

Business Segment Reclassification

Until fiscal 2004, the classification of our business divisions did not directly correspond with our accounting segments. However, upon the introduction of the business company system in April 2004, we have sought to clarify responsibility for the business results at each company, both internally and externally, by bringing these designations into closer alignment. Consequently, starting with fiscal 2005, these segments have been reclassified for our financial statements. (Reference figures are given

for the years prior to fiscal 2004.)

Major changes include: reclassifying the Winding Wire Division, which was formerly included in the Plastics, Cables and Wires segment, under Electronics and Automotive Systems; dividing Nonferrous Products into Metals and Light Metals; and separating Electronics-Related Products and Others into Electronics and Automotive Systems, and Services and Others.

Major Affiliated Companies Under New Segments

Fiscal year end March 31

New Segment	Major Products	Major Affiliated Companies		2002 Results	2003 Results	2004 Results
Telecommunications	<ul style="list-style-type: none"> ●Optical fibers and cables ●Optical components ●Optical fiber cable accessories and installations ●Network equipment, etc. 	MIHARU COMMUNICATIONS INC. / Okano Electric Wire Co., Ltd. / SHODENSHA CO., LTD. / SEIWA GIKEN INC. / T.H. FURUKAWA ELECTRIC CO., LTD. / FURUKAWA INFONET PRODUCTS CO., LTD. / Riken Fitel Co., Ltd. / Access Cable Company / Shianfu Optical Fiber & Cables Co., Ltd. / FURUKAWA INDUSTRIAL S.A. PRODUTOS ELETRICOS / Optical Communication Products, Inc. / OFS Fitel,LLC /OFS BrightWave,LLC ...etc.	Net sales	2,112	1,514	1,290
			Operating income	56	(607)	(313)
Energy and Industrial Products	<ul style="list-style-type: none"> ●Bare Wires ●Aluminum wires ●Insulated wires ●Power Cable ●Power transmission cable accessories and installations ●Plastic products such as power cable conduit material and foam sheet, and thermoelectric products, etc. 	FURUKAWA ENGINEERING & CONSTRUCTION INC. / FURUKAWA INDUSTRIAL CABLE CO., LTD. / Asahi Electric Works, Ltd. / INOUE MANUFACTURING CO., LTD. / The Kyusyu Furukawa Electric Co., Ltd. /FURUKAWA INDUSTRIAL PLASTICS CO., LTD. / F-CO CO., LTD. / KYOWA ELECTRIC WIRE CO., LTD. / THE FOAM KASEI CO., LTD. / SUNSUNNY INDUSTRY CO., LTD. / PHILLIPS FITEL INC / PT TEMBAGA MULIA SEMANAN TBK ...etc.	Net sales	1,645	1,472	1,708
			Operating income	19	35	38
Metals	<ul style="list-style-type: none"> ●Copper pipes ●Wrought copper products such as copper strips ●Electrolytic copper foil ●Shape memory alloys and other processed copper products, etc. 	Circuit Foil Japan Co., Ltd. / Furukawa Precision Engineering Co., LTD. / FURUKAWA TECHNO MATERIAL CO., LTD. / OKUMURA METALS CO., Ltd. / FURUKAWA PRECISION (THAILAND) CO.,LTD. / FURUKAWA METAL (THAILAND) PUBLIC CO.,LTD. ...etc.	Net sales	831	877	1,004
			Operating income	(10)	15	48
Light Metals	<ul style="list-style-type: none"> ●Aluminum sheets ●Extruded aluminum products ●Cast and forged products, etc. 	Furukawa Sky Aluminum Corp. / Nippon Foil Mfg. Co., Ltd. / Unifus Aluminum Co., Ltd. / FURUKAWA COLOR ALUMINUM CO., LTD. / Nikkei Kakoh Co., LTD. / Yamada Keikinzoku Co., Ltd. / NIPPON METAL FOIL IND CO., LTD. / Higashi Nihon Tanzou Co., Ltd. / Shiga Furukawa Electric Co., Ltd. / ACE21 Co., Ltd. / P.T. Furukawa Indal Aluminum ...etc.	Net sales	1,920	1,971	2,073
			Operating income	29	68	117
Electronics and Automotive Systems	<ul style="list-style-type: none"> ●Battery products ●Automotive components and electrical wire ●Magnet wire ●Heat sinks ●Aluminum circuit boards for memory discs ●Electronic component materials, etc. 	The Furukawa Battery Co., Ltd. Riken Electric Wire Co., Ltd. FURUKAWA AUTOMOTIVE PARTS INC. FCM CO., LTD. FE MAGNET WIRE (MALAYSIA) SDN.BHD. FURUKAWA ELECTRIC NORTH AMERICA APD,INC. FURUKAWA ELECTRIC AUTOPARTS PHILIPPINES INC. FURUKAWA AUTOMOTIVE PARTS (VIETNAM) INC. ...etc.	Net sales	1,358	1,396	1,537
			Operating income	(13)	17	47
Services and Others	<ul style="list-style-type: none"> ●Real estate ●Logistics ●Information and various other services, etc. 	FURUKAWA DENKO REAL ESTATE CO., LTD. / FURUKAWA LOGISTICS CORP. / FITEC Corp. / THE FURUKAWA FINANCE AND BUSINESS SUPPORT CO., LTD. / THE ZAIKOO CO., LTD. / THE YOKOHAMA DRUM CO., LTD. / FURUKAWA ELECTRIC NORTH AMERICA, INC. / FEJ SALES INC. / FURUKAWA FINANCE NETHERLANDS B.V. / FURUKAWA LIFE SERVICE Inc. / Furukawa Nikko Power Generation Inc. ...etc.	Net sales	335	298	319
			Operating income	25	30	31

FIVE-YEAR SUMMARY

THE FURUKAWA ELECTRIC CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	2004
Net sales	¥ 739,867	¥ 710,616	¥ 771,411	¥ 826,954	¥ 696,569	\$ 6,979,877
Cost of sales	624,061	623,539	642,617	656,818	570,431	5,887,368
Selling general and administrative expenses	118,967	130,924	118,143	112,067	104,892	1,122,330
Operating income (loss)	(3,161)	(43,847)	10,651	58,069	21,246	(29,821)
Income (loss) before income taxes and minority interests	(145,142)	(153,951)	5,538	252,519	56,902	(1,369,264)
Net income (loss)	(140,128)	(114,026)	(3,384)	167,393	35,169	(1,321,962)
Cash dividends paid	1,967	1,967	5,244	5,205	5,851	18,557
Total current assets	422,358	423,395	557,371	612,966	556,462	3,984,509
Property, plant and equipment, net of accumulated depreciation	368,848	419,146	485,118	332,019	319,751	3,479,698
Total assets	1,110,666	1,179,399	1,501,705	1,504,237	972,326	10,477,981
Total current liabilities	493,100	544,457	616,175	431,151	487,335	4,651,887
Total shareholders' equity	¥ 166,940	¥ 295,901	¥ 494,777	¥ 683,047	¥ 217,286	\$ 1,574,905

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥106 to US\$1.

Financial Section

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CONSOLIDATED FINANCIAL REVIEW

Scope of Consolidation

The consolidated financial statements for the fiscal year ended March 31, 2004 (fiscal 2004) include the business results of 100 consolidated subsidiaries and 16 affiliates accounted for using the equity method. In the year under review, 21 subsidiaries were added and five were removed, increasing the total number of consolidated subsidiaries by 16. There were five fewer affiliates accounted for based on the equity method, compared with the previous year's figure. Consequently, there are 116 consolidated subsidiaries and equity-method affiliates as of the end of the fiscal year under review.

Overview of Business Performance

Sales

In fiscal 2004, we actively pursued fundamental business restructuring for the future; promoting alliances with companies in the industry, such as the establishment of Furukawa Sky Aluminum Corp. in our light metal business, clustering related businesses within the Group, and disposing of and reducing fixed assets and inventories, mainly in our Telecommunications segment.

We also steadfastly carried on the restructure of the operations of OFS Fitel LLC and OFS BrightWave LLC (hereafter OFS), which are consolidated companies in our U.S. optical fiber and cable business that are exerting a significantly negative impact on our business performance, based on projections that the current adverse market conditions will continue into the near future. These efforts included disposing of impaired fixed assets, lowering the break-even point by integrating and closing business bases, and further reducing personnel. We also reviewed the marketing structure to secure sales amid declining product prices, and further cut costs by providing support in production technology.

Consequently, net sales increased 4.1% from the previous year to ¥739.9 billion (US\$7.0 billion), despite declines in the Telecommunications segment, due to year-on-year sales growth in Plastics, cables and wires, Nonferrous products, Electronics-related products and others, and due to an expansion in the scope of consolidation based on measures for strengthening Group management.

