

Q&A Summary of the Conference Call for Institutional Investors and

Analysts of Furukawa Electric Co., Ltd.

Date: August 3, 2023 (Thursday) 18:00 – 19:00

Contents: FY2023 Q1 Financial Results

Speaker: Akihiro Fukunaga, Director, Corporate Senior Vice President and General Manager of the Finance & Accounting Division

Q: Concerning the Q1 financial results, what is the status of each segment compared to the budget (forecast)?

A: In Communications Solutions, we originally incorporated a fairly high amount of risk, and the financial results fell within that range. However, the segment will likely tend to underperform from Q2. Energy Infrastructure performed slightly below expectations. Automotive Products & Batteries and Electronics Component Materials performed generally in line with the forecast. Functional Products exceeded expectations. Overall, although we expected Q1 to be a challenging period, the results were slightly below expectations.

Q: Concerning the trends in the US optical products market, as the deliberations for the Buy American Act are being carried out, it is said that other companies are actively conducting lobbying activities. What is the status of your activity?

A: In regards to the Act, deliberations remain ongoing, and there is little clarity on the direction at this time. We are also conducting lobbying activities, and although we currently believe that the law will not have a major impact, we will continue to focus on the future risks.

Q: In the Functional Products segment, which products overachieved? I understand that despite a challenging first half, you anticipate a recovery in the second half. What is the probability of this recovery occurring?

A: Demand for thermal management products continued to increase last year, and in addition to growing demand for hyperscale data centers, demand for AI has also been extremely strong. The short supply chain and negligible impact of inventories are also strengths. The other products are still lower compared to last year. However, compared to Q4 last year, tape for semiconductor process is slowly recovering. Memory Disk is also recovering little by little, albeit at a slow pace. Copper foil is facing a challenging situation, and the recovery will likely come in Q4. Overall, Functional Products segment is tending to exceed the initial forecast.

Q: What is the status of the Communications Solutions business other than optical fiber and cable products (FITEL products, networking related products in Japan, etc.)?

A: Concerning optical devices, similar to optical fiber and cable products, the market lacks strength, and the recovery is expected to occur next year at the earliest. Concerning networking related products in Japan, there has been partial improvement in procuring semiconductors, but full-scale improvement is expected to occur from the second half at the earliest.

Q: Energy Infrastructure recorded a large loss in Q1, but what is the background behind "Delays to customer construction projects due to slowdown in Chinese economic recovery"?

A: In China, in addition to the construction project delays resulting from the rapid spread of COVID-19 infections at the end of last year, some investments in rural construction projects have been postponed due to the slowdown in economic recovery. Although the situation is improving little by little, the improvement is expected to be gradual.

Q: In Energy Infrastructure, what are you referring to when you state "Product compensation costs incurred"? What is the scale of this compensation? Also, is there a possibility any additional expenses may be incurred?

A: It relates to past deliveries, and the total expense will be slightly under JPY0.5 billion. At the present time, we do not anticipate any additional expenses in the future.

Q: In the Functional Products segment, I understand that thermal management products have been strong, but has this carried over to any of the other products? Also, to what extent are AI related products growing?

A: In relation to AI, there has been demand for copper foil. For the other products, although there are expectations, none of the products have yet emerged as a main profit source. In tape for semiconductor process, the recovery in memory semiconductors has been gradual, but there has been a more pronounced upturn in logic semiconductors (which are related to AI).

In relation to AI, it is difficult to provide a quantitative explanation at this time, but we expect growth on the scale of single digit billions of yen.

Q: What is the status of each market in Communications Solutions business? Has the tailwind from the RDOF (Rural Digital Opportunity Fund) been affected by the lack of direction in

relation to the Buy American Act?

A : The rural area projects (local telecommunications) market, which is one of our main markets, continues to face postponed investments and construction delays due to inflation. (All of the RDOF projects) are not necessarily direct targets of the Buy American Act, but there is currently a tendency to wait for more certainty on the direction of deliberations before making the investment decision. In the carrier and data center markets, due in part to our limited exposure, there has been little impact, but overall, the market is presently weak.

