

**FURUKAWA ELECTRIC**

# **FY2007 Management Plan**

***Innovations 09***

**May 15, 2007**

**Hiroshi Ishihara**

**President and Chief Executive Officer**

 **THE FURUKAWA ELECTRIC CO., LTD.**

# Agenda

- 1. FY 2006 Highlights**
- 2. FY 2007 Management Plan**
- 3. Segment Data**
- 4. Revised Targets of *Innovations 09***

# **1. FY 2006 Highlights**

## FY 2006 Highlights

### First-year targets set by *Innovations 09* attained

(JPY billion, except for dividend)

	<u>FY 06 Target</u>	<u>FY 06 Actual</u>	<u>FY 05 Actual</u>	<u>Change from FY 05</u>
Net sales	900	1,104.7	872.5	+27%
Operating income	43	53.6	37.4	+43%
Dividend per share	JPY 5.0	JPY 6.5	JPY 3.0	+JPY 3.5
Total debt reduction	150	156.5		

(Cumulative for FY04-06)

## Consolidated Actual Results

(JPY billion)

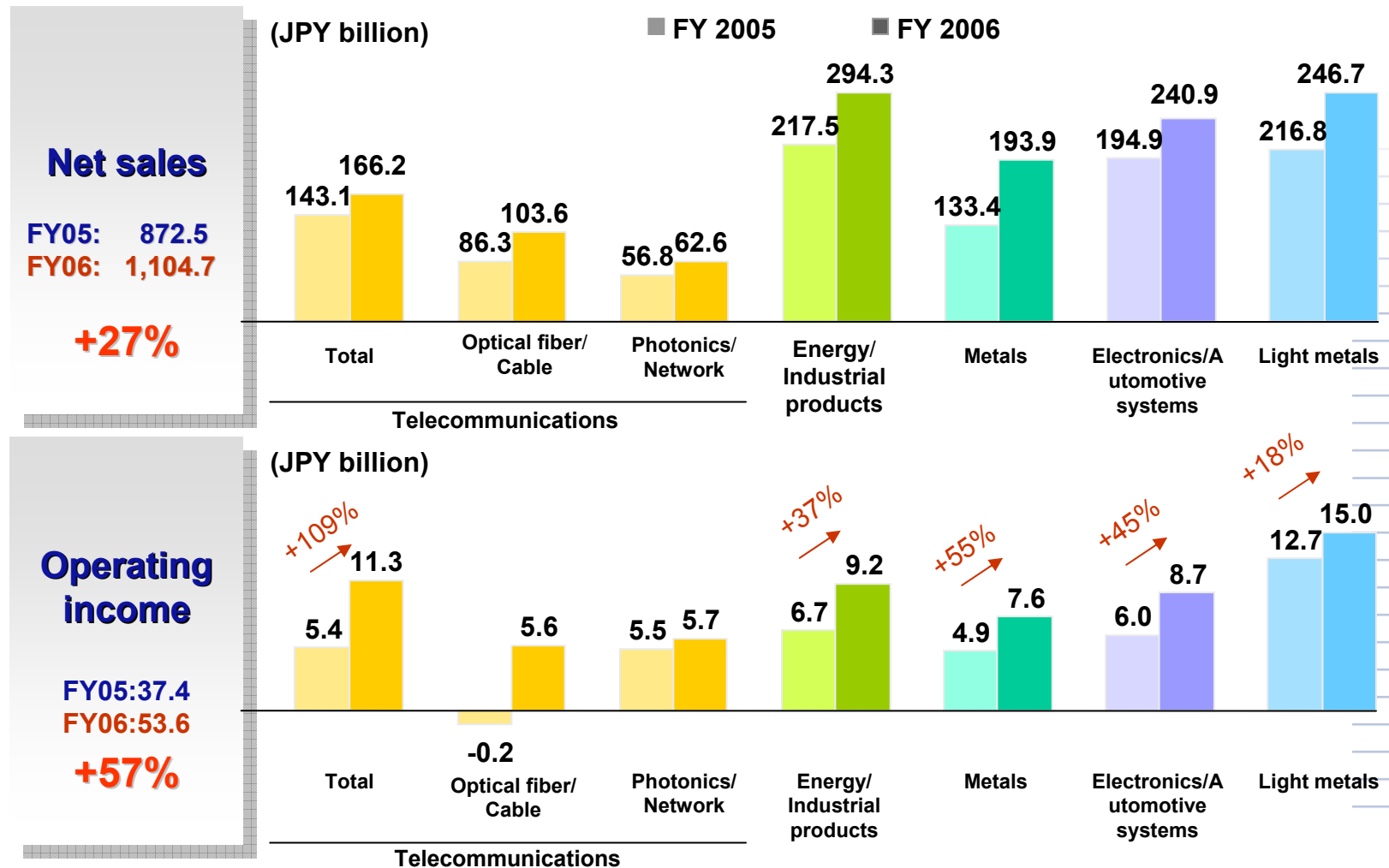
	FY 05 Actual		FY 06 Actual		Change yoy		Previous forecast (November 9, 2006)	
	(A)	Margin (%)	(B)	Margin (%)	(C)=(B)-(A)	Percentage	(D)	Margin (%)
<b>Net sales</b>	872.5		1,104.7		232.2	+27%	1,050.0	
(Non consolidated)	382.5		500.4		118.0	+31%	495.0	
(OFS)	31.3		39.7		8.3	+27%	38.7	
<b>Operating income</b>	37.4	4.3%	53.6	4.9%	16.2	+43%	47.0	4.5%
(Non consolidated)	11.4	3.0%	14.1	2.8%	2.7	+24%	11.0	2.2%
(OFS)	-5.0	-16.0%	0.3	0.7%	5.3		0.1	0.3%
<b>Ordinary profit</b>	47.0	5.4%	49.6	4.5%	2.6	+6%	40.0	3.8%
(FX gain / loss)	14.2		2.2		-11.9		-1.8	
(Excl. FX gain / loss)	32.8	3.8%	47.4	4.3%	14.6	+45%	41.8	4.0%
<b>Extraordinary profit</b>	38.5		17.8		-20.8		13.7	
<b>Extraordinary loss</b>	-40.9		-9.4		31.6		-5.7	
<b>Net income</b>	25.5	2.9%	29.8	2.7%	4.3	+17%	20.0	1.9%

(JPY)

<b>EPS</b>	36.94	42.16	5.22	28.33
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# FY 2006 Full-Year Results by Segment

Every segment achieved an increase in sales and profit.



## Trends in Key Management Indicators

All key management indicators showed substantial improvement.

(JPY billion)	FY 04	FY 05	FY 06
Operating income margin	3.1%	4.3%	4.9%
Total asset turnover	0.08	0.08	0.1
ROA (operating profit to total assets)	2.4%	3.6%	4.9%
ROE (net income to shareholders' equity)	9.0%	11.4%	14.9%
Total debt (Cumulative debt reduction from JPY 584.7 billion in Mar 2004)	482.3 (-102.5)	435.3 (-149.5)	428.2 (-156.5)
D/E ratio	0.27	0.2	0.18
Share of overseas sales	23.8%	25.9%	29.3%

(Shareholders' equity excludes minority interest and, gain and loss on deferred hedge.)

