Bound to Innovate

Global Innovation and Growth

ANNUAL REPORT **2008**

FURUKAWA ELECTRIC

Furukawa Electric Establishes New Group Philosophy and Corporate Message

Furukawa Electric has consistently supplied products and services essential for developing the economy and industry, and this year marks 124 years since our founding.

Seeking growth on a global scale to enhance our corporate value, the Furukawa Electric Group has established a new Group Philosophy and Corporate Message, "Bound to Innovate." "Bound to" embodies our dynamism, clear direction and determination to take action, while "Innovate" signifies a commitment to innovation that reaches beyond our products and technologies to include our corporate systems.

We will continue to take action toward realizing our vision of striving for technological innovation to become a creative and highly profitable corporate group with a global presence.

Establishment of the Corporate PHILOSOPHY

CORPORATE PHILOSOPHY

Drawing on more than a century of expertise in the development and fabrication of advanced materials, we will contribute to the realization of a sustainable society through continuous technological innovation.

Establishment of the Corporate Message

We have adopted a new corporate message that embodies our firm determination to focus the Furukawa Electric Group Philosophy and all our energy into continuous innovation.

Bound to Innovate

The red arrow represents the zeal and dynamism necessary to move to a higher stage with a hop, step and jump some 124 years after Furukawa Electric was founded.

Contents

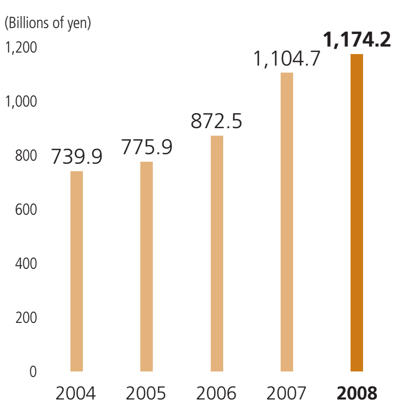
Consolidated Financial Highlights

The Furukawa Electric and Its Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

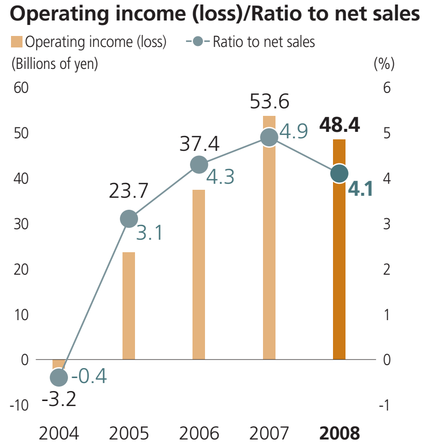
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net sales	**¥ 1,174,247**	¥ 1,104,709	**$ 11,742,470**
Operating income	**48,447**	53,633	**484,470**
Net income	**15,291**	29,765	**152,910**
Per share of common stock (yen and U.S. dollars):			
Basic	**21.81**	42.16	**0.218**
Diluted	**21.81**	42.14	**0.218**
Cash dividends paid	**7.00**	6.50	**0.070**
Total assets	**1,014,778**	1,096,709	**10,147,780**
Total shareholders' equity	**205,385**	199,274	**2,053,850**

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥100 to US$1.

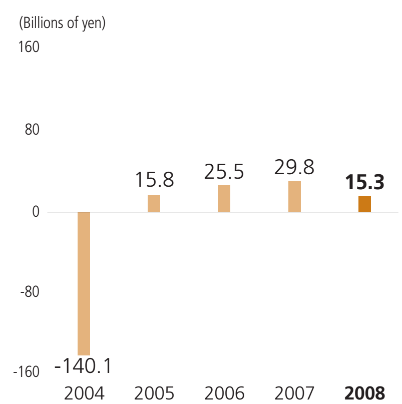
Net sales



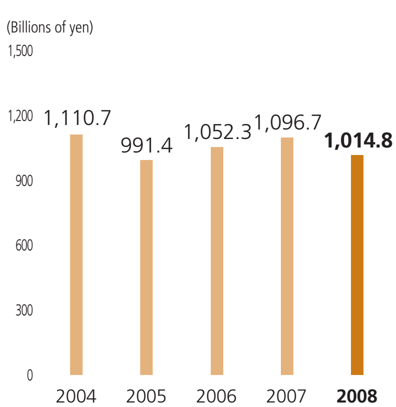
Operating income (loss)/Ratio to net sales



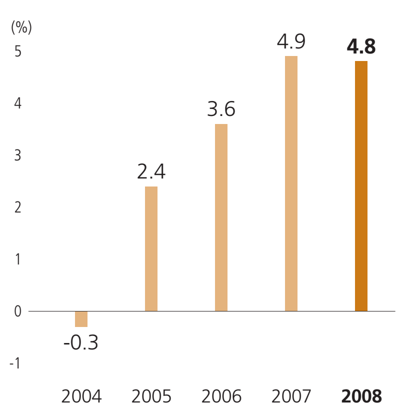
Net income (loss)



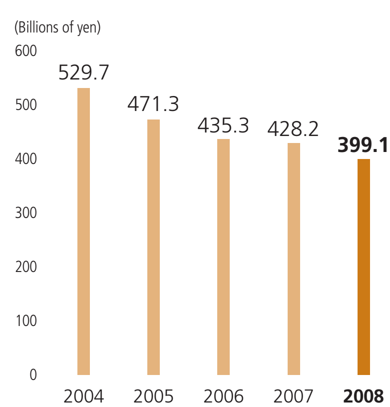
Total assets



ROA (Based on operating income)



Interest-bearing debt



Forward-Looking Statements

Statements made in this Annual Report with respect to Furukawa Electric's current plans, estimates, strategies, and beliefs and other statements which are not historical facts are forward-looking statements based on the Company's assumptions and expectations in light of currently available information, and therefore involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements.

Potential risks may include, but are not limited to, general economic conditions, management environment, market demand, foreign exchange rates, and taxes and other system impacts. Therefore, no guarantee is presented or implied relative to the accuracy of the forward-looking statements in this Annual Report.

Notation Used in this Annual Report

In this annual report, "the previous fiscal year," "the fiscal year under review," and "the year ahead" indicate the years ended March 31, 2007, March 31, 2008, and the year ending March 31, 2009, respectively.

Enhancing profitability

overseas markets, high-value added products focused on the environment, and a reduction of interest-bearing debt

Amid an increasingly severe business environment, the Furukawa Electric Group will enhance profitability to attain its goals by establishing a firm footing in largely untapped overseas markets and by delivering high value-added products that combine our unique advantages in materials and comprehensive capabilities to address environmental and social needs.

Newly elected President Yoshida shares his views on accomplishing further growth, including the challenge of reducing interest-bearing debt.

Masao Yoshida
President & Chief Operating Officer

Q1 First, give us some insights on what you intend to do as the new president.

A1 I will seek sustainable growth and development by pursuing both "universality" and "rationality."

My previous work with the Furukawa Electric Group has been varied, encompassing research, sales and management planning. I believe my mission as the president is to apply this extensive experience and steer our Group to rise above the volatile tides of change sweeping across the world today.

Every company needs to infuse organization with "universality," accepted throughout the world, and "rationality," formed from reason and logic. To pursue these two themes, I recognize we must recruit excellent human resources, without regard to race, effectively mobilize our workforce and evaluate performance against quantitative data. I hope to achieve sustainable growth and development by redirecting Group systems in these areas.

This concept can be applied to our business as well. During the period guided by my predecessor, we endeavored to stabilize the entire Group by pursuing competitive advantages in each segment, centered on the concept of multi-axis business management. I see may job as taking the next step forward, evolving in the same direction yet striving for more strategic development of our business based on universality and rationality.

To this end, we must concentrate our efforts on comparatively long-term businesses such as energy, telecommunications and automotive components. Demand for energy and telecommunications infrastructures will expand on a global scale. And although we must work hard to have manufacturers adopt our automotive components, once they have done so, our components will be in continuous use, given the long product lifecycle of approximately five years before introduction of new models.

Meanwhile, we will also focus on developing materials that may appear unremarkable but are nevertheless essential to capture substantial market share. If we can produce materials that competitors cannot duplicate and establish them as global standards, even products that do not bear the Furukawa Electric brand will contain our materials. For example, base component materials, such as electrolytic copper foil, are used in products made by every company and will continue to be used in new models. I believe that pursuing this strategy on a global scale will boost the overseas ratio of our sales.

Q2 Now, tell us about the latest global trends in telecommunications and what Furukawa Electric is doing.

A2 In Japan, where the focus of investment is moving from optical fiber to optical devices, we supply key components, such as optical amplifiers. For overseas markets, we are expanding our optical production capacity in view of growing global while proceeding to restructure our portfolio, for example, selling an underperforming business.

Reviewing trends in the telecommunications market, although the number of optical network subscribers in Japan has reached more than 10 million households and is increasing, we have entered a stage of maturity in terms of prior investment over the medium to long term. Therefore, much additional growth cannot be expected. However, once we turn our attention to the global market, there is still ample room for growth. For example, demand is expanding in North America, where major telecommunications companies like AT&T and Verizon are building optical fiber networks; and in high-growth regions in South America, including Brazil and Argentina; as well as in Russia and Western Europe. Optical fiber networks are being developed at an accelerated pace in South Africa ahead of the FIFA World Cup, while future growth prospects are also good in newly emerging countries such as China and Southeast Asian nations.

Against this background of expanding global demand for optical fiber, OFS*1, which last year reported an operating profit for the first time since our acquisition, achieved increases in both revenue and profit in the fiscal year under review. On a monthly basis, OFS has begun to generate stable profit even during the winter season, a period when revenues had dropped in the past because of the suspension of work in colder regions; so a profit structure is firmly taking root with the improving business environment. To meet growing demand, we began expanding production capacity at OFC Russia in October 2007 and at OFS Germany in the latter half of 2008 in hopes that they will contribute to earnings beyond fiscal 2009.

*1 OFS: Overall term for OFS Fitel, LLC and OFS Bright Wave, LLC, optical fiber and optical cable operating companies acquired from Lucent Technologies Inc. of the United States in 2001.

On the other hand, we are also reviewing our portfolio through moves such as the sale of OCP in the United States, whose performance had been deteriorating as its products became commodities.

Although demand for optical fiber is stabilizing in the Japanese market, we are expecting demand for next-generation networks (NGN) to pick up starting in 2008. The Furukawa Electric Group supplies optical devices that constitute the core of NGN infrastructures, such as semiconductor lasers and optical amplifiers, which we expect will also contribute to boosting sales and profit.

Q3 Please share a progress report on your *Innovations 09* Medium-Term Management Plan.

A3 While we have cleared our planned sales target, we have yet to do so in terms of profit, due to such factors as the high price of crude oil and sub-materials, and the rising yen. Looking ahead, we intend to expand our sales channels in the ASEAN region and in high-growth countries such as the BRICs.

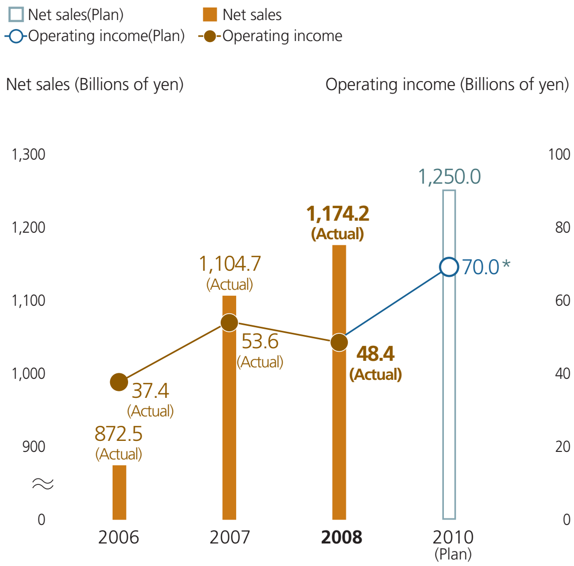
Fiscal 2008 marks the second year of *Innovations 09* Medium-Term Management Plan. Revenues in the first year far exceeded expectations, allowing us to achieve our final year targets ahead of schedule, so we subsequently revised our goals in May 2007 to net sales of ¥1.15 trillion and operating income of ¥51.0 billion on a consolidated basis. As a result, although we surpassed our net sales target with ¥1.1742 trillion, operating income remained at ¥48.4 billion, falling short of the target. This was due to the negative impact of ¥3.2 billion in additional expenses caused by the surging prices of crude oil and sub-materials and ¥0.6 billion in exchange rate losses caused by the rising yen; otherwise I believe we would have cleared both targets in concrete terms.

Improving profit will be essential for accomplishing our final goal over the next two years, and to that end as well, we must intensify our focus on overseas regions with high GDP growth rates. In *Innovations 09*, we are aiming to expand our overseas sales ratio to 35%, and this ratio has increased from 21.9% in fiscal 2004 to as high as 30.2% in the fiscal year under review. While the effects of foreign exchange rates make it difficult to measure the level of accomplishment, I hope we can attain this goal and meet our targets for net sales and profit.

Accomplishing these goals requires cultivating personnel who can work effectively with a global perspective. The Furukawa Electric Group, however, is still lacking in such human resources. Going forward, I intend to hire outstanding personnel regardless of age, gender, race or nationality, and develop an environment in which they can demonstrate their abilities in top management positions anywhere in the world.

I also plan to place special emphasis on ASEAN, which is geographically close to Japan and an area in which we have many business partners. It is a major economic region with a large population, where an advantageous business environment is emerging, as seen in the progress in tariff reductions within the region based on the AFTA (ASEAN Free Trade Area) concept. We intend to aggressively expand our business in this region.

Revised Targets for *Innovations 09*



* Prior to fiscal 2008 tax code revisions.

Q4 Please explain your future growth strategy and portfolio strategy for accomplishing your plans.

A4 We will continue to enhance our competitiveness by fully leveraging our material power in the areas of photonics, metals and plastics, and the comprehensive power generated by the varied range of our products.

The Furukawa Electric Group's business consists of five segments: Telecommunications; Energy and Industrial Products; Electronics and Automotive Systems; Metals; and Light Metals. The first two are so-called infrastructure industries, for which our priority is expansion into the global markets. By presenting Japan's superior technology and know-how worldwide, we intend to establish our products as global standards and to transfer part of the base of our business activities overseas.

Meanwhile, I believe the key in the areas of Electronics and Automotive Systems, Metals, and Light Metals is to propose unique products utilizing the material power that constitutes the strength of the Furukawa Electric Group to capture large shares in niche markets. By "material power," I mean our ability to combine abundant knowledge and expertise in the three areas of metals, polymers and glass to create the highly functional products demanded by the markets. We hope to build a highly profitable business base by vigorously presenting high value-added products that meet the needs in each field and thereby avoiding cost competition.

We have particularly high hopes for automotive products with relatively long lifecycles, where we can expect stable growth. The Furukawa Electric Group is focused on wire harnesses, the "nerves and blood vessels" of automobiles. However, it is difficult to differentiate ourselves if we only supply the harness. We will therefore strive to offer highly functional modules that combine various parts, leveraging the comprehensive power of the Furukawa Electric Group.

This strategy is effective in any industrial sector, not only the automobile industry. We are currently promoting "group sales," in which an overall parts and products proposal is presented to each individual customer by the Group as a whole, regardless of segment, in an effort to pursue proposals that transcend organizational boundaries. This also provides our customers with the advantage of procuring various parts and products in a single business negotiation, and there have been cases in which generally competitive parts and products were actually adopted as part of a package. We intend to strengthen our efforts in this area.

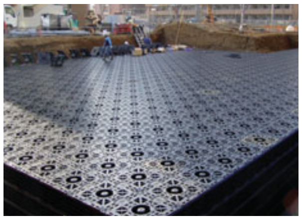
Q5 How are you dealing with environmental concerns, which have recently become key issues for corporate operations?

A5 We will focus our efforts on R&D with a theme on "the environment and energy conservation," and incorporate the perspective of environmental contribution into our management decisions.

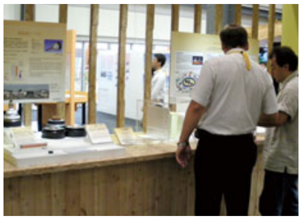
Upon the launch of *Innovations 09*, the Furukawa Electric Group formulated Vision 2015, which summarizes the visions and principles for our research and development. We designated "the environment and energy conservation" as a key social theme for future R&D. Focusing on reducing the environmental burden of products not only responds to social concerns but significantly contributes to creating greater value for our customers.

The Furukawa Electric Group possesses technology for materials such as aluminum and other light metals as well as foamed resins such as plastics, which affords a significant advantage in lightweight solutions for such fields as automobiles, and the market expects much from our Group.

We will also endeavor to advance recycling from the viewpoints of effectively using resources and reducing waste. For example, we command an 80% share of the domestic market for electrolytic copper foils used in lithium ion batteries, and the raw materials for these foils are 100% recycled copper from electric cables. We are also generating results in the development of optical cables that are easier to be dissembled facilitating high



Rainwater retention and infiltration system based on resin block assembly method (HYDROSTAFF)



Superconducting technology exhibited at the Toyako Summit recyclability. In addition, we have developed a rainwater reserve system to address the heat island problem in inner city areas. We will continue to create technologies and products that contribute to reducing environmental burdens from a variety of angles.

At the Toyako Summit in Hokkaido held in July this year, superconducting power cables were presented as a technology that contributes to reducing CO_2 emissions, and Furukawa Electric has been cooperating in this project. Our Group has accumulated many years of research on superconductive technology and has already succeeded in reducing energy loss during transmission to one-quarter the level of conventional copper and aluminum power cables. Commercializing this cable would reduce CO_2 emissions by 1,060,000 tons per year.

In the future, we will proceed with research and development along environmental themes, and emphasize environmental contribution in selecting our businesses. We believe that businesses that contribute to society from an environmental viewpoint have the potential for future growth, even if their current profitability is low.

Q6 What are your financial targets?

A6 We will reduce interest-bearing debt by using our increased cash flows from operating activities.

As the graph at the right shows, cash flows from our operating activities have steadily increased. At the end of the fiscal year under review, refunds in income taxes from Canada and other factors brought the total to ¥90.8 billion. In Japan, taxes on depreciation were revised over two consecutive years, which had a positive effect on our cash flow. Our international competence has also been enhanced.

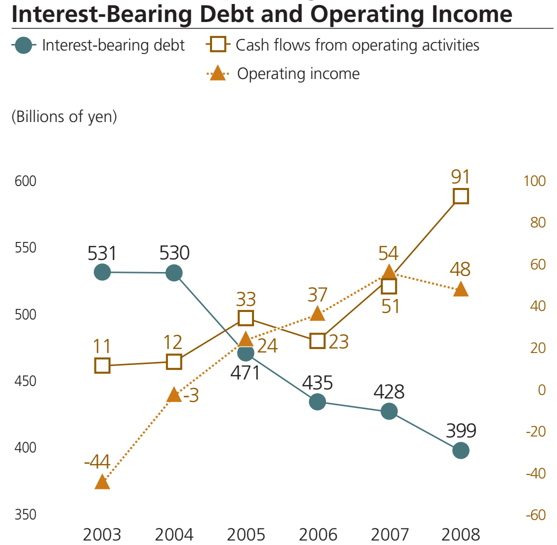
We emphasize the D/E ratio*2 as a financial target. While our goal under *Innovations 09* is set at 1.3, we hope to get this closer to 1.0.

As a result of our efforts over the past few years, interest-bearing debt was reduced by ¥29.1 billion from the previous year to ¥399.1 billion at the end of the fiscal year under review. As a consequence, the D/E ratio improved from 1.8 in the previous fiscal year to 1.7, demonstrating a level of effectiveness in improving our financial condition. We will seek to further reduce interest-bearing debt to achieve our *Innovations 09* goal of ¥380.0 billion.

To expand profit as a Group, it is essential that each of our businesses achieves growth. For the time being, we will maintain the framework of ¥1 trillion in total assets, seek to optimize the portfolio within this scope and draw a balanced growth path. In doing so, even should we decide to exit a business, our basic stance will be to transfer the business to a company that can utilize the technology and facilities, not squander them. This ensures that human resources and facilities are put to effective use. Such a decision would also be friendlier to the environment in the sense that management resources of the past are not wasted.

*2 D/E ratio: An indicator used to measure the soundness of a corporation. It shows debt in proportion to shareholders' equity and is described as: Interest-bearing debt ÷ Shareholders' equity

Cash Flows from Operating Activities, Interest-Bearing Debt and Operating Income



Q7 Please share with us your outlook for the next fiscal year and your dividend policy.

