

FY2018 Q1 Financial Results

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FURUKAWA ELECTRIC CO., LTD.

Forward-Looking Statements

Projections of future sales and earnings in these materials are “forward-looking statements.”

Management offers these projections in good faith and on the basis of information presently available.

Information in these statements reflects assumptions about such variables as economic trends and currency exchange rates.

Forward-looking statements incorporate known and unknown risks as well as other uncertainties that include, but are not limited to, the following items.

- Economic trends in the U.S., Europe, Japan and elsewhere in Asia, particularly with regard to consumer spending and corporate expenditures.
- Changes in exchange rates of the U.S. dollar, euro, and Asian currencies.
- Furukawa Electric Group’s ability to respond to rapid advances in technology.
- Changes in assumptions involving financial and managerial matters and the operating environment.
- Current and future trade restrictions and related matters in foreign countries.
- Changes in the market value of securities held by the Furukawa Electric Group.

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FURUKAWA ELECTRIC CO., LTD.

FY2018 Q1 Highlights of Results

- **Operating income totaled JPY 8.5 billion, down JPY 1.9 billion (down 18%) YoY**

Operating margin declined to 3.5% (down by 1.1 percentage points) YoY

- While it had achieved high-margin sales in FY17 Q1, infrastructure segment saw a decline in operating income due to an increase in depreciation/research expenses

Other segments remained unchanged from the previous year, as expected

- **Net income totaled JPY 3.3 billion, down 3.5 billion (down 52%) YoY**

- In addition to a deterioration in profit/loss in equity method investments, the Company reported an extraordinary loss on disposal of non-current assets

(JPY billion)

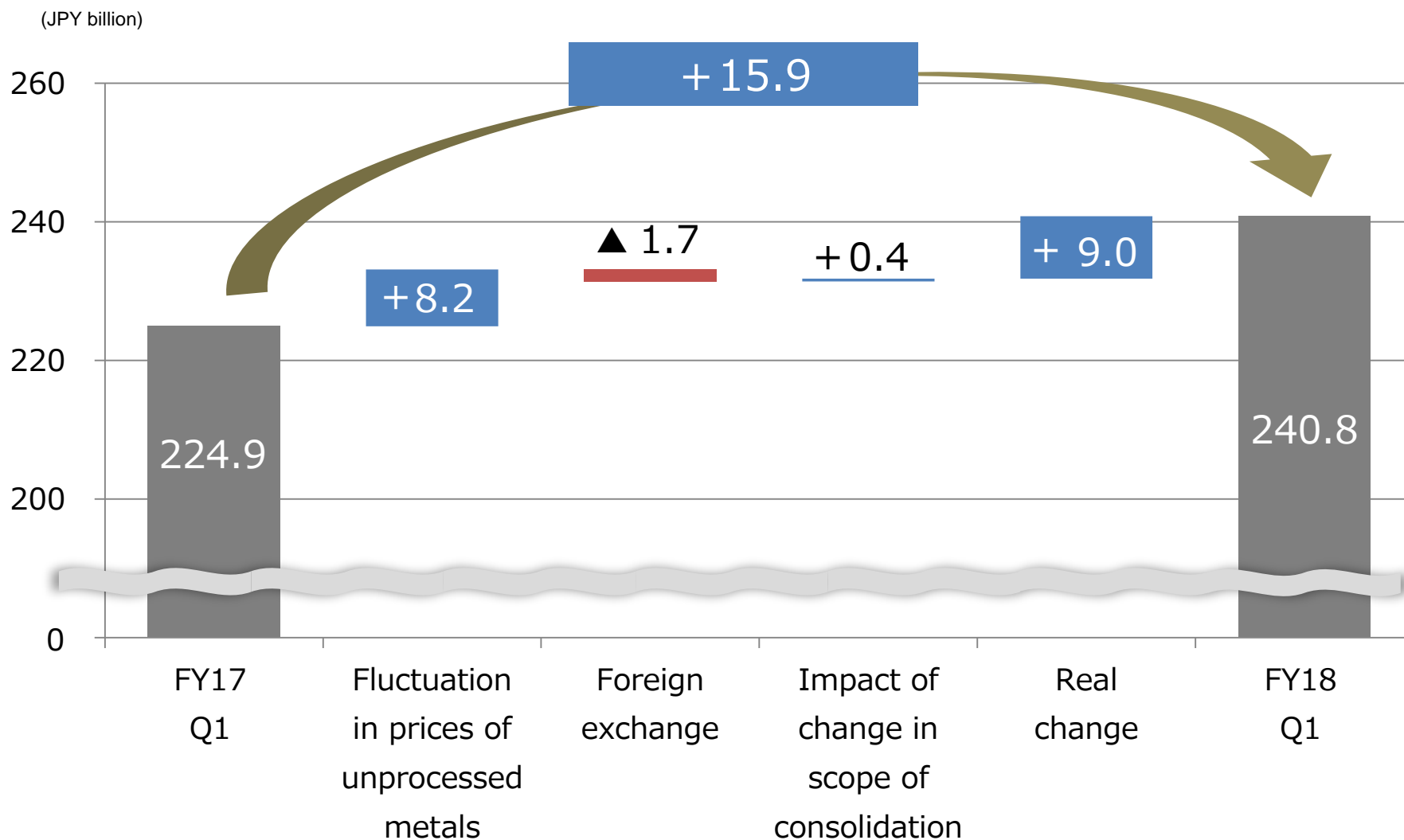
	Q1		
	FY17 Results	FY18 Results	YtoY Change
Net Sales	224.9	240.8	+15.9
Operating income	10.4	8.5	▲ 1.9
Ordinary income	10.1	7.5	▲ 2.6
Net income attributable to owners of the parent	6.8	3.3	▲ 3.5

