

FURUKAWA ELECTRIC

Riding
the Power
of
Innovation

ANNUAL REPORT 2007

Profile

Since its founding in 1884 as an electric wiring and nonferrous metals manufacturer, Furukawa Electric has consistently remained in step with progress in the fundamental technologies across society and industry. Today, based on our "material power" of photonics, metals and plastics, which constitutes our core competence, Group companies are actively represented across a broad spectrum of industries, including electronics and electric equipment, automotive, telecommunications, energy and construction. By leveraging the wealth of materials technology we have accumulated and related diversified applications, we will continue to supply products and technologies that contribute to the development of an affluent society, not only in Japan, but to worldwide markets in North and South America, Europe and Asia.

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2005
Acquired German
Company,
Trocellen GmbH

2001
Acquired fiber optic
cable business
from Lucent
Technologies Inc.

1920
Established Furukawa
Electric Co., Ltd.

2003
Jointly established
Furukawa-Sky
Aluminum Corp.
with Sky Aluminum Corp.

1972
Fujitsu spun off
into FANUC Ltd.

1935
Fuji Electric spun
off into Fujitsu Ltd.

1921
Jointly established
Fuji Electric Co., Ltd.
with Siemens AG

1917
Jointly established
Yokohama Rubber
Co., Ltd. with BF Goodrich
Chemical Co.

1884

Founded as a wrought copper and
wiring business

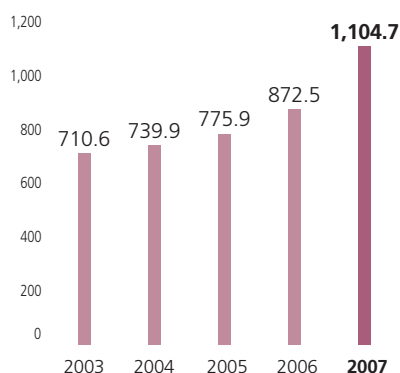
Consolidated Financial Highlights

The Furukawa Electric and Its Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

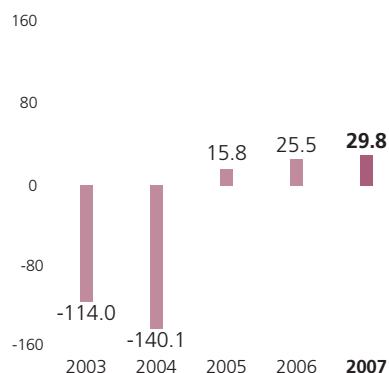
	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales	¥ 1,104,709	¥ 872,536	\$ 9,361,941
Operating income	53,633	37,430	454,517
Net income	29,765	25,508	252,246
Per share of common stock (yen and U.S. dollars):			
Basic	42.16	36.94	0.357
Diluted	42.14	36.92	0.357
Cash dividends paid	6.5	3.0	0.055
Total assets	1,096,709	1,052,256	9,294,144
Total shareholders' equity	199,274	175,218	1,688,762

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥118 to US\$1.

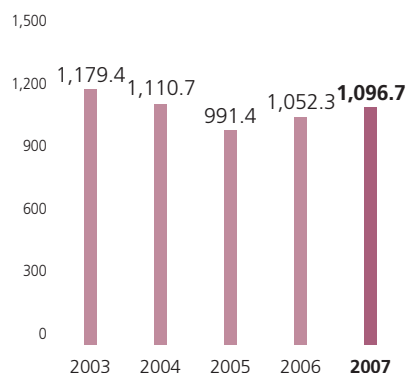
Net sales (Billions of yen)



Net income (Billions of yen)



Total assets (Billions of yen)



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.

**Rising profits in
all of our five
major businesses.**

Hiroshi Ishihara
President &
Chief Executive Officer &
Chief Operating Officer



How would you summarize fiscal 2007 and the progress being made on *Innovations 09*, the Medium-Term Management Plan?



We were able to significantly exceed our targets for both sales and profit due to the favorable performance by the telecommunications segment, and our plans are steadily moving forward.

