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

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Contents : FY2022 Q3 Financial Results

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

Q : The operating income forecast for the Automotive Products & Batteries business in Q4 is about JPY 7.0 billion. What is the actual value of profit excluding special factors such as the recovery of past price increase, including price pass-through?

A : Compared to Q3, the factors behind the increase are sales increase JPY+2.0 billion, incorporating in sales price JPY+2.0 billion, overseas subsidiaries with a fiscal year ending December 31 (mainly productivity improvement) JPY+2.5 billion, and Furukawa Battery (seasonal factors, etc.) JPY+0.5 billion. Excluding price pass-through and other retroactive items, the actual value is currently in the range of JPY2.0 to 3.0 billion.

Q : Operating income in Communications Solutions business will increase significantly to JPY3.6 billion in the Q4 forecast, compared to JPY0.7 billion in the Q3 result. What are the factors behind this increase?

A : Similarly, compared to Q3, the factors contributing to increased profits are businesses related networking product in Japan (the same trend as in past years, with construction work concentrated at the end of the fiscal year) and optical fiber and cable business (improved productivity in North American cable business and progress in shifting prices due to a decrease in past order backlog), each up about JPY1.0 billion; other businesses up JPY0.5 billion.

Q : What is the impact of foreign exchange rates on the downward revision of Communications Solutions and Functional Products businesses.

A : The impact of the change in foreign exchange rate assumptions for Q4 (from 140 to 130 JPY/USD) on Communications Solutions business is JPY▲0.7 billion, with a 50-50 split between the optical fiber and cable business and other businesses. On the other hand, the impact on the Functional Products business is slightly more than JPY▲0.5 billion, and most of the revision is due to a decrease in actual demand for semiconductor tapes, aluminum blanks, and other products, mainly due to the economic slowdown in China, and inventory adjustments.

Q：Can you provide more details on your taxes and the extraordinary income and loss in Q4?

A：For extraordinary gains, we have factored in gains on sales of fixed assets such as real estate, in addition to policy shareholdings. We have also factored in a risk of JPY▲5.0 billion in extraordinary losses. Of this amount, the possibility of JPY▲3.0 billion being realized is low at this point, but is factored in as a precaution against changes in the business environment. The effective tax rate is estimated to be just under 40%. Since the consolidated book value of TOTOKU ELECTRIC CO., LTD. is larger than its tax book value, the company's sale income (profit for tax purposes) is larger than the gain on sale in its financial statements, resulting in a slightly higher effective tax rate.

Q：Regarding the automotive products business, you mentioned that one period of profit was taken in due to the unification of the fiscal periods of overseas subsidiaries, but is it correct to understand that this is in fact a downward revision?

A：The amount of the increase is actually a decrease in profit. The increase of less than JPY1.0 billion due to the unification of fiscal periods was almost offset by the expansion of COVID-19 in China and the negative impact of the battery business.

Q：Although the Functional Products business has been slowing down since Q3, you expect profit to increase in FY2023. When do you expect each product to recover?

A：Inventories in the supply chain have built up considerably, and actual demand has yet to fully improve. Recovery of aluminum blanks, semiconductor tapes, and copper foil is expected to start in Q2 or H2 at the earliest. In thermal products, although there are some signs of a slowdown in the North American data center market, AI projects are currently going strong, and sales to data centers in North America are also firm. Although market trends need to be carefully monitored, we expect a gradual improvement in overall functional products.

Q：The decline in profits in Functional Products business seems too large relative to the decline in sales, even taking into account the high marginal profit margin. Are there any special factors involved?

A：Due to the change in revenue recognition standards, for some products in which materials supplied (for a fee) are processed, only the equivalent of the processing cost becomes sales, and the amount of sales and profit are quite close, so that a decrease in sales directly leads to a decrease in profit. The impact of this change is included.

Q : The amount of decrease in foreign exchange gains/losses in non-operating income/losses is too large, JPY▲3.6 billion in Q3 (Oct.-Dec.) compared to the positive figure in the first half of the year. Are there any special factors ?

A : The company is affected by exchange rate fluctuations in the form of parent-subsidiary loans with overseas affiliates, and its sensitivity to exchange rate fluctuations is approximately JPY▲0.2 billion per dollar of yen appreciation. We will take steps to reduce the risk through capital transfers and other measures.

Q : In the mid-term plan starting from this fiscal year, I believe you are reinforcing the improvement of the product mix by expanding sales of high value-added products as one of your policies, but how is this contributing to the first year ?

A : In Communications Solutions business, shipment volume of optical cables in North America has increased by about 10%, and the composition ratio of rollable ribbon cables, a high value-added product, has also increased from the low 20% in the previous fiscal year to 33-34% at present. In addition, networking systems have been strengthening the global expansion of their successful business in South America, and they have continued to perform well in North America this fiscal year.

In power cable business, orders for offshore wind power are yet to be received, but the company has received orders for projects with high marginal profitability, mainly for ultra-high-voltage underground lines. Although production capacity is limited, the company expects further profit growth in FY2023 and beyond. Although the government-led offshore wind project has been pushed back, this matter has already been factored into the mid-term plan. Therefore, depreciation and amortization expenses for capital investment are ahead of sales growth, and although there was a negative impact from the COVID-19 in China in the current fiscal year, the situation is expected to improve in FY2023.

Q : Regarding your approach to cash flow and capital investment, you mentioned that investments will be made flexibly in response to the demand environment, but will there be an increase from the next fiscal year onward, including the strategic investments set forth in the mid-term plan and those not made this fiscal year ? What is the impact on cash flow over the medium term?

A : We have revised our forecast for capital investment for all businesses. The amount itself has been curbed, and not all of the JPY▲4.0 billion that was lowered in this fiscal year's

forecast will be increased in the next fiscal year.
The company is still considering how to use the JPY50.0 billion in strategic investments over the four years of the mid-term plan. We will invest in projects that will contribute to future earnings growth and to take the same stance as before of investing with financial discipline while considering market trends and other factors.

Q：What are the current market trends for each segment in the North America optical cable market, such as data centers and telecommunications carriers?

A ：Our strength is in local digitalization and enterprise, such as Tier 2 and Tier 3, rather than in data centers. Therefore, the direct impact of data centers is less than that of other companies. Although data centers are somewhat weak, the company will offer high value-added products such as rollable ribbons and multi-core products. We also does not have a large share of the market for telecommunications carriers, but are aware of the general information that they are somewhat holding back on investments.

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