

## Q&A Summary of the Announcement for Institutional Investors and Analysts of Furukawa Electric Co., Ltd.

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Contents: Announcement of the Management Policy to Achieve Furukawa Electric Group Vision 2030

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Observers:

**Satoshi Miyamoto**, Representative Director, Corporate Executive Vice President and CSO

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Q: Concerning Optical Solutions, although net sales of JPY 300.0 billion in FY2028 is an average annual growth rate of about 12%, is this slightly conservative given the strength of data center related demand? Also, why is the profit margin only expected to improve by 1 point compared to FY2026?

A: Net sales of JPY 300.0 billion in FY2028 are based on the assumptions that we will maximize utilization of our current manufacturing resources and that optical fiber & cables sales for data centers will increase. The supply of optical fibers and optical cables are constrained amid strong demand, and although there is strong customer interest, it will take some time until the benefits from the investments in increased production start to appear. While some of the investment benefits are expected in FY2028, the level currently indicated is the level highly likely to be realized, and depending on demand trends, it may be possible to exceed this level. Concerning the profit margin, too, based on the product mix and benefits of investing in increased production, it is the level that is currently highly likely to be achieved.

Q: In Digital Infrastructure Components, although sales growth is expected to be strong and it appears possible that the profit margin could improve to around 20%, you state in the plan a profit margin of only around 15%. Why is this?

A: In Digital Infrastructure Components, we expect sales to increase going forward centered on thermal management, particularly cooling modules. The benefits are expected to start

appearing in full-scale in around FY2028. On the other hand, although there is room to improve the profit margin in this segment, because it also includes businesses that are still improving, the overall profit margin likely will not reach 20%. However, we are strongly working to increase production and will also move forward with optimizing prices going forward, so we believe there is room to exceed the currently expected profit margin.

Q: The elimination of intra-company transactions of JPY 120.0 billion in FY2028 appears to be large. What is the reason for such a large figure?

A: In the past, due to the segment and sub-segment structure, the transactions between sub-segments often did not appear as elimination of transactions. In the new organizational structure, the sub-segments have been abolished and segments have been simplified. As a result, the transactions conducted internally, such as transactions between Automotive Products and Electronics & Automotive Systems, now appear as elimination of intra-company transactions. Therefore, the organizational change has had a large impact on how these transactions appear in the figures.

Q: Concerning the large-scale CAPEX plan, although it appears that you will utilize existing lines rather than an all-encompassing plant for optical fiber, you are planning to increase the investments. Including water-cooling modules, power cable, DFB, other electronic components and active components, what is the relationship between the investments and profit growth, what are the milestones to 2030, and how will these investments lead into the future?

A: The investment plan that has already been announced includes water-cooling modules, HVDC, some DFB and other products. In relation to optical fiber and cable, the benefits of investing in increased production of rollable ribbon cables have started to appear from around the second half of last year, and they are contributing to improved financial results. Going forward, we will move forward with revising the product mix, expanding ultra-high count multi-core cables and rolling out pre-terminated cables. Demand for optical fiber and cables is strong, and because our current capacity is not fully sufficient, we also expect to strengthen its capacity to a certain extent but have yet to disclose a specific figure. Customer interest in DFB is extremely strong, and we will work to quickly realize the benefits of the investments in increased production that have already been announced. Demand for excitation light sources for Raman amplification is also recovering, and we will continue to invest in the growth of the optical components business. From 2030, including HVDC, it is highly likely that optical related products will continue to grow, and we will consider appropriate investments in increased production as necessary.

Q: In order to increase future sales, in addition to the need to make large investments such

as in optical fiber, is it correct that the relatively small investments such as those in pre-terminated cable and optical wiring are also included as factors that will contribute to increased sales?

A: The investments required to increase sales include not only the large-scale investments but also the relatively minor investments such as those in pre-terminated cable and optical wiring. The plan includes both the large and small investments.