A7 To increase revenues even in an increasingly severe business environment, we will strive to enhance profitability and increase returns to our shareholders.

Instability in the financial markets is expected to continue in the global economy in fiscal 2009, while the price of resources such as crude oil is expected to rise further. While the business environment will become more severe, the Furukawa Electric Group will continue to pursue research and development and capital investments in our priority areas toward enhancing profitability by focusing our resources on developing new overseas markets. We will also endeavor to improve asset efficiency and reduce interest-bearing debt, while accelerating the pace of reform in our Group management structure by reinforcing internal controls across the entire Group and reorganizing Group companies.

Based on these efforts, we expect consolidated net sales to increase 3% on the year to ¥1.21 trillion in fiscal 2009. Meanwhile, consolidated operating income is expected to decrease 5% on the year to ¥46.0 billion, due to the increased burden ¥5.8 billion caused by the surge in the price of crude oil and other raw materials, and ¥6.5 billion caused by shortened depreciation periods under the revised Corporate Tax Law of Japan. We expect consolidated net income will rise 58% on the year to ¥24.1 billion, due to ¥11.1 billion in other income from foreign exchange conversions accompanying the dissolution of overseas subsidiaries.

Upholding the principle of stable dividend payment, we intend to exercise flexibility in providing returns to our shareholders based on a long-term perspective on profit trends with due consideration for future business development. For the fiscal year under review, we increased our dividend by ¥0.5 per share to ¥7.0 per share on an annual basis. We plan to pay an annual dividend of ¥7.0 per share in fiscal 2009, while seeking a further increase according to our growth strategy under *Innovations 09*.

President & Chief Operating Officer

Masao Yoshida

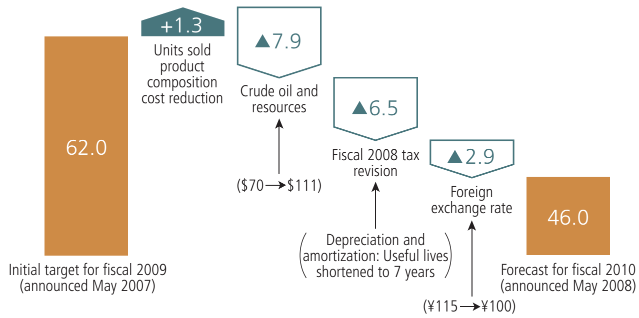
We achieved our sales target—also our profit targets, excluding such items as corporate tax code revisions and sharply higher crude oil and raw materials prices.

The Furukawa Electric Group formulated its 2006-2009 Medium-Term Plan, *Innovations 09*, in March 2006 to shift its management strategy from a defensive stance to seizing the initiative. In the previous fiscal year, the first year of the plan, we actually achieved our final year net sales target of ¥1 trillion ahead of schedule, and therefore, in May 2007, revised our target upward.

During the fiscal year under review, the second year of the Plan, we cleared our net sales target but fell short of attaining our target for operating income due to the rise in depreciation costs resulting from revised tax laws and to the impact of surging prices for raw materials and crude oil. We have, however, accomplished sufficient growth to clear our profit target, excluding such subsequent events. In fiscal 2009, we will seek to further reduce costs to meet our targets despite these negative factors.

Fiscal 2010 (*Innovations 09*) Operating Income Forecast

(billions of yen)



Status of *Innovations 09* accomplishments

	2007	2008	2009 (Forecast)	Final goal (Fiscal 2010)
Net sales	¥1.10 trillion	¥1.17 trillion	¥1.21 trillion	¥1.25 trillion
Operating income	¥53.6 billion	¥48.4 billion	¥46.0 billion	¥70.0 billion*
ROE	12.7%	6.4%		11.0%
ROA (based on operating income)	4.9%	4.8%		6.2%
Total asset turnover rate	1.0	1.2		1.1
D/E ratio	1.8	1.7		1.3

* Prior to fiscal 2008 tax code revisions.

R&D Strategy

We strive to enhance corporate value by developing unique products that command global market share focused on development themes for creating new businesses. Among these themes, we aggressively demonstrated our optical interconnections at trade shows during the fiscal year under review to raise market recognition and gather information on market demand.

Development Themes for Creating New Businesses

- Superconductive cable materials
- Optical interconnections
- Fiber lasers for industrial use
- Antenna modules for ubiquitous computing
- Onboard sensors for automobiles
- Power-source management modules

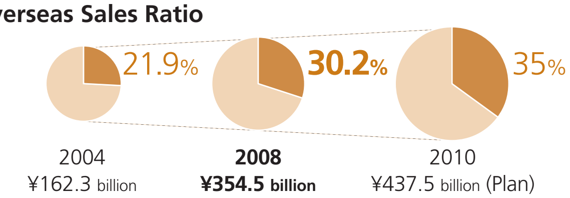
Investment Strategy

The Furukawa Electric Group spent ¥45.2 billion in capital expenditures, an amount that exceeded depreciation costs of ¥42.1 billion, on capital investment toward boosting production of optical fiber cables and doubling production capacity of tapes used for semiconductor fabrication, which are experiencing sales growth. In fiscal 2009, with the addition of mass producing glass substrates, we plan to spend ¥49.8 billion in capital expenditures against depreciation costs of ¥52.8 billion.

Overseas Market Strategy

In the fiscal year under review, we aggressively invested in reinforcing the capacity of our overseas bases in response to robust demand for optical fiber cables and high voltage cables. As a result, the overseas sales ratio increased by 0.9 percentage point to 30.2% as of March 31, 2008, exceeding 30% for the first time.

Overseas Sales Ratio



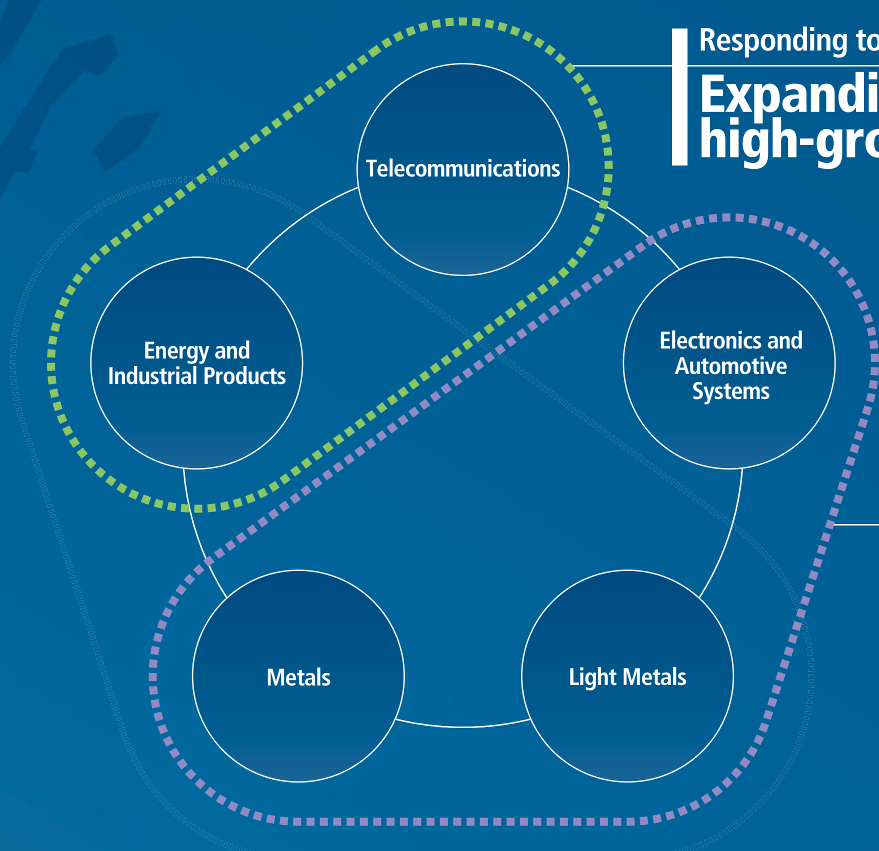
Asset Efficiency

Under *Innovations 09*, we are seeking to attain a total asset turnover rate of 1.1 and a D/E ratio of 1.3 by March 31, 2010. To that end, we are endeavoring to reduce interest-bearing debt (target: ¥380.0 billion), while also enhancing asset efficiency by proceeding with the reorganization of subsidiaries such as Riken Electric Wire Co., Ltd., a Group company that was converted into a wholly owned subsidiary, and by reducing inventories.

Feature

Towards Further Growth

The Furukawa Electric Group is engaged in a variety of businesses encompassing a broad range of industries in the five segments of Telecommunications, Energy and Industrial Products, Electronics and Automotive Systems, Metals and Light Metals. To achieve consistent growth amid a volatile business environment, we must keep abreast of market developments in each segment to identify the needs that will emerge as the next trend and optimize our management portfolio so we can concentrate our resources on fields in which we maintain a competitive edge. By focusing on the dual strategy of expanding sales in high-growth countries and strengthening niche products with high market share, the Furukawa Electric Group will bolster its businesses to achieve further growth in the segments and markets where we operate.



Responding to global infrastructure needs

Expanding sales in high-growth countries

Focused on the automotive and electronic component markets

Strengthening niche products with high market share

Responding to global infrastructure needs

Expanding sales in high-growth countries

If we were to use the human body as an analogy, the electric power infrastructure would be the blood vessels while the telecommunications infrastructure would be the nerves—both essential for economic development.

In Japan, with its small land area and mature economy, we cannot expect the market for these infrastructure industries to significantly expand in the future. Once we turn our eyes to the world, however, there is ample opportunity for the growth of infrastructures in countries with large land areas, such as North America, Europe and Russia. Newly emerging countries such as India and China are also accelerating the pace of infrastructure development to achieve further economic growth.

Our growth strategy in this field consists of applying the technology and expertise accumulated by the Furukawa Electric Group in Japan into these global markets. Here are some of the actions we are undertaking to shift the axis of our business overseas towards our goal of establishing our products as global standards.

Telecommunications

Increasing global demand for telecommunications infrastructures

Growing demand in Europe, the U.S., the BRIC countries and across the globe

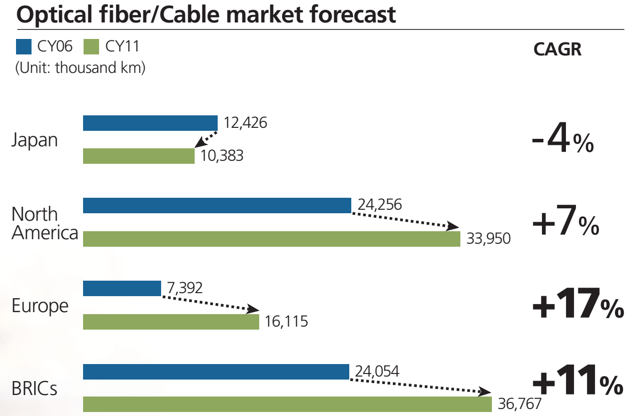
In Japan, where FTTH has spread nationwide and optical line subscriptions have exceeded 10 million households, the market for telecommunications infrastructures is entering the mature phase. However, further expansion in demand is expected in North America, for example, where leading telecommunications carrier Verizon is planning to lay 12 million FTTH lines in four years, from fiscal 2007 to fiscal 2010.

Meanwhile, demand for optical telecommunications networks is rapidly growing in Western Europe, along with the rise in intra-regional transactions resulting from the expansion of the EU. Furthermore, the full-scale development of information infrastructures is about to begin in BRIC countries, including Russia and India, as well as in newly emerging economies such as South Africa, Argentina and the ASEAN nations.

Bolstering our overseas production system to meet demand

Given this expanding demand for optical fibers throughout the world, the Furukawa Electric Group has been transferring its business bases overseas. Although we had already established sales bases, primarily in countries showing high demand, in the future we will build a system enabling us to offer a more timely and detailed response to the demand and needs of each

Optical fiber/Cable market forecast



Source: CRU

region by shifting our production bases overseas as well.

For example, we are boosting our production capacity in OFS Russia starting in October 2007 and in OFS Germany from the latter half of 2008, and we will seek greater market share by locally manufacturing products to meet the needs of each region.

Energy and Industrial Products

Rising demand for electric power infrastructures in newly emerging countries

The need for more efficient and stable electric power infrastructures

As demand for electric power dramatically rises throughout the world, particularly in China and other newly emerging economies, the development of electric power infrastructures connecting electric power stations with locations of demand is rapidly underway. Efficiency and stability are the watchwords in the market for electric power infrastructures, such as power transmission cables.

In view of the surging price of resources and heightened awareness of global warming over the past few years, reducing energy loss to more efficiently transmit electric power has become a general societal concern. This need is particularly acute in countries such as China, with a large land area that requires transmitting electricity over extended distances.

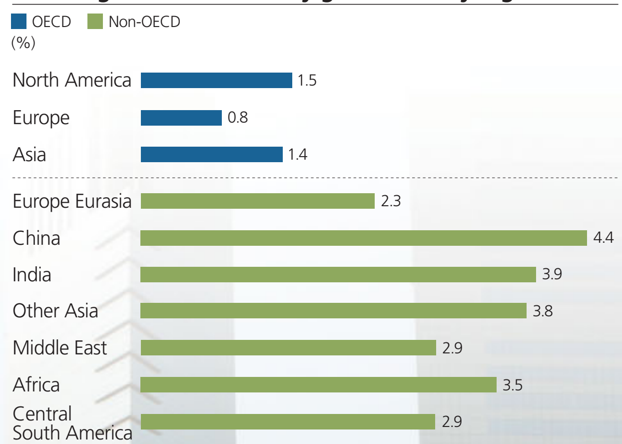
Meanwhile, the creation of a stable electric power infrastructure has emerged as a challenge for newly emerging countries that must guarantee a stable supply of electricity without power outages as a precondition for attracting factories from advanced economies.

Increasing orders worldwide on the back of superior technology

Rising worldwide demand for electric power infrastructures has provided a powerful tailwind for the Furukawa Electric Group. In rapidly growing China, we will boost production at our electric cable subsidiary Shenyang Furukawa Cable Co., Ltd. by 30% and we expect annual net sales to increase 35%. In addition, VISCAS Corporation, our subsidiary based on the equity method that manufactures and sells high pressure cables, has also won large-scale orders from Singapore, the UAE and South Africa; we expect sales to exceed ¥100 billion in fiscal 2009.

The foundation of this stable growth lies in the high quality of our products backed by superior technology. For example, in high-pressure technology for transmitting more energy with less loss, we have succeeded in mass-producing extremely reliable ultra-high pressure cables drawing on the world's top class manufacturing technology and quality control. We are also participating in a national project for commercializing superconducting cables that feature extremely low energy loss compared with conventional cables, and we are moving toward a formal market launch. (See: p.16)

Annual growth in electricity generation by region



Source: Energy Information Administration "International Energy Outlook 2007"

Feature Towards Further Growth

Focused on the automotive and electronic component markets

Strengthening niche products with high market share

In the segments of Electronics and Automotive Systems, Metals and Light Metals, we are focusing on markets with high growth potential, such as automobiles and electronics. Competition is intense in these markets, and components and materials for general-use may easily become commodities and subject to price competition.

The Furukawa Electric Group, however, has captured significant market share and maintained high profitability without having to engage in price competition by utilizing our proprietary materials technology in metals and plastics to provide unique products with a competitive edge in niche areas. The creation of these high-share niche products is possible precisely because of our approach to development, in which we are able to understand the manufacturing sites of our client corporations based on our own manufacturing experience across a broad range of fields. This ensures we pursue products that are genuinely needed. These are a few of the high value-added products supported by innovative manufacturing in their respective markets.

Automobiles

Fully considering the environment

Promoting energy conservation by improving mileage through weight reduction

The greatest challenge in the automobile field today is conserving energy to cut back the CO_2 emissions associated with global warming. To this end, automakers around the world are working on reducing automobile weight to improve mileage while also developing engines with higher fuel efficiency.

The particular challenge of reducing weight is being explored from a variety of approaches, from developing body materials that balance lightness with strength and producing smaller, lighter interior components, to developing lighter wire harnesses that cover the entire body as a vehicle's "nerves and blood vessels."

Developing and supplying varied products for conserving energy in automobiles

The Furukawa Electric Group provides diverse products for the automobile industry, ranging from body materials and interior components to wire harnesses. The Group stands alongside the world's leading automakers on the frontlines of technological innovation for reducing vehicle weight.

For example, we have developed lighter wire harnesses by producing ultra-thin aluminum wires and copper wires, while at the same time shortening the length of the wire harness itself through optimal electric installation design. We have also developed a metal core substrate with superior heat dissipation properties and produced compact, lightweight junction boxes that serve as the core of internal wiring.

Furthermore, we have succeeded in mass producing compressor wheels, which constitute the key component of diesel turbo engines with superior mileage, in the form of a highly accurate, ultra-lightweight aluminum product. These are some of the broader contributions we are making to energy conservation in automobiles.

Electronics

Providing the platform for the ongoing evolution of information devices

Pursuing greater capacity and higher density

In the area of electronic devices, digitization has advanced in every type of equipment, from information terminals such as mobile phones and notebook PCs to home electronics. LSI and

other semiconductor technologies will bring about a "ubiquitous society," in which a diverse array of electronic devices are connected via networks to facilitate the free exchange and utilization of information.

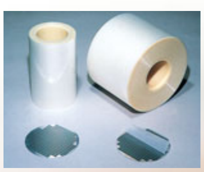
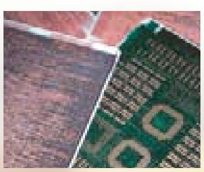
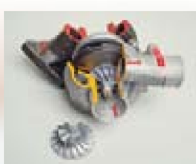
Attention is particularly focused on the key areas of greater capacity for recording and processing more information and higher density for making devices compact and lightweight while at the same time upgrading functionality. There is no end to the need for materials, components and manufacturing technologies that provide the platform for this technological evolution, and fierce competition is underway around the world in pursuit of ever higher levels of accomplishment.

Developing and supplying highly functional products for advanced needs

The Furukawa Electric Group continues to turn out products based on its proprietary materials technology, which meets the most advanced needs in the field of electronics.

One example is the processing tape used in the high-density 3D packaging process for manufacturing semiconductors. The tape offers superior quality and exceptional operational efficiency by controlling adhesion using UV-curing material. We also develop and supply electrolytic copper foils used as cathode material for lithium ion batteries, which are growing in demand as power supplies for mobile devices; we command an overwhelming 50% share of the global market based on the high quality of these items. Other products we develop and sell include aluminum blank materials and glass substrates that meet stringent property requirements for achieving increasing storage capacity (for example, external memory devices).

Strengthening the positioning of niche materials with high market share

	Semiconductor tape	Electrolytic copper foil	Storage	Automotive components	Compressor wheel
Products					
Initiatives	● Doubled production capacity for DDF (Dicing Die Bonding Film: two-in-one film with the functions of both dicing tape and die bonding film) in April 2008	● Raised domestic production capacity for lithium ion batteries and FPC by 20% in June 2008	● Solid performance by aluminum blank materials used in HDD ● Mass production of glass substrates to begin during the first half of fiscal 2009	● Focusing our resources on "Compact car × Asia" ● Expanding sales of metal core substrates used in boxes ● Strengthening development of aluminum wire and ultra-thin copper wire	● Expanding sales of aluminum components used in diesel turbo engines in Europe
Growth rate for net sales in fiscal 2008	+20%	+20%	+10%	+10%	+30%

Opening new possibilities for superconducting technology

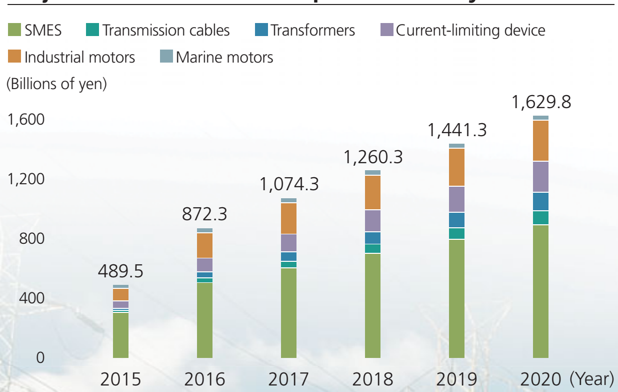
Superconducting technology makes efficient generation, transport and storage of electrical energy possible, and is therefore expected to boost the overall effectiveness of electrical power infrastructures and accelerate information processing. The ability of this technology to generate large magnetic fields has also attracted attention in the fields of transportation, physics and chemistry, and medicine. The scale of this market is projected to reach ¥1.6 trillion by 2020.

