

Progress on the 2020 Mid-term Business Plan

Review of 1H FY2018 and Initiatives in 2H and beyond

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

Fujikura Ltd.

Masahiko Ito, President & CEO

October 31, 2018

➤ Continue to maintain & strengthen earning power

Year 3 of the 2020 Mid-term Business Plan

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

Goals to Achieve by FY2020

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

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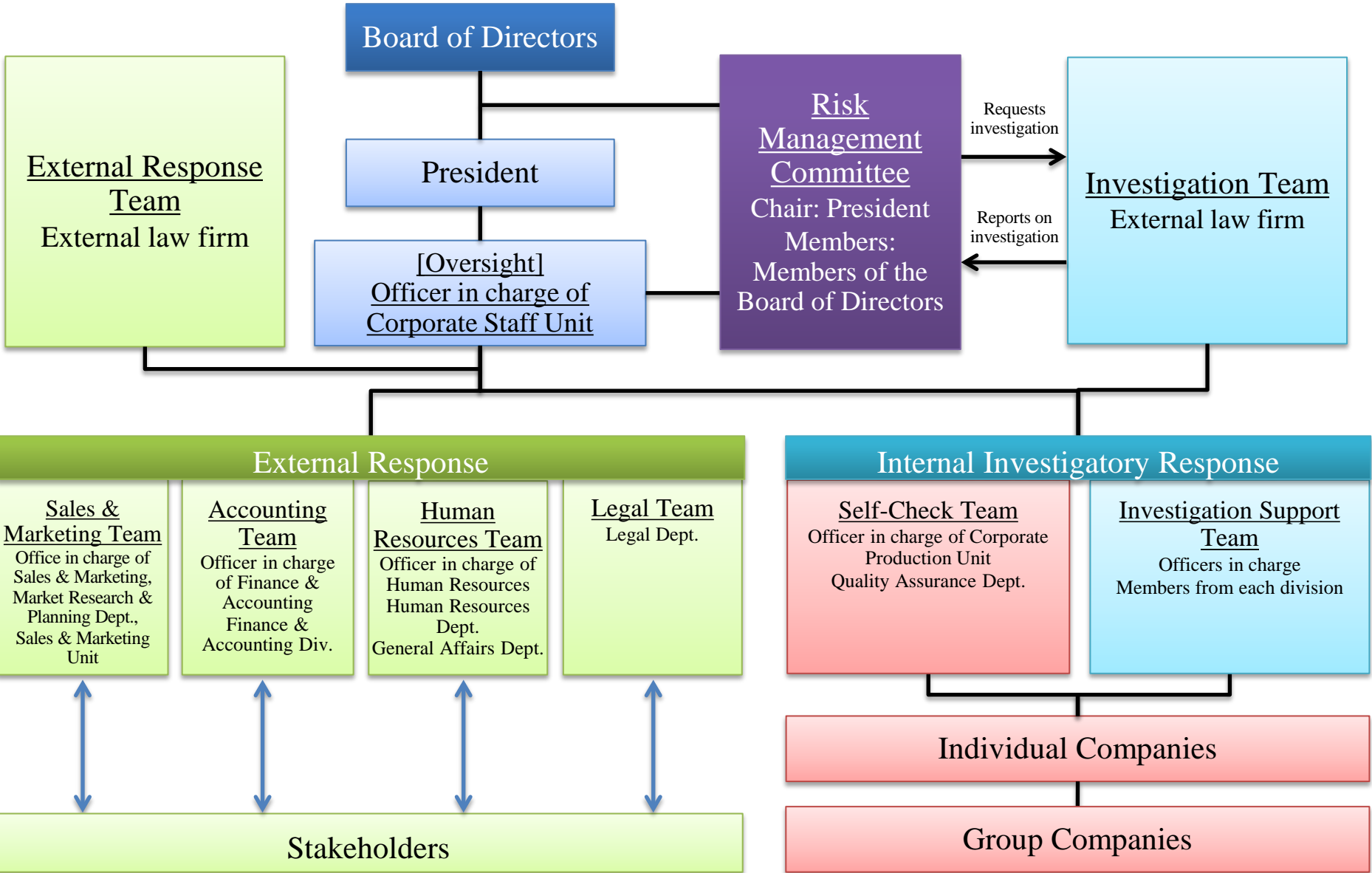
1. Quality Management Issues and Governance Strengthening

(1) Improprieties in Quality Management (Survey and Findings by a Time Series)

Date	Description
Oct. 2017	Started work on checking and confirming the entire quality management process for all products internally
Dec. 2017	Reported on the results of the checks noted above 10 cases identified, report and response to customers
May-Jun. 2018	Reported three additional cases, report and response to customers
Jun. 2018	Instructed to conduct re-checking and confirming work
Jul. 2018	Identified 57 cases. Report and response to customers
Aug. 2018	Requested outside attorneys to investigate this matter . Confirmed cases involving improprieties in JIS and general purpose products
	Disclosed to the public (Aug. 31)
Sep. 2018	ISO 9001 certification temporarily suspended (Power & Telecommunication Systems Company and Fujikura Components Co. Ltd.)
	JIS mark, etc. temporarily suspended (Nishi Nippon Electric Wire and Cable Co., Ltd.)

