches are also planned at various locations. Our plan calls for 146.7 billion yen in sales, an increase of 13.6 billion yen over FY2016, and 2.6 billion yen in operating income. The three global regional headquarters will work in unison to achieve these goals.

***We will work mainly with a major European customer to achieve sound growth in the harness business and generate new business on the automotive platform that will form a bridge to the future and contribute to the stable growth of the Fujikura Group.***

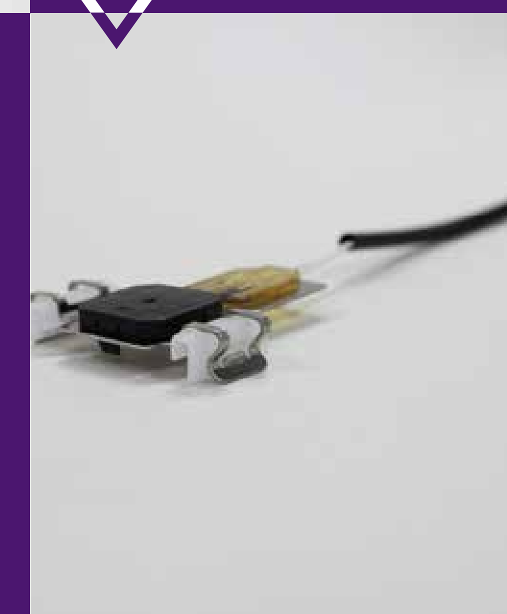
**Akira Sasagawa**
Senior Vice President &
Member of the Board

### CHAdeMO Inlet

This is a quick charge connector for electric motor vehicles which can meet CHAdeMO specifications. This connector can reduce the insertion force more than 30% compared to conventional connectors, enabling one-handed operation.

### Seat Sensor (for S-shaped seat springs)

This new seat sensor attaches to the springs installed under the seat cushion material. We have succeeded in reducing the size compared to existing sensors.



**19 Countries**

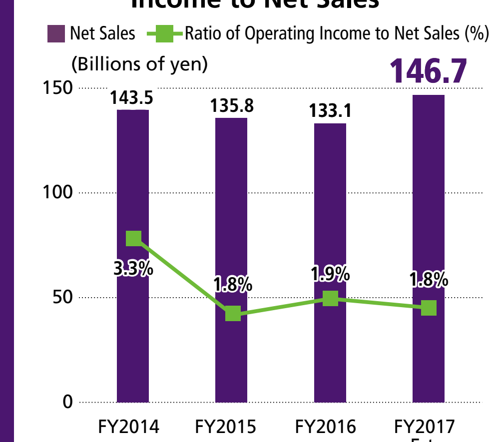
**65 Locations**

During FY2017, we will expand globally to 19 countries and 65 locations (38 plants and 27 offices), and will build a framework and profit structure capable of meeting customer needs swiftly.

### Aluminum Conductor Cables and Corrosion Protection for Terminals

Aluminum conductor cables are an effective means of reducing the weight of automotive wire harnesses. Fujikura will start mass production of wire harnesses using aluminum conductor cables from July 2017.

**Net Sales and Ratio of Operating Income to Net Sales**



## Company Profile | Real Estate Business Company

*This year marks the 17th anniversary of the grand opening of Fukagawa Gatharia. We will utilize the management expertise we have accumulated since then to maintain and increase the value of our assets over the medium to long-term and fulfil the role of supporting our main business.*

**Tetsu Ito**
Senior Vice President &
Member of the Board

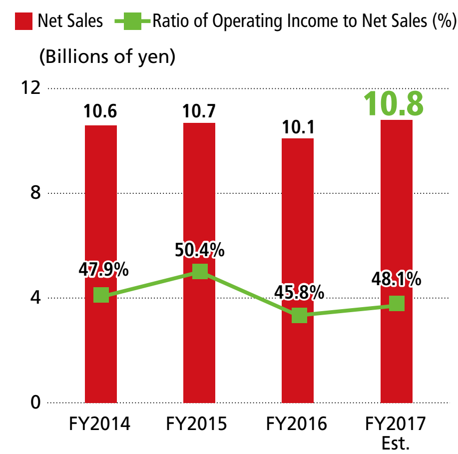
## Maintain a Stable Profit Structure

The Real Estate Business Company has been engaged in the real estate leasing and management business since we began redeveloping the former plant site in FY1998. This business is focused mainly on five office buildings and two commercial buildings. We possess roughly 107,000 m$^2$ in total leasable office space. Located less than 4 kilometers from Marunouchi in the center of Tokyo, we have used the prime location to our advantage and have been running at full occupancy since FY2014 thanks to good tenants, which include a bank.

The basic policy of our real estate business has always been to utilize our heritage of land assets effectively and earn income to support the manufacturing business. Our goal is to improve tenant satisfaction and maintain a high occupancy rate for leased offices over the medium to long-term through systematic investment and renovation to improve the value of the current buildings and facilities.

While a decline in rental fees for some office tenants and other factors caused a decline in both revenues and income in FY2016, we expect to achieve year on year growth in both sales and operating income in FY2017 due to the acquisition of one office building. Our plan calls for operating income of 5.2 billion yen.

### Net Sales and Ratio of Operating Income to Net Sales




### Occupancy Rate:
## 100%

The occupancy rate has been 100% in both the office buildings and commercial buildings since FY2014.

### Operating Margin:
## 48%

While modest in terms of the size of net sales, the Real Estate Business Company makes a relatively large contribution to Fujikura in terms of operating income. We anticipate an operating margin of 48%, which will help to support the entire company.



Since its founding in 1885, Fujikura has supplied customers with highly reliable products and services in the business segments of power, telecommunications, electronics, and automotive components, and has contributed to the development of Japan and many countries and regions around the world through its advanced technology.

We also launched an initiative to supplement the missing pieces and create new value through open innovation, based on the 2020 Mid-term Business Plan.

The following pages are divided in sections that touch on our vision for the future, initiatives in new business promotion, and R&D, and revisit Fujikura's successful contributions to optical fiber technology.

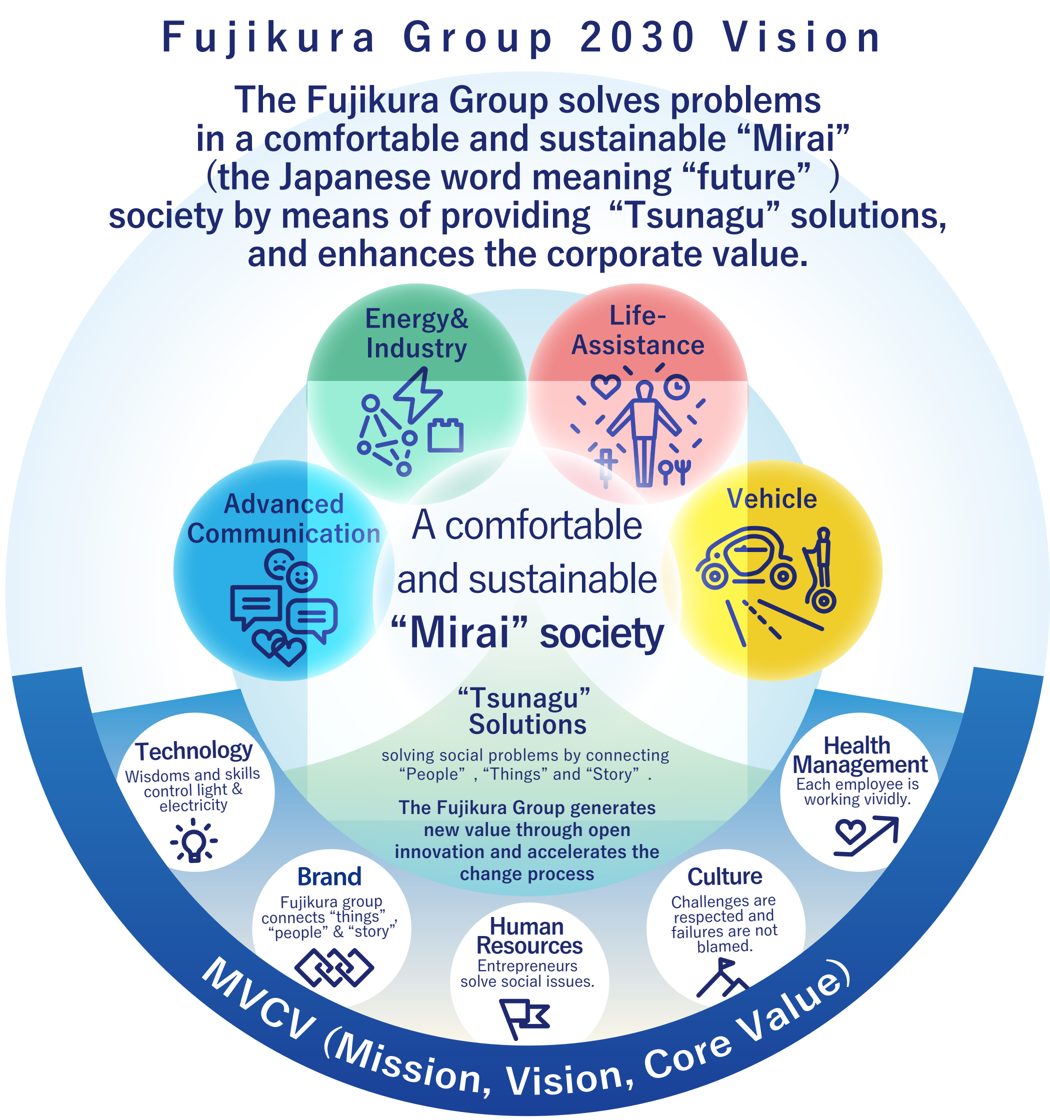
We welcome the opportunity to offer readers a more in-depth understanding of Fujikura's technology, which we have provided in countless original products around the world by continually taking on technical challenges.

* Notes on photos: Named the "Ichikawa," this was a hair ornament produced in the home business of the founder. He handed out several hundred of these Ichikawa ornaments to Kabuki theater-goers each day as the famous Kabuki actor, Ichikawa Danjuro IX recommended them from the stage.
The founder sensed the advent of the "age of electricity" at a demonstration of the arc lamp in Nihonbashi. He perceived the common element of braiding in both the hair ornament and electrical wire, and later entered the electrical wire sector.

# For the future

# 2030 Vision

**The Fujikura Group provides "Tsunagu" ("connecting") technologies that will resolve problems to make our future society sustainable and pleasant, and will continue to increase our corporate value.**




As the world changes at a speed and magnitude never witnessed before, responding accurately to the problems of the future society to come is essential in order to pave Fujikura's own path to the future. While the future in 2030 is not something that we can reach simply by continuing to build on the present, it is certainly not unattainable. It is a suitable timeline for formulating our vision and setting the milestones to get there.

Under the watchword of 2030 Vision, we will work to create new value through open innovation in the envisioned four areas of Advanced Communication, Energy & Industry, Life-Assistance, and Vehicle.



# Open Innovation

## The first step toward realizing the 2030 Vision.

Contained in the 2030 Vision that we recently formulated is the concept of resolving the problems of our future society. We thought a diverse range of opinions, views, and resources was necessary to realize this, both in the process of resolving problems and in the stage before that, the process of detecting problems. We therefore felt it was necessary to create an ecosystem in which we also direct our attention outward, and work with those who share our vision to detect and resolve problems.

Fujikura's goal is to be a top contender in "connecting" goods, people, and solutions. By developing a hybrid mix of the management resources we have cultivated in many areas with unique, innovative products and services possessed by those outside the company, we hope to, together, create "Tsunagu" ("connecting") solutions that will lead to the solutions to the problems that society will likely face in the near future, and meet challenges of the future society through innovation. We also wish to motivate the potential innovators that exist within Fujikura.

Fujikura will work to create new value through open innovation as the first step toward realizing the 2030 Vision.

**Keisuke Okamura**
Executive Officer

## Venture Matching

We will take on the challenge of creating new businesses by collaborating with start-up companies in four market sectors: Advanced Communication, Energy & Industry, Life-Assistance, and Vehicle. Our initial action will be to utilize an open innovation platform and engage in open innovation with start-up companies via a public tender format.

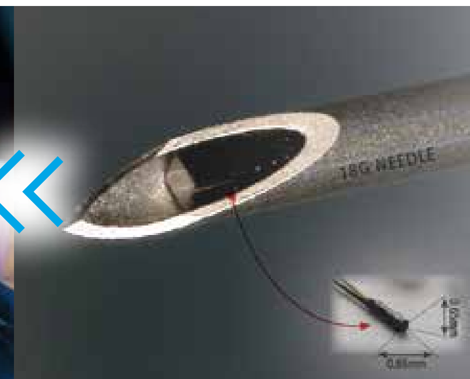
We established the Innovative Business Development Division within the New Business Development Center as the main vehicle for pursuing concrete initiatives. Adding business vision and strategy formulation, new business start-up planning and verification, and other functions to the current new business incubation function of the Center will enable the Center to play a lead role in new business creation and promotion in all areas across the entire group. We have also established a Silicon Valley Office within the Center. This office will collect information on technologies, markets, and start-up companies from a global perspective, explore and engage in collaboration, and formulate and verify business concepts.

# New Business Development

## Accelerating our ability to metabolize changes

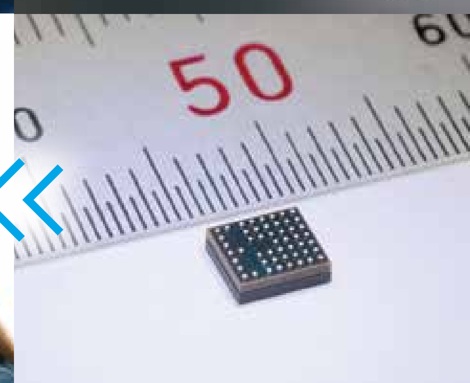
Fujikura has been working on activities under the banner of our "power of a strong metabolism" growth strategy in our 2020 Mid-term Business Plan and we will accelerate the speed of new business creation even further.

**New Businesses: Medical business, Cloud communications, High-temperature superconductors**



**Ultra-compact CMOS Module**

We are working on development of an ultra-compact CMOS module of less than 1 mm in diameter and are aiming to apply it to areas where an image sensor cannot be inserted, such as catheters for angioscopic visualization. Fusion of the ultra-compact CMOS image sensor chip with the optical technology, micro coaxial cable, and precision processing technology that Fujikura possesses will contribute to the creation of a new medical solution optimally focused on the patient's quality of life.



**Substrate with Embedded IC Chip Stack Package**

We have begun shipping samples of Chip-stack WABE®, a polyimide multi-layer substrate with an IC chip-stack embedded vertically in the substrate. Because this technology enables a much greater degree of miniaturization in the external dimensions of an electronic circuit module using multiple IC chips compared to other mounting techniques, it has received praise from many customers recommending its use. In the future, utilization of the advantages its compactness provides will contribute to minimally invasive medical devices, and to a substantial reduction in the weight of portable diagnostic equipment and healthcare devices.

**Active Optical Cable (AOC) Contributing to Innovation in the Manufacturing Industry**

Fujikura sells an active optical cable (AOC) that connects to industrial cameras used in machine vision. Industrial cameras used for product inspection, image monitoring, and for other purposes on the manufacturing line are high-resolution, and have greater data capacity. Progress is also being made on speeding up data transmission. The optical communication technology in Fujikura's optical camera connector cable enables speeds and long-distance connections that were impossible with existing metal cables, and has contributed to the expansion of application to industrial cameras, which are in high demand amid the trend of innovation in the manufacturing industry.

**Application Developed for Use of Yttrium-based High-temperature Superconducting Wire in Medical MRIs, etc.**

Fujikura has long been engaged in the development of long-length mass production technology aimed at commercialization of high-temperature superconducting wires, and our work has been highly praised both in Japan and overseas. Yttrium-based high-temperature superconducting wire, which does not require liquid helium and retains high conductivity even in strong magnetic fields, is promising for application to medical MRIs and other technology. Fujikura was selected as the subcontractor for a NEDO project that began in FY2016. The project is targeted at development of practical technology for high-temperature superconducting wire used in coils with a strong magnetic field. We are working on developing technology that will improve the property and productivity for commercialization.



# Special Feature

## Fujikura, A World Leader in Optical Fiber Technology

Ryozo Yamauchi, Advisor, Ph.D. in Engineering

### Fujikura's Ultra Low-loss Technology was the Focus of the World

Optical fiber networks support the high-speed communications infrastructure of the world. Corning, Inc. of the U.S. corroborated 20 dB/km in 1970, based on the thesis published by C.K. Kao, Ph.D. in 1966. This marked the beginning of optical fiber development by companies in Japan, the U.S., and Europe.

In 1975, Fujikura formed a joint research group with NTT (then Nippon Telegraph and Telephone Public Corporation) and two other companies and began research on low-loss optical fiber. Fujikura was the first in the world to achieve ultra low-loss of 0.47 dB/km at a long wavelength band of 1.2 µm or longer by reducing the residual water content in glass as far as possible. Fujikura also verified that germanium was the most suitable additive to incorporate in the optical fiber core to achieve low loss in the 1.3 µm to 1.6 µm wavelength range used for optical communication. Today, germanium is added to 99% of optical fibers worldwide. These achievements formed one part of the global foundation for optical fiber.

### Enormous Contribution to Practical Application of Optical Fiber Networks

Establishing technology that did not use patents on manufacturing methods owned by Corning or AT&T was required to develop practical applications for optical fiber communications. Fujikura worked to create a practical application of the VAD (vapor-phase axial deposition) method used to manufacture optical fiber preform in an axial direction. In 1977, Fujikura succeeded in reducing the water content to the maximum extent and achieved low-loss transmission under 0.20 dB/km. The commercialization of the VAD method adapted for mass production led to the universal introduction of single-mode fiber capable of supporting high-volume transmission over long distances. Today, 60% of all optical fibers in the world are manufactured using the VAD method. In 2015, an IEEE Milestone was awarded to the VAD as a significant technical achievement. The key to building an optical fiber network was low-loss splicing of single-mode fibers with a thin core. In 1985, Fujikura developed a core alignment fusion splicer as a solution. This product still commands top global market share, leading the top optical fiber technology in the world, along with Fujikura's optical fiber manufacturing technology.

### "Tsunagu" ("Connecting") Technology Forming a Bridge to the Future

Optical fibers do not only support wired communications networks; they support the rapidly expanding mobile communications at the back end. Using the accumulated optical technology, Fujikura is engaged in

advanced research on high-performance optical devices, high-power optical fiber lasers, and other products in addition to multi-core optical fibers that will support high-volume transmission in the future.

Fujikura continues to take on the challenge of achieving high-speed high-volume communication with our "Tsunagu" ("connecting") technologies as information and communication technology evolves. We will continue to create a future of value through highly reliable products and advanced solutions.

# R&D Activity for Future Growth

We will concentrate the research and development activity in the three technology platform of optical and wireless communications, electronic components, and electric wire and cable, which form the core technology base that supports "Tsunagu" technologies. We will pursue to expand into areas peripheral to our core technology base while also strengthen the underlying technology that makes up our technical base further.

Based on our "Tsunagu" technologies, we will integrate our core technology, in the business domains of telecommunication, electronics, energy, automotive products, and medical devices & industrial equipments, and will accelerate the metabolism by developing new products by which social needs were taken before others and creating new businesses.

