

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

Analysts of Furukawa Electric Co., Ltd.

Date: August 4, 2022 (Thursday) 17:00 – 18:00

Contents: FY2022 Q1 Financial Results

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

Q: The Communications Solutions business appears to have gotten a slightly weak start this year. Do you expect profits to increase from the second half?

A: In Q1, particularly in network products in Japan, the benefits from incorporating the higher costs in the sales price will appear from the second half, so this was a negative factor. However, steady progress is being made in incorporating the higher costs in the sales price in the fiber and cable products business. Also, in relation to optical devices and network products in Japan, both at our company and our customers, projects have been delayed until later this fiscal year and production plans have been delayed due to unstable procurement of semiconductors and electronics components.

Heading into the second half, we expect profits to increase as a result of higher sales and incorporating the costs in the sales price.

Q: What is the current situation and trend in the optical devices business?

A: Demand has been somewhat weak recently due to factors related to component procurement by our customers, but in preparation for increased demand in the second half, we will work to increase sales while improving productivity. In the FITELE Products Division, full-year profit is expected to increase by about JPY 0.5 billion this year.

Q: The Automotive Products & Batteries business recorded a large loss in Q1. How does this loss compare with your expectations, and do you anticipate improvement from Q2?

A: We had already incorporated the risks, so the Q1 results were generally as expected. The differences in fiscal year timing at overseas subsidiaries have an impact on the results, so the lockdowns in China will continue to impact the Q2 results. Although customer production volumes will decline in August, we expect to occur gradual recovery from September and a full-scale recovery from October. The resulting higher sales and improved productivity as our operating levels recover, as well as the benefits from incorporating the higher costs in the sales price, should lead to the planned improvements in the financial results.

Q: Is the impact of the lockdowns in China on the Energy Infrastructure business in Q1 expected to be a one-time event, and do you expect the business to improve from Q2?

A: The impact of the lockdowns in China lasted from the end of Chinese New Year until around May, and they pushed operating profit down by about JPY 0.6 billion in Q1 compared to the same period of last year. The subsidiary in China has adopted a fiscal year ending in December, and given that the lockdowns continued through May in Q2. However, the business has made a full-scale recovery from June and is profitable. Thus, the financial results are expected to improve going forward.

Q: There is a view that demand for semiconductors is slowing, but does it have an impact on the Functional products business? Also, what is your outlook for the main products from Q2?

A: Although there are transitory waves of production cutbacks, there have been no major fluctuations overall, including in data center demand. Also, there has been almost no impact on our products, and through strengthening sales of value added products, we are increasing profits and covering the negative impact of functional plastics caused by soaring raw material prices. Demand for thermal management products mainly for data centers, as well as for AI projects, has not slowed. In the copper foil business, the shift to high performance products is progressing as planned.

Q: In the Automotive Products business, what is your thinking about incorporating the higher costs in the sales price? Will such efforts be all-encompassing (including energy costs, etc.) and ongoing into next year? Also, will you work to accelerate the timing of recovering the costs?

A: Concerning the one-time costs incurred at the customer's convenience (air freight and warehousing expenses), the customer will be responsible for all of the costs. Also, we have already adopted market based pricing for copper and aluminum, but for components and materials specified by the customer, the customer will be responsible for all of the costs. Concerning secondary materials (resin, electronics components, etc.), we are deciding the share of the costs based on the status of transactions with the customer.

For example, such as having the customer bear some of the air freight costs incurred during Q4 of last year in Q1 of this year, there will be a time lag between when the costs are incurred and when they are recovered, but we are working to settle the costs on a quarterly basis.

Q: Under the 2025 medium-term management plan, you plan to make investments by creating operating cash flow and securing cash flow through asset sales, but given the recent increase in inventories, will you actively sell assets this year?

A: Although interest bearing debt increased, operating cash flow was positive in Q1, so the situation is improving. The higher inventories are the result of halted shipments of our products due to lower customer automobile production volumes and the buildup of materials ordered in advance. Through improvement to this situation in the second half, we expect to maintain a positive cash flow for the year as planned.

Also, we have plans to sell cross-shareholdings and assets in the second half of this year.

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