

# Global Innovation and Growth

ANNUAL REPORT 2008

**FURUKAWA ELECTRIC**

## Furukawa Electric Establishes New Group Philosophy and Corporate Message

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

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

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

### Establishment of the Corporate PHILOSOPHY

#### CORPORATE PHILOSOPHY

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

### Establishment of the Corporate Message

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



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

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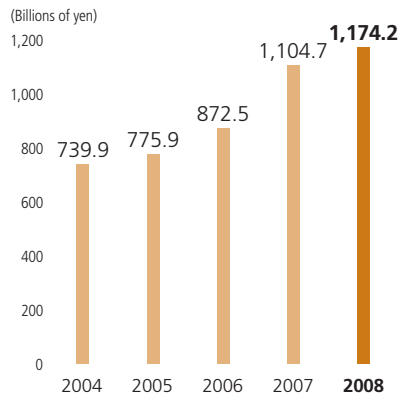
# Consolidated Financial Highlights

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

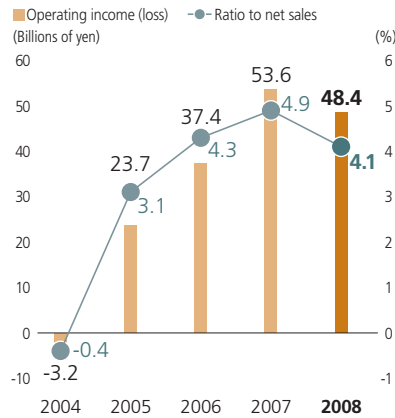
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net sales .....	¥ 1,174,247	¥ 1,104,709	\$ 11,742,470
Operating income .....	48,447	53,633	484,470
Net income .....	15,291	29,765	152,910
Per share of common stock (yen and U.S. dollars):			
Basic .....	21.81	42.16	0.218
Diluted .....	21.81	42.14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

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

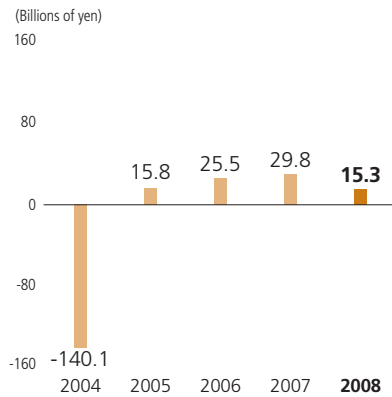
## Net sales



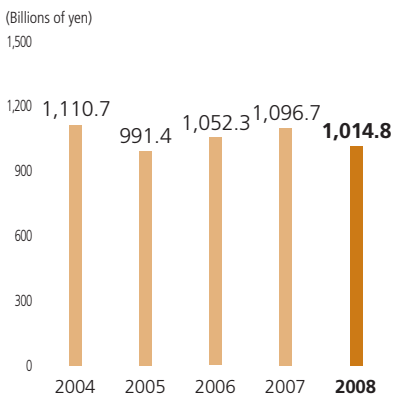
## Operating income (loss)/Ratio to net sales



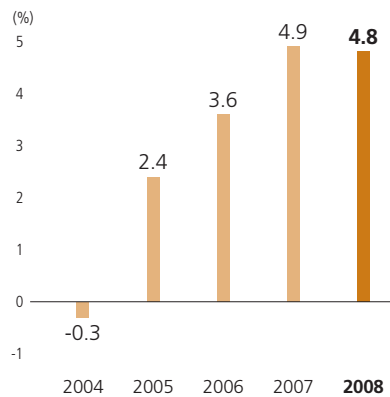
## Net income (loss)



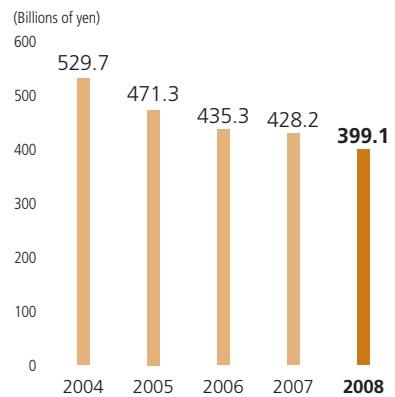
## Total assets



## ROA (Based on operating income)



## Interest-bearing debt



## Forward-Looking Statements

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

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

## Notation Used in this Annual Report

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

# Enhancing profitability

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

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

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



**Masao Yoshida**  
President & Chief Operating Officer

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

**A1 I will seek sustainable growth and development by pursuing both “universality” and “rationality.”**

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

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

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

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

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

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

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

Reviewing trends in the telecommunications market, although the number of optical network subscribers in Japan has reached more than 10 million households and is