## Measures Taken in FY 06 for Growth

FY 06 Policy	Measures
<p><b>Accelerate investment</b></p>	<ul style="list-style-type: none"> <li>✓ ■ <b>Bolstered the capacity to produce materials and took steps to create a multi-axis business model</b> <ul style="list-style-type: none"> <li>- <i>Energy and Industrial Products</i>: doubled the capacity to produce UV tape (for semiconductors)</li> <li>- <i>Metals</i>: Increased production of copper strips for automotive and electronic parts by 30% and high-performance copper foil by 20%</li> <li>- <i>Light Metals</i>: Continued investment in integration of models produced in two major aluminum rolling plants</li> </ul> </li> </ul>
<p><b>Expand overseas business</b></p>	<ul style="list-style-type: none"> <li>✓ ■ <b>Expanded global operation and stepped up M&amp;As and alliances</b> <ul style="list-style-type: none"> <li>- <i>Telecommunications</i>: achieved profitability at the U.S.-based OFS, strengthened the global structure and formed a technical alliance with U.S.-based Capella Photonics</li> <li>- <i>Energy and Industrial Products</i>: Included Germany's Trocellen among the consolidated accounts and set up an electric power cable business jointly with France-based Nexans</li> <li>- <i>Electronics and Automotive Systems</i>: Reorganized and expanded automotive part businesses in China and set up a joint soldering equipment company with Tamura Corporation</li> </ul> </li> </ul>
<p><b>Improve asset efficiency</b></p>	<ul style="list-style-type: none"> <li>✓ ■ <b>Sold a former site of Shinagawa Works (to result in an extraordinary gain of JPY 11.9 billion)</b></li> <li>✓ ■ <b>Integrated subsidiaries engaging similar businesses to streamline operations</b></li> <li>✓ ■ <b>Stepped up efforts to reduce inventories and receivables and revised unprofitable operations</b></li> <li>✓ ■ <b>Reduced interest-bearing debt by JPY 156.5 billion over the past three-year period</b></li> </ul>
<p><b>Reduce risk</b></p>	<ul style="list-style-type: none"> <li>✓ ■ <b>Copper related business: Worked to switch to contracts linked with copper bar prices</b></li> <li>✓ ■ <b>Reduction of foreign exchange risk: Reduced yen-denominated loans to OFS</b></li> </ul>



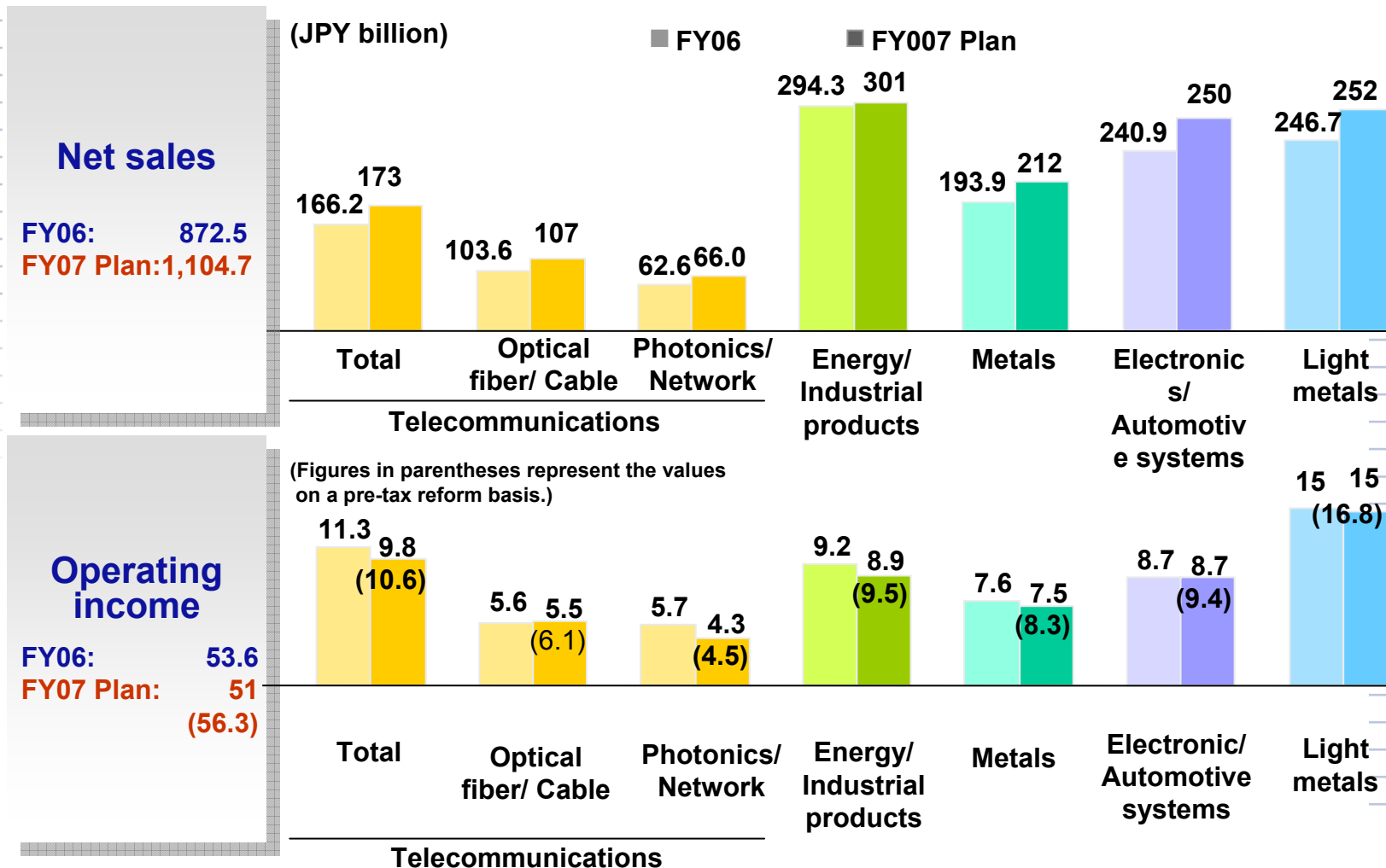
## **2. FY 2007 Management Plan**

FY 2007 Plan

(JPY billion)	FY 06 Actual	FY 07 Plan	Change from FY 06
<b>Net sales</b>	<b>1,104.7</b>	<b>1,150</b>	<b>+4%</b>
<b>Operating income</b>	<b>53.6</b>	<b>51(56.3)</b>	<b>-5%(+5%)</b>
<i>Ratio to net sales</i>	<i>4.9%</i>	<i>4.4%(4.9%)</i>	
<b>Ordinary profit</b>	<b>49.6</b>	<b>43</b>	<b>-13%</b>
<i>Ratio to net sales</i>	<i>4.5%</i>	<i>3.7%</i>	
<b>Net income</b>	<b>29.8</b>	<b>18.5</b>	<b>-38%</b>
<i>Ratio to net sales</i>	<i>2.7%</i>	<i>1.6%</i>	
Foreign exchange (non-operating) gain/loss:	<b>+22</b>	<b>±0</b>	
Extraordinary gain/loss:	<b>+84</b>	<b>-26</b>	
Corporate income tax and others:	<b>-234</b>	<b>-154</b>	
<b>Full-year dividend</b>	<b>JPY 6.5</b>	<b>JPY 7.0</b>	<b>+JPY 0.5</b>
<b><u>Presumption</u></b>			
Exchange rate (yen per U.S. dollar)	<b>119</b>	<b>115</b>	
Copper (yen per kg)	<b>868</b>	<b>860</b>	
Aluminum (yen per kg)	<b>346</b>	<b>330</b>	

Figures in parentheses represent the values on a pre-tax reform basis.

