



**Furukawa Electric Co., Ltd.**

Q3 Financial Results Briefing for the Fiscal Year Ending March 2021

February 4, 2021

## Summary

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Q3 Financial Results Briefing for the Fiscal Year Ending March 2021 (Telephone conference)

Held on February 4, 2021

**[Number of Speakers]**

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Akihiro Fukunaga

Director, Corporate Vice President, and General Manager  
of the Finance & Global Management

- Through the first nine months of FY2020, recorded lower profit on decreased revenue due to the impact of COVID-19 through Q2
- In Q3 (the three months from September 1 through December 31, 2020), the Electronics & Automotive Systems segment centered on automotive products recovered more than expected, and an operating income was achieved
- In the full-year forecast, net sales, operating income and ordinary income have been revised up. As a result, ordinary income, which was forecast to be a loss in the previous announcement, is now expected to be a profit

**Fukunaga:** This is Fukunaga. Thank you for joining us today despite your busy schedules. I will now explain the third-quarter financial results for fiscal 2020.

Please see page three. As for the key points of the financial results, I will explain the cumulative results through Q3. Up to Q2, we posted a decline in sales and income YoY due to the impact of COVID-19. On the other hand, looking at the results for Q3 alone, we have returned to operating income due to a higher-than-expected recovery in the Electronics & Automotive Systems segment centered on automotive parts.

For the full year, we made an upward revision to net sales, operating income, and ordinary income in light of the situation up to 3Q. Although we forecasted an ordinary loss previously, we now expect to be in the black.

# FY2020 Q3 Results - P/L Summary

(JPY billion, JPY/kg, JPY/USD)

|  | FY19Q3       |              | FY20Q3       |              | YoY change     |                | Breakdown of change (Q3)                   |
|--|--------------|--------------|--------------|--------------|----------------|----------------|--|
|  | a            | 10-12<br>a'  | b            | 10-12<br>b'  | b-a            | 10-12<br>b'-a' |  |
| <b>Net sales</b>                                     | <b>676.2</b> | <b>221.0</b> | <b>563.0</b> | <b>208.6</b> | <b>▲ 113.1</b> | <b>▲ 12.4</b>  | ▲113.1 (▲17%)<br>See page 5                |
| <b>Operating income</b>                              | <b>15.3</b>  | <b>4.5</b>   | <b>▲ 0.7</b> | <b>2.6</b>   | <b>▲ 16.0</b>  | <b>▲ 1.9</b>   | ▲16.0<br>See page 6                        |
| (Margin)   | 2.3%         | 2.0%         | ▲ 0.1%       | 1.3%         | ▲ 2.4          | ▲ 0.8          |  |
| Profit/loss in equity method affiliates              | 1.3          | 1.5          | ▲ 0.5        | 0.6          | ▲ 1.8          | ▲ 0.9          |  |
| Foreign exchange gain/loss                           | ▲ 0.4        | 0.4          | ▲ 0.9        | ▲ 0.5        | ▲ 0.5          | ▲ 0.9          |  |
| <b>Ordinary income</b>                               | <b>13.9</b>  | <b>5.5</b>   | <b>▲ 3.8</b> | <b>2.2</b>   | <b>▲ 17.6</b>  | <b>▲ 3.3</b>   | ▲17.6                                      |
| (Margin)   | 2.1%         | 2.5%         | ▲ 0.7%       | 1.0%         | ▲ 2.7          | ▲ 1.4          |  |
| Extraordinary income/loss                            | 1.1          | ▲ 1.0        | 10.4         | ▲ 1.1        | +9.3           | ▲ 0.1          | Extraordinary income +18.2<br>(4.9 → 23.1) |
| Income taxes   | 6.7          | 2.5          | 4.6          | 1.3          | ▲ 2.1          | ▲ 1.2          | Extraordinary loss ▲9.0<br>(▲3.8 → ▲12.7)  |
| Net income attributable to non-controlling interests | 0.9          | 0.7          | 1.6          | 1.0          | +0.7           | +0.3           |  |
| <b>Net income attributable to owners of parent</b>   | <b>7.4</b>   | <b>1.4</b>   | <b>0.5</b>   | <b>▲ 1.1</b> | <b>▲ 7.0</b>   | <b>▲ 2.5</b>   | ▲7.0 (▲94%)                                |
| (Margin)   | 1.1%         | 0.6%         | 0.1%         | ▲ 0.5%       | ▲ 1.0          | ▲ 1.1          |  |
| Average copper price                                 | 689          | 683          | 714          | 792          | —              | —              |  |
| Average exchange rate                                | 109          | 109          | 106          | 104          | —              | —              |  |

**Extraordinary income :**

- Gain on the disposal of non-current assets (22.1 : Q1)

**Extraordinary loss :**

- Provision for product defect compensation (▲4.8 : Q1)
- Loss on the transfer of a business (▲3.7 : Q1)
- Loss caused by COVID-19 (▲1.4 : Q2)
- \* Recorded an extraordinary loss for the fixed expenses incurred while operations at several overseas subsidiaries were suspended to prevent the spread of COVID-19 infections
- Loss on changes in equity (heavy magnet wire) (▲0.5 : Q3)

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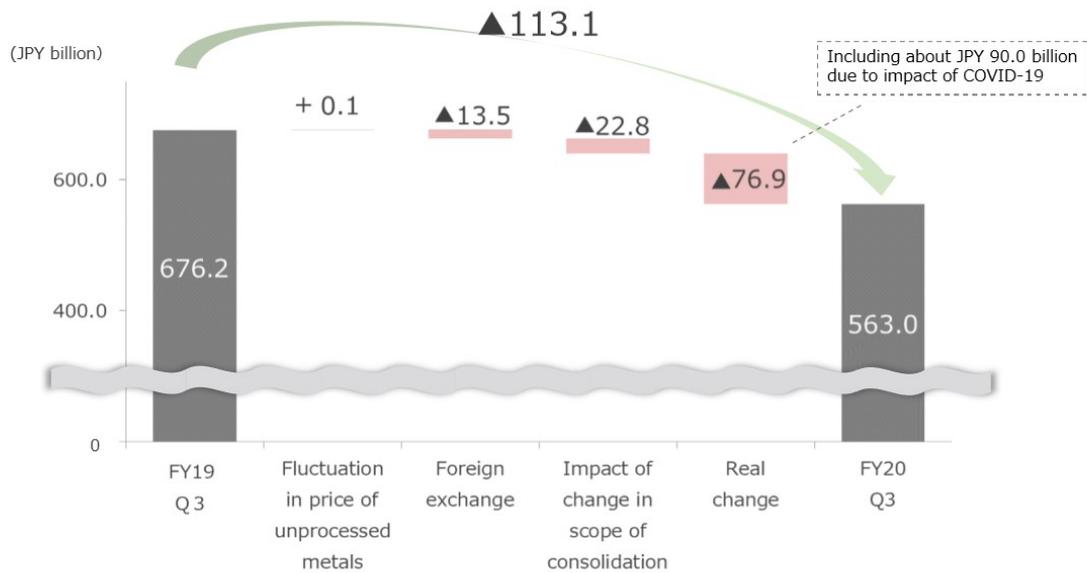
Please turn to page four. This is the P&L results up to 3Q.