Results by Business Segment

Telecommunications

Consolidated net sales fell 13.7% to ¥141.6 billion (US\$1.3 billion), despite a rise in exports of optical fibers, due to reduced domestic demand for optical fibers and cables, CATV-related construction work and optical transmitters.

Plastics, Cables and Wires

Consolidated net sales rose 14.9% to ¥197.2 billion (US\$1.9 billion), due to growth in sales of construction work for bare copper wire and overseas power cables, solid sales in ultra-high-voltage cables and favorable sales in heat-resistant rectangular enameled wire for automobiles and UV-tapes for semiconductors.

Nonferrous Products

Consolidated net sales rose 9.1% to ¥292.3 billion (US\$2.8 billion) due to favorable sales in light metal products such as thick sheets for LNG tanks and sheet metal for automobile heat exchangers, and increased sales in wrought copper products, thanks to the expanded scope of consolidation, even in spite of weak domestic demand for copper pipes used in air conditioners.

Electronics-Related Products and Others

Consolidated net sales rose 11.0% to ¥161.2 billion (US\$1.5 billion) due to brisk demand for heat sinks (heat-radiating parts for electronic equipment), a growth in sales of reflow furnaces (automatic soldering machines for printed circuit boards) and steady sales in connectors and other automobile parts.

Cost of sales, and Selling, general and administrative expenses

While cost of sales increased by ¥0.5 billion from the previous fiscal year to ¥624.1 billion (US\$5.9 billion), the cost of sales ratio improved 3.4 percentage points from 87.7% to 84.3%. This was due to measures for improving the profit and loss structure by lowering fixed costs such as personnel, depreciation and amortization, and by reducing other costs.

Selling, general and administrative expenses decreased ¥12.0 billion from the previous fiscal year, as reductions in fixed costs, including personnel and R&D, lowered administrative expenses.

Loss

With regard to other income (expenses), we reported a ¥30.2 billion gain on sales of investment securities. However, as a result of reporting a net loss of ¥30.1 billion on the disposal of property, plant and equipment aimed at business restructuring and a ¥93.6 billion loss on impairment of property and equipment and goodwill related to OFS, net loss before income taxes and other adjustments amounted to ¥145.1 billion (US\$1.4 billion) for fiscal 2004.

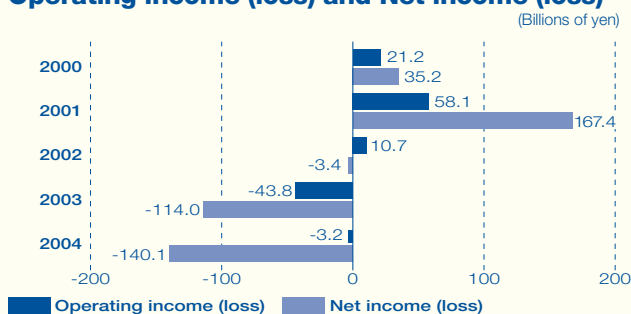
Net loss after corporate tax, resident tax, business tax, corporate tax adjustments and minority interests was ¥140.1 billion (US\$1.3 billion) for fiscal 2004.

Dividends

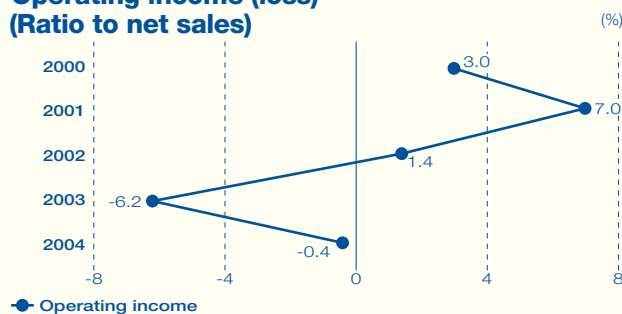
In fiscal 2004, Furukawa Electric endeavored to achieve advance disposal of latent risks as a component of the Furukawa Action Plan, by disposing of impaired tangible and intangible fixed assets related to OFS and disposing of fixed assets and devaluing inventories related to the above-mentioned business restructuring.

This significantly reduced our capital base, which forced us to forego dividend payments in fiscal 2004. We intend, however, to resume dividend payments as soon as possible by selling securities and real estate holdings in addition to securing profit from our business. We will also make a concerted effort to improve our financial structure by reducing interest-bearing debt.

Operating income (loss) and Net income (loss)



Operating income (loss) (Ratio to net sales)



Segment	Share of Net Sales	Major Products	Topics
Telecommunications	17.9%	<ul style="list-style-type: none"> Optical fibers and cables Optical components Optical fiber cable accessories and installations Network equipment, etc. 	<ul style="list-style-type: none"> Shift from standard single mode optical fibers to AllWave® (March 2004) Began sales of high-end optical fiber fusion splicers (March 2004) Began sales of flexible and environmentally sound optical cords and cables for indoor wiring (December 2003) Expanded lineup of ultra-small optical fiber fusion splicers for FTTH (October 2003) Integration of antenna-related operations (July 2003)
Plastics, Cables and Wires	24.9%	<ul style="list-style-type: none"> Bare Wires • Aluminum wires Insulated wires • Magnet wires Power Cable Power transmission cable accessories and installations Plastic products such as power cable conduit material and foam sheet, and thermoelectric products, etc. 	<ul style="list-style-type: none"> Transferred sales operations of the Power Cable Division to VISCAS Corporation (March 2004) Manufactured the world's longest 500m high-temperature superconducting power cable (December 2003) Developed new wind-pressure resistant power transmission lines that offer excellent resistance against strong winds (September 2003)
Nonferrous Products	36.9%	<ul style="list-style-type: none"> Copper pipes and rods Electrolytic copper foils Shape memory alloys Aluminum sheets Extruded aluminum products Cast and forged products, etc. 	<ul style="list-style-type: none"> Established Furukawa SKY Corporation (October 2003) Became first in the world to successfully manufacture high-purity oxygen-free copper using a shaft furnace (July 2003)
Electronics-Related Products and Others	20.3%	<ul style="list-style-type: none"> Automotive components and electrical wire • Heat pipes Aluminum circuit boards for memory discs Electronic component materials Battery products, etc. 	<ul style="list-style-type: none"> Acquired Shikoku Cable Co., Ltd. stock to strengthen our automotive parts business in China (January 2004) Began sales of flexible bumped tape interposer for semiconductor packaging (November 2003) Began production of heat-radiating parts in Central China region (August 2003) Developed innovative sheet-type heat sinks for heat dissipation in mobile devices (April 2003)

Cash Flows

While we reported a significant loss before income taxes and minority interests totaling ¥145.1 billion (US\$1.4 billion) in fiscal 2004, the net decrease in cash and cash equivalents was limited to ¥16.2 billion (US\$0.2 billion). This was due to the inclusion of a considerable number of non-cash transactions accounted for under other expenses in the statement of loss. After adding cash related to newly consolidated companies as of the beginning of the fiscal year, cash and cash equivalents at the end of fiscal 2004 came to ¥63.1 billion (US\$0.6 billion).

Net cash provided by operating activities was ¥11.7 billion (US\$0.1 billion). The effect of the significant net loss before income taxes and other adjustments was offset by the inclusion of a considerable number of non-cash items such as impairment loss and disposal loss on fixed assets accounted for under extraordinary loss, and by depreciation and amortization.

Net cash used in investing activities narrowed to ¥6.7 billion. While cash use related to acquisition of tangible fixed assets and investment securities decreased from the previous year, proceeds from sales of investment securities doubled.

Net cash used in financing activities narrowed to ¥17.1 billion. Cash required for the repayment of short-term debt and redemption of corporate bonds was procured through long-term loans and proceeds from securities lending transactions.

Liquidity

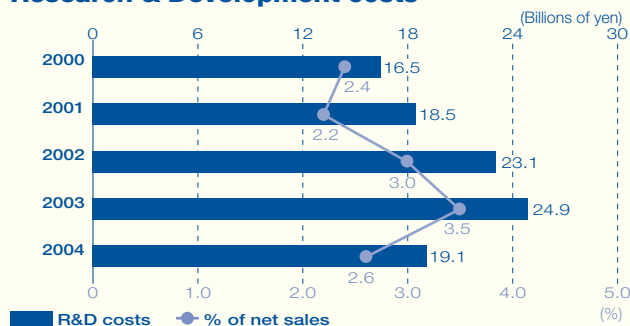
Though in principle we completed advance disposal of OFS-related impaired assets during fiscal 2004, we must continue to reduce interest-bearing debt and strengthen our capital base to improve our financial condition.

Generating cash flow is, therefore, an important goal, and we plan to proceed with the sale of assets such as stock and fixed assets such as land to generate extraordinary profits totaling ¥40 billion in fiscal 2005 and ¥120 billion by fiscal 2007.