# FY2007 Plan by segment



## Measures for FY 2007

**Bullish capital investment in globalization and in enhancing material production capacity in a bid to accomplish *Innovations 09***

### Investment in global expansion and increased production capacity

*Optical cables from OFS Germany and Russia,  
UV tape (for semiconductors), foamed sheets,  
Electric power cables for China,  
Copper strips and foil,  
Automotive parts for China and  
the rest of Asia and others*

### Investment in R&D activities

*Superconductive cable materials,  
Surface emitting laser,  
Glass substrate  
and others*

**Create Cash**

**Ensure profitability and improve asset efficiency**  
*Reduce inventories and receivables and integrate subsidiaries*

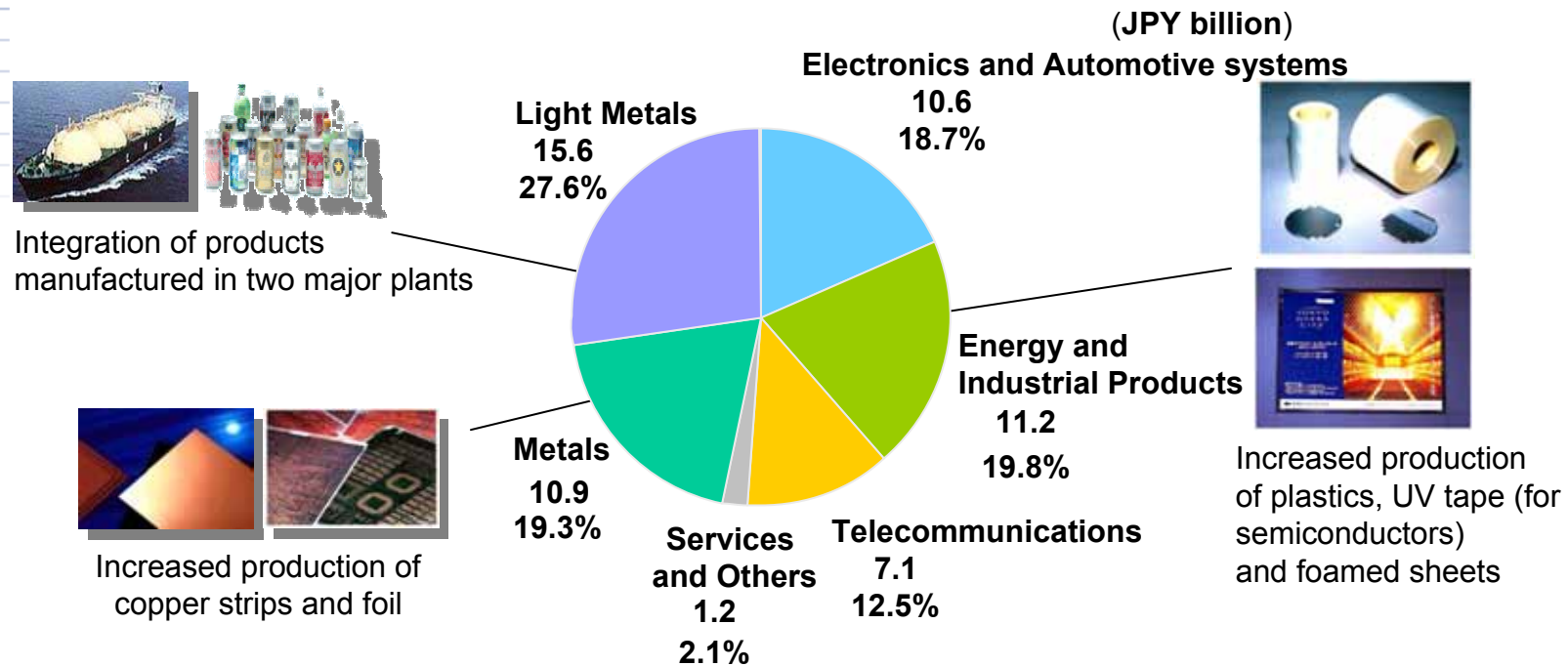
# Capital Investment / Depreciation

**Continue strong capital investment to increase material production capacity**

**Planned capital investment for FY 2007: JPY 56.6 billion (actual for FY 06: JPY 41.8bn)**

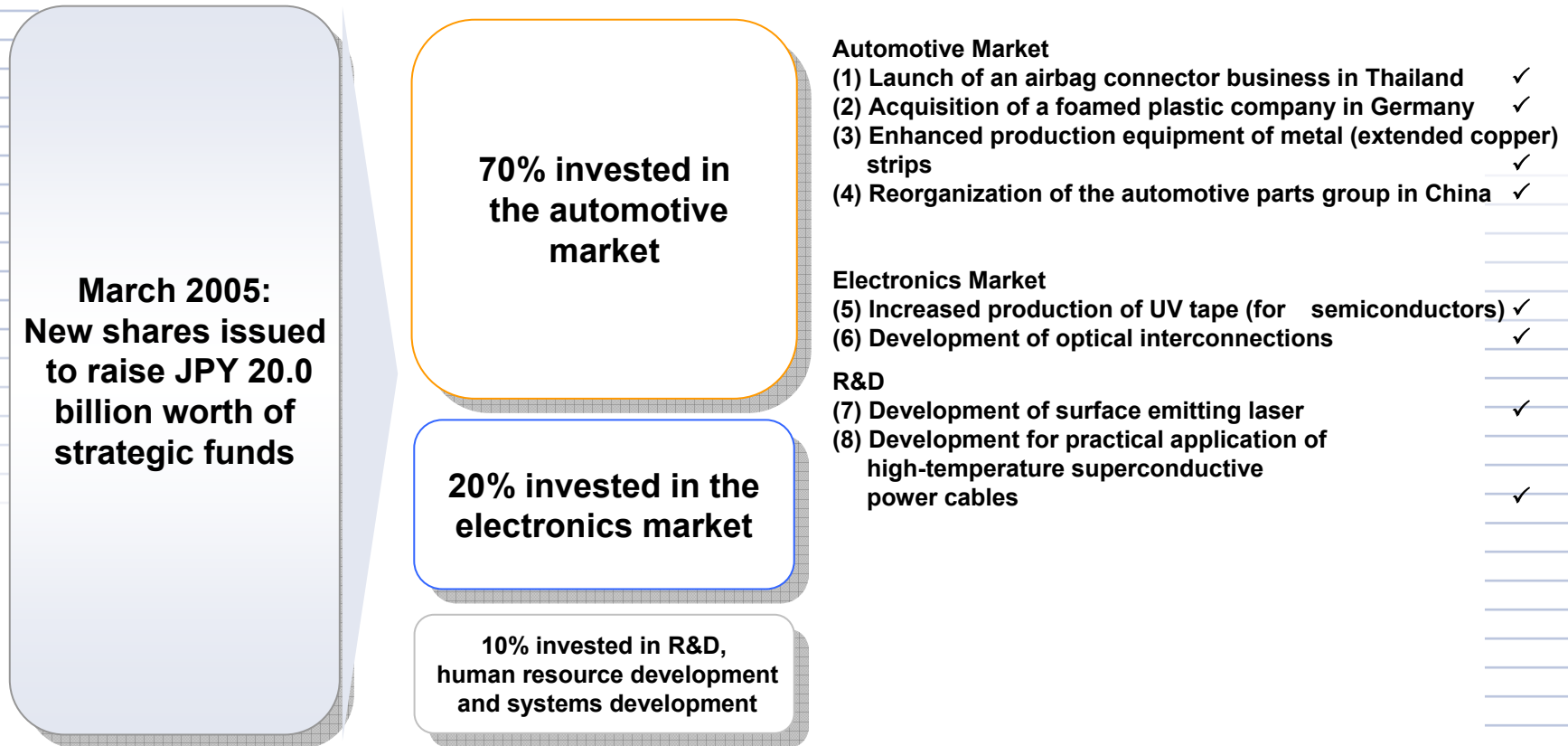
**Planned depreciation expense for FY 2007: JPY 45.6 billion (actual for FY 06: JPY 37.9bn)**

