

FY2019 Q1 Financial Results

Director, Corporate Vice President, and
General Manager of the Finance & Global Management Division

Akihiro Fukunaga

August 1st , 2019

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.

Due to the above factors, actual sales, earnings, and other operating results may differ significantly from Looking Statements in these materials. In addition, following the release of these materials, Furukawa Electric Group assumes no obligation to announce any revisions to forward-looking statement in these materials.

Copyrights

Furukawa Electric Co., Ltd. retains copyrights and other rights involving these materials. Copyright and otherwise reusing these materials in any way without prior consent is prohibited.

FURUKAWA ELECTRIC CO., LTD.

FY2019 Q1 Results - Highlights

(JPY billion)

	Q1		
	FY18 Results	FY19 Results	YoY change
Net Sales	240.8	226.3	▲ 14.6
Operating income	8.5	4.9	▲ 3.6
Ordinary income	7.5	3.9	▲ 3.6
Net income attributable to owners of the parent	3.3	2.3	▲ 1.0

Operating income

4.9 billion yen down by 3.6 billion yen (▲42%) YoY

Operating income margin:

2.2% down by 1.4 point YoY

- Decline in income from Infrastructure and Functional Products segments
- Communications Solutions suffered from a drop of fiber prices in Europe/Asia, and a delay in production increase in North America
- Functional Products segment was affected by market downturn

Net income attributable to owners of the parent company

2.3 billion yen down by 1.0 billion yen (▲31%) YoY

- Decrease in operating income
- Post gains on sales of investment securities, and decrease extraordinary losses

Current progress & initiatives

- ◆ We fell short of the operating income estimate for Q1, due to the downturn of Communications Solutions business, even though Automotive Products & Batteries, and Energy Infrastructure businesses delivered results that are better than the estimate.
- ◆ We will implement Group-wide initiatives for strengthening cost-competitiveness, and improving low-margin businesses, toward achieving the operating income forecast for the full business year.

FY2019 Q1 Results – Summary P/L

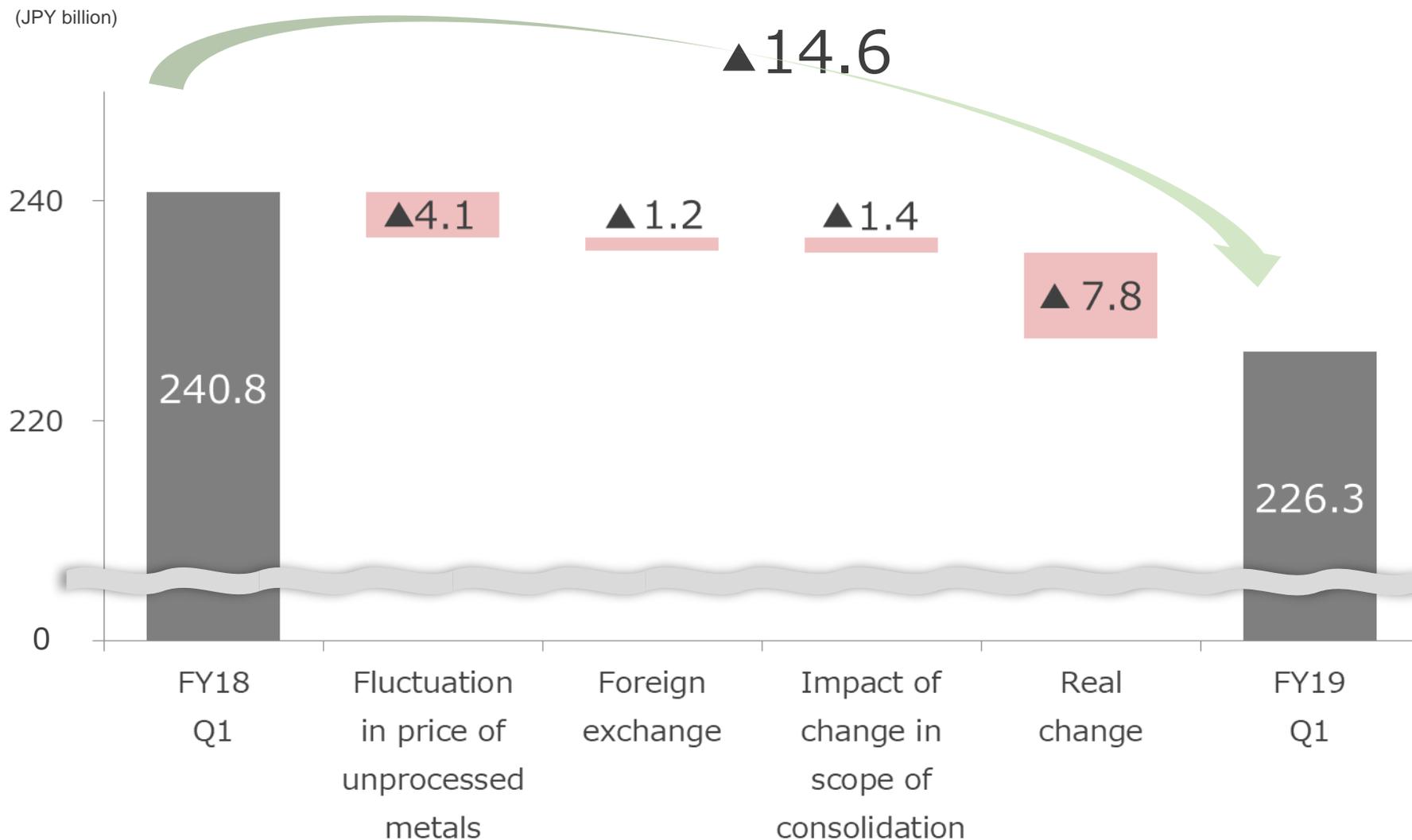
(JPY billion, JPY/kg, JPY/USD)

