

Achieving Vision for 2025

Positioning and Strategies of Medium-Term Business Plan 2019

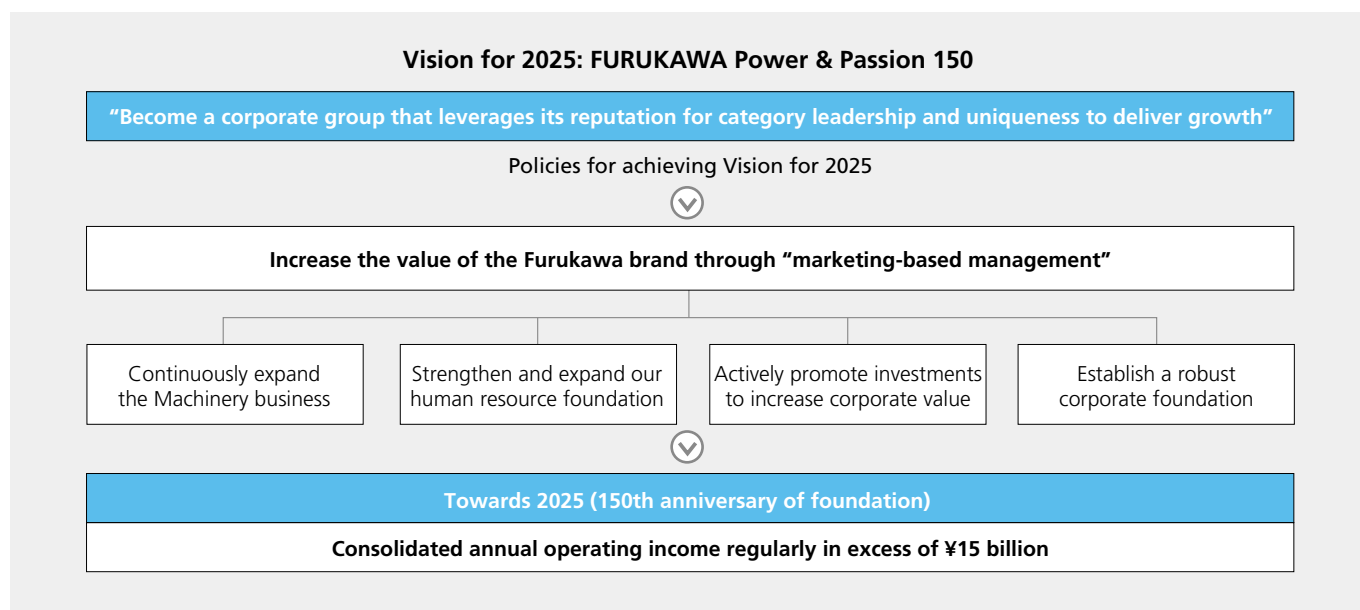
In May 2017, the Furukawa Company Group announced its “Medium-Term Business Plan 2019—Building Foundations for Renewed Growth.” The new plan is positioned as Phase 1 of the Group’s Vision for 2025, “FURUKAWA Power & Passion 150,” and its steady implementation will represent the first step in realizing the vision.

“Marketing-based management”

“Marketing-based management” means incorporating marketing into the core of management to provide products and services recognized as valuable in changing markets, as well as to identify and resolve issues and problems faced by customers, with the aims of deepening ties with customers, achieving sustained growth, and increasing corporate value.

1. Vision for 2025

In 2015, the Group took the opportunity of its 140th anniversary to formulate its Vision for 2025, entitled “FURUKAWA Power & Passion 150.” This vision clarifies the ideal image of the Group in fiscal 2026, when it celebrates its 150th anniversary. Seeking category leadership and uniqueness in each of our specialist fields, we will strive to achieve sustainable growth by addressing customers’ needs with highly distinctive technologies that are unrivaled in the industry. Under Vision for 2025, we have articulated five policies, including a commitment to “marketing-based management,” as we target consolidated annual operating income regularly in excess of ¥15 billion.