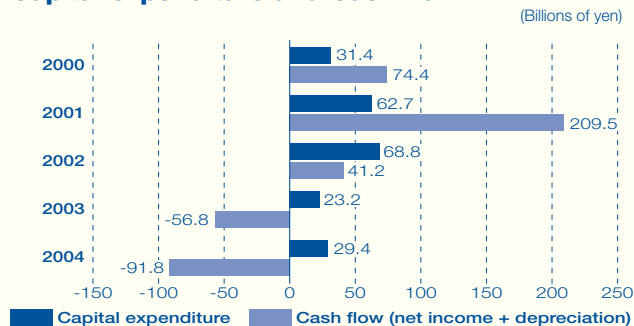
Apart from these efforts, we will seek an early refund on refundable income taxes by the carry-back of loss, and restrain capital expenditures within the bounds of depreciation and amortization while focusing on strategic areas such as materials, electronics, automobiles, and digital home electronics.

As a result of these measures, we plan to generate cash flows totaling ¥10 billion in fiscal 2005. We also plan to reduce interest-bearing debt (the total of short-term debt, long-term debt, commercial paper, corporate bonds and obligations to be returned as collateral under security loan agreements) from ¥584.7 billion in fiscal 2004 to ¥530 billion in fiscal 2005 and to ¥440 billion by fiscal 2007. This amounts to a reduction of approximately ¥150 billion. Based on these plans, we project improving our debt-to-equity ratio from 3.5 times at the end of fiscal 2004 to 2.1 times by fiscal 2007.

Research & Development costs



Capital expenditure and Cash flow



Financial Position

Total current assets decreased by ¥1.0 billion to ¥422.4 billion (US\$4.0 billion) as cash and bank deposits decreased by ¥9.8 billion from the previous year and inventories decreased by ¥6.2 billion due to aggressive reductions in inventories, mainly in the Telecommunications segment.

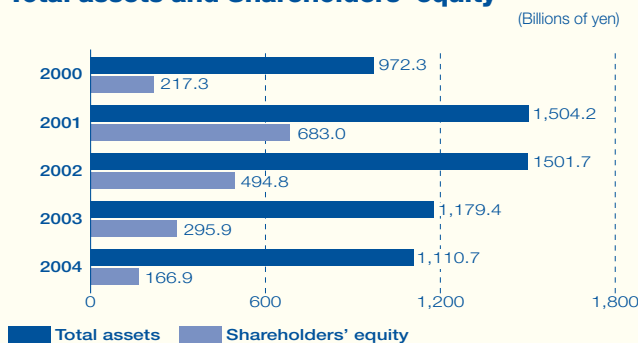
Property, plant and equipment, net of accumulated depreciation, decreased by ¥50.3 billion from the previous year to ¥368.8 billion. This was due to OFS-related impairment loss on tangible fixed assets and loss on disposal of tangible fixed assets aimed at business restructuring.

Consequently, total assets declined by ¥68.7 billion to ¥1,110.7 billion (US\$10.5 billion).

Interest-bearing debt rose ¥23.8 billion from the previous year to ¥584.7 billion. However, excluding the effects of a ¥36.6 billion increase caused by the addition of new consolidated subsidiaries, total interest-bearing debt declined by ¥12.7 billion.

Total shareholders' equity declined by ¥129 billion from the previous year to ¥166.9 billion (US\$1.6 billion). As a result, the equity ratio fell 10.1 percentage points from 25.1% at the end of the previous fiscal year to 15.0%.

Total assets and Shareholders' equity



Business-related Risks and Future Outlook

The Furukawa Electric Group's management performance, stock price, and financial condition may be affected by the following risks (assessed by the Group, as of June 29, 2004):

- (1) Third-party violation of intellectual property rights and other rights
- (2) Defective products
- (3) A rise in the price of raw materials
- (4) Fluctuations in foreign exchange
- (5) Higher interest rates
- (6) Lowering of credit ratings
- (7) An impairment of assets
- (8) Soil pollution on land held for business purposes
- (9) Overseas activities

Fully aware of these risks, we will adhere to the three-year medium-term management plan formulated as part of our Furukawa Action Plan, to attain our goal of becoming a leading global company through product development based on our materials technology. We have designated the following targets under our medium-term management plan:

- (1) A consolidated ratio of operating income to sales: 5% (fiscal 2007)
- (2) Achieve profitability for the Telecommunications segment and for OFS on a non-consolidated basis (fiscal 2007)
- (3) Generate a consolidated free cash flow of ¥50 billion (fiscal 2005-2007)
- (4) Reduce consolidated interest-bearing debt by ¥150 billion (end of fiscal 2007)
- (5) Ratio of overseas sales: 35% (fiscal 2007)

With regard to our consolidated earnings forecast for fiscal 2005, we project net sales of ¥750.9 billion and net profit of ¥23.0 billion.

Furukawa Electric will aggressively pursue new product development and sales activities while simultaneously accelerating the pace of restraining capital expenditures and reducing costs to build a corporate structure that can withstand competition under severe business conditions. We will implement a Group-wide effort to strengthen our financial structure, by selling securities and real estate holdings, and resume dividend payments.

CONSOLIDATED BALANCE SHEETS
THE FURUKAWA ELECTRIC CO., LTD. AND
ITS CONSOLIDATED SUBSIDIARIES

March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<u>ASSETS</u>			
Current assets:			
Cash and bank deposits (Notes 4 and 11)	¥ 58,876	¥ 68,699	\$ 555,434
Marketable securities (Note 5)	8,110	9,491	76,509
Trade receivables (Notes 6 and 11)	230,940	218,033	2,178,679
Inventories (Note 7)	93,694	99,889	883,906
Deferred income taxes (Note 19)	17,608	13,706	166,113
Other current assets	13,130	13,577	123,868
Total current assets	<u>422,358</u>	<u>423,395</u>	<u>3,984,509</u>
Investments and long-term loans (Notes 5, 8 and 11)	206,003	178,875	1,943,425
Property, plant and equipment, net of accumulated depreciation (Notes 9 and 11)	368,848	419,146	3,479,698
Deferred income taxes (Note 19)	9,668	7,717	91,208
Refundable income taxes by carryback of loss (Note 19)	43,147	42,755	407,047
Other assets	60,642	107,511	572,094
Total assets	<u>¥ 1,110,666</u>	<u>¥ 1,179,399</u>	<u>\$ 10,477,981</u>

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt (Note 11)	¥ 248,659	¥ 334,584	\$ 2,345,840
Trade payables (Note 10)	138,071	132,475	1,302,557
Customers' advances	3,521	3,261	33,217
Accrued income taxes (Note 19)	6,424	3,283	60,604
Deferred income taxes (Note 19)	187	43	1,764
Obligation to return collateral under security loan agreement (Note 8)	54,985	29,997	518,726
Other current liabilities	41,253	40,814	389,179
Total current liabilities	<u>493,100</u>	<u>544,457</u>	<u>4,651,887</u>
Long-term debt (Note 11)	281,081	196,306	2,651,708
Accrued retirement benefits (Note 12)	78,105	76,434	736,840
Deferred income taxes (Note 19)	39,352	25,525	371,245
Other long-term liabilities	10,154	10,435	95,792
Total long-term liabilities	<u>408,692</u>	<u>308,700</u>	<u>3,855,585</u>
Minority interests	<u>41,934</u>	<u>30,341</u>	<u>395,604</u>
Shareholders' equity:			
Common stock (Note 13)			
Authorized shares, 2,593,303,000 in 2004 and 2003			
Issued shares, 655,640,602 in 2004 and 2003	59,234	59,234	558,811
Additional paid-in capital	68,394	68,394	645,226
Retained earnings (deficit) (Note 2n)	(10,344)	131,679	(97,585)
Unrealized holding gains on available-for-sale securities (Note 5)	61,091	42,183	576,330
Foreign currency translation adjustment	(11,368)	(5,553)	(107,245)
	<u>167,007</u>	<u>295,937</u>	<u>1,575,537</u>
Common stock in treasury, at cost	(67)	(36)	(632)
Total shareholders' equity	<u>166,940</u>	<u>295,901</u>	<u>1,574,905</u>
Contingent liabilities (Note 14)			
Total liabilities and shareholders' equity	<u>¥ 1,110,666</u>	<u>¥ 1,179,399</u>	<u>\$ 10,477,981</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF LOSS
THE FURUKAWA ELECTRIC CO., LTD. AND
ITS CONSOLIDATED SUBSIDIARIES

