

Progress with the 2020 Mid-term Business Plan Review of FY2018 and Initiatives in FY2019

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

Fujikura Ltd.

Masahiko Ito, President & CEO

May 14, 2019

➤ Maintain & Strengthen “Earning Power”

Fourth Year of the 2020 Mid-term

Re-start for Trust Recovery!

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. Inappropriate Quality Cases and Efforts to Recover Corporate Value**
- 2. Mid-term Progress, Including FY2018 Results, FY2019 Plan and Measures for FY2020**
- 3. Start Development Work for the Next Mid-term Business Plan**

First...

Re-start for Trust Recovery!

Let's regain our corporate value, which has eroded, by sharing a sense of crisis with all managements and employees.

- **Quality in itself is the raison d'être of a manufacturing company.**
- **On behalf of the management of Fujikura, I deeply regret and apologize for the occurrence of this inappropriate case related to quality control.**
- **We must implement corrective actions, including recurrence prevention announced on April 25, and carry out activities rooted in corporate culture and organizational culture to prevent recurrence.**
- **We must stop the decline in profitability continuing from FY2017.**

1-1. Investigation Results and Corrective Actions for Inappropriate Quality Cases

(1) History of Inappropriate Quality Cases

October 2017 ... July 2018
Self-inspections were implemented twice by order of the president

August 2018
Asked an external law firm for investigation

August 31, 2018
External announcement: Disclosed the existence of inappropriate quality cases
(TSE timely disclosure, news release and press conference)

Investigation conducted by an external law firm

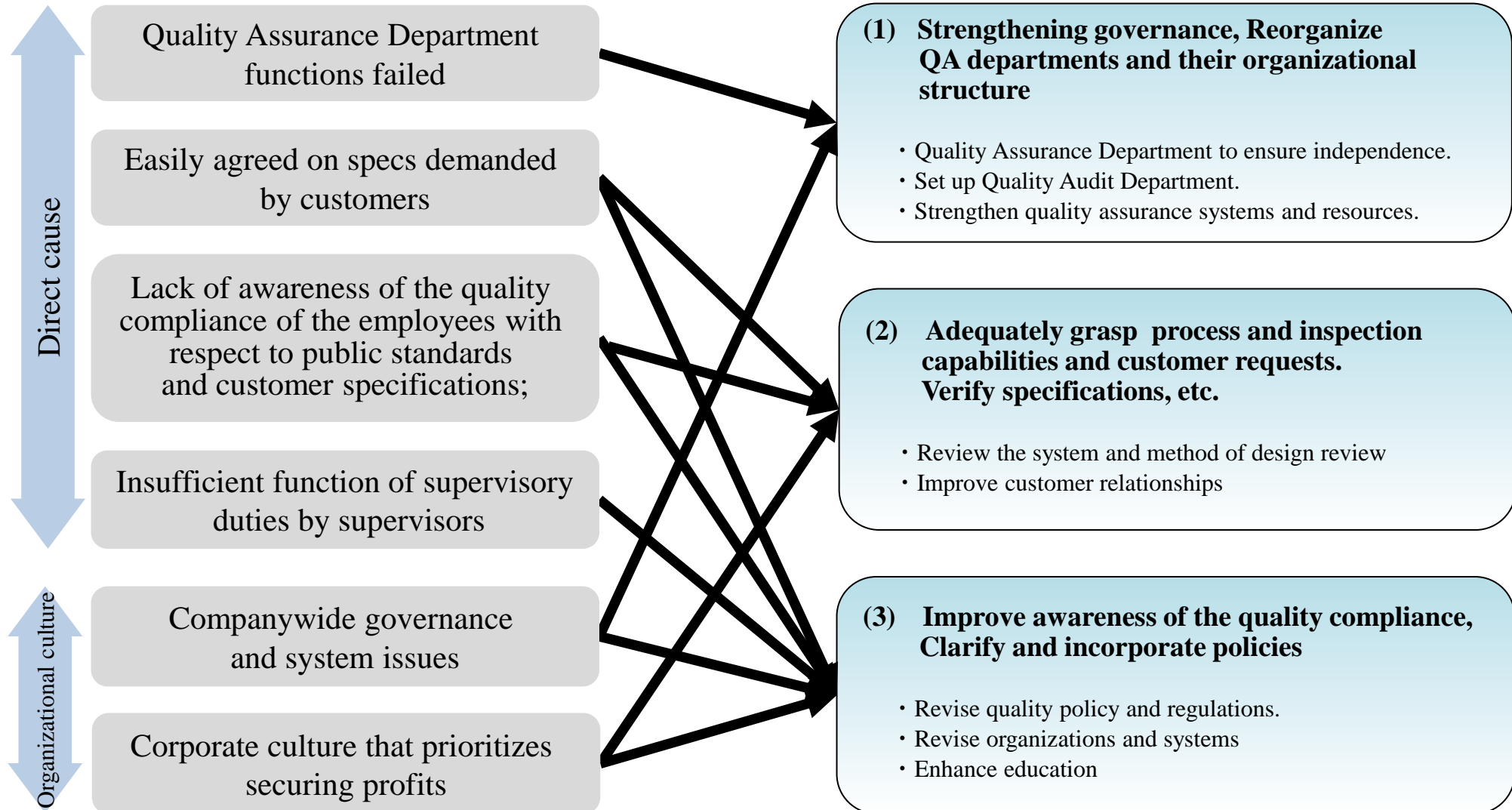
April 25, 2019
External announcement: Results of investigations and corrective actions including measures to prevent recurrence
(TSE timely disclosure, news release)

We will continue to report on the progress of corrective actions.

