## 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

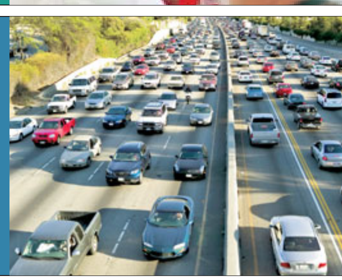
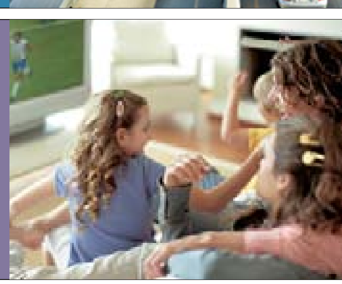
**Tetsuya Satou**
Director
Chief Social
Responsibility Officer

**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<br>Photonics and Network Solutions Business |
| **Energy and Industrial Products** |  | 24.9% | Energy Business<br>Industrial Products Business |
| **Metals** |  | 16.9% | Copper Strips & Pipes Business<br>Plating Business<br>Electrolytic Copper Foils Business |
| **Electronics and Automotive Systems** |  | 21.2% | Automotive Parts Business<br>Electronics Components Business<br>Magnet Wire Business |
| **Light Metals** |  | 20.4% | Aluminum Rolling Business<br>Aluminum Extrusion Business<br>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<br>•Optical components<br>•Optical fiber cable accessories and installations<br>•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<br>•Aluminum wires<br>•Insulated wires<br>•Power cables<br>•Power transmission cable accessories and installations<br>•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<br>•Copper strips<br>•Electrolytic copper foils<br>•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<br>•Automotive components and electrical wires<br>•Magnet wires<br>•Heat sinks<br>•Aluminum blanks for hard discs<br>•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<br>•Extruded aluminum products<br>•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.

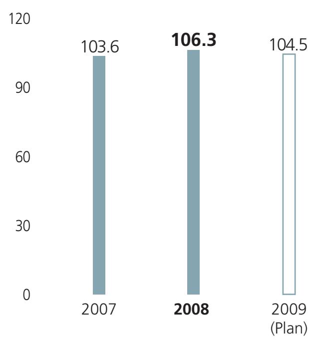
While sales were generally favorable, consolidated net sales for the segment decreased 1.8% from the previous fiscal year to ¥163.1 billion, due in part to the impact of our sale of Optical Communication Products, Inc. (OCP), our U.S. optical component manufacturing subsidiary whose performance had flagged 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

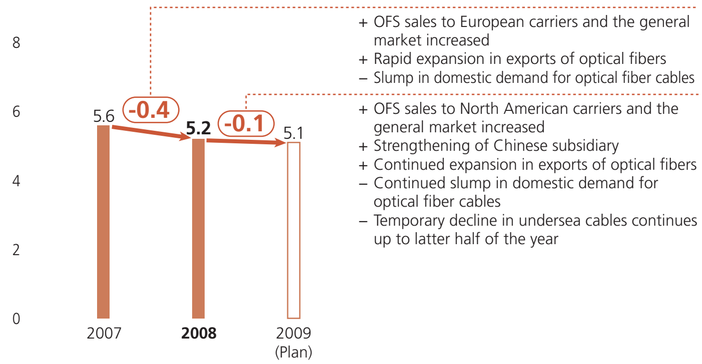
In the optical fiber cable business, we expect investments by optical telecommunications carriers to continue expanding beyond fiscal 2009. To respond to rising global demand, OFS began boosting production of optical fiber

## Optical Fiber Cables Business

Net sales (Billions of yen)

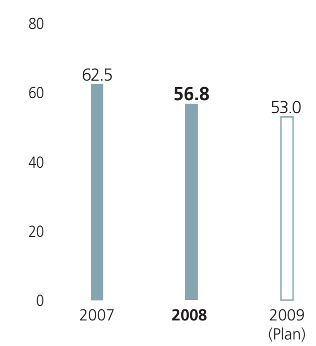



Operating income (Billions of yen)