Conventional approaches to superconducting technology have been primarily dedicated to low-temperature superconductivity using metallic materials such as niobium-titanium (NbTi). This method requires costly liquid helium (-269°C) as a coolant and, therefore, its range of possible applications is limited. More recent progress has occurred in research on high-temperature superconductivity using yttrium (Y), with less costly liquid nitrogen (–196°C) as a coolant.

The Furukawa Electric Group, a global leader in the field of low-temperature superconductivity, has been developing superconducting cables, an essential component of the large-scale international effort now under way in France, known as the ITER*1 Project. We maintain our active engagement in research by applying the expertise, knowledge and benefits gained from this project, toward establishing a leading position in current international research and development for the commercialization of high-temperature superconductivity.

*1 **ITER:** International Thermonuclear Experimental Reactor

Projected markets for the superconductivity business



Source: Superconductivity Roadmap, Ministry of Economy, Trade and Industry

Superconducting technology as the backbone for the evolution of electrical power infrastructures

Today, many countries are actively pursuing research projects with the aim of commercializing high-temperature superconductivity. The Furukawa Electric Group participates in two projects sponsored by NEDO*2, Japan's leading research and development management organization.

One project involves the superconducting electric power cable, recently demonstrated at the Toyako Summit, as the definitive solution for reducing CO_2 emissions. This cable facilitates a 25% reduction in energy loss during transmission compared to current levels, leading to a significant quantitative decrease in electricity generation. The second project relates to SMES*3, a technology for storing electricity as magnetic energy. It enables the repeated storage and discharge of electricity, thereby enhancing the stability of the electric power grid.

The participation of the Furukawa Electric Group in these projects will contribute to the creation of the next-generation electric power infrastructure.

Superconducting cables

*2 **NEDO:** New Energy Development Organization
*3 **SMES:** Superconducting Magnetic Energy Storage

Conservation of electric power using superconducting cables (Japanese case study):

3,120 gigawatts/hour per year

=

Electric power used by a population of **2.6 million** in a year

=

Converted into reduced CO_2 emissions
1.06 million CO_2-tons/year

Kosaku Nakano
Chief Officer, Technology & Production

The Furukawa Electric Group recognizes its corporate responsibility to society is to provide products and services that contribute to social development and to improving people's lives while emphasizing public regulations and corporate ethics, reduced environmental burden associated with business activities, and product safety, as well as the safety of employees and the local community.

To meet these social responsibilities, the Group formulated the Furukawa Electric Group Basic Policy on CSR in February 2007, thereby establishing a structure for reinforcing CSR efforts across the entire Group.

Under this structure, we plan to conduct corporate activities that effectively balance the three factors of business, environmental protection and social contribution by deepening communication with our stakeholders and further advancing and developing the CSR activities of the Group.

Compliance

The Furukawa Electric Group defines compliance as not only compliance with laws but also behavior in line with the values and ethics required for a company as a constituent member of society as well as for individual employees.

We make sure that every employee becomes familiar with the Furukawa Electric Group Action Guidelines, which define our basic stance on compliance, and we promote compliance through a system comprising the Central Compliance Committee chaired by the CSRO and Compliance Committees set up at each individual works and branch.

We have also introduced an internal system for anonymous reporting to detect and remedy compliance violations at the earliest possible opportunity.

Relationship with the Global Environment

The Furukawa Electric Group is committed to developing environmentally sound products that exert less burden on the environment, such as foam extinguishers requiring less water to extinguish fires.

In addition to efforts already underway at our works, we began participating in the Team Minus 6%* movement in April 2008 to encourage CO_2 reduction activities in our offices as well. We also launched "Uchi Eco" (Home Eco) activities that challenge individual households to reduce CO_2 emissions and distribute pamphlets to all employees to raise awareness of global warming to steadily reduce our own CO_2 emissions.

Stop Global Warming!
Team Minus 6%

* **Team Minus 6%:** This is a national campaign in Japan where business entities, organizations and individuals participate in a team effort to achieve a 6% reduction in CO_2 emissions, Japan's commitment under the Kyoto Protocol.

Relationship with Society and Local Communities

The Furukawa Electric Group established the Involvement with Local Communities in May 2008.

In the past, we have undertaken various social contribution activities rooted in the local community and we intend to further strengthen these efforts to fulfill our responsibility as a member of society through activities centered on nurturing the next generation, promoting sports and culture and coexisting with the local community.

Furukawa Electric Group's Basic Policy on Social Contribution Activities

The Furukawa Electric Group seeks to carry forward and strengthen the bonds it has cultivated with society over the past century to pass on an even brighter future for generations to come by contributing to society through business activities as well as by undertaking steady, consistent social contribution activities centered on nurturing the next generation, promoting sports and culture and coexisting with the local community.

Basic Philosophy

The Furukawa Electric Group strives to enhance its performance by promptly responding to changes in the business environment and the market through efficient management based on prompt decision making. At the same time, we ensure sound management by developing and establishing an internal control system. We uphold the basic policy of seeking to expand and develop our operations on a sustainable basis and to raise corporate value through these efforts.

We not only pursue complete compliance across the Group but also provide society with excellent products and technologies that enrich people's lives while maintaining harmony with the earth's environment. We fulfill our corporate social responsibility to develop solid relationships with all stakeholders, including shareholders, business partners, local communities and employees and to remain a company that is valued by society.

Management Organization

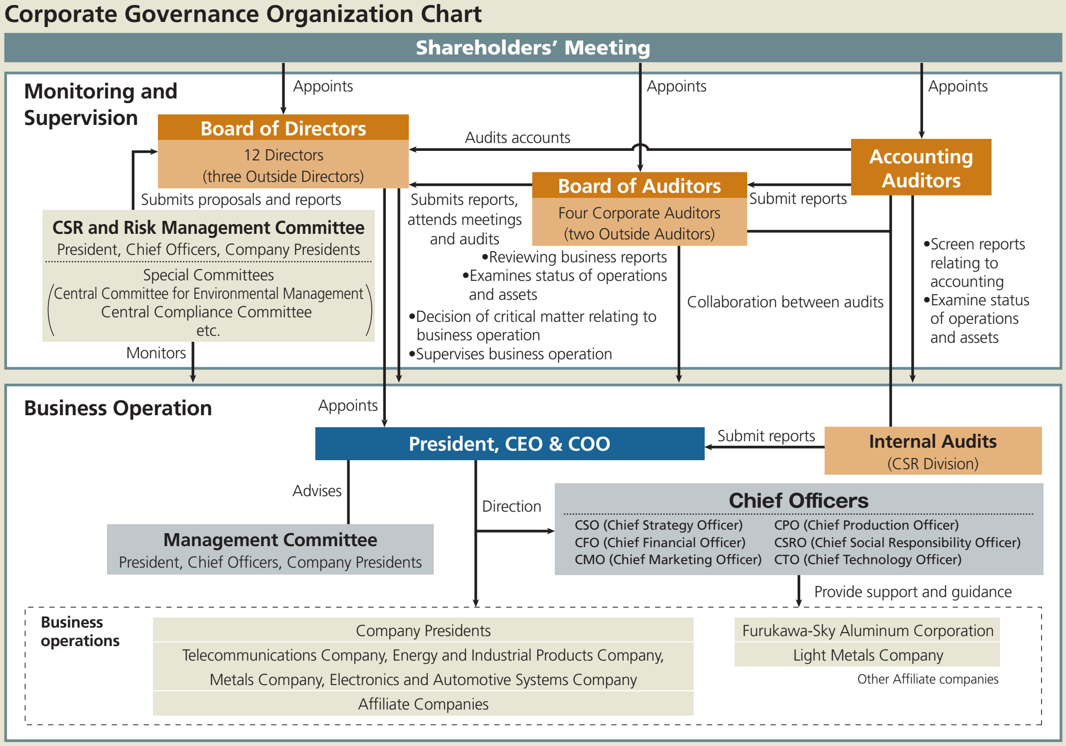
Furukawa Electric has adopted the organizational structure of a Company with Auditors and emphasizes the functions of a system of Auditors and Board of Auditors that is independent from the Board of Directors. We are also taking various steps in managing the Board of Directors to strengthen the monitoring and supervising of operational execution and to accelerate decision making.

Reinforcing Internal Controls

Furukawa Electric establishes, develops and operates its internal controls based on the following five principles:

(1) Efficient Execution of Responsibilities
(2) Compliance System
(3) Risk Management System
(4) Information Management System
(5) Group Company Management

Corporate Governance Organization Chart



Directors and Auditors

Hiroshi Ishihara
Chairman &
Chief Executive Officer

Masao Yoshida
President &
Chief Operating Officer

Tetsuo Yoshino
Director

Takasuke Kaneko
Director

Sumitaka Fujita
Director

Atsushi Kitanoya
Director
Chief Marketing Officer

Kosaku Nakano
Director
Chief Officer, Technology &
Production

Hideo Sakura
Director
Chief Financial Officer

Naoomi Tachikawa
Director
Chief Strategy Officer

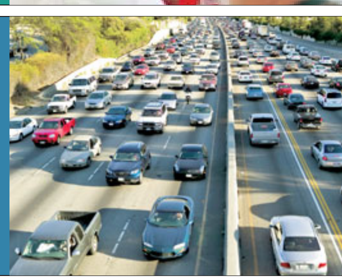
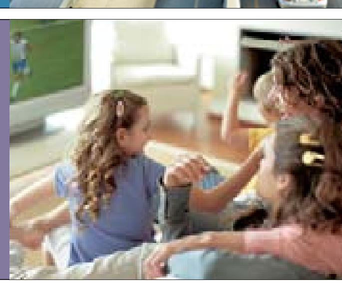
Tetsuya Satou
Director
Chief Social
Responsibility Officer

Katsuhiko Murota
Director

Masahiro Yanagimoto
Director

Statutory Auditors

Hiromasa Ogawa
Takahiko Itou
Yuzuru Fujita (Outside)
Tadashi Kudou (Outside)

Segment		Net Sales	Major Businesses
Telecommunications		12.9%	Optical Fiber Cable Business Photonics and Network Solutions Business
Energy and Industrial Products		24.9%	Energy Business Industrial Products Business
Metals		16.9%	Copper Strips & Pipes Business Plating Business Electrolytic Copper Foils Business
Electronics and Automotive Systems		21.2%	Automotive Parts Business Electronics Components Business Magnet Wire Business
Light Metals		20.4%	Aluminum Rolling Business Aluminum Extrusion Business Aluminum Casting, Forging and Other Processing Businesses
Services and Others		3.7%	

Major Products	Major Affiliated Companies		2006 Results	2007 Results	2008 Results	
•Optical fibers and cables •Optical components •Optical fiber cable accessories and installations •Network equipments, 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. / Access Cable Company / FURUKAWA NETWORK SOLUTION CORPORATION / Shianfu Optical Fiber & Cables Co., Ltd. / FURUKAWA INDUSTRIAL S.A. PRODUTOS ELETRICOS / Optical Communication Products, Inc., / OFS Fitel, LLC, others	Net Sales	143.1	166.2	**163.1**	Telecommunications
		Operating Income	5.4	11.3	**11.0**	
•Bare wires •Aluminum wires •Insulated wires •Power cables •Power transmission cable accessories and installations •Plastic products such as power cable conduit material and foam sheets thermoelectric products, etc.	Furukawa Elecom Co., Ltd. / FURUKAWA ENGINEERING & CONSTRUCTION INC. / Furukawa Electric Industrial Cable Co., Ltd. / Asahi Electric Works, Ltd. / INOUE MANUFACTURING 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. / Shenyang Furukawa Cable Company Ltd. / PT TEMBAGA MULIA SEMANAN TBK / Trocellen GmbH, others	Net Sales	217.5	294.3	**315.0**	Energy and Industrial Products
		Operating Income	6.7	9.2	**8.1**	
•Copper pipes •Copper strips •Electrolytic copper foils •Shape memory alloys and other processed copper products, etc.	FURUKAWA CIRCUIT FOIL CO., LTD. / Furukawa Precision Engineering Co., LTD. / OKUMURA METALS CO., Ltd. / FURUKAWA TECHNO MATERIAL CO., LTD. / FURUKAWA PRECISION (THAILAND) CO., LTD. / FURUKAWA METAL (THAILAND) PUBLIC CO., LTD., others	Net Sales	133.4	193.9	**213.7**	Metals
		Operating Income	4.9	7.6	**6.1**	
•Battery products •Automotive components and electrical wires •Magnet wires •Heat sinks •Aluminum blanks for hard discs •Electronic component materials, etc.	The Furukawa Battery Co., Ltd. / Furukawa Automotive Systems Inc. / FCM CO., LTD / Riken Electric Wire Co., Ltd. / SHIKOKU CABLE / FURUKAWA ELECTRIC NORTH AMERICA APD, INC. / FURUKAWA ELECTRIC AUTOPARTS PHILIPPINES INC. / FURUKAWA AUTOMOTIVE PARTS (VIETNAM) INC. / FE MAGNET WIRE (MALAYSIA) SDN. BHD., others	Net Sales	194.9	240.9	**268.6**	Electronics and Automotive Systems
		Operating Income	6.0	8.7	**9.1**	
•Aluminum sheets •Extruded aluminum products •Cast and forged products, etc.	Furukawa-Sky Aluminum Corp. / Nippon Foil Mfg. Co., Ltd. / Nikkei Kakoh Co., LTD. / FURUKAWA COLOR ALUMINUM CO., LTD. / NIPPON METAL FOIL IND CO., LTD. / HIGASHI NIHON TANZOU Co., Ltd. / Furukawa-Sky Shiga Corp. / ACE21 Corp. / P.T. Furukawa Indal Aluminum, others	Net Sales	216.8	246.7	**258.6**	Light Metals
		Operating Income	12.7	15.0	**12.4**	
•Real estate, Logistics, Information and various other services	FURUKAWA LOGISTICS CORP. / FITEC Corp. / FURUKAWA LIFE SERVICE Inc. / THE ZAIKOO CO., LTD. / THE FURUKAWA FINANCE AND BUSINESS SUPPORT CO., LTD./ THE YOKOHAMA DRUM CO., LTD. / Furukawa Nikko Power Generation Inc., others	Net Sales	35.6	40.2	**45.8**	Services and Others
		Operating Income	2.1	1.6	**1.5**	

Billions of yen

Telecommunications

U.S. OFS demonstrates solid performance on the back of growing overseas demand for optical fiber cables

Results of Operations in Fiscal 2008

In the optical fiber cable business, while growth slackened in the maturing Japanese market, demand expanded significantly in overseas markets, including Europe, the United States and newly emerging countries, resulting in a rapid rise in optical fiber exports. In addition, OFS, our consolidated U.S. subsidiary, which returned to profitability for the first time in the previous fiscal year, reported higher sales and profits, firmly establishing its profit structure.

In our photonics and network solutions business, although the price of FTTH-related devices declined in the domestic market and sales of routers fell, demand for optical amplifiers recovered from their temporary slump and sales of CATV-related products were brisk.

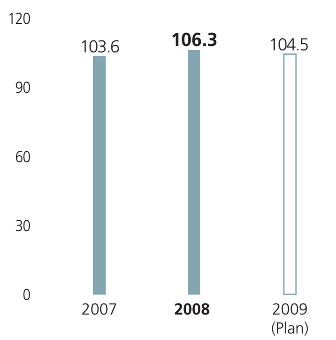
While sales were generally favorable, consolidated net sales for the segment decreased 1.8% from the previous fiscal year to ¥163.1 billion, due in part to the impact of our sale of Optical Communication Products, Inc. (OCP), our U.S. optical component manufacturing subsidiary whose performance had flagged as a result of a decline in the price of its products. Consolidated operating income fell 3.0% from the previous fiscal year to ¥11.0 billion as OCP reported an operating loss in the first half of the year preceding its sale.

Outlook and Measures for Fiscal 2009

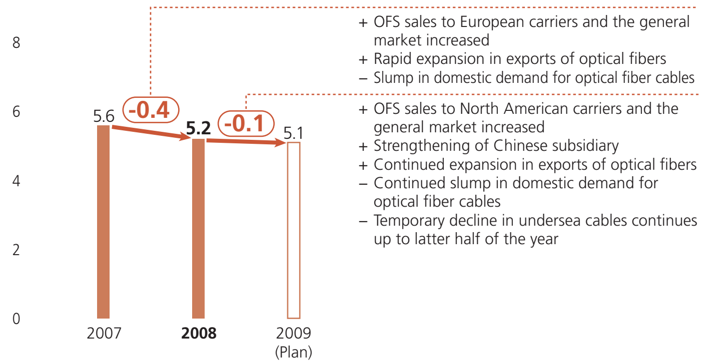
In the optical fiber cable business, we expect investments by optical telecommunications carriers to continue expanding beyond fiscal 2009. To respond to rising global demand, OFS began boosting production of optical fiber

Optical Fiber Cables Business

Net sales (Billions of yen)

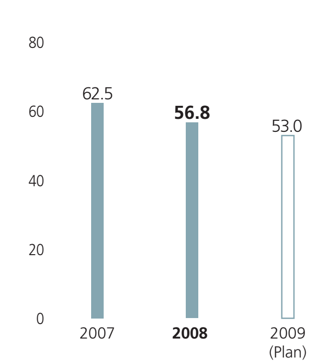


Operating income (Billions of yen)

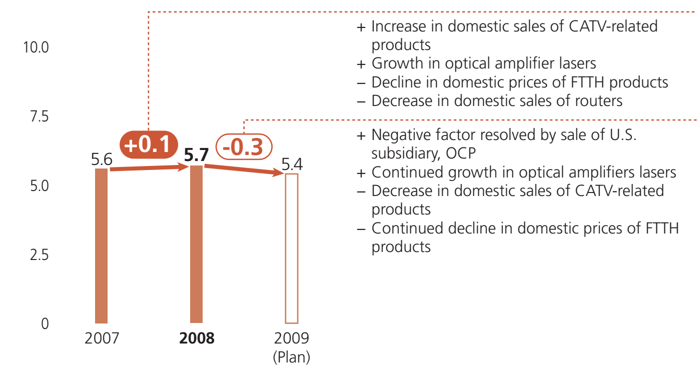


Photonics and Networks Business

Net sales (Billions of yen)



Operating income (Billions of yen)



cables in Russia in October 2007 and plans to reinforce production bases in Germany starting the latter half of fiscal 2009 to further build capacity.

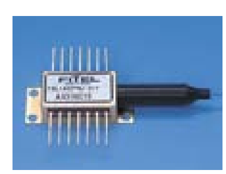
In the photonics and network solutions business, full-scale investment in Next-Generation Networks (NGNs) in Japan is expected to raise demand for components of optical devices, and we will respond by bolstering our sales of new products such as tunable lasers. On the other hand, prices of FTTH-related products are expected to decline in Japan; therefore we will seek to secure profit by aggressively moving into markets such as Europe, the United States and Asia, where demand is more vigorous. We also improved our portfolio by selling OCP, which had been showing significant losses.

Based on this outlook, in fiscal 2009, we project consolidated net sales of ¥157.5 billion (¥104.5 billion for optical fiber cables and ¥53.0 billion for photonics and network solutions) and consolidated operating income of ¥10.5 billion (¥5.1 billion for optical fiber cables and ¥5.4 billion for photonics and network solutions).

Column

Full-Band Tunable Lasers

DWDM (Dense Wavelength Division Multiplex) is a revolutionary technology that enables multiple transmissions of several optical signals with different wavelengths through a single optical fiber, thereby increasing the volume of traffic in optical networks. Conventional lasers emit single-wavelength optical signals, which required installing a laser for each wavelength used in DWDM. The Furukawa Electric Group developed a full-band tunable laser that can change wavelengths across all bands through temperature control. The technology has made it possible to build more flexible DWDM networks and is also widely expected to live up to its potential as an essential device for building NGNs, which have been growing in many parts of the world.

