Furukawa Electric Co., Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024

August 3, 2023

[Number of Speakers]	1	
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Today's Agenda

FY2023 Q1 Financial Results and FY2023 Forecasts

- FY2023 Q1 Financial Results Highlights
- FY2023 Q1 Results – P/L Summary
- FY2023 Q1 Results – Breakdown of Changes in Net Sales
- FY2023 Q1 Results – Breakdown of Changes in Operating Income
- FY2023 Q1 Results – Net Sales and Operating Income by Segment
- FY2023 Full-year Forecasts
- Net Sales and Operating Income by Segment
- FY2023 Q1 Results – B/S Summary
- CAPEX, Depreciation & Amortization and R&D Expenses

Appendix

Fukunaga: My name is Fukunaga. Thank you for your cooperation today. I will now explain the status of the financial results for Q1 FY2023.

FY2023 Q1 Financial Results Highlights

FURUKAWA ELECTRIC GROUP

■ **Profit decreased on lower revenue compared to the same period last year due to weaker demand of Communications Solutions in the Americas and global electronics demand**

(JPY billion, JPY/kg, JPY/USD)	*FY22_Q1 Results	FY23_Q1 Results	YoY change	
	a	b	b-a	
Net Sales	260.3	246.4	(13.9)	**Although automotive business is recovering, inventory cutbacks and lower demand for Communication Solutions in the Americas and Functional Products such as tapes for semiconductor manufacturing and aluminum blanks for HDD** 【Higher revenue】Electronics & Automotive Systems (Automotive Products & Batteries) 【Lower revenue】Infrastructure, Functional Products
Operating income	1.1	(2.8)	(3.8)	**Lower net sales** 【Increased profit】Electronics & Automotive Systems (Automotive Products & Batteries) 【Decreased profit】Infrastructure, Functional Products
Ordinary income	7.7	(1.8)	(9.5)	**Lower investment gain in equity method affiliates, lower foreign currency exchange gain and increased interest expenses**
Net income attributable to owners of the parent	5.3	(1.7)	(7.0)	**Operating income and ordinary income declined**
Average copper price	1,286	1,219	(67)	
Average exchange rate	130	137	+8	

*Restated only the FY2022 financial results following the start of voluntary application of the International Financial Reporting Standards (IFRS) at the equity method affiliate UACJ Corporation (Refer to the Appendix for details)

Please see your handout, page five. These are the key points of the FY2023 Q1 financial results.

Profit decreased on lower revenue compared to the same period last year due to weaker demand of Communications Solutions in the Americas and global electronics demand.

In the middle of the table on the left, in blue, are the results for Q1 of the current fiscal year. Net sales were JPY246.4 billion, operating income was minus JPY2.8 billion, ordinary income was minus JPY1.8 billion, and net income attributable to owners of the parent was minus JPY1.7 billion.

Sales were affected by inventory cutbacks and lower demand for Communications Solutions in the Americas and functional products, although automotive business is recovering. Operating income was also negative due to the significant impact of lower net sales.

As for ordinary income, investment gain in equity method decreased. The majority of the negatives here are from UACJ Corporation. Foreign currency exchange gains are, on the profit side, decreased due to moderate depreciation of the yen compared to last year's sharp depreciation of the yen. Interest expenses were negative due to a sharp increase in foreign currency denominated holdings in particular.

Although there are increase in extraordinary income and a decrease in taxes, net income attributable to shareholders of the parent was almost the same as ordinary income.

FY2023 Q1 Results – P/L Summary

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■Full-year forecasts remain unchanged