FY2018 Q1 Results - Summary P&L

(JPY billion, JPY/kg, JPY/USD)

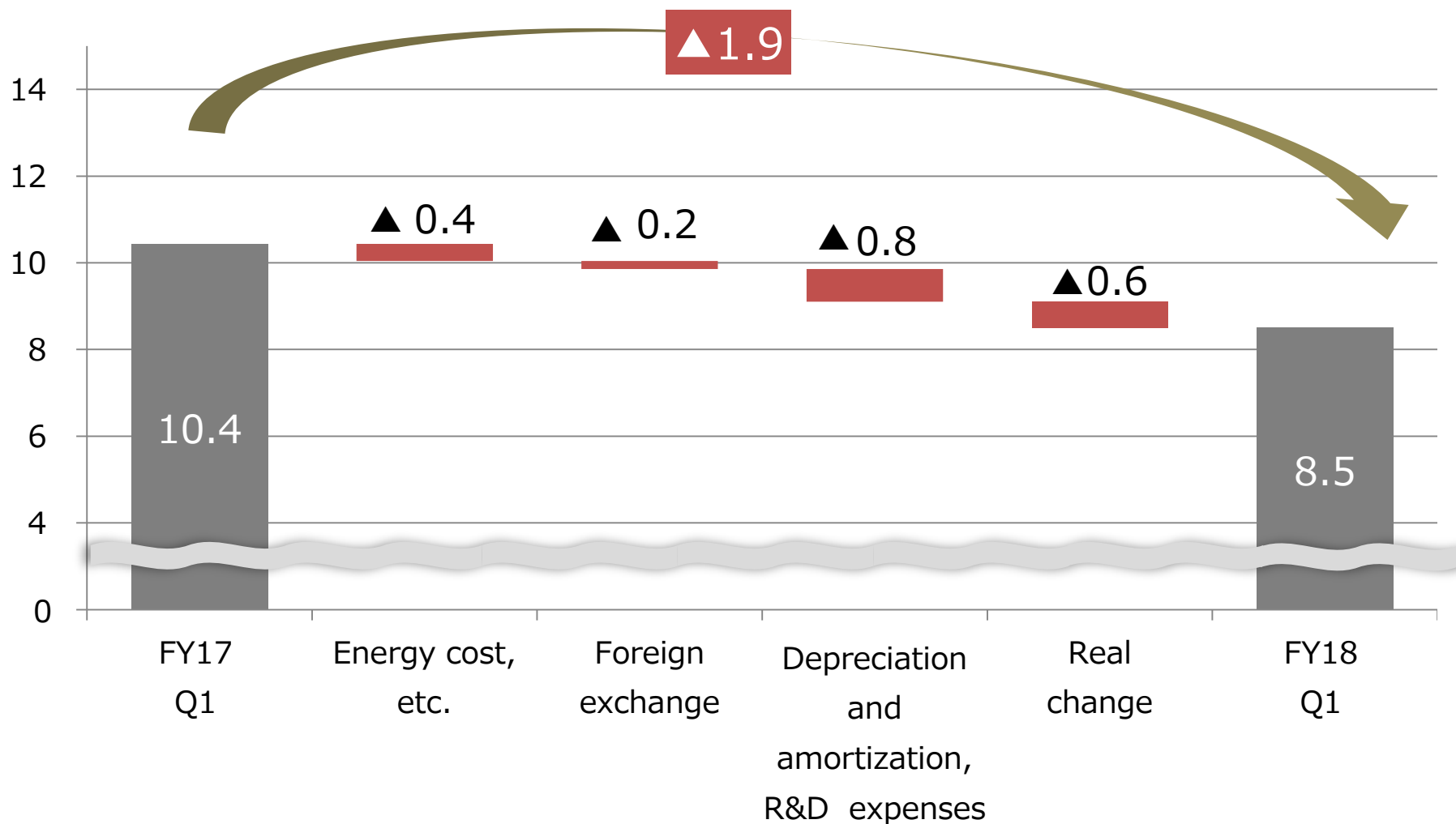
	FY17	FY18	YtoY change	Breakdown of change (Q1)	FY18 forecast
	Q1	Q1			
	a	b	b-a		
Net sales	224.9	240.8	+15.9	+15.9 (+7%) See page 5	1,000.0
Operating income (Ratio)	10.4 4.6%	8.5 3.5%	▲ 1.9 ▲ 1.1	▲1.9 (▲18%) See page 6	43.0 4.3%
Profit/loss in equity method affiliates	0.9	▲ 0.2	▲ 1.1		—
Foreign exchange gain/loss	▲ 0.5	▲ 0.4	+0.0		—
Ordinary income (Ratio)	10.1 4.5%	7.5 3.1%	▲ 2.6 ▲ 1.4	▲2.6 (▲26%)	43.5 4.4%
Extraordinary income/loss	▲ 0.2	▲ 1.9	▲ 1.7	•Extraordinary income ▲0.0 (0.2 → 0.1)	▲ 8.0
Income taxes	2.3	1.5	▲ 0.8	•Extraordinary loss ▲1.7 (▲0.4 → ▲2.0)	—
Net income attributable to non-controlling interests	0.8	0.7	▲ 0.0		—
Net income attributable to owners of parent (Ratio)	6.8 3.0%	3.3 1.4%	▲ 3.5 ▲ 1.7	▲3.5(▲52%)	23.0 2.3%
Average copper price	672	795	—		800
Average exchange rate	111	109	—		105