(2) Measures to Prevent Recurrence of Inappropriate Quality Cases

Root causes

Measures to prevent recurrence



*Sequential corrective measures are being implemented

(3) Reflection on the Part of Top Management and Problem Recognition

- **Insufficient two-way communication with frontlines**
- **Overconfidence in technologies**
- **Adverse organizational impacts caused by the prolongation of the lives of degraded businesses**
- **Weakness of compliance awareness**
- **Company culture that prioritizes securing profits**
- **Inadequate response to social demands**

1-2. Measures to Recover Corporate Value

(1) Measures to Recover Corporate Value

We must concentrate our energies to recover corporate value from three perspectives.

- 1. Value of Customer Perspective = Customer Experience (CX)**
 - Project to restore customer trust
 - Outer branding
- 2. Value of Employee Perspective = Employee Experience (EX)**
 - Inner branding
 - Reform for “Working Reward (Job Satisfaction)”
- 3. Value of Shareholder Perspective = Shareholder Experience (SX)**
 - **Strengthening governance**
 - **Regain “Earning Power” and Promote “Business Metabolism”**
 - **Sound financial structure**

(2) Strengthen Group Governance

Organizations directly controlled by the president

- President himself declares that he would carry out the strengthening of governance ⇒ Put the Corporate Quality Management Department, Internal Audit Department, and Security Export Administrative Department under the direct control of the President

Strengthen internal audits

- Strengthen governance in line with the “Three lines of defense model”* ⇒ The Internal Audit Department, the Third line of defense, will implement “themed audits” for domains believed to be high risk, and further implement risk control

Develop a management personnel and succession plan

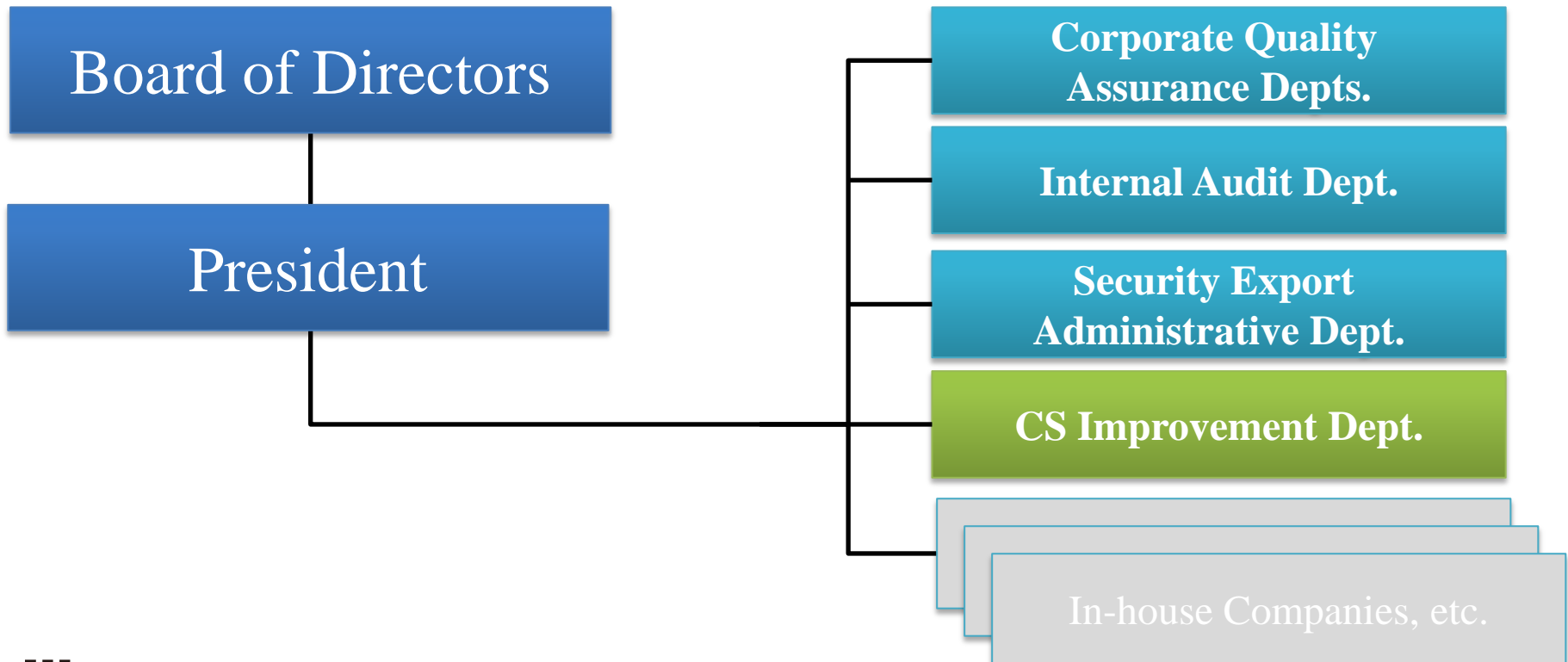
- Advance those with elements of a department representative, invite business strategy risks and operational risks ⇒ Develop human resources with a broad perspective and a wide range of business experience, and pool high potential personnel from younger generations.

Increase the number of outside directors

- From the perspective of risk management, hire one independent outside director with legal experience ⇒ Boost the ratio of outside directors sitting on the Board of Directors to one-third of total directors (scheduled to be put on the agenda for the annual general meeting of shareholders this year)

(3) Strengthening Governance and Efforts to Restore Trust

- 1. Set up an organization under direct control of the president**
 - The quality assurance function is consolidated into the corporate quality assurance function.
 - Establish an internal audit organization to handle theme audits.
- 2. Measures to restore the trust of our customers**
 - Set up Customer Satisfaction Improvement Dept. under command of the Executive Vice President in charge of the Sales Dept.



