

## Q&A Summary of the Meeting for Institutional Investors and Analysts on Furukawa Electric Group

Date: May 28, 2019 17:00 – 18:00

Contents: Progress of the Mid-term Management Plan “Furukawa G Plan 2020”

Speakers: **Keiichi Kobayashi**, President

**Hiroyuki Ogiwara**, Director, Corporate Senior Executive Vice President and General Manager of Transformation Division

**Ken Maki**, Director, Corporate Vice President and General Manager of Strategy Division

**Akihiro Fukunaga**, Corporate Vice President and General Manager of Finance & Global Management Division

Q : What are your thoughts about the Huawei problem?

A : For the products subject to the Export Administration Regulations, we are postponing exports to China. The impact is still very unclear, but the direct impact on our group overall will not be very large. However, some customers are taking a wait and see approach, so we will look closely at the impact going forward.

Q : In relation to 5G, what will be your response to products in the upper layers in which there are already strong companies present?

A : We will not directly try to take away share in those product markets. Rather, we will listen to the customers and search out businesses in which customers can rely on our technology.

Q : What figures should we look at to understand the benefits realized by the Transformation Division?

A : Up to now, we have lacked the ability to fully execute the established strategies. The division is staffed by a little over 10 dedicated employees, and dedicated representatives are also stationed in each business division. Together, they are promoting the initiatives while clarifying the milestones and quantifying the effects of each initiative. If there is an impediment that will cause a delay, executive management will use their power to remove that impediment. Effects will be realized as increased net sales through expanded sales, lower costs through manufacturing reforms, etc. I would like to think more about how we can

convey these effects to all of you better in the future.

Q : To what extent have the benefits realized by the Transformation Division been incorporated into plan for this fiscal year?

A : I cannot state any specific figures, but they have been incorporated to a large extent. While giving priority to multiple themes, such as reducing the cost of manufacturing of cables in North America, efforts are being made to execute the initiatives.

Q : What measures are being taken directed towards securing an operating income of JPY 1 billion in the Energy Infrastructure segment in FY2020?

A : We have a hold on every part of the smiling curve, from the cables to construction and maintenance. I stated that we received multiple spot orders at the end of last fiscal year, and this situation has not changed. We will work to further increase customer trust. Also, the structural reforms at the Shenyang location are complete, and we will start to reap the benefits.

Q : What is specifically meant by the Transformation Division initiative "Re-accelerate the growth of the Fiber and Cable business globally"?

A : The head of single management has been transferred from OFS in North America to the division general manager in Japan. We are working to reduce costs, such as through global procurement, and to spread the strong points of each manufacturing location to all of the locations. We are also working to expand sales in the US and Europe, but to begin, we are mainly working towards reducing costs, which is something we can accomplish on our own.

Q : The Power Cable business is a business in which long-term growth is anticipated but has a number of structural issues, including lack of human resources and recovery of investments. Has your outlook of the market changed?

A : Definitely, it may appear that the only future direction of national policy has been preceded. However, we are making solid preparations, and a number of firm orders have been received. In Japan, including us, there are only two companies that can supply these products, so our outlook has not changed.

Q : Regarding Functional Products, I believe the business environment is challenging in memory disks and tape for semiconductor process. Are you taking any defensive measures?

A : We are implementing various measures. For memory disks, one of our strengths is in thin blank technology, which is a request of customers.

Q : In Optical Fiber and Cable, what is the reason for revising the plan to increase production despite having the outlook that shipment volumes will return? Are shipments to North America weakening, or is there any change in your relationship with CommScope?

A : There is no change in our relationship with CommScope. Concerning the capital expenditures, the start of construction has been postponed. We will not invest in increasing production unless it is certain the new facilities will be operated. China accounts for half of global optical fiber demand. Given the harsh demand environment there, we will not chase after market share by selling cheap.

Q : Is there any change in your outlook for North America, which is a major region for you? Is the problem isolated to China?

A : If the market situation in China starts to impact other regions such as Asia, then it is possible the forecast for fiber will change. However, concerning the North America market, although the timing has shifted, our strategy has not changed.

Q : On page 6, you explained about the improvement in the return on operating assets of the products and businesses. However, the return on operating assets companywide is declining, so there is a mismatch. Would you please explain how this will further change heading into 2020, and how this change will relate to the overall results?

A : Based on a threshold value of 10%, we will consider withdrawing from that business or continuing it in a different form. However, because we are now investing in growing the future top line, it is my understanding that the return on operating assets will temporarily fall. Once we start reaping the benefits of the investments, I believe we will be able to show you a rising return on operating assets.

Q : On page 32, you state that the capital investments this fiscal year will be weighted towards rationalization and improving productivity. I believe this means that the investments will be weighted towards areas in which there is a good prospect of recovering the investment, but in relation to the FY2018 – FY2020 capital investment plan of JPY 140 billion, how will the investments be weighted in the final year? Can there be expected to be any changes to the investments, prospects of recovery and timing?

A : I believe we have become better able to read the market compared to the past. We still need to revise the results forecast from time to time, but we are now able to better think about how long particular investments should be postponed, etc. For this reason, we have determined that this year is the proper time to direct money towards activities such as reducing costs and improving logistics and connect these to increasing the earnings capability in the future. During this medium-term (through FY2020), we will work towards improving the balance sheet.

End of document