- Quality is the existence value of manufacturing enterprises themselves, this serious situation has shaken our business base. Company management has reflected deeply on this and sincerely apologizes.
- At present, each case is being reported and responded to the customers. Together with the investigation of the outside attorneys, after a thorough investigation, we will execute permanent remedial measures including those to prevent recurrence.
- Impact on the settlement etc. is currently being investigated, and in case it is necessary to revise the forecast in the future, that will be announced on a timely basis

(2) Improprieties in Quality Management (Task Force for Measures)



(3) Improprieties in Quality Management (Schedule from now on)

Response	Lead	Action	2018				2019
			Sep	Oct	Nov	Dec	Jan on
Explanation to customers and response consideration							
Individual response with customers (Self-checks)	Fujikura	Discuss with customers individually					
		Investigate & respond					
		Implement individual measures & report					
Independent investigation	External attorney	Investigate individual cases					
		Analyze & assess Drill down to the root cause					
		Compile investigation report					
Corrective measures	Fujikura	Implement corrective measures					

This is the plan as of the time of external release on August 31st, and might change according to the progress of the investigations

(4) Responding to Risk: Strengthen Governance

➤ Developed operational risks

- Worsening profitability with European problems of the Automotive Electronics Business continuing from FY2017
- Loss outbreak in emerging nations EPC business (Brazil, Bangladesh), which is one of the factors of the downward revision in the business forecast on September 26

➤ Factors causing operational risks

- Insufficient risk assessment and risk hedging at the entrance of the project
- Management problem in business execution
- Insufficient sharing of the lessons learned from past loss cases

➤ Strengthen response capability to risks

- Build and strengthen the governance of the entire group - 29 countries, 141 companies, 58,000 people Address business expansion
- Re-enforce the functions of both Company with an Audit committee - each business execution and Monitoring and Supervision
- Strengthen governance of the front line in business execution body which is the "first line of defense" - Prevent risks beforehand and minimize the impact at the time of occurrence.

2. Review of 1H FY2018 and Full-Year Forecast

(1) 1H FY2018 Financial Results

(Unit : Billion yen)

	FY2017			FY2018			FY2018 (Forecast on Sep.26)	
	1H	2H	Full Year	1H	2H Forecast	FY2018 Forecast	1H	Full Year
Net Sales	359.7	380.2	740.0	363.6	356.3	720.0	360.0	720.0
Operating Income	17.5	16.8	34.3	14.2	15.7	30.0	14.0	30.0
Ratio of Operating Income to Net Sales(%)	4.9	4.4	4.6	3.9	4.4	4.2	3.9	4.2
Share of other comprehensive income of entities accounted for using equity method	0.6	0.8	1.5	0.4	1.0	1.5	0.3	1.3
Ordinary Income (Loss)	17.6	16.5	34.1	9.6	16.3	26.0	10.0	26.0
Net Income (Loss) Attributable to Owners of Parent	12.6	5.7	18.3	0.4	13.5	14.0	1.0	14.0
Net Income per Share (JPY)	44.36	20.00	64.36	1.59	47.49	49.08	3.51	49.08
Dividend per Share (JPY)	7.00	7.00	14.00	7.00	7.00	14.00	7.00	14.00
ROE (%)	10.0	—	8.7	0.4	—	6.2	—	6.2
Exchange Rate (JPY/USD)	111.06	110.67	110.86	110.27	105.00	—	—	—
CU Base ('000JPY/ton)	709	805	757	760	780	—	—	—

※Impact on the performances of the full year due to the fact that some of the products of the Group are inappropriate regarding quality control is currently being investigated, and in case it is necessary to revise the forecast in the future, that will be announced on a timely basis

(2) Review of 1H FY2018 and 2H Initiatives

➤ Review of 1H FY2018

- ✓ Power System business: Huge operation loss of EPC business in emerging countries; continue to execute structural reform
- ✓ Optical fiber: Currently firm, but signs of a change in China and temporary decline in demand in North America
- ✓ Hyper-scale data center business: Change in customer procurement policies; slowdown in investment
- ✓ FPC: Proceeding smoothly regarding supply of this year model; both amount and ratio of operating profit increased compared with the same period last year
- ✓ Automotive Products: Continued business revitalization in Europe from last fiscal year; decline in demand due to gas emissions problem

➤ Key Initiatives During 2H FY2018

- ✓ Power Systems: Re-verify the vision for the EPC business; put prospect of structural reform
- ✓ Telecommunication Systems: Step up harvesting of major investments, achieve greater product differentiation, and prepare for change in business positioning
- ✓ Electronics: Improve the yield for this year's models; prepare for next year's models
- ✓ Automotive products: Continue to execute business revival plan; strengthen the development for new EV.

We regard the current earnings forecast as the bottom and will work to restore earning power and prepare for FY2019 to achieve the goals of the 2020 Mid-term Business Plan.

3. 2020 Mid-term Business Plan - towards 2020 Mid-term Goals -

(1) Summary at the turnaround point of the 2020 Mid-term Business Plan

- **Many issues were highlighted during the first half of the Mid-term Business Plan**
 - ✓ Overall: Governance Issues
 - Huge operation loss in Eastern European Automotive business in FY 2017, Quality impropriety issues and Huge operation loss of EPC business in emerging countries in FY2018
 - ✓ Power Systems: Expansion of risk in emerging nations EPC business
 - Materialization of emerging country risk from the slump in Brazil, increase in costs in Bangladesh, etc.
 - Domestic Structural reform continues
 - ✓ Telecommunication Systems: Proceeded according to plan, but issues with responding to market changes and investment effect reaping
 - Made progress on recognition of strategic products (SWR/WTC) and worked to break into the market
 - Almost completed the increase of optical fiber production capacity in Japan in 2017 and in China in 2018
 - Acquired strategic customer for hyper-scale data center through acquisition, but business expansion level off now
 - Behind on commercialization of the fiber laser business
 - ✓ Electronics: Completed recovery from the floods; made progress according to plan and grown to be one of business pillars
 - Business management rooted in quality: Acquired the trust of strategic customers, deepened relationships, and turned them into partnerships
 - Operational excellence: Made progress on turning fixed costs into variable costs and covering seasonal change by flexible workforce management
 - Proceeded automation of production and inspection and largely contribute to improvement of productivity and quality.
 - ✓ Automotive Products: Drastic deterioration of European operation and work on business revival
 - LCC (Low Cost Country) strategy did not function properly. Launched an effort to revitalize the business by revising the location strategy
 - Building of business formation (Fujikura Ltd, and European R&D Center) for non-EDS development, as well as for the next Mid-term Business Plan

