FURUKAWA

# Annual Report (Integrated Report) 2020

Year ended March 31, 2020

## Contributing to the Construction of Social Infrastructure


**Editorial Policy**

This "Annual Report (Integrated Report)" is a publication for the Furukawa Company Group's shareholders and other investors. It is an integrated report that includes financial information from the Group's "Annual Securities Report" and environmental, social, and governance (ESG)-related information from its "Corporate Governance Report" and "CSR Report." The intention of this Annual Report is to foster a more accurate understanding of the integrated thinking, strategies, and actions of the Group while covering the information necessary for shareholders and other investors.

In addition to these reports, we disclose financial statements, financial results briefing materials, and post various other information on our corporate website in a timely and appropriate manner.

**Target Period:** April 2019–March 2020
(Some activities before and after this period are also included.)

**Annual Report (Integrated Report)**

- **Annual Securities Report** (Financial information)
- **Corporate Governance Report** (ESG information)
- **CSR Report** (ESG information)

**Forward-Looking Statements**

This Annual Report (Integrated Report) contains information about the Furukawa Company Group's plans, strategies, and future prospects. Such information, which is based on information currently available and reflects determinations deemed rational by the Group at the present time, includes various risks and uncertainties. Actual results may differ significantly from forecasts contained herein due to these changing uncertain factors.

## Contents

# About the Furukawa Company Group

The key to the success of the Furukawa Company Group, which recently celebrated the 145th anniversary of its founding, began with the development of the Ashio Copper Mine by founder Ichibei Furukawa. Since then, we have moved in line with the times and developed and advanced our technologies, amassed through mine development, to build our two current business domains: the Machinery business and the Materials business. Today, we are increasing our focus on niche products that reflect our expertise and boast a high market share. We are also stepping up efforts to practice Marketing-Based Management*1 by deploying our unique technologies and past experience. In particular, our Machinery business, positioned as a core business, responds to market needs and contributes to the development of social infrastructure.

By continuing to offer products that are indispensable to society, we aim to resolve various social issues and help realize a sustainable society. We are working hard every day to achieve our Vision for 2025, entitled FURUKAWA Power & Passion 150*2, as we approach fiscal 2026, the 150th anniversary of our founding.

Ashio Copper Mine (around 1920)

*1 **Marketing-Based Management**
"Marketing-based management" means incorporating marketing into the core of management to provide products and services recognized as valuable in changing markets, as well as to identify and resolve issues and problems faced by customers, with the aims of deepening ties with customers, achieving sustainable growth, and increasing corporate value.

*2 **FURUKAWA Power & Passion 150**
The "Power & Passion" symbol expresses the "power and speed" and the "passion and enthusiasm" aspects of our business approach. The perfect red circle conveys the connections and bonds we have with customers, and "150" represents the 150th anniversary of our founding in 2025, which is the year for achieving our vision.

**Management Philosophy**

The Furukawa Company Group will remain indispensable to society by always embracing a spirit of challenge, advancing the technologies that have underpinned the foundation of society that originated in mining development.

**Action Guidelines**

In order to live up to our Management Philosophy, we put our Action Guidelines of Innovation, Creativity and Harmony into practice, while always bearing in mind the three key words, Luck, Stolidity and Perseverance that best represents the spirit of our founder.

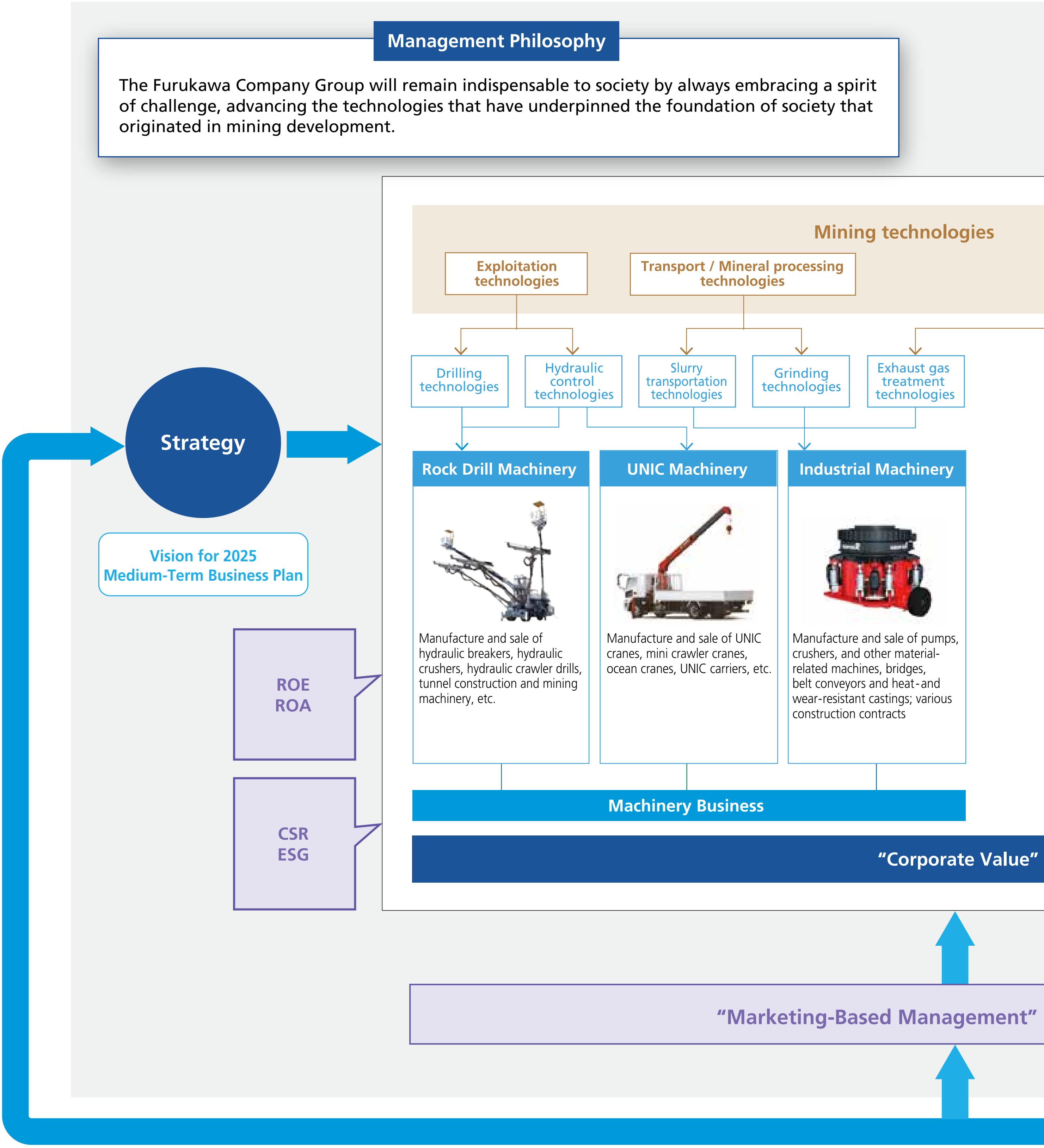
- Innovation : We will work constantly at self-innovation by embracing a future-oriented mindset.
- Creativity : We will seek to create reliable, appealing products that meet market needs.
- Harmony : We will improve management transparency and contribute to the development of a society that is in harmony with the environment.

# Financial / Non-Financial Performance

| Fiscal year | **2020/3** | 2019/3 | 2018/3 | 2017/3 | 2016/3 | 2015/3 |
|---|---|---|---|---|---|---|
| Net sales (Millions of yen) | **165,216** | 174,117 | 167,696 | 149,830 | 161,799 | 172,544 |
| Operating income (Millions of yen) | **8,693** | 8,915 | 7,821 | 6,546 | 7,989 | 8,925 |
| Profit attributable to owners of parent (Millions of yen) | **4,432** | 4,654 | 4,774 | 4,254 | 5,056 | 9,793 |
| Profit attributable to owners of parent per share (Yen) | **112.23** | 116.23 | 118.16 | 105.29 | 125.13 | 242.34 |
| Return on equity (ROE) (%) | **5.8** | 5.7 | 5.9 | 5.9 | 7.5 | 15.9 |
| Return on sales (%) | **2.7** | 2.7 | 2.8 | 2.8 | 3.1 | 5.7 |
| Total asset turnover (Times) | **0.7** | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| $CO_2$ emissions (Thousand t) | **22** | 26 | 26 | 25 | 24 | 27 |
| Total emissions including waste, etc. (t) | **7,039** | 7,160 | 6,884 | 5,347 | 6,832 | 6,266 |
| Employees | **2,755** | 2,757 | 2,690 | 2,616 | 2,521 | 2,456 |

## The Furukawa Company Group's Value Creation Process

The Furukawa Company Group has a long history of 145 years. Since our beginning in mine development, we have undergone various transformations, diversified our operations, and overcome many difficulties. This history forms the foundation of today's Furukawa Company Group. Embracing the philosophy of Ichibei Furukawa, our founder, we have practiced marketing-based management that incorporates CSV* perspectives by developing mines and other technologies that support social infrastructure. As a result, we have continued to innovate products and services that are reliable and appealing and satisfy social and market needs. With a commitment to "category leadership and uniqueness," we aim to create "corporate value" by providing infrastructure, products, technologies, services, and the like that help resolve social issues. At the same time, we will continue fostering the creation of "social value" by improving social infrastructure and realizing a safe, environmentally friendly, and prosperous society.



Seeking to realize our Management Philosophy, we are currently implementing our Vision for 2025 in the approach to our 150th anniversary in fiscal 2026. The vision is divided into three phases, each with its own medium-term business plan. In our business activities, which center on the Machinery business and the Materials business, we will bring together technologies cultivated over many years and new strategies while also taking return on equity (ROE), return on assets (ROA), business portfolio management, corporate social responsibility (CSR), ESG, and risk management into account. We will also help achieve the Sustainable Development Goals (SDGs) and continue contributing to the realization of a sustainable society by resolving various social issues, including national resilience challenges and a declining workforce. This is the Group’s value creation process for realizing its Management Philosophy.

* Creating shared value (CSV): This is a management framework that enables companies to co-create social value and corporate value by tackling social, environmental, and other issues.


Smelting technologies

Flash smelting technologies

Sulfuric acid production technologies

Electric technologies

**Metals**

Sale of electrolytic copper, electrolytic gold, electrolytic silver, sulfuric acid, etc. (produced by smelting on consignment)

**Chemicals**

Manufacture and sale of sulfuric acid, polyferric sulfate aqueous solution, sulfate band, cuprous oxide, copper oxide, etc.

**Electronics**

Manufacture and sale of high-purity metal arsenide, crystal products, core coils, aluminum nitride, optical components, etc.

**Materials Business**

**Creation through Business Activities**

Business Portfolio Management

Risk Management

**Incorporated CSV* Perspectives**

**Products / Technologies / Service**

“Category leadership and uniqueness”

**“Social Value” Creation**

- Establish social infrastructure
- Realize a prosperous society that is safe and environmentally friendly


**Social Issues / Needs**

## Interview with President Miyakawa

Naohisa Miyakawa
President and Representative Director

# Pathway to Achieving Medium-Term Business Policy 2022 (Phase 2 of Vision for 2025)

In this section, President Miyakawa reflects on evaluations and issues related to Medium-Term Business Plan 2019, which was Phase 1 of the Group's Vision for 2025. He also talks about the pathway to achieving Medium-Term Business Policy 2022 (Phase 2), the objective of which is to "Expedite growth and further improve profitability."

### Q1. Please tell us about your responses to the COVID-19 crisis and your understanding of the current situation.

COVID-19, which is said to have started in January 2020, has since spread to Japan and all over the world. The Group's top priority is to ensure the safety of its employees and ensure the sustainability of each business. First, in order to prevent infections among employees as much as possible, we introduced staggered working hours on February 27 and working from home on March 27 for employees in affected areas who received urgent requests from their local governments. In addition, we raised ¥10 billion from financial institutions for use as working capital and sold investment securities in order to have cash and deposits on hand for immediate response to sudden funding needs. As of June 30, however, we confirmed that the Group's supply chain had not been significantly affected by the pandemic, although we will closely monitor the situation and work to ensure stable procurement.

The situation remains uncertain due to the pandemic, but things will eventually return to normal. The most important priority for the Group right now is to respond as much as possible to the current situation and do our utmost to recover our business performance once the situation is resolved. It is often said that "big changes don't happen until the going gets tough." With this is mind, we see the current situation as an opportunity to take proper care of employees in terms of their physical and mental health, making them strong in mind and body and prepared for a fresh start.

### Q2. Please summarize the Group's performance in fiscal 2020 and give your assessment of Medium-Term Business Plan 2019 and its challenges.

For the year, we reported year-on-year declines in revenue and earnings, with consolidated net sales down 5.1%, to ¥165,216 million, and operating income down 2.5%, to ¥8,693 million. The Rock Drill Machinery segment posted declines in sales and operating income, reflecting a pull-back from the previous year when shipments of equipment complying with Tier 3 exhaust gas emissions were strong, as well as deteriorating market conditions overseas. On the other hand, the Industrial Machinery segment and UNIC Machinery segment both reported steady growth, together compensating for declines in the Rock Drill Machinery segment. As a result, profit attributable to owners of parent decreased 4.8%, to ¥4,432 million.

Fiscal 2020 was also the final year of Medium-Term Business Plan 2019, positioned as Phase 1 of our Vision for 2025. Our operating income target under the plan was ¥8,500 million, and we exceeded this figure in the final two years of the plan: ¥8,915 million in fiscal 2019 and ¥8,693 million in fiscal 2020. We recognize that expansion of the Machinery business, positioned as a core business, contributed significantly to this result.

Also, operating income in the Machinery business accounted for 83% of total operating income in fiscal 2020, exceeding our 72% target under Medium-Term Business Plan 2019 and well above the 53% figure reported in fiscal 2017, the year before the plan started. In short, the Machinery business helped us achieve our performance indicators. At the beginning of the plan, we made it clear that the Rock Drill Machinery segment and the UNIC Machinery segment should play key roles. At that time, however, we did not envision how the Industrial Machinery segment would perform. So we conducted repeated examinations under the plan–do–check–act (PDCA) cycle and reinforced our engineering capabilities following an organizational restructuring in April 2018. As a result, we received multiple orders for large-scale project equipment, such as belt conveyors and crushers, which greatly contributed to our improved business performance. Now, we can clearly see the direction we should take, but the challenge is to improve accuracy and probability when pursuing orders for large-scale projects. In addition, the Rock Drill Machinery segment is still not fully functioning despite efforts to strengthen its overseas marketing capabilities. As managers, we need to reflect on this. I believe we must rebuild our mindset and our systems by returning to the basic principles of marketing, including self-analysis and sales strategy planning. This is an urgent issue.

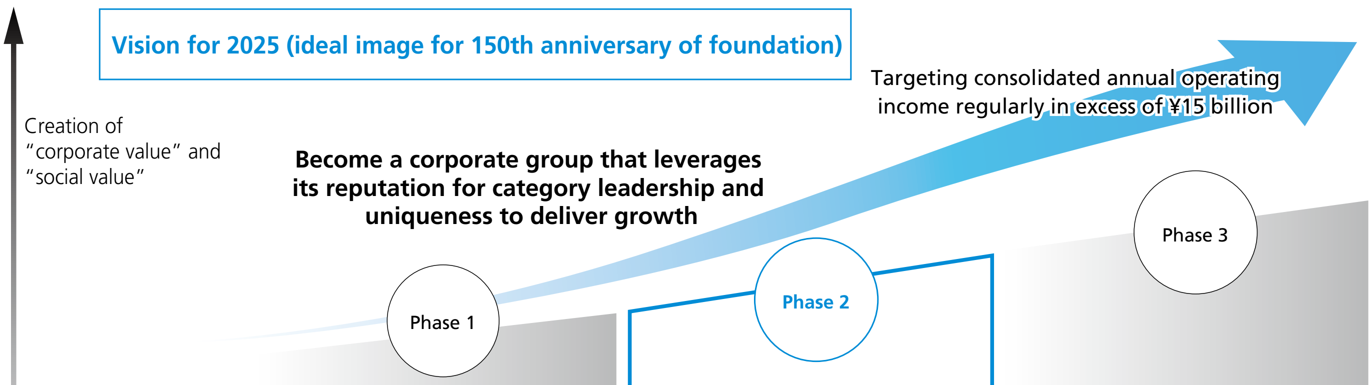
Another performance indicator under the plan was ROE. In fiscal 2020, we posted ROE of 5.8%, falling short of the plan's target of 6–7%. The direct cause of this was deterioration in profit attributable to owners of parent resulting from a ¥1,030 million loss on impairment of investment securities, posted as an extraordinary loss. With respect to strategically held shares, we will continue monitoring the suitability of maintaining holdings and sell unnecessary shares as appropriate. Going forward, I want all employees to understand the frontline key performance indicators (KPIs) presented in our "ROE Tree" and incorporate them into their own work. In particular, they need to work on improving the return on sales (profitability) and total asset turnover (efficiency), which are decomposition factors of ROE, from Phase 2 onward.

As for Phase 1, my assessment is that we achieved some of our objectives as planned, while others remain to be addressed in Phase 2. Regarding the slogan of Phase 1, "Building foundations for renewed growth," I believe we succeeded in building such foundations, driven by our core Machinery business. We also made good progress with our marketing-based management approach, but more work is required in the future.

## Q3. In May 2020, you made a partial revision of Vision for 2025. What was the purpose and background of this revision?

The environment surrounding corporations and the way society views them are changing rapidly. Our aim is to provide products and services that are valued even amid such dramatic change, and to deepen ties with our customers by finding solutions to their problems and issues, so that we can achieve sustainable growth and increase our corporate value. As we entered Phase 2 of Vision for 2025, we reaffirmed our Purpose and Mission, which are incorporated in our Management Philosophy: "The Furukawa Company Group will remain indispensable to society." We also redefined "marketing-based management" to incorporate CSV perspectives. The Group's view of CSV is to simultaneously create social value and corporate value by tackling social issues, such as the SDGs. Natural disasters, such as torrential rains and typhoons

**Positioning of Medium-Term Business Policy 2022: Accelerate Growth and Further Improve Profitability**




| | | Phase 1 | Phase 2 | Phase 3 |
|---|---|---|---|---|
| Time period | | FY2018–2020 | FY2021–2023 | FY2024–2026 |
| Positioning | | Build foundations for renewed growth | Expedite growth and further improve profitability | Complete realization of Vision for 2025 |
| Performance indicators | Operating income | Approx. ¥8.5 billion [¥8.6 billion*] | New Medium-Term Business Plan (announce when formulated) | Regularly in excess of ¥15 billion |
| | ROE | Approx. 6–7% [5.8%*] | | More than 10% |

* Figures in brackets represent actual results for fiscal 2020.

## Vision for 2025 "FURUKAWA Power & Passion 150"

**Become a corporate group that leverages its reputation for category leadership and uniqueness to deliver growth**

**We are targeting consolidated operating income regularly in excess of ¥15 billion as we approach our 150th anniversary in fiscal 2026.**

### Strategies for Achieving Vision for 2025

**1 Increase the value of the Furukawa brand through "marketing-based management" that incorporates CSV perspectives**

We will incorporate marketing into the core of management to provide products and services recognized as valuable in changing markets, as well as to resolve issues and problems faced by customers, with the aims of increasing corporate value and achieving sustainable growth. We will also strive to achieve the Sustainable Development Goals (SDGs) and otherwise resolve various social issues, including such domestic issues as building national resilience and the declining working-age population, and thus help realize a sustainable society.

- Reinforce technological sales capabilities (proposals and solutions) reflecting customer needs
- Develop products, technologies, and services that meet market needs
- Achieve category-leading positions by concentrating on niche products that have competitive advantages and using differentiation strategy
- Cultivate and create new markets and product categories; build a new business model
- Enhance our products, technologies, and services, which underpin our social infrastructure, to help resolve social issues

**2 Sustainably expand the Machinery business**

- Reinforce revenue bases in growing overseas markets mainly in business related to infrastructure and resource development
- Strengthen and enhance stock business
- Maximize business opportunities by demonstrating comprehensive Group competencies and reinforcing engineering strengths

**3 Strengthen and expand our human resource bases**

- Build vibrant human resources and corporate culture for a new Furukawa
- Secure, utilize, and develop diverse human resources in Japan and overseas
- Put even more effort into training sales and marketing personnel

**4 Actively promote investments to increase corporate value**

- Make proactive capital investments necessary for growth
- Expand business through strategic M&A and alliances

**5 Establish a robust corporate foundation**

- Increase corporate value by improving profitability and capital efficiency, targeting ROE of more than 10%
- Establish a strong financial base
- Achieve balanced appropriations between investments for growth and return to shareholders
- Increase corporate value by emphasizing business practices that reflect CSR and ESG issues recognized and to be solved by the Group

* Changed sections are underlined.

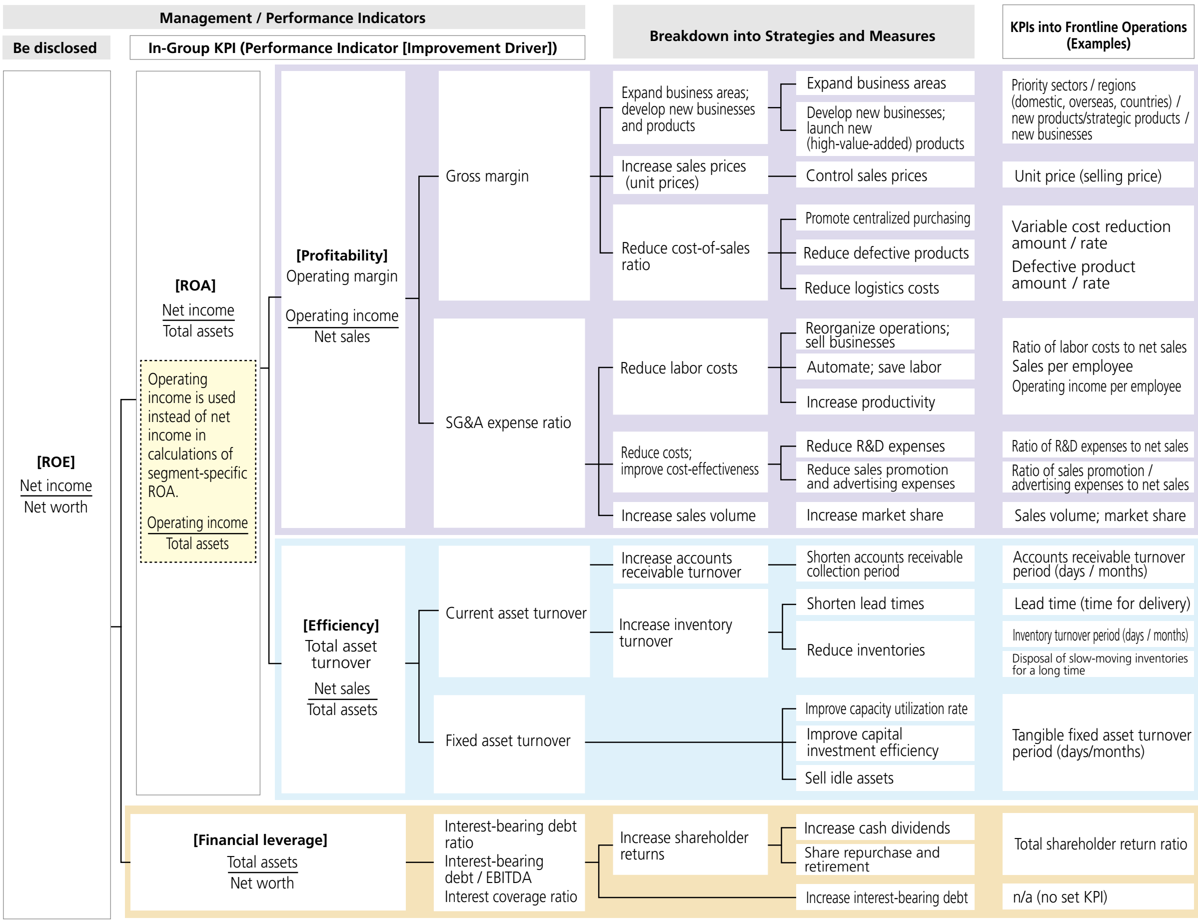
caused by climate change, are becoming more and more severe, underscoring the increasing responsibilities we must fulfill as a Group. These include such domestic challenges as disaster prevention and mitigation, as well as the need to build infrastructure for national resilience. Another social issue for the Group is to foster advances in automation and unmanned operations of construction sites, which are facing labor shortages due to a declining working-age population. We must also help save energy and reduce $CO_2$ emissions. From this perspective, we clarified our intention to "Increase corporate value by emphasizing business practices that reflect CSR and ESG issues recognized and to be solved by the Group" as part of our strategy to "Establish a robust corporate foundation" under Vision for 2025. The Group will step up efforts to generate corporate value by providing infrastructure, products, technologies, and services that help resolve social issues. At the same time, we will continue striving to create social value, including by building social infrastructure and realizing a safe, environmentally friendly, and prosperous society.

## Q4. Meanwhile, you formulated Medium-Term Business Policy 2022. Please tell us about the purpose and content of this policy.

The Group had been preparing to announce its Medium-Term Business Plan 2022, to be positioned as Phase 2 of Vision for 2025. However, we decided to postpone the announcement in consideration of the COVID-19 pandemic, which caused major changes in the operating environment and business conditions that form assumptions for the plan. Instead, we formulated our Medium-Term Business Policy 2022 in order to clarify management strategies, priority issues, and other matters that need to be addressed in Phase 2. Phase 1 of Vision for 2025 was positioned as a period of "Building foundations for renewed growth." Under Medium-Term Business Policy 2022, we will make all-out efforts to solidify the foundations built in Phase 1, in order to "Expedite growth and further improve profitability."

In the Rock Drill Machinery segment, we will strengthen and rebuild our overseas marketing capabilities, which is an important and urgent priority. We will also focus on building business models using Life Cycle Support (LCS) approaches. In the Industrial Machinery segment, meanwhile, we will continue pursuing innovations aimed at revolutionizing our income structure with the goal of transitioning from a simple equipment manufacturer. And in the UNIC Machinery segment, we will steadily enhance our overseas product, sales, and service technology capabilities. In particular, we will continue striving to "Sustainably expand the Machinery business"—positioned as a core business under Medium-Term Business Plan 2019 (Phase 1)—in order to clearly identify priority investments and growth businesses. We will also step up alliances and M&As to achieve discontinuous growth. In addition, we will work to improve ROE, an issue remaining from Phase 1. Here, we will make individual investment decisions while paying attention to profitability and taking into account risks and capital costs associated with each investment. We will also step up efforts to improve efficiency and profitability. At the same time, we will pursue overall optimization of business resource allocations

## ROE Tree for Creating Corporate Value




and improve corporate value by incorporating cost of capital in our business portfolio management.

## Q5. Please tell us about the Group's efforts to reduce $CO_2$ emissions.

Amid growing worldwide concern about climate change and various disasters caused by global warming, we recognize that reducing $CO_2$ emissions is a major challenge for the Group as well. In fiscal 2020, the Group emitted approximately 22,000 tons of $CO_2$, down 16% from the previous fiscal year. We set reduction targets each year and pursue reduction initiatives in each department, but we need to step up these efforts in the future. On the other hand, our forest holdings absorb around 8,000 tons of $CO_2$ per year, equivalent to roughly 36% of the Group's total emissions in fiscal 2020. Furthermore, we believe we can also reduce $CO_2$ emissions by enhancing the efficiency of our machinery and improving work efficiency for our customers. Accordingly, we are strengthening efforts to reduce $CO_2$ emissions from our products by setting specific targets for each product in line with development roadmaps for the Group's main product lines. Through this initiative, we will work to raise awareness among employees about the importance of social contribution while developing products that simultaneously improve customer satisfaction and benefit the global environment.

## Q6. Please tell us about your corporate governance reforms.

We have been reforming our corporate governance for the past seven years with the aim of creating a forum for free and vigorous discussion by the Board of Directors.

We also regarded Japan's Corporate Governance Code, released by the Financial Services Agency and the Tokyo Stock Exchange in June 2015, as an opportunity and have been making gradual reforms ever since. In terms of structure, we discontinued the reciprocal dispatch of directors to cross-shareholding companies and replaced all three outside directors with independent outside directors who meet the Company's independence standards. Our current Board of Directors consists of six internal directors and three independent outside directors, one of whom is a woman. We are working to share knowledge and information between internal and outside directors. For example, we organize plant tours and other events for outside directors, provide them reports in advance on Management Committee agenda items, and give them briefings from each of our business divisions. Thanks partly to these efforts, our Board of Directors' meetings are now managed with more time and care than before and feature lively debate about the varying opinions and requests that are expressed.

The Company also established a Nomination & Remuneration Committee to serve as an advisory body to the Board of Directors. It consists of three outside directors (including the chairperson) and one internal director (the president and representative director) and met four times between November 2019 and May 2020. The main topics of discussion included processes for appointing the next and subsequent presidents and the executive remuneration system.

We also hold meetings for outside directors only and meetings for outside directors together with the president, aiming to create environments that facilitate the frank expression of opinions. As the Group's activities become more and more global in nature, we believe we will need to address social issues on a global scale from the perspectives of ESG and the SDGs.

## Q7. What are the most important steps you are taking to realize Vision for 2025?

As I mentioned earlier, we live in era in which social issues are becoming more serious and complex, and this will increasingly call into question what kind of social value we can create for the world. And because we are in a time of uncertainty, I believe it is important to promote management based on unshakable foundations. These foundations are reflected in our marketing-based management, which has been redefined to incorporate CSV perspectives, and in our Medium-term Business Policy 2022, which is Phase 2 of Vision for 2025.

In order to resolve the issues remaining from Phase 1 and realize Vision for 2025, our most important task in Phase 2 and thereafter is to inspire Groupwide awareness about the need for innovation. In our view, innovation goes beyond technological advances pursued by our engineering divisions to include a variety of innovative initiatives that emanate from the immediate surroundings of all employees. We believe it is vital that all employees embrace a passion for innovation and create innovation in their daily work. The history of our Machinery business began when we imported single-man hand-held rock drills and adapted them to suit the Japanese physique. This was the start of our Rock Drill Machinery segment. By modifying and improving things around us, we can open up new markets that better match the needs of customers.

A recent example is a 4.8 km-long belt conveyor we supplied for the Tokyo Gaikan Expressway construction project. It features a unique design that combines three elements of conveying—long-distance, curved, and folded—into a single belt, and is a good illustration of how our innovation-orientated mindset is used to create completely new products through the combination of existing technologies. This product is also a typical example of our marketing-based management that incorporates CSV perspectives to help resolve social issues, including $CO_2$ emission reduction. In order to continue launching such unique category-leading products, it is essential that all employees have a heightened sense of innovation. And the president and our entire management team must take responsibility for reminding employees of their responsibilities so they can maintain their constant pursuit of innovation.

At this stage, it is extremely difficult to predict how the COVID-19 pandemic will affect us in the future. No matter what happens, however, we will humbly accept the changes of the times and reinforce our innovation-oriented mindset while listening to the markets. In this way, we will fulfill our main mission of entrenching marketing-based management. By changing our thinking and turning current difficulties into opportunities, we will implement Medium-Term Business Policy 2022 and thus realize our Vision for 2025.

## Q8. Can you give a brief closing message to your stakeholders?

One of the policies of Vision for 2025 is to achieve a balance between growth-oriented investments and shareholder return. In fiscal 2020, we paid annual dividends of ¥50.00, for a consolidated dividend payout ratio of 44.6%. In addition to returning increased profits to our shareholders, we make sure to retain funds that are needed for capital investments and R&D, which are essential for securing profits. To this end, we allocate profits after comprehensively considering future business development and other factors.

Business conditions for the Group are expected to continue changing dramatically in the future. To help stakeholders understand our responses and approach, we believe it is more important than ever to provide information and communicate with them.We deliver information through a variety of tools, including this Annual Report (Integrated Report) and our CSR Report. We are also increasing opportunities for direct dialogue with stakeholders so we can receive their valuable opinions and suggestions. We believe that such two-way communication will give birth to ideas and approaches that will serve as guidelines for future management.

Going forward, we will continue listening closely to our stakeholders and work to realize the goals of Vision for 2025 while asking all employees to embrace a sense of urgency. We look forward to your ongoing understanding and support.

# Management Innovation for Realizing Our Ideal Future Vision

In our pursuit of sustained increases in corporate value, we formulated Vision for 2025 as a long-term business plan. We also created an "ROE Tree" centered on improving return on assets (ROA), introduced cost of capital and business portfolio management, enhanced the effectiveness of the PDCA cycle, and so on. We have been striving to realize our ideal future vision by taking these various measures and initiatives, which together are embodied in our "FKK (Furukawa Co., Ltd.) Model."

Senior Executive Officer
General Manager for Management Strategy
Corporate Planning Dept.
Osamu Miyazaki

## First Steps to Realize Our Ideal Future Vision

In 2015, when we celebrated our 140th anniversary, we formulated our Management Philosophy and Action Guidelines. We also announced our Vision for 2025, entitled "FURUKAWA Power & Passion 150," in order to put the Management Philosophy into practice.

In these ways, we all took our first steps, united as one, by emphasizing "marketing-based management" in order to become "a corporate group that leverages its reputation for category leadership and uniqueness to deliver growth."

Vision for 2025 is a long-term business plan that represents a departure from our single-year plan-driven management approach of the past, in terms of implementing operational management measures. It is positioned as an extremely important first step in delivering management innovation.

