

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

Date: August 7, 2025 (Thursday) 16:15 – 17:00

Contents: FY2025 Q1 Financial Results

Speaker: **Koji Aoshima**, Representative Director, Corporate Senior Vice President and General Manager of the Finance & Accounting Division

Q: In the Communications Solutions segment, while the market remains strong, regarding the factors behind going from a profit in 24Q4 to a loss in 25Q1, can you provide an update on the status of each product, including the reason for not revising the full-year forecast?

A: Operating profit in the Communications Solutions segment fell by JPY 2.6 billion quarter-on-quarter (QonQ). Of this drop, there are two main factors behind the loss in 25Q1. First, the seasonal nature of the Broadband Solutions business (weighted in the second half) accounted for about JPY 1.0 billion, and second, the loss at the newly consolidated Furukawa FITELE Optical Components Co., Ltd. (hereinafter “FFOC”) was JPY 0.5-0.6 billion. FFOC is currently undergoing structural reforms, and although the company recorded a loss in Q1, orders from Q2 are coming into view. Overall, the company is expected to be profitable on a full-year basis.

The remaining factor is the disappearance of the positive year-end factors at Lightera in 24Q4.

The Optical Solutions business is expected to grow from Q2 as a result of capturing the data center demand. In addition, the benefits from increased production will be fully realized from H2, and although the results did not greatly improve from 24Q4 to 25Q1, the Communications Solutions segment is progressing as planned and should be able to achieve the full-year forecast.

Q: Can you please provide a detailed update on the impact of the tariffs?

A: There are two major changes from the previous announcement.

First, the impact of the tariffs has been incorporated into the full-year forecast. Second, the previously unclear size of the impact is now clearer.

As announced before, the tariffs will mainly impact the Communications Solutions segment and Automotive Products business. The temporary impact will be increased costs of several billion yen, and a majority of the increase will occur in the Automotive Products business.

We are progressing as initially anticipated in regards to recovering these increased costs, and we plan to generally recover all of the costs.

Q: Concerning the upward revision to the forecast for the Automotive Products & Batteries

segment, what is the breakdown between the impact of the deconsolidation of Furukawa Battery Co., Ltd. and the Automotive Products business?

A : It is due solely to incorporating the portion equivalent to Q3 of Furukawa Battery Co., Ltd.

Q : In the Communications Solutions segment, is the fact you left the full-year forecast unchanged even after incorporating the tariff impact an indication that the actual earnings capability is improving?

A : There is no change to the previous announcement in regards to our thinking in terms of recovering the higher costs caused by the tariffs.

Orders in the Communications Solutions segment have been increasing recently, and we are making steady progress toward the full-year forecast even after revising the tariff impact. Concerning any revision to the full-year forecast, we will review this again when the benefits of increased production are realized from Q2.

Q : I believe the data center market environment is good, but concerning the downward revision to the Functional Products segment, can you provide a breakdown of the positive and negative factors? Also, how has the impact of foreign exchange been incorporated from Q1?

A : Of the JPY 2.0 billion downward revision to operating profit, about half was due to the impact of the stronger Taiwan dollar against the US dollar in the Copper Foil business. The Taiwan location reports its financial results in Taiwan dollars, and US dollar denominated sales fell by 10% due to the impact of foreign exchange. This situation is expected to continue throughout the year.

On the other hand, looking at the overall Functional Products segment, the impact of foreign exchange also includes the Japanese yen against the US dollar, and because we have not revised the initial assumption (USD 1 = JPY 140), there could be a positive impact if the situation changes.

The remaining half of the downward revision is due to decreased demand from major customers for tape for semiconductor process. This was caused by further domestic manufacturing of semiconductors in China due to the impact of the trade friction between the US and China. It is currently difficult to determine if this is a temporary factor or a full-year risk.

The positive factor is the increase in sales of data center-related products (approximately JPY1.2 to 1.3 billion QonQ), which is progressing as planned. The decrease will be offset by expanding sales for high-performance products for AI semiconductors, including acquiring new customers.

