

**Translation**

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Securities code 6524

**World-Class Manufacturing**

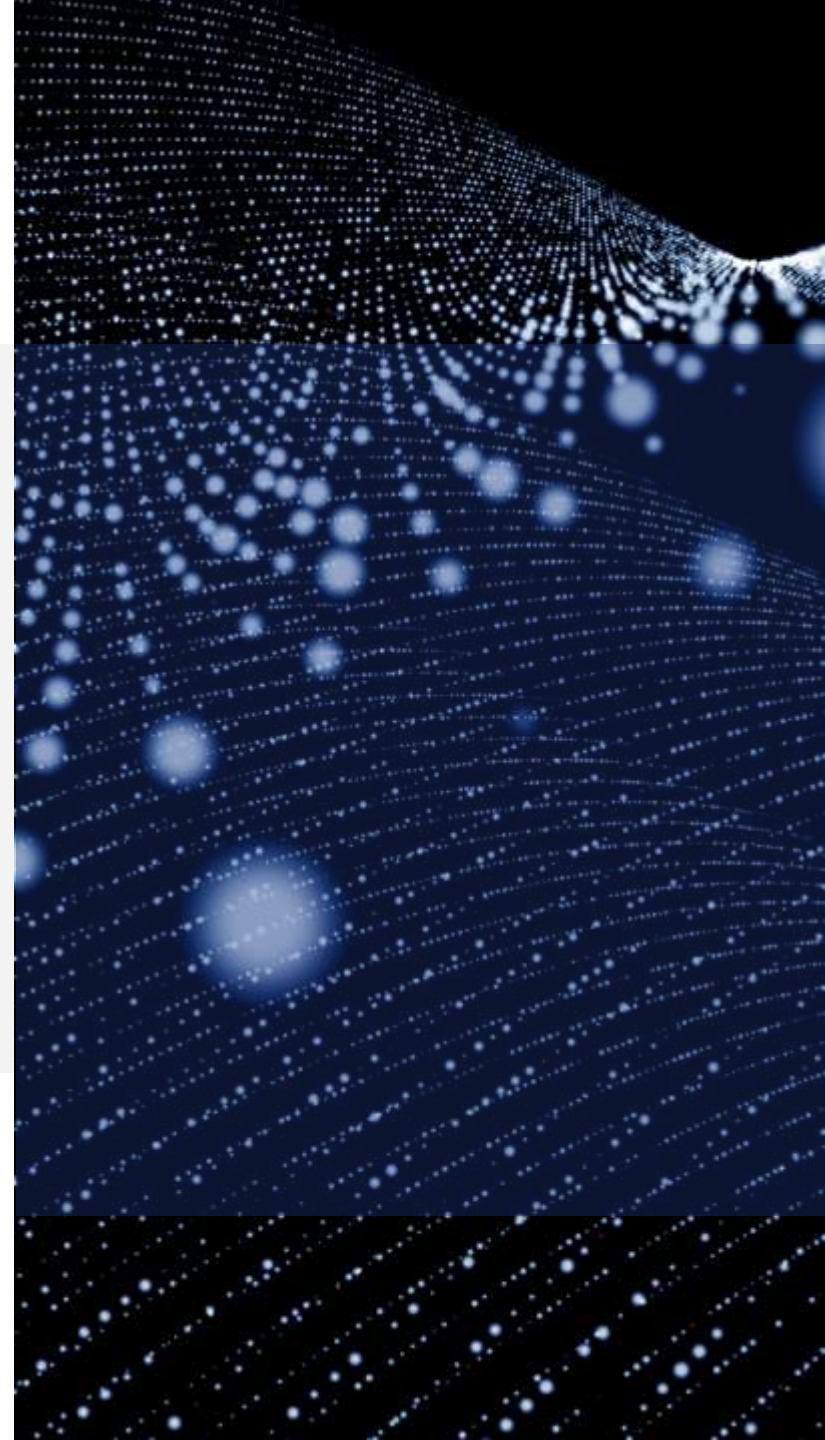
**Financial Results Materials**  
**Fiscal Year Ended December 2022**

Kohoku Kogyo is a leading manufacturer of lead terminals for aluminum electrolytic capacitors and parts for submarine optical communication.

**Kohoku Kogyo Co., Ltd.**  
**February 10, 2023**

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**I. Overview of Performance for  
Fiscal Year Ended December 2022 and Fiscal  
Year Ending December 2023**

# Highlights of Fiscal Year Ended December 2022

**Our company's growth trend of "advancement of shift to EVs" and "increase in communication traffic" continued, but the Lead Terminals Business was directly impacted by historically high raw materials prices and rapid decline in demand in the electronic parts industry.**

## ● **Macro environment**

- The global economy suffered from China's zero-COVID policy and Russia's invasion of Ukraine.
- Due to differences in monetary tightening stances of major countries, the exchange rate fluctuated suddenly and the yen reached its weakest level in 32 years.
- Disruption of global supply chains continued and the market was disrupted due to semiconductor shortages, etc.

## ● **Business environment**

- No change in medium- to long-term trends such as "shift to EVs" and "increase in communication traffic" which are our growth drivers.
- Prices of main materials such as copper and aluminum soared in the first half of the fiscal year. Demand has slowed despite continued decline in prices since April
- Since June, business conditions in the PC, server, and communication equipment markets have deteriorated.
- Even though EVs and other computerization has progressed, the automobile market is sluggish due to a shortage of semiconductors
- Submarine optical communication infrastructure also suffered in the aftermath of supply chain disruption.
- The political and economic turmoil in Sri Lanka has gradually subsided and operations were continued as planned.

## ● **Performance (Q4 cumulative)**

- Net sales increased by 1,053 million yen (7.2% YoY), supported by price pass-through and the weaker yen
- Net income increased by 106 million yen (3.6% YoY)

# Summary of Income Statement

Net sales, ordinary income, and net income all reached all-time highs, although initial forecasts were not achieved.

(Millions of yen)

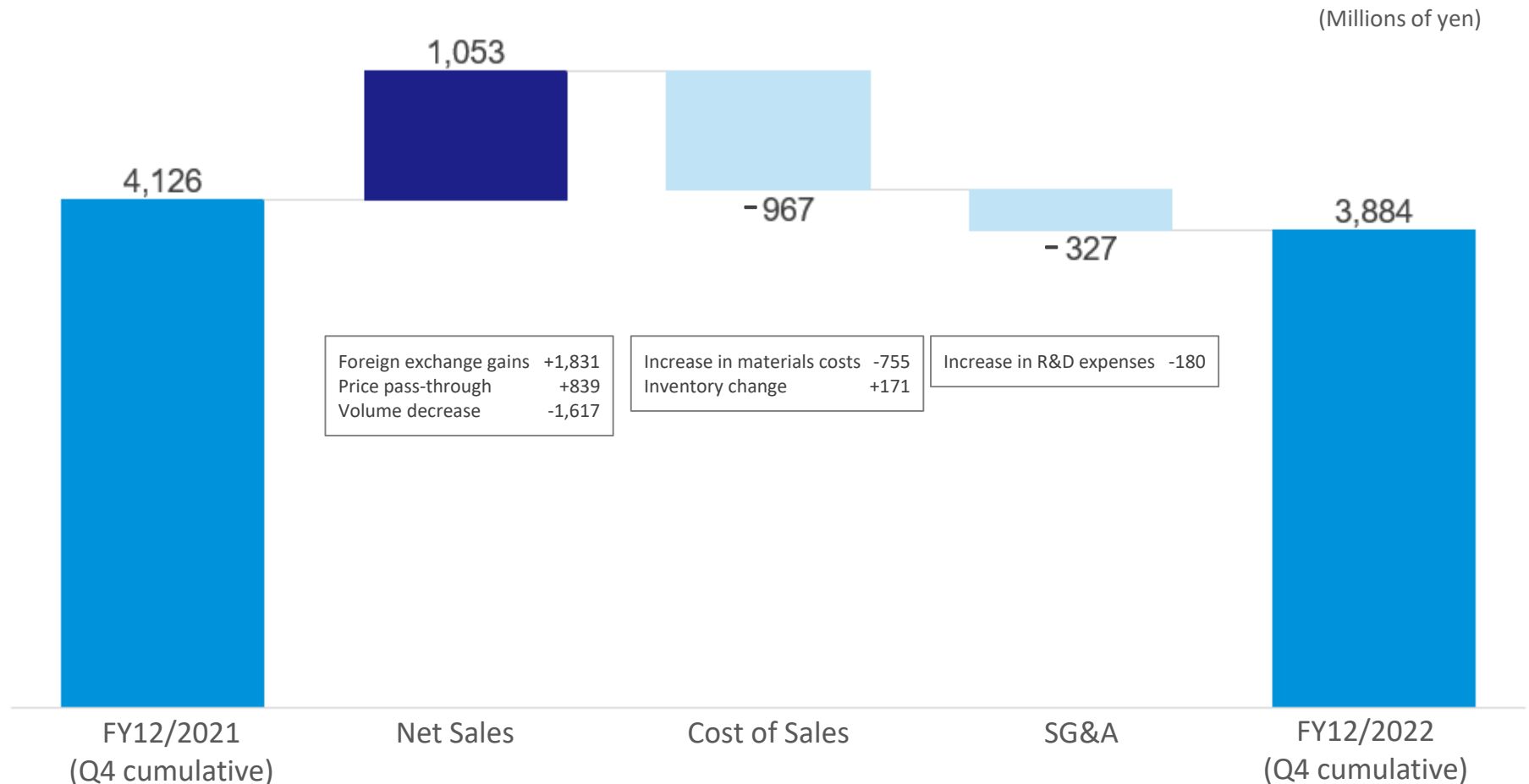
	FY12/2021	FY12/2022				FY12/2022					
	Q4 cumulative	Initial forecast	Q4 cumulative	YoY change		Q1 (Jan.-Mar.)	Q2 (Apr.-June)	Q3 (July-Sep.)	Q4 (Oct.-Dec.)	QoQ change	
Net sales	14,620	16,144	15,673	+1,053	+7.2%	3,954	4,004	3,943	3,771	-171	-4.4%
Lead Terminals Business	7,601	8,756	8,384	+782	+10.3%	2,052	2,151	2,107	2,071	-36	-1.7%
Optical Communication Parts and Devices Business	7,018	7,387	7,289	+270	+3.9%	1,901	1,852	1,835	1,699	-135	-7.4%
Operating income	4,126	4,311	3,884	-241	-5.9%	1,062	979	1,072	769	-303	-28.3%
<i>Operating margin ratio</i>	28.2%	26.7%	24.8%	-3.4 pts	—	26.9%	24.5%	27.2%	20.4%	-6.8 pts	—
Ordinary income	4,363	4,254	4,443	+80	+1.8%	1,299	1,432	1,356	354	-1,002	-73.9%
Net income attributable to owners of parent	2,960	3,034	3,066	+106	+3.6%	886	930	875	373	-502	-57.4%
Exchange rate (average for the period)	109.90 yen/\$	115 yen/\$	131.64 yen/\$			116.34 yen/\$	129.73 yen/\$	138.28 yen/\$	141.43yen/\$		

\*Figures are rounded down to the nearest million yen.

Secured record-high income despite drastic changes in the business environment including the tailwind of the weaker yen, soaring raw materials prices following Russia's invasion of Ukraine and supply chain disruptions due to China's zero-COVID policy.

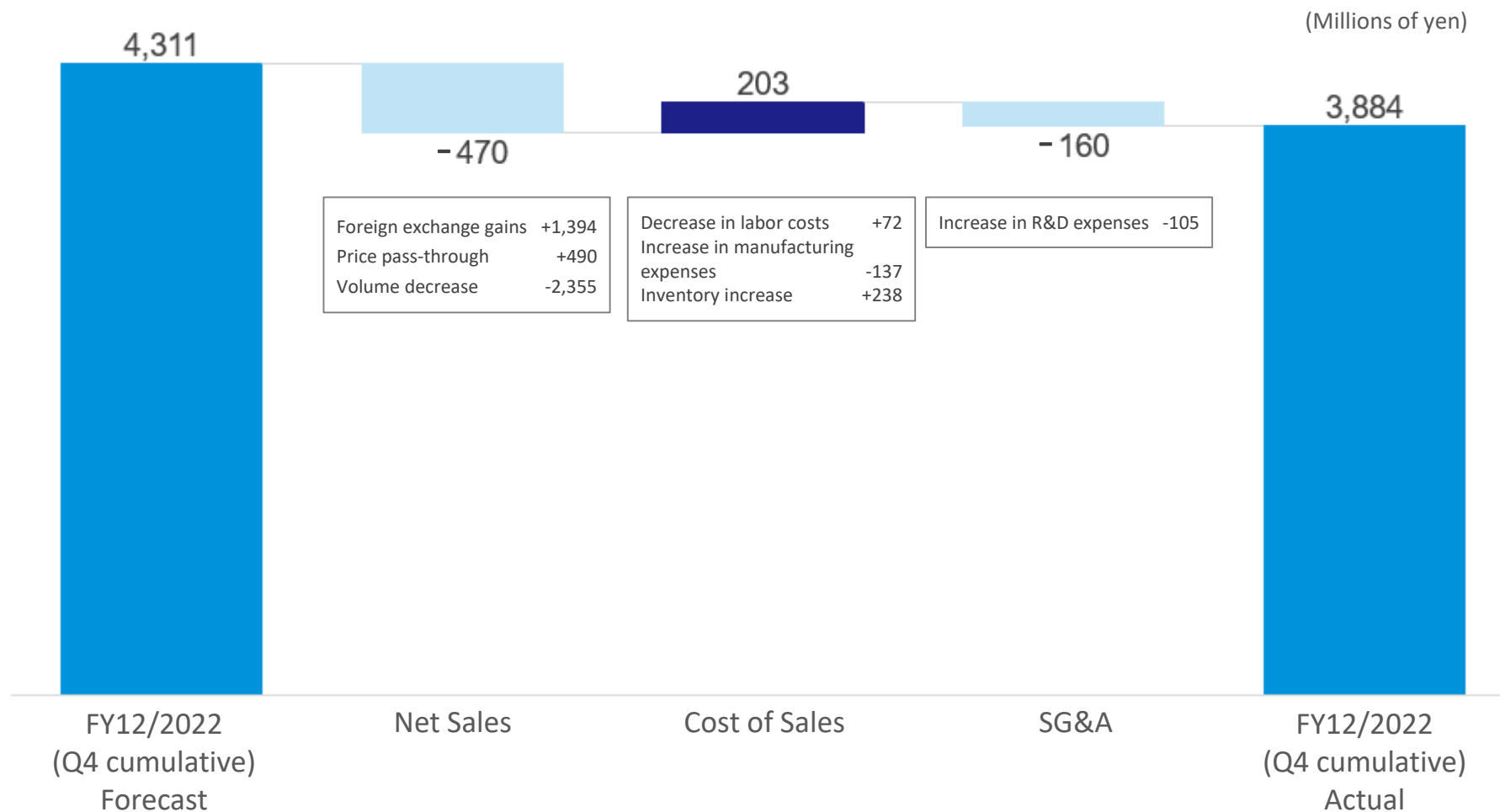
# Factors of Increase/Decrease in Operating Income (YoY)

Despite strong tailwinds such as the weaker yen in the Lead Terminals Business, operating income decreased (down 5.9% YoY) due to the impact of the economic downturn since last summer.



