

FY2019 Financial Results

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FURUKAWA ELECTRIC CO., LTD.

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FY2019 Financial Results

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Key Points in the FY2019 Results

(JPY billion)

Main positive factors compared to the previous forecasts

Operating income : Communications Solutions and Electronics Component Material

Ordinary income : Profit/loss in equity method affiliates

Net income attributable to owners of the parent company : Increased extraordinary income from the sale of non-current assets and lower extraordinary loss

	FY18 Results	*FY19 Previous forecasts	FY19 Results	YoY change	Change from previous forecasts
	a	b	c	c-a	c-b
Net Sales	991.6	900.0	914.4	▲ 77.2	+14.4
Operating income	40.8	20.0	23.6	▲ 17.3	+3.6
Ordinary income	39.1	18.5	22.8	▲ 16.3	+4.3
Net income attributable to owners of the parent	29.1	10.0	17.6	▲ 11.5	+7.6

*Announced on February 5, 2020

Operating income

23.6 billion yen, ▲17.3 billion yen YoY(▲42%)

Communications Solutions (Infrastructure)

- Falling prices due to unbalanced optical fiber supply and demand around the world
- Delay in improving optical cable productivity in North America

Electronics & Automotive Systems and Functional Products

- Impact of the weak demand for electronics products, including products for data centers and smartphones

Energy Infrastructure (Infrastructure)

- Achieved profitability in the power cable business in Japan and overseas

Negative factors

Positive factors

Net income attributable to owners of the parent company

17.6 billion yen ▲11.5 billion yen YoY (▲39%)

- Lower operating income
- Higher profit in equity method affiliates
- Recorded a gain on disposal of non-current assets, gain on the sale of investment securities, and lower extraordinary loss

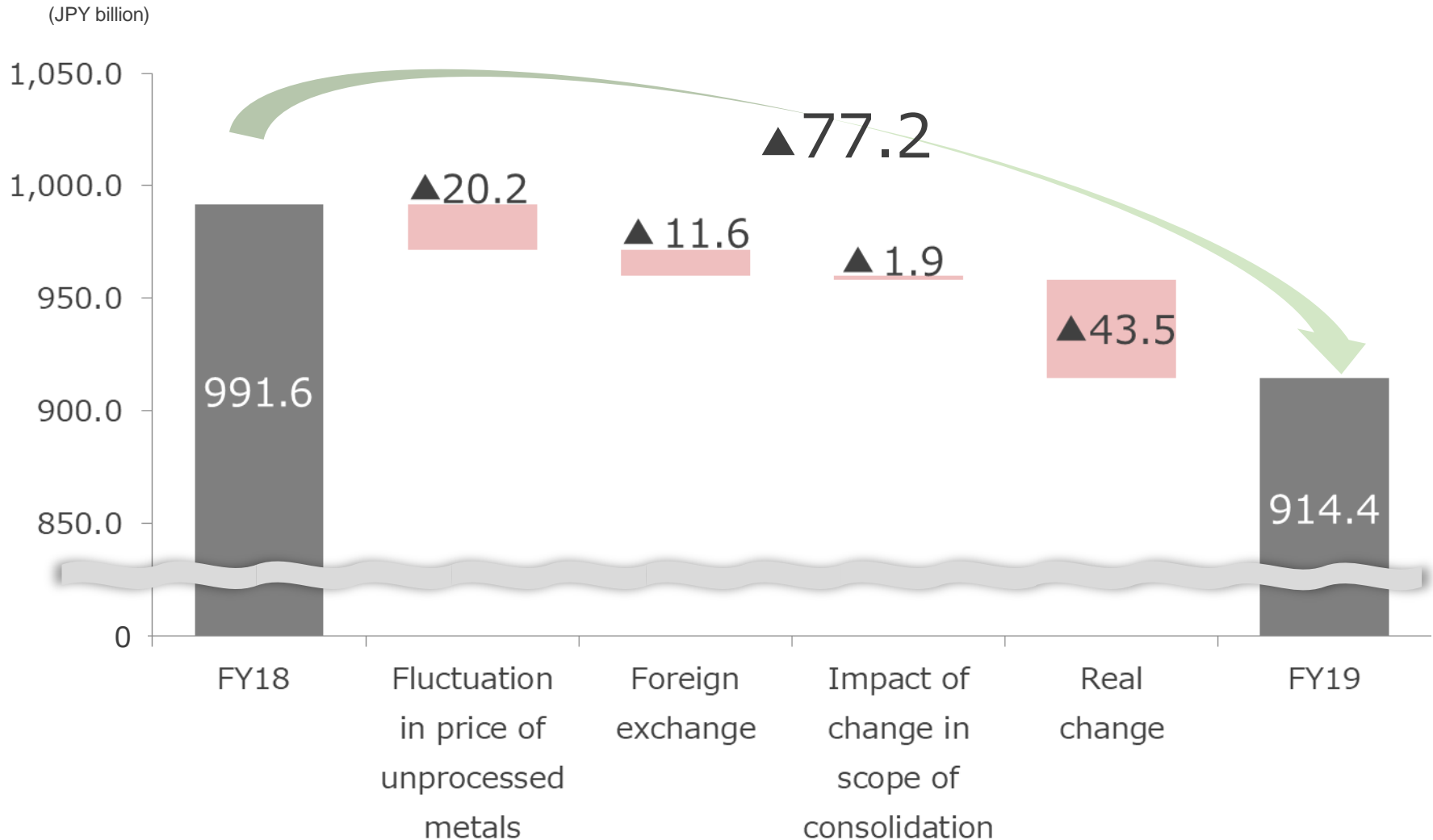
Due to the impact of COVID-19, operating income was pushed down by about 1.0 billion yen.