We will continue to innovate measures and initiatives in relation to our management strategies, structures, processes, methods, and so forth by utilizing the PDCA cycle.

## Innovation Built into Vision for 2025

We took the enactment of Japan's Corporate Governance Code in June 2015 as an opportunity to take measures under Vision for 2025 aimed at realizing our ideal future vision. Built into Vision for 2025 are the essential elements of management innovation: performance indicators, intangible assets, discontinuous growth, capital strategies and cash flow allocation, and sustainability.

(1) **Performance Indicators:** Our performance indicators are simple, consisting of consolidated operating income, which is the source of corporate value, and ROE, which represents return on investment against shareholders' equity. Moreover, we deliberately excluded net sales from our performance indicators to focus on improving corporate value, thus breaking the curse of focusing on revenue scale.

(2) **Intangible assets:** We expressed our policy of emphasizing intangible assets (technology, brands, human resources, and the like) as a source of corporate value, by clarifying the way of increasing the value of the Furukawa brand through marketing-based management and expanding and strengthening our human resource base.

(3) **Discontinuous growth:** This means targeting business expansion through strategic alliances and M&As.

(4) **Capital strategies and cash flow allocation:** We specified our intentions, including achieving a balance between growth-oriented investments and shareholder return and establishing a robust corporate foundation, in order to clarify our policy of pursuing an optimal capital structure based on a strategy to improve our credit rating.

(5) **Sustainability:** On May 8, 2020, we partially revised Vision for 2025. Under the revision, we redefined "marketing-based management" to incorporate CSV perspectives. At the same time, we clarified our intention to "Increase corporate value by emphasizing business practices that reflect CSR and ESG issues recognized and to be solved by the Group" as part of our strategy to "Establish a robust corporate foundation." Accordingly, we will continue to step up sustainability-related initiatives related to CSR, ESG, the SDGs, and the like.

## Innovation in PDCA

In formulating our PDCA framework, we adopted a backcasting method*1 to envision our ideal future vision, then clarified the positioning of each of the three phases. We also used SWOT analysis to incorporate what needs to be done into our strategies and formulated individual and specific action plans that correspond to long-term and medium-term timelines and linked them to our KPIs.

In addition, we have adopted a three-year forward rolling method*2, under which each medium-term business plan is rolled out annually over a three-year period, enabling us to seamlessly develop and announce our medium-term business plans to the public at the start of each phase. PDCA milestones (undisclosed)*3 are set in advance in Phase 1 and 2, and action plans are reviewed (accelerated, augmented, revised, and the like) at each rolling stage in order to prevent deviations from the milestones.

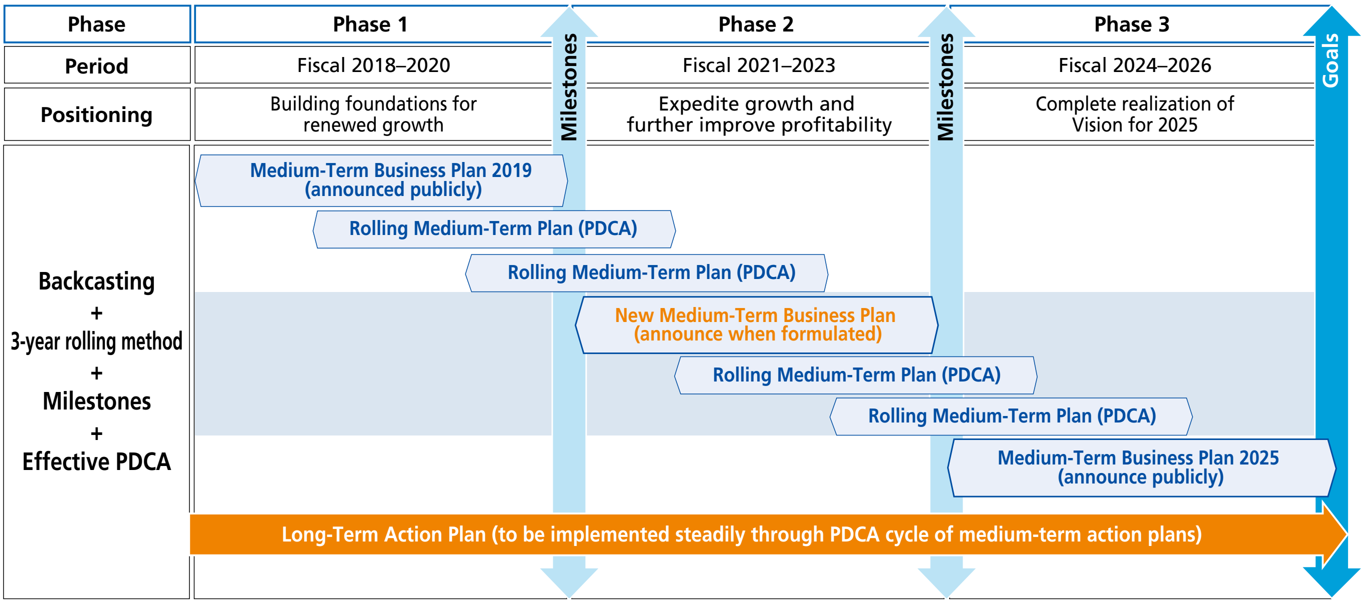
*1 Backcasting: A method of thinking that focuses on what needs to be done now in order to realize an optimal discontinuous future vision that is not an extension of the past or present.
*2 Three-year forward rolling method: A method of maintaining a three-year plan at all times by adding one year to the final year each year. This is done in synchronization with the single-year business planning process.
*3 PDCA milestones (undisclosed): Predetermined PDCA figures (undisclosed) that are replaced with officially disclosed figures each time a medium-term business plan is announced.

Furthermore, we have established a new dedicated PDCA committee with direct involvement of top management. Our aim here is to increase the effectiveness of the PDCA cycle in relation to medium-term business plans, action plans, and business portfolio management, and thus ensure optimal operations.

By building this mechanism into our system, we work to avoid the "bird feather phenomenon"*4, in which targets are revised downward at each rolling stage and initial medium-term business plan targets are never achieved.

*4 Bird feather phenomenon: A management term that stands for "rolling weakness." Based on the luck of improvement in corporate performance, a medium-term business plan is repeatedly revised downwards and the previous targets are replaced with new, lower targets each time the plan is rolled (appearing to draw a bird's feather on a graph), and original medium-term business plan targets are never achieved.

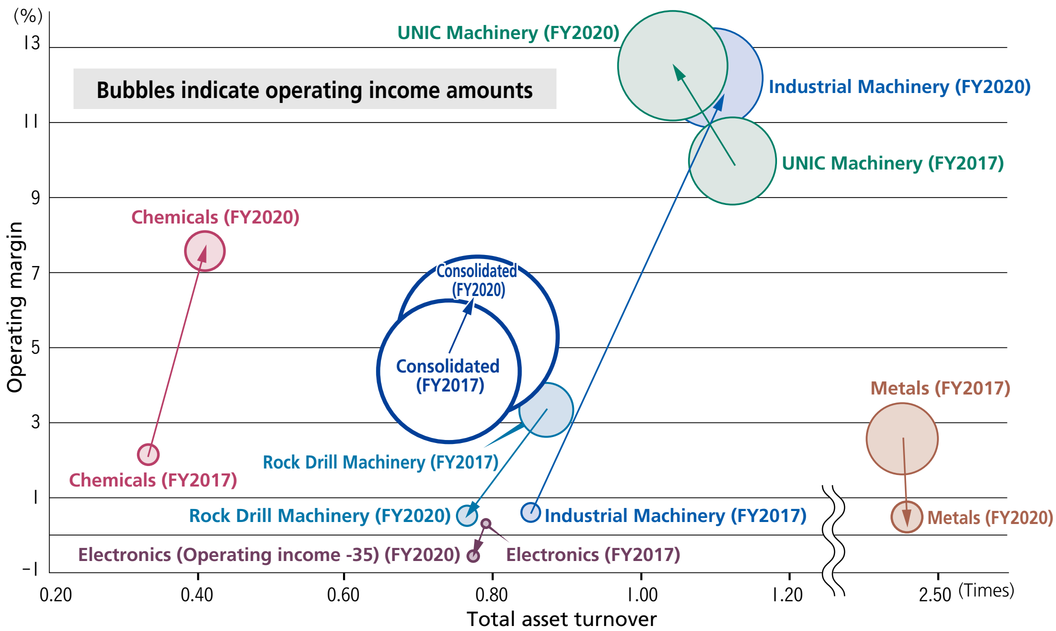
**Medium-Term Business Plan & PDCA Cycle**




## Analyses of Innovation in Performance Management Indicators and Improvements in ROA in Phase 1

In Phase 1, we promoted the "ROE Tree" as a Groupwide initiative, incorporating it into our strategies and measures and establishing KPIs for frontline operations. ROE reflects a combination of ROA and financial leverage. In calculating ROA, which is one of our performance indicators, we use operating income generated by our core business, which is also a source of corporate value. Furthermore, ROA reflects a combination of operating margin (profitability) and total asset turnover (efficiency). The Group

**Comparison between Fiscal 2017 and Fiscal 2020**
**[ROA (based on operating margin), total asset turnover, operating margin, and operating income]**



focuses on improving both of these elements in its effort to enhance ROA while also striving to improve ROE without excessive reliance on financial leverage.

Unfortunately, ROE fell short of the Medium-Term Business Plan 2019 target of 6–7%, ending fiscal 2020 at 5.8%, or 0.1 point lower than 5.9% reported in fiscal 2017 (benchmark year for comparison purposes). However, ROA improved from 3.2% in fiscal 2017 to 4.1% in fiscal 2020. This was due to increases in the consolidated operating margin (profitability), which rose 0.9 point from 4.4% in fiscal 2017 to 5.3% in fiscal 2020, owing mainly to improved operating margins in the Industrial Machinery, UNIC Machinery, and Chemicals segments, which compensated for declines in the Rock Drill Machinery, Electronics, Metals, and Real Estate segments.

Total asset turnover (efficiency) also worsened, mainly in the UNIC Machinery and Rock Drill Machinery segments, where we made large-scale capital investments during the three-year period from fiscal 2018 to fiscal 2020. However, we reported an improvement in the Industrial Machinery segment, which generated healthy sales from multiple large-scale projects. We also posted improvements in the Chemicals and Metals segments. As a result, consolidated total asset turnover (efficiency) improved by 0.1 times, from 0.7 times in fiscal 2017 to 0.8 times in fiscal 2020.

## Innovation in Business Portfolio Management

By introducing cost of capital into our business portfolio management and calculating cost of capital for each of our seven business segments, we endeavor to grasp the reality of our corporate value creation efforts. We have also set hurdle rates (WACC+$\alpha$%) for each of our three business divisions (Machinery, Materials, and Real Estate) and use them to make investment decisions on capital investment, equity-based alliances, and the like.

Furthermore, we have incorporated management of each consolidated subsidiary, which cannot be done from a corporate value creation perspective alone, into our business portfolio management system.

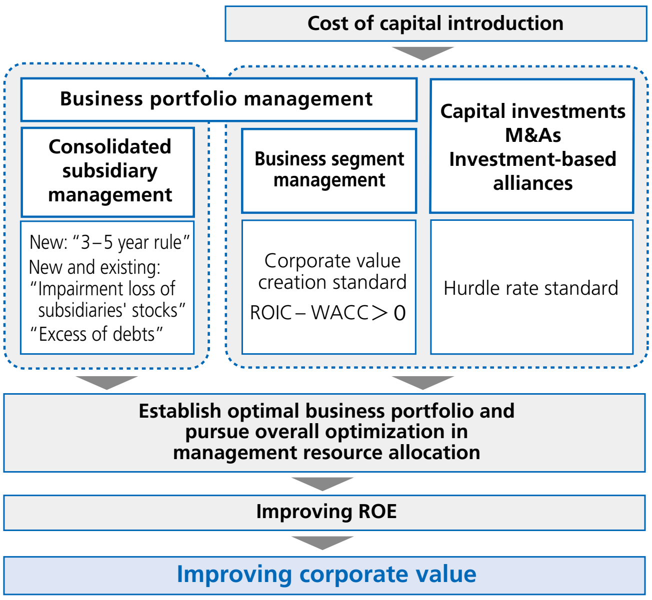
To visualize and better understand our business portfolio, we have produced a bubble chart in which the three elements of corporate value creation power are plotted along the X axis, compound annual growth rate (CAGR) for net sales is plotted along the Y axis, and each bubble size indicates an amount of corporate value created/year.

By basing our decisions on this built-in perspective on corporate value creation, we will make rational business decisions that are not excessively influenced by our history and emotional attachments to our company.

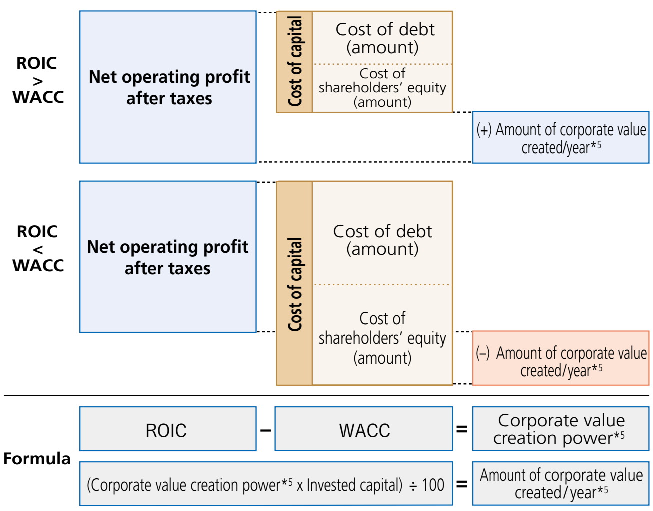
Businesses with negative potential for corporate value creation are considered unprofitable, even if they are currently in the black. If we see no improvement in a business' corporate value during a specified period, we will consider sell-off or withdrawing from it.

In order to realize Vision for 2025, it is essential that we improve our corporate value. Therefore, we must improve ROE, an important performance indicator. Unfortunately, we were unable to reach our ROE target in Phase 1. However, we noticed signs of improvement in ROA, which we use as a performance indicator within the Group. In Phase 1 of Vision for 2025, we made multiple large-scale capital investments. When these become operational and we have built our new business model, we will vigorously promote a variety of measures and initiatives to further improve profitability and efficiency.

### Corporate Value Improvement Process

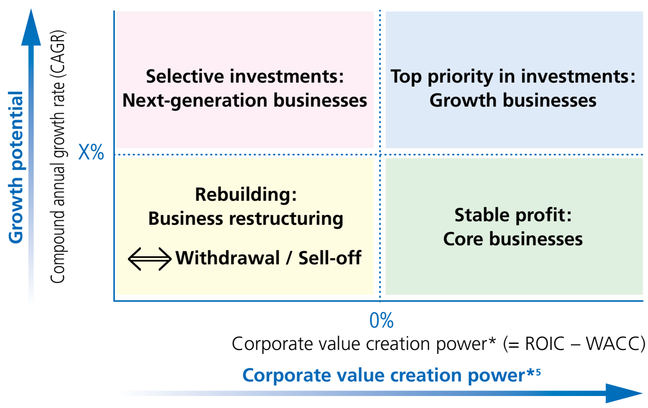



### Corporate Value Creation: Image & Formula




### Bubble Chart Aiming for Business Portfolio Identification & Visualization

Illustrating the three performance indicators of each business segment onto the graph below enables the corporate value creation status of each business segment to be identified and visualized.




*5 Both "Corporate value creation power" and "Amount of corporate value created/year" are terms coined by Furukawa Co., Ltd.

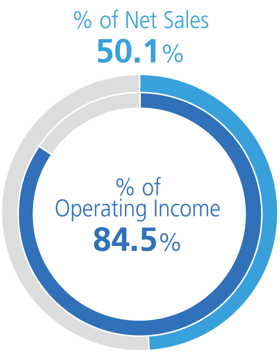
# Machinery

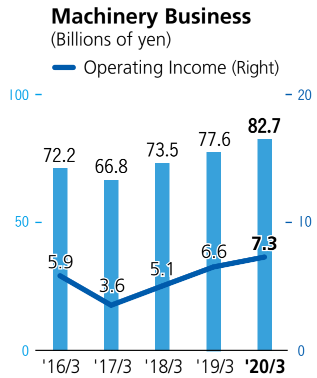
**The Machinery Business consists of three segments: Industrial Machinery (pumps, materials-related machines, steel bridges, etc.), Rock Drill Machinery (mining machinery, tunnel construction machinery, etc.), and UNIC Machinery (truck-mounted cranes and other cargo handing machines).**

In fiscal 2020, total sales of the Machinery Business—consisting of the Industrial Machinery, Rock Drill Machinery, and UNIC Machinery segments—amounted to ¥82,692 million, up 6.6% year on year, and operating income was ¥7,344 million, up 11.8%. This performance was driven by increased sales and income in the Industrial Machinery and UNIC Machinery segments, which contrasted with declines in sales and income in the Rock Drill Machinery segment.

For the year, the Machinery Business accounted for 50.1% of consolidated net sales and 84.5% of operating income. Compared with 53% in fiscal 2017 (the previous fiscal year of Medium-Term Business Plan 2019), the share of total operating income increased significantly by more than 30 percentage points. Of the Machinery Business' total sales, the Industrial Machinery segment accounted for 28.1%, the Rock Drill Machinery segment for 33.5%, and the UNIC Machinery segment for 38.4%. Of the Machinery Business' operating income, however, the Industrial Machinery segment accounted for 43.7%, the Rock Drill Machinery segment for 1.9%, and the UNIC Machinery segment for 54.4%.

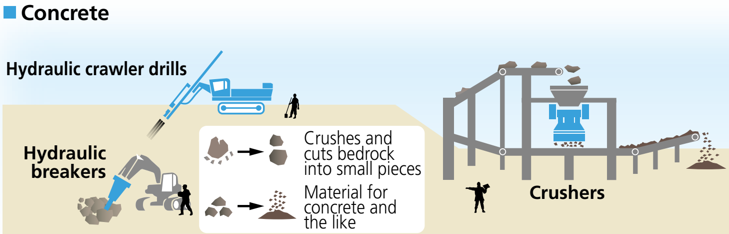
During the period covered by Medium-Term Business Policy 2022, we expect domestic demand to remain steady for services related to new Shinkansen lines, the Linear Chuo Shinkansen Line, national resilience, and regional revitalization, as well as Osaka Kansai Expo in 2025. In addition to capturing business related to these projects, we will strengthen our earnings foundation in expanding overseas markets, centered on infrastructure and resource-related development.



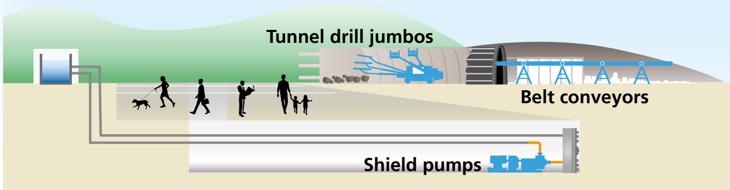

## Machinery Business: Priority Fields and Domestic Market Share

### Concrete



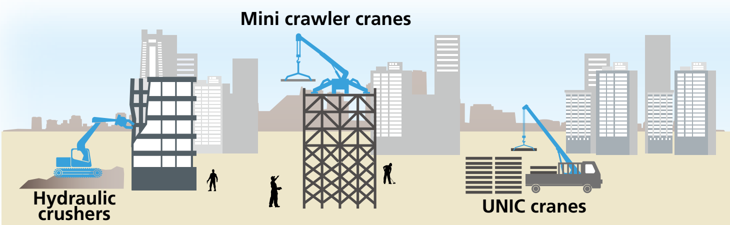

To mine for gravel and limestone, which are raw materials for concrete, we supply hydraulic crawler drills that are used to drill holes in rock, in which gunpowder is inserted for blasting. We also have hydraulic breakers, which are used to break large rocks into small pieces, and crushers and screens, used at plants to achieve the desired rock sizes. These products contribute to demand for concrete in various areas.

### Tunnel projects




We develop and manufacture tunnel drill jumbos, which are used to create openings for loading gunpowder needed for rock blasting in mountain tunnel projects. We also develop and make belt conveyors for transporting large amounts of earth and sand, as well as shield pumps, which use water to pump excavated earth and sand in underground tunnel projects. Here, our drilling and wastewater treatment technologies, amassed through mine development, come to the fore.

### Civil engineering and construction worksites




A single UNIC crane can transport and unload building materials and the like. In addition to UNIC cranes, we offer mini crawler cranes, which can operate independently in places inaccessible by truck, and hydraulic crushers that play a major role at demolition sites. Our construction machines feature exceptional functionality, operability, and safety and are also environmentally friendly.

# Industrial Machinery

**Features of the Industrial Machinery segment**

1. Stable domestic demand that accounts for majority of sales
2. Encompasses section plants (such as pumps and materials-related machinery) in addition to product sales
3. Includes contractor business, where orders consistently cover everything from design to installation (steel bridges and belt conveyors)

Furukawa Industrial Machinery Systems Co., Ltd.
President and Representative Director
**Katsuhira Kawashita**

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**Review of Fiscal 2020 Performance**

The Industrial Machinery segment reported increased sales from materials-related machines for an intermediate storage facility (Futaba-machi, Futaba-gun, Fukushima Prefecture). It also generated higher sales from large-scale projects, including sales of belt conveyors for construction of the Tokyo Gaikan Expressway, cargo handling equipment for an international bulk terminal at the Port of Onahama, belt conveyors for an intermediate storage facility (Okuma-machi, Futaba-gun, Fukushima Prefecture), and enclosed hanging belt conveyors for the Sakaigawa-Kanamori retention basin project (Machida City, Tokyo). Consequently, segment sales increased 29.3% year on year, to ¥23,237 million, and operating income jumped 53.6% to ¥3,208 million.

**Review of Medium-Term Business Plan 2019**

In the Industrial Machinery segment, we reorganized our business and strengthened our engineering capabilities*1 with the aim of transitioning from a simple equipment manufacturer to a strategic partner for our customers, with very good outcomes. Our proprietary belt conveyor technologies were adopted in multiple large-scale construction projects, enabling us to expand our contractor business. In addition to a specified cemented waste treatment facility (Naraha-machi, Futaba-gun, Fukushima Prefecture), for example, we provided belt conveyors for construction of the Tokyo Gaikan Expressway, cargo handling equipment for an international bulk terminal at the Port of Onahama, belt conveyors for an intermediate storage facility (Okuma-machi, Futaba-gun, Fukushima Prefecture), and enclosed hanging belt conveyors for the Sakaigawa-Kanamori retention basin project (Machida City, Tokyo). In materials-related machinery, we provided crushers for an intermediate storage facility (Futaba-machi, Futaba-gun, Fukushima Prefecture), which is a section plant project, and we attracted orders for screens, briquetting machines, and certain types of plant equipment.

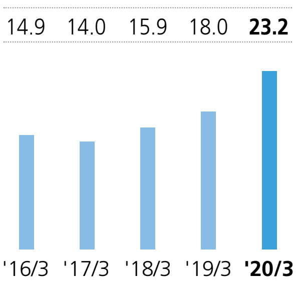
**Future Measures**

Going forward, we will continue our strategy stated under Medium-Term Business plan 2019 of "Increasing our involvement in section plant construction projects and expanding our contractor business, including large-scale projects for both the public and private sectors, in order to transition from a standalone machinery manufacturer, strengthen our engineering capabilities, and enhance our business foundation in the domestic market." As our basic strategy to establish a solid growth trajectory, we will attract new orders by providing technical proposals for section plant construction and other projects, cultivate demand for SICON®*2 enclosed hanging conveyors, and strengthen our earnings foundation by capturing new demand for pumps and materials-related machines. In the contractor business, we will continue striving to win orders for large-scale construction projects by envisaging unexpected situations and engaging in rigorous risk management and project management, while proposing conveyance technologies using our own belt conveyors, with the aim of resolving various social issues.

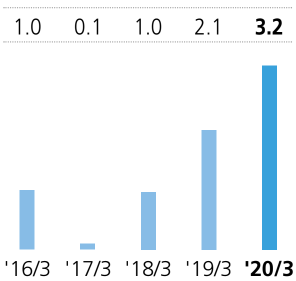
*1 Engineering capabilities: The ability, as part of the sales process, to use experience, technology, and knowledge as tools in order to make optimal proposals to customers based on consideration of a comprehensive balance of all factors, including functions, costs, operating environment, and safety.

*2 SICON® is a registered trademark of ContiTech Transportbandsysteme GmbH.

**Net Sales** (Billions of yen)




**Operating Income** (Billions of yen)




Belt conveyor installation work
(Sakaigawa-Kanamori retention basin project)

Belt conveyor installation work
(Tokyo Gaikan Expressway)

# Rock Drill Machinery

**Features of the Rock Drill Machinery segment**

1. Over 50% of sales derived from overseas demand
2. High market share as sole comprehensive rock drill manufacturer in Japan
3. Hydraulic equipment, which forms the heart of rock drill machines, made in-house (using high-precision machining / heat treatment)

Furukawa Rock Drill Co., Ltd.
President and Representative Director
**Hiroyuki Abe**

**Review of Fiscal 2020 Performance**

The Rock Drill Machinery segment benefited from healthy domestic shipments of hydraulic breakers and hydraulic crawler drills on the back of continued steady demand for urban redevelopment and construction investments. We also shipped tunnel drill jumbos to construction projects related to the Linear Chuo Shinkansen Line, new Hokkaido Shinkansen lines, and the Chubu Odan Expressway. However, revenue declined against the previous fiscal year, when we made steady shipments of tunnel drill jumbos for Kumamoto earthquake restoration and reconstruction work. Overseas, there was a decrease in shipments of hydraulic crawler drills, especially to North America, compared with the previous fiscal year when shipments of equipment complying with Tier 3 exhaust gas emissions were strong. In other regions, sales declined as deteriorating market conditions dampened overall demand. Consequently, sales in the Rock Drill Machinery segment were down 8.9%, to ¥27,663 million, and operating income fell 91.6%, to ¥143 million.

**Review of Medium-Term Business Plan 2019**

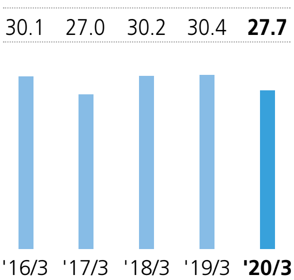
In order to strengthen our stock business*, which is a priority issue, we reinforced our Life Cycle Support (LCS) capabilities to recognize the value of products across the entire life cycle, not just at time of sale. In May 2018, for example, we established our own maintenance facilities in the Tohoku and Kansai regions. In an effort to create a comprehensive LCS system, meanwhile, in May 2019 we launched a standard installation service for equipment used to control the operations of hydraulic crawler drills. By collecting and analyzing operational data using IT, we are strengthening proposals to help improve productivity of our customers' facilities. In the tunnel business, earmarked for steady growth in demand, we expanded and upgraded our lineup of domestic drill jumbo peripheral work machines, such as rock bolters, concrete spraying machines, and erectors. We also enhanced our lineup of super-large hydraulic breakers to handle demolition work accompanying urban redevelopment and infrastructure development projects. In October 2017, we started a capital investment plan aimed at increasing the production capacity of the Takasaki Works and other facilities. Although we completed the first stage of this plan, we decided to postpone and reassess capital investment from the second stage in light of this segment's business performance and other factors.

**Future Measures**

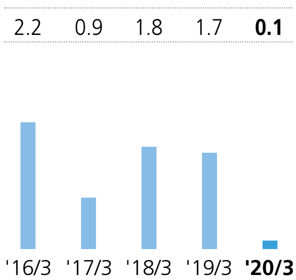
Going forward, we will continue expanding earnings in both the flow business and stock business by strengthening our LCS capabilities. We will also reinforce our earnings foundation for drill products (blast hole drills and drill jumbos), while adopting a basic strategy of developing new markets and introducing new products to increase profits. Domestic demand for tunnel drill jumbos, which are well suited to mountain tunnel construction, will eventually decline. In response, we will step up efforts to build an overseas foundation for our drill jumbo business while fortifying our overseas business in blast hole drills. In the process, we will work to strengthen and rebuild our overseas marketing capabilities, which is a priority. One of our most pressing issues is to use LCS to build business models with the aim of strengthening our stock business by providing various services that benefit customers' businesses (such as extended warranty, full maintenance, and proposals for using ICT-based operation support systems to enhance work efficiency). We will also further enhance our lineup of products that contribute to safety and efficiency at tunnel excavation sites, such as fully automatic drill jumbos and automatic rock bolters, through joint development efforts with the Technology Division.

* Stock business: Refers to after-market business (sales of spare parts, maintenance services, used product trade-ins and sales, etc.) and rental business, as opposed to flow business (product sales), which is more susceptible to economic fluctuations.

**Net Sales** (Billions of yen)




**Operating Income** (Billions of yen)




Tunnel drill jumbos

Hydraulic crawler drills

# UNIC Machinery

**Features of the UNIC Machinery segment**

1. Around 80% of sales derived from domestic demand
2. Domestic market share of 50% for both truck-mounted cranes and UNIC carriers
3. In-house design and manufacture of cylinders, valves, and other core components of our hydraulic equipment

Furukawa UNIC Corporation
President and Representative Director
**Minoru Nakatogawa**

**Review of Fiscal 2020 Performance**

In the UNIC Machinery segment, we enjoyed an increase in domestic sales thanks to higher shipments of mainstay UNIC cranes, reflecting a rush in demand and increased orders ahead of a partial revision of mobile crane structural standards enacted in March 2019. There was also a rush in demand prior to enactment of exhaust emission standards for light trucks in September. In addition, we posted healthy shipments to major rental companies. Meanwhile, overseas shipments and sales of UNIC cranes declined, due mainly to economic slowdown in Southeast Asian countries. Accordingly, segment sales rose 8.7%, to ¥31,791 million, and operating income climbed 43.1%, to ¥3,993 million.

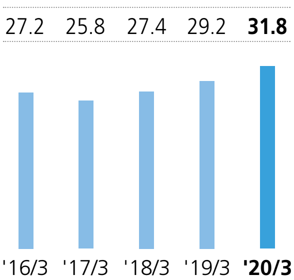
**Review of Medium-Term Business Plan 2019**

Over the period of Medium-Term Business Plan 2019, we sought to secure stable earnings and further enhance competitiveness by increasing the functionality and added value of UNIC cranes. In October 2018, for example, we started selling newest models in our "G-FORCE" series of UNIC cranes. This series features models, from small to large, with higher safety levels that comply with revised structural standards for mobile cranes, enacted by the Ministry of Health, Labour and Welfare. Subsequently, we made all of our UNIC cranes compliant with the revised standards, specifically, our super-large UNIC cranes (January 2019), mini crawler cranes (February 2019), and small truck-mounted UNIC cranes (March 2019). As a result, we have completed our full lineup of safety-enhanced models that meet the revised structural standards for mobile cranes. We also approached the completion of a capital investment program that started in April 2016, aimed at reinforcing the "mother factory" functions of our Sakura Plant, which has a three-pronged production system (Japan, China, and Thailand). In addition, we reformed our hydraulic equipment manufacturing processes by consolidating processing machinery in a newly established hydraulic equipment factory to enhance production efficiency. We also reformed our coating processes, installing cationic electrodeposition and other coating equipment to improve the quality of coating. Moreover, we reformed our body mounting processes by cutting outsourcing costs and shortening delivery times to improve profitability while also doubling our crane-mounting capacity.

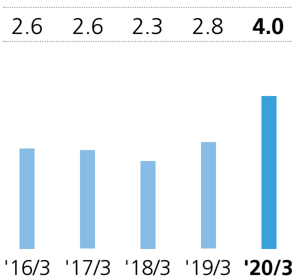
**Future Measures**

Looking ahead, we will seek to secure stable income from domestic sales and expand income from overseas sales, by promoting advanced functions and higher added value in order to strengthen our competitiveness, advancing the stock business, and reinforcing our overseas product, sales, service, and technological capabilities. Accordingly, we will work to maximize the benefits of capital investments in the Sakura Plant and promote further automation. At the same time, we will enhance competitiveness by increasing functionality and high added value of our UNIC cranes, mini crawler cranes, and UNIC carriers, while developing new functions and options to meet diversifying applications. We will also reinforce our service system by expanding our overseas sales network and strengthening our sales capabilities at the retail level.

Net Sales (Billions of yen)




Operating Income (Billions of yen)



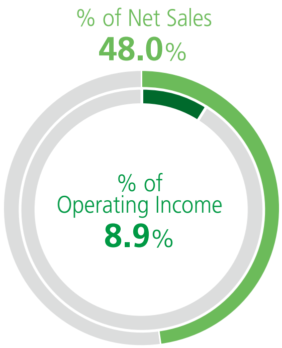

UNIC cranes

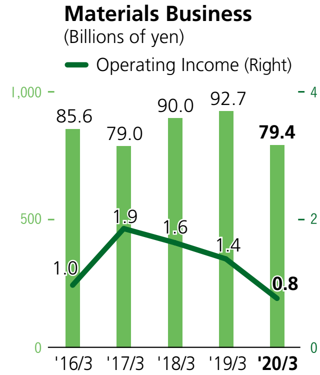
Mini crawler cranes

UNIC carriers

# Materials

**The Materials business—consisting of the Metals, Electronics, and Chemicals segments—posted a 14.4% decline in sales, to ¥79,367 million, and a 44.4% fall in operating income, to ¥777 million. The Materials business accounted for 48.0% of net sales and 8.9% of operating income.**




## Metals

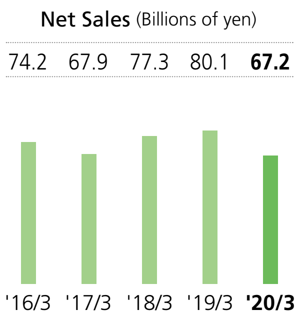
In 2019, the price of electrolytic copper ranged between US$5,500/ton and US$6,000/ton amid prolonged U.S.–China trade friction and tensions in the Middle East. The price then recovered to US$6,300/ton in January 2020 due to anticipation about the U.S.–China trade agreement, but subsequently plummeted to US$4,797/ton at fiscal year-end amid predictions of a slowdown in global economic growth stemming from the spread of COVID-19. Demand for copper products for electronic equipment maintained a recovery trend, but softened in the fourth quarter, while demand for copper wire for construction work remained firm. The Company's sales of electrolytic copper declined due to a 1,282-ton decrease in volume sales, to 83,864 tons, as well as falling overseas market prices. Sales of electrolytic gold declined due to a decrease in production volume. Accordingly, sales in the Metals segment sales declined 16.1% year on year, to ¥67,150 million, and operating income fell 48.2%, to ¥302 million.