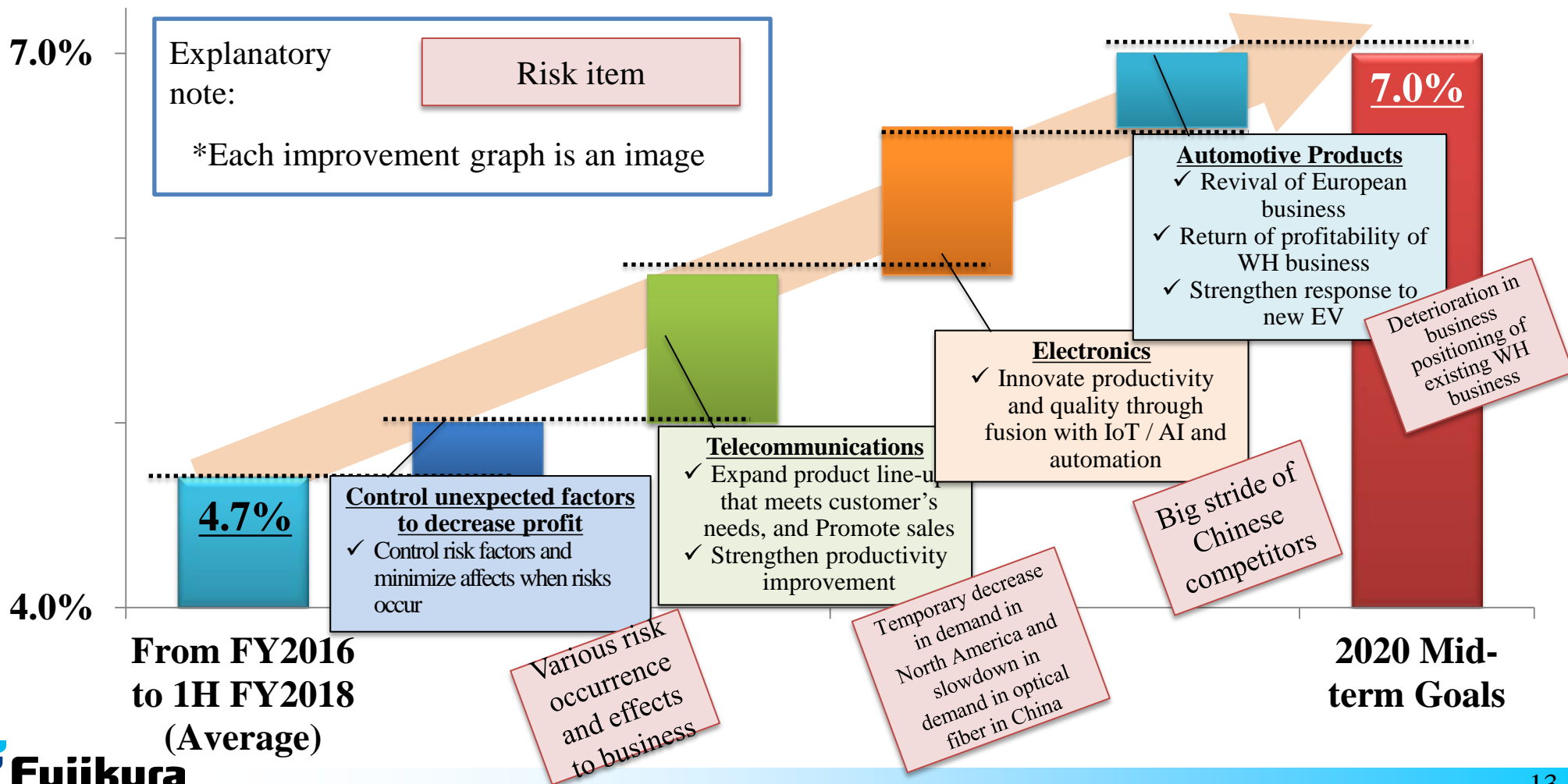


Result: Ratio of operating income to net sales averaged 4.7% during the period from FY2016 to 1H FY2018

(2) Path to the Goals of the 2020 Mid-term Business Plan

- Strategic measures to close the gap between the present state and the goals of the 2020 Mid-term Business Plan
- Further strengthening of responding capability to business risk