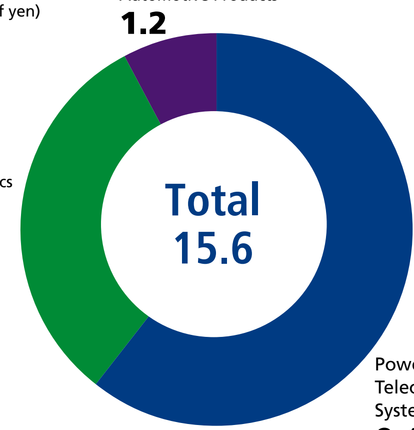
We will concentrate on developing human resources who are capable of viewing R&D from the perspective of commercial potential. We will promote the development of a research system to utilize the global human resources.

Through them, we will promote R&D activity with keeping an eye on global trends in technology, and will be "R&D unit" who can proposes a growth strategy.

**Akira Wada**
Senior Vice President & Member of the Board

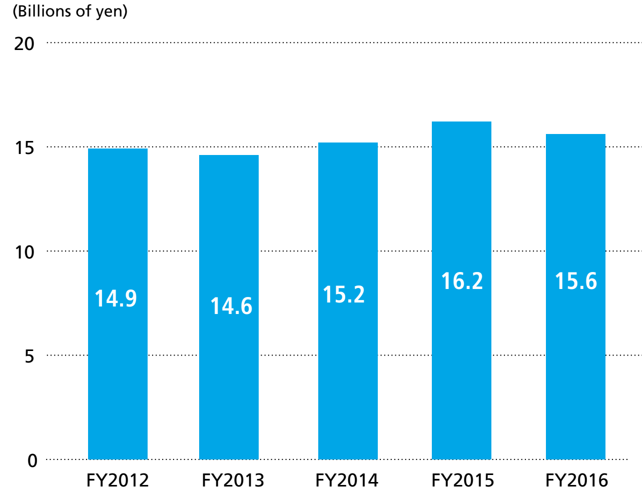
### Research and Development Expenses by Segment

(Billions of yen)




### Research and Development Expenses

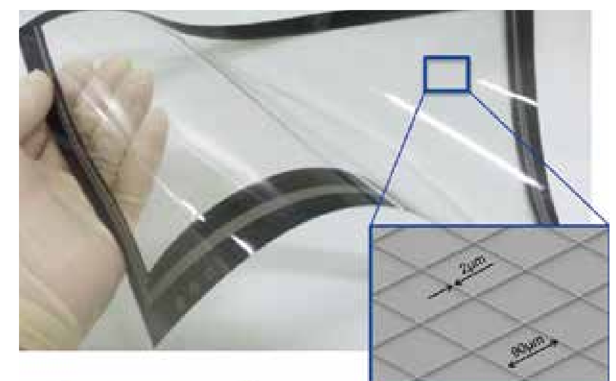
(Billions of yen)




## Advanced Technology Laboratory

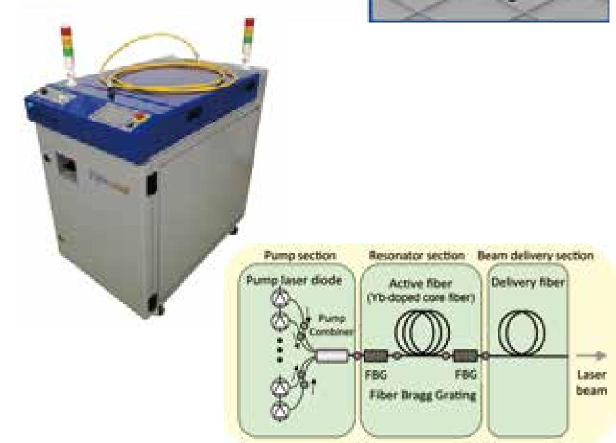
In addition to developing materials that form the foundation of Fujikura, our laboratory has been conducting cutting-edge research on energy conservation and renewable energy sources, specifically on the development of functional single crystals, dye-sensitized solar cells, and high-temperatures superconducting wires. In the electronics field, we have been focusing on developing advanced technologies which include R&D for future technologies such as sensors, printed wiring boards, and high functional printed electronics. In response to the acceleration of technological innovation in telecommunication, we have also been promoting R&D on next-generation optical fibers, optical devices and optical modules, fiber laser technologies, and other applications.

## Research Fields



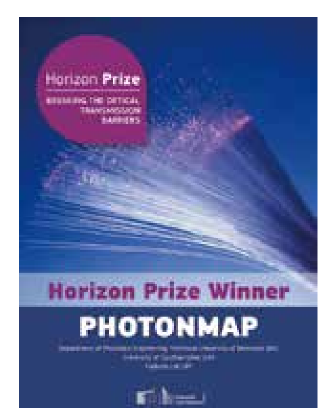

### Transparent Electroconductive Film with Ultra-fine Silver Mesh

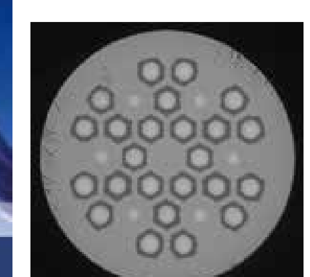
Fujikura has developed a propriety printing method that uses electroconductive silver paste that makes it easy to create film by printing ultra-fine lines of 2 μm in width. Such ultra-fine lines cannot be seen with the naked eye, and enable the production of transparent electro-conductive film. We are working to develop next-generation applications of this technology, including transparent touch sensors for curved surfaces and flexible displays, a transparent heater for a vehicle's front windshield, transparent antennas, and other applications.




### High-Power Fiber Laser

The Fujikura Group is engaged in the manufacture of fiber lasers as light sources used for the processing of materials, a product with a growing market. The Fujikura Group possesses all the technical know-how required to develop and manufacture fiber lasers including not only optical fiber and optical semiconductor-related technologies, but also cooling technologies. We have now fused these various technologies to achieve an increase in the previous maximum fiber laser output of 6kW to more than 10 kW (10.4 kW). We have also achieved a high, 40% rate of efficiency in the conversion of electric power to laser light (with DC supply), even at an output of 10 kW.



### Multicore Fiber/Horizon Prize

The Horizon Prize is awarded by the EU Commission in the European Union. It is an award for taking on challenges based on Horizon 2020 (an EU framework program for research and innovation with a total budget of 80 billion Euros for over seven years, from 2014 to 2020). Fujikura was awarded the Horizon Prize along with two universities in November 2016 for the results achieved by a transmission system using the multi-core fiber developed by Fujikura, the single photonic chip-based supercontinuum source developed by the Technical University of Denmark (DK), and the multi-core erbium doped fiber amplifiers (MC-EDFAs) developed by the University of Southampton (UK). This system is capable of transmissions at 1 petabit per second or faster along a transmission line of more than 1,000 kilometers, without the need for complex electrical processing and demonstrated that it would lead to energy savings and reduced cost.


# Corporate Social Responsibility

Harukichi Nakauchi

## Fujikura Gakuen

**Fujikura Gakuen social welfare corporation**

**—The starting point for the CSR activities of the Fujikura Group—**

Fujikura Gakuen, a social welfare corporation, was founded on June 7, 1919, nearly 100 years ago in the town of Motomachi on Izu Oshima. Harukichi Nakauchi, the brother of the founder Zenpachi Fujikura (and originally the auditor), donated a sizable amount of his personal assets (currently worth approximately 2 billion yen), approximately 132,000 $m^2$ of land on Izu Oshima, and the land and building to establish the school and residence for mentally handicapped children and adults. Today, Fujikura Gakuen has facilities on Izu Oshima and in Tama (city of Hachioji). These facilities have around 100 workers who provide 24-hour care and education to approximately 130 residents.

Since our founding, the succession of presidents and officers served as governors in supporting management of Fujikura Gakuen, and both the company and individual employees have continued to donate to this day. The main types of support activities include volunteer activities by new employees and on-site sale of products made at the Fuji Café, an establishment operated by Fujikura Gakuen to support self-reliance of residents.

We intend to carefully preserve this tradition of activities that support Fujikura Gakuen in the future, as the "starting point" of Fujikura's corporate social contribution activities.

Volunteer day for new employees

# 2050 Long-term Environmental Vision

**—Taking on the Challenge of Protecting the Environment for the Future—**

According to forecasts from the Organization for Economic Co-operation and Development (OECD) and other international institutions, the global environment is heading toward crisis conditions. Abnormal weather patterns from climate change caused by greenhouse gas emissions have become a threat to our daily lives. Both population growth and growth in economic activity are also increasing the severity of widespread environmental problems on a global scale, such as water shortages and resource depletion, severe air pollution, and decreasing biodiversity.

The Fujikura Group is a global citizen that conducts operations globally. In light of the aforementioned trends and looking toward the future in 2050, the Fujikura Group plans to undertake four challenges to minimize its impact on the environment.

**Challenge 1** **Zero $CO_2$ emissions at plants by 2050 (2050 Zero Emission Challenge)**

We aim to reduce our $CO_2$ emissions by 2030 by an amount that surpasses the level required of the industry by the government (versus FY2013).

**[Main Activities]**

(1) Improve environmental performance of products
(2) Use renewable energies
(3) Employ hydrogen energy

These are Fujikura's three pillars for reducing $CO_2$ emissions

**Challenge 2** **Minimize use of water at plants and wastewater management**

—Do not use, reuse, and return to nature clean—

**[Main Activities]**

(1) Minimize water use during the production process and reuse water
(2) Recycle plant wastewater, including the use of rainwater
(3) Treat wastewater to a level of quality that is safe and sufficient for its return to nature, etc.

**Challenge 3** **Symbiosis between plant workers and nature**

**[Main Activities]**

(1) Enrich and use the Millennium Woods biotope garden at Fujikura sites around the world
(2) Promote regional activities to preserve the natural environment
(3) Promote natural environment education for future generations, etc.

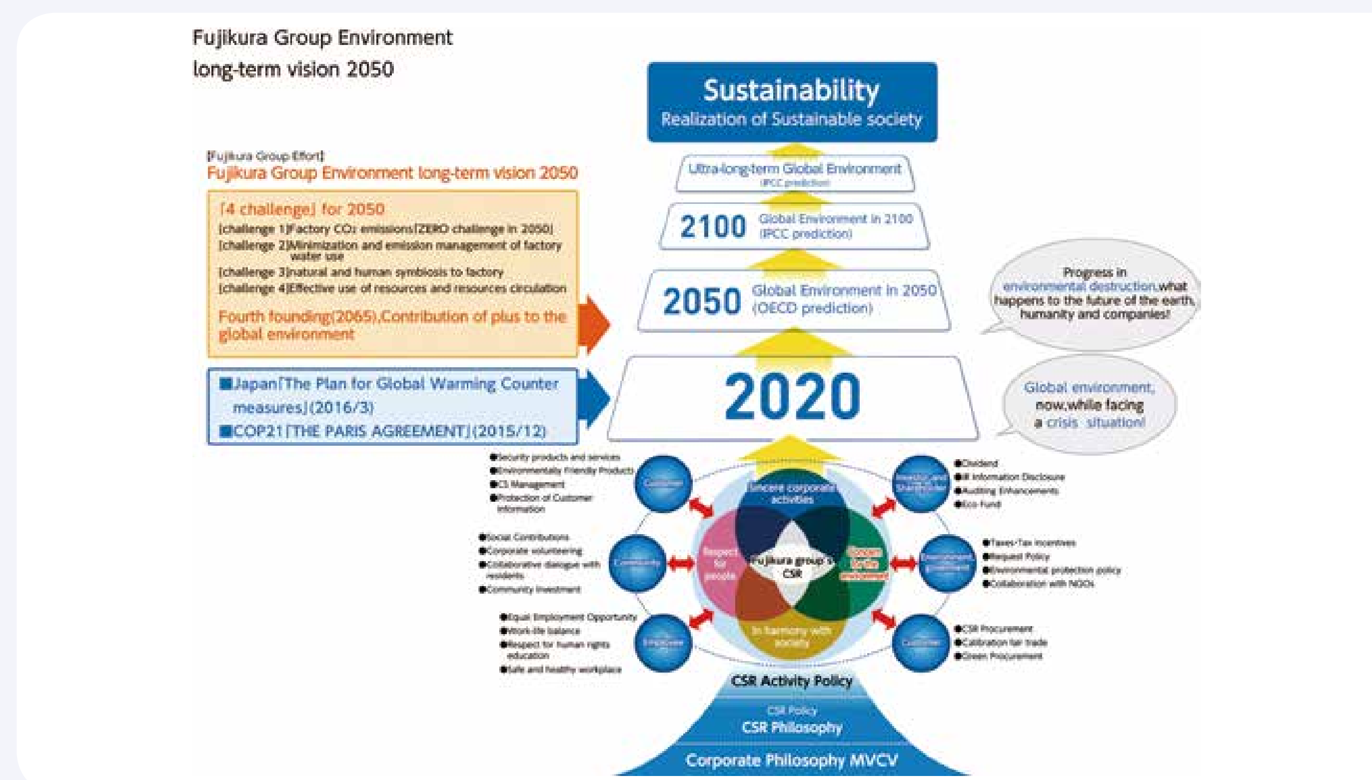
**Challenge 4** **Effective use of resources and resource cycle**

**[Main Activities]**

(1) Use eco-materials
(2) Engage in environmentally-friendly and long-life product manufacturing
(3) Develop recycling technologies, etc.

**Challenges for the 4th 60 years of leadership (2065)**

Furthermore, once the Group reduces its environmental burden to zero, in 2065, the year in which Fujikura will mark the company's Fourth Founding, the Group will embark on measures to bring about positive benefit to the global environment.



# Work Style Innovation

## Promoting Diversity at the Fujikura Group

**Masahiko Ito**
**President & CEO**

Our 2020 Mid-term Business Plan advocates the management policy of making Fujikura a highly profitable company with stronger “metabolism”, with the entire group uniting in a teamwork approach. One aspect of the policies formulated according to these principles is promoting diversity.

In order to increase our competitiveness in an environment in which Japan’s population is graying (aging and declining) and business is globalizing, it will be important for us to create a system that can make use of diverse human resources, irrespective of their nationality, ethnicity, gender, religion, age, previous career or employment.

I believe that our employees are our most important assets. Promoting diversity will be a further step in ensuring that the employees of the Fujikura Group are healthy in mind and body, highly creative, and a vibrant assemblage of human resources.

### 1. The Fujikura Group’s Declaration of Promoting Diversity

We will move forward with creating a system that can make use of diverse human resources, irrespective of their nationality, ethnicity, gender, religion, age, or previous career or employment.
We believe that breakthroughs will arise in the form of creative and cutting-edge ideas as people with varied backgrounds and ways of thinking put forth diverse opinions and work out conflicts between differing viewpoints.

### 2. The Significance of Diversity for the Fujikura Group

- By providing an environment that makes it easy for employees both to deal with personal needs and desires and professional needs and desires, we will strive to hire and retain superior human resources, which will contribute to the profitability of the company.
- We will cultivate a climate that is inclusive, where diverse people can cooperate, one that welcomes new concepts, and a culture in which creative ideas are likely to arise, thus enhancing our “metabolism”.

**“White 500”**

Fujikura was certified by the Ministry of Economy, Trade and Industry (METI) as one of the “White 500,” an Excellent Enterprise of Health and Productivity Management. This recognizes the value of the company’s own activities.

2017
健康経営優良法人
Health and productivity
ホワイト500

# The 5th Stakeholder Dialogue

Every year, Fujikura hosts an expert to seek out the advice of stakeholders concerning issues that Fujikura should address and employees engage in dialogue with the expert with the goal of using this advice in corporate activities.

This year, which marks the fifth year of the dialogue, we invited Professor Hiroki Sato, an expert in the human resources field from the graduate school at Chuo University to engage in a dialogue with a wide range of Fujikura employees, from company officers to line managers, and the people directly responsible for the work. The theme was “Initiatives aimed at work style innovation in the Fujikura Group.”

**Date:** February 23, 2017
**Location:** Head Office, Fujikura Ltd.
**Expert:** Hiroki Sato, Professor, Graduate School of Strategic Management, Chuo University
**Theme:** Initiatives aimed at workplace reform of the Fujikura Group

## Main Opinions

- It is important to develop employees to prevent capable employees from having to shoulder the bulk of the overtime work. It is important to work to increase the skill level of all employees.
- In divisions with a lot of overtime, make it a practice to think about how to perform the work for one week by specifying days on which employees will return home at a specified time in advance, and scheduling work to ensure that they go home without fail.
- The location of first assignment is important to the development of new employees. They should be assigned to managers who can see and develop the potential of their subordinates.
- Diversity management means accepting employees that have a diverse range of values. Employees who are work-driven and think only of work are not bad, and not accepting only employees with that sort of values is not good.

# Top Management


Front row from left: Hideyuki Hosoya, Akira Wada, Yoichi Nagahama, Masahiko Ito, Takashi Sato, Akira Sasagawa, Takeaki Kitajima
Back row from left: Kenichiro Abe, Soichiro Sekiuchi, Tetsu Ito, Takashi Takizawa, Yasuyuki Oda, Masaaki Shimojima, Yoshio Shirai

## Directors

Chairman of the Board & Representative Director

**Yoichi Nagahama**

President & CEO & Representative Director

**Masahiko Ito**

Senior Executive Vice President & Representative Director

**Takashi Sato**

Senior Vice Presidents & Members of the Board

**Akira Wada**
**Akira Sasagawa**
**Hideyuki Hosoya**
**Takeaki Kitajima**
**Takashi Takizawa**
**Tetsu Ito**

Director Full-time Audit & Supervisory Committee Member

**Yasuyuki Oda**

Director (Outside director) Audit & Supervisory Committee Members

**Soichiro Sekiuchi**
**Masaaki Shimojima**
**Kenichiro Abe**
**Yoshio Shirai**

## Executive Officers Other Than Members of the Board

Senior Managing Executive Officers

**Hideo Naruse**
**Hideo Shiwa**

Managing Executive Officers

**Jody Gallagher**
**Toru Aizawa**
**Masahiro Ikegami**
**Teiji Suzuki**
**Ikuo Kobayashi**
**Takeshi Sato**
**Yukihiro Nakayama**

Executive Officers

**Kiminori Sato**
**Keisuke Okamura**
**Kenji Nishide**
**Ryoichi Hara**
**Masaaki Kimpara**
**Toru Nakazawa**
**Kinya Takimura**
**Masataka Mito**
**Hideo Goto**
**Toshiyuki Hayami**



# Corporate Governance

- **Switch to a company with an audit & supervisory committee in June 2017**
- **Increase the number of outside directors by 3 directors to 4 directors**
- **Delegate considerable authority to executive directors**
- **Strengthen the audit and supervisory function**

## Corporate Governance Reform

Fujikura has considered governance reform as one part of the company's growth strategy since the Corporate Governance Code was formulated. We will begin implementation this fiscal year.