Analysis of Changes in Net Sales (YOY)



Analysis of Changes in Operating income (YOY)

(JPY billion)



- ✓ **Strengthen marketing to meet the needs of the market**
 - **Improve capabilities of responding to changes in market**
(Communications Solutions : Global management
Automotive Products : Global cooperation of sales,
design and development, etc.)

- ✓ **Enhancing capabilities of manufacturing to respond to changes in business environment**
 - **Timely launch products by proactive introduction of automation and IoT/AI, etc.**
 - **Reduce to the cost of manufacturing by major review of the existing manufacturing processes, etc.**

- ✓ **Continue the increase profit by optimizing the product mix**
 - **Strengthen value added products with customer requests**

Net Sales and Operating Income of each Segment

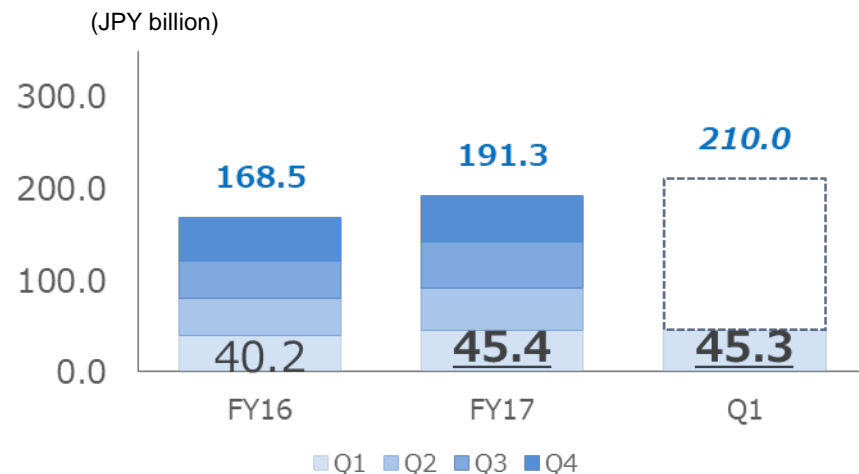
(JPY billion)