Ratio of Operating Income to Net Sales



(3) Strategy for Achieving the 2020 Mid-term Goals

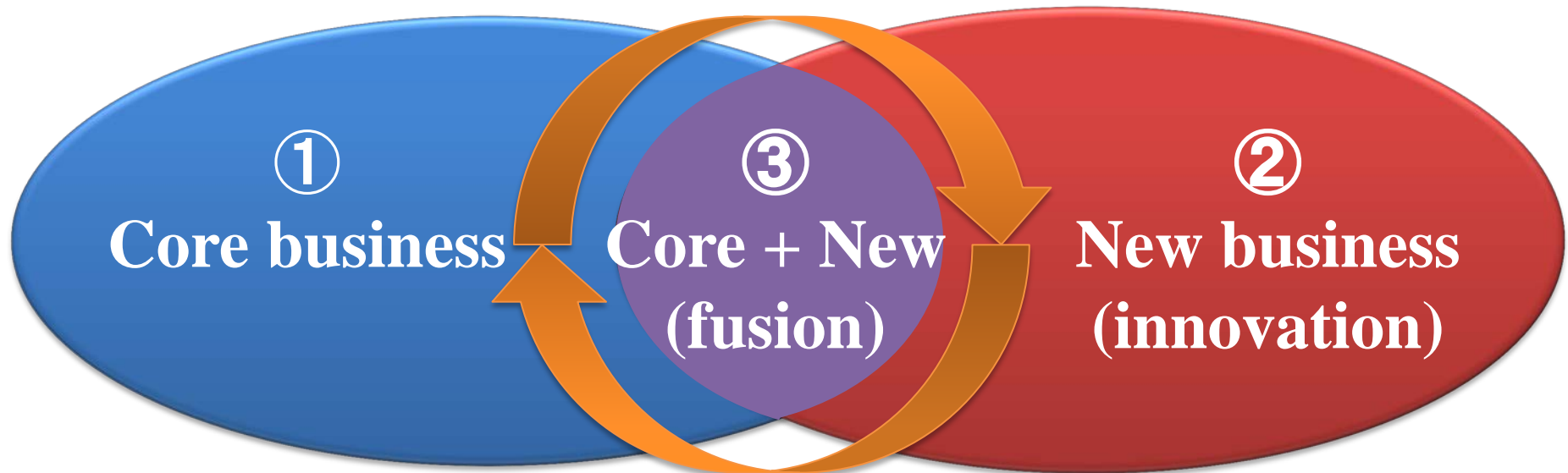
➤ Execute strategy after having reduced risk sufficiently to achieve the 2020 Mid-term Goals.

Business Domain		Mid-term Measures	Risks	Strategy for Achieving the Mid-term Goals
Power & Telecommunication Systems	Power Systems	<ul style="list-style-type: none"> ✓ Execute structural reform of domestic power business ✓ Strengthen overseas EPC business 	<ul style="list-style-type: none"> Stiffer competition from other domestic competitors Business risk in emerging countries 	<ul style="list-style-type: none"> ✓ Complete business structural reform ✓ Strengthen governance of the EPC business ✓ Remain a winner through ultimate cost reduction via IT / IoT / AI in the cable business
	Telecommunication Systems	<ul style="list-style-type: none"> ✓ Large scaled investment in optical fiber ✓ Launch of the strategic products SWR/WTC ✓ Expansion of hyper-scale data center business 	<ul style="list-style-type: none"> Slowdown in optical fiber demand (Chinese market) Leveling off due to customer circumstances (North American market) U.S./China trade war 	<ul style="list-style-type: none"> ✓ Respond to different needs depending on customers(area and purpose of use) <ul style="list-style-type: none"> • Ultra multi core, Air-brown and flame resistance • Expand the number of hyper-scale data center customers by increasing product marketability ✓ Prepare for impact from U.S./China trade war
Electronics Business		<ul style="list-style-type: none"> ✓ Quality as framework of business management ✓ Healthy growth through business expansion by earning the trust of strategic customers 	<ul style="list-style-type: none"> Over-reliance on large U.S. customers Emergence of Chinese competitors 	<ul style="list-style-type: none"> ✓ Technological innovation that exceeds customer expectations <ul style="list-style-type: none"> • Respond to higher definition and density in FPC ✓ Operational excellence = Quality + DX <ul style="list-style-type: none"> • Improve process yield and quality as much as possible through IoT/AI and automation integration
Automotive Products		<ul style="list-style-type: none"> ✓ Reduce costs by expanding to LCC locations ✓ Expand business other than wire harnesses -NonEDS- 	<ul style="list-style-type: none"> Deterioration of profitability in WH business <ul style="list-style-type: none"> • Inadequacy of LCC strategy • Intensified competition 	<ul style="list-style-type: none"> ✓ Revival of WH business which is the base <ul style="list-style-type: none"> • Structural reform in Europe and optimization of sites • Check and strengthen sites other than Europe

(4) Toward the 2020 Mid-term Goals

Reviewing the current achievement of 2020 Mid-term Business Plan, we need to operate our business within the following 3 domains.

① Core business, ② New business (innovation), ③ Fusion businesses



**Towards a promising company that bridges to the future
through “Dual Management”**

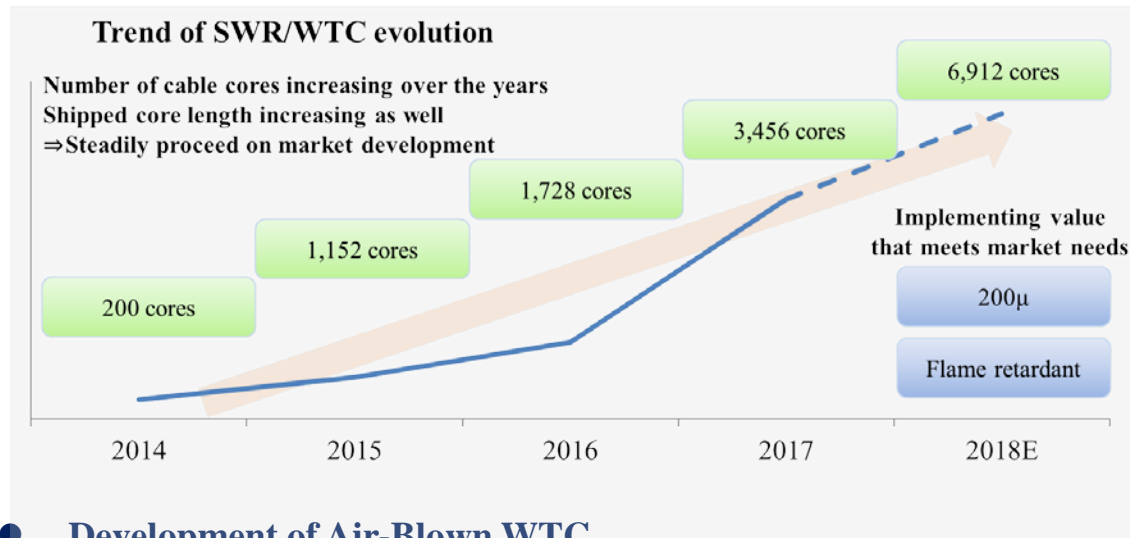
Both “Running existing core business” and “Innovation”, and then fusion businesses