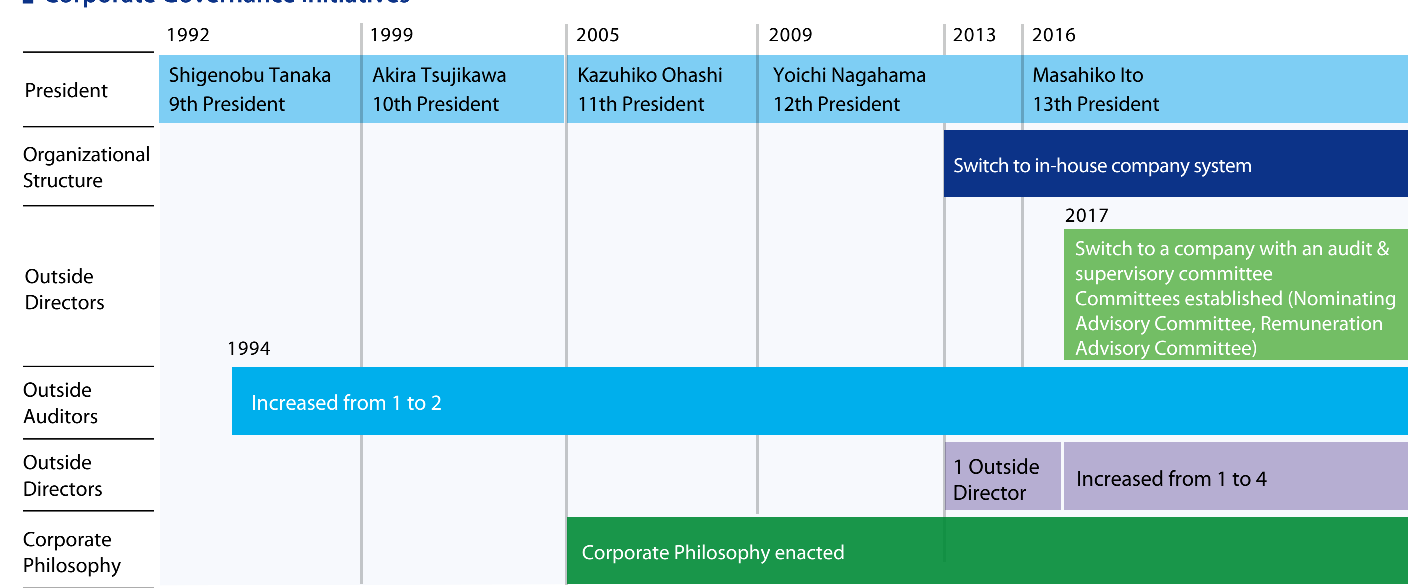
## Background

Fujikura consists of three in-house companies for each of its main businesses. Each of these companies has been assigned an executive director who is responsible for the individual company. Fujikura wanted an agile system that would enable the executive director in charge of each company to make swift, decisive decisions because the products handled by the businesses that each company manages naturally differ, and the customers and competitive environments of these businesses also differ.

The annual and mid-term business plans, major M&A proposals, and other important matters relating to the growth of the entire company are determined by resolution of the Board of Directors, and we recognized the need for full discussion and reflection of the diverse experience and objective opinions of external directors in making decisions.

It also aimed strengthen the audit and supervisory function that supports the system described above.

### Corporate Governance Initiatives



Fujikura switched from the existing organizational structure of a company with a board of corporate auditors to a company with an audit and supervisory committee upon approval of the annual General Meeting of Shareholders on June 29, 2017.

## (i) Overview of Corporate Governance Structure and the Reasons for Adopting this Structure

Operation of the Company's business is organized into three in-house companies for each of its main businesses, the Power & Telecommunication Systems Company, the Electronics Business Company, and the Automotive Products Company. An executive director is assigned to oversee each of the in-house companies. The businesses that each of the companies is responsible for handle a broad range of products and the customers and competitive environment of each company differs greatly. We therefore believe it necessary to build an agile structure that enables the executive director in charge of each company to make decisions swiftly and decisively. We also believe that a structure for making decisions after sufficient deliberation that reflect the diverse knowledge and independent perspectives of outside directors is necessary for important matters that relate to the growth of the entire company such as annual and mid-term business plans and large mergers and acquisitions, and these are designated as matters requiring approval by the Board of Directors.

This need for the abovementioned decision-making structure has led us to determine the most appropriate corporate management structure for our company to be that of a company with an audit and supervisory committee because this system is agile and capable of reflecting diverse knowledge and independent perspectives.

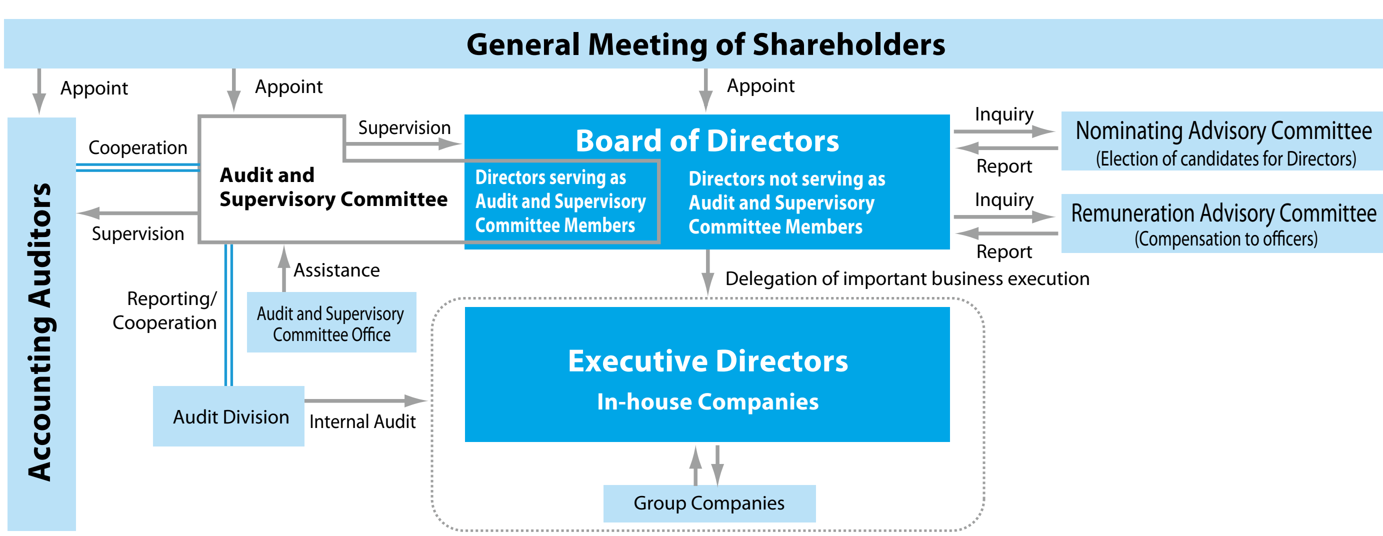
Specifically, this system will achieve the following: (1) It will enable swift decision-making by narrowing the scope of matters requiring approval of the Board of Directors, which consists of nine directors who are not audit and supervisory board members and five directors who are audit and supervisory board members (four of which are outside directors), to business plans and other important matters, thereby reducing the number of matters requiring deliberation. It will also enable the reflection of diverse, independent perspectives by taking advantage of the broad range of experience possessed by the four outside directors (consisting of two outside directors with expertise in corporate management in the financial and manufacturing sectors, one attorney, and one C.P.A.). (2) It will also enable agile management by the executive director in charge of a specific business by delegating decisions concerning that business to that executive director.

A Nominating Advisory Committee and a Remuneration Advisory Committee have been established as advisory bodies to the Board of Directors to ensure objectivity and transparency in nominating directors and determining their remuneration.

## (ii) System of Internal Controls

The system of internal controls consists of an internal audit division, a management division for the entire company, and management divisions within each in-house company. These organizations monitor the legality and appropriateness of the execution of daily business. The retention and management of important management information is handled by specifying and following rules on management of documents and electronic information. The Company has also established a Risk Management Committee. This committee is responsible for identifying common company-wide risks, establishing a compliance structure, and operating an internal whistleblowing system, among other duties.

To ensure proper operation of our subsidiaries, we have established a system in which each group company is overseen by the in-house company or corporate division (hereafter, "in-house company, etc.") with which it is affiliated. Management of these companies is within the scope of executive responsibilities defined for the head of the in-house company, etc. The specific responsibilities of each in-house company, etc. are: 1) to develop a system of reporting for business results, personnel and organizational matters, capital investment, product quality, and other important matters; 2) to develop a certain level of accountability and a system for provision of support and guidance by each in-house company, etc. in regard to risk management; 3) to formulate a corporate group business plan, and manage reconciliation of results vs. the budget and human resources exchanges; and 4) to obligate each group company to appoint a compliance administrator and develop an official whistle-blowing system for each of the group companies overseen.




## (iii) Internal Audits

The Audit Division was set up as a dedicated internal audit entity. It conducts audits of each division (mainly sales and marketing divisions) and Group companies. In FY2016, the Audit Division conducted audits of nine divisions and 14 Group companies.

The Audit Division exchanges information with the Audit & Supervisory Committee on a regular basis. It also conducts audits under the guidance and direction of the Audit & Supervisory Committee when necessary, and reports the results of audits to the Audit & Supervisory Committee on a regular basis.

## (iv) Audit & Supervisory Committee Activities

The Audit & Supervisory Committee consists of five committee members, four of which are outside directors. The members of the Audit & Supervisory Committee elect a Full-time Audit & Supervisory Committee Member from among themselves to ensure the effectiveness of Audit & Supervisory Committee activities. Mr. Yasuyuki Oda, the Full-time Audit & Supervisory Committee Member, possesses many years of experience in the Finance and Accounting Division of our company. Mr. Masaaki Shimojima, an Audit & Supervisory Committee Member, possesses many years of management experience in a key position in a major city bank. Mr. Kenichiro Abe, an Audit & Supervisory Committee member, is a certified public accountant. All of these committee members possess considerable knowledge of finance and accounting.

Audits confirm that the execution of duties by the Board of Directors complies with laws and regulations and the corporate Articles of Incorporation and that company operations are being executed appropriately. This is accomplished by establishing a system of internal controls and monitoring and verifying the status of operations and other aspects. Audits are conducted from the perspectives of legality and appropriateness. This is accomplished by conducting onsite audits of each in-house company and Group company, examining important documents, and attending key meetings.

The Audit & Supervisory Committee holds a monthly meeting and otherwise meets as necessary to report and discuss the findings of committee members. Fujikura's system also ensures that the Full-time Audit & Supervisory Board Member can attend and voice his opinions at key meetings where decisions on business operations are discussed. The system also ensures that Audit & Supervisory Committee members have the opportunity to exchange opinions with executive officers on a regular basis and also have opportunities to request information.

At the start of every fiscal year, accounting auditors provide an explanation of their audit plans to the Audit & Supervisory Committee. The accounting auditors report the results of their quarterly and fiscal year-end audits, versus the plan at the start of the year, to the Audit & Supervisory Committee. To facilitate an adequate exchange of opinions, Audit & Supervisory Committee members also hold discussions several times a year with accounting auditors to confer on details, the audit system, and other issues.

An Audit & Supervisory Committee Office has been established to support the Audit & Supervisory Committee. The Audit & Supervisory Committee Office reports directly to the Audit & Supervisory Committee and maintains independence from executive officers within the company. It provides support to the Audit & Supervisory Committee as directly ordered by the Audit & Supervisory Committee.

## (v) Limited Liability Agreement

As specified in Article 427, Paragraph 1 of the Companies Act, Fujikura concludes limited liability agreements with all outside directors. These agreements limit the liability of outside directors to the minimum liability specified in Article 425, Paragraph 1 of the Companies Act for indemnification of damages specified in Article 423, Paragraph 1 of the same act, when duties are executed in good faith without gross negligence.

## (vi) Outside Directors

The Company has four outside directors: Mr. Soichiro Sekiuchi, Masaaki Shimojima, Kenichiro Abe, and Mr. Yoshio Shirai. All are directors who are Audit & Supervisory Committee members. Mr. Sekiuchi is an attorney, Mr. Shimojima has corporate experience in finance, Mr. Abe is a certified public accountant, and Mr. Shirai has corporate experience in manufacturing. The backgrounds of each of these directors enable them to utilize their extensive expertise at Board of Directors meetings and voice a broad range of independent opinions.

Each of the outside directors audits the performance of duties by directors from the perspective of legality and appropriateness. They accomplish this through onsite audits of each corporate division and Group company, examining important documents, and attending Board of Directors meetings. They communicate with the Full-time Audit & Supervisory Committee Member by reporting and discussing their findings at monthly Audit & Supervisory Committee meetings. Materials for Board of Directors meetings and Audit & Supervisory Committee meetings are also distributed in advance.

Mr. Soichiro Sekiuchi, is an attorney-at-law with highly specialized skills acquired over many years of working on corporate legal matters. This has given him sufficient knowledge of corporate management. Mr. Sekiuchi is an attorney of Tokyo Yurakucho Law Office. Fujikura transacts no business with this firm and Mr. Sekiuchi therefore meets the criteria for independence specified by Fujikura and is qualified to serve as an outside director, which requires that he maintain an independent status. Fujikura has reported Mr. Sekiuchi as an independent officer to the Tokyo Stock Exchange.

Mr. Masaaki Shimojima has considerable knowledge in finance and accounting, derived from many years of experience in a key position at a major city bank. He is also well-versed in corporate management. Mr. Shimojima was previously an executive officer at Sumitomo Mitsui Banking Corporation, which is one of Fujikura's main banks, but retired in June 2003. Mr. Shimojima therefore meets the Fujikura's criteria for independence and is qualified to serve as an outside director, which requires that he maintain an independent status. Fujikura has reported Mr. Shimojima as an independent officer to the Tokyo Stock Exchange.

Mr. Kenichiro Abe possesses highly specialized expertise as a certified public accountant and ample knowledge of corporate management gleaned from many years working as an accounting auditor for numerous companies. We note that Mr. Abe was previously a Representative Partner at PricewaterhouseCoopers Aarata, which is our accounting firm, but left the company in June 2012. He was not an audit partner for Fujikura while at PricewaterhouseCoopers Aarata. Mr. Abe therefore meets Fujikura's criteria for independence and is qualified to serve as an outside director, which requires that he maintain an independent status. Fujikura has reported Mr. Abe as an independent officer to the Tokyo Stock Exchange.

Mr. Yoshio Shirai has ample experience and knowledge as a manager through his career history as a senior managing officer of Toyota Motor Corporation, president & CEO of Hino Motors, Ltd., and vice chairman of Toyota Tsusho Corporation. Mr. Shirai also possesses experience as an outside director from service as an outside director and Audit & Supervisory Committee member for Seiko Epson Corporation from FY2016. Mr. Shirai also served as an executive officer of Toyota Tsusho Corporation within the past three years, however Fujikura's total sales and purchasing transactions with the company amounted to less than 1% of consolidated net sales for both Fujikura and Toyota Tsusho Corporation. Toyota Tsusho therefore does not constitute a material business partner under the criteria for independence established by Fujikura. The same also applies to transactions between Fujikura and Toyota Motor Corporation or Hino Motors, Ltd. where Mr. Shirai was an executive officer in the past. Mr. Shirai therefore meets Fujikura's criteria for independence and is qualified to serve as an outside director, which requires he maintain an independent status. Fujikura has also reported Mr. Shirai as an independent officer to the Tokyo Stock Exchange.

**(Criteria for Independence of Outside Directors)**
Fujikura has established the following criteria for determining the independence of outside directors.

Individuals who currently constitute one of the following, individuals who constituted one of the following during the past three years, and individuals who have a spouse or a relative within two degrees of kinship who constitutes or within the past three years constituted one of the following do not qualify as independent.

- A material business partner of the Fujikura Group*1 or executive officer of such*2
- An entity having Fujikura Group as a material business partner or an executive officer of such
- A shareholder who holds 10% or more of total voting rights in Fujikura or an executive officer of such
- An entity or the executive officer of such who received cash or other substantial remuneration*3 from Fujikura or a subsidiary of Fujikura, other than the remuneration received for serving as an outside officer.

*1 Material business partner: Customers whose purchases from Fujikura account for 1% or more of the consolidated net sales of the Fujikura Group and vendors for which Fujikura's purchases account for 1% or more of that vendor's consolidated net sales.
*2 Executive officer: An executive director or employee who reports directly to the executive director
*3 Substantial remuneration: More than 10 million yen a year

# Risks

Risks that could potentially have an adverse impact to the business performance, share price, and financial health of the Fujikura Group are discussed below. It should be noted that the risks involved with the forward-looking statements herein are those identified by the Fujikura Group in its securities report filed with the Ministry of Finance (submitted on June 29, 2017).

## (1) Demand Trends

Given that our products are mainly used in infrastructures or are components used in finished consumer goods, our business performance is, almost without fail, impacted by economic cycles. In addition, capital expenditure trends in various markets and changes in consumer purchasing attitudes are also factors that impact our performance.

## (2) Fluctuations in Foreign Exchange Rates

We carry out currency hedging strategies within the scope of actual demand to minimize, to the best of our ability, the negative impact that currency rate fluctuations have on foreign-currency denominated sales. There is possibility of an adverse impact to earnings due to exchange rate fluctuations, as we cannot always fully avert exchange rate risks. Moreover, Group operations include the manufacturing and sales of products overseas, primarily in Asia. Accordingly, the earnings, expenses, assets, and other items denominated in local currencies, are translated into yen when we create our consolidated financial statements. Depending on the foreign exchange rates at the time, although these accounting items retain their value in local currencies, there is a possibility value will be eroded after conversion into yen.

## (3) Fluctuations in Materials Costs

Copper is the main material used in Group products. Copper prices fluctuate mainly depending on shifts in international supply-demand trends. A sharp change in copper price cannot always be readily reflected in product prices. Consequently, there is a possibility that a pronounced upshot in copper prices could impact the Group's business performance.

## (4) Product Defects

The Fujikura Group carries out the manufacturing of various products in accordance with strict product quality control standards. Nonetheless, there is no guarantee that we will never experience a product defect or that quality complaints will not arise further out. We have product liability insurance but there is no assurance that this policy will cover all of our liability costs in the end. Serious complaints and product defects that lead to product liability cases trigger considerable costs and have a grave impact on how society evaluates the Group. The adverse impact connected with this includes the possibility of a decline in sales.

## (5) Regulations

The regulations in the markets in which we operate apply to our business activities. There are a number of regulations, including government approval and authorization for businesses and investments, regulations and taxes on business transactions and trade, regulations controlling financial transactions, and environmental restrictions. The Fujikura Group carries out its business activities in compliance with these regulations. Going forward, the business activities of our Group could potentially be limited, should it become difficult to comply with laws and ordinances after key revisions have been made or if tougher restrictions are put in place. We anticipate a rise in costs to remain in compliance with these regulations. This will potentially have an adverse impact on Group earnings.

## (6) Lawsuits, Legal Action by Regulatory Authorities, and Other Legal Procedures

In performing our business activities, the Fujikura Group is at risk of lawsuits, legal action by regulatory authorities, and other legal issues. Potential risks include damage complaints stemming from lawsuits, legal action by regulatory authorities, other legal issues, fines being imposed by regulatory authorities, and restrictions placed on business operations. Lawsuits, legal action by regulatory authorities, and other legal procedures pose a potential risk to the Group's businesses, earnings, and financial health.

## (7) Political and Economic Trends

We conduct our Power & Telecommunication Systems Company, Electronics Business Company and Automotive Products Company at home and abroad. Consequently, political unrest and other conditions, mainly in the countries in which we operate, could possibly have a negative impact on our business performance.

## (8) Interest Rate Fluctuations

Our financing takes into account a balance between the demand for capital, the climate in financial markets, and procurement methods. A rise in interest rates translates into a rise in interest payments. Accordingly, we view the rise in interest rates as a potential risk to our business performance.

## (9) Intellectual Properties

We protect our proprietary technologies with patents and other intellectual property rights. At the same time, we are very cautious not to infringe on the intellectual property rights of a third party. However, during the diversification of product structure and manufacturing technologies, and the expansion of our business operations overseas, there is a possibility that our products could inadvertently breach the intellectual property rights of rival products. In this case, we would inevitably have to halt sales and implement corrective measures, such as changing our product design. Also, a third party could infringe upon our intellectual property rights but due to the differences in laws in other countries, there is a possibility our rights would not be adequately protected. In light of this, we view this as another potential risk to our business activities and performance.