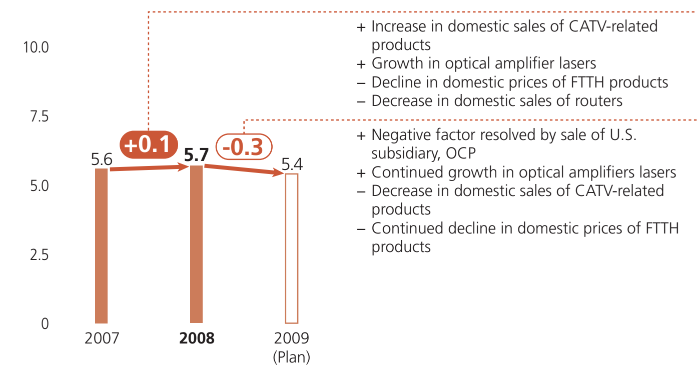



## Photonics and Networks Business

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.

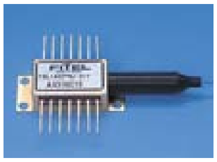
In the photonics and network solutions business, full-scale investment in Next-Generation Networks (NGNs) in Japan is expected to raise demand for components of optical devices, and we will respond by bolstering our sales of new products such as tunable lasers. On the other hand, prices of FTTH-related 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

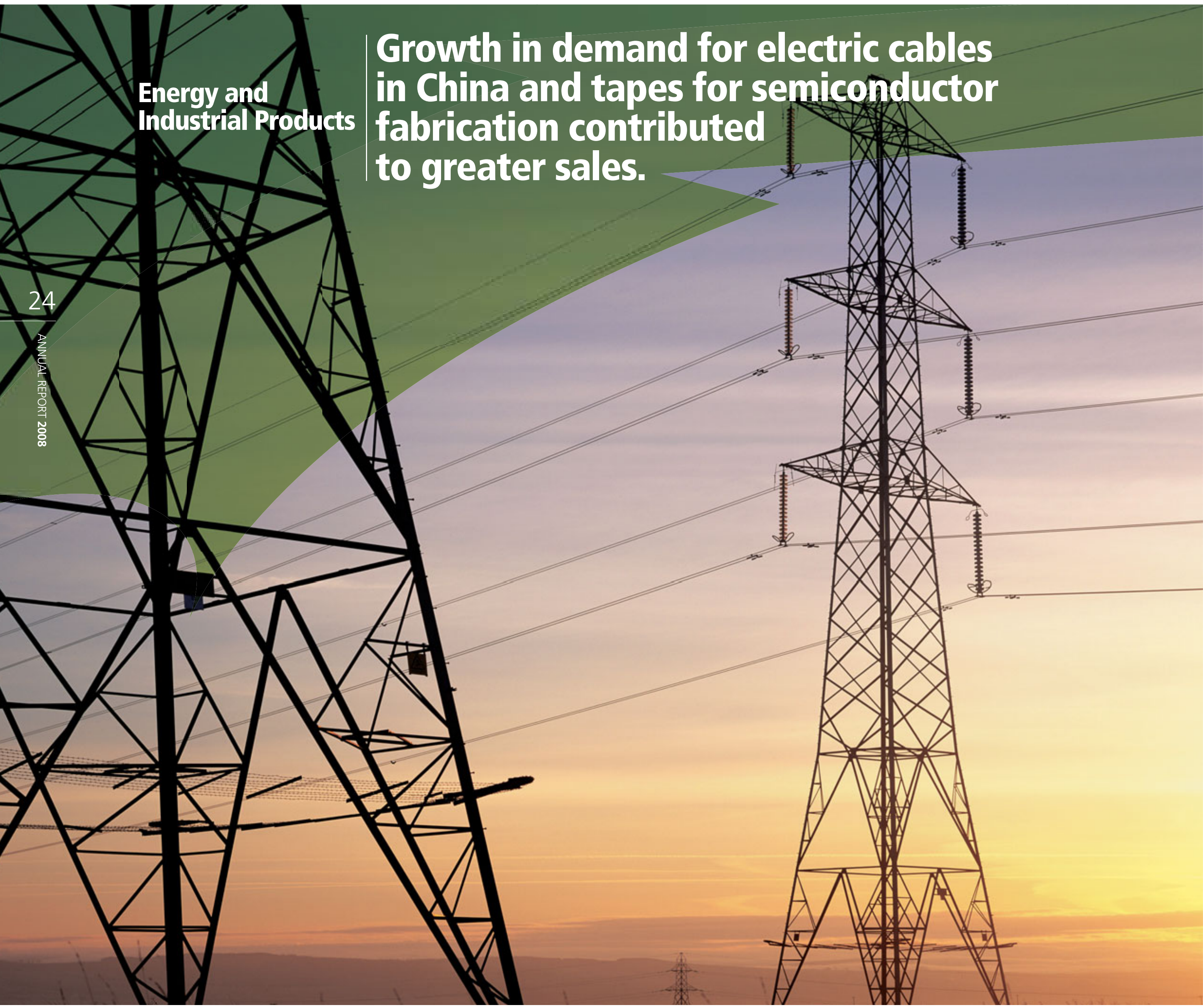
In the energy business, demand for ultra-high voltage cables continued strong, due to the high-paced development of infrastructure for electricity transmission in China in response to vigorous demand for electricity. However, sales of industrial cables slumped in Japan due to the significant decline 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.