(4) Regain “Earning Power” and Promote “Business Metabolism” : ROIC Management

With ROIC as the fundamental KPI, we will promote “Business Metabolism” and maintain and strengthen “Earning Power” without pursuing scale.

ROIC Management

Business selection and
concentration

Strengthen daily business
management

**Promote “Business
Metabolism”**

(Portfolio Management)

Withdraw from deteriorated business
positions.

Inject resources into new business.

**Maintain and strengthen
“Earning Power”**

Improve profitability of existing
business

2-1. Mid-term Progress, Including FY2018 Results and FY2019 Plan, and Measures for FY2020

(1) Summary of FY2018 Results and FY2019 Forecast

(Unit : Yen in billion)

	FY2018 Actual	FY2019 1H Forecast	FY2019 Forecast	FY2019 Forecast vs. FY2018 Actual Change
Net Sales	710.7	340.0	690.0	-20.7
Operating Income	27.6	13.0	28.0	+0.3
Ratio of Operating Income to Net Sales (%)	3.9	3.8	4.1	+0.2
Share of other comprehensive income of entities accounted for using equity method	1.2	0.6	1.2	+0
Ordinary Income (Loss)	21.0	12.0	27.0	+5.9
Net Income (Loss) Attributable to Owners of Parent	1.4	6.0	12.0	+10.5
Net Income per Share (JPY)	5.09	21.03	42.06	+36.97
Dividend per Share (JPY)	12.00	5.00	10.00	-2.00
ROE (%)	0.7	—	5.4	+4.7
Exchange Rate (JPY/USD)	110.93	105.00	105.00	—
CU Base (1,000JPY/ton)	747	740	740	—

*Inappropriate quality cases were discovered regarding the quality control of some products of the Fujikura Group. A portion of losses related to these cases has become clear. Accordingly, we are posting a loss of ¥1.7 billion in FY2018. Going forward, in the event it becomes necessary to review our consolidated earnings forecast, we will make a timely disclosure.

(2) Review of FY18 and Past Three FY of the 2020 Mid-Term Business Plan

➤ Review of FY2018

- ✓ **Power System business: Loss in overseas EPC business (Bangladesh, Brazil)**
- ✓ **Optical fiber: Change in supply and demand in China and temporary drop in demand in North America**
- ✓ **Hyper-scale data center business: Change in customer's procurement policy: Promote expansion of customer base**
- ✓ **FPC: Demand from major customers fell sharply twice in the fall and winter, and both profit and rate decreased compared with the same period last year**
- ✓ **Automotive Products: Delayed business recovery in Europe, combined with declining demand in Asia**

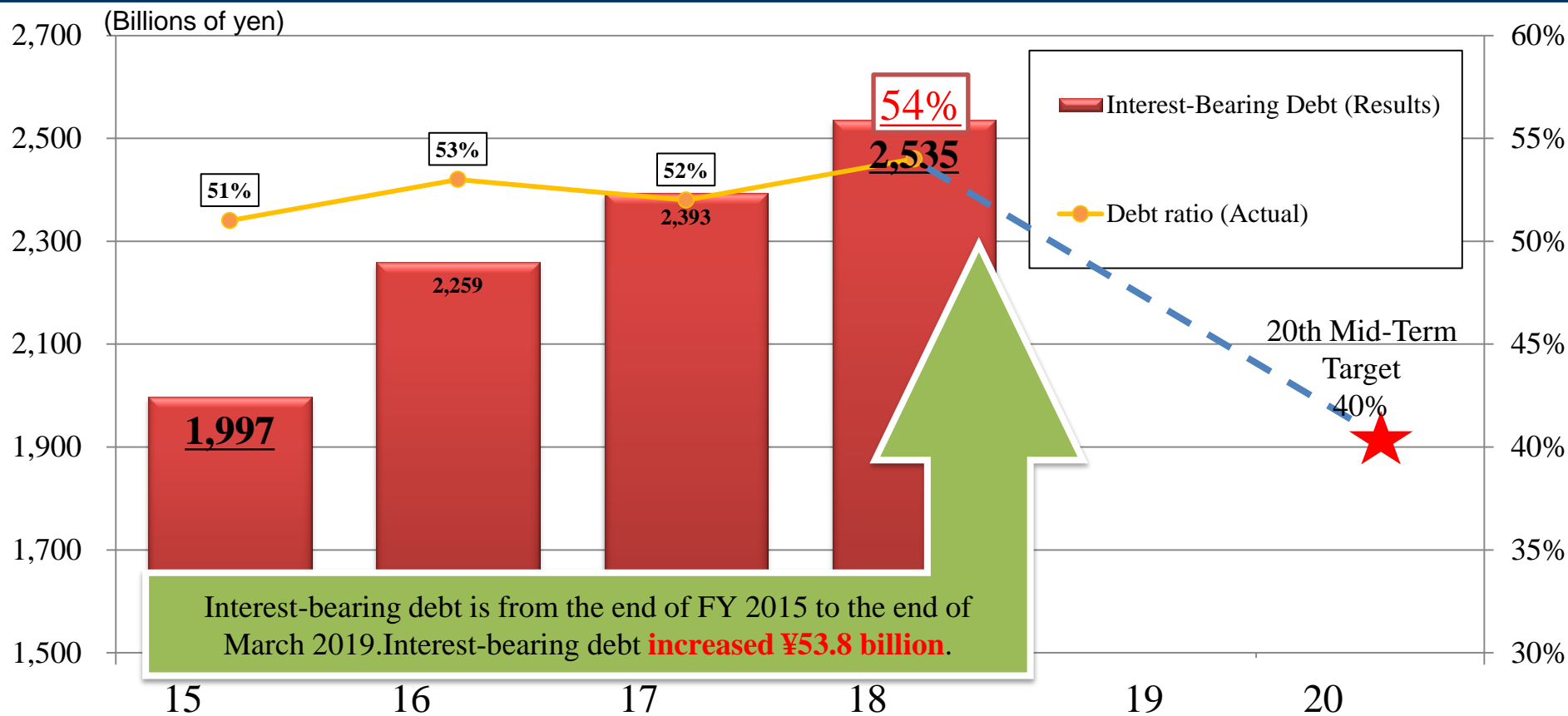
Overall, the major point of reflection is we did not sufficiently identify business risks at the entrance point of a project and we did not give sufficient consideration to countermeasures. We overlooked the signs of emerging risk and subsequently incurred major losses. As a result, those factors resulted in a decline in profitability and a delay in improving our financial position.