# Factors of Increase/Decrease in Operating Income (vs. Initial Forecast)

The deterioration of market conditions during the period was greater than expected at the beginning of the period and could not be absorbed by the effects of the weaker yen and various measures.



# Summary of Balance Sheet/Statement of Cash Flows

\*Figures are rounded down to the nearest million yen (Millions of yen)

Balance Sheet	FY12/2021	FY12/2022	Remarks
Current assets	17,366	17,227	Cash and deposits -587 Inventories +471
Non-current assets	5,173	7,057	Property, plant and equipment +1,785
Total assets	22,540	24,285	
Current liabilities	5,313	3,375	Short-term borrowings -1,132 Income tax payable -444
Non-current liabilities	2,076	2,613	Long-term borrowings -676 Lease obligation +1,189
Total liabilities	7,390	5,988	
Total net assets	15,149	18,296	Retained earnings +2,581

Statement of Cash Flows	FY12/2021	End of FY12/2022	Remarks
Operating cash flow	3,032	2,755	
Investment cash flow	-406	-1,949	Purchase of property, plant and equipment -283, etc.
Free cash flow	2,626	806	
Financing cash flow	4,564	-2,585	
Net increase (decrease) in cash and cash equivalents	7,450	-1,588	Repayment of long-term and short-term borrowings -926, etc.
Cash and cash equivalents at end of period	10,951	9,362	



# Financial Forecast for FY12/2023

Sales and income are expected to increase due to market recovery and measures such as improvement of product mix.

(Millions of yen)

	FY12/2022	FY12/2023 (initial forecast)				
	Actual	First-half forecast	Second-half forecast	Full-year forecast	YoY change	YoY
Net sales	15,673	8,086	8,408	16,494	+821	+5.2%
Lead Terminals Business	8,384	4,510	4,652	9,162	+778	+9.3%
Optical Communication Parts and Devices Business	7,289	3,575	3,755	7,331	+42	+0.6%
Operating income	3,884	2,047	2,074	4,121	+237	+6.1%
<i>Operating margin ratio</i>	24.8%	25.3%	24.7%	25.0%	+0.2 pts	—
Ordinary income	4,443	2,027	2,057	4,084	-359	-8.1%
Net income attributable to owners of parent net income	3,066	1,398	1,420	2,819	-247	-8.1%
Net income per share (yen)	346.14	155.49	157.92	313.41	<Exchange rate sensitivity> Net sales 100 million yen/yen Operating income 30 million yen/yen	
Exchange rate (average for the period)	131.64 yen/\$	130 yen/\$				

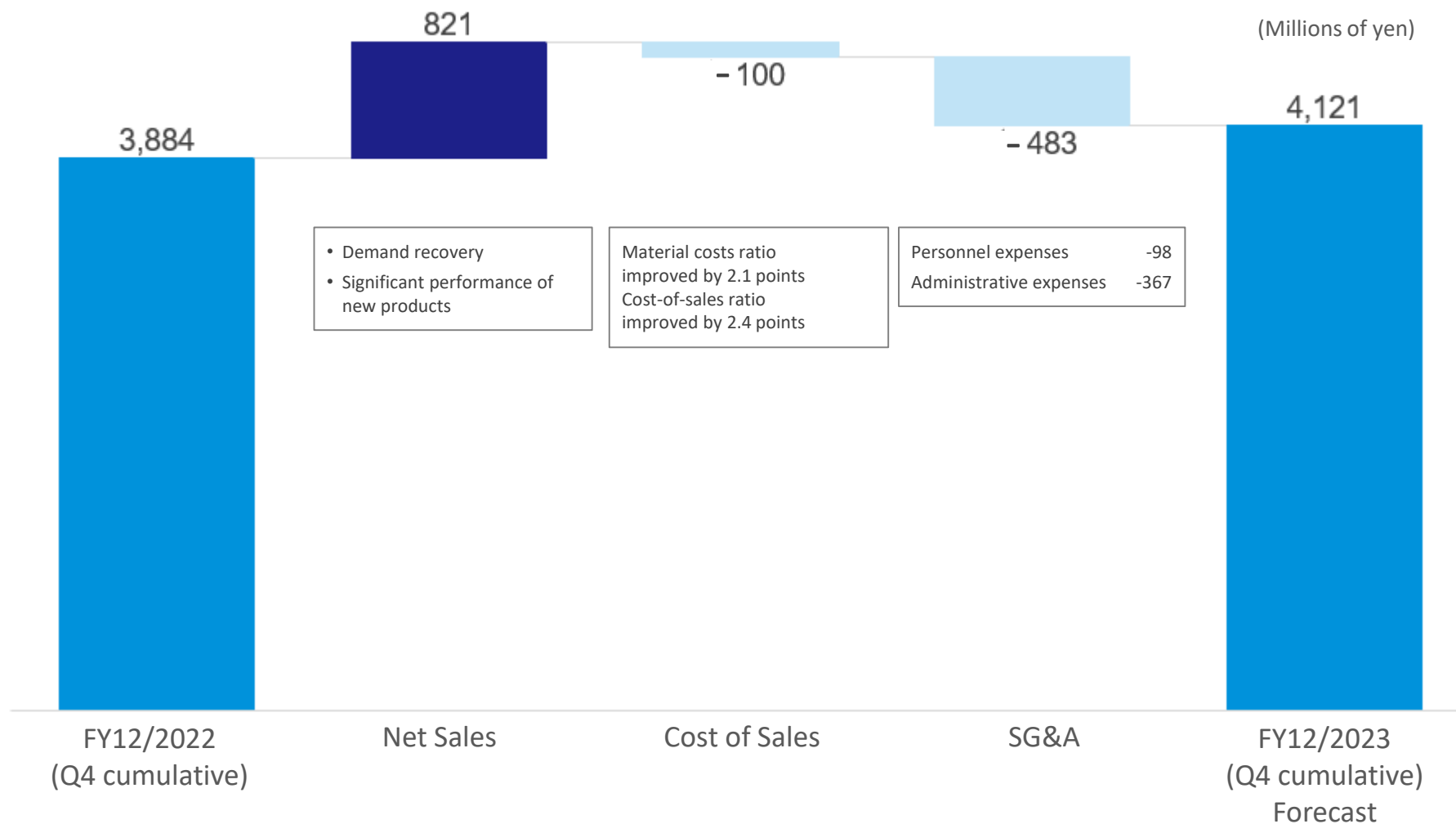
\*Figures are rounded down to the nearest million yen.

## ● Basis for financial forecast

- Lead Terminals Business: Strong demand for automotive applications is assumed due to the progress of EV/hybridization and autonomous driving.
- Optical Communication Parts and Devices Business: The trend toward higher speeds and capacities in the submarine cable market is assumed to remain unchanged.

# Operating Income Increase/Decrease Forecast Factors

SG&A expenses are expected to increase, but income is expected to increase due to higher net sales and an improved cost-of-sales ratio.



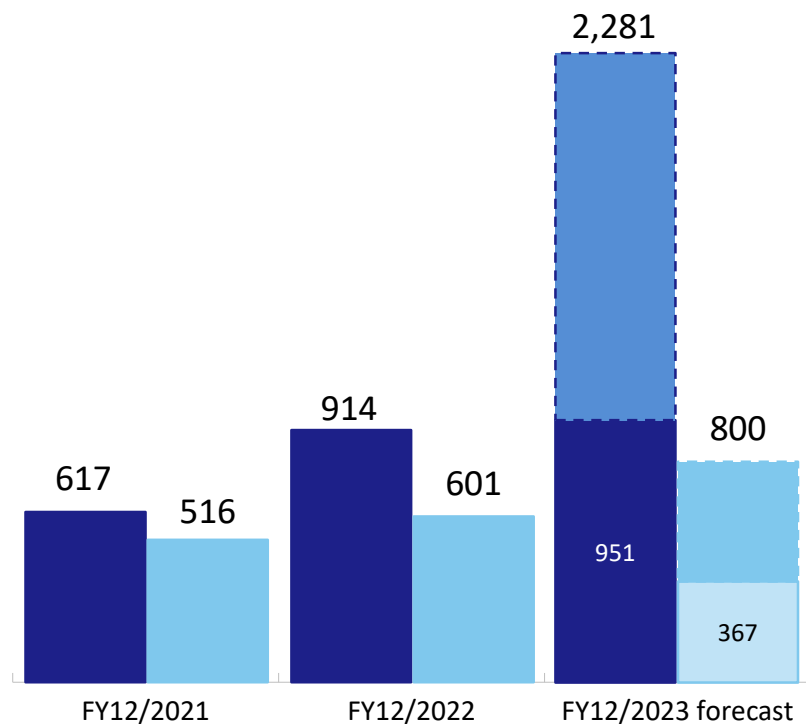
# Capital Expenditures and R&D Expenses (Actual/Forecast)

Approximately 400 million yen is expected to be invested in association with the relocation of the subsidiary in Suzhou, China, in the Lead Terminals Business.

Other capital expenditures and R&D expenses are also aggressively planned at levels higher than in FY12/2022.

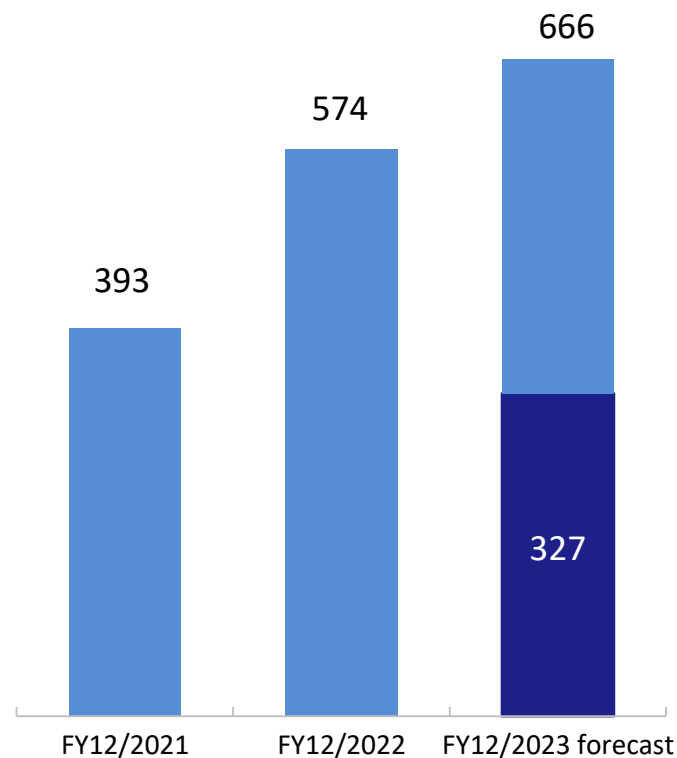
Capital Expenditures and Depreciation (Millions of Yen)

Capital expenditures ■ Full year ■ First two quarters  
 Depreciation ■ Full Year ■ First two quarters



R&D Expenses (Millions of Yen)

■ First two quarters ■ Full year





## **II. Trends by Business Segment**

# Results by Segment - Lead Terminals

Operating income decreased significantly (down 59.2% YoY) due to lower sales volume caused by worsening market conditions and limited price pass-through effect.

(Millions of yen)

	FY12/2021	FY12/2022			FY12/2022					
	Q4 cumulative	Q4 cumulative	YoY change		Q1 (Jan.-Mar.)	Q2 (Apr.-June)	Q3 (July-Sep.)	Q4 (Oct.-Dec.)	QoQ change	
Net sales	7,601	8,384	+782	+10.3%	2,052	2,151	2,107	2,071	-36	-1.7%
Operating income	569	232	-337	-59.2%	105	72	89	-34	-124	-138.9%
<i>Operating margin ratio</i>	7.5%	2.8%	-4.7 pts	—	5.2%	3.4%	4.2%	-1.7%	-5.9 pts	—

\*Figures are rounded down to the nearest million yen.