3.1. Initiatives in Core Businesses **- towards 2020 Mid-term Goals -**

(1) Further Strengthening of Strategic Products- SWR/WTC*

➤ Develop optimal products that meet the different needs of customers for each region and use

- ✓ North America: Response to a growing FTTx and larger capacity
- ✓ Europe: Break into market by providing new WTC products adapted for local markets



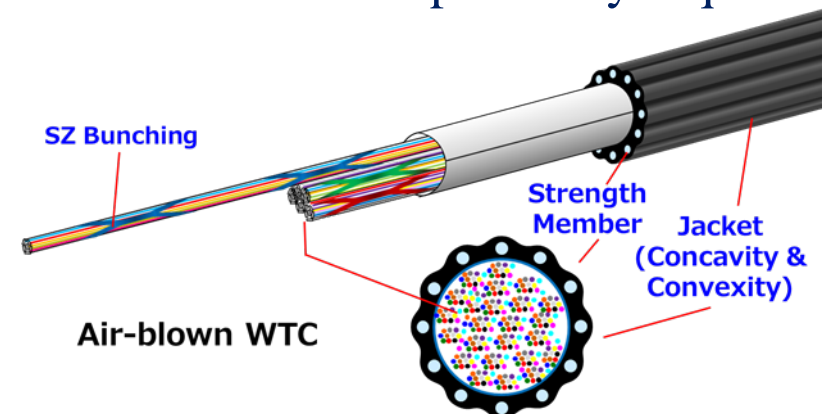
● Development of Air-Blown WTC

- Response to underground wire which is the mainstream in Europe
- Both small diameter and multi core realized by Air-Blown WTC

● Successfully developed highly fire retardant WTC and launched on the market

- Meet UL standards in the U.S. and construction material regulations

- Begin supplying 6,912-core/200µ ultra multi-core WTC
- SWR cable laying solution for DC-Set development of SWR/WTC and peripheral components and reduce the space they require



(※Spider Web Ribbon/Wrapping Tube Cable)

(2) Achieve Greater Differentiation Through Digital Innovation

- Electronics Business

➤ **High level response to meet increasingly higher technology and production requirements from major customers**

“Quality as framework of business management” + DX “Digital transformation”

- **Innovation in digital manufacturing**
 - Towards innovation of production and process quality by strengthening automation that includes IT/IoT and AI
- **Technological innovation that exceeds customer expectations**
 - **Respond to requirement of higher precision and density through technological innovation**
- **Sharpen differentiation through double innovation in response to catch-up by Chinese competitors**

✓ Use innovative technology to capture the increasing expansion of the market with the advent of the 5G-era !



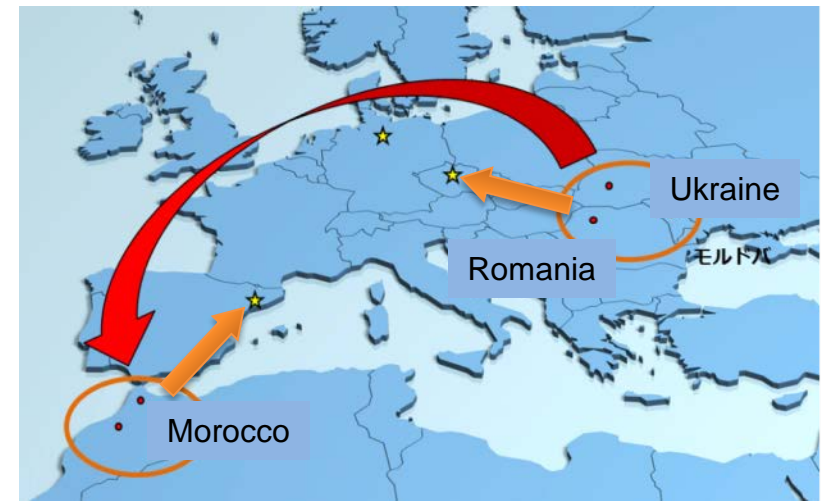
(3) Revision of the LCC Strategy for Automotive Products and Business Revitalization

- **Geographic strategy : Structure reform in Eastern Europe**
Shift production to right spot in North Africa
- **Strengthen manufacturing capabilities in plants**
- **Strengthen tri-regional management and daily management mechanisms through IT**

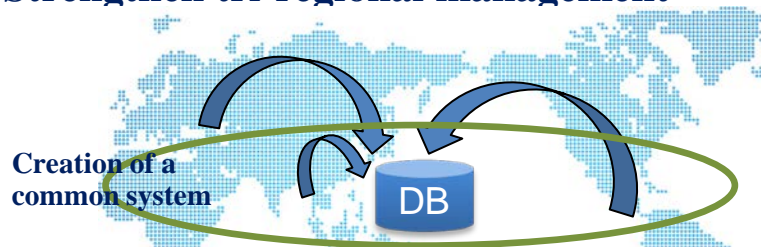
1. Geographic strategy: From Eastern Europe to North Africa

- Substantially reduced the number of locations in Eastern Europe and consolidating production sites.
- Shift of production to Morocco underway
- **Clarification of each location role; shift of production to Morocco**

Romania (high technology)	Ukraine Moldova (low personnel expenses)	Morocco (labor stability, high productivity)
Sophisticated products	Small lot supply to nearby manufacturers (for one vehicle)	Products that require productivity



3. Strengthen tri-regional management



Quicker decision making in data collection and analysis in the area including business management and business control in the three regions.