## (10) Information Leak

The Group possesses a substantial amount of private individual and sensitive information related to its business activities. We are doing our utmost to maintain the confidentiality of this information. However, we cannot rule out the possibility of this information being leaked externally due to some unexpected incident. This type of information leak would potentially damage our image and result in compensation for damages, which in turn would have a negative impact on Group earnings and financial health.

## (11) Disaster Risk

The Fujikura Group has a number of factories in Japan and overseas. In the event our production facilities are destroyed due to a natural disaster at one of our factory locations, including wind and water damage due to a large-scale earthquake or typhoon, it is likely that our capacity utilization would decline due to suspended operations and expenses would increase due to reflecting facilities repairs. Natural disaster would potentially have a negative impact on the Fujikura Group's production system, its financial health, and earnings.



# Financial Section

# Management Discussion & Analysis


**Q1 Please explain the underlying reasons why you forecast growth in revenue for FPC even though demand for FPC for smartphones has softened.**

A End product functions are increasing year after year and the number of FPC units handled is increasing. In addition to this, the number of mounted components that we are paid for is increasing, so we project an increase in revenues, extrapolating from the current forecast.

The plan has been formulated based on various considerations in addition to forecasts received from our customers. However, we are working on developing business in FPC installed in vehicles and other applications, although it will depend on the trend in the market for the end products.

**Q2 What is the status of optical fiber?**

A Market demand is robust and company production is running at full operating capacity both in Japan and overseas. We think there will be even greater growth in optical fiber demand in the future, particularly in the FTTx and DC markets in North America and Europe. Fujikura has already released a strategic product in optical cables, and it is receiving good reviews. We recognize that the optical-related segment is a growth market, and will be moving forward with capital investment.

**Q3 You are planning major capital investments this fiscal year. Does that change your views on capital investment and M&A in the 2020 Mid-term Business Plan?**

A It doesn't basically change anything. We will proceed according to the mid-term business plan as initially formulated. I will explain the thinking behind that once again. We will invest a considerably large sum of 200 billion yen over the five years of the 2020 Mid-term Business Plan, and the cumulative depreciation over that same period will also be around 200 billion yen. This will be invested in strategic growth areas, focusing on IT-related investment in the Power & Telecommunications Systems Company and on investment in development and automation and other types of rationalization in the Electronics Business. We intend to engage in active M&A. There are no specific targets at present, however. Please regard M&A investment as a number in addition to this number.

**Q4 What is the status of new businesses?**

A We are moving forward with product development and marketing of fiber lasers, which were transferred to the telecommunications business in FY2016. At present, we have received many order inquiries, and are aiming to turn this into a contribution to profits as quickly as possible. We are also injecting resources into automotive-related, industrial equipment-related, and medical device-related business, three key segments in the current mid-term business plan.

**Q5 Open innovation was mentioned as a key measure in the mid-term business plan. What is that?**

A We do not regard our mission as being simply to sell things, but how to respond and provide the value that customers seek. Therefore, our intention is to determine if anything needed to provide that value is missing from our value chain and procure it from elsewhere to supply the missing pieces in the value chain. To restate this in other terms, it is to move away from the need to produce everything in-house. M&A is also one way to supply the missing pieces and we intend to pursue M&A actively. We presented the 2030 vision and advanced plans for collaboration with venture companies as new initiatives during this fiscal year. These also are in line with this view.

**Q6 The market is focusing on ROE. What is your forecast for ROE?**

A We set the goal in the 2020 Mid-term Business Plan at 10% or higher. It was 6.4% in FY2016. Income taxes, etc. deferred from past fiscal years in Thailand (2.7 billion yen) were a temporary factor behind the decline in ROE, but the return on equity (ROE) for FY2016 would have been 7.8% absent the temporary factor. We think we are on track for achieving the goal of 10% or higher in the mid-term business plan.

**Q7 What are your views on shareholder return?**

A Distribution of profits with a consideration for balance is fundamental. Our ultimate goal is to increase income per share as we invest in growth and improve financial soundness, and would like to tie these together here. We will aim to increase the amount of dividends by increasing income per share. Our goal for the dividend payout ratio over the five years of the 2020 Mid-term Business Plan hinges on 20% or higher. Our forecast for net income in FY2017 is 20 billion yen. If you exclude the number of treasury shares held by the company, the number of shares outstanding is 285 million shares, and a dividend per share of 14 yen would be a payout ratio of around 20%. Dividends per share of 14 yen would be an increase of 4 yen per share versus FY2016.

**Q8 What are your views on governance?**

A We recognize the great importance of ensuring transparency and fairness as fundamental to governance. A system of governance that is fully fleshed out in terms of content, rather than just being a structure for external appearances, is essential. We transitioned to being a company with audit and supervisory committee this fiscal year. This was done to strengthen the supervisory and audit functions and increase the speed of decision-making through the delegation of authority, keeping the need to work for real management reform in mind.

# Consolidated Balance Sheets

Fujikura Ltd. and its Consolidated Subsidiaries
At March 31, 2016 and 2017

| Assets | Millions of yen 2016 | Millions of yen 2017 | Thousands of U.S. dollars (Note 3) 2017 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and deposits | ¥34,961 | ¥31,785 | $283,314 |
| Notes and accounts receivable, trade | 143,857 | 148,969 | 1,327,828 |
| Finished goods (Note 10) | 32,189 | 35,487 | 316,312 |
| Goods in process (Note 10) | 19,168 | 24,684 | 220,020 |
| Raw materials and supplies (Note 10) | 27,910 | 32,328 | 288,154 |
| Deferred tax assets (Note 16) | 5,263 | 3,766 | 33,568 |
| Other | 19,845 | 20,366 | 181,531 |
| Allowance for doubtful accounts | (759) | (864) | (7,701) |
| Total current assets | 282,438 | 296,526 | 2,643,070 |
| **Non-current assets:** | | | |
| Tangible fixed assets | | | |
| Buildings and structures, net | 80,052 | 89,993 | 802,148 |
| Machinery, equipment and vehicles, net | 56,067 | 62,633 | 558,276 |
| Land (Note 6) | 15,732 | 15,652 | 139,513 |
| Lease assets, net | 2,657 | 2,479 | 22,096 |
| Construction in progress | 15,888 | 14,736 | 131,349 |
| Other, net | 9,554 | 9,788 | 87,245 |
| Total tangible fixed assets | 179,953 | 195,283 | 1,740,645 |
| Intangible assets | | | |
| Goodwill | 10,949 | 7,123 | 63,491 |
| Other | 10,346 | 9,962 | 88,796 |
| Total intangible assets | 21,295 | 17,085 | 152,286 |
| Investments and other assets | | | |
| Investment securities (Note 5) | 38,533 | 41,295 | 368,081 |
| Net defined benefit asset (Note 9) | 1,547 | 3,231 | 28,799 |
| Deferred tax assets (Note 16) | 10,643 | 12,484 | 111,276 |
| Other (Note 5) | 20,452 | 25,023 | 223,041 |
| Allowance for doubtful accounts | (2,149) | (2,266) | (20,198) |
| Allowance for investment loss | (36) | (37) | (330) |
| Total investments and other assets | 68,990 | 79,731 | 710,678 |
| Total non-current assets | 270,239 | 292,100 | 2,603,619 |
| Total assets | ¥552,678 | ¥588,626 | $5,246,689 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

| Liabilities | Millions of yen 2016 | Millions of yen 2017 | U.S. dollars (Note 3) 2017 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Notes and accounts payable, trade | ¥73,734 | ¥77,230 | $688,386 |
| Short-term borrowings (Note 6) | 66,328 | 74,637 | 665,273 |
| Current portion of bonds (Note 6) | 20,000 | 10,000 | 89,135 |
| Income taxes payable (Note 16) | 2,029 | 3,671 | 32,721 |
| Provision for business structure improvement | 1,907 | - | - |
| Other provision | - | 24 | 214 |
| Other | 37,920 | 37,661 | 335,689 |
| Total current liabilities | 201,919 | 203,226 | 1,811,445 |
| **Non-current liabilities:** | | | |
| Bonds (Note 6) | 30,000 | 40,000 | 356,538 |
| Long-term borrowings (Note 6) | 81,317 | 101,296 | 902,897 |
| Deferred tax liabilities (Note 16) | 766 | 126 | 1,123 |
| Other provision | 825 | 36 | 321 |
| Net defined benefit liability (Note 9) | 9,218 | 8,184 | 72,948 |
| Other (Notes 6 and 7) | 10,649 | 11,210 | 99,920 |
| Total non-current liabilities | 132,777 | 160,854 | 1,433,764 |
| Total liabilities | 334,697 | 364,080 | 3,245,209 |

Contingent liabilities (Note 17)

| Net assets | Millions of yen 2016 | Millions of yen 2017 | Thousands of U.S. dollars (Note 3) 2017 |
|---|---|---|---|
| **Shareholders' equity:** | | | |
| Common stock | 53,075 | 53,075 | 473,081 |
| Capital surplus | 57,333 | 30,012 | 267,510 |
| Retained earnings | 108,553 | 118,867 | 1,059,515 |
| Treasury stock | (25,353) | (5,942) | (52,964) |
| Total shareholders' equity (Note 19) | 193,608 | 196,013 | 1,747,152 |
| **Accumulated other comprehensive income (loss):** | | | |
| Valuation difference on available-for-sale securities | 5,607 | 7,284 | 64,926 |
| Deferred gains (losses) on hedges | (8) | 465 | 4,145 |
| Foreign currency translation adjustments | 8,010 | 4,459 | 39,745 |
| Remeasurements of defined benefit plans | (8,644) | (5,500) | (49,024) |
| Total accumulated other comprehensive income | 4,964 | 6,709 | 59,800 |
| **Non-controlling interests** | 19,407 | 21,823 | 194,518 |
| Total net assets | 217,981 | 224,546 | 2,001,480 |
| Total liabilities and net assets | ¥552,678 | ¥588,626 | $5,246,689 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Income

Fujikura Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| **Net sales** | ¥678,528 | ¥653,795 | $5,827,569 |
| **Cost of sales (Notes 8, 9 and 10)** | 551,920 | 525,150 | 4,680,898 |
| Gross profit | 126,607 | 128,644 | 1,146,662 |
| **Selling, general and administrative expenses (Notes 8 and 9):** | | | |
| Packing and transportation expenses | 16,592 | 16,946 | 151,047 |
| Personnel expenses | 39,623 | 39,814 | 354,880 |
| Other | 37,758 | 37,652 | 335,609 |
| Total selling, general and administrative expenses | 93,974 | 94,413 | 841,546 |
| Operating income | 32,632 | 34,230 | 305,107 |
| **Non-operating income:** | | | |
| Interest income | 227 | 267 | 2,380 |
| Dividend income | 1,210 | 1,128 | 10,054 |
| Foreign exchange gains | 134 | 746 | 6,649 |
| Share of profit of entities accounted for using equity method | - | 1,046 | 9,323 |
| Reversal for product repair expenses | 313 | - | - |
| Other | 838 | 866 | 7,719 |
| Total non-operating income | 2,725 | 4,055 | 36,144 |
| **Non-operating expenses:** | | | |
| Interest expenses | 2,783 | 2,623 | 23,380 |
| Share of loss of entities accounted for using equity method | 2,918 | - | - |
| Loss on retirement of non-current assets | 565 | 643 | 5,731 |
| Other | 4,460 | 2,463 | 21,954 |
| Total non-operating expenses | 10,727 | 5,730 | 51,074 |
| Ordinary income | 24,629 | 32,555 | 290,177 |
| **Extraordinary gains:** | | | |
| Gain on sales of investment securities | 2,420 | 465 | 4,145 |
| Gain on sales of fixed assets (Note 11) | 325 | 180 | 1,604 |
| Total extraordinary gains | 2,745 | 646 | 5,758 |
| **Extraordinary losses:** | | | |
| Business structure improvement expenses (Note 12) | 7,801 | 3,187 | 28,407 |
| Litigation settlement | 1,155 | 1,143 | 10,188 |
| Other | 1,227 | 539 | 4,804 |
| Total extraordinary losses | 10,183 | 4,870 | 43,409 |
| Income before income taxes | 17,191 | 28,331 | 252,527 |
| **Income taxes (Note 17):** | | | |
| Current | 8,711 | 10,868 | 96,871 |
| Income taxes for prior periods (Note 13) | - | 2,764 | 24,637 |
| Deferred | (4,069) | (2,329) | (20,759) |
| Total income taxes | 4,641 | 11,303 | 100,749 |
| **Profit** | 12,549 | 17,027 | 151,769 |
| **Profit attributable to non-controlling interests** | 1,232 | 4,127 | 36,786 |
| Profit attributable to owners of parent | ¥11,317 | ¥12,900 | $114,984 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.



# Consolidated Statements of Comprehensive Income

Fujikura Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| **Profit** | ¥12,549 | ¥17,027 | $151,769 |
| **Other comprehensive income** | | | |
| Valuation difference on available-for-sale securities | (5,409) | 1,600 | 14,262 |
| Deferred gains (losses) on hedges | (13) | 642 | 5,722 |
| Foreign currency translation adjustments | (16,314) | (3,495) | (31,153) |
| Remeasurements of defined benefit plans, net of taxes | (4,185) | 3,127 | 27,872 |
| Share of other comprehensive income of entities accounted for using equity method | (508) | (359) | (3,200) |
| Other comprehensive income (Note 14) | (26,431) | 1,516 | 13,513 |
| **Comprehensive income** | (13,881) | 18,543 | 165,282 |
| (Breakdown) | | | |
| Comprehensive income attributable to owners of parent | (14,410) | 14,645 | 130,537 |
| Comprehensive income attributable to non-controlling interests | ¥529 | ¥3,898 | $34,745 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Fujikura Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2017

| | | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | |
| | Number of shares issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| **Balance at March 31, 2015** | 360,863,421 | ¥53,075 | ¥55,035 | ¥99,539 | (¥19,762) | ¥187,888 |
| Dividends paid | | - | - | (2,303) | - | (2,303) |
| Profit attributable to owners of parent | | - | - | 11,317 | - | 11,317 |
| Purchase of treasury stock | | - | - | - | (5,590) | (5,590) |
| Disposal of treasury stock | | - | 0 | - | 0 | 0 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | - | 2,282 | - | - | 2,282 |
| Purchase of shares of consolidated subsidiaries | | - | 15 | - | - | 15 |
| Change of scope of equity method | | - | - | (0) | - | (0) |
| Net changes of items other than shareholders' equity | | - | - | - | - | - |
| Total changes of items during period | | - | 2,297 | 9,013 | (5,590) | 5,720 |
| **Balance at March 31, 2016** | 360,863,421 | ¥53,075 | ¥57,333 | ¥108,553 | (¥25,353) | ¥193,608 |
| Dividends paid | | - | - | (2,636) | - | (2,636) |
| Profit attributable to owners of parent | | - | - | 12,900 | - | 12,900 |
| Purchase of treasury stock | | - | - | - | (7,910) | (7,910) |
| Retirement of treasury stock | (65,000,000) | - | (27,320) | - | 27,320 | - |
| Change of scope of consolidation | | - | - | 51 | - | 51 |
| Net changes of items other than shareholders' equity | | - | - | - | - | - |
| Total changes of items during period | | - | (27,320) | 10,314 | 19,410 | 2,404 |
| **Balance at March 31, 2017** | 295,863,421 | ¥53,075 | ¥30,012 | ¥118,867 | (¥5,942) | ¥196,013 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | |
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at March 31, 2015** | 11,078 | 71 | 24,059 | (4,516) | 30,692 | 15,946 | 234,527 |
| Dividends paid | - | - | - | - | - | - | (2,303) |
| Profit attributable to owners of parent | - | - | - | - | - | - | 11,317 |
| Purchase of treasury stock | - | - | - | - | - | - | (5,590) |
| Disposal of treasury stock | - | - | - | - | - | - | 0 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | - | - | - | - | - | - | 2,282 |
| Purchase of shares of consolidated subsidiaries | - | - | - | - | - | - | 15 |
| Change of scope of equity method | - | - | - | - | - | - | (0) |
| Net changes of items other than shareholders' equity | (5,471) | (80) | (16,048) | (4,127) | (25,727) | 3,461 | (22,266) |
| Total changes of items during period | (5,471) | (80) | (16,048) | (4,127) | (25,727) | 3,461 | (16,545) |
| **Balance at March 31, 2016** | ¥5,607 | (¥8) | ¥8,010 | (¥8,644) | ¥4,964 | ¥19,407 | ¥217,981 |
| Dividends paid | - | - | - | - | - | - | (2,636) |
| Profit attributable to owners of parent | - | - | - | - | - | - | 12,900 |
| Purchase of treasury stock | - | - | - | - | - | - | (7,910) |
| Retirement of treasury stock | - | - | - | - | - | - | - |
| Change of scope of consolidation | - | - | - | - | - | - | 51 |
| Net changes of items other than shareholders' equity | 1,676 | 473 | (3,550) | 3,144 | 1,744 | 2,415 | 4,160 |
| Total changes of items during period | 1,676 | 473 | (3,550) | 3,144 | 1,744 | 2,415 | 6,564 |
| **Balance at March 31, 2017** | ¥7,284 | ¥465 | ¥4,459 | (¥5,500) | ¥6,709 | ¥21,823 | ¥224,546 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

| | | Thousands of U.S. dollars (Note 3) | | | | |
|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | |
| | Number of shares issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| **Balance at March 31, 2016** | 360,863,421 | $473,081 | $511,035 | $967,582 | ($225,983) | $1,725,715 |
| Dividends paid | | - | - | (23,496) | - | (23,496) |
| Profit attributable to owners of parent | | - | - | 114,984 | - | 114,984 |
| Purchase of treasury stock | | - | - | - | (70,505) | (70,505) |
| Retirement of treasury stock | (65,000,000) | - | (243,515) | - | 243,515 | - |
| Change of scope of consolidation | | - | - | 455 | - | 455 |
| Net changes of items other than shareholders' equity | | - | - | - | - | - |
| Total changes of items during period | | - | (243,515) | 91,933 | 173,010 | 21,428 |
| **Balance at March 31, 2017** | 295,863,421 | $473,081 | $267,510 | $1,059,515 | ($52,964) | $1,747,152 |

| | Thousands of U.S. dollars (Note 3) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | |
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at March 31, 2016** | $49,978 | ($71) | $71,397 | ($77,048) | $44,246 | $172,983 | $1,942,963 |
| Dividends paid | - | - | - | - | - | - | (23,496) |
| Profit attributable to owners of parent | - | - | - | - | - | - | 114,984 |
| Purchase of treasury stock | - | - | - | - | - | - | (70,505) |
| Retirement of treasury stock | - | - | - | - | - | - | - |
| Change of scope of consolidation | - | - | - | - | - | - | 455 |
| Net changes of items other than shareholders' equity | 14,939 | 4,216 | (31,643) | 28,024 | 15,545 | 21,526 | 37,080 |
| Total changes of items during period | 14,939 | 4,216 | (31,643) | 28,024 | 15,545 | 21,526 | 58,508 |
| **Balance at March 31, 2017** | $64,926 | $4,145 | $39,745 | ($49,024) | $59,800 | $194,518 | $2,001,480 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