In fiscal 2007, the Furukawa Electric Group achieved significant gains in revenues and profit compared with the previous fiscal year, with the expansionary trend in the global economy providing a tail wind. We saw particularly strong growth in sales and profit in the telecommunications segment, as demand steadily recovered in the telecommunications sector both at home and abroad, and as our consolidated overseas subsidiary OFS*1, which had previously operated in the red, returned to profitability as planned.

In addition to successfully returning OFS to profitability, we enjoyed steady sales in electronics components and automotive-related products and were also able to reflect the surge in the prices of bare metals such as copper and aluminum in the price of our products, which resulted in consolidated net sales of ¥1.1047 trillion, up 26.6% compared with the previous fiscal year. As a result, in relative terms, we accomplished our final goal for the *Innovations 09* Medium-Term Management Plan of ¥1 trillion in net sales in the first year of the Plan.

However, since the increase in net sales for fiscal 2007 was cosmetic, due to the rise in bare metal prices, we will seek to expand sales to achieve an actual increase in net sales.

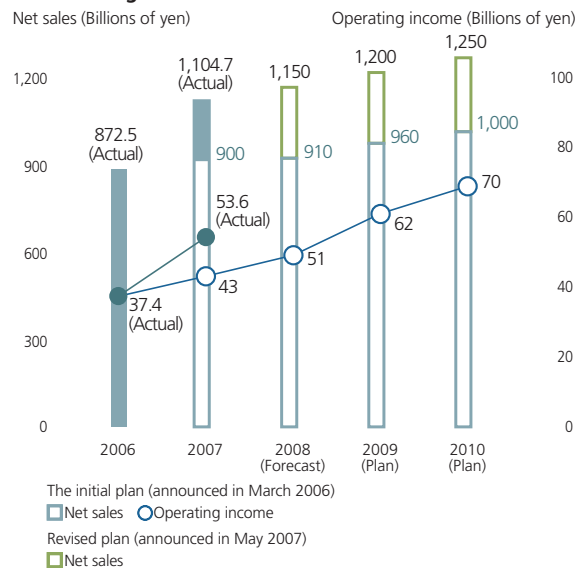
Furthermore, based on expectations that bare metal prices will remain at high levels in the near future, we revised our net sales target for *Innovations 09* to ¥1.25 trillion (See pages 8-9 for details).

In terms of profit, we attained growth in all five of our major segments, led by telecommunications. Consolidated operating income significantly exceeded our goals for the first year of *Innovations 09* at ¥53.6 billion, up 43.3% compared with the previous fiscal year, and consolidated net income was ¥29.8 billion, up 16.7%.

The Furukawa Electric Group also implemented the aggressive strategies, which saw active capital investment of ¥41.8 billion, reorganization of the bases of our automotive parts operations in China toward expanding overseas operations and M&A and alliances. Meanwhile, we pursued our objectives of reducing interest-bearing debt, improving asset efficiency and securing funds required for investing in future growth by vigorously reducing sales receivables and inventory and by selling idle assets in a continued effort from the previous fiscal year. We also reorganized and integrated our consolidated subsidiaries to reinforce their management base, internal control system and management efficiency.

*1 OFS: General term for OFS Fitel, LLC, and OFS BrightWave, LLC, optical fiber and optical fiber cable companies acquired from the U.S. company Lucent Technologies Inc. in 2001.

Revised Targets for *Innovations 09*





What is your outlook for the next two to three years for the telecommunications business, which performed particularly well in fiscal 2007?



We expect an expansion in the market centered on Europe and the United States, and will endeavor to raise sales and profit by leveraging a global production and supply system.

*2 FTTH: Fiber To The Home, an overall term for laying optical fiber networks to homes.