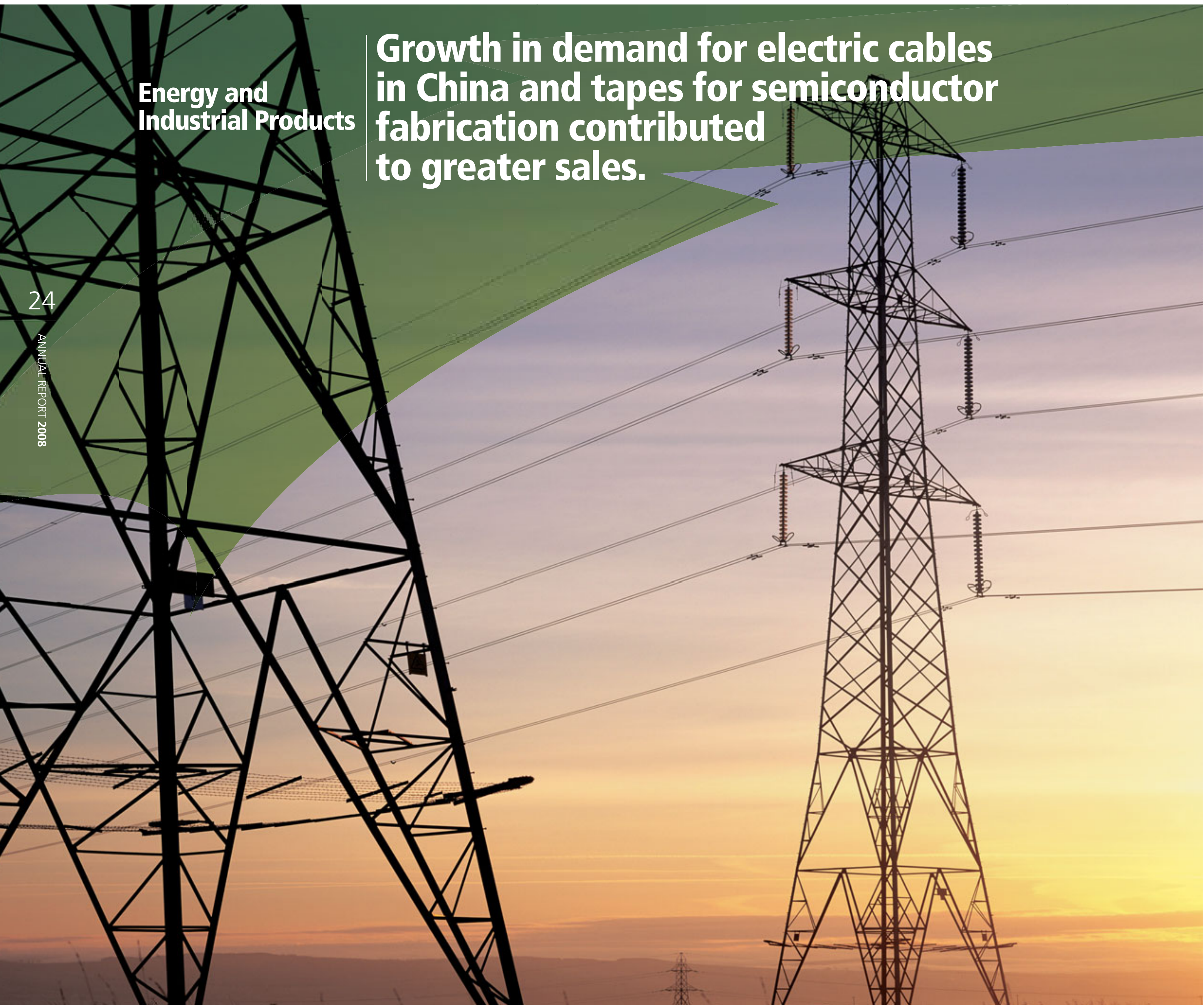


Results of Operations in Fiscal 2008

In the energy business, demand for ultra-high voltage cables continued strong, due to the high-paced development of infrastructure for electricity transmission in China in response to vigorous demand for electricity. However, sales of industrial cables slumped in Japan due to the significant decline in new housing starts following implementation of the revised Building Standards Law.

In the industrial products business, while sales of foamed plastic products for construction use decreased in Japan for similar reasons, demand for tapes used to manufacture semiconductors, such as DDF (dicing die-bonding film) increased considerably, driving a surge in overall sales.

As a result, consolidated net sales increased 7.1% from the previous fiscal year to ¥315.0 billion. Consolidated operating income decreased 11.4% to ¥8.1 billion, as demand



Energy and Industrial Products

Growth in demand for electric cables in China and tapes for semiconductor fabrication contributed to greater sales.

slumped and as we were unable to pass on high raw materials prices to product prices.

In January 2008 we acquired the electric power component business of FCI Japan K.K. as part of our drive to reorganize our electric power component segment. We expect wide-ranging synergies from further reinforcing the components business, the stronghold of this segment.

Outlook and Measures for Fiscal 2009

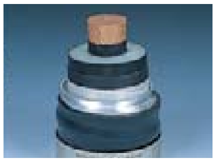
In the energy business, we expect demand for high-voltage cables to continue expanding in China and other overseas markets. We are therefore bolstering our local supply structure by boosting production capacity for ultra-high voltage cables at Shenyang Furukawa Cable Co., Ltd. in China in May 2008, and by increasing operations at Suzhou Furukawa Power Optic Cable Co., Ltd., which manufactures optical fiber composite overhead ground wires, also in China. We will accelerate our business in the global market, including VISCAS Corporation, a joint venture produces and sells high voltage cables.

In the industrial products business, we expect demand for tapes used for manufacturing semiconductors to continue to grow in line with the spread of digital home appliances. To meet this demand, we set up a new factory at our Mie Works to establish a system for increasing production and supply. Sales of foamed plastic products, which experienced a slump in demand during fiscal 2008, are also expected to recover due to demand from construction and the development of new applications.

Consequently, we are projecting consolidated net sales of ¥348.5 billion and consolidated operating income of ¥9.1 billion for fiscal 2009.

Column

Energy and Industrial Cables: Ultra-High Voltage Cables

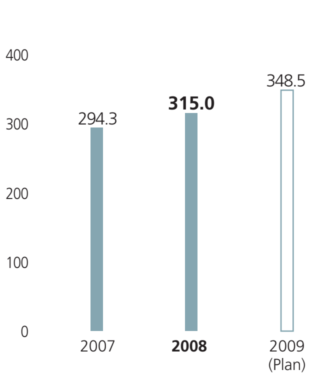


Surging global demand for energy requires an extremely reliable infrastructure for transmitting energy over long distances to ensure a stable supply of electricity. The Furukawa Electric Group has been developing high voltage electric cables as a technology for sending more electricity without loss. We have succeeded in mass producing highly reliable ultra-high voltage cables by utilizing our world-class manufacturing technology and quality control.

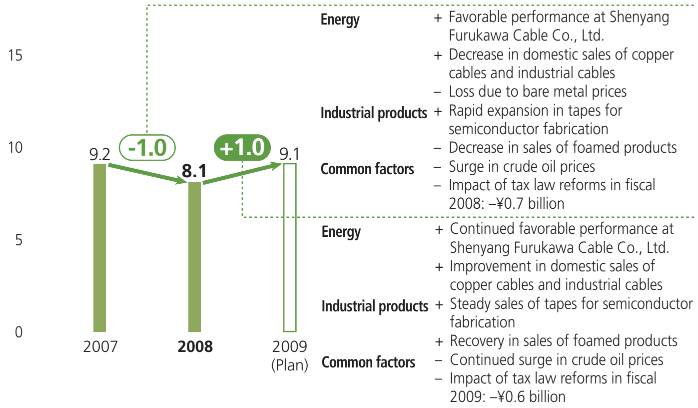
We serve as the backbone for energy networks in Japan and throughout the world by supplying cables that contribute not only to a stable electricity supply but ultimately to resource conservation through higher transmission efficiency. Particularly in China, where energy is in great demand, we own a subsidiary that manufactures ultra-high voltage cables and related products and have captured the top share based on reliability.

Energy and Industrial Products

Net sales (Billions of yen)



Operating income (Billions of yen)



Metals

Sales of electrolytic copper foils used for lithium ion batteries expanded amid the spread of digital appliances and heightened environmental awareness.

Results of Operations in Fiscal 2008

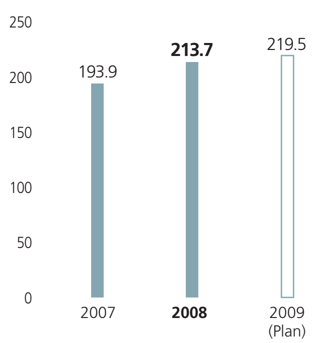
In the wrought copper business, demand for copper strips and pipes fell. However, in the electrolytic copper foil business, we enjoyed rising sales in specialized foils with high added value, such as double-sided shiny foil used as raw material for lithium ion secondary batteries, an area in which we boast the top global share.

In addition to the solid sales of electrolytic copper foils, bare copper prices remained high, resulting in a 10.3% year-on-year increase in consolidated net sales to ¥213.7 billion in this segment.

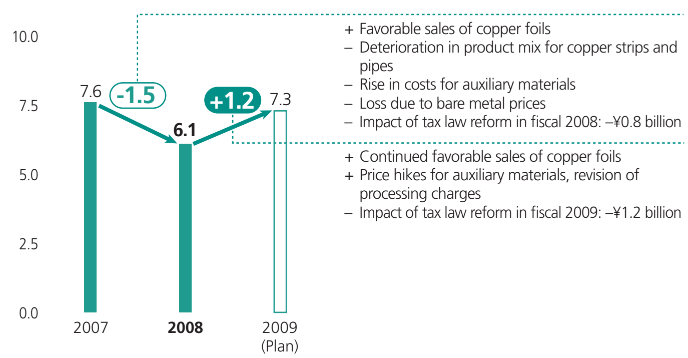
In terms of profit however, while electrolytic copper foils fared well, in the areas of copper strips and plated products used in digital appliances and copper pipes used in air conditioners, our cost reduction efforts fell short of absorbing the higher price of raw materials and fuels caused by surging prices of auxiliary materials and fuel. As a result, consolidated operating income fell 20.2% year-on-year to ¥6.1 billion.

Metals

Net sales (Billions of yen)



Operating income (Billions of yen)



Outlook and Measures for Fiscal 2009

We expect demand for electrolytic copper foils will continue to rise with the spread of digital household appliances and have therefore extended capital investments in subsidiaries in Japan and Taiwan to boost production.

We plan to absorb Furukawa Circuit Foil Co., Ltd., a 100%-owned subsidiary that manufactures electrolytic copper foils, in October 2008. We will set up an electrolytic copper foil division within Furukawa Electric Co., Ltd. subsequent to the merger, and we will seek to bolster our comprehensive capabilities toward pursuing the business of lithium ion batteries for automobiles by strengthening the cultivation of human resources as well as research and development.

We also expect our earnings ratio to advance along with improvements in the price of auxiliary materials and processing costs, which had been the cause of profit decline.

Based on these factors, we project consolidated net sales of ¥219.5 billion and consolidated operating income of ¥7.3 billion in the metals segment.

Column

Electrolytic Copper Foil for Lithium Ion Anodes

Lithium ion batteries perform particularly well among secondary batteries that can be repeatedly recharged, and they are widely used as power sources for cellular phones and other devices. Performance of lithium ion batteries depends on the quality of electrolytic copper foils used as anode material. For example, foil flexible enough to endure repeated expansion and contraction caused by the discharge and recharge of electricity will prolong battery life. And superior flatness of double-sided surfaces contributes to greater battery capacity. The Furukawa Electric Group has developed electrolytic copper foils that are superior in terms of both flexibility and surface flatness by leveraging manufacturing technology cultivated over thirty years. We command an overwhelming 50% of global market share.

Results of Operations in Fiscal 2008

In the electronic components business, we enjoyed solid sales of wire harnesses in response to robust demand from the automotive area. In the electronics business, while sales of magnet wires remained stagnant, there was strong demand for aluminum blank materials for memory discs and heat sinks (heat-dissipation components for electronic devices) for game machines.

As a result, consolidated net sales for the segment rose 11.5% year-on-year to ¥268.6 billion and consolidated operating income increased 4.1% to ¥9.1 billion.

With respect to automotive parts, one of our priority areas, we merged the automotive parts business of Furukawa Electric Co., Ltd. into Furukawa Automotive Systems Inc. in October 2007, thereby integrating our parts and wire harness businesses. And in August 2007, we established a production company for wire harnesses in India, a region of rapid economic growth, in a joint venture with India's Minda Group.

Outlook and Measures for Fiscal 2009

In the electronic components business, the strong performance of automotive parts such as wire harnesses is expected to continue, and we plan to begin mass producing harnesses for new models in August 2008. Our Indian subsidiary is expected to contribute to build sales once it comes online in September 2008.

In the electronics business, while sales of heat sinks are expected to decline, sales of memory discs are projected to remain steady. We will therefore begin mass producing glass substrates with outstanding shock-absorbing characteristics, for which demand is rising in

Electronics and Automotive Systems

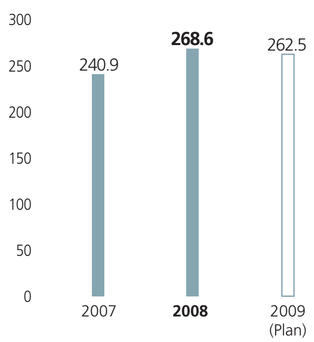
Achieving progress in establishing a production and supply system for the Asian compact car market will further boost electronic components for automobiles.

the market for mobile products, in addition to our existing aluminum blank materials. While we were late in entering the market for glass substrates, we intend to expand our share based on a proprietary manufacturing method that gives us the advantage of being able to produce glass substrates with higher quality at lower costs than conventional products.

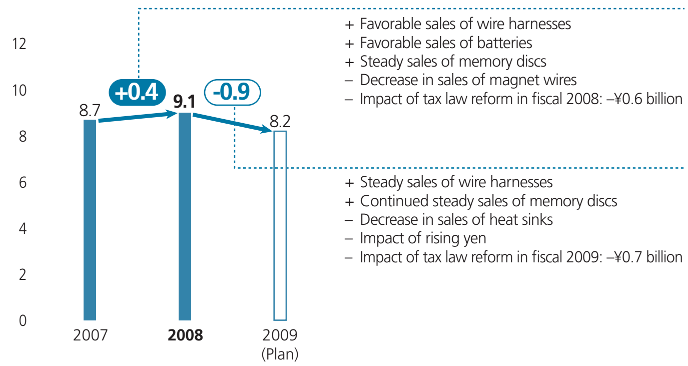
Based on these factors, we are projecting consolidated net sales of ¥262.5 billion and consolidated operating income of ¥8.2 billion in fiscal 2009.

Electronics and Automotive Systems

Net sales (Billions of yen)



Operating income (Billions of yen)



Column

Metal Core Substrates

Making smaller and lighter electronic components for automobiles requires higher density packaging than conventional products. Dissipating heat emitted by circuits and components had been a major obstacle. Metal core substrates developed by the Furukawa Electric Group allow for one-time heat discharge by placing a metal core with high heat dissipation properties in the middle layer of the substrate to concentrate heat discharged by components and circuit patterns in the metal core. Through this soaking process, our products are 30% smaller and 40% lighter than conventional products. From the perspective of the environment, the automobile industry is faced with the challenge of conserving energy and reducing CO_2 emissions, and our technology has gathered significant interest as a means for producing smaller and lighter circuit systems.

Light Metals | Expanding sales centered on strategic products that demonstrate a competitive edge in functionality and quality.

Results of Operations in Fiscal 2008

In the light metals segment, exports grew for our mainstay aluminum plate metals used in beverage cans, while products with a competitive edge in their respective markets, such as tank materials for LNG (liquefied natural gas) tankers, materials for printing equipment and radiators for automobiles, continued to fare well. However, due to the slump in construction-related demand caused by the revised Building Standards Law and the delayed recovery of IT-related demand, sales declined for general-purpose materials and thick plates used in semiconductor and LCD fabrication equipment.

Thanks in part to the rise in the selling prices of products that accompanied the rise in bare aluminum prices, consolidated net sales for the segment increased 4.8% year-on-year to ¥258.6 billion. Consolidated operating income fell 17.5% to ¥12.4 billion, as our cost reduction efforts, including integrated production among manufacturing plants, fell short of absorbing the effects of surging prices of fuel and auxiliary materials.

Outlook and Measures for Fiscal 2009

While we expect demand for IT-related materials and general-purpose materials to recover in fiscal 2009, high prices of fuel and auxiliary materials will likely apply continued pressure on profits.

In response, we will seek to strategically boost exports of materials for cans and printing equipment and automobile-related materials primarily targeting the overseas manufacturing plants of Japanese customers. We will also strive

Column
Compressor Wheels

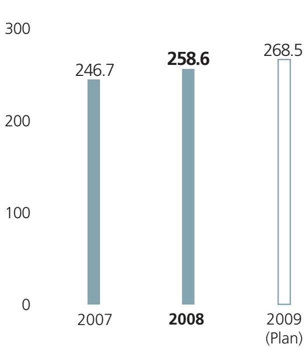
Demand for clean diesel vehicles is rising, primarily in Europe, from the standpoint of preventing global warming. Compressor wheels are the key parts of diesel turbo engines with superior gas mileage and require durability and high dimensional accuracy. Furukawa-Sky has succeeded in mass producing aluminum compressor wheels that are highly accurate and ultra-light by leveraging its proprietary aluminum precision casting technology. Its products are highly regarded for their superior quality and have captured approximately 25% of the global market. Furukawa-Sky intends to further increase its share in response to growing global demand by reinforcing the production facilities at its production base in Vietnam, which came online in 2007.

to raise profits by reinforcing our production system to expand the number of units produced for strategic products, including large substrates for solar panel fabrication equipment and compressor wheels for turbo chargers used in clean diesel vehicles.

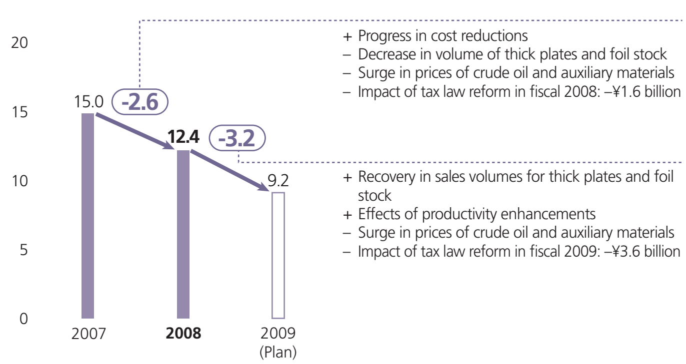
Based on these factors, we project consolidated net sales of ¥268.5 billion and consolidated operating income of ¥9.2 billion.

Light Metals (Furukawa-Sky Aluminum Corporation)

Net sales (Billions of yen)



Operating income (Billions of yen)



Results of Operations in Fiscal 2008

Net sales for the Services and Others segment in fiscal 2008 increased 13.9% from the previous year to ¥45.8 billion. Operating income declined 5.6% to ¥1.5 billion.

The Logistics Business

There is a high demand for expertise in logistics solutions throughout industry as a means of efficiently focusing corporate resources on core business. Furukawa Logistics Corporation, carrying out its mission to provide logistics support for Group companies, has accumulated know-how and expertise that ensure the provision of optimal logistics solutions to suit the challenges and needs of corporations.

The Information Systems Development Business

We develop and operate a variety of network systems, not limited to the Furukawa Electric Group, but also serving other companies. We respond to a broad range of needs, from building networks that incorporate the strongest security measures and mission-critical systems, to developing and operating various operational application systems including sales support systems, CAD/CAE, and others. The core responsibility lies with Furukawa Information Technology Corporation, which quickly achieved CMM Level-3 in Japan and is highly regarded for the quality of its work.

The Environmental and Recycling Business

The Furukawa Electric Group utilizes its nationwide network to collect out-of-service power lines and cables and recycle them through its dismantling system and at our plastic recycling plant, which are among Japan's largest. As a result, nearly 100% of conductor materials, such as copper and aluminum are recycled, even as we expand our use of insulation materials such as recycled plastic and fuel.