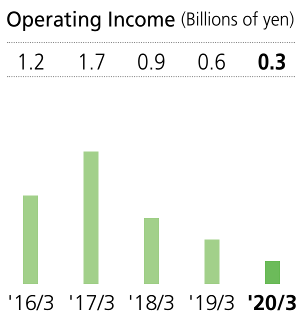
Our metals business is impacted by trends in international markets and purchasing conditions for copper concentrate, which cause revenue to fluctuate significantly. Going forward, our challenge is to identify profitability and future potential of contracted copper smelting business, then conduct a fundamental review of it.

Furukawa Metals & Resources Co., Ltd.
President and Representative Director
**Masanori Saito**


Electrolytic copper


Gibraltar Copper Mine in Canada




### Copper Prices and Foreign Exchange Rates

| | 2016/3 | 2017/3 | 2018/3 | 2019/3 | **2020/3** |
|---|---|---|---|---|---|
| LME copper price (average; US$/ton) | 5,215 | 5,154 | 6,444 | 6,341 | **5,860** |
| JPY rate per US$ (average for fiscal year) | 120.13 | 108.42 | 110.85 | 110.91 | **108.74** |

### Copper Production and Sales Volume*

| | 2016/3 | 2017/3 | 2018/3 | 2019/3 | **2020/3** |
|---|---|---|---|---|---|
| Copper production volume (tons) | 86,466 | 84,062 | 88,004 | 81,346 | **77,068** |
| Copper sales volume (tons) | 94,327 | 91,294 | 90,104 | 85,146 | **83,864** |

* Furukawa Metals & Resources Co., Ltd.

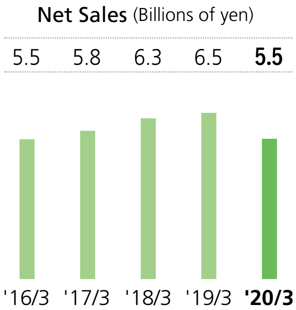
## Electronics

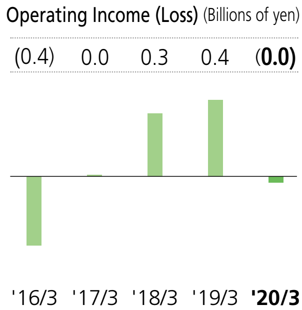
In the fiscal year under review, sales of high-purity metallic arsenic declined due to sluggish demand for compound semiconductors, a major application for that material, stemming from inventory adjustments among users in Japan and overseas that began in early 2019. Sales of crystal products also decreased due to softening demand for individual semiconductor devices. As a result, the Electronics segment posted a 15.6% decrease in sales, to ¥5,506 million, and an operating loss of ¥35 million, compared with operating income of ¥408 million in the previous fiscal year.

Our basic strategy going forward is to promote growth and new market launches of aluminum nitrides and diffractive optical elements (DOEs), which are strategic products, as well as hybrid coils. In aluminum nitrides, we will utilize our high-value-added firing technology to target business expansion while developing aluminum nitrides with high levels of thermal conductivity and toughness. In DOEs, we will deploy our microfabrication technology to expand sales channels. And in hybrid coils, we will employ a high degree of design freedom to develop attractive product samples.


High-purity metallic arsenic—high-purity gallium arsenide semiconductor materials used in mobile phones and other electronic devices, red laser diodes, and LEDs


Furukawa Denshi Co., Ltd.
President and Representative Director
**Hitoshi Iida**



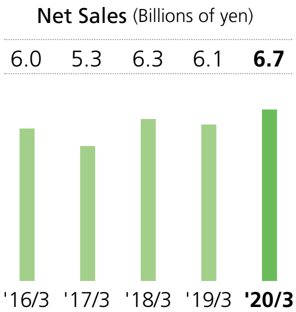

## Chemicals

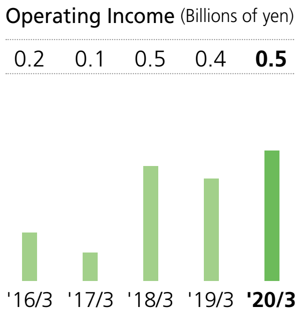
In fiscal 2020, we reported a year-on-year increase in sales of sulfuric acid despite a decline in sales volume. This was due to rising unit prices stemming from price revisions implemented since the second half of 2018, as well as an increase in the sales volume of high-value-added products. Sales of cuprous oxide and cupric oxide used for copper plating also increased in both volume and value terms. As a result, sales in the Chemicals segment rose 9.5% year on year, to ¥6,711 million, and operating income jumped 25.5%, to ¥510 million.

Going forward, our basic strategy is to expand income from cuprous oxide and other existing products while start commercializing and fostering newly developed products, such as metallic copper powder. In sulfuric acid, we will further differentiate ourselves through our high-quality offerings, and in metallic copper powder we will enhance product quality, establish mass production and sales systems, and develop attractive product samples to expand sales channels.


Cuprous oxide is a red powdery substance used to prevent biofouling on the underside of marine vessels.


Furukawa Chemicals Co., Ltd.
President and Representative Director
**Kazuyoshi Iwama**

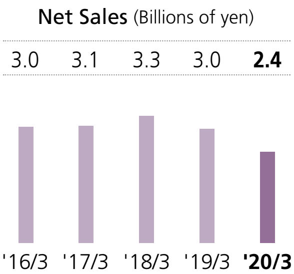


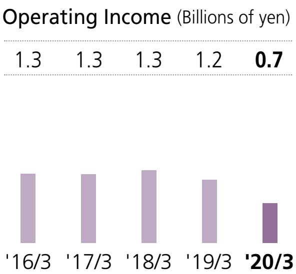




## Real Estate

Our Real Estate segment posted a year-on-year sales decline due to a decrease in floor space occupied by large tenants in the Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2), which is our main facility, as well as withdrawal of tenants from the Furukawa Osaka Building, which closed on December 31, 2019. Accordingly, segment sales decreased 20.4% year on year, to ¥2,386 million, and operating income fell 36.8%, to ¥736 million.

Looking ahead, our basic strategy is to continue making effective use of real estate owned by the Group, including the Furukawa Osaka Building, while securing stable earnings from the Muromachi Furukawa Mitsui Building. Another challenge is to decide our future plan for the Furukawa Osaka Building, which is now closed.





Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2)

# Industrial Machinery segment: Belt conveyors that address social issues

## Transporting earth and sand using belt conveyors

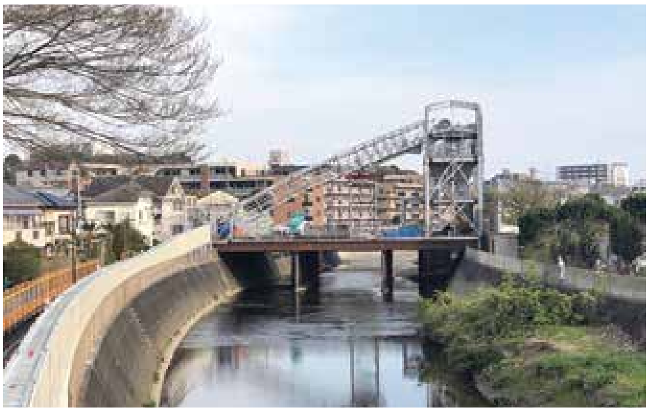
Traditionally, dump trucks have been used widely to transport earth and sand generated during civil engineering and construction projects. However, the population of truck drivers is decreasing due to Japan's declining working-age population. In addition, many dump trucks come and go during the construction period, causing concern over traffic jams and accidents on surrounding roads, as well as deterioration of the local environment due to dust and $CO_2$ emissions. To resolve these social issues, more and more companies are using belt conveyors instead of dump trucks to transport earth and sand.

In the Industrial Machinery segment, we have solid experience and transportation technologies cultivated in mine development, as well as the technical ability to make integrated responses covering design, manufacture, machining, assembly, and installation. Utilizing these traits, we have built a proven track record. For example, our belt conveyors are used in various large-scale projects, including relocation of people to higher ground in Rikuzentakata City and tunnel construction related to the Tokyo Gaikan Expressway.

In recent years, Japan has been subject to flood damage caused by frequent large-scale typhoons and linear rain bands stemming from climate change. Indeed, record-breaking heavy rainfalls have resulted in enormous damage from river overflows, floods, and landslides. In response, various local government entities are taking measures to prevent rivers from flooding. One of these is the construction of retention basins that temporarily store water from rising rivers.

Project for relocating people to higher ground in Rikuzentakata City (installation completed in fiscal 2015, demolition in fiscal 2017)

Belt conveyors provided to the Tokyo Gaikan Expressway project (installation completed in fiscal 2020)

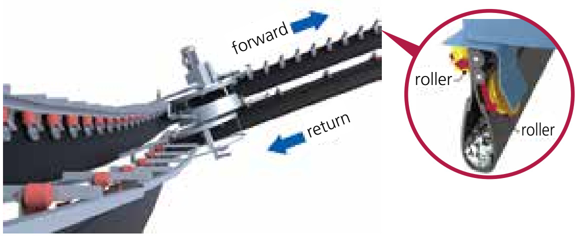


Enclosed hanging belt conveyor provided to the Sakaigawa–Kanamori retention basin project (Machida City, Tokyo)

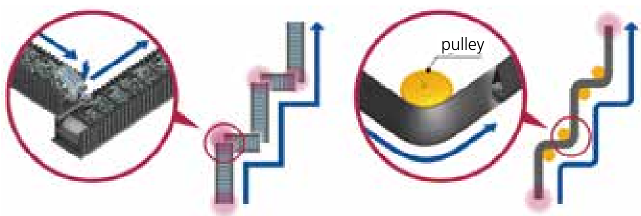
Under its Torrential Rain Measures Basic Policy, the Tokyo Metropolitan Government is planning to build the Kanamori Basin on the Sakaigawa River, which flows through Machida City in Tokyo's southwest. This project will require the conveyance of large amounts of earth and sand. Because it is adjacent to residential areas, however, there were concerns about using dump trucks for this purpose. These are related to environmental impacts from exhaust gas, dust, noise, and vibration, as well as the need to prevent accidents and otherwise ensure public safety. In consideration of the neighborhood living environment and safety, a decision was made to use SICON® enclosed hanging belt conveyors, made by the Group's Industrial Machinery segment, to convey earth and sand generated during the project.

## The structure of the SICON® belt conveyor

SICON® enclosed hanging belt conveyors will be used in the Kanamori Basin project. Unlike regular belt conveyors, materials conveyed (such as earth and sand) are wrapped in a pear-shaped "pouch" that is suspended and transported in monorail fashion to minimize spills, dust, noise, and the like. This enables materials to be conveyed quietly without being dropped. In addition, conventional belt conveyors require transfer points to accommodate changes in direction. With SICON® belt conveyors, however, the direction of the conveyance line can be changed without the need for transfer points. This makes it possible to adopt optimal conveyance configurations in small spaces according to site conditions. By complementing its lineup of belt conveyors and other machines with engineering capabilities that bring together experience and new ideas, the Group's Industrial Machinery segment will continue making proposals to help resolve social issues. These include the need for disaster prevention and mitigation measures, building national resilience, environmental problems, and a declining working-age population.




On both the forward and return routes, the conveyed materials are wrapped and hermetically sealed in a pear-shaped pouch, making it possible to prevent foreign matter from entering and materials from falling out. Moreover, since the rollers only rotate during conveyance, noise and vibration are minimized.




SICON® has a high level of strength against bending, which negates the need for additional transfer points along the conveyance line and minimizes noise and dust buildup associated with such transfer points.

* SICON® is a registered trademark of ContiTech Transportbandsysteme GmbH.

# The Furukawa Company Group's ESG Activities

**Since its founding in 1875, the Furukawa Company Group has learned many lessons from its experience at the Ashio Copper Mine, which had a history of pollution. The experiences and efforts of our early pioneers have paved the way for our approach to ESG and the SDGs today. Promoting an integrated thinking that combines our business and CSR activities ensures that we carry on the DNA cultivated by our pioneers. At the same time, it enables us to realize a sustainable society and continue advancing as a company.**

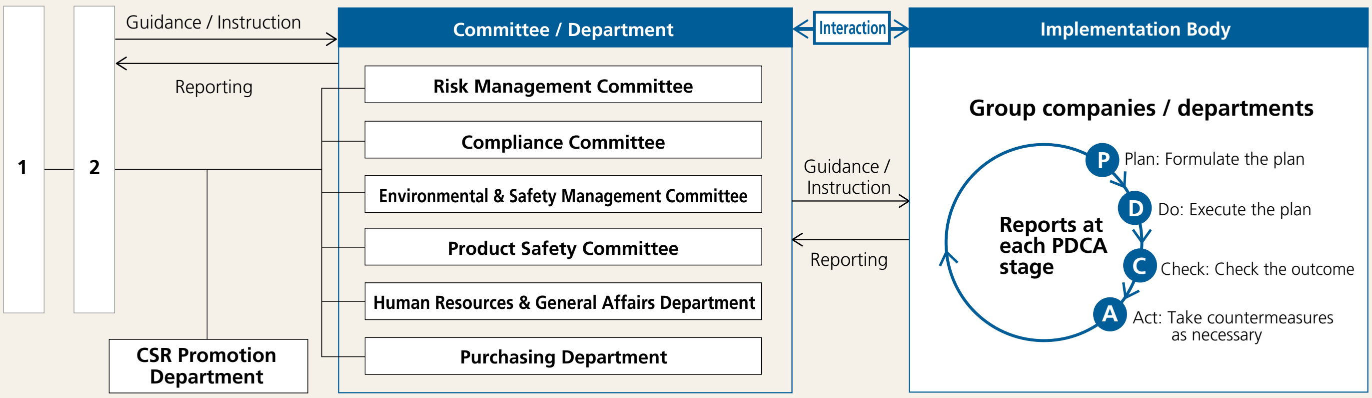
## Remaining a Company That Is Indispensable to Society

Under its long-term Vision for 2025, the Group is working to increase the value of the Furukawa brand through "marketing-based management" that incorporates CSV perspectives. The vision also clarifies our commitment to "increase corporate value by emphasizing business practices that reflect CSR and ESG issues recognized and to be solved by the Group." By promoting an integrated thinking that combines our business and CSR activities, we will work to create social value and corporate value by helping resolve various social issues faced by stakeholders. These include achieving the SDGs, the need to build national resilience in Japan, and a declining working-age population.

## CSR Promotion System

We need to pursue CSR initiatives in order to solidify our foundation for conducting business activities. The Group's CSR policy is to promote business activities on a foundation that is firmly responsive to the environment and society, in addition to governance. To powerfully promote CSR activities, we established the CSR Promotion Meeting to clarify our responsibilities to stakeholders and spearhead CSR activities. Chaired by a representative director, the Meeting deliberates various CSR-related issues, such as basic CSR activity policy, the CSR promotion system, formulation of activity plans, verification and evaluation of activity status, and development of priority measures. The CSR Promotion Meeting consists of four committees (Risk Management Committee, Compliance Committee, Environmental & Safety Management Committee, and Product Safety Committee) and two departments (Human Resources & General Affairs Department and Purchasing Department). The Meeting collaborates with each Group company and the headquarters, which is the executive division for CSR activities, to advance a PDCA cycle of planning, implementation, evaluation, and improvement.

**CSR Promotion System**




1. President and Representative Director
2. CSR Promotion Meeting

## Relationships with Stakeholders

In the course of strengthening CSR activities and demonstrating our Management Philosophy, we have identified our stakeholders as listed below. Our quest is to clarify our responsibilities to each stakeholder group and maintain close communications, in order to build relationships of trust and thus maximize corporate value.

| Stakeholder | Responsibility |
|---|---|
| **Customers** | We shall provide customers with high-quality products and services in order to increase satisfaction levels. |
| **Business partners** | We shall build mutually beneficial relationships conducive to harmonious coexistence through stable procurement activities based on the principles of fairness and economic rationality. |
| **Shareholders and other investors** | We shall work to maximize corporate value through communications focusing on timely, appropriate information disclosure and IR activities. |

| Stakeholder | Responsibility |
|---|---|
| **Employees** | We shall create safe, healthy, and motivating workplaces in which our diversified human resources can excel while adopting appropriate evaluation standards and fair incentives. |
| **Local communities** | We shall build and maintain favorable relationships of trust by pursuing social contribution activities aimed at harmonious coexistence with local communities. |
| **Global environment** | We shall protect biodiversity by developing environmentally friendly technologies and products while minimizing the environmental impact of our activities through savings of energy and resources and reduction of waste. |

# CSR and ESG Issues

**The Group has added a new policy as part of its Vision for 2025. The policy states our commitment to "increase corporate value by emphasizing practices that reflect CSR and ESG issues recognized and to be solved by the Group" as a core foundation of management. We also clarified the relationship between ESG, CSR priority issues, medium-term CSR goals (fiscal 2021–2023), and relevant major SDGs.**

## Establishing a Robust Management Foundation: Increase corporate value by emphasizing practices that reflect CSR and ESG issues recognized and to be solved by the Group

In order to pursue its business activities and fulfill its corporate social responsibility, the Group has identified CSR priority issues, formulated medium-term CSR goals to resolve these issues, and is stepping up CSR-related efforts through the PDCA cycle. Through these initiatives, we aim to help accomplish the SDGs, which were unanimously adopted by the United Nations for achievement around the world by 2030.

## Identifying CSR Priority Issues

The Group identifies CSR priority issues and reinforces its CSR activities to ensure that its business activities contribute to society in the broader sense. To identify priority issues, we selected important CSR-related issues from the perspectives of both stakeholders and the Group, then analyzed and evaluated the importance of those issues and finalized the Group's CSR priority issues.

### Steps to Identify CSR Priority Issues

Extract issues

↓

Evaluate importance to stakeholders and the Group

↓

Analyze the importance of issues

↓

Decide and approve priority issues

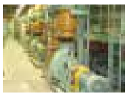
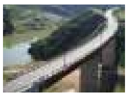
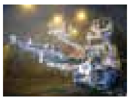
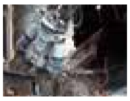
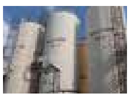
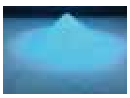
| ESG Section | CSR Priority Issues | Medium–Term CSR Goals (FY2021–2023) | Major Related SDGs |
|---|---|---|---|
| E (Environmental) | Promote environmental protection activities | • Achieve $CO_2$, water, and waste reduction targets<br>• Thoroughly implement "5S" activities targeting zero accidents / disasters and strengthen prevention<br>• Promote accurate correction of environmental and safety audit points and strengthen prevention<br>• Ensure sound management of company-owned forests and promote animal / plant regeneration activities for biodiversity | 3, 6, 7, 11, 12, 13, 15 |
| S (Social) | Offer products and services that satisfy customers | • Strengthen management of changes aimed at improving product quality<br>• Strengthen education and information management to raise awareness about quality<br>• Strengthen quality assurance management<br>• Review and improve product safety evaluation system | 4, 8, 9, 11, 12, 14, 17 |
| | Build fair and impartial business relationships and relationships of reciprocal trust with business partners | • Build CSR-oriented procurement system<br>• Strengthen supplier management<br>• Strengthen internal CSR activities | 8, 10, 12, 16, 17 |
| | Promote social contribution activities | • Promote social contribution activities aimed at coexistence with local communities<br>• Maintain and build good relationships of trust with local communities | 9, 11, 12 |
| | Realize comfortable working environments for employees and give them fair evaluation and treatment | • Develop talented human resources<br>• Promote health management<br>• Promote diversity<br>• Improve working environments | 3, 4, 5, 8, 9, 10, 13 |
| G (Governance) | Build a meticulous group governance system | • Build crisis management system<br>• Build robust risk management system | 3, 11, 13 |
| | Communicate with shareholders and other investors | • Ensure timely and appropriate information disclosure<br>• Increase corporate value through communication via IR<br>• Strengthen the IR system | 17 |
| | Strengthen compliance | • Strengthen awareness-raising education to entrench compliance<br>• Thoroughly disseminate the Charter of Corporate Conduct and the Code of Behavior for Officers and Employees<br>• Develop and expand various guidelines and manuals<br>• Entrench timely and appropriate reporting of compliance violations | 8, 16 |

# Marketing-Based Management That Incorporates CSV Perspectives

**The Group will generate corporate value by providing infrastructure, products, technologies, and services that help resolve social issues, while at the same time striving to create social value.**

**Of the 17 SDGs, we are focusing particular attention on achieving Goal 11 (“Make cities and human settlements inclusive, safe, resilient and sustainable”) and Goal 9 (“Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation). We will also strive to create social value by building social infrastructure as stated in “The Furukawa Company Group’s Value Creation Process” (please see pages 2–3), while realizing a safe, environmentally friendly, and prosperous society.**

## Helping Achieve the SDGs through Marketing-Based Management That Incorporates CSV Perspectives

| Segment | Main Products, Technologies, and Services | SDGs with High Contribution Levels (◎: Especially Important; ○: Important) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2 | 3 | 6 | 7 | 9 | 11 | 12 | 13 | 14 |
| Industrial Machinery |  Pumps<br> Belt conveyors<br> Steel bridges and steel structures | | ○ | ◎ | | ◎ | ◎ | | ○ | ◎ |
| Rock Drill Machinery |  Tunnel drill jumbos<br> Hydraulic crawler drills<br> Hydraulic crushers | | ○ | | | ◎ | ◎ | ○ | | |
| UNIC Machinery |  UNIC cranes<br> Mini crawler cranes<br> Ocean cranes | | ○ | | | ◎ | ◎ | | | ◎ |
| Metals |  Electrolytic copper | | | | ○ | ◎ | ◎ | | | |
| Electronics |  High-purity metallic arsenic<br> Coils<br> Optical components (lenses) | | ○ | | | ◎ | ◎ | | | |
| Chemicals |  Sulfuric acid<br> Aluminum sulphate<br> Ferrous sulfate | ○ | ○ | ◎ | | ◎ | ◎ | | | |

# Corporate Governance

**The Group maintains fundamental policies regarding corporate governance with respect to heightening managerial transparency, building an effective managerial framework through ongoing efforts to transform its corporate structure, increasing its corporate value by generating consistent profits, and contributing to its shareholders and other stakeholders.**

**Under these policies, each of the Group's operating companies assumes clear asset and profitability management responsibilities while maintaining unity as a Group. We aim to promote agile management and provide products and services that satisfy our customers and maximize the corporate value of the entire Group.**

## Overview of Corporate Governance System and Reasons for Its Adoption

The Company employs a company system with a Board of Directors and an Audit & Supervisory Board to supervise business execution. In addition, we have appointed Outside Directors to ensure the validity of decision-making and the objectivity and transparency of management. The Audit & Supervisory Board Members are managers of other companies and persons with knowledge of financial accounting, who use their specialized knowledge and experience to give advice to management and check the status of operations. We consider that management oversight is functioning effectively under the current system.

### Directors and Board of Directors

The Board of Directors, chaired by President and Representative Director Naohisa Miyakawa, holds regular meetings once a month, and extraordinary meetings as necessary and supervises the business execution of the entire Group as a supervising body. The Board consists of nine members as of June 26, 2020, including three Outside Directors.

### Executive Officer System

The Company employs an Executive Officer System which facilitates quicker decision making and defined responsibilities in terms of keeping management supervisory functions separate from executive functions. Executive Officers perform their tasks according to business plans determined by the Board of Directors, and report the status of business execution as appropriate to the Board of Directors and the Management Committee. The Company has 16 Executive Officers as of June 26, 2020, including four serving as Directors.

### Management Council and Management Committee

The Management Council sets the Group's fundamental management policies and strategies, and makes decisions on important matters. Meanwhile, the Management Committee meets monthly to report on the business execution of the Company and its core operating companies, and accordingly reviews such matters and provides direction in that regard. Key managerial issues addressed by the Management Council are referred to the Board of Directors for discussion and decisions.

### Audit & Supervisory Board and Its Members

The Audit & Supervisory Board is chaired by Minoru Iwata, a full-time member. It holds meetings in a timely manner to discuss and decide on audit policies, methods of investigating business decisions and the status of financial assets, and other matters related to the execution of duties by members. The Audit & Supervisory Board consists of four members as of June 26, 2020, including two outside members.

### Internal Control Division

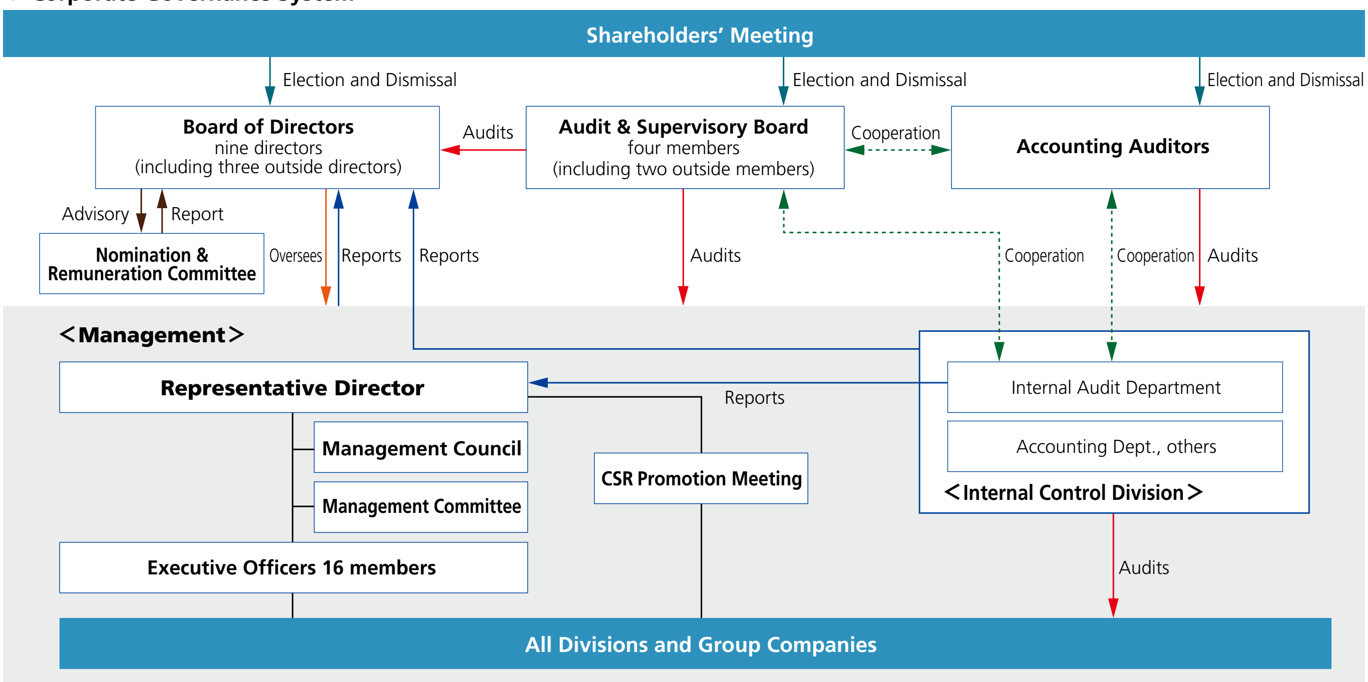
Internal audits are implemented by the Internal Control Division, centered on the Internal Audit Department. The Internal Audit Department consists of five members, including its General Manager.

### Nomination & Remuneration Committee

The Nomination & Remuneration Committee serves as an optional advisory body to the Board of Directors. It receives request for advice from the Board of Directors regarding candidates for Directors and Audit & Supervisory Board Members, as well as selection and dismissal of Representative Directors and Executive Directors and remuneration for Directors, then deliberates and reports as necessary. The Committee met four times between November 2019 and May 2020. It consists of the following four members.

Chairman: Tatsuya Tejima, Outside Director
Member: Yoichi Mukae, Outside Director
Member: Kazumi Nishino, Outside Director
Member: Naohisa Miyakawa, President and Representative Director

### Corporate Governance System



**Evaluating the Effectiveness of the Board of Directors**

To analyze and evaluate the effectiveness of the Board of Directors, the Company conducts questionnaire-based surveys of Directors and Audit & Supervisory Board Members, and exchanges opinions with Outside Officers. The results of these activities are reported to the Board of Directors for discussion. Note that the questionnaire-based survey for fiscal 2020 was conducted through a third-party organization in pursuit of greater objectivity.

The matters identified as issues to address for improvement in fiscal 2020 have largely been addressed, and the Board of Directors received relatively high marks for matters related to structure and management.

In fiscal 2021, the Board of Directors will strive to further improve its effectiveness through five initiatives: (1) Promoting the digitization of documents; (2) Improving explanations and descriptions relating to proposals; (3) Adding supplementary explanations and the like relating to Management Council meeting agendas to reported matters; (4) Expanding the provision of information about Group companies to Outside Officers; and (5) Exchanging opinions about IR activities and detailed reports on the status of investor dialogue.

## Internal Control System

The Group's Basic Policy on Establishing an Internal Control System encompasses corporate governance, risk management, compliance, and internal audits. Under the policy, internal controls are to be implemented with an emphasis on promoting CSR, in addition to ensuring efficient and appropriate business execution. Moreover, the Group continually reassesses its internal control systems and otherwise strives to build effective and efficient systems in order to ensure the appropriateness of operations.

## Independence of Outside Directors and Outside Audit & Supervisory Board Members

The Company appoints Outside Directors and Outside Audit & Supervisory Board Members with abundant experience and expertise in various fields, as well as impartial perspectives. This is to ensure the appropriateness of the Company's management decisions and the effectiveness of oversight and audits of management. As of June 26, 2020, the Company has three Outside Directors and two Outside Audit & Supervisory Board Members.

In addition, the Company stipulates that Outside Officers (Outside Directors and Outside Audit & Supervisory Board Members, including candidates) do not fall under the following criteria concerning independence. Outside Officers who meet such criteria are designated and registered as Independent Directors / Auditors under the rules of the Tokyo Stock Exchange. As of June 26, 2020, the Company has four Independent Officers.

**Independence Standards for Outside Officers (Must not meet the following criteria)**

(1) Executive Directors, and employees of the Group
(2) Business partners of the Group (those who provide products or services mainly to the Group and whose transactions with the Group were equivalent to more than 2% of net sales of the business partners in the most recent fiscal year of such business partners) or executives of such business partners
(3) Main business partners of the Group (those who are provided products or services by the Group and whose transactions with the Group were equivalent to more than 2% of net sales of the Group in the most recent fiscal year of the Group) or executives of such business partners
(4) Executives of financial institutions that are major lenders to the Group (lenders whose loan amounts were equivalent to more than 2% of the Group's consolidated total assets at the most recent fiscal year-end)
(5) Individuals earning ¥10 million or more per year from the Group in monetary or other benefits as specialists (including consultants, accountants, and lawyers) excluding executive remuneration, or individuals employed by companies earning ¥100 million or more per year from the Group
(6) Individual shareholders who hold 10% or more of the Company's voting rights (or Executive Directors, Executive Officers, or employees of corporations that hold 10% or more of the Company's voting rights)
(7) Individuals who had fallen under (1) to (6) above in the past three-year period
(8) Relatives (second degree or closer) of persons who fall under (1) to (7) above

## Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for Directors of the Company is determined by the Board of Directors upon discussion based on performance and other matters in accordance with Director remuneration standards by the Nomination & Remuneration Committee, whose membership mainly consists of Independent Outside Directors. Specific remuneration for each Director is decided by the President and Representative Director upon resolution by the Board of Directors.

