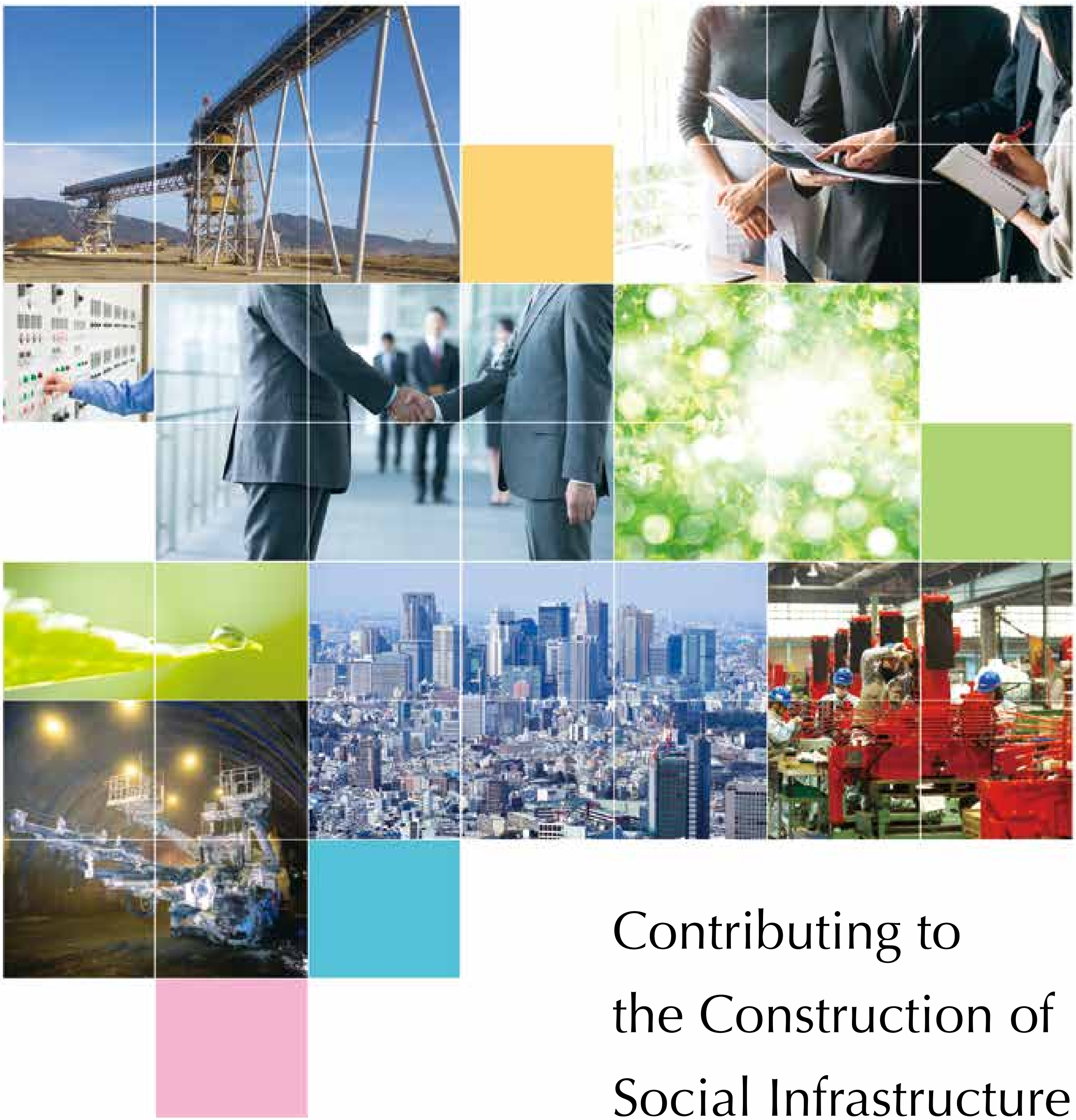
FURUKAWA

Annual Report 2018

Year ended March 31, 2018

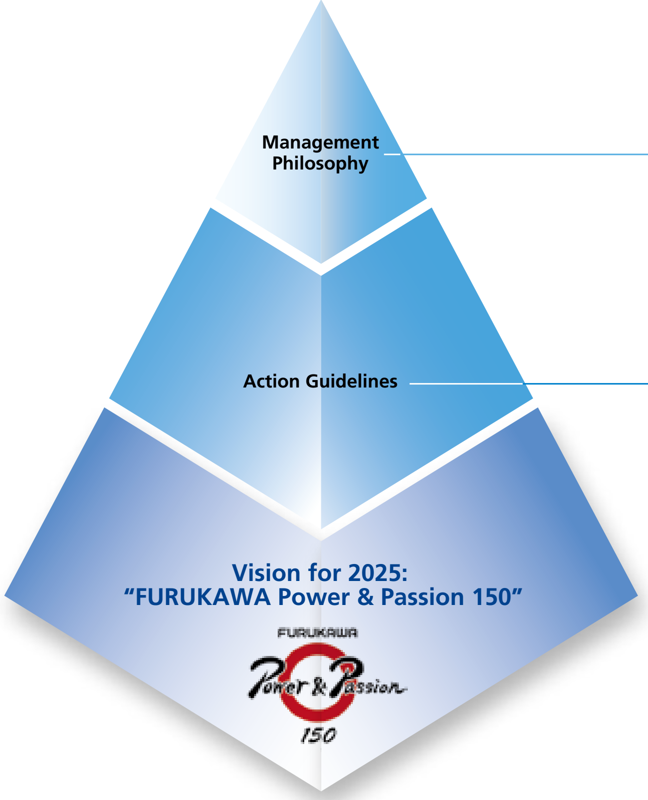


Contributing to
the Construction of
Social Infrastructure

About the Furukawa Company Group

The key to the success of the Furukawa Company Group, which recently celebrated the 143th anniversary of its founding, began with the development of the Ashio Copper Mine by founder Ichibei Furukawa. At the time, the Company introduced world-leading mine development technologies that have become the foundation for its technological expertise today. Since then, we have developed and advanced our technologies, amassed through mine development, to build our two core business domains: the Machinery business and the Materials business. Through both of these businesses, we will continue providing products that the world needs. At the same time, we will strive constantly to achieve the objectives of our Vision for 2025, entitled "FURUKAWA Power & Passion 150," as we approach our 150th anniversary in fiscal 2026.

Ashio Copper Mine (around 1920)



FURUKAWA CO.,LTD.

The Furukawa Company Group will remain indispensable to society by always embracing a spirit of challenge, advancing the technologies that have underpinned the foundation of society that originated in mining development.

In order to live up to our Management Philosophy, we put our Action Guidelines of Innovation, Creativity and Harmony into practice, while always bearing in mind the three key words, Luck, Stolidity and Perseverance that best represents the spirit of our founder.

Innovation: We will work constantly at self-innovation by embracing a future-oriented mindset.

Creativity: We will seek to create reliable, appealing products that meet market needs.

Harmony: We will improve management transparency and contribute to the development of a society that is in harmony with the environment.

1 Increase the value of the Furukawa brand through marketing-based management

- Develop products and technologies that match market needs
- Reinforce technological sales capabilities (proposals and solutions) reflecting customer needs
- Achieve category-leading positions by concentrating on niche products that have competitive advantages and using differentiation strategy
- Cultivate and create new markets and product categories; build a new business model

2 Sustainably expand the Machinery Business

- Reinforce revenue bases in growing overseas markets mainly in business related to infrastructure and resource development
- Strengthen and enhance stock business
- Maximize business opportunities by demonstrating comprehensive Group competences and reinforcing engineering strengths

3 Strengthen and expand our human resource bases

- Build vibrant human resources and corporate culture for a new Furukawa
- Secure, utilize, and develop diverse human resources in Japan and overseas
- Put even more effort into training sales and marketing personnel

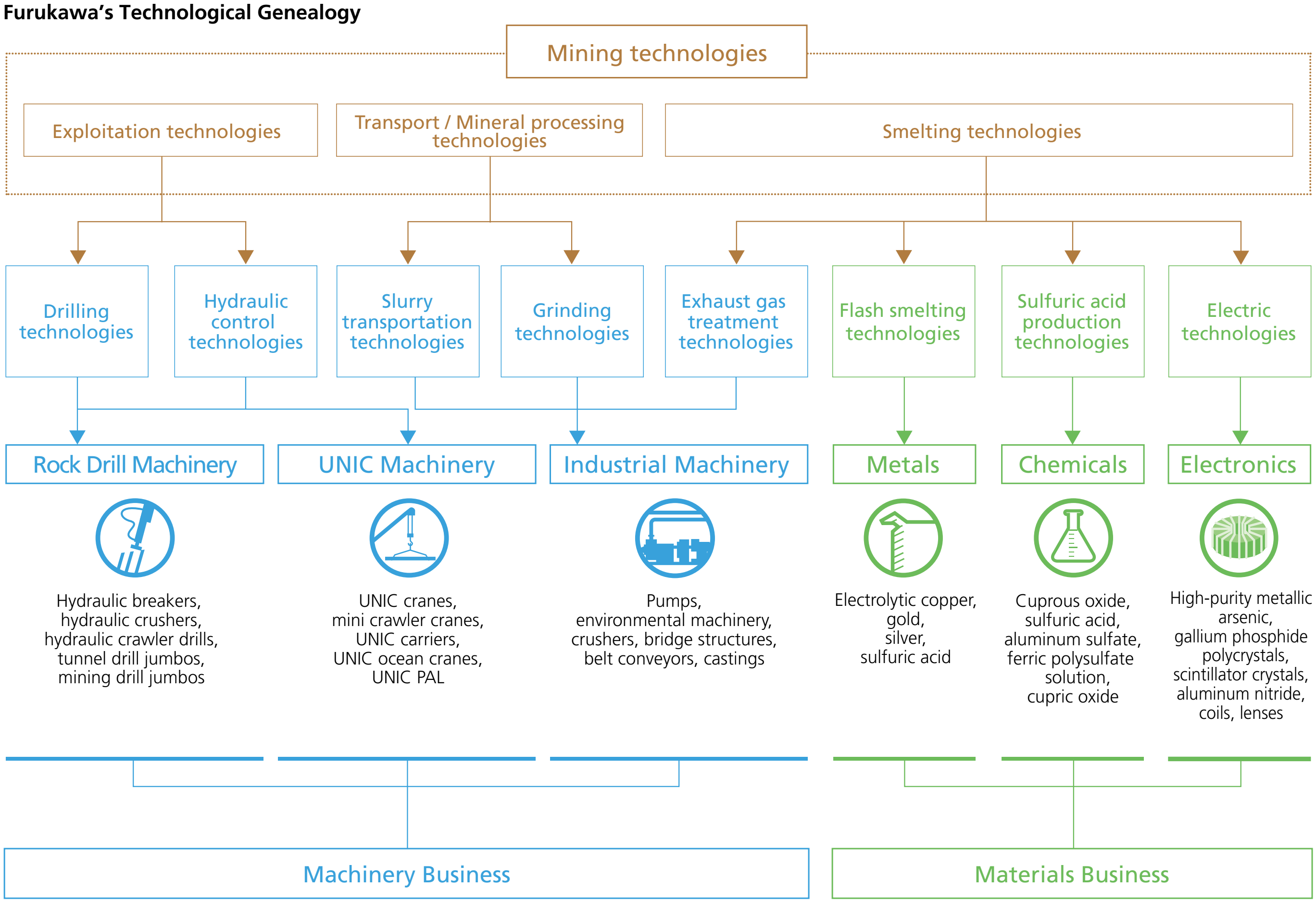
4 Actively promote investments to increase corporate value

- Make proactive capital investments necessary for growth
- Expand business through strategic M&A and alliances

5 Establish a robust corporate foundation

- Increase corporate value by improving profitability and capital efficiency, targeting ROE of more than 10%
- Establish a strong financial base
- Achieve balanced appropriations between investments for growth and return to shareholders

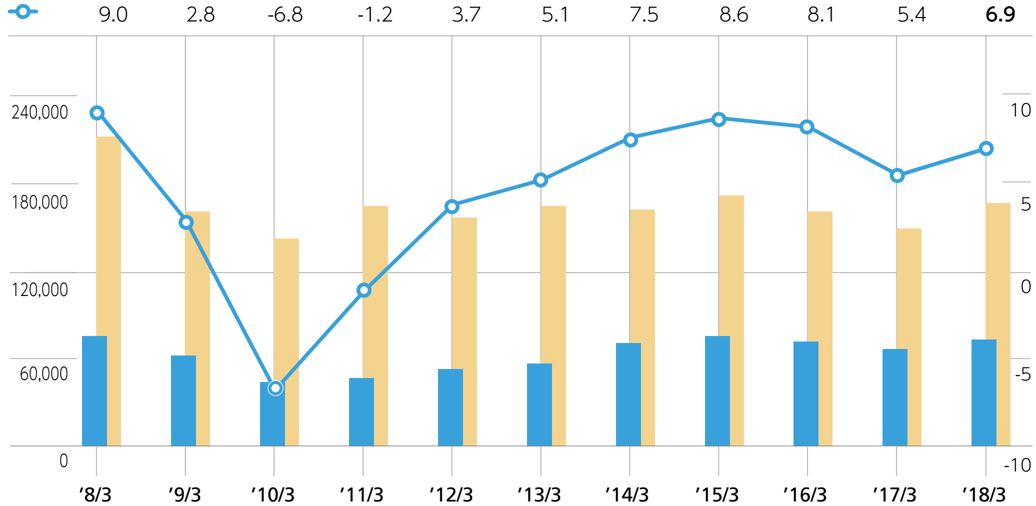
Furukawa's Technological Genealogy



Machinery Business Performance

Net sales (¥ millions)
Machinery business sales (¥ millions)
Machinery business operating margin (%)

	'8/3	'9/3	'10/3	'11/3	'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3
Machinery business sales	75,841	62,639	44,313	47,025	53,198	56,852	71,111	75,990	72,232	66,803	**73,453**
Machinery business operating margin	9.0	2.8	-6.8	-1.2	3.7	5.1	7.5	8.6	8.1	5.4	**6.9**



Year ended March 31, 2018

Net sales
¥167,696 million

Machinery business sales
¥73,453 million

Operating margin
4.7 %

Machinery business operating margin
6.9 %

Conveying Our Approach to Stakeholders

President and Representative Director
Naohisa Miyakawa

We have a long history dating back 143 years. Since our establishment as a mining company, we have undertaken various changes, including business transformation and diversification, while overcoming multiple periods of hardship. This history is embodied in today's Furukawa Company, which is the core entity of the Furukawa Company Group.

The first thing I thought about when I assumed office as president in 2013 was how I'd like to guide the Company into the future. With the existing management, maintaining the current status was challenging, and I was concerned that the situation would deteriorate over time. With this in mind, I explored ways to continue maintaining our sustainability as a company. At that time, our 150th anniversary, in 2025, was a little more than 10 years away. Moreover, companies were facing pressure to formulate and announce medium- and long-term business plans in response to Japan's Corporate Governance Code and other social demands.

Vision for 2025

In order to plan and execute growth strategies on a sustainable basis under such circumstances, I felt the strong need to enunciate our corporate philosophy and put forward a clear vision so as to motivate our executives and employees. I came to realize that without a clear philosophy and vision we cannot move forward. We subsequently engaged in various investigations and discussions, and used 2015—our 140th anniversary—as an opportunity to revamp our management philosophy, and then formulated our first long-term vision as a company. "The Furukawa Company Group will remain indispensable to society by always embracing a spirit of challenge, advancing the technologies that have underpinned the foundation of society that originated in mining development." This is our management philosophy, which simply expresses how we wish the Group to continue in the future.

I believe that the Group's role in society is to utilize its amassed technologies, as well as technologies advanced and developed by transforming and harnessing such amassed technologies, to resolve today's social problems. We hope to connect various technologies used in mining development to modern technologies. We will also transform our strengths in various areas—including products used in civil engineering, transportation, port infrastructure development, and disaster countermeasure projects, as well as materials used in energy saving, environmental protection, and new technology development—into trusted and appealing products and technologies that reflect social needs.

In the approach to its 150th anniversary in fiscal 2026, the Furukawa Company Group formulated its Vision for 2025. Under the vision, entitled "FURUKAWA Power & Passion 150," we will strive to "Become a corporate group that leverages its reputation for category leadership and uniqueness to deliver growth" and generate consolidated annual operating income regularly in excess of ¥15 billion. Utilizing experience and technologies amassed to date, all executives and employees of the Group will unite with a sense of power and passion in an effort to realize Vision for 2025. This vision underscores our commitment to earning the renewed trust of all stakeholders by meeting their expectations, and articulates targets to aim for and five policies for achieving those targets. The five policies are: "Increase the value of the Furukawa brand through marketing-based management" (the central policy), "Sustainably expand the Machinery business," "Strengthen and expand our human resource bases," "Actively promote investments to increase corporate value," and "Establish a robust corporate foundation."

Marketing-based management

"Marketing-based management" means "providing new value to customers by solving their problems." This entails incorporating marketing into the core of management and having executives and employees act with a marketing-driven approach to demonstrate leadership, with value creation for customers firmly in mind. Outside the Group, "customers" means all stakeholders, while inside the Group it means all related parties, including individuals and departments that are connected by work. Also, "problems" includes problems not yet manifested. While our first priority is to solve problems recognized by customers, we will also identify and resolve problems that have not yet materialized—problems that, if solved, would greatly benefit customers. In these ways, we are expressing our desire to deepen ties with customers, grow sustainably, and enhance corporate value.

Medium-Term Business Plan 2019

The next step after formulating Vision for 2025 is the medium-term business plan. We conducted various training sessions, including on analytical methods, for executives and employees who spearhead formulation of business plans, and started work on our next plan formulation. We then undertook backcasting from our Vision for 2025, which we divided into three phases, and set milestone performance indicators for fiscal 2023 and fiscal 2020. Phase 1 is the three-year period covered by our Medium-Term Business Plan 2019 (April 2017 to March 2020), announced last year. This is positioned as a period of "Building foundations for renewed growth." Meanwhile, I have conveyed my thoughts to all executives and employees, that "All executives and employees must accelerate their efforts to create a new Furukawa Company Group with one common aspiration." Everything begins from the heart. In order to realize our future vision, all executives and employees need to work together with a shared feeling, and they have begun this process.

Going forward, I want to use various opportunities to engage in more proactive dialogue with stakeholders, with the aim of disseminating our thoughts, attitudes, and current status more broadly and thus ensuring a deeper understanding. We will reflect the valuable opinions obtained through such dialogue in our ongoing quest to achieve growth together with stakeholders and continuously improve our ability to generate income as a corporation. We will bring together the wisdom and enthusiasm of each and every executive and employee to meet your expectations.

August 2018

Naohisa Miyakawa

Naohisa Miyakawa
President and Representative Director

Strategies for Achieving Vision for 2025

We have now completed the first year of Medium-Term Business Plan 2019, aimed at achieving our Vision for 2025, "FURUKAWA Power & Passion 150." In this section, President Miyakawa talks about the future of Furukawa and offers his thoughts for achieving Vision for 2025, while looking back on the first year of the business plan.

Q1

How do you evaluate the Company's performance in fiscal 2018 (ended March 31, 2018)?

We posted consolidated net sales of ¥167,696 million and operating income of ¥7,821 million, with both figures exceeding our initial consolidated forecasts. Although it was just the first year of Medium-Term Business Plan 2019, we reached practically all of our targets. On the other hand, our performance was swayed by the Metals segment. Due to rising copper prices, we revised our full-year performance forecasts upwards when announcing our second- and third-quarter results. Toward the end of the fiscal year, however, copper prices fell sharply and the yen appreciated, so we did not end the year as planned and failed to reach our higher forecasts, which was disappointing. Since taking office, I have promoted a shift in emphasis to our Machinery business in order to embrace a management structure that is not vulnerable to conditions in the metals market. Given our results in fiscal 2018, I felt once again a strong desire to continue this shift.

On a positive note, I felt that recognition of the need to address the issues and consider related initiatives have finally spread to our executives and employees. During the fiscal year, we clarified various priorities in this regard. We have positioned Phase 1 of Vision for 2025, covering the three-year period from April 2017 to March 2020, as a period of "Building foundations for renewed growth." Fiscal 2018 was the first year of sowing the seeds for the second and third phases.

Positioning of Medium-Term Business Plan 2019: "Building foundations for renewed growth"

Vision for 2025 (ideal image for 150th anniversary of foundation)

Increase corporate value

Become a corporate group that leverages its reputation for category leadership and uniqueness to deliver growth

Targeting consolidated annual operating income regularly in excess of ¥15 billion

Phase		Phase 1	Phase 2	Phase 3
Time period		FY2018–2020	FY2021–2023	FY2024–2026
Positioning		Build foundations for renewed growth	Expedite growth and further improve profitability	Complete realization of Vision for 2025
Performance indicators	Operating income	¥8.5 billion range	—	Regularly in excess of ¥15 billion
	ROE	6–7% range	—	More than 10%

Q2

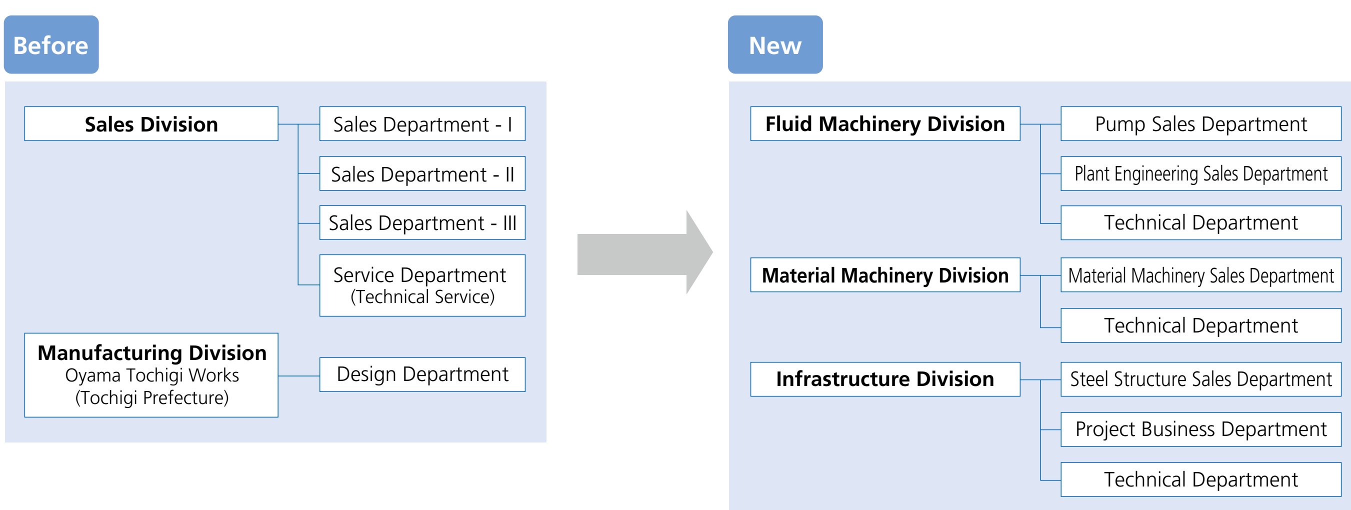
What issues and problems became clear in fiscal 2018, and what are your targets for fiscal 2019?

When we launched Medium-Term Business Plan 2019, we clarified the strategies of the Rock Drill Machinery segment and the UNIC Machinery segment—both parts of our core Machinery business. In the Rock Drill Machinery segment, we strengthened our life cycle support (LCS) capabilities with the aim of expanding profits in both our flow business and stock business. In the UNIC Machinery segment, we sought to capture stable earnings in the domestic market and expand earnings from overseas sales.