FY2019 Results – P/L Summary

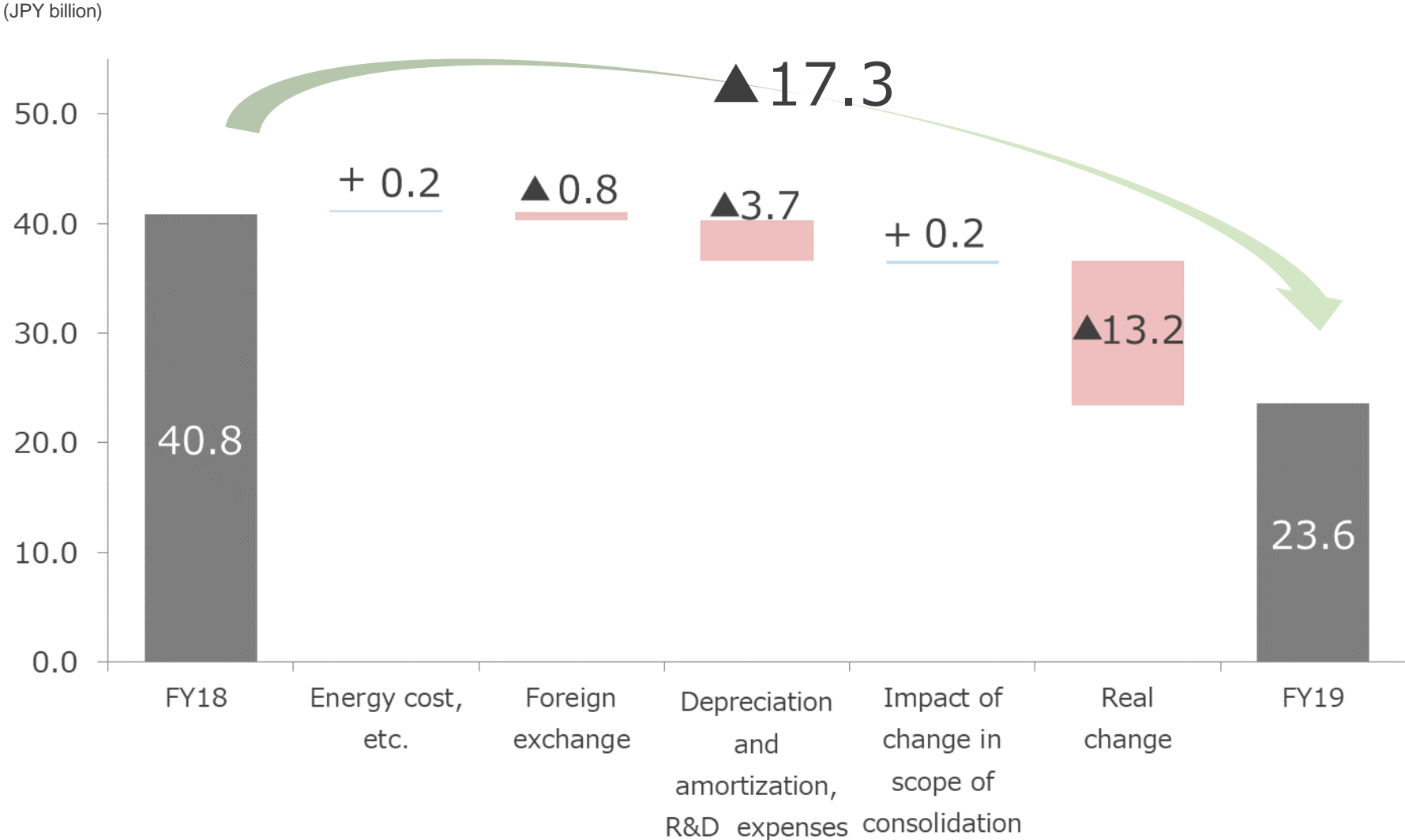
(JPY billion, JPY/kg, JPY/USD)

	FY18		FY19		YoY change		Breakdown of change (Full year)
	a	Q4 a'	b	Q4 b'	b-a	Q4 b'-a'	
Net sales	991.6	253.0	914.4	238.3	▲ 77.2	▲ 14.7	▲77.2 (▲8%) See page 7
Operating income	40.8	10.1	23.6	8.3	▲ 17.3	▲ 1.9	▲17.3 (▲42%) See page 8
(Margin)	4.1%	4.0%	2.6%	3.5%	▲ 1.5	▲ 0.5	
Profit/loss in equity method affiliates	1.7	0.9	2.5	1.2	+0.8	+0.3	
Foreign exchange gain/loss	▲ 1.1	▲ 0.1	▲ 1.0	▲ 0.6	+0.1	▲ 0.5	
Ordinary income	39.1	10.4	22.8	8.9	▲ 16.3	▲ 1.5	▲16.3 (▲42%)
(Margin)	3.9%	4.1%	2.5%	3.7%	▲ 1.5	▲ 0.4	
Extraordinary income/loss	▲ 3.3	▲ 4.4	8.0	6.8	+11.3	+11.3	•Extraordinary income +5.0 (9.9 → 14.9)
Income taxes	3.3	▲ 5.2	11.8	5.1	+8.4	+10.3	
Net income attributable to non-controlling interests	3.3	0.8	1.4	0.5	▲ 2.0	▲ 0.3	•Extraordinary loss +6.3 (▲13.2 → ▲7.0)
Net income attributable to owners of parent company	29.1	10.4	17.6	10.2	▲ 11.5	▲ 0.2	▲11.5 (▲39%)
(Margin)	2.9%	4.1%	1.9%	4.3%	▲ 1.0	+0.2	
Average copper price	747	729	682	660	–	–	
Average exchange rate	111	110	109	109	–	–	

Analysis of Changes in Net Sales (YOY)



Analysis of Changes in Operating Income (YOY)

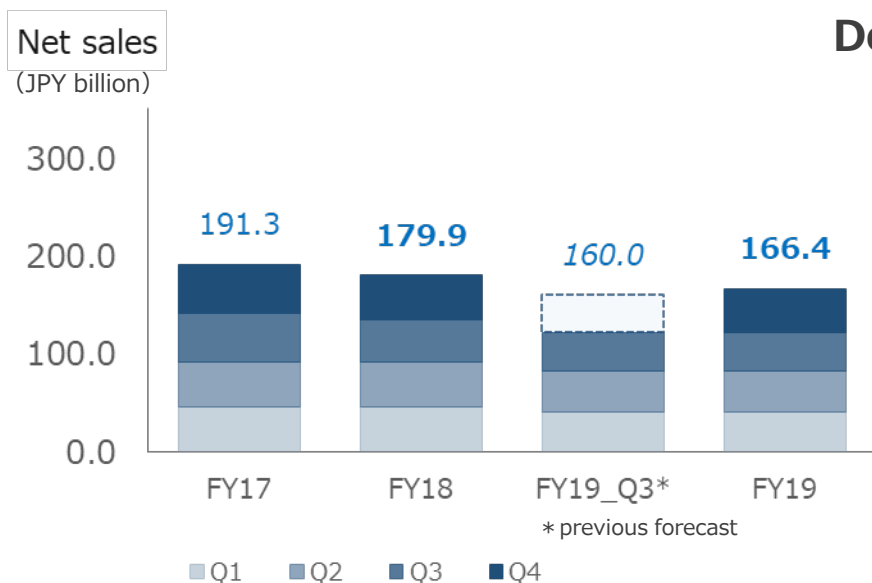


(JPY billion)

		FY18 Results	*FY19 Previous Forecasts	FY19 Results	YoY	Change from previous forecasts
Net Sales	Infrastructure	288.0	275.0	280.9	▲ 7.0	+5.9
	Communications Solutions	179.9	160.0	166.4	▲ 13.4	+6.4
	Energy infrastructure	108.1	115.0	114.5	+6.4	▲ 0.5
	Electronics & Automotive Systems	561.7	510.0	509.3	▲ 52.4	▲ 0.7
	Automotive Products & Batteries	267.3	255.0	257.6	▲ 9.6	+2.6
	Electronics Component Materials	294.4	255.0	251.7	▲ 42.7	▲ 3.3
	Functional Products	149.3	115.0	115.9	▲ 33.4	+0.9
	Service and Developments, etc.	48.6	50.0	50.3	+1.7	+0.3
	Elimination of intra-company transactions	▲ 55.9	▲ 50.0	▲ 42.0	+13.9	+8.0
	Total	991.6	900.0	914.4	▲ 77.2	+14.4
Operating Income	Infrastructure	7.4	0.0	1.7	▲ 5.7	+1.7
	Communications Solutions	9.8	0.0	1.6	▲ 8.2	+1.6
	Energy infrastructure	▲ 2.4	0.0	0.1	+2.5	+0.1
	Electronics & Automotive Systems	19.5	14.0	14.8	▲ 4.7	+0.8
	Automotive Products & Batteries	13.5	11.5	10.9	▲ 2.6	▲ 0.6
	Electronics Component Materials	6.0	2.5	3.9	▲ 2.1	+1.4
	Functional Products	13.5	7.0	7.5	▲ 6.1	+0.5
	Service and Developments, etc.	0.3	▲ 1.0	▲ 0.3	▲ 0.6	+0.7
	Elimination of intra-company transactions	0.1	0.0	▲ 0.1	▲ 0.2	▲ 0.1
	Total	40.8	20.0	23.6	▲ 17.3	+3.6

*Announced on February 5, 2020

1 -(1) Infrastructure (Communications Solutions)