Q: Concerning the strengthening of the Optical Solutions facilities, in addition to the cabling process, are the processes upstream from the optical fiber pre-forms also included? Also, what does the increased capacity that will start to appear from FY2028 refer to?

A: Traditionally, along with using our optical fiber in-house for our optical cable, we also sold it externally. However, in recent years, we have expanded the cabling process, which is a downstream process, and moved forward with a policy of allocating the optical fiber we manufacture to our optical cable and greatly reducing outside fiber sales. In terms of profits, optical cable is more profitable, so we will maintain the current policy. Because the investments in the upstream processes will take time, the timing will be later. The benefits that will appear in around FY2028 refer to the responses including expansion of the downstream processes and actions for optical fiber. Going forward, without changing the policy of focusing on sales of optical cable rather than sales of optical fiber, we believe that increased production of optical fiber will lead to increased production of optical cable.

Q: Concerning HVDC, while the decision on the details including the project in the Sea of Japan has been delayed and appears to have been postponed, is there any risks of making the investments or a possibility of schedule changes?

A: In relation to the cross-regional interconnections in the Sea of Japan, between Hokkaido and Honshu and between Honshu and Kyushu, as well as offshore wind power, there have been some delays and revisions announced. However, there have been no major revisions to the overall plan indicated by the Organization for Cross-regional Coordination of Transmission Operators, so there is no change to our policy of continuing the preparations toward enabling supply of products when the projects start to move forward. Also, the facility infrastructure at our existing plants is aging, and even if changes to the projects do occur, increasing productivity through cutting-edge new facilities has meaning in relation to the medium to long-term power cable business. Therefore, we currently do not plan to change the policy of making proactive investments.

Q: The efforts to increase capacity of optical products through FY2028 are mainly increases in optical cable, but is my understanding correct that thereafter, you may expand the upstream optical fiber processes?

A: Because we will successively act to increase optical cable capacity, including pre-terminated cable, output will increase. Also, concerning the existing facilities, we will work to increase production through changes to the product mix. On the other hand, because it is difficult to envision growth from FY2028 without optical fiber, we are considering additional actions for optical fiber. Based on these factors, the target level in FY2030 is based on the level from FY2028.

Q: While cash flow will be negative in FY2026 and FY2027, concerning the main products including rollable ribbon cables, MT ferrules and DFB, to what extent will capacity increase in FY2028 or FY2030?

A: Cash flow will be negative in FY2026 and FY2027, but it is planned to turn positive thereafter as a result of increased profits centered on thermal management products. Total free cash flow over the next 5 years is expected to be JPY 240.0 billion, and the temporary negative cash flow in the early years should be viewed as the necessary investments for future growth. Capacity of rollable ribbon cables doubled from FY2023 to FY2025, and going forward, we plan to further double or almost triple capacity. Capacity of MT ferrules increased about five-fold in FY2025 compared to FY2023, and we will aim to further double capacity at a minimum going forward. Concerning FIBEL products, we will increase production capacity of each product, including DFB, and aim to increase profits ten-fold between FY2025 and FY2030.

Q: Concerning investor concerns about your past track record and execution capability, do you view these as a company to be an issue? Also, what are the objectives of changing to a CXO structure and transferring the head office functions to the business divisions?

A: At the beginning of the 2025 medium-term plan, negative factors accumulated in each segment with wide-ranging businesses, and in particular, the Automotive Products business was affected by the semiconductor shortage. On the other hand, because the current market situation has improved and the business foundation has been strengthened compared to the past, we believe we are more likely to achieve the current plan compared to the past. However, including geopolitical risks, it is becoming more difficult to foresee the business environment, so rather than stating "target figures" like in the past, we have indicated levels that are currently thought to be achievable. In terms of the organization, we believe that providing an explanation by market segment will also be easier for investors to understand. Based on this, the reporting segments have been revised centered on data centers, and management will be conducted in accordance with this structure. With this change, we will work to accelerate decision making and increase the quality of management.