2. Strengthen manufacturing capabilities in plants

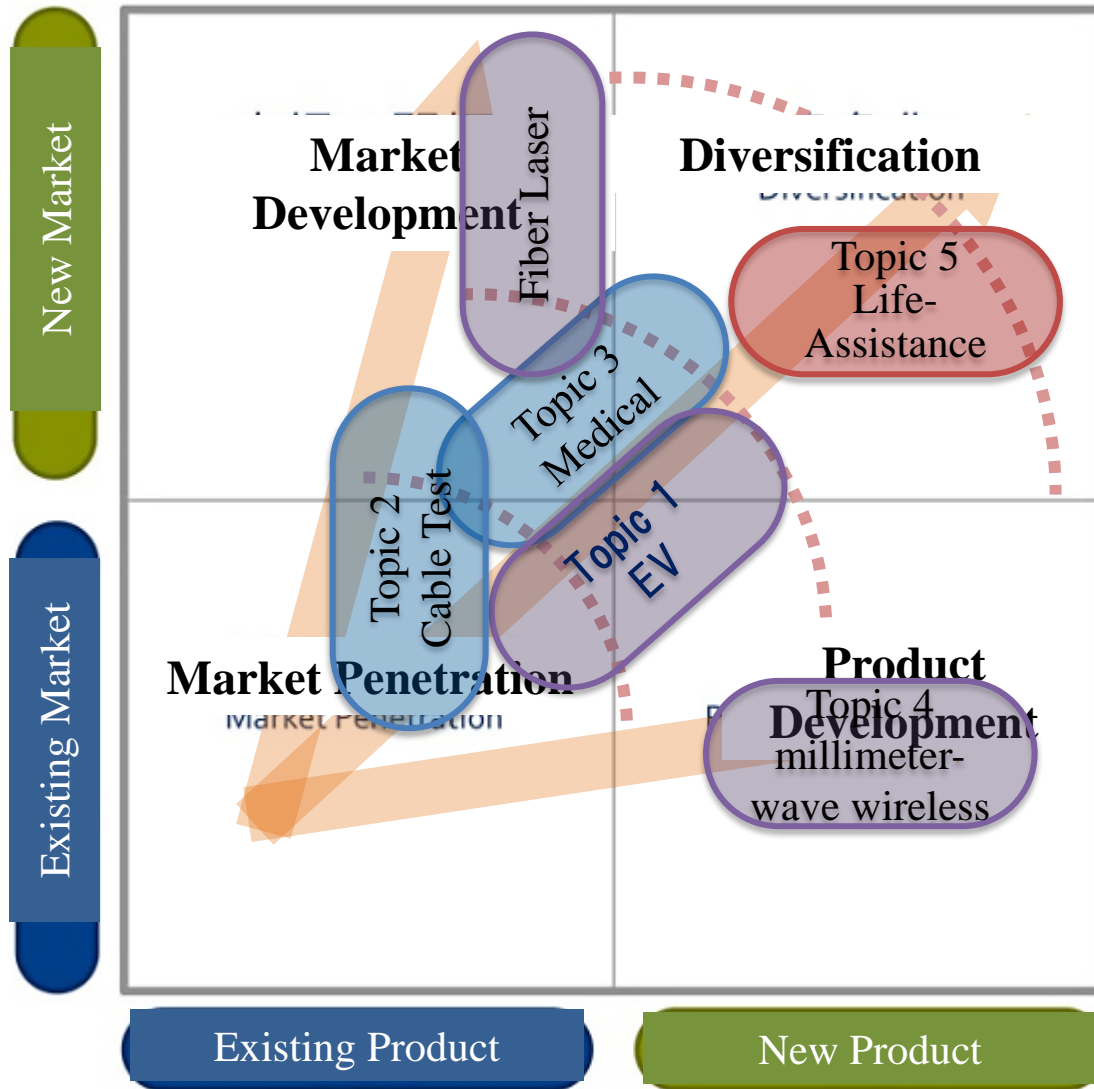
- Visualization issues by setting KPI for evaluation of manufacturing capabilities at each site
- Strengthen productivity by promoting automation including IT
- Reduction of incurred cost and inventory decrease through further integrated purchasing and logistic cost reduction