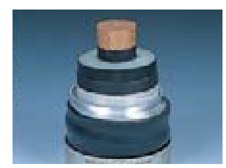
Consequently, we are projecting consolidated net sales of ¥348.5 billion and consolidated operating income of ¥9.1 billion for fiscal 2009.

## Column

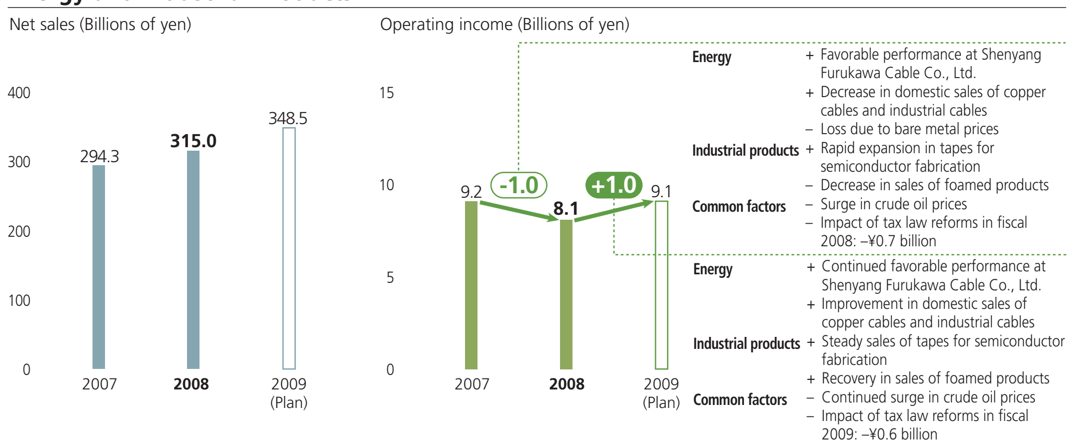
### Energy and Industrial Cables: Ultra-High Voltage Cables