		Q1			Full year		
		* FY17 Results	FY18 Results	YtoY Change	* FY17 Results	FY18 Forecast	YtoY Change
Net sales	Infrastructure	70.0	68.3	▲ 1.7	293.4	320.0	+26.6
	Communications Solutions	45.4	45.3	▲ 0.2	191.3	210.0	+18.7
	Energy infrastructure	24.6	23.0	▲ 1.5	102.1	110.0	+7.9
	Electronics & Automotive Systems	122.0	138.3	+16.3	533.8	550.0	+16.2
	Automotive Products & Batteries	56.8	62.8	+6.0	248.1	250.0	+1.9
	Electronics Component Materials	65.2	75.5	+10.3	285.6	300.0	+14.4
	Functional Products	36.4	38.5	+2.1	153.1	155.0	+1.9
	Service and Developments, etc.	11.9	11.5	▲ 0.4	51.0	50.0	▲ 1.0
	Elimination of intra-company transactions	▲ 15.4	▲ 15.8	▲ 0.4	▲ 63.9	▲ 75.0	▲ 11.1
Total	224.9	240.8	+15.9	967.3	1,000.0	+32.7	
Operating income	Infrastructure	3.9	1.8	▲ 2.0	12.4	12.0	▲ 0.4
	Communications Solutions	4.0	2.9	▲ 1.1	14.0	15.0	+1.0
	Energy infrastructure	▲ 0.1	▲ 1.1	▲ 0.9	▲ 1.6	▲ 3.0	▲ 1.4
	Electronics & Automotive Systems	3.6	3.4	▲ 0.2	18.4	17.5	▲ 0.9
	Automotive Products & Batteries	2.3	2.2	▲ 0.1	13.2	12.0	▲ 1.2
	Electronics Component Materials	1.3	1.2	▲ 0.1	5.1	5.5	+0.4
	Functional Products	3.3	3.4	+0.1	14.0	13.5	▲ 0.5
	Service and Developments, etc.	▲ 0.2	▲ 0.1	+0.1	▲ 0.0	0.0	+0.0
	Elimination of intra-company transactions	▲ 0.0	▲ 0.0	+0.0	0.1	0.0	▲ 0.1
Total	10.4	8.5	▲ 1.9	44.8	43.0	▲ 1.8	

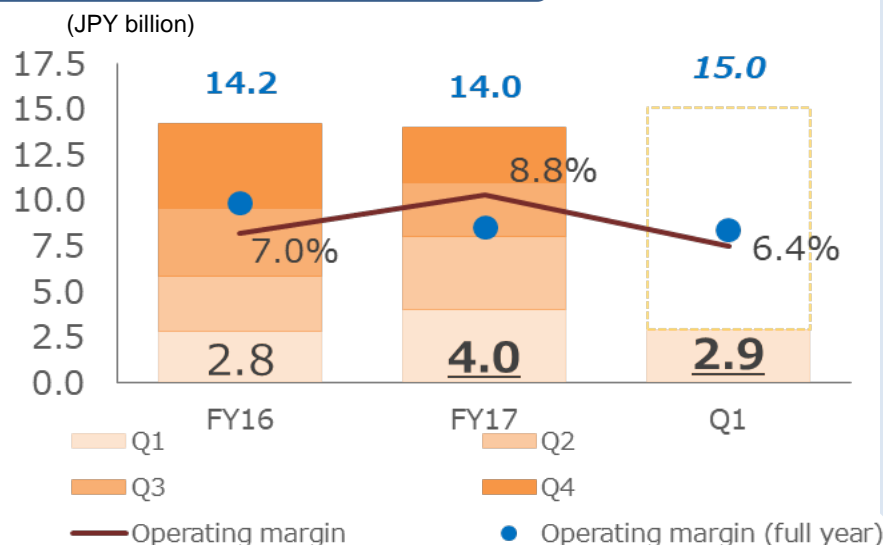
* Due to changes in segments for some businesses and allocation of HQs' expenses effective from FY18, FY17 actuals were restated after the announcement on May 9.

1 -(1) Infrastructure (Communications Solutions)

Net sales



Operating income / operating margin



< Details of Operating Income difference and focus >

Q1 results;