Fujikura Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥17,191 | ¥28,331 | $252,527 |
| Depreciation and amortization | 26,311 | 27,589 | 245,913 |
| Amortization of goodwill | 3,149 | 3,545 | 31,598 |
| Increase (decrease) in provisions | 396 | 217 | 1,934 |
| Interest and dividend income | (1,437) | (1,395) | (12,434) |
| Interest expenses | 2,783 | 2,623 | 23,380 |
| Share of (profit) loss of entities accounted for using equity method | 2,918 | (1,046) | (9,323) |
| Business structure improvement expenses | 6,358 | 2,405 | 21,437 |
| Decrease (increase) in notes and accounts receivable, trade | 4,432 | (7,463) | (66,521) |
| Decrease (increase) in inventories | (4,579) | (11,361) | (101,266) |
| Increase (decrease) in notes and accounts payable, trade | 559 | 6,363 | 56,716 |
| Increase (decrease) in other current liabilities | (0) | 3,068 | 27,346 |
| Decrease (increase) in net defined benefit asset | 1,367 | 1,340 | 11,944 |
| Increase (decrease) in net defined benefit liability | (642) | (10) | (89) |
| Other, net | (887) | 1,462 | 13,031 |
| Sub-total | 57,923 | 55,670 | 496,212 |
| Interest and dividend income received | 2,018 | 2,398 | 21,374 |
| Interest paid | (2,876) | (2,681) | (23,897) |
| Income taxes (paid) refund | (8,791) | (11,764) | (104,858) |
| Net cash provided by (used in) operating activities | 48,274 | 43,623 | 388,831 |
| **Cash flows from investing activities:** | | | |
| Net decrease (increase) in time deposits | (1,099) | (433) | (3,860) |
| Payments for purchase of property, plant and equipment and other assets | (30,821) | (46,495) | (414,431) |
| Proceeds from sales of property, plant and equipment and other assets | 2,481 | 2,205 | 19,654 |
| Proceeds from sales of investment securities | 4,313 | 550 | 4,902 |
| Payments of loans receivable | (791) | (11,774) | (104,947) |
| Collection of loans receivable | 225 | 3,626 | 32,320 |
| Purchase of long-term prepaid expenses | (2,464) | (2,649) | (23,612) |
| Proceeds from transfer of business | 1,802 | - | - |
| Payments for transfer of business | - | (4,120) | (36,723) |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (9,731) | - | - |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 45 | - | - |
| Payments for investments in capital of subsidiaries and affiliates | (1,222) | (1,477) | (13,165) |
| Other, net | (19) | (65) | (579) |
| Net cash provided by (used in) investing activities | (37,283) | (60,633) | (540,449) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | (3,402) | (2,673) | (23,826) |
| Net increase (decrease) in commercial papers | (2,000) | (2,000) | (17,827) |
| Proceeds from long-term loans payable | 22,808 | 46,155 | 411,400 |
| Repayment of long-term loans payable | (20,378) | (13,866) | (123,594) |
| Redemption of bonds | - | (20,000) | (178,269) |
| Proceeds from issuance of bonds | - | 19,901 | 177,387 |
| Proceeds from share issuance to non-controlling shareholders | 1,500 | - | - |
| Cash dividends paid | (2,303) | (2,636) | (23,496) |
| Purchase of treasury stock | (5,590) | (7,909) | (70,496) |
| Dividends paid to non-controlling interests | (565) | (558) | (4,974) |
| Other, net | 0 | - | - |
| Net cash provided by (used in) financing activities | (9,932) | 16,411 | 146,279 |
| **Effect of exchange rate change on cash and cash equivalents** | (2,304) | (812) | (7,238) |
| **Net increase (decrease) in cash and cash equivalents** | (1,245) | (1,410) | (12,568) |
| **Cash and cash equivalents at beginning of period** | 33,336 | 32,091 | 286,042 |
| **Cash and cash equivalents at end of period (Note 15)** | ¥32,091 | ¥30,680 | $273,465 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.



# Notes to the Consolidated Financial Statements

Fujikura Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

1. Basis of Presentation

**Accounting principles**

The accompanying Consolidated Financial Statements of Fujikura Ltd. (the "Company") and its consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects, application and disclosure requirements, from International Financial Reporting Standards, and are prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") PITF No. 18, Mar 26, 2015) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, March 10, 2008) and made necessary adjustments for the preparation of the Consolidated Financial Statements.

In preparing the Consolidated Financial Statements, certain reclassification and presentation adjustments have been made to the Consolidated Financial Statements filed with the Director of the Kanto Local Finance Bureau in Japan in order to present these Consolidated Financial Statements in a form which is more familiar to readers of these Consolidated Financial Statements outside Japan.

2. Summary of Significant Accounting Policies

**(a) Consolidation and investments in affiliates**

The Consolidated Financial Statements include the accounts of the Company and all significant subsidiaries (99 subsidiaries at March 31, 2016 and 97 subsidiaries at March 31, 2017). All significant intercompany transactions, accounts and unrealized intercompany profits are eliminated in consolidation.

The difference between the cost and the underlying net equity of the investment in consolidated subsidiaries at the time of acquisition is deferred and amortized over a five-year period. Investments of 50% or less in companies over which the parent company does not have control but has the ability to exercise significant influence, and investments in unconsolidated subsidiaries are generally accounted by the equity method (10 companies at March 31, 2016 and 2017) and included in Investment securities in the Consolidated Balance Sheets.

When the accounts of subsidiaries and affiliates are not significant in relation to the Consolidated Financial Statements, they are carried at cost. The excess of the cost over the underlying net equity of investments in unconsolidated subsidiaries and affiliates accounted on an equity basis is deferred and amortized over a five-year period. Consolidated net income includes the Company's Equity in earnings of affiliates after elimination of unrealized intercompany profits.

**(b) Translation of foreign currency transactions and accounts**

Foreign currency transactions are translated using the foreign exchange rates prevailing at the transaction dates. Receivables and payables denominated in foreign currencies are translated at the balance sheet date using current exchange rates. All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese Yen at current exchange rates at the respective balance sheet dates and all income and expense accounts of those subsidiaries are translated at the average exchange rate for the respective fiscal year then ended.

Foreign currency financial statement translation differences are reported as a separate component of Net Assets in the Consolidated Balance Sheets.

**(c) Consolidated Statement of Cash Flows**

For the purpose of reporting cash flows, cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of change in value because of changes in interest rates.

**(d) Valuation of Investment securities**

Securities held by the Companies have been classified into the following categories depending on the purpose for which they are held:

Held-to-maturity debt securities:

These securities are carried at amortized cost. Any premium or discount arising on acquisition is amortized and recognized as an adjustment to interest income/expense.

Other securities:

These securities are investment securities expected to be held in the long term. Securities for which fair values are readily determinable are carried at fair value with unrealized gains and losses, net of applicable income taxes, being recorded in net assets. Securities for which fair values are not readily determinable are recorded using the moving average cost.

**(e) Inventories**

Inventories are valued at the lower of cost or market, cost being determined mainly using the weighted average method.

**(f) Property, plant and equipment**

The declining-balance method is generally used for the computation of depreciation of property, plant and equipment. However, the straight-line method is used for buildings (excluding accompanying facilities) acquired on and after April 1, 1998 as well as building accompanying facilities and structures acquired on and after April 1, 2016.

The estimated useful lives are as follows:

- Buildings: mainly 50 years
- Machinery and equipment: mainly 7 years
- Intangible fixed assets: mainly 5 years

**(g) Lease assets**

Finance leases are depreciated using the straight-line method over their respective lease terms with no residual values.

**(h) Allowance for doubtful accounts**

Allowance for doubtful accounts provides for estimated uncollectible accounts at amounts either specifically assessed or an amount computed based on historical loss experience.

**(i) Allowance for investment loss**

Allowance for investment loss provides for anticipated losses due to the decline of values of investments in unconsolidated subsidiaries and affiliates, considering financial conditions, etc.

**(j) Provision for business structure improvement**

Provision for business structure improvement is to cover losses incurred due to improvements made to the business structure. Accordingly, a reasonably estimated amount is posted to this allowance to cover expenses that are likely to arise going forward.

**(k) Provision for loss on guarantees**

Provision for loss on guarantees provides for anticipated losses due to execution of guarantees, considering financial conditions in guaranteed companies.

**(l) Accounting method for retirement benefits**

I. Attribution method for the estimated amount of retirement benefits

In calculating retirement benefits obligations, the method to attribute the estimated amount of retirement benefits to a period until the end of the consolidated fiscal year is based on the plan's benefit formula.

II. Accounting methods for actuarial differences and prior service cost

Prior service cost is accounted for according to the straight-line method as they are incurred for a certain number of years (principally fifteen years) within the average remaining years of service of employees at the time of incurring.

Actuarial differences are charged to expenses from the fiscal year subsequent to the fiscal year when incurred using a straight-line method mainly based on determined years (principally fifteen years) within the average remaining years of service of employees when incurred.

**(m) Accounting for long-term construction-type contracts**

The percentage-of-completion method of accounting is applied for the construction contracts which fulfill the conditions that the outcome of the construction activity is reasonably estimated during the course of the activity. Otherwise, the completed-contract method is applied.
The cost-to-cost method is applied for estimating the percentage of completion.

**(n) Hedge accounting**

The Companies apply hedge accounting for certain derivative financial instruments, which include foreign currency forward exchange contracts, interest rate swap agreements and commodity futures contracts. The companies utilize these hedging instruments to hedge risks of future changes in foreign exchange rates, interest rates and prices of raw materials within the normal course of the Companies' operations.

Foreign currency exchange forward contracts:

The Companies utilize foreign currency forward exchange contracts to limit exposure to changes in foreign currency exchange rates on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies.
For foreign currency forward exchange contracts, which are designated as hedges, the Companies have adopted the accounting method where foreign currency denominated assets and liabilities are measured at the contract rate of the respective foreign currency forward exchange contract. With respect to such contracts for anticipated transactions, the contracts are marked-to-market and the resulting unrealized gains/losses are deferred and recorded in the income statement when the exchange gains/losses on the hedged items or transactions are recognized.

Interest rate swap agreements:

The Companies utilize interest rate swap agreements in order to limit the Companies' exposure with respect to adverse fluctuations in interest rates underlying the debt instruments.
The related interest differentials paid or received under the interest rate swap agreements are recognized in interest expense over the term of the agreements.

Commodity futures contracts:

The Companies utilize commodity futures contracts to hedge the risk of future price fluctuations in some raw materials.

**(o) Goodwill**

Goodwill is amortized using the straight-line method over 5 years.

**(p) Income taxes**

Income taxes are computed using the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities.
Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that the tax benefits will not be realized.
The Company files its tax return under the consolidated tax filing system for notional taxes.

**(q) Consumption tax**

The tax-excluded method is used with respect to consumption tax and local consumption taxes.

**(r) Appropriations of retained earnings**

Appropriations of retained earnings reflected in the accompanying Consolidated Financial Statements are recorded upon approval by the shareholders.

**(s) Other basis for presentation of Consolidated Financial Statements**

Amounts less than ¥1 million have been omitted. As a result, the total shown in the Consolidated Financial Statements and notes thereto do not necessarily agree with the sum of the individual account balances.

**(t) Reclassification**

Certain accounts in the Consolidated Financial Statements for the year ended March 31, 2016 have been reclassified to conform to the 2017 presentation.

**(New Accounting Pronouncements and Changes in Accounting Policies)**

(Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)
In accordance with revisions to the Corporate Tax Act, the Company has adopted the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Practical Issues Task Force (PITF) No. 32, June 17, 2016) for the current fiscal year. Accordingly, the Companies have changed the depreciation method of buildings accompanying facilities and structures obtained on or after April 1, 2016 from the declining-balance method to the straight-line method.
As a result, operating income, ordinary income and income before income taxes for the current fiscal year increased by ¥206 million ($1,836 thousand), respectively.

**(Additional Information)**

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)
The Companies have adopted the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of exchange on March 31, 2017 (¥112.19=US$1.00), has been used for translation purposes. The inclusion of such amounts is not intended to imply that Japanese Yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4.Financial Instruments

**(a) Information on financial instruments**

**Policies**

The Companies enter into financing arrangements (primarily through bank loans or corporate bonds) based on the planned capital expenditures of its businesses. The Companies invest in low risk financial assets using available cash, finance their short-term working capital needs through commercial papers and bank loans. The Companies use derivative transactions within predetermined transaction volumes to limit the risk of significant fluctuations in foreign currency exchange rates, interest rates, and copper and aluminum prices.

The Companies do not enter into derivative transactions for speculative purposes.

**Details of financial instruments and related risks**

Trade notes and accounts receivable are exposed to customer credit risk. Also, trade receivables denominated in foreign currencies, which are derived from the Company's global business expansion, are exposed to fluctuations in foreign currency exchange rates, however, the exposure is mitigated by entering into foreign exchange forward contracts.

Investment securities consist mainly of equity securities, which are exposed to market price fluctuation risks.

Trade notes and accounts payable have payment terms within one year. Also, within these accounts there are foreign currency denominated balances generated from the import of raw materials and therefore the balances are exposed to fluctuations in foreign currency exchange rates. However, such balances are typically less than accounts receivable balances denominated in the same currencies.
Borrowings and corporate bonds are used primarily for capital expenditures and have maturity dates within mainly five years subsequent to the balance sheet date. Certain borrowing contracts are based on variable, or floating, interest rates, which are exposed to fluctuation risk and are hedged via interest rate swap agreements.

Derivative transactions are comprised primarily of foreign exchange forward contracts hedging foreign currency exchange rate fluctuation risk in trade receivables/payables denominated in foreign currencies, of interest rate swap agreements hedging interest rate fluctuation risk in bank loans, and commodity forward contracts hedging the risk of copper and aluminum price fluctuation.

**Risk management over financial instruments**

(1) Credit risk management (risk of customers' default risk, etc.)

The Company periodically monitors major customers' financial conditions and performs customer specific aging analyses. In addition, the Company monitors doubtful accounts due to the current economic difficulties in accordance with the credit management policy.
The consolidated subsidiaries and affiliates are also required to conform with the credit management policy of the Company.

In order to mitigate credit risks to the greatest extent possible with regards to derivative transactions, the Companies' counterparties are financial institutions that maintain high credit ratings.

The financial assets exposed to credit risks recorded in the Consolidated Balance Sheets represent the maximum exposure to credit risk as of March 31, 2016 and March 31, 2017.

(2) Market risk management (risk of fluctuations in foreign currency rates, interest rates, etc.)

The Company and certain consolidated subsidiaries generally use foreign exchange forward contracts to limit foreign currency exchange rate fluctuation risk in trade receivables/payables denominated in foreign currencies. Depending on the foreign currency market condition, the Companies use foreign exchange forward contracts for trade receivables denominated in foreign currencies generated from highly probable forecasted export transactions. Also, the Company and certain consolidated subsidiaries use interest rate swap agreements to limit interest rate fluctuation risk associated with bank loans.

In relation to investment securities, the Companies continuously monitor the related market values and financial condition of the issuers while also taking into consideration their business relationships with the issuers.

In executing and managing the daily operations of derivative transactions, the Companies regularly monitor transaction balances/volumes and profit/loss status. Such information is periodically reported to the responsible management team and is audited by certain administration divisions. Prior approval by an Executive Officer of the Company is generally required to enter into significant transactions, transaction modifications or applications for the use of new financial instruments.

(3) Liquidity risk management for financing activities (risk of inability to repay on the due date)

The Company manages liquidity risk by preparing cash flow forecasts, led by the finance division, based on relevant information reported from the respective divisions.

**Supplementary information on the fair value of financial instruments**

The fair value of financial instruments is based on market values as well as reasonably determined values in situations where the market fair value is unavailable. The determination of such values is based on certain assumptions, which may result in different outcomes if other assumptions are applied.

**(b) Fair values of financial instruments**

The book value of financial instruments in the Consolidated Financial Statements, their fair value and net difference at March 31, 2016 and 2017, respectively, are shown below:

| 2016 | Millions of yen: Book value | Millions of yen: Fair value | Millions of yen: Difference |
|---|---|---|---|
| (1) Cash and deposits | ¥34,961 | ¥34,961 | ¥ - |
| (2) Notes and accounts receivable, trade | 143,857 | | |
| Less: Allowance for doubtful accounts | (745) | | |
| Total | 143,111 | 143,111 | - |
| (3) Investment securities | 30,745 | 29,070 | (1,675) |
| (4) Notes and accounts payable, trade | 73,734 | 73,734 | - |
| (5) Short-term borrowings (*1) | 52,982 | 52,982 | - |
| (6) Commercial papers | 2,000 | 2,000 | - |
| (7) Income taxes payable | 2,029 | 2,029 | - |
| (8) Bonds (*2) | 50,000 | 50,688 | 688 |
| (9) Long-term borrowings (*1) | 94,663 | 95,685 | 1,021 |
| (10) Derivative Instruments (*3) | | | |
| Non-hedge derivative instruments | (60) | (60) | - |
| Designated hedge instruments | ¥58 | ¥58 | ¥ - |

(*1) ¥13,346 million of the Long-term borrowings which mature within 1 year and are recorded in "Short-term borrowings" in the consolidated balance sheets are included in "Long-term borrowings" above.

(*2) ¥20,000 million of the bonds which mature within 1 year and are recorded in "Current portion of bonds" in the consolidated balance sheets are included in "Bonds" above.

(*3) Net receivables and (liabilities) related to the derivative transactions are presented net.

| 2017 | Millions of yen: Book value | Millions of yen: Fair value | Millions of yen: Difference | Thousands of U.S. dollars: Book value | Thousands of U.S. dollars: Fair value | Thousands of U.S. dollars: Difference |
|---|---|---|---|---|---|---|
| (1) Cash and deposits | ¥31,785 | ¥31,785 | ¥ - | $283,314 | $283,314 | $ - |
| (2) Notes and accounts receivable, trade | 148,969 | | | 1,327,828 | | |
| Less: Allowance for doubtful accounts | (847) | | | (7,550) | | |
| Total | 148,122 | 148,122 | - | 1,320,278 | 1,320,278 | - |
| (3) Investment securities | 33,396 | 34,534 | 1,138 | 297,674 | 307,817 | 10,144 |
| (4) Notes and accounts payable, trade | 77,230 | 77,230 | - | 688,386 | 688,386 | - |
| (5) Short-term borrowings (*1) | 49,529 | 49,529 | - | 441,474 | 441,474 | - |
| (6) Income taxes payable | 3,671 | 3,671 | - | 32,721 | 32,721 | - |
| (7) Bonds (*2) | 50,000 | 50,272 | 272 | 445,673 | 448,097 | 2,424 |
| (8) Long-term borrowings (*1) | 126,404 | 126,681 | 276 | 1,126,696 | 1,129,165 | 2,460 |
| (9) Derivative Instruments (*3) | | | | | | |
| Non-hedge derivative instruments | (163) | (163) | - | (1,453) | (1,453) | - |
| Designated hedge instruments | ¥823 | ¥823 | ¥ - | $7,336 | $7,336 | $ - |

(*1) ¥25,108 million (US$223,799 thousand) of the Long-term borrowings which mature within 1 year and are recorded in "Short-term borrowings" in the consolidated balance sheets are included in "Long-term borrowings" above.

(*2) ¥10,000 million (US$89,135 thousand) of the bonds which mature within 1 year and are recorded in "Current portion of bonds" in the consolidated balance sheets are included in "Bonds" above.

(*3) Net receivables and (liabilities) related to the derivative transactions are presented net.

Note 1: Method used to determine fair value of financial instruments, securities and derivative instruments:

(1) Cash and deposits

The cost of cash and deposits approximate fair value due to their short term maturities.

(2) Notes and accounts receivable, trade

The cost of notes and accounts receivable, trade approximate fair value due to their short term maturities. For certain accounts receivables, the Companies enter into foreign exchange forward contracts for which a simplified method of determining fair value is applied and allowable under JGAAP. The fair values of such receivables are determined on an aggregate basis with the related foreign exchange forward contract.

(3) Investment securities

The fair value of listed equity securities are determined using quoted market prices for those securities. The fair value of debt securities are determined using quoted market prices or the prices provided by the counterparty financial institutions.

