

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

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Contents: FY2019 Q1 Financial Results

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

Q : Please tell me about the growth in optical fiber shipment volumes by region.

A : Overall, shipment volumes fell 5% year on year. Shipment volumes increased slightly in North America, were unchanged in Central and South America, fell 5% in Europe, fell almost 30% in the Asia-Pacific region excluding China and fell over 20% in Japan. In terms of total shipment volumes, North America accounts for over 50% and Europe accounts for slightly under 20%.

Q : How far have optical fiber prices fallen? Is there a risk prices will fall further in Q2 and beyond?

A : It varies by product, but prices have greatly fallen in India by about 50%. In addition, prices have fallen by 30-60% in Southeast Asia and Europe. Because prices have already fallen so much, they will likely not fall much further going forward. However, there will continue to be an oversupply of fiber, so general use optical fiber may fall a little further.

Q : Concerning the fire at the copper foil plant in Taiwan, what is the status of the operation and the facilities? Also, I understand that you expect an impact of about JPY 3 billion on a pre-tax income basis, but please provide a breakdown of this amount.

A : Of the two plants, one was affected by the fire. Initially, operations at both plants were halted, but they were quickly restored at one of the plants. The reason for stating that we are investigating the impact on the results is that it is taking time to assess the status of the facilities. Work has already begun to restore part of the facilities, and I believe the plant should be operational again from Q4. This site in Taiwan has a total production capacity of 1,000 tons/month, but production has fallen to about 40% as a result of the fire. Following the restoration of part of the facilities, production is expected to recover to 550 tons/month. We are currently considering whether or not to restore all of the facilities. Because this decision is connected to how we will proceed with our strategy, we will fully consider this issue while

considering the status of the facilities, market and customers. Concerning the breakdown of the JPY 3 billion estimate, it would be misleading to say anything while we are still in the investigation phase, so I would like to refrain from making a statement at this time.

Q : The falling optical fiber prices have had a major impact, but has there been any impact in North America?

A : The impact has been minor. Some of the optical fiber produced by American companies and sold in Europe, China and elsewhere has been shifted to the North America market, so prices have fallen somewhat.

Q : I understand that productivity has fallen in North America and increased production has not provided the intended results, but what is behind this?

A : Orders rapidly recovered from February. When restarting operations at some of the plants where production had been idled, confusion occurred. By taking steps to fully respond to the orders, I believe there is room to improve in these areas.

Q : What is the breakdown of the factors behind the lower income in the Communications Solutions segment (lower productivity, falling prices, etc.)?

A : Depreciation and R&D expenses increased by JPY 0.6 billion, and the following three items each accounted for 1/3 of the remaining JPY 2.2 billion: ①Falling prices for optical fiber and cable ②Lower productivity for these products ③Fewer telecommunications related projects in Thailand in the Broadband Solutions business.

Q : Please provide an explanation of the factors behind the lower income in Functional Products.

A : Income declined in Thermal Management Solution & Products, Memory Disk and Copper Foil. AT & Functional Plastics performed relatively well. The downturn was large in the businesses that are directly linked to data centers.

Q : Overall, how far do you expect to fall below the Q1 plan?

A : We will fall below the plan by about JPY 1 billion, and the Communications Solutions segment will fall significantly below the plan. Functional Products has not deteriorated much. Energy Infrastructure and Automotive Products have performed better than expected.

Q: I understand that Communications Solutions recorded an operating income of JPY 0.1 billion, but what is the actual performance figure?

A: Assuming productivity had not fallen in optical fiber and cable, it would likely be about JPY 1 billion.

Q: If profits deteriorate this fiscal year, what are your thoughts about the JPY 85 dividend forecast?

A: It will be necessary to carefully consider the cash flow, including investments, but at the present time, there are no plans to revise the dividend forecast.

Q: In the plan for the current fiscal year, you expect demand to recover in the second half, but at the present time, is it necessary to revise this outlook?

A: The Battery business and construction projects in Broadband Solutions and Power Cable are traditionally second half businesses. Also, given the forecast for data center demand to recover in the late second half, the plan this year is weighted heavier than normal towards the second half. In relation to data centers, given the fact demand is returning for some of the products, there is no change to the outlook. The situation will become clearer in Q2, so I will discuss this issue again.

Q: Concerning the factors behind the lower income in the Communications Solutions segment, I understand that lower yield is a factor, but has the fire at the Mie Works had an impact?

A: This issue concerns the locations in North America. The fire at the Mie Works has had a minimal impact.

Q: Has the Automotive Products segment exceeded the plan? Is there room for further increases?

A: The results have been almost according to the plan. Higher net sales are expected, but this (profits) is expected to be offset by the start-up costs directed at future orders. The segment is expected to progress according to the plan.

Q: How long is it expected to take to improve the productivity of optical fiber and cable?

A : Steps are being taken to improve productivity, and the results are expected to appear from Q2.

Q : Concerning the Optical Fiber and Cable business, in the previous explanation, you forecast sales to increase by over 20% in North America. Is the gap in the production response the only factor behind the deterioration?

A : There is no change to the steady orders, but the problems in the manufacturing capabilities have led to increased lead times, and we have been unable to sufficiently fill the orders. Also, the market environment has become more challenging, including falling prices in Europe and Asia. The issue is how to handle these risks. We will work to steadily expand sales of products such as the high value added rollable ribbon cable.

Q : Please explain using numerical figures the results that the Transformation Division has achieved in reducing costs.

A : To begin, specializing in global Optical Fiber and Cable, Energy Infrastructure and Copper Strips business, various initiatives are being conducted, including the activities by the Transformation Division. Focus is being placed on fully carrying out the PDCA cycle and increasing the organizational capabilities. In particular, regarding optical fiber and cable, concerning the themes such as increasing production in North America and expanding sales of high value-added products, the issues have been organized and we have progressed to the execution phase in Q1. Concerning the results of the activities, I will explain using figures when announcing the Q2 results.

Q : The Energy Infrastructure segment has gotten off to a strong start, but I would like to confirm the scenario for firmly establishing profitability.

A : Profitability is improving. We are working to lower the cost of installation and invest in submarine cable production and increased productivity. Also, we will work to acquire orders following the startup of the Chiba No. 2 Works. Steady progress is being made towards achieving profitability this year.

Q : The Optical Fiber and Cable business seems to have moved in the opposite direction (deteriorated) compared to your explanation last time, but concerning this deterioration, what is the breakdown of the market factors and internal factors?

A : Concerning productivity, we expected an improvement in June, but this was difficult to achieve.

Q: In the optical fiber and cable market in North America, I have heard that demand for carriers is slowing and demand for CATV has been delayed, but how do you view the demand environment?

A : I am aware that demand has slowed somewhat for carriers and CATV. I expect demand to return going forward, but there may not (immediately) be a large return.

Q: Concerning the Functional Products segment, is there any change to the forecast for demand to recover from the late second half?

A : That is what we expect at this point in time. We will assess this point closely from Q2, but the plan has been formulated based on demand recovering in the late second half.

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