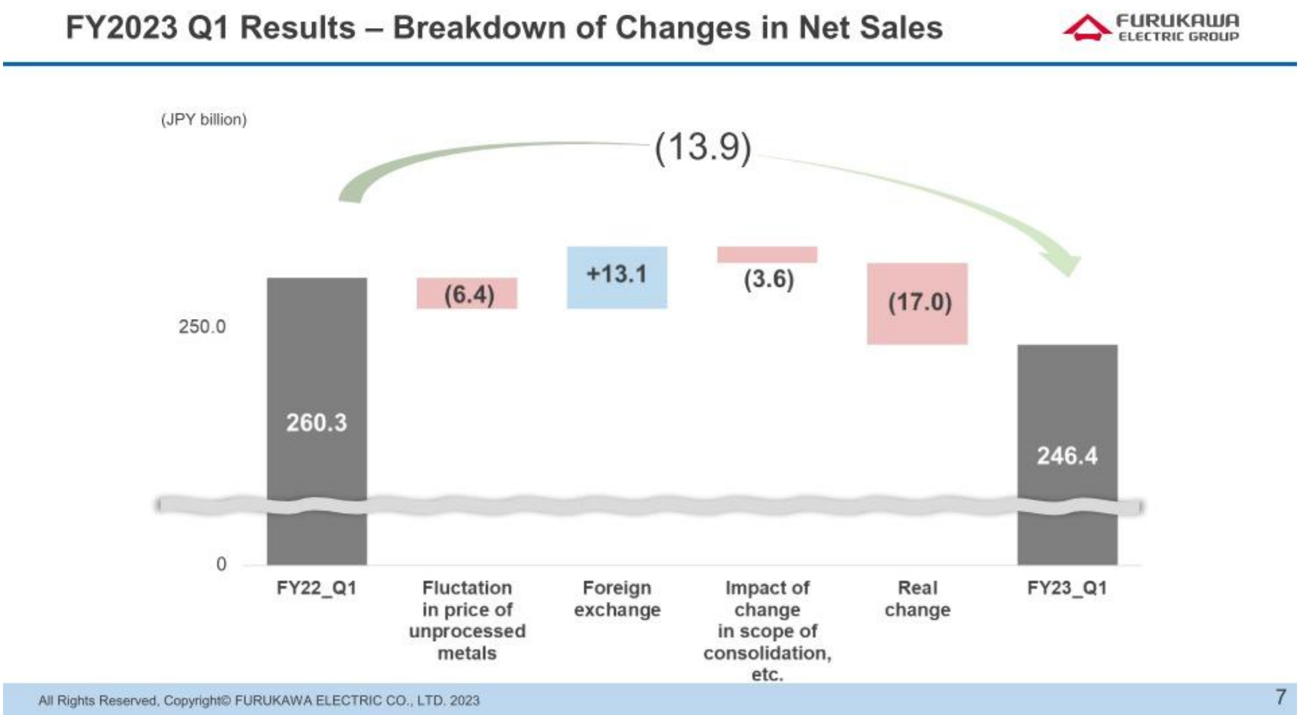
《Announced on May 11, 2023》

(JPY billion, JPY/kg, JPY/USD)	*FY22 Q1	FY23 Q1	YonY change	Breakdown of change (Q1)	FY22 Results	FY23 Forecasts	YonY change
	a	b	b-a				
Net sales	**260.3**	**246.4**	**(13.9)**	See page 7	**1,066.3**	**1,100.0**	**+33.7**
Operating income	**1.1**	**(2.8)**	**(3.8)**	See page 8	**15.4**	**24.0**	**+8.6**
(Margin)	0.4%	(1.1%)	(1.5)		1.4%	2.2%	+0.7
Profit/loss in equity method affiliates	3.7	1.0	(2.6)		3.6	-	-
Foreign exchange gain/loss	3.0	1.2	(1.8)		1.7	-	-
Ordinary income	**7.7**	**(1.8)**	**(9.5)**		**17.3**	**23.0**	**+5.7**
(Margin)	3.0%	(0.7%)	(3.7)		1.6%	2.1%	+0.5
Extraordinary income/loss	0.4	2.6	+2.2	・Extraordinary income +3.9 [0.9 → 4.8]	10.7	(0.5)	(11.2)
Income taxes	(2.9)	(2.4)	+0.5	・Extraordinary loss	(10.3)	-	-
Net income attributable to non-controlling interests	0.0	(0.1)	(0.1)	(1.7) [(0.5) → (2.2)]	(1.7)	-	-
Net income attributable to owners of parent	**5.3**	**(1.7)**	**(7.0)**		**15.9**	**13.0**	**(2.9)**
(Margin)	2.0%	(0.7%)	(2.7)		1.5%	1.2%	(0.3)
Average copper price	1,286	1,219	(67)		1,209	1,180	(29)
Average exhange rate	130	137	+8		135	130	(5)

*Restated only the FY2022 financial results following the start of voluntary application of the International Financial Reporting Standards (IFRS) at the equity method affiliate UACJ Corporation (Refer to the Appendix for details)