With respect to the telecommunications segment, which consists of the optical fiber cable business, and the photonics and network solutions business, markets in Europe and the United States hold the greatest potential for growth. European and U.S. carriers have begun making full-scale investments in broadband communication, and we expect annual growth in these markets to be in the double digits. In Japan, in addition to steady demand for FTTH*2, we expect full-scale demand for Next Generation Networks (NGN) starting in 2008. Based on this outlook, the Furukawa Electric Group is targeting net sales of ¥192 billion (up 11% from projected net sales for fiscal 2007) and operating income of ¥14.5 billion (up 48%) for the telecommunications segment in fiscal 2009.

In our optical fiber cable business, we have been concentrating our resources into developing a global production and supply system by acquiring OFS, which covers the European and U.S. markets, from Lucent Technologies Inc. in 2001, and by reinforcing the supply of bare fiber to global bases from our Mie Works, which boasts one of the highest levels of productivity in the world. Looking ahead, we will aim to increase our share of the global market for optical fiber from the current 15% to 20% by fiscal 2009, by reinforcing the OFS bases in Europe and the United States.

In the photonics and network solutions business, we will focus our efforts on NGN businesses that are emerging in various countries, leveraging our unique presence as one of the few companies that can supply cutting-edge photonics devices, including lasers and optical amplifiers to communications equipment makers. In our network business, we will seek to develop businesses that maximize our proprietary technologies, such as high-speed routers and a system for cellular phone transmission in railway tunnels.



What is the core competency of the Furukawa Electric Group, and how do you plan to utilize this strength in the future?



The Furukawa Electric Group's core competency lies in material power in the three areas of photonics, metals and plastics. In the future, we will concentrate our material power into growth markets such as automotive, electronics, and photonics, to create the top, market-leading products across the globe.

The core competency of the Furukawa Electric Group lies in our "material power"—the ability to develop and manufacture parts and products in their totality, starting with the basic materials from which they are made. This material power has served as the backbone for the functionality and quality of our various products in a wide range of areas we have been cultivating throughout the Group's long history of over a century.

Over the past three years in particular, the Furukawa Electric Group has been pursuing businesses that utilize our material power in the three areas of photonics, metals (aluminum and copper) and plastics. These three “material powers,” depending on how they are combined, can be applied to an extremely broad range of products.

In the near-term, the Group intends to concentrate core technologies associated with our material power into the promising markets of automotive, electronics and photonics, and to quickly and aggressively undertake investments. These markets are characterized by challenging customer requirements, fierce competition among manufacturers and the speed with which technology becomes obsolete. To enhance competence in these markets, we must deploy our resources through focused investments. The Furukawa Electric Group will therefore direct our three material powers into these growth markets, while concurrently implementing M&A and capital expenditures utilizing the ¥20 billion Strategic Fund to apply our resources in order to create top global products that will lead the markets.



What are your investment plans for future growth?



The Furukawa Electric Group will implement aggressive capital expenditures to expand production in high-growth areas and to achieve globalization.

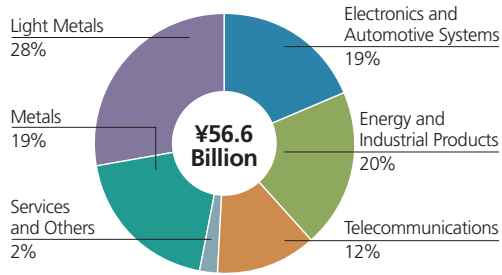
The Furukawa Electric Group plans to continue implementing aggressive capital expenditures and R&D investments based on guidelines set by the Medium-Term Management Plan *Innovations 09*.

Our objectives for capital expenditures are to expand production in high-growth areas and achieve globalization. We will further emphasize increasing existing production of semiconductor tape, foamed sheets, copper strips and copper foil, while expanding production of optical cables at OFS bases in Germany and Russia and raising production of automotive parts in our bases in China and Asia. We also plan to construct a second plant for boosting production of electric cables in China. With respect to R&D investment, we will endeavor to develop superconducting cable materials and optical interconnections*³.

*³ Optical interconnections: Overall term for technology used to transmit optical signals from chip-level distances of several millimeters to distances involved in LAN (Local Area Networks) of several kilometers.