3.2. Initiative for New Business

**Strengthen business creation
by integrating core businesses and innovation**

Fusion of core businesses and innovation and its initiatives

Each business topics and its positioning



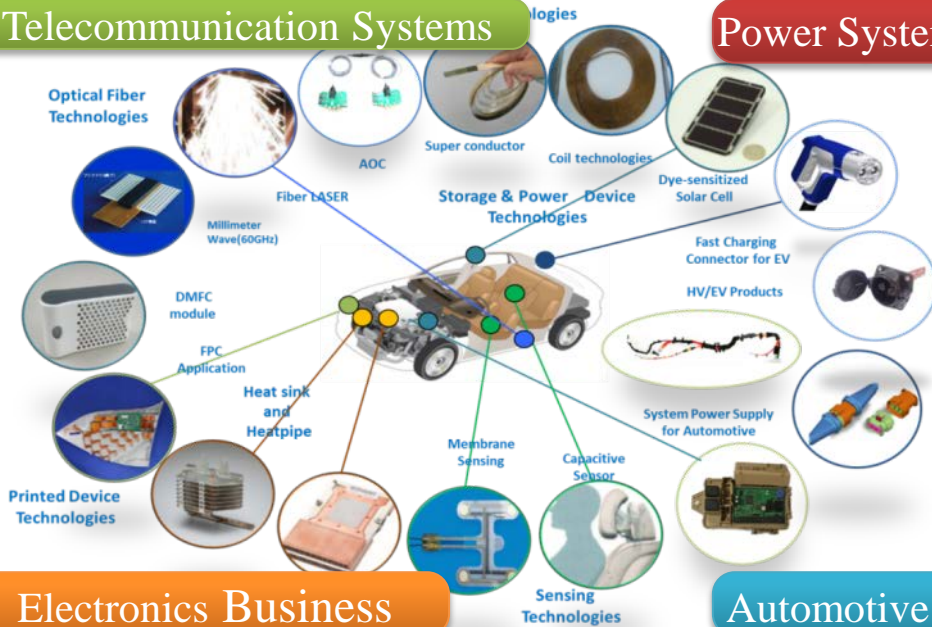
- ✓ Business reinvention is the fate of any company.
- ✓ Fujikura, a company continuously grown in core businesses is facing the "Innovation dilemma".
- ✓ However, risks are high in developing business in the fields which are very far from the existing ones.
- ✓ By learning innovation, running small, fast and repeating trials, lessons are learnt from failures. The new business aimed at resides in the domains resulting from the integration of the core business born from those failures, the technology, and the innovation.
- ✓ Having good customers and strong trusting relationship with them from the past is our DNA.
- ✓ With new business utilizing this strength, we aim at a continuous growth.

(Topic 1) Response to new EV

➤ Aiming at increasing value provided to customers by adding All Fujikura's solution to the core WH business

Telecommunication Systems

Power Systems



✓ WH business is a core technology regarding automobile power distribution, independently of the potential changes in specification in the next generation cars.

✓ Change to a business that provides high value to customers by utilizing this core technology and adding our technologies/ products/ solutions.

Electronics Business

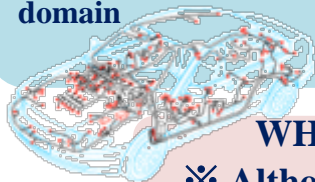
Automotive Products

Add value and strengthen competitiveness

Electronics and components domain

Telecommunication Systems domain

Power Systems and HV domains



WH Business (Base business: Good customers and differentiated technologies)

※ Although ratio of operating income to net sales is low, return to efficient management with higher ROIC by controlling investment burden

(Topic 2) Cable Maintenance & Diagnostic Service Business

➤ Cable Business domain

- Identify existing business needs
- Contribute to “diagnostic services”

- Provision for cable deterioration in plants where it is difficult to secure electrical shutdown time, etc.



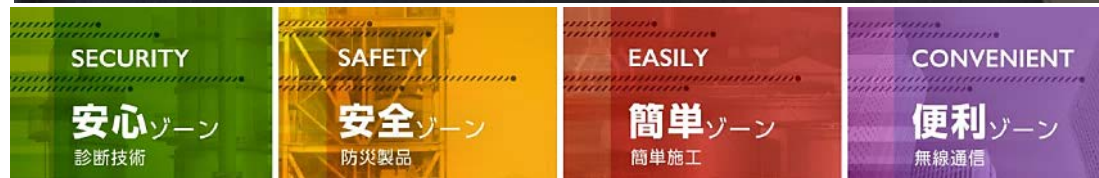
LINDA



Breakdown point
detection probe



LISSA



- Experience showroom establishment in Fukui following the Fujikura Dia Cable Ltd. one in Kumagaya

➤ **Core technologies are “imaging” and “miniaturization”**

✓ Endoscopic direct imaging technologies

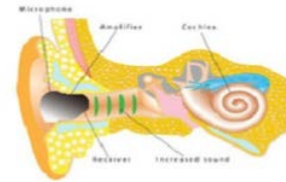
- Fujikura provides the technology for almost all types of imaging methods that involve insertion into small areas inside the body

Thin CMOS imager, imaging fiber, OCT*
* Optical Coherence Tomography

⇒ We propose the optimal solution to our customers

- Endoscopes with ultra-thin CMOS imaging sensors

⇒ Enables us to provide even stronger solution



HEARING AIDS IN THE CANAL

E.g.: Ultra-thin $\phi 1.3$ mm CMOS endoscope

✓ High-density, ultra-compact packaging technology

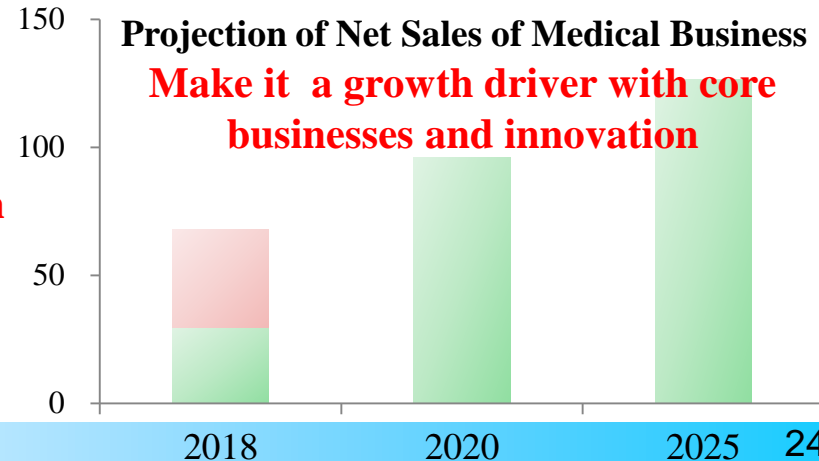
- Strong demand for thin, ultra-compact electronic circuits for hearing aids, etc.