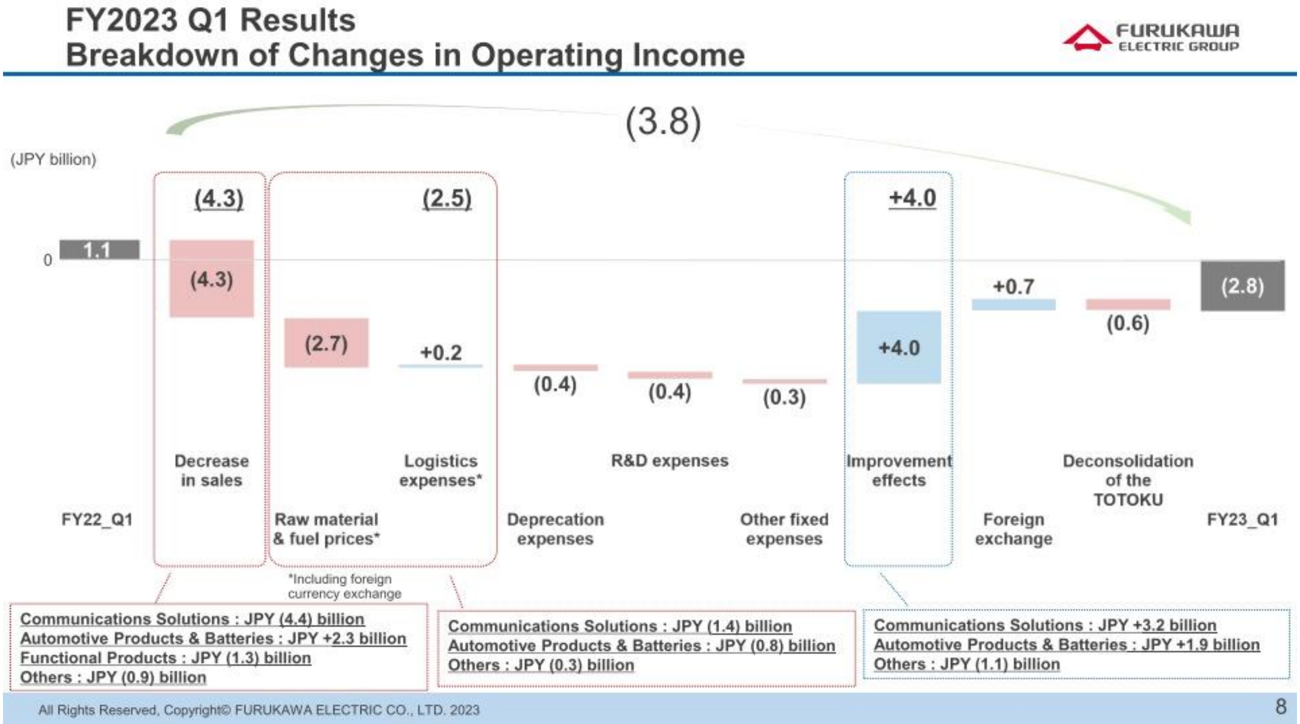
Please see page six. Full year forecasts remain unchanged. This information will be explained later on a separate page.

Sales and operating income will also be explained in the waterfall chart on the next page.



Now, please see page seven. This is a waterfall analysis of fluctuations in sales in the Q1 results of FY2023.

Sales decreased by JPY13.9 billion from the same period last year. The value of unprocessed metals was down JPY6.4 billion due to a drop in copper prices. Meanwhile, the yen's depreciation in the foreign exchange market led to a JPY13.1 billion increase in net sales. The change in the scope of consolidation is due to the exclusion of TOTOKU from consolidation. The real change was minus JPY17.0 billion, resulting in sales of JPY246.4 billion.



Please see page eight. This shows the factors behind fluctuations in operating income.

The negative JPY4.3 billion impact is largely due to the sales decline I mentioned on the previous page. The increase in raw materials and fuel prices also caused a negative of JPY2.7 billion compared to the previous fiscal year. Logistics costs, such as container transportation, have settled down. With the decline in unit prices, we have returned to a near-neutral situation. The total here is minus JPY2.5 billion.

On the other hand, improvement effects, including price optimization and productivity improvement, amounted to a plus of JPY4.0 billion. Although we were able to cover the increase in raw materials and fuel prices, we were not able to fully compensate for the decrease in sales, resulting in an overall minus JPY3.8 billion from the previous fiscal year.