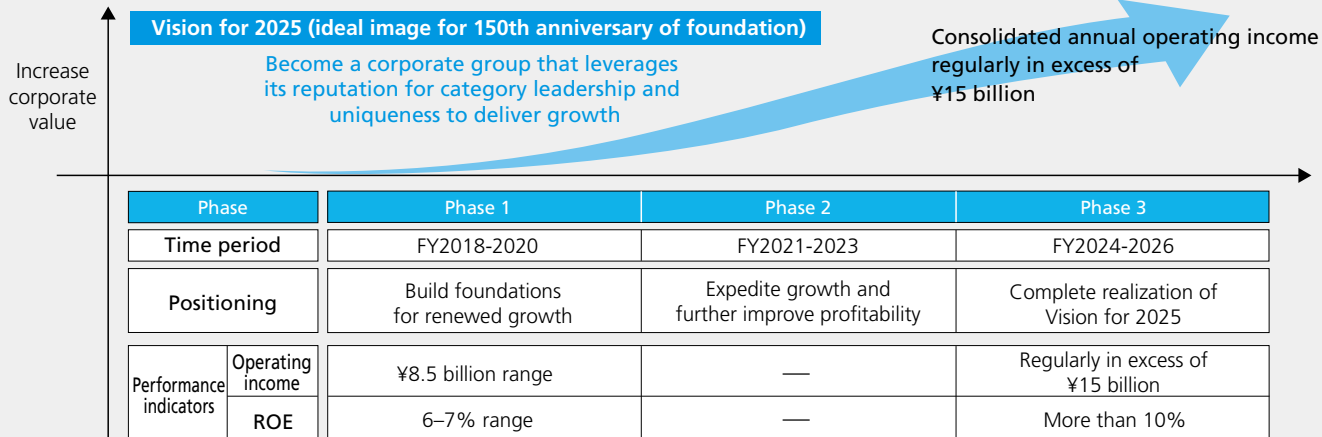


2. Positioning of Medium-Term Business Plan 2019

To realize Vision for 2025, we have divided the next nine-year period into three phases. The new medium-term business plan represents Phase 1, covering the three-year period from April 2017 to March 2020, which is positioned as a period of “Building foundations for renewed growth.” We regard it as a period of preparation, during which we will lay solid foundations for expediting growth in Phase 2 and Phase 3.

In the new medium-term business plan, we clarify our business strategies, operating cash flow allocation policy, and capital strategies, as well as our efforts to improve return on equity (ROE). Through constructive dialogue in this way with stakeholders, including shareholders and other investors, we will work hard to deliver sustainable growth and improved corporate value, in addition to further enhancing corporate governance.

Positioning of Medium-Term Business Plan 2019: “Building foundations for renewed growth”

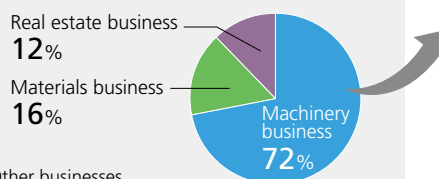


3. Performance Indicators and Business Policies

In the fiscal year ending March 2020, the final year of the medium-term business plan, we are targeting consolidated operating income of ¥8.5 billion range and ROE of 6–7% range. In order to generate consolidated annual operating income regularly in excess of ¥15 billion—a key performance indicator of Vision for 2025—it is crucially important that we strive to increase the value of the Furukawa brand by deeply entrenching “**marketing-based management**” throughout the Group. In addition, we must undertake Groupwide mindset reforms with priority on profitability and efficiency, while developing internal structures to facilitate such reforms.

Furthermore, we have adopted a policy of striving for sustained expansion of the Machinery business, earmarked as a core business domain. To this end, we will concentrate managerial resources—human, material, and financial—on the Machinery business and step up efforts to strengthen and expand our human resource foundation, actively promote investments to increase corporate value, and establish a robust corporate foundation.