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



Metals

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

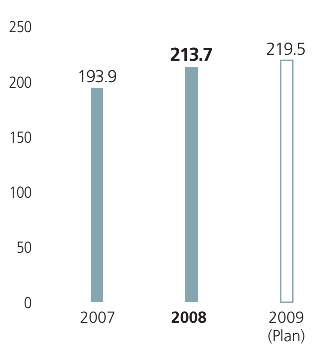
## Results of Operations in Fiscal 2008

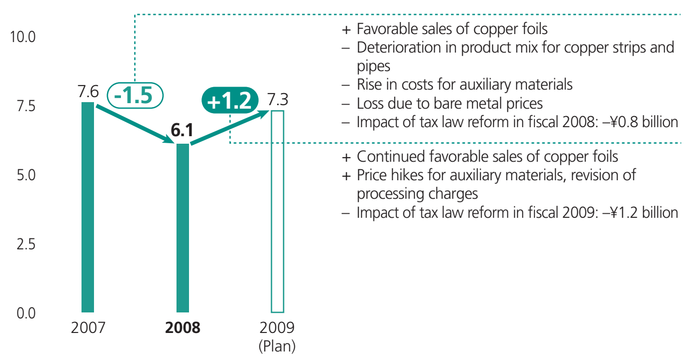
In the wrought copper business, demand for copper strips and pipes fell. However, in the electrolytic copper foil business, we enjoyed rising sales in specialized foils with high added value, such as double-sided shiny foil used as raw material for lithium ion secondary batteries, an area in which we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




### 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.

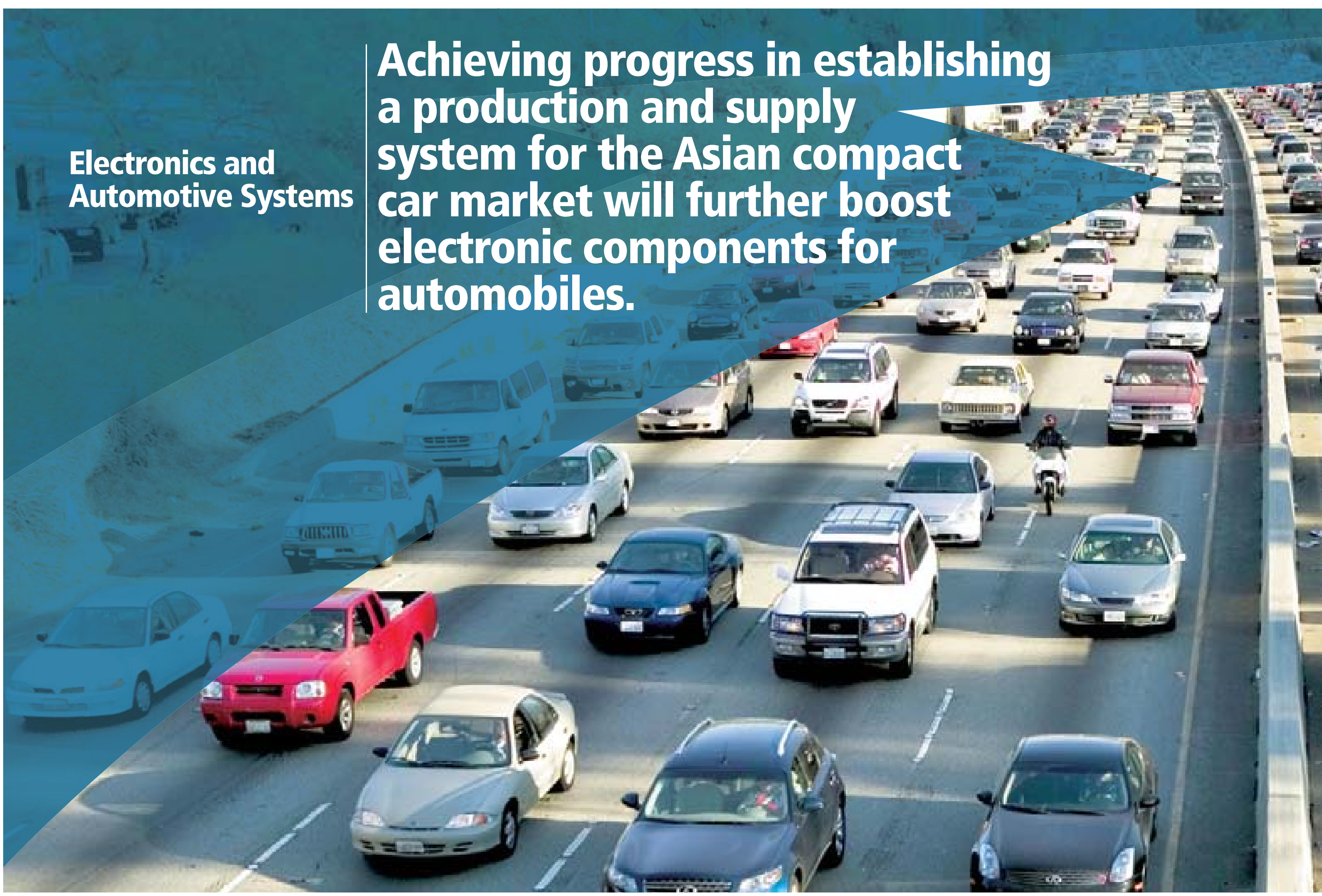
As a result, consolidated net sales for the segment rose 11.5% year-on-year to ¥268.6 billion and consolidated operating income increased 4.1% to ¥9.1 billion.