FY2023 Q1 Results
Net Sales and Operating Income by Segment

■Full-year forecasts remain unchanged

《Announced on May 11, 2023》

(JPY billion)	Net sales			Operating income			Net sales			Operating income		
	FY22_Q1 Results a	FY23_Q1 Results b	YoY change b-a	FY22_Q1 Results c	FY23_Q1 Results d	YoY change d-c	FY22 Results	FY23 Forecasts	YoY change	FY22 Results	FY23 Forecasts	YoY change
Infrastructure	**77.0**	**68.7**	**(8.3)**	**0.4**	**(3.2)**	**(3.6)**	**323.9**	**335.0**	**+11.1**	**8.6**	**10.0**	**+1.4**
Communications Solutions	53.9	46.8	(7.1)	0.8	(1.7)	(2.5)	217.6	220.0	+2.4	6.5	8.0	+1.5
Energy Infrastructure	23.1	21.9	(1.2)	(0.3)	(1.5)	(1.1)	106.3	115.0	+8.7	2.1	2.0	(0.1)
Electronics & Automotive Systems	**147.7**	**149.7**	**+2.0**	**(1.3)**	**0.2**	**+1.5**	**610.3**	**645.0**	**+34.7**	**4.7**	**12.5**	**+7.8**
Automotive Products & Batteries	78.6	88.2	+9.6	(2.6)	0.1	+2.6	337.4	375.0	+37.6	1.5	8.5	+7.0
Electronics Component Materials	69.1	61.5	(7.6)	1.3	0.1	(1.1)	273.0	270.0	(3.0)	3.2	4.0	+0.8
Functional Products	**34.7**	**27.5**	**(7.2)**	**2.2**	**0.7**	**(1.5)**	**126.5**	**125.0**	**(1.5)**	**4.2**	**4.0**	**(0.2)**
Service & Developments, etc.	**8.0**	**6.5**	**(1.6)**	**(0.2)**	**(0.6)**	**(0.4)**	**31.7**	**30.0**	**(1.7)**	**(2.1)**	**(2.5)**	**(0.4)**
Elimination of intra-company transactions	(7.1)	(5.9)	+1.2	(0.1)	0.1	+0.1	(26.1)	(35.0)	(8.9)	0.1	0.0	(0.1)
Total	**260.3**	**246.4**	**(13.9)**	**1.1**	**(2.8)**	**(3.8)**	**1,066.3**	**1,100.0**	**+33.7**	**15.4**	**24.0**	**+8.6**

Page nine shows the Q1 results by segment and the forecast for the full year.

The forecast remains unchanged from that announced on May 11.

Segment results will be explained on subsequent pages.

FY2023 Full-year Forecasts

- Although the Communications Solutions business is expected to underachieve, efforts will be made to cover this downturn through the Functional Products and Automotive Products & Batteries businesses that have started to recover
- Currently, the full-year forecasts remain unchanged

FY23 Operating income

JPY billion

Segments	Sub-segments	*FY23 Forecasts	Progress and Projection of operating income: Q1	Q2	H2
Infrastructure	Communications Solutions	8.0	(1.7)	Same level as Q1	Scrutinizing
	Energy Infrastructure	2.0	(1.5)	Same level as Q1	Recovery from Q3
Electronics & Automotive Systems	Automotive Products & Batteries	8.5	0.1	Improvement	Further improvement
	Electronics Component Materials	4.0	0.1	Same level as Q1	Recovery from Q3
Functional Products		4.0	0.7	Same level as Q1	Recovery from Q3

*Announced on May 11, 2023

Next, on page 10, is a look at the full-year forecasts with a fuller sense of the projection.

We expect the situation for Communications Solutions to remain very severe this fiscal year due to the current deterioration and downturn in business performance. On the other hand, the Automotive Products & Batteries, and Functional Products businesses are beginning to show signs of recovery, or are showing a pronounced upward trend, so we have left our full-year forecasts unchanged at this time as the Automotive Products & Batteries and Functional Products businesses are expected to offset the negative impact of the Communications Solutions business.

We have already shown you the results of Q1, but we expect that infrastructure-related conditions will continue to be difficult in Q2.

In the Electronics & Automotive Systems field, we expect a considerable improvement in Automotive Products & Batteries through Q2. Since improvement in Electronics Component Materials is expected to start in Q3, we expect sales in Q2 to be on a par with Q1.

In Functional Products, we expect Q2 to be on par with Q1, but we also expect a recovery from Q3. We expect further improvement in Automotive Products & Batteries in H2.

On the other hand, in the area of Communications Solutions, the market recovery is taking longer than expected. Although the recovery will begin in January 2024 at the earliest, we would like to ascertain the recovery conditions, so I would like to release how the recovery will affect each individual segment when we disclose the Q2 financial results.

1-(1) Infrastructure (Communications Solutions)

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FY23_Q1 **Decrease in sales and income**

(JPY billion)

	FY22_Q1	FY23_Q1	YoY change
	a	b	b-a
Net sales	53.9	46.8	(7.1)
Operating income	0.8	(1.7)	(2.5)

【Factors affecting profits】

(-) Decreased revenue due to customer inventory adjustments and project delays in North America

(-) Decreased revenue due to limited investments by telecommunications companies in Brazil

(-) Higher raw material & fuel prices

(+) Improvement effects

*Price optimization, Improved productivity, Increased sales of high value-added products

Situation

Optical fiber & cable products and optical devices

FY23_Q1-

Rapidly falling demand in the Americas

Excessive customer inventories
Project delays
Limited customer investments

Scrutinizing

Future response

- Enhance the lineup of high value-added products, and expand the range of customers
- Decreased fixed expenses
- Allocate personnel in accordance with operating levels
- Establish an immediate response system for when demand recovers
- Optimize inventory levels and sales prices

Please see page 11. This is the status of Communications Solutions business.