Q : In the Communications Solutions segment, despite having excess manufacturing capacity as of 24Q4, what factors are behind the limited growth in 25Q1?

What are the trends in products such as preterminated cable assemblies and MT ferrules, including the acquisition of Hakusan Inc.?

A : Excess manufacturing capacity was mainly located in North America. Sales grew slightly from 24Q4 to 25Q1, but there was no dramatic growth.

For the products that can make large profit contributions, we are currently establishing systems for increasing production from Q2.

Although profit increased QonQ at Hakusan Inc., which was consolidated in 24Q4, the newly consolidated FFOC did not have a strong start.

The demand environment for DFB laser chips is good, and they grew QonQ.

However, looking at the overall Communications Solutions segment, there was not sufficient growth to cover the disappearance of the positive year-end factors in 24Q4.

Q : In the Communications Solutions segment, how much will data center sales increase from 25Q1 compared to 24Q4?

Other companies have continued to grow in Q1, but do you expect to rev your engine from Q2 after preparing a system for increasing production?

Has any trouble occurred in regards to increasing production?

A : In the Communications Solutions segment, data center sales are expected to increase from slightly over 20% at the end of FY24 for around 30% in FY25. However, as of Q1, sales have only increased slightly compared to last year.

Growth varies by product. Concerning Rollable Ribbon cable, we are currently investing in increasing production at the Mie Works, and it is expected to have a major contribution from the second half.

We are steadily investing in increasing production of MT ferrules, and although they are already growing, they are expected to shoot higher going forward.

Concerning preterminated cable assemblies, we are currently making preparations toward product launch, including increasing manufacturing capacity.

Overall, the Communications Solutions segment will grow largely from Q3.

In the past, production related trouble occurred in the US, but currently, we have secured sufficient personnel, and we are conducting training directed toward increasing orders. The business is currently progressing as planned toward contributing to profits from the second half.

Q : In the Communications Solutions segment, how was the progress in 25Q1 compared to the plan? Is the lack of strong results in Q1 an indication of weak demand for your products? Don't you still have excess manufacturing capacity for Rollable Ribbon cable?

Was the loss of JPY 0.7 billion in 25Q1 within the range of the plan?

A : The manufacturing site in the US still has excess capacity. Many of the products for data

centers will not grow without investing in increased production, but including shifting out of Japan those products that can be manufactured in North America, we are reorganizing the products such as low-fiber-count optical cable, and even in the current situation, we are working to increase sales. The results may appear weak compared to other companies, but we have not fallen behind the figures in the plan.

Concerning the loss in 25Q1, we initially foresaw to some extent that FFOC would likely record a loss in Q1. Currently, the company is subsequently recovering, and it is expected to be profitable for the year.

Q : Concerning the QonQ change in the Communications Solutions segment, can you provide a quantitative explanation? Other companies are growing by 10-20%. Are sales increasing in North America (previously OFS)? Also, is Central and South America (previously FEL) having a negative impact? Considering the geographical advantage, manufacturing at the North American site seems preferable. However, does the policy of producing high value-added products in Mie Works remain unchanged?

A : Regarding the breakdown of the JPY 2.6 billion drop in operating profit QonQ, the seasonal nature of the Broadband Solutions business (weighted in H2) accounted for about JPY 1.0 billion, the loss at the newly consolidated FFOC was JPY 0.5-0.6 billion and the disappearance of the positive year-end factors at Lightera in 24Q4 accounted for the rest (unrealized profit on inventory, employee benefits expenses, etc. in North America). In a QonQ comparison, all of these factors can be said to be one-time factors.

Concerning sales in North America, although we do not disclose the results of individual companies, sales are growing by about 10%. While the North America market is strong, similar results were not realized in Central and South America, and sales declined slightly. However, anti-dumping measures are progressing. Data center project orders are also increasing, and Q2 is showing improvement.

Concerning ultra-high-fiber-count cable, there is no change to the plan to manufacture in Japan and export these products.

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