Remuneration for Directors (excluding Outside Directors) consists of basic remuneration, added Director portion, added Representative Director portion, and stock-based remuneration. Basic remuneration accounts for around 80% of total remuneration, while stock-based remuneration accounts for 10–15%. Basic remuneration is linked to short-term performance. The Company has announced consolidated operating income as a performance indicator, and basic remuneration will fluctuate up and down by around 10% according to actual results against this indicator. For stock-based remuneration, which is a medium-to-long-term incentive, Directors (excluding Outside Directors) are required to contribute to the Executive Shareholding Association. Remuneration for Audit & Supervisory Board Members is determined through consultation between such members.

| Officer type | Total remuneration (Millions of yen) | Total remuneration by type (Millions of yen) | | | Number of eligible officers |
|---|---|---|---|---|---|
| | | Fixed | Performance-linked compensation | Retirement benefit | |
| Directors (Excluding Outside Directors) | 106 | 106 | — | — | 9 |
| Audit & Supervisory Board Members (Excluding Outside Members) | 16 | 16 | — | — | 3 |
| Outside Directors | 28 | 28 | — | — | 5 |
| Outside Audit & Supervisory Board Members | 16 | 16 | — | — | 2 |
| **Total** | **167** | **167** | **—** | **—** | **19** |

Notes:
1. Regarding remuneration for Directors (excluding Outside Directors), in July 2020 the Company incorporated a new mechanism linked to short-term performance to calculate basic remuneration. The remuneration figure for Directors (excluding Outside Directors) in the above table reflects actual payments made in fiscal 2020 before the introduction of the new mechanism.
2. The Company resolved to abolish its retirement allowance system for Directors and Audit & Supervisory Board Members at the conclusion of the 140th Annual Shareholders' Meeting held on June 28, 2007.
3. The above figure for total fixed remuneration does not include payments (totaling ¥50 million) by five subsidiaries of the Company to seven Directors concurrently serving as Directors or Audit & Supervisory Board Members of those subsidiaries. It also does not include payments (totaling ¥21 million) by six subsidiaries of the Company to three Audit & Supervisory Board Members concurrently serving as Directors or Audit & Supervisory Board Members of those subsidiaries.

## Strategic Shareholdings

The Company owns strategic shareholdings for the purpose of improving corporate value over the medium and long terms by maintaining and strengthening relationships with important business partners. Each year, the Board of Directors examines each stock of the Company's strategic shareholdings and verifies the appropriateness of continual ownership after comprehensive consideration—both qualitative and quantitative—of various factors, including purpose of holding and associated benefits and risks. The Company then moves to sell shares deemed by the Board not to be meaningful.

# Directors and Audit & Supervisory Board Members

(As of June 26, 2020)

**Naohisa Miyakawa**
President and Representative Director
*In charge of management*

April 1975: Joined the Company
June 2007: Executive Officer, General Manager, Human Resources & General Affairs Department, and General Manager, Secretary Department
June 2009: Executive Officer of the Company, President & Representative Director of Furukawa Denshi Co., Ltd.
June 2011: Director and Senior Executive Officer of the Company, President & Representative Director of Furukawa Denshi Co., Ltd.
June 2013: President & Representative Director (current position)
**Holdings in the Company:** 30,900 shares

**Hiroyuki Sakai**
Director and Senior Executive Officer, General Manager of Business Process Re-engineering Department
*In charge of Business Process Re-engineering Department, Real Estate Business, CSR Promotion Department, Accounting Department, Financial Department, Legal Department, Information System Department and Internal Audit Department*

April 1982: Joined the Company
June 2013: General Manager, Financial Department
June 2015: General Manager, Accounting Department and General Manager, Financial Department
June 2017: Executive Officer and General Manager, Business Process Re-engineering Department
June 2019: Director, Senior Executive Officer, and General Manager, Business Process Re-engineering Department (current position)
**Holdings in the Company:** 5,500 shares

**Kiyohito Mitsumura**
Managing Director
*Assistant to the President; in charge of Industrial Machinery Segment, Rock Drills Segment, and Purchasing Department*

April 1980: Joined the Company
June 2012: Executive Officer and General Manager, Corporate Planning Department
Sep. 2013: Executive Officer, General Manager, Corporate Planning Department, and General Manager, CSR Promotion Department
April 2014: Executive Officer and General Manager, Corporate Planning Department
June 2014: Senior Executive Officer of the Company, President & Representative Director of Furukawa Rock Drill Co., Ltd.
June 2015: Director and Senior Executive Officer of the Company, President & Representative Director of Furukawa Rock Drill Co., Ltd.
June 2018: Managing Director and Managing Executive Officer of the Company, President & Representative Director of Furukawa Rock Drill Co., Ltd.
June 2019: Managing Director (current position)
**Holdings in the Company:** 8,400 shares

**Tatsuya Tejima**
Outside Independent Director

April 1969: Joined Toho Zinc Co., Ltd.
June 2003: Representative Director and Managing Director, and Managing Executive Officer of Toho Zinc Co., Ltd.
June 2005: Representative Director and Senior Managing Director, and Senior Managing Executive Officer of Toho Zinc Co., Ltd.
June 2006: Representative Director and COO of Toho Zinc Co., Ltd.
June 2008: Representative Director and President of Toho Zinc Co., Ltd.
June 2017: Advisor of Toho Zinc Co., Ltd., Director of the Company (current position)
**Holdings in the Company:** 0 shares

**Masahiro Ogino**
Director and Managing Executive Officer, General Manager of Corporate Planning Department
*In charge of Corporate Planning Department, Materials Business, Environmental & Safety Management Department, and Human Resources & General Affairs Department*

April 1982: Joined the Company
June 2015: Executive Officer of the Company, President & Representative Director of Furukawa Metals & Resources Co., Ltd.
June 2017: Director, Senior Executive Officer, and General Manager, Corporate Planning Department
June 2019: Director, Managing Executive Officer, and General Manager, Corporate Planning Department (current position)
**Holdings in the Company:** 5,400 shares

**Yoichi Mukae**
Outside Independent Director

April 1975: Joined Ministry of International Trade and Industry
June 2004: Director-General for Commerce and Distribution Policy, Minister's Secretariat of Ministry of Economy, Trade and Industry
August 2006: Managing Director of The Shoko Chukin Bank, Ltd.
August 2008: Advisor of The Kansai Electric Power Company, Incorporated
June 2009: Managing Director of The Kansai Electric Power Company, Incorporated
June 2013: Director, Managing Executive Officer of The Kansai Electric Power Company, Incorporated
June 2015: President & Representative Director of The Kanden L&A Company, Limited and President & Representative Director of KANDEN EL AUTO SYSTEM Co., Ltd.
June 2019: President & Representative Director of The Kanden L&A Company, Limited, President & Representative Director of KANDEN EL AUTO SYSTEM Co., Ltd., and Director of the Company
June 2020: Advisor of The Kanden L&A Company, Limited, Representative Director of Research Institute of Economy, Trade and Industry, President of GS1 Japan, and Director of the Company (current position)
**Holdings in the Company:** 0 shares

**Minoru Nakatogawa**
Director and Managing Executive Officer
*In charge of UNIC Machinery Segment and Rock Drills Segment*

April 1983: Joined the Company
June 2017: Executive Officer of the Company, Executive Vice President & Director of Furukawa UNIC Corporation (In charge of Promotion of Mid-term Business Plan)
June 2018: Executive Officer of the Company, President & Representative Director of Furukawa UNIC Corporation
June 2019: Director and Senior Executive Officer of the Company, President & Representative Director of Furukawa UNIC Corporation
June 2020: Director and Managing Executive Officer of the Company, President & Representative Director of Furukawa UNIC Corporation (current position)
**Holdings in the Company:** 4,700 shares

**Tatsuki Nazuka**
Director and Senior Executive Officer, General Manager of Technology Division
*In charge of Technology Division*

April 1981: Joined the Company
June 2015: Executive Officer and Deputy General Manager, Development Division
June 2017: Executive Officer and Deputy General Manager, Development Division
Oct. 2017: Executive Officer and General Manager, Technology Division
June 2019: Director, Senior Executive Officer, and General Manager, Technology Division (current position)
**Holdings in the Company:** 5,300 shares

**Kazumi Nishino**
Outside Independent Director

April 1992: Joined Fuji Photo Film Co., Ltd.
April 2006: Associate Professor, Department of Management of Science & Technology, Graduate School of Management of Science & Technology
April 2017: Associate Professor, Graduate School of Commerce and Management of Hitotsubashi University
June 2019: Associate Professor, Graduate School of Business Administration, Hitotsubashi University, and Director of the Company (current position)
**Holdings in the Company:** 900 shares

**Minoru Iwata**
Audit & Supervisory Board Member (Full-Time)

- April 1979: Joined the Company
- June 2011: Executive Officer and General Manager, Accounting Department
- June 2013: Director, Senior Executive Officer, and General Manager, Accounting Department
- June 2015: Director
- June 2016: Managing Director
- June 2019: Audit & Supervisory Board Member (Full-time) (current position)

Holdings in the Company: 8,600 shares

**Tetsuro Ueno**
Outside Audit & Supervisory Board Member

- April 1976: Joined The Dai-Ichi Kangyo Bank, Ltd.
- April 2009: Deputy President (Representative Director) and Deputy President & Executive Officer of Mizuho Bank, Ltd.
- April 2011: Advisor of Mizuho Bank, Ltd.
- June 2011: Deputy Chairperson and Executive Officer of Chuo-fudosan Co., Ltd.
- June 2012: Representative Director and President of Seiwa Sogo Tatemono Co., Ltd.
- June 2013: Representative Director and President of Seiwa Sogo Tatemono Co., Ltd., Audit & Supervisory Board Member of Chuo-fudosan Co., Ltd.
- June 2015: Representative Director and President of Seiwa Sogo Tatemono Co., Ltd., Audit & Supervisory Board Member of Chuo-fudosan Co., Ltd., and Audit & Supervisory Board Member of the Company
- June 2018: Special Advisor of Seiwa Sogo Tatemono Co., Ltd., Audit & Supervisory Board Member of the Company (current position)

Holdings in the Company: 400 shares

**Kazuo Inoue**
Audit & Supervisory Board Member (Full-Time)

- April 1980: Joined the Company
- June 2011: General Manager, Real Estate Division
- June 2014: Executive Officer, General Manager, Corporate Planning Department
- June 2016: Senior Executive Officer and General Manager, Corporate Planning Department
- June 2017: Audit & Supervisory Board Member (Full-time)(current position)

Holdings in the Company: 4,000 shares

**Masayuki Yamashita**
Outside Audit & Supervisory Board Member

- April 1980: Joined Asahi Mutual Life Insurance Company
- April 2016: Representative Director and Senior Executive Officer of Asahi Mutual Life Insurance Company
- June 2016: Representative Director and Senior Executive Officer of Asahi Mutual Life Insurance Company, Audit & Supervisory Board Member of the Company
- April 2018: Director, Asahi Mutual Life Insurance Company, Audit & Supervisory Board Member of the Company
- June 2018: Director, Asahi Mutual Life Insurance Company, President & Representative Director, Info Techno Asahi Co., Ltd., Audit & Supervisory Board Member of the Company
- July 2018: President & Representative Director, Info Techno Asahi Co., Ltd., Audit & Supervisory Board Member of the Company (current position)

Holdings in the Company: 0 shares

## Message from an Outside Independent Director

I assumed office as an Outside Independent Director of the Company in June 2019. I believe that the main responsibility of Outside Independent Directors is to ensure that management decisions are appropriate and are made objectively and transparently.
At meetings of the Board of Directors, we discuss a wide range of matters and engage in repeated deliberations on particularly important issues. My conclusion is that the Company is being managed appropriately and carefully.

Fiscal 2020 was the final year of Phase 1 of our Vision for 2025. While our results differed by business segment, we reached our target for operating income, which I believe will be favorably received. In fiscal 2021, as we enter Phase 2, there are concerns that the COVID-19 pandemic will cause drastic changes in the business environment. Accordingly, fiscal 2021 will be the year that determines how effectively we overcome the crisis, expedite growth, and further improve profitability. To this end, top managers are under increasing pressure to exercise leadership by taking initiative in driving the Company forward. In the coming era, we will need to address ESG and the SDGs, which are crucial matters from the perspective of sustainability.
In addition to being able to respond quickly to emergencies, the Board of Directors faces other big challenges, such as the need to address major issues and train successors who can overcome difficult situations.

Going forward, I will continue fulfilling my responsibilities as an Outside Independent Director so that all members of the Company can unite as one to demonstrate greater responsiveness and overcome the current challenges.

Yoichi Mukae
Outside Independent Director

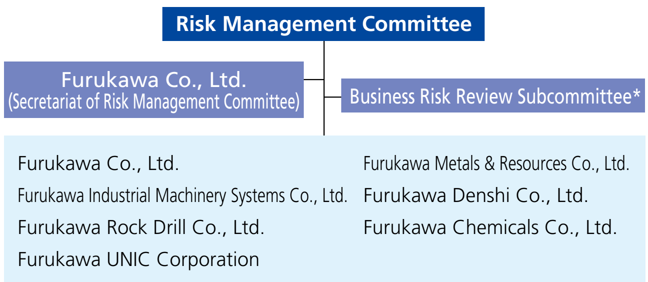
# Risk Management

**The Group recognizes risk management as an important part of its operations and constantly analyzes and evaluates risks in its business activities. At the same time, we are working on risk treatments (avoidance, reduction, sharing, or retention) and countermeasures by investigating, evaluating, and reconsidering risks after they materialize.**

## Framework for Promoting Risk Management

The Group’s business activities could potentially be badly impacted by various risks related to such factors as accidents, natural disasters, and epidemic diseases. To protect human life and property and minimize damage and loss when such risks materialize, the Group, spearheaded by its Risk Management Committee, is working to establish and strengthen its risk management system. For particularly important issues, the Board of Directors and the Management Council engage in meticulous deliberations and make decisions. For matters related to environmental protection and product safety, we established the Environmental & Safety Management Committee and the Product Safety Committee, respectively, to manage specialized deliberations and investigations and implement countermeasures.

### Risk Management System

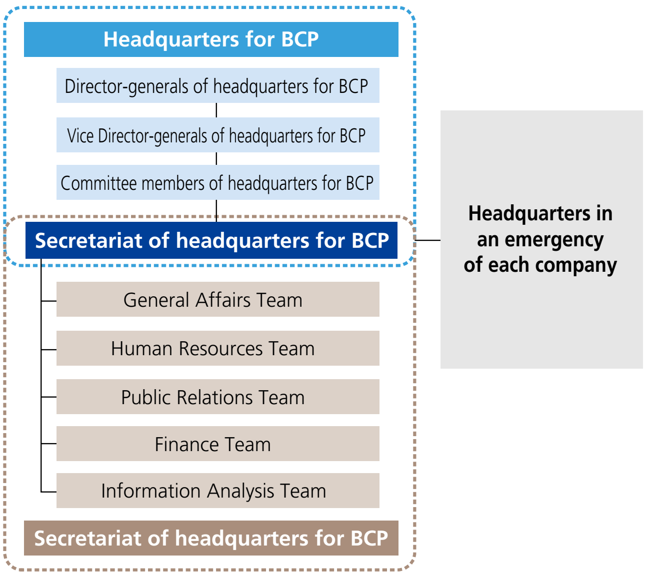



* Group companies represented in the Business Risk Review Subcommittee are the same as those represented in the Risk Management Committee.

## Shifting from Business Continuity Plan (BCP) to Business Continuity Management (BCM)

We have almost finished BCPs for our core operating companies. Going forward, we will formulate BCP strategies at consolidated affiliates and step up BCM throughout the Group.

### Group BCP System




## Product Safety

**Quality Control**

The Furukawa Company Group is committed to constantly providing safe, high-quality products and services to customers. For this reason, we undertake manufacturing with proper attention to product safety and reliability in order to improve customer satisfaction. This covers all processes, from development and design to procurement, manufacturing, sales, services, and final disposal after use.

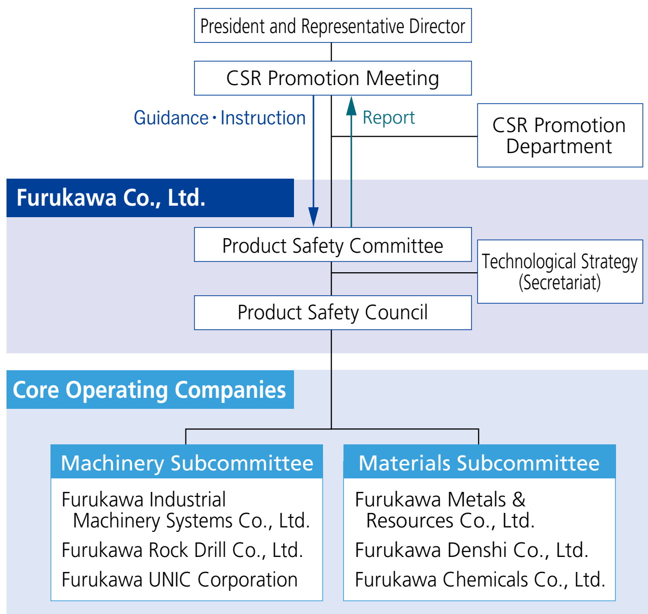
**Product Safety Management System**

The Furukawa Company Group strives to manufacture products that comply with regulations related to manufacturing and product quality verification and products that customers can use safely with peace of mind. These efforts are based on the Group’s Product Safety Basic Policy and Product Safety Action Guidelines. Specifically, the Product Safety Committee of Furukawa Co., Ltd. holds Product Safety Council meetings attended by product safety officers of core operating companies and has formed subordinates to divide work between mechanical and materials sessions.

The role of our Product Safety Council is to spearhead improvements in product safety levels. Based on the approach that we should work constantly to enhance product reliability, the Council focuses on quality assurance and works to raise Groupwide quality assurance levels and evaluate activities related to quality assurance and product safety.

In fiscal 2020, we sought to strengthen quality assurance systems at each business site. For example, we promoted visualization of “change points” (defined as the main causes of frontline complaints), and we introduced ICT in our manufacturing and inspection processes to enhance operational efficiency. In fiscal 2021, we will promote preventive measures to address complaints, as well as goals not achieved in the previous fiscal year. For example, we will aggregate “change point control” data to identify priority items and reflect them in quality assurance education. We will also strengthen our checking capabilities to reduce risk in the early stages of business processes in order to build a robust quality assurance system.

### Product Safety Management System



# Compliance

**In addition to complying with laws and regulations, the Group believes it has a corporate obligation to take serious and responsible actions in terms of social and ethical aspects. To fulfill this obligation, we established "The Furukawa Company Group's Charter of Corporate Conduct" and "The Furukawa Company Group's Code of Conduct for Officers and Employees." We strive to ensure that all officers and employees of the Group carry out their duties with a full understanding of the importance of compliance.**

## Framework for Compliance

The president of Furukawa Co., Ltd. serves as head of compliance managers of the Group. We also have compliance managers in each department and Group company. In addition, we established the Compliance Committee to promote compliance activities throughout the Group. The Committee deliberates on important matters related to compliance and strives to improve the framework for compliance and raise awareness. The Committee strives to share information on Groupwide compliance by reporting matters it has discussed to the CSR Promotion Meeting as appropriate.

## Internal Reporting System

The Group has adopted an internal reporting system to facilitate early detection and correction of compliance violations. This has involved developing a framework that enables an extensive range of reporting and inquires by establishing points of contact for reporting and consultation requests inside and outside (law office) the Group. We also stringently safeguard confidential and personal information regarding whistleblowers.

The Compliance Committee conducts investigations upon receiving notification or consultation, and subsequently takes necessary action to address such matters. We also facilitate awareness of the internal reporting system by posting such content to our in-house portal site and distributing brochures to Group officers and employees.

## Compliance Education

The Group strives to instill a corporate culture that emphasizes compliance through efforts that include issuing our "Compliance News" twice a year as a source of information on compliance to all Group officers and employees, and having top management occasionally give talks on the importance and priority we place on compliance.

In fiscal 2020, we held compliance training sessions as part of our employment hierarchy-specific training for newly hired, mid-level employees, and newly assigned managers. We also continued holding training on specific topics, such as export control and Japan's Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (the "Subcontract Act").

## Compliance throughout the Entire Supply Chain

In order to maintain compliance as a Group, we need all parties across the entire supply chain, including suppliers, to also practice compliance with laws and regulations. With this in mind, we established "The Furukawa Company Group CSR Promotion Guidelines" for suppliers to help them respect human rights and labor, comply with laws and regulations, and practice corporate ethics.

**Human rights and labor**

(1) Respect human rights.
(2) Have no involvement with child labor, forced labor, or unlawfully cheap labor, whether directly or indirectly.
(3) Achieve a work environment with no discrimination or harassment of any sort committed against employees.
(4) Comply with labor laws and provide positive working conditions.

**Legal compliance and corporate ethics**

1. Comply with Japanese and overseas laws and social norms.
2. Do not provide or receive benefits in contravention of laws or commercial practices.
3. Do not commit acts that hinder fair and free competition.
4. Do not maintain any relationships with antisocial forces.
5. Do not infringe on the intellectual property rights of third parties.
6. Establish structures for the prevention, quick discovery, and handling of improper conduct.
7. Do not use minerals unearthed in conflict-affected areas and materials produced in production processes that infringe on human rights or damage the environment as raw materials.

The Furukawa Company Group CSR Promotion Guidelines (excerpt)

### The Furukawa Company Group's Charter of Corporate Conduct

**1. Providing high-quality products and services**
The Group shall pursue technology development that helps to realize a sustainable society, and it shall provide products and services that satisfy customers.

**2. Harmony with the global environment**
The Group shall work on reducing environmental risks and pursue corporate activities that are in harmony with the global environment.

**3. Ensuring compliance**
The Group shall engage in its corporate activities in a fair manner based on the ethical values expected of corporations and business persons as members of society.

**4. Highly transparent corporate activities**
The Group shall appropriately disclose its corporate information and engage in constructive dialogue with a wide range of stakeholders to build trust.

**5. Respect for human rights**
The Group shall respect the human rights of all individuals.

**6. Enhancement of work environment**
The Group shall establish a work environment that takes into consideration the health and safety of individuals and realize work styles that respect the diverse values of officers and employees.

**7. Participation in and contribution to society**
The Group shall actively participate in society and contribute to its development.

# Environmental Initiatives

**Our basic approach to the environment is embodied in our Charter of Corporate Conduct, our Basic Environmental Management Principle and our Environmental Conservation Activity Policies. We are committed to reducing environmental risks and realizing a sustainable society in which our corporate activities are in harmony with the global environment. Based on this commitment, we formulated numerical targets for environmental performance ($CO_2$ emissions, water resource used, total emissions including waste) and engage in environmental protection activities accordingly.**

## Global Warming and Environmental Protection Initiatives

With respect to measures to address global warming, we formulated our new Fourth Medium-Term Reduction Targets for the 10-year period from fiscal 2020 based on our Vision for 2025, and we are pursuing activities according to these targets. As part of our environmental protection initiatives, we are taking preventive measures to improve and strengthen our ability to address risks. We also promote initiatives to reduce the negative impact of our business activities on ecosystems, as well as activities to conserve biodiversity, including the sound development of forests.

## Environmental & Safety Management Committee

The Environmental & Safety Management Committee, which consists of the heads of each production site, proposes and deliberates on important matters related to environmental management. The Committee was scheduled to meet in person in fiscal 2019, but the meeting was handled in written form due to the spread of COVID-19. At the meeting, the Committee reiterated its instructions to relevant parties pertaining to (1) implementing the Fourth Medium-Term Reduction Targets, and (2) taking rigorous preventive measures to ensure that no accidents nor disasters occur.

## Addressing Chemical Emissions

Based on Japan's Chemical Substances Control Law, the Group works proactively to improve its control of chemical substances and takes measures to prevent environmental problems from arising. For example, we report our activities under the Pollutant Release and Transfer Register (PRTR) system to gain an understanding of the amount of chemical substances generated. We then compare this with emission data published by the national government and check the proportion of our own emissions, and reflect the results in our future management activities. In the Materials business, we appropriately manage our chemical substances by using safety data sheets (SDS) to disseminate information on the associated potential hazards.

Note: Amounts of chemical substances emitted / relocated under PRTR reporting requirements are disclosed in the Group's CSR Report 2020.

## Relationship with the Mining Business

In the copper business, and particularly at mine development sites, there are concerns that resource development activities may lead to increased environmental impacts. Recognizing such concerns, we are promoting various initiatives to prevent this from happening. For example, we are working to develop and adopt new technologies, as well as existing ones, to satisfy increasingly stringent requirements aimed at minimizing impacts on ecosystems and water resources and restoring sites to their original condition after development. In addition, our mining-related machines have been widely used in resource development and infrastructure development projects, not only in Japan but also in many countries worldwide, thus contributing to economic development. In recent years, we have been promoting products to help minimize environmental impacts at worksites through reduced $CO_2$ emissions, reduced noise, improved work efficiency, and the like. Although copper is a product created through resource development, it has attracted more and more attention in recent years for its specific material-based characteristics, which can be used to minimize environmental impacts. For example, copper is used in the renewable energy sector to reduce $CO_2$ emissions and is an indispensable material in the development of electric vehicles (EVs) and infrastructure in emerging countries. Through our involvement in the copper business, therefore, we believe we are contributing to the environment and society.

Column 1

### Ashio Copper Mine: Learn from the Past, Use in the Future

The Ashio Copper Mine, where the Group built its foundation, is said to be a source of pollution problems in Japan. However, it was also the birthplace of pollution prevention technology and a national safety campaign, Anzen Senichi (safety first). The Group has always taken a serious approach to past challenges, constantly considering the best interaction between corporations and the environment and developing pollution prevention technologies. We are addressing various challenges related to the management of suspended mines, including the Ashio Copper Mine, reflecting our basic commitment to continued operational safety. These challenges include ensuring the safety of mine wastewater treatment facilities, the safe management of dumping sites and underground mines, and the transfer of technologies related to management of suspended mines. Treatment of mine wastewater is particularly important. Heavy rain, typhoons, and other natural weather events have a major impact on the volume of drainage water containing heavy metals that emerge from the Ashio Copper Mine. To prevent such water from flowing into public waterways, we operate the Nakasai Water Treatment Plant, a mine wastewater treatment facility, 24 hours 365 days. To ensure safety at all times, moreover, we conduct systematic education programs for employees and work to prevent environmental accidents.


Anzen Senichi (safety first) sign at the entrance of the Ashio Copper Mine
(Trademark registration acquired in March 2020)

The Nakasai Water Treatment Plant operates 24 hours a day.

Note: Please refer to CSR Report 2020 for more details on our environmental initiatives.

## Fourth Medium-Term Reduction Targets and First-Year Results

Our Fourth Medium-Term Reduction Targets for the 10-year period from fiscal 2020 to 2029 are based on production plans formulated under our Vision for 2025. Following discussions with each of our core operating companies about expected improvements in environmental performance, we set targets to reduce $CO_2$ emissions by 2%, water resource used by 2%, and total emissions including waste by 3% by fiscal 2029. In fiscal 2020, the first year of the Fourth Medium-Term Reduction Targets, we achieved our reduction targets for $CO_2$ emissions and total emissions including waste. However, we fell slightly short of our water resource used reduction target. In the second year of the Fourth Medium-Term Reduction Targets, we are taking an overall management approach based on increases and decreases in operating volume at each company in order to achieve the reduction targets.

| | FY2020 | FY2019 | FY2018 | FY2017 | FY2016 |
|---|---|---|---|---|---|
| **INPUT** | | | | | |
| Energy (Thousand GJ) | **438** | 511 | 483 | 458 | 429 |
| Water resources (Thousand m³) | **680** | 692 | 623 | 671 | 666 |
| **OUTPUT** | | | | | |
| $CO_2$ emissions (Thousand t) | **22** | 26 | 26 | 25 | 24 |
| Drain volume (Thousand m³) | **477** | 477 | 410 | 465 | 471 |
| Total emissions Including waste, etc. (t) | **7,039** | 7,160 | 6,884 | 5,347 | 6,832 |
| Valuables | **3,203** | 3,357 | 2,928 | 2,489 | 3,374 |
| Waste | **3,836** | 3,803 | 3,956 | 2,858 | 3,458 |

### Fourth Medium-Term Reduction Targets: First-Year Results

| | FY2029 | FY2020 (1st Year) | |
|---|---|---|---|
| | Reduction targets* | Reduction targets | Actual reduction rate |
| $CO_2$ emissions | 2% | 0.2% | 18% |
| Water resource used | 2% | 0.2% | - 0.3% |
| Total emissions including waste | 3% | 0.3% | 1.7% |

* Reduction targets vis-à-vis FY2029 environmental performance forecast

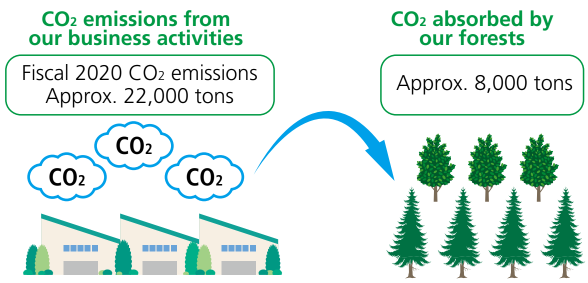
### Material Flow of the Furukawa Company Group (Fiscal 2020)

| INPUT | | | OUTPUT | |
|---|---|---|---|---|
| | Category | Volume used | | Volume used |
| Total energy input | Volatile oil (gasoline) | 34kℓ | $CO_2$ emissions | 21,930 t-$CO_2$ |
| Total energy input | Kerosene | 231kℓ | | |
| Total energy input | Diesel oil | 204kℓ | | |
| Total energy input | Fuel oil A | 211kℓ | | |
| Total energy input | Liquefied petroleum gas (LPG) | 381t | Drain volume | 477 thousand m³ |
| Total energy input | City gas | 848 thousand m³ | | |
| Total energy input | Electricity | 36,441thousand kwh | | |
| Water resource input | Waterworks | 120 thousand m³ | Total emissions including waste | 7,039 t |
| Water resource input | Industrial water | 560 thousand m³ | | |
| Water resource input | Groundwater | 0 thousand m³ | | |

Column 2

## $CO_2$ Absorption by Our Forests

The amount of $CO_2$ absorbed by our forest holdings is approximately 8,000 tons of $CO_2$ per year, which is equivalent to roughly 36% of the Group's total $CO_2$ emissions in fiscal 2020. The Group promotes its own tree-planting activities through the Furukawa Forest Tree Planting Association and activities to plant cherry trees in Ashio.




### Environmental Conservation Costs and Benefits

The Group uses the Ministry of the Environment's "Environmental Accounting Guidelines" as a reference to understand the costs of environmental conservation and to improve environmental efficiency. In fiscal 2020, total environmental conservation investments amounted to ¥639 million. These included investments in new painting facilities, rainwater drainage work, renewal of plant heating systems, and other investments to prevent pollution and save energy. Strengthening preventive measures is an important part of our investment policy, with the result that pollution prevention costs accounted for approximately 70% of total environmental conservation costs in fiscal 2020. For the year, environmental conservation costs amounted to ¥1,047 million, which included expenses for promoting environmental conservation activities, such as maintenance and management of pollution control equipment and forest conservation.

(Millions of yen)

| Cost category | | Principal activities | Investments | Cost |
|---|---|---|---|---|
| **(1) Business area cost: Cost for preventing air pollution and water pollution** | | | 611 | 843 |
| Breakdown | Pollution prevention | Preventing air and water pollution | 434 | 576 |
| Breakdown | Global environmental conservation | Saving energy and maintaining / managing Company-owned forests | 172 | 55 |
| Breakdown | Resource circulation | Recycling, disposal of industrial waste, and effective use of water | 5 | 212 |
| **(2) Upstream and downstream** | | Recycling, recovering, and re-commercializing products that have entered the market | 0 | 8 |
| **(3) Administration** | | Maintaining ISO 14001 standards, environmental education, and landscaping / greening of business sites | 8 | 61 |
| **(4) R&D** | | Developing products that contribute to environmental conservation | 20 | 133 |
| **(5) Social activity** | | Various social activities (neighborhood cleanup events, tree planting, etc.) | 0 | 2 |
| **(6) Environmental remediation** | | Recovery from environmental degradation due to business activities | 0 | 0 |
| **Total** | | | **639** | **1,047** |

### Environmental Conservation Benefit

| Categories of environmental conservation benefit | Environmental performance indicator (Unit) | FY2019 | FY2020 | Year-on-year change |
|---|---|---|---|---|
| Benefit related to resources input into business activities | Total energy input volume (Thousand GJ) | 511 | 438 | –73 |
| | Water input volume (Thousand m³) | 692 | 680 | –12 |
| Environmental impact from business activities and conservation benefit related to waste | Greenhouse gas emissions (Thousand t-$CO_2$) | 26,147 | 21,930 | –4,217 |
| | Total waste emissions (t) | 7,160 | 7,039 | –121 |

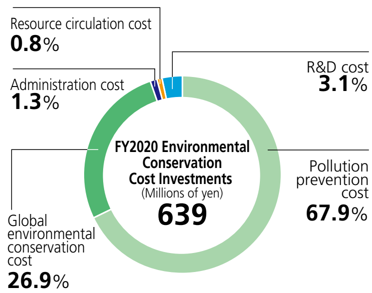
### Economic Benefit of Environmental Conservation

In fiscal 2020, the commissioning of a turbine generator at the Osaka Plant of Furukawa Chemicals Co., Ltd. led to a reduction of approximately ¥44 million in the cost of electricity purchased. The economic benefit derived from resource circulation (gains on sale of valuables, etc.) in fiscal 2020 was ¥132 million, down ¥72 million year on year. This was due to a decline in the total amount of waste generated.

(Millions of yen)

| Content of the benefit | | Amount |
|---|---|---|
| Resource circulation (gains on sale of valuables, etc.) | Gains on sale of stainless steel, iron, etc. | 132 |
| Energy-saving effect | Reduction of electric power purchasing costs due to operation of steam turbine generators | 44 |
| **Total** | | **176** |

### Breakdown of Environmental Conservation Cost Investments



# Social Initiatives

**Since our early days in mine development, our basic approach to social initiatives has been to contribute to society by evolving and advancing technologies that support social infrastructure and provide a wide range of products and services that make customers and other stakeholders happy. As part of our commitment to realizing a sustainable society, we must also look at every touchpoint between our corporate activity processes and society. We are also aware of various social issues—from global challenges to issues rooted in local communities—and we conduct activities that help resolve them.**

## Workplace and Workstyle Reforms

The Group respects diversity in such areas as gender, nationality, career background, and life stage. Our aim is to create workplaces where employees can work in with vigor and pride and take the initiative to solve problems. We engage in "Business Process Re-engineeing Activities" as part of our workplace and workstyle reforms. Through these activities, we aim to eliminate waste at our business departments so they can concentrate on higher-value-added work aimed at realizing our Vision for 2025. As a corporation, we will provide education and training opportunities enabling individual employees to acquire the knowledge and professional skills they need, in order to support the growth of each employee. Specifically, we are promoting the workplace and workstyle reforms described below.