	FY18 Q1	FY19 Q1	YoY change	Breakdown of change (Q1)	FY19 forecast
	a	b	b-a		
Net sales	240.8	226.3	▲ 14.6	▲14.6 (▲6%) See page 5	960.0
Operating income	8.5	4.9	▲ 3.6	▲3.6 (▲42%)	40.0
(Margin)	3.5%	2.2%	▲ 1.4	See page 6	4.2%
Profit/loss in equity method affiliates	▲ 0.2	▲ 0.3	▲ 0.1		–
Foreign exchange gain/loss	▲ 0.4	▲ 0.4	+0.0		–
Ordinary income	7.5	3.9	▲ 3.6	▲3.6 (▲48%)	37.5
(Margin)	3.1%	1.7%	▲ 1.4		3.9%
Extraordinary income/loss	▲ 1.9	0.4	+2.3	•Extraordinary income +1.2 (0.1→ 1.3)	▲ 6.0
Income taxes	1.5	2.2	+0.7	•Extraordinary loss +1.1 (▲2.0 → ▲0.9)	–
Net income attributable to non-controlling interests	0.7	▲ 0.2	▲ 0.9		–
Net income attributable to owners of parent	3.3	2.3	▲ 1.0	▲1.0(▲31%)	21.0
(Margin)	1.4%	1.0%	▲ 0.4		2.2%
Average copper price	795	717	–		760
Average exchange rate	109	110	–		110