## FY 2007 Capital Investment Plan and Prime Targets of Investment



## Active Use of Strategic Funds

The remaining amount of JPY 5.0 billion will have been invested by the end of FY 2007.



JPY 15.0 billion has to date been invested and this is expected to result in net sales of JPY 42.0 billion and operating income of JPY 6.0 billion in FY 2009.

## Proposal to Adopt An Anti-Takeover Bid Measure

Adoption of a prior warning-type defense measure (mild poison pill), which requires those wishing to acquire 20% or more of the shares to submit the necessary information and to provide all shareholders with the time and information needed for consideration

- Proposal to be submitted to the general meeting of shareholders on June 26
- A third-party committee to be set up independent of the management team
- Limited cases in which countermeasures may be activated

# Overview of the Group's Overall Technology Exposition

**FURUKAWA Innovation EXPO '07**

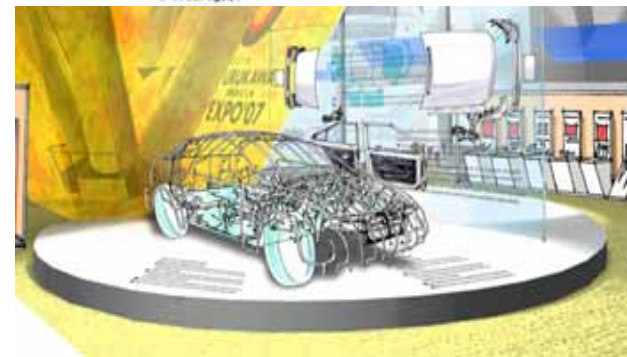
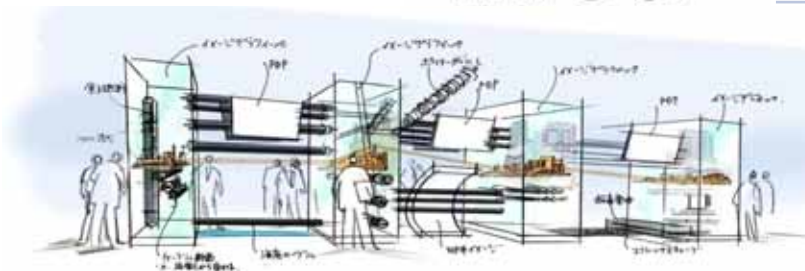
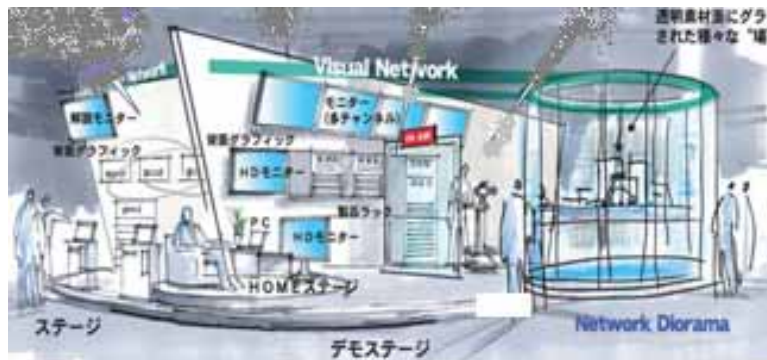
**Slogan: *The Seeds of Value Creation Are Here.***