Operating income scenario: FY2020*



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(Millions of yen)

Machinery business	6,250
Industrial Machinery	1,250
Rock Drill Machinery	1,600
UNIC Machinery	3,400
Materials business	1,400
Metals	700
Electronics	300
Chemicals	400
Real Estate	1,000
Others	(40)
Subtotal	8,610
Adjustments	(110)
Total	8,500

Assumptions

¥110=US\$1.00, ¥115=€1.00
LME copper price: US\$6,000/t

4. Segment-Specific Strategies

Machinery Business

We envisage that the Machinery business, our core domain, will account for 72% of consolidated operating income in fiscal year ending March 2020. Domestic demand will remain firm in light of various projects, including the Linear Chuo Shinkansen Line, new Shinkansen lines, the Building National Resilience Plan, regional rejuvenation initiatives, and the 2020 Summer Olympics and Paralympics in Tokyo. In addition to steadily addressing such demand, we will build a foundation for renewed growth based on the fundamental strategies of each business segment.

Industrial Machinery

We will increase our involvement in **section plant** construction projects and large-scale projects and otherwise expand our **contractor businesses** with the aim of transitioning from a standalone machinery manufacturer. To achieve this, we will strengthen our **engineering capabilities** and enhance our business foundation in the domestic market.

Section plant

Part of the processing stage of the overall plant.

Contractor businesses

Civil engineering and construction-related businesses that handle construction, operational management, and the like, by contract agreements and other contracts.

Engineering capabilities

The ability to deploy experiences, technologies, and knowledge derived from sales activities as tools to deliver optimal proposals to customers which are considered a total balance of factors, including function, cost, usage environment, and safety.

Life cycle support (LCS)

Support to provide optimal management services aimed at minimizing machinery holding and operating costs as much as possible across the total life cycle of machinery (selection and delivery, operation and maintenance, large-scale repair and regeneration, disposal and replacement).

Stock business

Business targeting the after-sales market (including sales of maintenance parts, provision of maintenance services, trade-in and sales of used products) and the rental market, as opposed to the “flow business” (product sales), which is easily impacted by economic factors. We will continuously expand and reinforce our stock business, earmarked as one of “Foundations for Renewed Growth,” because it generates relatively stable income.

Blast hole drill

A machine that drills holes for blasting purposes and is used for relatively large-scale blasting associated with mines, crushed stones, civil engineering work, and the like. Used within the Group, it is a generic term that covers crawler drills, down-the-hole drills, and rotary drills used on the surface.

Rock Drill Machinery

By strengthening our **life cycle support (LCS)** capabilities, we will increase income from both our flow business and **stock business** and reinforce the income foundation for our drill product lineup (**blast hole drills** and drill jumbos). To achieve this, we will upgrade our domestic service support system and establish overseas sales channels.

UNIC Machinery

Seeking to ensure stable income from domestic sales and expand income from our stock business and overseas sales, we will distinguish our UNIC crane lineup by promoting advanced functions and higher added value, in order to strengthen our competitiveness. At the same time, we will promote our second-hand business, reestablish our overseas sales network, and enhance our sales capabilities.

Materials Business

In the Metals segment, we will work to establish an optimal production and sales system with an emphasis on profitability, in order to improve our earnings foundation. In the Electronics segment, we will shift our focus from mature products to strategic products in an effort to restore Electronics as a strong business segment. In the Chemicals segment, we will work to expand income from existing products and swiftly commercialize and foster newly developed products with the aims of transforming existing businesses and securing steady income from new businesses.