In the Industrial Machinery segment, we worked to shake off the label of a simple equipment manufacturer in order to reinforce our engineering strengths. However, our approach to engaging in specific initiatives is not yet confirmed and remains vague, even after many discussions on the issue. Nevertheless, we managed to see progress with the plan–do–check–act (PDCA) cycle of Medium-Term Business Plan 2019. In April 2018, we also implemented a reorganization to focus on a selection and concentration strategy, under which we will not hesitate to make any necessary changes. By combining the sales and design functions into a business divisional system, we can accurately grasp the issues and requests of customers, which will enable us to make problem-solving proposals. Although the Industrial Machinery segment still faces many difficulties, we will further strengthen its engineering capabilities with the aim of transitioning from a mere vendor to a strategic partner with our customers.

In fiscal 2019, ending March 31, 2019, our forecast for operating income is ¥7.0 billion (as announced on August 6, 2018), which is lower than the fiscal 2018 result. This reflects our assumption of a ¥105/US$1 exchange rate and the yen's appreciation. Despite a numerical decline in operating income, the most important point in the three years covered by Medium-Term Business Plan 2019 is whether or not we can build foundations for renewed growth aimed at achieving Vision for 2025. Our final target for fiscal 2020, the final year of Medium-Term Business Plan 2019, is operating income in the ¥8.5 billion range. Between now and then, we will face challenges, including changes in exchange rates, nonferrous metal market conditions, interest rates, overseas country risk, and legal regulations. Looking at the big picture, however, we are moving steadily forward, and I feel that individual measures taken by each business, department, and headquarters are progressing smoothly.

Industrial Machinery Segment: Organizational Change



Q3

Please tell us about particular strategies of focus in your quest to achieve the goals of Medium-Term Business Plan 2019.

I believe that improving profit margins is most important in order to achieve the final targets of the plan, which is operating income in the ¥8.5 billion range and return on equity (ROE) in the 6–7% range. To achieve this ROE target, we will need a return on sales of 2.85% (profitability), total asset turnover rate of 0.78 times (efficiency), and financial leverage of 2.65 times. Our policy of reducing interest-bearing debt will lead to deterioration of financial leverage, so improving ROE will require us to switch to an income structure that emphasizes profit margins, especially in the Machinery business.

As part of this initiative, the UNIC Machinery segment is making capital investments of approximately ¥9.0 billion in the Sakura Plant over three years from fiscal 2017, and the Rock Drill Machinery segment will spend roughly ¥6.5 billion in the Yoshii Plant over a four-year period from fiscal 2019. By introducing automation, robotics, and other technologies, we plan to dramatically improve efficiency and productivity and thus enhance our operating margin. To transform our management structure, meanwhile, we have decided to emphasize management that focuses on return on assets (ROA) for each business segment. In addition to basic strategies implemented by each department, we expect that these efforts will help improve overall profitability. I recognize that we are at a critical point in our quest to build foundations for renewed growth and pave the way for Phase 2 of our vision.

Efforts to Improve ROE

ROE	=	Profitability (Return on sales)	X	Efficiency (Asset turnover)	X	Leverage (Financial leverage)
FY2015: 15.9% (result)		5.68%		0.85 times		3.29 times
FY2016: 7.5% (result)		3.12%		0.80 times		2.98 times
FY2017: 5.9% (result)		2.84%		0.74 times		2.80 times
FY2018: 5.9% (result)		2.85%		0.78 times		2.65 times
FY2020: 6–7% range (target)		**Profitability: Improved**		**Efficiency: Improved**		**Leverage: Reduced**

Q4

Please tell us your thoughts on ESG and SDGs initiatives from the perspective of Furukawa.

In recent newspaper articles, hardly a day goes by without a mention of environmental, social, and governance (ESG) issues, and interest in the United Nations Sustainable Development Goals (SDGs), as well as the Paris Agreement and other social issues, has been rising internationally since 2015. Let's look back on our own history. After our founding in 1875, we incrementally introduced the world's most advanced mine technologies in the Ashio Copper Mine. We also built Japan's first hydroelectric power plant for residential power generation. The Ashio Copper Mine had a history associated with pollution, which is unfortunate, but we made extraordinary, pioneering efforts to overcome that problem. For example, we carried out emergency mine pollution prevention work, developed innovative self-smelting technologies to combat air pollution, and took other measures to minimize various pollution issues. We subsequently provided assistance to various copper production companies related to our self-smelting technologies, and engaged in Japan's first occupational safety campaign to translate and promote the "Safety First" slogan that started in Europe and North America. In addition, we have applied mine-related technologies to foster domestic infrastructural development. This history paved the way for our current approach to ESG and the SDGs.

The history of our pioneers has been inherited as an important part of our DNA. We have always believed that corporate social responsibility (CSR) activities are a key component of management and that we should fulfill our social responsibilities through our business activities. Based on this belief, we will promote a mindset that integrates business and CSR activities. We have also started in-house training, discussions, and reviews aimed at determining how we can approach and contribute to achieving the 17 SDGs and the associated 169 targets.

Q5

Please introduce examples of how the Company's business activities have helped resolve social problems.

Many of our business activities are related to the construction of social infrastructure. By building sustainable, robust infrastructure, we have contributed to social advancement and people's lives.

To cite a recent example, we installed a long-distance belt conveyor, a large-scale crusher, and other earth-moving equipment in a project for relocating people to higher ground in Rikuzentakata City, Iwate Prefecture, which was affected by a major earthquake and tsunami. Compared with using dump trucks, this shortened the earth-moving time to about one-third, which helped accelerate the restoration of the disaster-affected area. A new town has already sprung to life, and when the local people expressed their appreciation I realized that the Company played a role in resolving an urgent social problem.

In another example, our long-distance curved conveyor has been adopted as part of earth-moving equipment in the Tokyo Gaikan Expressway project, underscoring recognition of our track record and our ability to handle all processes, from design to construction and operation. We are currently in the process of installing a belt conveyor in the middle section of the expressway. However, the aforementioned long-distance curved conveyor will stretch to around 4.7 kilometers (including multiple curved sections) in a single line, making it one of the world's largest belt conveyors. Compared with using dump trucks, this is expected to prevent traffic jams and be more friendly to the surrounding environment. In addition to this, we are in discussions about multiple projects aimed at addressing social issues related to earth-moving.

Meanwhile, many of our rock drill products are installed at infrastructure construction and mining sites. Tunnel construction and mining projects in emerging countries are particularly dangerous and harsh for workers, so operators are required to provide safer, more comfortable workplace environments. By introducing the Internet of Things (IoT), artificial intelligence (AI), and other sensing and automation technologies, we will continue striving to reduce the burden on local workers and provide products that emphasize safety, in addition to developing new products.

Long-distance belt conveyor

Q6

Please tell us about initiatives aimed at achieving Vision for 2025.

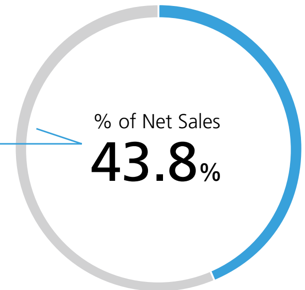
Fostering exceptional human resources is essential to fulfilling our Vision for 2025. In this era of dramatically changing business conditions, it is particularly important to create a free and vigorous culture that maximizes the capabilities of executives and employees. In order to achieve sustainable growth, I believe it is important to foster human resources with a view to the next generation. In fiscal 2018, we introduced a management human resource development program to conduct training of selected people who will form the core of next-generation management. It seems to be effective, as executives and employees who have participated so far are already displaying leadership qualities. Meanwhile, we will continue conducting overseas dispatch training programs aimed at fostering human resources who can excel globally, as well as a comprehensive job recruitment program for non-Japanese. We are also focusing on nurturing female employees. For the first time, we have promoted regular female employees to career-track employee status and undertaken mid-career recruitment of female managerial personnel. In fiscal 2020, we will comprehensively review our personnel system with the aim of being a company that provides employees with a sense of motivation.

Although we have a long history as a company, we also have a serious, gentle corporate culture. I would like to open up this culture and encourage executives and employees to think and act independently to demonstrate leadership and incorporate their surroundings into their work. This is the corporate culture I would like to foster.

In another initiative, we are further strengthening corporate governance. In fiscal 2018, we increased the number of independent outside directors by one, for a total of three, to raise the transparency of management. Currently, the Board of Directors receives various questions and suggestions from outside directors, providing a forum for active discussion. Seeking to clarify the responsibilities of executive officers, meanwhile, we changed their existing employment contracts to engagement agreements.

We will continue listening carefully to the voices of our various stakeholders, and we hope that all of our executives and employees will embrace a sense of urgency as they forge ahead to realize our Vision for 2025.

Machinery

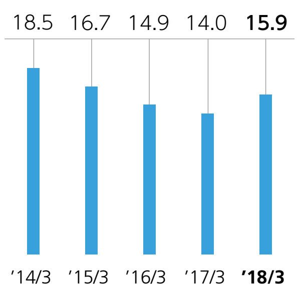


Industrial Machinery

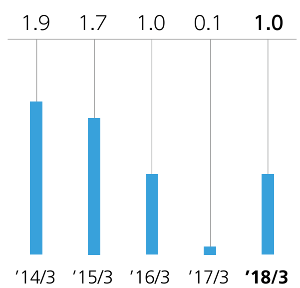
In fiscal 2018, we booked sales from bridge-related projects, including those associated with the Yokohama Cyclic Northwest Line, as well as higher sales of crushers, grinders, and other industrial machinery. However, revenue from pump plants declined. In large-scale projects, sales related to a belt conveyor project for the Tokyo Gaikan Expressway (outer ring road) remained mostly unchanged from the previous fiscal year. As a result, sales in the Industrial Machinery segment increased 13.0% year on year, to ¥15,872 million, and operating income rose ¥901 million, to ¥1,005 million.

Going forward, we will increase our involvement in certain parts of plant construction projects and large-scale projects and otherwise expand our contractor business with the aim of transitioning from a simple equipment manufacturer. To achieve this, we will strengthen our engineering strengths and enhance our business foundation in the domestic market.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



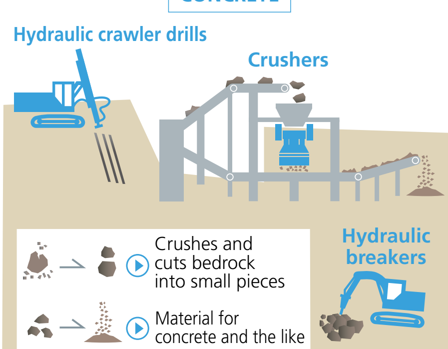
Crushers

Belt conveyors

Steel bridges

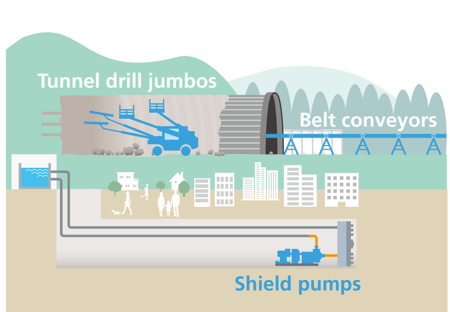
Machinery Business: Priority Fields and Domestic Market Share

CONCRETE



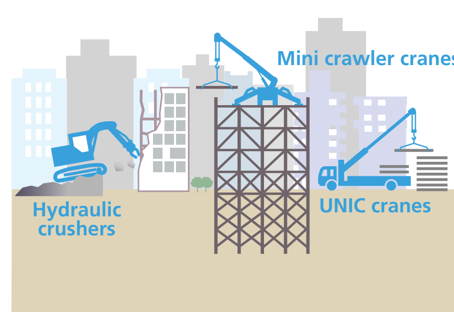
To mine for gravel and limestone, which are raw materials for concrete, we supply hydraulic crawler drills that are used to drill holes in rock, in which gunpowder is inserted for blasting. We also have hydraulic breakers, which are used to break large rocks into small pieces, and crushers and screens, used at plants to achieve the desired rock sizes. These products contribute to demand for concrete in various areas.

TUNNEL PROJECTS



We develop and manufacture tunnel drill jumbos, which are used to create openings for loading gunpowder needed for rock blasting in mountain tunnel projects. We also develop and make shield pumps, which use water to pump excavated earth and sand in underground tunnel projects. Here, our drilling and wastewater treatment technologies, amassed through mine development, come to the fore.

CIVIL ENGINEERING AND CONSTRUCTION WORKSITES

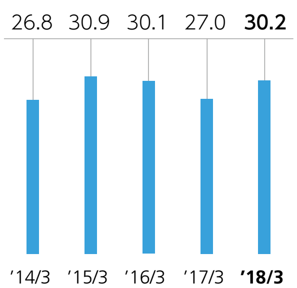


A single UNIC crane can transport and unload building materials and the like. In addition to UNIC cranes, we offer mini crawler cranes, which can operate independently in places inaccessible by truck, and hydraulic crushers that play a major role at demolition sites. Our construction machines feature exceptional functionality, operability, and safety and are also environmentally friendly.

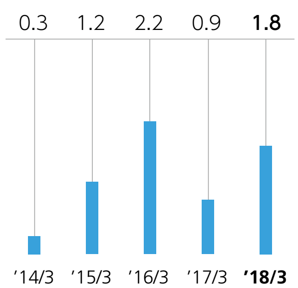
Rock Drill Machinery

In this segment, we posted an increase in shipments of tunnel drill jumbos for domestic projects, including Kumamoto earthquake restoration and reconstruction work, the Linear Chuo Shinkansen Line, and a new Shinkansen line in Hokkaido. Sales were also bolstered by increased demand for hydraulic breakers on the back of firm construction investments. Amid favorable economic conditions overseas, we reported steady shipments of hydraulic crawler drills, mainly to Europe and North America, as well as increased shipments of tunnel drill jumbos to China and South America, resulting in overseas sales growth. As a result, sales in the Rock Drill Machinery segment increased 11.9%, to ¥30,200 million, and operating income surged 98.8%, to ¥1,783 million.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)

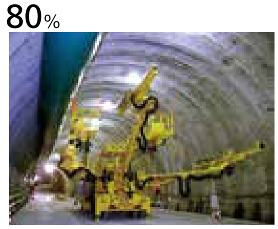


Looking ahead, by strengthening our life cycle support (LCS) capabilities, we will increase income from both our flow business and stock business and reinforce revenue bases for our drill product lineup. To achieve this, we will upgrade our domestic service support system and establish overseas sales channels.

Hydraulic crawler drills

Global Market Share
30%
Japanese Market Share
65%

Japanese Market Share
80%



Tunnel drill jumbos

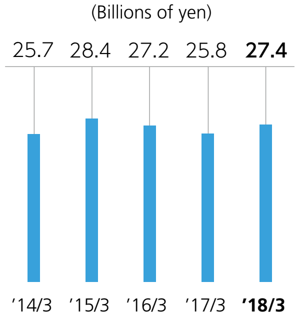
Japanese Market Share
40%

Hydraulic breakers

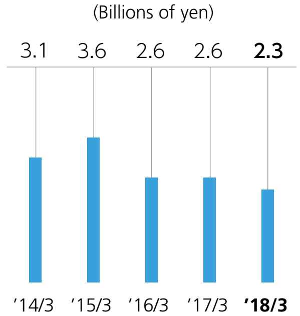
UNIC Machinery

In the mainstay UNIC crane category, we reported increased domestic shipments of our latest-model "G-FORCE" series, featuring a full lineup from small to large models. Benefiting from healthy overseas economic conditions, we posted steady shipments of mini crawler cranes to Europe and North America, as well as increased shipments of UNIC cranes to China and Southeast Asia, which bolstered overseas sales. As a result, sales in the UNIC Machinery segment climbed 6.2% year on year, to ¥27,382 million, while operating income declined 11.0%, to ¥2,295 million.

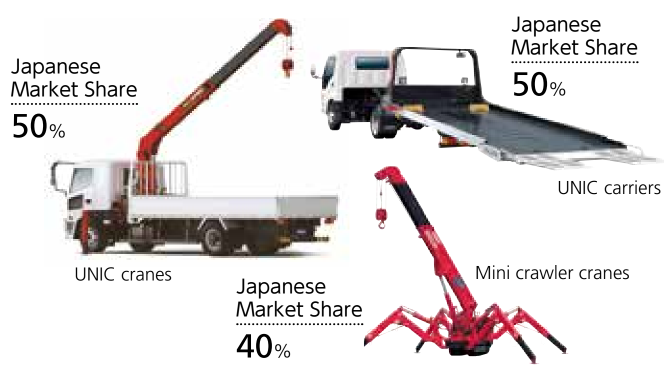
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Seeking to ensure stable income from domestic sales and expand income from our stock business and overseas sales, we will distinguish our UNIC crane lineup by promoting advanced functions and higher added value, in order to strengthen our competitiveness. At the same time, we will promote our second-hand business, reestablish our overseas sales network, and enhance our sales capabilities.

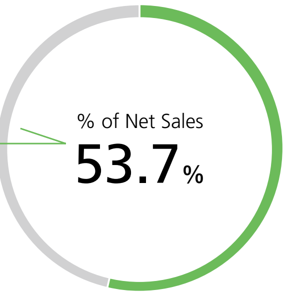


Initiatives of the Rock Drill Machinery Segment

In the fiscal year under review, we began work to install and operate a hydraulic crawler drill monitoring system in Japan, with the aim of enhancing our life cycle support (LCS) capabilities. Through this system, we will collect drilling data and information on the operational status of on-site machinery for conversion into data, enabling us to provide optimal parts replacement and maintenance services. In the future, we will help customers improve their productivity through automation of and optimal support for drilling operation according to rock quality, while also contributing to safety at worksites. Overseas, where our stock business is weak, we will strengthen our LCS capabilities to build a business model that includes our sales dealers.

Managing director
(In charge of Rock Drill Machinery segment)
Kiyohito Mitsumura

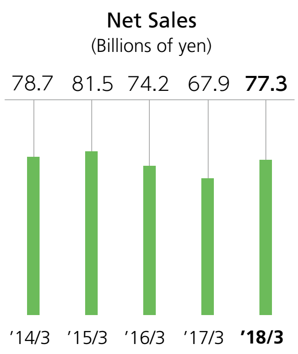
Materials

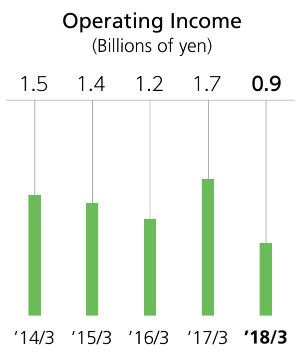


Metals

After starting the fiscal year at US$5,817/ton in April 2017, the price of electrolytic copper rose to US$7,216/ton in December 2017 due to concerns about mining strikes and the accelerating global economy. The price then declined amid weakening global stock prices and fears about protectionist trade policies, finishing the fiscal year at US$6,685/ton on March 31, 2018. The domestic price of electrolytic copper began the fiscal year at ¥690,000/ton in April 2017 and ended the fiscal year at ¥740,000/ton on March 31, 2018. Demand for copper products remained steady during the fiscal year, while demand for electric cable began to recover in the second half. In fiscal 2018, the Company's sales of electrolytic copper in volume terms declined 1,190 tons, to 90,104 tons, reflecting a focus on domestic sales and reduction of exports. For the fiscal year, sales of electrolytic copper increased due to higher overseas market prices and the yen's depreciation, but deterioration of purchasing conditions led to a decline in profit. Overall sales in the Metals segment increased 14.0%, to ¥77,334 million, and operating income declined 50.1%, to ¥867 million.

Due to deteriorating purchasing conditions stemming from tightening supply and demand for copper concentrate, it will be difficult to generate profit. Nevertheless, we will continue to work to establish an optimal production and sales system with an emphasis on profitability, in order to improve our earnings foundation.






Electrolytic copper


Hibi Kyodo Smelting Co., Ltd.


Gibraltar Copper Mine in Canada


Onahama Smelting and Refining Co., Ltd.

Copper Prices and Foreign Exchange Rates

	2014/3	2015/3	2016/3	2017/3	2018/3
LME copper price (average; US$/ton)	7,104	6,554	5,215	5,154	**6,444**
JPY rate per US$ (average for fiscal year)	100.24	109.93	120.13	108.42	**110.85**

Copper Production and Sales Volume*

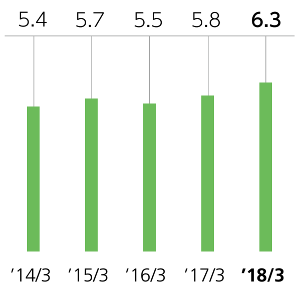
	2014/3	2015/3	2016/3	2017/3	2018/3
Copper production volume (tons)	87,767	90,447	86,466	84,062	**88,004**
Copper sales volume (tons)	94,966	96,675	94,327	91,294	**90,104**

* Furukawa Metals & Resources Co., Ltd.

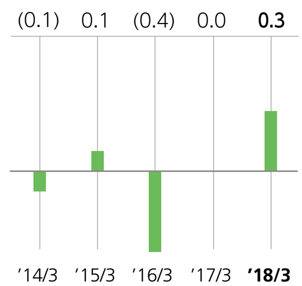
Electronics

In the fiscal year under review, sales of high-purity metallic arsenic—a mainstay product in this segment—increased on the back of higher volume sales stemming from healthy demand for compound semiconductors, a major application for that material. Meanwhile, sales of scintillator crystal products were bolstered by healthy demand for crystals in individual semiconductor devices. As a result, the Electronics segment posted an 8.4% increase in sales, to ¥6,308 million, and a ¥312 million jump in operating income, to ¥330 million.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Looking ahead, we will continue striving to capture steady income from high-purity metallic arsenic and scintillator crystal products. At the same time, we will aim to reinforce our earnings structure by enhancing the appeal of such strategic products as coils, aluminum nitrides, and optical components.

Global Market Share
60%

Japanese Market Share
90%

High-purity metallic arsenic—high-purity gallium arsenide semiconductor materials used in mobile phones and other electronic devices, red laser diodes, and LEDs

Coils used in automobile electronic control devices

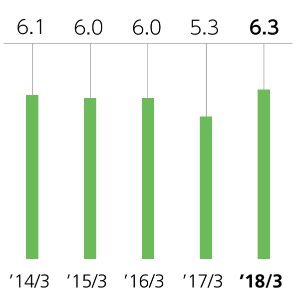
Owing to its excellent thermal conductivity, thermal radiation, and electrical insulation properties, aluminum nitride is a basic material used in semiconductor device fabrication components and substrates.

Chemicals

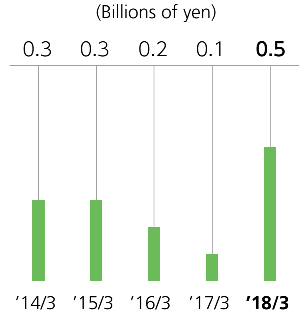
In fiscal 2018, we reported a year-on-year increase in sales of cuprous oxide owing to growth in demand for its use in marine antifouling paint, a mainstay application, ahead of the enactment of regulations under the Ballast Water Management Convention. As a result, sales in the Chemicals segment rose 19.8%, to ¥6,345 million, and operating income jumped ¥336 million, to ¥451 million.

Going forward, we will work to expand income from cuprous oxide and other existing products and swiftly commercialize and foster newly developed products, such as metallic copper powder.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Japanese (Production) Market Share
45%

Cuprous oxide is a red powdery substance used to prevent biofouling on the underside of marine vessels.