Cumulative net sales up to 3Q were JPY563 billion. The operating loss was JPY0.7 billion. The ordinary loss was JPY3.8 billion. Net income attributable to owners of parent was JPY0.5 billion.

As I stated earlier, we posted a decline in sales and income compared to last year on each reportable income or loss items, including net sales.

On the other hand, please see the column that says b'. This is the result for the three-month period from October to December in 3Q. We posted operating income of JPY2.6 billion and ordinary income of JPY2.2 billion, indicating that income has turned positive.

## Analysis of Changes in Net Sales (YoY)



Next, please turn to page five. This is the analysis of changes in net sales.

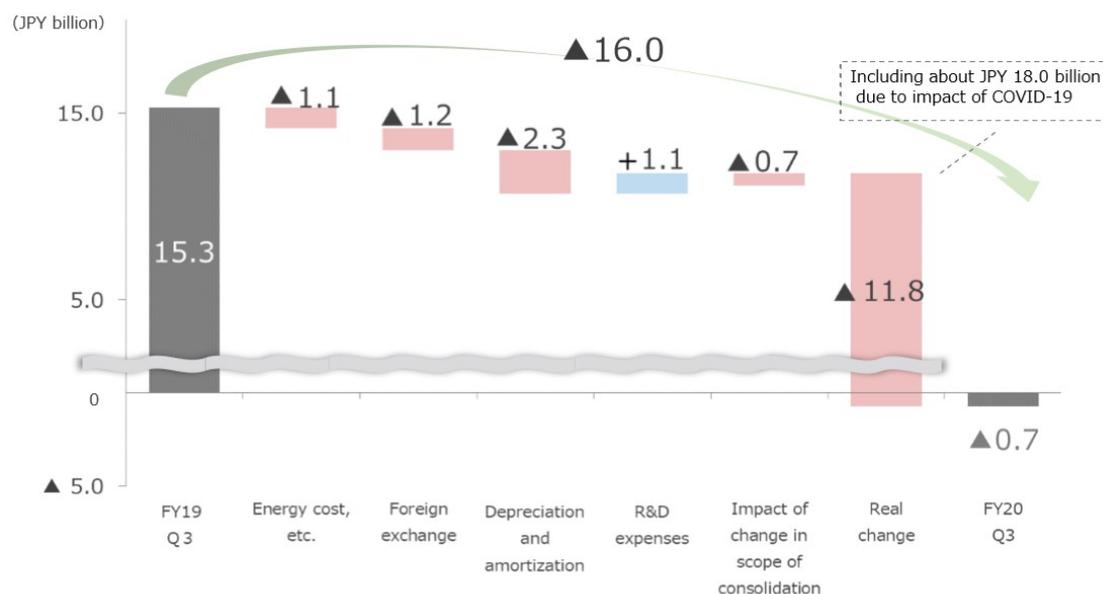
Net sales fell by JPY113.1 billion YoY. This was mainly due to the impact of foreign exchange, which lowered sales by JPY13.5 billion. This includes the impact of BRL. Due to converting local currency at the Brazil base into JPY, there was a negative impact of slightly over JPY8 billion. There was also a negative impact from the USD of around JPY2.5 billion and from CNY of around JPY1.4 billion.

The change in scope of consolidation also had an impact of the amount shown here. This includes the impact of the transfer of the Copper Tube Business and the transfer of the Heavy Magnet Wire Business.

The impact of real change was negative JPY76.9 billion, but this includes the negative impact from COVID-19 of JPY90 billion. Thus, if that is excluded, then the impact of real change was positive JPY13.1 billion. This reflects improvements in North American fiber cables, digital coherents, domestic renewable energy and underground power cables, and functional products for data centers.

The impact of COVID-19 for 3Q alone was negative JPY10 billion, which is a significantly smaller amount than up to 2Q.

## Analysis of Changes in Operating Income (YoY)



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Next, please turn to page six. This is the analysis of changes in operating income.

Operating income fell JPY16 billion YoY. As was the case for net sales, foreign exchange was affected by BRL, which accounted for negative JPY0.7 billion when converted to JPY. As for depreciation and amortization, we are investing in communications solutions, automotive products, power cables, and so on. The increase in depreciation and amortization expenses are related to those investments.

Regarding R&D expenses, we have continued to invest in advanced technologies for the future, aimed at creating future technologies and creating markets. However, due to an increased efficiency thanks to remote tools and a reexamination of priorities subsequent to changes in the social situation under the pandemic, R&D expenses had a positive YoY impact of JPY1.1 billion.

Regarding the impact of change in scope of consolidation, the content is the same as explained for net sales.

Real change had a negative impact of JPY11.8 billion, but the negative impact of COVID-19 was JPY18 billion. If this is excluded, then the impact of real change would be positive JPY6.2 billion. As was the case for the factor behind net sales, there was a positive impact from North American fiber cables, digital coherent, power cables, and functional products for data centers. In addition to that, this figure incorporates the improvement in the break-even point due to cost reduction and fixed cost reduction.

As was the case for net sales, the impact of COVID-19 in 3Q alone was negative JPY2 billion, indicating that the impact is becoming smaller.

