

Summary of Q&A from FY2025 Interim Financial Results Briefing

1. Time and Place :

Thursday, November 13, 2025, 15:00–16:30 (Online)

2. Participants from Sumitomo Electric Industries :

Osamu Inoue (President), Hideo Hato (Executive Vice President), Masaki Shirayama (Managing Director), Toshiyuki Sahashi (Managing Director), Yoshiyuki Ogata (Managing Director), Hiroshi Hayami (Managing Director), Masatoshi Nakata (Senior Managing Executive Officer), Kenichiro Hizume (Senior Managing Executive Officer), Yuichi Hasegawa (Senior Managing Executive Officer), Kazuhiro Nanjo (Senior Managing Executive Officer), Yoshihiro Matsushita (Managing Executive Officer), Shigeru Suemori (Managing Executive Officer), Kiyonori Yokoi (Managing Executive Officer)

3. Summary of Q&A :

(Info-communications: Optical Fiber Cables, Optical Connector Products)

Q. Demand for optical connector products is expected to increase further with applications like CPO (Co-Packaged Optics). Please explain the current production capacity and competitive landscape for optical connector products.

A. The production capacity expansion for MT ferrules used in optical connector products will be implemented as outlined on page 6 of the DC Business Presentation Materials. While we anticipate CPO to become widely adopted between FY2028 and FY2029, this plan does not include demand for CPO. We sell ferrules in addition to connector cables, and among these ferrules, the volume of MMC ferrules is increasing. Furthermore, based on our preliminary estimates, we believe that we have secured approximately a 30% share of the MT ferrule market (including MPO and MMC) for FY2025.

Q. There are international standards for ferrules, and I believe MPO is currently the mainstream. What is the background behind the high proportion of MMC at your company?

A. While MPO is the mainstream across the industry, customers for our high-fiber count connector cables prioritize technical factors such as high density, resulting in a high adoption rate for MMC. Additionally, connector manufactures are showing strong interest in MMC connectors, which are our differentiated products. While MMC connectors are standard products, we believe we have an advantage in technical aspects such as low-loss performance.

Q. Please explain the historical trends and future outlooks for your MT ferrule market share. Additionally, could you tell us the current ratio of MPO to MMC shipments?
A. As of FY2023, our market share was only a few percent, but it has since risen to its current level. Future prospects depend on factors such as how much customers value our low-loss connectors, but we believe we can further increase our market share. Note that on a shipment basis, MMC accounts for 70-80% of our total shipments.
Q. Regarding the air blown installation cable on page 7 of the DC business presentation materials, what are the differences compared to other companies?
A. We can manufacture various types of cables, and our products have received positive feedback for being easy to separate and apply.
Q. We hear that optical fiber production capacity is insufficient. Have you begun expanding capacity? Please provide the current operation rate and the scale of future capacity expansion.
A. We have already begun to increase capacity and plan to continue expanding production based on order volume. Current operating rates are at 100%. Moving forward, we will secure additional optical fiber supply by leveraging external fiber drawing manufacturers while also making our own capital investments. We would like to refrain from specifying the exact scale of the capacity expansion.

(Info-communications: Optical Devices, Compound Semiconductor Substrates)

Q. What is your perspective on the shift from copper wiring to optical fiber within servers? If CPO is launched, how might it impact your CW laser business?
A. There are various perspectives on the transition from copper wire to optical fiber, and we have not yet reached a definitive conclusion. Cost-wise, copper wire may be advantageous in some cases, but we would like to keep a close eye on future developments. We hold a strong position in the CW laser market. Furthermore, since CW lasers for CPO applications require over four times the current output and demand higher added value, the growth of CPO is a positive factor for us.
Q. Will EML still be adopted even if transmission speeds increase to 1.6T?
A. Transceiver design varies depending on the number of waves. Furthermore, design philosophies differ among transceiver manufacturers, with some adopting EML and others adopting CW lasers.
Q. What is the rationale behind expanding InP substrate production capacity? Also, when will production of 6-inch InP substrates commence?
A. We will expand capacity to meet both internal and external sales demand. Additionally, 6-inch substrates are already ready for mass production.

(Automotive)

Q. Regarding the medium-to-long-term outlook for wire harnesses, with automotive architectures undergoing changes such as the adoption of zone-based systems, is there a risk that harness quantities will decrease?

A. While architectural changes may reduce the number of wire harnesses, on the other hand, autonomous driving increases communication volume, and electric vehicles complicate electronic control systems. We anticipate that the reduction resulting from architectural changes will be counterbalanced by the increase arising from the enhanced functionality of automobiles, ensuring that our sales will not decline.

(Company-wide)

Q. Regarding ROIC by segment, Industrial Materials is trending upward after a temporary slump, while Environment & Energy and Automotive are in a downward trend. What are the reasons behind these trends?

A. Industrial Materials saw improved profit margins as cost reductions for sintered products progressed alongside increased sales of cemented carbide products. Environment & Energy posted a temporary profit last fiscal year due to rising copper prices, but this year's profit declined from the previous year due to upfront costs for establishing new sites and fading the temporary profit. Automotive segment ROIC have declined slightly due to the impact of additional U.S. tariffs and exchange rates, but the overall trend shows no significant downturn.

Q. Is there a possibility of changing the proportion of capital allocation to improve ROIC company-wide and further raise ROE? Please tell us the direction of capital investments.

A. Discussions are underway regarding the next mid-term management plan. Regarding the direction of capital investment, investment in the Automotive segment is expected to remain at the current level of approximately 120-130 billion yen. For the Environment & Energy segment, investment in the new European sites will surpass its peak, but it is necessary to consider how to proceed with investments for the interconnect project in Japan. The Info-communications segment projects capital expenditures of approximately 100 billion yen to meet increased demand for data center-related products, with the possibility of further increases depending on customer demand.

Q. Given your ability to generate free cash flow and an equity ratio exceeding 50%, is there room to consider aggressive shareholder returns?

A. The current mid-term management plan sets a target dividend payout ratio of approximately 40%, and we are implementing this policy accordingly. The shareholder return policy for the next mid-term management plan will be announced next May, based on the outlook for future cash flow and capital expenditures.