Capital Investment Plan (2008)



As seen in the chart on the left, the Furukawa Electric Group will extend focused investments into the five major segments of growth businesses.

While capital investments for fiscal 2007 were ¥8 billion below our initial projections of ¥41.8 billion, our budget for capital expenditures in fiscal 2008 will be ¥56.6 billion, including the amount carried over from the fiscal year under review. The amount of capital expenditures will exceed our projected depreciation and amortization of ¥45.6 billion.



What is your outlook for fiscal 2008?



Fiscal 2008 will be a “Year of Planting Seeds” in which to cultivate products with the top global share and highly profitable businesses.

While the Furukawa Electric Group has enjoyed three consecutive years of revenue and profit growth, this is primarily due to the recovery in telecommunications demand, which emerged from stagnation, and the surge of raw material prices. In other words, we must remain strongly aware that our increased revenue and profit were not solely the result of the Group’s enhanced competence.

Therefore, we have decided to consider fiscal 2008 as a “Year of Planting Seeds” for realizing the growth strategy drawn by the Medium-Term Management Plan *Innovations 09*. This will be the year in which we lay the foundations for further reinforcing the material power that constitutes our core competence in the priority areas of automotives, electronics, photonics and networks, and the environment, and also for nurturing products with top-class global share along with developing highly profitable businesses through aggressive

investments. The Group will also proceed with realigning, reorganizing, closing and merging businesses and affiliated companies from the perspective of promoting growth, while making a concentrated effort to cultivate human resources capable of accurately managing businesses on a global scale.

Based on these plans, we are projecting consolidated net sales of ¥1.15 trillion for fiscal 2008, up 4% compared with fiscal 2007, consolidated operating income of ¥51 billion, down 5%, including a reduction of ¥5.3 billion due to increases in depreciation and amortization in accordance with revisions in the Japanese Corporate Tax Law, and consolidated net income of ¥18.5 billion, down 38%.





What actions are being taken to fulfill the Group's corporate social responsibility (CSR)?



We established a mechanism for fulfilling our CSR as a whole Group by appointing a Chief Social Responsibility Officer (CSRO) and setting up a CSR Division in February 2007.

The Furukawa Electric Group has consistently endeavored to comply with laws and social codes of conduct and to emphasize corporate ethics.

Based on our understanding that CSR consists of paying due consideration to our stakeholders through such as efforts as promoting the appropriate disclosure of information, ensuring product safety and reducing the environmental impact of our business activities, we also implement in a wide range of measures.

In February 2007, the Group appointed a Director and Corporate Executive Officer to the newly created post of Chief Social Responsibility Officer (CSRO) and set up a CSR Division in Furukawa Electric to reinforce our activities and effectively fulfill our CSR. As a result, we have established a system for monitoring Group activities from the perspective of CSR and for enhancing our CSR efforts Group-wide. In addition, to remain true to fundamentals as a manufacturer and fulfill what may be considered our greatest responsibility, we set up the Quality Promotion Department under our Chief Production Officer (CPO) to manage quality throughout the Group.

Under this system, each Group company is striving to strengthen relationships within its respective region by conducting public tours of manufacturing facilities, cooperating with regional events and offering donations to regions impacted by disasters in an effort to contribute to society through activities that meet regional needs.



What was your dividend policy for fiscal 2007?



While our profitability has recovered, we decided to pay a dividend of ¥6.5 per share, in consideration of the need to bolster our financial condition.

Furukawa Electric will uphold its basic principle of stable dividend payments to shareholders, balanced by considerations for future business development based on an analysis of future trends for earnings from a long-term perspective.

For fiscal 2007, while Furukawa Electric has continued to maintain a positive operating income on a non-consolidated basis and our profitability has recovered, we decided to pay a dividend of ¥6.5 per share based on considerations for the continued need to bolster our financial condition. We plan to pay a dividend of ¥7.0 per share for the fiscal year ending March 2008.

Hiroshi Ishihara
President & Chief Executive Officer & Chief Operating Officer