Result

FY2016-FY2018 Average operating profit margin: 4.6%

D/E ratio 54 : 46 (as of March 31,2019)

(4) Transition of Interest-bearing Debt



Factors behind the increase in interest-bearing debt

- ✓ Delay in harvesting the results of invested businesses (markets change)
- ✓ Expansion of the business operations

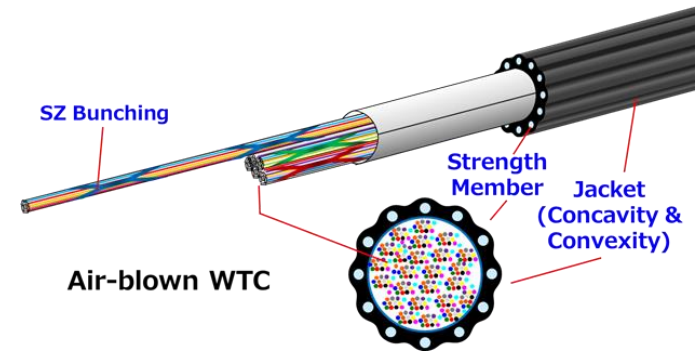
2-2. Measures for FY 2019 and FY 2020

**Maintain and strengthen “Earning Power”
in Core Businesses**

(1) Reap Benefits from Large-scale Investments - Telecommunication Systems

- **Rapid market changes : Demand in China is sluggish but strong in other regions**
- **Our strategy remains unchanged. We aim to deploy products that are the optimal solution for needs that differ by customer region and use**

- ✓ Deploy SWR/WTC* to capture demands in areas outside of China, measures for stagnant fiber demand in China
- ✓ Continue to deploy strategic products to other regions
 - North America: Respond to a growing FTTx and its demand for increasing capacity
 - Europe: Break into market by providing new WTC products adapted for local markets
- **Deploy products that are the optimal solution for customer needs**
 - Supply 6,912-core/200 μ m ultra multi-core WTC (large capacity)
 - Air-Blown WTC (regional requirement in Europe)
 - Successfully developed highly fire-retardant WTC and launched on the market (US spec and Europe spec product)
 - SWR cable laying solution for Data Center (integration)



(※Spider Web Ribbon/Wrapping Tube Cable)

(2) Achieve Greater Differentiation Through Digital Innovation - Electronics Business

- **Develop sophisticated functions for various applications: Expand areas of growth for Fujikura**
- **Actively engage in growth fields with technological and production strength fostered by high-level demands from major customers (create No. 2 pillar)**

Operations with quality at their core + Digital Transformation

- **Innovation in digital manufacturing (IT/IoT, AI)**
 - **Implement digital manufacturing reforms for quality, production and facilities, and build a strong quality chain**
- **Deal with growth fields by employing technological innovations**
 - **Respond to requests for higher precision and density in various fields**
- **Differentiate to expand gap with competitors by shoring up comprehensive strengths with the above mentioned two innovations**

✓ Learn from customers

Grow with customers

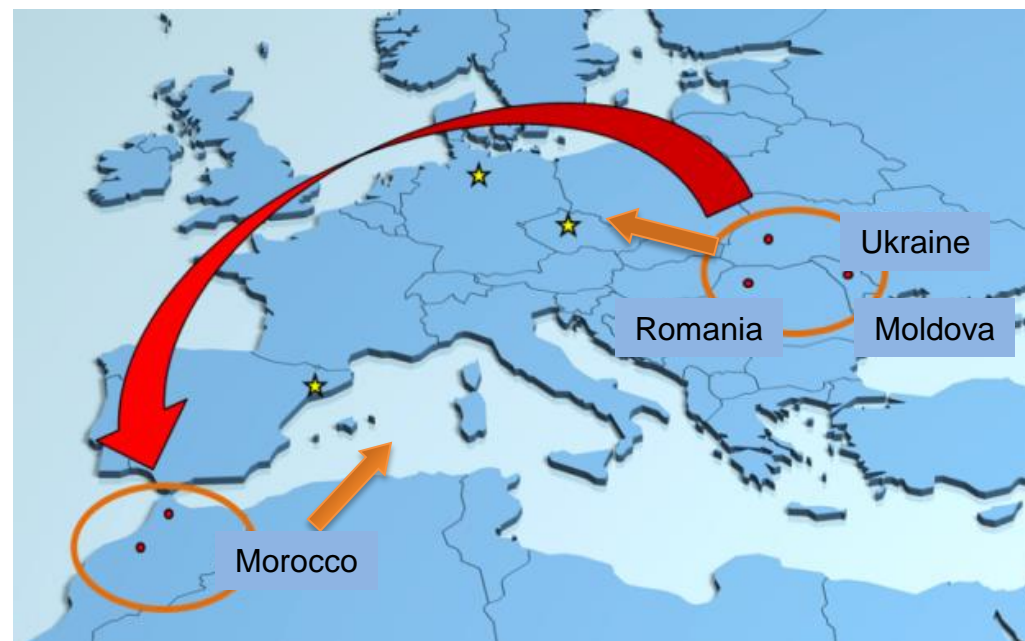


(3) Revision of the LCC Strategy for Automotive Products and Business Revitalization