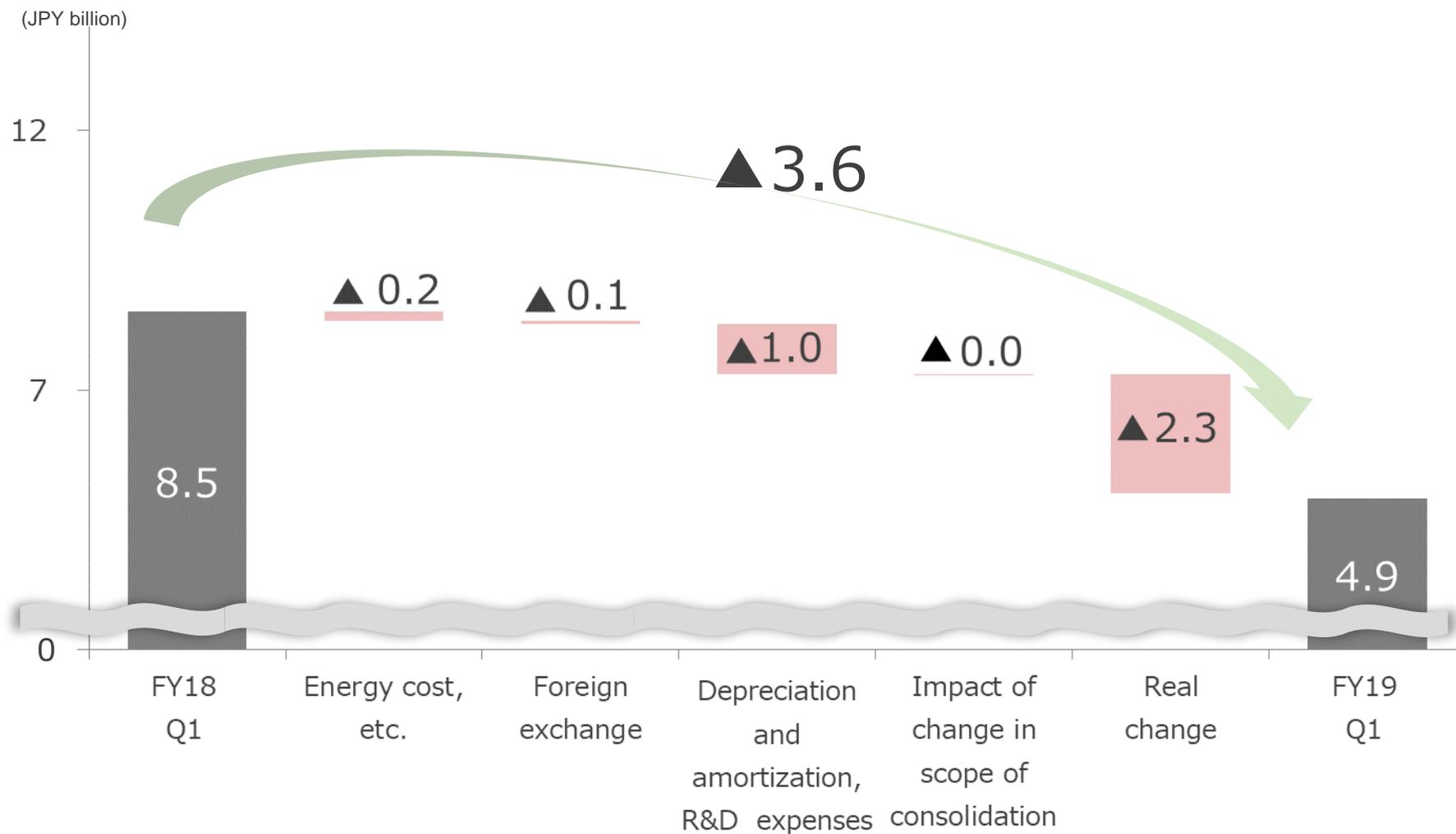
We regret that, on June 18, 2019, a fire accident occurred at our Group company, Furukawa Circuit Foil Taiwan Corporation. We sincerely apologize for the trouble caused to many people, including local residents, local authorities, and our customers.

At this moment, we expect the impact on business results (Net income before income taxes), including lost earnings and restoration expenses, for the current year will be approx. 3.0 billion yen. However, as we are still investigating the matter, it is not yet reflected on earnings forecast for the full business year.

Analysis of Changes in Net Sales (YOY)



Analysis of Changes in Operating income(YOY)



Net Sales and Operating Income by Segment

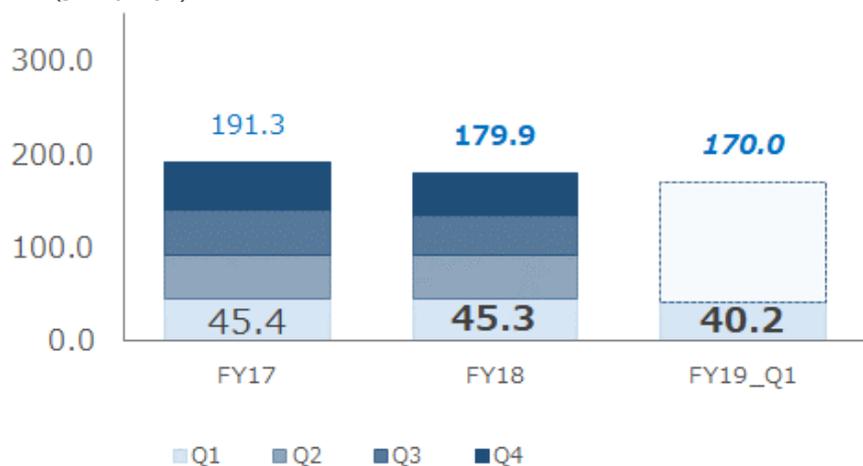
(JPY billion)