Services and Others

Adding greater value to products from the perspectives of logistics, information systems and the environment

FIVE-YEAR SUMMARY

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

	Millions of yen					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	**2008**
Net sales	**¥ 1,174,247**	¥ 1,104,709	¥ 872,536	¥ 775,894	¥ 739,867	**$11,742,470**
Cost of sales	**1,002,410**	930,399	722,576	640,901	624,061	**10,024,100**
Selling, general and administrative expenses	**123,390**	120,677	112,530	111,257	118,967	**1,233,900**
Operating income (loss)	**48,447**	53,633	37,430	23,736	−3,161	**484,470**
Income (loss) before income taxes and minority interests	**31,034**	57,986	44,542	33,060	−145,142	**310,340**
Net income (loss)	**15,291**	29,765	25,508	15,805	−140,128	**152,910**
Cash dividends per common share (yen and U.S. dollars)	**7.00**	6.50	3.00	—	—	**0.070**
Research and development costs	**19,789**	19,976	18,017	17,193	19,066	**197,890**
Capital expenditure and cash flow	**45,264**	41,833	30,886	27,294	29,422	**452,640**
Total current assets	**501,436**	531,584	483,171	442,937	422,358	**5,014,360**
Property, plant and equipment,net of accumulated depreciation	**338,227**	337,679	325,325	335,687	368,848	**3,382,270**
Total assets	**1,014,778**	1,096,709	1,052,256	991,358	1,110,666	**10,147,780**
Total current liabilities	**419,175**	454,690	430,206	392,909	493,100	**4,191,750**
Cash flows from operating activities	**90,760**	50,724	22,719	32,600	11,679	**907,600**
Cash flows from investing activities	**−52,113**	−29,612	11,133	40,360	−6,674	**−521,130**
Cash flows from financing activities	**−41,581**	−20,694	−46,782	−84,578	−17,141	**−415,810**

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥100 to US$1.

Financial Section

Contents

Scope of Consolidation

The consolidated financial statements for the fiscal year ended March 31, 2008 (fiscal 2008) include the business results of 110 subsidiaries and 16 affiliates accounted for using the equity method. In the fiscal year under review, five subsidiaries were added to consolidation while two subsidiaries were dissolved due to mergers and one subsidiary was removed due to divestiture. With respect to consolidated equity-method affiliates, two were added.

Overview of Business Performance

Net sales

In fiscal 2008, signs of a slowdown became more apparent in the global economy under the influence of surging prices for crude oil and other materials and uncertainty in financial markets caused by the subprime loan issue. The economic outlook in Japan was also clouded by the rapid strengthening of the yen and a stagnant stock market.

In this context, the actions of the Furukawa Electric Group were guided by *Innovations 09*, its medium-term management plan, now in its second year. We aggressively invested in priority areas with future growth potential, such as automotive and electronic components, achieved progress in restructuring our business and Group companies, and sought to raise efficiency and strengthen corporate governance. In the face of persistently high prices for raw materials such as copper, aluminum and petrochemical products and fuel, we endeavored to raise the prices of our products to secure profit and cut costs by improving production yields and productivity. We also sought to reduce inventory and sales receivables, restrain increases in costs caused by high raw materials prices and reduce interest-bearing debt.

As a result, consolidated net sales rose 6.3% from the previous fiscal year to ¥1,174.2 billion (US$11.7 billion), as telecommunications-related demand recovered, mainly in overseas markets, and sales of electronic components and automotive products fared favorably. These factors were further bolstered by surging prices in bare metals such as copper and aluminum.

Results by Business Segment

Telecommunications

Consolidated net sales decreased 1.8% from the previous fiscal year to ¥163.1 billion (US$1.6 billion). The FTTH-related markets expanded, demand for optical fiber cables increased primarily in European and U.S. markets, and sales of CATV-related products were strong due to recovery in demand for optical amplifiers. Net sales, however, declined due to factors including the sale of stock in Optical Communication Products, Inc., our U.S. optical products manufacturing subsidiary, whose net sales are no longer reflected on our balance sheet.

Energy and Industrial Products

Consolidated net sales increased 7.1% from the previous fiscal year to ¥315.0 billion (US$3.2 billion). Sales of foam sheets and industrial cables for construction slumped due to a significant decline in new housing starts following implementation of the revised Building Standard Law. Demand for electric cables in China, however, remained robust and sales of tapes used for semiconductor fabrication, such as DDF (dicing die bonding film), were also strong.

Metals

Consolidated net sales rose 10.3% from the previous fiscal year to ¥213.7 billion (US$2.1 billion). Sales of electrolytic copper foils remained favorable, sales of high value-added specialized foils increased considerably and sales of general-purpose foils also expanded. In addition, bare copper prices remained high, further boosting results.

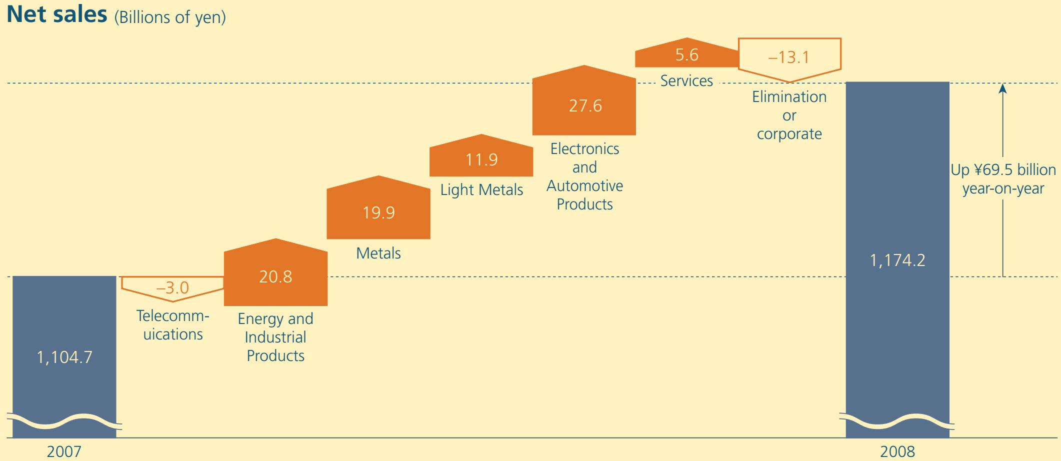
Light Metals

Consolidated net sales increased 4.8% to ¥258.6 billion (US$2.6 billion). Stagnant construction-related demand caused by the revised Building Standard Law and delayed recovery in IT-related demand resulted in a decline in sales of general-purpose materials and thick plates used for liquid crystal fabrication equipment. The selling price of our products, however, rose along with surging bare aluminum prices. The export of materials for beverage cans and materials for printing equipment, our mainstay products, also increased.

Electronics and Automotive Systems

Consolidated net sales rose 11.5% from the previous fiscal year to ¥268.6 billion (US$2.7 billion). While sales of magnet wires slumped, sales of automotive parts, such as wire harnesses, grew due to favorable sales

Net sales (Billions of yen)



of automobile models that incorporate our products. We also enjoyed strong demand for aluminum blank materials for memory disks and heatsinks (heat radiating components for electronic devices) for game machines.

Services and others

Consolidated net sales for this segment rose 13.9% from the previous fiscal year to ¥45.8 billion (US$0.5 billion).

Cost of sales/Selling, general and administrative expenses

Cost of sales increased by ¥72.0 billion from the previous fiscal year to ¥1.0024 trillion (US$10.0 billion), and the cost of sales ratio increased by 1.2 percentage points to 85.4%. However, excluding the effects of surging bare copper and aluminum prices that comprised the incremental rise from the previous fiscal year, the actual cost of sales ratio showed some improvement. Selling, general and administrative expenses rose ¥2.7 billion from the previous year to ¥123.4 billion (US$1.2 billion).

Net income

Affected by higher cost of sales, operating income declined ¥5.2 billion from the previous fiscal year to ¥48.4 billion (US$0.5 billion). Other expenses (net) came to ¥17.4 billion (US$0.2 billion), compared with other income (net) of ¥4.4 billion in the previous fiscal year. The two primary reasons for this net change of ¥21.8 billion were a net foreign exchange loss of ¥3.1 billion (US$0.03 billion), compared with a gain in this category in the previous year, as well as the posting of impairment losses of ¥3.5 billion (US$0.03 billion), mainly for manufacturing equipment which were absent in the preceding term. Higher environmental costs and an increase in other expenses were also factors.

As a result, income before income taxes and minority interests amounted to ¥31.0 billion (US$0.3 billion), and net income was down ¥14.5 billion compared with the preceding term to ¥15.3 billion (US$0.2 billion).

Dividends

Furukawa Electric intends to pay dividends to shareholders, upholding its basic policy of paying solid dividends, while maintaining a long-term outlook on future income trends and business development.

For fiscal 2008, while the company was able to remain in the black in terms of non-consolidated operating income and maintain its recovery in profitability, given the need for further strengthening our financial condition, the company decided to pay a dividend of ¥7.0 per share.

Looking ahead, we intend to uphold our policy of stable dividend payments from a long-term perspective on income trends, while paying due consideration to future business development.

Cash Flows

In fiscal 2008, income before income taxes and minority interests decreased by ¥27.0 billion from the previous fiscal year to ¥31.0 billion (US$0.3 billion). Cash and cash equivalents decreased by ¥2.0 billion compared with the end of the previous fiscal year to ¥43.8 billion (US$0.4 billion) in the wake of a decrease in proceeds from the sale of non-current assets, an increase in payments for the acquisition of property, plant and equipment and reductions in interest-bearing debt.

Net cash provided by operating activities was ¥90.8 billion (US$0.9 billion). While income before income taxes remained below levels of the previous fiscal year, depreciation expenses increased due to the effects of the revised tax law. Increase in trade receivables and increase in inventories decreased significantly, and decreases in refundable income taxes increased.

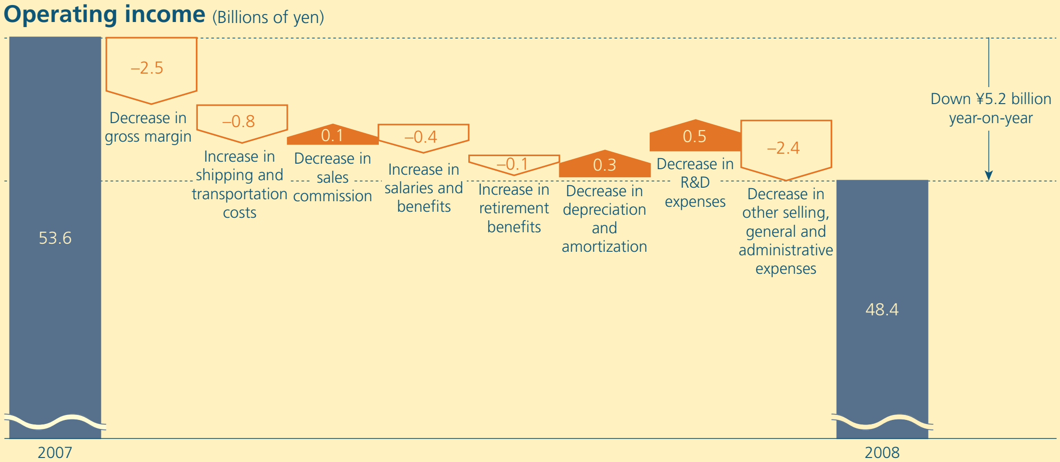
Net cash used in investing activities was ¥52.1 billion (US$0.5 billion). This was primarily due to proceeds from sales of non-current assets remaining below levels of the previous fiscal year and increased payment for purchase of property, plant and equipment.

Net cash used in financing activities was ¥41.6 billion (US$0.4 billion). Apart from an increase in payment for the repurchase of treasury stock, interest-bearing debt decreased by ¥29.1 billion as we used our favorable cash flow from operating activities to repay long- and short-term debt.

Liquidity

Since launching the Furukawa Survival Plan in 2004, a three-year medium term management plan, we have endeavored to sell investment securities and real estate holdings and reduce interest-bearing debt to bolster our financial condition.

Operating income (Billions of yen)



As a result, interest-bearing debt decreased by ¥29.1 billion from the previous fiscal year to ¥399.1 billion (US$0.3 billion), falling below the ¥400.0 billion mark for the first time in seven years since fiscal 2002.

Looking ahead, we will seek to further reduce interest-bearing debt through a renewed effort to raise asset efficiency by reducing inventory and trade receivables. In terms of numerical targets, we intend to lower inventory turnover period to no more than 1.0 months, total asset turnover to 1.1 and debt-to-equity ratio to 1.3 by March 31, 2010.

R&D Activities

Furukawa Electric Group maintains a solid R&D structure that enables it to create and develop new businesses through innovative products and technologies and to aggressively pursue R&D activities. Furukawa Electric Co., Ltd. operates five research laboratories in Japan, including Yokohama R&D Laboratories, the Metal Research Center, the Ecology and Energy Laboratory, the FITEL Photonics Laboratory, and the Automotive Technology Center, which are further complemented by the research laboratories of other Group companies. We also operate two overseas laboratories, OFS Laboratories in the United States and FETI in Hungary. Total R&D expenditures in fiscal 2008 were ¥19.8 billion. The major results of our R&D activities segment were as follows:

Telecommunications

(1) We developed products such as optical amplifiers and temperature-insensitive AWG for next-generation networking (NGN), and began shipping to several customers. NGN has entered a stage of full-scale construction, leading to brisk orders.
(2) We completed development of full-band tunable lasers that have moved into the mainstream with DWDM mesh network systems. We began delivery to several customers and are working to expand production capacity.
(3) We developed and began selling a high-sensitivity optical fiber identifier that does not require parts replacement for single-fiber and up to 12 fibers, featuring excellent workability that is ideal for FTTH.
R&D expenditures for the segment totaled ¥7.4 billion.

Energy and Industrial Products

(1) We developed thin-walled materials for Eco-Ace Plus, a flame retardant grade eco-electric wire for electronic devices. We plan to conduct PR activities targeting electric equipment makers and so on.
(2) We continue to develop highly functional materials for semiconductor tapes, and sales of DDF (dicing die bonding film) have shown consistent growth.
(3) We are participating in a national project for developing Yttrium-based, high-temperature superconducting power cables. We achieved transmission loss of 0.1 W/m and less in production-model cables.
R&D expenditures for the segment totaled ¥1.1 billion.

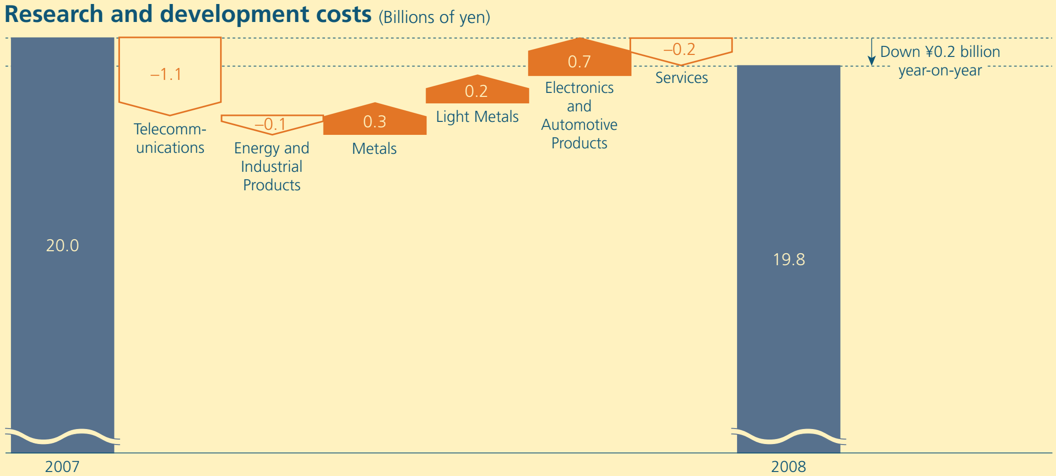
Metals

(1) We submitted mass production samples of high-performance connector material to customers for evaluation.
(2) We submitted engineering samples of shield case materials for developing aluminum plastic composite products to several press makers for evaluation.
(3) We further enhanced the functionality of our new internally grooved tubes and are expanding both sales and market share. We also succeeded in the commercial introduction of internally grooved tubes for CO_2 coolants. In addition, we are expanding sales of Thermo-In BIRUMEITO Tube®, an outdoor-type sheathed copper for refrigerants used as air conditioner piping in buildings developed through the industry's first foam resin integral molding technology.
R&D expenditures for the segment totaled ¥1.4 billion.

Light Metals

(1) Beyond enjoying top market share in Japan for automobile heat exchangers, such as radiators, condensers, evaporators and intercoolers, we also provide a global supply through alliances and technical cooperation with overseas aluminum makers. In fiscal 2008 our overseas business was acclaimed by users for the level of technical support and joint development capabilities. We are pushing forward with the development of materials for next-generation heat exchangers to serve both domestic and overseas markets.

Research and development costs (Billions of yen)



R&D expenditures for the segment totaled ¥2.5 billion.

Electronics and Automotive Systems

(1) We are expanding markets for high-performance heatsinks and flat heat pipes that are essential for the characteristic features of highly functional home information appliances.

(2) As part of the TEX (triple-insulated wires) series, we followed up on the TEX-BS (B-type) with heat resistance of 130˚c by completing development of the TEX-FS (F-type), and we began undertaking full-scale shipping. We plan to expand applications for the B-type as AC adaptors for personal computers and the F-type as power units for medical equipment, flat-panel TVs and video cameras.

(3) We plan to develop a highly pressure-resistant, low electricity-consuming device for application in GaN (gallium nitride) power units.

R&D expenditures for the segment totaled ¥4.3 billion.

Services and Others

This area is primarily related to our new business fields.

(1) We achieved 200w output in our development of CW fiber lasers through joint research with the OFS Labs.

(2) We developed a femtosecond laser (fiber laser that emits ultra short pulses).

(3) We developed and began selling the world's smallest class single-frequency, polarization maintaining fiber laser with output power of 1,064 nm. Intended for applications requiring the generation of 532 nm green colors, the laser is excellently designed in terms of its extremely stable frequency.

R&D expenditures for the segment totaled ¥3.0 billion.

Capital Expenditures

The Furukawa Electric Group conducted investments exceeding levels of the previous fiscal year in our Energy and Industrial Products, Electronics and Automotive Products and Metals segments, and total Group capital expenditures, at ¥45.3 billion, were also higher than the previous fiscal year.

The primary goals for capital expenditures by segment were as follows:

Telecommunications

- Expand production capacity of optical fiber cables
- Mass produce and expand production capacity of optical components, such as semiconductor lasers

Energy and Industrial Products

- Expand production capacity of semiconductor fabrication tapes, a high-growth product
- Expand production capacity of ultra-high voltage power cables

Metals

- Expand production capacity of copper alloys and strips, plated strips and copper foil products for the automotive, IT and electronics markets

Light Metals

- Construct a new melting and casting facility for rationalizing slab manufacturing by increasing capacity
- Concentrate product mix to bolster competence in quality and cost

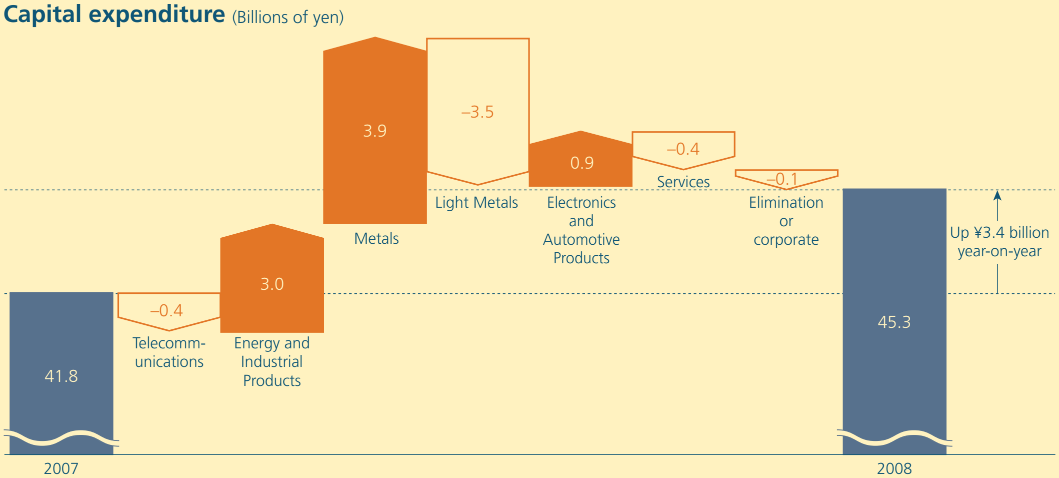
Electronics and Automotive Products

- Expand production capacity of enameled wires for electronic components
- Mass produce and expand production capacity of electronic components for automobiles
- Mass produce substrates for hard discs

As common measures across the entire Group, we undertook capital expenditures primarily to modify systems related to personnel and general affairs, sales and accounting, following the establishment of consolidated subsidiary Furukawa Automotive Systems Inc., and to maintain and upgrade old buildings and ancillary facilities.

Major facilities completed within the fiscal year under review included: facilities for manufacturing semiconductor fabrication tapes and for manufacturing enameled wires used in electronic components at the Mie Works of Furukawa Electric Co., Ltd.; facilities for manufacturing copper foil products at Furukawa Circuit Foil Taiwan Corporation and Furukawa Circuit Foil Co., Ltd.; a melting and casting facility at the Fukui Works and a board-cutting facility at the Fukaya Works of Furukawa-Sky Aluminum Corporation.