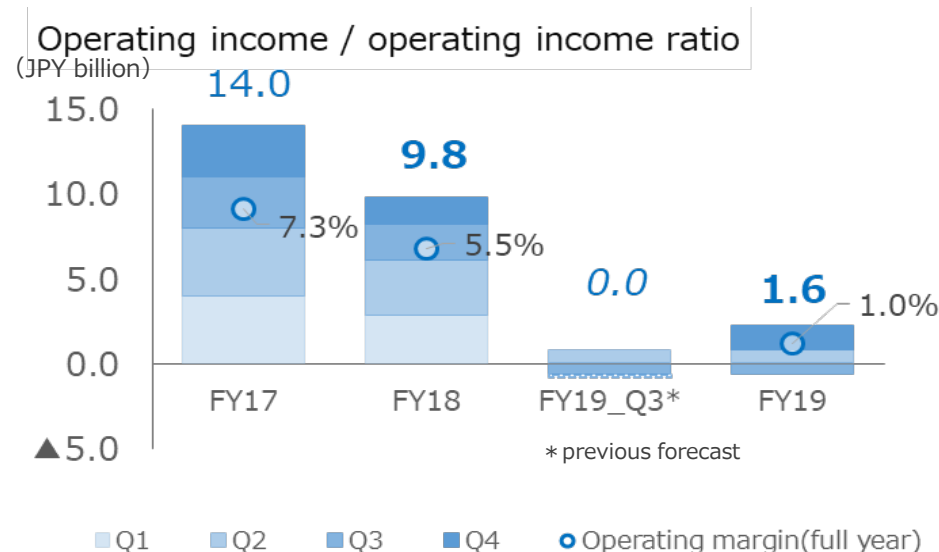


Details of FY2019 Operating Income difference

□: Positive growth factors ■: Negative growth factors

YoY difference: JPY ▲8.2 billion

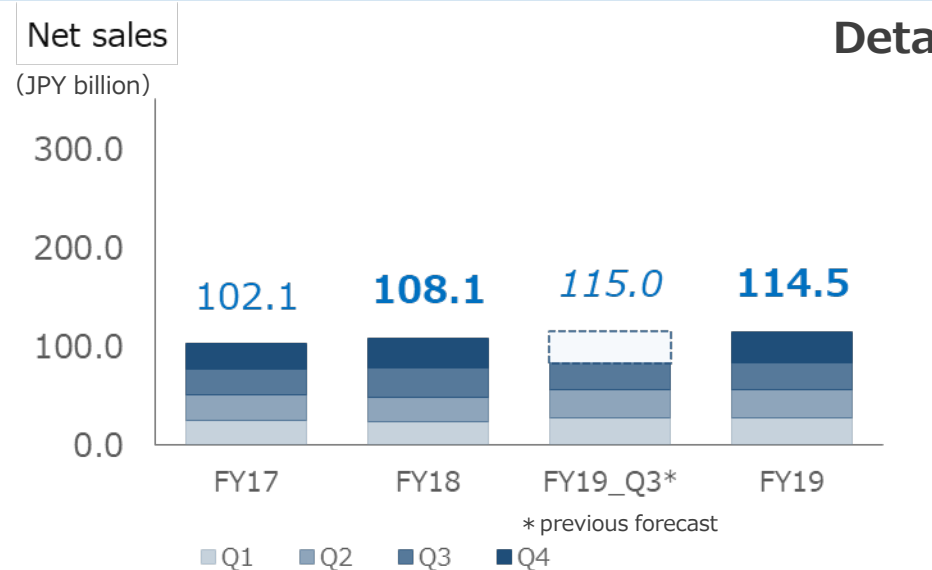
- Decreased revenue due to not simply tracking the falling optical fiber price mainly in Europe and Asia
- Although optical cable demand continued to grow in North America, the company was slow to improve productivity
- Increased R&D expenses and depreciation
- Increased revenue from advancements in mass production of next generation digital coherent products



Compared to previous forecast: JPY + 1.6 billion

- Improvement in optical cable productivity in North America
- Increased revenue from digital coherent products and network system products in Japan

1 -(2) Infrastructure (Energy Infrastructure)

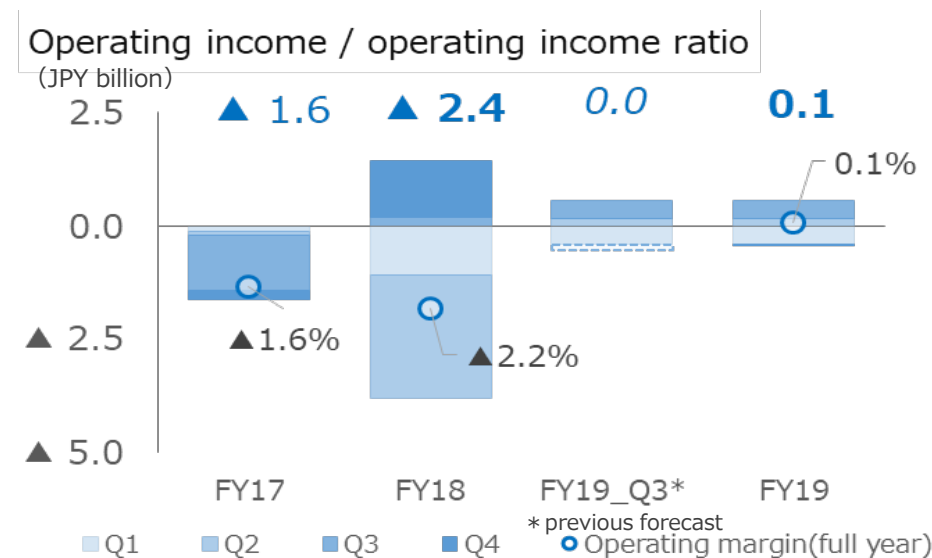


Details of FY2019 Operating Income Difference

□: Positive growth factors ■: Negative growth factors

YoY difference: JPY +2.5 billion

- Achieved profitability in the power cable business in Japan and overseas
- Completed the unprofitable overseas projects in FY2018
- Last year, provisions for loss on construction contracts were recorded for new energy projects
- Industrial power cable benefited from the effects of improved profitability
- Due to the impact of the typhoon in last September, operations at some of the power cable facilities were temporarily suspended



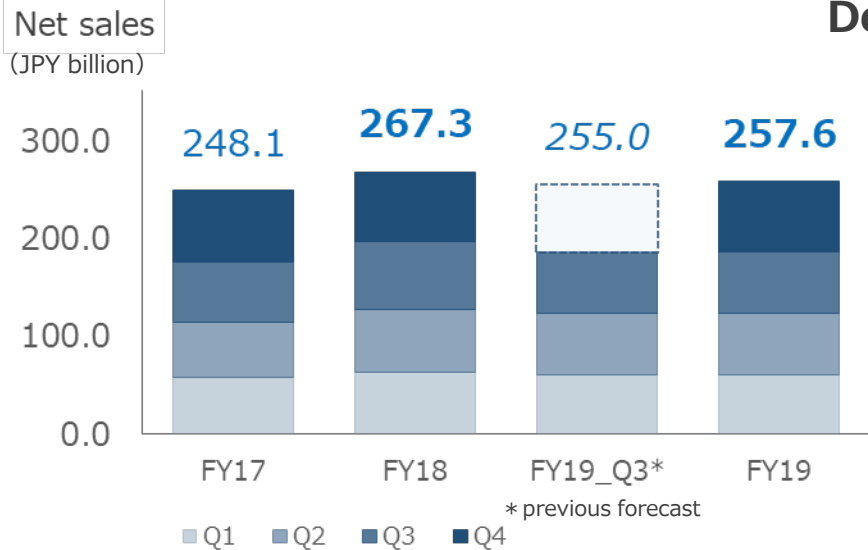
Compared to previous forecast: JPY +0.1 billion