## Revision of FY2020 Full-year Forecasts

- Operating income has been revised up due to the greater than expected recovery primarily in the Electronics & Automotive Systems segment
- Ordinary income has been revised up following the increased operating income
- After taking into consideration factors such as income taxes and net income attributable to non-controlling interests, net income attributable to owners of the parent company has been left unchanged

(JPY billion, JPY/kg, JPY/USD)

|  | FY19<br>Results | *FY20<br>Previous<br>Forecasts | FY20<br>Forecasts | YoY change     | Change from<br>previous<br>forecasts |
|--|-----------------|--------------------------------|-------------------|----------------|--------------------------------------|
|  | a               | b                              | c                 | c-a            | c-b                                  |
| Net sales  | 914.4           | 780.0                          | 810.0             | ▲ 104.4        | +30.0                                |
| Operating income                                     | 23.6            | 5.0                            | 6.0               | ▲ 17.6         | +1.0                                 |
| (Margin)   | 2.6%            | 0.6%                           | 0.7%              | ▲ 1.8          | +0.1                                 |
| Profit/loss in equity method affiliates              | 2.5             | —                              | —                 | —              | —                                    |
| Foreign exchange gain/loss                           | ▲ 1.0           | —                              | —                 | —              | —                                    |
| Ordinary income                                      | 22.8            | ▲ 0.5                          | 0.5               | ▲ 22.3         | +1.0                                 |
| (Margin)   | 2.5%            | ▲ 0.1%                         | 0.1%              | ▲ 2.4          | +0.1                                 |
| Extraordinary income/loss                            | 8.0             | 10.4                           | 12.0              | +4.0           | +1.6                                 |
| Income taxes   | 11.8            | —                              | —                 | —              | —                                    |
| Net income attributable to non-controlling interests | 1.4             | —                              | —                 | —              | —                                    |
| Net income attributable to owners of parent          | 17.6            | 3.0                            | 3.0               | ▲ 14.6         | —                                    |
| (Margin)   | 1.9%            | 0.4%                           | 0.4%              | ▲ 1.6          | —                                    |
| Average copper price                                 | 682             | 697                            | 720               | (After Q4:740) | —                                    |
| Average exchange rate                                | 109             | 106                            | 106               | (After Q4:105) | —                                    |

\*Announced on November 5, 2020

Next, this slide describes the revision of the full-year forecast for FY2020.

The content is the same as what I stated at the beginning regarding operating income and ordinary income. We have left our forecast unchanged for net income attributable to owners of the Parent. We retained the forecast in consideration of income taxes and net income attributable to non-controlling interests.

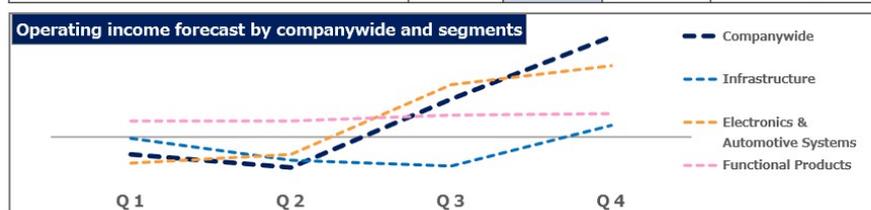
Non-controlling interests include Furukawa Battery and Totoku Electric, which are both non-controlling interests in which the other party controls the capital. This part is subtracted before net income. Please be aware that this impact is included.

# FY2020 Full-year Operating Income Forecast

- Compared to the previous forecast, the Electronics & Automotive Systems and Functional Products segments have been revised up, and the Infrastructure segment has been revised down

(JPY billion)

| Segment                          | Sub-segment                     | Previous | Current | Difference | Main factors behind the revision (business / product)<br>Red: negative factors Blue: positive factors   |
|----------------------------------|---------------------------------|----------|---------|------------|---|
| Infrastructure                   | Communications Solutions        | 0.5      | ▲0.5    | ▲1.0       | <ul style="list-style-type: none"> <li>Specialty fiber: medical and industrial</li> <li>Devices for amplifiers</li> <li>Network products in Japan</li> </ul>            |
|                                  | Energy Infrastructure           | ▲1.5     | ▲2.5    | ▲1.0       | <ul style="list-style-type: none"> <li>Products for the construction and electric appliance market in Japan and railroad market</li> <li>Power cable (China)</li> </ul> |
| Electronics & Automotive Systems | Automotive Products & Batteries | 3.0      | 5.0     | +2.0       | <ul style="list-style-type: none"> <li>Wire harnesses (North America / China)</li> <li>Batteries</li> </ul>   |
|                                  | Electronics Component Materials | 0        | 0.5     | +0.5       | <ul style="list-style-type: none"> <li>Products for automotive applications</li> </ul>  |
| Functional Products              |                                 | 5.0      | 5.5     | +0.5       | <ul style="list-style-type: none"> <li>Specialty wire for automotive and electronics applications</li> </ul>  |



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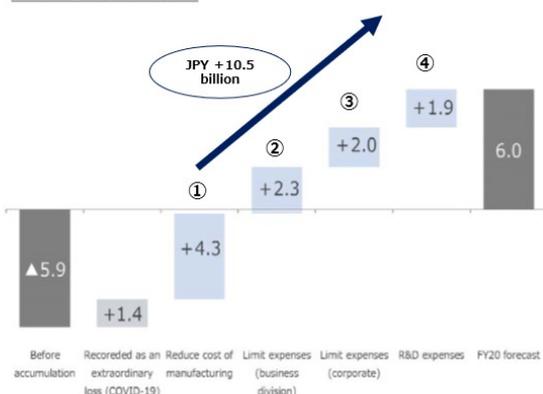
Next, please turn to page eight. This is the information by segment on the revision of the full-year operating income forecast.

We revised down the forecast for Infrastructure. On the other hand, we revised up the forecast for Electronics & Automotive Systems and Functional Products. I will go over the details when covering the information for each segment.