	Q1			Full year			
	FY18 Results	FY19 Results	YoY	FY18 Results	FY19 Forecast	YoY	
Net sales	Infrastructure	68.3	67.7	▲ 0.6	288.0	285.0	▲ 3.0
	Communications Solutions	45.3	40.2	▲ 5.1	179.9	170.0	▲ 9.9
	Energy infrastructure	23.0	27.5	+4.5	108.1	115.0	+6.9
	Electronics & Automotive Systems	138.1	128.0	▲ 10.1	561.7	555.0	▲ 6.7
	Automotive Products & Batteries	62.8	60.7	▲ 2.2	267.3	265.0	▲ 2.3
	Electronics Component Materials	75.3	67.4	▲ 7.9	294.4	290.0	▲ 4.4
	Functional Products	38.5	29.4	▲ 9.1	149.3	125.0	▲ 24.3
	Service and Developments, etc.	11.8	12.3	+0.5	48.6	50.0	+1.4
	Elimination of intra-company transactions	▲ 15.8	▲ 11.2	+4.6	▲ 55.9	▲ 55.0	+0.9
	Total	240.8	226.3	▲ 14.6	991.6	960.0	▲ 31.6
Operating income	Infrastructure	1.8	▲ 0.4	▲ 2.2	7.4	10.0	+2.6
	Communications Solutions	2.9	0.1	▲ 2.8	9.8	10.0	+0.2
	Energy infrastructure	▲ 1.1	▲ 0.4	+0.7	▲ 2.4	0.0	+2.4
	Electronics & Automotive Systems	3.5	3.5	▲ 0.0	19.5	18.5	▲ 1.0
	Automotive Products & Batteries	2.2	2.7	+0.5	13.5	13.0	▲ 0.5
	Electronics Component Materials	1.3	0.8	▲ 0.5	6.0	5.5	▲ 0.5
	Functional Products	3.4	1.9	▲ 1.5	13.5	12.0	▲ 1.5
	Service and Developments, etc.	▲ 0.2	▲ 0.1	+0.2	0.3	▲ 0.5	▲ 0.8
	Elimination of intra-company transactions	▲ 0.0	▲ 0.1	▲ 0.0	0.1	0.0	▲ 0.1
	Total	8.5	4.9	▲ 3.6	40.8	40.0	▲ 0.8

1 -(1) Infrastructure (Communications Solutions)

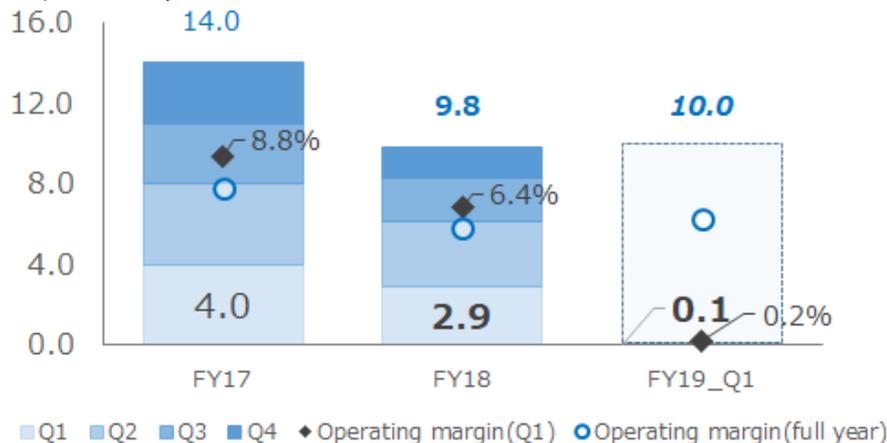
Net sales

(JPY billion)



Operating income / operating income ratio

(JPY billion)