## Overview of FY12/2022

### ● Industry/market trends

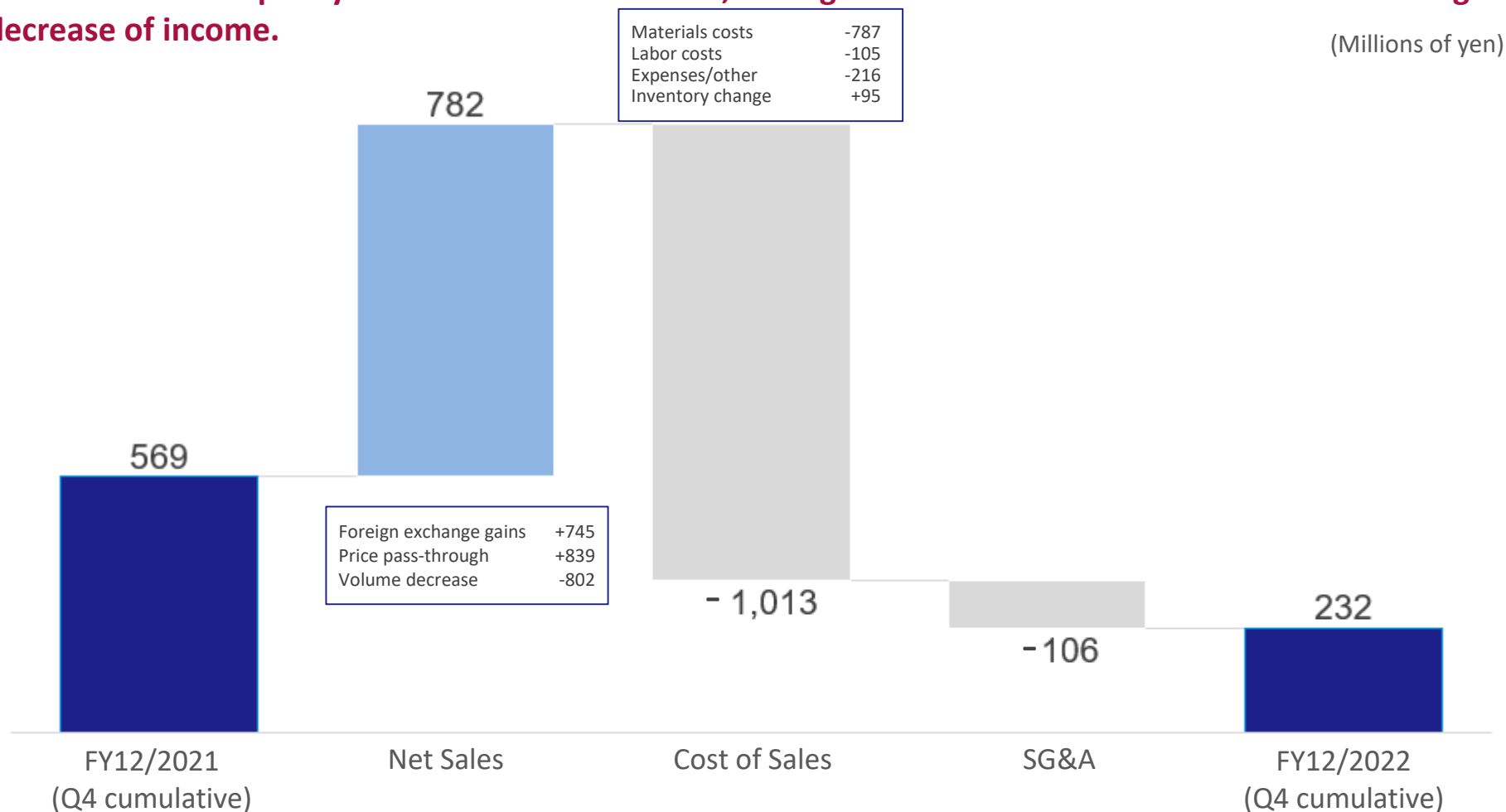
- Demand for high-value-added information communication equipment such as PCs and servers has dropped sharply since June, leading to lower sales and income.
- Automobile production continued to decline due to shortages of semiconductors and electronic components, etc., but sales for automotive applications remained strong backed by a steady shift to EVs and hybrids.

### ● Changes in the external environment and responses

- Increase in raw material costs was passed on to customers, but the improvement in earnings was limited due to a significant decrease in sales volume in the second half.
- Due to the spread of COVID-19 in China in October and December, both sales and operations at two factories in China were down, resulting in a deficit in Q4.
- Because of the vertically integrated business model, the shutdown of operations had a significant impact on earnings.

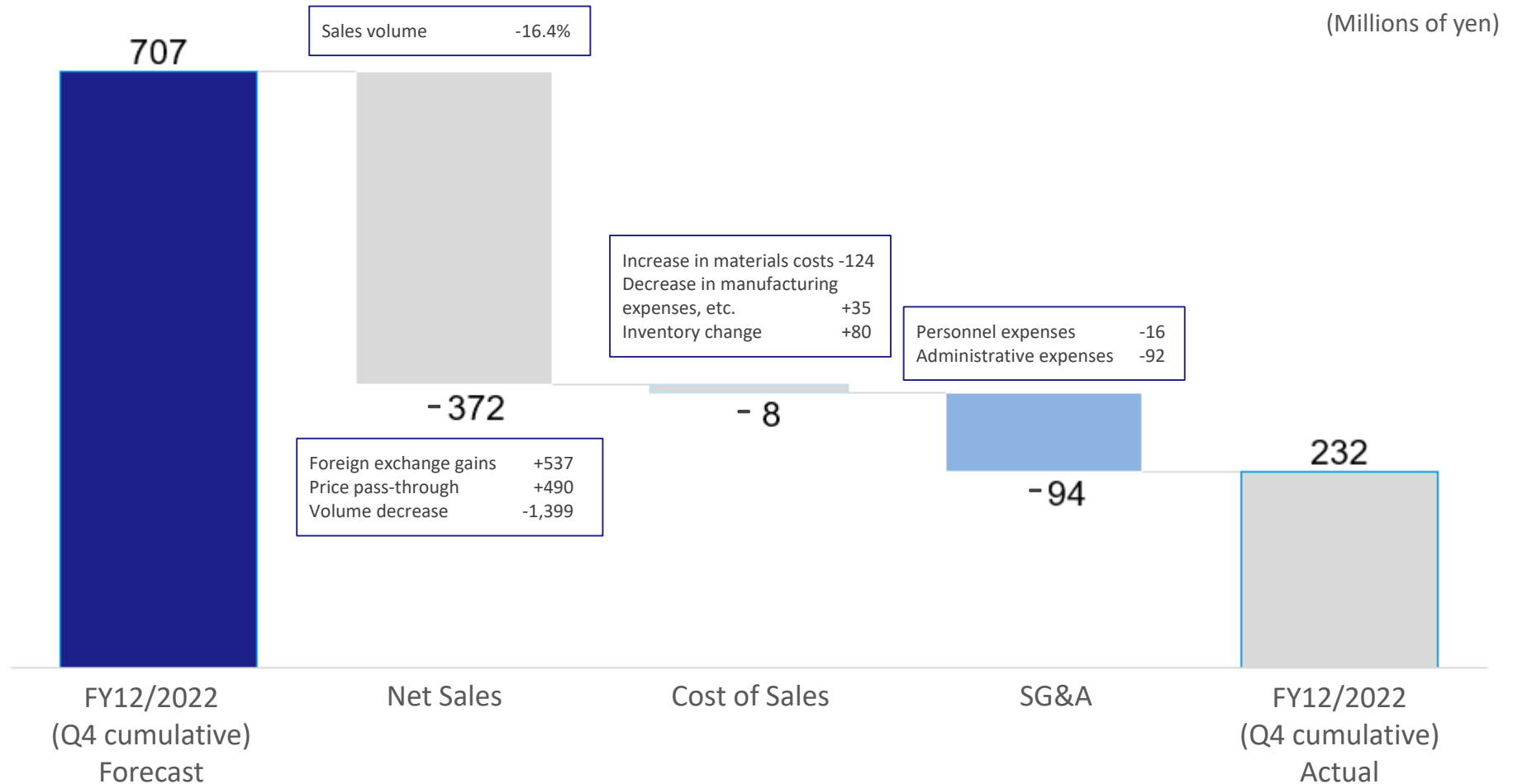
# Factors of Increase/Decrease in Operating Income by Segment (YoY) - Lead Terminals

Despite efforts to press ahead with price pass-through, sales volume decreased due to worsening market conditions and capacity utilization rate declined, failing to cover the cost increase and resulting in a decrease of income.



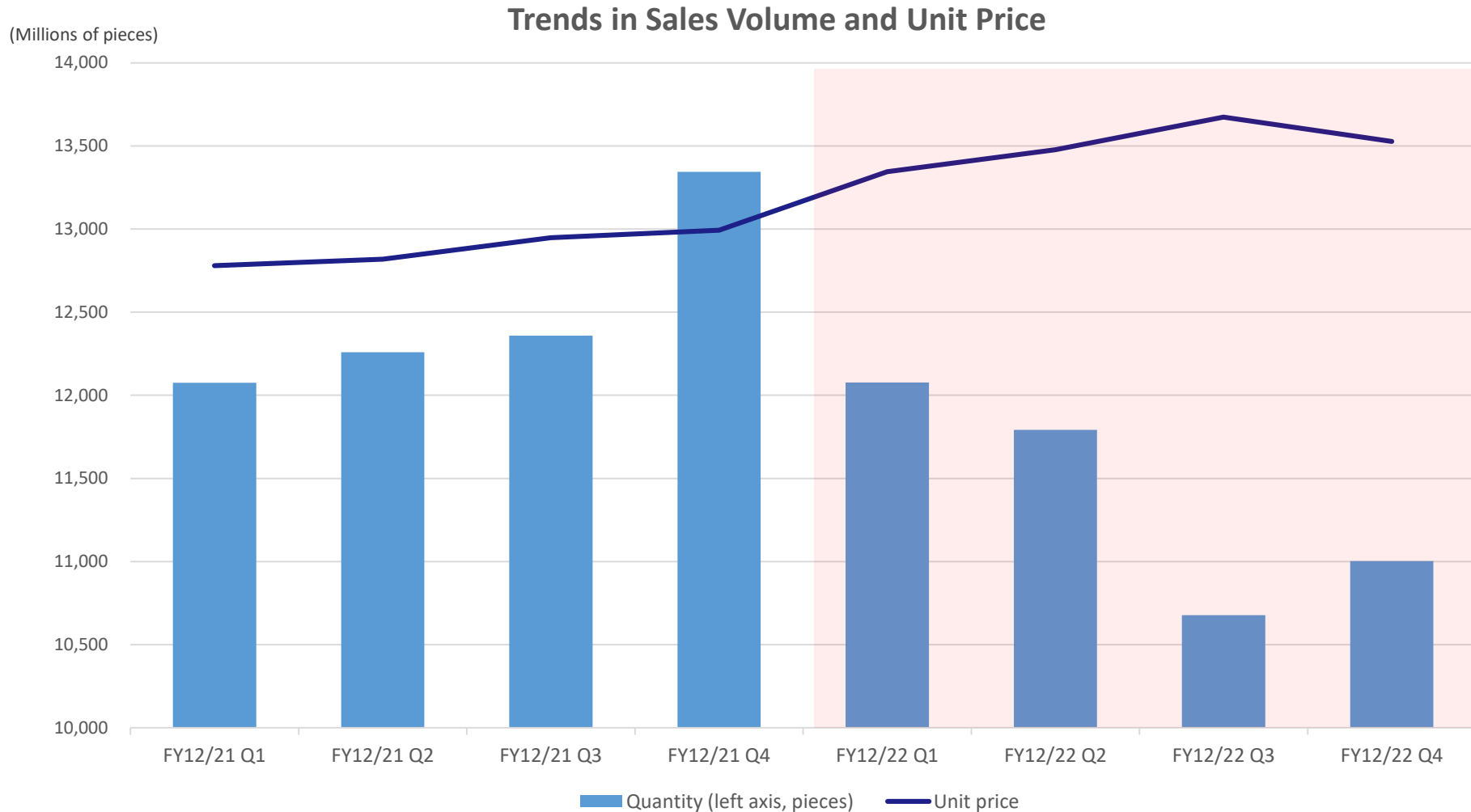
# Factors of Increase/Decrease in Operating Income by Segment (vs. Forecast) - Lead Terminals

Although there was a tailwind from the weaker yen, income fell below the forecast due to a significant impact of a decrease in sales volume and a decline in capacity utilization caused by deterioration in market conditions.



# Trends in Sales Volume and Unit Price

Sales unit prices are trending upward due to the passing on of rising raw materials costs to prices and the effect of the weaker yen. On the other hand, sales volume decreased significantly in Q3 of FY12/2022.

