

Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

Date: June 4, 2026 (Thursday) 14:30-15:45

Contents: Digital Infrastructure Components

Speakers:

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Observer:

Koji Aoshima, Representative Director, Corporate Senior Vice President and CFO

Q: With regards to increasing the capacity of thermal management products, the currently indicated ramp-up speed, scale and profitability exceed my expectations. Could you elaborate on whether there is genuine underlying demand, including supply chain situation and customers order trends? Also, what are your thoughts about profitability and technological differentiation from competitors?

A: The water-cooling project began about two and a half years ago after we were awarded the project. The scale was substantial from the outset; however, as the market expanded, derivative projects emerged from existing ones and new projects were initiated, resulting in growth to the current scale. We have worked closely with the customer through design collaboration and repeated prototyping, and the scope of the project expanded significantly during the development process. While the overall profit margin has not changed materially, pricing has been set in consideration of the ramp-up phase.

Q: In the thermal management business, what sets you apart from competitors or what is behind you being selected by customers, including your comprehensive technological capabilities and service?

A: In the competition with multiple companies, our knowledge of thermal design and experience with design partnerships were highly regarded. Including the thermal designs accumulated from the air-cooling era, our knowledge of thermal fluids, including the ability to reduce pressure loss required for water-cooling and achieve uniform water flow, is also a strength. In addition, we have also received recognition for our ability to secure sufficient supply capacity by expanding the plants in accordance with customer requirements.

Q: Concerning copper foil business, I believe that while overall capacity of electrolytic copper foil has been limited following the fire, you are increasing profitability by replacing products with high-frequency copper foil. In FY2026, you plan for high-value-added products to account for 65% of all sales, but how will you respond to demand increases going forward? Also, what is the status of expanding capacity and responding to HVLP5?

A: Since the fire at the Taiwan plant in 2019, our overall capacity for electrolytic copper foil has decreased slightly. In addition, the manufacturing process for copper foil for high-frequency circuit is extremely difficult, and there are limitations to supply capacity.

We are working to shift the product portfolio, and we are currently focusing on high-frequency compatible copper foil, particularly HVLP4 within the range of HVLP copper foil. Going forward, we will consider the optimum production structure from among various options based on demand trends and customer requirements. Concerning HVLP5, too, we are moving forward with development and customer evaluations, but I would like to refrain from commenting on the market launch timing.

Q: What is the definition of high-value-added copper foil? Could you elaborate on the change in the ratio of high-value-added products for FY2024 and FY2025, as well as the plan for FY2026, and the current competition environment?

A: High-value-added copper foil consists of HVLP1 to HVLP4 centered around copper foil for high-frequency circuit used in AI servers and data centers. In addition, it also includes copper foil for high-end FPCs and semiconductor packages.

The ratio of high-value-added products increased from 40% in FY2024 to 54% in FY2025 and is planned to increase to 65% or higher in FY2026. HVLP4 copper foil is extremely difficult to manufacture, and most manufacturers are Japanese companies. However, South Korean and Taiwanese companies are raising their technological level. We will address this by enhancing our quality control and strengthening the production system.

Q: Within the high-value-added products, you explained that the ratio of HVLP4 was 50% in FY2025, but how did this ratio change during the year?

A: The ratio of HVLP4 has been rapidly rising from the second half of FY2025. The annual average was around 50%, but the current level is significantly higher.

Q: Concerning the thermal management business, has the timing of achieving the FY2030 target of JPY 400 billion in water-cooling products moved forward? Also, do you expect additional sales from derivative projects? In addition, is there a risk demand may fall once particular projects end?

A: Demand will not disappear when current projects end, and there are follow-on projects and projects from multiple customers.

The “projects” themselves are similar to a product lineup, and we expect a next-generation lineup to continue. Concerning the target of JPY 400 billion in FY2030, while achieving at least this level, the

challenge will be to what extent we can exceed this target.

Q: Concerning the market position of your major products, are they growing in line with market growth, or are you aiming to raise your position exceeding market growth? Also, what is the competition environment for thermal management, FITELE products and other products?

A: In present markets, rather than fighting over share of a limited pie, data center demand is greatly increasing. For us, what is important is how to capture this wave of growth.

For example, concerning FITELE products, market demand exceeds supply capacity, and we will work to achieve growth through technology development and building new plants. Only a limited number of companies can supply products such as high-output DFB laser chips, lasers for Raman light sources and SOAs, and we are maintaining a strong position.

Q: In order to respond to the growing markets, do you still have room to increase supply capacity in the short-term for products other than thermal management? What is your outlook for additional investments in the future and ability to respond flexibly?

A: We are already working to increase capacity of thermal management and FITELE products. In the other divisions, too, we are making investment decisions based on highly accurate information obtained from customers and forecasts.

In the event market requirements exceed our supply capacity, we will flexibly take the necessary actions based on the characteristics of the business.

Q: Concerning the copper foil business, the product mix appears to have improved following increased demand for HVLP4, but can you provide an overview of the current status of the financial results to the extent you are able to disclose? Also, while you are planning to increase the ratio of high-value-added products to 65%, are there measures and flexibility to raise the ratio even further?

A: As a result of increased demand for HVLP4, net sales, operating profit and operating profit margin in the Copper Foil Division have all improved. Also, the current business performance maintains that of the fourth quarter of FY2025.

On the other hand, the FY2026 plan was formulated taking into account risks including continued soaring copper, oil and other energy costs, as well as foreign exchange factors such as the strong Taiwan dollar that occurred during the first half of FY2025. Currently, there is little risk that all of these factors will occur simultaneously, and we believe it is possible to overachieve the plan.

Q: Concerning FFOC, although the business may have become profitable in the second half of last year, I believe it was a difficult year as a whole. From FY2026, to what extent can we look forward to the potential of products including photonics-electronics convergence devices and thin-film LN?

A: Although FFOC was profitable in the second half of last fiscal year, the business still faces challenges. This year, we believe the business has bottomed out centered on existing devices.

On the other hand, new products will be launched for photonic-electronics convergence devices. In particular, thin-film LN modulators are now reevaluated to have potential within the demand for high-speed communications. Launching products this fiscal year and beginning mass production thereafter will be important points.

Q: While you aim to achieve segment profit of JPY 99.0 billion in FY2028, in the products other than thermal management, which products will have increased profit contribution? Can you provide a general ranking by contribution?

A: It is difficult to provide a specific ranking, but thermal management products will definitely account for a large portion of segment profit.

Concerning the other products, there is strong interest in the optical device domain, and we plan to foster it into a major business while preparing the production system. This domain will probably rank second behind thermal management.

Q: As you actively invest in increasing capacity, in relation to reaping the benefits of the investments and funding, will you be able to fully recover the investments from customers? What are your thoughts about incorporating the investment costs in the sales price and long-term contracts?

A: The scale of investments in the thermal management business is large, but we believe the speed of recovering this investment will be fast. This includes a strategy of accelerating this recovery by raising the sales price. In the other businesses, too, we will discuss long-term contracts, upfront payments and other matters with the customer and better ensure that we will recover the investment.

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