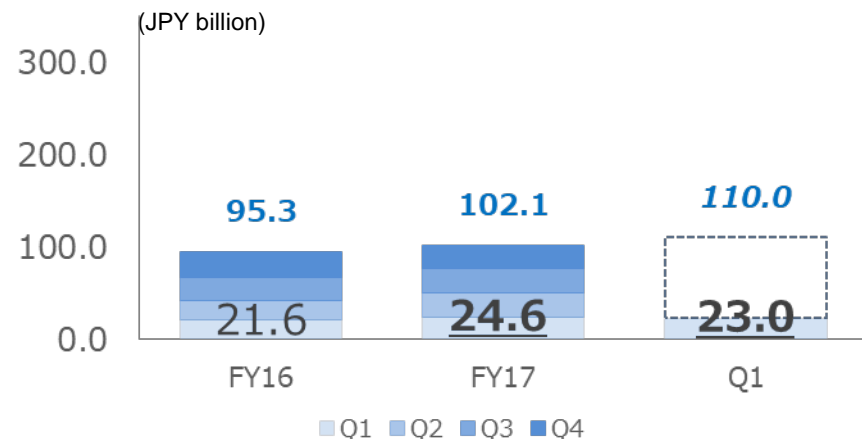
YoY difference JPY▲1.1 billion

□: Positive growth factors ■: Negative growth factors
✓: Focus point

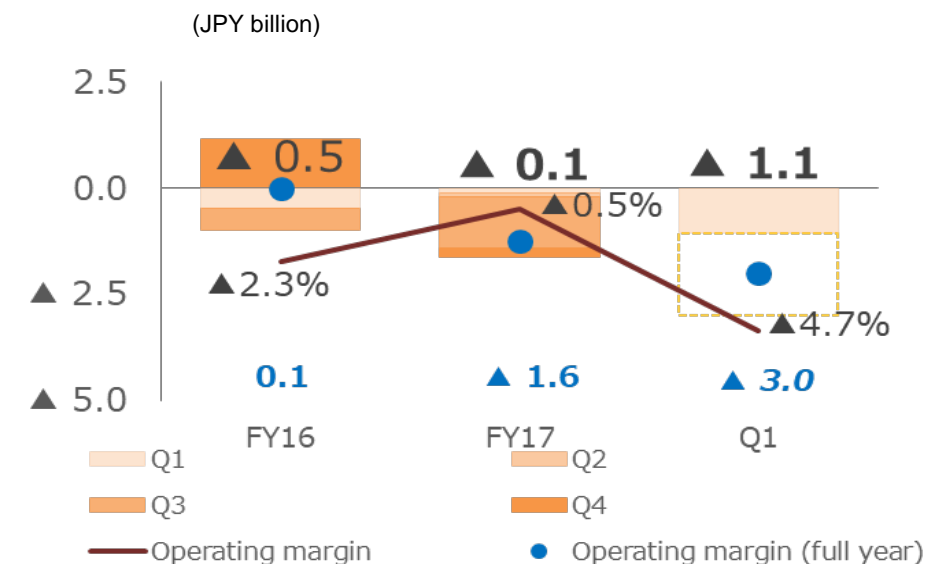
- Shipment volume of optical fibers increased; however, there was a delay of recovery in our client's demand for optical cables in North America
- Digital coherent products did not make a recovery to the same level as FY17 Q1, due to continued inventory adjustment, as well as a transfer period for next-generation products
- R&D expenses and depreciation expenses increased
- Products for network systems in Japan are doing well in the first half of the year
- ✓ Ensure to take in a recovery of demand for cables in North America, and expand sales of small-diameter super-multicore cables (rollable ribbon cables), etc.
- ✓ Steadily execute the investment plan to increase production of optical fiber and cable products
- ✓ Accelerate development and launch of products to meet the needs of the market

1 -(2) Infrastructure (Energy Infrastructure)

Net sales



Operating income / operating margin



< Details of Operating Income difference and focus >

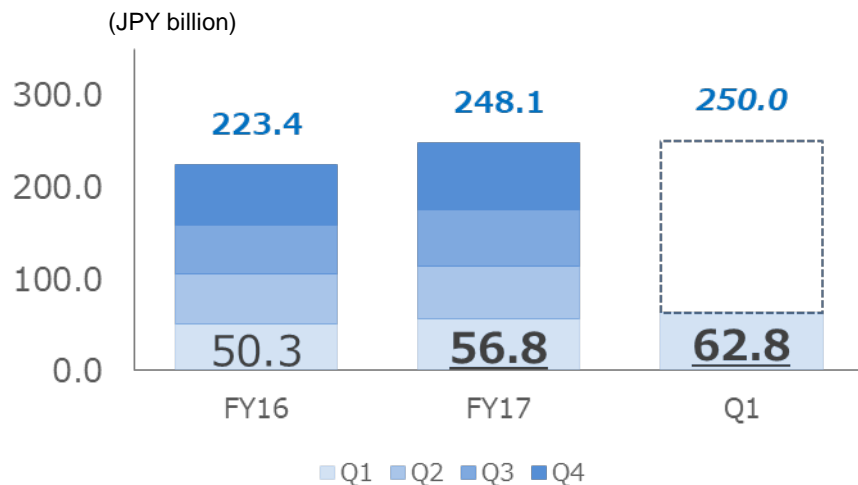
Q1 results; YoY difference JPY▲0.9 billion