(4) Notes and accounts payable, trade, (5) Short-term borrowings and (6) Income taxes payable

The costs of these items approximate fair values due to their short term maturities.

(7) Bonds

The fair value of bonds issued by the Company is determined using quoted market prices.

(8) Long-term borrowings

The fair value of these items is determined based on the present value of the principal and interest discounted at the current interest rate charged for a similar borrowing. For long-term debt with a floating interest rate, the Companies enter into interest swaps for which a simplified method is applied and allowable under JGAAP. Such long-term borrowings are combined with the related interest swaps and their fair values are determined based on the present value of the principal and interest reflecting the swap discounted at the current interest rate charged for a similar borrowing.

(9) Derivative instruments

The Companies use a forward exchange rate for foreign exchange forward contracts. Commodity futures contracts fair values are calculated based on LME (London Metal Exchange) and SHFE (Shanghai Futures Exchange) official prices and current exchange rates. Foreign exchange forward contracts are accounted for combined with the accounts receivables designated as hedged items, and their fair values are included in the related accounts receivable. Interest swaps for which a simplified method allowed under JGAAP is applied are combined with the long-term debts designated as hedged items, and their fair values are included in long-term debt.

Note 2: Financial instruments for which estimation of fair value is extremely difficult

| 2016 | Millions of yen |
|---|---|
| Description | Amount recorded in consolidated balance sheets |
| Non-public companies | ¥7,787 |

| 2017 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Description | Amount recorded in consolidated balance sheets | Amount recorded in consolidated balance sheets |
| Non-public companies | ¥7,899 | $70,407 |

These items are not included in "(3) Investment securities" because it is extremely difficult to determine their fair value as there is no quoted market price for these companies available and it is difficult to estimate the future cash flows of these companies.

Note 3: The aggregate annual maturities of cash and deposits, and receivables at March 31, 2016 and 2017 are as follows:

| At March 31, 2016 | Millions of yen | | | |
|---|---|---|---|---|
| | Due within 1year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and deposits | ¥34,961 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable, trade | 142,790 | 1,067 | - | - |
| Total | ¥177,752 | ¥1,067 | ¥ - | ¥ - |

| At March 31, 2017 | Millions of yen | | | |
|---|---|---|---|---|
| | Due within 1year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and deposits | ¥31,785 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable, trade | 148,969 | 0 | - | - |
| Total | ¥180,755 | ¥0 | ¥ - | ¥ - |

| At March 31, 2017 | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Due within 1year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and deposits | $283,314 | $ - | $ - | $ - |
| Notes and accounts receivable, trade | 1,327,828 | 0 | - | - |
| Total | $1,611,151 | $0 | $ - | $ - |

Note 4: The annual maturities of bonds and long-term borrowings at March 31, 2016 and 2017 are as follows:

At March 31, 2016

Bonds

| | Millions of yen |
|---|---|
| Year ending March 31, 2017 | ¥20,000 |
| 2018 | 10,000 |
| 2019 | 20,000 |
| 2020 | - |
| 2021 | - |
| 2022 and thereafter | - |

Long-term borrowings

| | Millions of yen |
|---|---|
| Year ending March 31, 2017 | ¥13,346 |
| 2018 | 17,359 |
| 2019 | 2,696 |
| 2020 | 27,826 |
| 2021 | 33,432 |
| 2022 and thereafter | 2 |

At March 31, 2017

Bonds

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31, 2018 | ¥10,000 | $89,135 |
| 2019 | 20,000 | 178,269 |
| 2020 | - | - |
| 2021 | - | - |
| 2022 | 10,000 | 89,135 |
| 2023 and thereafter | 10,000 | 89,135 |

Long-term borrowings

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31, 2018 | ¥25,108 | $223,799 |
| 2019 | 9,721 | 86,648 |
| 2020 | 38,645 | 344,460 |
| 2021 | 42,927 | 382,628 |
| 2022 | 10,000 | 89,135 |
| 2023 and thereafter | 1 | 9 |

## 5. Investment Securities

The aggregate cost, gross unrealized gains, gross unrealized losses and fair value of held-to-maturity investment securities at March 31, 2016 and 2017 consisting primarily of equity securities are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Cost | ¥16,003 | ¥15,962 | $142,276 |
| Gross unrealized gains | 7,991 | 9,472 | 84,428 |
| Gross unrealized losses | (912) | (203) | (1,809) |
| Fair value | ¥23,081 | ¥25,231 | $224,895 |

Available-for-sale investment securities sold during the year ended March 31, 2016 and 2017 are as follows:

At March 31, 2016

| | Millions of yen |
|---|---|
| | 2016 |
| Investment securities | |
| Sales amount | ¥4,313 |
| Gain on sales of investment securities | 2,420 |
| Loss on sales of securities | 8 |

At March 31, 2017

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2017 | 2017 |
| Investment securities | | |
| Sales amount | ¥350 | $3,120 |
| Gain on sales of investment securities | 465 | 4,145 |
| Loss on sales of securities | - | - |

Investments in unconsolidated subsidiaries and affiliates at March 31, 2016 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Investments securities | ¥13,444 | ¥14,228 | $126,821 |
| Investments and other assets, other | 11,518 | 11,830 | 105,446 |
| | ¥24,962 | ¥26,058 | $232,267 |

## 6. Short-term Borrowings, Long-term Debt

Short-term borrowings at March 31, 2016 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Loans, principally from banks, with weighted-average interest rates of 1.5% and 1.5% per year at March 31, 2016 and 2017, respectively. | ¥52,982 | ¥49,529 | $441,474 |
| Commercial papers, with weighted-average interest rates of 0.0% per year at March 31, 2016. | 2,000 | - | - |
| | ¥54,982 | ¥49,529 | $441,474 |

Long-term debt at March 31, 2016 and 2017 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Unsecured loans from banks and other financial institutions with maturity dates from 2017 to 2028 with weighted-average interest rates of 1.2% and 1.3% at March 31, 2016 and 2017, respectively. | ¥94,663 | ¥126,404 | $1,126,696 |
| Lease obligations | 609 | 330 | 2,941 |
| Unsecured straight bonds issued from January 31, 2008 to September 6, 2016 with interest rates ranging from 0.1% to 1.8%, maturity dates September 7, 2016 to September 6, 2023 | 50,000 | 50,000 | 445,673 |
| | 145,273 | 176,735 | 1,575,319 |
| Less: current portion due within one year | | | |
| Long term borrowings | (13,346) | (25,108) | (223,799) |
| Bonds | (20,000) | (10,000) | (89,135) |
| Lease obligations | (340) | (136) | (1,212) |
| Total | (33,687) | (35,244) | (314,146) |
| | ¥111,586 | ¥141,490 | $1,261,164 |

The Companies' assets pledged as collateral for other interest-bearing debts at March 31, 2016 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Carrying values of property, plant and equipment: | | | |
| Land | ¥992 | ¥992 | $8,842 |

The annual maturities of long-term debts are as follows:

| Long term borrowings | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31, | | |
| 2019 | ¥9,721 | $86,648 |
| 2020 | 38,645 | 344,460 |
| 2021 | 42,927 | 382,628 |
| 2022 | 10,000 | 89,135 |

| Lease obligations | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31, | | |
| 2019 | ¥105 | $936 |
| 2020 | 45 | 401 |
| 2021 | 30 | 267 |
| 2022 | 13 | 116 |

| Bonds | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31, | | |
| 2019 | ¥20,000 | $178,269 |
| 2020 | - | - |
| 2021 | - | - |
| 2022 | 10,000 | $89,135 |

## 7. Other Long-term Liabilities

Other than the loans and debts included in note 6, interest-bearing debts, which consisted of guarantee money received in the amounts of ¥2,704 million and ¥2,124 million (US$18,932 thousand), were recorded as a part of other long-term liabilities in the Consolidated Balance Sheets as of March 31, 2016 and 2017, respectively.

## 8. Research and Development Costs

Research and development costs included in Selling, general and administrative expenses and Cost of sales, in aggregate, for the years ended March 31, 2016 and 2017, amounted to ¥16,210 million and ¥15,614 million (US$139,175 thousand), respectively.

## 9. Severance Indemnities and Pension Plans

(a) Outline of retirement and severance benefits plans adopted by the Companies

The Company and its domestic consolidated subsidiaries sponsor various defined benefit plans such as corporate pension plans, employees' pension funds and lump sum retirement plans for their employees. Certain consolidated subsidiaries also sponsor defined contribution plans.

(b) Defined benefit plan

The following tables present summaries of the benefit obligations for defined pension plans, plan assets and the associated funded status recorded in the Consolidated Balance Sheets.

(1) Benefit obligations at the beginning of the period and the end of the period (excluding those plans that adopt the simplified method as discussed in (3) below)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Balance at the beginning of the period | ¥55,480 | ¥58,195 | $518,718 |
| Service cost | 2,239 | 2,537 | 22,613 |
| Interest cost | 476 | 183 | 1,631 |
| Actuarial (gains) or losses | 4,281 | (1,359) | (12,113) |
| Retirement benefits paid | (4,098) | (5,164) | (46,029) |
| Other | (184) | (493) | (4,394) |
| Balance at the end of the period | ¥58,195 | ¥53,897 | $480,408 |

(2) Plan assets at the beginning of the period and the end of the period (excluding those plans that adopt the simplified method as discussed in (3) below)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Balance at the beginning of the period | ¥56,028 | ¥52,651 | $469,302 |
| Expected return on plan assets | 1,090 | 917 | 8,174 |
| Actuarial (gains) or losses | (2,442) | 71 | 633 |
| Employer's contributions | 1,447 | 1,470 | 13,103 |
| Retirement benefits paid | (3,472) | (4,003) | (35,681) |
| Balance at the end of the period | ¥52,651 | ¥51,105 | $455,522 |

(3) Defined benefit liability at the beginning of the period and the end of the period for consolidated subsidiaries adopting the simplified method

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Balance at the beginning of the period | ¥1,950 | ¥2,126 | $18,950 |
| Retirement benefit cost | 393 | 300 | 2,674 |
| Retirement benefits paid | (144) | (117) | (1,043) |
| Annual contribution | (73) | (149) | (1,328) |
| Balance at the end of the period | ¥2,126 | ¥2,160 | $19,253 |

(4) Reconciliation between the liabilities (assets) recorded in the Consolidated Balance Sheets and the balances of defined benefit obligations and plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Retirement benefit obligations of the savings plans | ¥57,679 | ¥53,451 | $476,433 |
| Plan assets | (41,571) | (39,396) | (351,154) |
| Retirement benefits trusts | (12,753) | (13,436) | (119,761) |
| | 3,353 | 618 | 5,509 |
| Retirement benefit obligations of the non-savings plans | 4,317 | 4,333 | 38,622 |
| Net liabilities and assets recorded on the Consolidated Balance Sheets | 7,670 | 4,952 | 44,139 |
| Net defined benefit liability | 9,218 | 8,184 | 72,948 |
| Net defined benefit asset | (1,547) | (3,231) | (28,799) |
| Net liabilities (assets) recorded on the Consolidated Balance Sheets | ¥7,670 | ¥4,952 | $44,139 |

(5) Components of net periodic retirement benefits costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Service cost | ¥2,239 | ¥2,537 | $22,613 |
| Interest cost | 476 | 183 | 1,631 |
| Expected return on plan assets | (1,090) | (917) | (8,174) |
| Recognized actuarial (gains) or losses | 2,136 | 2,540 | 22,640 |
| Amortization of prior service cost | (258) | (263) | (2,344) |
| Net retirement benefit costs of the plans adopting the simplified method | 393 | 300 | 2,674 |
| Retirement benefit costs related to the defined benefit plans | ¥3,896 | ¥4,380 | $39,041 |

Note. Extra retirement payments for the years ended March 31, 2016 and 2017 in the amount of ¥1,263 million and ¥1,497 million (US$ 13,343 thousand) respectively, are accounted for as "Business structure improvement expenses" of Extraordinary loss.

(6) Remeasurements of defined benefit plans before deduction of deferred tax

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Unrecognized prior service cost | ¥258 | ¥243 | $2,166 |
| Unrecognized actuarial (gains) or losses | 4,618 | (3,980) | (35,476) |
| Total | ¥4,876 | (¥3,737) | ($33,310) |

(7) Accumulated other comprehensive income before deduction of deferred tax on defined retirement benefit plans

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Unrecognized prior service cost | (¥1,303) | (¥1,059) | ($9,439) |
| Unrecognized actuarial (gains) or losses | 12,638 | 8,658 | 77,173 |
| Total | ¥11,335 | ¥7,598 | $67,724 |

(8) Plan assets consisted of the following :

| | 2016 | 2017 | |
|---|---|---|---|
| Bonds | 44 | 29 | % |
| Equity securities | 17 | 19 | |
| Cash and deposits | 18 | 27 | |
| General accounts | 6 | 7 | |
| Others | 15 | 17 | |
| Total | 100 | 100 | % |

Note. Employee retirement benefits trusts contributed to the company pension plan as of March 31, 2016 and 2017 represent approximately 23% and 25% of "Plan assets" respectively.

(9) Method to establish a long-term expected return on plan assets

To determine the long-term expected return on plan assets, the present and expected allocation of plan assets and the present and expected future returns from a variety of plan assets have been taken into account.

(10) The actuarial assumptions used

| | 2016 | 2017 |
|---|---|---|
| Discount rates | Mainly 0.2% | Mainly 0.4% |
| Expected long-term expected return on plan assets | Mainly 2.5% | Mainly 2.5% |
| Lump sum election rate | Mainly 56.9% | Mainly 63.7% |
| Re-evaluation rate | Mainly 1.5% | Mainly 1.0% |

(c) Defined contribution plan

Total annual contributions to the defined contribution plans for the years ended March 31, 2016 and 2017 are ¥420 million and ¥395 million (US$ 3,521 thousand), respectively.

## 10. Inventories

Inventories are valued at the lower of cost or market and the associated losses on inventory devaluation have been included in "Cost of sales" for the years ended March 31, 2016 and 2017 in the amounts of ¥1,621 million and ¥2,007 million (US$17,889 thousand), respectively.

## 11.Gain on Sales of Fixed Assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Buildings | ¥418 | ¥145 | $1,292 |
| Land | (92) | 34 | 303 |
| Total | ¥325 | ¥180 | $1,604 |

## 12.Business Structure Improvement Expenses

| For the Year Ended March 31, 2016 | Millions of yen |
|---|---|
| Extraordinary loss due to reorganization and liquidation of Viscas Corporation ("Viscas") | ¥6,358 |
| Special retirement pay and other outlays paid to early retirees at overseas subsidiaries | 1,442 |
| Total | ¥7,801 |

Extraordinary loss due to reorganization and liquidation of Viscas

On April 25, 2016, the Company and Furukawa Electric Co., Ltd. ("Furukawa") signed a basic agreement for the reorganization and liquidation of their joint venture Viscas. Under this agreement, the Distribution and Overhead Transmission Businesses are to be transferred to the Company on October 1, 2016, and the Underground Transmission and Submarine Cable Businesses are to be transferred to Furukawa on the same date. The 6,358 million yen included in extraordinary loss for the reorganization and liquidation of Viscas mainly reflects expected business transfer losses and expected losses on doubtful accounts and the transfer of equity interest due to the liquidation and sale of Viscas' overseas subsidiaries.

| For the Year Ended March 31, 2017 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Extraordinary loss due to reorganization and liquidation of Viscas Corporation ("Viscas") | ¥1,642 | $14,636 |
| Special retirement pay and other outlays paid to early retirees at overseas subsidiaries | 1,544 | 13,762 |
| Total | ¥3,187 | $28,407 |

Extraordinary loss due to reorganization and liquidation of Viscas

On April 25, 2016, the Company and Furukawa Electric Co., Ltd. ("Furukawa") signed an agreement on the reorganization and liquidation of their joint venture Viscas. On October 1, 2016, in accordance with the agreement, the Distribution and Overhead Transmission Businesses of Viscas were transferred to the Company, and the Underground Transmission and Submarine Cable Businesses of Viscas were transferred to Furukawa.

The extraordinary losses of 1,642 million yen recognized in conjunction with the reorganization and liquidation of Viscas consist of a loss on the transfer of businesses, cost for the relocation and removal of facilities, a loss on valuation of the investment and loss on the transfer of ownership, due to the liquidation and sale of Viscas.

## 13.Corporate Taxes for Past Fiscal Years

Fujikura Electronics (Thailand) Ltd. ("FETL"), a consolidated subsidiary in Thailand, received the following notices from the Thai tax authorities requiring an amendment of corporate tax payments made in the past fiscal years: (1) a notice on May 21, 2013 for 883 million baht, (2) a notice on May 28, 2014 for 29 million baht, (3) a notice on May 21, 2015 for 7 million baht and (4) a notice on January 14, 2016 for 1 million baht. FETL believed that such notices did not have a legitimate reasoning and were unacceptable. As such, FETL filed an appeal with the Revenue Department's Board of Appeal in Thailand and a lawsuit with the Central Tax Court.

On May 16, 2016, the Supreme Court of Thailand made a judgement to reject another lawsuit and appeal filed by other companies, which was similar to the case filed by FETL. Furthermore, on June 16, 2016, the Thai Ministry of Finance announced the following notifications:

1) the tax filing period would be extended and 2) payment of additional taxes and delinquency charges would be exempted if the below conditions were met;

- Withdrawal of lawsuit with the Central Tax Court no later than August 1, 2016;
- Withdrawal of appeal with the Revenue Department's Board of Appeal no later than August 1, 2016;
- Approvals by both the Central Tax Court and the Revenue Department's Board of Appeal; and
- Revision of tax filing and payment of corresponding taxes.

Afterward, the National Council for Peace and Order announced a notice on July 29, 2016, stating the filing period of corporate taxes would be extended to August 15, 2016.

In accordance with the notices received, the Fujikura Group withdrew the lawsuit and the appeal, and then revised the tax filing and paid the corresponding taxes based on the recalculation of the taxable income in line with the method instructed by the Thai Tax Authorities which covered the fiscal years not subject to the tax amendment as well as group companies in Thailand including DDK (Thailand) Ltd. who was not subject to the tax amendment.

On that basis, the Company recorded income taxes for prior periods of 2,764 million yen (US$24,637 thousand).