- Steadily captured orders for underground power cable projects in Japan

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

Details of FY2019 Operating Income Difference

□: Positive growth factors ■: Negative growth factors

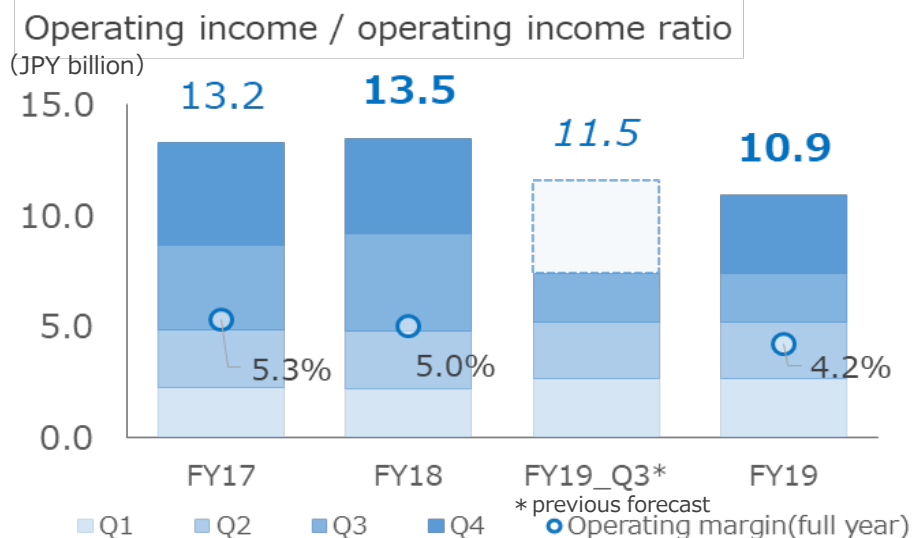


YoY difference: JPY ▲2.6 billion

- Decreased in sales of wire harnesses following lower vehicle production volumes around the world
- Increased in fixed costs such as R&D expenses and depreciation directed towards the upcoming projects starting from FY2020
- Improved productivity resulting from labor savings realized through advancements in automation

Compared to previous forecast: JPY ▲0.6 billion

- Impact of COVID-19, etc.



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

Details of FY2019 Operating Income Difference

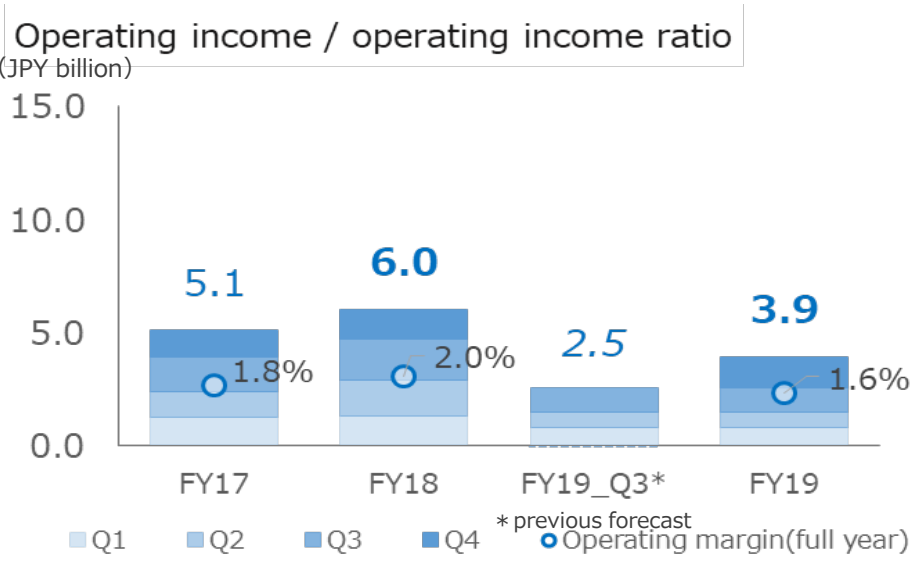
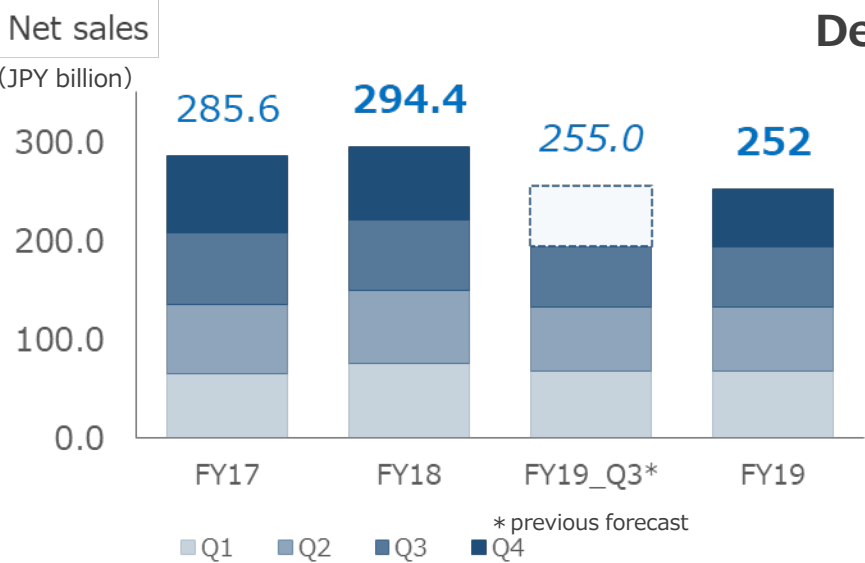
□: Positive growth factors ■: Negative growth factors

YoY difference: JPY ▲2.1 billion

- Due to the impact of the economic slowdown caused by the prolonged trade friction between the US and China, demand for electronics products including smartphones was weak
- Strong sales of magnet wires for electric cars

Compared to previous forecast: JPY +1.4 billion

- Improvements in the product mix
- Reduced fixed costs and other business expenses



3 Functional Products

Details of FY2019 Operating Income Difference

□: Positive growth factors ■: Negative growth factors

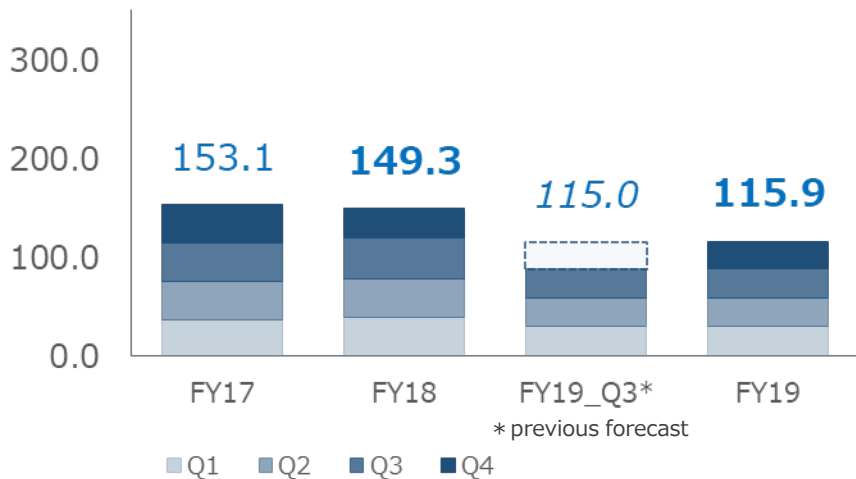
YoY difference: ▲6.1 billion

- Decreased revenue in the copper foil business due to the impact of the fire and increased expenses in relation to the restoration of the copper foil plant in Taiwan
- Weaker demand for products for data centers, memory, smartphones, etc. compared to the strong demand last year
- Strong sales of Underground cable-protecting pipes
- Increased revenue from pipe insulation following the installation of air conditioning systems in public schools