For the two years ended March 31, 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Net sales	¥ 739,867	¥ 710,616	\$ 6,979,877
Cost of sales (Note 16)	<u>624,061</u>	<u>623,539</u>	<u>5,887,368</u>
Gross profit	115,806	87,077	1,092,509
Selling, general and administrative expenses (Note 16)	<u>118,967</u>	<u>130,924</u>	<u>1,122,330</u>
Operating loss	(3,161)	(43,847)	(29,821)
Other income (expenses):			
Interest and dividend income	3,326	6,109	31,377
Interest expenses	(10,758)	(12,400)	(101,491)
Foreign exchange loss, net	(4,959)	(3,794)	(46,783)
Gain on sales of marketable securities (Note 5)	1	4	9
Gain on sales of investments in securities (Notes 5 and 17)	30,247	13,838	285,349
Loss on liquidation of affiliates	(1,315)	(3,104)	(12,406)
Provision for doubtful accounts	(1,550)	(11,370)	(14,622)
Loss on disposal of inventories	(9,643)	(8,060)	(90,972)
Supplemental expense for retirement benefits	(6,873)	(7,628)	(64,840)
Loss on disposal of property, plant and equipment, net (Note 18)	(30,144)	(15,878)	(284,377)
Loss from impairment of property and equipment or goodwill (Note 18)	(93,636)	(45,960)	(883,358)
Equity in income (loss) of non-consolidated subsidiaries and affiliates	323	(2,052)	3,047
Other, net	<u>(17,000)</u>	<u>(19,809)</u>	<u>(160,376)</u>
	<u>(141,981)</u>	<u>(110,104)</u>	<u>(1,339,443)</u>
Loss before income taxes and minority interests	(145,142)	(153,951)	(1,369,264)
Income taxes (Note 19) :			
Current	9,054	3,361	85,415
Benefit of loss carryback	-	(42,755)	-
Deferred	<u>(7,797)</u>	<u>13,057</u>	<u>(73,557)</u>
	1,257	(26,337)	11,858
Minority interests in loss of consolidated subsidiaries	<u>6,271</u>	<u>13,588</u>	<u>59,160</u>
Net loss	<u>¥ (140,128)</u>	<u>¥ (114,026)</u>	<u>\$ (1,321,962)</u>
	Yen	U.S. dollars	
	2004	2003	2004
Per share :			
Net loss per share	¥ (213.77)	¥ (173.94)	\$ (2.016)
Cash dividends paid	-	3.00	-

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THE FURUKAWA ELECTRIC CO., LTD. AND
ITS CONSOLIDATED SUBSIDIARIES
For the two years ended March 31, 2004

	Millions of Yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Unrealized holding gains on available-for-sale securities	Foreign currency translation adjustment	Common stock in treasury
Balance at April 1, 2002	655,640,602	¥ 59,234	¥ 68,394	¥ 247,334	¥ 124,054	¥ (4,233)	¥ (6)
Effect of increase in consolidated subsidiaries	-	-	-	397	-	-	-
Net loss	-	-	-	(114,026)	-	-	-
Cash dividends	-	-	-	(1,967)	-	-	-
Bonuses to directors	-	-	-	(59)	-	-	-
Unrealized holding gains on available-for-sale securities	-	-	-	-	(81,871)	-	-
Foreign currency translation	-	-	-	-	-	(1,320)	-
Acquisition of treasury stock, net	-	-	-	-	-	-	(30)
Balance at March 31, 2003	655,640,602	59,234	68,394	131,679	42,183	(5,553)	(36)
Effect of increase in consolidated subsidiaries	-	-	-	126	-	-	-
Net loss	-	-	-	(140,128)	-	-	-
Cash dividends	-	-	-	(1,967)	-	-	-
Bonuses to directors	-	-	-	(54)	-	-	-
Unrealized holding gains on available-for-sale securities	-	-	-	-	18,908	-	-
Foreign currency translation	-	-	-	-	-	(5,815)	-
Acquisition of treasury stock, net	-	-	-	-	-	-	(31)
Balance at March 31, 2004	655,640,602	¥ 59,234	¥ 68,394	¥ (10,344)	¥ 61,091	¥ (11,368)	¥ (67)

	Thousands of U.S. Dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings (deficit)	Unrealized holding gains on available-for-sale securities	Foreign currency translation adjustment	Common stock in treasury
Balance at March 31, 2003	\$ 558,811	\$ 645,226	\$ 1,242,254	\$ 397,953	\$ (52,387)	\$ (340)
Effect of increase in consolidated subsidiaries	-	-	1,189	-	-	-
Net loss	-	-	(1,321,962)	-	-	-
Cash dividends	-	-	(18,557)	-	-	-
Bonuses to directors	-	-	(509)	-	-	-
Unrealized holding gains on available-for-sale securities	-	-	-	178,377	-	-
Foreign currency translation	-	-	-	-	(54,858)	-
Acquisition of treasury stock, net	-	-	-	-	-	(292)
Balance at March 31, 2004	\$ 558,811	\$ 645,226	\$ (97,585)	\$ 576,330	\$ (107,245)	\$ (632)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
THE FURUKAWA ELECTRIC CO., LTD. AND
ITS CONSOLIDATED SUBSIDIARIES

For the two years ended March 31, 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash flows from operating activities:			
Loss before income taxes and minority interests	¥ (145,142)	¥ (153,951)	\$ (1,369,264)
Adjustments for:			
Depreciation and amortization	48,322	57,217	455,868
Gain on sales of marketable and investment securities	(30,165)	(13,838)	(284,575)
Equity in (income) loss of non-consolidated subsidiaries and affiliates	(323)	2,052	(3,047)
Reversal of accrued retirement benefits	(2,792)	(261)	(26,340)
Loss on disposal of inventories	9,643	8,060	90,972
Loss on disposal of property, plant and equipment	34,247	18,382	323,085
Loss on write-down of investment securities	347	11,020	3,274
Loss from impairment of property and equipment or goodwill	93,636	45,960	883,358
Interest and dividend income	(3,326)	(6,109)	(31,377)
Interest expenses	10,758	12,400	101,491
Foreign exchange loss	5,409	2,844	51,027
Decrease (increase) in trade receivables	(9,905)	18,118	(93,443)
Decrease in inventories	8,465	24,415	79,857
Decrease in trade payables	(876)	(7,625)	(8,264)
Other	6,411	1,176	60,482
Subtotal	24,709	19,860	233,104
Interest and dividend income received	3,814	6,462	35,981
Interest expenses paid	(10,804)	(12,441)	(101,925)
Income taxes paid	(6,040)	(3,398)	(56,981)
Net cash provided by operating activities	11,679	10,483	110,179
Cash flows from investing activities:			
Proceeds from sales of marketable securities	615	2,627	5,802
Payments for purchase of property, plant and equipment	(26,606)	(31,013)	(251,000)
Payments for purchase of investment securities	(14,602)	(16,569)	(137,755)
Proceeds from sales of investment securities	34,834	17,533	328,623
Payments for acquisition of intangibles	(2,815)	(4,215)	(26,557)
Other	1,900	4,770	17,925
Net cash used in investing activities	(6,674)	(26,867)	(62,962)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash flows from financing activities:			
Decrease in short-term debt, net	(89,497)	(81,134)	(844,311)
Issuance of long-term debt	87,960	46,537	829,811
Repayment of long-term debt	(38,212)	(32,313)	(360,491)
Cash dividends paid	(1,967)	(1,967)	(18,557)
Proceeds from securities lending transaction	24,988	29,997	235,736
Other	(413)	10,124	(3,895)
Net cash used in financing activities	(17,141)	(28,756)	(161,707)
Effect of exchange rate changes on cash and cash equivalents	(4,028)	(7,626)	(38,000)
Net decrease in cash and cash equivalents	(16,164)	(52,766)	(152,490)
Cash and cash equivalents at beginning of year	74,886	126,952	706,472
Cash and cash equivalents of new consolidated subsidiaries, net of excluded subsidiaries from consolidation	4,400	700	41,509
Cash and cash equivalents at end of year (Note 4)	<u>¥ 63,122</u>	<u>¥ 74,886</u>	<u>\$ 595,491</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE FURUKAWA ELECTRIC CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Furukawa Electric Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2. Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 100 and 84 subsidiaries in 2004 and 2003, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in 16 and 21 major affiliates in 2004 and 2003, respectively, are accounted for by the equity method.

The excess of purchase price over the value of net assets of businesses acquired, which is included in "Other assets", is, in principle, amortized over a five-year period by the straight-line method. If the effective useful lives can be reasonably estimated, such useful lives are used for the amortization. One such amount recognized by a subsidiary in the United States of America (the "U.S.") is recorded as goodwill, which, also included in "Other assets", is not amortized in accordance with the generally accepted accounting principles in the U.S. ("U.S.GAAP"). Under the U.S. GAAP, an impairment test on goodwill is required to be performed at least annually and when circumstances lead management to believe that substantial impairment may have occurred. If an impairment has occurred and the fair value of the Company is determined to be less than the book value, an impairment loss is recorded to reduce the goodwill. After an impairment loss is recognized, the adjusted carrying amount of the goodwill becomes its new accounting basis.