Operating income: YoY difference JPY ▲2.8 billion

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

- Intensified price competition in optical fiber markets in Europe and Asia
- Delay in producing results from increased production of optical fiber in North America; cannot fill the orders for optical cable
- Decline in revenue from solutions for network systems in Japan compared with the last year's strong results
- Increase in R&D expenses and depreciation
- Strong results in Latin America, driven by Solutions business
- Strong sales of optical cable in Japan
- Increase in revenue from digital coherent products compared to the weak performance in the first half of last year
- ✓ Order-take activities considering optimal product mix, and improve productivity
- ✓ Expand sales of high performance fiber and cables using such fiber
- ✓ Promote the solutions business
- ✓ Promote the development of next generation products

Blue : Full year Net Sales , Operating Income
Black : First 3 months Net Sales , Operating Income

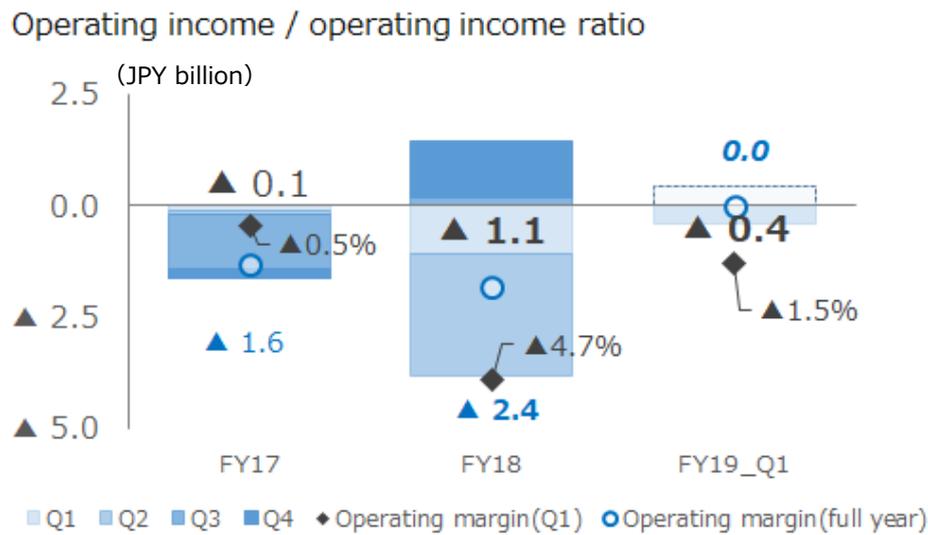
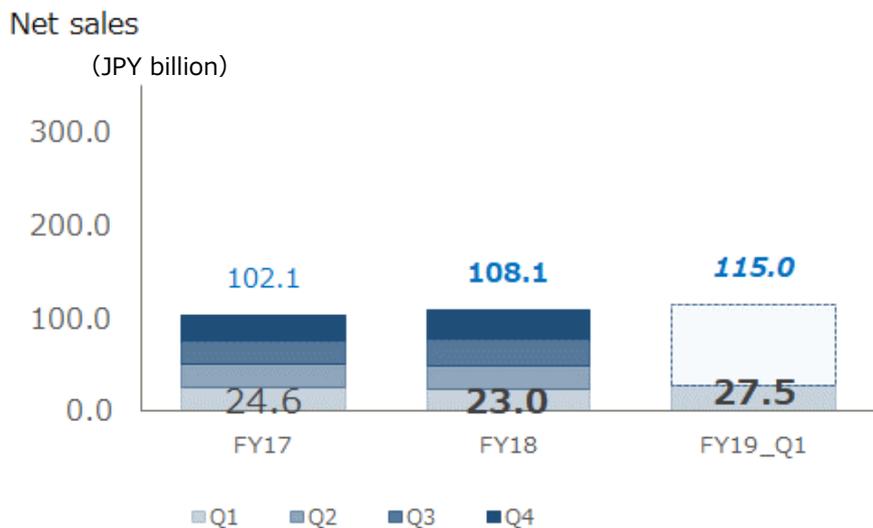
1 -(2) Infrastructure (Energy Infrastructure)