Cupric oxide used for copper plating

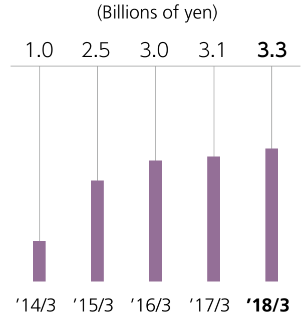
Sulfuric acid production plant

Real Estate and Others

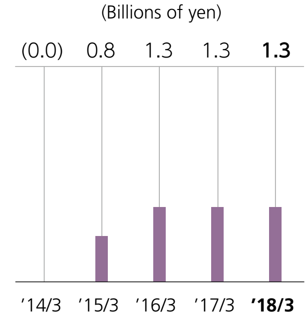
Real Estate

In the Real Estate category, fiscal 2018 saw the smooth operation of our rental business associated with the Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2). Accordingly, category sales grew 8.6% year on year, to ¥3,339 million, and operating income climbed 5.8%, to ¥1,340 million.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



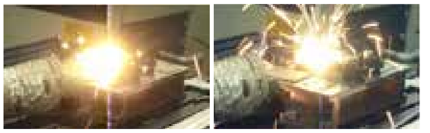
T O P I C S

April 1, 2017–March 31, 2018

Top world-level laser welding technology for pure copper developed

The Company's Electronics segment has developed a "beam mode control technology" using diffractive optical elements (DOEs). In collaboration with Furukawa Electric Co., Ltd., we subsequently succeeded in establishing a new laser welding technology that greatly reduces defects when welding pure copper. Used in combination with high-energy-density beams—a strength of the Company—beam mode control technology ensures that the optimal beam mode is selected during welding, resulting in a 95% reduction in welding defects (sputtering and blow holes) compared with existing methods. This makes it possible to improve the efficiency of welding and inspection processes for automotive motors and inverter power semiconductors. We will continue collaborating with Furukawa Electric to improve welding technology for industrial fiber lasers while rolling out solutions that apply this technology.

Under processing



Beam mode controlled | Beam mode uncontrolled (Normal condensing)

Sales of FURUKAWA SEEPEX PUMP launched

The Company's Industrial Machinery segment has formed an original design manufacturing (ODM) agreement with Nippon Seepex Co., Ltd., the Japanese subsidiary of SEEPEX GmbH, which develops and manufactures uniaxial screw pumps used in more than 70 countries, including in Europe, North America, and Asia. We subsequently launched sales of the FURUKAWA SEEPEX PUMP in November 2017. This product is a uniaxial screw pump that excels in the quantitative supply of highly viscous liquids and solids. We aim to expand sales to many sectors, including local government (for sewage treatment facilities and the like), plant manufacturers, chemical and paper companies, and food and beverage companies.

FURUKAWA SEEPEX PUMP

Latest "G-FORCE" series of UNIC cranes expanded and upgraded

In 2017, the Company's UNIC Machinery segment undertook a full model change of cranes for mounting on small and large trucks, following a similar model change for medium-sized trucks in 2016. The latest "G-FORCE" series of models, highly acclaimed by customers, is based on the "pursuit of reliable performance" concept. Under the model change, we upgraded the basic performance of the series. For example, we installed digital load gauges as standard on all models to prevent breakage of cranes and overturning accidents due to overload, which enables us to visualize hanging load easily and accurately. Also equipped as standard is "JOY," a new-model liquid crystal display (LCD) radio-controller that significantly improves the accuracy and operability of the hanging load display. Other additions include a special safety specifications package of safety devices. We have also enhanced our high-performance models in our pursuit of reliable performance.

"G-FORCE" series

Product development system restructured to strengthen the Group's integrated technological capabilities

On October 1, 2017, we restructured our organization with the aims of reinforcing the Group's technical strategy planning and execution capabilities and further strengthening our technical leadership capabilities. In order to realize our Vision for 2025, it is essential that we step up efforts to advance and entrench our proprietary technologies and accelerate their applications in products, while keeping abreast of the latest technology trends. We also need to consider applications for the Internet of Things (IoT) and other control, information, and communication technologies, not only in machinery products but also in plant facility control and production management. Under the new structure, we will continue enhancing the comprehensive technological capabilities of the entire Group while working closely with Group companies across all fields, from materials to machinery and equipment. In these ways, we will strongly promote developments aimed at realizing our Vision for 2025.

Technology Division

- Technological Strategy Department
- Advanced Technology Department
  - Control System Section
  - Technological Research & Development Section
- Material Research & Development Department
- Nitride Semiconductors Department
- Intellectual Property Department

Recognized by the Tokyo Metropolitan Government Bureau of Sewerage as an exceptional performance contractor for 10 consecutive years

The Company has been selected and awarded by the Tokyo Metropolitan Government Bureau of Sewerage as an "exceptional performance contractor for 10 or more years." This reflects the contribution of our Industrial Machinery segment, in its pump-related projects, to the development of the sewage business by delivering consistently good outcomes over the 10-year period from fiscal 2007 through fiscal 2016. Our capabilities in safety management, quality control, and process control in the construction of sludge pumps and peripheral equipment in sewage treatment plants have been highly regarded for a long time. This award gives the Company additional points in bidding processes that use comprehensive evaluations based on assessment of technological track records.

感謝状

古河産機システムズ株式会社 殿

貴社は当局の下水道工事を
平成十九年度から平成二十八年度の
十年間にわたりすべて優良な
成績をもって施行し下水道
事業の発展に寄与されました
よってここに感謝の意を表します

The Furukawa Company Group's ESG Activities

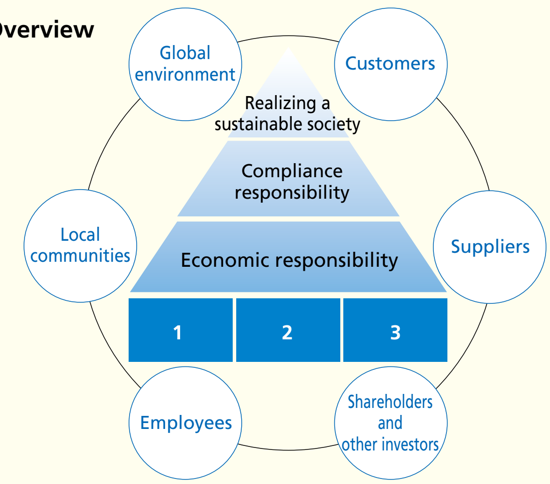
Furukawa's Approach to ESG

Since its founding in 1875, the Furukawa Company Group has learned a lot of lessons from its experience at the Ashio Copper Mine, which had a history of pollution. The experiences and efforts of our early pioneers have paved the way for our approach to ESG and the SDGs today. Promoting an integrated mindset that combines our business and CSR activities ensures that we carry on the DNA cultivated by our pioneers. At the same time, it enables us to realize a sustainable society and continue advancing as a company.

CSR Promotion System

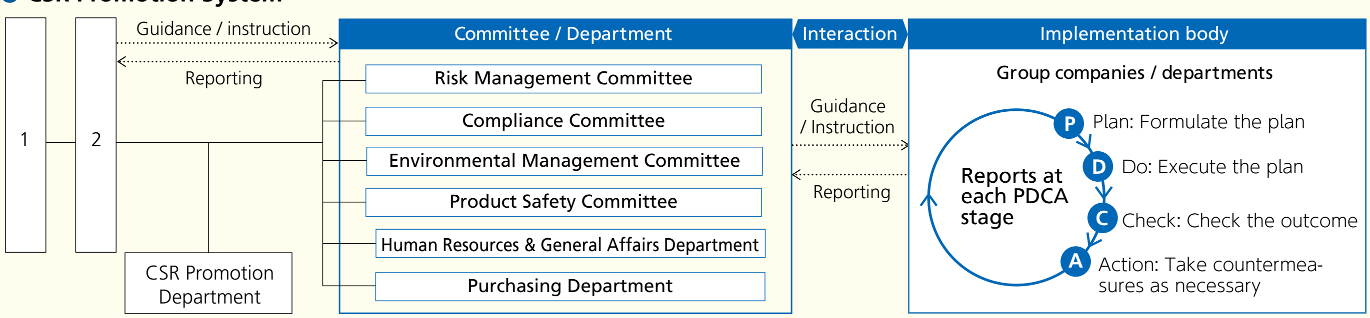
To powerfully promote CSR activities, we established the CSR Promotion Meeting, which spearheads efforts to clarify our responsibilities to stakeholders, identify priority issues to be addressed, and actively engage in CSR activities. The CSR Promotion Meeting is chaired by the president, and meetings are held at the CSR Promotion Department. The Meeting discusses a whole range of issues related to CSR, and its main roles include formulation of basic policies, promotion systems, and action plans for CSR activities, as well as verification and evaluation of activity status and planning of priority measures. The CSR Promotion Meeting consists of four committees (Risk Management Committee, Compliance Committee, Environmental Management Committee, and Product Safety Committee) and two departments (Human Resources & General Affairs Department and Purchasing Department). The Meeting collaborates with each Group company and the headquarters, which is the executive division for CSR activities, to advance a PDCA cycle of planning, implementation, evaluation, and improvement.

● CSR Overview



1. Management Philosophy, Action Guidelines
2. Corporate Conduct Charter
3. Directors' and Employees' Code of Behavior

● CSR Promotion System



1. President and Representative Director
2. CSR Promotion Meeting

Relationships with Stakeholders

In the course of strengthening CSR activities and demonstrating our Management Philosophy, we have identified our stakeholders as follows: Customers, suppliers, shareholders and other investors, employees, local communities, and the global environment. Our quest is to clarify our responsibilities to each stakeholder group and maintain close communications, in order to build relationships of trust and thus maximize corporate value.

● Responsibility to Stakeholders

Stakeholder	Responsibility
Customers	We shall provide customers with high-quality products and services in order to increase satisfaction levels.
Suppliers	We shall build mutually beneficial relationships conducive to harmonious coexistence through stable procurement activities based on the principles of fairness and economic rationality.
Shareholders and other investors	We shall work to maximize corporate value through communications focusing on timely, appropriate information disclosure and IR activities.
Employees	We shall create safe, healthy, motivating workplaces in which our diversified human resources can excel while adopting appropriate evaluation standards and fair incentives.
Local communities	We shall build and maintain favorable relationships of trust by pursuing social contribution activities aimed at harmonious coexistence with local communities.
Global environment	We shall protect biodiversity by developing environmentally friendly technologies and products while minimizing the environmental impact of our activities through savings of energy and resources and reduction of waste.

Our Goals

Our CSR activities are designed to help the Group achieve its medium-term CSR goals for fiscal 2020 and realize its ideal CSR image envisioned for fiscal 2026. We will also promote ongoing medium-to-long-term initiatives aimed at achieving the SDGs set for 2030 by the United Nations General Assembly.

2030

Developing a Sustainable Society by 2030

In September 2015, the United Nations General Assembly adopted its Sustainable Development Goals (SDGs) and presented an action plan for human and environmental prosperity. Consisting of 17 goals and 169 targets, the SDGs clarify priority global-scale issues related to sustainable development and are intended to encourage global-scale initiatives to address those issues.

At the Furukawa Company Group, we will strive to help achieve the SDGs, which were established with international community cooperation, through our business activities and efforts to fulfill our corporate social responsibilities.

2025

CSR2025 Goals (Fiscal 2021–2026)

Risk Management Committee	Establish Groupwide risk management system
Compliance Committee	Ensure that all employees have a high awareness of compliance that resonates with the international community
Environmental Management Committee	Promote environmental and safety activities (Reduce environmental impacts, ensure no accident and disaster in environment and safety, promote biodiversity, publish environmental safety activity outcomes, and continue safety-oriented operations at abandoned mines)
Product Safety Committee	Aim for the top category in improving Furukawa product brand strength
Human Resources & General Affairs Department	Enhance our human resource foundation (Become a rewarding company by creating work-friendly environments that enable individual employees to fully demonstrate their strengths to create new levels of value)
Purchasing Department	Pursue QCD based on CSR-oriented procurement aimed at sustainable manufacture and sales of products trusted by customers

2019

Medium-Term CSR Goals (Fiscal 2018–2020)

Risk Management Committee	Establish Groupwide crisis management system Consider risk assessments as premise to undertaking Groupwide risk management
Compliance Committee	Improve compliance awareness by continuing to disseminate compliance news while conducting various training programs and confirming degree of understanding Create international versions of behavioral standards for executives and employees (in English and other languages) Ensure spread of compliance manual and update it Convey to outside parties that a compliance system is in place
Environmental Management Committee	Promote environmental and safety activities (Reduce environmental impacts, ensure no accident and disaster in environment and safety, promote biodiversity, publish environmental safety activity outcomes, and continue safety-oriented operations at abandoned mines)
Product Safety Committee	**Improve product quality** • Common guidelines (Index and establish common rules for product quality targets; reduce / eliminate product claims) • Design quality (Promote design reviews and design FMEA) • Manufacturing quality (Step up operation of quality control system; implement more stringent criteria for process handover) • Quality of our overseas products (Overseas procurement; quality control at overseas plants) • Service quality (Collect / provide necessary information; offer consulting-type services) **Improve safety** • Establish system for providing safe products
Human Resources & General Affairs Department	Foster human resources, promote work–life balance, and promote diversity
Purchasing Department	Strengthen collaboration with suppliers based on QCD+CSR concept Promote CSR activities to suppliers Continue Groupwide CSR-oriented procurement activities

Responses by Business Process

The business activities of the Furukawa Company Group have an impact on society and the environment across all processes in the supply chain, and the magnitude of impact is increasing as business activities advance. We are working to address CSR issues in each process to help resolve various social problems while considering the aforementioned impact.

Main activities

- Development and design of products that take environment, safety, and quality into consideration
- Confirmation of design review implementation status
- Training of FMEA[*1] leaders

*1 FMEA: Failure Mode and Effects Analysis

- Ensuring quality and safety
- Ensuring stable supply of products
- Promoting global warming countermeasures and energy conservation measures associated with business activities
- Strengthening the safety management system of chemical substances
- Pursuing activities aimed at reducing equipment, environmental, and occupational accidents

- Reducing total emissions (including waste) and/or converting into valuable resources

Business process

Development and design → Procurement → Manufacturing → Sales and service → Disposal

Main activities

- Promoting CSR-oriented procurement activities
- Providing technical guidance to suppliers
- Pursuing QCD[*2] based on CSR-oriented procurement

*2 QCD: Quality, Cost, Delivery

- Improving follow-up services
- Pursuing customer satisfaction
- Producing quality assurance guidelines
- Disseminating information on eco-friendly products
- Promoting efficient transportation system
- Conducting risk assessment of products to ensure customer safety

Approach to Procurement

The Furukawa Company Group aims to build and maintain mutually beneficial and reciprocal trust-based relationships by exchanging information with suppliers and otherwise emphasizing communication. Here, we adhere to the principles of fairness and equity, comprehensive economic rationality, and the spirit of compliance with laws and confidentiality as set out in the Furukawa Company Group Basic Procurement Policies. At the same time, we collaborate with suppliers to encourage procurement activities that take CSR into consideration.

CSR Activities in the Supply Chain

Envisaging its desired image in 2025, the Group strives to "pursue QCD based on CSR-oriented procurement aimed at sustainable manufacture and sales of products trusted by customers." This initiative is essential not only for the Group but also for the entire supply chain, including customers and suppliers.

In order to establish cooperative relationships, in fiscal 2018 we conducted additional surveys on human rights, the environment, and other matters with the aim of further increasing understanding of our CSR Promotion Guidelines. Expanding this initiative to other business sites, we also conducted surveys of the major suppliers of materials-related companies to foster a broader understanding of our CSR activities.

Going forward, we will carry out individual interviews and the like as necessary to further strengthen CSR activities throughout the supply chain.

Copper Ore Procurement

Furukawa Metals & Resources Co., Ltd. procures copper ore from mines around the world for use as the raw material in its main products, which are copper ingots and their by-products (gold and silver products). Basically, most of its procurement activities are not directly related to mine operations. Nevertheless, that company works to reduce the impact on the global environment in various ways. Specifically, its closely monitors the real status of environmental conservation, human rights, employment and labor issues, and other aspects of the mines from which it undertakes procurement. It also pays attention to ensure that the mines are practicing sustainable development and appropriate operations. With respects to minerals produced in areas known for human rights violations and/or conflict, it emphasizes procurement in a manner that is not complicit with armed groups.

Gibraltar Copper Mine in Canada

Corporate Governance

The basic corporate governance policies of the Group are to raise management transparency, continue corporate structural innovations to build an efficient management system, generate stable income to increase corporate value, and contribute to the interests of shareholders and other stakeholders.

Corporate Governance System

Furukawa Co., Ltd., the operating holding company of the Group, has a Board of Directors and an Audit & Supervisory Board to supervise and audit business execution. To clearly separate management supervisory functions from executive functions, accelerate decision-making, and clarify responsibilities, the Company has adopted an executive officer system.

Directors and Board of Directors

The Board of Directors holds regular meetings once a month, plus extraordinary meetings as necessary, to supervise the Group's overall business execution. As of June 28, 2018, the Board had nine members, including three outside directors.

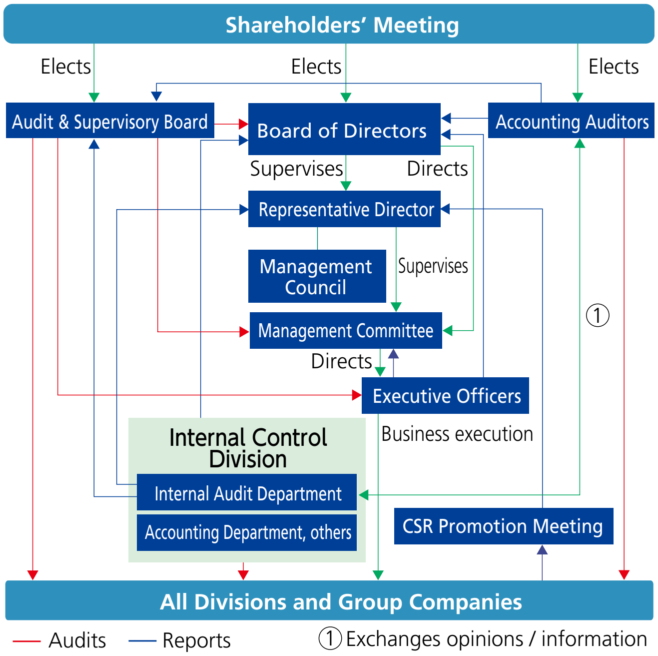
Executive Officer System

Executive officers are tasked with executing business under the business plans determined by the Board of Directors. They report on the status of business execution as appropriate to the Board of Directors and the Management Committee. As of June 28, 2018, the Company had 18 executive officers, including three serving concurrently as directors.

Management Council and Management Committee

The Management Council sets the Group's fundamental management policies and strategies and makes decisions on important matters. There is also a Management Committee, which meets monthly to discuss the business execution of the Company and its core companies, and provides consideration and direction. Decisions made by the Management Council on important management issues are also taken up for discussion by the Board of Directors.

● Corporate Governance and Internal Control Systems



Auditors and Audit & Supervisory Board

Pursuant to an audit policy formulated by the Audit & Supervisory Board, members attend meetings of the Board of Directors, the Management Council, the Management Committee, and other important management meetings. In addition, they receive business reports from directors and others, monitor business sites and subsidiaries, and audit business execution by directors and others. The Audit & Supervisory Board has four members, including two outside members, and meets as appropriate.

Internal Audit System and Accounting Auditors

The organization in charge of internal auditing is the Internal Audit Department, which engages in auditing of Groupwide activity management and business execution. The Company has appointed Ernst & Young ShinNihon LLC to be its Accounting Auditors. Audit & Supervisory Board members, the Internal Audit Department, and Accounting Auditors interact with each other in an effort to reinforce Groupwide governance.

Outside Directors and Outside Audit & Supervisory Board Members

The Company makes full use of the expertise and experience of outside directors and outside Audit & Supervisory Board members, who provide advice and checks from objective viewpoints to guarantee the objectivity and transparency of management and the adequacy of decision-making. As of June 28, 2018, the Company had three outside directors and two outside Audit & Supervisory Board members, including three independent officers under the rules of the Tokyo Stock Exchange.

Evaluating the Effectiveness of the Board of Directors

In order to analyze and evaluate the effectiveness of the Board of Directors, the Company conducts questionnaire-based surveys of directors and Audit & Supervisory Board Members and exchanges opinions with outside officers. The results of these activities are reported to the Board of Directors for discussion.

In fiscal 2018, we noticed many areas of improvement compared with fiscal 2017. To achieve further improvement, we confirmed the need for action in several areas. These include training programs for the next generation of top management personnel, stepped-up exchanges of opinions and reports on each project, and consideration aimed at establishing an optional nomination committee.

By providing timely information, we will continue stimulating discussion at Board of Directors' meetings to further enhance the effectiveness of the Board.

Internal Control System

The Group has a Basic Policy on Establishing an Internal Control System, which covers corporate governance, risk management, compliance, and internal audits. In addition to ensuring efficient and appropriate business execution, the Policy stipulates that internal control shall be handled with an emphasis on CSR. Moreover, the Group makes constant reassessments in an effort to build an effective and efficient internal control system that ensures the appropriateness of operations.

Risk Management

The Group's business activities could potentially be badly impacted by various risks related to such factors as accidents, natural disasters, and epidemic diseases. To protect human life and property and minimize damage and loss when such risks materialize, the Group, spearheaded by its Risk Management Committee, is working to establish and strengthen its risk management systems. In addition, our Product Safety Committee works to raise the product safety and quality levels of the entire Group.

Formulation and Operation of Business Continuity Plan (BCP)

Preemptive BCP Measures

We have placed transceivers at each of our business sites to handle emergencies when regular communication channels do not function. We are also reviewing the content and management method of stockpiled items, such as food and beverages.

Training for Safety Confirmation and Disaster Reporting

We conduct periodic training on the use of safety confirmation systems and training on use of transceivers for disaster reporting in order to swiftly confirm the safety of employees and damage status of various sites in the event of emergency.

Business Continuity Management (BCM)

We have finished production of a first-response BCM manual and have almost finished revamping the BCP manuals of core Group companies. Going forward, we will focus on BCM while promoting BCP management.

Identifying Potential Groupwide Risks

We have identified potential risks, such as earthquakes, floods, and landslides, at major business sites and are developing BCPs for risks that may have a high impact on our operations.

Quality Control

The Furukawa Company Group is committed to constantly providing safe, high-quality products and services to customers. For this reason, we strive to undertake manufacturing with proper attention to product safety and reliability in order to improve customer satisfaction. This covers all processes, from development and design to procurement, manufacture, sales, services, and final disposal.

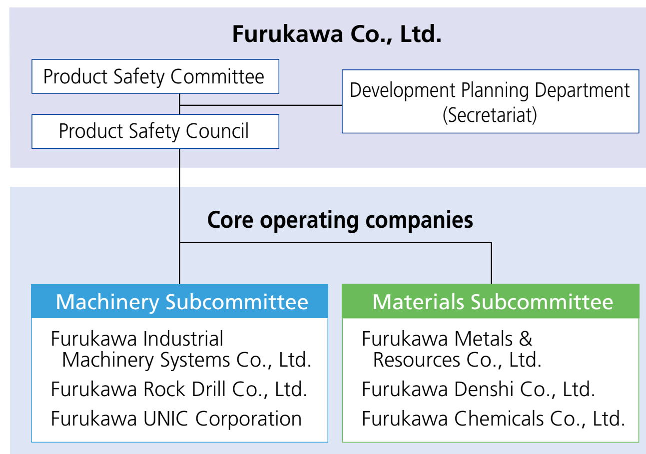
Product Safety Management System

The Furukawa Company Group strives to manufacture products that comply with regulations related to manufacturing and product quality verification and products that customers can use safely with peace of mind. These efforts are based on the Group's Product Safety Basic Policy and Product Safety Action Guidelines. Specifically, the Product Safety Committee of Furukawa Co., Ltd. holds product safety meetings attended by product safety officers of core Group member companies and has formed subcommittees to divide work between mechanical and materials systems.