## 14. Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2016 and 2017

Amount of reclassification and tax effect related to other comprehensive income are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Valuation difference on available-for-sale securities | | | |
| Amount arising during the year | (¥5,615) | ¥2,384 | $21,250 |
| Reclassification adjustment | (2,180) | (182) | (1,622) |
| Before tax effect adjustment | (7,795) | 2,201 | 19,619 |
| Tax effect | 2,386 | (601) | (5,357) |
| Valuation difference on available-for-sale securities | (5,409) | 1,600 | 14,262 |
| Deferred gains or losses on hedges | | | |
| Amount arising during the year | (24) | 681 | 6,070 |
| Before tax effect adjustment | (24) | 681 | 6,070 |
| Tax effect | 11 | (39) | (348) |
| Deferred gains or losses on hedges | (13) | 642 | 5,722 |
| Foreign currency translation adjustments | | | |
| Amount arising during the year | (16,416) | (3,472) | (30,947) |
| Reclassification adjustment | 102 | (22) | (196) |
| Foreign currency translation adjustments | (16,314) | (3,495) | (31,153) |
| Remeasurements of defined benefit plans, net of taxes | | | |
| Amount arising during the year | (6,763) | 1,559 | 13,896 |
| Reclassification adjustment | 1,879 | 2,277 | 20,296 |
| Before tax effect adjustment | (4,883) | 3,836 | 34,192 |
| Tax effect | 698 | (709) | (6,320) |
| Remeasurements of defined benefit plans, net of taxes | (4,185) | 3,127 | 27,872 |
| Share of other comprehensive income of associates accounted for using equity method | | | |
| Amount arising during the year | (755) | (430) | (3,833) |
| Reclassification adjustment | 247 | 71 | 633 |
| Share of other comprehensive income of associates accounted for using equity method | (508) | (359) | (3,200) |
| Other comprehensive income | (¥26,431) | ¥1,516 | $13,513 |

## 15. Supplementary Cash Flow Information

A reconciliation of cash and cash equivalents in the Consolidated Statement of Cash Flows and account balances in the Consolidated Balance Sheets at March 31, 2016 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Cash and deposits | ¥34,961 | ¥31,785 | $283,314 |
| Deposits with original maturities of over three months | (2,870) | (1,105) | (9,849) |
| Cash and cash equivalents | ¥32,091 | ¥30,680 | $273,465 |

16. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different income taxes which, in aggregate, indicate a normal statutory tax rate in Japan of approximately 32.5% and 30.4% for the years ended March 31, 2016 and 2017, respectively.
A reconciliation between the normal statutory income tax rate and the effective income tax rate in the accompanying Consolidated Statements of Income for the years ended March 31, 2016 and 2017 are as follows:

| | 2016 | 2017 |
|---|---|---|
| Normal statutory tax rate | 32.5 % | 30.4 % |
| Effect on tax rate resulting from permanent differences | 0.6 | 0.3 |
| Equity in losses of affiliates | (0.9) | (1.1) |
| Tax exemption in foreign tax jurisdiction | (8.1) | (4.6) |
| Valuation allowance | (3.0) | 2.5 |
| Effect of lower tax rates at overseas subsidiaries | (12.1) | (4.3) |
| Amortization of Goodwill | 6.0 | 4.2 |
| Income taxes for prior periods | - | 6.2 |
| Foreign taxes included in deductible expenses | 7.6 | 3.9 |
| Other | 4.5 | 2.3 |
| Effective income tax rate | 27.0 % | 39.9 % |

The significant components of deferred tax assets and liabilities at March 31, 2016 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Deferred tax assets: | | | |
| Inventory devaluations | ¥877 | ¥1,190 | $10,607 |
| Bonus accrual | 2,323 | 2,554 | 22,765 |
| Net defined benefit liability | 4,566 | 4,386 | 39,094 |
| Elimination of intercompany profits on inventories | 162 | 308 | 2,745 |
| Enterprise taxes | 132 | 172 | 1,533 |
| Net operating losses carried forward | 18,837 | 18,309 | 163,196 |
| Loss on valuation of investment securities | 2,310 | 2,249 | 20,046 |
| Depreciation | 3,160 | 3,412 | 30,413 |
| Allowance for doubtful accounts | 1,016 | 2,400 | 21,392 |
| Impairment losses | 1,242 | 1,100 | 9,805 |
| Elimination of intercompany profits on fixed assets | 814 | 810 | 7,220 |
| Foreign tax credit carried forward | 1,708 | 276 | 2,460 |
| Other | 6,164 | 4,832 | 43,070 |
| Gross deferred tax assets | 43,317 | 42,003 | 374,392 |
| Less: valuation allowance | (24,641) | (21,519) | (191,809) |
| Total deferred tax assets | 18,676 | 20,484 | 182,583 |
| Deferred tax liabilities: | | | |
| Special tax-purpose reserve for deferred gain on sale of property | 733 | 722 | 6,436 |
| Retained earnings of equity-method affiliated company | 543 | 931 | 8,298 |
| Unrealized gains on investment securities | 1,428 | 2,030 | 18,094 |
| Other | 847 | 681 | 6,070 |
| Total deferred tax liabilities | 3,552 | 4,367 | 38,925 |
| Net deferred tax assets | ¥15,123 | ¥16,116 | $143,649 |

Net deferred tax assets (liabilities) included in the Consolidated Balance Sheets are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Current assets - Deferred tax assets | ¥5,263 | ¥3,766 | $33,568 |
| Non-current assets - Deferred tax assets | 10,643 | 12,484 | 111,276 |
| Current liabilities - Other | (16) | (7) | (62) |
| Non-current liabilities - Deferred tax liabilities | (766) | (126) | (1,123) |
| Net deferred tax assets | | | |

17. Contingent Liabilities

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Guarantees for loans borrowed / notes issued by: | 2016 | 2017 | 2017 |
| Employees | ¥260 | ¥220 | $1,961 |
| Procable Energia e Telecomunicacoes S.A., affiliated company | - | 2,923 | 26,054 |
| VISCAS corporation, affiliated company | 7,667 | 130 | 1,159 |
| Other unconsolidated subsidiaries and affiliates | 3,411 | 2,474 | 22,052 |
| | ¥11,339 | ¥5,749 | $51,243 |

18. Derivative Instruments

(a) Derivative instruments not accounted for under hedge accounting

(1) Foreign forward exchange contracts

At March 31, 2016

| 2016 | Millions of yen | | | |
|---|---|---|---|---|
| | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) |
| Sell | | | | |
| USD | ¥6,130 | ¥501 | ¥75 | ¥75 |
| YEN | 129 | - | (0) | (0) |
| Others | 228 | - | 0 | 0 |
| Buy | | | | |
| USD | 6,751 | 139 | (103) | (103) |
| YEN | 713 | - | 7 | 7 |
| Others | 8 | - | (0) | (0) |
| Total | ¥13,961 | ¥640 | (¥21) | (¥21) |

At March 31, 2017

| 2017 | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) |
| Sell | | | | | | | | |
| USD | ¥7,279 | - | ¥46 | ¥46 | $64,881 | - | $410 | $410 |
| YEN | 348 | - | (4) | (4) | 3,102 | - | (36) | (36) |
| Others | 153 | - | (1) | (1) | 1,364 | - | (9) | (9) |
| Buy | | | | | | | | |
| USD | 20,921 | 885 | (335) | (335) | 186,478 | 7,888 | (2,986) | (2,986) |
| YEN | 424 | - | (6) | (6) | 3,779 | - | (53) | (53) |
| Others | 218 | - | (5) | (5) | 1,943 | - | (45) | (45) |
| Total | ¥29,345 | ¥885 | (¥307) | (¥307) | $261,565 | $7,888 | ($2,736) | ($2,736) |

(2) Interest Rate Swaps

At March 31, 2016 N/A

At March 31, 2017 N/A

(3) Commodity Futures Contracts

At March 31, 2016

| 2016 | Millions of yen | | | |
|---|---|---|---|---|
| | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) |
| Sell | ¥2,326 | ¥ - | ¥18 | ¥18 |
| Buy | 372 | 39 | (57) | (57) |
| Total | ¥2,699 | ¥39 | (¥38) | (¥38) |

At March 31, 2017

| 2017 | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) | Notional amount | Notional amount to be settled in more than one year | Fair value | Gain (loss) |
| Sell | ¥2,996 | ¥ - | ¥25 | ¥25 | $26,705 | $ - | $223 | $223 |
| Buy | 1,890 | 83 | 119 | 119 | 16,846 | 740 | 1,061 | 1,061 |
| Total | ¥4,887 | ¥83 | ¥144 | ¥144 | $43,560 | $740 | $1,284 | $1,284 |

(b) Derivative instruments accounted for under hedge accounting

(1) Foreign forward exchange contracts

At March 31, 2016

| 2016 | Millions of yen | | |
|---|---|---|---|
| | Notional amount | Notional amount to be settled in more than one year | Fair value |
| Accounted for combined with the accounts designated as hedged items (allowed under JGAAP) | | | |
| Accounts receivable, trade | | | |
| Sell | | | |
| USD | ¥25,558 | - | ¥ - |
| EUR | 1,080 | - | - |
| Accounted for by the method in the principle | | | |
| Accounts receivable, trade | | | |
| Sell | | | |
| USD | 5,734 | 71 | 76 |
| EUR | 687 | - | (1) |
| Total | ¥33,060 | ¥71 | ¥74 |

At March 31, 2017

| 2017 | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Notional amount | More than one year of Notional amount | Fair value | Notional amount | More than one year of Notional amount | Fair value |
| Accounted for combined with the accounts designated as hedged items (allowed under JGAAP) | | | | | | |
| Accounts receivable, trade | | | | | | |
| Sell | | | | | | |
| USD | ¥26,029 | - | ¥ - | $232,008 | - | $ - |
| EUR | 966 | - | - | 8,610 | - | - |
| Accounted for by the method in the principle | | | | | | |
| Accounts receivable, trade | | | | | | |
| Sell | | | | | | |
| USD | 12,448 | 1,483 | 189 | 110,955 | 13,219 | 1,685 |
| EUR | 641 | 122 | 7 | 5,714 | 1,087 | 62 |
| Accounts payable, trade | | | | | | |
| Buy | | | | | | |
| USD | 291 | - | (4) | 2,594 | - | (36) |
| Others | 61 | - | 0 | 544 | - | 0 |
| Total | ¥40,439 | ¥1,606 | ¥192 | $360,451 | $14,315 | $1,711 |

(2) Interest Rate Swaps

At March 31, 2016

| 2016 | Millions of yen | | |
|---|---|---|---|
| | Notional amount | More than one year of Notional amount | Fair value |
| Accounted for by the simplified method allowed under JGAAP | | | |
| Interest Rate Swaps | | | |
| Long-term debt | | | |
| Pay Fixed interest / Rec. Floating interest | ¥72,500 | ¥63,500 | ¥ - |
| Accounted for by the method in the principle | | | |
| Interest Rate Swaps | | | |
| Long-term debt | | | |
| Pay Fixed interest / Rec. Floating interest | 1,000 | 1,000 | (16) |
| Total | ¥73,500 | ¥64,500 | (¥16) |

At March 31, 2017

| 2017 | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Notional amount | More than one year of Notional amount | Fair value | Notional amount | More than one year of Notional amount | Fair value |
| Accounted for by the simplified method allowed under JGAAP | | | | | | |
| Interest Rate Swaps | | | | | | |
| Long-term debt | | | | | | |
| Pay Fixed interest / Rec. Floating interest | ¥77,773 | ¥60,851 | ¥ - | $693,226 | $542,392 | $ - |
| Total | ¥77,773 | ¥60,851 | ¥ - | $693,226 | $542,392 | $ - |

(3) Commodity Futures Contracts

At March 31, 2016 N/A

At March 31, 2017

| 2017 | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Notional amount | More than one year of Notional amount | Fair value | Notional amount | More than one year of Notional amount | Fair value |
| Accounted for by the method in the principle | | | | | | |
| Commodity Futures Contracts | | | | | | |
| Raw materials | | | | | | |
| Sell | ¥3,630 | - | 630 | $32,356 | - | 5,615 |
| Total | ¥3,630 | ¥ - | ¥630 | $32,356 | $ - | $5,615 |

19. Supplementary Information for the Consolidated Statements of Changes in Net Assets

For the Year Ended March 31, 2016

(a) Type and number of outstanding shares

| | Year ended March 31, 2016<br>Thousands of shares | | | |
|---|---|---|---|---|
| Type of shares | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year | Balance at end of year |
| Issued stock: | | | | |
| Common stock | 360,863 | - | - | 360,863 |
| Total | 360,863 | - | - | 360,863 |
| Treasury stock: | | | | |
| Common stock (*1)(*2) | 51,738 | 9,589 | 0 | 61,327 |
| Total | 51,738 | 9,589 | 0 | 61,327 |

(*1) Treasury stock increased due to the repurchase of 9,589,000 shares.

(*2) Treasury stock decreased due to the selling of stock less than one unit.

(b) Dividends

(1) Dividends paid to shareholders:

| Date of approval | Resolution approved by | Type of shares | Amount (Millions of yen) | Amount per share (Yen) | Shareholders' cut-off date | Effective date |
|---|---|---|---|---|---|---|
| June 26, 2015 | Annual general meeting of shareholders | Common stock | ¥1,082 | ¥3.5 | March 31, 2015 | June 29, 2015 |
| October 29, 2015 | Board of directors | Common stock | ¥1,221 | ¥4.0 | September 30, 2015 | December 2, 2015 |

(2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year-end:

| Date of approval | Resolution approved by | Type of shares | Amount (Millions of yen) | Paid from | Amount per share (Yen) | Shareholders' cut-off date | Effective date |
|---|---|---|---|---|---|---|---|
| June 29, 2016 | Annual general meeting of shareholders | Common stock | ¥1,198 | Retained earnings | ¥4.0 | March 31, 2016 | June 30, 2016 |

For the Year Ended March 31, 2017
(a) Type and number of outstanding shares

| Type of shares | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year | Balance at end of year |
|---|---|---|---|---|
| | Year ended March 31, 2017 Thousands of shares | | | |
| Issued stock: | | | | |
| Common stock (*1) | 360,863 | - | 65,000 | 295,863 |
| Total | 360,863 | - | 65,000 | 295,863 |
| Treasury stock: | | | | |
| Common stock (*1)(*2) | 61,327 | 14,280 | 65,000 | 10,610 |
| Total | 61,327 | 14,280 | 65,000 | 10,610 |

(*1) The decrease of 65,000,000 shares during the year is due to the retirement of treasury stock.
(*2) Treasury stock increased due to the repurchase of 14,280,000 shares.

(b) Dividends
(1) Dividends paid to shareholders:

| Date of approval | Resolution approved by | Type of shares | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) | Amount per share (Yen) | Amount per share (U.S. dollars) | Shareholders' cut-off date | Effective date |
|---|---|---|---|---|---|---|---|---|
| June 29, 2016 | Annual general meeting of shareholders | Common stock | ¥1,198 | $10,678 | ¥4.0 | $0.04 | March 31, 2016 | June 30, 2016 |
| October 28, 2016 | Board of directors | Common stock | ¥1,438 | $12,818 | ¥5.0 | $0.04 | September 30, 2016 | December 2, 2016 |

(2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year-end:

| Date of approval | Resolution approved by | Type of shares | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) | Paid from | Amount per share (Yen) | Amount per share (U.S. dollars) | Shareholders' cut-off date | Effective date |
|---|---|---|---|---|---|---|---|---|---|
| June 29, 2017 | Annual general meeting of shareholders | Common stock | ¥1,426 | $12,711 | Retained earnings | ¥5.0 | $0.04 | March 31, 2017 | June 30, 2017 |

20. Investment and Rental Property
The Companies own office buildings including land for rent in Tokyo and other districts. Profits generated from these investments and rental properties were ¥5,426 million and ¥4,626 million (US$41,234 thousand) for the fiscal years ended March 31, 2016 and 2017, respectively.
The majority of rental revenues were recorded in Net sales and majority of rental costs were recorded in Cost of sales in the Consolidated Statements of Income.
Book value, increase and decrease during the year and fair value of the investment and rental property at March 31, 2016 and 2017 are as follows:

For the Year Ended March 31, 2016

| Millions of yen | | | |
|---|---|---|---|
| Amounts in the Consolidated Balance Sheets (*1) | | | |
| Balance at beginning of the year | Increase and decrease in property during the year (*2) | Balance at end of the year | Fair value at end of the year (*3) |
| ¥41,334 | (¥1,147) | ¥40,187 | ¥99,057 |

(*1) Amounts in the Consolidated Balance Sheets are computed based on acquisition costs after deducting accumulated depreciation and impairment charges.
(*2) The primary decrease in property during the year is the depreciation of office buildings for rent in the amount of ¥1,720 million.
(*3) Fair value at end of year was primarily based on "Real Estate Appraisal Standards".

For the Year Ended March 31, 2017

| Millions of yen | | | |
|---|---|---|---|
| Amounts in the consolidated balance sheet (*1) | | | |
| Balance at beginning of the year | Increase and decrease in property during the year (*2) | Balance at end of the year | Fair value at end of the year (*3) |
| ¥40,187 | ¥7,216 | ¥47,404 | ¥114,775 |

| Thousands of U.S. dollars | | | |
|---|---|---|---|
| Amounts in the Consolidated Balance sheets (*1) | | | |
| Balance at beginning of the year | Increase and decrease in property during the year (*2) | Balance at end of the year | Fair value at end of the year (*3) |
| $358,205 | $64,319 | $422,533 | $1,023,041 |

(*1) Amounts in the Consolidated Balance Sheets are computed based on acquisition costs after deducting accumulated depreciation and impairment charges.
(*2) The primary increase in property during the year is the acquisition of assets for rent in the amount of ¥9,060 million (US$80,756 thousand).
(*3) Fair value at end of the year is primarily estimated by the Company based on "Real Estate Appraisal Standards".



21. Segment Information
(Segment Information)
(a) Summary of reporting segments

The Group's reporting segments are components of the Group for which separate financial statements are available that are regularly monitored by the management in deciding how to allocate resources and in assessing performance.
The Group classifies its businesses into 4 segments, which are "Power & Telecommunication Systems Company", "Electronics Business Company", "Automotive Products Company", "Real Estate Business Company", considering similarities in production methods, production process, applications and sales methods.
Starting from the consolidated fiscal year, some of the businesses previously reported as "Other" have been transferred to "Power & Telecommunication Systems Company", as a result of a review of management structure in order to improve the efficiency of these businesses which are expected to become in operation.

Definitions of the four segments for the years ended March 31, 2016 and 2017 are as follows:
The Power & Telecommunication Systems Company deals with power cables, telecommunication cables, aluminum wires, enameled wires, optical fibers, optical fiber cables, telecommunication components, optical components, fiber optic equipment, network equipment, installation, etc.
The Electronics Business Company deals with flexible printed circuits, electronic wiring, HDD components, various kinds of connectors, etc.
The Automotive Products Company deals with automotive wire harnesses, accessories & installation, etc.
The Real Estate Business Company deals with real estate, etc.

(b) Basis of calculation for sales, profits or losses, assets, liabilities and other items by reporting segments
Accounting policy and method used for segment information by reporting segments are identical to those as described in "2. Summary of Significant Accounting Policies" above.
Profits by reporting segment are based on operating income as stated in the Consolidated Statements of Income.

(c) Information on sales, profit or loss, assets, liabilities, and other items by reporting segment

For the year ended March 31, 2016

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Other (*1) | Total | Adjustment (* 2,3,4) | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| Sales to outside customers | ¥366,523 | ¥161,166 | ¥135,876 | ¥10,709 | ¥4,252 | ¥678,528 | - | ¥678,528 |
| Inter-segment sales | 203 | 99 | 41 | - | 13 | 359 | (359) | - |
| Total sales | 366,727 | 161,265 | 135,918 | 10,709 | 4,266 | 678,887 | (359) | 678,528 |
| Segment profit (loss) | 14,316 | 12,268 | 2,386 | 5,394 | (1,733) | 32,632 | - | 32,632 |
| Segment total assets | 241,611 | 124,337 | 77,136 | 36,177 | 5,833 | 485,096 | 67,581 | 552,678 |
| Depreciation and amortization | 8,995 | 9,167 | 3,335 | 1,739 | 347 | 23,585 | 2,725 | 26,311 |
| Impairment losses | 302 | 116 | - | - | - | 419 | - | 419 |
| Capital expenditures | ¥7,225 | ¥15,178 | ¥6,036 | ¥679 | ¥236 | ¥29,356 | ¥2,623 | ¥31,979 |

Notes:
(*1) "Other" includes new businesses to launch which are excluded from the aforementioned 4 segments.
(*2) Adjustment of ¥67,581 million in "Segment total assets" represents common assets not allocated to each reporting segment in the amount of ¥90,624 million and elimination of inter-segment transactions in the amount of ¥(23,042) million.
Common assets mainly consisted of assets related to investment securities, research and development and administrative divisions of the Company.
(*3) Adjustment of ¥2,725 million of "Depreciation and amortization" represents depreciation and amortization associated with common assets not allocated to each reporting segment.
(*4) Adjustment of ¥2,623 million of "Capital expenditures" represents an increase in common assets not allocated to each reporting segment.