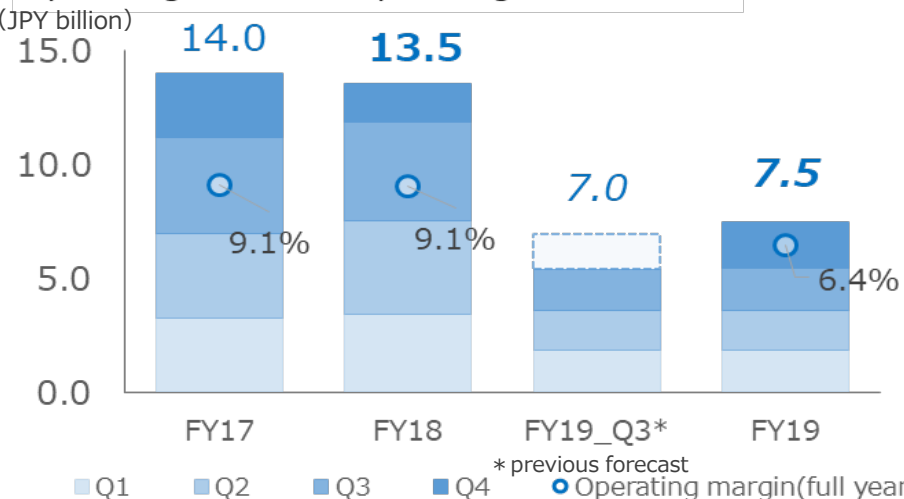
Compared to previous forecast: JPY +0.5 billion

- Recovery in data center demand
- Reduced fixed costs and other business expenses
- Impact of COVID-19

Net sales
(JPY billion)



Operating income / operating income ratio
(JPY billion)



FY2019 Results – B/S Summary

(JPY billion)

	End of 18Q4	End of 19Q4	Change
	a	b	b-a
Current assets	420.5	386.2	▲ 34.3
Cash and bank deposits	44.6	54.4	+9.7
Notes and accounts receivable trade	219.3	192.5	▲ 26.8
Inventories	122.9	115.9	▲ 7.0
Non-current assets	397.5	408.4	+10.9
Tangible fixed assets	229.4	254.2	+24.9
Intangible fixed assets	12.2	16.1	+3.9
Investments and other assets	155.9	138.1	▲ 17.8
Total Assets	818.0	794.6	▲ 23.4
Current liabilities	331.6	319.6	▲ 12.0
Non-current liabilities	206.5	201.9	▲ 4.6
Total Liabilities	538.1	521.6	▲ 16.5
Shareholders' equity	243.1	256.7	+13.6
Accumulated other comprehensive income	4.6	▲ 16.4	▲ 21.0
Net income attributable to non-controlling interests	32.3	32.8	+0.5
Total Net assets	279.9	273.0	▲ 6.9
Total Liabilities and Net assets	818.0	794.6	▲ 23.4
Interest-bearing liabilities	246.0	251.1	+5.1
Capital ratio	30.3%	30.2%	▲ 0.1
NET D/E ratio	0.8	0.8	+0.0
Return on operating assets	11.2%	6.1%	▲ 5.1
ROE	12.0%	7.3%	▲ 4.8

Inventories

Decreased by 7.0 billion yen

Tangible/intangible fixed assets

Increased by 28.7 billion yen
Impact of increased CAPEX
23.7 billion yen

Adoption of IFRS 16 Lease to overseas affiliates
7.8 billion yen

Accumulated other comprehensive income

Decreased by 21.0 billion yen
Mainly, for the valuation difference on available-for-sale securities and remeasurements of defined benefit plans

NET interest-bearing liabilities

Decreased by 4.7 billion yen
(201.4 billion yen→196.7 billion yen)

Free cash flow
8.8 billion yen

FY2019 Results

–CAPEX, Depreciation & amortization and R&D expenses

(billion yen)

	FY18 Results	*FY19 Previous Forecasts	FY19 Results	YoY	Change from Previous Forecasts
	a	b	c	c-a	c-b
CAPEX	50.0	50.0	53.1	+3.1	+3.1
Depreciation and amortization	26.3	30.5	29.4	+3.1	▲ 1.1
R&D expenses	21.1	23.0	21.7	+0.6	▲ 1.3

*Announced on February 5, 2020

Initiatives Aimed at Strengthening the Ability to Respond to Change

- The following measures are being implemented at all of the Furukawa Electric group locations in Japan in an effort to both prevent the spread of infections and continue the business operations.
 - Non-manufacturing sites: Work from home, in principle.
 - Manufacturing sites:

In the manufacturing division, implement thorough measures to prevent infections. In the back office divisions, while working from home, limit the number of employees who are required to come into work to the minimum necessary. In addition, the working times are staggered through the use of flex-time, lunch and breaks are taken at varied times, and “Three Cs: Closed spaces, Crowded places, and Close-contact settings” is prohibited in the lunch room and break room.
 - Maintain and continue the business operations based on the thorough implementation of the BCP.
- At the overseas locations, production activities currently remain ongoing with the exception of several countries.

(However, the operating level differs depending on the situation)

Going forward, while paying close attention to the situation, the company will work together with customers and fulfill our supply responsibility.

- 1. In FY2019, although the impact of COVID-19 started to appear, the benefits derived from the various initiatives lifted both operating income and net income above the forecast issued in the announcement of the Q3 results*.**