Q: Within the Digital Infrastructure Components net sales of JPY 660.0 billion in FY2028, to what extent have water-cooling modules been incorporated?

A: Digital Infrastructure Components includes the thermal management business, as well as multiple other businesses including tape for semiconductor process, composite materials such as cable troughs, plastic products, aluminum blanks for HDD, copper foil and FITEL optical components. Therefore, within FY2028 net sales of JPY 660.0 billion, sales of water-cooling modules alone will be less than this. However, within this segment, sales of water-cooling modules and optical components are expected to grow rapidly. In addition to the active data center market, the shift from air-cooling to water-cooling progressed from the second half of last year, and we are working to increase production at the water-cooling product plants. The initial lots are planned to ship during the first two quarters of this year. The net sales growth of JPY 350.0 billion between FY2026 and FY2028 will mostly be from increased production of water-cooling modules and some air-cooling products, and net sales of cooling products are expected to increase by around JPY 300.0 billion. In addition, FITEL related products including DFB are also expected to grow.

Q: Concerning water-cooling modules, are you progressing faster than the earlier explanation of JPY 400.0 billion in FY2030?

A: Increased sales of water-cooling modules is progressing ahead of schedule or positively.

Q: Concerning Optical Solutions, to what extent do you expect to increase sales or production in terms of optical fiber length? Also, to what extent have rising optical fiber and cable prices, the shift toward high value-added areas such as rollable ribbon cables and the benefits from changes to the product mix been taken into account?

A: We do not plan to greatly increase optical fiber manufacturing capacity from current levels and will instead respond by improving yield. The largest impact will come from using the fiber that had previously been sold externally to manufacture our own optical cable. We do not disclose any specific figures in terms of fiber length, but we have gradually reduced external fiber sales from 20-30% to the single digit level. This fiber has been used to manufacture cables and is leading to increased sales. In addition, through FY2027, we will enact a policy of increasing cable production and shifting to high value-added products such as pre-terminated cable. Thereafter, we will consider increasing fiber or cable production as necessary.

Q: Concerning optical fiber & cable, laser light sources and water-cooling modules, in relation to your standing compared to other companies, from the standpoint of market share from FY2028 to FY2030, what is the competitive position of your water-cooling modules compared to Taiwanese companies?

A: We do not aim for a particular market share compared to competitors and rather act based on to what extent our resources can respond to customer demand. Demand continues to increase, and even after moving to increase production, demand is further growing. Concerning rollable ribbon cables, we have increased capacity of the cabling process, but going forward, we believe it will be necessary to respond to a shortage of optical fiber. In North America, we have traditionally focused on telecom carriers, but carriers are also involved in data center related networks. We view the data center market to include carriers. Concerning DFB, only a few companies are active in laser modules and chips using indium phosphide semiconductors, and we intend to secure a solid position. For optical components overall, we have set a goal of ten-fold growth, and we will make active investments based on future market growth, including photonics-electronics convergence. It is difficult to provide a detailed market share figure compared to competitors, but we will continue to respond to demand, including development.

Q: Directed at improving ROIC, as part of the vision through FY2030, is there a chance you will select and concentrate in a radically new way unlike the past?

A: Concerning the priority domains, the direction including ROIC improvements is coming into view. On the other hand, because we are currently making large investments, ROIC will remain flat for a period before rising again thereafter as we reap the benefits of the investments. In particular, ROIC is expected to move in this way in the segments such as Optical Solutions and Digital Infrastructure Components in which we are working to increase production. Concerning optimization of the portfolio, this will be done going forward based on selection of the product lineups. In the event it becomes clear a business will not exceed the capital cost, or the possibility thereof increases, we will not rule out making a major decision. However, no specific plan exists at this time, and decisions will be made based on the situation.

Q: Is my understanding correct that you will set and manage individual ROIC for each division?

A: We have not disclosed ROIC for each division, but it is correct that we will set and manage individual ROIC for each division.

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