As I have already partly explained, the increase in raw materials and fuel prices has been covered by the effects of our improvement measures. Although the effects of our improvement measures surpassed that, the impact of the decline in sales in North America and Brazil was so large that it could not be fully offset, resulting in an operating loss of JPY1.7 billion, a JPY2.5 billion decrease from the previous fiscal year.

As for our understanding of the situation, demand from the US and North, Central and South America has been rapidly declining from this quarter. With regard to North America, customers are holding off and restraining their investments due to inflationary conditions. It means construction delays due to lack of human resources. In addition, there has been a delay in resolving customers' backlogged inventories, and these factors have resulted in a considerable slowdown in the market.

We will be closely watching the timing of this recovery going forward. Although the market is sure to grow in the long term, the key point is when it will recover.

As for future measures, we will continue to enhance the lineup of high value-added products and expand the range of customers. However, given the current very difficult situation, we will continue to reduce fixed costs and allocate personnel in line with our operations. On the other hand, an immediate response system is needed when demand recovers. We will continue to take action to achieve this balance. We will also continue to promote inventory levels and price optimization.

1-(2) Infrastructure (Energy Infrastructure)

FY23_Q1 — **Decrease in sales and income**

(JPY billion)

	FY22_Q1	FY23_Q1	YoY change
	a	b	b-a
Net sales	23.1	21.9	(1.2)
Operating income	(0.3)	(1.5)	(1.1)

【Factors affecting profits】
(-) Continued delays to customer construction projects due to slowdown in Chinese economic recovery
(-) Increased depreciation expenses following the investments in increasing cable manufacturing capacity
(-) Product compensation costs incurred

(+) Functional power cable, including aluminum CV, was steady

Situation

FY23_Q1: Delayed recovery in the China market → Q3 -: Moderate recovery

Projects for both overseas submarine lines and Japan extra-high-voltage underground power cable will be concentrated in the second half of the year, more than usual.

Functional power cable was steady

Future response

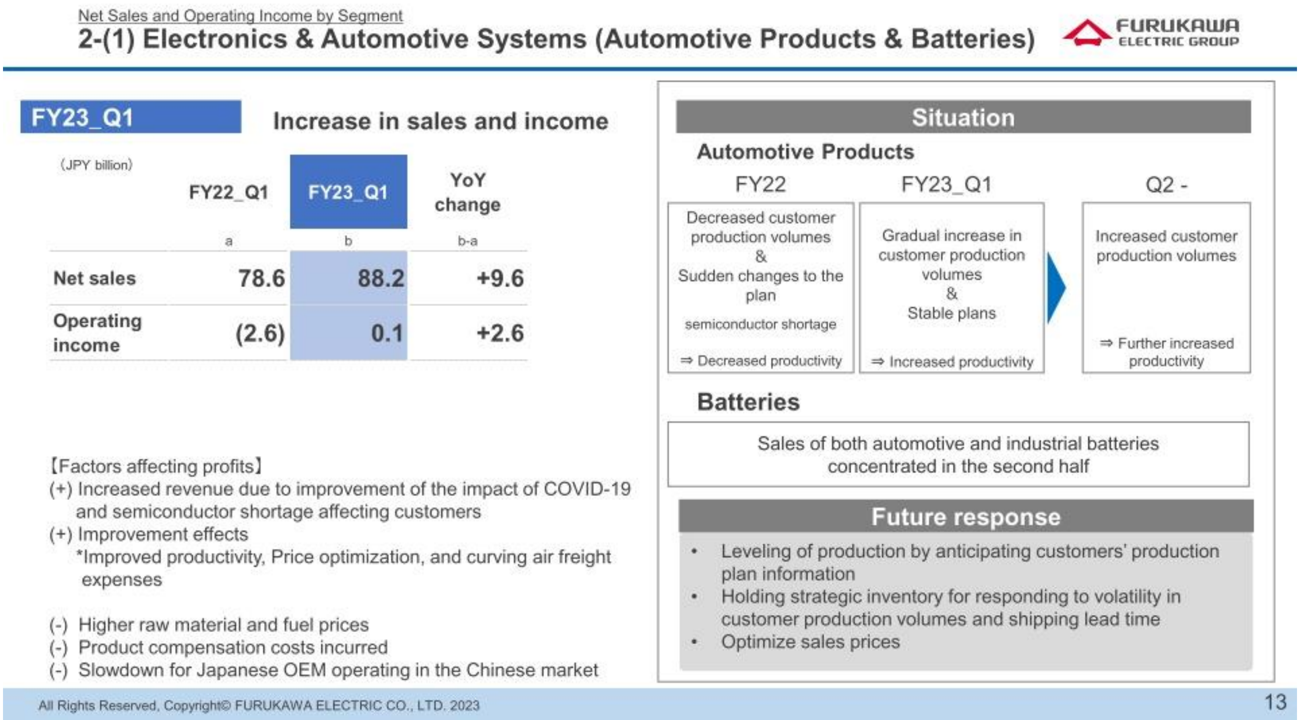
- Secure orders with a focus on profits, and optimize sales prices in target markets (Japan underground extra-high voltage power cable and renewable energy projects)
- Increase cable manufacturing and installation capacity
- Promote marketing activities (aluminum CV cable, transmission components)