The product safety meetings are aimed at improving Groupwide product safety and evaluating activities related to product safety. Attendees seek to improve product safety levels by first considering ways to improve product reliability.

In fiscal 2018, we confirmed the status of risk assessment activities that have been ongoing since the previous fiscal year with a view to preemptive prevention. We also promoted more effective activities by stepping up various initiatives, spearheaded by the subcommittee closest to each respective site. Through the efforts of the product safety meetings and various subcommittees to raise product safety levels, in fiscal 2018 we achieved a 5.9% year-on-year reduction in the number of product claims—set as one of our KPIs.

● Product Safety Management System



Electronic Information Security

The Group regards information security as an important management priority. In order to ensure and protect the confidentiality, integrity, and accessibility of our electronic information assets as a whole, we implement various measures related to information security, based on the "Furukawa Company Group Electronic Information Security Basic Regulations" and the "Furukawa Company Group Electronic Information Security Standards." Through collective training, including postings on our in-house portal site and training of new employees, we also issue alerts about various potential threats and thoroughly inform everyone about countermeasures.

Management of Personal Information

In April 2005, the Group established its "Personal Information Protection Policy" and "Precautions for Appropriate Handling and Management of Personal Information." Since then, we have complied with Japan's Personal Information Protection Act and other regulations concerning personal information protection. We believe it is our social responsibility to handle information about customers, shareholders, and other stakeholders in an appropriate manner, and we are working to protect such information.

To ensure safe and meticulous management of personal information held by the Group, we have adopted three policies: "Take necessary security measures," "Do not use personal information for purposes other than originally intended," and "Do not disclose or provide personal information to third parties." Under these policies, we handle personal information properly.

Compliance

In addition to complying with laws and regulations, the Group believes it has a corporate obligation to take serious and responsible actions in terms of social and ethical aspects. To fulfill this obligation, we established the Compliance Committee, which discusses important matters concerning compliance. Matters discussed by the Committee are reported to the CSR Promotion Meeting as appropriate, reflecting efforts to share information on groupwide compliance.

Internal Reporting System

The Group has introduced an internal reporting system for the early detection and correction of compliance violations. By establishing contact points for reports and consultation requests inside and outside (law office) the Group, we have established a system that allows wide-ranging reporting and inquiring. We also keep the names and personal information about callers in strict confidence.

When a report or consultation request comes in, the Compliance Committee conducts an investigation and takes necessary countermeasures. Regarding our internal reporting system, we post the content of our internal reporting system on our in-house portal site and distribute brochures to Group officers and employees.

Compliance Education

We issue "Compliance News" as a compliance information source to all Group officers and employees. Representatives of top management also speak about the importance and priority of compliance, reflecting our efforts to foster a corporate culture that emphasizes compliance.

In fiscal 2018, we held compliance training sessions as part of stratified training given to new recruits, mid-level employees, and newly appointed managers. We also held a compliance training session for officers and other top management personnel. In addition, we held training on specific items, such as the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors.

Compliance throughout Entire Supply Chain

In order to maintain compliance as a Group, we need all parties across the entire supply chain, including suppliers, to also practice compliance with laws and regulations. With this in mind, we established "CSR Promotion Guidelines" for suppliers to help them rigorously comply with laws and regulations and practice corporate ethics.

Legal Compliance and Corporate Ethics

(1) We shall respect domestic and international laws and social norms.
(2) We shall not provide or receive benefits that are contrary to laws and accepted business practices.
(3) We shall not act in ways that impede fair and free competition.
(4) We shall have nothing to do with antisocial forces.
(5) We shall not infringe on the intellectual property rights of third parties.
(6) We shall establish frameworks for fraud prevention, early detection, and countermeasures.
(7) We shall not use minerals mined in conflict areas, and we shall not use raw materials that, during the production process, are connected to human rights violations or environmental destruction.

The Furukawa Company Group's Corporate Conduct Charter

1. The Group shall pursue research and development activities to introduce technologies that help to create an affluent society, and shall develop and provide safe, high-quality products and services that are satisfying and reliable for customers.

2. The Group, recognizing the importance of global environmental conservation, shall make even more environment-friendly innovations and efforts as it engages in every area of its corporate activities that are in harmony with the environment, and shall aim to develop with the local communities.

3. The Group, on top of ensuring legal compliance at home and abroad, shall engage in its corporate activities in a fair, transparent manner based on the ethical values expected of corporations and business persons as members of society.

4. The Group shall sever any relations with and shall take a firm attitude against antisocial forces.

5. The Group shall manage confidential information of Group companies properly, and shall work to prevent unauthorized use or disclosure and leakage of such information.

6. The Group shall appropriately disclose financial and other important information relating to the Group in accordance with relevant laws, regulations and rules in an effort to be a highly transparent corporate entity.

7. The Group shall accept diverse values of individuals, and shall strive to create a corporate climate in which there are no human rights violations or discrimination while individuals receive fair evaluations and are motivated to work.

8. The Group shall establish and shall enhance its working environment while ensuring compliance with labor-related laws and regulations to become a corporate entity in which individuals can work safely and comfortably.

Environmental Initiatives

Based on its Corporate Conduct Charter and Basic Philosophy on Environmental Management, the Furukawa Company Group is determined to contribute to the realization of a sustainable society. With respect to countermeasures against global warming issues, the Group is currently pursuing activities for the achievement of the Third Medium-term Reduction Targets covering the period from fiscal 2015 to fiscal 2019. Furthermore, we are in the process of formulating the Fourth Medium-term Reduction Targets starting from fiscal 2020 to realize our Vision for 2025.

In continuing our environmental conservation activities, we place an emphasis on the implementation of preventative measures while enhancing and reinforcing responses to risks. Furthermore, we will continue our business activities in consideration of the environment through the improvement of daily operations with the aim of reducing impacts on biodiversity as much as possible.

Environmental Management

Environmental Management Committee

Important items relating to environmental conservation are put forward and discussed by the Environmental Management Committee, in which top personnel from each production base participate. At the Committee meeting held in April 2018, the result of the evaluations of environmental and safety activities for fiscal 2018 and the targets of environmental and safety activities for fiscal 2019 were reported, discussed and approved. Concurrently, active discussions were held among the Committee members concerning measures for environmental impact reduction in the quest to realize the Vision for 2025.

Environment and Safety Audits

The Company Group conducts regular annual "Environment and Safety Audits.". The aim of such audits is to emphasize not just "correctional measures" to address accidents and disasters that have already occurred but also "preventative measures." Based on the policy stipulated in Medium-term Business Plan 2019, the environment and safety audits for fiscal 2019 were conducted with the aim of supporting the efforts of each section for the achievement of the Group's targets clarified in the Vision for 2025, including the expansion of the human resource base associated with environment and safety, and the promotion of improvement activities directly relating to business operations, while contributing to the improvement of daily operational levels.

In the event of a major disaster or ongoing disasters, we undertake proper discussion with the on-site manager to determine the cause, then formulate measures to prevent a recurrence. In these and other ways, we work continuously to ensure safety in the workplace.

Environmental Ratings

The Development Bank of Japan Inc. (DBJ) assigns DBJ Environmental Ratings to companies receiving financing, and the Furukawa Company Group obtained DBJ's highest-level environmental rating on November 30, 2017. We earned the highest rating for four years in a row in recognition of our "especially advanced efforts in consideration of the environment," mainly in relation to the following achievements: 1) the Company having realized the improvement of both productivity and the reduction of environmental impact by implementing ongoing improvement of production processes involving all employees, with environmental management developed throughout the Company Group, notwithstanding the diversified business domains; and 2) the Company having formulated the CSR Medium-term Plan toward the realization of the Vision for 2025, "FURUKAWA Power & Passion 150," under the top commitment to implement CSR management across the entire range of business processes consisting of research and development, procurement, production and sales including the provision of environment-friendly products, and promotion of CSR procurement.

Environmental Accounting

Since fiscal 2003, the Furukawa Company Group has endeavored to conserve the environment and improve environmental efficiency by recognizing costs required for environmental conservation in reference to the Ministry of the Environment's Environmental Accounting Guidelines.

● Environmental Conservation Cost (Categories Corresponding to Business Activities)

Total investments for fiscal 2018 reached ¥263 million. The Group has introduced energy-saving equipment and enhanced preventative measures with the aim of promoting environmental conservation. As a result, pollution prevention costs account for 85% of the total cost totaled ¥2,286 million, the breakdown of which is mainly the costs for promoting environmental conservation activities such as the maintenance and management of pollution control equipment and conservation of forests.

Category		Content of the principal activities	Investments	Costs
(1) Business area cost: Cost for preventing air pollution and water pollution			261	1,949
Breakdown	Pollution prevention cost	Cost for preventing air pollution and water pollution	223	1,777
	Global environmental conservation cost	Cost for saving energy and maintenance and management of mountain forests owned by the Company	32	48
	Resource circulation cost	Cost for recycling, disposal of industrial waste and effective use of water	6	124
(2) Upstream and downstream costs		Cost for recycling, recovering and re-commercialization of products that have been output into business areas	0	113
(3) Administration cost		Cost for operating ISO 14001 standards, environmental education, landscaping and greening of business sites	0	57
(4) R&D cost		R&D cost to develop products that contribute to environmental conservation	2	165
(5) Social activity cost		Cost associated with various social activities including cleanup of neighborhood areas, planting of greenery, etc.	0	2
(6) Environmental remediation cost		Cost allocated for recovery from environmental degradation due to business activities	0	0
		Total	263	2,286

● Environmental Conservation Benefit

The economic impact deriving from resource circulation (gains on sale of valuables, etc.) for fiscal 2018 was ¥162 million, a year-on-year increase of ¥41 million, as a result of subdividing the resources.

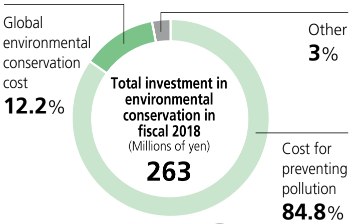
Environmental conservation benefit categories	Environmental performance indicator (unit)	Fiscal 2017	Fiscal 2018	Difference from the previous fiscal year
Environmental conservation benefit related to resources input into business activities	Total energy input volume (thousand GJ)	458	483	Increased by 25 thousand GJ
	Input volume of water (thousand m^3)	671	623	Decreased by 48 thousand m^3
Environmental conservation benefit related to waste or environmental impact originating from business activities	Volume of greenhouse gas emissions (thousand t-CO_2)	25	26	Increased by one thousand t-CO_2
	Total waste emissions volume (t)	5,347	6,884	Increased by 1,537 t

● Environmental Conservation Benefit

(Millions of yen)

Content of the benefit		Amount
Resource circulation (gains on sale of valuables, etc.)	Gains on sale of stainless steel, iron, etc.	162
Energy-saving effect	Reduction of electric power purchasing costs due to operation of steam turbine generators	44
	Total	206

● Breakdown of Environmental Conservation Cost Invested



Environmental Targets and Results

Results of the Environmental and Safety Activities (Fiscal 2018)

1. Operation and promotion of effective environmental management systems by each Group company

- The status of mandatory inspections of machinery and facilities was checked under the environment and safety audit, and guidance was provided concerning problems identified, if any.
- Information on laws and ordinances associated with the environment was communicated promptly for horizontal dissemination.
- The environmental manager of each plant was encouraged to properly familiarize him/herself with the information communicated, and make it known to each work place in a horizontal manner.
- Based on the measurement of industrial wastewater, preventative measures against exceeding drainage standards were promoted by analyzing the changes and trend of the density of restricted substances.
- Educational information concerning environmental conservation was communicated and horizontally disseminated as necessary to promote education for enhancing awareness based on our education plan.

2. Promotion of continuous improvement for the reduction of environmental impact

- We failed to achieve the reduction target due mainly to the increase in production. This was despite our efforts in regard to introducing energy-saving equipment and reviewing production processes by sharing information about leading energy-saving equipment.
- Effective water-saving measures were implemented while "visualization" was promoted at each plant, contributing to the achievement of the target.
- We failed to achieve the reduction target due to the increase in production volume, despite our efforts in regard to promoting the use of returnable containers and improving packing methods.
- Despite our management efforts to prevent volatilization of paint and improve spraying methods, we failed to achieve a reduction due to the increase in production volume and the use of paints designated by customers.

3. Promoting biodiversity protection activities

- We have promoted research to understand how biodiversity is impacted by the environmental load imposed by the operation of each plant.
- We have implemented tree-planting activities including a cherry tree-planting drive in the Ashio area and a tree-planting drive at Furukawa-no-mori, while promoting the management of forests owned by Furukawa.

4. Enhancement of preventative measures against accidents and disasters

- The system used at each plant for preventing environmental and safety accidents and disasters was checked under the environment and safety audit, and guidance was provided concerning problems identified, if any.
- The status of implementation of environmental and safety education programs was checked at each plant, and guidance was provided concerning problems identified, if any.
- Despite our continued efforts for "zero accidents," one accident occurred at our facilities. No environmental accidents occurred.
- Despite our efforts for "zero accidents," six accidents requiring one lost workday or more (of which, five accidents required four lost workdays or more) occurred.

Environmental and Safety Activity Targets for Fiscal 2019

1. Operation and promotion of effective environmental management systems of each Group company

- Promoting continuous improvement of operations in accordance with the revised EMS standard
- Properly responding to the establishment and amendment of environment-related laws and ordinances
- Enhancing responses to demands from inside and outside the Company
- Promoting preventative measures through effective use of environment-related data

2. Promotion of continuous improvements toward the reduction of environmental load

- Reducing the emission of greenhouse gases (by improving efficiency of production facilities and manufacturing processes)
- Reducing the use of water resources (including promoting the reduction of impacts on aquatic environments)
- Reducing total emissions including waste and converting waste into valuables
- Reducing the volume of emissions of chemical substances to the atmosphere

3. Promotion of biodiversity protection activities

- Promoting research on measures for reducing the environmental impact on biodiversity
- Promoting continuous tree-planting, forest management and biodiversity restoration activities

4. Enhancement of preventative measures to realize zero disasters

- Enhancing the environmental and safety management system
- Enhancing education to improve the capabilities of personnel responsible for the environment and safety
- Reducing the number of facility and environmental accidents, setting the target at zero
- Reducing the industrial accidents rate (Target: Severity rate of 0.03 or lower)

The Third Medium-term Reduction Targets and the Results of the Fourth Year

The Furukawa Company Group has been implementing measures to achieve the goals set under the Third Medium-term Reduction Targets covering the period from fiscal 2015 through fiscal 2019. The results of the reduction efforts in fiscal 2018, the fourth year, are detailed below. The failure to achieve the target for reduction of CO_2 emissions can partly be attributed to the fact that in some regions all electricity was provided by hydroelectric power generation when the Third Medium-term Reduction Targets were first formulated (fiscal 2014), while at present we also use electric power provided by the Tokyo Electric Power Company.

The Third Medium-term Reduction Targets and the Results of the Fourth Year

Details of the effect	Reduction rate targets for fiscal 2019	Reduction rate results in fiscal 2018
CO_2 emissions	3%	-13%
Water resource used	2%	2%
Total emissions including waste	5%	-8%

Material Flow of the Furukawa Company Group (Fiscal 2018)

INPUT

	Category	Volume used	Category	Volume used	Category	Volume used
Total energy input	Volatile oil (gasoline)	31 kl	Fuel oil A	252 kl	City gas	569 thousand m^3
Total energy input	Kerosene	368 kl	Liquefied petroleum gas (LPG)	304 t	Electricity	42,234 thousand kWh
Total energy input	Diesel oil	166 kl				
Water resource input	Waterworks	122 thousand m^3	Industrial water	500 thousand m^3	Groundwater	One thousand m^3

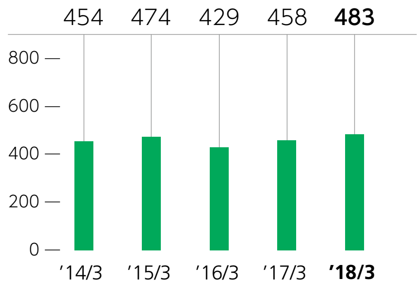
OUTPUT

CO_2 emissions	26 thousand t-CO_2
Drain volume	410 thousand m^3
Total emissions including waste	6,884 t

Environmental Data / Environmental Efficiency Indicator

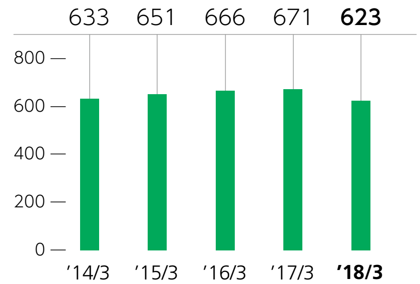
INPUT

Energy (thousand GJ)



Energy use recorded a 6% increase year on year due to an increase in production at the UNIC Machinery segment and the Electronics segment despite our efforts to reduce energy consumption by introducing energy-saving equipment and reviewing the operation methods of facilities.

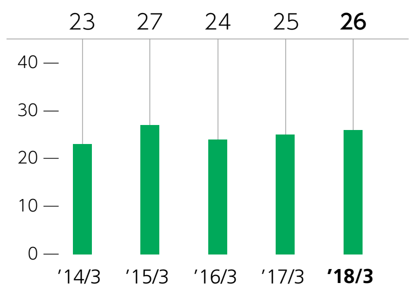
Water Resources (thousand m3)



Despite an increase in the volume of water used in the Chemicals, UNIC Machinery and Electronics segment due to expanded production, the volume of water used decreased by 7% year on year, which was attributable to strict management of water inflow by newly installed flowmeters.

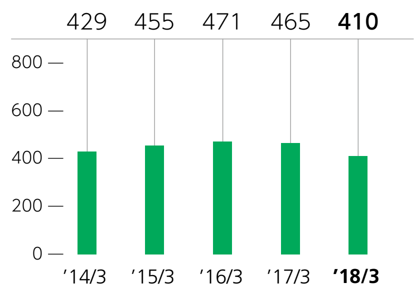
OUTPUT

CO_2 Emissions (thousand t)



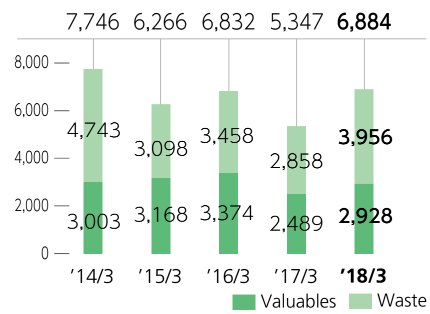
Energy usage increased 6% year on year. CO_2 emissions rose 4% due to the CO_2 emissions factor.

Drain Volume (thousand m3)



Water usage declined 7% year on year. Wastewater volume fell 12% due to increased production of water-based products.

Total Emissions Including Waste, etc. (t)



Total emissions including waste increased by 29% year on year due to the increase in production by each Group company. The volume of valuables increased by 18% year on year as we promoted the subdivision of resources.

Management of Chemical Substances

In fiscal 2018, the number of chemical substances handled that are required to be reported under the PRTR system decreased by one from the previous fiscal year to 14. Reflecting the increase in the volume of production at some plants, organic solvents use increased, resulting in an increase in release to the atmosphere of xylene, toluene and ethylbenzene.

Emission and Transfer of the Substances Required to Be Reported under the PRTR* System

Numbers in blue: Decreased from the previous fiscal year
Numbers in red: Increased from the previous fiscal year (unit: kg/year; or mg-TEQ/year for dioxin only)

Substance no.	Chemicals	Emissions								Volume transferred			
		Atmosphere		Public waters		Soil		Landfill at plant		Transfer to sewer		Outside of plant	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
53	Ethylbenzene	37,202	40,038	0	0	0	0	0	0	0	0	2,310	2,509
75	Cadmium and its compounds	0	0	0	0	0	0	0	0	0	0	2,515	4
80	Xylene	57,240	57,642	0	0	0	0	0	0	0	0	4,087	4,544
87	Chromium and chromium (III) compounds	3	3	0	0	0	0	0	0	0	0	0	7
243	Dioxins	12.3	8.5	0	0	0	0	0	0	0	0	0.12	0.07
272	Copper salts (water-soluble, except complex salts)	0	0	0	0	0	0	0	0	5	7	0	0
296	1,2,4-trimethylbenzene	4,753	4,110	0	0	0	0	0	0	0	0	252	363
300	Toluene	54,857	54,868	0	0	0	0	0	0	0	0	2,840	2,838
308	Nickel	2	0	0	0	0	0	0	0	0	0	0	0
332	Arsenic and its inorganic compounds	0	0	0	0	0	0	0	0	0	0	1,361	1,987
374	Hydrogen fluoride and its water-soluble salts	0	0	12	14	0	0	0	0	0	0	1,424	1,436
412	Manganese and its compounds	39	55	0	0	0	0	0	0	0	0	63	28
438	Methylnaphthalene	16	16	0	0	0	0	0	0	0	0	0	0
453	Molybdenum and its compounds	0	0	0	0	0	0	0	0	0	0	0	1

* PRTR: Pollutant Release and Transfer Register

Human Resource Management

The Furukawa Company Group has been promoting workstyle reforms with the aim of improving labor productivity and creativity based on the development of each employee and realizing workplace environments that are healthy and comfortable for all members of our diverse workforce by reducing overtime work and encouraging employees to take more paid annual leave.

Workstyle Reform and Numerical Targets

Three Fields of Workstyle Reform and Examination Item

Improvement of work environment	Automatization and systematization, review of layouts, review of personnel allocation, shortening meeting times, effective management of meetings
Review of systems and working conditions	Increase in departments using a flextime system, introduction of teleworking, discretionary work system and no-overtime days
Reform of mindset	Making people conscious about improvement of efficiency

Numerical Targets of Workstyle Reform

	Fiscal 2018	Fiscal 2020 target	
Prescribed working hours (a)	1,891 hours	1,891 hours	
Extra working hours (b)	322 hours	186 hours	26.85 hours/month ⇨15.50 hours/month
Hours of paid annual leave taken (c)	70 hours	78 hours	9.0 days/year ⇨10 days/year
Total actual working hours (a) + (b) − (c)	2,143 hours	1,999 hours	

Work–Life Balance

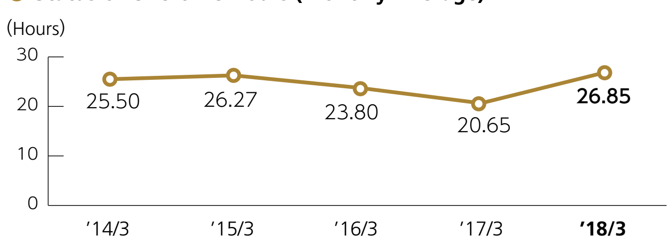
Creating a Comfortable Work Environment

We have been promoting activities to help employees maintain their health and achieve a good work–life balance through reducing overtime and improving the rate at which they take paid annual leave.

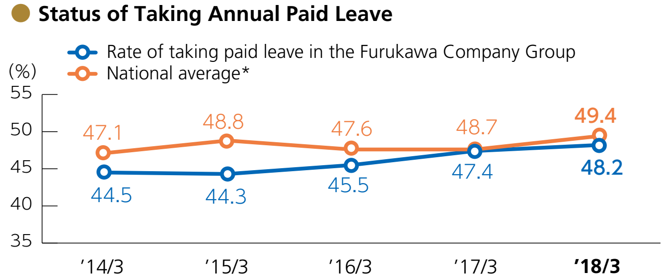
Activities for Fiscal 2018

- Strict management of working hours through prior application for overtime and its prior approval
- Establishment of day for encouraging employees to take paid annual leave
- Trial expansion of the number of departments using the flextime system
- Consideration of the introduction of a teleworking system

Status of Overtime Hours (Monthly Average)



Status of Taking Annual Paid Leave



* Source: "General Survey on Working Conditions" by the Ministry of Health, Labour and Welfare

Promotion of Diversity

Furukawa Co., Ltd. has been placing an emphasis on supporting the participation of female employees and providing support for employees who are raising children, while also proactively hiring and empowering women. On April 1, 2016, the Company formulated the Action Plan for Promoting Support for Female Employees to expand its systems to support the participation of female workers.