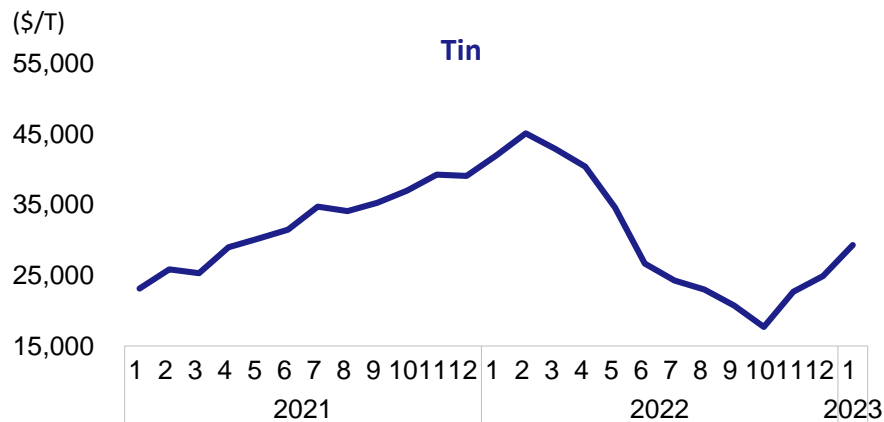
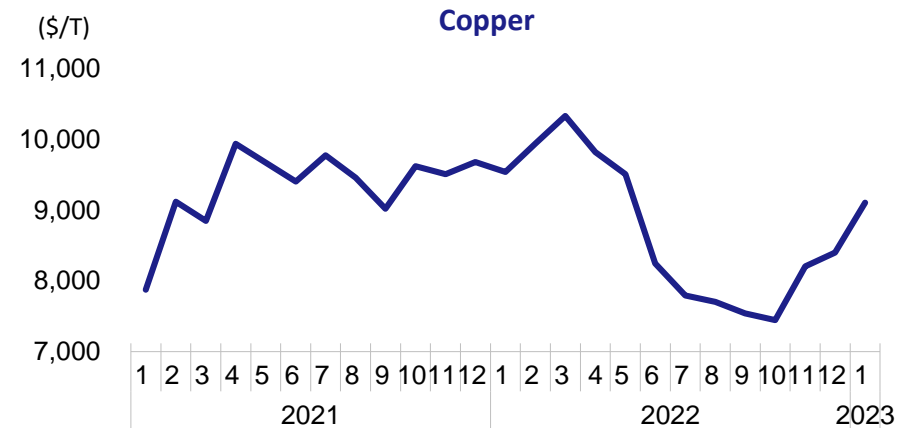
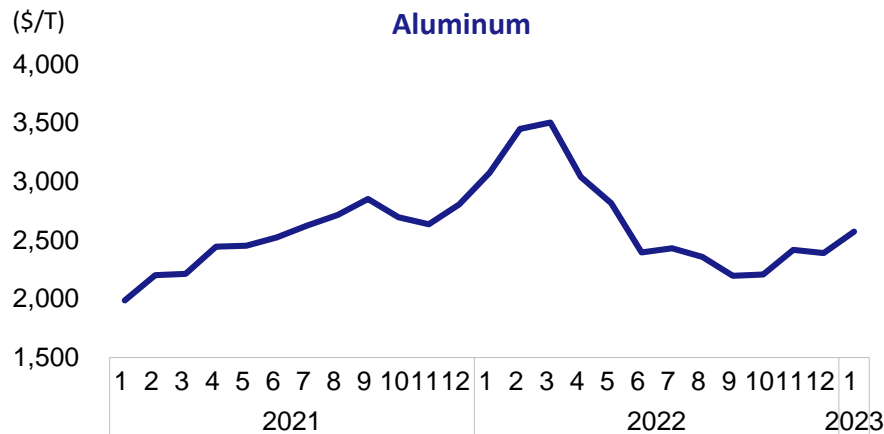




# External Environment – Non-Ferrous Metals Market Trends

Market prices of aluminum, copper, tin, etc. soared to all-time highs in March and fell temporarily after that but are trending again.

## Non-Ferrous Metals Market (LME)



# Outlook for Lead Terminals Business

Plans for significant increase in income due to strong demand for automotive applications and rising ratio of new products.

## Segment Results

(Millions of yen)

	FY12/2022	FY12/2023 (initial forecast)					
	Actual	First-half forecast	Second-half forecast	Full-year forecast	YoY change	YoY	
Net sales	8,384	4,510	4,652	9,162	+778	+9.3%	
Operating income	232	413	285	699	+466	+200.7%	
<i>Operating margin ratio</i>	2.8%	9.2%	6.1%	7.6%	+4.8 pts	—	

\*Figures are rounded down to the nearest million yen.

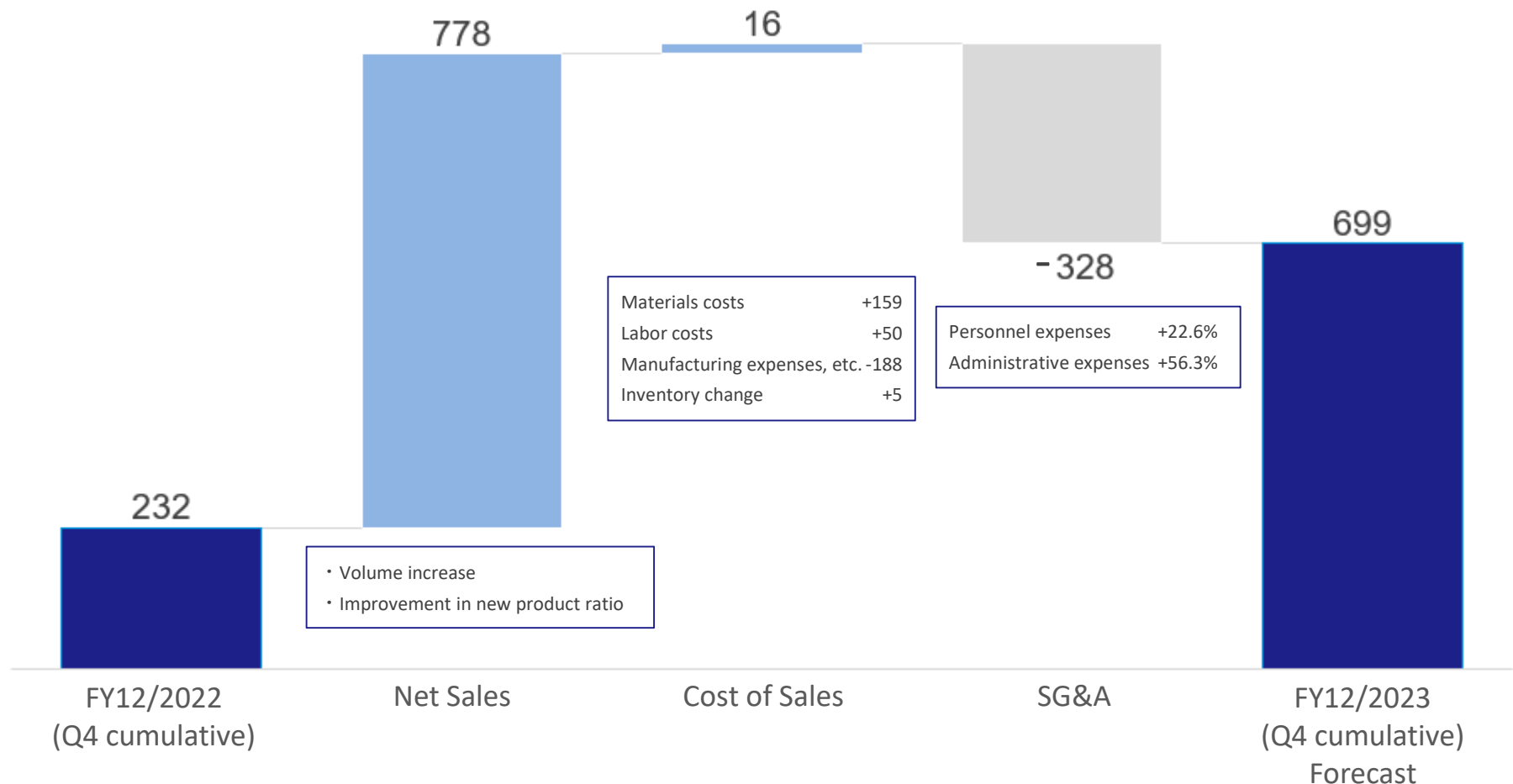
## Outlook for FY12/2023

- Although the markets for consumer equipment and communication equipment are expected to remain sluggish, demand for automotive applications, which accounts for about 43% of sales, is expected to remain firm due to the expansion of EVs, hybrid vehicles, and autonomous driving.
- By focusing on sales of high-value-added new products with effects such as vibration resistance and insulation (prevention of aluminum foil breakage) for automobiles, we plan to increase their sales to account for about 20% of all sales.
- We plan to relocate the Suzhou factory in Q3. In the first half, we will increase production and inventory and move equipment to the factories in Dongguan and Malaysia and increase production.

# Factors of Increase/Decrease in Operating Income by Segment (Forecast) - Lead Terminals

A large increase in income is expected thanks to the effect of increased sales through volume recovery

(Millions of yen)



# Explanation of the Market Environment and Business Environment Surrounding Our Company (Lead Terminals)

## 1. Our recognition based on information from customers, market research companies, etc.

### (1) Overall aluminum electrolytic capacitor market (mainly Japanese customers)

- ✓ In 2023, automotive application sales are expected to increase slightly during the first half of the year and recover in the second half compared with 2022 as the shortage of semiconductors is likely to continue while on-automotive sales are expected to decrease slightly.
- ✓ The telecommunications equipment sector is expected to remain in a severe situation in the first half of 2023 due to the delayed recovery of the Chinese market but should gradually recover in the second half.

### (2) Trends by application

- ✓ Sales of hybrid capacitors for the automotive market increased by approximately 30% (replacing some existing markets).
- ✓ The overall automobile market grows only slightly, but the EV market is expected to grow significantly.
- ✓ Regarding the ICT market, the PC/server/smartphone market will continue to be sluggish during the first half of this year.

## 2. Our business environment

### (1) Production

- ✓ Production will be suspended at the Suzhou factory from July to September 2023. It is expected to resume in October.
- ✓ Inventory accumulation and inventory sales at the Suzhou factory until June, equipment transfer to the Dongguan/Malaysia factories, and production increase.
- ✓ Due to the relocation of the Suzhou factory, the overseas production ratio will change from 5:2:2 to 3:3:3 (Suzhou: Dongguan: Malaysia).
- ✓ The cost burden associated with the relocation is about 500 million yen.

### (2) Sales

- ✓ In line with the growth of hybrid capacitors, we will significantly increase the production of a new burr-free type (at all bases) and raise sales of high-performance products to 20% at once.
- ✓ Sales of new products other than burr-free type are expected to increase in the second half of the year in line with the growth of the automotive application market.
- ✓ Gradual expansion of automotive EDLC (Electric Double Layer Capacitor).

### (3) Technology

- ✓ Started development of new welding technology that will be the cornerstone of lead terminals technology (targeting for practical application in 2024)
- ✓ Higher speed rotation (300 rpm → 350 rpm), operational availability (85% → 90%), OEE (overall equipment effectiveness) (83% → 90%).

# Results by Segment – Optical Communication Parts and Devices

Sales increased by 3.9% YoY and operating income increased by 2.7% YoY despite a decline in shipment volume.

(Millions of yen)

	FY12/2021	FY12/2022			FY12/2022					
	Q4 cumulative	Q4 cumulative	YoY change		Q1 (Jan.-Mar.)	Q2 (Apr.-June)	Q3 (July-Sep.)	Q4 (Oct.-Dec.)	QoQ change	
Net sales	7,018	7,289	+270	+3.9%	1,901	1,852	1,835	1,699	-135	-7.4%
Operating income	3,556	3,652	+95	+2.7%	956	907	983	804	-179	-18.3%
<i>Operating margin ratio</i>	50.7%	50.1%	-0.6 pts	—	50.3%	49.0%	53.6%	47.3%	-6.3 pts	—

\*Figures are rounded down to the nearest million yen.

## Overview of FY12/2022

### ● Industry/market trends

- Although some delivery schedule adjustments were prolonged due to the aftermath of the supply chain disruption, no projects were cancelled.
- Returning from the complex system configuration of large-scale projects in FY2021 to the normal system configuration, a change in the product mix was observed.
- In the field of terrestrial optical communication, both volume and value decreased due to market adjustments brought about by trade friction between the United States and China, the spread of COVID-19, and difficulties in procuring semiconductors.