A change in the Company's interest in the non-consolidated subsidiaries and affiliates resulting from other investors' capital transactions with such subsidiaries and affiliates is, in principle, included in net income.

b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits withdrawable on demand and short-term investments with an original maturity of three months or less and subject to a minor risk of fluctuations in value.

c) Financial instruments

1) Debt and equity securities

Debt securities for which the Company and its consolidated subsidiaries have both the positive intent and ability to hold to maturity are classified as “held-to-maturity debt securities” and carried at amortized cost. Securities other than held-to-maturity debt securities and equity securities of subsidiaries and affiliates are classified as “available-for-sale securities” and carried at fair value with unrealized holding gains and losses, net of tax, reported as a separate component of shareholders’ equity. For the purpose of computing gains and losses on securities sold, the cost of these securities is determined by the moving average method. Securities that do not have readily determinable fair values are recorded at cost. The Company and its consolidated subsidiaries do not hold any trading securities.

Debt securities due within one year are presented as “marketable securities” under current assets, and all other securities are presented as “investments and long-term loans”.

Additional information with respect to marketable debt and equity securities is included in Note 5.

2) Derivatives

Derivative financial instruments are measured at fair value, if determinable, and resulting gains or losses included in net income, with the exception that gains or losses on certain qualified hedging instruments may be deferred as an asset or liability until the gains and losses on the hedged items are recognized. The Company’s hedging activity concerning interest rate risk on outstanding debt is considered a qualified hedge transaction.

Additional information on derivatives is presented in Note 20.

d) Allowance for doubtful accounts

Allowance for doubtful accounts are provided at estimated irrecoverable receivables on an individual account basis, plus the amount calculated by applying the historical bad debt loss rates to the remaining receivables.

e) Inventories

Copper and other main raw materials are stated principally at cost, which is determined by the last-in, first-out method. Other inventories are stated principally at cost, which is determined by the average method.

f) Property, plant and equipment, and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost. Repairs and maintenance expenses are charged to income as incurred.

Approximately 70% and 71% at March 31, 2004 and 2003, respectively, of property, plant and equipment were depreciated by the straight-line method and the remainder by the declining-balance method.

g) Accrued retirement benefits

Employees who terminate their service with the Company or its domestic consolidated subsidiaries are entitled to lump-sum severance indemnities determined by reference to current basic rates of pay and length of service. The liability for these severance indemnities is not funded.

The retirement benefit plans of the Company and its 29 domestic consolidated subsidiaries have features whereby the employees who retire at age 55 or over with 20 or more years of service may elect to receive benefits in the form of pensions. These plans, which are non-contributory and funded, generally provide for an annuity payable over a ten-year period subsequent to retirement. The annual contributions for pension benefits include current service costs, amortization of prior service costs and interest on the unfunded portion of past service costs.

The Company and its domestic consolidated subsidiaries accrue retirement benefits based on the estimated amounts of projected benefit obligation reduced by the fair value of the pension plan assets at each fiscal year-end. Certain assumptions used in accounting for the benefit plans are indicated in Note 12.

In addition, retirement benefits to directors and statutory auditors are provided at the amount which would be required if all directors and statutory auditors were to retire at the balance sheet date.

h) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

i) Revenues

For significant long-term construction contracts, the Company recognizes revenues under the percentage of completion method. Other operating revenues are recorded upon shipment of goods or on completion of construction or services.

j) Research and development costs, and computer software

Research and development expenditure is charged to income when incurred. Expenditure relating to computer software developed for internal use is charged to income when incurred, except when it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and amortized using the straight-line method over its estimated useful life of 5 years.

k) Income taxes

Accrued income taxes have been recorded on the basis of income tax returns.

Deferred income taxes are recognized to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

l) Translation of foreign currency accounts

Current and non-current monetary items denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the respective balance-sheet dates. Monetary items denominated in foreign currencies, for which foreign exchange forward contracts or foreign currency swap are used to hedge the foreign currency fluctuation, are translated into Japanese yen at the contracted rates. Exchange gains or losses are credited or charged to current operations.

Financial statements expressed in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance-sheet date.

m) Appropriation of retained earnings

Cash dividends, transfer to legal reserve and bonuses to directors are recorded in the financial year in which the proposed appropriation of retained earnings is approved by the Board of Directors and/or the shareholders.

n) Legal reserve

Under the Japanese Commercial Code, an amount not less than 10% of cash dividends and any other amounts paid out by the Company shall be appropriated as a legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of stated capital. The legal reserve may be used to reduce an operating deficit or transferred to stated capital by a resolution of the shareholders or the Board of Directors, respectively. However, the legal reserve

is not available for cash dividends, unless the sum of the legal reserve and additional paid-in capital exceeds 25% of stated capital, in which case the excess amount attributable to the legal reserve may be available for cash dividends by a resolution of the shareholders. The Company's legal reserve of ¥11,315 million (\$106,745 thousand) at March 31, 2004 and 2003 is included as a part of "Retained earnings (deficit)" in the accompanying consolidated balance sheets.

o) Net loss per share

Net loss per share is based on the weighted average number of shares of common stock outstanding during the respective years. The average numbers of common stock used in the computation were 655,522 thousand and 655,548 thousand for the years ended March 31, 2004 and 2003, respectively. Diluted net income per share is not provided because of the Company's net loss position for the two years ended March 31, 2004.

p) New accounting pronouncement

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets" (the "Standard"). The Standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use.

The Standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company and its consolidated subsidiaries in Japan have not yet applied the Standard nor have determined the effect of applying it.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥ 106 =U.S. \$ 1, the approximate effective rate of exchange on March 31, 2004, has been used for purpose of translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2003 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and bank deposits	¥ 58,876	¥ 68,699	\$ 555,434
Less, time deposits having original maturity of more than 3 months, and other non-liquid deposits	(3,865)	(2,705)	(36,462)
Highly liquid securities	<u>8,111</u>	<u>8,892</u>	<u>76,519</u>
Cash and cash equivalents	<u>¥ 63,122</u>	<u>¥ 74,886</u>	<u>\$ 595,491</u>

5. Debt and Equity Securities

Investments in debt and equity securities that have a readily determinable fair value at March 31, 2004 and 2003 included in marketable securities (current assets) and in investments and long-term loans (non-current assets) are summarized as follows:

Millions of yen

	2004				2003			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities:								
Japanese national government bonds and municipal bonds	¥ 7,611	¥ 7,611	¥ —	¥ —	¥ 7,924	¥ 7,924	¥ —	¥ —
Other debt securities	1,081	1,081	—	—	138	138	—	—
Total held-to-maturity debt securities	8,692	8,692	—	—	8,062	8,062	—	—
Available-for-sale securities:								
Marketable equity securities	49,481	150,228	101,123	376	51,290	119,623	75,812	7,479
Other securities	26	34	10	2	5	5	—	—
Total available-for-sale securities	49,507	150,262	101,133	378	51,295	119,628	75,812	7,479
	¥ 58,199	¥ 158,954	¥ 101,133	¥ 378	¥ 59,357	¥ 127,690	¥ 75,812	¥ 7,479

	Thousands of U.S. dollars			
	2004			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities:				
Japanese national government bonds and municipal bonds	\$71,802	\$ 71,802	\$ —	\$ —
Other debt securities	10,198	10,198	—	—
Total held-to-maturity debt securities	82,000	82,000	—	—
Available-for-sale securities:				
Marketable equity securities	466,802	1,417,245	953,991	3,547
Other securities	245	321	94	19
Total available-for-sale securities	467,047	1,417,566	954,085	3,566
	<u>\$549,047</u>	<u>\$1,499,566</u>	<u>\$ 954,085</u>	<u>\$ 3,566</u>

The proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥34,038 million (\$321,113 thousand) and ¥15,703 million, respectively. The gross realized gains on those sales for the years ended March 31, 2004 and 2003 were ¥30,247 million (\$285,349 thousand) and ¥13,421 million, respectively, and gross realized losses were ¥58 million (\$547 thousand) and ¥36 million, respectively.