**Operating income:
YoY difference JPY +0.7 billion**

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

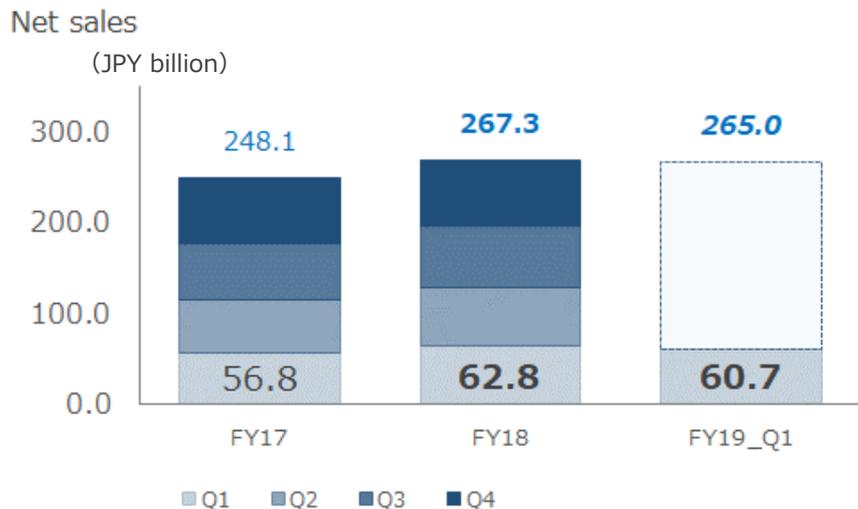
- Steady capture of demand for underground cables in Japan
- Progress made by Chinese subsidiaries as planned
- Termination of unprofitable overseas projects in FY2018

- ✓ Steadily capture the demand for ultra high voltage and renewable energy products in Japan
- ✓ Strengthen the installation capabilities and the facilities for submarine cables
- ✓ Reduce costs through increased productivity
- ✓ Expand sales of aluminum CV cable with features such as lightness and softness, and components



Blue : Full year Net Sales , Operating Income
Black : First 3 months Net Sales , Operating Income

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



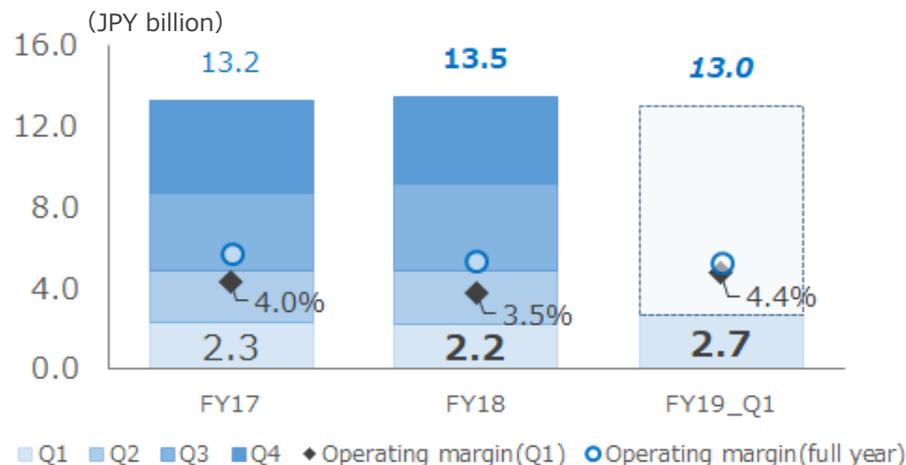
Operating income: YoY difference JPY +0.5 billion

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

- Continued strong sales of wire harnesses
- Increase in fixed costs such as R&D expenses and depreciation directed towards the upcoming projects starting from FY2020
- ✓ Steadily make investments for increased production in Asia directed at increasing wire harness shipments to North America
- ✓ In relation to advanced driver-assistance systems, work to receive new orders for next generation high precision radar, as well as expand sales of existing models and complete the 2020 model high performance BSS*
- ✓ Proactively capture demand for lighter weight resulting from the advances in vehicle electrification and autonomous driving

