

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

Analysts of Furukawa Electric Co., Ltd.

Date: November 8, 2022 (Tuesday) 17:30 – 18:30

Contents: FY2022 Q2 Financial Results

Speakers: **Keiichi Kobayashi**, President & CEO

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

Q: Concerning the comparison of operating income and ordinary income in the first half and second half, please provide overall guidance. I understand that although operating income is likely to significantly improve in the second half compared to the first half, ordinary income is not expected to improve (will remain on the same level as in the first half).

A: Concerning the operating income (JPY 4.6 billion) in the first half, the higher gain on foreign currency exchange covered the impact of deteriorating market conditions caused by the semiconductor shortage and other factors. As a result, operating income in the first half was generally in line with the forecast. The optical fiber and cable business in the Communications Solutions segment performed generally as expected in the first half, and given the fact that profits in networking systems products in Japan tend to be concentrated in Q4, operating income is expected to greatly improve in the second half. In the Automotive Products business, although the business was affected in the first half by a higher personnel expense ratio and supply chain disruptions caused by the lockdown in Shanghai, operations are expected to gradually stabilize and the personnel expense ratio should improve in the second half. Also, air freight expenses incurred due to the lockdown in Vietnam last year were recorded in Q1 this year due to the difference in fiscal year timing at overseas subsidiaries (Jan.-Mar. 2022 : JPY ▲1.3 billion), and these expenses will not arise in the second half. In addition, further progress in incorporating the higher costs in the sales price is expected in the Functional Products business in the second half.

Concerning ordinary income, a gain on foreign currency exchange resulting from the weaker yen was recorded in the first half, but we have incorporated a certain level of risk in the forecast and foreign currency exchange trend in the second half. Also, our equity method affiliate UACJ revised their full-year forecast down, and this has also been reflected in our forecast.

Q: Are you confident that profitability will improve in the Communications Solutions business as you progress with incorporating the higher costs in the sales price?

A: As shown on Pg. 10, sales of value-added products have increased more than expected. The component ratio of rollable ribbon cable sales in North America was 34% in the first half against a full-year forecast of 35%. Also, outstanding orders in North America are more than 30% lower compared to the beginning of the current fiscal year, and they are approaching suitable levels. In the second half, it will be easier to incorporate the higher costs in the sales price for new orders.

Q: In the automotive products business, due in part to the fact that the fiscal year at overseas subsidiaries is from January – December, is the forecast based on a firm grasp of the expected full-year results at these companies?

A: That is correct. Currently, several companies are struggling, and the forecast is based on the situation there and realizing improvement.

Q: In the Functional Products business, why is profit expected to decline in the second half compared to the first half?

A: The aluminum blanks business is facing a more challenging business environment due to slowing demand for hard disk drives. Also, weak smartphone demand may be prolonged, so we are being conservative in our forecast for profits in the tape for semiconductor process and copper foil businesses. In addition, profit will drop in Q4 (by JPY 0.7 billion) after TOTOKU ELECTRIC CO., LTD. is no longer a consolidated subsidiary. On the other hand, progress is being made as planned in incorporating the soaring raw materials and fuel prices in the sales price and the boost from foreign currency exchange should cover the hit to profits to a certain extent.

Q: I understand the optical cable business results in North America will be lower in Q3 due to seasonal factors, but do you expect the business to perform well in Q4?

A: The lower revenue in Q3 due to seasonal factors has been incorporated in the forecast. Data center investment sentiment is robust, and the project market, which is one of our strong areas, is in excellent condition on support from government subsidies. As a result, the business is expected to return to normal levels in Q4.

Q: Please provide a breakdown of actual and forecast optical fiber growth (volumes) by region.

A: Compared to last year,

(H1 actual) Overall: Generally unchanged, North America: Over +10%, Central & South America: Slightly under +30%, Europe (including Russia): ▲60%, Japan: Lower.

(Full-year forecast) Overall: +5%, North America: +10%, Central & South America: +30%, Europe: ▲20%, Asia: +10%, Japan: Lower.

In terms of overall share, North America: 70% and Central & South America: Over 10% (Americas account for over 80%). The remainder is accounted for by Europe, Asia and Japan in generally equal shares.

Q: In the Communications Solutions business, the FIDEL business has been boosted by the weaker Japanese yen, but what is the status of the business? Also, what is the status of networking system products in Japan?

A: In the FIDEL business, although optical devices are performing well, industrial lasers are at a standstill due to the impact of the automotive market.

In networking system products in Japan, although the CATV market is strong, the business has been affected by difficulty procuring semiconductors. Also, the demand for basic broadcasting equipment continues to be restrained. The technology partnership in IP broadcast solutions with Oki Electric Industry Co., Ltd. announced yesterday aims to achieve growth through cooperation in responding to the future changes in the market and technology in the networking system products business, and it will be an area in which we focus our efforts. At the same time, we are currently formulating measures for businesses that are expected to face challenges going forward.

Q: What is the operational situation in the optical cable business in North America?

A: Efforts are being made to increase personnel numbers, including switching the staffing company. The turnover ratio is starting to improve, and we have generally secured the target personnel numbers. Going forward, efforts will be made to increase skill levels and lower the cost of manufacturing, and then connect those improvements to increased profits. This phase is finally starting to come into view.

Q: What factors were behind the decision to sell TOTOKU ELECTRIC CO., LTD.? On the other hand, another listed consolidated subsidiary The Furukawa Battery Co., Ltd. has a long history. Does it have special status within the group?

A: First of all, no company has special status within the group. Concerning TOTOKU ELECTRIC CO., LTD., we worked to enact structural reforms and improve the product mix. In our Furukawa Electric Group Vision 2030 and 2025 Medium-term Management Plan, we are aiming to achieve growth in the domains combining information, energy and mobility, and when considering the superiority of TOTOKU ELECTRIC's markets and products, it was determined that they are a non-core business for us and that we are not the best owner. Also, from the perspective of governance, both the parent and subsidiary being listed on a stock exchange was recognized to be an issue. In the event we decided to convert TOTOKU ELECTRIC into a wholly owned subsidiary, it would require an investment of more than JPY 10.0 billion, and this is not something our shareholders would easily accept. Going forward, we will conduct our analysis and make our decisions from the perspective of FVA and ROIC spread and based on the synergies with our intended direction as a group.

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