✓ Aiming to use core technologies as a “door knocker”

- Moving forward on supplying samples to ultra-large medical companies overseas

➤ **Consolidate medical business in Fujikura Group**

Aiming to make the business grow to reach the 10 billion yen of net sales scale for the next Mid-term



➤ **Entering the dawn millimeter-wave wireless communication market**

- Areas in which mutual complement with existing FTTx businesses greatly expand opportunities of market entry and expansion
- Technology superiority and position close to the market are our advantages.

Mutual complement with existing businesses (core area) + α leads to global business from upstream to downstream



Optimal material
LCP processing
FPC manufacturing technology
Antenna designing technology

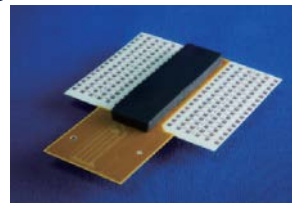
Millimeter wave module / device
Modularization of core parts
Design and implementation of equipment products
(Area of electronics and telecommunication businesses)

Telecommunication construction
Telecommunications carrier customer
Experienced in wiring businesses
(Field of telecommunication businesses)

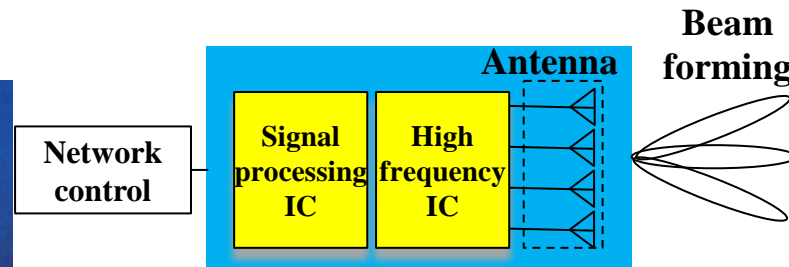
Promotion of open innovation enables the realization of high-speed, high-performance communication module (plus alpha area)

✓ **First of all, entering the market by productization of a high-speed millimeter wave communication module**

- Fixed Wireless Access / Backhaul Network
Aim for market acquisition in the 5 G infrastructure network market
 - Pursuing approaches of customers - developed in the optical fiber field - in the communications market, introducing market-oriented products
- Our strengths *Liquid Crystal Polymer
 - High frequency simulation / antenna design technology
 - **Low loss module substrate by LCP** *
Reduce customer's total cost by antenna integration and unnecessary for external amplifier
 - **Low cost module realization** by FPC mass production capabilities



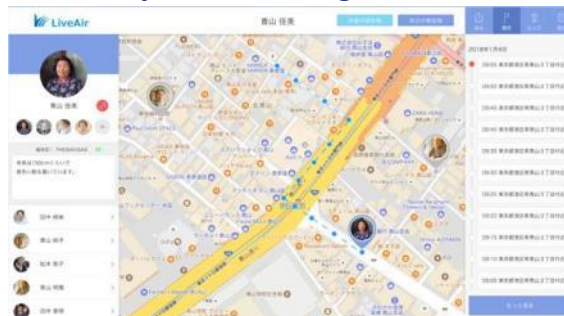
Millimeter wave communication module by LCP



Configuration of millimeter wave communication module

- Solving society's problems by the IoT
 - Business creation through PoC verification with local municipalities
- PoC: Proof of Concept**

- Successful IoT experiment in protecting the elderly in Kimotsuki-cho, Kagoshima
Verified the efficacy of a protection system using shoes with an embedded GPS tracking device



- IoT shoes equipped with GPS to provide location data and a protection system to detect location

- Joint PoC verification to improve service for the public in Omachi

Omachi City → Pursuing an initiative in using ICT and IoT to improve service for the public

Fujikura → Searching for business opportunities while also using various technologies and services to solve problems for the community, beginning with MVNO service.

Working together to implement new technologies into the community

- Being involved in the venture ecosystem
- Changing the internal corporate culture through open innovation

- Received a **Corporate Innovation Award** from Plug and Play Japan, valuing our contributions as a member of the venture ecosystem



- “BRIDGE” innovation hub opening (approx. 800 m² near the head office)
- Launched activities aimed at open innovation
Numerous people from industry, government, and academia have visited since its opening

4. Return to Shareholders

(1) Basic Policy on Shareholder Return

Distribution of profits while keeping balance in mind

- Focus on investment in growth businesses (the next areas of growth)
- Improving financial soundness (shareholders' equity, D/E ratio)
- Flexible acquisition of treasury shares



Increasing earnings per share

- The dividend payout ratio may exceed 20% in a single fiscal year, but we would like to keep this year's dividend level equivalent to the previous fiscal year's one to enhance profitability return this Mid-term.

Dividends: Planning to declare an interim dividend of 7 yen per share and a year-end dividend of 7 yen per share, for total dividends of 14 yen per share for the full year

Let's transform ourselves, and bridge to the future!

2020 Mid-term

Aim to become a high profit company

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

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



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



Special Notes:

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

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