**Venue: Tokyo International Forum**

**Date: Wed.-Thu., October 3 - 4, 2007**



価値創造の種がここにある。  
**FURUKAWA  
 INNOVATION  
 EXPO'07**

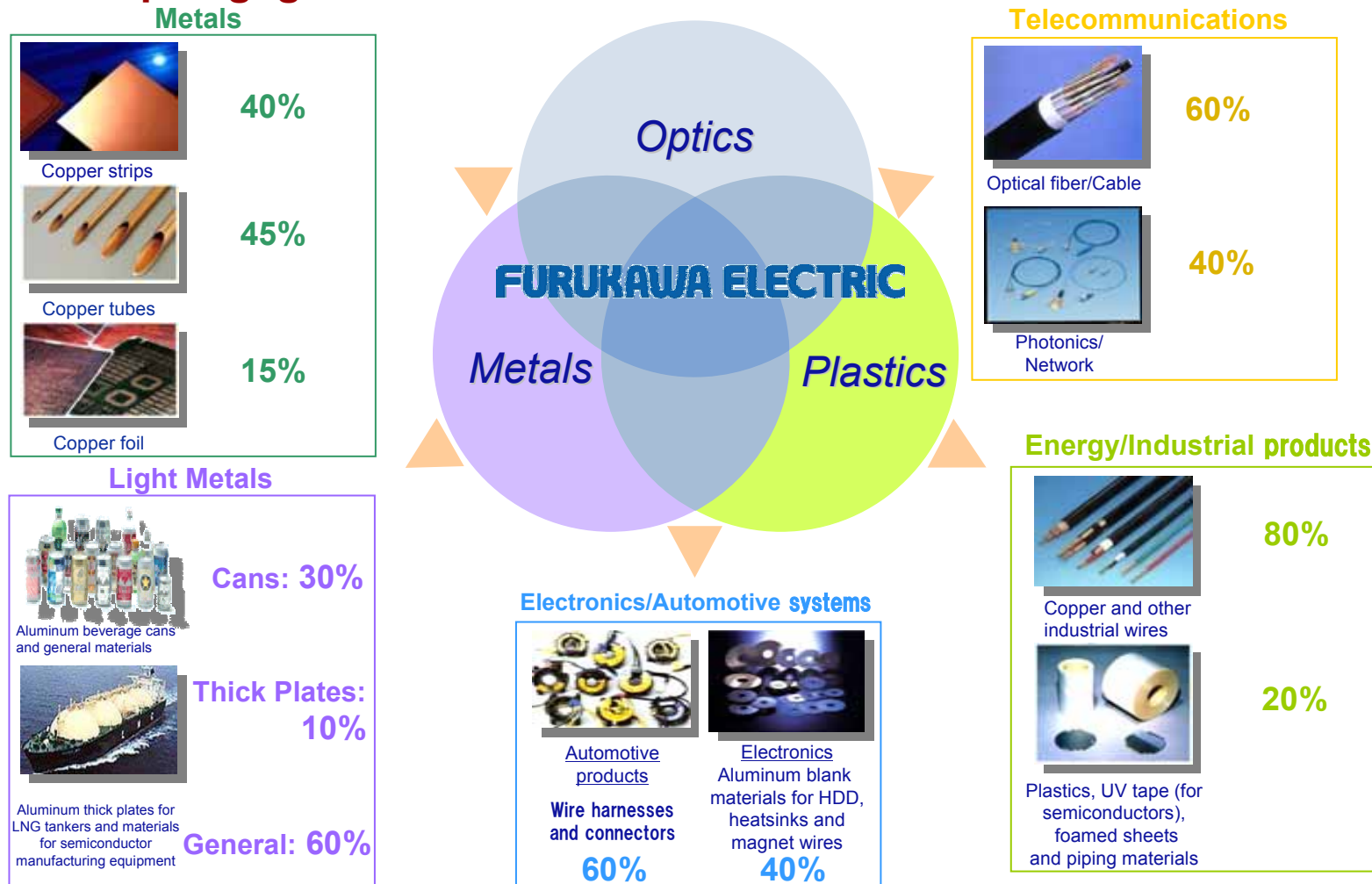




## 3. Segment Data

# Operations of the Furukawa Electric Group

With three core competencies—metals, plastics and optics—the Group engages in five different businesses.

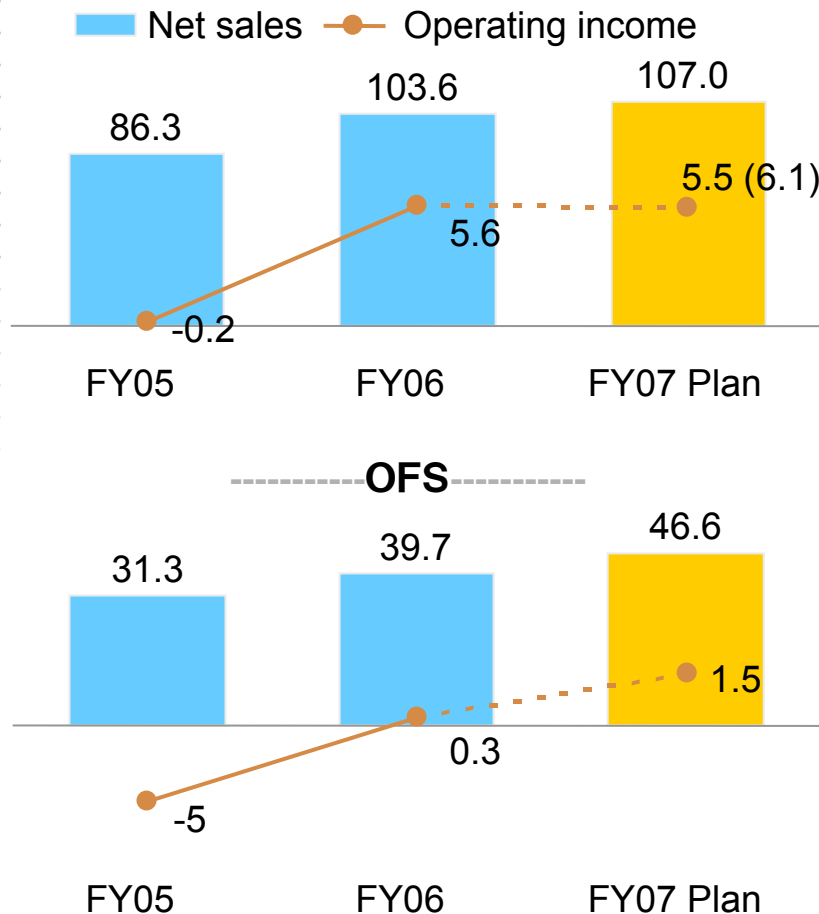


# Telecommunications <Optical fiber/Cable>

## Net sales & Operating income

(JPY billion)

(The figure in parentheses represents the value on a pre-tax reform basis.)



## FY 06 Results

- Overseas: OFS attained profitability. Overseas subsidiaries in Brazil, Thailand and elsewhere were strong.
- Domestic: Buoyant performance of optical cables for FTTH, mobile and railway applications

## FY 07 Market Conditions

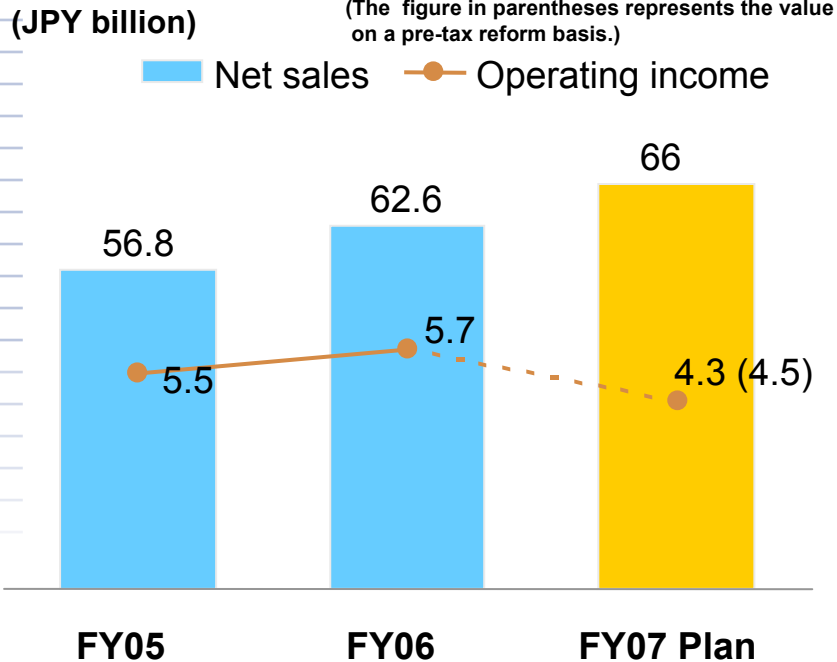
- Western markets: Expected to grow 10-15%. Telecom carriers will increase investment.
- Domestic market: Will remain unchanged. The expansion of FTTH will continue.
- Prices: Will remain on a downward trend.

## FY07 Plan

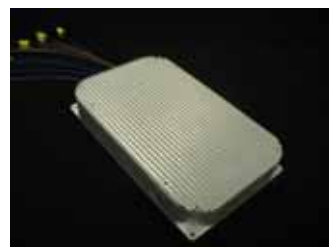
- OFS operation in the West
  - Respond to demand from telecom carriers to achieve a sales increase
  - Boost operations in Germany and Russia
- Domestic operation
  - Increase cost competitiveness to become a global center of optical fibers

# Telecommunications <Photonics/Network>

## Net sales & Operating income



Pump laser for optical amplifier



ROADM (Reconfigurable Optical Add/Drop Multiplexer)

## FY 06 Results

- **Photonics**
  - Profitable laser products increased while optical amplifiers produced sluggish sales.
- **Network**
  - Sales were driven by routers, CATV systems and wireless repeater systems for railway applications.

