

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

Date : May 21, 2018 17:00 – 18:00

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

Speaker : President **Keiichi Kobayashi**

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

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

Q : In the power cable business, given my impression that the market is not sufficiently visible, I am concerned about the JPY 15 billion investment. Regarding the low-margin businesses, I believe you are thoroughly managing the businesses using the return on operating assets, but what are your thoughts about this investment, including the timeframe?

A : The JPY 15 billion investment will be made based on a longer time frame than FY2018 – FY2020. In Japan, the energy mix will change in the future as the result of an increase in renewable energy. For this reason, the demand for submarine cable will definitely increase, and it will be necessary to be able to supply long-length power cable. This investment will be made in response to these, and it will not be used to install large-scale facilities or build new factories.

Q : In the communications solutions business, there are causes for concern, such as the slowing down of data center demand and the market in China. What is your view of the market?

A : Based on the status of orders received, I believe the market has bottomed out. Including our relationship with customers, I have confidence in the business going forward.

Q : What is the status of functional products (copper foil, etc.)?

A : For copper foil, the use of IoT/AI in the manufacturing process, shift to value added products in the area of circuit foil and rebates will continue. The tape for semiconductor manufacturing situation is somewhat challenging, but it is within the range of our forecast. We are also developing new products and will launch them onto the market going forward.

Q : What makes Furukawa Electric competitively superior in the power cable business?

A : We have advantages in the area of ultra high voltage cable. While it is expected that there

will definitely be demand for the replacement of OF cable in the underground cable segment in Japan, the number of manufacturers capable of supplying the power cable is limited, and we will certainly be able to secure sales revenue and profit. In the submarine cable segment, demand will start to appear in various areas of Japan from around 2022-2023. It is necessary to be able to manufacture the cable prior to this, and we are already starting to receive inquiries.

Q : What specifically are you referring to in regards to the new order for wire harnesses? Also, what aspects of the wire harnesses have been evaluated favorably?

A : I cannot name the actual customer, but the wire harnesses will be for different global car models. The reliability of the specialized connectors for use with the aluminum harnesses have also been evaluated highly by customers. The fact that we can provide the wire harnesses and connectors as a set is a key point.

Q : Shouldn't you invest in high-margin businesses as opposed to low-margin businesses such as power cables?

A : I can understand why our shareholders would question why we will invest in the power cable business. However, energy (electric power) is important, including for supporting the changes in society such as 5G and autonomous driving. The investment will only be made to attain the capability of providing long-length submarine cable and for productivity improvements that will lead to increased profits. We will not invest in building any large factories. The investments will definitely lead to profits and will make it a profitable business.

Q : What is the outlook for ITLA?

A : For optical components, there are markets for both the signal light source and excitation light source, and both of these markets will change going forward. We will respond to these changes in a timely manner.

Q : It is quite difficult to directly connect the demand forecast (macro) and business forecast (micro). I would feel more at ease if you could provide a specific explanation, such as the status of orders or the schedule of the return on the investments.

A : Despite the temporary decline regarding our communications solutions business, the demand will grow including the shift to optical CATV communications networks in the US and in the project market, which is one of our company's strengths. For optical fiber and cable, we will promote the business globally under a single management system structured around the

locations in the US. We are advancing the business while consolidating information on a global scale.

Q : I get the impression that while you have set new profit targets for FY2020, you are taking an overall aggressive investment position. In addition to increased fixed costs, given the higher raw material prices and exchange rate risk, what are your thoughts about streamlining rather than just expansion?

A : The capital investment plan for FY2018 is JPY 54 billion, and it will be held down to about JPY 40 billion per year thereafter. We will continue to advance the structural reforms and make the investments with consideration for asset efficiency. Between FY2018 and FY2020, we will create a total cumulative free cash flow of about JPY 10-15 billion.

In the Energy Infrastructure business, operating income in FY2020 is expected to be JPY 1 billion, and the return on operating assets is expected to be over 3%. This operating income of JPY 1 billion is the minimum target level. Originally, in regards to the low-margin businesses, I stated that a decision would be made on continuance of the business in three years in the event it is not possible to improve the business, but please understand that it will take a while to make a decision in the case of the power cable business.

Regarding raw materials, in addition to global procurement, we will proceed with relaxing the specifications. Regarding the exchange rate, there is no way to avoid the impact of conversion differences at the overseas companies, but we intend to make the impact of factors other than the exchange rate neutral.

Q : I am having trouble understanding the expected loss of JPY 1.5 billion on alternative energy project orders in the power cable business that has been incorporated into the forecast for FY2018. Why did management give the go ahead for these projects?

A : The projects were determined to be important in order to obtain multiple project orders in the future. They will undoubtedly lead to increased orders in the future.

Q : What are the details of the JPY 4.5 billion profit increase resulting from the improvements to the low-margin businesses indicated on slide 6?

A : An almost equal level of improvement is expected in each of the four segments other than function products (communications solutions, energy infrastructure, automotive products and batteries, electronics component materials).

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