# Progress of the Emergency Management Responses FURUKAWA ELECTRIC

- The Emergency Response Team is implementing various responses based on the forecast for deteriorating profits caused by COVID-19
  - The execution of additional measures aimed to reducing costs and limiting business expenses is progressing as planned

Annual effect amount



|                                      | Q3 result of effect amount (JPY billion) | Main additional measures  |
|--------------------------------------|--|---|
| ① Reduce cost of manufacturing       | +2.7                                     | <ul style="list-style-type: none"> <li>• Reduce depreciation expenses by revising the capital investment</li> <li>• Reduce costs related to manufacturing</li> </ul>              |
| ② Limit expenses (business division) | +2.4                                     | <ul style="list-style-type: none"> <li>• Limit operating expenses (business trip expenses, entertainment expenses, etc.)</li> <li>• Cancel or postpone internal events</li> </ul> |
| ③ Limit expenses (corporate)         | +1.6                                     | <ul style="list-style-type: none"> <li>• Limit operating expenses (business trip expenses, entertainment expenses, etc.)</li> </ul>   |
| ④ R&D expenses                       | +1.2                                     | <ul style="list-style-type: none"> <li>• Increase efficiency through the use of simulation analysis and online business meetings</li> </ul>                                       |
| <b>Total</b>                         | <b>+7.9</b>                              |   |

Next, this slide describes the progress of the emergency management responses. This is the same information as we have posted before. The cumulative effect up to Q3 has been JPY7.9 billion. As of Q1, we expected an annual impact of JPY9 billion. As of Q3, we increased that estimate to JPY10 billion. Currently, we expect an impact of JPY10.5 billion. At present, we are making steady progress in line with the plan or exceeding the plan.

# Net Sales and Operating Income by Segment

(JPY billion)

|                  | Q3 (First 9Months)                          |              |              | Full-year      |                          |                |              |                                |              |
|------------------|---|--------------|--------------|----------------|--------------------------|----------------|--------------|--------------------------------|--------------|
|                  | FY19 Results                                | FY20 Results | YoY Change   | FY19 Results   | *FY20 Previous Forecasts | FY20 Forecasts | YoY Change   | Change from previous forecasts |              |
| Net Sales        | <b>Infrastructure</b>                       | <b>204.1</b> | <b>185.3</b> | <b>▲ 18.8</b>  | <b>280.9</b>             | <b>255.0</b>   | <b>255.0</b> | <b>▲ 25.9</b>                  | <b>0</b>     |
|                  | Communications Solutions                    | 121.7        | 113.4        | ▲ 8.3          | 166.4                    | 155.0          | 155.0        | ▲ 11.4                         | 0            |
|                  | Energy infrastructure                       | 82.3         | 71.9         | ▲ 10.4         | 114.5                    | 100.0          | 100.0        | ▲ 14.5                         | 0            |
|                  | <b>Electronics &amp; Automotive Systems</b> | <b>378.8</b> | <b>290.1</b> | <b>▲ 88.7</b>  | <b>509.3</b>             | <b>415.0</b>   | <b>440.0</b> | <b>▲ 69.3</b>                  | <b>+25.0</b> |
|                  | Automotive Products & Batteries             | 185.4        | 156.2        | ▲ 29.2         | 257.6                    | 245.0          | 250.0        | ▲ 7.6                          | +5.0         |
|                  | Electronics Component & Materials           | 193.4        | 133.8        | ▲ 59.5         | 251.7                    | 170.0          | 190.0        | ▲ 61.7                         | +20.0        |
|                  | <b>Functional Products</b>                  | <b>87.9</b>  | <b>83.8</b>  | <b>▲ 4.1</b>   | <b>115.9</b>             | <b>105.0</b>   | <b>110.0</b> | <b>▲ 5.9</b>                   | <b>+5.0</b>  |
|                  | <b>Service and Developments, etc.</b>       | <b>38.8</b>  | <b>29.3</b>  | <b>▲ 9.5</b>   | <b>50.3</b>              | <b>45.0</b>    | <b>45.0</b>  | <b>▲ 5.3</b>                   | <b>0</b>     |
|                  | Elimination of intra-company transactions   | ▲ 33.3       | ▲ 25.4       | +7.9           | ▲ 42.0                   | ▲ 40.0         | ▲ 40.0       | +2.0                           | 0            |
|                  | <b>Total</b>                                | <b>676.2</b> | <b>563.0</b> | <b>▲ 113.1</b> | <b>914.4</b>             | <b>780.0</b>   | <b>810.0</b> | <b>▲ 104.4</b>                 | <b>+30.0</b> |
| Operating Income | <b>Infrastructure</b>                       | <b>0.3</b>   | <b>▲ 3.7</b> | <b>▲ 4.0</b>   | <b>1.7</b>               | <b>▲ 1.0</b>   | <b>▲ 3.0</b> | <b>▲ 4.7</b>                   | <b>▲ 2.0</b> |
|                  | Communications Solutions                    | 0.2          | ▲ 1.6        | ▲ 1.8          | 1.6                      | 0.5            | ▲ 0.5        | ▲ 2.1                          | ▲ 1.0        |
|                  | Energy infrastructure                       | 0.1          | ▲ 2.1        | ▲ 2.2          | 0.1                      | ▲ 1.5          | ▲ 2.5        | ▲ 2.6                          | ▲ 1.0        |
|                  | <b>Electronics &amp; Automotive Systems</b> | <b>10.0</b>  | <b>0.6</b>   | <b>▲ 9.4</b>   | <b>14.8</b>              | <b>3.0</b>     | <b>5.5</b>   | <b>▲ 9.3</b>                   | <b>+2.5</b>  |
|                  | Automotive Products & Batteries             | 7.4          | 0.4          | ▲ 7.0          | 10.9                     | 3.0            | 5.0          | ▲ 5.9                          | +2.0         |
|                  | Electronics Component & Materials           | 2.6          | 0.2          | ▲ 2.4          | 3.9                      | 0.0            | 0.5          | ▲ 3.4                          | +0.5         |
|                  | <b>Functional Products</b>                  | <b>5.4</b>   | <b>3.7</b>   | <b>▲ 1.7</b>   | <b>7.5</b>               | <b>5.0</b>     | <b>5.5</b>   | <b>▲ 2.0</b>                   | <b>+0.5</b>  |
|                  | <b>Service and Developments, etc.</b>       | <b>▲ 0.3</b> | <b>▲ 1.4</b> | <b>▲ 1.2</b>   | <b>▲ 0.3</b>             | <b>▲ 2.0</b>   | <b>▲ 2.0</b> | <b>▲ 1.7</b>                   | <b>0</b>     |
|                  | Elimination of intra-company transactions   | ▲ 0.1        | 0.1          | +0.2           | ▲ 0.1                    | 0.0            | 0.0          | +0.1                           | 0            |
|                  | <b>Total</b>                                | <b>15.3</b>  | <b>▲ 0.7</b> | <b>▲ 16.0</b>  | <b>23.6</b>              | <b>5.0</b>     | <b>6.0</b>   | <b>▲ 17.6</b>                  | <b>+1.0</b>  |

\*Announced on November 5, 2020

Next, on page 11, we show the breakdown of net sales and operating income by segment. I will go over the details for each business on the following pages.