### ● Three Priorities for Realizing a Fulfilling Work Environment

| | |
|---|---|
| **Develop and utilize human resources** | Develop diversified human resources according to years of service, job title, work content, ability, and the like; optimally utilize talented human resources regardless of employee course; and set challenging personal goals and conduct proper evaluations |
| **Implement workstyle reforms** | Establish more comfortable work environments through automation and systemization, shorter and more efficient meeting times, and flexible adoption of various work arrangements (flextime, teleworking, staggered work hours, and the like); and emphasize mindset reforms to improve work efficiency |
| **Provide healthy workplaces** | Reduce total annual working hours, improve paid annual leave uptake rate, improve regular health checkup rate, and implement active health-related initiatives |

## Enhancing Health and Productivity Management

The Group investigates and analyzes the health status of its employees and the state of its organization through health checks, stress checks, and health-related productivity loss measurement programs, and assesses the relevance of these programs to management issues outlined in Vision for 2025. Based on the results of such efforts, we engage in a variety of activities under our Health Declaration, Health Objectives, and Health Action Guidelines to help our employees improve their health and solve management issues.

### ● Health Objectives

| |
|---|
| **Total annual working hours: Less than 2,000 hours** |
| **Percentage of employees receiving regular health checks: 100%** |
| **Enforcement of smoking time limits** |

**TOPICS**

### Recognized as The Certified Health and Productivity Management Organization (Large Enterprise Category)

Furukawa Co., Ltd. was recognized as "The Certified Health and Productivity Management Organization 2020 (Large Enterprise Category)" under the Ministry of Economy, Trade and Industry's Health & Productivity Management Outstanding Organization Recognition Program. This system recognizes companies that consider employee health management from a managerial perspective and work strategically to manage the health of their employees.

2020
健康経営優良法人
Health and productivity

## Promoting Diversity

### Supporting the Advancement of Female Employees

The Company actively recruits and empowers women. On April 1, 2016, we formulated our Action Plan for Promoting Support for Female Employees, and have since been expanding our systems to support the advancement of women.

### ● Action Plan for Promoting Support for Female Employees
(April 1, 2016 to March 31, 2021)

| | |
|---|---|
| **Target No. 1** | Percentage of women among new graduate hires: 20% or higher |
| **Target No. 2** | Number of female managers: 10 or more |
| **Target No. 3** | Establish return-to-work system (reemployment system for retirees) |
| **Target No. 4** | Encourage employees to take paid annual leave: 12 days (average per person per year) |
| **Target No. 5** | Encourage male employees to take parental leave: 10 or more male employees per year |

### Support for Employees Raising Children

We are expanding the range of employees who can access our various childcare-related systems. We are also enhancing support for employees who are raising children, including by converting part of their childcare leave into paid leave. In addition, we encourage male employees to take childcare leave to give them more opportunities to participate in childcare.

### Hiring People with Disabilities

The Company hires people with disabilities at various workplaces and for various types of work, promoting their independence and participation in society.

### Hiring Foreign Nationals

In its proactive pursuit of overseas business expansion, the Group makes hiring decisions irrespective of nationality. We are committed to deepening partnerships with our non-Japanese employees while emphasizing mutual respect for individual differences.

### Hiring Retired Older Workers

Effective April 1, 2020, we extended the retirement age from 60 to 65 in order to give employment stability to older workers and expand their range to utilize their talents. We believe that older workers can continue playing an active role in the training of young and mid-level employees by passing on the skills they have acquired over the years to the next generations.

## Respect for Human Rights

### Prohibiting Harassment and Discrimination

The Group is committed to "creating a motivating corporate culture that rejects human rights violations and discrimination while embracing the diverse values of individuals and evaluating them fairly." Based on this commitment, we make resolute measures against harassment and discrimination based on our internal rules.

### Human Rights Training

Our Code of Behavior for employees provides that basic human rights should be respected and discriminatory language and behavior is prohibited. All newly hired employees are required to attend human rights seminars, while employees who participate in job-grade-based training are also required to join internal training concerning harassment in the workplace. This enables them to learn about creating comfortable workplaces and specific cases of actions that constitute human rights violations.

## Human Resource Development

We employ human resources who are willing to seize any challenge, based on our fundamental belief that "people" are the key to unlocking the unlimited potential of our company. We also work to build a motivating corporate culture that recognizes the diverse values of individuals and rejects human rights violations and discrimination. In developing human resources, we aim to optimize our business framework and maximize corporate value by fostering professional human resources and creating work environments where employees can fully demonstrate their capabilities.

### Job-Grade-Based Training Programs

We provide a variety of educational programs to different classes of employees, such as the newly hired, employees in their second year, third year, fifth year, eighth year, and tenth year, as well as newly assigned managers and section managers. These programs are designed to help them attain the basic knowledge required for their jobs and the ability to address changes in the social environment. Our training program for newly hired employees includes information about the Ashio Copper Mine, such as its history, countermeasures against pollution, and current safety management and tree-planting activities.

### Training Activities by Specialty and Function

We offer appropriate programs according to the specialty, function, and qualification of participants, providing them with a wide range of expertise concerning the relevant fields and specified skills. At the same time, we proactively encourage our employees to participate in external seminars on specialized subjects, and to obtain public qualifications. We also endeavor to cultivate employees with expertise in cutting-edge technologies and social trends by supporting their participation in external educational organizations and academic societies.

### Personnel Appraisal System

On July 1, 2019, we decided to abolish our existing professional qualification grade system and introduce a role-grading system that sets the grade according to the magnitude of each employee's expected role, to more effectively give employees the roles we expect them to fulfill. This role-grading system includes a personnel appraisal system, based on which we assess such factors as work performance, goal achievement levels, motivation, and capabilities. In this way, we are working to guide and train employees, develop their skills, and allocate them appropriately, and thus create an environment in which motivated employees can work with peace of mind.

## Industrial Safety and Health

### Industrial Accident Prevention Activities

The Group is working to prevent industrial accidents by establishing safety and health committees and conducting regular safety patrols at each factory and office, as well as providing systematic education and training for employees. Regarding education, we work with management supervisors to clarify criteria for skills that the candidate managers should acquire. After providing education, we then evaluate whether or not the candidates have the ability to carry out the required work, and if there are any insufficiencies, we instruct them to undergo re-education. In addition, eliminating accidents and disasters requires reinforcement of workplace patrols, pre-operation danger prediction training, and the like. For this reason, we are stepping up guidance to management supervisors and employees.

## Work–Life Balance

### Creating Comfortable Workplace Environments

We promote activities to help employees maintain their health and achieve a good work–life balance by reducing overtime and improving the rate at which they take paid annual leave.

### Activities in Fiscal 2020

- Introduced employment system for meticulous management of working hours
- Established day for encouraging employees to take paid annual leave and encouraged employees with low vacation uptake rates (less than 5 days) to take annual leave
- Introduced teleworking system and expanded applicability of flextime system
- Held seminars on balancing work with childcare and/or nursing care duties

**Work–Life Balance** (Target: Non-Managerial Employees of Furukawa Co., Ltd.)

| | | Unit | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 |
|---|---|---|---|---|---|---|---|
| **Number of employees taking parental leave** | Male | Persons | 25 | 35 | 35 | 33 | 18 |
| | Female | Persons | 4 | 7 | 8 | 6 | 10 |
| **Percentage of employees taking parental leave** | Male | % | 68.6 | 97.2 | 85.4 | 86.8 | 93.3 |
| | Female | % | 100 | 100 | 100 | 100 | 100 |
| **Average number of days taken for parental leave** | Male | Days | 21.8 | 3.5 | 13.9 | 21.4 | 6 |
| | Female | Days | 293.0 | 517.6 | 390.5 | 499.0 | 320.3 |
| **Percentage of employees returning to work after having taken parental leave** | | % | 100 | 100 | 100 | 100 | 100 |
| **Number of employees taking caregiver leave** | | Persons | 0 | 0 | 0 | 1 | 0 |
| **Prescribed working hours** | | Hours | 1,891 | 1,891 | 1,891 | 1,891 | 1,891 |
| **Extra working hours** | | Hours | 286 | 248 | 322 | 305 | 268 |
| **Hour of paid annual leave taken** | | Hours | 72 | 75 | 76 | 79 | 76 |
| **Total actual working hours** | | Hours | 2,105 | 2,064 | 2,138 | 2,117 | 2,083 |
| **Overtime hours (monthly average)** | | Hours | 23.80 | 20.65 | 26.85 | 25.40 | 22.36 |
| **Percentage of paid annual leave taken** | | % | 45.5 | 47.4 | 48.2 | 51.0 | 53.2 |

Note: Please refer to CSR Report 2020 for more details on our social initiatives.

# Consolidated Six-Year Financial Summary

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2020/3** | 2019/3 | 2018/3 | 2017/3 | 2016/3 | 2015/3 |
| For the year: | | | | | | |
| Net sales | **¥ 165,216** | ¥ 174,117 | ¥ 167,696 | ¥ 149,830 | ¥ 161,799 | ¥ 172,544 |
| Cost of sales | **138,941** | 147,675 | 142,427 | 126,207 | 136,447 | 146,657 |
| Gross profit | **26,275** | 26,442 | 25,269 | 23,623 | 25,352 | 25,887 |
| Selling, general and administrative expenses | **17,582** | 17,526 | 17,448 | 17,077 | 17,363 | 16,962 |
| Operating income | **8,693** | 8,915 | 7,821 | 6,546 | 7,989 | 8,925 |
| Profit before income taxes | **7,281** | 7,003 | 6,595 | 6,711 | 6,631 | 6,160 |
| Profit attributable to owners of parent | **4,432** | 4,654 | 4,774 | 4,254 | 5,056 | 9,793 |
| Cash flows from operating activities | **8,401** | 11,785 | 5,350 | 9,819 | 7,652 | 10,241 |
| Cash flows from investing activities | **( 5,074)** | (3,387) | (5,855) | (3,585) | (2,855) | (10,892) |
| Cash flows from financing activities | **(4,843)** | (4,205) | (2,529) | (5,030) | (8,166) | 3,318 |
| Capital expenditures | **5,939** | 5,442 | 5,021 | 5,424 | 2,869 | 2,557 |
| Depreciation and amortization | **3,589** | 3,474 | 3,260 | 3,138 | 3,191 | 3,223 |
| Research and development expenses | **1,178** | 1,505 | 2,293 | 2,464 | 2,680 | 2,227 |
| At year-end: | | | | | | |
| Total assets | **¥ 209,697** | ¥ 215,368 | ¥ 222,211 | ¥ 208,034 | ¥ 195,650 | ¥ 207,317 |
| Current assets | **85,726** | 87,441 | 87,486 | 79,579 | 76,315 | 80,564 |
| Current liabilities | **52,555** | 60,377 | 79,322 | 59,790 | 59,750 | 63,870 |
| Total equity | **75,544** | 78,217 | 85,011 | 77,658 | 66,459 | 68,783 |
| Net assets | **77,967** | 80,447 | 87,086 | 79,584 | 68,262 | 70,581 |
| Interest-bearing liabilities | **70,413** | 72,597 | 73,311 | 73,507 | 76,241 | 82,053 |
| Per share amounts:* | | Yen | | | | |
| Basic earnings | **¥ 112.23** | ¥ 116.23 | ¥ 118.16 | ¥ 105.29 | ¥ 125.13 | ¥ 242.34 |
| Cash dividends | **50.00** | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| Net assets | **1,926** | 1,978 | 2,104 | 1,922 | 1,644 | 1,702 |
| Profitability: | | % | | | | |
| Cost of sales margin (%) | **84.1** | 84.8 | 84.9 | 84.2 | 84.3 | 85.0 |
| Gross margin (%) | **15.9** | 15.2 | 15.1 | 15.8 | 15.7 | 15.0 |
| SG&A expense margin (%) | **10.6** | 10.1 | 10.4 | 11.4 | 10.7 | 9.8 |
| Operating margin (%) | **5.3** | 5.1 | 4.7 | 4.4 | 4.9 | 5.2 |
| Return on sales (%) | **2.7** | 2.7 | 2.8 | 2.8 | 3.1 | 5.7 |
| Efficiency and soundness: | | | | | | |
| Return on equity (ROE) (%) (Note 1) | **5.8** | 5.7 | 5.9 | 5.9 | 7.5 | 15.9 |
| Return on assets (ROA) (%) (Note 2) | **2.1** | 2.1 | 2.2 | 2.1 | 2.5 | 4.8 |
| Debt-to-equity (D/E) ratio (Times) (Note 3) | **0.9** | 0.9 | 0.9 | 0.9 | 1.1 | 1.2 |
| Equity ratio (%) (Note 4) | **36.0** | 36.3 | 38.2 | 37.3 | 34.0 | 33.2 |
| Total asset turnover (Times) (Note 5) | **0.7** | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| Investment indicators: | | | | | | |
| Dividend payout ratio (%) (Note 6) | **44.6** | 43.0 | 42.3 | 47.5 | 40.0 | 20.6 |
| Dividends on equity (DOE) ratio (%) (Note 7) | **2.5** | 2.4 | 2.4 | 2.7 | 2.9 | 3.2 |
| Price book value ratio (PBR) (Times) (Note 8) | **0.6** | 0.7 | 0.9 | 1.1 | 1.0 | 1.2 |
| Stock price at fiscal year-end (Yen)* | **1,060** | 1,393 | 1,985 | 2,050 | 1,660 | 2,120 |

Notes: 1. Return on equity (ROE) = Profit attributable to owners of parent / Average total equity × 100
2. Return on assets (ROA) = Profit attributable to owners of parent / Average total assets × 100
3. Debt-to-equity (D/E) ratio = Interest-bearing liabilities (fiscal year-end) / Total equity [Shareholders' equity] (fiscal year-end)
4. Equity ratio = Total equity [Shareholders' equity] (fiscal year-end) / Total assets (fiscal year-end) × 100
5. Total asset turnover = Net sales / Average total assets
6. Dividend payout ratio = Total cash dividends / Profit attributable to owners of parent × 100
7. Dividends on equity (DOE) ratio = Total cash dividends / Average net assets × 100
8. Price book value ratio (PBR) = Stock price (fiscal year-end) / Net assets per share

* The Company conducted a 1-for-10 stock consolidation of shares of common stock, effective October 1, 2017. In the above table, per-share figures for the fiscal year ended March 2017 and prior years have been recalculated based on the number of shares outstanding after the stock split.

# Financial Review

## Revenue and Expenses

In fiscal 2020, ended March 31, 2020, consolidated net sales totaled ¥165,216 million, down 5.1% compared with the previous fiscal year.

The Industrial Machinery segment posted a 29.3% year-on-year increase in sales, to ¥23,237 million. Factors included higher sales of materials-related machinery for an intermediate storage facility (Futaba-machi, Futaba-gun, Fukushima Prefecture), which is a section plant project. We also generated higher sales from large-scale projects, including cargo handling equipment for an international bulk terminal at the Port of Onahama, belt conveyors for an intermediate storage facility (Okuma-machi, Futaba-gun, Fukushima Prefecture), and enclosed hanging belt conveyors for the Sakaigawa-Kanamori retention basin project (Machida City, Tokyo), the latter resulting from a new order.

Sales in the Rock Drill Machinery segment were down 8.9%, to ¥27,663 million. In Japan, the segment benefited from healthy shipments of hydraulic breakers and hydraulic crawler drills on the back of continued steady demand for urban redevelopment and construction investments. We also shipped tunnel drill jumbos to construction projects related to the Linear Chuo Shinkansen and projected Hokkaido Shinkansen lines. However, revenue from these projects declined year on year, leading to a ¥755 million decrease in domestic sales. Overseas, there was a decline in shipments of hydraulic crawler drills, especially to North America, compared with the previous fiscal year when shipments of equipment complying with Tier 3 exhaust gas emissions were strong. As a result, overseas sales in this segment fell ¥1,954 million.

The UNIC Machinery segment reported an 8.7% rise in sales, to ¥31,791 million. We enjoyed a ¥2,709 million year-on-year increase in domestic sales thanks to higher shipments of mainstay UNIC cranes, reflecting a rush in demand and increased orders ahead of a partial revision of mobile crane structural standards enacted in March 2019. Meanwhile, overseas sales declined, due mainly to economic slowdown in Southeast Asian countries, leading to ¥155 million decrease in overseas sales.

Sales in the Metals segment decreased 16.1% year on year, to ¥67,150 million. The Company's sales of electrolytic copper declined due to a 1,282-ton decrease in volume sales, to 83,864 tons, as well as falling overseas market prices. Meanwhile, sales of electrolytic gold declined due to a decrease in production volume.

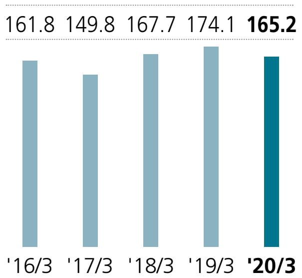
Cost of sales decreased 5.9% year on year, to ¥138,941 million, and the cost of sales margin edged down 0.7 percentage point, to 84.1%. Selling, general and administrative (SG&A) expenses were up 0.3%, to ¥17,582 million.

As a result, operating income decreased 2.5% from the previous fiscal year, to ¥8,693 million, and the operating margin edged up 0.2 point, to 5.3%. In the Industrial Machinery, operating income jumped 53.6%, to ¥3,208 million, and in the UNIC segment, operating income rose 43.1%, to ¥3,993 million. By contrast, the Rock Drill Machinery segment reported a 91.6% fall in operating income, to ¥143 million, due mainly to a decrease in revenue. The Electronics segment posted an operating loss of ¥35 million (compared with operating income of ¥408 million in the previous fiscal year), reflecting lower sales of high-purity metallic arsenic and crystal products due to deterioration of the semiconductor market. The Metals segment reported a 48.2% fall in operating income, to ¥302 million, due to deteriorating profitability of our electrolytic copper smelting business stemming from worsening ore purchasing conditions and rising smelting costs. This was despite higher income from sales of electrolytic gold due to rising overseas market prices. In the Real Estate segment, operating income fell 36.8%, to ¥736 million. This was due to a decline in sales stemming from a decrease in floor space occupied by large tenants in the Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2), as well as withdrawal of tenants from the Furukawa Osaka Building.

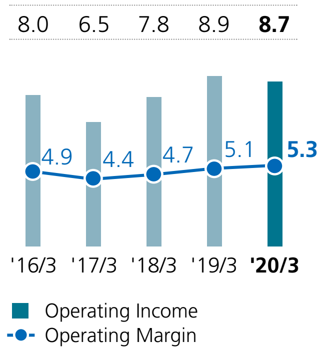
Among other income, we posted ¥991 million in interest and dividend income, ¥264 million in gain on reversal of provision for cost of removal of office tenants, associated with the end of negotiations for removing tenants from the Furukawa Osaka Building. Gain on sales of noncurrent assets amounted to ¥655 million, the main factors included a ¥583 million gain of sale of the Furukawa Daimyo Building (Chuo-ku, Fukuoka City, Fukuoka Prefecture). We also posted ¥20 million in gain on sales of investment securities—reflecting efforts to improve capital efficiency through sales of idle assets and investment securities. By contrast, we posted ¥1,030 million in loss on impairment of investment securities due to falling prices of listed stocks. Impairment loss was ¥241 million, which totaled ¥1,610 million in the previous fiscal year (and included a ¥1,561 million impairment loss on the Furukawa Osaka Building, which was deemed no longer viable as a competitive rental tenant building).

Total income taxes (including enterprise tax, inhabitants' tax, and business tax) amounted to ¥2,639 million, up 22.7%. The effective tax rate increased 5.6 percentage points, to 36.3%, due largely an increase in the valuation allowance resulting from a loss on valuation of investment securities. Profit attributable to non-controlling interests increased 5.6%, to ¥210 million. As a result, profit attributable to owners of parent decreased 4.8% year on year, to ¥4,432 million.

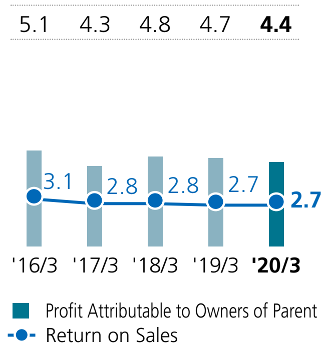
**Net Sales** (Billions of yen)




**Operating Income** (Billions of yen)
**Operating Margin** (%)




**Profit Attributable to Owners of Parent** (Billions of yen)
**Return on Sales** (%)



Return on equity (ROE) rose 0.1 percentage point, to 5.8%, and net income per share declined 3.4%, to ¥112.23.

## Medium-Term Business Plan 2019: Targets and Progress by Business Segment

In fiscal 2020, we reported consolidated net sales of ¥165,216 million, representing an achievement rate of 99% compared with our target for fiscal 2020 (final year) under Medium-Term Business Plan 2019. By segment, the achievement rate of the Machinery business, positioned as a core business, was 98%, while the rate for the Materials business was 100% and the Real Estate category was 95%.

Operating income in fiscal 2020 totaled ¥8,693 million, for an achievement rate of 102% against our ¥8,500 million target for the year. Following our ¥8,915 million result in fiscal 2019, this means we exceeded our target for the second consecutive term. The achievement rate for the Rock Drill Machinery segment was 9%, due to a significant year-on-year decline in income stemming from a fall in overseas sales. The achievement rate for the Industrial Machinery segment was 257%, reflecting operating income significantly in excess of our target for fiscal 2020, the final year of the plan. In addition, the UNIC Machinery segment posted an achievement rate of 117%, having generated stable domestic earnings. As a result, the achievement rate for the overall Machinery business was 117%. Due to deterioration in smelting profits, the achievement rate for the Metals segment was 43%. In the Electronics segment, we posted an operating loss due to a fall in sales stemming from deteriorating conditions in the semiconductor market. The Chemicals segment recorded an achievement rate of 128%, having generated stable earnings over the three years of Medium-Term Business Plan 2019. As a result, the achievement rate for the overall Materials business was 55%. The rate for the Real Estate segment was 74%. This was due to a year-on-year decline in earnings stemming from a fall in rental income. Under Medium-Term Business Plan 2019, we positioned the Machinery business as a core business, and the three years of the plan as a period of "Building foundations for renewed growth." For fiscal 2020, we had an operating income target for the Machinery business of ¥6,250 million, or 72% of total operating income. Our actual result in fiscal 2020 was ¥7,344 million, or 83% of total operating income, which was 1.2 times our percentage target.

We are also stepping up efforts to increase ROE. Among the components of ROE, we are placing top priority on improving profitability and efficiency. In addition to accurately monitoring cost of capital cost since fiscal 2019, we have been reviewing the business portfolio, and we started practicing business portfolio management that takes cost of capital into account when allocating management resources, including capital investments. Compared with fiscal 2017 (the year before the start of Medium-Term Business Plan 2019), as the base year, we reported a decline in profitability in fiscal 2020. This was mainly due to a fall in the net profit margin stemming from a ¥1,030 million loss on impairment of investment securities, reported as an extraordinary loss, resulting from falling prices of listed stocks. We also improved efficiency and reduced leverage, resulting in ROE of 5.8%. In the previous fiscal year, ROE was kept to 5.7%. This was mainly because of a ¥1,561 million impairment loss on the Furukawa Osaka Building, which negatively affected the return on sales and caused a decline in profitability. Accordingly, we did not achieve our ROE target of 6–7% set for Phase 1 of Vision for 2025 (fiscal 2018–2020).

*Industrial Machinery:* Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 116% and 257%, respectively. ROA improved 12.9 points, from 0.5% in fiscal 2017 to 13.4% in fiscal 2020. We made particularly good progress in improving profitability (operating margin). On April 1, 2018 we undertook a reorganization aimed at transitioning from a simple equipment manufacturer to a strategic partner for our customers. This entailed integrating the sales and design departments—previously separated from each other and coordinated by the head office—into each business section. Consequently, our engineering capabilities grew stronger. For example, our proprietary belt conveyor

### ROE Breakdown Analysis

| ROE | | = | Profitability<br>Return on sales | × | Efficiency<br>Total asset turnover | × | Leverage<br>Financial leverage |
|---|---|---|---|---|---|---|---|
| FY2017 (results) | :5.9% | | 2.84% | | 0.74 times | | 2.80 times |
| FY2018 (results) | :5.9% | | 2.85% | | 0.78 times | | 2.65 times |
| FY2019 (results) | :5.7% | | 2.67% | | 0.79 times | | 2.68 times |
| FY2020 (result) | :5.8% | | 2.68% | | 0.78 times | | 2.76 times |
| Comparison with FY2017 | | | Profitability: Down | | Efficiency: Improved | | Leverage: Down |

### ROA Transition by Segment

| FY2017 | ROA (Operating Income) | Total Asset Turnover (Times) | Operating Margin | Operating Income (Millions of yen) |
|---|---|---|---|---|
| Consolidated | 3.2% | 0.7 | 4.4% | 6,546 |
| Industrial Machinery | 0.5% | 0.9 | 0.6% | 104 |
| Rock Drill Machinery | 2.9% | 0.9 | 3.3% | 897 |
| UNIC Machinery | 11.2% | 1.1 | 9.9% | 2,579 |
| Metals | 6.2% | 2.4 | 2.6% | 1,738 |
| Electronics | 0.2% | 0.8 | 0.3% | 18 |
| Chemicals | 0.7% | 0.3 | 2.1% | 115 |
| Real Estate | 4.0% | 0.1 | 39.4% | 1,266 |

| FY2020 | ROA (Operating Income) | Total Asset Turnover (Times) | Operating Margin | Operating Income (Millions of yen) |
|---|---|---|---|---|
| Consolidated | 4.1% | 0.8 | 5.3% | 8,693 |
| Industrial Machinery | 13.4% | 1.1 | 12.2% | 3,208 |
| Rock Drill Machinery | 0.4% | 0.8 | 0.5% | 143 |
| UNIC Machinery | 13.0% | 1.0 | 12.5% | 3,993 |
| Metals | 1.1% | 2.5 | 0.5% | 302 |
| Electronics | (0.5%) | 0.8 | (0.6%) | (35) |
| Chemicals | 3.1% | 0.4 | 7.6% | 510 |
| Real Estate | 2.7% | 0.1 | 30.7% | 736 |

technologies were adopted in multiple large-scale construction projects, enabling us to expand our contractor business. In materials-related machinery, we attracted orders for crushers, screens, granulators, and certain types of plant equipment for a section plant project as a result of our technical proposals. Accordingly, segment sales and operating income in fiscal 2020 were 165% and 3,071%, respectively, compared with fiscal 2017.

*Rock Drill Machinery:* Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 83% and 9%, respectively. ROA fell 2.5 points, from 2.9% in fiscal 2017 to 0.4% in fiscal 2020. In fiscal 2018 and 2019, the first two years of Phase 1 of Vision for 2025 (fiscal 2018–2020), this segment benefited from healthy domestic shipments of hydraulic breakers and hydraulic crawler drills on the back of continued steady demand for tunnel drill jumbos and urban redevelopment and construction investments. Overseas, we enjoyed steady shipments of hydraulic crawler drills, especially to North America and Europe. As a result profitability (operating margin) improved from 3.3% in fiscal 2017 to 5.9% in fiscal 2018 and 5.6% in fiscal 2019. However, it fell to 0.5% in fiscal 2020. This was due mainly to increased costs associated with making our hydraulic crawler drills compliant with exhaust emission regulations in developed countries, as well as rising depreciation costs related to the Takasaki Yoshii Plant since fiscal 2018. Although segment sales in fiscal 2020 were 103% compared with fiscal 2017, segment operating income fell to 16%. Going forward, we will work to improve efficiency (total asset turnover) in light of our increasing investments in fixed assets and inventories. In consideration of this segment's business performance and other factors, we decided to postpone and reassess our capital investments in the Takasaki Yoshii Plant from Phase 2 of Vision for 2025.

*UNIC Machinery:* Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 104% and 117%, respectively. ROA improved by 1.8 points, from 11.2% in fiscal 2017 to 13.0% in fiscal 2020. Due to increases in total assets at the Sakura Plant associated with a capital investment program that started in fiscal 2017, as well as rising steel prices and increasing production costs related to capital investments

**Consolidated Net Sales and Operating Income by Segment and Progress Rate**

(Millions of yen, rounded down)

| Consolidated Net Sales | FY2017 (results) | FY2018 (results) | FY2019 (results) | **FY2020 (results)** | FY2020 (Medium-term plan estimation) | Progress rate vs Medium-term plan estimation | Comparison with FY2017 |
|---|---|---|---|---|---|---|---|
| **Machinery** | 66,804 | 73,453 | 77,581 | 82,692 | 84,100 | 98% | 124% |
| Industrial Machinery | 14,042 | 15,872 | 17,971 | 23,237 | 20,000 | 116% | 165% |
| Rock Drill Machinery | 26,979 | 30,200 | 30,372 | 27,663 | 33,500 | 83% | 103% |
| UNIC Machinery | 25,783 | 27,381 | 29,237 | 31,791 | 30,600 | 104% | 123% |
| **Materials** | 78,968 | 89,987 | 92,722 | 79,367 | 79,600 | 100% | 101% |
| Metals | 67,854 | 77,334 | 80,068 | 67,150 | 67,200 | 100% | 99% |
| Electronics | 5,816 | 6,308 | 6,527 | 5,506 | 6,400 | 86% | 95% |
| Chemicals | 5,298 | 6,345 | 6,127 | 6,711 | 6,000 | 112% | 127% |
| **Real Estate** | 3,074 | 3,339 | 2,999 | 2,386 | 2,500 | 95% | 78% |
| **Others** | 983 | 917 | 814 | 771 | 1,400 | 55% | 78% |
| **Total** | **149,830** | **167,696** | **174,117** | **165,216** | **167,600** | **99%** | **110%** |

(Millions of yen, rounded down)

| Consolidated Operating Income (Loss) | FY2017 (results) | FY2018 (results) | FY2019 (results) | **FY2020 (results)** | FY2020 (Medium-term plan estimation) | Progress rate vs Medium-term plan estimation | Comparison with FY2017 |
|---|---|---|---|---|---|---|---|
| **Machinery** | 3,580 | 5,084 | 6,568 | 7,344 | 6,250 | 117% | 205% |
| Composition ratio* | (53%) | (63%) | (72%) | (83%) | (72%) | — | — |
| Industrial Machinery | 104 | 1,005 | 2,089 | 3,208 | 1,250 | 257% | 3,071% |
| Rock Drill Machinery | 897 | 1,783 | 1,690 | 143 | 1,600 | 9% | 16% |
| UNIC Machinery | 2,579 | 2,295 | 2,789 | 3,993 | 3,400 | 117% | 155% |
| **Materials** | 1,871 | 1,649 | 1,396 | 777 | 1,400 | 55% | 42% |
| Composition ratio* | (28%) | (20%) | (15%) | (9%) | (16%) | — | — |
| Metals | 1,738 | 867 | 582 | 302 | 700 | 43% | 17% |
| Electronics | 18 | 330 | 408 | (35) | 300 | — | — |
| Chemicals | 115 | 451 | 407 | 510 | 400 | 128% | 445% |
| **Real Estate** | 1,266 | 1,340 | 1,164 | 736 | 1,000 | 74% | 58% |
| Composition ratio* | (19%) | (17%) | (13%) | (8%) | (12%) | — | — |
| **Others** | (127) | (196) | (147) | (95) | (40) | — | — |
| **Subtotal** | 6,590 | 7,876 | 8,980 | 8,761 | 8,610 | — | — |
| **Adjustment amount** | (44) | (55) | (65) | (68) | (110) | — | — |
| **Total** | **6,546** | **7,821** | **8,915** | **8,693** | **8,500** | **102%** | **133%** |

* Calculated as a percentage of the total, minus other adjustments

made during manufacturing, both our efficiency (total asset turnover) and profitability (operating margin) indicators deteriorated in fiscal 2018 and 2019 compared with fiscal 2017. Accordingly, ROA slipped to 8.9% in fiscal 2018 and 9.7% in fiscal 2019. Compared with fiscal 2017, segment sales and operating income in fiscal 2020 were 123% and 155%, respectively, while profitability (operating margin) improved 2.6 points, from 9.9% to 12.5%. This was due to multiple factors. In Japan, seeking to further enhance competitiveness by increasing the functionality and added value of UNIC cranes, we undertook a full model change of our "G-FORCE" series, releasing new models featuring improved levels of operability and safety. Overseas, we reorganized our sales network and strengthened sales capabilities while expanding and reinforcing our production bases for machines destined for export. We also began to reap the benefits of capital investments in the Sakura Plant, which are now contributing to improved production efficiency and profitability.