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.

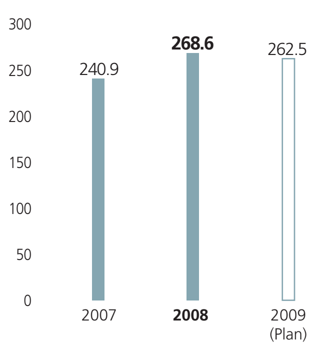
In the electronics business, while sales of heat sinks are expected to decline, sales of memory discs are projected to remain steady. We will therefore begin mass producing glass substrates with outstanding shock-absorbing characteristics, for which demand is rising in

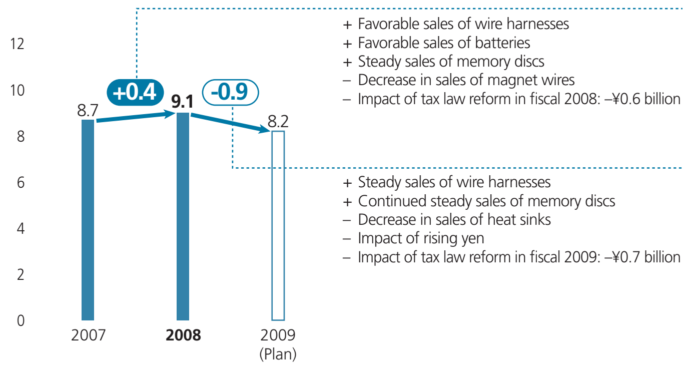


the market for mobile products, in addition to our existing aluminum blank materials. While we were late in entering the market for glass substrates, we intend to expand our share based on a proprietary manufacturing method that gives us the advantage of being able to produce glass substrates with higher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




# 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

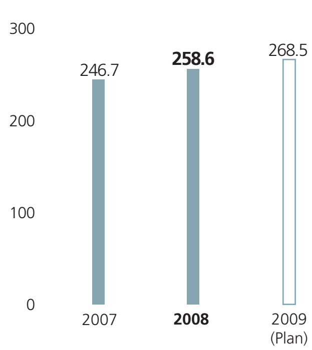
Demand for clean diesel vehicles is rising, primarily in Europe, from the standpoint of preventing global warming. Compressor wheels are the key parts of diesel turbo engines with superior gas mileage and require durability and high dimensional accuracy. Furukawa-Sky has succeeded in mass producing aluminum 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.