* Announced on February 5, 2020

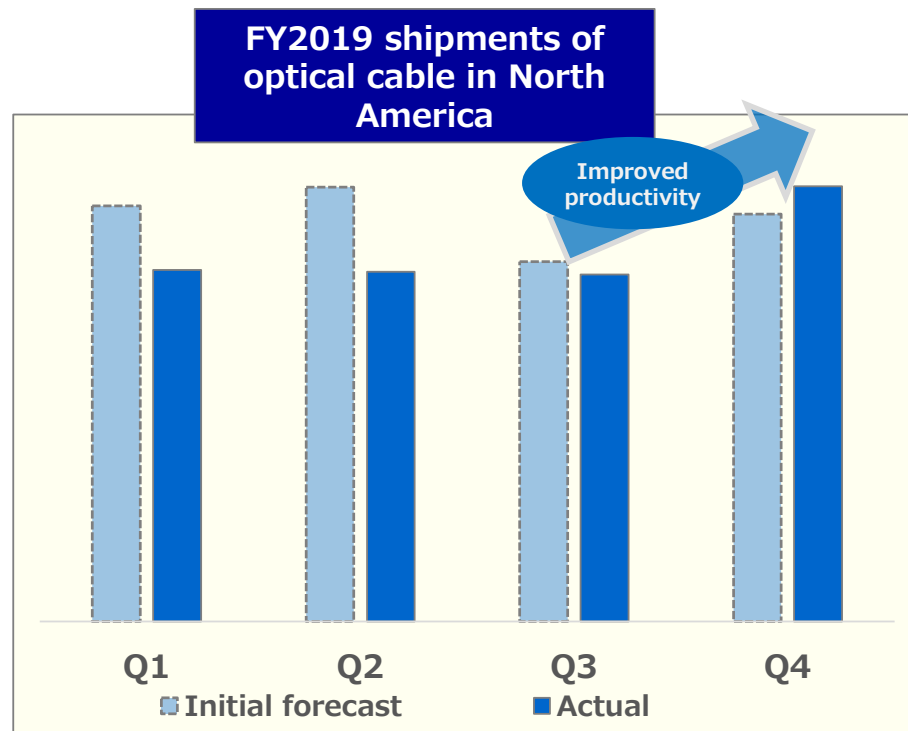
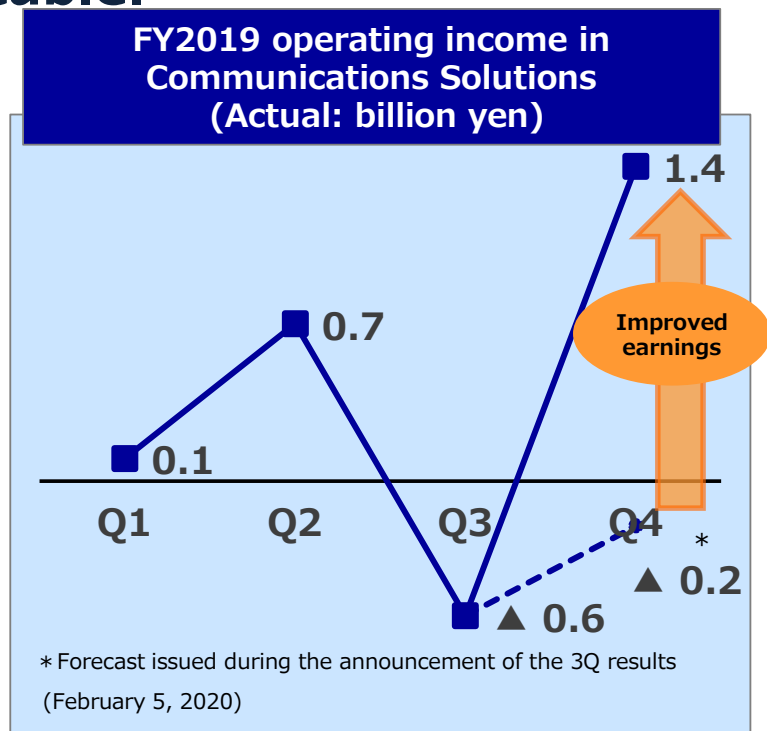
- 2. Concerning the forecast for FY2020, the impact of COVID-19 has made it impossible to rationally formulate a forecast, so no guidance will be given at this time. While assessing the future impact, an announcement will be made as soon as it becomes possible to rationally formulate the forecast.**

- 3. Established a group-wide organization on the basis of emergency management measures.**

- While performing thorough cash control by reducing expenses and compressing operating capital, efforts have already begun towards reviewing the fixed expenses.**
- In the business segments, recovery scenarios are currently being prepared for each industry.**

While grasping the changes within the industry and impact caused by COVID-19, the business activities will be advanced based on strategies and measures determined through rapid decision making.

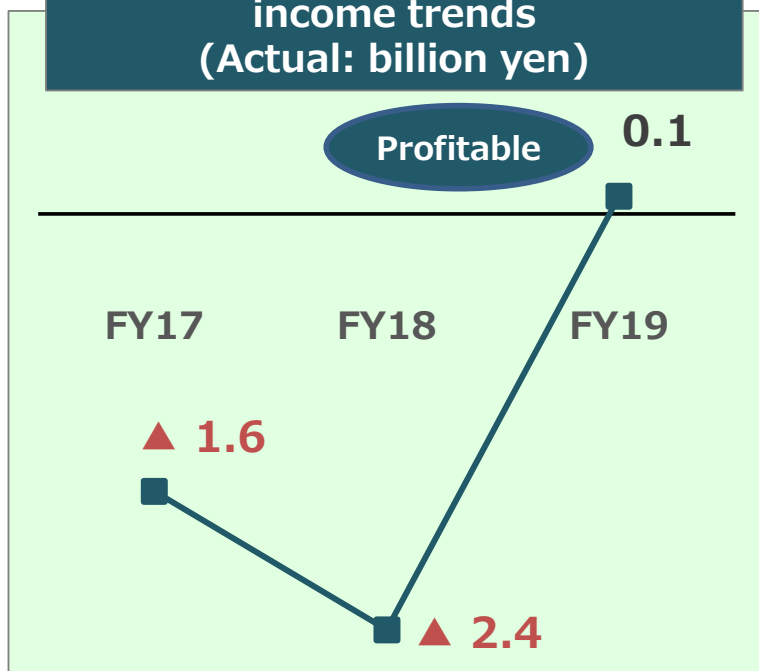
- Optical cable productivity in North America, which negatively impacted earnings in FY2019, steadily improved in Q4.
- Going forward, while continuing to improve productivity, efforts will be made to increase the added value of optical fiber and develop smaller diameter, higher density optical cable.



* Communications Solutions segment includes the Optical Fiber and Cable Products, FITEL Products and Broadband Solutions business

- In FY2019, despite the temporary suspension of operations at some of the facilities in Japan due to the typhoon in last September, a profit was achieved in the Energy Infrastructure segment* mainly for an improvement in the ability to secure orders.
- Going forward, continue to focus on renewable energy projects in Japan (submarine cable / underground cable) and Extra-high voltage underground cable.

Energy Infrastructure operating income trends
(Actual: billion yen)



* Energy Infrastructure segment includes the Power Cable and Industrial Cable & Power Cable Accessories business

Initiative	Details
Secure / respond to orders	<ul style="list-style-type: none"> • Start shipments for the Japan renewable energy project orders received in FY2018 • Receive orders for submarine cable projects in Asia
Increase cable manufacturing capacity (improve productivity)	<ul style="list-style-type: none"> • Start operations at the facilities for long-length submarine cable • Prepare for the launch of the Chiba No. 2 Works (full-scale launch from FY2020)
Strengthen installation capacity	<ul style="list-style-type: none"> • Secure and train jointer personnel • Strengthen cooperation with affiliated companies
Technology development	<ul style="list-style-type: none"> • Develop next generation cable and connection components • Obtain the various certifications for submarine cable

■ Details of the FY2019 activities and monetary benefits

Activities (will continue into FY2020)

Optical Fiber & Cable Products:

- Expand sales of high performance fiber and cable using such fiber
- Promote sales activities with an awareness of optimizing the product mix
- Improve productivity and reduce the cost of manufacturing

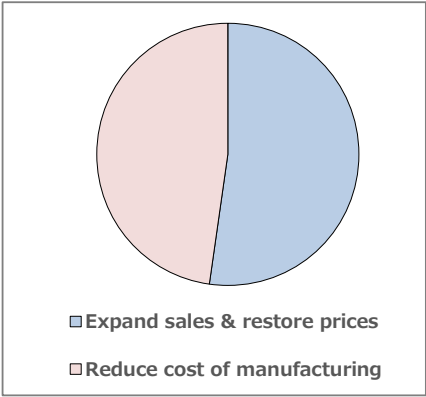
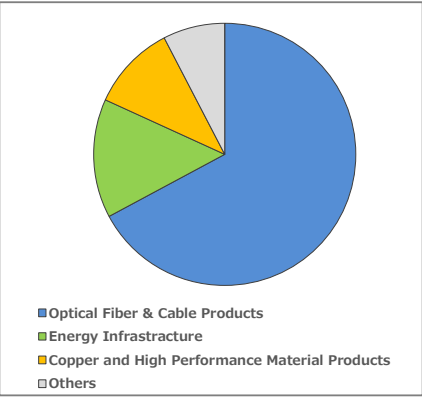
Energy Infrastructure:

- Improve productivity by increasing cable manufacturing capacity and strengthen installation capacity
- Expand sales of high value added products (cable and components with good installation features)

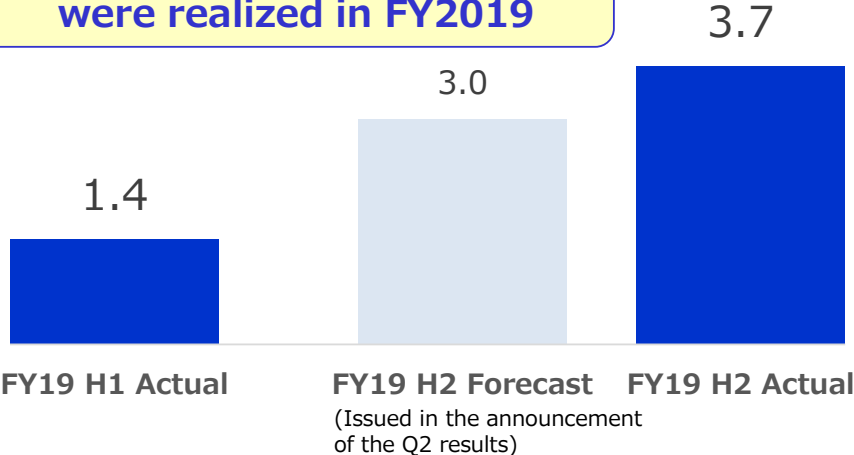
Copper and High Performance Material Products:

- Expand sales of high value added products directed at improving the product mix (original alloys, etc.)
- Strengthen the manufacturing & sales alliances and reduce the cost of manufacturing

Monetary benefits (Operating income, billion yen)



About 5 billion yen in benefits were realized in FY2019



- **Optical network and data center demand has soared recently directed at preparing the infrastructure environment, and this has led to expectations for higher medium-term demand. However, there is no change to the unbalanced supply and demand of optical fiber and cable in China, and prices are not expected to recover for some time.**
- **Weak global vehicle production volumes are expected to be pushed further down.**

Business segment	Market environment
Communications Solutions	<ul style="list-style-type: none"> • Do not expect a recovery in optical fiber and cable prices around the world for some time • Demand for optical fiber and cable is firm in North America • Although there are medium-term expectations for growth following increased telecommunications traffic, there is a risk customers will delay the investments
Energy Infrastructure	<ul style="list-style-type: none"> • In Japan, underground cable is firm, and although a risk of delays to the maritime surveys for submarine cable exists, there has been no major impact • Although the market in China slumped during Jan – Mar, it is recovering • The construction market in Japan has not been majorly affected excluding the postponements by several builders
Automotive Products & Batteries	<ul style="list-style-type: none"> • In addition to the weakness in the global market that began in FY2019, vehicle production volumes are expected to further decline due to the impact of COVID-19
Electronics Component Materials	<ul style="list-style-type: none"> • Deterioration in the automotive market • Excluding some mobile communications products, the electronics market continues to be weak
Functional Products	<ul style="list-style-type: none"> • Data center market started a full-scale recovery from FY2019 Q4. In addition, the expansion of working from home and online learning around the world has led to soaring demand • The increase in working from home around the world has created demand mainly for laptops • Semiconductor products are entering a period of adjustment following a build-up of inventory • Infrastructure products (functional plastics) are facing the suspension of operations at customers' plants and a breakdown in distribution and the supply chain

- Going forward, the impact of COVID-19 is expected to significantly appear in multiple forms, including market deterioration mainly in the automotive market, supply chain issues from procurement to shipping in each business, and lower plant operating rates at customers' and Furukawa Electric's plants.

Business segment	Status of operations at the main plants (since January 2020)
Communications Solutions	<ul style="list-style-type: none"> • Lower operating rates at the fiber and cable plants in North America due to fewer employees being able to come to work as a result of the movement restrictions • Temporarily suspended operations at the plants in Europe, Central America, South America and India (resumed all operations on early May)
Energy Infrastructure	<ul style="list-style-type: none"> • Temporarily suspended operations at the power cable plant in China (resumed operations from February)
Automotive Products & Batteries	<ul style="list-style-type: none"> • (Temporarily) suspended operations at the overseas wire harness plants (resumed operations from February in China and mid-May in Malaysia. Operations are expected to resume from the end of May in Mexico) • In accordance with the shelter in place orders issued by the government in each country, the operating rate at the overseas plants, including the Philippines, has fallen
Electronics Component Materials	<ul style="list-style-type: none"> • Temporarily suspended operations at the magnet wire plant in Malaysia (resumed operations from early May)
Functional Products	<ul style="list-style-type: none"> • Temporarily suspended operations at the thermal products plant in China (resumed operations from February) • Temporarily suspended operations at the functional plastics plants in Europe (resumed operations from early April) and Malaysia (resumed operations from early May)

Already commenced the following responses.

Accelerate additional responses under the leadership of the group-wide Emergency Response Team.

■ **Reduce expenses / compress operating capital**

• **Inventories: Steady improvements were made as of March 31, 2020**

(Forecast when announcing Q3 results: About 120.0 billion yen / 48 days*, Actual: 115.9 billion yen / 44 days*)

*Days of inventories: Based on net sales in Q4 (Jan-Mar)

Going forward, appropriately manage inventory levels based on the customer and supply chain trends

■ **Review the fixed expenses**

• **Capital investments: Focus on investments for IT infrastructure and for orders already received**

• **R&D expenses: Respond to the changes in society following the end of COVID-19 pandemic, and focus on the information domain (5G, AI, AR/VR), medical domain, and the overlapping domains**

■ **Asset sales (Non-current assets, investment securities, etc.)**

• **In FY2019 Q4, an extraordinary income of 10.0 billion yen was recorded from the sale of land and investment securities. Asset sales will continue to be carried out.**

Grasp the overall status of the business (operations, supply chain, etc.) in a timely manner, and along with taking the necessary actions, analyze the demand data necessary for creating the business recovery scenario.

■ Base scenario (Intermediate):

The pandemic comes to an end around this September, and economic activities return to normal over the following 6 months.

- Given the current lack of forecasts for an end to the pandemic on a global scale, there are concerns the situation could deteriorate going forward, and it will be necessary to manage the business with consideration for multiple possibilities.

■ Accelerate the execution by the Emergency Response Team, which carries out the core functions for the response to the COVID-19.

- Prepare multiple scenarios based on the industry trends, and conduct appropriate execution and decision making in relation to the companywide strategy and business.
- Focus on the depth and length of the market drop, and rapidly execute effective measures in response to the changes in the business environment.

■ The market trend in the telecommunications industry is expected to be firm growth.