Since April 2015, the Company has expanded its support systems for employees raising children by making some parental leave paid leave. It also encourages male employees to take parental leave to ensure they also have the opportunity to participate in child rearing.

Action Plan for Promoting Support for Female Employees (April 1, 2016 to March 31, 2021)

Target No. 1	The percentage of females among new graduate hires shall be 20% or higher
Target No. 2	The number of female managers shall be 10 or more
Target No. 3	Establishment of a return-to-work system (a reemployment system for retirees)
Target No. 4	Encouraging the taking of paid annual leave at an average rate of 12 days per person per year
Target No. 5	Encouraging male employees to take parental leave: 10 or more male employees per year

Numerical Targets of Workstyle Reform

Rate of taking parental leave: 87.8%			
Male	35 male employees	Rate of taking parental leave: 85.4%	Average number of days: 13.9
Female	8 female employees	Rate of taking parental leave: 100.0%	Average number of days: 421.5

Hiring Foreign Nationals

The Company Group is proactively pursuing overseas business expansion and does not make hiring decisions based on nationality. We have adopted 585 foreign national employees (as of March 31, 2018), have been deepening our partnerships with our non-Japanese employees and promote a spirit of mutual respect for individual differences.

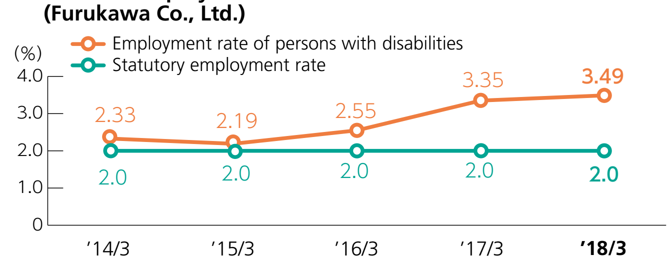
Hiring Retired Older Workers

In accordance with its Continued Employment Rules, the Company rehires employees who want to continue working after reaching the official retirement age of 60. Such employees who return to work after retiring focus on handing down the skills they have developed over their long career to mid-level and younger employees. The number of employees continuing to work after reaching the age of retirement under the continued employment system is 107 (as of March 31, 2018).

Hiring People with Disabilities

The Company hires people with disabilities at various workplaces and for various types of work, promoting their independence and participation in society.

Trend of Employment Rate of Persons with Disabilities (Furukawa Co., Ltd.)



Workplace Reform

The Furukawa Company Group wants each and every employee to demonstrate leadership and think and act independently. For this reason, we strive to build personnel evaluation systems and workplace environments that reward challenging efforts, while respecting human rights as a top priority. At the same time, we are promoting education and development of professional human resources.

Cultivation of Human Resources

Development of Human Resources

The Company Group seeks to optimize its business framework and maximize its corporate value through the development of professional human resources and creation of workplace environments where employees can exercise their abilities to the fullest.

In the training programs implemented by job grade, a variety of educational programs are provided to different classes of employees such as the newly hired, employees in their third year, fifth year and eighth year, newly assigned managers, and section managers to help them attain the basic knowledge required for their job as well as the ability to respond to changes in the social environment. In the training program for newly hired employees, the history, countermeasures against pollution and the present status of safety management and tree-planting activities of the Ashio Copper Mine is included.

In the training activities by specialty and function, we offer appropriate programs according to the specialty, function and qualification of the participants, providing them with a wide range of expertise concerning the relevant fields and specified skills. At the same time, we proactively encourage our employees to participate in external seminars on specialized subjects, and to obtain public qualifications. We also endeavor to cultivate employees with expertise in cutting-edge technologies and social trends by supporting their participation in external educational organizations and academic societies.

Personnel Evaluation System

We apply our own ability-based grade system to categorize each employee according to his/her ability to perform duties. By evaluating the work performance, eagerness, capability, etc., of each employee under the personnel evaluation system in view of the assigned ability-based grade, we endeavor to guide, cultivate and develop the potential of our employees as well as ensure appropriate job placement. Furthermore, we continue to improve the workplace environment by ensuring a fair and appropriate system of wages, bonuses, retirement benefits, promotion, etc., so that motivated employees can work with confidence.

Respect for Human Rights

The Furukawa Company Group's Corporate Conduct Charter stipulates that we will "accept diverse values of individuals, and strive to create a corporate climate in which there are no human rights violations or discrimination while individuals receive fair evaluations and are motivated to work," and prohibits all forms of harassment and discrimination. We take resolute measures against harassment and discrimination based on our internal rules.

Our Code of Behavior for employees provides that basic human rights should be respected and discriminatory language and behavior is prohibited. All newly hired employees of the Company Group participate in the human rights seminar while managers are required to join internal training concerning harassment in the workplace. Thus, specific case studies of actions leading to the creation of comfortable workplaces are learned, along with examples of actions that constitute human rights violations.

In 2017, details of our activities were included in a handbook titled "Good Practice Examples of Measures against Workplace Harassment" published under the Creating Comfortable Workplaces initiative of the Ministry of Health, Labour and Welfare. This handbook is distributed at prefectural labor bureaus and Labor Standards Inspection Offices nationwide.

Efforts for Industrial Safety and Health

The Company Group has also implemented various industrial safety and health activities based on its Basic Philosophy on Industrial Safety and Health and Policy on Industrial Safety and Health to improve its safety and health performance. In particular, we promote safety and health education and training programs for our own employees and those of subcontractors working within our plants with the aim of creating comfortable workplace environments. We also believe that basic activities such as holding pre-operation meetings, ensuring KYT (hazard prediction training), activities concerning near-miss incidents and collecting improvement proposals must be conducted regularly.

Furthermore, efforts made in regard to compliance with laws and ordinances and responses to amended laws and ordinances are made known to relevant personnel.

Safety Measures and Education

The Company Group systematically implements internal training programs for all employees by job grade and job function so that they learn principles for safe and efficient operation methods, understand the importance of safety, and acquire expertise.

We also proactively implement education programs considered useful for preventing industrial disasters even when they are not mandatory, in addition to the education provided at the time of employment based on the Industrial Safety and Health Act, the education provided at the time of changing operations, special education programs, and skills training for personnel engaging in safety and health duties.

Column

The Furukawa Company has a long history of occupational health and safety initiatives going back to its roots in the mining industry. Our Ashio Copper Mine was the first place in Japan to translate the "Safety First" slogan, which originated in the United States, and undertake initiatives associated with it. This is regarded as the origin of Japan's safety movement, and we have long been a leader in voluntary safety initiatives.

Consolidated Six-Year Financial Summary

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31

		Millions of yen				
	2018/3	2017/3	2016/3	2015/3	2014/3	2013/3
For the year:						
Net sales	**¥ 167,696**	¥ 149,830	¥ 161,799	¥ 172,544	¥ 163,026	¥ 165,540
Cost of sales	**142,427**	126,207	136,447	146,657	139,777	144,225
Gross profit	**25,269**	23,623	25,352	25,887	23,249	21,315
Selling, general and administrative expenses	**17,448**	17,077	17,363	16,962	16,363	17,952
Operating income	**7,821**	6,546	7,989	8,925	6,886	3,363
Profit before income taxes	**6,595**	6,711	6,631	6,160	7,092	5,433
Profit attributable to owners of parent	**4,774**	4,254	5,056	9,793	3,976	2,976
Cash flows from operating activities	**5,350**	9,819	7,652	10,241	1,983	5,491
Cash flows from investing activities	**(5,855)**	(3,585)	(2,855)	(10,892)	(3,129)	(2,253)
Cash flows from financing activities	**(2,529)**	(5,030)	(8,166)	3,318	(4,562)	252
Capital expenditures	**5,021**	5,424	2,869	2,557	11,430	2,926
Depreciation and amortization	**3,260**	3,138	3,191	3,223	2,828	3,015
Research and development expenses	**2,293**	2,464	2,680	2,227	2,539	2,559
At year-end:						
Total assets	**¥ 222,751**	¥ 208,034	¥ 195,650	¥ 207,317	¥ 199,408	¥ 186,076
Current assets	**88,702**	79,579	76,315	80,564	76,838	79,508
Current liabilities	**79,338**	59,790	59,750	63,870	73,976	74,439
Total equity	**85,011**	77,658	66,459	68,783	54,694	50,110
Net assets	**87,086**	79,584	68,262	70,581	56,313	51,507
Interest-bearing liabilities	**73,311**	73,507	76,241	82,053	77,219	80,634
Per share amounts:*				Yen		
Basic earnings	**¥ 118.16**	¥ 105.29	¥ 125.13	¥ 242.34	¥ 98.40	¥ 73.65
Cash dividends	**50.00**	50.00	50.00	50.00	30.00	20.00
Net assets	**2,104.07**	1,922.04	1,644.81	1,702.21	1,353.41	1,239.94
Profitability:				%		
Cost of sales margin (%)	**84.9**	84.2	84.3	85.0	85.7	87.1
Gross margin (%)	**15.1**	15.8	15.7	15.0	14.3	12.9
SG&A expense margin (%)	**10.4**	11.4	10.7	9.8	10.0	10.8
Operating margin (%)	**4.7**	4.4	4.9	5.2	4.2	2.0
Return on sales (%)	**2.8**	2.8	3.1	5.7	2.4	1.8
Efficiency and soundness:						
Return on equity (ROE) (%) (Note 1)	**5.9**	5.9	7.5	15.9	7.6	6.2
Return on assets (ROA) (%) (Note 2)	**2.2**	2.1	2.5	4.8	2.1	1.6
Debt-to-equity (D/E) ratio (Times) (Note 3)	**0.9**	0.9	1.1	1.2	1.4	1.6
Equity ratio (%) (Note 4)	**38.2**	37.3	34.0	33.2	27.4	26.9
Investment indicators:						
Dividend payout ratio (%) (Note 5)	**42.3**	47.5	40.0	20.6	30.5	27.2
Dividends on equity (DOE) ratio (%) (Note 6)	**2.4**	2.7	2.9	3.2	2.2	1.6
Price book value ratio (PBR) (Times) (Note 7)	**0.9**	1.1	1.0	1.2	1.4	0.9
Stock price at fiscal year-end (Yen)*	**1,985**	2,050	1,660	2,120	1,860	1,090

Notes: 1. Return on equity (ROE) = Profit attributable to owners of parent / Average total equity × 100
2. Return on assets (ROA) = Profit attributable to owners of parent / Average total assets × 100
3. Debt-to-equity (D/E) ratio = Interest-bearing liabilities (fiscal year-end) / Total equity [Shareholders' equity] (fiscal year-end)
4. Equity ratio = Total equity [Shareholders' equity] (fiscal year-end) / Total assets (fiscal year-end) × 100
5. Dividend payout ratio = Total cash dividends / Profit attributable to owners of parent × 100
6. Dividends on equity (DOE) ratio = Total cash dividends / Average net assets × 100
7. Price book value ratio (PBR) = Stock price (fiscal year-end) / Net assets per share

* The Company conducted a 1-for-10 stock consolidation of shares of common stock, effective October 1, 2017. In the above table, per-share figures for the fiscal year ended March 2017 and prior years have been recalculated based on the number of shares outstanding after the stock split.

Revenue and Expenses

In fiscal 2018, ended March 31, 2018, consolidated net sales totaled ¥167,696 million, up 11.9% compared with the previous fiscal year.

The Industrial Machinery segment posted a 13.0% increase in sales, to ¥15,872 million, due mainly to increased sales from bridge-related projects, including those associated with the Yokohama Cyclic Northwest Line, as well as higher sales of crushers, grinders, and other industrial machinery. The Rock Drill Machinery segment reported an 11.9% increase in sales, to ¥30,200 million. This was due to an increase in shipments of tunnel drill jumbos for domestic projects, including Kumamoto earthquake restoration and reconstruction work, the Linear Chuo Shinkansen Line, and a new Shinkansen line in Hokkaido. Segment sales were also bolstered by increased demand for hydraulic breakers on the back of firm construction investments. Amid favorable economic conditions overseas, we reported steady shipments of hydraulic crawler drills, mainly to Europe and North America, as well as increased shipments of tunnel drill jumbos to China and South America. The UNIC Machinery segment recorded a 6.2% increase in sales, to ¥27,382 million. This was due to increased domestic shipments of our latest-model "G-FORCE" series, featuring a full lineup from small to large models. Benefiting from healthy overseas economic conditions, we posted steady shipments of mini crawler cranes to Europe and North America, as well as increased shipments of UNIC cranes to China and Southeast Asia. The Metals segment posted a 14.0% rise in sales, to ¥77,334 million. The Company's sales of electrolytic copper in volume terms declined 1,190 tons, to 90,104 tons, reflecting a focus on domestic sales. For the fiscal year, sales of electrolytic copper increased due to higher overseas market prices and the yen's depreciation. The Chemicals segment reported a 19.8% increase in sales, to ¥6,345 million. This was due to higher sales of cuprous oxide owing to growth in demand for its use in marine antifouling paint, a mainstay application, ahead of the enactment of regulations under the Ballast Water Management Convention.

Cost of sales rose 12.9%, to ¥142,427 million, and the cost of sales margin edged up 0.7 percentage point, to 84.9%. Selling, general and administrative (SG&A) expenses increased 2.2%, to ¥17,448 million.

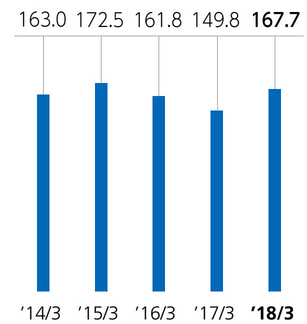
As a result, operating income climbed 19.5% from the previous fiscal year, to ¥7,821 million. Main contributors were the Industrial Machinery segment (with operating income of ¥1,005 million), the Rock Drill Machinery segment (¥1,783 million), the Electronics segment (¥330 million), and the Chemicals segment (¥451 million). By contrast, the UNIC Machinery segment posted a 11.0% decline in operating income, to ¥2,295 million, due largely to surging prices of steel materials and the impact of upfront capital investments in the Sakura Plant, and the Metals segment reported a 50.1% fall in operating income, to ¥867 million, due mainly to deterioration of purchasing conditions. Accordingly, the operating margin edged up 0.3 percentage point, to 4.7%.

Among other income, we posted ¥804 million in interest and dividend income, ¥367 million in equity in earnings of affiliates, and a ¥21 million gain on sales of investment securities. Among other expenses, there was a ¥1,042 million loss on provision for cost of removal of office tenants. Accordingly, profit before income taxes decreased 1.7%, to ¥6,595 million.

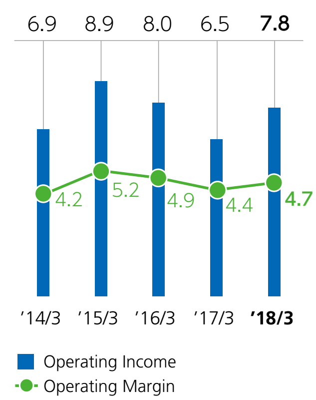
Income taxes (the sum of inhabitants' tax, enterprise tax, and corporate tax) totaled ¥1,668 million. As a result, profit attributable to non-controlling interests was ¥153 million, and profit attributable to owners of parent increased 12.2%, to ¥4,774 million.

Return on equity (ROE) remained unchanged, at 5.9%, and basic earnings per share rose, to ¥118.16.

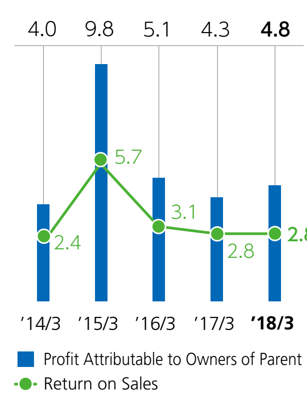
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)
Operating Margin
(%)



Profit Attributable to Owners of Parent
(Billions of yen)
Return on Sales
(%)



Financial Position

At March 31, 2018, total assets amounted to ¥222,751 million, up 7.1% from a year earlier. The increase stemmed mainly from rises in raw materials and stocks in the Metals segment, as well as an increase in investment securities due to rising prices of our shareholdings. Despite a 0.3% decrease in interest-bearing liabilities (debt), to ¥73,311 million, total liabilities rose 5.6%, to ¥135,665 million. This was due mainly to an increase in accrued payables.

Net assets at fiscal year-end stood at ¥87,086 million, up 9.4% from a year earlier. This was mainly due to an increase in unrealized holding gain on securities, net of income taxes. Consequently, total equity amounted to ¥85,011 million, and the equity ratio rose 0.9 percentage point, to 38.2%. The debt-to-equity (D/E) ratio remained unchanged, at 0.9 times.

R&D and Capital Expenditures

The Furukawa Company Group is actively engaged in R&D on new materials and high-value-added products that meet diversified market needs. In the fiscal year under review, total research and development expenses amounted to ¥2,293 million, down 6.9% from the previous fiscal year. Of this total, ¥87 million was allocated to the Industrial Machinery segment, ¥771 million to the Rock Drill Machinery segment, ¥395 million to the UNIC Machinery segment, ¥116 million to the Electronics segment, and ¥134 million to the Chemicals segment.

Capital expenditures (including purchase of intangible fixed assets) amounted to ¥5,021 million. Of this total, ¥358 million was allocated to the Industrial Machinery segment, ¥535 million to the Rock Drill Machinery segment, ¥3,321 million to the UNIC Machinery segment, ¥110 million to the Metals segment, ¥139 million to the Electronics segment, and ¥51 million to the Chemicals segment, aimed primarily at improvements in production efficiency. In addition, ¥23 million was allocated to the Real Estate segment, mainly for maintenance of buildings, and ¥481 million went to the Others segment, mainly for vehicles to be used in the transportation sector. Funds for these expenditures are sourced from internal funds and borrowings. Depreciation and amortization increased 3.9%, to ¥3,260 million.

The Group's capital expenditure budget is based on comprehensive consideration of various factors, including demand forecasts, production plans, and investment benefits. As of March 31, 2018, the Group plans to invest a total of ¥11,600 million, mainly for the purchase of new facilities and the repair of existing ones. We expect to procure these funds via borrowings and/or internal funds.

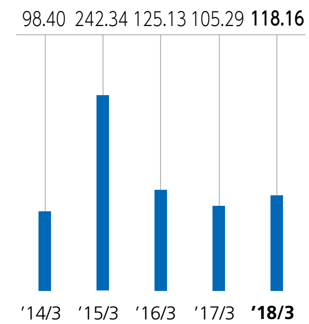
Cash Flows

In the fiscal year under review, net cash provided by operating activities amounted to ¥5,350 million, down 45.5% from the previous fiscal year. This was due to several factors, including an increase in notes and accounts receivable associated with higher net sales, as well as an increase in provision for deposition field restoration (to cover costs for strengthening the earthquake resistance of deposition fields, the final disposal sites for mining residues and the like). There was also a decrease in interest and dividend income compared with the previous fiscal year, when the Company received dividend income from Nusa Tenggara Mining Corporation.

Net cash used in investing activities totaled ¥5,855 million, up 63.3% from the previous fiscal year. The main factor was purchases of property, plant, and equipment, including equipment for strengthening the "mother factory" functions of the Sakura Plant.

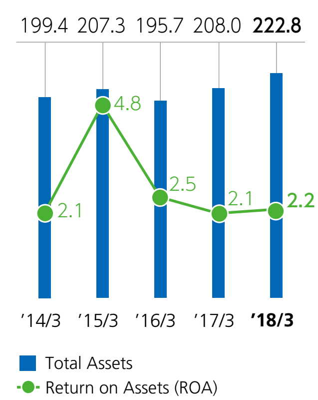
Net cash used in financing activities was ¥2,529 million, down 49.7%. This was mainly due to repayments of short- and long-term debt. As a result, cash and cash equivalents at the end of the fiscal year totaled ¥10,200 million, down ¥3,025 million, or 22.9%, from a year earlier.

Basic Earnings per Share
(Yen)

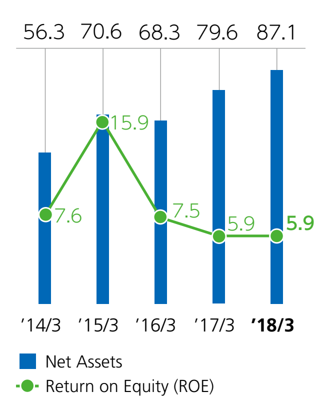


Note: The Company conducted a 1-for-10 stock consolidation of shares of common stock, effective October 1, 2017. In the above graph, per-share figures for the fiscal year ended March 2017 and prior years have been recalculated based on the number of shares outstanding after the stock split.

Total Assets
(Billions of yen)
Return on Assets (ROA)
(%)



Net Assets
(Billions of yen)
Return on Equity (ROE)
(%)

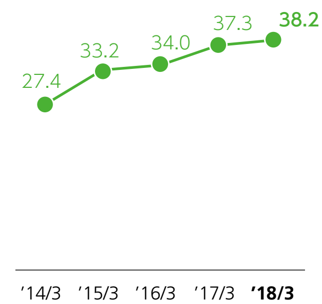


Allocation of Consolidated Operating Cash Flows and Capital Strategies

The Furukawa Group is currently implementing its medium-term business plan, covering the three-year period from April 2017 to March 2020. With respect to allocation of consolidated operating cash flows, our policy under the plan is to actively promote investments to increase corporate value while aiming to establish a robust financial base. At the same time, we endeavor to make optimal allocations of cash flows in consideration of shareholder returns.

Furukawa places great importance on improving returns of profits to all shareholders. Our basic policy is to appropriate profits after comprehensive consideration of various factors, including retained earnings required to finance capital expenditures and research and development expenses necessary to bolster earnings, as well as future business development and other factors. We strive to return profits to shareholders in a stable and ongoing manner. In principle, we aim to pay annual dividends of ¥50.00 per share or higher for a consolidated dividend payout ratio of 30% or higher, based on consolidated earnings (excluding extraordinary income/loss situations). For fiscal 2018, the Company declared annual dividends of ¥50.00 per share, for a consolidated dividend payout ratio of 42.3%.

Equity Ratio
(%)

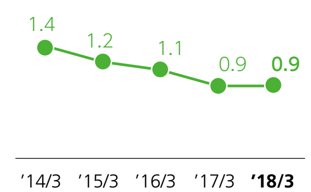


Business Risks

(1) Foreign Exchange Fluctuations

The Furukawa Company Group engages in production and sales activities in Japan and overseas, and therefore is at risk of foreign exchange fluctuations in connection with its export business, the import of raw materials, primarily copper ore, and smelting and processing income. While the Group utilizes foreign exchange contracts and other methods to mitigate this risk, its operating results and financial position may be adversely affected by movements in exchange rates.

Debt-to-Equity (D/E) Ratio
(Times)



(2) Fluctuations in Nonferrous Metals Markets

International prices of electrolytic copper, a mainstay product of the Group, and other nonferrous metals are decided by the London Metals Exchange (LME) in U.S. dollars to reflect international market conditions. Such prices fluctuate according to the international supply–demand balance, speculative transactions, international political and economic circumstances, and the like. The Group utilizes forward delivery transactions and other hedging techniques to minimize the impact of fluctuating LME prices. However, movements in such prices may adversely affect the Group's operating results and financial position.