The aggregate annual maturities of available-for-sale securities and held-to-maturity debt securities at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Due within 1 year	¥ 8,138	¥ 8,024
Due after 1 year through 5 years	550	34	5,189
Due after 5 years through 10 years	4	4	37
	<u>¥ 8,692</u>	<u>¥ 8,062</u>	<u>\$ 82,000</u>

6. Trade Receivables

Trade receivables at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Non-consolidated subsidiaries and affiliates	¥ 7,560	¥ 6,319	\$ 71,321
Other	224,890	213,540	2,121,604
Allowance for doubtful accounts	(1,510)	(1,826)	(14,246)
	<u>¥ 230,940</u>	<u>¥ 218,033</u>	<u>\$ 2,178,679</u>

7. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods	¥ 24,534	¥ 27,263	\$ 231,453
Work in process	37,602	37,484	354,736
Raw materials and supplies	31,558	35,142	297,717
	<u>¥ 93,694</u>	<u>¥ 99,889</u>	<u>\$ 883,906</u>

8. Investments and Long-term Loans

Investments and long-term loans at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Non-consolidated subsidiaries and affiliates	¥ 36,173	¥ 45,407	\$ 341,255
Other	169,830	133,468	1,602,170
	<u>¥ 206,003</u>	<u>¥ 178,875</u>	<u>\$ 1,943,425</u>

Included in "Other" at March 31, 2004 and 2003 were investment securities of ¥80,561 million (\$760,009 thousand) and ¥33,697 million, respectively, lent to a third party under a security loan agreement, and the cash received as collateral

amounting to ¥54,985 million (\$518,726 thousand) and ¥29,997 million, respectively, were shown as a current liability.

9. Property, Plant and Equipment

Property, plant and equipment at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land	¥ 97,183	¥ 81,328	\$ 916,821
Buildings	254,502	260,360	2,400,962
Machinery and equipment	695,647	654,297	6,562,707
Construction in progress	17,695	36,450	166,934
	1,065,027	1,032,435	10,047,424
Accumulated depreciation	(696,179)	(613,289)	(6,567,726)
	¥ 368,848	¥ 419,146	\$ 3,479,698

10. Trade Payables

Trade payables at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Non-consolidated subsidiaries and affiliates	¥ 1,625	¥ 663	\$ 15,330
Other	136,446	131,812	1,287,227
	¥ 138,071	¥ 132,475	\$ 1,302,557

11. Short and Long-term Debt

Short-term debt represents notes payable to banks, most of which are unsecured, bank overdrafts, commercial papers issued by the Company, and bearing interest at rates ranging from 0.0600% to 7.5250% and 0.0533% to 13.3900% per annum at March 31, 2004 and 2003, respectively, and the current portion of long-term debt.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
2.45% unsecured Bonds due 2003	¥ -	¥ 10,000	\$ -
2.775% unsecured Bonds due 2007	20,000	20,000	188,679
2.15% unsecured Bonds due 2003	-	10,000	-
3.0% unsecured Bonds due 2008	13,000	13,000	122,642
2.0% unsecured Bonds due 2004	-	7,000	-
1.28% unsecured Bonds due 2007	30,000	30,000	283,019
2.95% unsecured Bonds due 2006	10,000	10,000	94,340
1.34% unsecured Bonds due 2006	12,000	-	113,207
1.67% unsecured Bonds due 2008	3,000	-	28,302
1.20% unsecured Bonds due 2008	2,000	-	18,868
2.2% convertible bonds due 2004, convertible currently at ¥847	-	7,437	-
Debt issued by consolidated subsidiary, due from 2003 to 2006 with interest ranging from 3.20% to 3.35%	1,985	3,103	18,726
Debt issued by consolidated subsidiaries, due from 2004 to 2009 with interest ranging from 0.37% to 1.44%	1,664	1,080	15,698
Loans, principally from banks and insurance companies, due from 2005 to 2011 with interest rates ranging from 0.6600% to 13.500% and predominantly collateralized	216,313	154,681	2,040,689
	309,962	266,301	2,924,170
Less: portion due within one year	28,881	69,995	272,462
	<u>¥ 281,081</u>	<u>¥ 196,306</u>	<u>\$ 2,651,708</u>

At March 31, 2004 and 2003, the following assets were pledged as collateral for long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Property, plant and equipment	¥ 81,536	¥ 46,611	\$ 769,208
Investments in securities	28,942	14,926	273,038
Trade notes receivable	1,258	373	11,868
Cash and bank deposits	680	1,049	6,414
	<u>¥ 112,416</u>	<u>¥ 62,959</u>	<u>\$ 1,060,528</u>

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2004 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 42,455	\$ 400,519
2007	75,278	710,170
2008	80,943	763,614
2009 and thereafter	82,405	777,405

12. Severance and Retirement Plans

The following table sets forth the retirement benefit obligation, plan assets and funded status of the Company and its consolidated subsidiaries at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥ 120,428	¥ 100,262	\$ 1,136,113
Fair value of plan assets	(30,599)	(14,555)	(288,670)
Benefit obligation in excess of plan assets	89,829	85,707	847,443
Unrecognized prior service cost	(13)	(15)	(123)

Unrecognized actuarial net loss	(13,608)	(9,258)	(128,377)
Net amount recognized	76,208	76,434	718,943
Prepaid pension cost	1,897	-	17,897
Accrued retirement benefits recognized in the consolidated balance sheets	<u>¥ 78,105</u>	<u>¥ 76,434</u>	<u>\$ 736,840</u>

Severance and retirement benefit expenses of the Company and its consolidated subsidiaries included the following components for the years ended March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 6,054	¥ 5,392	\$ 57,113
Interest cost	3,531	2,661	33,311
Expected return on plan assets	(1,249)	(423)	(11,783)
Amortization of prior service cost	(245)	15	(2,311)
Amortization of actuarial differences	1,220	729	11,509
Retirement benefit expense	<u>¥ 9,311</u>	<u>¥ 8,374</u>	<u>\$ 87,839</u>

Assumptions used in accounting for the employees' retirement benefit plans for the years ended March 31, 2004 and 2003 are as follows:

Discount rate	2.0 - 6.3% for 2004 and 2.2 - 3.0% for 2003
Expected rate of return on plan assets	2.0 - 9.0% for 2004 and 2.0 - 3.0% for 2003
Method of attributing the projected benefits to periods of service	Straight-line basis
Amortization of unrecognized prior service cost	1 - 17 years for 2004 and 1 - 20 years for 2003
Amortization of unrecognized actuarial differences (amortization starts from the year following the year in which they arise)	1 - 17 years for 2004 and 1 - 20 years for 2003

13. Common Stock

Pursuant to the Japanese Commercial Code, all of the Company's common shares are non-par value shares.

14. Contingent Liabilities

Contingent liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Notes discounted	¥ 3,797	¥ 4,469	\$ 35,821
Notes endorsed	6,149	5,309	58,009
Loans guaranteed (principally for non- consolidated subsidiaries and affiliates)	10,309	12,478	97,255
Total	¥ 20,255	¥ 22,256	\$ 191,085

15. Leases

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease rental expenses	¥ 2,635	¥ 2,739	\$ 24,858

The amounts of outstanding future lease payments at March 31, 2004 and 2003, which included the portion of interest thereon, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finance leases:			
Future lease payments:			
Within one year	¥ 2,088	¥ 2,360	\$ 19,698
Over one year	2,769	3,080	26,123
Total	<u>¥ 4,857</u>	<u>¥ 5,440</u>	<u>\$ 45,821</u>

Acquisition cost, accumulated depreciation and net book value at March 31, 2004 and 2003, and depreciation expenses for the years ended March 31, 2004 and 2003 of the leased assets, assuming capitalization, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition costs	¥ 12,661	¥ 12,817	\$ 119,443
Accumulated depreciation	7,804	7,377	73,613
Net book value	<u>¥ 4,857</u>	<u>¥ 5,440</u>	<u>\$ 45,830</u>
Depreciation	<u>¥ 2,635</u>	<u>¥ 2,739</u>	<u>\$ 24,858</u>

Depreciation is based on the straight-line method over the lease term of leased assets with zero residual value.

16. Research and Development Expenses

Research and development costs charged to income for the years ended March 31, 2004 and 2003 amounted to ¥19,066 million (\$179,868 thousand) and ¥24,895 million, respectively.

17. Gain on Sales of Investments in Securities

Included in "Gain on sales of investments in securities" for the years ended March 31, 2004 and 2003 were gains of ¥26,556 million (\$250,528 thousand) and ¥10,668

million, respectively, resulting from the sales of portions of shares held in JDS Uniphase Corporation, a Canadian corporation.

18. Loss from Impairment of Long-lived Assets

During the year ended March 31, 2003, OFS Fitel, LLC (“Fitel”) and OFS Bright Wave, LLC (“BrightWave,” see Note 22), 100% and 81.6% owned subsidiaries, respectively, of Fitel USA Corporation (“Fitel USA”, which has changed its name to Furukawa Electric North America Inc. on Dec. 19, 2003), a wholly-owned U.S. subsidiary of the Company, incurred losses on disposal of property and equipment in the aggregate amount of ¥12,335 million, which is included in “Loss on disposal of property, plant and equipment, net”. In response to these asset disposals, Fitel USA reviewed its goodwill related to the acquisitions of Fitel and BrightWave for impairment, and recognized an impairment loss in the amount of ¥45,960 million in the year ended March 31, 2003 in accordance with U.S. GAAP.