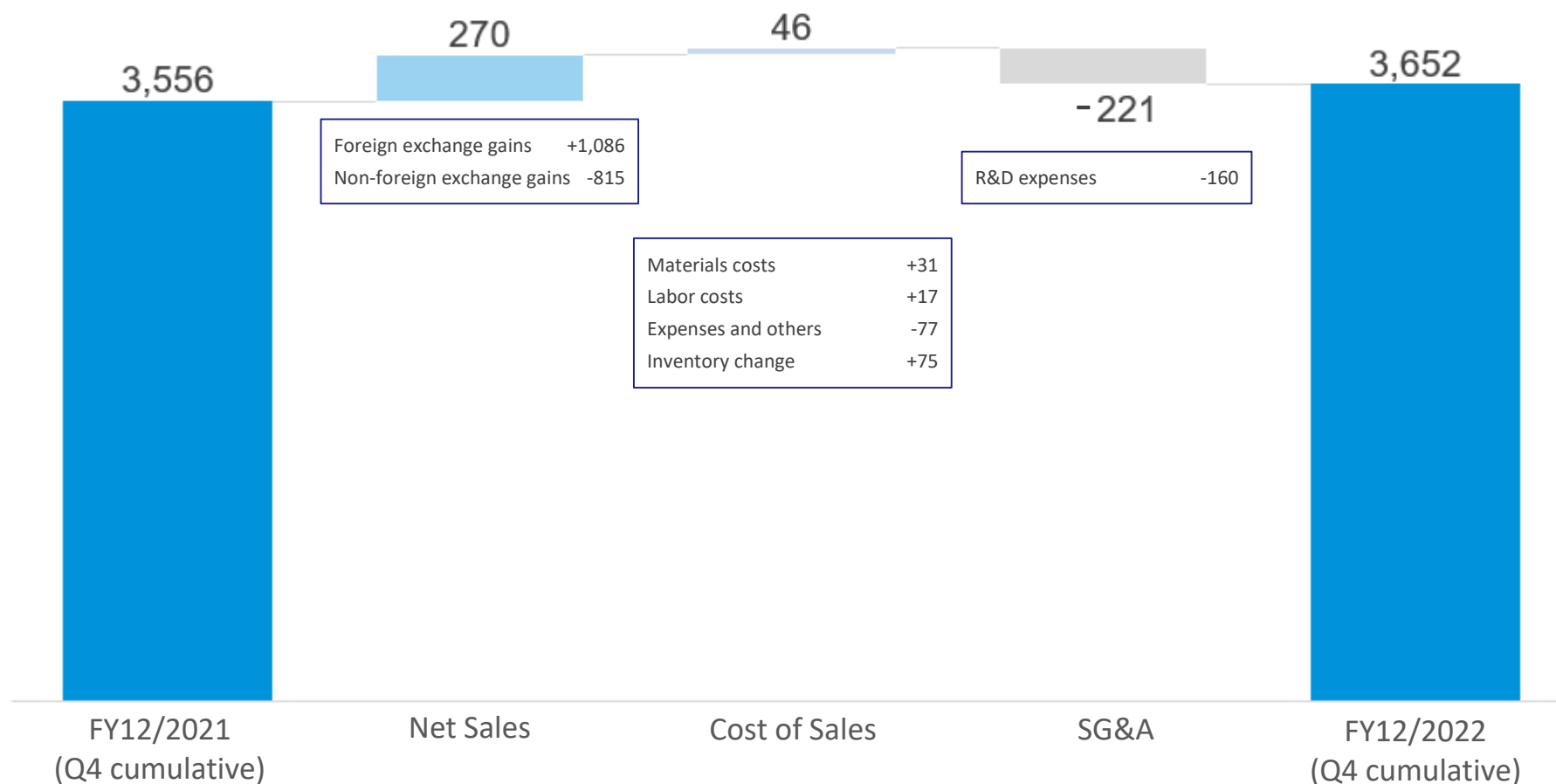
### ● Changes in the external environment and responses

- The situation in Sri Lanka has calmed down, as evidenced by the announcement of a support framework by creditor nations, and there is no impact on production activities. However, BCP inventory build-up was implemented at customers' requests.
- Net sales reached a record high, partly due to the effect of the weaker yen
- Operating margin ratio remained at the 50% level for Q4 cumulative despite the decrease in sales volume.

# Factors of Increase/Decrease in Operating Income by Segment (YoY) - Optical Communication Parts and Devices

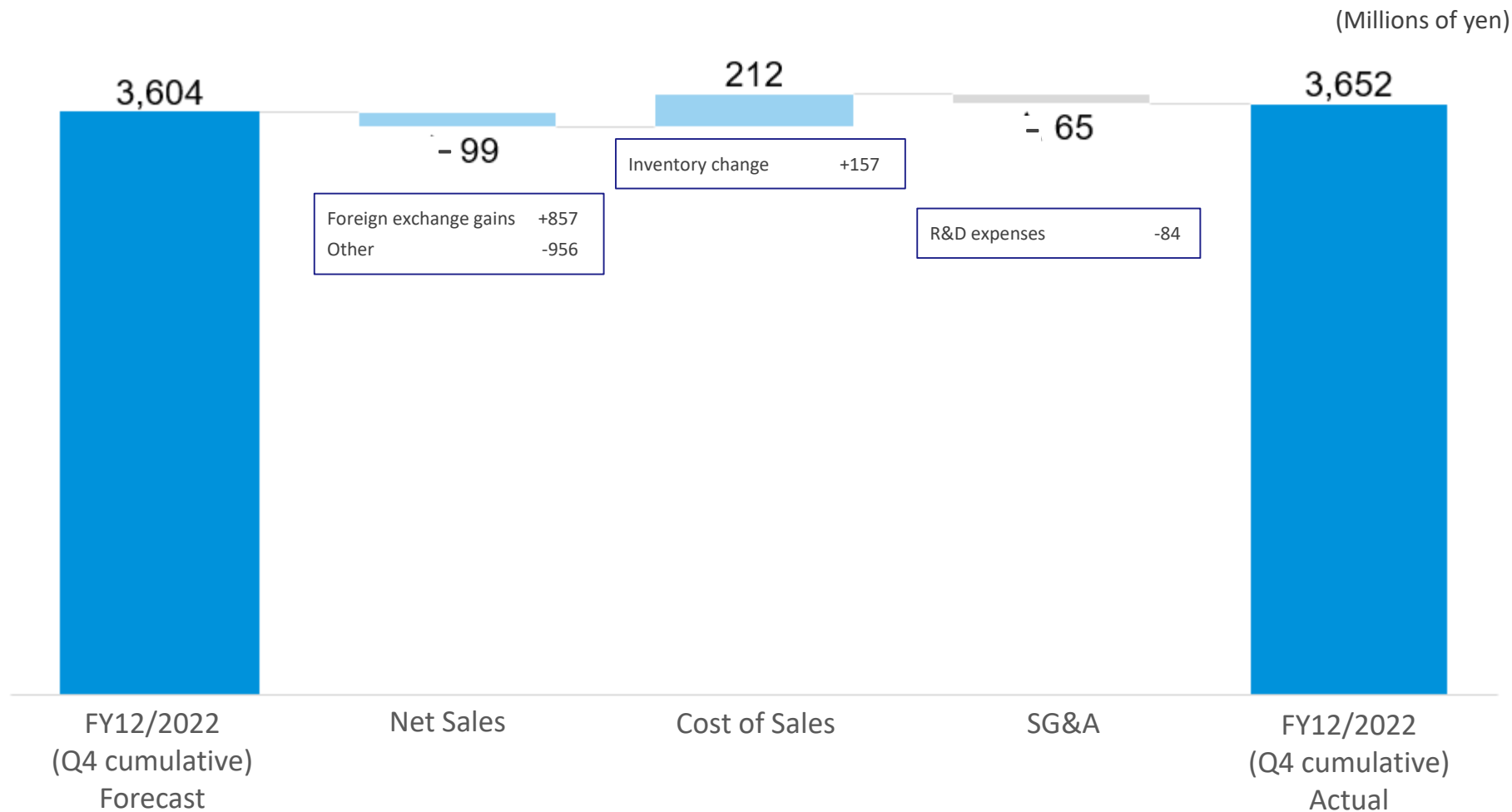
Despite an increase in R&D expenses, etc., income growth was secured.

(Millions of yen)



# Factors of Increase/Decrease in Operating Income by Segment (vs. Forecast) - Optical Communication Parts and Devices

The tailwind from the depreciation of the yen and the impact of shipment adjustments were offset, bringing results almost in line with the forecast.



# Outlook for Optical Communication Parts and Devices Business

Although the operating margin ratio will decline due to an increase in R&D expenses, it will remain at a high level.

## Segment Results

(Millions of yen)

	FY12/2022	FY12/2023 (initial forecast)					
	Actual	First-half forecast	Second-half forecast	Full-year forecast	YoY change	YoY	
Net sales	7,289	3,575	3,755	7,331	+42	+0.6%	
Operating income	3,652	1,633	1,788	3,422	-229	-6.3%	
<i>Operating margin ratio</i>	<i>50.1%</i>	<i>45.7%</i>	<i>47.6%</i>	<i>46.7%</i>	<i>-3.4 pts</i>		

\*Figures are rounded down to the nearest million yen.

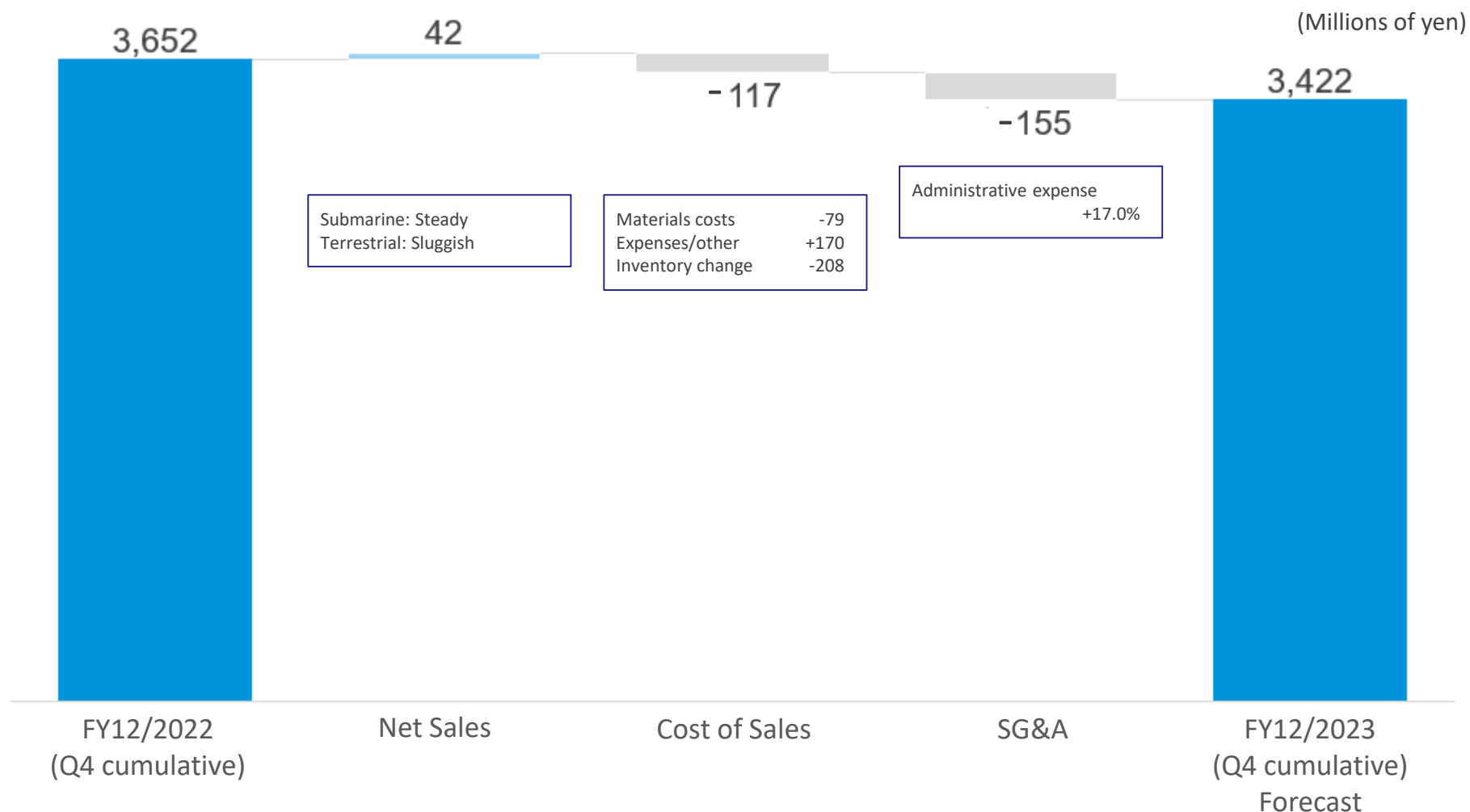
## Outlook for FY12/2023

- Steady market growth is expected to continue in the submarine cable market as the trend toward higher speeds and larger capacities continues.
- With the diversification of technical direction to realize multi-channel fiber submarine cables that support high-speed and large-capacity, development will be promoted in all directions.
- Proactive capital expenditures will be continued with an eye to the future, such as partial automation of the manufacturing process.



# Factors of Increase/Decrease in Operating Income by Segment (Forecast) - Optical Communication Parts and Devices

Income is forecast to decrease due to an increase in SG&A.

