Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

Date: June 10, 2022 (Friday) 10:40－11:40

Contents: Energy Infrastructure business

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Observers:

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Director, Corporate Senior Vice President, and General Manager of the Finance & Accounting Division

Q: Specifically, what orders have you received for power cable for renewable energy that are contributing to net sales?

A: In FY2021, we recorded as net sales mainly the large Sumatra-Bangka project and orders for solar power and land-based wind power projects in Japan. The renewable energy projects planned to start in 2022-2023 have been delayed until 2024-2025, but even during the past 2 years affected by the COVID-19 pandemic, we have been manufacturing at full capacity. Moreover, manufacturing capacity is fully booked in 2023-2024.

Q: The winning consortium for the project off Yurihonjo City in Akita Prefecture submitted a very low bid price. Is pricing pressure for power cable starting to become more prevalent? Also, what is your outlook for the risk of foreign products entering the market in Japan?

A: Customers assess us based not just on the power cable but rather our entire quality assurance including engineering and installation. We will work to acquire orders that will provide suitable profits.

Customers highly regard our installation and engineering capability developed over the years, as well as our quality control. Also, considering the ability to conduct maintenance and inspections to prevent accidents and restore operability in the event of an accident, I feel the barriers to entry (for foreign products) are relatively high.

Q: You plan to double cable manufacturing capacity and installation capacity in FY2025 (compared to FY2017) and triple sales for renewable energy in Japan (compared to FY2021), so why are net sales only forecast to increase 1.2 times in FY2025 (compared to FY2021)?

A: Although we are increasing manufacturing capacity as planned, the delay in the large renewable energy projects will have an impact. Also, we are continuing to make capital expenditures, and these include investments in long-length cable for the large projects. Once the large projects begin to move, net sales will jump higher.

Q: How have customers responded to your efforts to incorporate the soaring transportation expenses and raw material prices in the sales price?

A: We are negotiating with customers regarding the products for which an estimate was already submitted and production has commenced. The increased expenses incurred in FY2021 will be reflected in prices from April 2022, and we are requesting further price revisions on a quarterly basis going forward. Also, we are proposing market pricing for materials such as naphtha and aluminum. Although there will be a time lag, relatively smooth progress is being made in incorporating the higher costs in the sales price.

Q: You are forecasting steady growth in the power cable business in Japan, but what is your outlook for medium to long-term business growth overseas?

A: In Japan, underground power cable for electric power companies is progressing as planned, and we anticipate stable growth once the renewable energy projects (in general sea areas) begin in full-scale sometime around FY2025. Mainly targeting markets in Japan, we will manage the business with a focus on profits. In addition to responding to renewable energy demand directed at achieving Carbon Neutral, the electric power companies are working to strengthen the mains electricity network and replace existing cable to CV cable, and we have been requested to secure supply capacity through 2030. For this reason we will continue to be extremely busy with production. Concerning overseas projects, we will respond to orders that suitably assess our quality and engineering capability.

Q: In the Industrial Cable & Power Cable Accessories business, you formed a business alliance with SWCC Showa Holdings for general-use power cable, but will focusing on functional cable lead to improvement to ROIC ? Also, how will you improve the cash conversion cycle for the business as a whole, including power cable?

A: In the general-use power cable segment, given the ongoing challenges in the construction and wholesalers market, we formed a business alliance as a means of survival. By consolidating the manufacturing operations to the joint venture (with SWCC Showa Holdings) on July 1st, we will further improve our balance sheet.

Concerning improvement to the cash conversion cycle, we will create a scheme for collecting the accounts receivable in installments during the period until delivery. Such a scheme already exists for overseas projects, but we will establish a similar scheme for projects in Japan.

Q: What is the positioning of the overseas subsidiary in the power cable business?

A: Along with achieving strong sales in the Chinese market where the company is located, we are considering using the manufacturing capacity to respond to the demand for underground power cable for (the land-based part of) offshore wind power projects in Japan.

Q: Due to the gap in the timing between net sales growth and production capacity increases, depreciation expenses will arise first. Will this temporarily push profits down?

A: While the large projects initially planned for FY2022-2023 will be delayed, depreciation expenses will increase compared to FY2021. Given this, profits will decline slightly compared to original expectations, but we intend to cover these higher expenses through changes to the collection scheme for accounts receivable.

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