During the year ended March 31, 2004, Fitel and BrightWave further incurred losses on disposal of property and equipment in the aggregate amount of ¥12,015 million (\$113,349 thousand). In response to these asset disposals, Fitel and BrightWave reviewed the remaining long-lived assets for impairment, and recognized an impairment loss in the aggregate amount of ¥93,636 million (\$883,358 thousand) in accordance with U.S. GAAP.

19. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants tax and enterprise tax, which in the aggregate would result in normal statutory rate of approximately 39.5% and 40.9% for the years ended March 31, 2004 and 2003, respectively. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. As a result of this amendment, the tax rate to be applied to temporary differences between the carrying amount and tax basis of assets and liabilities that are expected to reverse in the years beginning April 1, 2004 decreased from 40.9% to 39.5% as at March 31, 2003. This resulted in a reduction in deferred tax assets at March 31, 2003 by ¥389 million, compared with the assets that would have been recognized had the tax rate of 40.9% been fully applied to all temporary differences. Net loss for the year ended March 31, 2003 increased by ¥956 million, as a result of these changes in local enterprise tax regulations.

The following is a reconciliation of the above statutory tax rate in Japan to the effective rates reflected in the accompanying consolidated statements of loss for the years ended March 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Japanese statutory income tax rate	39.5%	40.9%
Tax benefits of net operating losses not recognized	(39.6)	(34.6)
Dividend income not taxable	(0.6)	(0.6)
Foreign capital gains taxed at rates lower than Japanese normal rate	(0.7)	(1.5)
Tax benefit of operating loss carryback	-	16.8
Other, net	<u>0.5</u>	<u>(3.9)</u>
Effective tax rate	<u>(0.9)%</u>	<u>17.1%</u>

The net loss of a Canadian subsidiary was carried back to previous years to the extent allowable under applicable tax laws, and a receivable was recognized in the amount of ¥42,755 million at March 31, 2003 which is expected to be refunded in the fiscal year beginning on April 1, 2004.

Deferred tax assets (liabilities) as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Accrued retirement benefits	¥28,009	¥27,221	\$ 264,236
Loss carryforwards	49,790	37,775	469,717
Carryforwards of foreign tax credits	7,392	5,337	69,736
Depreciation	61,323	19,806	578,519
Other	12,099	12,327	114,141
Gross deferred tax assets	158,613	102,466	1,496,349
Valuation allowance	(107,557)	(53,469)	(1,014,689)
Total deferred tax assets	51,056	48,997	481,660
Unrealized holding gains on available-for-sale securities	(39,105)	(25,224)	(368,915)
Gain on affiliate's issue of new shares	(2,480)	(2,893)	(23,396)
Special reserve for deferred capital gains	(949)	(6,578)	(8,953)
Undistributed earnings of subsidiaries	(16,906)	(16,905)	(159,491)
Other	(3,879)	(1,542)	(36,594)
Total deferred tax liabilities	(63,319)	(53,142)	(597,349)
Net deferred tax liabilities	¥(12,263)	¥(4,145)	\$ (115,689)

The valuation allowance principally relates to deferred tax assets recognized for loss carryforwards of consolidated subsidiaries.

20. Additional Information on Derivatives

The Company and its subsidiaries have financial instruments, including financial assets and liabilities and derivative financial instruments, arising in the normal course of business. In applying a consistent risk management strategy, the Company and its subsidiaries manage their exposure to market rate movements of their financial assets and liabilities through the use of derivative financial instruments, which include currency forward exchange contracts, currency swap contracts and interest rate swap and interest cap option contracts designated as hedges. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes.

These instruments are executed with creditworthy financial institutions. Although the Company and certain subsidiaries may be exposed to losses in the event of nonperformance by counterparties or from interest and currency rate movements, no significant losses are anticipated due to the nature of their counterparties or hedging arrangements.

1) Foreign currency transactions

Information on fair value and valuation gain or loss in respect of foreign currency derivative contracts outstanding at March 31, 2004 and 2003 are not presented as they are not required due to application of hedge accounting, as explained in Note 2c.

2) Interest rate transactions

The interest rate swap contracts outstanding at March 31, 2004 and 2003 are summarized below. Those interest rate swap contracts to which the hedge accounting has been applied, as explained in Note 2c, are excluded from this summary.

	Millions of yen					
	2004			2003		
	Notional amount	Estimated fair value	Unrealized gain(loss)	Notional amount	Estimated fair value	Unrealized gain(loss)
Interest rate swap:						
Receiving fixed rates and paying floating rates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Receiving floating rates and paying fixed rates	800	(14)	(14)	1,320	(34)	(34)
Total	¥ 800	¥ (14)	¥ (14)	¥1,320	¥ (34)	¥ (34)

	Thousands of U.S. dollars		
	2004		
	Notional amount	Estimated fair value	Unrealized gain (loss)
Interest rate swap:			
Receiving fixed rates and paying floating rates	\$ —	\$ —	\$ —
Receiving floating rates and paying fixed rates	7,547	(132)	(132)
Total	\$ 7,547	\$ (132)	\$ (132)

21. Reclassifications

Certain amounts in the consolidated financial statements for 2003 have been reclassified to conform to the 2004 presentation.

22. Subsequent Event

Pursuant to the agreement, as amended, between the Company and CommScope, Inc. ("CommScope"), an unrelated company in the United States, CommScope exercised an option on June 15, 2004 to exchange the 9.4% equity interest in BrightWave (see Note 18) held by its subsidiary for 7,656,900 shares of CommScope's common shares owned by the Company. As a result of this exchange, the Company would recognize in the year ending March 31, 2005 a maximum loss of ¥4,924 million (\$46,453 thousand) which is the carrying amount of the investment.

23. Segment Information

The Company and its consolidated subsidiaries' business segments, which are required to be disclosed pursuant to regulations on consolidated financial statements in Japan, have been classified based upon similarity of products and services, marketing methods, etc. as follows.

(1) Telecommunications:

Manufacture and sale of optical fiber cable, optical related parts, optical fiber cable-attached parts and construction, network equipment, etc.

(2) Plastic, cables and wires:

Manufacture and sale of bare wire, aluminum wire, insulated wire and cable, magnet wire, power cable, power cable-attached parts and construction, electric wire tubing, plastic products, thermal engineering electric feeders, etc.

(3) Nonferrous products:

Manufacture and sale of nonferrous metals products such as copper tube, rolled copper products, electrolytic copper foils, shape memory alloys, aluminum sheets and plates, extruded products, etc.

(4) Electronics-related products and others:

Manufacture and sale of batteries, automobile parts and electric wire and cable, heat pipe, aluminum plate for memory disk, electronic components and parts, etc.

Segment information by business segment for the years ended March 31, 2004 and 2003 is summarized as follows:

Millions of yen							
	Telecommunications	Plastic, cables and wires	Nonferrous products	Electronics-related products and others	Total	Elimination and corporate assets*	Consolidated
2004:							
Net sales							
Outside customers	¥ 135,711	¥ 184,386	¥ 290,173	¥ 129,597	¥ 739,867	¥ -	¥ 739,867
Inter-segment sales	5,858	12,809	2,112	31,579	52,358	(52,358)	-
Total	141,569	197,195	292,285	161,176	792,225	(52,358)	739,867
Operating expenses	174,245	191,690	275,271	154,185	795,391	(52,363)	743,028
Operating income (loss)	¥ (32,676)	¥ 5,505	¥ 17,014	¥ 6,991	¥ (3,166)	¥ 5	¥ (3,161)
Assets, depreciation and capital expenditures:							
Assets	¥ 150,056	¥ 166,384	¥ 317,405	¥ 160,151	¥ 793,996	¥ 316,670	¥ 1,110,666
Depreciation	22,314	5,006	12,495	6,010	45,825	2,497	48,322
Capital expenditures	4,275	3,513	9,615	8,411	25,814	3,608	29,422