***Metals:*** Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 100% and 43%, respectively. ROA declined by 5.1 points, from 6.2% in fiscal 2017 to 1.1% in fiscal 2020. Profit in this segment fluctuates significantly, because raw copper ore and bullion products are affected by international market trends—including supply/demand balance, speculative transactions, and geopolitical and economic conditions—while smelting profitability is impacted by copper concentrate purchasing conditions. We are working to reduce the effects of these fluctuations by entering forward exchange contracts, hedging through futures contracts, and the like. To improve earnings, we are also establishing an optimal production and sales system with an emphasis on profitability. Due to deteriorating copper concentrate purchasing conditions and increasing smelting costs, however, it is difficult to generate profits in the smelting business. Accordingly, profitability (operating margin) in the Metals segment declined from 2.6% in fiscal 2017 to 0.5% in fiscal 2020 (1.1% in fiscal 2018 and 0.7% in fiscal 2019). Going forward, our challenge is to verify the profitability and future potential of the consigned smelting business.

***Electronics:*** Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rate for segment sales was 86%, while we reported a segment loss in fiscal 2020. ROA declined by 0.7 point, from 0.2% in fiscal 2017 to –0.5% in fiscal 2020. In fiscal 2018 and 2019, the first two years of Phase 1 of Vision for 2025 (fiscal 2018–2020), this segment benefited from healthy demand for compound semiconductors—the main application for high-purity metallic arsenic, which is positioned as a mature product—as well as steady demand for crystal products used in individual semiconductor devices. Accordingly, profitability (operating margin) improved steadily, from 5.2% in fiscal 2018 to 6.2% in fiscal 2019. ROA also increased, from 4.5% in fiscal 2018 to 6.2% in fiscal 2019. Due to subsequent deterioration of the semiconductor market, however, sales and profits of mature products declined, and this segment posted an operating loss in fiscal 2020. Going forward, we will work relentlessly to transition from mature products to strategic products, such as aluminum nitrides, diffractive optical elements (DOEs), and hybrid coils.

***Chemicals:*** Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 112% and 128%, respectively. ROA improved by 2.4 points, from 0.7% in fiscal 2017 to 3.1% in fiscal 2020. Compared with fiscal 2017, segment sales and operating income in fiscal 2020 were 127% and 445%, respectively. As a result, profitability (operating margin) improved 5.5 points, from 2.1% in fiscal 2017 to 7.6% in fiscal 2020. In Phase 1 of Vision for 2025 (fiscal 2018–2020), both existing products (such as sulfuric acid, cuprous oxide, and cupric oxide used for copper plating) and high-value-added products (such as low-iron sulfuric acid) contributed to increased earnings in the Chemicals segment.

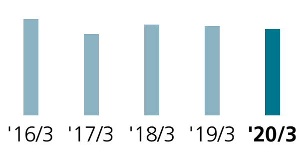
***Real Estate:*** Compared with our targets for fiscal 2020 under Medium-Term Business Plan 2019, the achievement rates for segment sales and operating income were 95% and 74%, respectively. ROA declined by 1.3 points, from 4.0% in fiscal 2017 to 2.7% in fiscal 2020. In Phase 1 of Vision for 2025 (fiscal 2018–2020), we engaged in negotiations to remove tenants from the Furukawa Osaka Building (starting in fiscal 2018) and closed that building in December 2019. During that time, however, rental income decreased as tenants moved out. Meanwhile, Muromachi Furukawa Mitsui Building (commercial name: COREDO Muromachi 2), which is our main facility, continued operating smoothly, but rental income declined due to a decrease in floor space occupied by large tenants from the fourth quarter of fiscal 2019. As a result, profitability (operating margin) declined from 39.4% in fiscal 2017 to 30.7% in fiscal 2020 (39.9% in fiscal 2018 and 38.5% in fiscal 2019). Seeking to effectively utilize our business resources, we will work to enhance efficiency (total asset turnover) by selling idle assets and assets that are no longer expected to contribute to earnings. The latter includes the Furukawa Daimyo Building (Chuo-ku, Fukuoka City, Fukuoka Prefecture), which was sold in April 2019. We will also strive to secure stable income through the steady operation of the Muromachi Furukawa Mitsui Building. Another challenge is to finalize our future plan for the Furukawa Osaka Building and improve its profitability.

## Financial Position

At March 31, 2020, total assets amounted to ¥209,697 million, down 2.6% from a year earlier. Current assets declined 2.0%, to ¥85,726 million, due mainly to a ¥1,682 million decrease in cash and cash equivalents. Property, plant and equipment, net increased 1.8%, to ¥89,838 million and stemmed mainly from capital investments totaling ¥5,939 million. Depreciation and amortization amounted to ¥3,589 million. Investments and other

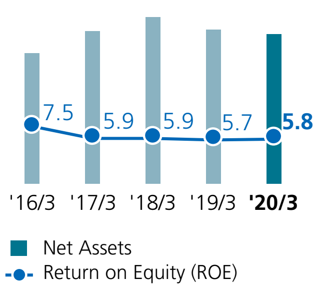
**Basic Earnings per Share** (Yen)

125.13 105.29 118.16 116.23 **112.23**



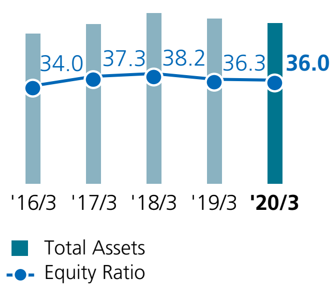

**Net Assets** (Billions of yen)
**Return on Equity (ROE)** (%)

68.3 79.6 87.1 80.4 **78.0**




**Total Assets** (Billions of yen)
**Equity Ratio** (%)

195.7 208.0 222.2 215.4 **209.7**



assets were down 13.9%, to ¥34,133 million, with investment securities decreasing 19.3%, to ¥24,029 million, due to a decline in the market value resulting from falling prices of publicly listed stocks.

Total liabilities decreased 2.4%, to ¥131,730 million. Current liabilities declined 13.0%, to ¥52,555 million. The main factors were a ¥5,623 million fall in short-term debt (including current portion of long-term debt), as well as decreases in payables—trade (notes and accounts payable and electronically recorded debt) and accounts payable—other, the sum of which declined ¥2,304 million. Long-term liabilities increased 6.2%, to ¥79,175 million, mainly due to a ¥3,439 million increase in long-term debt.

Net assets at fiscal year-end totaled ¥77,967 million, down 3.1% from a year earlier. The decrease stemmed mainly from a ¥3,976 million decline in unrealized holding gain on securities, net of income taxes, due to a decline in the market value resulting from falling prices of publicly listed stocks. This was despite a ¥2,615 million increase in retained earnings. The increase in retained earnings mainly reflected ¥4,432 million in profit attributable to owners of parent, which outweighed ¥1,978 million in cash dividends paid. Consequently, total equity amounted to ¥75,544 million, and the equity ratio edged down 0.3 percentage point, to 36.0%. The debt-to-equity (D/E) ratio remained unchanged, at 0.9 times.

## R&D and Capital Expenditures

The Furukawa Company Group actively engages in R&D on high-value-added products and new materials that meet wide-ranging market needs. In the fiscal year under review, total research and development expenses amounted to ¥1,178 million, down 21.7% from the previous fiscal year. Of this total, ¥13 million was allocated to the Industrial Machinery segment, ¥75 million to the Rock Drill Machinery segment, ¥89 million to the UNIC Machinery segment, ¥24 million to the Metals segment, ¥109 million to the Electronics segment, and ¥151 million to the Chemicals segment. We also spent ¥717 million on corporate research aimed at developing basic technologies for each segment and creating new businesses. This was allocated to all of the business segments.

In fiscal 2020, capital expenditures (including purchase of intangible fixed assets) amounted to ¥5,939 million. Of this total, ¥405 million was allocated to the Industrial Machinery segment, ¥2,782 million to the Rock Drill Machinery segment, ¥937 million to the UNIC Machinery segment, ¥229 million to the Metals segment, ¥222 million to the Electronics segment, and ¥779 million to the Chemicals segment, aimed primarily at improvements in production efficiency. In addition, ¥19 million was allocated to the Real Estate segment, mainly for maintenance of buildings, and ¥566 million went to the Others segment, mainly for investments in facilities to prevent accidents at suspended mines. Funds for these expenditures are sourced from internal funds and borrowings. Depreciation and amortization increased 3.3%, to ¥3,589 million.

## Cash Flows

In the fiscal year under review, net cash provided by operating activities amounted to ¥8,401 million, down 28.7% from the previous fiscal year. The main factor was an increase in income taxes paid, which contrasted with a decrease in payables—trade and inflows from changes in assets and liabilities associated with operating activities.

Net cash used in investing activities totaled ¥5,074 million, up ¥1,687 million from the previous fiscal year. The main factor was ¥6,120 million in purchases of property, plant and equipment (up ¥1,361 million year on year) associated with a capital investment program to strengthen our manufacturing capabilities under Medium-Term Business Plan 2019. These included investments to increase the production capacity of the Takasaki Yoshii Plant and investments aimed at reinforcing the "mother factory" functions of our Sakura Plant, which has a three-pronged production system (Japan, China, and Thailand). We also recorded ¥1,058 million in proceeds from sales of property, plant and equipment (down ¥187 million), including the Furukawa Daimyo Building (Chuo-ku, Fukuoka City, Fukuoka Prefecture).

Net cash used in financing activities was ¥4,843 million, up ¥638 million from the previous fiscal year. The main factors were ¥2,174 million (up ¥1,495 million from the previous year) in repayment of short- and long-term debt, net of proceeds from same, aimed at reducing interest-bearing debt. We also recorded ¥421 million in purchase of treasury shares (down ¥788 million).

## Consolidated Operating Cash Flow Allocation and Capital Strategy

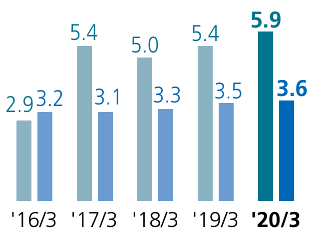
The Furukawa Company Group has completed its Medium-Term Business Plan 2019, covering the three-year period from April

**Financial Strategy for Fiscal 2026**

| | FY2020 Year-End Level | FY2026 Level (Estimation) |
|---|---|---|
| Debt-to-equity (D/E) ratio*1 | 0.9 times | 0.6–0.7 times range |
| Interest-bearing debt to EBITDA ratio*2 | 5.7 times | 4 times level |
| Issuer credit rating | BBB (JCR) | BBB+ or higher (Japanese rating agency) |

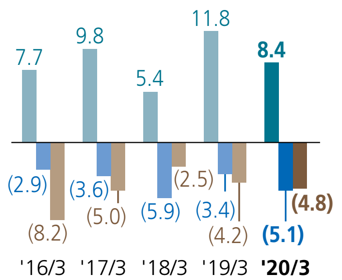
*1 Debt-to-equity (D/E) ratio = Interest-bearing liabilities (fiscal year-end) / Total equity [Shareholders' equity] (fiscal year-end)
*2 Interest-bearing debt to EBITDA ratio = Interest-bearing debt (fiscal year-end) / Operating income + Depreciation and amortization

Capital Expenditures (Billions of yen)
Depreciation and Amortization (Billions of yen)



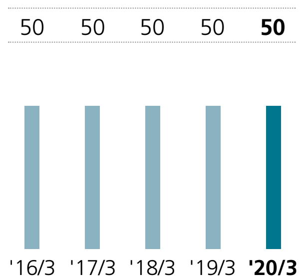

Capital Expenditures
Depreciation and Amortization

Cash Flows (Billions of yen)




Cash Flows from Operating Activities
Cash Flows from Investing Activities
Cash Flows from Financing Activities

Cash Dividends per Share (Yen)



## Consolidated Operating Cash Flows and Progress Ratio

| | | FY2018–FY2020 Cumulative (Medium-Term Plan Estimation ) | FY2018–FY2020 Cumulative (Results) | Progress Rate (vs Medium-Term Plan Estimation) |
|---|---|---|---|---|
| Operating Cash Flows | | ¥25,000 million | ¥25,537 million | 102% |
| Allocation | Interest-bearing debt reduction*1 | ¥3,000 million | ¥3,094 million | 103% |
| | Capital expenditures*2 | ¥16,000 million | ¥16,403 million | 103% |
| | Cash dividends*3 | ¥6,000 million | ¥6,017 million | 100% |
| | Share buybacks | — | ¥1,631 million | — |

*1 Refers to borrowings (short and long term) only, and does not include lease obligations.
*2 Refers to purchase price. Purchases of tangible and intangible fixed assets in fiscal 2020 amounted to ¥6,170 million, and cumulative purchases in fiscal 2018–2020 totaled ¥16,394 million.
*3 Refers to total dividend payments. The dividend payout ratio was 42.3% in fiscal 2018, 43.0% in fiscal 2019, and 44.6% in fiscal 2020 (compared with the target of 30% or higher under Medium-Term Business Plan 2019).

2017 to March 2020. With respect to allocation of consolidated operating cash flows, our policy under the plan was to "actively promote investments that contribute to increased corporate value" while aiming to establish a robust financial foundation. At the same time, we endeavored to make optimal allocations of cash flows in consideration of shareholder returns.

At its meeting held on May 8, 2020, the Board of Directors announced its Medium-Term Business Policy 2022. Under this policy, we aspire to achieve a financial soundness vision that will enable us to obtain a credit rating of BBB+ (or higher), which is one notch above the current rating issued by a Japanese rating agency, by fiscal 2026 (ending March 2026), the final year of Vision for 2025. To this end, we will continue striving to improve our financial soundness and pursue an optimal capital structure.

Over the three-year period of Medium-Term Business Plan 2019, we generated ¥25,537 million in cumulative operating cash flows, representing a 102% achievement rate compared with our ¥25,000 million projection under the plan.

Over the same period, we also reduced interest-bearing debt by ¥3,094 million, from ¥73,507 million on March 31, 2017 to ¥70,413 million on March 31, 2020. The reduction represented a 103% achievement rate compared with our ¥3,000 million projection. Going forward, we will continue placing top priority on improving efficiency and profitability without excessive reliance on financial leverage, while endeavoring to improve financial soundness in order to achieve financial targets set for fiscal 2026 under Medium-Term Business Policy 2022.

As for allocation of capital expenditures, our cumulative three-year projection was around ¥16,000 million, mostly for investment in the Machinery business, which is positioned as a core business. The cumulative amount for the past three years (fiscal 2018 to fiscal 2020) was ¥16,403 million, for an achievement rate of 103%. Going forward, we will continue making capital investments aimed at strengthening our manufacturing capabilities, especially in the Machinery business, in our quest to proactively promote investments that help increase our corporate value.

Furukawa places great importance on improving returns of profits to all shareholders. Our basic policy is to appropriate profits after comprehensive consideration of various factors, including retained earnings required to finance capital expenditures and research and development expenses necessary to bolster earnings, as well as future business development and other factors. We strive to return profits to shareholders in a stable and ongoing manner. In principle, we aim to pay annual dividends of ¥50.00 per share or higher for a consolidated payout ratio of 30% or higher, based on consolidated earnings (excluding extraordinary income / loss situations). Under Medium-Term Business Plan 2019, our projection for cumulative dividend payments over the three-year period was ¥6,000 million. In each of the three years (fiscal 2018, 2019, and 2020), we paid annual dividends of ¥50.00 per share, for a consolidated payout ratio in excess of 40.0%. Cumulative payments totaled ¥6,017 million, for an achievement rate of 100%.

The Company made purchases of treasury stock in November 2018 and February 2020. Over the three-year period from fiscal 2018 to fiscal 2020, we purchased a total of 1,186,300 shares, for a total purchase price of ¥1,631 million. We will continue contemplating the purchase and cancellation of treasury stock as appropriate, taking into consideration stock price trends, capital efficiency, cash flow, and other factors.

## Business Risks

### (1) Foreign Exchange Fluctuations
The Furukawa Company Group engages in production, procurement, and sales activities in Japan and overseas, and therefore is at risk of foreign exchange fluctuations in connection with its export business, the import of raw materials, primarily copper ore, and smelting and processing income. While the Group utilizes foreign exchange contracts and other methods to mitigate this risk, its operating results and financial position may be adversely affected by significant movements in exchange rates.

### (2) Fluctuations in Nonferrous Metals Markets
International prices of electrolytic copper, a mainstay product of the Group, and other nonferrous metals are decided by the London Metals Exchange (LME) in U.S. dollars to reflect international market conditions. Such prices fluctuate according to the international supply–demand balance, speculative transactions, international political and economic circumstances, and the like. Accordingly, the Group utilizes forward delivery transactions and other hedging techniques to minimize the impact of fluctuating LME prices. However, significant movements in such prices may affect the Group's operating results and financial position.

The Group also invests in overseas copper mines to procure copper concentrate. Any fluctuations in LME prices may impact the business performance of those mines, which may affect the Group's operating results and financial position.

### (3) Interest Rates
The Group's fiscal year-end balance of interest-bearing liabilities (debt) was ¥70,413 million, equivalent to 33.6% of total assets. Any increase in debt-related costs arising from changes in interest rates may adversely affect the Group's operating results and financial position. Although funding costs may increase if market interest rates rise, the Group has prepared for sudden changes in interest rates by utilizing an optimal combination of borrowing arrangements, including fixed-rate instruments.

### (4) Investment Securities and Land
Historically, the Furukawa Company Group has maintained holdings

of investment securities, which are subject to market valuations, as well as land. As of March 31, 2020, the carrying value of investment securities as stated in the balance sheets was ¥22,278 million, while land stood at ¥53,497 million. Accordingly, the Group's operating results and financial position are at risk of impairment losses, losses from devaluation, and losses on sales if securities and land prices decline significantly.

Regarding securities, every year the Board of Directors comprehensively considers the benefits and risks associated with individual holdings, both qualitatively and quantitatively, in order to verify the suitability of maintaining such holdings. Securities judged to be unsuitable as a result of such verification are sold.

As for other fixed assets held by the Group, a significant deterioration of business conditions could result in a decline in profitability, while falling market prices could lead to impairment losses. Any of these factors may adversely affect the Group's operating results and financial position.

### (5) Fluctuations in Demand

The Furukawa Company Group's products are sold both in Japan and overseas. Therefore, any major fluctuations in demand in its major markets—such as Japan, North America, Europe, and Asia—may adversely affect the Group's operating results and financial position.

Due to the nature of its products, moreover, sales from domestic public works projects account for a high proportion of net sales. Therefore, any major fluctuations in public investments may adversely affect the Group's operating results and financial position.

### (6) Country Risk

The Furukawa Company Group conducts its production, procurement, and sales activities on a global basis in order to expand its sales network, strengthen cost-competitiveness, and reduce currency risk. Any number of local events could hamper the Group's smooth business operations. These include local political unrest, sharp economic slowdown, deterioration of public security, trade sanctions, cultural and legal differences, special labor–management relations, and terrorism. Such events could affect the Group's operating results and financial position.

### (7) Natural Disasters, Infectious Diseases, and Other Force Majeure

The occurrence of natural disasters (such as earthquakes, tsunamis, floods, and typhoons) and accidents (such as large-scale fires) could cause substantial damage to the Group's production facilities and procurement sources and a breakdown of its distribution network. Also, the worldwide spread of infectious diseases, such as COVID-19, could render inoperable the Group's business operations and owned facilities, as well as the operations of its suppliers. Either of these events may prevent the Group from supplying products in a reliable manner, which could affect its operating results and financial position.

Regarding the worldwide spread of COVID-19, which materialized in early 2020, the Group has taken rigorous measures to prevent infections among employees, including introduction of stringent hygiene management and teleworking systems. If the pandemic continues for a prolonged period, however, our operations may be suspended due to employee infections, while any slowdown in the supply chain and suspension or contraction of customers' business activities could lead to a decline in revenue, which could affect the Group's operating results and financial position.

For more information about major risks identified as having the potential to affect cash flows, segment performances, and other factors in light of the COVID-19 pandemic, please refer to the Annual Securities Report and quarterly reports.

The Group is taking various measures to prevent COVID-19 infections. These include introduction of teleworking systems and shortened working hours, as well as separating desks with partitions to prevent droplet infections. Each department has also adopted a rotation system to avoid concentration of employees. At our factories, we have increased the number of shuttle buses connecting each factory with its nearest railway station and introduced rotation systems at employee cafeterias. We have also installed partitions at other business facilities, and at shiftwork sites we reduced the number of shifts from three to two.

### (8) Product Quality

The Group manufactures products in accordance with globally recognized quality control standards and strives constantly to establish, maintain, and improve its quality assurance system. However, there is no guarantee that all products will be defect-free in the future. To mitigate such risk, we take out product liability insurance, recall insurance, and the like. However, in the event that a product defect leads to major liability claims or recalls that exceed our expectations, public trust in the Group and its products may be lost, which could affect its operating results and financial position.

### (9) New Product Development

The Group actively engages in new product development with the aim of bringing to market products incorporating new technologies and functions that meet customer needs. In some of our businesses, however, there are products that are in mature stages of their life cycles. Such products may be subject to reduced profit margins because they are difficult to differentiate from the competition. If the Group is unable to develop or market new products that will become future pillars of such businesses, its operating results and financial position could be affected as a result.

### (10) Human Resources

To achieve future growth, the Group hires talented people—both new graduates and mid-career professionals—and provides training to enhance their competitive strengths. If the Group is unable to attract sufficient human resources required for its business, however, its operating results and financial position could be affected as a result.

### (11) Environmental Protection

The Furukawa Company Group places the highest importance on environmental protection, environmental safety, and prevention of pollution at its various business sites, both in Japan and overseas, respecting all laws and regulations. Furthermore, in Japan the Group takes all necessary measures to ensure proper environmental management of suspended and closed mines, including prevention of water pollution from such mines, as well as managing the safety of tailing dams. Due to changes in relevant regulations, however, legislation may be tightened and unexpected situations may arise at each business site, which could increase the cost of responding and thus affect the Group's operating results and financial position.

### (12) Official Regulations

The Furukawa Company Group engages in business in Japan and overseas and thus is subject to legal regulations of various nations, including rules related to licensing, taxation, the environment, labor, antitrust, and export controls. The Group takes care to faithfully comply with such official regulations. Due to changes in laws and regulations, however, existing legislation may be tightened or new legislation enacted, which could increase the cost of responding and impact business continuity, and thus affect the Group's operating results and financial position.

### (13) Retirement Benefit Obligation

The employees of the Furukawa Company Group are covered by a defined benefit corporate pension plan and a non-contributory funded employee pension plan. Liability for retirement benefits are provided at an amount calculated based on the retirement benefit obligation and the fair value of pension plan assets at the balance sheet date as of March 31, 2020. In calculating retirement benefit obligation, the Group adopts assumptions in connection with the discount rate and expected rate of return on plan assets, as well as other assumptions. However, the Group's operating results and financial position are at risk in the event that the actual discount rate and expected rate of return on plan assets differ materially from the assumptions, as well as in the event of a change in the assumptions on which retirement benefit obligation are made.

# Consolidated Balance Sheets

Furukawa Co., Ltd. and consolidated subsidiaries
As of March 31, 2020 and 2019

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| **ASSETS** | **2020** | 2019 | **2020** |
| **Current Assets:** | | | |
| Cash and cash equivalents | ¥ **12,647** | ¥ 14,218 | $ **116,207** |
| Receivables—trade | **30,653** | 30,668 | **281,661** |
| Finished products | **16,951** | 14,966 | **155,754** |
| Work in process | **10,514** | 11,087 | **96,610** |
| Raw materials and supplies | **10,944** | 12,564 | **100,561** |
| Other current assets | **4,180** | 4,076 | **38,408** |
| Allowance for doubtful accounts | **(163)** | (138) | **(1,499)** |
| Total current assets | **85,726** | 87,441 | **787,702** |
| **Property, Plant and Equipment, at Cost** (Notes 6 and 19)**:** | | | |
| Land and timberlands | **55,344** | 55,759 | **508,540** |
| Buildings and structures | **52,933** | 58,013 | **486,386** |
| Machinery and equipment | **46,069** | 44,612 | **423,311** |
| Lease assets (Note 10) | **1,180** | 1,391 | **10,842** |
| Construction in progress | **1,317** | 1,135 | **12,101** |
| | **156,844** | 160,911 | **1,441,180** |
| Accumulated depreciation | **(67,005)** | (72,622) | **(615,688)** |
| Property, plant and equipment, net | **89,838** | 88,289 | **825,492** |
| **Investments and Other Assets:** | | | |
| Investment securities (Note 5) | **24,029** | 29,774 | **220,792** |
| Investments in affiliates | **3,308** | 3,293 | **30,394** |
| Long-term loans receivables | **3,791** | 4,135 | **34,834** |
| Deferred tax assets (Note 14) | **1,458** | 1,183 | **13,397** |
| Assets for retirement benefits (Note 13) | **345** | 210 | **3,171** |
| Other assets | **1,778** | 1,636 | **16,336** |
| Allowance for doubtful accounts | **(575)** | (594) | **(5,286)** |
| Total investments and other assets | **34,133** | 39,638 | **313,639** |
| **Total assets** | ¥ **209,697** | ¥ 215,368 | $ **1,926,833** |

| LIABILITIES AND NET ASSETS | Millions of yen 2020 | Millions of yen 2019 | Thousands of U.S. dollars (Note 4) 2020 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term debt (Note 6) | ¥ **8,570** | ¥ 9,738 | $ **78,751** |
| Current portion of long-term debt (Note 6) | **3,011** | 7,467 | **27,670** |
| Lease obligations (Note 6) | **222** | 258 | **2,037** |
| Payables—trade | **9,532** | 12,691 | **87,586** |
| Electronically recorded obligations | **10,331** | 12,233 | **94,928** |
| Accounts payable—other | **12,651** | 9,895 | **116,247** |
| Income taxes payable | **729** | 761 | **6,700** |
| Provision for environmental measures | **—** | 4 | **—** |
| Provision for deposition field restoration | **—** | 219 | **—** |
| Provision for cost of removal of office tenants | **—** | 432 | **—** |
| Other current liabilities | **7,508** | 6,680 | **68,993** |
| Total current liabilities | **52,555** | 60,377 | **482,912** |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Note 6) | **58,831** | 55,392 | **540,578** |
| Lease obligations (Note 6) | **443** | 405 | **4,067** |
| Provision for environmental measures | **120** | 68 | **1,103** |
| Liability for retirement benefits (Note 13) | **9,511** | 8,801 | **87,394** |
| Deferred tax liabilities (Note 14) | **6,357** | 6,018 | **58,415** |
| Deferred tax liabilities on surplus on the revaluation of land (Note 14) | **1,408** | 1,477 | **12,936** |
| Asset retirement obligations | **229** | 224 | **2,106** |
| Other long-term liabilities | **2,276** | 2,159 | **20,914** |
| Total long-term liabilities | **79,175** | 74,544 | **727,512** |
| **Net Assets** (Note 7)**:** | | | |
| Shareholders' equity: | | | |
| Common stock without par value: | | | |
| Authorized—80,000,000 shares | | | |
| Issued—40,445,568 shares | **28,208** | 28,208 | **259,195** |
| Retained earnings | **44,508** | 41,892 | **408,965** |
| Treasury stock, at cost: | | | |
| 2020—1,229,045 shares | **(1,697)** | (1,277) | **(15,597)** |
| 2019—904,102 shares | **—** | — | **—** |
| Total shareholders' equity | **71,018** | 68,824 | **652,563** |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on securities, net of income taxes | **5,364** | 9,340 | **49,287** |
| Deferred gain (loss) on hedges | **(322)** | 12 | **(2,959)** |
| Surplus on the revaluation of land, net of income taxes | **2,620** | 2,781 | **24,076** |
| Translation adjustments | **(340)** | (350) | **(3,122)** |
| Retirement benefits liability adjustments | **(2,797)** | (2,390) | **(25,701)** |
| Total accumulated other comprehensive income | **4,525** | 9,393 | **41,581** |
| Non-controlling interests | **2,423** | 2,230 | **22,264** |
| Total net assets | **77,967** | 80,447 | **716,408** |
| **Total liabilities and net assets** | ¥ **209,697** | ¥ 215,368 | $ **1,926,833** |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

| | Millions of yen | | | | Thousands of U.S. dollars (Note 4) | |
|---|---|---|---|---|---|---|
| | | 2020 | | 2019 | | 2020 |
| **Net Sales** | ¥ | **165,216** | ¥ | 174,117 | $ | **1,518,109** |
| **Cost of Sales** (Note 16) | | **(138,941)** | | (147,675) | | **(1,276,676)** |
| Gross profit | | **26,275** | | 26,442 | | **241,433** |
| **Selling, General and Administrative Expenses** (Note 9) | | **(17,582)** | | (17,526) | | **(161,556)** |
| Operating income | | **8,693** | | 8,915 | | **79,877** |
| **Other Income (Expenses):** | | | | | | |
| Interest and dividend income | | **991** | | 952 | | **9,105** |
| Equity in earnings (losses) of affiliates | | **(51)** | | (150) | | **(467)** |
| Interest expense | | **(512)** | | (577) | | **(4,706)** |
| Other income (expenses), net (Note 17) | | **(1,840)** | | (2,137) | | **(16,908)** |
| Profit before income taxes | | **7,281** | | 7,003 | | **66,901** |
| **Income Taxes** (Note 14)**:** | | | | | | |
| Current | | **(1,425)** | | (1,665) | | **(13,098)** |
| Deferred | | **(1,214)** | | (485) | | **(11,155)** |
| Total income taxes | | **(2,639)** | | (2,150) | | **(24,252)** |
| **Profit** | | **4,641** | | 4,853 | | **42,648** |
| **Profit Attributable to Non-Controlling Interests** | | **(210)** | | (199) | | **(1,927)** |
| **Profit Attributable to Owners of Parent** | ¥ | **4,432** | ¥ | 4,654 | $ | **40,721** |

| | Yen | | | | U.S. dollars (Note 4) | |
|---|---|---|---|---|---|---|
| **Profit Attributable to Owners of Parent per Share** | ¥ | **112** | ¥ | 116 | $ | **1.03** |
| **Net Assets per Share** | ¥ | **1,926** | ¥ | 1,978 | $ | **17.70** |

The accompanying notes are integral part of these statements.

# Consolidated Statements of Comprehensive Income

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| **Profit** | **¥ 4,641** | ¥ 4,853 | **$ 42,648** |
| **Other Comprehensive Income (Loss):** | | | |
| Unrealized holding gain (loss) on securities, net of income taxes | **(3,983)** | (5,180) | **(36,599)** |
| Deferred gain (loss) on hedges | **(334)** | (63) | **(3,073)** |
| Translation adjustments | **(43)** | (318) | **(399)** |
| Retirement benefits liability adjustments | **(407)** | (2,477) | **(3,740)** |
| Share of other comprehensive income (loss) of affiliates accounted for using equity method | **66** | (204) | **605** |
| Total other comprehensive income (loss) (Note 8) | **(4,702)** | (8,242) | **(43,206)** |
| **Comprehensive Income (Loss)** | **(61)** | (3,389) | **(558)** |
| **Comprehensive Income (Loss) Attributable to:** | | | |
| Owners of parent | **(275)** | (3,566) | **(2,529)** |
| Non-controlling interests | **215** | 178 | **1,971** |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

| For the year ended March 31, 2020 | Number of shares of common stock (thousands) | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | |
| | | Common stock | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at beginning of year** | 40,446 | ¥ 28,208 | ¥ 41,892 | ¥ (1,277) | ¥ 68,824 |
| Cash dividends paid | — | — | **(1,977)** | — | **(1,977)** |
| Profit attributable to owners of parent | — | — | **4,432** | — | **4,432** |
| Purchase of treasury stock | — | — | — | **(421)** | **(421)** |
| Reversal of surplus on the revaluation of land | — | — | **161** | — | **161** |
| Net change during the year | — | — | — | — | — |
| **Balance at end of year** | **40,446** | **¥ 28,208** | **¥ 44,508** | **¥ (1,697)** | **¥ 71,018** |

| For the year ended March 31, 2020 | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized holding gain on securities, net of income taxes | Deferred gain (loss) on hedges | Surplus on the revaluation of land, net of income taxes | Translation adjustments | Retirement benefits liability adjustments (Note 13) | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at beginning of year** | ¥ 9,340 | ¥ 12 | ¥ 2,781 | ¥ (350) | ¥ (2,390) | ¥ 9,393 | ¥ 2,230 | ¥ 80,447 |
| Cash dividends paid | — | — | — | — | — | — | — | **(1,977)** |
| Profit attributable to owners of parent | — | — | — | — | — | — | — | **4,432** |
| Purchase of treasury stock | — | — | — | — | — | — | — | **(421)** |
| Reversal of surplus on the revaluation of land | — | — | — | — | — | — | — | **161** |
| Net change during the year | **(3,976)** | **(334)** | **(161)** | **10** | **(407)** | **(4,867)** | **193** | **(4,675)** |
| **Balance at end of year** | **¥ 5,364** | **¥ (322)** | **¥ 2,620** | **¥ (340)** | **¥ (2,797)** | **¥ 4,525** | **¥ 2,423** | **¥ 77,967** |

| For the year ended March 31, 2019 | Number of shares of common stock (thousands) | Millions of yen | | | |
|---|---|---|---|---|---|
| | | Shareholders' equity | | | |
| | | Common stock | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at beginning of year** | 40,446 | ¥ 28,208 | ¥ 38,573 | ¥ (68) | ¥ 66,713 |
| Cash dividends paid | — | — | (2,020) | — | (2,020) |
| Profit attributable to owners of parent | — | — | 4,654 | — | 4,654 |
| Purchase of treasury stock | — | — | — | (1,209) | (1,209) |
| Reversal of surplus on the revaluation of land | — | — | 685 | — | 685 |
| Net change during the year | — | — | — | — | — |
| **Balance at end of year** | 40,446 | ¥ 28,208 | ¥ 41,892 | ¥ (1,277) | ¥ 68,824 |

For the year ended March 31, 2019

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized holding gain on securities, net of income taxes | Deferred gain (loss) on hedges | Surplus on the revaluation of land, net of income taxes | Translation adjustments | Retirement benefits liability adjustments (Note 13) | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at beginning of year** | ¥ 14,518 | ¥ 46 | ¥ 3,465 | ¥ 182 | ¥ 87 | ¥ 18,298 | ¥ 2,075 | ¥ 87,086 |
| Cash dividends paid | — | — | — | — | — | — | — | (2,020) |
| Profit attributable to owners of parent | — | — | — | — | — | — | — | 4,654 |
| Purchase of treasury stock | — | — | — | — | — | — | — | (1,209) |
| Reversal of surplus on the revaluation of land | — | — | — | — | — | — | — | 685 |
| Net change during the year | (5,178) | (33) | (685) | (533) | (2,477) | (8,905) | 156 | (8,750) |
| **Balance at end of year** | ¥ 9,340 | ¥ 12 | ¥ 2,781 | ¥ (350) | ¥ (2,390) | ¥ 9,393 | ¥ 2,230 | ¥ 80,447 |

For the year ended March 31, 2020

| | Thousands of U.S. dollars (Note 4) | | | |
|---|---|---|---|---|
| | Shareholders' equity | | | |
| | Common stock | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at beginning of year** | $ 259,195 | $ 384,935 | $ (11,730) | $ 632,400 |
| Cash dividends paid | — | **(18,167)** | — | **(18,167)** |
| Profit attributable to owners of parent | — | **40,721** | — | **40,721** |
| Purchase of treasury stock | — | — | **(3,867)** | **(3,867)** |
| Reversal of surplus on the revaluation of land | — | **1,476** | — | **1,476** |
| Net change during the year | — | — | — | — |
| **Balance at end of year** | **$ 259,195** | **$ 408,965** | **$ (15,597)** | **$ 652,563** |

The accompanying notes are integral part of these statements.