*BSS; Battery State Sensor

Operating income / operating income ratio

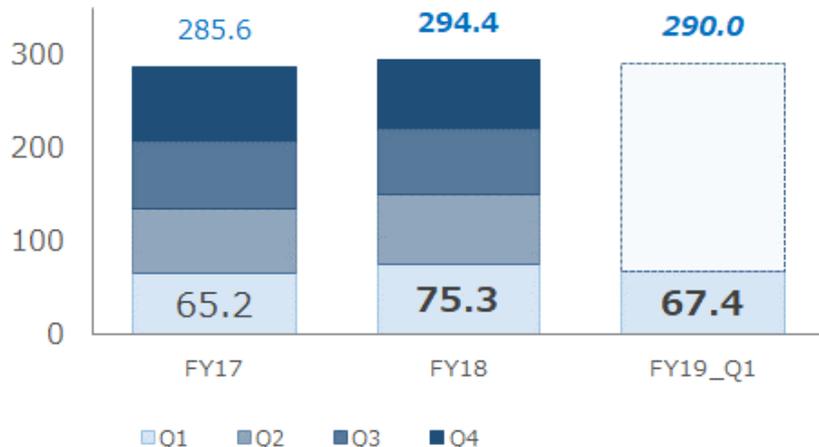


Blue : Full year Net Sales , Operating Income
Black : First 3 months Net Sales , Operating Income

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

Net sales

(JPY billion)



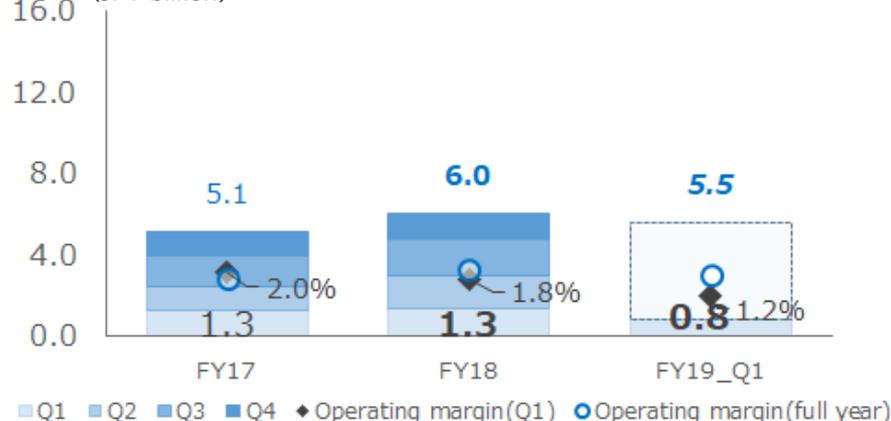
**Operating income:
YoY difference JPY ▲0.5 billion**

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

- Continued weak demand for products related to electronics products, including smartphones
- Strong sales of magnet wires for electric cars

Operating income / operating income ratio

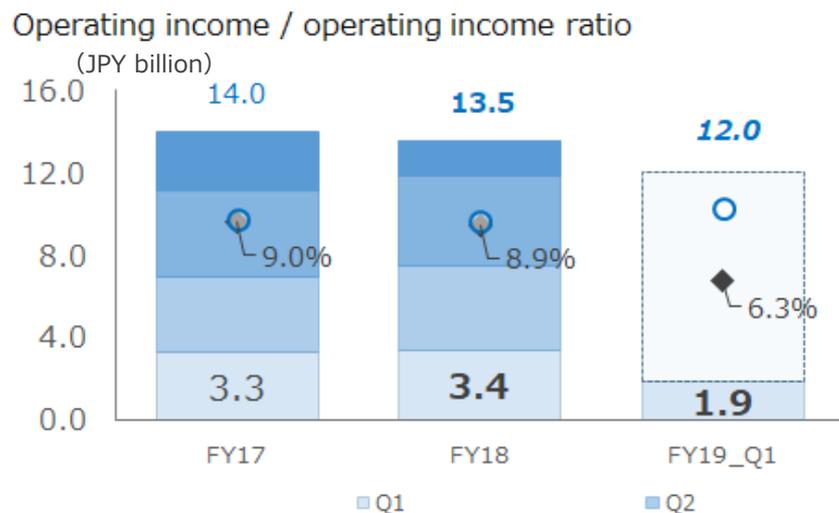
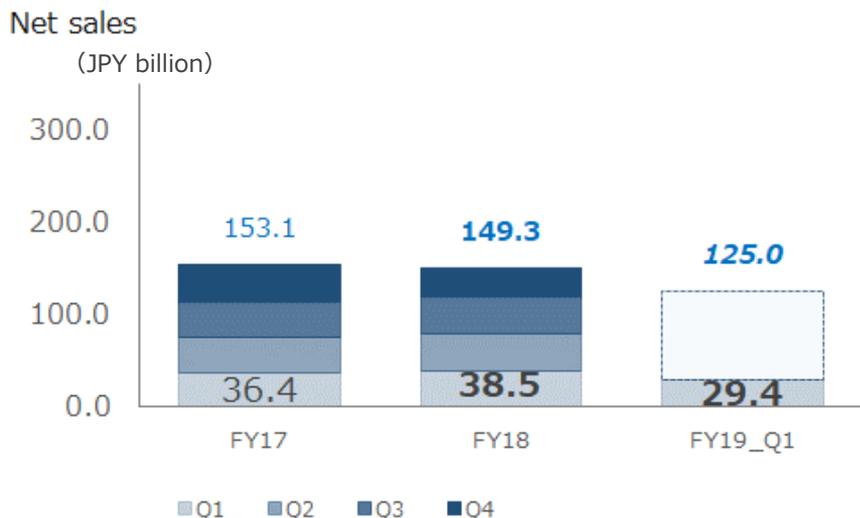
(JPY billion)