Capital expenditure (Billions of yen)



No significant facilities were disposed of or sold during the fiscal year under review.

Financial position

Total assets decreased by ¥81.9 billion from the previous fiscal year to ¥1.0148 trillion (US$10.1 billion). Current assets decreased by ¥30.1 billion to ¥501.4 billion (US$5.0 billion) and non-current assets decreased ¥51.7 billion to ¥513.3 billion (US$5.1 billion). The major reasons for the decline included sales of a consolidated subsidiary, the receipt of refundable income taxes from overseas subsidiaries that in turn were used to fund repayment of interest-bearing debt, and declines in the market value of investment securities.

The net increase in operating capital, excluding the effects of changes in the scope of consolidation, was ¥18.8 billion. While notes and trade receivables rose by ¥1.2 billion (US$0.01 billion) and inventory by ¥4.1 billion (US$0.04 billion) compared with the previous fiscal year, notes and trade payables decreased by ¥13.4 billion.

Major factors behind changes in non-current assets included a decrease of ¥42.1 billion in depreciation, an increase of ¥45.2 billion in capital expenditures, offsetting increases and decreases due to changes in the scope of consolidation and decreases due to disposal of assets.

With respect to current liabilities, interest-bearing debt, which is the sum of long- and short-term debt, commercial paper and corporate bonds, decreased by ¥29.1 billion from the end of the previous fiscal year to ¥399.1 billion.

With respect to net assets, retained earnings increased by ¥11.0 billion, while there was a increase of ¥5.0 billion due to the repurchase of treasury stock and a decrease of ¥22.4 billion in unrealized gains on other marketable securities. Consequently, total shareholders' equity ratio rose 0.4 percentage point from the end of the previous fiscal year to 22.9%.

Business-Related Risks

The Furukawa Electric Group's management performance is affected by the economic conditions of the various markets in which we sell our products and provide services.

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 26, 2008, the date on which we submitted our financial report.

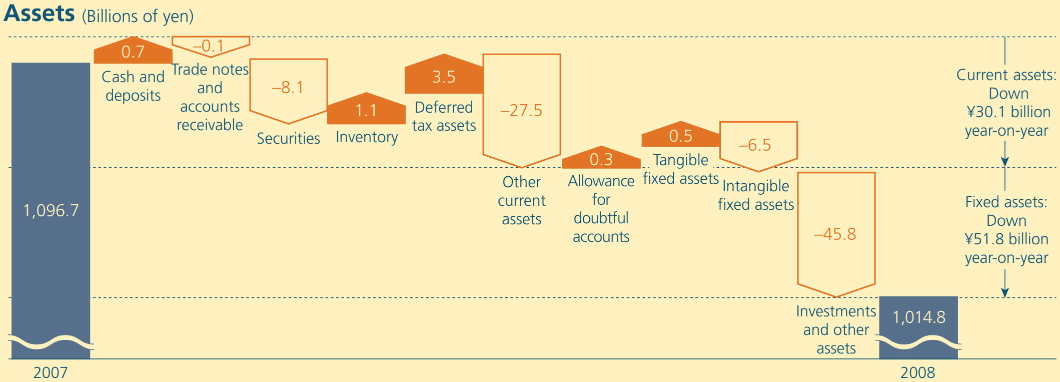
1) Infringement of third-party intellectual property rights and other rights

The Furukawa Electric Group takes appropriate measures to prevent the infringement of intellectual property and other rights owned by third parties in connection with business activities, including the development, manufacture, use and sales of products and software.

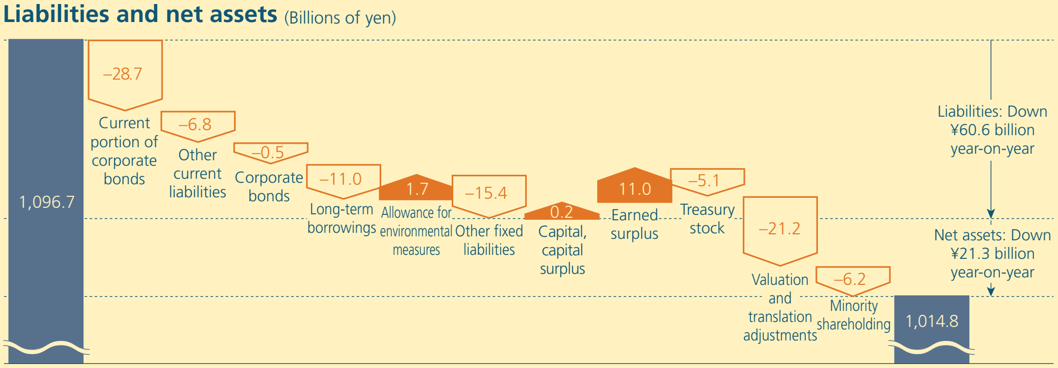
These measures include prior research of such rights and the arrangement of licensing as required. However, we may become engaged in a dispute with a third party who sues the Group for alleged infringement of intellectual property or other rights owned by the third party.

Suspension of the manufacture or sale of Group products or a major claim for damages or settlement benefits as a result of alleged infringement of third party rights may adversely affect the results of operations and financial position of the Group.

Assets (Billions of yen)



Liabilities and net assets (Billions of yen)



2) Defective products

The Furukawa Electric Group manufactures products and services in accordance with prevailing domestic and international standards and specifications as well as its own quality control standards developed over the course of its extensive business experience. However, we cannot warrantee that all our products and services are free from defects or that we will not be liable for any future losses or damages. Any defects in products such as power cables, communication cables and automotive parts may incur significant additional costs.

While our product liability insurance policy covers risks associated with our products, it may not cover all the damages we might be required to pay. Product defects causing significant damage or product liability may incur major costs and tarnish the Group's reputation, adversely affecting the results of the Group's operations and financial position.

3) Fluctuations in raw material and fuel prices

Prices for our main raw materials, including non-ferrous metals such as copper and aluminum, and polyethylene, along with fuels such as heavy oil and LNG, may fluctuate beyond expectations due to changes in international politics and market trends. We may not be able to sufficiently reflect such substantial price fluctuations onto our sales prices, or we may unable to do so in a timely manner. This may adversely affect the results of our operations or financial position.

4) Fluctuations in exchange rates

The Furukawa Electric Group owns foreign currency-denominated credit and obligations. Therefore, fluctuations in the foreign currency environment may result in exchange gains or losses.

5) Higher interest rates

If interest rates rise, our interest expenses will increase, which may adversely affect the results of operations.

6) Lowering of credit ratings

Should our performance stagnate, we may incur the risk of credit rating agencies downgrading our long-term bonds and commercial paper.

7) Impairment of assets

In the event of unfavorable conditions in the market or business environment, the market value of our assets may substantially decline, or the profit generated by our assets may decrease, leading us to incur impairment losses on such assets.

8) Soil pollution on land held for business purposes

The Furukawa Electric Group discovered contaminated soil on part of land owned by the Group in the Nikko area. We are implementing the necessary soil remediation actions. Remediation work is also underway in part of land owned in the Yokohama area intended for leasing. We will also begin remediation work at the former site of the Neyagawa Plant owned by subsidiary Kyowa Electric Wire Co., Ltd. towards the lifting of the contaminated area designation.

When we sell our land or change how it is used in other areas, we may incur costs associated with soil pollution in the event a soil survey demonstrates the land is contaminated.

9) Overseas activities

The Furukawa Electric Group manufactures and sells products not only in Japan but also in overseas markets, including markets in the U.S., Europe and Asia, as well as emerging markets. We face various potential risks in these overseas markets, such as unexpected changes in laws and regulations, labor disputes caused by changes in the economic environment or sudden outbreaks of epidemics. Such risks may adversely affect the result of our operations.

Particularly in China, where the annual GDP growth rate has remained at 10% over the past several years, we have established and operate a number of business sites, namely in Shanghai, Beijing and Tianjin. Unexpected events in China, such as changes in laws, rules and regulations associated with investment, foreign currency, finance and trade; suspension of power supply; or the outbreak of epidemics, may adversely affect our operations. Concretely, should the Chinese GDP growth rate sharply decline due to the adoption of a governmental policy to curb excessively rapid economic growth, or should the exchange rate of the yuan be adjusted, the results of our operations in China may significantly differ from our business plan forecast. In such cases, the cash flows of our subsidiaries in China may be adversely affected because the collection period for sales receivables from Chinese customers is relatively long.

Future Outlook

The future economic outlook is riddled with concerns, including instability in global financial markets caused by protraction of the subprime loan problem, fears of a slowdown in the U.S. economy and growing inflationary pressures caused by continuously high prices for crude oil and primary products. Consequently, business conditions are expected to become even harsher.

Under these circumstances, the Furukawa Electric Group will continue to pursue its 2006–2009 medium-term management plan *Innovations 09*, formulated in March 2006 and partially revised in May 2007, toward our goal of transforming the company into a truly creative corporation with a global presence. While staying attuned to the changing market, we will continue to invest in research and development and extend capital investments centered on our four priority areas of automobiles, electronics, photonics and networks and ecology (eco), while at the same time seeking to develop new overseas markets.

On the other hand, since reducing interest-bearing debt is still a key management concern, and we also want to minimize the impact of surging bare metal prices, we will strive to further improve asset efficiency by reducing inventory and trade receivables. In addition, from the perspective of driving growth, we will promote restructuring, eliminating and integrating businesses and affiliate companies while focusing resources on cultivating human resources that are capable of precisely managing the deployment of our global business.

With respect to consolidated performance for fiscal 2009, we expect ¥1.2100 trillion in net sales, ¥46.0 billion in operating income, ¥34.5 billion in ordinary income and ¥24.1 billion in net income. Income and expenses includes the incremental rise of depreciation expense due to the revised tax system, which will have a negative impact of ¥6.5 billion on consolidated operating income.

CONSOLIDATED BALANCE SHEETS
THE FURUKAWA ELECTRIC CO., LTD. AND ITS SUBSIDIARIES
At March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and bank deposits (Notes 4 and 11)	¥ 47,328	¥ 46,664	$ 473,280
Marketable securities (Note 5)	40	8,150	400
Trade receivables (Note 6)	305,368	310,405	3,053,680
Inventories (Note 7)	117,996	116,911	1,179,960
Refundable income taxes due to carryback of losses (Note 18)	2,614	26,544	26,140
Deferred income taxes (Note 18)	8,086	4,547	80,860
Other current assets	20,004	18,363	200,040
Total current assets	501,436	531,584	5,014,360
Non-current assets:			
Investments and long-term loans (Notes 5, 8 and 11)	118,392	163,028	1,183,920
Property, plant and equipment, net of accumulated depreciation (Notes 9,11 and 17)	338,227	337,679	3,382,270
Deferred income taxes (Note 18)	10,823	10,820	108,230
Other assets	45,900	53,598	459,000
Total non-current assets	513,342	565,125	5,133,420
Total	¥ 1,014,778	¥ 1,096,709	$ 10,147,780

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Note 11)	¥ 189,789	¥ 207,460	$ 1,897,890
Trade payables (Note 10)	163,032	180,440	1,630,320
Customers' advances	4,001	3,286	40,010
Accrued income taxes (Note 18)	14,009	11,704	140,090
Deferred income taxes (Note 18)	5	8,156	50
Provision for product defect compensation(Note 2h)	3,402	3,402	34,020
Other current liabilities	44,937	40,242	449,370
Total current liabilities	419,175	454,690	4,191,750
Long-term liabilities :			
Long-term debt (Note 11)	209,263	220,715	2,092,630
Accrued retirement benefits (Note 12)	77,450	78,941	774,500
Provision for environmental costs (Note 2i)	3,406	1,683	34,060
Deferred income taxes (Note 18)	527	15,365	5,270
Other long-term liabilities	9,975	9,013	99,750
Total long-term liabilities	300,621	325,717	3,006,210
Contingent liabilities (Note 14)			
Net assets (Note 2r)			
Shareholders' equity (Note 13)			
Common stock Authorized shares, 2,500,000 thousand in 2008 and 2007 Issued shares, 706,539 thousand in 2008 706,183 thousand in 2007	69,373	69,359	693,730
Capital surplus	21,447	21,230	214,470
Retained earnings	119,712	108,744	1,197,120
Common treasury stock, at cost 9,226 thousand in 2008 118 thousand in 2007	(5,147)	(59)	(51,470)
Total shareholders' equity	205,385	199,274	2,053,850
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities (Notes 5 and 18)	24,733	47,093	247,330
Deferred gain on derivatives under hedge accounting (Note 2c)	2,018	3,920	20,180
Foreign currency translation adjustment	(200)	(3,240)	(2,000)
Total valuation and translation adjustments	26,551	47,773	265,510
Minority interests	63,046	69,255	630,460
Total net assets	294,982	316,302	2,949,820
Total	¥ 1,014,778	¥ 1,096,709	$ 10,147,780

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
THE FURUKAWA ELECTRIC CO., LTD. AND ITS SUBSIDIARIES
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net sales	¥ 1,174,247	¥ 1,104,709	$ 11,742,470
Cost of sales (Note 16)	1,002,410	930,399	10,024,100
Gross profit	171,837	174,310	1,718,370
Selling, general and administrative expenses (Note 16)	123,390	120,677	1,233,900
Operating income	48,447	53,633	484,470
Other income (expenses):			
Interest and dividend income	3,392	4,117	33,920
Interest expense	(8,773)	(9,675)	(87,730)
Foreign exchange (loss) gain, net	(3,132)	2,225	(31,320)
Gain on sales of investment securities (Note 5)	947	1,130	9,470
Gain on cessation of hedge accounting	1,307	-	13,070
Gain on the government grant	565	-	5,650
Provision for doubtful accounts	(2,274)	(1,525)	(22,740)
Loss on disposal of inventories	(1,198)	(1,362)	(11,980)
(Loss) gain on disposal of property, plant and equipment, net	(1,725)	8,090	(17,250)
Impairment loss (Notes 2q and 17)	(3,481)	-	(34,810)
Environmental costs	(2,544)	(1,672)	(25,440)
Equity in income of non-consolidated subsidiaries and affiliates	1,896	476	18,960
Refund on overpayments of certain taxes related to overseas subsidiary	1,954	-	19,540
Other, net	(4,347)	2,549	(43,470)
	(17,413)	4,353	(174,130)
Income before income taxes and minority interests	31,034	57,986	310,340
Income taxes (Note 18) :			
Current	20,367	17,529	203,670
Deferred	(8,901)	5,874	(89,010)
	11,466	23,403	114,660
Minority interests in income of consolidated subsidiaries	(4,277)	(4,818)	(42,770)
Net income	¥ 15,291	¥ 29,765	$ 152,910

	Yen		U.S. dollars
	2008	2007	2008
Per common share (Notes 2o and p)			
Basic net income	¥ 21.81	¥ 42.16	$ 0.218
Diluted net income	21.81	42.14	0.218
Cash dividends	7.00	6.50	0.070

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
THE FURUKAWA ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2008 and 2007

	Millions of yen										
	Shareholders' equity					Revaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total Shareholders' equity	Unrealized gains on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustment	Total revaluation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	69,312	21,183	84,768	(45)	175,218	51,851	-	(3,825)	48,026	63,457	286,701
Exercise of stock acquisition rights	47	47	-	-	94	-	-	-	-	-	94
Cash dividends paid	-	-	(4,235)	-	(4,235)	-	-	-	-	-	(4,235)
Bonuses to directors and statutory auditors	-	-	(105)	-	(105)	-	-	-	-	-	(105)
Net income	-	-	29,765	-	29,765	-	-	-	-	-	29,765
Net effect of increase in consolidated subsidiaries	-	-	(351)	-	(351)	-	-	-	-	-	(351)
Net effect of decrease in consolidated subsidiaries	-	-	(5)	-	(5)	-	-	-	-	-	(5)
Effect of decrease in affiliates accounted for under the equity method	-	-	(949)	-	(949)	-	-	-	-	-	(949)
Adjustments for retirement benefits of overseas companies	-	-	(144)	-	(144)	-	-	-	-	-	(144)
Acquisition of treasury stock	-	-	-	(15)	(15)	-	-	-	-	-	(15)
Disposal of treasury stock	-	0	-	1	1	-	-	-	-	-	1
Net change in the year	-	-	-	-	-	(4,758)	3,920	585	(253)	5,798	5,545
Balance at March 31, 2007	¥ 69,359	¥ 21,230	¥ 108,744	¥ (59)	¥ 199,274	¥ 47,093	¥ 3,920	¥ (3,240)	¥ 47,773	¥ 69,255	¥ 316,302
Exercise of stock acquisition rights	14	14	-	-	28	-	-	-	-	-	28
Effect of increase in exchange of equity interest	-	203	-	-	203	-	-	-	-	-	203
Cash dividends paid	-	-	(4,912)	-	(4,912)	-	-	-	-	-	(4,912)
Net income	-	-	15,291	-	15,291	-	-	-	-	-	15,291
Net effect of increase in consolidated subsidiaries	-	-	30	-	30	-	-	-	-	-	30
Effect of increase in affiliates accounted for under the equity method	-	-	435	-	435	-	-	-	-	-	435
Effect of increase in mergers of non-consolidated subsidiaries			141		141	-	-	-	-	-	141
Adjustments for retirement benefits of overseas companies	-	-	(17)	-	(17)	-	-	-	-	-	(17)
Acquisition of treasury stock	-	-	-	(5,090)	(5,090)	-	-	-	-	-	(5,090)
Disposal of treasury stock	-	0	-	2	2	-	-	-	-	-	2
Net change in the year	-	-	-	-	-	(22,360)	(1,902)	3,040	(21,222)	(6,209)	(27,431)
Balance at March 31, 2008	¥ 69,373	¥ 21,447	¥ 119,712	¥ (5,147)	¥ 205,385	¥ 24,733	¥ 2,018	¥ (200)	¥ 26,551	¥ 63,046	¥ 294,982

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					Revaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total Shareholders' equity	Unrealized gains on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustment	Total revaluation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	$ 693,590	$ 212,300	$ 1,087,440	$ (590)	$ 1,992,740	$ 470,930	$ 39,200	$ (32,400)	$ 477,730	$ 692,550	$ 3,163,020
Exercise of stock acquisition rights	140	140	-	-	280	-	-	-	-	-	280
Effect of increase in exchange of equity interest	-	2,030	-	-	2,030	-	-	-	-	-	2,030
Cash dividends paid	-	-	(49,120)	-	(49,120)	-	-	-	-	-	(49,120)
Net income			152,910		152,910	-	-	-	-		152,910
Net effect of increase in consolidated subsidiaries	-	-	300	-	300	-	-	-	-	-	300
Effect of increase in affiliates accounted for under the equity method	-	-	4,350	-	4,350	-	-	-	-	-	4,350
Effect of increase in mergers of non-consolidated subsidiaries	-	-	1,410	-	1,410	-	-	-	-	-	1,410
Adjustments for retirement benefits of overseas companies	-	-	(170)	-	(170)	-	-	-	-	-	(170)
Acquisition of treasury stock		-	-	(50,900)	(50,900)						(50,900)
Disposal of treasury stock	-	0	-	20	20	-	-	-	-	-	20
Net change in the year	-	-	-	-	-	(223,600)	(19,020)	30,400	(212,220)	(62,090)	(274,310)
Balance at March 31, 2008	$ 693,730	$ 214,470	$ 1,197,120	$ (51,470)	$ 2,053,850	$ 247,330	$ 20,180	$ (2,000)	$ 265,510	$ 630,460	$ 2,949,820

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THE FURUKAWA ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 31,034	¥ 57,986	$ 310,340
Adjustments for:			
Depreciation and amortization	42,128	37,903	421,280
Gain on sales of marketable securities and investment securities	(108)	(1,109)	(1,080)
Equity in income of non-consolidated subsidiaries and affiliates	(1,896)	(476)	(18,960)
Loss on disposal of inventories	1,198	1,362	11,980
Gain on disposal of property, plant and equipment	(144)	(11,932)	(1,440)
Loss on disposal of property, plant and equipment	1,869	3,842	18,690
Loss on write-down of investment securities	1,513	107	15,130
Impairment loss	3,481	-	34,810
Interest and dividend income	(3,392)	(4,117)	(33,920)
Interest expense	8,773	9,675	87,730
Foreign exchange loss (gain)	2,549	(1,664)	25,490
Increase in trade receivables	(2,026)	(28,957)	(20,260)
Increase in inventories	(3,666)	(14,167)	(36,660)
Decrease in refundable income tax due to carryback of loss	23,095	16,195	230,950
(Decrease) increase in trade payables	(13,587)	21,869	(135,870)
Decrease in accrued retirement benefits	(1,176)	(464)	(11,760)
Other	23,060	(9,126)	230,600
Subtotal	112,705	76,927	1,127,050
Interest and dividend income received	3,321	4,512	33,210
Interest expense paid	(8,854)	(9,499)	(88,540)
Income taxes paid	(16,412)	(21,216)	(164,120)
Net cash provided by operating activities	90,760	50,724	907,600
Cash flows from investing activities:			
Payments for purchase of marketable securities	-	(5,945)	-
Proceeds from sales of marketable securities	5,234	6,032	52,340
Payments for purchase of property, plant and equipment	(42,957)	(40,001)	(429,570)
Payments for purchase of intangibles	(2,307)	(1,833)	(23,070)
Payments for purchase of investment securities	(6,075)	(6,818)	(60,750)
Proceeds from sales of investment securities	9,942	2,097	99,420
Proceeds from sales of shares of a consolidated subsidiary resulting in change in scope of consolidation (Note4)	(3,391)	-	(33,910)
Proceeds from sales of non-current assets	2,299	15,102	22,990
Other	(14,858)	1,754	(148,580)
Net cash used in investing activities	(52,113)	(29,612)	(521,130)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Cash flows from financing activities:			
(Decrease) increase in short-term debt, net	(9,990)	14,831	(99,900)
Proceeds from long-term debt	59,725	59,860	597,250
Repayment of long-term debt	(79,894)	(91,570)	(798,940)
Proceeds from issuance of stock	29	93	290
Proceeds from issuance of stock to minority shareholders	66	1,779	660
Cash dividends paid	(4,912)	(4,235)	(49,120)
Cash dividends paid to minority shareholders	(1,540)	(1,337)	(15,400)
Payments of purchase of common treasury stock	(5,089)	(14)	(50,890)
Other	24	(101)	240
Net cash used in financing activities	(41,581)	(20,694)	(415,810)
Effect of exchange rate changes on cash and cash equivalents	(79)	1,655	(790)
Net (decrease) increase in cash and cash equivalents	(3,013)	2,073	(30,130)
Cash and cash equivalents at beginning of year	45,863	41,567	458,630
Cash and cash equivalents of newly consolidated subsidiaries	308	2,316	3,080
Cash and cash equivalents of a de-consolidated subsidiary	-	(93)	-
Net increase in cash and cash equivalents from mergers	670	-	6,700
Cash and cash equivalents at end of year (Note 4)	¥ 43,828	¥ 45,863	$ 438,280

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE FURUKAWA ELECTRIC CO., LTD. AND ITS 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 from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instrument and Exchange Law of Japan.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries.