Next is Energy Infrastructure business. Please see page 12.

As for Energy Infrastructure business, overall performance, functional power cables, such as aluminum CVs, has been firm to some extent and is in a positive direction, but the slowdown of economic recovery in China has caused customers to delay or postpone construction work. In addition, depreciation expenses have increased due to capital investment to increase cable manufacturing capacity.

In Q1, we incurred product compensation costs related to projects we had delivered in the past. With this negative impact, the overall result was a drop of JPY1.1 billion compared to the previous fiscal year, for a loss of JPY1.5 billion.

Regarding the current situation and future outlook, there have been delays in the recovery of the Chinese market in Q1 and Q2. However, we expect a moderate recovery from Q3 onward. In addition, although there are many projects in sight for both overseas submarine lines and Japan extra-high-voltage underground power cable, H1 is very difficult because the projects are concentrated more than usual in H2. In H2, we expect to achieve the same level of results as our initial forecast by firmly responding to these projects. In addition, functional power cables are expected to remain strong throughout the year.



The next page, page 13, shows Automotive Products & Batteries business.

In the area of Automotive Products and Batteries business, one negative factor is the increase in raw materials and fuel prices compared to last fiscal year. Also, in Q1, there was a provision for product compensation costs. In addition, Japanese OEM manufacturers in the Chinese market are sluggish, which is a negative factor.

On the other hand, revenue increased due to the stabilization of production following the easing of the impact of the COVID-19 and of semiconductor shortages among customers, as well as an increase in production. In addition, there were productivity improvements and a reduction in air freight expenses, which were quite large last year. In addition, price optimization continued to progress, and this factor contributed to a positive result, resulting in an increase of JPY2.6 billion YoY to JPY0.1 billion, a slight but positive result.

Regarding our understanding of conditions, we experienced productivity deterioration and a high-cost ratio due to a decrease in production by our customers and wide month-to-month fluctuation in their plans same as last fiscal year. On the other hand, as for the current situation, the production volume of our customers is also increasing. In addition, plans are stabilizing almost as expected, which has led to considerable improvement in productivity.

We expect customers' production to increase in Q2 and beyond, and we anticipate further improvement in productivity. We expect an improvement in automotive products from Q2 onward by firmly following the future growth of the market.

With regard to batteries, since sales of both automotive and industrial batteries are typically concentrated in H2, the performance will improve in H2. That is the situation.

2-(2) Electronics & Automotive Systems (Electronics Component Materials)

FURUKAWA ELECTRIC GROUP

FY23_Q1 **Decrease in sales and income**

(JPY billion)

	FY22_Q1	FY23_Q1	YoY change
	a	b	b-a
Net sales	69.1	61.5	(7.6)
Operating income	1.3	0.1	(1.1)

【Factors affecting profits】
(-) Demand for automotive and electronics-related products declined