For the year ended March 31, 2017

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Other (*1) | Total | Adjustment (* 2,3,4) | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| Sales to outside customers | ¥349,656 | ¥156,737 | ¥133,107 | ¥10,183 | ¥4,111 | ¥653,795 | - | ¥653,795 |
| Inter-segment sales | 442 | 268 | 35 | - | 25 | 772 | (772) | - |
| Total sales | 350,098 | 157,005 | 133,143 | 10,183 | 4,137 | 654,567 | (772) | 653,795 |
| Segment profit (loss) | 20,366 | 7,557 | 2,569 | 4,661 | (924) | 34,230 | - | 34,230 |
| Segment total assets | 236,170 | 131,658 | 89,137 | 42,833 | 5,154 | 504,954 | 83,672 | 588,626 |
| Depreciation and amortization | 9,222 | 9,725 | 3,834 | 1,814 | 423 | 25,020 | 2,568 | 27,589 |
| Impairment losses | 1 | 25 | - | - | - | 27 | - | 27 |
| Capital expenditures | ¥11,454 | ¥15,063 | ¥7,500 | ¥8,545 | ¥368 | ¥42,933 | ¥2,689 | ¥45,623 |

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Other (*1) | Total | Adjustment (* 2,3,4) | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| Sales to outside customers | $3,116,641 | $1,397,067 | $1,186,443 | $90,766 | $36,643 | $5,827,569 | - | $5,827,569 |
| Inter-segment sales | 3,940 | 2,389 | 312 | - | 223 | 6,881 | (6,881) | - |
| Total sales | 3,120,581 | 1,399,456 | 1,186,764 | 90,766 | 36,875 | 5,834,450 | (6,881) | 5,827,569 |
| Segment profit (loss) | 181,531 | 67,359 | 22,899 | 41,546 | (8,236) | 305,107 | - | 305,107 |
| Segment total assets | 2,105,090 | 1,173,527 | 794,518 | 381,790 | 45,940 | 4,500,882 | 745,806 | 5,246,689 |
| Depreciation and amortization | 82,200 | 86,683 | 34,174 | 16,169 | 3,770 | 223,015 | 22,890 | 245,913 |
| Impairment losses | 9 | 223 | - | - | - | 241 | - | 241 |
| Capital expenditures | $102,095 | $134,263 | $66,851 | $76,165 | $3,280 | $382,681 | $23,968 | $406,658 |

Notes:
(*1) "Other" includes new businesses to launch which are excluded from the aforementioned 4 segments.
(*2) Adjustment of ¥83,672 million (US$745,806 thousand) in "Segment total assets" represents common assets not allocated to each reporting segment in the amount of ¥111,221 million (US$991,363 thousand) and elimination of inter-segment transactions in the amount of ¥(27,549) million (US$(245,557) thousand).
Common assets mainly consisted of assets related to investment securities, research and development and administrative divisions of the Company.
(*3) Adjustment of ¥2,568 million (US$22,890 thousand) of "Depreciation and amortization" represents depreciation and amortization associated with common assets not allocated to each reporting segment.
(*4) Adjustment of ¥2,689 million (US$23,968 thousand) of "Capital expenditures" represents an increase in common assets not allocated to each reporting segment.

(Related information)

(a)Geographical segment information

Sales

| 2016 | Japan | U.S. | China | Others | Total |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| Sales to external customers | ¥269,528 | ¥148,891 | ¥103,849 | ¥156,258 | ¥678,528 |

Tangible fixed assets

| 2016 | Japan | Thailand | China | Others | Total |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| Tangible fixed assets | ¥91,033 | ¥44,508 | ¥19,862 | ¥24,549 | ¥179,953 |

Sales

| 2017 | Japan | U.S. | China | Others | Total | Japan | U.S. | China | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | Thousands of U.S. dollars | | | | |
| Sales to external customers | ¥256,000 | ¥124,401 | ¥96,991 | ¥176,401 | ¥653,795 | $2,281,843 | $1,108,842 | $864,524 | $1,572,342 | $5,827,569 |

Tangible fixed assets

| 2017 | Japan | Thailand | China | Others | Total | Japan | Thailand | China | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | Thousands of U.S. dollars | | | | |
| Tangible fixed assets | ¥99,921 | ¥50,880 | ¥17,976 | ¥26,505 | ¥195,283 | $890,641 | $453,516 | $160,228 | $236,251 | $1,740,645 |

(b) Major customer information

This information has been omitted as there were no customers to whom the Group individually recorded external sales representing 10% or more of consolidated net sales for the years ended March 31, 2016 and 2017.

(c) Goodwill information

For the year ended March 31, 2016

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Total |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| Amortization | ¥3,145 | ¥4 | - | - | ¥3,149 |
| Unamortized goodwill | 10,941 | 8 | - | - | 10,949 |

For the year ended March 31, 2017

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Total |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| Amortization | ¥3,541 | ¥4 | - | - | ¥3,545 |
| Unamortized goodwill | 7,119 | 4 | - | - | 7,123 |

| Reporting segments | Power & Telecommuni-cation Systems Company | Electronics Business Company | Automotive Products Company | Real Estate Business Company | Total |
|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | |
| Amortization | $31,563 | $36 | - | - | $31,598 |
| Unamortized goodwill | 63,455 | 36 | - | - | 63,491 |

22. Related Parties

(Related party transactions)

The tables below summarize the related party transactions with unconsolidated subsidiaries and affiliated companies accounted for using the equity method for the year ended March 31:

**2016** (Millions of yen)

| Relationship | Name of company | Location | Paid-in-Capital | Description of business | Share of voting rights (%) | Relations with related parties | Description of transaction | Amount of transactions (Note 4) | Financial statement line-item | The fiscal year-end balance (Note 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliated company | VISCAS Corporation | Shinagawa, Tokyo | 13,600 | Power & Telecommuni-cation Systems Company | Directly owned (50%) | Supply of raw materials from the Company, Guarantees, Concurrent service as director | Supply of raw materials with charge (Note 1) | 7,633 | Other current assets | 3,735 |
| | | | | | | | Guarantees (Note 2) | 7,667 | - | - |

**2017** (Millions of yen)

| Relationship | Name of company | Location | Paid-in-Capital | Description of business | Share of voting rights (%) | Relations with related parties | Description of transaction | Amount of transactions (Note 4) | Financial statement line-item | The fiscal year-end balance (Note 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliated company | VISCAS Corporation | Shinagawa, Tokyo | 10 | Power & Telecommuni-cation Systems Company | Directly owned (50%) | Supply of raw materials from the Company, Guarantees, Financial assistance | Supply of raw materials with charge (Note 1) | 3,273 | Other current assets | 29 |
| | | | | | | | Guarantees (Note 2) | 130 | - | - |
| | | | | | | | Loan (Note 3) | - | Long-term loans receivable | 8,071 |

**2017** (Thousands of U.S. dollars)

| Relationship | Name of company | Location | Paid-in-Capital | Description of business | Share of voting rights (%) | Relations with related parties | Description of transaction | Amount of transactions (Note 4) | Financial statement line-item | The fiscal year-end balance (Note 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliated company | VISCAS Corporation | Shinagawa, Tokyo | 89 | Power & Telecommuni-cation Systems Company | Directly owned (50%) | Supply of raw materials from the Company, Guarantees, Financial assistance | Supply of raw materials with charge (Note 1) | 29,174 | Other current assets | 258 |
| | | | | | | | Guarantees (Note 2) | 1,159 | - | - |
| | | | | | | | Loan (Note 3) | - | Long-term loans receivable | 71,940 |

Terms and conditions of the above transactions and the policy to determine the terms and conditions:

(Note) 1. For supply of raw materials with charge, terms and conditions were determined with consideration of market prices.

2. In the previous fiscal year, the Company provided guarantees for borrowings from banks and for fulfillment of contracts. In the current fiscal year, the Company provided guarantees for fulfillment of contracts.

3. The Group utilizes a cash management system to control treasury among the group companies. Only the balance at the end of the fiscal year is disclosed as it is difficult to calculate the total amount for each transaction using the cash management system. Note that interest rates are determined based on the market interest rates.

4. Consumption taxes are not included in the amount of transactions but are included in the fiscal year-end balance.

(Condensed financial information of significant affiliates)

The condensed financial information of VISCAS Corporation for the year ended March 31, 2017 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Total current assets | ¥23,243 | ¥14,774 | $131,687 |
| Total non-current assets | 6,262 | 144 | 1,284 |
| Total current liabilities | 29,735 | 24,169 | 215,429 |
| Total non-current liabilities | 2,780 | 20 | 178 |
| Total net assets | (3,009) | (9,271) | (82,637) |
| Net Sales | 45,742 | 22,682 | 202,175 |
| Loss before income taxes | (19,722) | (6,311) | (56,253) |
| Loss | (¥19,731) | (¥6,366) | ($56,743) |

23. Per Share Information

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Per share:** | 2016 | 2017 | 2017 |
| Net income per share- basic | ¥36.98 | ¥44.61 | $0.398 |
| Net income per share- fully diluted (*1) | - | - | - |
| Cash dividends | 8.00 | 10.00 | 0.089 |
| Net assets per share | ¥662.93 | ¥710.68 | $6.335 |

(*1) As the Company does not have any instruments that have dilutive effect, the Company has not disclosed net income (loss) per share-fully diluted data.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Basis for computation of per share data: | 2016 | 2017 | 2017 |
| Profit attributable to owners of parent | ¥11,317 | ¥12,900 | $114,984 |
| Profit attributable to common shareholders | ¥11,317 | ¥12,900 | $114,984 |

| | Thousands of shares | |
|---|---|---|
| | 2016 | 2017 |
| Number of weighted average shares | 306,006 | 289,205 |

24. Subsequent Events

There are no significant subsequent events.

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## Independent Auditor's Report

To the Board of Directors of
Fujikura Ltd.

We have audited the accompanying consolidated financial statements of Fujikura Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers Aarata LLC*
*Otemachi Park Building, 1-1-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan*
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To the Board of Directors of
Fujikura Ltd.
Page 2

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

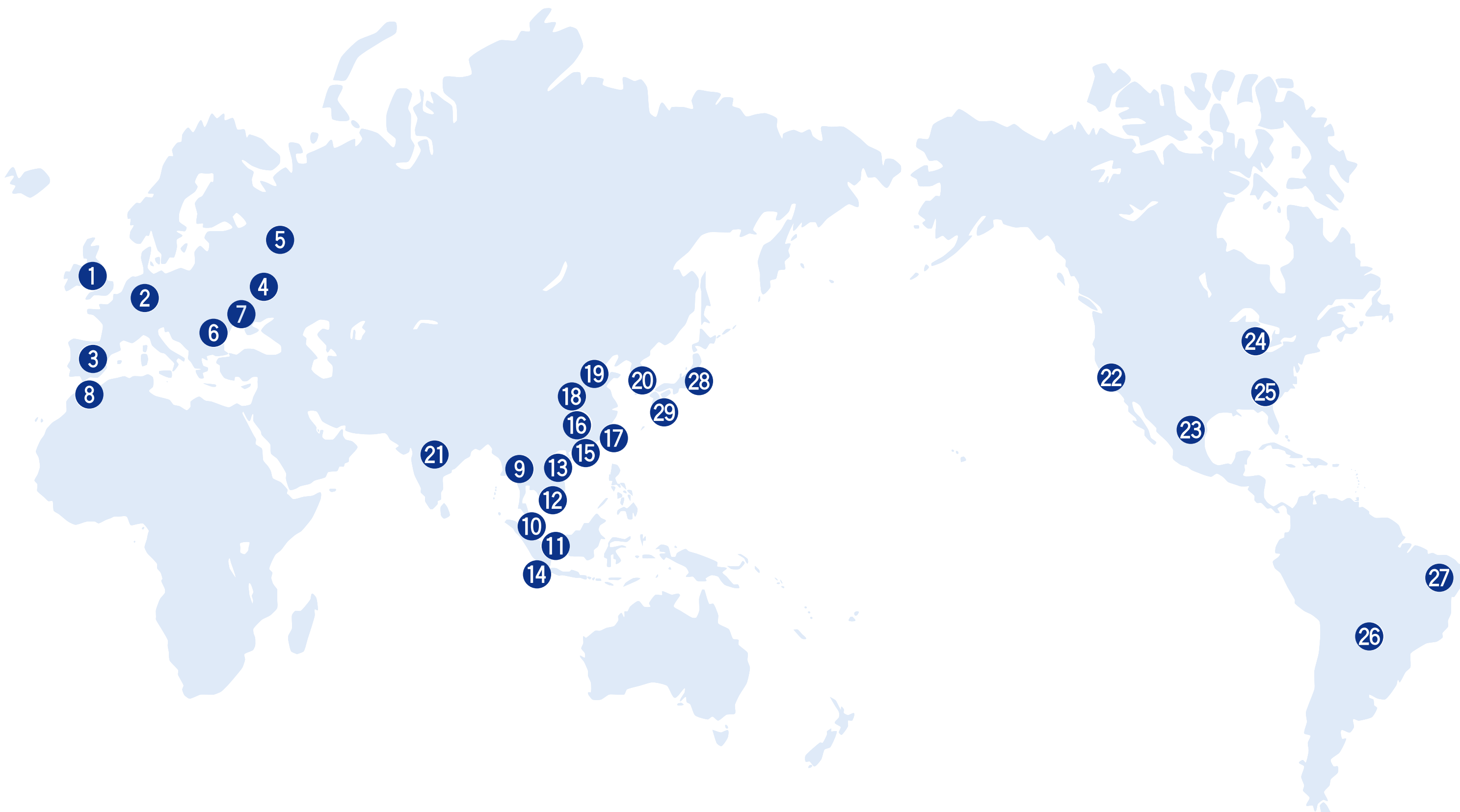
### Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

PricewaterhouseCoopers Aarata LLC

June 29, 2017

# Global Network




**EMEA**
1. Fujikura Europe Ltd.
2. Fujikura Automotive Europe GmbH
3. Fujikura Automotive Europe, S.A.U.
4. Fujikura Automotive Ukraine Lviv, LLC
5. Fujikura Automotive Russia Cheboksary LLC
6. Fujikura Automotive Romania S.R.L.
7. Fujikura Automotive MLD S.R.L.
8. Fujikura Automotive Morocco Tangier, S.A.
   Fujikura Automotive Morocco Kenitra, S.A.

**Thailand**
9. Fujikura Electronics (Thailand) Ltd.
   DDK (Thailand) Ltd.
   Fujikura Automotive (Thailand) Ltd.

**Southeast Asia**
10. Fujikura Federal Cables Sdn. Bhd.
    Fujikura Asia (Malaysia) Sdn. Bhd.
11. Fujikura Asia Ltd.
12. Fujikura Fiber Optics Vietnam Ltd.
    DDK VIETNAM Ltd.
    Fujikura Electronics Vietnam Ltd.
13. Fujikura Automotive Vietnam Ltd.
14. PT Fujikura Indonesia

**China**
15. Fujikura Zhuhai Co., Ltd.
16. Fujikura Automotive Guangzhou Co., Ltd.
17. Fujikura Hong Kong Ltd.
18. Fujikura Fiber-Home Opto-Electronics Material Technology Co., Ltd.
19. Fujikura (China) Co., Ltd.
    Fujikura Electronics Shanghai Ltd.
    Shanghai Fujikura Grandway Co., Ltd.
    DDK (Shanghai) Co., Ltd.
    Fujikura Hengtong Aerial Cable System Ltd.

**Korea**
20. Fujikura Korea Automotive Ltd.

**India**
21. Fujikura Automotive India Private Ltd.

**Americas**
22. Fujikura America, Inc.
23. Fujikura Automotive Mexico S. de R.L. de C.V.
24. Fujikura Automotive America LLC.
25. America Fujikura Ltd.
26. Fujikura Automotive Paraguay S.A.
27. Fujikura Cabos Para Energia e Telecomunicacoes Ltda

**Japan**
28. DDK Ltd.
    Fujikura Automotive Asia Ltd.
29. Nishi Nippon Electric Wire & Cable Co., Ltd.



# Main Consolidated Subsidiaries

As of March 31, 2017

| Company Name | Equity Ownership Percentage, Including Indirect Ownership | Paid-in Capital (Millions) | Major Line of Businesses |
|---|---|---|---|
| **Fujikura Dia Cable Ltd.** | 70.0% | ¥5,400 | Electric wires and cables |
| **Nishi Nippon Electric Wire & Cable Co., Ltd.** | 60.7% | ¥960 | Electric wires and cables and optical cables |
| **Yonezawa Electric Wire Co., Ltd.** | 94.8% | ¥400 | Electric wires and cables |
| **America Fujikura Ltd.** | 100.0% | US$202 | OPGW, optical cables, optical fusion splicers, optical connection parts and telecommunications related work |
| **DDK Ltd.** | 99.8% | ¥100 | Connectors |
| **Tohoku Fujikura Ltd.** | 100.0% | ¥1,000 | FPCs and sensors |
| **Fujikura Electronics (Thailand) Ltd.** | 100.0% | THB11,552 | FPCs and electronic components |
| **Fujikura Electronics Shanghai Ltd.** | 100.0% | RMB97 | FPCs |
| **Fujikura Automotive Asia Ltd.** | 100.0% | ¥1,772 | Wire harnesses for automobiles |
| **Fujikura Automotive Europe S.A.U.** | 100.0% | EUR10 | Wire harnesses for automobiles |

# Investor Information

**Head Office**
1-5-1, Kiba, Koto-ku, Tokyo 135-8512, Japan
URL: www.fujikura.co.jp/eng

**Year of Foundation**
1885

**Date of Incorporation**
March 18, 1910

**Common Stock**
Authorized: 1,190,000,000 shares
Issued: 295,863,421 shares
Capital: ¥53,075 million

**Number of Shareholders**
20,558

**Independent Auditors**
PricewaterhouseCoopers Aarata

**Further Information**
For further information on this Annual Report, please contact the Investor Relations Group at the Head Office.

**Contact**
Investor Relations Group
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Fax: +81-3-5606-1501
E-mail: fjk_ir@jp.fujikura.com

**Major Shareholders**

As of March 31, 2017

| | Number of Shares Held (Thousands) | Ratio of Shareholding (%) |
|---|---|---|
| **The Master Trust Bank of Japan, Ltd. (Trust Account)** | 23,891 | 8.37 |
| **Japan Trustee Services Bank, Ltd. (Trust Account)** | 17,931 | 6.28 |
| **Mitsui Life Insurance Company Limited** | 10,192 | 3.57 |
| **Sumitomo Mitsui Banking Corporation** | 8,456 | 2.96 |
| **The Shizuoka Bank, Ltd.** | 7,713 | 2.70 |
| **Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Retirement Benefit Trust Account)** | 6,777 | 2.37 |
| **Dowa Metals & Mining Co., Ltd.** | 6,563 | 2.30 |
| **Fujikura Employees Shareholding Association** | 5,246 | 1.84 |
| **THE BANK OF NEW YORK MELLON 140044** | 5,202 | 1.83 |
| **Japan Trustee Services Bank, Ltd. (Trust Account 5)** | 5,061 | 1.77 |

Notes:
1. Although the Company owns 10,505,062 shares of treasury stock, this is excluded from the above table.
2. The percentage values presented in "Percentage of total shares issued" are calculated excluding treasury stock.