## 1-(1) Infrastructure (Communications Solutions)



### ■ Results through Q3 Net sales (yoy) JPY ▲8.3 bil.

- Increased revenue from optical fiber and cable products when excluding the impact of foreign exchange (mainly Brazilian real depreciation)
- Decreased revenue from network products in Japan and industrial lasers due to COVID-19

### Operating income (yoy) JPY ▲1.8 bil.

- (+) Firm optical fiber and cable demand in North America
- (+) Increased supply capacity of digital coherent products
- (-) Competition in the optical fiber and cable business continued to be severe
- (-) Decreased revenue from network products in Japan, industrial lasers and specialty fibers for medical and industrial due to depressed customer capital investments caused by COVID-19
- (-) Increased depreciation expenses
- (-) FTTH solution business in South America is performing well. Increased revenue on the local currency basis, but lower profit due to the impact of foreign exchange

### ■ FY20 forecast Net sales (vs. previous forecast) No change Operating income (vs. previous forecast) JPY ▲1.0 bil.

- (-) Decrease revenue from specialty fibers
- (-) Network products in Japan will be affected by project delays
- (-) Decrease demand in devices for amplifiers by new construction slowdown due to COVID-19

\* Digital coherent products, and the FTTH solutions business in South America continue to be performing well

Please turn to page 13. This is the status of the Communications Solutions segment.

For the cumulative period up to Q3, net sales were down JPY8.3 billion YoY. Operating income was down JPY1.8 billion. To give an overall picture of net sales, if we look at the foreign exchange impact on fiber cables, the impact of the weaker BRL was slightly over JPY8 billion, as I stated earlier. If this impact were excluded, then in actual terms, net sales increased.

In addition, there was an impact from delayed domestic construction and restraints on capital investment due to COVID-19. As a result, domestic network-related products and industrial lasers continue to be sluggish.

As for operating income, demand for optical fiber cables in North America is strong and is returning to the same level as last year. Digital coherent-related products are also growing. However, the situation is tough for fiber optic cables, especially in Asia, due to the price declines. While domestic networks and industrial lasers are as explained for net sales, special fibers mainly for non-communication applications such as medical and industrial applications have also seen a drop in demand due to the impact of COVID-19, and the negative impact of this is starting to appear from 3Q.

Another factor is the increase in depreciation costs. As I explained on the page with the waterfall chart, there was an impact from the weaker BRL.

For the full-year, we have made a downward revision of JPY1 billion to operating income. We have included three factors here, and the impact of them is about one-third each. At the bottom, it says, "decrease demand in devices for amplifiers by new construction slowdown due to COVID-19." This is referring to the construction work for communication system facilities in North America. Due to the stagnation caused by COVID-19, there has been a slight impact showing up in the stoppage in amplifier demand.

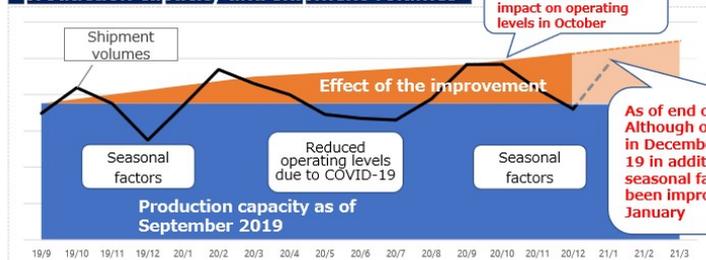
Net Sales and Operating Income of Each Segment

## 1 -(1) Infrastructure (Communications Solutions)

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- Optical fiber and cable demand in North America continues to be strong, and our shipment volumes have increased  
(Total through FY2020 Q3: Optical fiber shipment volumes to North America: approximately +15% compared to last year)
- Although optical cable production in North America was affected by COVID-19 in addition to the seasonal factors in November and December, production has been improving since January. Continued efforts will be made to increase production and lower costs
- Operations started in January 2021 at the new FTTH solutions plant in South America

Changes in North America optical cable production capacity and shipment volumes



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Next, please turn to page 14. This is the supplementary information for Communications Solutions.

This is the trend for production capacity and shipment volume of North American optical fiber cable that we have been showing from before. There was an impact from the holiday season from the latter half of November to December and some impact from COVID-19, but results have already come out for January. The January results have returned to the October level.

We plan to make further improvements to this level after February. Please be aware that progress is being made in line with the plan at Q2.

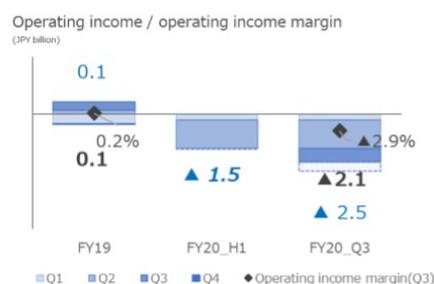
An additional topic is the start of operations at the new plant for FTTH solution products in South America from this January. This plant is operated by Furukawa Electric LatAm, which is based in Brazil. We plan to leverage these products to differentiate our offerings and expand sales in the next fiscal year.

## 1-(2) Infrastructure (Energy Infrastructure)



■ Results through Q3 Net sales (yoy) JPY ▲10.4 bil.  
Operating income (yoy) JPY ▲2.2 bil.

- (+) Steady progress continues to be made in relation to renewable energy in Japan and underground cable projects in Japan and overseas
- (-) Due to the impact of COVID-19, decreased revenue from products for the construction and electric appliance market in Japan and railroad market, as well as deferred sales due to construction project delays at the subsidiary in China
- (-) Higher one-time evaluation expenses following the adoption of new materials



■ FY20 forecast Net sales (vs. previous forecast) No change  
Operating income (vs. previous forecast) JPY ▲1.0 bil.

- (-) Recovery from the impact of COVID-19 in the construction and electric appliance market in Japan and railroad market will be slower than expected
- (-) Construction project delays caused by COVID-19 at the subsidiary in China

\* Although the renewable energy projects in Japan and the underground cable projects in Japan and overseas have progressed fairly smoothly, some projects have been delayed due to the impact of COVID-19

Blue : Full year Net Sales, Operating Income  
Black : First 9 months Net Sales, Operating Income

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Next, please see page 15. This is the Energy Infrastructure Business.