For the year ended March 31, 2020

| | Thousands of U.S. dollars (Note 4) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized holding gain on securities, net of income taxes | Deferred gain (loss) on hedges | Surplus on the revaluation of land, net of income taxes | Translation adjustments | Retirement benefits liability adjustments (Note 13) | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at beginning of year** | $ 85,819 | $ 113 | $ 25,552 | $ (3,218) | $(21,960) | $ 86,306 | $ 20,495 | $739,201 |
| Cash dividends paid | — | — | — | — | — | — | — | **(18,167)** |
| Profit attributable to owners of parent | — | — | — | — | — | — | — | **40,721** |
| Purchase of treasury stock | — | — | — | — | — | — | — | **(3,867)** |
| Reversal of surplus on the revaluation of land | — | — | — | — | — | — | — | **1,476** |
| Net change during the year | **(36,532)** | **(3,073)** | **(1,476)** | **96** | **(3,740)** | **(44,725)** | **1,769** | **(42,956)** |
| **Balance at end of year** | **$ 49,287** | **$ (2,959)** | **$ 24,076** | **$ (3,122)** | **$(25,701)** | **$ 41,581** | **$ 22,264** | **$716,408** |

The accompanying notes are integral part of these statements.

# Consolidated Statements of Cash Flows

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| **Operating Activities:** | | | |
| Profit before income taxes | **¥ 7,281** | ¥ 7,003 | **$ 66,901** |
| Foreign exchange losses (gains) | **228** | 25 | **2,096** |
| Depreciation and amortization | **3,589** | 3,474 | **32,978** |
| Equity in earnings (losses) of affiliates | **51** | 150 | **467** |
| Impairment loss | **241** | 1,610 | **2,213** |
| Loss (gain) on disposal and sales of property, plant and equipment | **(511)** | (146) | **(4,698)** |
| Loss (gain) on impairment of investment securities | **1,030** | — | **9,462** |
| Loss (gain) on sales of investment securities | **(18)** | (215) | **(166)** |
| Increase (decrease) in provision for deposition field restoration | **(219)** | (454) | **(2,010)** |
| Increase (decrease) in provision for cost of removal of office tenants | **(432)** | (147) | **(3,965)** |
| Interest and dividend income | **(991)** | (952) | **(9,105)** |
| Interest expense | **512** | 577 | **4,706** |
| Receivables—trade | **(17)** | 470 | **(154)** |
| Inventories | **208** | 2,225 | **1,908** |
| Payables—trade | **(5,085)** | 1,719 | **(46,722)** |
| Accounts payable—other | **3,271** | (4,980) | **30,056** |
| Other | **639** | 2,234 | **5,876** |
| Subtotal | **9,778** | 12,593 | **89,845** |
| Interest and dividends received | **1,036** | 953 | **9,521** |
| Interest paid | **(512)** | (575) | **(4,707)** |
| Income taxes paid | **(2,160)** | (1,662) | **(19,850)** |
| Income taxes refunded | **259** | 476 | **2,383** |
| Net cash provided by operating activities | **8,401** | 11,785 | **77,192** |
| **Investing Activities:** | | | |
| Purchases of property, plant and equipment | **(6,120)** | (4,760) | **(56,239)** |
| Proceeds from sales of property, plant and equipment | **1,058** | 1,246 | **9,724** |
| Purchases of investment securities | **(527)** | (506) | **(4,845)** |
| Proceeds from sales of investment securities | **350** | 444 | **3,219** |
| Increase in short-term loans receivables | **—** | (364) | **—** |
| Collection of long-term loans receivables | **111** | 691 | **1,018** |
| Other | **54** | (138) | **499** |
| Net cash used in investing activities | **(5,074)** | (3,387) | **(46,623)** |
| **Financing Activities:** | | | |
| Proceeds from long-term debt | **6,460** | 25,713 | **59,359** |
| Repayment of long-term debt | **(7,471)** | (26,912) | **(68,647)** |
| Proceeds from short-term debt | **17,387** | 7,555 | **159,767** |
| Repayment of short-term debt | **(18,551)** | (7,035) | **(170,455)** |
| Purchase of treasury shares | **(421)** | (1,209) | **(3,867)** |
| Cash dividends paid | **(1,978)** | (2,020) | **(18,174)** |
| Repayment of finance lease obligations | **(248)** | (275) | **(2,283)** |
| Other | **(22)** | (22) | **(202)** |
| Net cash used in financing activities | **(4,843)** | (4,205) | **(44,503)** |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | **(54)** | (177) | **(499)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(1,571)** | 4,017 | **(14,433)** |
| **Cash and Cash Equivalents at Beginning of Year** | **14,218** | 10,200 | **130,640** |
| **Cash and Cash Equivalents at End of Year** | **¥ 12,647** | ¥ 14,218 | **$ 116,207** |

The accompanying notes are integral part of these statements.

# Notes to the Consolidated Financial Statements

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

## 1. Basis of Presentation

The accompanying consolidated financial statements of Furukawa Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Furukawa Group") are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from those prepared by the Company as required under the Financial Instruments and Exchange Law of Japan.
The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In preparing these statements, the Company makes certain reclassifications and rearrangements to the consolidated financial statements prepared in Japan in order to present these statements in a form which is more familiar to readers outside Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The Company had 32 subsidiaries and 11 affiliates as of March 31, 2020. The consolidated financial statements included the accounts of the Company and 32 subsidiaries as of March 31, 2020.

For the purpose of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Furukawa Group have been eliminated.

Certain foreign subsidiaries have been included on the basis of a fiscal year ended on December 31, but prior to the parent company's fiscal year ended on March 31. Relevant adjustments have been made for significant transactions with such subsidiaries during the intervening period from January 1 to March 31.

Investments in subsidiaries and affiliates which are not accounted for by the equity method are carried at cost because of their immaterial impact on the consolidated financial statements.

### (2) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

### (3) Short-Term Investments and Investment Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. The Furukawa Group does not hold any trading or held-to-maturity securities as of March 31, 2020 and 2019. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Fair value is determined based on the average of the market value during the last month of the fiscal year. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (4) Inventories

Finished products and work in process relating to copper products are stated at cost determined by the moving average method (the balance sheet amounts of inventories are stated at the lowered book values reflecting potential decline in profitability). Other inventories are mainly stated at cost determined by the average method (the balance sheet amounts of inventories are stated at the lowered book values reflecting potential decline in profitability).

### (5) Allowance for Doubtful Accounts

In order to cover probable losses on collection, allowance for doubtful accounts is calculated based on the historical default rates for normal receivables plus the estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers who are experiencing financial difficulties.

### (6) Provision for Deposition Field Restoration

Provision for deposition field restoration is provided to cover the stabilization costs with respect to earthquake protection.

### (7) Provision for Environmental Measures

Provision for environmental measures is provided to cover disposal costs anticipated to be incurred with respect to the Law Concerning Special Measures for Promotion of Proper Treatment of PCB Wastes.

### (8) Provision for Cost of Removal of Office Tenants

Provision for cost of removal of office tenants is provided to cover compensation costs anticipated to be incurred with respect to the removal of office tenants.

### (9) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for lease assets is mainly calculated by the straight-line method based on the estimated useful lives of the assets. The range of useful lives of property, plant and equipment is summarized as follows:

| | |
|---|---|
| Buildings and structures | 2 to 60 years |
| Machinery and equipment | 2 to 22 years |

Amortization is calculated by the straight-line method for intangible assets except for lease assets.

Depreciation of lease assets arising from finance lease transactions that do not involve transfer of ownership is calculated by the straight-line method over the lease term with no residual value.

### (10) Retirement Benefits

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 15 years) which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 15 years) which are shorter than the average remaining years of service of the employees.

Unrecognized actuarial gains and losses and unrecognized prior service costs are recorded in "Retirement benefits liability adjustments" in net assets after adjusting income tax effect.

### (11) Surplus on the Revaluation of Land

Pursuant to the Law Concerning the Revaluation of Land, land used for the Company's business operations was revalued on March 31, 2002. The income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as "Deferred tax liabilities on surplus on the revaluation of land" and the remaining balance has been presented under net assets as "Surplus on the revaluation of land, net of income taxes" in the accompanying consolidated balance sheets. Revaluation of land was determined based on the official notice prices published by the Commissioner of the National Tax Authorities in accordance with Paragraph 4, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation," with relevant adjustments. The carrying value of the land after revaluation exceeded its fair value by ¥1,440 million ($13,234 thousand) and ¥1,643 million as of March 31, 2020 and 2019, respectively.

### (12) Income Taxes

Current income taxes comprising corporation tax, enterprise tax and inhabitants' taxes are provided for based on amounts currently payable for each year. Deferred income taxes arising from temporary differences between financial reporting and tax bases of the assets and liabilities, which were measured using the enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse, are reflected in the consolidated financial statements.

The Company and its domestic wholly owned subsidiaries file a consolidated corporation tax return.

### (13) Amounts per Share

Profit attributable to owners of parent per share is computed based on the profit available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Net assets per share are computed based on the net assets excluding non-controlling interests and the number of common stock outstanding at the year-end.

### (14) Foreign Currency Translation

Foreign currency-denominated monetary assets and liabilities are translated into Japanese yen using the rates of exchange in effect at the balance sheet date. Differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests, which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as "Translation adjustments" and "Non-controlling interests" in the consolidated financial statements.

### (15) Hedging Activities

The Furukawa Group uses derivative financial instruments for the purpose of hedging the risks of adverse fluctuations in foreign exchange rates on the trade receivables, trade payables and forecast transactions denominated in foreign currencies, commodity prices and interest rates. All derivative financial instruments except those below are stated at fair value and related gain or loss on the changes in the fair values of derivative financial instruments is deferred as a component of net assets in the balance sheet until the recognition of gain or loss on hedged items when those derivative financial instruments qualify for hedge accounting.

Trade receivables, trade payables and forecast transactions denominated in foreign currencies are translated at the contracted rates if the relating forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not carried at fair value, but any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense or income over the life of each swap, thereby adjusting the effective interest rate on the hedged items.

### (16) Shareholders' Equity

The Company Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

### (17) Adoption of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

With respect to items for which a review of the Non-Consolidated Taxation System was made in line with the transition to the Group tax sharing system established under the Act for Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020) and the transition to the Group tax sharing system, the Company and some of its domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28 issued February 16, 2018) in accordance with the treatment set out in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force (PITF) No. 39 issued March 31, 2020) and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of tax laws before the revision.

## 3. Additional Information

### Impact of COVID-19

The Group assumes that the impact of the COVID-19 pandemic and the period of its influence will return to a recovery trend in about one year, and it will converge within the next fiscal year. Accordingly, the Group is making its best estimate regarding impairment accounting of fixed assets and recoverability of deferred tax assets in consideration of available information such as customer trends.

There is high uncertainty regarding the timing of the COVID-19 convergence and its impact on our business environment. If the situation is significantly different from the assumption, it may affect the Group's operating results and financial position from the next fiscal year, such as impairment loss of fixed assets.

## 4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥108.83=US$1.00, the exchange rate prevailing on March 31, 2020. This translation should not be construed as a representation that yen have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

## 5. Investment Securities

The aggregate acquisition cost, carrying value and unrealized gain or loss pertaining to the marketable other securities as of March 31, 2020 and 2019 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2020 | | |
| | Carrying value | Acquisition cost | Unrealized gain (loss) | Carrying value | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Listed stocks | ¥ 14,717 | ¥ 7,152 | ¥ 7,565 | $ 135,233 | $ 65,717 | $ 69,516 |
| Government bonds | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — |
| | 14,717 | 7,152 | 7,565 | 135,233 | 65,717 | 69,516 |
| Securities whose carrying value does not exceed their acquisition cost: | | | | | | |
| Listed stocks | 7,561 | 8,792 | (1,231) | 69,474 | 80,782 | (11,308) |
| Government bonds | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — |
| | 7,561 | 8,792 | (1,231) | 69,474 | 80,782 | (11,308) |
| Total | ¥ 22,278 | ¥ 15,944 | ¥ 6,335 | $ 204,707 | $ 146,499 | $ 58,207 |

| | Millions of yen | | |
|---|---|---|---|
| | 2019 | | |
| | Carrying value | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Listed stocks | ¥ 24,442 | ¥ 12,030 | ¥ 12,412 |
| Government bonds | — | — | — |
| Corporate bonds | — | — | — |
| | 24,442 | 12,030 | 12,412 |
| Securities whose carrying value does not exceed their acquisition cost: | | | |
| Listed stocks | 3,601 | 4,196 | (595) |
| Government bonds | — | — | — |
| Corporate bonds | — | — | — |
| | 3,601 | 4,196 | (595) |
| Total | ¥ 28,042 | ¥ 16,225 | ¥ 11,817 |

Gain on sales of securities classified as other securities with aggregate gains for the years ended March 31, 2020 and 2019 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Sales proceeds | **¥ 345** | ¥ 444 | **$ 3,170** |
| Aggregate gains | **20** | 215 | **186** |
| Aggregate losses | **(2)** | (0) | **(20)** |

The Company and its consolidated subsidiaries recognized ¥1,030 million ($9,462 thousand) of loss on impairment of investment securities for the year ended March 31, 2020.

The Company and its consolidated subsidiaries recognize loss on devaluation of investment securities in cases where the fair value at the balance sheet date of a security declines by more than 50% from its carrying value. The Company and its consolidated subsidiaries also recognize loss on devaluation of investment securities by considering the recoverability of fair value and so forth when the fair value at the balance sheet date declines by more than 30% and less than 50% from its carrying value.

## 6. Short-Term Debt, Long-Term Debt and Lease Obligations

Short-term debt, most of which are unsecured, represented notes payable to banks, with the average interest rates of 0.7% and 0.6% as of March 31, 2020 and 2019, respectively.

Long-term debt as of March 31, 2020 and 2019 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Loans, principally from banks, insurance companies and government agencies, most of which are secured, due 2020 to 2038 | **¥ 61,842** | ¥ 62,859 | **$ 568,248** |
| | **61,842** | 62,859 | **568,248** |
| Current portion of long-term debt | **(3,011)** | (7,467) | **(27,670)** |
| | **¥ 58,831** | ¥ 55,392 | **$ 540,578** |

The average interest rates applicable to the above debt amounting to ¥61,842 million ($568,248 thousand) and ¥62,859 million were 0.6% and 0.6% as of March 31, 2020 and 2019, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 are as follows:

| Years ending March 31, | Millions of yen 2020 | Thousands of U.S. dollars 2020 |
|---|---|---|
| 2021 | ¥ **3,011** | $ **27,670** |
| 2022 | **2,088** | **19,184** |
| 2023 | **5,158** | **47,396** |
| 2024 | **8,971** | **82,430** |
| 2025 | **5,988** | **55,020** |
| 2026 and thereafter | **36,627** | **336,548** |
| | ¥ **61,842** | $ **568,248** |

Lease obligations as of March 31, 2020 and 2019 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Lease obligations due 2020 to 2026 | ¥ **664** | ¥ 663 | $ **6,104** |
| | **664** | 663 | **6,104** |
| Current portion of lease obligations | **(222)** | (258) | **(2,037)** |
| | ¥ **443** | ¥ 405 | $ **4,067** |

The aggregate annual maturities of lease obligations subsequent to March 31, 2020 are as follows:

| Years ending March 31, | Millions of yen 2020 | Thousands of U.S. dollars 2020 |
|---|---|---|
| 2021 | ¥ **222** | $ **2,037** |
| 2022 | **189** | **1,737** |
| 2023 | **132** | **1,213** |
| 2024 | **62** | **574** |
| 2025 | **27** | **247** |
| 2026 and thereafter | **32** | **296** |
| | ¥ **664** | $ **6,104** |

The Company and certain consolidated subsidiaries have entered into overdraft and loan commitment agreements amounting to ¥38,102 million ($350,108 thousand) with 23 banks and ¥37,014 million with 24 banks as of March 31, 2020 and 2019, respectively. The borrowings outstanding and the unused balances under these credit facilities amounted to ¥7,663 million ($70,409 thousand) and ¥30,440 million ($279,700 thousand), respectively, as of March 31, 2020, and amounted to ¥8,764 million and ¥28,250 million, respectively, as of March 31, 2019.

Assets pledged as collateral and liabilities with collateral pledged as of March 31, 2020 and 2019 were as follows:

(a) Assets pledged as collateral

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Property, plant and equipment, net | **¥ 1,321** | ¥ 1,414 | **$ 12,142** |

(b) Liabilities with collateral pledged

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Long-term debt (including current portion) | **¥ 1,556** | ¥ 1,707 | **$ 14,295** |

## 7. Net Assets

Types and number of shares issued and in treasury

| | Thousands of shares | | | |
|---|---|---|---|---|
| | As of March 31, 2019 | Increase | Decrease | As of March 31, 2020 |
| Shares issued: | | | | |
| Common stock | 40,446 | — | — | 40,446 |
| Total | 40,446 | — | — | 40,446 |
| Treasury stock: | | | | |
| Common stock (Note) | 904 | 325 | — | 1,229 |
| Total | 904 | 325 | — | 1,229 |

Note: The increase of 325 thousand shares of equity in treasury stock was due to the purchase of shares based on the resolution of the Board of Directors on February 26, 2020.
The increase of 0 thousand shares of equity in treasury stock was due to the purchase of shares of less than a standard unit.

Types and number of shares issued and in treasury

| | Thousands of shares | | | |
|---|---|---|---|---|
| | As of March 31, 2018 | Increase | Decrease | As of March 31, 2019 |
| Shares issued: | | | | |
| Common stock | 40,446 | — | — | 40,446 |
| Total | 40,446 | — | — | 40,446 |
| Treasury stock: | | | | |
| Common stock (Note) | 42 | 862 | — | 904 |
| Total | 42 | 862 | — | 904 |

Note: The increase of 862 thousand shares of equity in treasury stock was due to the purchase of shares based on the resolution of the Board of Directors on November 26, 2018.
The increase of 0 thousand shares of equity in treasury stock was due to the purchase of shares of less than a standard unit.

## 8. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2020 and 2019 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| **Unrealized holding gain (loss) on securities, net of income taxes:** | | | |
| Amounts arising during the year | **¥ (5,931)** | ¥ (6,528) | **$ (54,497)** |
| Reclassification adjustments for gains and losses included in profit | **1,021** | (215) | **9,378** |
| Amounts before tax effect | **(4,910)** | (6,742) | **(45,119)** |
| Tax effect | **927** | 1,562 | **8,520** |
| Unrealized holding gain (loss) on securities, net of income taxes | **(3,983)** | (5,180) | **(36,599)** |
| **Deferred gain (loss) on hedges:** | | | |
| Amounts arising during the year | **(805)** | (473) | **(7,394)** |
| Adjustments on the acquisition cost of assets | **364** | 358 | **3,344** |
| Amounts before tax effect | **(441)** | (115) | **(4,049)** |
| Tax effect | **106** | 52 | **977** |
| Deferred gain (loss) on hedges | **(334)** | (63) | **(3,073)** |
| **Translation adjustments:** | | | |
| Amounts arising during the year | **(43)** | (318) | **(399)** |
| **Retirement benefits liability adjustments:** | | | |
| Amounts arising during the year | **(594)** | (3,941) | **(5,455)** |
| Reclassification adjustments for gains and losses included in profit | **(1)** | (27) | **(11)** |
| Amounts before tax effect | **(595)** | (3,968) | **(5,466)** |
| Tax effect | **188** | 1,492 | **1,725** |
| Retirement benefits liability adjustments | **(407)** | (2,477) | **(3,740)** |
| **Share of other comprehensive income (loss) of affiliates accounted for using equity method:** | | | |
| Amounts arising during the year | **83** | (200) | **765** |
| Reclassification adjustments for gains and losses included in profit | **(17)** | (4) | **(160)** |
| Share of other comprehensive income (loss) of affiliates accounted for using equity method | **66** | (204) | **605** |
| Total other comprehensive income (loss) | **¥ (4,702)** | ¥ (8,242) | **$ (43,206)** |

## 9. Research and Development Expenses

Research and development expenses, included in selling, general and administrative expenses and cost of sales, for the years ended March 31, 2020 and 2019 amounted to ¥1,178 million ($10,821 thousand) and ¥1,505 million, respectively.

## 10. Leases

Leases' accounting

Finance lease transactions that do not involve transfer of ownership

1. Leased asset quality

   Tangible assets

   Mainly machinery and equipment

2. Depreciation method of leased assets

   Please refer to "(9) Property, Plant and Equipment and Depreciation" in "2. Summary of Significant Accounting Policies."

## 11. Financial Instruments

1. Overview

(1) Policy for financial instruments

In consideration of the annual financial plan, the Furukawa Group raises funds through mainly bank borrowings and bond issues. Further, the Furukawa Group raises short-term capital through mainly bank borrowings. The Furukawa Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivables—are exposed to credit risk in relation to customers. In addition, the Furukawa Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies. In principle, the foreign currency exchange risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts.

Investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Furukawa Group has business relationships.

Substantially all trade payables—trade notes, electronically recorded obligations and accounts payables—have payment due dates within one year.

Short-term debt is raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Furukawa Group utilizes rate swap transactions as a hedging instrument for each contract. The assessment of effectiveness is omitted since it meets conditions of specific matching criteria for interest rate swap.

Regarding derivatives, the Furukawa Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Furukawa Group also enters into interest rate swap transactions to reduce fluctuation risk deriving from interest payable for debt bearing interest at variable rates. In addition, the Furukawa Group enters into forward commodity exchange contracts to reduce fluctuation risk of the commodity price of inventories. Information regarding the method of hedge accounting, hedging instruments, hedged items, hedging policy and the assessment of effectiveness of hedging activities is found in "(15) Hedging Activities" in "2. Summary of Significant Accounting Policies."

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Furukawa Group for managing credit risk arising from receivables, each related division monitors the creditworthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

In utilizing derivatives, the Furukawa Group has transactions with major financial institutions or trading companies which have high credit to reduce credit risk.

(b) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Furukawa Group identifies the foreign currency exchange risk for each currency on a monthly basis and principally enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for loans payable and bonds bearing interest at variable rates, the Furukawa Group enters into interest rate swap transactions.

For investment securities, the Furukawa Group periodically reviews the fair values of such financial instruments.

In conducting or managing derivative transactions, each division makes transactions by approval of the directors of transaction-related divisions.

(c) Monitoring of liquidity risk (the risk that the Furukawa Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Furukawa Group prepares and updates its cash flow plans on a monthly basis to manage liquidity risk.

(4) Supplementary explanation on the estimated fair value of financial instruments

The value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in "12. Derivative Transactions" are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2020 and 2019 and estimated fair value are shown as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 2 below.)

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | **2020** | | | **2020** | | |
| | Carrying value | Estimated fair value | Difference | Carrying value | Estimated fair value | Difference |
| Assets: | | | | | | |
| (1) Cash and cash equivalents | **¥ 12,647** | **¥ 12,647** | **¥ —** | **$ 116,213** | **$ 116,213** | **$ —** |
| (2) Receivables—trade | **30,653** | **30,653** | **—** | **281,661** | **281,661** | **—** |
| (3) Investment securities | **22,278** | **22,278** | **—** | **204,707** | **204,707** | **—** |
| Total assets | **65,579** | **65,579** | **—** | **602,581** | **602,581** | **—** |
| Liabilities: | | | | | | |
| (1) Payables—trade | **¥ 9,532** | **¥ 9,532** | **¥ —** | **$ 87,586** | **$ 87,586** | **$ —** |
| (2) Electronically recorded obligations | **10,331** | **10,331** | **—** | **94,928** | **94,928** | **—** |
| (3) Accounts payable—other | **12,651** | **12,651** | **—** | **116,247** | **116,247** | **—** |
| (4) Short-term debt (*1) | **8,570** | **8,570** | **—** | **78,751** | **78,751** | **—** |
| (5) Long-term debt (*1) | **61,842** | **62,586** | **744** | **568,248** | **575,080** | **6,832** |
| Total liabilities | **102,927** | **103,671** | **744** | **945,760** | **952,592** | **6,832** |
| Derivatives (*2) | **¥ 418** | **¥ 418** | **¥ —** | **$ 3,839** | **$ 3,839** | **$ —** |

| | Millions of yen | | |
|---|---|---|---|
| | 2019 | | |
| | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| (1) Cash and cash equivalents | ¥ 14,329 | ¥ 14,329 | ¥ — |
| (2) Receivables—trade | 30,668 | 30,668 | — |
| (3) Investment securities | 28,042 | 28,042 | — |
| Total assets | 73,040 | 73,040 | — |
| Liabilities: | | | |
| (1) Payables—trade | ¥ 12,691 | ¥ 12,691 | ¥ — |
| (2) Electronically recorded obligations | 12,233 | 12,233 | — |
| (3) Accounts payable—other | 9,895 | 9,895 | — |
| (4) Short-term debt (*1) | 9,738 | 9,738 | — |
| (5) Long-term debt (*1) | 62,859 | 62,978 | 119 |
| Total liabilities | 107,416 | 107,535 | 119 |
| Derivatives (*2) | ¥ 23 | ¥ 23 | ¥ — |

(*1) Current portion of long-term debt is included in long-term debt.

(*2) The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

*(1) Cash and cash equivalents, and (2) Receivables—trade*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*(3) Investment securities*

The fair value of stocks is based on market prices. For information on securities classified by holding purpose, please refer to "5. Investment Securities" to the consolidated financial statements.

Liabilities

*(1) Payables—trade, (2) Electronically recorded obligations, (3) Accounts payable—other and (4) Short-term debt*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*(5) Long-term debt*

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.

Derivative transactions

Please refer to "12. Derivative Transactions" to the consolidated financial statements.

2. Financial instruments of which it is extremely difficult to determine the fair value as of March 31, 2020 and 2019

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Unlisted stocks | **¥ 5,058** | ¥ 5,024 | **$ 46,480** |

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table of "(3) Investment securities."

3. Redemption schedule for receivables and marketable securities with maturities after March 31, 2020 and 2019 are as follows:

For the year ended March 31, 2020

| Millions of yen | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| Cash deposits | **¥ 12,621** | **¥ —** | **¥ —** | **¥ —** |
| Receivables—trade | **30,653** | **—** | **—** | **—** |
| Total | **¥ 43,274** | **¥ —** | **¥ —** | **¥ —** |

For the year ended March 31, 2019

| Millions of yen | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| Cash deposits | ¥ 14,294 | ¥ — | ¥ — | ¥ — |
| Receivables—trade | 30,668 | — | — | — |
| Total | ¥ 44,963 | ¥ — | ¥ — | ¥ — |

For the year ended March 31, 2020

| Thousands of U.S. dollars | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| Cash deposits | **$ 115,969** | **$ —** | **$ —** | **$ —** |
| Receivables—trade | **281,661** | **—** | **—** | **—** |
| Total | **$ 397,630** | **$ —** | **$ —** | **$ —** |

4. The redemption schedule for long-term debt is disclosed in "6. Short-Term Debt, Long-Term Debt and Lease Obligations."

**12. Derivative Transactions**

The notional amounts and estimated fair value of the derivative instruments outstanding as of March 31, 2020 and 2019 for which hedged accounting have been applied are as follows:

1. Currency-related transactions

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | **¥ 256** | **—** | **¥ 4** |
| | EUR | Accounts receivables | **93** | **—** | **1** |
| | U.S. dollars | Accounts payables | **3,275** | **—** | **9** |
| Allocation method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | **¥ 153** | **—** | **(*)** |
| | EUR | Accounts receivables | **328** | **—** | **(*)** |
| | Buy: | | | | |
| | U.S. dollars | Accounts payables | **¥ 4,083** | **—** | **(*)** |

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2019 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | ¥ 895 | — | ¥ 0 |
| | EUR | Accounts receivables | 12 | — | 0 |
| | U.S. dollars | Accounts payables | 8,082 | — | (21) |
| Allocation method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | — | — | (*) |
| | EUR | Accounts receivables | ¥ 142 | — | (*) |
| | Buy: | | | | |
| | U.S. dollars | Accounts payables | ¥ 2,828 | — | (*) |

Thousands of U.S. dollars

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | **$ 2,357** | **—** | **$ 40** |
| | EUR | Accounts receivables | **854** | **—** | **9** |
| | U.S. dollars | Accounts payables | **30,090** | **—** | **82** |
| Allocation method | Forward foreign exchange contracts | | | | |
| | Sell: | | | | |
| | U.S. dollars | Accounts receivables | **$ 1,404** | **—** | **(*)** |
| | EUR | Accounts receivables | **3,009** | **—** | **(*)** |
| | Buy: | | | | |
| | U.S. dollars | Accounts payables | **$ 37,520** | **—** | **(*)** |

Note: The fair values of forward foreign exchange contracts are based on exchange rates or prices provided by financial institutions.

(*) The fair values by means of the allocation method for forward foreign exchange contracts are included in the fair values of the hedged accounts receivables and payables because the derivative transactions are treated as a part of hedged accounts receivables and payables.

2. Interest-related transactions

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Special accounting procedure for interest rate swap | Receive/floating and pay/fixed | Long-term debt | **¥ 12,533** | **¥ 11,917** | **(*)** |

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2019 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Special accounting procedure for interest rate swap | Receive/floating and pay/fixed | Long-term debt | ¥ 15,131 | ¥ 12,533 | (*) |

Thousands of U.S. dollars

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Special accounting procedure for interest rate swap | Receive/floating and pay/fixed | Long-term debt | **$ 115,161** | **$ 109,501** | **(*)** |

(*) The fair values by means of the special accounting procedure for interest rate swap are included in the fair values of the hedged long-term debt because the derivative transactions are treated as a part of hedged long-term debt.

3. Commodity-related transactions

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward product contracts | | | | |
| | Sell: | | | | |
| | Copper | Raw material | **¥ —** | **¥ —** | **¥ —** |
| | Buy: | | | | |
| | Copper | Raw material | **¥ 6,944** | **¥ 28** | **¥ (432)** |

Millions of yen

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2019 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward product contracts | | | | |
| | Sell: | | | | |
| | Copper | Raw material | ¥ — | ¥ — | ¥ — |
| | Buy: | | | | |
| | Copper | Raw material | ¥ 1,720 | ¥ 16 | ¥ 43 |

Thousands of U.S. dollars

| Method of hedge accounting | Type of transaction | Major object of hedge | As of March 31, 2020 | | |
|---|---|---|---|---|---|
| | | | Contract amounts | Maturing after one year | Fair value |
| Principal method | Forward product contracts | | | | |
| | Sell: | | | | |
| | Copper | Raw material | **$ —** | **$ —** | **$ —** |
| | Buy: | | | | |
| | Copper | Raw material | **$ 63,810** | **$ 261** | **$ (3,970)** |

Note: The fair values of forward product contracts are based on prices provided by trading companies.

## 13. Retirement Benefit Plans

### For the year ended March 31, 2020

The employees of the Company and most of its domestic consolidated subsidiaries are covered by defined benefit corporate pension plans and non-contributory funded employee pension plans as defined benefit plans. The employee retirement benefit plans provide for lump-sum payments. The employee pension plans, which are funded, were instituted to replace a certain portion of the benefits under the retirement benefit plans with respect to employees who retire at the mandatory retirement age. Certain consolidated subsidiaries (both domestic and foreign) have defined contribution plans.