Certain items presented in the consolidated financial statements submitted to the directors of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

2. Significant Accounting Policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its 110 and 108 major subsidiaries in 2008 and 2007, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in its 16 and 14 major affiliates in 2008 and 2007, 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 mainly amortized over a five-year period using the straight-line method. If the effective useful lives of assets can be reasonably estimated, these useful lives are used for amortization purposes. One such amount recorded as goodwill by a subsidiary in the United States of America (the “U.S.”), and included in “Other assets”, is not amortized, in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”). Under U.S. GAAP, an impairment test on goodwill is required to be performed at least annually or when circumstances lead management to believe that substantial impairment may have occurred. If an impairment has occurred and the fair value of the acquired business is determined to be less than the book value, an impairment loss is recorded to reduce the amount of goodwill.

b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits capable of being withdrawn on demand and short-term investments with an original maturity of three months or less and subject to a minor risk of fluctuation 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 investments in equity securities of non-consolidated subsidiaries and affiliates are classified as "available-for-sale securities" and carried at fair value with unrealized gains and losses, net of tax, reported as a separate component of net assets. For the purpose of computing gains and losses on securities sold, the cost of these securities is determined using the weighted 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" in the accompanying balance sheets.

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 are included in net income, with the exception that gains or losses on certain qualified hedging instruments may be deferred as an a part of "Net assets" 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 19.

d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amount of estimated non-recoverable receivables on an individual account basis, plus the amount calculated by applying the historical bad debt loss ratios to the remaining receivables.

e) Inventories

Inventories are stated principally at cost, which is determined using the average method.

f) Property, plant and equipment, and depreciation

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

Buildings owned by the Company and its significant domestic consolidated subsidiaries are depreciated using the straight-line method and the remaining properties of these companies are depreciated using the declining-balance method. Foreign consolidated subsidiaries' properties are depreciated principally using the straight-line method.

(Change in accounting policy)
Effective from the fiscal year beginning April 1, 2007, the Company and its domestic subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥663 million ($6,630 thousand), respectively.

(Additional information)
The Company and its domestic subsidiaries have depreciated the residual value of property, plant and equipment acquired on or before March 31, 2007 to a nominal amount by the straight-line method over a period of five years from the following fiscal year when 5% of the acquisition cost is reached in accordance with the previous Corporation Tax Law of Japan. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥3,606 million ($36,060 thousand), respectively.

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 domestic consolidated subsidiaries have features whereby 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 described in Note 12.

A minimum pension liability adjustment is required for the Company's consolidated subsidiaries in the U.S., generally when the accumulated benefit obligation exceeds plan assets under U.S. GAAP. The minimum liability adjustment, less allowable intangible assets, is directly charged to retained earnings, net of tax benefit, in the accompanying consolidated financial statements.

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.

However, it was decided by the board of directors' meeting held on April 28, 2006, that the retirement benefits plan for directors and statutory auditors would be terminated on June 29, 2006 when the shareholders' meeting was held.
The allowance prior to the termination date was included in "Other long-term liabilities".

h) Provision for product defect compensation

Provision for product defect compensation is provided at an amount deemed necessary to cover possible compensation costs.

i) Provision for environmental costs

Provision for environmental costs, mainly to remove Poly Chlorinated Biphenyl ("PCB") and to improve soil conservation, is provided to cover estimated future costs.

j) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as finance leases. Leases which do not substantially transfer ownership of the assets at the end of the lease term are accounted for as operating leases.

k) Revenue recognition

Operating revenue is mainly recorded upon shipment of goods or on completion of construction or services. The percentage of completion method is however applied to significant long-term construction contracts.

l) 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.

m) Income taxes

Accrued income taxes are recorded based on the Company's 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.

The Company has elected to file its return under the consolidated tax filing system.

n) 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 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.

o) Cash dividends

On May 1, 2006, a new company law (the "Corporate Law of Japan") became effective, which replaced the Japanese Commercial Code.

Dividends paid out of earnings are, in principle, approved by the shareholders' meeting. Interim dividends can be paid at any time during the fiscal year by resolution of the board of directors, if the Article of Incorporation set out for such dividends under the Corporate Law of Japan.

The Corporate Law of Japan provides certain limitations on the amount available for dividends.

p) Net income per common share

The consolidated statements of income include "basic" and "diluted" per share information. Basic per share income is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the respective years. The weighted average number of shares used in the calculation of basic net income per common share was 701,006 thousand and 706,015 thousand for the years ended March 31, 2008 and 2007, respectively. The only difference in the calculation of basic and diluted net income per common share is the inclusion of 110 thousand potential common shares, which are subscriptions rights, for the year ended March 31, 2008.

q) Impairment of property, plant and equipment

Property, plant and equipment are periodically 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.
Accumulated loss of impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

Additional information on impairment of property, plant and equipment, and depreciation is presented in Note 17.

r) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries have applied "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and "Implementation Guidance for Accounting Standards for Presentation of Net Assets in the Balance Sheet", both issued by the Accounting Standards Board of Japan on December 9, 2005.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥ 100 =U.S. $ 1, the approximate rate of exchange for the year ended March 31, 2008, has been used for the purpose of the 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 Flow Information

Cash and cash equivalents at March 31, 2008 and 2007 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and bank deposits	¥ 47,328	¥46,664	$ 473,280
Less, time deposits with an original maturity of more than 3 months	(3,540)	(3,023)	(35,400)
Highly liquid securities	40	2,222	400
Cash and cash equivalents	¥ 43,828	¥ 45,863	$ 438,280

The information of assets and liabilities of Optical Communication Products, Inc., ("OCP") which was sold during the year ended March 31, 2008, and the difference between the proceeds from sales of shares of OCP and net cash proceeds from sales of shares of OCP is as follows.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 18,047	$ 180,470
Non-current assets	3,975	39,750
Current liabilities	(1,826)	(18,260)
Long-term liabilities	(18)	(180)
Foreign currency translation adjustment	(586)	(5,860)
Minority interests	(8,216)	(82,160)
Gain on sales of shares of OCP	227	2,270
Proceeds from sales of shares of OCP	11,603	116,030
Acquisition of shares of purchaser of OCP's shares	(1,806)	(18,060)
Cash and cash equivalents of OCP	(13,188)	(131,880)
Net cash proceeds from sales of shares of OCP	¥ (3,391)	$ (33,910)

5. Debt and Equity Securities

Investments in debt and equity securities that have a readily determinable fair value at March 31, 2008 and 2007 included in "Marketable securities" (Current assets) and in "Investments and long-term loans" (Non- current assets) are summarized as follows:

	Millions of yen							
	2008				2007			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities:								
Government bonds and municipal bonds	¥ —	¥ —	¥ —	¥ —	¥ 8,130	¥ 8,131	¥ 1	¥ —
Corporate bonds	10	10	—	—	—	—	—	—
Other debt securities	217	220	3	—	163	164	1	—
Total held-to-maturity debt securities	227	230	3	—	8,293	8,295	2	—
Available-for-sale securities:								
Marketable equity securities	27,390	69,230	44,359	2,519	24,754	103,735	79,164	183
Other securities	11	11	—	—	—	—	—	—
Total available-for-sale securities	27,401	69,241	44,359	2,519	24,754	103,735	79,164	183
	¥ 27,628	¥ 69,471	¥ 44,362	¥ 2,519	¥ 33,047	¥ 112,030	¥ 79,166	¥ 183

	Thousands of U.S. dollars			
	2008			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities:				
Government bonds and municipal bonds	$ —	$ —	$ —	$ —
Corporate bonds	100	100	—	—
Other debt securities	2,170	2,200	30	—
Total held-to-maturity debt securities	2,270	2,300	30	—
Available-for-sale securities:				
Marketable equity securities	273,900	692,300	443,590	25,190
Other securities	110	110	—	—
Total available-for-sale securities	274,010	692,410	443,590	25,190
	$276,280	$694,710	$443,620	$ 25,190

The proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥4,038 million ($40,380 thousand) and ¥638 million, respectively. The gross realized gains on those sales for the years ended March 31, 2008 and 2007 were ¥698 million ($6,980 thousand) and ¥242 million, respectively, and gross realized losses were ¥277 million ($2,770 thousand) and ¥10 million, respectively.

The aggregate annual maturities of available-for-sale securities and held-to-maturity debt securities at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within 1 year	¥ 30	¥ 8,139	$ 300
Due after 1 year through 5 years	202	153	2,020
Due after 5 years through 10 years	—	1	—
	¥ 232	¥ 8,293	$ 2,320

6. Trade Receivables

Trade receivables at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-consolidated subsidiaries and affiliates	¥ 20,580	¥ 24,655	$ 205,800
Other	286,631	287,887	2,866,310
Allowance for doubtful accounts	(1,843)	(2,137)	(18,430)
	¥ 305,368	¥ 310,405	$ 3,053,680

7. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥ 36,369	¥ 34,815	$ 363,690
Work in process	43,191	42,079	431,910
Raw materials and supplies	38,436	40,017	384,360
	¥ 117,996	¥ 116,911	$ 1,179,960

8. Investments and Long-term Loans

Investments and long-term loans at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-consolidated subsidiaries and affiliates	¥ 43,817	¥ 44,719	$ 438,170
Other	74,575	118,309	745,750
	¥ 118,392	¥ 163,028	$1,183,920

9. Property, Plant and Equipment

Property, plant and equipment at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Land	¥ 87,817	¥ 89,732	$ 878,170
Buildings	254,390	245,763	2,543,900
Machinery and equipment	716,152	690,997	7,161,520
Construction in progress	13,144	20,535	131,440
	1,071,503	1,047,027	10,715,030
Accumulated depreciation	(733,276)	(709,348)	(7,332,760)
	¥ 338,227	¥ 337,679	$ 3,382,270

10. Trade Payables

Trade payables at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-consolidated subsidiaries and affiliates	¥ 2,774	¥ 4,103	$ 27,740
Other	160,258	176,337	1,602,580
	¥ 163,032	¥ 180,440	$ 1,630,320

11. Short-term 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 0.5160% to 7.7000% and from 0.0610% to 7.2500% per annum, at March 31, 2008 and 2007, respectively, and the current portion of long-term debt.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
2.78% unsecured bonds due 2007	¥ —	¥ 20,000	$ —
3.00% unsecured bonds due 2008	—	13,000	—
1.67% unsecured bonds due 2008	3,000	3,000	30,000
1.20% unsecured bonds due 2008	2,000	2,000	20,000
1.22% unsecured bonds due 2011	20,000	20,000	200,000
1.87% unsecured bonds due 2011	20,000	20,000	200,000
1.46% unsecured bonds due 2010	10,000	10,000	100,000
1.76% unsecured bonds due 2012	10,000	10,000	100,000
1.28% unsecured bonds due 2012	5,000	—	50,000
Debt issued by consolidated subsidiaries, due from 2007 to 2012 with interest rates ranging from 0.46% to 2.20%	6,366	7,611	63,660
Loans, principally from banks and insurance companies, due from 2009 to 2015 with interest rates ranging from0.5110% to 12.5000% and predominantly collateralized	192,800	183,217	1,928,000
	269,166	288,828	2,691,660
Less: portion due within one year	59,903	68,113	599,030
	¥ 209,263	¥ 220,715	$ 2,092,630

At March 31, 2008 and 2007, the following assets were pledged as collateral for long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Property, plant and equipment	¥ 30,479	¥ 44,795	$ 304,790
Investments in securities	33	89	330
Cash and bank deposits	50	100	500
	¥ 30,562	¥ 44,984	$ 305,620

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2008 were as follows.

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 31,918	$ 319,180
2011	56,037	560,370
2012	42,827	428,270
2013 and thereafter	78,481	784,810

12. Severance and Retirement Plans

The following table sets forth the retirement benefit obligation, plan assets and funded status of the Company and its domestic consolidated subsidiaries at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ 117,141	¥ 117,995	$ 1,171,410
Fair value of plan assets	(30,331)	(33,133)	(303,310)
Benefit obligation in excess of plan assets	86,810	84,862	868,100
Unrecognized prior service costs	(34)	(55)	(34)
Unrecognized actuarial net loss	(9,326)	(5,884)	(93,260)
Net amount recognized	77,450	78,923	774,500
Prepaid pension costs	-	18	-
Accrued retirement benefits recognized in the consolidated balance sheets	¥ 77,450	¥ 78,941	$ 774,500

The severance and retirement benefit expenses of the Company and its consolidated subsidiaries included the following components for the years ended March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service costs	¥ 5,057	¥ 3,856	$ 50,570
Interest costs	3,072	2,636	30,720
Expected return on plan assets	(1,210)	(995)	(12,100)
Amortization of actuarial differences	1,198	705	11,980
Amortization of prior service costs	21	21	210
Retirement benefit expense	¥ 8,138	¥ 6,223	$ 81,380

Assumptions used in accounting for the employees' retirement benefit plans for the years ended March 31, 2008 and 2007 were as follows:

Discount rate	2.0 - 6.0% for 2008 and 2.0 - 5.8% 2007
Expected rate of return on plan assets	2.0 - 8.0% for 2008 and 2.0 - 8.0% for 2007
Method of attributing the projected benefits to periods of service	Straight-line basis
Amortization of unrecognized prior service costs	1 -17 years for 2008 and 2007
Amortization of unrecognized actuarial differences (amortization starts from the year following that year in which they arise)	1 - 17 years for 2008 and 2007

13. Shareholders' equity

On May 1, 2006, the Corporate Law of Japan became effective, bringing revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the years ending on or after May 1, 2006. The Corporate Law of Japan has replaced the Japanese Commercial Code.

Under the Corporate Law of Japan, cash dividends may be paid at any time during the fiscal year with certain conditions. An amount equal to 10% of dividends is required to be appropriated as additional paid-in capital (a component of "Capital surplus") or legal reserve (a component of "Retained earnings") until the amount of additional paid-in capital and legal reserve equals 25% of common stock. The cash dividends paid out of additional paid-in capital and/or legal reserve 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. The maximum amount that the Company can distribute as cash dividends is calculated based on the non-consolidated fiscal statements of the Company.

(Dividends)

1) Dividend payment

Approvals by shareholders' meeting held on June 26, 2007 are as follows:

Type of shares	Common stock
Total amount of dividends	¥2,471 million ($24,710 thousand)
Dividends per share	¥3.5 ($0.035)
Record date	March 31, 2007
Effective date	June 27, 2007

Approvals by directors' meeting held on November 8, 2007 are as follows:

Type of shares	Common stock
Total amount of dividends	¥2,441 million ($24,410 thousand)
Dividends per share	¥3.5 ($0.035)
Record date	September 30, 2007
Effective date	December 7, 2007

2) Dividends whose record date is attributable to the year ended March 31, 2008 but to be effective in the following year

Approvals by shareholders' meeting held on June 26, 2008 are as follows:

Type of shares	Common stock
Total amount of dividends	¥2,440 million ($24,400 thousand)
Funds for dividends	Retained earnings
Dividends per share	¥3.5 ($0.035)
Record date	March 31, 2008
Effective date	June 27, 2008

14. Contingent Liabilities

Contingent liabilities at March 31, 2008 and 2007 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Notes discounted	¥ 714	¥ 970	$ 7,140
Notes endorsed	25,021	19,946	250,210
Loans guaranteed (principally for non-consolidated subsidiaries and affiliates)	20,322	17,143	203,220
Total	¥ 46,057	¥ 38,059	$ 460,570

15. Leases

Lease rental expense on finance lease contracts without transfer of ownership for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease rental expense	¥ 1,520	¥ 2,101	$ 15,200

The amounts of outstanding future lease payments at March 31, 2008 and 2007, which included the portion of interest thereon, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease			
Future lease payments:			
Within one year	¥ 920	¥ 1,366	$ 9,200
Over one year	1,281	1,591	12,810
Total	¥ 2,201	¥ 2,957	$ 22,010

Acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2007, and depreciation expense for the years ended March 31, 2008 and 2007, assuming capitalization, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition cost	¥ 5,288	¥ 7,456	$ 52,880
Accumulated depreciation	3,087	4,499	30,870
Net book value	¥ 2,201	¥ 2,957	$ 22,010
Depreciation	¥ 1,520	¥ 2,101	$ 15,200

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, 2008 and 2007 amounted to ¥19,789 million ($197,890 thousand) and ¥19,976 million, respectively.

17. Impairment loss

For the purpose of determining whether impairment losses have occurred, the Company and its subsidiaries classified property, plant and equipment into groups by company or business or business unit, each of which is deemed to generate independent cash flows, and idle properties and rental properties into individual independent groups.

Impairment loss by type of assets for the year ended March 31, 2008 consisted of the following:

Usage	Type of asset	Millions of yen	Thousands of U.S. dollars
1) Property, plant and equipment			
Manufacturing equipment for copper compound metal material	Machinery and equipment	¥ 1,709	$ 17,090
Idle properties and rental properties	Land	772	7,720
		¥ 2,481	$ 24,810
2) Goodwill		1,000	10,000
	Total	¥ 3,481	$ 34,810

It has been decided that recoverable amounts of plant for copper compound metal material were less than their carrying amounts due to continuing negative cash flow generated from operating activities and the likelihood of the carrying amount not being recoverable by future cash flows. Accordingly, the carrying amounts of such assets were reduced to the recoverable amounts. The recoverable amounts of the asset groups were mainly evaluated based on the value in use, which was calculated by discounting future cash flows at an interest rate of 14 %.

The carrying amounts of certain assets forming parts of idle properties and rental properties were written down to their recoverable amounts, owing to substantial decline in the fair market value. Recoverable amount of each asset for idle properties and rental properties was mainly evaluated based on the net selling value (fair value less costs to sell). Recoverable amount of such asset group was mainly determined based on either appraisal value prepared by real estate appraisers or assessed value used for property tax purpose.

