

Q&A Summary of meeting for Institutional Investors and Analysts on Furukawa Electric Group

Date : November 1, 2018 18:00 – 19:00

Contents : FY2018 Q2 Financial results

Speaker : President **Keiichi Kobayashi**

Director, Corporate Executive Vice President, and General Manager of the Finance & Procurement **Hiroyuki Ogiwara**

Q : Regarding Communications Solutions, how do you view the status of each segment and customer in North America and the market environment in China?

A : In North America, there are differences depending on the strength of the customer. The companies with strong customers are growing, and I believe demand will start to increase sequentially going forward. For CATV, there is no change to the strategy and reinforcement plan for customers with which we have long-term agreements. In regards to data centers, the strength of each product varies, but the market situation is not bad. We are not very focused on the Chinese market, but if the supply and demand balance breaks down in the country and companies offering low prices enter the other regions, there may be an impact.

Q : In Energy Infrastructure, how reliable is the expectation for an improvement next year?

A : The low margin project orders we received in the past will end this fiscal year. In relation to the new energy project we have currently received an order for, because it will be our first long-length submarine cable, we recorded a provision for a project-related loss. Going forward, we will utilize this experience and focus on customers who recognize our strengths. Also, we are starting to obtain orders.

The reasons for the downturn from Q1 are, ①Delay in the cable replacement projects in Japan, ②Missed cable orders overseas, and ③Downturn in industrial wire cables in Japan. In particular, the performance in the second half is expected to fall below the plan. Although the second half will greatly improve compared to the first half, in addition to the elimination of the abovementioned provision for a project-related loss, ①Improved income at overseas affiliates, ②Reduction to the loss for overseas cable, and ③Improvement to industrial cables have been incorporated.

In FY2019, I believe we can expect further income improvement as a result of profitability at overseas affiliates, increase in the number of projects in Japan and growth in industrial cables for which improvement measures are being taken.

Q : What are the synergies with UACJ?

A : They are not very large. We are procuring aluminum for the memory disk business (aluminum blanks for HDD). From a shareholder's perspective, we commented about their executive appointments, but there are no intentions to further increase our grip.

Q : Since sales of optical cable in North America are currently challenging, does this mean the situation for optical fiber is also challenging?

Also, when will sales of optical cable recover?

A : Recently, optical cable has been more challenging than expected, but optical fiber is strong. Going forward, if the Chinese market slows down, there may be an impact, but at the present time, I do not think it is necessary to halt the production increase for fiber.

We are selling well differentiated products such as rollable ribbon and micro-cable. We have also obtained orders that will lead into next year.

Q : Energy Infrastructure has not progressed according to the plan up to now. I think it may also be difficult to achieve the improvements as stated in the plan next year. What type of initiatives will you implement?

A : I do not think the trend towards increased demand for new energy will stop. We will cover it by strengthening the ability to respond to profitable projects, improving profits at Chinese affiliates for which major restructuring was conducted and selectively receiving orders that will provide profits.

Q : Please tell me about the trends in optical fiber shipments and the growth in each region.

A : The first half grew by 13% year on year. North America grew by slightly over 10%, Central and South America increased about 1.6 times, China fell 40%, Japan increased slightly and Europe fell slightly.

Q : Why did optical cable shipments in North America fall slightly from Q1 into Q2?

A : We did not receive some orders partly due to lower prices. However, during that time, cost reduction activities were brought in from Japan, and now, we have reached a point we are mostly able to receive orders.

Also, the fact that small core cable is selling well is also a reason.

Q : Regarding Functional Products, you raised the income forecast, but given the concern that the electronics market may lose speed, will a slowdown, etc. in the semiconductor business have any impact?

A : Regarding Functional Products, which customers we have a relationship with will have an impact. For example, I believe copper foil and thermal management are growing because the strong customers in the industry highly recognize the added value we offer.

Q : What is the status of the market prices in the project market in North America?

Given the changes in the product mix and customer situations, how will you increase the income ratio?

A : I want to earn income through well differentiated products. There are actual occasions where competitors lower their prices in order to maintain the facility operating rate. I feel that working to reduce costs to a level that will enable us to compete with them is important, and we are advancing in this direction.

Q : I understand that you are delaying the investment in optical cable, but will you move forward according to plan with the optical fiber investments to double production in 2019 compared to 2016? If the high profit cable business declines, is there a risk the overall profitability will decrease?

A : Regarding optical fiber, we are not considering halting the plan to increase production given the current market situation. What we need to do at this time is to firmly grow our strengths of rollable ribbon, micro-cable, submarine fiber and other products. Going forward, while keeping an eye on the market, if the need to change the strategy arises, we will change it at that time.

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