□: Positive growth factors ■: Negative growth factors
✓: Focus point

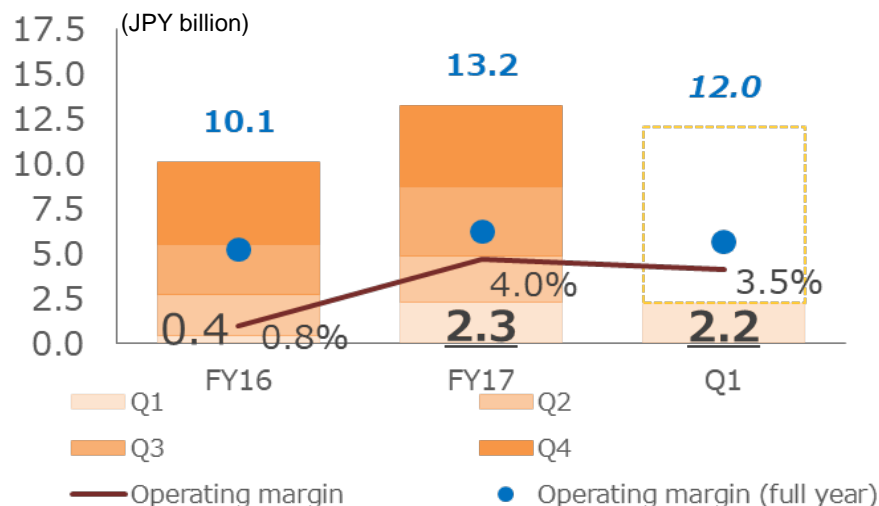
- Compared to the previous year with a large construction project in Japan, etc., operating income declined YoY due to a low profitability overseas underground cable project
 - Provision for loss on construction contract for the proposed new energy project is not yet recorded
- Overseas affiliates remain weak in the first half of the year
- Industrial cables in Japan saw a decline in sales and operating income
- ✓ In China, the effect of the structural reform and increased orders will make positive contributions in the future
- ✓ Increase orders for ultra high voltage cable in Japan
- ✓ Receive orders for submarine cable projects for new energy in Japan
- ✓ Enhance the capability to execute construction and the equipment for submarine cables
- ✓ Introduce low-voltage aluminum CV cable for building construction and electrical facilities

2-(1) Electronics & Automotive systems (Automotive Products & Batteries)

Net sales



Operating income / operating margin



< Details of Operating Income difference and focus >

Q1 results;

YoY difference JPY▲0.1 billion

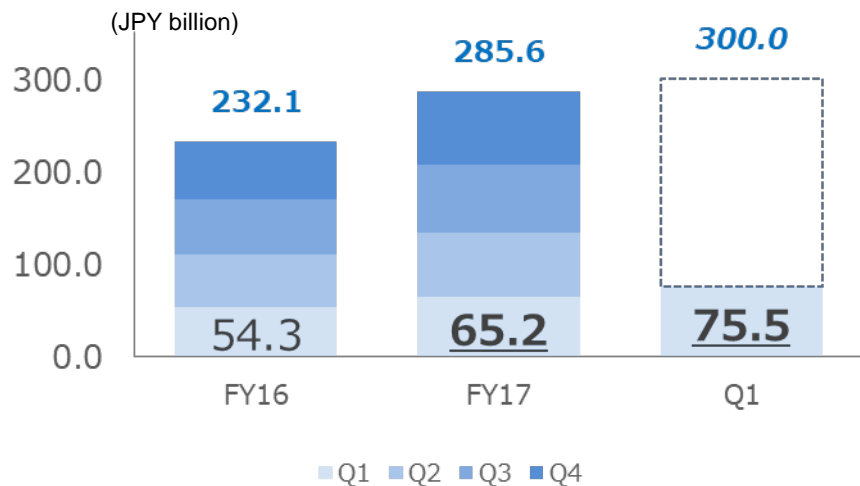
□: Positive growth factors ■: Negative growth factors
✓: Focus point

- Wire harnesses have continued to deliver strong results since last year
- Fixed costs, including R&D expenses and depreciation, increased for upcoming projects starting from FY20
- ✓ In relation to ADAS, complete development and start sales promotion activities for the next generation high-performance BSS* and next generation high precision radar
- ✓ Proactively acquire the demand for reduced weight resulting from advances in vehicle electrification and autonomous driving
- ✓ Expand wire harness production site in Philippines targeting the North American market

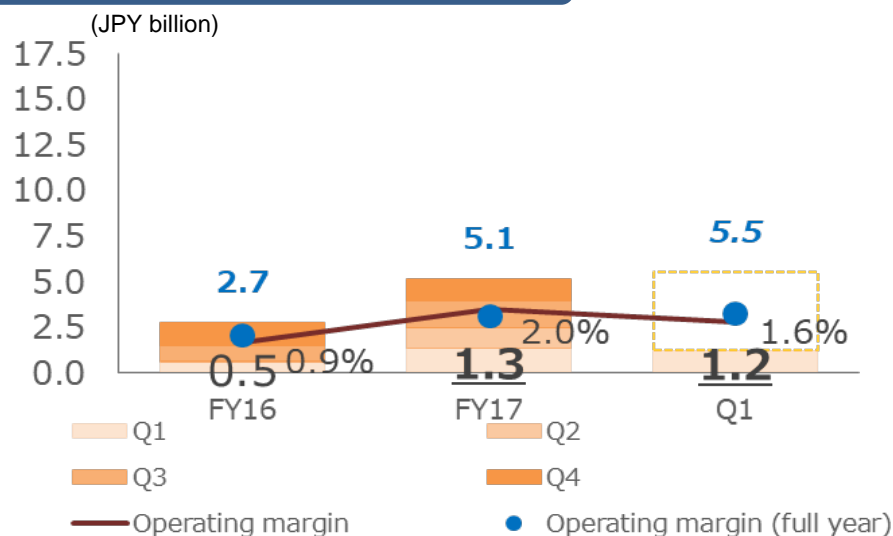
*BSS; Battery State Sensor

2-(2) Electronics & Automotive systems (Electronics Component Material)