➤ Execute site strategy: Optimal production allocation in Eastern Europe and North Africa

© Shift site allocation

	Eastern Europe	North Africa
2018	50%	50%
2019	35%	65%
2020	30%	70%
2021	20%	80%



Systematically shift to North Africa

Improve profit margins by developing optimal production allocation

● Clarify role of each site in Eastern Europe and North Africa

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

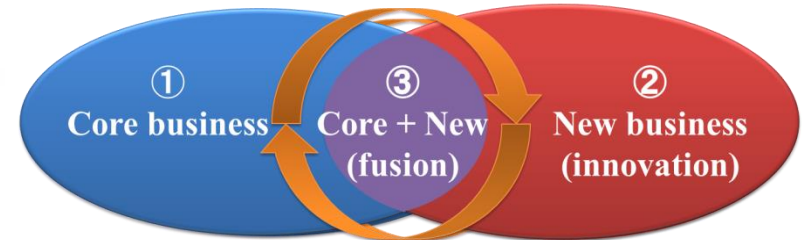
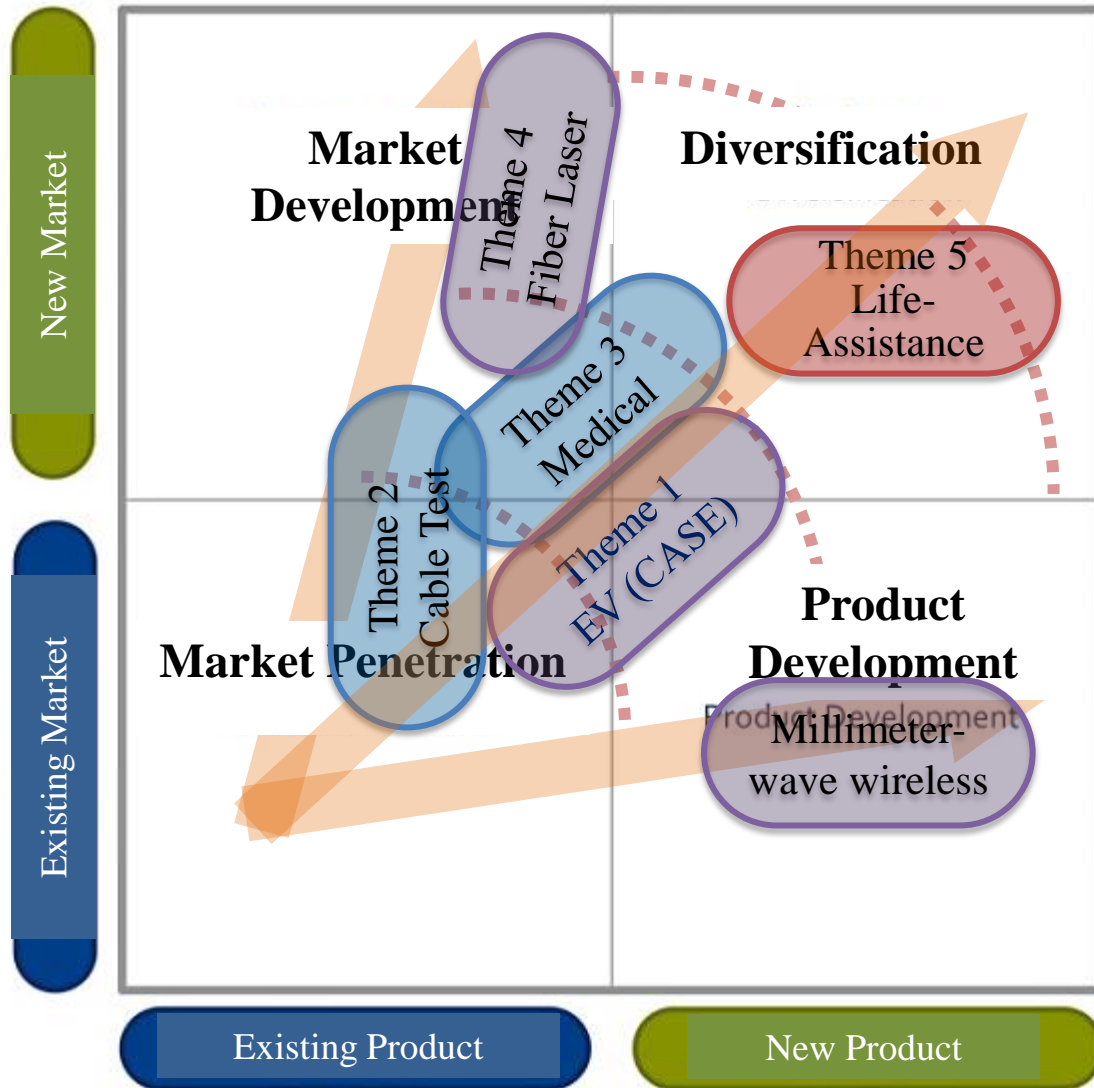
2-3. Measures for FY 2019 and FY 2020