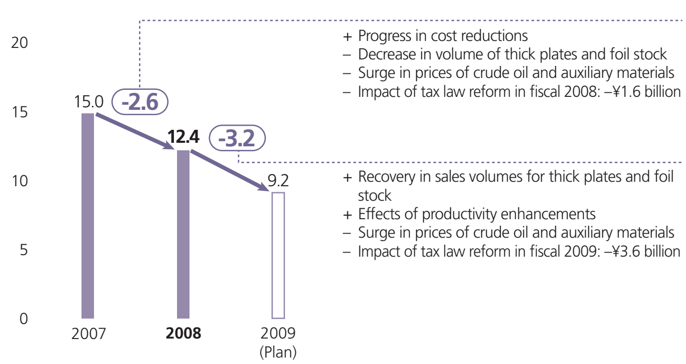
Based on these factors, we project consolidated net sales of ¥268.5 billion and consolidated operating income of ¥9.2 billion.

### 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.

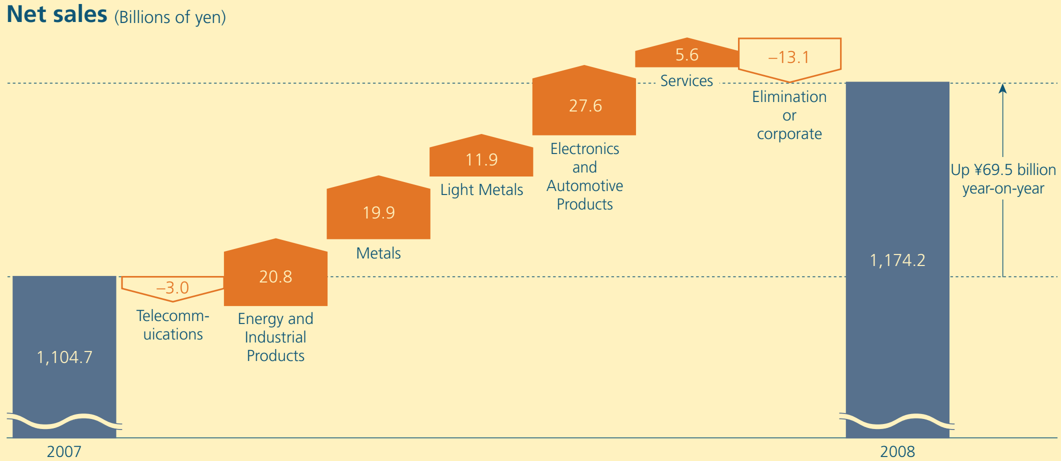
#### Light Metals

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.

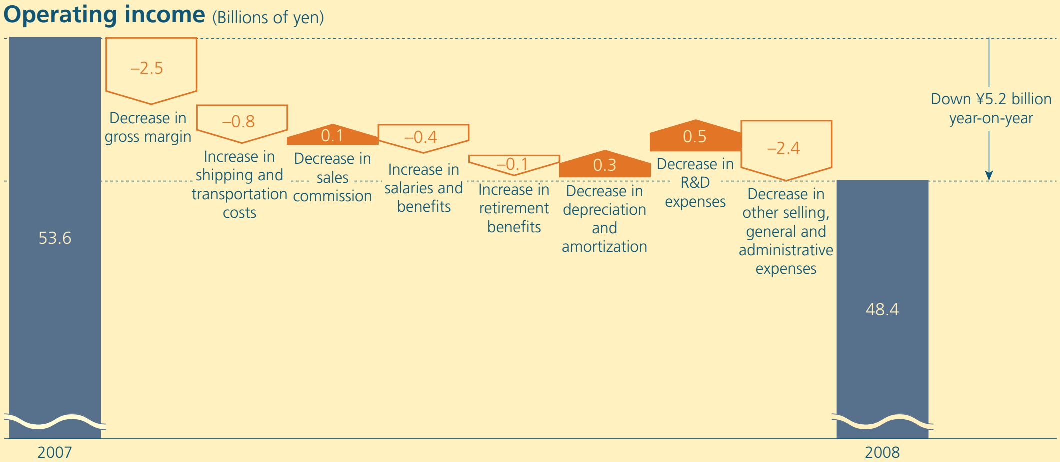
Net cash used in investing activities was ¥52.1 billion (US$0.5 billion). This was primarily due to proceeds from sales of non-current assets remaining below levels of the previous fiscal year and increased payment for purchase of property, plant and equipment.