The changes in the retirement benefit obligation during the year ended March 31, 2020 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Retirement benefit obligation at April 1, 2019 | ¥ 20,136 | $ 185,018 |
| Service cost | 886 | 8,139 |
| Interest cost | 97 | 893 |
| Actuarial loss | (183) | (1,679) |
| Retirement benefits paid | (1,475) | (13,551) |
| Prior service cost | — | — |
| Exchange translation adjustment | (17) | (160) |
| Other | — | — |
| Retirement benefit obligation at March 31, 2020 | ¥ 19,444 | $ 178,660 |

The changes in plan assets during the year ended March 31, 2020 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Plan assets at April 1, 2019 | ¥ 11,545 | $ 106,085 |
| Expected return on plan assets | 218 | 2,001 |
| Actual loss | (1,125) | (10,335) |
| Contributions by the Company | 351 | 3,222 |
| Retirement benefits paid | (690) | (6,340) |
| Exchange translation adjustment | (21) | (196) |
| Others | — | — |
| Plan assets at March 31, 2020 | ¥ 10,278 | $ 94,437 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Funded retirement benefit obligation | ¥ 18,770 | $ 172,469 |
| Plan assets at fair value | (10,278) | (94,437) |
| | 8,492 | 78,032 |
| Unfunded retirement benefit obligation | 674 | 6,191 |
| Net liability for retirement benefits in the balance sheet | 9,166 | 84,223 |
| | | |
| Liability for retirement benefits | 9,511 | 87,394 |
| Assets for retirement benefits | (345) | (3,171) |
| Net liability for retirement benefits in the balance sheet | ¥ 9,166 | $ 84,223 |

The components of retirement benefit expense for the year ended March 31, 2020 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Service cost | ¥ 886 | $ 8,139 |
| Interest cost | 97 | 893 |
| Expected return on plan assets | (218) | (2,001) |
| Amortization of prior service cost | 24 | 224 |
| Amortization of actuarial loss | 315 | 2,892 |
| Retirement benefit expense | ¥ 1,104 | $ 10,146 |

Note: Retirement benefit expense for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) as of March 31, 2020 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Prior service cost | ¥ 24 | $ 224 |
| Actuarial loss | (618) | (5,678) |
| Total | ¥ (594) | $ (5,455) |

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2020 | |
| Unrecognized prior service cost | ¥ 132 | $ 1,213 |
| Unrecognized actuarial loss | 3,995 | 36,709 |
| Total | ¥ 4,127 | $ 37,922 |

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 are as follows:

| | 2020 |
|---|---|
| Bonds | 20% |
| Stocks | 51% |
| Cash on hand and in banks | 2% |
| Other | 27% |
| Total | 100% |

Note: 41% of total plan assets are in a Retirement Benefit Trust for corporate pension plans and non-contributory funded employee pension plans.

Matters related to the actual assumption

Major actuarial assumptions at the end of the period:

| | |
|---|---|
| Discount rates | mainly 0.2% |
| Expected rates of return on plan assets | mainly 2.0% |
| Expected rates of salary increase | 3.6%–5.3% |

Defined contribution plan

The amount which a consolidated subsidiary has contributed or is obligated to contribute to the plan for the year ended March 31, 2020 is ¥19 million ($173 thousand).

The changes in the retirement benefit obligation during the year ended March 31, 2019 are as follows:

| | Millions of yen |
|---|---|
| | 2019 |
| Retirement benefit obligation at April 1, 2018 | ¥ 20,166 |
| Service cost | 912 |
| Interest cost | 122 |
| Actuarial loss | 127 |
| Retirement benefits paid | (1,231) |
| Prior service cost | 76 |
| Exchange translation adjustment | (37) |
| Other | — |
| Retirement benefit obligation at March 31, 2019 | ¥ 20,136 |

The changes in plan assets during the year ended March 31, 2019 are as follows:

| | Millions of yen |
|---|---|
| | 2019 |
| Plan assets at April 1, 2018 | ¥ 15,491 |
| Expected return on plan assets | 234 |
| Actual loss | (3,752) |
| Contributions by the Company | 355 |
| Retirement benefits paid | (745) |
| Exchange translation adjustment | (38) |
| Others | — |
| Plan assets at March 31, 2019 | ¥ 11,545 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | Millions of yen |
|---|---|
| | 2019 |
| Funded retirement benefit obligation | ¥ 19,444 |
| Plan assets at fair value | (11,545) |
| | 7,899 |
| Unfunded retirement benefit obligation | 691 |
| Net liability for retirement benefits in the balance sheet | 8,590 |
| | |
| Liability for retirement benefits | 8,801 |
| Assets for retirement benefits | (210) |
| Net liability for retirement benefits in the balance sheet | ¥ 8,590 |

The components of retirement benefit expense for the year ended March 31, 2019 are as follows:

| | Millions of yen |
|---|---|
| | 2019 |
| Service cost | ¥ 912 |
| Interest cost | 122 |
| Expected return on plan assets | (234) |
| Amortization of prior service cost | 24 |
| Amortization of actuarial loss | (51) |
| Retirement benefit expense | ¥ 773 |

Note: Retirement benefit expense for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) as of March 31, 2019 are as follows:

| | Millions of yen |
|---|---|
| | 2019 |
| Prior service cost | ¥ (52) |
| Actuarial loss | (3,917) |
| Total | ¥ (3,968) |

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 are as follows:

| | Millions of yen |
|---|---|
| | 2019 |
| Unrecognized prior service cost | ¥ 156 |
| Unrecognized actuarial loss | 3,377 |
| Total | ¥ 3,533 |

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 are as follows:

| | 2019 |
|---|---|
| Bonds | 18% |
| Stocks | 58% |
| Cash on hand and in banks | 1% |
| Other | 23% |
| Total | 100% |

Note: 47% of total plan assets are in a Retirement Benefit Trust for corporate pension plans and non-contributory funded employee pension plans.

Matters related to the actual assumption
Major actuarial assumptions at the end of the period:

| | |
|---|---|
| Discount rates | mainly 0.2% |
| Expected rates of return on plan assets | mainly 2.0% |
| Expected rates of salary increase | 3.6%–5.3% |

Defined contribution plan
The amount which a consolidated subsidiary has contributed or is obligated to contribute to the plan for the year ended March 31, 2019 is ¥18 million.

**14. Income Taxes**
The reconciliation between the effective tax rate reflected in the consolidated statement of income and the statutory tax rate for the year ended March 31, 2020 was summarized as follows:

| | **2020** |
|---|---|
| Statutory tax rate | **30.6%** |
| Non-deductible expenses for tax purposes | **0.4** |
| Non-taxable dividends and other income | **(1.0)** |
| Tax deduction such as R&D expenses | **(2.0)** |
| Inhabitants' per capital tax | **1.0** |
| Equity in earnings and losses of affiliates | **0.2** |
| Undistributed profits of subsidiaries | **0.4** |
| Changes in valuation allowance | **3.2** |
| Different tax rates applied to subsidiaries | **(0.2)** |
| Adjustment of profit and loss on transfer | **2.0** |
| Other | **1.7** |
| Effective tax rate | **36.3%** |

The above information for 2019 has not been presented because the difference between the effective tax rate and the statutory tax rate was less than 5% of the statutory tax rate.

Deferred tax assets and liabilities as of March 31, 2020 and 2019 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Deferred tax assets: | | | |
| Liability for retirement benefits | **¥ 7,534** | ¥ 7,365 | **$ 69,228** |
| Investment securities | **2,284** | 1,526 | **20,986** |
| Net operating loss carryforwards | **3,800** | 4,190 | **34,916** |
| Land | **1,725** | 1,869 | **15,848** |
| Provision for deposition field restoration | **—** | 67 | **—** |
| Provision for cost of removal of office tenants | **—** | 173 | **—** |
| Other | **1,378** | 1,659 | **12,665** |
| Total gross deferred tax assets | **16,721** | 16,849 | **153,643** |
| Valuation allowance for net operating loss carryforwards | **(3,668)** | (3,592) | **(33,708)** |
| Valuation allowance for total amount of deductible temporary difference and others | **(4,437)** | (3,903) | **(40,769)** |
| Total valuation allowance | **(8,105)** | (7,495) | **(74,477)** |
| Total deferred tax assets | **8,616** | 9,353 | **79,166** |
| Deferred tax liabilities: | | | |
| Statutory reserves provided for tax purposes | **(1,253)** | (1,342 | **(11,511)** |
| Gain from establishment of trust for retirement benefit plans | **(3,020)** | (3,020) | **(27,748)** |
| Land | **(7,188)** | (7,003) | **(66,052)** |
| Unrealized holding gain on securities | **(1,544)** | (2,471) | **(14,187)** |
| Other | **(510)** | (352) | **(4,687)** |
| Total deferred tax liabilities | **(13,515)** | (14,188) | **(124,184)** |
| Net deferred tax liabilities | **¥ (4,899)** | ¥ (4,835) | **$ (45,019)** |
| Deferred tax liabilities on surplus on the revaluation of land | **¥ (1,408)** | ¥ (1,477) | **$ (12,936)** |

## 15. Contingent Liabilities

Contingent liabilities as of March 31, 2020 and 2019 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Notes receivables discounted and endorsed | **¥ 151** | ¥ 179 | **$ 1,383** |
| Loans guaranteed | **2,847** | 3,736 | **26,164** |
| Repurchase obligation of the securitization of receivables | **1,469** | 861 | **13,495** |

## 16. Write-Down of Inventories

The amount of write-down of inventories, included in cost of sales for the year ended March 31, 2020 totaled ¥157 million ($1,439 thousand). For the year ended March 31, 2019, the Company reversed write-down in the amount of ¥(110) million and credited it to cost of sales.

## 17. Other Income (Expenses)—Other, Net

Other income (expenses)—other, net for the years ended March 31, 2020 and 2019 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Reversal of provision for cost of removal of office tenants | **¥ 264** | ¥ — | **$ 2,429** |
| Gain on sales of noncurrent assets | **655** | 224 | **6,017** |
| Gain on sales of investment securities | **20** | 215 | **186** |
| Payments for idle mines | **(715)** | (673) | **(6,573)** |
| Foreign exchange losses | **(554)** | (55) | **(5,086)** |
| Financial cost | **(104)** | (280) | **(957)** |
| Impairment loss | **(241)** | (1,610) | **(2,213)** |
| Loss on impairment of investment securities | **(1,030)** | — | **(9,462)** |
| Other, net | **(136)** | 43 | **(1,248)** |
| | **¥ (1,840)** | ¥ (2,137) | **$ (16,908)** |

## 18. Segment Information

The reportable segments are constituent units of the Furukawa Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocations of management resources and evaluating operating performance.

The Company mainly manufactures and sells machinery, smelts on consignment and sells copper, and manufactures and sells electronic materials and chemicals.

Under the holdings company structure, each main Group company plans domestic and overseas comprehensive strategies about their products, and the Company manages and supervises them.

The Furukawa Group therefore categorizes segments classified by products based on main Group companies. The seven reportable segments are as follows: Industrial Machinery, Rock Drill Machinery, UNIC Machinery, Metals, Electronics, Chemicals and Real Estate.

Main products and services belonging to each segment are as follows:

(a) Industrial Machinery
Manufacture, sell, conduct installation work and manage operation for pumps, steel structures, steel bridges, industrial machinery (crushers, grinding mills, screens, briquetting machines, material handling systems, environmental machinery, recycling machines and so on) and heat-resistant and wear-resistant castings

(b) Rock Drill Machinery
Manufacture and sell rock drills such as hydraulic breakers, hydraulic crushers, boring drills (air pressure crawler drills, hydraulic crawler drills, down-the-hole drills and so on), tunnel and mining drill jumbos (tunnel drill jumbos, concrete sprayers used in mine cavities, drill jumbos used in mines and so on) and environmental machinery

(c) UNIC Machinery
Manufacture and sell UNIC cranes, mini crawler cranes, ocean cranes and UNIC carriers

(d) Metals
After buying ore, manufacture and sell electrolytic copper, gold, silver and sulfuric acid which is smelted on consignment by joint smelting company, dig and distribute limestone

(e) Electronics
Manufacture and sell high-purity metallic arsenic, crystals, cores and coils, aluminum nitride ceramics and optical components

(f) Chemicals
Manufacture and sell cuprous oxide, ferric polysulfate aqueous solution, aluminum sulfate, sulfuric acid, cuprous dioxide and copper dioxide, and sell titanium dioxide

(g) Real Estate
Trade, intermediate and lease of real estate

The accounting method used for reportable segments is the same as that method stated in “2. Summary of Significant Accounting Policies.” Operating income (loss) of reportable segments is based on operating income in the consolidated statement of income. Intersegment sales and transfers are recorded based on the actual market prices.

From the year ended March 31, 2020, in order to appropriately understand the invested capital of each reportable segment, we have changed the method of totaling assets for each reportable segment. The information on assets by reportable segment for the year ended March 31, 2019 is based on the asset aggregation method after the change.

Segment information of the Furukawa Group for the years ended March 31, 2020 and 2019 was as follows:

| Year ended March 31, 2020 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics |
| Sales and operating income (loss): | | | | | |
| Outside customers | **¥ 23,237** | **¥ 27,663** | **¥ 31,791** | **¥ 67,150** | **¥ 5,506** |
| Intersegment | **3,127** | **30** | **160** | **251** | **1** |
| Total | **26,364** | **27,693** | **31,951** | **67,401** | **5,507** |
| Operating income (loss) | **¥ 3,208** | **¥ 143** | **¥ 3,993** | **¥ 302** | **¥ (35)** |
| Others: | | | | | |
| Segment assets | **¥ 25,379** | **¥ 36,371** | **¥ 31,095** | **¥ 27,663** | **¥ 7,037** |
| Depreciation | **336** | **796** | **976** | **177** | **270** |
| Investments in equity-method affiliates | **—** | **—** | **113** | **2,847** | **215** |
| Increase in tangible fixed assets and intangible fixed assets | **278** | **3,672** | **740** | **96** | **265** |

| Year ended March 31, 2020 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Sales and operating income (loss): | | | | | |
| Outside customers | **¥ 6,711** | **¥ 2,386** | **¥ 771** | **¥ —** | **¥ 165,216** |
| Intersegment | **51** | **15** | **1,639** | **(5,273)** | **—** |
| Total | **6,762** | **2,401** | **2,410** | **(5,273)** | **165,216** |
| Operating income (loss) | **¥ 510** | **¥ 736** | **¥ (95)** | **¥ (68)** | **¥ 8,693** |
| Others: | | | | | |
| Segment assets | **¥ 16,677** | **¥ 26,717** | **¥ 2,595** | **¥ 36,163** | **¥ 209,697** |
| Depreciation | **206** | **446** | **95** | **53** | **3,356** |
| Investments in equity-method affiliates | **—** | **—** | **100** | **—** | **3,275** |
| Increase in tangible fixed assets and intangible fixed assets | **728** | **12** | **(56)** | **430** | **6,166** |

| Year ended March 31, 2019 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics |
| Sales and operating income (loss): | | | | | |
| Outside customers | ¥ 17,971 | ¥ 30,372 | ¥ 29,237 | ¥ 80,068 | ¥ 6,527 |
| Intersegment | 3,204 | 1 | 139 | 230 | 1 |
| Total | 21,175 | 30,373 | 29,376 | 80,298 | 6,528 |
| Operating income (loss) | ¥ 2,089 | ¥ 1,690 | ¥ 2,789 | ¥ 582 | ¥ 408 |
| Others: | | | | | |
| Segment assets | ¥ 22,675 | ¥ 36,276 | ¥ 30,288 | ¥ 27,357 | ¥ 7,079 |
| Depreciation | 320 | 630 | 870 | 227 | 276 |
| Investments in equity-method affiliates | — | — | 95 | 2,929 | 214 |
| Increase in tangible fixed assets and intangible fixed assets | 262 | 1,370 | 2,284 | 55 | 112 |

| Year ended March 31, 2019 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Sales and operating income (loss): | | | | | |
| Outside customers | ¥ 6,127 | ¥ 2,999 | ¥ 814 | ¥ — | ¥ 174,117 |
| Intersegment | 53 | 20 | 1,647 | (5,294) | — |
| Total | 6,180 | 3,020 | 2,461 | (5,294) | 174,117 |
| Operating income (loss) | ¥ 407 | ¥ 1,164 | ¥ (147) | ¥ (65) | ¥ 8,915 |
| Others: | | | | | |
| Segment assets | ¥ 16,164 | ¥ 27,752 | ¥ 3,044 | ¥ 44,732 | ¥ 215,368 |
| Depreciation | 210 | 564 | 106 | 52 | 3,255 |
| Investments in equity-method affiliates | — | — | 21 | — | 3,260 |
| Increase in tangible fixed assets and intangible fixed assets | 84 | 24 | 16 | 620 | 4,827 |

| Year ended March 31, 2020 | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics |
| Sales and operating income (loss): | | | | | |
| Outside customers | **$ 213,518** | **$ 254,187** | **$ 292,119** | **$ 617,017** | **$ 50,593** |
| Intersegment | **28,735** | **276** | **1,466** | **2,305** | **5** |
| Total | **242,254** | **254,464** | **293,585** | **619,322** | **50,598** |
| Operating income (loss) | **$ 29,478** | **$ 1,310** | **$ 36,690** | **$ 2,772** | **$ (325)** |
| Others: | | | | | |
| Segment assets | **$ 233,197** | **$ 334,202** | **$ 285,720** | **$ 254,187** | **$ 64,663** |
| Depreciation | **3,085** | **7,311** | **8,966** | **1,630** | **2,480** |
| Investments in equity-method affiliates | **—** | **—** | **1,036** | **26,162** | **1,975** |
| Increase in tangible fixed assets and intangible fixed assets | **2,552** | **33,742** | **6,802** | **883** | **2,436** |

| Year ended March 31, 2020 | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Sales and operating income (loss): | | | | | |
| Outside customers | **$ 61,662** | **$ 21,926** | **$ 7,086** | **$ —** | **$1,518,109** |
| Intersegment | **467** | **139** | **15,061** | **(48,456)** | **—** |
| Total | **62,130** | **22,065** | **22,147** | **(48,456)** | **1,518,109** |
| Operating income (loss) | **$ 4,689** | **$ 6,763** | **$ (870)** | **$ (628)** | **$ 79,877** |
| Others: | | | | | |
| Segment assets | **$ 153,243** | **$ 245,490** | **$ 23,842** | **$ 332,289** | **$1,926,833** |
| Depreciation | **1,896** | **4,102** | **876** | **490** | **30,835** |
| Investments in equity-method affiliates | **—** | **—** | **917** | **—** | **30,089** |
| Increase in tangible fixed assets and intangible fixed assets | **6,689** | **110** | **(512)** | **3,954** | **56,658** |

(Related information)
Years ended March 31, 2020 and 2019
1. Information regarding products and services

| Year ended March 31, 2020 | Millions of yen | | | |
|---|---|---|---|---|
| | Copper | UNIC cranes | Others | Total |
| Sales for outside customers | **¥ 54,231** | **¥ 21,446** | **¥ 89,538** | **¥ 165,216** |

| Year ended March 31, 2019 | Millions of yen | | | |
|---|---|---|---|---|
| | Copper | UNIC cranes | Others | Total |
| Sales for outside customers | ¥ 60,852 | ¥ 18,792 | ¥ 94,472 | ¥ 174,117 |

| Year ended March 31, 2020 | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Copper | UNIC cranes | Others | Total |
| Sales for outside customers | **$ 498,313** | **$ 197,063** | **$ 822,733** | **$ 1,518,109** |

2. Geographic segment information
(1) Net sales

Year ended March 31, 2020

| Millions of yen | | | |
|---|---|---|---|
| Japan | Asia | Others | Total |
| **¥ 129,339** | **¥ 21,763** | **¥ 14,113** | **¥ 165,216** |

Year ended March 31, 2019

| Millions of yen | | | |
|---|---|---|---|
| Japan | Asia | Others | Total |
| ¥ 137,305 | ¥ 20,883 | ¥ 15,930 | ¥ 174,117 |

Year ended March 31, 2020

| Thousands of U.S. dollars | | | |
|---|---|---|---|
| Japan | Asia | Others | Total |
| **$ 1,188,453** | **$ 199,977** | **$ 129,679** | **$ 1,518,109** |

(2) Property, plant and equipment
The geographic segment information for the years ended March 31, 2020 and 2019 has not been presented, because the total assets in Japan exceed 90% of consolidated totals.

3. Information regarding main customers

Year ended March 31, 2020

| | Millions of yen | |
|---|---|---|
| Name of customer | Sales volume | Related segment |
| Furukawa Electric Co., Ltd. | **¥ 24,409** | **Metals** |

Year ended March 31, 2019

| | Millions of yen | |
|---|---|---|
| Name of customer | Sales volume | Related segment |
| Furukawa Electric Co., Ltd. | ¥ 28,310 | Metals |

Year ended March 31, 2020

| | Thousands of U.S. dollars | |
|---|---|---|
| Name of customer | Sales volume | Related segment |
| Furukawa Electric Co., Ltd. | **$224,290** | **Metals** |

4. Impairment loss on property, plant and equipment

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2020 | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Impairment loss on property, plant and equipment | **—** | **—** | **—** | **—** | **—** | **—** | **¥ 0** | **¥ 240** | **—** | **¥ 241** |

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2019 | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Impairment loss on property, plant and equipment | — | — | — | — | — | — | ¥ 1,561 | ¥ 49 | — | ¥ 1,610 |

| | Thousands of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2020 | Industrial Machinery | Rock Drill Machinery | UNIC Machinery | Metals | Electronics | Chemicals | Real Estate | Others | Adjustments | Consolidated |
| Impairment loss on property, plant and equipment | **—** | **—** | **—** | **—** | **—** | **—** | **$ 4** | **$ 2,209** | **—** | **$ 2,213** |

5. Amortization of goodwill and unamortized goodwill in reporting segments
Not applicable.

6. Gain on negative goodwill in reportable segments
Not applicable.

## 19. Investment and Rental Properties

The Company and certain consolidated subsidiaries own office buildings for lease mainly in Tokyo and other areas. For the year ended March 31, 2020, rental income was ¥1,088 million ($9,994 thousand), gain on sales of rental properties was ¥576 million ($5,297 thousand), impairment loss on rental properties was ¥241 million ($2,213 thousand) and other gain was ¥6 million ($51 thousand).

For the year ended March 31, 2019, rental income was ¥1,555 million, gain on sales of rental properties was ¥206 million, impairment loss on rental properties was ¥1,600 million and other loss was ¥2 million.

The carrying value, net changes in the carrying value and the fair value of those properties as of and for the years ended March 31, 2020 and 2019 are as follows:

Year ended March 31, 2020

| Carrying value | | | Fair value |
|---|---|---|---|
| As of March 31, 2019 | Net change | As of March 31, 2020 | As of March 31, 2020 |
| | Millions of yen | | |
| ¥ 31,632 | **¥ (927)** | **¥ 30,705** | **¥ 34,941** |

Year ended March 31, 2019

| Carrying value | | | Fair value |
|---|---|---|---|
| As of March 31, 2018 | Net change | As of March 31, 2019 | As of March 31, 2019 |
| | Millions of yen | | |
| ¥ 34,699 | ¥ (3,067) | ¥ 31,632 | ¥ 34,186 |

Year ended March 31, 2020

| Carrying value | | | Fair value |
|---|---|---|---|
| As of March 31, 2019 | Net change | As of March 31, 2020 | As of March 31, 2020 |
| | Thousands of U.S. dollars | | |
| $ 290,656 | **$ (8,520)** | **$ 282,136** | **$ 321,058** |

Notes:

1. The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.
2. Net change in carrying value for the year ended March 31, 2020 mainly consists of increases due to use change in the amount of ¥34 million ($311 thousand) and acquisition of land and buildings in the amount of ¥19 million ($171 thousand) and decreases mainly due to amortization in the amount of ¥376 million ($3,452 thousand), impairment loss on rental properties in the amount of ¥241 million ($2,213 thousand) and sales of land in the amount of ¥362 million ($3,324 thousand). Net change in carrying value for the year ended March 31, 2019 mainly consists of acquisition of land and buildings in the amount of ¥17 million and decreases mainly due to amortization in the amount of ¥479 million, impairment loss on rental properties in the amount of ¥1,600 million and sales of land in the amount of ¥1,003 million.
3. The fair value is mainly estimated in accordance with appraisal standards for valuing real estate.

## 20. Subsequent Event

### (1) Appropriations of Retained Earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements, were approved at a shareholders' meeting held on June 26, 2020:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends (¥50.00=$0.46 per share) | **¥ 1,961** | **$ 18,017** |
| Transfer to legal reserve | **196** | **1,802** |
| | **¥ 2,157** | **$ 19,819** |

### (2) Retirement Benefit Plans

The Company revised its retirement benefit plans on April 1, 2020, shifting from the final salary proportional system to the points system, extending the mandatory retirement age from 60 to 65 years old, and extending the age of old age benefit payment under the defined benefit corporate pension system from 60 to 65 years old.

As a result of this revision, prior service cost (reduction of retirement benefit obligations) of ¥3,873 million ($35,589 thousand) is incurred in the year ending March 31, 2021, and is amortized using the straight-line method over a certain number of years (mainly 15 years) within the average remaining years of service of the employees.

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# Independent Auditor's Report

The Board of Directors
Furukawa Co., Ltd.

## Opinion

We have audited the accompanying consolidated financial statements of Furukawa Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditorsfor the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditorsare responsible for overseeing the Group's financial reporting process.

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## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditorsregarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Conflicts of Interest**

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 26, 2020

小野木幹久

Mikihisa Onogi
Designated Engagement Partner
Certified Public Accountant

表晃靖

Teruyasu Omote
Designated Engagement Partner
Certified Public Accountant

# Corporate Data and Stock Data

## Corporate Data (As of March 31, 2020)

| | |
|---|---|
| Company Name: | Furukawa Co., Ltd. |
| Head Office: | 2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8370, Japan |
| Tel: | +81-3-3212-6570 Fax: +81-3-3212-6578 |
| Date of Foundation: | August 1875 |
| Date of Establishment: | April 1918 |
| Stock Exchange Listing: | Tokyo |
| Securities Code Number: | 5715 |
| Employees: | 2,755 (Consolidated) |

## Stock Data (As of March 31, 2020)

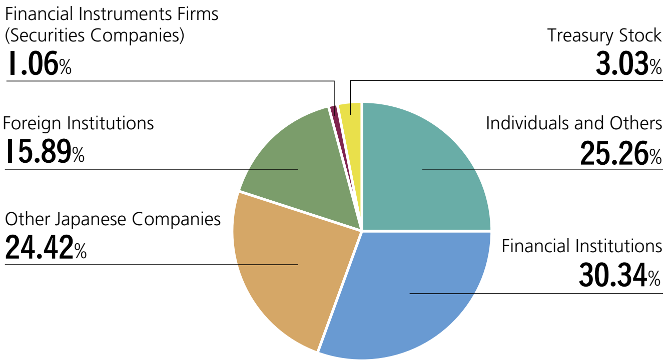
| | |
|---|---|
| Number of Shares Authorized: | 80,000,000 shares |
| Number of Shares Outstanding: | 40,445,568 shares |
| Number of Shareholders: | 20,533 |
| Stock Transfer Agent: | Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan |

### Principal Shareholders

| Principal Shareholders | Number of Shares (Thousands) | Percentage of Total Shares (%) |
|---|---|---|
| Asahi Mutual Life Insurance Co. | 2,373 | 6.05 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2,146 | 5.47 |
| Japan Trustee Services Bank, Ltd. (trust account) | 1,554 | 3.96 |
| Seiwa Sogo Tatemono Co., Ltd. | 1,503 | 3.83 |
| The Yokohama Rubber Company, Limited | 1,341 | 3.41 |
| Furukawa Electric Co., Ltd. | 877 | 2.23 |
| Fuji Electric Co., Ltd. | 862 | 2.19 |
| Sompo Japan Insurance Inc. | 839 | 2.13 |
| Japan Trustee Services Bank, Ltd. (trust account 5) | 713 | 1.81 |
| Chuo Real Estate Co., Ltd. | 687 | 1.75 |

Notes: 1. The above excludes the Company's holdings of treasury stock, totaling 1,229,045 shares.
2. The Company's holdings of treasury stock, totaling 1,229,045 shares, are excluded from shareholding ratio calculations.
3. On April 1, 2020, Sompo Japan Nipponkoa Insurance Inc. changed its name to Sompo Japan Insurance Inc.

### Composition of Shareholders




## Directors and Auditors (As of June 26, 2020)

| | |
|---|---|
| President and Representative Director | Naohisa Miyakawa |
| Managing Director | Kiyohito Mitsumura |
| Director | Masahiro Ogino |
| Director | Minoru Nakatogawa |
| Director | Tatsuki Nazuka |
| Director | Hiroyuki Sakai |
| Outside Independent Director | Tatsuya Tejima |
| Outside Independent Director | Yoichi Mukae |
| Outside Independent Director | Kazumi Nishino |
| Audit & Supervisory Board Member | Minoru Iwata |
| Audit & Supervisory Board Member | Kazuo Inoue |
| Outside Audit & Supervisory Board Member | Tetsuro Ueno |
| Outside Audit & Supervisory Board Member | Masayuki Yamashita |

## Executive Officers (As of June 26, 2020)

| | |
|---|---|
| Managing Executive Officer | Masahiro Ogino |
| Managing Executive Officer | Hiroyuki Abe |
| Managing Executive Officer | Minoru Nakatogawa |
| Managing Executive Officer | Katsuhira Kawashita |
| Senior Executive Officer | Tatsuki Nazuka |
| Senior Executive Officer | Hiroyuki Sakai |
| Senior Executive Officer | Osamu Miyazaki |
| Senior Executive Officer | Atsushi Takano |
| Senior Executive Officer | Takeshi Miyajima |
| Executive Officer | Kenichi Kurita |
| Executive Officer | Atsushi Otani |
| Executive Officer | Tatsuyuki Muramatsu |
| Executive Officer | Masanori Saito |
| Executive Officer | Hitoshi Iida |
| Executive Officer | Tsutomu Kaneko |
| Executive Officer | Masayuki Kunou |

# Corporate History

**1875** Began the operation of the Kusakura Copper Mine in Niigata (Company foundation).

The Ashio Copper Mine is where the Furukawa Company Group began.

**1877** Began the operation of the Ashio Copper Mine in Tochigi.

**1900** Set up a machinery works at the Ashio Copper Mine and entered into the machinery business.

**1914** Manufactured the first rock drill in Japan.

The first domestic rock drill was developed (for the Ashio Copper Mine).

**1918** Spun off mining business from Furukawa General Partnership and established Furukawa Mining Co., Ltd.

**1944** Bought Osaka Smelter of Toa Chemical Smelting Co., Ltd., and established it as Osaka Cementation and Refining. Entered into the chemical business.

Built the Oyama Works of the Machinery Division of the Ashio Copper Mine in Tochigi.

At the Oyama Works, pumps and mining machinery for copper mines were manufactured, not only for internal use but also to sell externally.

**1950** Built the Takasaki Works of the Rock Drill Division in Gunma.

At the Takasaki Works, rock drills were mass produced, and we established the position of a leading rock drill manufacturer.

**1951** Began manufacturing of titanium dioxide and cuprous oxide at Osaka Cementation and Refining.

**1962** Completed the Furukawa / Outokumpu flash smelting plant at Ashio Smelting and Refining.

Completed research and development of high-purity (99.999%) metallic arsenic and commenced with sales of it.

Arsenic is one of the by-products generated during the smelting stage of copper concentrates.

**1987** Bought UNIC Corporation (manufacturer of truck-mounted cranes).

"UNIC" has become a synonym for truck-mounted cranes in Japan.

**1989** The Japanese name changed from Furukawa Kogyo Kabushiki Kaisha to Furukawa Kikai Kinzoku Kabushiki Kaisha.

**1990** Bought an American breaker sales and manufacturing company.

**1997** Established a manufacturer of UNIC products / components in Thailand.

This is an affiliate company for the UNIC business established in Rayong, Thailand, which manufactures truck-mounted cranes and other products.

**1998** Established a sales company of rock drill products in Holland.

This is an affiliate company for the construction and mining machinery business established in Utrecht, Holland, which distributes rock drill products.

**2003** Established a joint company for the manufacturing and distribution of UNIC cranes in China.

**2005** Spun off the Machinery business, Metals business, and Electronic Materials and Chemicals business and shifted to a group management structure as the Furukawa Company Group to enhance management.

**2006** Established a rock drills sales company in China.

This is an affiliate company for the UNIC business established in Taian, Shandong, China, which manufactures and distributes truck-mounted cranes and other products.

**2007** Formed a capital and business alliance for the GaN semiconductor epi-wafer business with POWDEC K.K.

**2008** Set up the Nitride Semiconductors Department as a GaN and related nitride semiconductor-related research organization.

**2009** Built the laboratory of the Nitride Semiconductors Department in Oyama.

Made Tohpe Corporation, which manufactures and distributes paints and chemicals, into a consolidated subsidiary.

In 2009, the laboratory of the Nitride Semiconductors Department was built in Oyama.

**2010** Acquired interest in Canadian copper mine.

**2011** Established a sales company of rock drill products in India.

**2012** Established a sales company of rock drill products in Panama.

With the sale of all of its shares in Furukawa Commerce Co., Ltd., the Group has withdrawn from the fuels business.

**2013** The Group exited the paints business with the sale of all of its shares in Tohpe Corporation.

Muromachi Furukawa Mitsui Building, consists of a commercial facility (COREDO Muromachi 2), offices, and rental accommodation.

**2014** Completed Muromachi Furukawa Mitsui Building in Nihonbashi, Tokyo.

Established a coil processing company in the Philippines.

Established the Tsukuba Development Center, which integrates a technology research operation.

An affiliated company for the electronic materials business makes coils in Bulacan Province, Philippines.

**2015** Formulated the Management Philosophy, Action Guidelines, and Vision for 2025.

**2018** Established sales company for rock drills and other products in Malaysia.

FURUKAWA CO.,LTD.

2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8370, Japan

https://www.furukawakk.co.jp