Initiatives for New Businesses

- Promotion of “Business metabolism” -

Fusion of Core Businesses and Innovation and its Initiatives

Business theme and its positioning



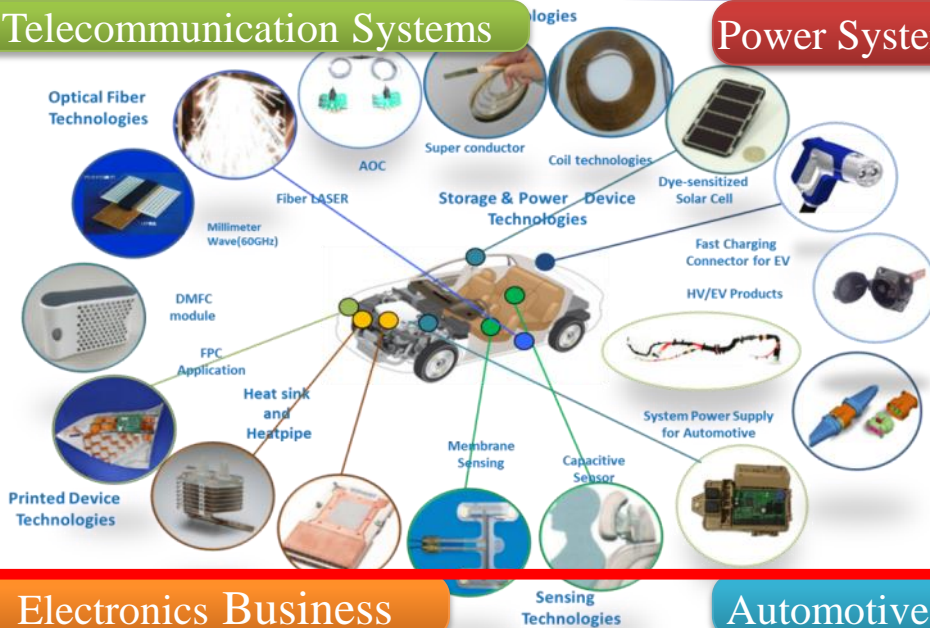
Integration of "Core business" and "Innovation"

- ✓ Fujikura, a company continuously grown in core businesses, is facing the "Innovation Dilemma".
- ✓ Instead of aiming for developing business in the fields which are very far from the existing ones, we need to pursue the fusion area between core businesses and innovation, and its innovation can be developed by starting small, fast, repeating trial-and-errors, learning from failures.
- ✓ Having good customers and strong trusting relationship with them is our DNA.
- ✓ With new business utilizing this strength, we aim at a continuous growth.

➤ Automotive Products Company (adapted for market) + Electronics Business Company (by product) ⇒ **Switch to hybrid organization**

Telecommunication Systems

Power Systems



- ✓ The WH business continues to be a core platform in the automotive market among our business portfolios.
- ✓ Integrate two in-house companies to transform it into a business that adds our technologies / products / solutions and enhances customer value by taking advantage of this core platform.

Electronics Business

Automotive Products

Add value and strengthen competitiveness

Utilize WH business base



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

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

- Digging in the cable business domain (from products selling to service providing)
 - Development of “Diagnostic Services”
 - Shift to “Open Factory” ⇒ Identify needs of existing business

- Deploy around-the-clock high-pressure cable monitoring systems at plants where it is difficult to secure down time, etc.



NEW
Communication functions
Live insulation diagnoser



LINDA

Breakdown point
detection probe

LISSA



- Fujikura Dia Cable Ltd. Kumagaya and Fukui simulation showrooms and plants. Employ solutions and uncover customer needs with an Open Factory.

- Core technologies are “Imaging” and “Miniaturization”
 - ✓ Cover nearly all endoscopic direct imaging technologies
 - ✓ High-density, ultra-compact packaging technology
 - Strong demand for thin, compact electronic circuits for hearing aids, etc.



- Higher likelihood of contribution by our technologies to medical front needs

Medical front needs	Technological contribution
Obtain various information on affected area in body	Thin-diameter endoscope + develop complex functions
Compact, thin diameter, flexible	Electronic part/micro assembly
Infection free = Disposable	Mass production at Asian sites



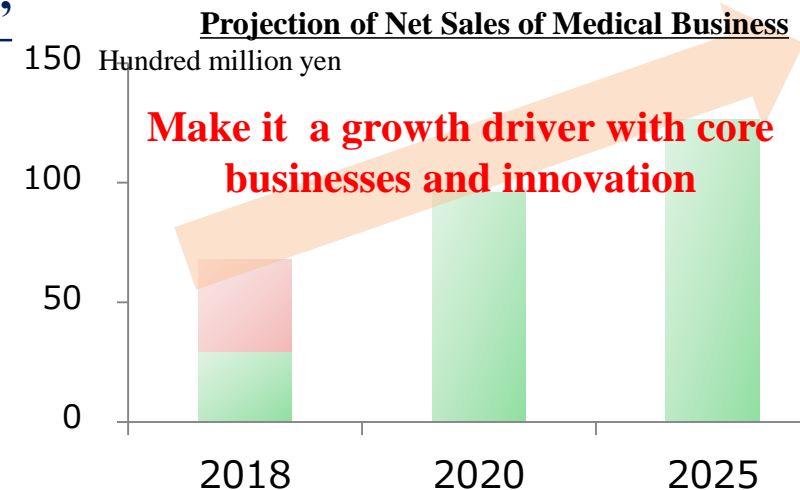
E.g.: Ultra-thin ϕ 1.3-mm CMOS endoscope

Use WABE tech. in hearing aids

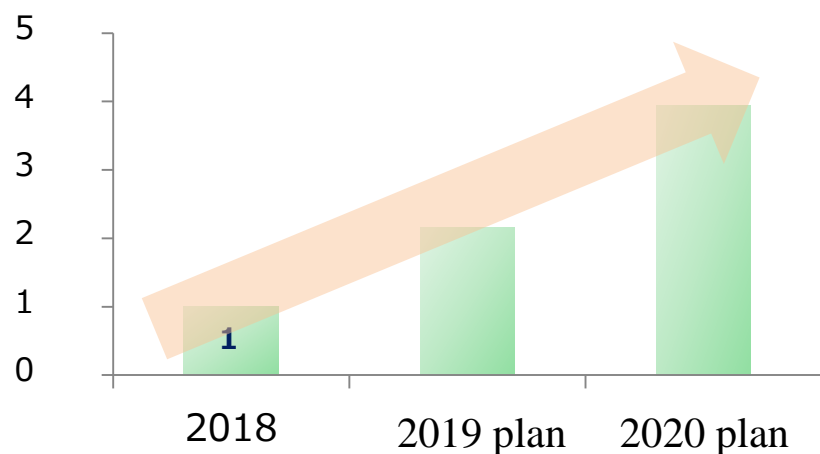
Aiming to use core technologies as a “Door knocker”