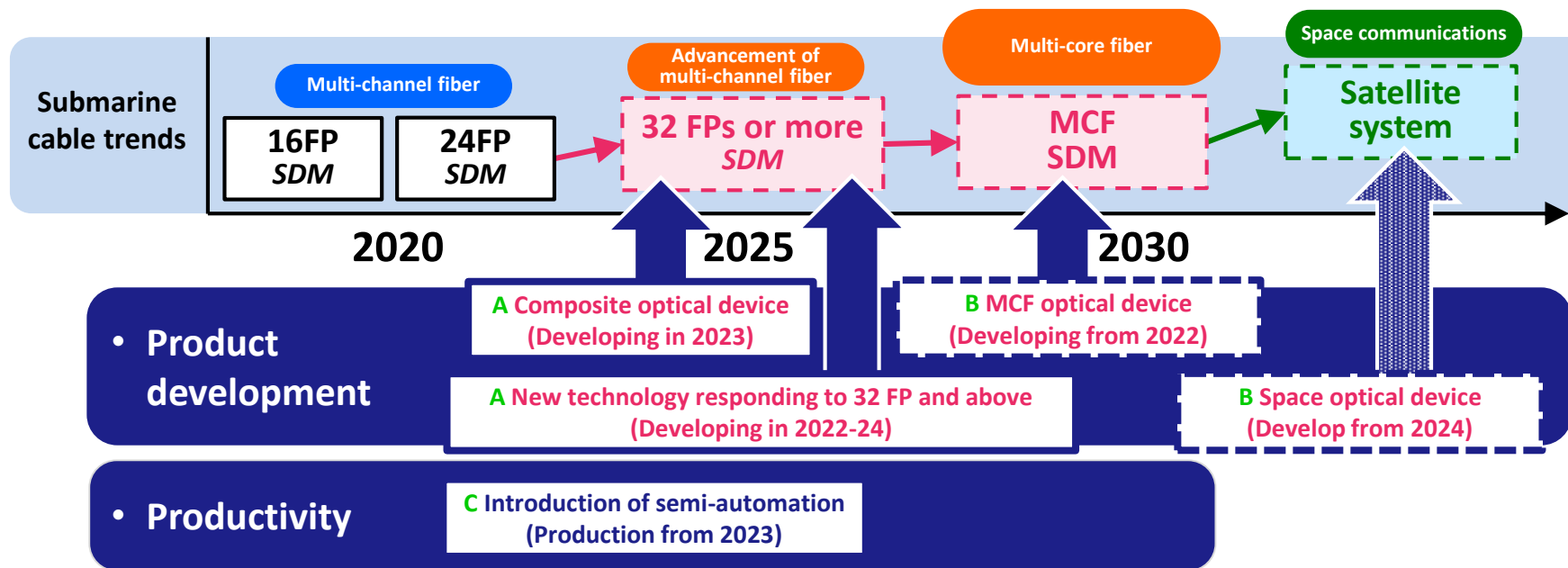


# Explanation of the Market Environment and Business Environment Surrounding Our Company (Optical Communication Parts and Devices)

Comprehensive response to customer development trends. Maintain the current high market share over the medium to long term.

The direction of development is:

- (1) Responding to multi-channel fiber needs by downsizing
- (2) Responding to new technologies such as combining functions
- (3) Accelerating the development of optical device technology compatible with multi-core fiber



- A Engaging in building customer platforms, develop and commercialize key optical devices
- B Engaging in opportunities for customers to introduce new technologies, develop next-generation optical devices
- C Strengthen manufacturing by introducing semi-automatic machines



## **III. Growth Strategy**

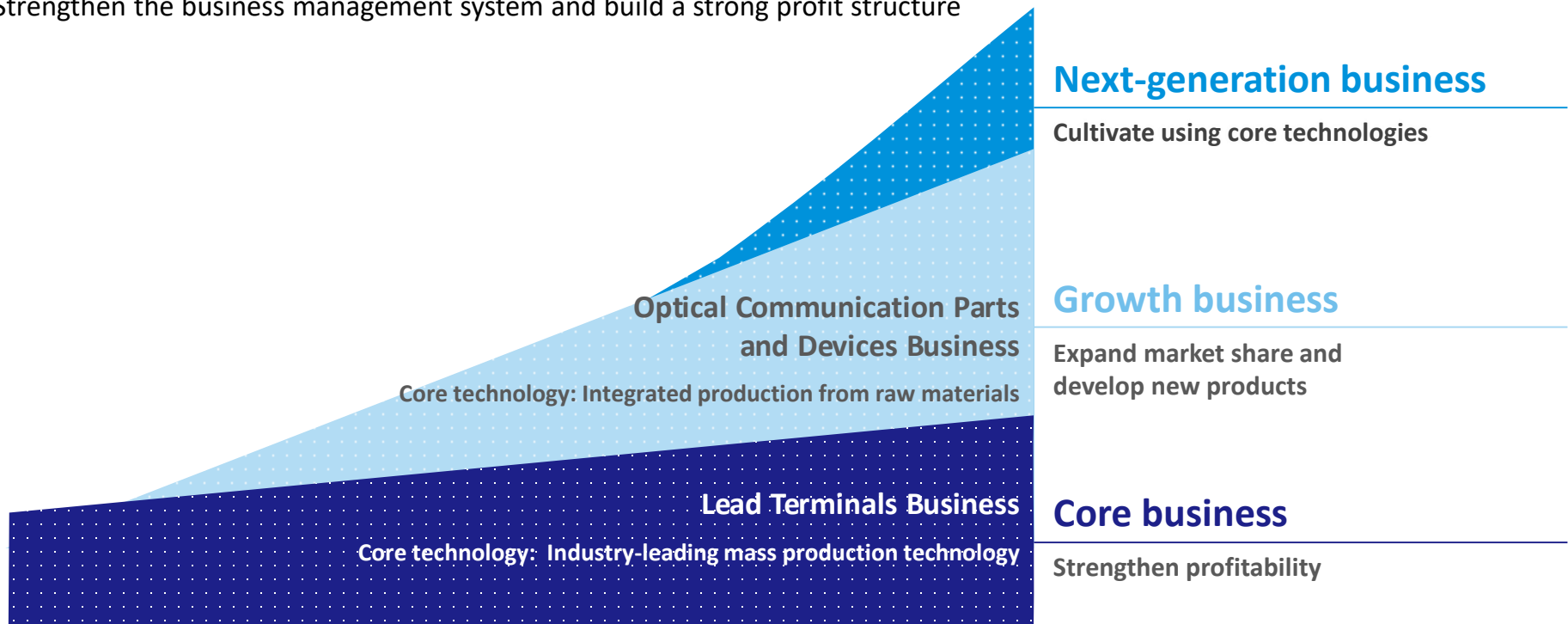
# Basic Medium-Term Management Policy

## Management Vision

**We will carry out research and development, technology development, etc. that contribute to the realization of a one-of-a-kind company and build a highly profitable business.**

## Basic Medium-Term Management Policy

- Strengthen the profitability of core business (Lead Terminals)
- Achieve market share expansion and new product development in growth business (Optical Communication Parts and Devices)
- Develop a next-generation business that utilizes core technologies
- Accelerate new product releases in all fields
- Strengthen the business management system and build a strong profit structure



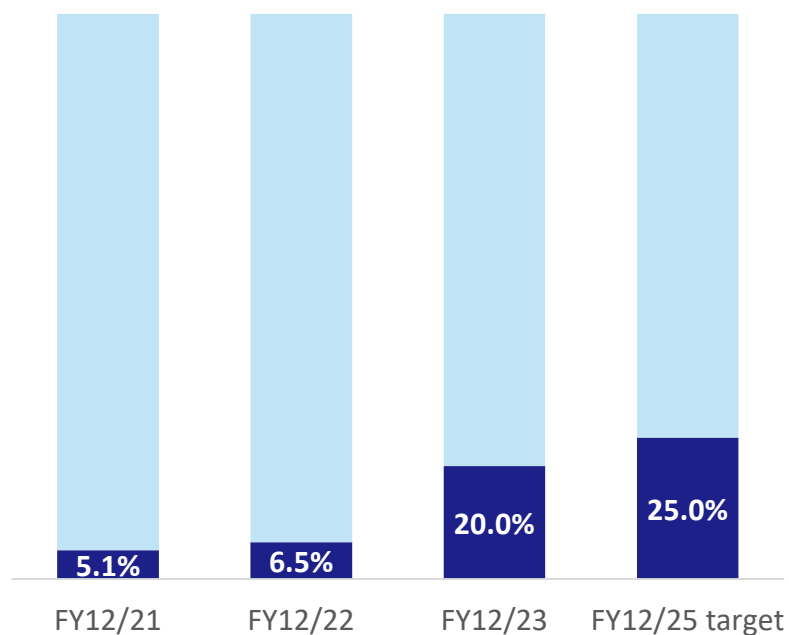
# Strengthen Profitability of Core Business (Lead Terminals)

## 1. Improve sales ratio of new products.

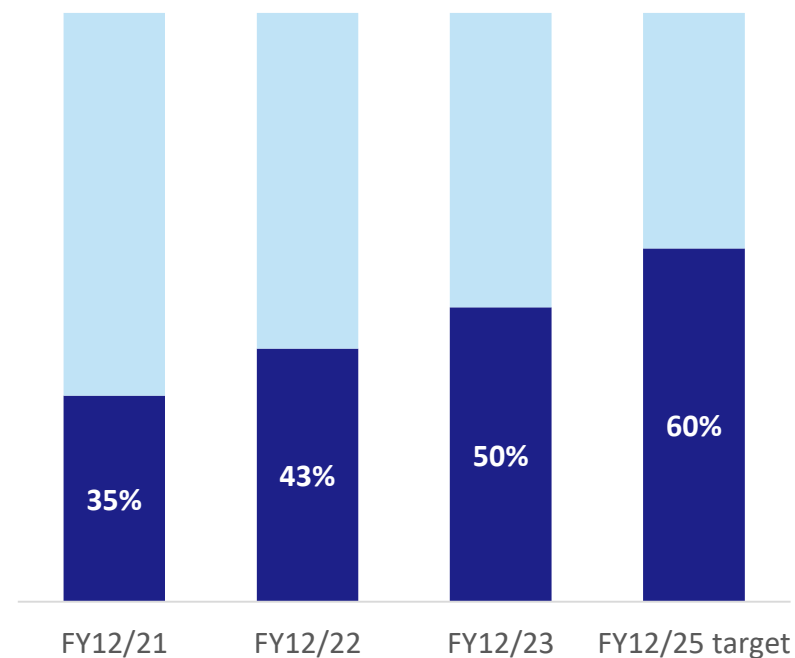
### Sales Ratio of New Products



Strengthen the production system for burr-free type, which is the main item among new products, and respond to the expansion of the hybrid capacitors used in vehicles, drive units, brakes, etc.



### Ratio of Sales to the Automotive Market



# Strengthen Profitability of Core Business (Lead Terminals)

## 2. Appropriate pricing of unprofitable items and strengthening of stable supply system.

### <Current situation analysis>

- ✓ For long-selling items (over 20 years), rising fixed costs (labor costs, utility costs, etc.) over the long term has put pressure on costs.
- ✓ Profit has been maintained by mass production effect due to the high production ratio at Suzhou factory.
- ✓ In the future, it is necessary to rearrange production volume considering BCP measures and stable supply capacity.
- ✓ There are unprofitable items.



### <Improvement measures>

- For unprofitable items, proceed with negotiations with customers and **correct prices** (not budgeted).
- **Strengthen the Group's stable supply system** in line with the shift to the automotive-related market.
- Raise the production ratio in Malaysia from 20% to 33%.
- **Renovate the Suzhou factory through relocation** and strengthen its function as a mother factory (technology-driven).

## 3. Dramatically improve production efficiency, reduce costs, and further strengthen quality through the development of new technologies and horizontal deployment to each factory in the Group.

- ✓ Significant improvement in productivity and quality through the development and deployment of new welding technology for dissimilar metals.
- ✓ Promote horizontal expansion to welding equipment that possesses the above new technologies.

# Expand Market Share and Develop New Products of Growth Business (Optical Communication Parts and Devices)

## 1. Technological innovation in line with the evolution of submarine cables and expansion of product coverage.

### <Direction of two technologies for submarine cable repeaters>

(1) Multi-channel fiber	2022-2024	Strengthen production system and expand adoption of compact isolator "YD-4800"
	2025 onward	Introduce new technologies to meet further multi-channel fiber needs
(2) Multi-core fiber	2023	Develop optical devices for multi-core fibers and start providing samples in the middle of the year
(3) Optical devices for space communications	Proceed with surveys, research, and development for widespread use in 2030 onward	

## 2. Aim to increase market share by strengthening the supply chain system.

### <Current situation analysis>

- ✓ Need to strengthen disaster countermeasures at principal factory (flood response, etc.)
- ✓ Risk management through creation of multiple routes to procure raw materials



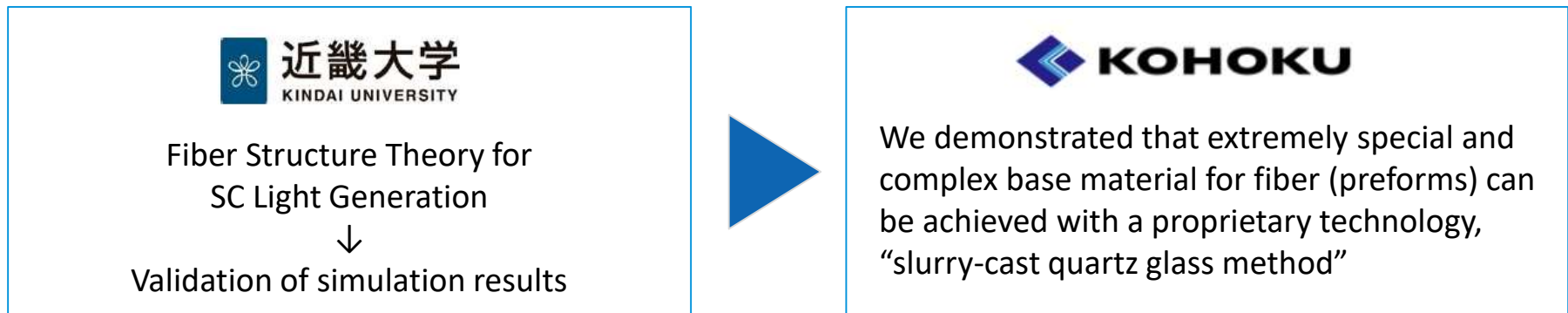
### <Improvement measures>

- Continue with risk management at the Sri Lanka factory (maintenance of factory infrastructure, holding inventories for emergencies, etc.)
- Develop automated lines for increasing the number of factories (prototype completed in 2022, customer evaluation in 2023, mass production scheduled to start in 2024)
- Consider establishing a second base and prepare to start production (consider existing bases in Malaysia, China, and Japan)

# Develop Next-Generation Business That Leverages Core Businesses

**Kohoku Kogyo Co., Ltd. and Kindai University Faculty of Science and Engineering  
Joint research on new structures and preforms of fibers for supercontinuum light sources.**

We have concluded an agreement for joint research and development of new structures of fiber for supercontinuum light sources (SC light sources) and high-purity quartz glass preform, which is the base material of this fiber.