## FY 07 Market Conditions

- **Global market:** Will grow steadily with increased investment of telecom carriers.
- **Domestic market:** Will see FTTH commoditized and a trend towards NGN.
- **Prices:** Will rather continue their downward trend.

## FY07 Plan

- Implement global promotion of FTTH products.
- Implement global promotion of NGN components
  - Components relating to optical switches: ROADM, WSS and A-AWG
  - Establish the system to produce tunable laser and other key products
- Continue making proposals to networking projects.

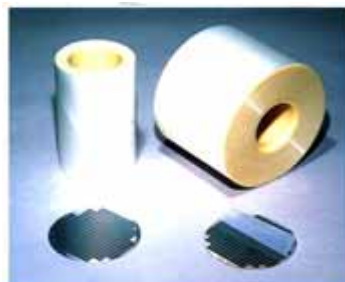
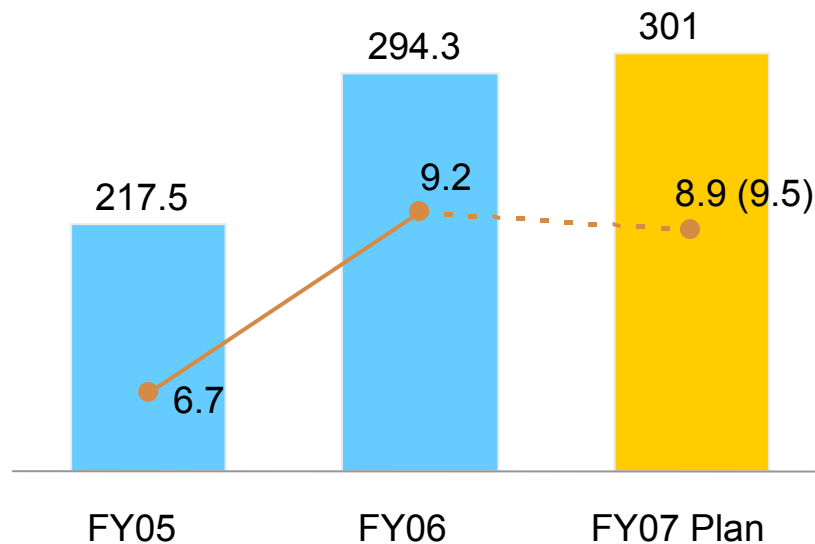
# Energy/Industrial products

## Net sales & Operating income

(JPY billion)

(The figures in parentheses represents the value on a pre-tax reform basis.)

Net sales — Operating income



**UV tape**  
(for semiconductor)



**MCPET(Extra-fine foamed Polyethylene terephthalate)**

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## FY 06 Results

### ■ Energy

- Copper and other industrial wires: strong demand and this was reflected in pricing

### ■ Industrial products

- Sales of UV tape (for semiconductors) surged. Trocellen, based in Germany, contributed to the strong performance.

## FY 07 Market Conditions

### ■ Energy

Overseas power transmission demand will be buoyant. In Japan, industrial electric power will continue to enjoy high demand, while needs for electric power will grow.

### ■ Industrial products

Demand for UV tape (for semiconductors) and MCPET for liquid crystal panels will stay bullish.

## FY07 Plan

### ■ Energy

Shenyang, China: start construction of its second plant to maintain the leading share of the market for ultra-high voltage cables.

Affiliates to be further reorganized and streamlined to strengthen individual business segments.

### ■ Industrial products

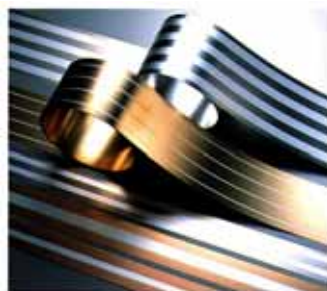
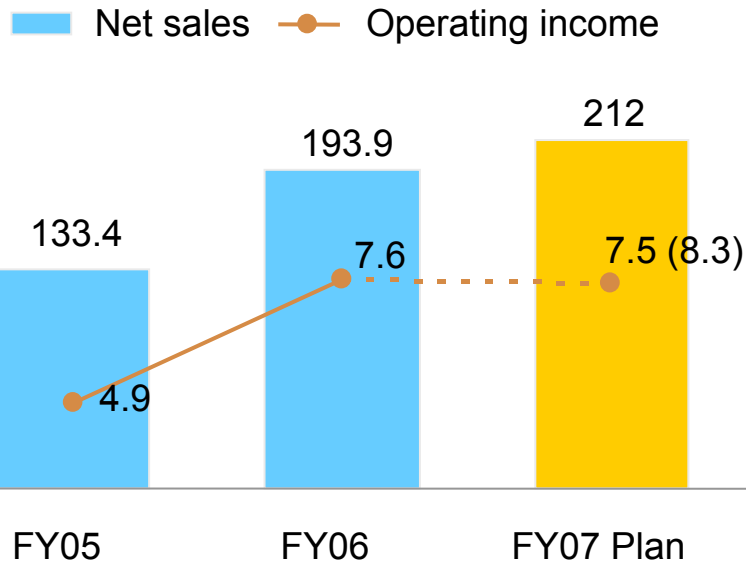
Increase the number of customers for UV tape (for semiconductors) and MCPET and step up production of these products.

# Metals

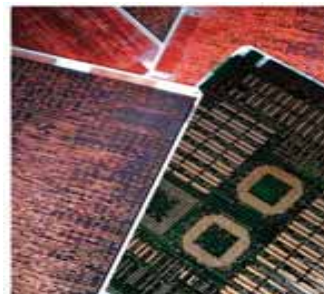
## Net sales & Operating income

(JPY billion)

(The figure in parentheses represents the value on a pre-tax reform basis.)



Copper strip for lead frames



Application example for electrolytic copper foil

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## FY 06 Results

- **Copper Strips and Pipes**
  - Production for semiconductor and digital applications was adjusted in the second half.
  - Sales of piping for air conditioners reached the 2005 level.
- **Electrolytic Copper Foil**
  - Production for mobile/LCD applications was temporarily adjusted but it has again been at normal level since March.

## FY 07 Market Conditions

- **Copper Strips and Pipes**
  - Demand for semiconductors and digital products will rally in summer.
  - Demand for air conditioning equipment will be at the same level as in 2006.
- **Electrolytic Copper Foil**
  - Japan (special purpose models) and Taiwan (general purpose models) will both enjoy strong demand.

## FY07 Plan

- **Copper Strips and Pipes**
  - Expand the equipment for producing copper wires for automotive and digital home electronics markets.
- **Electrolytic Copper Foil**
  - Boost the production capacity of high performance foil for FPCs and lithium ion batteries.