Supplying samples to ultra-large medical companies overseas and building track record
Some mass production in mind at hand

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



- Start orders and shipments to major customers in 4Q
 - ✓ A high-output fiber laser is required for cutting and welding
 - ✓ The market is growing faster than expected but price competition is also occurring
 - ✓ Completed products we are confident about providing in the market
 - Capture customer requests with cost-cutting measures and expansion of product groups.
- To become business pillar in 2020, final year of mid-term business plan by implementing Core + Innovation
 - ✓ FY2019 is the year we will plant seeds for sales growth in and after FY2020



Fiber laser sales image

(Multiple of FY2018 sales)



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

- Following a successful IoT experiment in GPS watching service for the elderly in Kimotsuki-cho, Kagoshima, we implemented an IoT experiment to improve snowplow management operations in Omachi, Nagano

**Favorable results so far.
Aim to commercialize service
in FY2019
as a GPS solution for municipality.**



Distant view of Omachi: Average snowfall during winter is 50cm

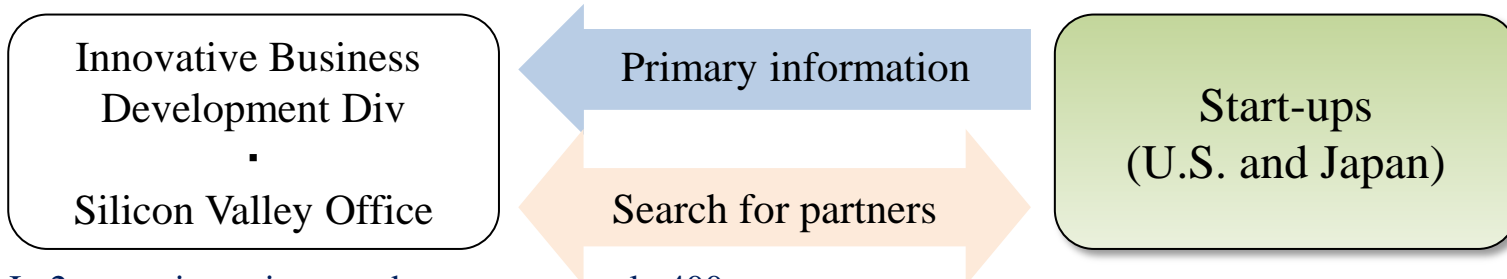


Concluded a cooperative agreement with Omachi City
 Omachi City → Pursuing an initiative in using ICT and IoT to improve service for the public
 Fujikura → Searching for business opportunities while also using various technologies and services to solve problems for the community, beginning with MVNO service.

We aim to implement new technologies into the community through open innovation.

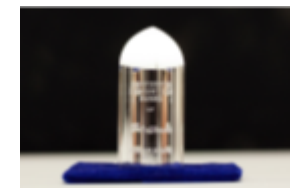
- Globally involved in the venture ecosystem
- Changing the internal corporate culture through open innovation

• Participation in venture ecosystems



In 2 years, investigate and contact to nearly 400 start-ups, Of these, eight cases, PoCs have been developed and demonstration experiments are being conducted.

PLUGANDPLAY JAPAN



Won Corporate Innovation Award for **two consecutive years!**

• Innovation Hub BRIDGE (Opened in July 2018, at HQ)



Nearly 3,400 visitors

from Industry, Government, and Academia

Providing a place to foster venture ecosystems and open innovation

Create an environment and develop personnel conducive for continuing to create new values and innovations

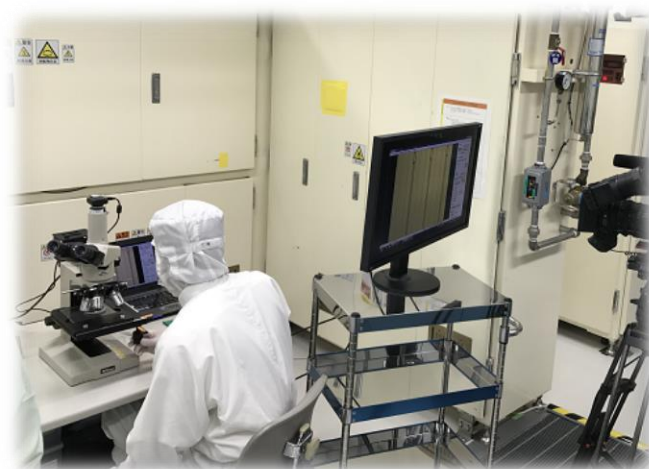
Advanced Initiatives in the Manufacturing Industry: Inserting AI+IoT into the Manufacturing Process

⇒ As a result of successful operation for one year, our initiative of AI technology in the manufacturing industry has been established.

