

Q&A Summary of the Conference Call for Institutional Investors and Analysts of Furukawa Electric Co., Ltd.

Date: February 3, 2022 (Thursday) 17:15 – 18:15

Contents: FY2021 Q3 Financial Results

Speakers: **Akihiro Fukunaga**, Director, Corporate Senior Vice President, and General Manager of the Finance and Global Management Division

Q: In the Automotive Products business, the logistics disruptions are gradually easing, so given this situation, will the lower emergency transportation expenses for using air freight be a positive profit factor from January (Q4)?

A: Many of the overseas manufacturing subsidiaries have adopted a different fiscal year running from January 1 to December 31. However, when transporting products produced overseas to Japan, the Japan side is responsible for the expenses. Therefore, there are no time lag for reporting, and the expenses that occurred in November and December have been included in the Q3 results. Currently, shipments are gradually being shifted back from air freight to ocean cargo. There will continue to be an impact in Q4, but we will recover the profit levels while improving productivity and negotiating with customers to bear some of the expense burden.

Q: Have lower customer production volumes had an impact?

A: In our case, the use of air freight had an overwhelmingly large impact in Q3. Although there is some data concerning lower production volumes, the impact has been limited.

Q: Given the strong optical fiber and cable market conditions, I believe it should be relatively easy to raise prices, but have the improvements to earnings progressed less than expected due to the unique issues at Furukawa Electric?

A: Concerning the North America optical cable business, we still had a large number of unfilled orders due to the delays in improving productivity. It is difficult to request higher prices for orders received in the past, resulting in the delayed realization of improvement. Progress is being made in raising prices for product orders currently being received, and the effects will gradually appear from Q4.

On the other hand, although market conditions are strong, sales of optical fiber strands have fallen more than expected due to the circumstances of our customers (cable products manufacturers).

Q : In the Automotive Products & Batteries business, what is the breakdown of the large profit improvement (JPY +9.2 billion) expected from Q3 to Q4?

A : 1) Increased net sales (mainly, recovering overseas sales following the impact of COVID-19 in Q2 and Q3): Approx. JPY +2.0 billion
2) Lower transportation expenses and recovering the expenses already incurred through negotiations with customers: Approx. JPY +6.0 billion
3) Other (Recovering productivity, lower cost of manufacturing, etc.)

Q : What is the outlook for restoring prices and recovering the expenses in the Automotive Products business?

A : The groundwork is generally in place concerning the emergency transportation expenses (use of air freight), and we expect to recover the expenses and pass on the costs in the sales price slightly less than JPY 2.5 billion. We are continuing to hold discussions with our customers.

Q : You are forecasting improvement in the Communications Solutions business from Q3 to Q4, but are there risks to this forecast in light of the impact of increasing Omicron infections?

A : Presently, infections have peaked in the areas around our North America optical cable site, and operations have almost completely returned to normal. It is impossible to foresee the risks in the event of another round of increased infections, but as of this time, productivity should improve as expected.

Q : Operating levels will likely increase in Q4 (compared to Q3 during which seasonal factors occur), but how much progress have you made in adjusting sales prices to appropriate levels for the soaring raw material prices and other factors?

A : I am unable to provide specific figures, but generally, cable prices will rise in the 5-15% range, and the part of this increase is reflected in sales price.

Q : Concerning the FITEL Products business, what role did it play in the current forecast revision? What is the outlook for the future?

A : Although the absolute figures in the FITEL Products business are not at satisfactory levels, the business has improved to a certain extent compared to the severe downturn last year

caused by COVID-19. Productivity is also improving every quarter. On the other hand, there is a risk that the difficulty customers are having in procuring semiconductors will have an impact. This risk has been incorporated to an extent, but it is a concern.

Q : I believe the new medium-term management plan starting from next fiscal year is currently being formulated, but the direction of the business results next fiscal year (higher profits) is shown on Page 25. This fiscal year, the improvement through reducing fixed costs will likely not be achieved due in part to the production disruptions caused by COVID-19. What unique themes are there that will push profits higher from next fiscal year?

A : Concerning the improvements next fiscal year, we expect to realize the effects of reducing optical fiber costs through the introduction of a new manufacturing method, etc. Although we expected the effects to realize from the latter half of Q3 this fiscal year, they will only be about half as large as anticipated. As we successively bring the facilities online, the effects should gradually start to realize from the first half next fiscal year. Also, concerning optical cable productivity in North America, which has been a struggle over the past several years due to factors such as securing personnel, the situation has finally stabilized. Real demand for rollable ribbon cable for FTTH is definitely growing, and these factors are expected to account for a large part of the improvement next fiscal year.

Q : Concerning capital expenditures, you explained that the forecast was lowered based on the demand trends, but was the decision made based on changes in order volumes or is cash flow currently tight?

A : The main factor in lowering the forecast based on demand trends was the Automotive Products business. However, in the Automotive Products business, investments are made after the order is finalized, and the lower forecast is due to a shift in the launch timing from this fiscal year to next fiscal year. In addition, the forecast includes reductions to the investment amount achieved through our own independent efforts to revise the specifications when executing the investment.

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