- ✓ Improve the product mix in line with market needs and increase productivity
- ✓ Expand sales of original alloys that support the increasingly higher performance of electronic devices
- ✓ Increase adoption of magnet wire for automotive products globally

Blue : Full year Net Sales , Operating Income
Black : First 3 months Net Sales , Operating Income

3 Functional Products



Operating income: YoY difference JPY ▲1.5 billion

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

- Weak demands for products for data centers, memory, smartphones, etc. compared to the strong demands in the last year
- Strong sales for insulations for ducts following the installation of air-conditioners for elementary and junior high schools
- Strong performance of protective pipes for underground cable, particularly in the square type, which is easy to install in the field, in the renewable energy market
- ✓ Develop next generation products that will form the foundation of new revenue
- ✓ Develop new markets and propose new applications
- ✓ Improve further productivity and strengthen the ability to respond to market changes
- ✓ Expand sales of cable-related products recycled from disposable plastics

Blue : Full year Net Sales , Operating Income
Black : First 3 months Net Sales , Operating Income

FY2019 Q1 results – B/S Summary

(JPY billion)

	End of 18Q4	End of 19Q1	Change
	a	b	b-a
Current assets	420.5	404.8	▲ 15.7
Cash and bank deposits	44.6	43.2	▲ 1.5
Notes and accounts receivable trade	219.3	204.2	▲ 15.2
Inventories	122.9	129.2	+6.3
Non-current assets	397.5	407.1	+9.6
Tangible fixed assets	229.4	241.7	+12.3
Intangible fixed assets	12.2	12.4	+0.2
Investments and other assets	155.9	153.0	▲ 3.0
Total Assets	818.0	811.9	▲ 6.1
Current liabilities	331.6	327.1	▲ 4.5
Non-current liabilities	206.5	209.2	+2.7
Total Liabilities	538.1	536.3	▲ 1.8
Shareholders' equity	243.1	241.2	▲ 1.8
Accumulated other comprehensive income	4.6	2.8	▲ 1.8
Net income attributable to non-controlling interests	32.3	31.6	▲ 0.7
Total Net assets	279.9	275.6	▲ 4.3
Total Liabilities and Net assets	818.0	811.9	▲ 6.1
Interest-bearing liabilities	246.0	251.9	+5.9
Capital ratio	30.3%	30.1%	▲ 0.2
NET D/E ratio	0.81	0.86	+0.04

Inventories

Increased by 6.3 billion yen

Tangible/intangible fixed assets

Increased by 12.5 billion yen

Impact of increased CAPEX
5.1 billion yen

Adoption of IFRS 16 Lease to
overseas affiliates
7.3 billion yen

Investment and other

Decreased by 3.0 billion yen

Decrease in investment
securities
▲2.0 billion yen
(sales of stocks, and fair market valuation)

FY2019 Q1 results

–CAPEX, Depreciation & amortization and R&D expenses

(JPY billion)

	FY18 Q1 Results	FY19 Q1 Results	YoY change	FY19 Forecast
	a	b	b-a	
CAPEX	10.7	12.2	+1.5	48.0
Depreciation and amortization	6.6	7.1	+0.6	30.5
R&D expenses	5.0	5.4	+0.4	23.0

Thank you very much
for your attention.

Bound to  ***Innovate***

(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.		