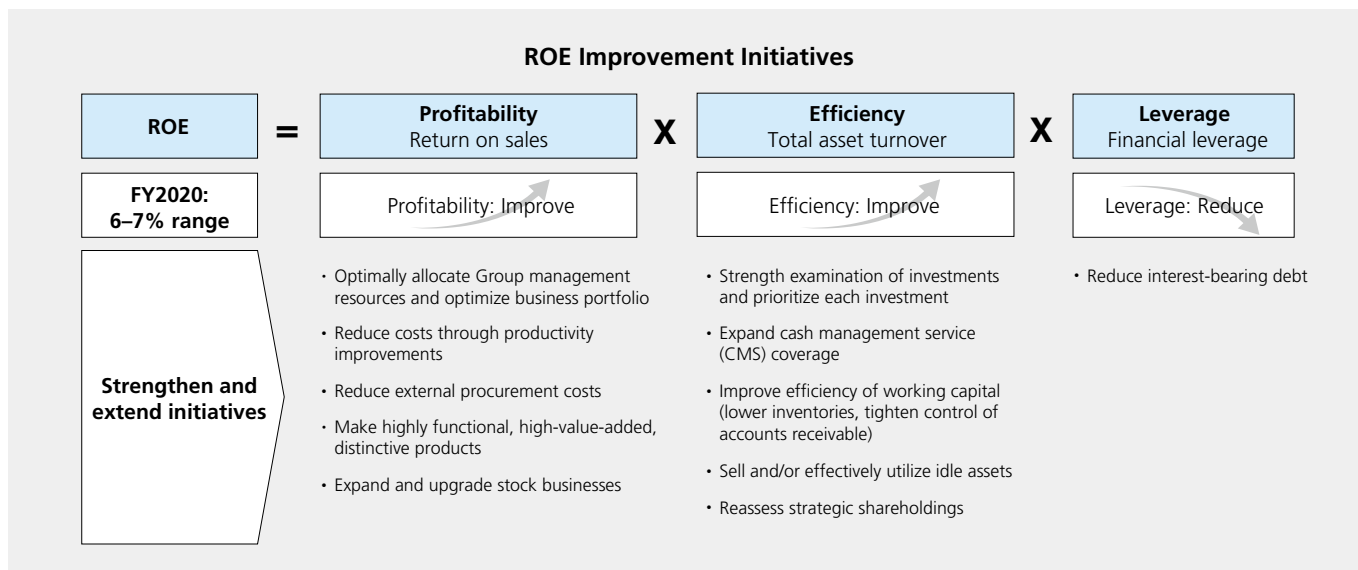
Real Estate

We will strive to secure stable income from the Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2) and effectively utilize income from other properties owned by the Group with the aim of reinforcing our income foundation.

5. ROE Improvement, Operating Cash Flow Allocation and Capital Strategies

ROE improvement

A key priority of the new medium-term business plan is to step up and entrench efforts to improve ROE. Although ROE is broken down into three elements—return on sales (profitability), total asset turnover (efficiency), and financial leverage—the Group will place particularly high priority on enhancing profitability and efficiency.

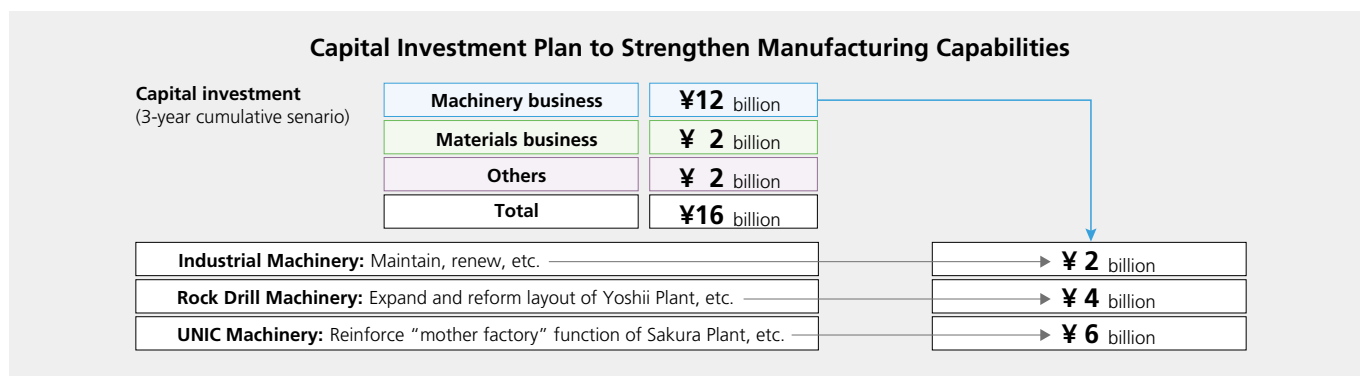


Operating cash flow allocation and capital strategies

We will actively promote investments to increase corporate value while establishing a solid financial base. At the same time, we will allocate operating cash flows with due consideration to shareholder returns.

Capital investments

Over the period of the medium-term business plan, we plan to make cumulative capital investments of around ¥16 billion, of which ¥12 billion will be allocated to our core Machinery business, with the aim of strengthening Groupwide profitability and efficiency.