(3) Interest Rates

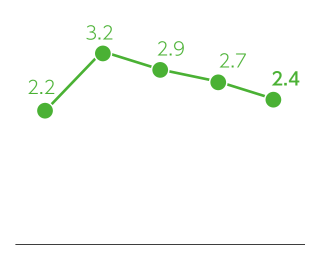
The Group's fiscal year-end balance of interest-bearing liabilities (debt) was ¥73,311 million, equivalent to 32.9% of total assets. Any increase in debt-related costs arising from changes in interest rates may adversely affect the Group's operating results and financial position.

'14/3 '15/3 '16/3 '17/3 **'18/3**

(4) Investment Securities and Land

Historically, the Furukawa Company Group has maintained relatively high balances of marketable securities and land. As of March 31, 2018, the carrying value of investment securities as stated in the balance sheets was ¥34,508 million, while land stood at ¥54,902 million. Accordingly, the Group's operating results and financial position are at risk of impairment losses, losses from devaluation, and losses on sales due to movements in stock and land prices.

Dividends on Equity (DOE) Ratio
(%)



(5) Retirement Benefit Obligation

The employees of the Furukawa Company Group are covered by defined benefit corporate pension plans and non-contributory funded employee pension plans. Liability for retirement benefits are provided at an amount calculated based on the retirement benefit obligation and the fair value of pension plan assets at the balance sheet date. In calculating retirement benefit obligation, the Group adopts assumptions in connection with the discount rate and expected rate of return on plan assets, as well as other assumptions. Accordingly, the Group's operating results and financial position are at risk in the event the actual discount rate and expected rate of return on plan assets differs materially from the assumptions, as well as in the event of a change in the assumptions on which retirement benefit obligation are made.

(6) Earthquakes and Other Natural Disasters

Earthquakes and other natural disasters, as well as major accidents, could cause substantial damage to the Group's production facilities and procurement sources, leading to failure of its production equipment and distribution network. Such an event may prevent the Group from supplying products in a reliable manner, which could affect its operating results and financial position.

(7) Environmental Protection

The Furukawa Company Group places the highest importance on environmental protection, environmental safety, and prevention of pollution at its various business sites, both in Japan and overseas, respecting all laws and regulations. Furthermore, in Japan the Group is vigilant in preventing water run-off from idle mines from contaminating water supplies and in preventing the buildup of slag or slurry. However, in the event of changes in legislation and the like, there is a possibility that the Group's performance results and its financial position could be influenced.

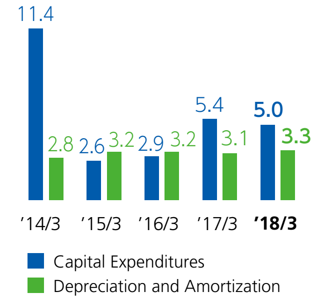
(8) Official Regulations

The Furukawa Company Group engages in business in Japan and overseas and thus is subject to legal regulations of various nations, including rules related to licensing, taxation, the environment, labor, antitrust, and security. The Group takes care to faithfully comply with such official regulations, but the formulation of new regulations or amendments to existing ones may lead to increased costs and affect the Group's business continuity, which could affect its operating results and financial position.

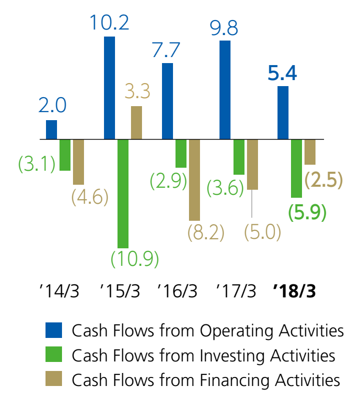
(9) Country Risk

The Furukawa Company Group conducts its production, procurement, and sales activities on a global basis in order to expand its sales network, strengthen cost-competitiveness, and reduce currency risk. Any number of local events could hamper the Group's smooth business operations. These include local political unrest, sharp economic slowdown, trade sanctions, cultural and legal differences, special labor–management relations, and terrorism. Such events could affect the Group's operating results and financial position.

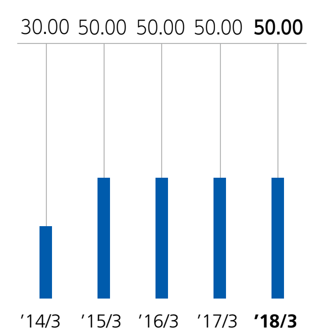
Capital Expenditures
(Billions of yen)
Depreciation and Amortization
(Billions of yen)



Cash Flows
(Billions of yen)



Cash Dividends per Share
(Yen)



Note: The Company conducted a 1-for-10 stock consolidation of shares of common stock, effective October 1, 2017. In the above graph, per-share figures for the fiscal year ended March 2017 and prior years have been recalculated based on the number of shares outstanding after the stock split.

Financial Section

Consolidated Balance Sheets

Furukawa Co., Ltd. and consolidated subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2018**	2017	**2018**
Current Assets:			
Cash and cash equivalents	**¥ 10,200**	¥ 13,225	**$ 95,982**
Receivables—trade	**31,321**	26,755	**294,730**
Finished products	**15,576**	13,802	**146,570**
Work in process	**8,028**	7,690	**75,543**
Raw materials and supplies	**17,569**	11,616	**165,324**
Deferred tax assets (Note 13)	**856**	662	**8,055**
Other current assets	**5,284**	6,032	**49,723**
Allowance for doubtful accounts	**(132)**	(203)	**(1,242)**
Total current assets	**88,702**	79,579	**834,685**
Property, Plant and Equipment, at Cost (Notes 5 and 18)**:**			
Land and timberlands	**56,753**	56,839	**534,045**
Buildings and structures	**56,371**	55,486	**530,451**
Machinery and equipment	**43,009**	41,827	**404,714**
Lease assets (Note 9)	**1,391**	1,438	**13,089**
Construction in progress	**2,105**	347	**19,808**
	159,629	155,937	**1,502,107**
Accumulated depreciation	**(70,663)**	(68,560)	**(664,938)**
Property, plant and equipment, net	**88,966**	87,377	**837,169**
Investments and Other Assets:			
Investment securities (Note 4)	**36,240**	32,343	**341,018**
Investments in affiliates	**3,719**	3,228	**34,996**
Long-term loans receivables	**4,074**	4,021	**38,336**
Deferred tax assets (Note 13)	**51**	522	**480**
Other assets	**1,572**	1,550	**14,793**
Allowance for doubtful accounts	**(573)**	(586)	**(5,392)**
Total investments and other assets	**45,083**	41,078	**424,231**
Total assets	**¥ 222,751**	¥ 208,034	**$ 2,096,085**

LIABILITIES AND NET ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 3) 2018
Current Liabilities:			
Short-term debt (Note 5)	¥ **9,225**	¥ 9,656	$ **86,807**
Current portion of long-term debt (Note 5)	**26,728**	13,384	**251,510**
Lease obligations (Note 5)	**260**	249	**2,447**
Payables—trade	**13,072**	15,065	**123,007**
Electronically recorded obligations	**10,644**	7,917	**100,160**
Accounts payable—other	**14,225**	7,406	**133,857**
Income taxes payable	**600**	710	**5,646**
Deferred tax liabilities (Note 13)	**16**	0	**151**
Provision for deposition field restoration	**282**	1,212	**2,654**
Other current liabilities	**4,286**	4,191	**40,330**
Total current liabilities	**79,338**	59,790	**746,569**
Long-Term Liabilities:			
Long-term debt (Note 5)	**37,358**	50,468	**351,539**
Lease obligations (Note 5)	**555**	578	**5,223**
Provision for environmental measures	**134**	132	**1,261**
Provision for deposition field restoration	**391**	534	**3,679**
Provision for cost of removal of office tenants	**579**	—	**5,448**
Liability for retirement benefits (Note 12)	**4,676**	6,533	**44,001**
Deferred tax liabilities (Note 13)	**8,048**	5,843	**75,732**
Deferred tax liabilities on surplus on the revaluation of land (Note 13)	**1,779**	1,811	**16,740**
Asset retirement obligations	**220**	218	**2,070**
Other long-term liabilities	**2,587**	2,543	**24,343**
Total long-term liabilities	**56,327**	68,660	**530,036**
Net Assets (Note 6)**:**			
Shareholders' equity:			
Common stock without par value:			
Authorized—80,000,000 shares			
Issued—40,445,568 shares	**28,208**	28,208	**265,437**
Retained earnings	**38,573**	35,748	**362,972**
Treasury stock, at cost:			
2018—41,964 shares	**(68)**	(66)	**(640)**
2017—412,928 shares	**—**	—	**—**
Total shareholders' equity	**66,713**	63,890	**627,769**
Accumulated other comprehensive income:			
Unrealized holding gain on securities, net of income taxes	**14,518**	11,758	**136,614**
Deferred gain (loss) on hedges	**46**	106	**433**
Surplus on the revaluation of land, net of income taxes	**3,465**	3,536	**32,606**
Translation adjustments	**182**	160	**1,713**
Retirement benefits liability adjustments	**87**	(1,792)	**819**
Total accumulated other comprehensive income	**18,298**	13,768	**172,185**
Non-controlling interests	**2,075**	1,926	**19,526**
Total net assets	**87,086**	79,584	**819,480**
Total liabilities and net assets	¥ **222,751**	¥ 208,034	$ **2,096,085**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	**2018**
Net Sales	**¥ 167,696**	¥ 149,830	**$ 1,578,018**
Cost of Sales (Note 15)	**(142,427)**	(126,207)	**(1,340,237)**
Gross profit	**25,269**	23,623	**237,781**
Selling, General and Administrative Expenses (Note 8)	**(17,448)**	(17,077)	**(164,185)**
Operating income	**7,821**	6,546	**73,596**
Other Income (Expenses):			
Interest and dividend income	**804**	2,446	**7,566**
Equity in earnings (losses) of affiliates	**367**	(421)	**3,453**
Interest expense	**(581)**	(669)	**(5,467)**
Other income (expenses), net (Note 16)	**(1,816)**	(1,191)	**(17,089)**
Profit before income taxes	**6,595**	6,711	**62,059**
Income Taxes (Note 13)**:**			
Current	**(1,155)**	(1,294)	**(10,869)**
Deferred	**(513)**	(1,003)	**(4,827)**
Total income taxes	**(1,668)**	(2,297)	**(15,696)**
Profit	**4,927**	4,414	**46,363**
Profit Attributable to Non-Controlling Interests	**(153)**	(160)	**(1,440)**
Profit Attributable to Owners of Parent	**¥ 4,774**	¥ 4,254	**$ 44,923**

	Yen		U.S. dollars (Note 3)
Profit Attributable to Owners of Parent per Share	**¥ 118**	¥ 105	**$ 1.11**
Net Assets per Share	**2,104**	1,922	**19.80**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2018		2017		**2018**	
Profit	**¥**	**4,927**	¥	4,414	**$**	**46,363**
Other Comprehensive Income (Loss):						
Unrealized holding gain (loss) on securities, net of income taxes		**2,759**		7,249		**25,962**
Deferred gain (loss) on hedges		**(24)**		(59)		**(226)**
Translation adjustments		**(46)**		(393)		**(433)**
Retirement benefits liability adjustments		**1,879**		2,158		**17,681**
Share of other comprehensive income (loss) of affiliates accounted for using equity method		**50**		(13)		**471**
Total other comprehensive income (loss) (Note 7)		**4,618**		8,942		**43,455**
Comprehensive Income (Loss)		**9,545**		13,356		**89,818**
Comprehensive Income (Loss) Attributable to:						
Owners of parent		**9,375**		13,222		**88,218**
Non-controlling interests		**170**		134		**1,600**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

For the year ended March 31, 2018	Number of shares of common stock (thousands)	Millions of yen Shareholders' equity Common stock	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	40,446	¥ 28,208	¥ 35,748	¥ (66)	¥ 63,890
Cash dividends paid	—	—	**(2,020)**	—	**(2,020)**
Profit attributable to owners of parent	—	—	**4,774**	—	**4,774**
Purchase of treasury stock	—	—	—	**(2)**	**(2)**
Reversal of surplus on the revaluation of land	—	—	**71**	—	**71**
Net change during the year	—	—	—	—	—
Balance at end of year	**40,446**	**¥ 28,208**	**¥ 38,573**	**¥ (68)**	**¥ 66,713**

For the year ended March 31, 2018	Millions of yen Accumulated other comprehensive income Unrealized holding gain on securities, net of income taxes	Deferred gain (loss) on hedges	Surplus on the revaluation of land, net of income taxes	Translation adjustments	Retirement benefits liability adjustments (Note 12)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	¥ 11,758	¥ 106	¥ 3,536	¥ 160	¥ (1,792)	¥ 13,768	¥ 1,926	¥79,584
Cash dividends paid	—	—	—	—	—	—	—	**(2,020)**
Profit attributable to owners of parent	—	—	—	—	—	—	—	**4,774**
Purchase of treasury stock	—	—	—	—	—	—	—	**(2)**
Reversal of surplus on the revaluation of land	—	—	—	—	—	—	—	**71**
Net change during the year	**2,760**	**(60)**	**(71)**	**22**	**1,879**	**4,530**	**149**	**4,679**
Balance at end of year	**¥ 14,518**	**¥ 46**	**¥ 3,465**	**¥ 182**	**¥ 87**	**¥ 18,298**	**¥ 2,075**	**¥87,086**

For the year ended March 31, 2017	Number of shares of common stock (thousands)	Millions of yen Shareholders' equity Common stock	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	40,446	¥ 28,208	¥ 33,467	¥ (63)	¥ 61,612
Cash dividends paid	—	—	(2,020)	—	(2,020)
Profit attributable to owners of parent	—	—	4,254	—	4,254
Purchase of treasury stock	—	—	—	(3)	(3)
Reversal of surplus on the revaluation of land	—	—	47	—	47
Net change during the year	—	—	—	—	—
Balance at end of year	40,446	¥ 28,208	¥ 35,748	¥ (66)	¥ 63,890

For the year ended March 31, 2017

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities, net of income taxes	Deferred gain (loss) on hedges	Surplus on the revaluation of land, net of income taxes	Translation adjustments	Retirement benefits liability adjustments (Note 12)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	¥ 4,514	¥ 157	¥ 3,583	¥ 543	¥ (3,950)	¥ 4,847	¥ 1,803	¥68,262
Cash dividends paid	—	—	—	—	—	—	—	(2,020)
Profit attributable to owners of parent	—	—	—	—	—	—	—	4,254
Purchase of treasury stock	—	—	—	—	—	—	—	(3)
Reversal of surplus on the revaluation of land	—	—	—	—	—	—	—	47
Net change during the year	7,244	(51)	(47)	(383)	2,158	8,921	123	9,044
Balance at end of year	¥ 11,758	¥ 106	¥ 3,536	¥ 106	¥ (1,792)	¥ 13,768	¥ 1,926	¥79,584

For the year ended March 31, 2018

	Thousands of U.S. dollars (Note 3)			
	Shareholders' equity			
	Common stock	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	$ 265,437	$ 336,388	$ (621)	$ 601,204
Cash dividends paid	—	**(19,007)**	—	**(19,007)**
Profit attributable to owners of parent	—	**44,923**	—	**44,923**
Purchase of treasury stock	—	—	**(19)**	**(19)**
Reversal of surplus on the revaluation of land	—	**668**	—	**668**
Net change during the year	—	—	—	—
Balance at end of year	**$ 265,437**	**$ 362,972**	**$ (640)**	**$ 627,769**

The accompanying notes are an integral part of these statements.

For the year ended March 31, 2018

	Thousands of U.S. dollars (Note 3)							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities, net of income taxes	Deferred gain (loss) on hedges	Surplus on the revaluation of land, net of income taxes	Translation adjustments	Retirement benefits liability adjustments (Note 12)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	$ 110,643	$ 997	$ 33,274	$ 1,506	$ (16,863)	$129,557	$18,124	$748,885
Cash dividends paid	—	—	—	—	—	—	—	**(19,007)**
Profit attributable to owners of parent	—	—	—	—	—	—	—	**44,923**
Purchase of treasury stock	—	—	—	—	—	—	—	**(19)**
Reversal of surplus on the revaluation of land	—	—	—	—	—	—	—	**668**
Net change during the year	**25,971**	**(564)**	**(668)**	**207**	**17,682**	**42,628**	**1,402**	**44,030**
Balance at end of year	**$ 136,614**	**$ 433**	**$ 32,606**	**$ 1,713**	**$ 819**	**$172,185**	**$19,526**	**$819,480**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	**2018**
Operating Activities:			
Profit before income taxes	**¥ 6,595**	¥ 6,711	**$ 62,059**
Depreciation and amortization	**3,260**	3,138	**30,677**
Equity in earnings (losses) of affiliates	**(367)**	421	**(3,453)**
Increase in net defined benefit liability	**788**	1,212	**7,415**
Increase (Decrease) in provision for deposition field restoration	**(1,073)**	220	**(10,097)**
Increase (Decrease) in provision for cost of removal of office tenants	**579**	—	**5,448**
Interest and dividend income	**(804)**	(2,446)	**(7,566)**
Interest expense	**581**	669	**5,467**
Changes in operating assets and liabilities:			
Receivables—trade	**(4,493)**	(2,253)	**(42,279)**
Inventories	**(7,976)**	348	**(75,054)**
Payables—trade	**559**	1,360	**5,260**
Accounts payable—other	**7,463**	521	**70,227**
Other	**940**	(608)	**8,845**
Subtotal	**6,052**	9,293	**56,949**
Interest and dividends received	**791**	2,436	**7,443**
Interest paid	**(559)**	(699)	**(5,260)**
Income taxes paid	**(1,741)**	(1,853)	**(16,383)**
Income taxes refunded	**807**	642	**7,594**
Net cash provided by operating activities	**5,350**	9,819	**50,343**
Investing Activities:			
Purchases of property, plant and equipment	**(5,326)**	(3,812)	**(50,118)**
Proceeds from liquidation of investment securities	**—**	599	**—**
Increase in short-term loans receivables	**(318)**	—	**(2,992)**
Increase in long-term loans receivables	**(198)**	(825)	**(1,863)**
Collection of long-term loans receivables	**2**	501	**19**
Other	**(15)**	(48)	**(141)**
Net cash used in investing activities	**(5,855)**	(3,585)	**(55,095)**
Financing Activities:			
Proceeds from long-term debt	**13,605**	15,600	**128,023**
Repayment of long-term debt	**(13,398)**	(15,314)	**(126,075)**
Proceeds from short-term debt	**8,505**	5,627	**80,032**
Repayment of short-term debt	**(8,918)**	(8,627)	**(83,918)**
Cash dividends paid	**(2,020)**	(2,018)	**(19,007)**
Repayment of finance lease obligations	**(282)**	(284)	**(2,654)**
Other	**(21)**	(14)	**(199)**
Net cash used in financing activities	**(2,529)**	(5,030)	**(23,798)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**9**	(142)	**85**
Net Increase (Decrease) in Cash and Cash Equivalents	**(3,025)**	1,062	**(28,465)**
Cash and Cash Equivalents at Beginning of Year	**13,225**	12,163	**124,447**
Cash and Cash Equivalents at End of Year	**¥ 10,200**	¥ 13,225	**$ 95,982**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

1. Basis of Presentation

The accompanying consolidated financial statements of Furukawa Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Furukawa Group") are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from those prepared by the Company as required under the Financial Instruments and Exchange Law of Japan.

The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In preparing these statements, the Company makes certain reclassifications and rearrangements to the consolidated financial statements prepared in Japan in order to present these statements in a form which is more familiar to readers outside Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The Company had 35 subsidiaries and 11 affiliates as of March 31, 2018. The consolidated financial statements included the accounts of the Company and 35 subsidiaries as of March 31, 2018.

For the purpose of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Furukawa Group have been eliminated.

Certain foreign subsidiaries have been included on the basis of a fiscal year ended on December 31, but prior to the parent company's fiscal year ended on March 31. Relevant adjustments have been made for significant transactions with such subsidiaries during the intervening period from January 1 to March 31.

Investments in subsidiaries and affiliates which are not accounted for by the equity method are carried at cost because of their immaterial impact on the consolidated financial statements.

(2) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

(3) Short-Term Investments and Investment Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. The Furukawa Group does not hold any trading or held-to-maturity securities as of March 31, 2018 and 2017. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Fair value is determined based on the average of the market value during the last month of the fiscal year. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(4) Inventories

Finished products and work in process relating to copper products are stated at cost determined by the moving average method (the balance sheet amounts of inventories are stated at the lowered book values reflecting potential decline in profitability). Other inventories are mainly stated at cost determined by the average method (the balance sheet amounts of inventories are stated at the lowered book values reflecting potential decline in profitability).

(5) Allowance for Doubtful Accounts

In order to cover probable losses on collection, allowance for doubtful accounts is calculated based on the historical default rates for normal receivables plus the estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers who are experiencing financial difficulties.

(6) Provision for Deposition Field Restoration

Provision for deposition field restoration is provided to cover the stabilization costs with respect to earthquake protection.

(7) Provision for Environmental Measures

Provision for environmental measures is provided to cover disposal costs anticipated to be incurred with respect to the Law Concerning Special Measures for Promotion of Proper Treatment of PCB Wastes.

(8) Provision for Cost of Removal of Office Tenants

Provision for cost of removal of office tenants is provided to cover compensation costs anticipated to be incurred with respect to the removal of office tenants.

(9) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for lease assets is mainly calculated by the straight-line method based on the estimated useful lives of the assets. The range of useful lives of property, plant and equipment is summarized as follows:

Buildings and structures	2 to 60 years
Machinery and equipment	2 to 22 years

Amortization is calculated by the straight-line method for intangible assets except for lease assets.

Depreciation of lease assets arising from finance lease transactions that do not involve transfer of ownership is calculated by the straight-line method over the lease term with no residual value.

(10) Retirement Benefits

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 15 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 15 years), which are shorter than the average remaining years of service of the employees.

Unrecognized actuarial gains and losses and unrecognized prior service costs are recorded in "Retirement benefits liability adjustments" in net assets after adjusting income tax effect.

(11) Surplus on the Revaluation of Land

Pursuant to the Law Concerning the Revaluation of Land, land used for the Company's business operations was revalued on March 31, 2002. The income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as Deferred tax liabilities on surplus on the revaluation of land and the remaining balance has been presented under net assets as Surplus on the revaluation of land, net of income taxes in the accompanying consolidated balance sheets. Revaluation of land was determined based on the official notice prices published by the Commissioner of the National Tax Authorities in accordance with Paragraph 4, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation," with relevant adjustments. The carrying value of the land after revaluation exceeded its fair value by ¥1,817 million ($17,098 thousand) and ¥1,739 million as of March 31, 2018 and 2017, respectively.

(12) Income Taxes

Current income taxes comprising corporation tax, enterprise tax and inhabitants' taxes are provided for based on amounts currently payable for each year. Deferred income taxes arising from temporary differences between financial reporting and tax bases of the assets and liabilities, which were measured using the enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse, are reflected in the consolidated financial statements.

The Company and its domestic wholly-owned subsidiaries file a consolidated corporation tax return.

(13) Amounts per Share

Profit attributable to owners of parent per share is computed based on the profit available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Net assets per share are computed based on the net assets excluding non-controlling interests and the number of common stock outstanding at the year-end.

(14) Foreign Currency Translation

Foreign currency-denominated monetary assets and liabilities are translated into Japanese yen using the rates of exchange in effect at the balance sheet date. Differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests, which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments and non-controlling interests in the consolidated financial statements.