- ✓ Promote "manufacturing innovations" by introducing AI and IoT
Achieve manufacturing strength that allows customers to perceive value: = Turn up the appeal of manufacturing
- ✓ Possible to replace existing processes with AI
- ✓ ⇒ Expand the solution into other productions

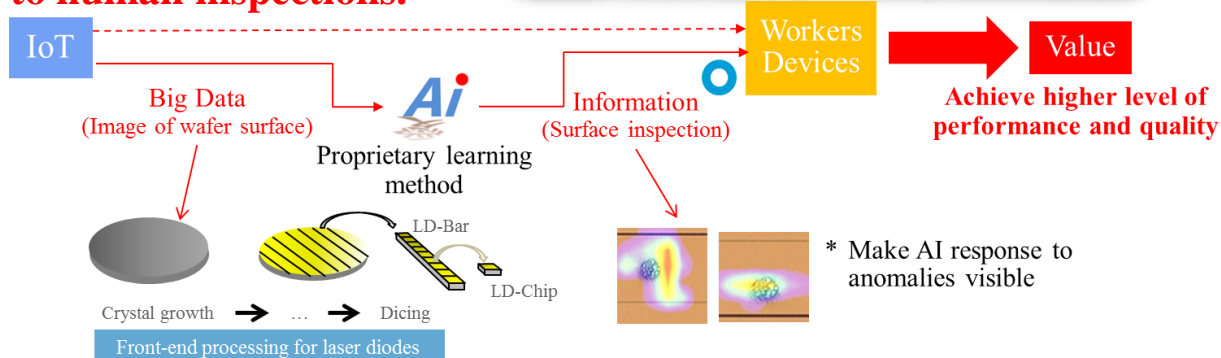
Response to labor shortages

- (1) Fujikura's proprietary AI learning method
- (2) Make AI response to anomalies visible (White Box)



On-site voices: "I don't want to return to human inspections."

For visual inspection in the manufacturing process
Abnormalities can be detected and identified collectively.



Appearance determination of each LD elements on semiconductor wafers using AI (99.5% precision) ⇒ Achieve higher quality

3. Start Development Work of Next Mid-term Business Plan

(1) Development of Next Mid-term Business Plan

- Our mid-term plan is a “guideline” to respond to issues in the sustainable development of society by co-creation with partners including customers, resulting in a highly profitable company.
- Start working activities from this April, and will be formulated by the end of March 2021



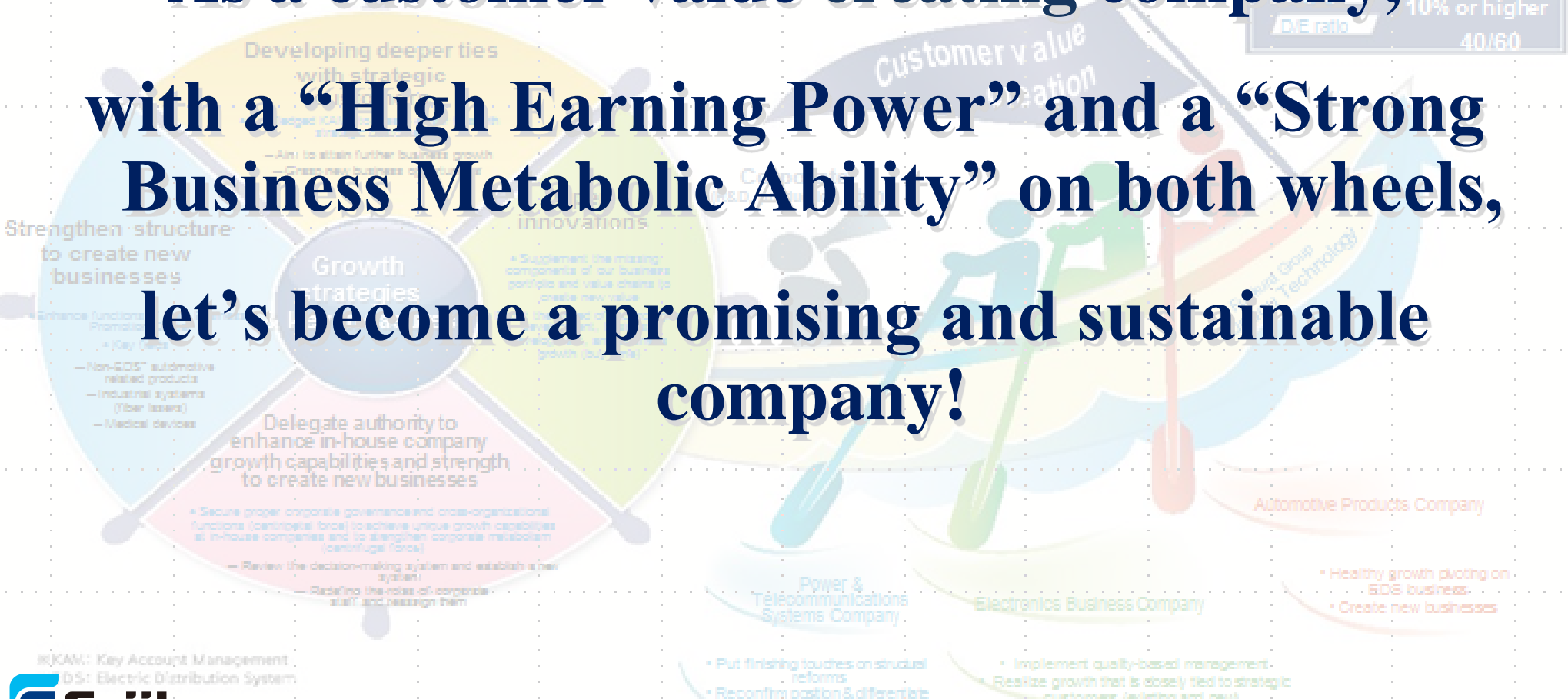
**As a customer value creating company,
with a “High Earning Power” and a “Strong
Business Metabolic Ability” on both wheels,
let’s become a promising and sustainable company!**

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

Aim to become a high profit company

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

As a customer value creating company, with a “High Earning Power” and a “Strong Business Metabolic Ability” on both wheels, let’s become a promising and sustainable company!





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.