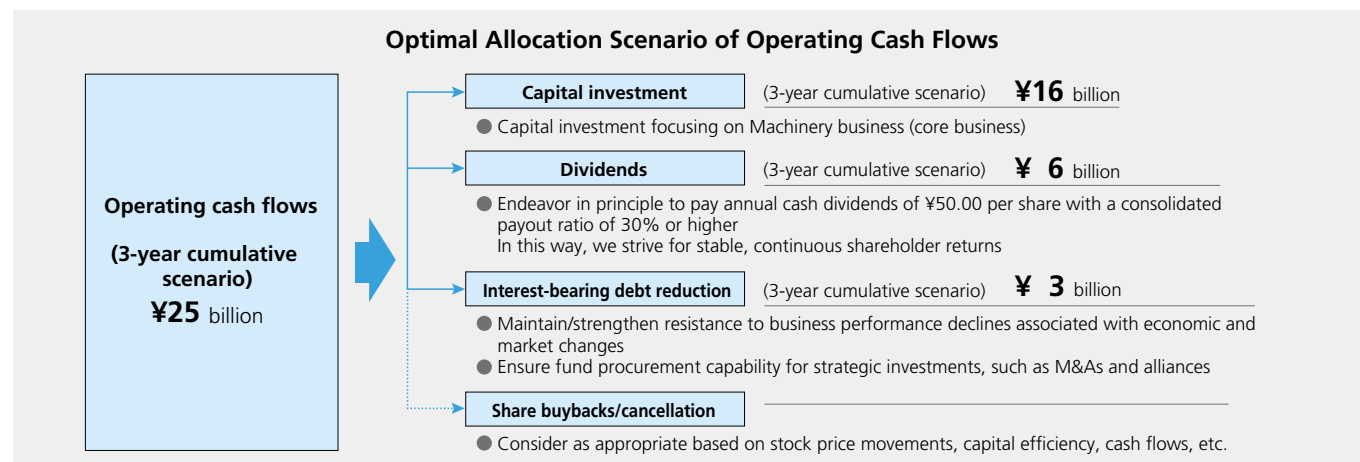
Dividends

Our policy is to return profits to shareholders in the form of dividends appropriated from retained earnings. Specific dividend amounts are based on consolidated profits/losses. With the exception of special profit/loss circumstances, we endeavor in principle to pay annual cash dividends of ¥50.00* per share with a consolidated payout ratio of 30% or higher. In this way, we strive for stable, continuous shareholder returns.

* Effective on October 1, 2017, the Company will implement a 1-for-10 reverse stock split. Accordingly, on June 29, 2017 the Company increased its planned year-end dividend for the fiscal year ending March 2018 by 10 times, from ¥5.00 to ¥50.00 per share.

Treasury stock purchase and cancellation

With respect to purchase and cancellation of treasury stock, our policy is to properly consider all relevant factors, including share price movements, capital efficiency, and cash flows.



6. Medium-Term Business Plan 2019: Milestone for Realizing Vision for 2025

We have positioned the new medium-term business plan as the most important milestone for realizing Vision for 2025. It is also a key transformation period, during which we will shift our management focus to profitability and capital efficiency. In the Machinery business, which is broader in scope than the Materials business, we have appointed a vice president in charge of promoting the medium-term business plan in each of the three segments (Industrial Machinery, Rock Drill Machinery, and UNIC Machinery), and we have set up an LCS Division in the Rock Drill Machinery segment. In these and other ways, we will establish execution and responsibility frameworks to achieve the objectives of the medium-term business plan. To foster mindset and business reforms, moreover, we have set up a “Business Process Reengineering Department,” which will spearhead efforts to standardize and enhance administrative efficiency, increase productivity, and reconstruct our business processes.

In our quest to achieve Vision for 2025, we will also consider M&As and alliances with peripheral business companies that can complement and create continuity with our core Machinery business. We will also look at companies that can help us create a completely different segment to serve as the fourth pillar of the Machinery business.

Through these efforts, we will continue striving to give new life to the Group. Medium-Term Business Plan 2019 represents the important first step toward realizing Vision for 2025, and the Group will harness all of its efforts to ensure the plan’s success.