Net sales fell by JPY10.4 billion YoY, while operating income decreased by JPY2.2 billion YoY. Net sales have increased YoY for domestic renewable energy-related projects and underground cable projects in Japan and overseas. This has also resulted in an increase in income.

On the other hand, there have been significant negative impacts from industrial cables caused by harsh conditions in domestic construction, electric appliance, and railroad markets and from Chinese electric power cables due to construction delays in China caused by COVID-19.

As for operating income, progress has been steady for power cables and domestic-related projects, as with sales. On the other hand, due to the impact of reduced sales, income declines for industrial cables and power cables in China.

As I have been stating since the first quarter, there has been an increase in temporary expenses subsequent to the adoption of new materials, which is a special factor for the current period. These expenses have been a negative factor.

For the full year, we revised down the forecast by JPY1 billion, given income decline factors for the cumulative 3Q period that has grown more protracted than anticipated.

Net Sales and Operating Income of Each Segment  
**2-(1) Electronics & Automotive Systems  
 (Automotive Products & Batteries)**

Net sales (JPY billion)  
 \*Difference of the fiscal year-end of overseas subsidiaries resulted in a transfer of about JPY 10 billion to the quarterly consolidated elimination of sales. (Q3: too low, Q4: too high)



Operating income / operating income margin (JPY billion)



Blue : Full year Net Sales, Operating Income  
 Black : First 9 months Net Sales, Operating Income

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■ **Results through Q3** Net sales (yoy) JPY ▲29.2 bil.  
 Operating income (yoy) JPY ▲7.0 bil.

- (-) Impact of COVID-19 resulted in the temporary suspension of operations and lower operating levels after reopening at overseas subsidiaries, as well as increased transportation expenses and alternative production expenses. Increased transportation costs due to higher container shipping costs and typhoons continued from Q3
- (-) Increased facility depreciation expenses on the investments for the accepted orders
- (+) In the batteries business, improved productivity at the overseas subsidiary and recovering automotive battery demand in Japan

\* Recovery in automotive products market from Q3

■ **FY20 forecast** Net sales (vs. previous forecast) JPY +5.0 bil.  
 Operating income (vs. previous forecast) JPY +2.0 bil.

- (+) Automotive products market will recover beyond the forecast announced at the end of H1

\* limited impact despite ongoing concerns about the lower automobile production due to a shortage of semiconductor chips, and higher container shipping costs

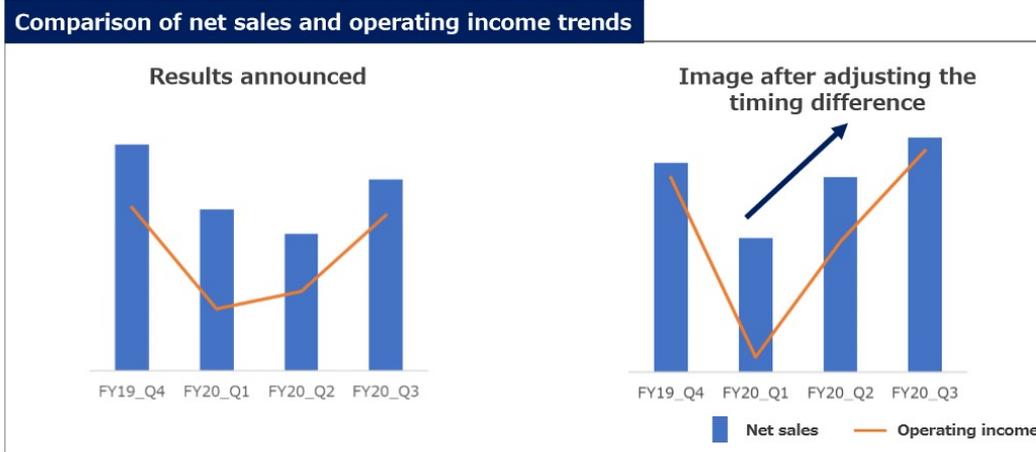
Next, please see page 17. This is the Automotive Products & Batteries Business.

Due to the very large impact from COVID-19 up until 2Q, the business saw a sharp sales decline for cumulative 3Q, but it has posted a significant improvement since 3Q. In 4Q, the Business is showing a stronger-than-anticipated recovery. For the full year, we revised up the forecast for net sales by JPY5 billion and for operating income by JPY2 billion.

Meanwhile, semiconductor shortages have led to production cuts, and container freight charges have surged. Although these factors present some concern, we think the impact on the current fiscal year will be limited.

■ **When the timing difference in reporting at overseas subsidiaries is adjusted, the business is recovering after bottoming in FY2020 Q1**

(In the automotive products & batteries segment, most of overseas subsidiaries have adopted a fiscal year ended December 31, so in relation to the reporting timing, the recovery appears to be delayed)



Next, please turn to page 18. This is the supplementary information for the Automotive Products & Batteries Business.

We received a lot of inquiries pointing out that it is difficult to understand the recovery status since 2Q, because of the impact of the delayed reporting timing of many overseas subsidiaries in the Automotive Products & Batteries Business that have adopted a fiscal year ending December. We created an image of results adjusted for this delay in reporting timing, so I would like you to take a look.

The graph on the left side shows the figures on a disclosure basis. If you look at this, the figures don't appear that large for improvements since the second quarter, but if you look at the graph adjusted for the reporting timing on the right side, you can see that the improvement has rapidly accelerated since 2Q. You can confirm that business performance is rebounding.

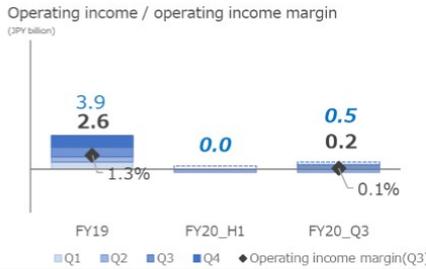
Net Sales and Operating Income of Each Segment  
**2-(1) Electronics & Automotive Systems**  
**(Electronics Component Materials)**



■ **Results through Q3** **Net sales (yoy)** **JPY ▲59.5 bil.**  
**Operating income (yoy)** **JPY ▲2.4 bil.**

- (-) Decreased revenue primarily in relation to automotive and construction demand caused by COVID-19
- (-) Impact of the business reorganization : Transfer of the copper tube and heavy magnet wire businesses

\* Recovery primarily in products for automotive applications and electronics from Q3



■ **FY20 forecast** **Net sales (vs. previous forecast)** **JPY +20.0 bil.**  
**Operating income (vs. previous forecast)** **JPY +0.5 bil.**

- (+) Recovering demand primarily for products for automotive applications and electronics

Blue : Full year Net Sales, Operating Income  
 Black : First 9 months Net Sales, Operating Income

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Next, please see page 19. This is the Electronics Component Materials Business.