<Application of SC light source>

- Wavelength dependence measurement of optical communication parts
- Ultrafast spectroscopic analysis
- OCT (optical coherence tomography), etc.

**<Direction toward next-generation business>**

**By applying our slurry-casting method, technological evolution is expected in various fields such as medical devices (small catheters), industrial equipment (spectroscopic analysis equipment and 3S measurement equipment), satellite communications, etc.**



# Strengthen the Business Management System and Build a Strong Profit Structure

## 1. Renewal of information system

Reconstruction of the core system (procurement, manufacturing, inventory, shipping, sales) started in mid-2022.

### <Goals>

- Promote capital efficiency (improve ROIC)
- Enable global utilization of production, inventory, and sales information
- Global standard task definition
- Build company-wide DX infrastructure (promote going paperless, reduce individual Excel operations)



## 2. Strengthen governance system and information disclosure for ESG investment

- ✓ Strengthening governance by increasing the number of outside directors and responding to diversity are currently under consideration
- ✓ Organize and enhance disclosure of non-financial information
- ✓ Formulate shareholder return policy

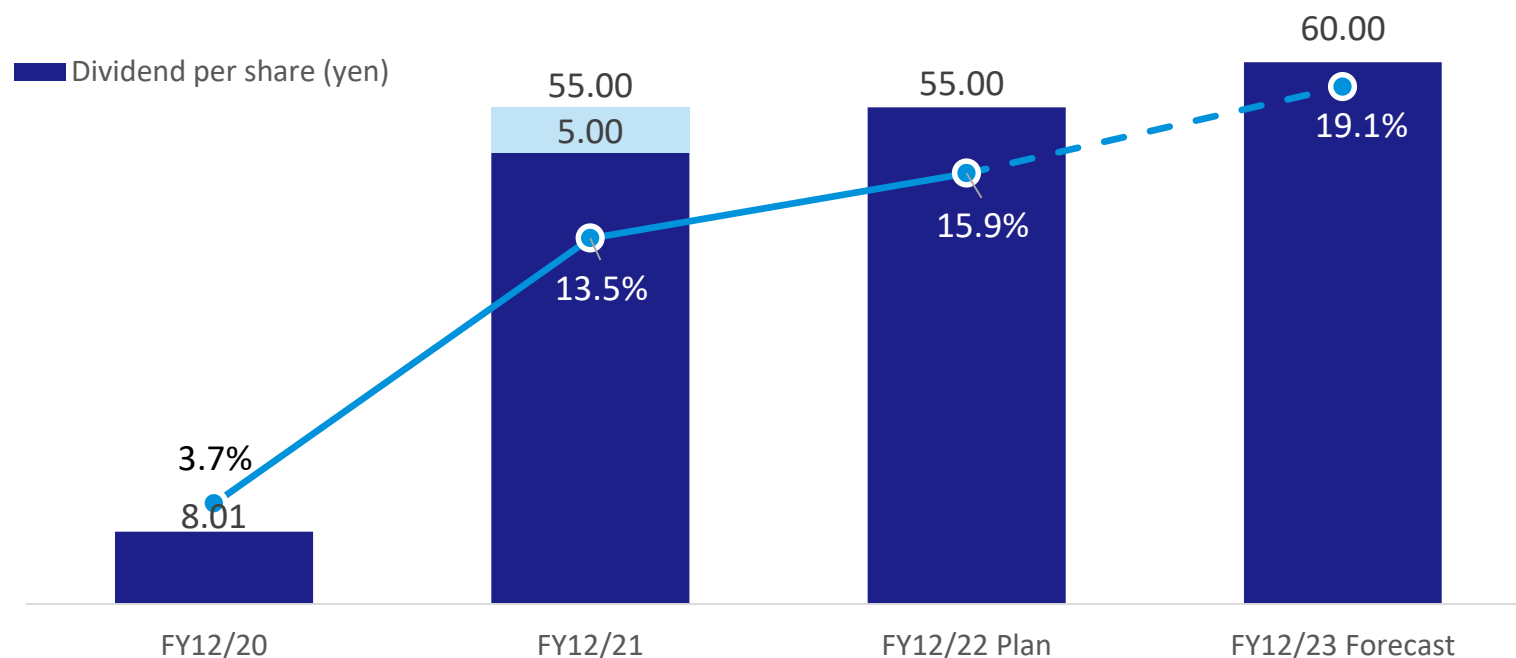
# Non-Financial Initiatives (Important Issues and Countermeasures)

Item	Important Issues (Materiality)	Specific Themes of Initiatives
E Environment	Global environmental conservation and reduction of environmental load	<ul style="list-style-type: none"> <li>■ Introduction of equipment that contributes to CO<sub>2</sub> reduction</li> <li>■ Increase the utilization ratio of renewable energy such as solar power</li> <li>■ Efforts to reduce CO<sub>2</sub> emissions by introducing power-saving devices/adjusting with demand devices</li> <li>■ Collaboration with "Conservation of Forest of Yamakado Water Source" activities</li> <li>■ Promotion of paperless practice (reduce paper use)</li> <li>■ Improving the productivity of optical communication parts and devices and effectively using resources</li> <li>■ Energy saving in crystal growth process/KECS/KLA</li> <li>■ Reducing the number of defects</li> <li>■ Promoting the reuse of water globally</li> </ul>
S Society	Development of global human resources	<ul style="list-style-type: none"> <li>■ Headquarters: Promoting guidance on and development of specialized knowledge and management skills</li> <li>■ Overseas: Promote OJT in operations and OFF JT for the surrounding business environment</li> </ul>
	Create a workplace that respects diverse individuals and makes the most of their abilities	<ul style="list-style-type: none"> <li>■ Promotion of diversity and inclusion</li> <li>■ Carry out awareness-raising activities for respecting human rights</li> </ul>
	Realization of safe and rewarding workplaces	<ul style="list-style-type: none"> <li>■ Promotion of safety and health measures</li> </ul>
	Respect for human rights and diversity	<ul style="list-style-type: none"> <li>■ Appropriate evaluation of part-time employees</li> <li>■ Headquarters: Human resource development that makes the most of the abilities of female and foreign employees</li> <li>■ Overseas: Increase the ratio of female and foreign employees in supervisory and managerial positions</li> </ul>
	Development and provision of new products that do not exist in the world	<ul style="list-style-type: none"> <li>■ Realization of new optical communication parts and devices that contribute to technological innovation and energy saving</li> </ul>
	Strengthening manufacturing technology and quality assurance system	<ul style="list-style-type: none"> <li>■ Achieving productivity and quality improvement with advanced technology</li> <li>■ Collaboration with "Conservation of Forest of Yamakado Water Source" activities</li> </ul>
	Coexistence and common benefit with local communities	<ul style="list-style-type: none"> <li>■ Promote scholarship program for Nagahama Agricultural High School and continue to donate art materials to Nagahama City</li> <li>■ Promote activities to clean up curved mirrors and trash in the neighborhood</li> <li>■ Promote new social contribution initiatives</li> </ul>
G Governance	Partnerships with suppliers	<ul style="list-style-type: none"> <li>■ Promote a culture of fair trade (stakeholder management)</li> </ul>
	Thorough corporate governance	<ul style="list-style-type: none"> <li>■ Strengthening of compliance education and training and utilization of whistleblowing system</li> <li>■ Appropriate management and utilization of owned information and intellectual property</li> <li>■ Take appropriate measures for information system security</li> <li>■ Formulation of a basic sustainability policy</li> <li>■ Enhanced information disclosure in English</li> <li>■ Create business portfolio policy</li> </ul>

# Shareholder Return Policy

- In order to achieve sustainable growth, we will actively put money into capital expenditures, research and development, M&A, etc. We will also maintain a certain amount of internal reserves for the time being to strengthen our financial standing.
- For shareholder returns, we will **strive to enhance shareholder returns aiming for a consolidated dividend payout ratio of 30% in the medium to long term.**
- In accordance with the above policy, the ordinary dividend will be increased by 5 yen for each of FY12/2022 and FY12/2023.

## Change in Dividend/Dividend Payout Ratio



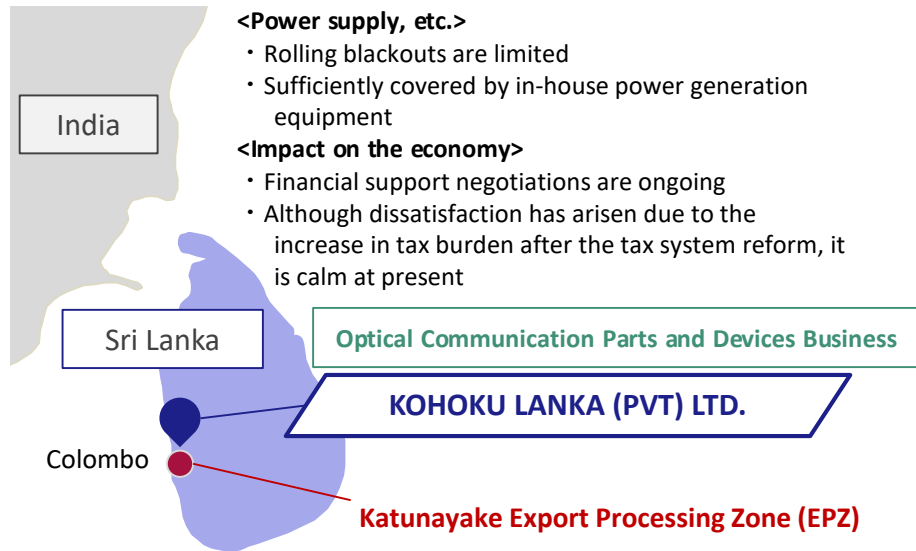


## **IV. Reference Materials**

# External Environment – Geopolitical Risks

## Impact of the Sri Lankan Political and Economic Crisis

- ✓ Inflation and power shortages due to financial collapse.
- ✓ Support from the IMF has led to fiscal reconstruction, but the tax burden has increased.
- ✓ **Our production and shipments remain unaffected.**

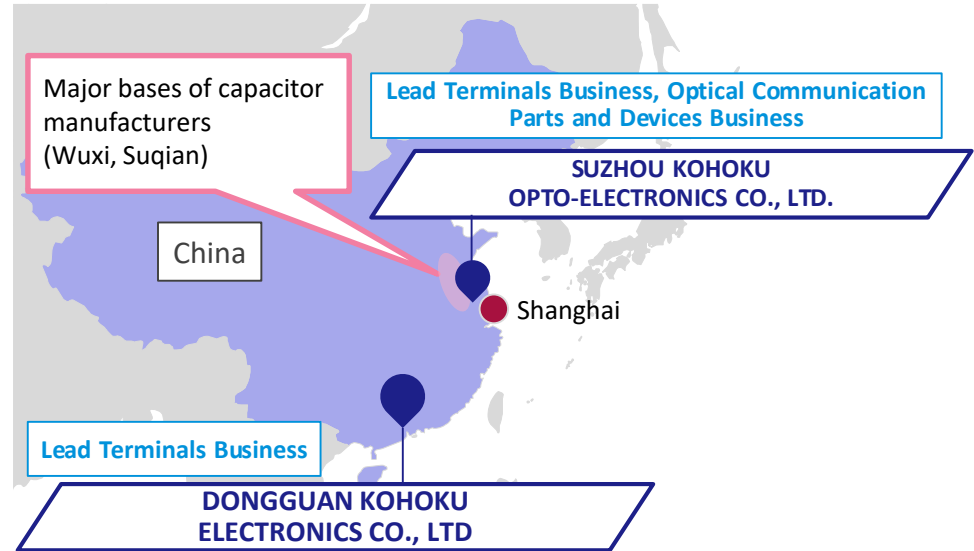


### <BCP Measures>

- Continued to stockpile spare fuel, support employees, etc.
- Inventory accumulation for about 1 to 2 months in case of emergency.
- Development of semi-automatic production equipment for increasing the number of bases (scheduled to start mass production in 2024).