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

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

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

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

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



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

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

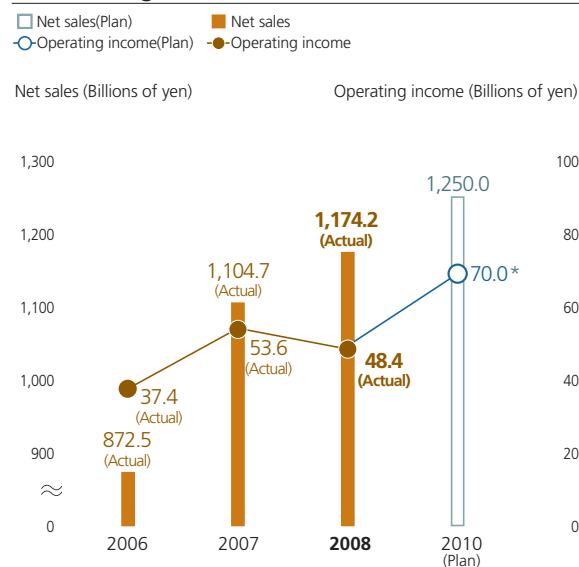
Fiscal 2008 marks the second year of *Innovations 09* Medium-Term Management Plan. Revenues in the first year far exceeded expectations, allowing us to achieve our final year targets ahead of schedule, so we subsequently revised our goals in May 2007 to net sales of ¥1.15 trillion and operating income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

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

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

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

#### Revised Targets for *Innovations 09*



\* Prior to fiscal 2008 tax code revisions.

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

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

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

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



high value-added products that meet the needs in each field and thereby avoiding cost competition.

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

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



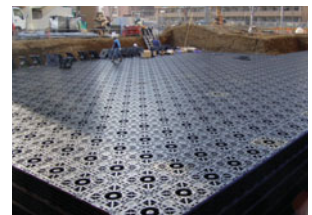
**Q5 How are you dealing with environmental concerns, which have recently become key issues for corporate operations?**

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

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

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

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



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



Superconducting technology exhibited at the Toyako Summit



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

At the Toyako Summit in Hokkaido held in July this year, superconducting power cables were presented as a technology that contributes to reducing CO<sub>2</sub> emissions, and Furukawa Electric has been cooperating in this project. Our Group has accumulated many years of research on superconductive technology and has already succeeded in reducing energy loss during transmission to one-quarter the level of conventional copper and aluminum power cables. Commercializing this cable would reduce CO<sub>2</sub> emissions by 1,060,000 tons per year.

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



## Q6 What are your financial targets?

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

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

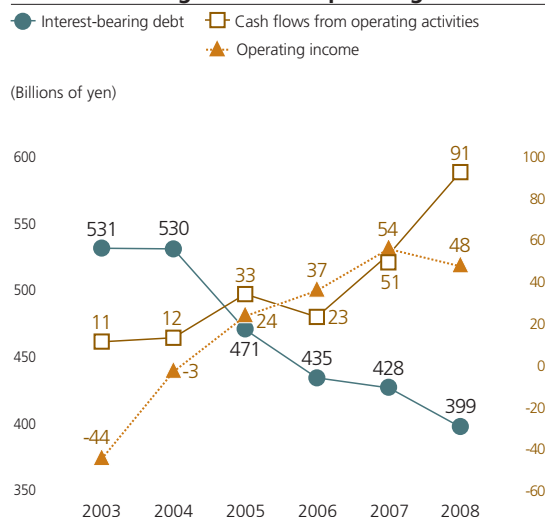
We emphasize the D/E ratio\*<sup>2</sup> as a financial target. While our goal under *Innovations 09* is set at 1.3, we hope to get this closer to 1.0.

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

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

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

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



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

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

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



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

income from foreign exchange conversions accompanying the dissolution of overseas subsidiaries.

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

President & Chief Operating Officer

**Masao Yoshida**

A handwritten signature in black ink that reads "Masao Yoshida". The signature is written in a cursive, flowing style.