Net sales



Operating income / operating margin



< Details of Operating Income difference and focus >

Q1 results;

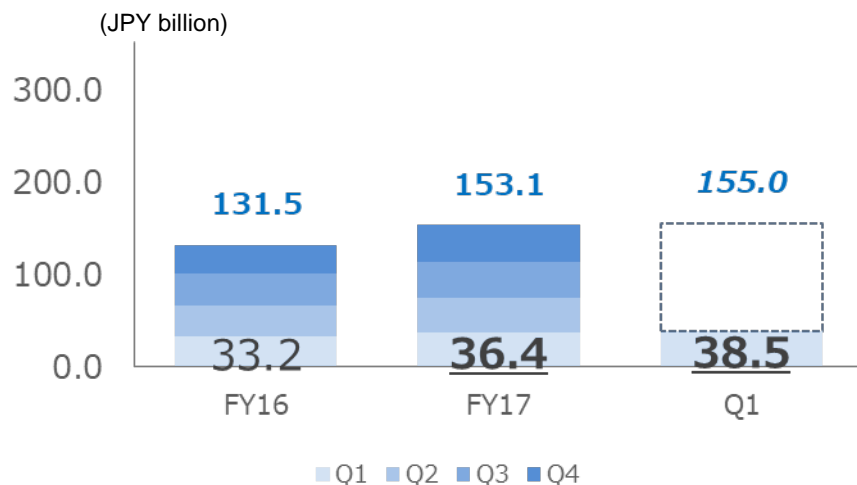
YoY difference JPY▲0.1 billion

□: Positive growth factors ■: Negative growth factors
✓: Focus point

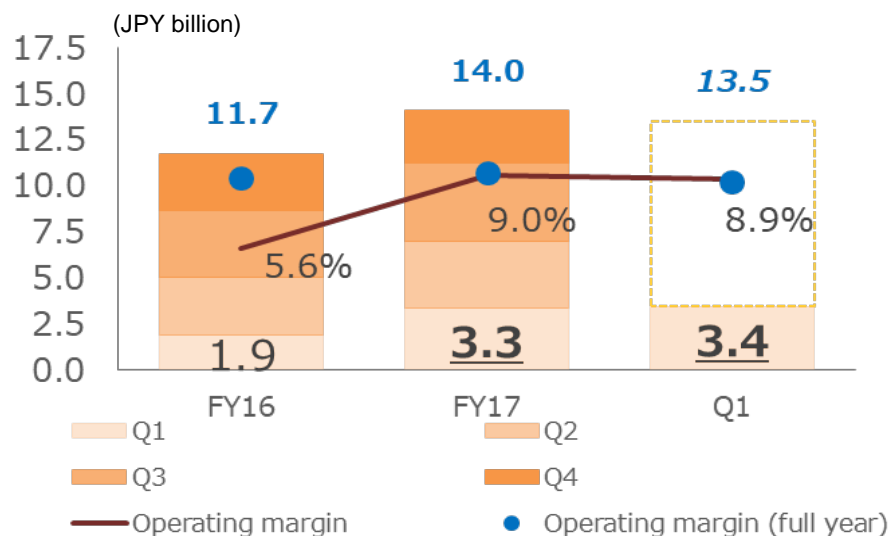
- The sales volume of copper and copper alloy products decreased YoY due to inventory adjustments of some products
- Magnet wires for automotive products delivered a positive result
- ✓ Improve the product mix and increase productivity
- ✓ Introduce new alloys in response to the increased functionality of electronic devices
- ✓ Expand the models for which the automobile magnet wire is adopted, and increase sales in overseas markets

3 Functional Products

Net sales



Operating income / operating margin



< Details of Operating Income difference and focus >

Q1 results;

YoY difference JPY+0.1 billion

□: Positive growth factors ■: Negative growth factors
✓: Focus point

- Copper foils benefited from increased productivity and improved product mix in the strong demand environment
- Sales of memory discs increased due to steady demand from data centers
- Sales of tapes for semiconductor manufacturing declined due to a changing competitive environment
- ✓ Improve the product mix and increase productivity
- ✓ Develop new markets, and propose new uses
- ✓ Develop next generation products

FY2018 Q1 Results - BS Summary

(JPY billion)