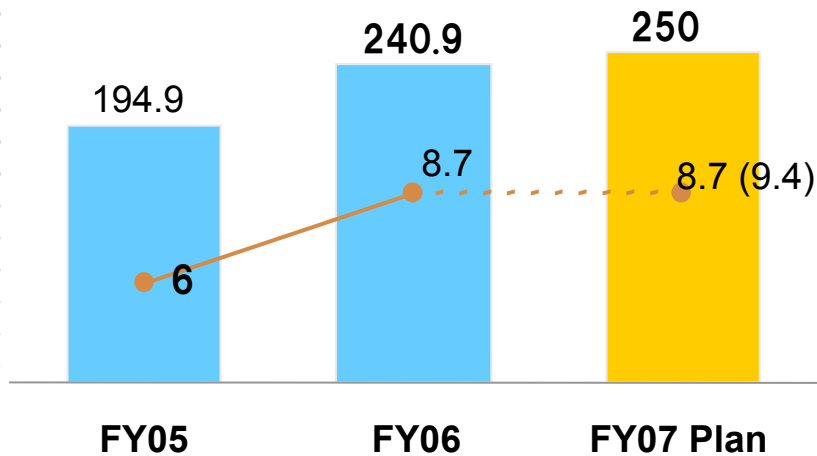
# Electronics/Automotive systems

## Net sales & Operating income

(JPY billion)

(The figure in parentheses represents the value on a pre-tax reform basis.)

Net sales — Operating income



Steering roll connectors for airbags



Aluminum blanks for hard disk

## FY 06 Results

- **Automotive Parts** (harnesses and electric components)
  - Buoyant sales mainly for light vehicles
- **Electronics Components / Magnet Wire**
  - Strong sales of heat dissipation components, memory disks and the TEX series triple-insulated wires
  - A reflow furnace jointly set up with Tamura Corporation

## FY 07 Market Conditions

- **Automotive Parts** (harnesses and electric components)
  - Bullish sales will continue, especially for light vehicle applications.
- **Electronics Components / Magnet Wire**
  - Sales of heat dissipation components, memory disks and the TEX series will remain strong.

## FY07 Plan

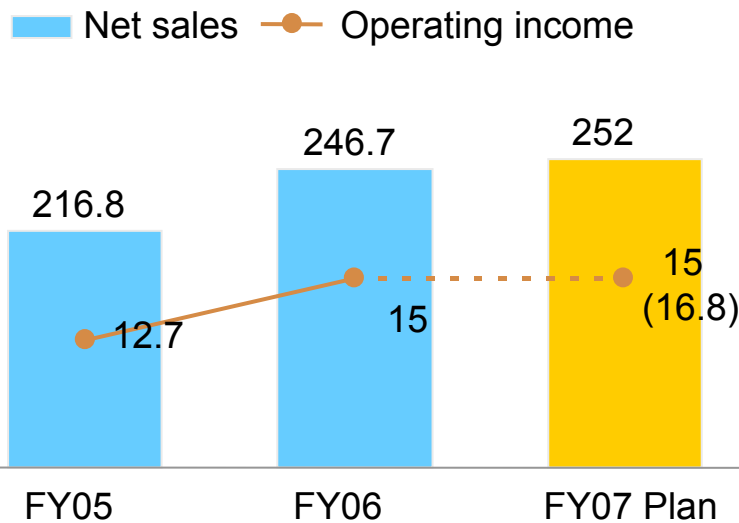
- **Automotive Parts** (harnesses and electric components)
  - Enlarge the business operation in China and set up a joint venture in India.
- **Electronics Components / Magnet Wire**
  - Achieve an early launch of new products.
  - Step up the business operation in China.

# Light metals (The Furukawa-Sky Group)

## Net sales & Operating income

(JPY billion)

(The figure in parentheses represents the value on a pre-tax reform basis.)



Thick plates for LNG tankers



Compressor wheels

## FY 06 Results

- Can materials sales suffered a slight decline as a result of the adverse weather conditions.
  - The IT-related and transport sectors continued to register healthy performances.
- Operating income climbed.
  - Sales volume increased.
  - Cost cuts offset the rise in oil and raw material prices.

## FY 07 Market Conditions

- Demand for can materials, automotive applications and thick plates will remain robust.
  - Demand for LNG tanker applications will grow.

## FY07 Plan

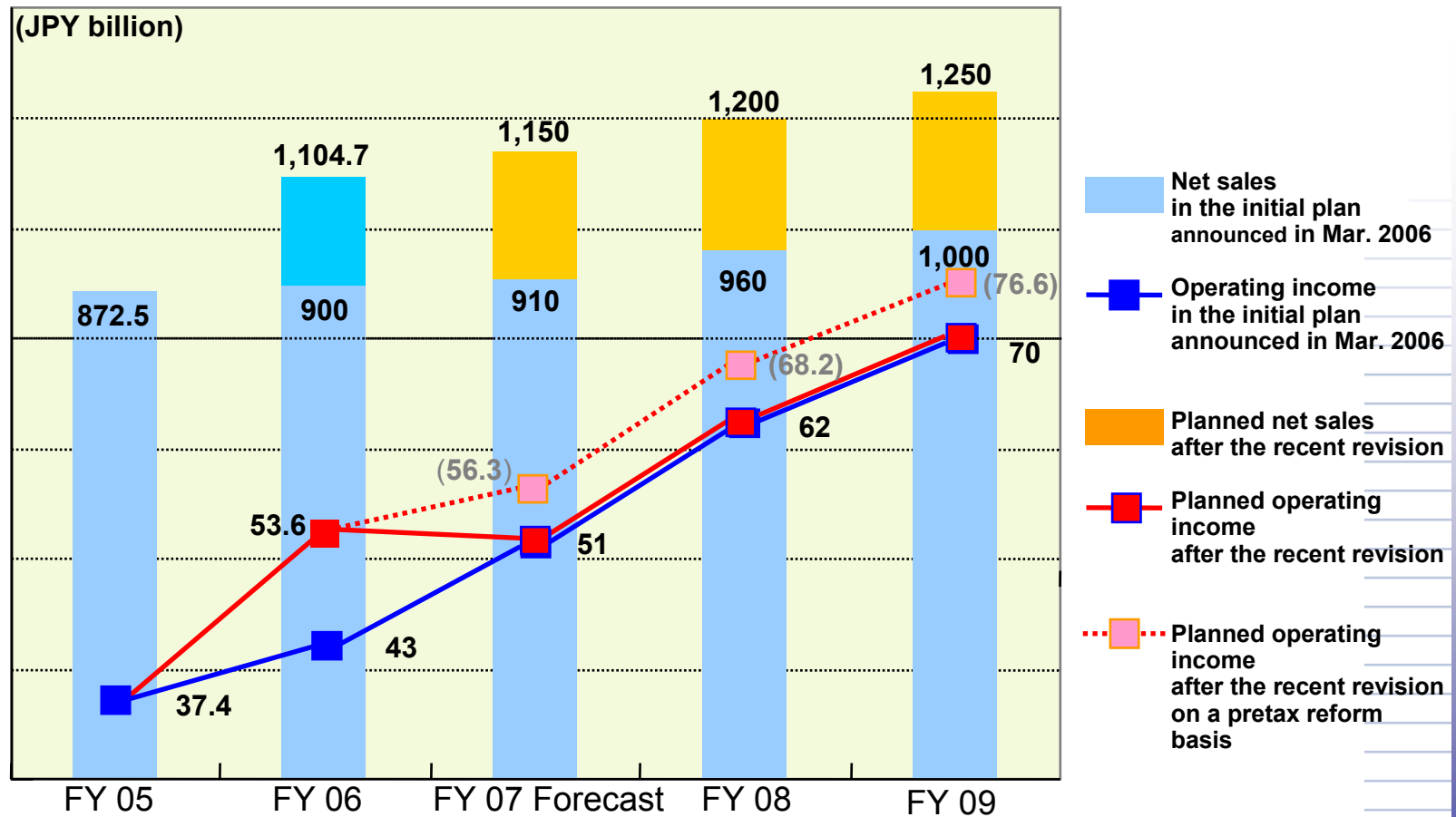
- Complete capital investment for integration of production.
- Commence mass production at overseas plants.
  - Start mass production of extruded and cast products in China and Southeast Asia.



