

SWCC SHOWA HOLDINGS CO.,LTD.

3Q Financial Results and ESG Briefing Summary of Questions and Answers

Date and Time: Thursday, March 3, 2022, 2:30 p.m. / 4:00 p.m. Start
Location: Nihonbashi Kabutocho, Chuo-ku, Tokyo



Financial Results for the Third Quarter

Q1: What is the divergence between the time of the upward revision of the full-year earnings plan last November and the current situation?

A 3Q results were better than when the upward revision to earnings was announced. One of the reasons for this is that the power infrastructure sector was very strong. Sales of goods were also up, but the accounting standards changed this year, and sales are now recorded in line with the progress of construction, whereas in the past construction sales were concentrated at the end of the fiscal year. In addition, shipments of power infrastructure were concentrated in the 3Q. In addition, shipments of electrical equipment and components were also strong, although not as strong as in the first half. These factors resulted in 3Q sales that were higher than we had expected.

Q2. Is the Fiscal Year Achievement Targets unchanged in anticipation of the impact of raw material price hikes in the 4Q?

With an eye on the situation in Ukraine, I'd like to know what to expect in the future.

A The electric power infrastructure business has a high proportion of construction and services, so the impact of the sharp rise in raw material prices is not so great. The power infrastructure business was good in 3Q. In the first half of the year, the impact of raw materials pushed down the business by 200 million yen, but the downward pressure from the sharp rise in raw material prices has increased in the 3Q and 4Q. We are working to somehow add this to our prices and pass it on to our customers. However, the pressure is gradually increasing, and we are now preparing the budget for the next fiscal year based on the assumption that we will face the same downward pressure in the next fiscal year as long as the current crude oil prices continue to be high.

As for the impact of the situation in Ukraine on our company, 90% of our business is in Japan, and our overseas factories are located in China, Vietnam, and other Asian

countries, so there is no direct impact on us. However, if resource prices rise, this will have a negative impact on us, so we will set our prices while keeping a close eye on the current situation.

In addition, the medium-term management plan mentions shifting the business model from product sales to service sales, and we plan to expand our business domain by taking our business into high value-added fields such as medical care and the service side of the business. We believe that we need to shift our focus to the service side as soon as possible.

Q3. I would like to ask a question in connection with the government's policy for a next-generation power grid with a total investment of 2 trillion yen.

Do you have any plans to get involved in high-voltage direct current transmission cables in the future?

A In the past, we have almost reached the point of completion for ultra-high-voltage DC power transmission cables. However, there is little demand for them in Japan, and development has been halted. In addition, two major competitors are working in this field, and we do not believe that it is profitable for our company in terms of scale. Therefore, the Company sees the market not for long-distance power transmission, but for the short-distance linkage part. Specifically, we have branded our solutions as SICOPUS™, which include the cables, terminals, construction maintenance, construction training, and monitoring necessary for connecting substations. In fact, the profitability of the electric power infrastructure business has increased considerably since the company began developing this business.

Q4. I would like to ask about Showa Furukawa Cable Co., Ltd.'s profit forecast for the next fiscal year.

Is there a possibility that the integration of the manufacturing and sales businesses, which will incorporate the sales business into the manufacturing business, will result in a significant loss?

A Once manufacturing and sales were separated, it became possible to clearly see where the source of profit was located and the profitability of manufacturing and sales. We have also come to understand where the problems lie. I do not think that the fact that we have been operating under different companies for the past two years is a negative in any way. We plan to integrate manufacturing and sales, improve the flow of goods, and simplify management operations. Since the manufacturing itself will be done at two

plants, one in Mie Prefecture and the other in Ibaraki Prefecture, we believe that we will be able to establish a simpler manufacturing and sales structure than we have now. The integration of the two companies will not result in a loss.

ESG Initiatives

Q 1. I would like to know about your efforts to add value to your products from an ESG perspective.

SICONEX® is a product that can contribute to labor savings, but what is the evaluation from electric power companies?

A As the shift to xEV continues to expand, we have been quick to take action in the belief that environmentally friendly products will be recognized as high value-added products. However, the scope of what we can do on our own is relatively limited. For example, we believe that it is realistic to develop products with higher added value and products that meet customer requirements through collaboration with upstream and downstream business partners.

SICONEX® is an environmentally friendly product that does not use oil or gas for insulation, is lightweight and compact, easy to handle, and does not require construction man-hours. SICONEX® is highly regarded by electric power companies, and its market share is increasing.

Q 2. Please give us an overview of the superconducting cables that were featured in the media in January and the future schedule for their practical application.

A The most important point of superconducting cables is that they can transmit power with zero electrical resistance. In the Japanese power system, approximately 5% of the total power is lost. This is equivalent to the loss of five electronically powered power plants in terms of Japan's total electricity. As reported in the press in January, we had been collaboration with NEDO and BASF, has completed the world's first demonstration test of a low-cost Tri-axial Superconducting Cable system installed in a private plant. For example, superconducting cables will be used in large plants such as industrial complexes. Such places have tanks of liquid nitrogen, which can be used to reduce costs. Also, in the area of connecting smart communities to the power grid, we believe that we can contribute to reducing the number of substations and reducing the number of sites.

Although the initial cost of superconductivity is high because liquid nitrogen is used for cooling, it has a very large energy-saving effect. With the current high cost of electricity, it should not be difficult to recover the initial cost. In terms of practical application, we are strong in the electric power business. Superconductivity is a cable and one of the electric power solutions. We believe that it will be highly effective in appealing to customers, and we hope to commercialize it during the medium-term management plan period.