(+) Sales price optimization

Situation

FY22_Late Q2 -
Slowing demand for automotive and electronics-related products

Q3 -
Moderate recovery

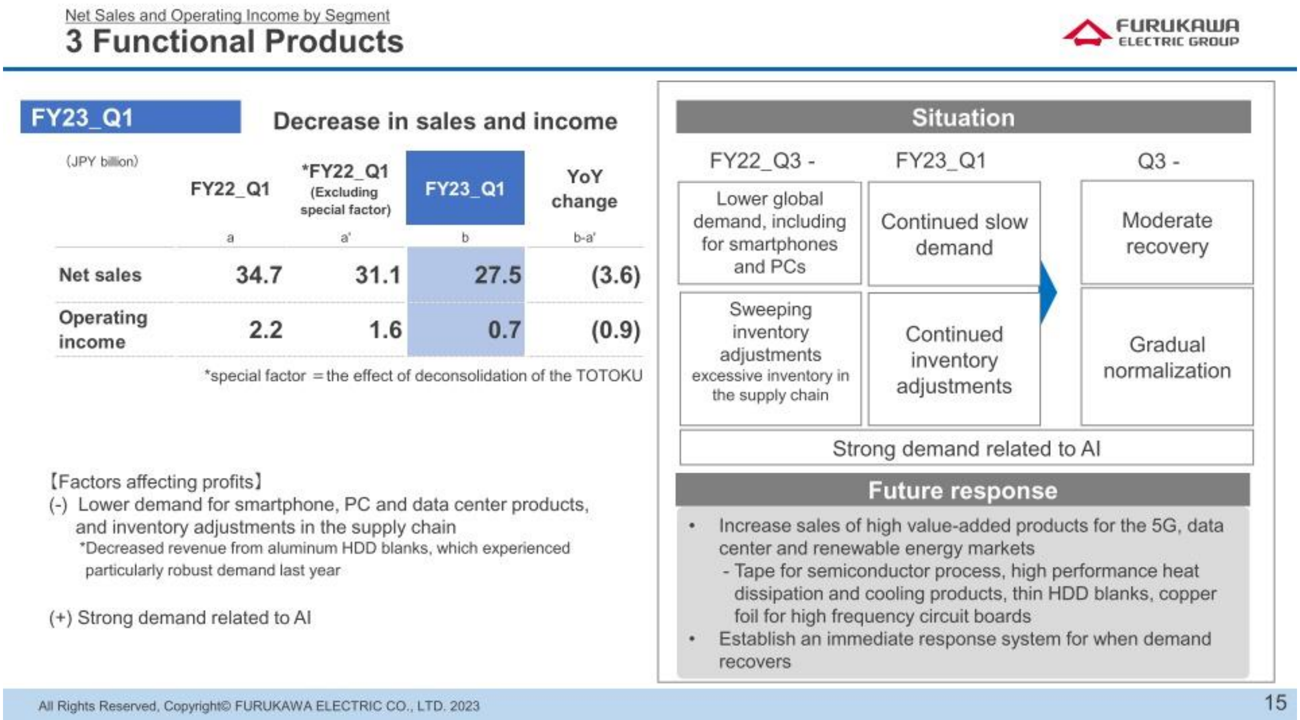
Future response

- Continued improvement of the product mix resulting from increased sales of high value-added products
  - Heat-resistant oxygen-free copper strips for power semiconductors and heat dissipation components
  - Original alloys that support increased electronic device performance
  - Magnet wire used in inductors for 5G telecommunications and automotive ECU
- Continued optimization of sales prices

Next is page 14. Electronics Component Materials business.

In the Electronics Component Materials business, the company continues to promote the optimization of selling prices. However, due to the impact of the decrease in demand for automotive and electronics-related products, the Q1 results were JPY1.1 billion lower YoY for a positive JPY0.1 billion.

The current situation is also shown in the upper right-hand side of the page and repeats that we see a gradual recovery from Q3 onward in the currently decreased automotive and electronics-related products demand. Since this business is upstream in the supply chain, there is a lag in its linkage to market trends. The market for automotive and automobile-related products is recovering in some areas, and we expect this to have a gradual effect on this business as well.



Page 15 is about Functional Products business.

As for Functional Products business, the segment posted a positive JPY0.7 billion, due to a drop of JPY0.9 billion compared to the previous fiscal year. We are in the process of recovering considerably from the negative JPY1.0 billion in Q4 FY2022.

YoY factors include lower demand for products for smartphones, PCs, and data centers. In particular, the impact of the decline in demand since H2 FY2022 still remains. Inventory adjustments in the supply chain are still ongoing.

Especially in Q1 last year, demand was very strong, and we received so many orders for aluminum blanks for HDD that we could not produce enough. This area is now in an inventory adjustment phase, and the impact has been quite significant where it has dropped significantly.

On the other hand, AI-related demand, which has been gaining momentum since H2 FY2022, has been extremely strong. We expect this to grow further throughout the fiscal year. Our product is a 3D vapor chamber, which is in very strong demand. Actual sales are also growing strongly.

As I have already mentioned earlier in explaining the contents on the left side of this slide, the global demand decline since H2 last year and inventory adjustment due to overstocking in the supply chain have emerged rapidly. Although there has been a gradual improvement, the situation has not yet completely returned to normal. Inventory adjustments are still ongoing. We expect a gradual recovery, or a gradual optimization of the market, in H2 and beyond.

In addition, we expect that generative AI-related business will continue to perform well, and that there will be a swing into the positive throughout the fiscal year.