## 4. Revised Targets of *Innovations 09*

## Revised Targets of *Innovations 09*

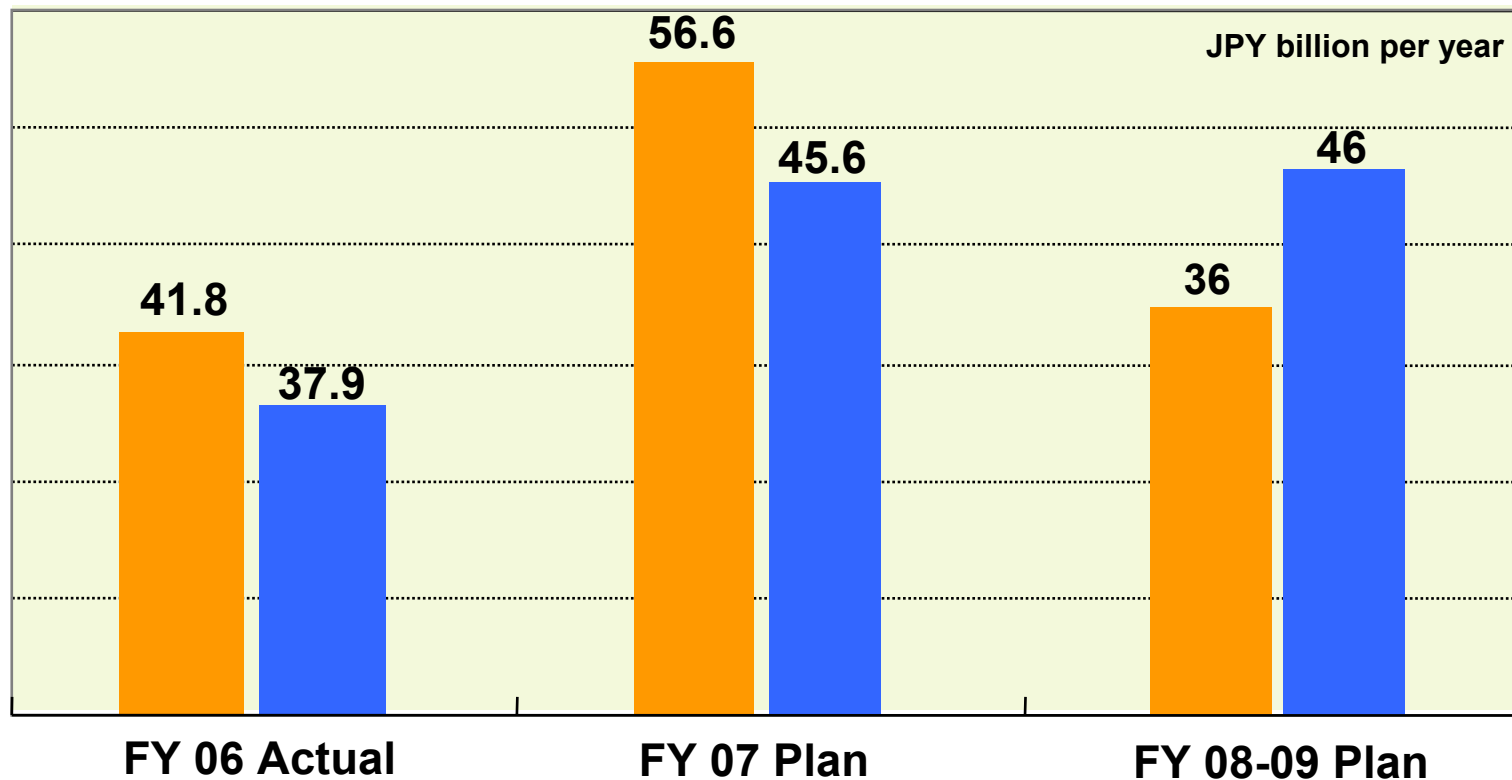
Operating income targets remain as initially planned even after the taxation reform.



Exchange rate (yen per U.S. dollar)	117	119	115	
Copper (yen per kg)	580	868	860	→
Aluminum (yen per kg)	254	346	330	

## Medium-Term Capital Investment and Depreciation Plan

Capital investment to be made in the four-year period (FY 2006-09) has increased from JPY 150.0 billion, as announced in March 2006, to JPY 170.0 billion.



■ Capital investment ■ Depreciation

(Figures for FY 2007 and subsequent years represent the values on a post-tax reform basis.)

## Summary of Targets Determined by *Innovations 09*

	Plan as of Mar. 06	Plan as of May 07	Change from previous forecast
<b>Net sales</b>	<b>JPY 1,000bn</b>	<b>JPY 1,250bn</b>	<b>+JPY 250bn</b>
<b>Operating income</b>	<b>JPY 70.0bn</b>	<b>JPY 70.0bn</b> <b>(JPY 76.6bn)</b>	<b>Unchanged</b> <b>(+JPY 6.6bn)</b>
<b>ROE</b>	<b>11.0%</b>	<b>11.0%</b>	<b>Unchanged</b>
<b>ROA</b> (on operating income basis)	<b>7.0%</b>	<b>6.2%</b>	<b>-0.8</b> percentage point
<b>Total asset turnover</b>	<b>1.0</b>	<b>1.1</b>	<b>+0.1</b> percentage point
<b>D/E ratio</b>	<b>1.3</b>	<b>1.3</b>	<b>Unchanged</b>

(Figures in parentheses represent the values on a pre-tax reform basis.)

### **Forward-Looking Statements**

**Projections of future sales and earnings in these materials are “forward-looking statements.” Management offers these projections in good faith and on the basis of information presently available. Information in these statements reflects assumptions about such variables as economic trends and currency exchange rates.**

**Forward-looking statements incorporate known and unknown risks as well as other uncertainties that include, but are not limited to, the following items.**

- Economic trends in the U.S., Europe, Japan and elsewhere in Asia, particularly with regard to consumer spending and corporate capital expenditures.**
- Changes in exchange rates of the U.S. dollar, euro, and Asian currencies.**
- The Furukawa Electric Group’s ability to respond to rapid advances in technology.**
- Changes in assumptions involving financial and managerial matters and the operating environment.**
- Current and future trade restrictions and related matters at foreign countries.**
- Changes in the market value of securities held by the Furukawa Electric Group.**

**Due to the above factors, actual sales, earnings, and other operating results may differ significantly from the figures in the plans contained in these materials. In addition, following the release of these materials, the Furukawa Electric Group assumes no obligation to publicly announce any revisions to forward-looking statements in these materials.**

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