

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

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Contents: Communications Solutions business

Speaker:

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Observers:

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Toshihiko Ota, General Manager of the FITEL Products Division

Jun Nishihashi, General Manager of the Broadband Solutions Business Division

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

Q : What are your views about the North American government's investments in rural infrastructure? Also, what impact will it have on Furukawa Electric's business?

A : Several funds are planning to invest approximately US\$20 billion in eliminating the digital divide in rural areas over the next decade, and although it will depend on government policy going forward, further investment can be expected. Of this amount, about 5% (US\$1 billion) will be optical cable related, and it is expected to lift total demand in North America by about 10%. Our business targets the rural infrastructure referred to as Tier 2 and 3, and based on the current status of orders, we are already getting a positive feeling.

Q : The business environment is currently challenging in Asia and Europe following the inflow of low priced Chinese products. Do you feel it will be possible to increase future earnings in the optical fiber and cable business as a whole?

A : In the regions outside of North America, sales of optical fiber individually will likely be particularly difficult. We will firmly protect our business in North America, which accounts for

70% of optical fiber shipments.

Q: How is the overall demand and customers structured in North America?

A: Growth is expected for the project and data center markets, and telecommunications carriers and CATV demand will be basically flat. Growth of the project market will have a particularly positive impact on our business.

Q: What markets are you specifically referring to by the term project market?

A: There are cases that involve companies loaning out cable to a telecommunications carrier and cable investments by a municipality, local government or utility through an investment fund. These cases are grouped together and referred to as the project market. It is the small and medium-sized telecommunications and network providers and the dark fiber providers.

Q: What will be your main products and target markets going forward?

A: Civil engineering accounts for the majority of the cost of cable installation. It is important to enable efficient installation of a large number of cables in existing conduit lines while reducing the man-hours spent to the extent possible. From the perspective of installation features, a cable outside diameter of 30mm or less is a practical size. The key point will be to what extent fibers can be packed into a cable of this size. With our rollable ribbon cable, we can efficiently manufacture cable in a wide range of core counts from low to high, and the cable can be used for data centers as well as metro and access networks. Also, our bend resistant fiber is advantageous in apartment and home networks, and this is an area we want to expand our presence.

Q: From last year, you have struggled to increase optical cable productivity in North America. What is the current situation, and what measures have been taken to realize improvement? Also, do you have sufficient capacity to respond to the growth in demand going forward?

A: The largest factors have been a lack of personnel and the launch of the new facility. Since September, shipment volumes have been increasing. Although there are concerns about a 2nd wave of COVID infections, we will work to prevent infections from occurring within the plant. The new facility will be fully operational by the end of this year, and next year, we will have sufficient manufacturing capacity to respond to demand.

Q: What is the status of the falling optical fiber prices, and what impact will the lower prices

for general use fiber have on your business?

A : Prices have fallen by several percent in North America, and the rate of decline has slowed slightly from last year. However, prices continue to fall significantly in the other regions, and customers in North America are also likely to gradually increase the pressure in terms of prices. We will secure profits through differentiated products such as rollable ribbon cable. The markets in Asia, India and some regions in Europe are expected to remain challenging for some time, and we will advance initiatives to improve the profit and loss.

Q : What is your business strategy going forward in the regions outside of North America, and what initiatives will you implement to increase earnings?

A : In the optical fiber and cable business, North, Central and South America account for 60% of sales, and Japan and Asia account for 40%. Although our group was affected by the weak Brazilian real this year, as the largest optical cable manufacturer in Central and South America, we have increased both net sales and profit over the years centered on the solutions business. We are currently considering the further expansion of the solutions business in Central and South America, as well as rolling it out to other regions. This solutions business will be made into a second pillar (along with the current optical fiber and cable business).

Q : What is your thinking in regards to the locations and business based on narrowing down and selecting from a perspective of asset efficiency?

A : Southeast Asia is extremely challenging, and we are currently considering how we will respond to this region in the future. Japan also has good points and issues, and we will concentrate on our strengths.

Q : The FITEL business has traditionally had high earnings from devices such as ITLA, but what is the current status and future initiatives?

A : Concerning the ITLA market, communications traffic will continue to increase, but due to COVID-19, some of the new facilities and developed products have been weak. Growth will be relatively flat in the second half and next year, and it is expected to then grow at average of 5-10% per year from 2021-2025. Going forward, the shift by telecommunications carrier to high performance (high speed: 100G→200G→400G) will accelerate. Also, at data centers that have not adopted digital coherent technology, following the full-scale adoption of the technology at distributed data centers, 400G products are expected to expand. Shipments of our high output, low bandwidth ITLA have increased fivefold compared to FY2019, and

additional 30% increase is anticipated in FY2021. Also, we plan to release the next generation products (small, low power consumption) in the spring of next year, and through the further development of integrated devices that leverage our strengths and support amplification and modulation, we will strengthen our response to the coming era.

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