In addition, as a result of impairment test under Statement of Financial Accounting Standards No.142, the fair value of certain assets owned by the U.S subsidiary was determined to be less than its carrying amount, so that impairment loss of ¥ 1,000 million ($ 10,000 thousand) was recognized.

Impairment loss of property, plant and equipment of ¥236 million was included in "Other, net" in the Consolidated Statement of Income for the year ended March 31, 2007.

Further, impairment loss by type of assets was not provided pursuant to the Regulations on Consolidated Financial Statements (ordinance promulgated by the Ministry of Finance) in Japan since they have no material effect on the total "Other income (expense)" for the year ended March 31, 2007.

18. 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 a statutory income tax rate of approximately 40.6% and 39.5% for the years ended March 31, 2008 and 2007, respectively. Foreign consolidated subsidiaries are subject to income taxes in the countries in which they operate.

Summarized below is a reconciliation of the above statutory income tax rate in Japan to the effective income tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2008. Reconciliation for the year ended March 31, 2007 is not presented because the difference between the statutory income tax rate and the effective income tax rate is less than 5% of the statutory income tax rate.

	2008
Japanese statutory income tax rate	40.6%
Tax benefits of net operating losses not recognized	8.0
Dividend income not taxable	(2.9)
Equity in income of non-consolidated subsidiaries and affiliates	(2.5)
Valuation allowance	9.5
Difference of applicable tax rate of overseas consolidated subsidiaries	(7.0)
Refundable income taxes	(5.2)
Other, net	(3.6)
Effective income tax rate	36.9%

Deferred tax assets (liabilities) as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Accrued retirement benefits	¥28,849	¥ 28,549	$ 288,490
Losses carried forward	57,691	63,539	576,910
Accrued bonus	4,508	4,070	45,080
Depreciation	43,428	60,480	434,280
Other	22,654	24,573	226,540
Gross deferred tax assets	157,130	181,211	1,571,300
Valuation allowance	(110,833)	(136,431)	(1,108,330)
Total deferred tax assets	46,297	44,780	462,970
Unrealized gains on available-for-sale securities	(16,976)	(31,244)	(169,760)
Special reserve for deferred capital gains	(3,706)	(5,006)	(37,060)
Undistributed earnings of Subsidiaries	—	(10,473)	—
Other	(7,238)	(6,211)	(72,380)
Total deferred tax liabilities	(27,920)	(52,934)	(279,200)
Net deferred tax assets (liabilities)	¥ 18,377	¥ (8,154)	$ 183,770

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

The net loss of a Canadian subsidiary was carried back to previous years to the extent allowable under the applicable tax laws, and a receivable was established at March 31, 2003. This receivable is recorded as current assets at the amount of ¥26,544 million at March 31, 2007, as the receivable becomes due within one year.

19. Additional Information on Derivatives

The Company and its consolidated 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 consolidated subsidiaries manage their exposure to market rate movements of their financial assets and liabilities through the use of derivative financial instruments, which include foreign exchange forward contracts, currency swap contracts, interest rate swap, interest cap option contracts and forward contracts for copper, aluminum and other materials designated as hedges. The Company and its consolidated 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 non-performance 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

The foreign currency derivative contracts outstanding at March 31, 2008 and 2007 are summarized below. Those interest rate swap contracts to which hedge accounting has been applied, as explained in Note 2c, are excluded from this summary.

	Millions of yen					
	2008			2007		
	Notional Amount	Estimated fair value	Unrealized gain(loss)	Notional amount	Estimated fair value	Unrealized gain(loss)
Foreign currency:						
Sell						
U.S. dollars	¥ 3,807	¥ 3,651	¥ 156	¥ 41	¥ 39	¥ 2
Total	¥ 3,807	¥ 3,651	¥ 156	¥ 41	¥ 39	¥ 2

	Thousands of U.S. dollars		
	2008		
	Notional amount	Estimated fair value	Unrealized gain (loss)
Foreign currency:			
Sell			
U.S. dollars	$ 38,070	$ 36,510	$ 1,560
Total	$ 38,070	$ 36,510	$ 1,560

2) Interest rate transactions

The interest rate swap contracts outstanding at March 31, 2008 and 2007 are summarized below. Those interest rate swap contracts to which hedge accounting has been applied, as explained in Note 2c, are excluded from this summary.

	Millions of yen					
	2008			2007		
	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	590	(0)	(0)	2,970	(10)	(10)
Total	¥ 590	¥ (0)	¥ (0)	¥ 2,970	¥ (10)	¥ (10)

	Thousands of U.S. dollars		
	2008		
	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	5,900	(0)	(0)
Total	$ 5,900	$ (0)	$ (0)

3) Commodity transactions

Forward contracts for copper outstanding at March 31, 2008 and 2007 are summarized below. Those forward contracts to which hedge accounting has been applied, as explained in Note 2c, are excluded from this summary.

	Millions of yen					
	2008			2007		
	Notional Amount	Estimated fair value	Unrealized gain(loss)	Notional amount	Estimated fair value	Unrealized gain(loss)
Forward contracts:						
Sell	¥ 2,443	¥ 2,457	¥ (14)	¥ 120	¥ 120	¥ (0)
Buy	945	901	(44)	120	120	0
Total	¥ 3,388	¥ 3,358	¥ (58)	¥ 240	¥ 240	¥ —

	Thousands of U.S. dollars		
	2008		
	Notional amount	Estimated fair value	Unrealized gain (loss)
Forward contracts:			
Sell	$ 24,430	,$ 24,570	$ (140)
Buy	9,450	9,010	(440)
Total	$ 33,880	$ 33,580	$ (580)

20. Reclassifications

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau have been reclassified for the convenience of readers outside Japan.
Certain amounts in the consolidated financial statements for 2007 have been reclassified to conform to the 2008 presentation.

21. Subsequent Events

For the purpose of restructuring its North American operations, the Company's board of directors decided to liquidate FEJ HOLDING INC. in Canada on March 27, 2003. Such liquidation, however, was not completed since the corporate tax refund procedure had still been in process. In June 2008, with the receipt of final tax refunds and distribution of the major residual assets of FEJ HOLDING INC. to the Company that followed, the liquidation is now deemed to have been completed.
The cumulative amount of foreign currency translation adjustment applicable to FEJ HOLDING INC will be recorded as a gain, which is estimated at ¥11,140 million ($111,400 thousand) at March 31, 2008, as a result of change in scope of consolidation. The final gain will be determined when it is decided that FEJ HOLDING INC. is excluded from the consolidation scope.

22. 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) Energy and industrial products:
Manufacture and sale of bare wire, aluminum wire, insulated wire, power cables, power cable-attached parts and construction, electric wire tubing, plastic products, thermal engineering electric feeders, etc.

(3) Metals:
Manufacture and sale of copper products such as copper tubes, rolled copper products, electrolytic copper foils, shape memory alloys, etc.

(4) Light metals:
Manufacture and sale of light metal products such as aluminum sheets, aluminum plates, extruded products, etc.

(5) Electronics and automotive systems:
Manufacture and sale of batteries, automobile parts and electric wire, magnet wire, heat pipes, aluminum plates for memory disks, electronic components and parts, etc.

(6) Services and other:
Service businesses such as real estate, distribution, information, etc.

Segment information by business segment for the years ended March 31, 2008 and 2007 is summarized as follows:

2008:	Telecommunications	Energy and industrial products	Metals	Light metals	Electronics and automotive systems	Services and other	Total	Elimination and corporate assets*	Consolidated
	Millions of yen								
Net sales									
Outside customers	¥ 158,033	¥ 283,495	¥ 209,893	¥ 249,900	¥ 258,199	¥ 14,727	¥ 1,174,247	¥ –	¥ 1,174,247
Inter-segment sales	5,084	31,541	3,847	8,654	10,362	31,073	90,561	(90,561)	–
Total	163,117	315,036	213,740	258,554	268,561	45,800	1,264,808	(90,561)	1,174,247
Operating expenses	152,135	306,902	207,649	246,157	259,489	44,281	1,216,613	(90,813)	1,125,800
Operating income	¥ 10,982	¥ 8,134	¥ 6,091	¥ 12,397	¥ 9,072	¥ 1,519	¥ 48,195	¥ 252	¥ 48,447
Assets, depreciation, loss on impairment and capital expenditures:									
Assets	¥ 155,187	¥ 193,888	¥ 154,059	¥ 241,366	¥ 165,839	¥ 81,525	¥ 991,864	¥ 22,914	¥ 1,014,778
Depreciation	9,589	4,772	6,989	10,731	6,194	1,974	40,249	1,879	42,128
Impairment loss	999	-	1,397	666	315	-	3,377	104	3,481
Capital expenditures	3,992	7,885	10,731	12,590	7,670	1,163	44,031	1,233	45,264

2007:	Telecommunications	Energy and industrial products	Metals	Light metals	Electronics and automotive systems	Services and other	Total	Elimination and corporate assets*	Consolidated
	Millions of yen								
Net sales									
Outside customers	¥ 161,287	¥ 267,981	¥ 191,931	¥ 237,778	¥ 232,244	¥ 13,488	¥ 1,104,709	¥ –	¥ 1,104,709
Inter-segment sales	4,878	26,289	1,936	8,892	8,699	26,725	77,419	(77,419)	–
Total	166,165	294,270	193,867	246,670	240,943	40,213	1,182,128	(77,419)	1,104,709
Operating expenses	154,844	285,087	186,237	231,637	232,227	38,604	1,128,636	(77,560)	1,051,076
Operating income	¥ 11,321	¥ 9,183	¥ 7,630	¥ 15,033	¥ 8,716	¥ 1,609	¥ 53,492	¥ 141	¥ 53,633
Assets, depreciation, loss on impairment and capital expenditures:									
Assets	¥ 181,214	¥ 193,835	¥ 156,079	¥ 251,814	¥ 162,842	¥ 75,985	¥ 1,021,769	¥ 74,940	¥ 1,096,709
Depreciation	10,743	3,718	6,005	8,009	5,665	1,887	36,027	1,876	37,903
Impairment loss	-	232	-	-	4	-	236	-	236
Capital expenditures	4,370	4,877	6,840	16,067	6,807	1,526	40,487	1,346	41,833

	Thousands of U.S. dollars (Note 3)								
	Telecommunications	Energy and industrial products	Metals	Light metals	Electronics and automotive systems	Services and other	Total	Elimination and corporate assets*	Consolidated
2008:									
Net sales									
Outside customers	$ 1,580,330	$ 2,834,950	$ 2,098,930	$ 2,499,000	$ 2,581,990	$ 147,270	$ 11,742,470	$ –	$ 11,742,470
Inter-segment sales	50,840	315,410	38,470	86,540	103,620	310,730	905,610	(905,610)	–
Total	1,631,170	3,150,360	2,137,400	2,585,540	2,685,610	458,000	12,648,080	(905,610)	11,742,470
Operating expenses	1,521,350	3,069,020	2,076,490	2,461,570	2,594,890	442,810	12,166,130	(908,130)	11,258,000
Operating income	$ 109,820	$ 81,340	$ 60,910	$ 123,970	$ 90,720	$ 15,190	$ 481,950	$ 2,520	$ 484,470
Assets, depreciation, loss on impairment and capital expenditures:									
Assets	$ 1,551,870	$ 1,938,880	$ 1,540,590	$ 2,413,660	$ 1,658,390	$ 815,250	$ 9,918,640	$ 229,140	$ 10,147,780
Depreciation	95,890	47,720	69,890	107,310	61,940	19,740	402,490	18,790	421,280
Impairment loss	9,990	–	13,970	6,660	3,150	–	33,770	1,040	34,810
Capital expenditures	39,920	78,850	107,310	125,900	76,700	11,630	440,310	12,330	452,640

* 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 investment subsidiary.

(Change in accounting policy)

As mentioned in Note 2-f) Property, plant and equipment, effective from the fiscal year beginning April 1, 2007, the Company and its domestic subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result, operating expense of "Telecommunications" segment increased by ¥91 million ($910 thousand),operating expense of "Energy and industrial products" segment increased by ¥208 million($2,080 thousand), operating expense of "Metals" segment increased by ¥94 million ($940 thousand), operating expense of "Light metals" segment increased by ¥88 million ($880 thousand), operating expense of "Electronics and automotive systems" segment increased by ¥128 million ($1,280 thousand), and operating expense of "Services and other" segment increased by ¥54 million ($540 thousand) for the year ended March 31, 2008, compared with what would have been recorded under the previous method.

(Additional information)

As mentioned in Note 2-f) Property, plant and equipment, the Company and its domestic subsidiaries have accounted for property, plant and equipment acquired on or before March 31, 2007 through the uniform depreciation over 5 years of the difference between an amount equivalent to 5% of the acquisition price and the memorandum price from the following fiscal year when 5% of the acquisition price is reached, through the adoption of a depreciation method based on the Corporation Tax Law of Japan before its revision. As a result, operating expense of "Telecommunications" segment increased by ¥347 million ($3,470 thousand),operating expense of "Energy and industrial products" segment increased by ¥443 million ($4,430 thousand), operating expense of "Metals" segment increased by ¥682 million ($6,820 thousand), operating expense of "Light metals" segment increased by ¥1,536 million ($15,360 thousand), operating expense of "Electronics and automotive systems" segment increased by ¥444 million ($4,440 thousand), and operating expense of "Services and other" segment increased by ¥154 million ($1,540 thousand) for the year ended March 31, 2008, compared with what would have been recorded under the previous method.

Segment information by geographic area for the years ended March 31, 2008 and 2007 was presented below.

Further segmentation by country or area in the other areas was not provided pursuant to regulations on consolidated financial statements in Japan, as both net sales and assets in the respective country or area were less than 10% of total net sales and assets.

	Millions of yen						
	Japan	Asia	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2008:							
Net sales							
Outside customers	¥ 921,138	¥ 152,374	¥ 62,953	¥ 37,782	¥ 1,174,247	¥ –	¥ 1,174,247
Inter-segment sales	31,294	59,323	2,767	72	93,456	(93,456)	–
Total	952,432	211,697	65,720	37,854	1,267,703	(93,456)	1,174,247
Operating expenses	910,487	204,853	67,903	35,743	1,218,986	(93,186)	1,125,800
Operating income (loss)	¥ 41,945	¥ 6,844	¥ (2,183)	¥ 2,111	¥ 48,717	¥ (270)	¥ 48,447
Assets	¥ 806,076	¥ 117,592	¥ 57,338	¥ 25,324	¥ 1,006,330	¥ 8,448	¥ 1,014,778

	Millions of yen						
	Japan	Asia	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2007:							
Net sales							
Outside customers	¥ 862,096	¥ 137,489	¥ 70,806	¥ 34,318	¥ 1,104,709	¥ –	¥ 1,104,709
Inter-segment sales	30,036	39,071	2,720	83	71,910	(71,910)	–
Total	892,132	176,560	73,526	34,401	1,176,619	(71,910)	1,104,709
Operating expenses	844,101	169,744	77,166	31,583	1,122,594	(71,518)	1,051,076
Operating income (loss)	¥ 48,031	¥ 6,816	¥ (3,640)	¥ 2,818	¥ 54,025	¥ (392)	¥ 53,633
Assets	¥ 837,221	¥ 108,375	¥ 70,835	¥ 25,059	¥ 1,041,490	¥ 55,219	¥ 1,096,709

	Thousands of U.S. dollars (Note 3)						
	Japan	Asia	North America	Other areas	Total	Elimination and corporate assets*	Consolidated
2008:							
Net sales							
Outside customers	$ 9,211,380	$ 1,523,740	$ 629,530	$ 377,820	$ 11,742,470	$ —	$ 11,742,470
Inter-segment sales	312,940	593,230	27,670	720	934,560	(934,560)	—
Total	9,524,320	2,116,970	657,200	378,540	12,677,030	(934,560)	11,742,470
Operating expenses	9,104,870	2,048,530	679,030	357,430	12,189,860	(931,860)	11,258,000
Operating income (loss)	$ 419,450	$ 68,440	$ (21,830)	$ 21,110	$ 487,170	$ (2,700)	$ 484,470
Assets	$ 8,060,760	$ 1,175,920	$ 573,380	$ 253,240	$ 10,063,300	$ 84,480	$ 10,147,780

* 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 investment subsidiary.

(Change in accounting policy)
As mentioned in Note 2-f) Property, plant and equipment, effective from the fiscal year beginning April 1, 2007, the Company and its domestic subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result, operating expense of "Japan" segment increased by ¥663 million ($6,630 thousand) for the year ended March 31, 2008, compared with what would have been recorded under the previous method.

(Additional information)
As mentioned in Note 2-f) Property, plant and equipment, the Company and its domestic subsidiaries have accounted for property, plant and equipment acquired on or before March 31, 2007 through the uniform depreciation over 5 years of the difference between an amount equivalent to 5% of the acquisition price and the memorandum price from the following fiscal year when 5% of the acquisition price is reached, through the adoption of a depreciation method based on the Corporation Tax Law of Japan before its revision. As a result, operating expense of "Japan" segment increased by ¥3,606 million ($36,060 thousand) for the year ended March 31, 2008, compared with what would have been recorded under the previous method.

Overseas sales of the Company and its domestic consolidated subsidiaries(which represent the exports made by the Company and its domestic consolidated subsidiaries and sales of its overseas consolidated subsidiaries by areas) for the year ended March 31, 2008 and 2007 are summarized as follows.

	Millions of yen		
	Southeast asia	Other areas	Total
2008: Overseas sales	¥ 123,717	¥ 230,750	¥ 354,467
Consolidated sales	—	—	¥ 1,174,247
Percentage of overseas sales against consolidated net sales	10.5%	19.7%	30.2%

	Millions of yen		
	Southeast asia	Other areas	Total
2007: Overseas sales	¥ 108,574	¥ 214,867	¥ 323,441
Consolidated sales	—	—	¥ 1,104,709
Percentage of overseas sales against consolidated net sales	9.8%	19.5%	29.3%

	Thousands of U.S. dollars (Note 3)		
	Southeast asia	Other areas	Total
2008: Overseas sales	$ 1,237,170	$ 2,307,500	$ 3,544,670
Consolidated sales	—	—	$ 11,742,470
Percentage of overseas sales against consolidated net sales	10.5%	19.7%	30.2%

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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 consolidated subsidiaries as of March 31, 2008 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company and consolidated subsidiaries as of March 31, 2007 and for the year then ended were audited by other auditors whose report dated June 26, 2007 expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Furukawa Electric Co., Ltd. and consolidated subsidiaries at March 31, 2008, 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 described in Note 21, the Company decided that FEJH HOLDING INC. would be excluded from the consolidation scope.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 26, 2008

Corporate Data

Head Office

2-3, Marunouchi 2-chome, Chiyoda-ku,Tokyo 100-8322, Japan

PHONE: 81-3-3286-3001

URL: http://www.furukawa.co.jp/english/

Paid-in Capital

¥69,373 million (As of March 31, 2008)

Branches

Osaka

Nagoya

Fukuoka

Manufacturing Facilities

Chiba

Nikko

Hiratsuka

Mie

Yokohama

Osaka

Research Laboratories

Yokohama R&D Laboratories

Metal Research Center

Ecology & Energy Laboratory

FITEL Photonics Laboratory

Automotive Technology Center

Stock Information

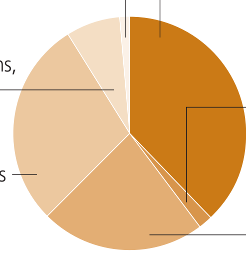
Stock Information

March 31, 2008

Number of shares authorized	2,596,000,000
Common shares	2,500,000,000
Preferred shares	50,000,000
Subordinated shares	46,000,000
Total number of shares issued and outstanding	706,539,179 (Common shares)

Distribution of Stock Ownership (Common shares)

March 31, 2008



Total number of shares issued and outstanding: 706,539,179

Major Stockholders

March 31, 2008

Name	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (trust account)	35,663,000	5.05%
Japan Trustee Services Bank, Ltd. (trust account)	31,213,000	4.42%
Japan Trustee Services Bank, Ltd. (trust account 4)	23,961,000	3.39%
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Bank, Ltd.)	22,928,250	3.25%
Asahi Mutual Life Insurance Company	16,050,000	2.27%
Furukawa Co., Ltd.	13,290,455	1.88%
Mitsui Asset Trust and Banking Co., Ltd. (specified trust account)	12,544,000	1.78%
Nippon Life Insurance Company	11,895,000	1.68%
Fuji Electric Holdings Co., Ltd.	11,000,000	1.56%
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Furukawa Co., Ltd.)	10,919,000	1.55%

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