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.

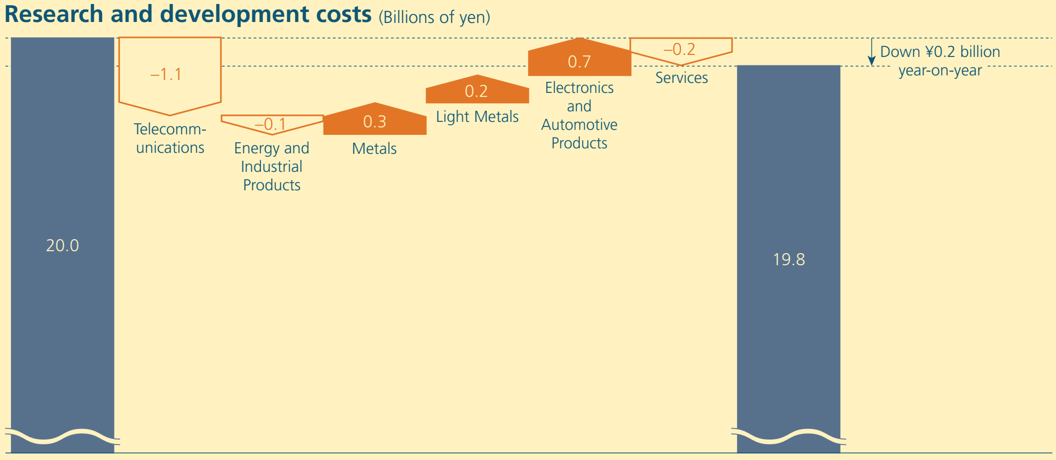
### Metals

(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

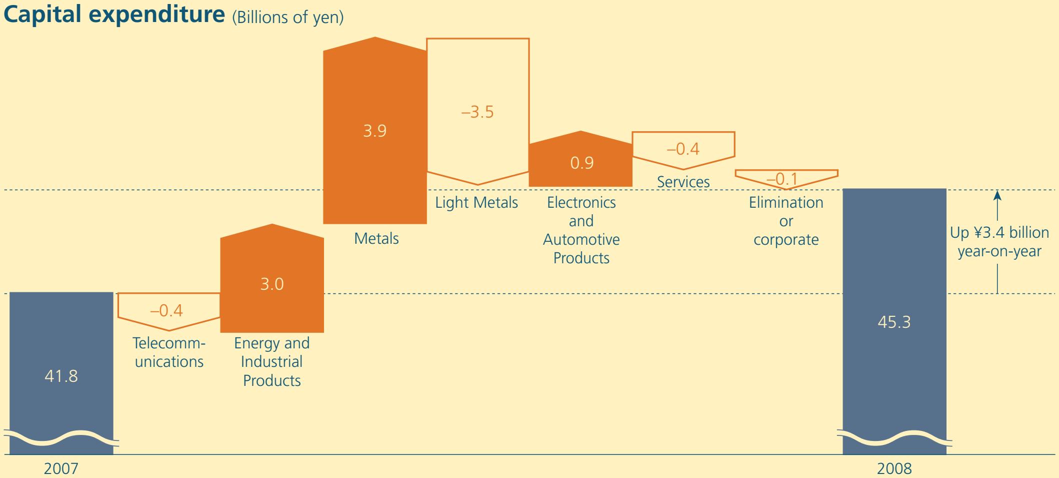
### Electronics and Automotive Products

- 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.