## Impact of China's COVID Policy

- ✓ On December 5, 2022, China's "zero-COVID policy" was significantly relaxed.
- ✓ Infection spread rapidly from late December due to relaxation.
- ✓ At our factory, the attendance rate temporarily dropped to about 40%.
- ✓ **The attendance rate recovered in January and regular production continues.**

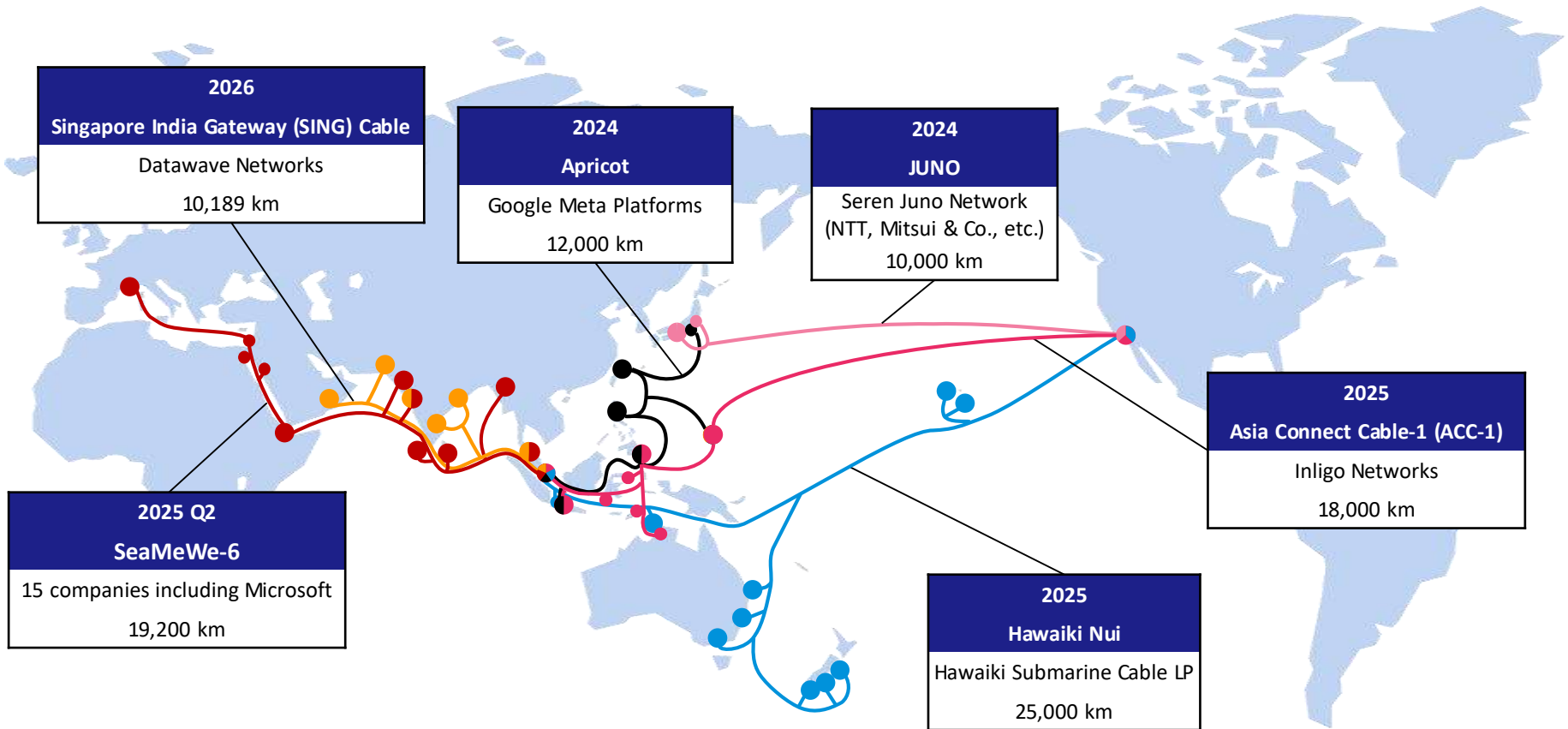


### <BCP Measures>

- Reorganize the global production system: Reduce the ratio of production in China from 70% to 50%.
- The Suzhou factory will be relocated, renovated, and evolved into a technology-driven factory.
- Increase production at the Malaysia factory to make it the principal factory for the automobile market.

# New Submarine Cable Networks to Be Laid After 2024

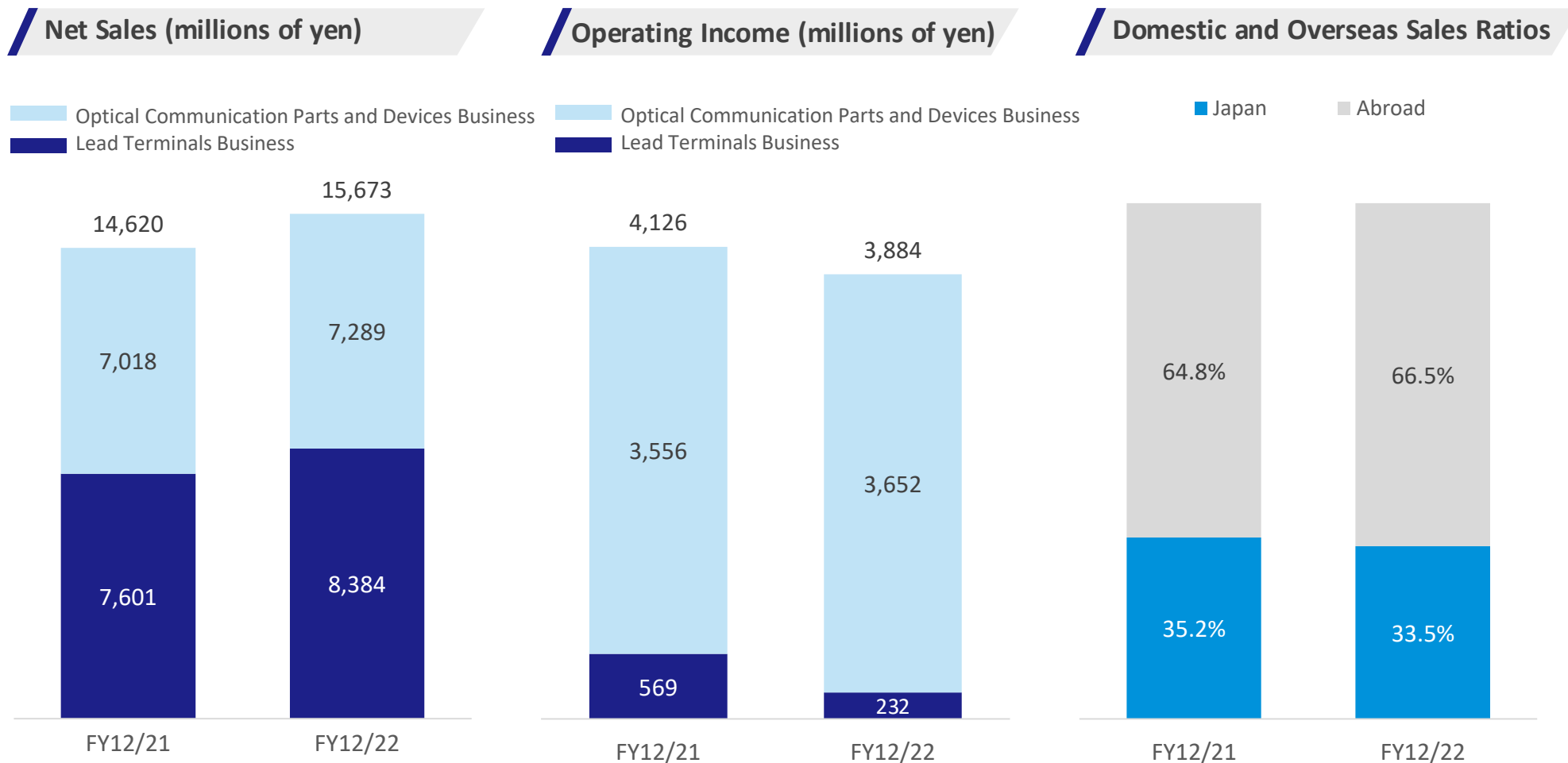
Large IT vendors are launching long-distance projects in succession as global information traffic increases.



(\*Source) TeleGeography "Submarine Cable Map"

# Results by Segment and Ratios of Domestic and Overseas Sales

Net sales increased in both segments, but segment profit decreased in the Lead Terminals Business.



# Non-Financial Initiatives, KPIs and Progress Status

Item	Important Issues (Materiality)	Specific Themes of Initiatives	Examples of KPI (Key Performance Indicator)		
E Environment	Global environmental conservation and reduction of environmental load	<ul style="list-style-type: none"> <li>■ Introduction of equipment that contributes to CO<sub>2</sub> reduction</li> <li>■ Increase the utilization ratio of renewable energy such as solar power</li> <li>■ Efforts to reduce CO<sub>2</sub> emissions by introducing power-saving devices/adjusting with demand devices</li> <li>■ Collaboration with "Conservation of Forest of Yamakado Water Source" activities</li> <li>■ Promotion of paperless practice (reduce paper use)</li> <li>■ Improving the productivity of optical communication parts and devices and effectively using resources</li> <li>■ Energy saving in crystal growth process/KECS/KLA</li> <li>■ Reducing the number of defects</li> <li>■ Promoting the reuse of water globally</li> </ul>	<ul style="list-style-type: none"> <li>• Headquarters: Reduce CO<sub>2</sub> emissions from electricity and fuel by 50% or more in 2030 (compared with 2013) (2030 emission reduction target of 750t/year or more)</li> <li>• Maintain and strengthen the relationship</li> <li>• Productivity (yield, man-hours, etc.): 5% improvement compared with previous year from 2022</li> <li>• Electricity consumption (per intensity): 5% reduction compared with previous year from 2022</li> <li>• Defect rate: 38.3% reduction in 2024 (compared with 2021)</li> <li>• Water consumption: 6% reduction in 2024 (compared with 2021)</li> </ul>		
		Development of global human resources	<ul style="list-style-type: none"> <li>■ Headquarters: Promoting guidance on and development of specialized knowledge and management skills</li> <li>■ Overseas: Promote OJT in operations and OFF JT for the surrounding business environment</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of specialized knowledge necessary for headquarters operations: 2 cases/year from 2022</li> <li>• Acquisition of specialized knowledge necessary for overseas operations: 3 cases/year from 2022</li> </ul>	
			Create a workplace that respects diverse individuals and makes the most of their abilities	<ul style="list-style-type: none"> <li>■ Promotion of diversity and inclusion</li> <li>■ Carry out awareness-raising activities for respecting human rights</li> </ul>	<ul style="list-style-type: none"> <li>• Certified Health and Productivity Management Outstanding Organizations Recognition acquired in 2023</li> <li>• Survey of current paid leave usage rate: Increase by 5 points from the previous year from 2022</li> </ul>
		S Society	Realization of safe and rewarding workplaces	<ul style="list-style-type: none"> <li>■ Promotion of safety and health measures</li> </ul>	<ul style="list-style-type: none"> <li>• Utilization of employee satisfaction survey - Survey &amp; implementation of improvements: Once a year</li> </ul>
			Respect for human rights and diversity	<ul style="list-style-type: none"> <li>■ Appropriate evaluation of part-time employees</li> <li>■ Headquarters: Human resource development that makes the most of the abilities of female and foreign employees</li> <li>■ Overseas: Increase the ratio of female and foreign employees in supervisory and managerial positions</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of evaluation system for part-time employees</li> <li>• Percentage female and foreign employees in supervisory (leader) and managerial positions: Up 5% YoY compared with the previous year from 2022</li> <li>• Career advancement training participation rate: 15% increase in three-year plan from 2022</li> </ul>
			Development and provision of new products yet to exist in the world	<ul style="list-style-type: none"> <li>■ Realization of new optical communication parts and devices that contribute to technological innovation</li> <li>■ Realization of optical communication parts and devices that contribute to energy saving</li> </ul>	<ul style="list-style-type: none"> <li>• New product ratio (net sales): 15% or more in 2024</li> <li>• Energy-saving product ratio (net sales): 15% or more in 2024</li> </ul>
			Strengthening manufacturing technology and quality assurance system	<ul style="list-style-type: none"> <li>■ Achieving productivity and quality improvement with advanced technology</li> </ul>	<ul style="list-style-type: none"> <li>• OEE (Overall Equipment Effectiveness): 88% in 2024 (90% including new welding technology)</li> </ul>
G Governance	Coexistence and common benefit with local communities	<ul style="list-style-type: none"> <li>■ Promote social contribution initiatives</li> <li>■ Collaboration with "Conservation of Forest of Yamakado Water Source" activities</li> <li>■ Promote scholarship program to Nagahama Agricultural High School and continue to donate art materials to Nagahama City</li> <li>■ Promote activities to clean up curved mirrors and trash in the neighborhood</li> <li>■ Promote new social contribution initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Basic funding policy for social contribution activities vs. consolidated ordinary income (average for the past three fiscal years): 0.5% to 1%</li> </ul>		
		Partnerships with suppliers	<ul style="list-style-type: none"> <li>■ Promote a culture of fair trade (stakeholder management)</li> </ul>	<ul style="list-style-type: none"> <li>• Consider and implement evaluation score system</li> <li>• Evaluation score: 5% increase compared with the previous year from 2023</li> </ul>	
		Thorough corporate governance	<ul style="list-style-type: none"> <li>■ Strengthening of compliance education and training</li> <li>■ Utilization of whistleblowing system</li> <li>■ Appropriate management and utilization of owned information and intellectual property</li> <li>■ Take appropriate measures for information system security</li> <li>■ Formulation of basic sustainability policy (CG Code 3-1③, 4-2②)</li> <li>■ Information disclosure in English (3-1②)</li> <li>■ Create business portfolio policy (5-2①)</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous compliance with the corporate governance code</li> </ul>	



**This document contains our current plans and performance forecasts. These future plans and forecast figures are plans and projections made by us based on available information. Actual results may differ from these plans and forecast figures due to various conditions and factors. This material does not promise or guarantee their realization.**

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