In cumulative Q3, net sales were down JPY59.5 billion YoY and operating income was down JPY2.4 billion YoY. Regarding net sales, automobile-related demand and construction and electric appliance-related demand fell sharply due to the impact of COVID-19. In particular, sales dropped sharply until 2Q and this impacted negatively.

Out of the results for net sales, there was a negative impact of JPY22.7 billion due to the exclusion of Copper Tubes and Heavy Magnet Wire from the scope of consolidation. This also had a negative impact of JPY0.7 billion on operating income. However, automotive and electronics-related demand has mainly been recovering since Q3. If you look at Q3 alone, the operating line has returned to the black.

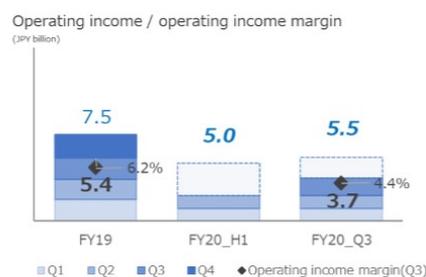
For the full year, we revised up our forecast for net sales by JPY20 billion and for operating income by JPY0.5 billion assuming that this trend will continue from 3Q onward.

### 3 Functional Products



■ **Results through Q3** **Net sales (yoy)** **JPY ▲4.1 bil.**  
**Operating income (yoy)** **JPY ▲1.7 bil.**

- (+) Robust demand for data center products, which started a full-scale recovery from FY2019 Q4
- (-) In the functional plastic product business, delays to civilian construction projects in Japan caused by COVID-19
- (-) Decreased revenue from tape for semiconductor process due to weak smartphone demand and customer inventory adjustments in H1
- (-) Decreased demand for copper foil for automotive batteries
- \* Recovery in demand for copper foil for automotive batteries from Q3



■ **FY20 forecast** **Net sales (vs. previous forecast)** **JPY +5.0 bil.**  
**Operating income (vs. previous forecast)** **JPY +0.5 bil.**

- (+) Recovery in specialty wire for automotive and electronics applications
- (+) Data center demand will be firm

Blue : Full year Net Sales, Operating Income  
 Black : First 9 months Net Sales, Operating Income

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Please turn to page 20. This is the Functional Products segment.

This is the cumulative result up to Q3. Net sales were down JPY4.1 billion YoY, while operating profit was down JPY1.7 billion YoY. There has been a full-fledged recovery related to data centers since the fourth quarter of FY19. Demand continued to remain robust over the fiscal year. Both sales and income have exceeded the year-earlier level.

On the other hand, functional plastic products have been impacted by delays in domestic private works due to COVID-19. Sales declined for semiconductor manufacturing tapes due to the impact of sluggish demand for smartphones in the first half and customer inventory adjustments. Also, demand for copper foil used in automotive batteries has declined. However, as is the case for other segments, the demand for copper foil used in batteries has been recovering since Q3.

For the full year, we revise up the forecast for net sales by JPY5 billion and for operating income by JPY0.5 billion. The positive factors include the continuation of the situation explained earlier. In addition, we expect a positive impact from the recovery in special wires related to automobiles and electronics and ongoing robust demand related to data centers.

## FY2020 Q3 Results – B/S Summary

|  | (JPY billion) |              |              |
|--|---------------|--------------|--------------|
|  | End of 19Q4   | End of 20Q3  | Change       |
|  | a             | b            | b-a          |
| <b>Current assets</b>                                | <b>386.2</b>  | <b>407.0</b> | <b>+20.8</b> |
| Cash and bank deposits                               | 54.4          | 76.3         | +21.9        |
| Notes and accounts receivable trade                  | 192.5         | 178.2        | ▲ 14.3       |
| Inventories  | 115.9         | 120.5        | +4.7         |
| <b>Non-current assets</b>                            | <b>408.4</b>  | <b>402.6</b> | <b>▲ 5.8</b> |
| Tangible fixed assets                                | 254.2         | 243.8        | ▲ 10.4       |
| Intangible fixed assets                              | 16.1          | 19.4         | +3.3         |
| Investments and other assets                         | 138.1         | 139.4        | +1.3         |
| <b>Total Assets</b>                                  | <b>794.6</b>  | <b>809.6</b> | <b>+15.0</b> |
| <b>Current liabilities</b>                           | <b>319.6</b>  | <b>333.0</b> | <b>+13.3</b> |
| <b>Non-current liabilities</b>                       | <b>201.9</b>  | <b>207.7</b> | <b>+5.8</b>  |
| <b>Total Liabilities</b>                             | <b>521.6</b>  | <b>540.7</b> | <b>+19.1</b> |
| Shareholders' equity                                 | 256.7         | 250.8        | ▲ 5.9        |
| Accumulated other comprehensive income               | ▲ 16.4        | ▲ 12.2       | +4.2         |
| Net income attributable to non-controlling interests | 32.8          | 30.3         | ▲ 2.5        |
| <b>Total Net assets</b>                              | <b>273.0</b>  | <b>268.9</b> | <b>▲ 4.1</b> |
| <b>Total Liabilities and Net assets</b>              | <b>794.6</b>  | <b>809.6</b> | <b>+15.0</b> |
| Interest-bearing liabilities                         | 251.1         | 289.0        | +37.9        |
| Capital ratio  | 30.2%         | 29.5%        | ▲ 0.7        |
| NET D/E ratio  | 0.8           | 0.9          | +0.1         |

**Cash and deposits**  
Increased by JPY 21.9 billion  
Increased the liquidity of cash on hand

**Inventories**  
Increased by JPY 4.7 billion  
Construction and other projects that are expected to be recorded as net sales in the future  
Secure appropriate inventory levels following the recovery in automotive product demand  
(Compared to end of 19Q3: JPY ▲11.9 billion)  
Impact of the business transfer  
JPY▲6.9 billion

**Tangible / intangible non-current assets**  
Decreased by JPY 7.1 billion  
Impact of increased/decreased CAPEX  
JPY +4.2 billion  
Impact of the business transfer  
JPY ▲8.1 billion  
Impact of foreign exchange  
JPY ▲3.4 billion

**NET interest-bearing debt**  
Increased by JPY 16.0 billion  
(JPY 196.7 billion → JPY 212.7 billion)

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Next, please see page 21 for the balance sheet.