(15) Hedging Activities

The Furukawa Group uses derivative financial instruments for the purpose of hedging the risks of adverse fluctuations in foreign exchange rates on the trade receivables, trade payables and forecast transactions denominated in foreign currencies, commodity prices and interest rates. All derivative financial instruments except those below are stated at fair value and related gain or loss on the changes in the fair values of derivative financial instruments is deferred as a component of net assets in the balance sheet until the recognition of gain or loss on hedged items when those derivative financial instruments qualify for hedge accounting.

Trade receivables, trade payables and forecast transactions denominated in foreign currencies are translated at the contracted rates if the relating forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not carried at fair value, but any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense or income over the life of each swap, thereby adjusting the effective interest rate on the hedged items.

(16) Shareholders' Equity

The Company Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥106.27=US$1.00, the exchange rate prevailing on March 31, 2018. This translation should not be construed as a representation that yen have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

4. Investment Securities

The aggregate acquisition cost, carrying value and unrealized gain or loss pertaining to the marketable other securities as of March 31, 2018 and 2017 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2018			**2018**		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Listed stocks	**¥ 33,700**	**¥ 15,026**	**¥ 18,674**	**$ 317,117**	**$ 141,395**	**$ 175,722**
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
	33,700	**15,026**	**18,674**	**317,117**	**141,395**	**175,722**
Securities whose carrying value does not exceed their acquisition cost:						
Listed stocks	**808**	**922**	**(114)**	**7,603**	**8,676**	**(1,073)**
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
	808	**922**	**(114)**	**7,603**	**8,676**	**(1,073)**
Total	**¥ 34,508**	**¥ 15,948**	**¥ 18,560**	**$ 324,720**	**$ 150,071**	**$ 174,649**

	Millions of yen		
	2017		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Listed stocks	¥ 30,037	¥ 15,338	¥ 14,699
Government bonds	—	—	—
Corporate bonds	—	—	—
	30,037	15,338	14,699
Securities whose carrying value does not exceed their acquisition cost:			
Listed stocks	551	608	(57)
Government bonds	—	—	—
Corporate bonds	—	—	—
	551	608	(57)
Total	¥ 30,588	¥ 15,946	¥ 14,642

Gain on sales of securities classified as other securities with aggregate gains for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Sales proceeds	**¥ 48**	¥ 1	**$ 452**
Aggregate gains	**21**	1	**198**
Aggregate losses	**—**	—	**—**

5. Short-Term Debt, Long-Term Debt and Lease Obligations

Short-term debt, most of which are unsecured, represented notes payable to banks, with the average interest rates of 0.4% and 0.3% as of March 31, 2018 and 2017, respectively.

Long-term debt as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans, principally from banks, insurance companies and government agencies, most of which are secured, due 2018 to 2033	**¥ 64,086**	¥ 63,852	**$ 603,049**
	64,086	63,852	**603,049**
Current portion of long-term debt	**(26,728)**	(13,384)	**(251,510)**
	¥ 37,358	¥ 50,468	**$ 351,539**

The average interest rates applicable to the above debt amounting to ¥64,086 million ($603,049 thousand) and ¥63,852 million were 0.7% and 0.7% as of March 31, 2018 and 2017, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	**2018**	
2019	**¥ 26,728**	**$ 251,510**
2020	**6,652**	**62,595**
2021	**2,219**	**20,881**
2022	**1,334**	**12,553**
2023	**4,329**	**40,736**
2024 and thereafter	**22,824**	**214,774**
	¥ 64,086	**$ 603,049**

Lease obligations as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease obligations due 2018 to 2024	**¥ 815**	¥ 827	**$ 7,670**
	815	827	**7,670**
Current portion of lease obligations	**(260)**	(249)	**(2,447)**
	¥ 555	¥ 578	**$ 5,223**

The aggregate annual maturities of lease obligations subsequent to March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	2018	
2019	¥ 260	$ 2,447
2020	234	2,202
2021	144	1,355
2022	112	1,054
2023	54	508
2024 and thereafter	11	104
	¥ 815	$ 7,670

The Company and certain consolidated subsidiaries have entered into overdraft and loan commitment agreements amounting to ¥37,014 million ($348,301 thousand) with 24 banks and ¥35,014 million with 23 banks as of March 31, 2018 and 2017, respectively. The borrowings outstanding and the unused balances under these credit facilities amounted to ¥8,596 million ($80,888 thousand) and ¥28,418 million ($267,413 thousand), respectively, as of March 31, 2018, and amounted to ¥9,656 million and ¥25,358 million, respectively, as of March 31, 2017.

Assets pledged as collateral and liabilities with collateral pledged as of March 31, 2018 and 2017 were as follows:
(a) Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Property, plant and equipment, net	¥ 1,432	¥ 1,489	$ 13,475

(b) Liabilities with collateral pledged

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Long-term debt (including current portion)	¥ 1,568	¥ 997	$ 14,755

6. Net Assets

Types and number of shares issued and in treasury

	Thousands of shares			
	As of March 31, 2017	Increase	Decrease	As of March 31, 2018
Shares issued:				
Common stock (*1, 2)	404,455	—	364,009	40,446
Total	404,455	—	364,009	40,446
Treasury stock:				
Common stock (*1, 3, 4)	413	3	374	42
Total	413	3	374	42

(*1) On October 1, 2017, a share consolidation was undertaken at a ratio of 1 share for 10 shares of the Company's common stock.
(*2) The decrease of 364,009 thousand shares of equity in common stock was due to the stock consolidation.
(*3) The increase of 3 thousand shares of equity in treasury stock was due to the purchase of shares of less than a standard unit.
(*4) The decrease of 374 thousand shares of equity in treasury stock was due to the stock consolidation.

7. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrealized holding gain (loss) on securities, net of income taxes:			
Amounts arising during the year	**¥ 3,934**	¥ 8,912	**$ 37,019**
Reclassification adjustments for gains and losses included in profit	**(16)**	(1)	**(151)**
Amounts before tax effect	**3,918**	8,911	**36,868**
Tax effect	**(1,159)**	(1,662)	**(10,906)**
Unrealized holding gain (loss) on securities, net of income taxes	**2,759**	7,249	**25,962**
Deferred gain (loss) on hedges:			
Amounts arising during the year	**536**	466	**5,044**
Adjustments on the acquisition cost of assets	**(552)**	(561)	**(5,194)**
Amounts before tax effect	**(16)**	(95)	**(151)**
Tax effect	**(8)**	36	**(75)**
Deferred gain (loss) on hedges	**(24)**	(59)	**(226)**
Translation adjustments:			
Amounts arising during the year	**(46)**	(393)	**(433)**
Retirement benefits liability adjustments:			
Amounts arising during the year	**2,259**	2,244	**21,257**
Reclassification adjustments for gains and losses included in profit	**414**	783	**3,896**
Amounts before tax effect	**2,673**	3,027	**25,153**
Tax effect	**(794)**	(869)	**(7,472)**
Retirement benefits liability adjustments	**1,879**	2,158	**17,681**
Share of other comprehensive income (loss) of affiliates accounted for using equity method:			
Amounts arising during the year	**(41)**	(44)	**(386)**
Reclassification adjustments for gains and losses included in profit	**91**	31	**857**
Share of other comprehensive income (loss) of affiliates accounted for using equity method	**50**	(13)	**471**
Total other comprehensive income (loss)	**¥ 4,618**	¥ 8,942	**$ 43,455**

8. Research and Development Expenses

Research and development expenses, included in selling, general and administrative expenses and cost of sales, for the years ended March 31, 2018 and 2017 amounted to ¥2,293 million ($21,577 thousand) and ¥2,464 million, respectively.

9. Leases

Leases' accounting

Finance lease transactions that do not involve transfer of ownership

1. Leased asset quality

   Tangible assets

   Mainly machinery and equipment

2. Depreciation method of leased assets

   Refer to "(9) Property, Plant and Equipment and Depreciation" in "2. Summary of Significant Accounting Policies."

10. Financial Instruments

1. Overview

(1) Policy for financial instruments

In consideration of the annual financial plan, the Furukawa Group raises funds through mainly bank borrowings and bond issues. Further, the Furukawa Group raises short-term capital through mainly bank borrowings. The Furukawa Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivables—are exposed to credit risk in relation to customers. In addition, the Furukawa Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies. In principle, the foreign currency exchange risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts.

Investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Furukawa Group has business relationships.

Substantially all trade payables—trade notes, electronically recorded obligations and accounts payables—have payment due dates within one year.

Short-term debt is raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Furukawa Group utilizes rate swap transactions as a hedging instrument for each contract. The assessment of effectiveness is omitted since it meets conditions of specific matching criteria for interest rate swap.

Regarding derivatives, the Furukawa Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Furukawa Group also enters into interest rate swap transactions to reduce fluctuation risk deriving from interest payable for debt bearing interest at variable rates. In addition, the Furukawa Group enters into forward commodity exchange contracts to reduce fluctuation risk of the commodity price of inventories. Information regarding the method of hedge accounting, hedging instruments, hedged items, hedging policy and the assessment of effectiveness of hedging activities is found in "(15) Hedging Activities" in "2. Summary of Significant Accounting Policies."

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Furukawa Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

In utilizing derivatives, the Furukawa Group has transactions with major financial institutions or trading companies which have high credit to reduce credit risk.

(b) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Furukawa Group identifies the foreign currency exchange risk for each currency on a monthly basis and principally enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for loans payable and bonds bearing interest at variable rates, the Furukawa Group enters into interest rate swap transactions.

For investment securities, the Furukawa Group periodically reviews the fair values of such financial instruments.

In conducting or managing derivative transactions, each division makes transactions by approval of the directors of transaction-related divisions.

(c) Monitoring of liquidity risk (the risk that the Furukawa Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Furukawa Group prepares and updates its cash flow plans on a monthly basis to manage liquidity risk.

(4) Supplementary explanation on the estimated fair value of financial instruments

The value of financial instruments is based on their quoted market place, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in "11. Derivative Transactions" are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2018 and 2017 and estimated fair value are shown as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 2 below.)

	Millions of yen			Thousands of U.S. dollars		
	2018			2018		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
(1) Cash and cash equivalents	**¥ 10,200**	**¥ 10,200**	**¥ —**	**$ 95,982**	**$ 95,982**	**$ —**
(2) Receivables—trade	**31,321**	**31,321**	**—**	**294,730**	**294,730**	**—**
(3) Investment securities	**34,508**	**34,508**	**—**	**324,720**	**324,720**	**—**
Total assets	**76,029**	**76,029**	**—**	**715,432**	**715,432**	**—**
Liabilities:						
(1) Payables—trade	**¥ 13,072**	**¥ 13,072**	**¥ —**	**$ 123,007**	**$ 123,007**	**$ —**
(2) Electronically recorded obligations	**10,644**	**10,644**	**—**	**100,160**	**100,160**	**—**
(3) Accounts payable—other	**14,225**	**14,225**	**—**	**133,857**	**133,857**	**—**
(4) Short-term debt (*1)	**9,225**	**9,225**	**—**	**86,807**	**86,807**	**—**
(5) Long-term debt (*1)	**64,086**	**64,133**	**47**	**603,049**	**603,491**	**442**
Total liabilities	**111,252**	**111,299**	**47**	**1,046,880**	**1,047,322**	**442**
Derivatives (*2)	**¥ 138**	**¥ 138**	**¥ —**	**$ 1,299**	**$ 1,299**	**$ —**

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and cash equivalents	¥ 13,225	¥ 13,225	¥ —
(2) Receivables—trade	26,755	26,755	—
(3) Investment securities	30,587	30,587	—
Total assets	70,567	70,567	—
Liabilities:			
(1) Payables—trade	¥ 15,065	¥ 15,065	¥ —
(2) Electronically recorded obligations	7,917	7,917	—
(3) Accounts payable—other	7,406	7,406	—
(4) Short-term debt (*1)	9,656	9,656	—
(5) Long-term debt (*1)	63,852	64,003	151
Total liabilities	103,896	104,047	151
Derivatives (*2)	¥ 153	¥ 153	¥ —

(*1) Current portion of long-term debt is included in long-term debt.

(*2) The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

(1) Cash and cash equivalents, (2) Receivables—trade

Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Investment securities

The fair value of stocks is based on market prices. For information on securities classified by holding purpose, please refer to "4. Investment Securities" to the consolidated financial statements.

Liabilities

(1) Payables—trade, (2) Electronically recorded obligations, (3) Accounts payable—other, (4) Short-term debt

Since these items are settled in a short period of time, their carrying value approximates fair value.

(5) Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.

Derivative transactions

Please refer to "11. Derivative Transactions" to the consolidated financial statements.

2. Financial instruments of which it is extremely difficult to determine the fair value as of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unlisted stocks	**¥ 5,451**	¥ 4,984	**$ 51,294**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table of "(3) Investment securities."

3. Redemption schedule for receivables and marketable securities with maturities after March 31, 2018 and 2017 are as follows:

For the year ended March 31, 2018

Millions of yen	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash deposits	**¥ 10,150**	**¥ —**	**¥ —**	**¥ —**
Receivables—trade	**31,321**	**—**	**—**	**—**
Total	**¥ 41,471**	**¥ —**	**¥ —**	**¥ —**

For the year ended March 31, 2017

Millions of yen	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash deposits	¥ 13,110	¥ —	¥ —	¥ —
Receivables—trade	26,755	—	—	—
Total	¥ 39,865	¥ —	¥ —	¥ —

For the year ended March 31, 2018

Thousands of U.S. dollars	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash deposits	**$ 95,511**	**$ —**	**$ —**	**$ —**
Receivables—trade	**294,730**	**—**	**—**	**—**
Total	**$ 390,241**	**$ —**	**$ —**	**$ —**

4. The redemption schedule for long-term debt is disclosed in "5. Short-Term Debt, Long-Term Debt and Lease Obligations."

11. Derivative Transactions

The notional amounts and estimated fair value of the derivative instruments outstanding as of March 31, 2018 and 2017 for which hedged accounting have been applied are as follows.

1. Currency-related transactions

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	**¥ 1,062**	**—**	**¥ (4)**
	EUR	Accounts receivables	**—**	**—**	**—**
	U.S. dollars	Accounts payables	**13,505**	**—**	**259**
Allocation method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	**¥ 111**	**—**	**(*)**
	EUR	Accounts receivables	**267**	**—**	**(*)**
	Buy:				
	U.S. dollars	Accounts payables	**¥ 8,076**	**—**	**(*)**

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2017		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	¥ 1,178	—	¥ (12)
	EUR	Accounts receivables	264	—	1
	U.S. dollars	Accounts payables	7,679	—	123
Allocation method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	¥ 206	—	(*)
	EUR	Accounts receivables	115	—	(*)
	Buy:				
	U.S. dollars	Accounts payables	¥ —	—	(*)

Thousands of U.S. dollars

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	**$ 9,993**	**—**	**$ (38)**
	EUR	Accounts receivables	**—**	**—**	**—**
	U.S. dollars	Accounts payables	**127,082**	**—**	**2,437**
Allocation method	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	Accounts receivables	**$ 1,045**	**—**	**(*)**
	EUR	Accounts receivables	**2,512**	**—**	**(*)**
	Buy:				
	U.S. dollars	Accounts payables	**$ 75,995**	**—**	**(*)**

Note: The fair values of forward foreign exchange contracts are based on exchange rates or prices provided by financial institutions.

(*) The fair values by means of the allocation method for forward foreign exchange contracts are included in the fair values of the hedged accounts receivables and payables because the derivative transactions are treated as a part of hedged accounts receivables and payables.

2. Interest-related transactions

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Special accounting procedure for interest rate swap	Receive/floating and pay/fixed	Long-term debt	**¥ 16,379**	**¥ 2,073**	**(*)**

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2017		
			Contract amounts	Maturing after one year	Fair value
Special accounting procedure for interest rate swap	Receive/floating and pay/fixed	Long-term debt	¥ 20,775	¥ 16,379	(*)

Thousands of U.S. dollars

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Special accounting procedure for interest rate swap	Receive/floating and pay/fixed	Long-term debt	**$ 154,126**	**$ 19,507**	**(*)**

(*) The fair values by means of the special accounting procedure for interest rate swap are included in the fair values of the hedged long-term debt because the derivative transactions are treated as a part of hedged long-term debt.

3. Commodity-related transactions

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward product contracts				
	Sell:				
	Copper	Raw material	**¥ 1**	**¥ —**	**¥ (0)**
	Buy:				
	Copper	Raw material	**7,256**	**21**	**(117)**

Millions of yen

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2017		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward product contracts				
	Sell:				
	Copper	Raw material	¥ —	¥ —	¥ —
	Buy:				
	Copper	Raw material	912	—	43

Thousands of U.S. dollars

Method of hedge accounting	Type of transaction	Major object of hedge	As of March 31, 2018		
			Contract amounts	Maturing after one year	Fair value
Principal method	Forward product contracts				
	Sell:				
	Copper	Raw material	**$ 9**	**$ —**	**$ (0)**
	Buy:				
	Copper	Raw material	**68,279**	**198**	**(1,101)**

Note: The fair values of forward product contracts are based on prices provided by trading companies.

12. Retirement Benefit Plans

For the year ended March 31, 2018

The employees of the Company and most of its domestic consolidated subsidiaries are covered by defined benefit corporate pension plans and non-contributory funded employee pension plans as defined benefit plans. The employee retirement benefit plans provide for lump-sum payments. The employee pension plans, which are funded, were instituted to replace a certain portion of the benefits under the retirement benefit plans with respect to employees who retire at the mandatory retirement age. Certain consolidated subsidiaries (both domestic and foreign) have defined contribution plans.

The changes in the retirement benefit obligation during the year ended March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	
Retirement benefit obligation at April 1, 2017	¥ 19,827	$ 186,572
Service cost	927	8,723
Interest cost	145	1,364
Actuarial loss	345	3,246
Retirement benefits paid	(1,025)	(9,645)
Exchange translation adjustment	(55)	(518)
Other	2	20
Retirement benefit obligation at March 31, 2018	¥ 20,166	$ 189,762

The changes in plan assets during the year ended March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	
Plan assets at April 1, 2017	¥ 13,294	$ 125,096
Expected return on plan assets	305	2,870
Actual loss	2,506	23,581
Contributions by the Company	350	3,294
Retirement benefits paid	(905)	(8,516)
Exchange translation adjustment	(59)	(555)
Others	—	—
Plan assets at March 31, 2018	¥ 15,491	$ 145,770

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
	2018	
Funded retirement benefit obligation	¥ 19,494	$ 183,438
Plan assets at fair value	(15,491)	(145,770)
	4,003	37,668
Unfunded retirement benefit obligation	673	6,333
Net liability for retirement benefits in the balance sheet	4,676	44,001
Liability for retirement benefits	4,676	44,001
Net liability for retirement benefits in the balance sheet	¥ 4,676	$ 44,001

The components of retirement benefit expense for the year ended March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	
Service cost	¥ 927	$ 8,723
Interest cost	145	1,364
Expected return on plan assets	(305)	(2,870)
Amortization of prior service cost	19	179
Amortization of actuarial loss	395	3,717
Retirement benefit expense	¥ 1,181	$ 11,113

Note: Retirement benefit expense for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) as of March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	
Prior service cost	¥ 19	$ 179
Actuarial loss	2,654	24,974
Total	¥ 2,673	$ 25,153

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	
Unrecognized prior service cost	¥ 105	$ 988
Unrecognized actuarial loss	(540)	(5,081)
Total	¥ (435)	$ (4,093)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 are as follows:

	2018
Bonds	13%
Stocks	67%
Cash on hand and in banks	2%
Other	18%
Total	100%

Note: 59% of total plan assets are in a Retirement Benefit Trust for corporate pension plans and non-contributory funded employee pension plans.

Matters related to the actual assumption

Major actuarial assumptions at the end of the period:

Discount rates	mainly 0.3%
Expected rates of return on plan assets	mainly 2.0%
Expected rates of salary increase	3.6%–5.3%

Defined contribution plan

The amount which a consolidated subsidiary has contributed or is obligated to contribute to the plan for the fiscal year is ¥15 million ($141 thousand).

The changes in the retirement benefit obligation during the year ended March 31, 2017 are as follows:

	Millions of yen
	2017
Retirement benefit obligation at April 1, 2016	¥ 19,662
Service cost	961
Interest cost	127
Actuarial loss	(338)
Retirement benefits paid	(514)
Exchange translation adjustment	(71)
Other	—
Retirement benefit obligation at March 31, 2017	¥ 19,827

The changes in plan assets during the year ended March 31, 2017 are as follows:

	Millions of yen
	2017
Plan assets at April 1, 2016	¥ 11,337
Expected return on plan assets	278
Actual loss	1,806
Contributions by the Company	463
Retirement benefits paid	(529)
Exchange translation adjustment	(61)
Others	—
Plan assets at March 31, 2017	¥ 13,294

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen
	2017
Funded retirement benefit obligation	¥ 19,194
Plan assets at fair value	(13,294)
	5,900
Unfunded retirement benefit obligation	633
Net liability for retirement benefits in the balance sheet	6,533
Liability for retirement benefits	6,533
Net liability for retirement benefits in the balance sheet	¥ 6,533

The components of retirement benefit expense for the year ended March 31, 2017 are as follows:

	Millions of yen
	2017
Service cost	¥ 961
Interest cost	127
Expected return on plan assets	(278)
Amortization of prior service cost	19
Amortization of actuarial loss	764
Retirement benefit expense	¥ 1,593

Note: Retirement benefit expense for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) as of March 31, 2017 are as follows:

	Millions of yen
	2017
Prior service cost	¥ 19
Actuarial loss	3,008
Total	¥ 3,027

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 are as follows:

	Millions of yen
	2017
Unrecognized prior service cost	¥ 124
Unrecognized actuarial loss	2,114
Total	¥ 2,238

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 are as follows:

	2017
Bonds	21%
Stocks	66%
Cash on hand and in banks	1%
Other	12%
Total	100%

Note: 55% of total plan assets are in a Retirement Benefit Trust for corporate pension plans and non-contributory funded employee pension plans.

Matters related to the actual assumption
Major actuarial assumptions at the end of the period:

Discount rates	mainly 0.4%
Expected rates of return on plan assets	mainly 2.0%
Expected rates of salary increase	3.7%–5.3%

Defined contribution plan
The amount which a consolidated subsidiary has contributed or is obligated to contribute to the plan for the fiscal year is ¥12 million.

13. Income Taxes

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the statutory tax rates for the years ended March 31, 2018 and 2017 were summarized as follows:

	2018	2017
Statutory tax rate	**30.9%**	30.9%
Non-deductible expenses for tax purposes	**0.6**	0.5
Non-taxable dividends and other income	**(0.7)**	(2.6)
Tax deduction such as R&D expenses	**(2.7)**	(3.3)
Inhabitants' per capital tax	**1.2**	1.2
Equity in earnings and losses of affiliates	**(1.7)**	1.9
Undistributed profits of subsidiaries	**2.4**	—
Changes in valuation allowance	**(1.6)**	3.2
Different tax rates applied to subsidiaries	**(0.3)**	1.8
Decrease in differed tax liability due to the revision of statutory income tax rate	**(1.7)**	1.1
Other	**(1.1)**	(0.5)
Effective tax rate	**25.3%**	34.2%

Deferred tax assets and liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Liability for retirement benefits	**¥ 6,317**	¥ 6,917	**$ 59,443**
Investment securities	**1,047**	1,102	**9,852**
Net operating loss carryforwards	**5,072**	6,063	**47,727**
Land	**1,869**	1,869	**17,587**
Provision for deposition field restoration	**206**	536	**1,938**
Provision for cost of removal of office tenants	**242**	—	**2,277**
Other	**1,100**	1,009	**10,352**
Total gross deferred tax assets	**15,853**	17,496	**149,176**
Valuation allowance	**(7,276)**	(7,771)	**(68,467)**
Total deferred tax assets	**8,577**	9,725	**80,709**
Deferred tax liabilities:			
Statutory reserves provided for tax purposes	**(1,248)**	(1,264)	**(11,744)**
Gain from establishment of trust for retirement benefit plans	**(3,020)**	(3,020)	**(28,418)**
Land	**(7,003)**	(7,003)	**(65,898)**
Unrealized holding gain on securities	**(4,033)**	(2,874)	**(37,951)**
Other	**(430)**	(223)	**(4,046)**
Total deferred tax liabilities	**(15,734)**	(14,384)	**(148,057)**
Net deferred tax liabilities	**¥ (7,157)**	¥ (4,659)	**$ (67,348)**
Deferred tax liabilities on surplus on the revaluation of land	**¥ (1,779)**	¥ (1,811)	**$ (16,740)**

In the United States, the "Tax Cuts and Jobs Act" was enacted on December 22, 2017. As a result, the federal income tax rate which is applied to consolidated subsidiaries in the United States was changed from 35% to 21%. The impact of the announced reduction of the federal income tax rate was to decrease deferred tax liabilities, after offsetting deferred tax assets, and deferred income tax by ¥110 million ($1,035 thousand), respectively.

