



July 31, 2023

To All

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Representative: Naoki Okada, President and CEO

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## Notice of Material Weakness Subject to Disclosure of Internal Control Over Financial Reporting

In accordance with Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act, we have stated in our Internal Control Report for the year ended March 31, 2023, which we submitted to the Kanto Local Finance Bureau today, that there were material weakness that should be disclosed and that our internal control over financial reporting is not effective. We hereby notify you as follows.

### Description

#### 1. Details of material weakness to be disclosed

Following the whistleblowing on March 3, 2023, it was discovered that there was a suspicion of private diversion of real estate via AFL Telecommunications LLC (hereinafter referred to as the "AFLT"), a subsidiary of America Fujikura Ltd. (hereinafter referred to as the "AFL"), by our former director (hereinafter referred to as the "former director"), who was concurrently serving as CEO of AFL, a U.S. consolidated subsidiary of ours. Accordingly, we appointed outside law firms that do not have an interest in our group in Japan and the United States, and conducted an internal investigation on March 14, 2023, and received the findings of the investigation on June 30, 2023.

The outline of the matters confirmed by the internal investigation is as follows.

- (1) It was confirmed that the land purchased by AFLT in 2020 was acquired for private purposes by the former director who was artificially distorting the approval procedure.
- (2) During the period from the year ended March 31, 2021, part of the construction costs for the houses constructed on the land were expended from AFLT as charges that differed in purpose due to the acts of the former directors. It was also confirmed that the residence was used privately by the former director.
- (3) It was confirmed that the former director disguised AFL as having an agreement with us, the parent company, to take over the property upon CEO's resignation.
- (4) The former director had made several corporate credit card and AFLT check payments for private purposes. The former directors were also allowed to have had the aircraft purchased by AFLT using AFLT's funds without undergoing formal procedures and to have used the aircraft for private purposes in part (the aircraft was sold by AFLT after the acquisition and leased back by the Buyer to AFLT).

We believe that this incident was caused by the existence of the following internal-control issues at AFL.

(1) Deficiencies in AFL's control environment

- AFL Group's business judgment and management authority were concentrated in the former directors. In addition, there was a need to improve the rules concerning division of duties within AFL Group. Therefore, the former directors were able to take the initiative in business processes, thereby allowing the private diversion of property.
- The former director has been in office for a long time as a CEO of the same subsidiary. In addition, it is considered difficult for AFL Group to challenge him, who has personnel authority.

(2) Deficiencies in governance-related functions within AFL Group

- Regarding the acquisition of assets and investment in AFLT, the former director was authorized to make a final decision up to a maximum of 1 billion yen, and it was stipulated that there was no need to submit such an investment to the Board of Directors if it did not exceed the authority to make the final decision. The private diversion of the above-mentioned assets was conducted within the authority to make the final decision and was not subject to the final decision by the Board of Directors.
- On the other hand, even in the case of the above-mentioned investment-related investment was required to be identified as a target for monitoring AFL's Executive Committee (hereinafter referred to as the "EC"). However, EC operation became a mere stark one, and the governance-related investment-

(3) Deficiencies in AFL's CFO qualifications

- Private diversion of the above assets has been approved by CFO of AFL and the validity of the approval process by CFO is considered to be questionable.
- Checks on former directors by CFO are not considered to be adequate

Deficiencies in the control environment, governance functions, and CFO qualities of these AFL groups are deficiencies in company-wide internal controls within AFL group, which have a material impact on our financial reporting. Therefore, we have determined that they constitute material weakness that should be disclosed.

2. Reasons for not being corrected by the end of the fiscal year

Material weakness that should be disclosed were not corrected by the end of the current fiscal year because the relevant fact was discovered after the last day of the current fiscal year.

3. Policy to remedy material weakness to be disclosed

We are fully aware of the importance of internal control over financial reporting, and in order to correct material weakness that should be disclosed, we will implement the following measures to prevent a recurrence based on the problems and reflections on this case revealed as a result of the internal investigation, and will endeavor to develop and operate internal control.

- 1 Review of authority concentration for specific officers (decentralization of authority)
- 2 Development of governance systems and internal rules at that overseas subsidiary
- 3 Appointment of a new financial manager at that overseas subsidiary and strengthening of the inspection of the accounting process by the person in charge thereof
- 4 Education of executives and regular employees of that overseas subsidiary

4. Effect on the consolidated financial statements and financial statements

All necessary adjustments due to material weakness disclosed above have been reflected in the consolidated financial statements.

5. Opinion on audit report of the consolidated financial statements and the financial statements

The opinion is unqualified.