Net assets increased by JPY15 billion compared to the end of the previous fiscal year. This breaks down as an increase in cash and deposits of slightly more than JPY20 billion from the standpoint of securing liquidity on hand. We have also increased inventories to make sure we have the sufficient level of inventories ahead of the Chinese New Year and in view of products related to projects expected in the future and the recovery in automotive demand. However, we plan to reduce inventories in 4Q.

Non-current assets have decreased. This is reflective of progress made in capital investments being more than offset by the impact of transferring the Copper Tubes and Heavy Magnet Wire Businesses.

Although we haven't written this here, net assets include accumulated other comprehensive income, which increased by JPY4.2 billion due to a recovery in securities valuation owing to higher share prices.

Please also look at the NET D/E ratio at the very bottom. NET interest-bearing debt increased by JPY16 billion. We are currently in a sales recovery phase. Thus, please be aware that this JPY16 billion is partly due to the increase in working capital.

## FY2020 Q3 Results

### -CAPEX, Depreciation & amortization and R&D expenses

(JPY billion)

|                                  | FY19<br>Q3<br>Results | FY20<br>Q3<br>Results | YoY<br>change | FY20<br>Forecasts |
|----------------------------------|-----------------------|-----------------------|---------------|-------------------|
|                                  | a                     | b                     | b-a           |                   |
| CAPEX                            | 37.1                  | 28.2                  | ▲ 8.9         | 47.0              |
| Depreciation and<br>amortization | 21.7                  | 24.0                  | + 2.3         | 32.5              |
| R&D expenses                     | 16.5                  | 15.5                  | ▲ 1.0         | 20.5              |

\* No change to FY2020 full-year forecast

\* Further limit CAPEX by reducing costs and assessing the demand trends and operating status when making investments

On page 22 is our annual forecast for capital investment, depreciation, and R&D expenses.

We have not made any changes regarding our forecast. However, regarding capital investment, we are proceeding with cost reduction at the implementation stage and re-examining the investment while observing demand trends and operating conditions. In reality, we are proceeding to keep capital investment at a level lower than the figure of JPY47 billion.

■ **Become a “powerful company” by definitely strengthening the backbone of the company and planning the 2025 Mid-Term Management Plan**

- Expect increased operating income in all segments in FY2021



|                                  |                                 | Assumption  |
|----------------------------------|---------------------------------|---|
| Infrastructure                   | Communications Solutions        | <ul style="list-style-type: none"> <li>• Increased cost competitiveness in optical fiber and cable</li> <li>• Capture the rural digitalization investments in North America and data center demand</li> <li>• Recovery in the industrial laser market</li> </ul>  |
|                                  | Energy Infrastructure           | <ul style="list-style-type: none"> <li>• Capture underground cable demand in Japan and submarine cable projects including for renewable energy projects</li> <li>• In the industrial cable business, although there are concerns the market will continue to deteriorate, focus on expanding sales of functional power cable (aluminum CV cable)</li> </ul> |
| Electronics & Automotive Systems | Automotive Products & Batteries | <ul style="list-style-type: none"> <li>• Market will recover to the pre-COVID-19 level</li> <li>• Gradually start mass production of wire harnesses for new vehicle models (percentage of shift to aluminum will be improved)</li> <li>• Concerns about the impact of lower automobile production due to a shortage of semiconductor chips</li> </ul>       |
|                                  | Electronics Component Materials | <ul style="list-style-type: none"> <li>• Capture demand in line with recovery in automotive and electronics markets</li> <li>• Expand sales of high value-added products</li> </ul>   |
| Functional Products              |                                 | <ul style="list-style-type: none"> <li>• Capture the strong demand in the 5G / data center market and mobile terminal market</li> <li>• Concerns about trade friction between Japan / South Korea and US / China</li> </ul>   |

The last page is directed at FY2021.

In FY2021, we are aiming to strengthen our business structure and prepare for the medium-term plan from FY2022 to FY2025. We will definitely implement them to become a “powerful company.” As for the priority measures for FY2021, we will proceed with management that emphasizes capital efficiency even more by promoting the generation of cash flow, construction of a business foundation, and creation of new businesses.

Regarding the situation by segment, we anticipate an increase in operating income in all segments in FY2021.

As for the premise for each segment, in Communication Solutions, we will continue to strengthen the cost competitiveness of optical fiber cables. Furthermore, we will firmly capture demand related to regional digitalization investment and data center market in North America. In addition, the market for industrial lasers will recover. We also expect demand related to broadband will recover. We aim to improve the Communication Solutions Business by providing products to meet this market demand.

In the Energy Infrastructure Business, demand for underground cable in Japan and submarine cable including for renewable energy projects remains strong. We will steadily capture such projects. We are also making progress in investments and activities to improve productivity. By doing so, we will continue activities to increase sales, improve production efficiency, and increase profits.

Regarding industrial cables, it is difficult to expect improvement in market conditions. On the other hand, our aluminum CV cables are starting to gain traction. The number of cases where we receive feedback from customers or receive orders is increasing considerably. By replacing the CV cable used in copper with aluminum, we will steadily increase our market share and increase volume to turn the business profitable.

Regarding the Automotive Products & Batteries Business, sales will recover to the pre-COVID-19 level in the next fiscal year. The new models of wire harnesses will be launched sequentially from this March, and we will improve the ratio of aluminum. On the other hand, there are concerns about the impact of reduced automobile production due to semiconductors shortages. I will continue to pay close attention to this.

Regarding the Electronics Component Materials Business, the basic part is to firmly capture the demand arising from the recovery in the automobile and electronics markets. In addition, we will continue our basic policy of expanding sales of high value-added products.

Regarding the Functional Products segment, demand for 5G, data centers, and mobile devices is extremely strong. We will firmly capture this demand. Although there are concerns about trade friction, we will continue to improve operating income from the next fiscal year onward by steadily responding to the growing market.

This concludes my presentation.