14. Contingent Liabilities

Contingent liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes receivables discounted and endorsed	¥ 183	¥ 107	$ 1,722
Loans guaranteed	3,627	4,506	34,130
Repurchase obligation of the securitization of receivables	1,320	850	12,421

15. Write-Down of Inventories

The amount of write-down of inventories, included in cost of sales for the year ended March 31, 2018 totaled ¥312 million ($2,936 thousand). For the year ended March 31, 2017, the Company reversed write-down in the amount of ¥(5) million and credited it to cost of sales.

16. Other Income (Expenses)—Other, Net

Other income (expenses)—other, net for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gain on sales of noncurrent assets	¥ 12	¥ 17	$ 113
Gain on sales of investment securities	21	1	198
Payments for idle mines	(607)	(564)	(5,712)
Provision for cost of removal of office tenants	(1,042)	—	(9,805)
Provision for deposition field restoration	(113)	(276)	(1,063)
Loss on sales and retirement of noncurrent assets	(107)	(125)	(1,007)
Impairment loss	(142)	(102)	(1,336)
Other, net	162	(142)	1,523
	¥ (1,816)	¥ (1,191)	$ (17,089)

17. Segment Information

The reportable segments are constituent units of the Furukawa Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocations of management resources and evaluating operating performance.

The Company mainly manufactures and sells machinery, smelts on consignment and sells copper, and manufactures and sells electronic materials and chemicals.

Under the holdings company structure, each main Group company plans domestic and overseas comprehensive strategies about their products, and the Company manages and supervises them.

The Furukawa Group therefore categorizes segments classified by products based on main Group companies. The seven reportable segments are as follows: Industrial Machinery, Rock Drill Machinery, UNIC Machinery, Metals, Electronic Materials, Chemicals and Real Estate.

Main products and services belonging to each segment are as follows:

(a) Industrial Machinery
Manufacture and sell pumps, industrial machinery, environmental machinery, steel structures and heat-resistant and wear-resistant castings

(b) Rock Drill Machinery
Manufacture and sell rock drills such as hydraulics breakers, hydraulics crushers, boring drills, tunnel and mining drill jumbos, and environmental machinery

(c) UNIC Machinery
Manufacture and sell UNIC cranes, mini crawler cranes, ocean cranes and UNIC carriers

(d) Metals
After buying ore, sell electrolytic copper, gold, silver and sulfuric acid which is smelted on consignment by joint smelting company

(e) Electronic Materials
Manufacture and sell high-purity metallic arsenic, crystals, cores and coils, aluminum nitride ceramics, optical components and gallium nitrides

(f) Chemicals
Manufacture and sale cuprous oxide, ferric polysulfate solution, aluminum sulfate, sulfuric acid, cuprous dioxide and copper dioxide, and sale titanium dioxide

(g) Real Estate
Trade, intermediate and lease of real estate

The accounting method used for reportable segments is the same as that method stated in "2. Summary of Significant Accounting Policies." Operating income (loss) of reportable segments is based on operating income in the consolidated statements of income. Intersegment sales and transfers are recorded based on the actual market prices.

Segment information of the Furukawa Group for the years ended March 31, 2018 and 2017 was as follows:

Year ended March 31, 2018	Millions of yen				
	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials
Sales and operating income (loss):					
Outside customers	**¥ 15,872**	**¥ 30,200**	**¥ 27,382**	**¥ 77,334**	**¥ 6,308**
Intersegment	**3,023**	**129**	**151**	**236**	**1**
Total	**18,895**	**30,329**	**27,533**	**77,570**	**6,309**
Operating income (loss)	**¥ 1,005**	**¥ 1,783**	**¥ 2,295**	**¥ 867**	**¥ 330**
Others:					
Segment assets	**¥ 23,677**	**¥ 31,864**	**¥ 27,084**	**¥ 36,303**	**¥ 7,341**
Depreciation	**325**	**572**	**711**	**221**	**295**
Investments in equity-method affiliates	**0**	**0**	**88**	**3,393**	**205**
Increase in tangible fixed assets and intangible fixed assets	**287**	**390**	**3,980**	**79**	**113**

Year ended March 31, 2018	Millions of yen				
	Chemicals	Real Estate	Others	Adjustments	Consolidated
Sales and operating income (loss):					
Outside customers	**¥ 6,345**	**¥ 3,339**	**¥ 916**	**¥ 0**	**¥ 167,696**
Intersegment	**53**	**23**	**1,578**	**(5,194)**	**0**
Total	**6,398**	**3,362**	**2,494**	**(5,194)**	**167,696**
Operating income (loss)	**¥ 451**	**¥ 1,340**	**¥ (195)**	**¥ (55)**	**¥ 7,821**
Others:					
Segment assets	**¥ 16,078**	**¥ 30,901**	**¥ 3,510**	**¥ 45,993**	**¥ 222,751**
Depreciation	**212**	**582**	**105**	**56**	**3,079**
Investments in equity-method affiliates	**0**	**0**	**0**	**0**	**3,686**
Increase in tangible fixed assets and intangible fixed assets	**113**	**129**	**86**	**219**	**5,396**

Year ended March 31, 2017	Millions of yen				
	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials
Sales and operating income (loss):					
Outside customers	¥ 14,042	¥ 26,979	¥ 25,783	¥ 67,854	¥ 5,817
Intersegment	2,874	78	145	204	6
Total	16,916	27,057	25,928	68,058	5,823
Operating income (loss)	¥ 104	¥ 897	¥ 2,579	¥ 1,738	¥ 18
Others:					
Segment assets	¥ 20,170	¥ 31,044	¥ 24,556	¥ 28,218	¥ 7,274
Depreciation	328	575	569	245	317
Investments in equity-method affiliates	—	—	70	2,911	196
Increase in tangible fixed assets and intangible fixed assets	257	467	2,161	136	108

Year ended March 31, 2017	Millions of yen				
	Chemicals	Real Estate	Others	Adjustments	Consolidated
Sales and operating income (loss):					
Outside customers	¥ 5,298	¥ 3,074	¥ 983	¥ —	¥ 149,830
Intersegment	53	135	1,459	(4,954)	—
Total	5,351	3,209	2,442	(4,954)	149,830
Operating income (loss)	¥ 115	¥ 1,266	¥ (127)	¥ (44)	¥ 6,546
Others:					
Segment assets	¥ 15,947	¥ 31,510	¥ 3,404	¥ 45,911	¥ 208,034
Depreciation	211	591	81	46	2,963
Investments in equity-method affiliates	—	—	6	—	3,183
Increase in tangible fixed assets and intangible fixed assets	315	152	102	145	3,843

Year ended March 31, 2018	Thousands of U.S. dollars				
	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials
Sales and operating income (loss):					
Outside customers	**$ 149,356**	**$ 284,182**	**$ 257,664**	**$ 727,712**	**$ 59,359**
Intersegment	**28,446**	**1,214**	**1,421**	**2,221**	**9**
Total	**177,802**	**285,396**	**259,085**	**729,933**	**59,368**
Operating income (loss)	**$ 9,457**	**$ 16,778**	**$ 21,596**	**$ 8,158**	**$ 3,105**
Others:					
Segment assets	**$ 222,800**	**$ 299,840**	**$ 254,860**	**$ 341,611**	**$ 69,079**
Depreciation	**3,058**	**5,383**	**6,691**	**2,080**	**2,776**
Investments in equity-method affiliates	**0**	**0**	**828**	**31,928**	**1,929**
Increase in tangible fixed assets and intangible fixed assets	**2,701**	**3,670**	**37,452**	**743**	**1,063**

Year ended March 31, 2018	Thousands of U.S. dollars				
	Chemicals	Real Estate	Others	Adjustments	Consolidated
Sales and operating income (loss):					
Outside customers	**$ 59,706**	**$ 31,420**	**$ 8,619**	**$ 0**	**$1,578,018**
Intersegment	**499**	**216**	**14,850**	**(48,876)**	**0**
Total	**60,205**	**31,636**	**23,469**	**(48,876)**	**1,578,018**
Operating income (loss)	**$ 4,244**	**$ 12,609**	**$ (1,833)**	**$ (518)**	**$ 73,596**
Others:					
Segment assets	**$ 151,294**	**$ 290,778**	**$ 33,029**	**$ 432,794**	**$2,096,085**
Depreciation	**1,995**	**5,477**	**986**	**527**	**28,973**
Investments in equity-method affiliates	**0**	**0**	**0**	**0**	**34,685**
Increase in tangible fixed assets and intangible fixed assets	**1,063**	**1,214**	**809**	**2,061**	**50,776**

(Related information)
Years ended March 31, 2018 and 2017

1. Information regarding products and services

Year ended March 31, 2018

	Millions of yen			
	Copper	UNIC cranes	Others	Total
Sales for outside customers	**¥ 65,178**	**¥ 17,770**	**¥ 84,748**	**¥ 167,696**

Year ended March 31, 2017

	Millions of yen			
	Copper	UNIC cranes	Others	Total
Sales for outside customers	¥ 52,261	¥ 17,266	¥ 80,303	¥ 149,830

Year ended March 31, 2018

	Thousands of U.S. dollars			
	Copper	UNIC cranes	Others	Total
Sales for outside customers	**$ 613,325**	**$ 167,216**	**$ 797,477**	**$ 1,578,018**

2. Geographic segment information
(1) Net sales

Year ended March 31, 2018

Millions of yen			
Japan	Asia	Others	Total
¥ 128,209	**¥ 22,548**	**¥ 16,939**	**¥ 167,696**

Year ended March 31, 2017

Millions of yen			
Japan	Asia	Others	Total
¥ 116,151	¥ 19,412	¥ 14,267	¥ 149,830

Year ended March 31, 2018

Thousands of U.S. dollars			
Japan	Asia	Others	Total
$ 1,206,446	**$ 212,177**	**$ 159,395**	**$ 1,578,018**

(2) Property, plant and equipment
The geographic segment information for the years ended March 31, 2018 and 2017 has not been presented, because the total assets in Japan exceed 90% of consolidated totals.

3. Information regarding main customers

Year ended March 31, 2018

	Millions of yen	
Name of customer	Sales volume	Related segment
Furukawa Electric Co., Ltd.	**¥26,306**	**Metals**

Year ended March 31, 2017

	Millions of yen	
Name of customer	Sales volume	Related segment
Furukawa Electric Co., Ltd.	¥20,051	Metals

Year ended March 31, 2018

	Thousands of U.S. dollars	
Name of customer	Sales volume	Related segment
Furukawa Electric Co., Ltd.	**$247,539**	**Metals**

4. Impairment loss on property, plant and equipment

Year ended March 31, 2018	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials	Chemicals	Real Estate	Others	Adjustments	Consolidated
	Millions of yen									
Impairment loss on property, plant and equipment	**—**	**—**	**—**	**—**	**—**	**—**	**¥ 1**	**¥ 141**	**—**	**¥ 142**

Year ended March 31, 2017	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials	Chemicals	Real Estate	Others	Adjustments	Consolidated
	Millions of yen									
Impairment loss on property, plant and equipment	—	¥ 43	—	—	—	—	¥ 1	¥ 58	—	¥ 102

Year ended March 31, 2018	Industrial Machinery	Rock Drill Machinery	UNIC Machinery	Metals	Electronic Materials	Chemicals	Real Estate	Others	Adjustments	Consolidated
	Thousands of U.S. dollars									
Impairment loss on property, plant and equipment	**—**	**—**	**—**	**—**	**—**	**—**	**$ 9**	**$ 1,327**	**—**	**$ 1,336**

5. Amortization of goodwill and unamortized goodwill in reporting segments
Not applicable.

6. Gain on negative goodwill in reportable segments
Not applicable.

18. Investment and Rental Properties

The Company and certain consolidated subsidiaries own office buildings for lease mainly in Tokyo and other areas. For the year ended March 31, 2018, rental income was ¥1,603 million ($15,084 thousand), gain on sales of rental properties was ¥5 million ($47 thousand), loss on retirement was ¥10 million ($94 thousand) and impairment loss on rental properties was ¥102 million ($960 thousand).

For the year ended March 31, 2017, rental income was ¥1,460 million, gain on sales of rental properties was ¥5 million, loss on retirement was ¥5 million and impairment loss on rental properties was ¥102 million.

The carrying value, net changes in the carrying value and the fair value of those properties as of and for the years ended March 31, 2018 and 2017 are as follows:

Year ended March 31, 2018

Carrying value			Fair value
As of March 31, 2017	Net change	As of March 31, 2018	As of March 31, 2018
	Millions of yen		
¥ 35,209	**¥ (510)**	**¥ 34,699**	**¥ 36,541**

Year ended March 31, 2017

Carrying value			Fair value
As of March 31, 2016	Net change	As of March 31, 2017	As of March 31, 2017
	Millions of yen		
¥ 35,150	¥ 59	¥ 35,209	¥ 34,473

Year ended March 31, 2018

Carrying value			Fair value
As of March 31, 2017	Net change	As of March 31, 2018	As of March 31, 2018
	Thousands of U.S. dollars		
$ 331,316	**$ (4,799)**	**$ 326,517**	**$ 343,851**

Notes:
1. The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.
2. Net change in carrying value for the year ended March 31, 2018 mainly consists of increases related to change of use in the amount of ¥75 million ($706 thousand) and acquisition of land and buildings in the amount of ¥22 million ($207 thousand) and decreases mainly due to amortization in the amount of ¥504 million ($4,743 thousand), impairment loss on rental properties in the amount of ¥102 million ($960 thousand) and sales of land and buildings in the amount of ¥2 million ($19 thousand). Net change in carrying value for the year ended March 31, 2017 mainly consists of increases related to change of use in the amount of ¥565 million and acquisition of land and buildings in the amount of ¥114 million and decreases mainly due to amortization in the amount of ¥501 million, impairment loss on rental properties in the amount of ¥102 million and sales of land and buildings in the amount of ¥20 million.
3. The fair value is mainly estimated in accordance with appraisal standards for valuing real estate.

19. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements, were approved at a shareholders' meeting held on June 28, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥50.00=$0.47 per share)	**¥ 2,020**	**$ 19,008**
Transfer to legal reserve	**202**	**1,901**
	¥ 2,222	**$ 20,909**

Building a better
working world

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Independent Auditor's Report

The Board of Directors
Furukawa Co., Ltd.

We have audited the accompanying consolidated financial statements of Furukawa Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Furukawa Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 28, 2018

Tokyo, Japan

A member firm of Ernst & Young Global Limited

Corporate Data and Stock Data

(As of March 31, 2018)

Corporate Data

Company Name:	Furukawa Co., Ltd.
Head Office:	2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8370, Japan
Tel:	+81-3-3212-6570 Fax: +81-3-3212-6578
Date of Foundation:	August 1875
Date of Establishment:	April 1918
Stock Exchange Listing:	Tokyo
Securities Code Number:	5715
Employees:	2,690 (Consolidated)

Stock Data

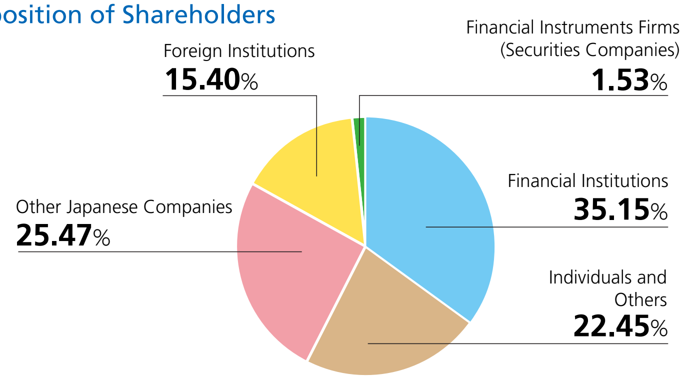
Number of Shares Authorized:	80,000,000 shares
Number of Shares Outstanding:	40,445,568 shares
Number of Shareholders:	20,284
Stock Transfer Agent:	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Principal Shareholders

	Number of Shares (Thousands)	Percentage of Total Shares (%)
The Master Trust Bank of Japan, Ltd. (trust account)	3,217	7.96
Asahi Mutual Life Insurance Co.	2,373	5.87
Japan Trustee Services Bank, Ltd. (trust account)	1,779	4.40
Seiwa Sogo Tatemono Co., Ltd.	1,503	3.72
The Yokohama Rubber Company, Limited	1,341	3.31
Sompo Japan Insurance Inc.	1,075	2.66
Fujitsu Limited	961	2.38
Furukawa Electric Co., Ltd.	877	2.17
Fuji Electric Co., Ltd.	862	2.13
Chuo Real Estate Co., Ltd.	687	1.70

* Percentage of total shares is calculated after deducting treasury shares.

Composition of Shareholders



Directors and Auditors (As of June 28, 2018)

President and Representative Director	Naohisa Miyakawa
Senior Managing Director	Toshio Matsumoto
Managing Director	Minoru Iwata
Managing Director	Shigeo Matsudo
Managing Director	Kiyohito Mitsumura
Outside Director	Masao Yoshida
Outside Independent Director	Nobuyuki Tomotsune
Outside Independent Director	Tatsuya Tejima
Director	Masahiro Ogino
Audit & Supervisory Board Member	Saburo Saruhashi
Audit & Supervisory Board Member	Kazuo Inoue
Outside Audit & Supervisory Board Member	Tetsuro Ueno
Outside Audit & Supervisory Board Member	Masayuki Yamashita

Executive Officers (As of June 28, 2018)

Senior Managing Executive Officer	Shigeo Matsudo
Senior Managing Executive Officer	Kiyohito Mitsumura
Senior Executive Officer	Masahiro Ogino
Senior Executive Officer	Hiroyuki Abe
Senior Executive Officer	Kiyoshi Sano
Executive Officer	Katsuhira Kawashita
Executive Officer	Kenichi Kurita
Executive Officer	Atsushi Otani
Executive Officer	Jeff Crane
Executive Officer	Minoru Nakatogawa
Executive Officer	Tatsuyuki Muramatsu
Executive Officer	Masanori Saito
Executive Officer	Hitoshi Iida
Executive Officer	Tatsuki Nazuka
Executive Officer	Osamu Miyazaki
Executive Officer	Hiroyuki Sakai
Executive Officer	Atsushi Takano
Executive Officer	Takeshi Miyajima

Forward-Looking Statements
This annual report contains statements about the Company's plans, strategies, performance outlooks, and the like, and includes forward-looking statements that are not historical facts. Such statements reflect expectations, estimates, forecasts, projections, and plans based on information currently available to the Company and are subject to various risks, uncertainties, and assumptions.

These changing factors may cause actual results to differ materially from those projected.

Corporate History

1875 Began the operation of the Kusakura Copper Mine in Niigata (Company foundation).

1877 Began the operation of the Ashio Copper Mine in Tochigi.

1900 Set up a machinery works at the Ashio Copper Mine and entered into the machinery business.

1914 Manufactured the first rock drill in Japan.

1918 Spun off mining business from Furukawa General Partnership and established Furukawa Mining Co., Ltd.

1944 Bought Osaka Smelter of Toa Chemical Smelting Co., Ltd., and established it as Osaka Cementation and Refining. Entered into the chemical business.

Built the Oyama Works of the Machinery Division of the Ashio Copper Mine in Tochigi.

1950 Built the Takasaki Works of the Rock Drill Division in Gunma.

1951 Began manufacturing of titanium dioxide and cuprous oxide at Osaka Cementation and Refining.

1962 Completed the Furukawa / Outokumpu flash smelting plant at Ashio Smelting and Refining.

Completed research and development of high-purity (99.999%) metallic arsenic and commenced with sales of it.

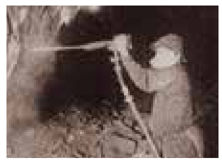
1987 Bought UNIC Corporation (manufacturer of truck-mounted cranes).

1989 The Japanese name changed from Furukawa Kogyo Kabushiki Kaisha to Furukawa Kikai Kinzoku Kabushiki Kaisha.

1990 Bought an American breaker sales and manufacturing company.

1997 Established a manufacturer of UNIC products / components in Thailand.

The Ashio Copper Mine is where the Furukawa Company Group began.



The first domestic rock drill was developed (for the Ashio Copper Mine).

At the Oyama Works, pumps and mining machinery for copper mines were manufactured, not only for internal use but also to sell externally.

At the Takasaki Works, rock drills were mass produced, and we established the position of a leading rock drill manufacturer.

Arsenic is one of the by-products generated during the smelting stage of copper concentrates.

"UNIC" has become a synonym for truck-mounted cranes in Japan.

This is an affiliate company for the UNIC business established in Rayong, Thailand, which manufactures truck-mounted cranes and other products.

1998 Established a sales company of rock drill products in Holland.

2003 Established a joint company for the manufacturing and distribution of UNIC cranes in China.

2005 Spun off the Machinery business, Metals business, and Electronic Materials and Chemicals business and shifted to a group management structure as the Furukawa Company Group to enhance management.

2006 Established a rock drills sales company in China.

2007 Formed a capital and business alliance for the GaN semiconductor epi-wafer business with POWDEC K.K.

2008 Set up the Nitride Semiconductors Department as a GaN and related nitride semiconductor-related research organization.

2009 Built the laboratory of the Nitride Semiconductors Department in Oyama.

Made Tohpe Corporation, which manufactures and distributes paints and chemicals, into a consolidated subsidiary.

2010 Acquired interest in Canadian copper mine.

2011 Acquired interest in Canadian copper mine.

2012 Established a sales company of rock drill products in Panama.

With the sale of all of its shares in Furukawa Commerce Co., Ltd., the Group has withdrawn from the fuels business.

2013 The Group exited the paints business with the sale of all of its shares in Tohpe Corporation.

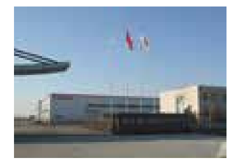
2014 Completed Muromachi Furukawa Mitsui Building in Nihonbashi, Tokyo.

Coil processing company established in the Philippines.

Established the Tsukuba Development Center, which integrates a technology research operation.

2015 Formulated Management Philosophy, Action Guidelines, and Vision for 2025.

This is an affiliate company for the construction and mining machinery business established in Utrecht, Holland, which distributes rock drills and other products.



This is an affiliate company for the UNIC business established in Taian, Shandong, China, which manufactures and distributes truck-mounted cranes and other products.

In 2009, the laboratory of the Nitride Semiconductors Department was built in Oyama.

Muromachi Furukawa Mitsui Building, consisting of a commercial facility (COREDO Muromachi 2), offices, and rental accommodation.

An affiliated company in the electronic materials business makes coils in Bulacan Province, Philippines.

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