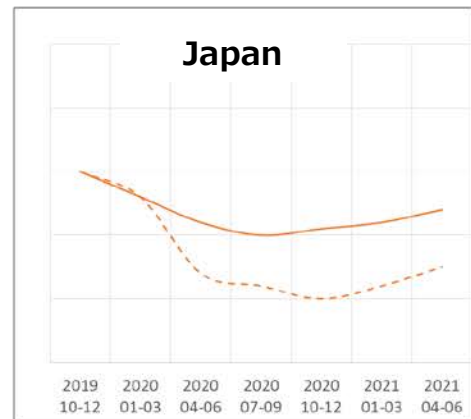
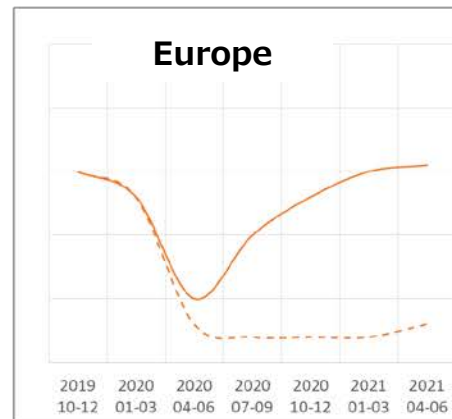
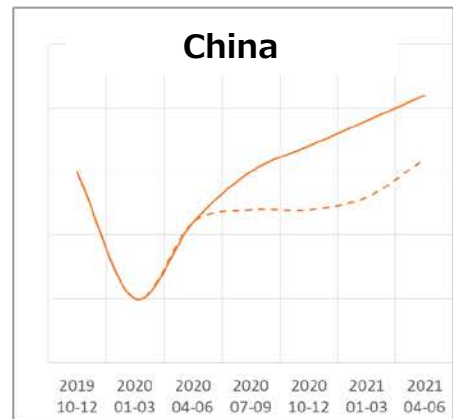
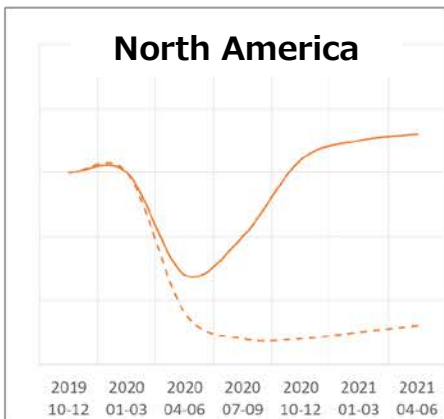
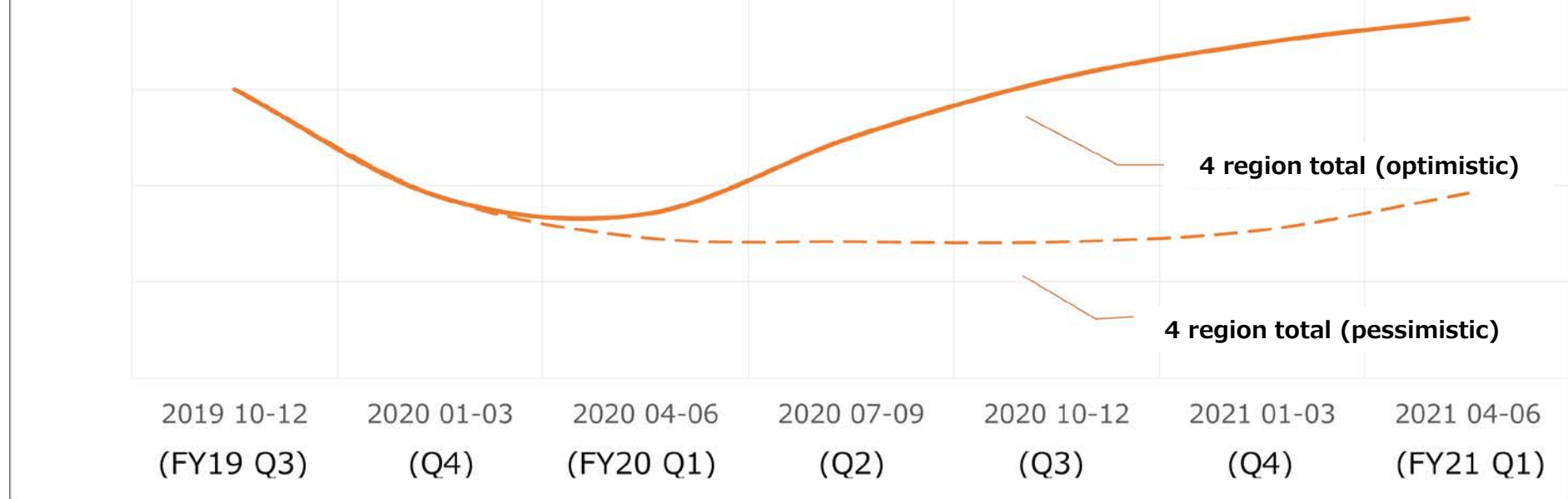
- Assume the scenario in which the market significantly contracts from FY2019 Q4 through FY2020 Q1 due to the effect of COVID-19 and then recovers thereafter. Secure a supply system for products that are competitive within the market.

Recovery scenarios

Example: Telecommunications industry

The market in China, which fell earlier than other countries and experienced a large drop, will drive the recovery.

There is a major gap between the optimistic and pessimistic scenarios for North America and Europe.



■ Shareholder returns

- **FY2019 dividend (planned): 85 yen**

※ No change from the announcement on May 14, 2019.

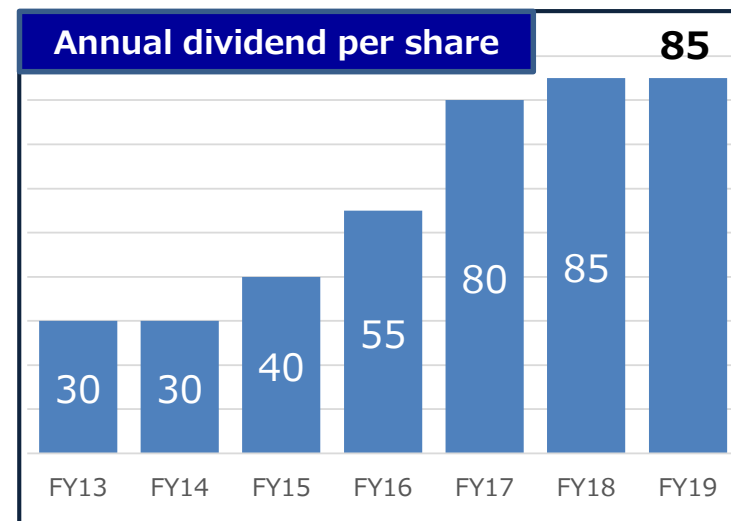
	FY16 Actual	FY17 Actual	FY18 Actual	FY19	
				Forecast*	Planned
Annual dividend per share	55 yen	80 yen	85 yen	85 yen	85 yen

*Announced on May 14, 2019

Regarding shareholder returns, a dividend of 85 yen per share will be issued based on the company's policy of providing a stable dividend.

- **FY2020 dividend**

※ An announcement will be made when issuing the FY2020 forecasts.



※ The company executed a one-for-ten reverse stock split on October 1, 2016, so the dividend amounts for FY13, FY14 and FY15 have been increased by a factor of 10 in order to make them comparable with the dividends after the reverse stock split.

The corporate philosophy of the Furukawa Electric Group is, “Drawing on more than a century of expertise in the development and fabrication of advanced materials, we will contribute to the realization of a sustainable society through continuous technological innovation”, and the founder’s words of “3 values: Value employees. Value customers. Value new technology. Also, benefit society” have been handed down as part of the company’s DNA.

While implementing these “3 values”, through the efforts to become a sustainable company and increase corporate value, the belief of “providing a sense of security and expectation to all shareholders” is a solid part of the foundation upon which the group stands.

Going forward, while continuing to ensure employees can work safely and securely and in order to maintain employment levels, promote the “acceleration of work style reform.”

(Main initiatives for FY2020)

- Preparation of an ICT environment for working from home
- Evolution of communication, such as remote meetings
- Transformation to a management style that suits the new working style

Thank you very much
for your attention.



(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 Materials	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.		