

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

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Contents: FY2018 Financial Results

Speaker: Akihiro Fukunaga, Corporate Vice President and General Manager of the Finance & Global Management Division

Q : Regarding the differences from the FY2018 forecast, what regions have been impacted by the increased competition in optical fibers and optical cables?

A : Starting with the deterioration of the market environment in China, the demand environment for optical fibers and optical cables is becoming harsher. Optical fibers are overflowing from China into Southeast Asia and Europe. According to the data of a research company, prices have fallen by 40 to 50% in some regions. Our optical fiber shipments to Southeast Asia fell by about 40% in the fourth quarter compared to the third quarter. Preform sales at our location in China are also falling.

On the other hand, North America is recovering, and shipments increased about 20% in the fourth quarter compared to the third quarter. The same is also true in Europe. However, due to lower prices in Europe, income has not significantly increased. Central and South America are strong, and this is expected to continue in FY2019.

In FY2019, overall optical fiber shipments are forecast to increase by more than 10%. North America and Europe are both expected to increase by about 30%. However, competition in North America may become more intense, including North American companies reducing their shipments to China and focusing more on North America. In Southeast Asia, volumes are expected to grow somewhat, but prices will be challenging. Central and South America will be strong. Regarding optical cables, too, North America is recovering, and I feel volumes will return to the same level as the first half of FY2017. In addition, our Morocco base should become profitable in FY2019.

Also, we established the Transformation Division in April and are working globally to increase productivity and enact specific measures to improve the cost of manufacturing. The effects are expected to start appearing from the second half of FY2019.

Q : What areas are falling in Functional Products?

A : In the fourth quarter of FY2018, all four businesses were directly impacted by the slowing

market for electronics and data centers.

Q : I would like to confirm one more time the expected growth in optical fiber shipments in FY2019. They will increase on a global basis by over 10%, correct?

A : Shipments increased by about 3% from FY2017 to FY2018, but they are expected to increase 13-15% in FY2019. By region, shipments are expected to grow by 20-30% in North America, by over 30% in Europe and slightly in Asia.

Concerning the composition ratios of the various regions, North America's share is forecast to approach 50-60%.

Q : Please inform me of the status of cable orders in North America.

A : The inquiries from RBOC and others are coming as actual demand, and orders have returned to the strong level of two years ago. We will proceed with solid monozukuri.

Q : Income in Functional Products is not forecast to decline much in FY2019, but what is the outlook for each product?

A : Each product is different. Also, because products with different profit margins are included, I will not go into details, but although revenue will fall, the profit margin is expected to increase. The competition environment in tape for semiconductor process will be basically unchanged from FY2018. However, it is being impacted by the downturn in the semiconductor market, and the market is expected to return from the second half of FY2019. Thermal Management Solution & Products is greatly affected by data centers, but as each company moves to procure its own CPUs, orders fluctuate wildly, and the situation should become more visible from the third quarter. The challenging environment will also continue in Memory Disk and Copper Foil, but we will focus on products of which customers recognize highly value.

Q : In regards to income in FY2019, what is your image of the composition ratios for the first and second half?

A : Given that the power cable business is concentrated at the end of the fiscal year and both Communications Solutions and Functional Products are largely expected to improve in the second half, operating income is forecast to be higher in the second half. Also, the extraordinary loss related items, including risk, will mostly be incorporated in the second half, but (due to the operating income forecast stated above), net income is expected to be greater in the second half than the first half.

Q : In Energy Infrastructure, of the fourth quarter operating income of JPY 1.2 billion, what extent is from one-time factors? I understand that the operating income is forecast to be 0 in FY2019, but is it possible this may increase?

A : Of the income in the fourth quarter, about JPY 1 billion is the result of multiple spot orders. The business is currently in a virtuous cycle in which orders are received based on the customers' trust in us, and improvements are then made to production and the cost of manufacturing. I think the figures should be higher, even if only slightly.

Q : What is the growth rate of optical products?

A : Volumes declined by 25% in FY2018, but they are expected to be 1.5 times higher in FY2019.

Q : Given the fixed expenses such as capital expenses, what are your thoughts about the cash flow balance, including the dividend?

A : Capital investments in FY2019 will decline by JPY 2 billion compared to the previous year. The free cash flow is expected to be slightly negative in FY2019 due to the anticipated payment of the provision for product defect compensation recorded in FY2018 as an extraordinary loss, but free cash flow was JPY +15.4 billion in FY2018. Cumulative free cash flow in FY2018 to FY2020 is forecast to be JPY 10-15 billion yen, and against this, the situation is currently according to plan.

Q : Concerning the optical fiber and cable business, in what segments is the demand in North America returning?

A : OTT, communications carriers, etc. There are also CATV related orders.

Q : In optical products, the demand appears to be being pressured. What will be the contribution level to profits in FY2019?

A : Orders are strong, and we will respond by solidly performing monozukuri. Although not to the same extent as the optical fiber and cable business, income is anticipated to increase to a certain degree.

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