Q 3 . About the operation of an EC site "Kaeruya" for purchasing electric wires and materials.

A The planning of the e-commerce site " Kaeruya " was done in the course of SD seminar activities for employees in their mid-30s, one of the Company's rank-specific training programs. Currently we are mainly a wholesaler, but we adopted a proposal from a 30-something that the e-commerce site business will surely grow as the generations take over, and it has taken us about a year and a half to get to this point.

Although " Kaeruya " still lacks recognition and has yet to generate significant sales, it is receiving inquiries from unexpected sources under the recent shortage of goods. We expect our younger employees to make a strong effort in the future.

Q 4 . About vision for future business and revenue growth using DX.

A For us, DX has two meanings. One is necessary because it will generate future earnings for our business, and the other is necessary to improve management efficiency.

Recently, we acquired a venture company called "ACW-DEEP" to include AVR™ (Advanced Virtual Reality) in educational materials.

We also acquired a venture company called KAMOME Engineering, Inc. that can use cloud computing in the zero-trust business conducted by its subsidiary AXIO Corporation. AXIO Corporation's cloud business has been on-premises, with one-to-one interactions with companies. In the future, we would like to shift to a more flexible, subscription-based business using the cloud, and change our business model from one in which manpower equals revenue.

The other is that the Smart Stream business is quite active in terms of incorporating DX into human resource education. They are actually using AVR™ in their construction training and are now able to train people to work with AVR™ glasses on, even though they don't have the objects.

Against the backdrop of government policies, various business expansion topics have emerged, including measures to address aging and renewable energy interconnection, including wind power.

Although we are investing in increasing production to meet this demand, we believe that there is still a shortage of personnel to handle the construction of electric power. We do not intend to take on all the challenges of the industry, but rather to provide educational materials in cooperation with various companies in Japan. We are working on a business model in which we provide educational materials to these companies, and sell them.

Q 5. In-house production of human resources needed to promote DX, especially those who promote planning and development

A Regarding DX personnel, the core member of the e-commerce site planning team I described earlier is now working as the head of the Digital Innovation Promotion Office. Although we feel that it is difficult to bring DX operations in-house, young people who have been with the company for 2 to 3 years and have grown up in the digital field are very dexterous and willing to be involved in DX operations even if they have to take on a second job within the company. I am encouraged by the high level of motivation. We are considering ways to secure human resources both internally and externally, such as teaming up with startups.

Q 6. I would like to ask about put the most effort in terms of governance since assuming the position of president and the results of these efforts. I would also like to hear about future challenges.

A One of the areas of governance that we have focused on since taking office is the introduction of a segmentation system. The segment heads were given more authority than the presidents of individual companies, and they were able to make any decision they wished. This effect was felt most strongly at the timing of the FY20 COVID-19. In the first quarter, the situation deteriorated rapidly with the declaration of a state of emergency, but at that time, the segment managers were very agile in deciding which plants to shut down, what departments to send home on leave, and transferring employees to places with higher capacity utilization. Thanks to their efforts, although 1Q profits were low, we did not suffer a loss.

In terms of challenges, we have included the ROIC indicator, but it has not yet penetrated all corners of the market. Looking at the balance sheet, ROIC management has not yet truly penetrated the inventory side, receivables turnover, and other areas. There is still room for improvement. We will focus on these points from now on.

Another issue is digital transformation. 85 years of history will not change fundamentally just because I have been doing it for four years, and there are still many things that need to change. I believe that one more effort in governance reform is required to create a system that will allow us to see things in a single view and make decisions more quickly by introducing digital technology into the mix.

Q 7. Change in Governance due to Decrease in Shareholding in FUTONG-SHOWA ELECTRIC WIRE & CABLE (TIANJIN) CO.

A Although some members of the board of directors serve concurrently as directors of FUTONG-SHOWA ELECTRIC WIRE & CABLE (TIANJIN) CO., we do not receive instructions from them regarding the management of the company. We do not believe that the relationship between the two companies has changed since the shareholding ratio was reduced. We also have a joint venture company in China, and we believe that we need to cooperate with the UTONG-SHOWA ELECTRIC WIRE & CABLE (TIANJIN) CO. in terms of sales channels and other aspects of business development in China.

The SWCC Group's Governance from an Outside Director's Perspective

Q1. I get the impression that the SWCC Group's business has made steady progress in the past few years in adding higher value and restructuring its operations. What do you think are the triggers and factors for this change from the viewpoint of outside directors?

A For the three years from 2015 to about 2017, the composition and substance of the board was completely different from the current board, and it was not structured to allow open discussion as it is today. Since President Hasegawa took office, the company has been aggressively implementing various measures for structural reform. In particular, she has introduced a segmentation system and advocated ROIC management. In addition, they are focusing on diversity, and they recognize that these measures have had a significant impact on our business performance.

Q 2. About Short-term and long-term areas for improvement from the viewpoint of outside directors

A In the short term, everyone on the current executive committee is promoting efficient management of the company, including those who will lead the medium-term management plan and those who will create the next challenging plan after that. However, in the long term, I believe it is necessary to develop internal human resources that have not yet come to the forefront, and to secure excellent human resources from outside the company. I believe that utilizing these human resources and actively engaging in new businesses will lead to further improvement of our company.

Q 3. About Examples of elemental technology applications

A To give an example from the elemental technologies introduced earlier, one is in the medical device field. Braiding technology, which has been used in electric wires, is being applied to catheters, a very fine technology in the medical device field. Another is in the field of mobility, where in-vehicle heaters are made by further processing wires using metal processing and alloy technology, and have actually become a business product. These two are examples of the application of elemental technologies.

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