

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

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Contents: Energy Infrastructure business

Speakers:

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Observers:

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**Q**: With consideration for the installation capacity following the response to the application of the Labor Standards Act in FY24 and the market situation for offshore wind power, what improvement measures will you implement directed at achieving the ROIC target for FY25?

**A**: Although the profit margin in FY22 improved compared to past years, a gap still exists to the target. While making capital expenditures for power cable, we have worked to downsize or withdraw from businesses including low margin overseas underground cable projects and bus ducts. In addition, we have made improvements to the business portfolio, including an alliance for general purpose copper cable for construction. These impact on overall FY22 net sales was about (20%).

Going forward, we will improve the profit margins and ROIC by conducting sales activities with a focus on profits for *Rakuraku* aluminum cable and in the renewable energy market. We are already aware of the Labor Standards Act, and we will work to ensure it does not put the brakes on operations by strengthening the system for installation teams and increasing installation productivity through technological development.

**Q**: I understand that you completed the replacement of low margin projects in FY22, but why will profit remain flat in FY23 despite higher revenue?

**A**: Depreciation expenses will increase by slightly less than JPY 1.0 billion. Also, the commencement of renewable energy projects, including harbor-based projects, has been slightly delayed. The current plan takes into account these factors.

**Q**: You are aiming to double operating income in FY25 compared to FY22. Assuming tax rates

remain the same, NOPAT will also double, and ROIC is expected to be much higher. I believe these levels will be difficult to achieve if invested capital remains unchanged, so why do you expect ROIC to greatly increase in FY25?

A : Invested capital does not vary greatly from the original investment plan. In the Power Cable business, profit margins will increase as a result of greatly higher net sales for renewable energy (mainly harbor-based offshore wind power) and profit-oriented sales activities in the area of privately operated transmission lines for renewable energy. In the whole Energy Infrastructure business, ROIC will increase mainly through PL improvements, including higher profit margins for transmission components for the wide-area grid and *Rakuraku* aluminum cable in the Industrial Cable & Power Cable Accessories business.

Q : What is the development status of polyethylene cable for direct current submarine power cable? Also, how much will you need to invest?

A : Concerning the development status (of 500kV direct current cable), we have completed the long-term trial. I think this question refers to the wide-area submarine interconnections, but as shown on Page 17, these projects will become more active in 2030 and thereafter to carry the huge volumes of electric power generated from the full-scale operation of offshore wind power in general sea areas to the major consumer regions. The Sea of Japan route (Hokkaido-Tohoku-Tokyo) is envisioned to use a long-distance direct current submarine cable (500kV class), and it will require 3-4 years to manufacture a cable of such length. The national government is considering advancing this project a little at a time, but expanding the plant (insulation and armoring lines, etc.) will likely require an investment of several ten billion yen. Currently, we are conducting a detailed assessment of the necessary investments, including considering how the production lines will be used after this project and peak production of submarine power cable for renewable energy.

Q : For offshore wind power, what are the differences between alternating current and direct current?

A : Alternating current and direct current require different polyethylene materials. The armoring and conductor processes are the same, but different equipment is required. It is difficult to manufacture them at the same time. Direct current has advantages in the long-distance transmission of large volumes of electricity.

Q : In today's briefing, you stated that you will move forward with investments (for increasing cable manufacturing capacity and installation capacity). How much will depreciation

expenses increase heading into FY25?

A : Depreciation expenses will increase by about JPY 1.0 billion from FY22 through FY23 and then by slightly more than JPY 1.0 billion each year from FY23 through FY25. Most of the increase will be related to extra-high voltage cable, but part of the increase will be related to *Rakuraku* aluminum cable and overhead transmission components.

Q : What are the strengths of *Rakuraku* aluminum cable compared to traditional CV cable, and how much will it contribute to profits?

A : From the standpoint of easy installation, recognition within the marketplace is increasing. As the pioneer in aluminum cable, we provide cable that is more flexible than traditional copper cable. Also, we offer a lineup of terminals and tools, and we have competitive advantages over our competitors. Compared to general purpose cable, we are becoming able to secure a profit margin that matches the value. Going forward, we will further increase market recognition and work to achieve the net sales plan of JPY 2.5 billion in FY25.

Q : The market in Japan is consistently growing and will likely remain at a high level in the future. As you increase capacity from a long-term perspective, in order to increase ROIC, will it be necessary to make any major moves such as concentrating management resources in Japan?

A : Concerning offshore wind power projects in Japan, there are several large harbor-based projects in FY23 and FY24. Thereafter, there will also be a large number of general sea area projects. We have started from the harbor-based projects in order to establish the offshore wind power business with the aim of strongly responding to these projects and increasing profits. In addition, submarine power cable in Asia has also been designated a target market, and along with inter-island connections, we will work to acquire projects from FY25. Rather than pursuing projects with a wide range of voltages in various sea areas, we will be selective in regards to the submarine cable projects in Asia and respond to projects and customers who recognize the value of our products.

Q : Concerning the overseas locations, will it be necessary to make changes in the future based on the level of focus on the projects?

A : Shenyang Furukawa Cable in China will respond to infrastructure investment demand in the China market. Also, in order to respond to the full-scale operation of submarine power

cable in Japan, demand is expected to significantly increase not only for submarine cable but also for privately operated transmission lines connected to the land-based mains. For the privately operated transmission lines, we are also considering a framework that utilizes Shenyang Furukawa, which manufactures underground power cable.

Q: Concerning the contribution to profits, what is your time frame for recouping the upfront investments?

A: The offshore wind power projects in general sea areas will begin from round 1, but in the overall renewable energy market, we plan to both make investments and secure projects through the large harbor-based and land-based wind power projects and the replacement of OF cable with extra-high voltage underground cable. Without waiting for demand to increase, we will secure profit while utilizing the facilities we have invested in.

Q: You are targeting an operating income margin of 3.5% in FY25, but is my understanding correct that the replacement of unprofitable products will have already been mostly completed by that time? Will it be possible to further increase the profit margin in the medium- to long-term?

A: Delays to offshore wind power plans have been incorporated into the profit targets in the 2025 Mid-term Plan, and I do not believe an operating income margin around 3%-4% is not the final goal. I feel we need to secure profit margins appropriate for the invested capital and large balance sheet, and we will aim to achieve an even higher profit margin in 2030.

Q: Will the wide-area grid projects actually begin? What is your outlook for these projects going forward?

A: The cross-regional network master plan has been formulated by the Organization for Cross-Regional Coordination of Transmission Operators (OCCTO) under the Agency for Natural Resources and Energy. The electric power companies are members, and a working group has been established that includes cable manufacturers as observers. Work has begun toward formulating a more specific plan. In the current master plan, operation will begin from 2030, and we are currently assessing the investment plan while gathering information.

Initially, considerations began based on the use of submarine power cable from Hokkaido to Kashiwazaki and then existing transmission lines (overhead transmission lines) from Kashiwazaki to consumer regions, but several options are currently being considered,

including the effective use of overhead transmission lines and shortening the cable length through multiple terminals instead of a long-distance submarine power cable (of around 900km). Going forward, the best option will be selected.

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