Q : What is the basis for expecting a recovery from early next year?

A : We foresee the recovery occurring from the start of next year at the earliest (demand will continue to be slow for the remainder of this year), and I would like to discuss more about the extent of the recovery when announcing the Q2 financial results after we have assessed the situation.

Q : What is the situation in Brazil?

A : During the COVID-19 pandemic, although telecommunications carriers actively invested in FTTH, the number of subscribers has not increased, and currently the brakes have been applied to investments. The situation is challenging as expected, but the enterprise business is solid and compared to North America, there are signs of a recovery.

Q : What is the reason for keeping the full-year forecast unchanged? Is it that the downturn in Q1 was not as bad as anticipated, or are you unable to read the markets?

A : Both are factors. A great deal of risk was incorporated in the Q1 outlook, and although it was a difficult quarter, the results were within expectations. However, from Q2, it is currently difficult to foresee the strengths and weaknesses in each business, and the full-year forecast overall could underachieve or it could overachieve. The Communications Solutions business has been challenging recently, but demand still exists, and the business will undoubtedly grow over the medium-term. In the Automotive Products business, the initially envisioned risks to factors including sales and productivity have not materialized, and the results are expected to greatly improve in Q2. As long as no disruptions due to semiconductor shortages occur, the results are expected to exceed the initial forecast, so this is an area we focus on going forward. In the Functional Products business, demand for data centers has bottomed and is starting to return, and particularly in relation to AI, we are already seeing orders through Q3. The results in this business, too, are extremely likely to exceed the initial forecast.

At the present time, there are no major deviations that would require a revision to the forecast, and we intend to issue another full-year forecast (after assessing the need to revise the forecast) when announcing the Q2 financial results.

Q : Will the recovery in Automotive Products & Batteries business from Q2 be the result of increased automobile production volumes? Are there any other factors behind the improvement?

A : In addition to increased volumes resulting from the return of customer production figures, we expect productivity to improve (including a lower cost rate) following stabilization of volatility in the production plans.

Q : Specifically, what cuts have been made to fixed costs in Communications Solutions business? Are you considering any revisions (reductions) to CAPEX?

A : We will reduce business expenses and personnel in accordance with the decline in operating levels, but these cuts will not be sufficient to cover the decline in sales. On the other hand, in order to avoid repeating deterioration to productivity when demand recovers (as occurred in the past), we will take actions while balancing with cost cuts. Concerning CAPEX, we will control the expenditures, including the investment amount and timing, based on the changes in the market environment.

Q : Including in the Communications Solutions business, the response to fluctuating operating levels due to changes in demand can invite disruptions in the production workplace and cause difficulties when cutting costs. Are you considering any particular measures in response to this?

A : Overall, CAPEX has exceeded depreciation and amortization expenses, and those expenses are increasing. Although it is necessary to invest for the future, recently, we have worked to control the situation, including limiting the investment amount and timing. On the other hand, R&D expenses are required to build a foundation for FY2025 and FY2030 and to create new businesses. Despite the challenging situation, we will proceed based on the current figures.

Q : Will you be able to achieve the medium-term management plan? Have you been able to conduct initiatives other than stopgap measures?

A : As operating levels remain depressed, although there is variation between regions and countries, the costs will be cut depending on the circumstances. We have already suspended

operations, including temporarily halting production at plants, and going forward, we will continue to consider actions in line with the situation. The benefits from initiatives aimed at cutting fixed costs even in the inflationary environment are starting to appear. Concerning the medium-term management plan, although there will be a transitory economic slowdown and slow-moving inventories within the supply chain, the targets for FY2025 and FY2030 will remain the same. Based on the situation going forward, we will confirm it when rolling over the medium-term plan, but at the present time, we do not intend to change the targets.

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