	* End of 17Q4	End of 18Q1	Change
	a	b	b-a
Current assets	416.2	408.2	▲ 8.0
Cash and bank deposits	50.6	41.2	▲ 9.5
Notes and accounts receivable trade	224.3	219.6	▲ 4.7
Non-current assets	392.4	392.2	▲ 0.3
Tangible fixed assets	216.7	219.7	+2.9
Intangible fixed assets	11.3	10.0	▲ 1.3
Investments and other assets	164.4	162.5	▲ 1.9
Total Assets	808.6	800.4	▲ 8.3
Current liabilities	330.3	327.4	▲ 2.9
Non-current liabilities	206.2	206.0	▲ 0.2
Total Liabilities	536.6	533.4	▲ 3.1
Shareholders' equity	219.2	217.3	▲ 1.9
Accumulated other comprehensive income	17.3	16.4	▲ 0.9
Net income attributable to non-controlling interests	35.6	33.2	▲ 2.3
Total Net assets	272.1	266.9	▲ 5.1
Total Liabilities and Net assets	808.6	800.4	▲ 8.3
Interest-bearing liabilities	258.5	261.3	+2.8
Capital ratio	29.2%	29.2%	+0.0
NET D/E ratio	0.88	0.94	+0.06

Inventories : +9.6 billion

Due to the effect of projects, constructions, etc. to be recorded in Q2 and thereafter

Interest-bearing debt : + 2.8 billion

Mainly due to an increase in cash outflow for CAPEX

* Financial position for FY17 Q4 was restated after the announcement on May 9, due to the adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc".

FY2018 Q1 Results – CAPEX, Depreciation & amortization and R&D expenses

(billion yen)

	FY17 Q1 Results	FY18 Q1 Results	YtoY change	FY18 Forecast
	a	b	b-a	
CAPEX	7.2	10.7	+3.5	54.0
Depreciation and amortization	6.2	6.6	+0.4	27.8
R&D expenses	4.6	5.0	+0.4	22.8

Thank you very much
for your attention.

Bound to  ***Innovate***

(Appendix) Changes from FY2018 – Segment **FURUKAWA ELECTRIC**

- Segment change of industrial laser business
⇒ Changed from “Service and Developments, etc.” to “Communications Solutions” segment
- Change in the method for allocating HQs’ expenses
FY17 financial position restated due to the above-mentioned changes

		FY17	(Billion yen)
Net sales	Infrastructure	291.8	293.4
	Communications Solutions	189.7	191.3
	Energy infrastructure	102.1	102.1
	Electronics & Automotive Systems	533.8	533.8
	Automotive Products & Batteries	248.1	248.1
	Electronics Component Materials	285.6	285.6
	Functional Products	153.1	153.1
	Service and Developments, etc.	52.9	51.0
	Elimination of intra-company transactions	▲ 64.3	▲ 63.9
	Total	967.3	967.3
Operating income	Infrastructure	12.8	12.4
	Communications Solutions	14.1	14.0
	Energy infrastructure	▲ 1.4	▲ 1.6
	Electronics & Automotive Systems	18.2	18.4
	Automotive Products & Batteries	13.2	13.2
	Electronics Component Materials	5.0	5.1
	Functional Products	14.0	14.0
	Service and Developments, etc.	▲ 0.2	▲ 0.0
	Elimination of intra-company transactions	0.1	0.1
	Total	44.8	44.8

■ Adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.”

FY17 financial position restated due to the above-mentioned changes

	End of 17Q4	(Billion yen) End of 17Q4
	a	a
Current assets	426.1	416.2
Cash and bank deposits	50.6	50.6
Notes and accounts receivable trade	224.3	224.3
Non-current assets	389.7	392.4
Tangible fixed assets	216.7	216.7
Intangible fixed assets	11.3	11.3
Investments and other assets	161.7	164.4
Total Assets	815.8	808.6
Current liabilities	330.3	330.3
Non-current liabilities	213.4	206.2
Total Liabilities	543.8	536.6
Shareholders' equity	219.2	219.2
Accumulated other comprehensive income	17.3	17.3
Net income attributable to non-controlling interests	35.6	35.6
Total Net assets	272.1	272.1
Total Liabilities and Net assets	815.8	808.6
Interest-bearing liabilities	258.5	258.5
Capital ratio	29.0%	29.2%
NET D/E ratio	0.88	0.88



(Appendix) Segments and Business Divisions

Segment	Sub-segment	Business Division
Infrastructure	Communications Solutions	Optical Fiber and Cable Products
		FITEL Products
		Broadband Solutions Business
	Energy Infrastructure	Power Cable
		Industrial Cable & Power Cable Accessories
Electronics & Automotive Systems	Automotive Products & Batteries	Automotive Products
		Batteries
	Electronics Component Material	Electric Conductor
		Magnet Wire
		Copper & High Performance Material Products
		Copper Tube
Functional Products	AT & Functional Plastics	
	Thermal Management Solution & Products	
	Memory Disk	
	Copper Foil	
Service and Developments, etc.		