Millions of yen							
	Telecommunications	Plastic, cables and wires	Nonferrous products	Electronics-related products and others	Total	Elimination and corporate assets*	Consolidated
2003:							
Net sales							
Outside customers	¥ 157,453	¥ 166,632	¥ 267,175	¥ 119,356	¥ 710,616	¥ -	¥ 710,616
Inter-segment sales	6,668	5,008	725	25,867	38,268	(38,268)	-
Total	164,121	171,640	267,900	145,223	748,884	(38,268)	710,616
Operating expenses	225,055	167,159	259,614	141,225	793,053	(38,590)	754,463
Operating income (loss)	¥ (60,934)	¥ 4,481	¥ 8,286	¥ 3,998	¥ (44,169)	¥ 322	¥ (43,847)
Assets, depreciation and capital expenditures:							
Assets	¥ 347,137	¥ 139,879	¥ 243,916	¥ 129,918	¥ 860,850	¥ 318,549	¥ 1,179,399
Depreciation	32,552	5,427	10,423	5,589	53,991	3,226	57,217
Capital expenditures	6,806	1,860	5,716	4,906	19,288	3,884	23,172

Thousands of U.S. dollars

	Telecommunications	Plastic, cables and wires	Nonferrous products	Electronics- related products and others	Total	Elimination and corporate assets*	Consolidated
2004:							
Net sales							
Outside customers	\$ 1,280,292	\$ 1,739,491	\$ 2,737,481	\$ 1,222,613	\$ 6,979,877	\$ -	\$ 6,979,877
Inter-segment sales	55,264	120,840	19,925	297,915	493,944	(493,944)	-
Total	1,335,556	1,860,331	2,757,406	1,520,528	7,473,821	(493,944)	6,979,877
Operating expenses	1,643,821	1,808,396	2,596,896	1,454,575	7,503,688	(493,990)	7,009,698
Operating income (loss)	\$ (308,265)	\$ 51,935	\$ 160,510	\$ 65,953	\$ (29,867)	\$ 46	\$ (29,821)
Assets, depreciation and capital expenditures:							
Assets	\$ 1,415,623	\$ 1,569,660	\$ 2,994,387	\$ 1,510,858	\$ 7,490,528	\$ 2,987,453	\$ 10,477,981
Depreciation	210,509	47,226	117,877	56,698	432,310	23,558	455,868
Capital expenditures	40,330	33,142	90,708	79,349	243,529	34,037	277,566

Thousands of U.S. dollars

	Japan	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2004:						
Net sales						
Outside customers	\$ 6,179,915	\$ 423,217	\$ 376,745	\$ 6,979,877	\$ —	\$ 6,979,877
Inter-segment sales	<u>158,726</u>	<u>18,943</u>	<u>305,189</u>	<u>482,858</u>	<u>(482,858)</u>	<u>—</u>
Total	<u>6,338,641</u>	<u>442,160</u>	<u>681,934</u>	<u>7,462,735</u>	<u>(482,858)</u>	<u>6,979,877</u>
Operating expenses	<u>6,155,377</u>	<u>673,066</u>	<u>662,783</u>	<u>7,491,226</u>	<u>(481,528)</u>	<u>7,009,698</u>
Operating income (loss)	<u>\$ 183,264</u>	<u>\$ (230,906)</u>	<u>\$ 19,151</u>	<u>\$ (28,491)</u>	<u>\$ (1,330)</u>	<u>\$ (29,821)</u>
Assets	<u>\$ 6,976,689</u>	<u>\$ 863,368</u>	<u>\$ 662,387</u>	<u>\$ 8,502,444</u>	<u>\$ 1,975,537</u>	<u>\$ 10,477,981</u>

* Inter-segment transactions are eliminated from the consolidated financial statements. Corporate assets are included in the consolidated financial statements. Corporate assets include surplus funds of the parent company, assets related to the research and development and administrative divisions, and assets of an overseas consolidated finance subsidiary.

Information on overseas sales, which consisted of export sales by the Company and its domestic subsidiaries and overseas sales of overseas consolidated subsidiaries, for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Overseas sales	¥ 162,348	¥ 141,578	\$ 1,531,585
Consolidated net sales	739,867	710,616	6,979,877
Percentage of overseas sales against consolidated net sales	21.9%	19.9%	

Segment information by geographic areas for the years ended March 31, 2004 and 2003 is presented below. Further segmentation by countries or areas in the Other areas is not provided pursuant to regulations on consolidated financial statements in Japan, as both net sales and assets in respective country or area were less than 10% of consolidated net sales and assets.

Millions of yen						
	Japan	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2004:						
Net sales						
Outside customers	¥ 655,071	¥ 44,861	¥ 39,935	¥ 739,867	¥ —	¥ 739,867
Inter-segment sales	16,825	2,008	32,350	51,183	(51,183)	—
Total	<u>671,896</u>	<u>46,869</u>	<u>72,285</u>	<u>791,050</u>	<u>(51,183)</u>	<u>739,867</u>
Operating expenses	652,470	71,345	70,255	794,070	(51,042)	743,028
Operating income (loss)	<u>¥ 19,426</u>	<u>¥ (24,476)</u>	<u>¥ 2,030</u>	<u>¥ (3,020)</u>	<u>¥ (141)</u>	<u>¥ (3,161)</u>
Assets	<u>¥ 739,529</u>	<u>¥ 91,517</u>	<u>¥ 70,213</u>	<u>¥ 901,259</u>	<u>¥ 209,407</u>	<u>¥ 1,110,666</u>

Millions of yen						
	Japan	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2003:						
Net sales						
Outside customers	¥ 621,409	¥ 53,704	¥ 35,503	¥ 710,616	¥ —	¥ 710,616
Inter-segment sales	10,653	1,184	10,817	22,654	(22,654)	—
Total	<u>632,062</u>	<u>54,888</u>	<u>46,320</u>	<u>733,270</u>	<u>(22,654)</u>	<u>710,616</u>
Operating expenses	622,791	107,331	47,113	777,235	(22,772)	754,463
Operating income (loss)	<u>¥ 9,271</u>	<u>¥ (52,443)</u>	<u>¥ (793)</u>	<u>¥ (43,965)</u>	<u>¥ 118</u>	<u>¥ (43,847)</u>
Assets	<u>¥ 685,397</u>	<u>¥ 233,998</u>	<u>¥ 36,410</u>	<u>¥ 955,805</u>	<u>¥ 223,594</u>	<u>¥ 1,179,399</u>

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
The Furukawa Electric Co., Ltd.

We have audited the accompanying consolidated balance sheets of The Furukawa Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of loss, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Furukawa Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 22 to the accompanying consolidated financial statements, the Company, on June 15, 2004, agreed with CommScope, Inc. in the United States to change the agreement concerning the latter's put option on equity interest owned in OFS BrightWave, LLC by its subsidiary, and the option was exercised on the same date.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.


Tokyo, Japan
June 29, 2004

Corporate Data

Head Office

6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8322, Japan
 PHONE: 81-3-3286-3001
 FAX: 81-3-3286-3747, 3748
 URL: <http://www.furukawa.co.jp/>

Paid-in Capital

¥59,234 million (As of March 31, 2004)

Branches

Osaka, Nagoya, Fukuoka, Hiroshima, Sendai, and Sapporo

Manufacturing Facilities

Chiba, Nikko, Hiratsuka, Mie, Osaka, Kambara, and Shinagawa

Research Laboratories

Yokohama R&D Laboratories
 Metal Research Center
 Ecology & Energy Laboratory
 FITEL Photonics Laboratory
 Automotive Technology Center



Stock Information

Stock Information

July 29, 2004

Number of shares authorized	2,600,000,000
Common stock	2,500,000,000
Preferred stock	50,000,000
Subordinated stock	50,000,000
Total number of shares issued and outstanding	655,640,602 (Common stock)

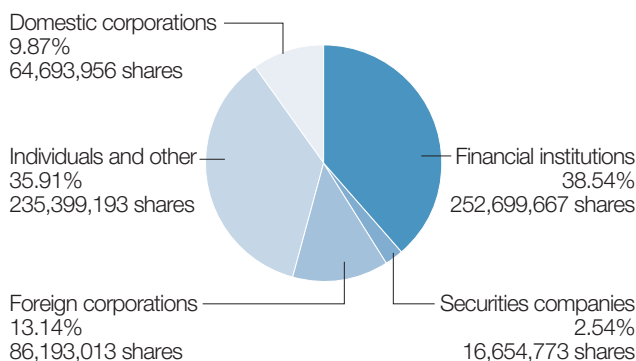
Major Stockholders

March 31, 2004

	Number of Shares held
Japan Trustee Services Bank, Ltd. (trust account)	32,279,000
The Master Trust Bank of Japan, Ltd. (trust account)	25,527,000
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Bank, Ltd.)	22,928,250
Shinsei Bank, Limited	20,453,000
Asahi Mutual Life Insurance Co., Ltd.	16,050,000
Furukawa Co., Ltd.	13,290,455
Nippon Life Insurance Company	12,294,000
Fuji Electric Holdings Co., Ltd.	11,000,000
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Furukawa Co., Ltd.)	10,919,000
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Asahi Mutual Life Insurance Co.)	10,500,000

Distribution of Stock Ownership

March 31, 2004



We can.