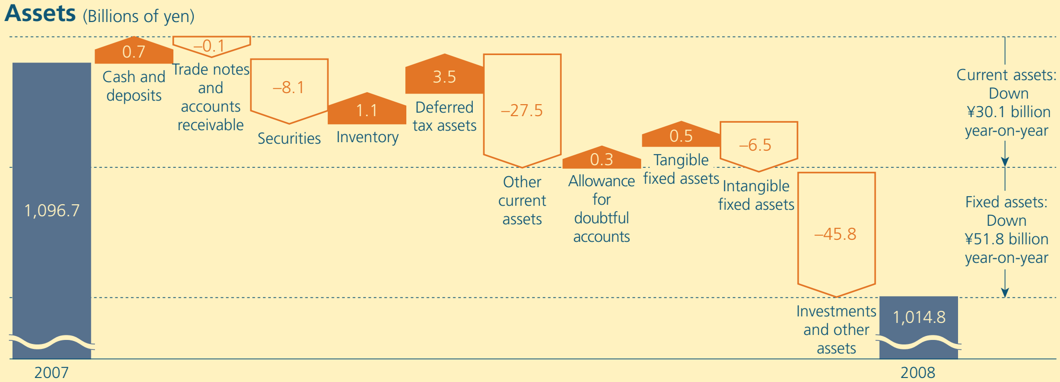
**1) Infringement of third-party intellectual property rights and other rights**

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.

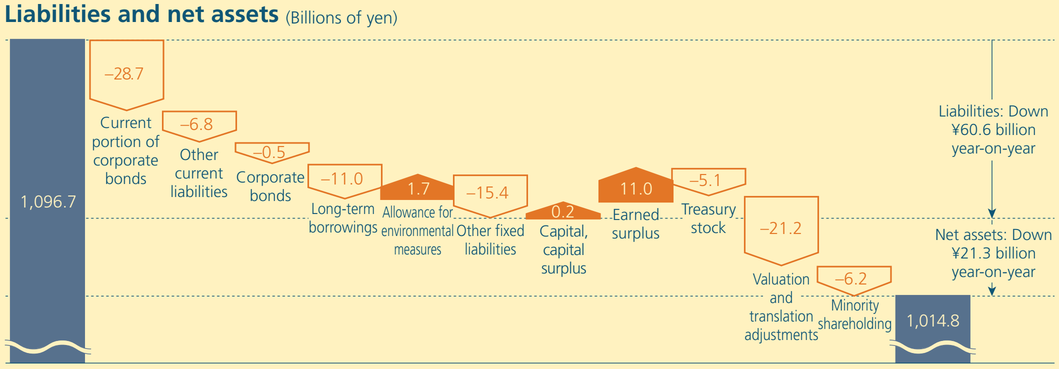
These measures include prior research of such rights and the arrangement of licensing as required. However, we may become engaged in a dispute with a third party who sues the Group for alleged infringement of intellectual property or other rights owned by the third party.

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 2008 | Millions of yen 2007 | Thousands of U.S. dollars (Note 3) 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<br>Authorized shares,<br>2,500,000 thousand in 2008 and 2007<br>Issued shares,<br>706,539 thousand in 2008<br>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<br>9,226 thousand in 2008<br>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:

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Telecommuni - cations | 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 | ¥ 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 |

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Telecommuni - cations | Energy and industrial products | Metals | Light metals | Electronics and automotive systems | Services and other | Total | Elimination and corporate assets* | Consolidated |
| **2007:** | | | | | | | | | |
| 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 |

| | Japan | Asia | North America | Other areas | Total | Elimination and corporate assets* | Consolidated |
|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars (Note 3) | | | | | | |
| 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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Fax: +81 3 3503 1197

# 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

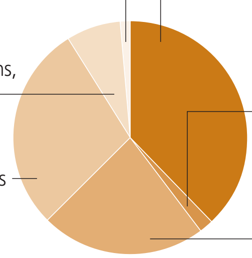
### Stock Information

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% |

THE FURUKAWA ELECTRIC CO., LTD.
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www.furukawa.co.jp/english/

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