FY2023 Q1 Results – B/S Summary

FURUKAWA ELECTRIC GROUP

(JPY billion)	*End of FY22Q4	End of FY23Q1	Change
	a	b	b-a
Current assets	**486.8**	**509.3**	**+22.5**
Cash and bank deposits	47.4	55.8	+8.4
Notes and accounts receivable trade	229.6	227.8	(1.8)
Inventories	172.3	186.4	+14.1
Non-current assets	**446.6**	**452.2**	**+5.6**
Tangible fixed assets	269.3	274.1	+4.8
Intangible fixed assets	20.2	20.1	(0.1)
Investments and other assets	157.1	158.1	+0.9
Total Assets	**933.5**	**961.6**	**+28.1**
Current liabilities	**381.0**	**400.7**	**+19.6**
Non-current liabilities	**223.3**	**227.0**	**+3.7**
Total Liabilities	**604.4**	**627.7**	**+23.3**
Shareholders' equity	283.5	276.3	(7.1)
Accumulated other comprehensive income	18.2	30.0	+11.8
Net income attributable to non-controlling interests	27.4	27.5	+0.0
Total Net assets	**329.1**	**333.8**	**+4.7**
Total Lianbilities and Net assets	**933.5**	**961.6**	**+28.1**
Interest-bearing liabilities	323.8	342.5	+18.7
Capital ratio	32.3%	31.9%	(0.4)
NET D/E ratio	0.9	0.9	+0.0

*Restated only the FY2022 financial results following the start of voluntary application of the International Financial Reporting Standards (IFRS) at the equity method affiliate UACJ Corporation (Refer to the Appendix for details)

Inventories
Increased by JPY 14.1 billion (including the impact of foreign currency exchange and copper prices of JPY +6.0 billion)

- Strategic inventory (Secure inventory in preparation for changes in the business environment, including the semiconductor shortage and increased maritime transportation lead times)
- Projects and construction planned to be recorded as net sales in the future
- External factors including sudden changes in net sales

Property, plant and equipment & Intangible assets
Increased by JPY 4.7 billion

- Impact of CAPEX and depreciation: JPY 0.0 billion
- Impact of foreign currency exchange: JPY +7.1 billion
- Impact of deconsolidation: JPY (3.0) billion

Total assets
Increased by JPY 28.1 billion

- Impact of foreign currency exchange: JPY +21.5 billion
- Impact of new consolidation: JPY +0.4 billion

Other comprehensive income
Increased by JPY 11.8 billion

Foreign currency translation adjustments: JPY +11.1 billion (impact of yen depreciation)

Net interest bearing debt
Increased by JPY 10.3 billion (JPY 276.4 billion→JPY 286.7 billion)

Next, on page 16, is the status of the balance sheet.

The blue area in the middle is the total assets. There is an increase of JPY28.1 billion. In addition to the foreign exchange impact of JPY21.5 billion and the impact from newly consolidated subsidiaries of JPY0.4 billion, there is an impact of about JPY1.0 billion from copper prices.

Looking at the contents, inventories increased. The increase of JPY14.1 billion includes JPY6.0 billion from the impact of foreign exchange and copper prices.

There is also rapidly recovering demand in some areas due to strategic inventory. In particular, demand has returned to the automobile industry and production is growing. On the other hand, we have set aside JPY6.0 billion for strategic inventories as a countermeasure to prolonged transportation lead time, etc.

There are projects that will be booked in the future. The amount of the electric power-related and broadband-related projects is JPY1.0 billion. However, there is about JPY1.0 billion of inventory that could not be fully digested due to the sharp decline in sales. This will be eliminated in Q2 and thereafter.

Other comprehensive income showed the same trend as last year, but foreign currency translation adjustments increased by JPY11.1 billion due to the impact of the yen's depreciation.

Interest-bearing debt increased by JPY10.3 billion, including inventories.

CAPEX, Depreciation & Amortization and R&D Expenses

FURUKAWA ELECTRIC GROUP

■Full-year forecasts remain unchanged

(billilon yen)	FY22_Q1 Results	FY23_Q1 Results	YoY change	*FY23 Forecasts	YoY change
	a	b	b-a		
CAPEX	6.4	**8.5**	+2.2	**46.0**	+2.2
Depreciation and amortization	9.2	**9.5**	*+0.2	**40.0**	+0.9
R&D expenses	5.9	**6.4**	+0.4	**27.0**	+3.7

*JPY 0.4 billion increase excluding the effect of deconsolidation of TOTOKU

*Announced on May 11, 2023

Page 17 shows capital expenditures, depreciation, and R&D expenses.

While we will review this forecast in light of the current market environment, the forecast for the fiscal year itself remains unchanged at this time.

That is all from me. Thank you for your attention.