FURUKAWA

Today's Actions, Tomorrow's Growth

ANNUAL REPORT 2006

Year ended March 31, 2006

Furukawa Co., Ltd. was established in 1875, and over its 131-year history has developed a diverse portfolio of businesses in the fields of machinery, metals, electronic materials, chemicals and fuels. Grounded in its management philosophy—**Innovation, Creativity, and Harmony**—the Company has moved forward with innovation in its corporate structure and technological development. Furukawa strives to offer appealing products and services to its customers and to contribute to the creation of a prosperous society that is in harmony with the environment.

Net income increased in fiscal 2006, ended March 31, 2006, with our overall performance pulled up by increased overseas sales in our rock drills business and by our Metals Division operating in an environment of high copper prices. We are pleased to declare a dividend for the first time in five years.

For fiscal 2007 we have identified the theme of "selection and concentration" as we continue our business restructuring, concentrating our management resources on growth areas, and building a platform from which to grow further.

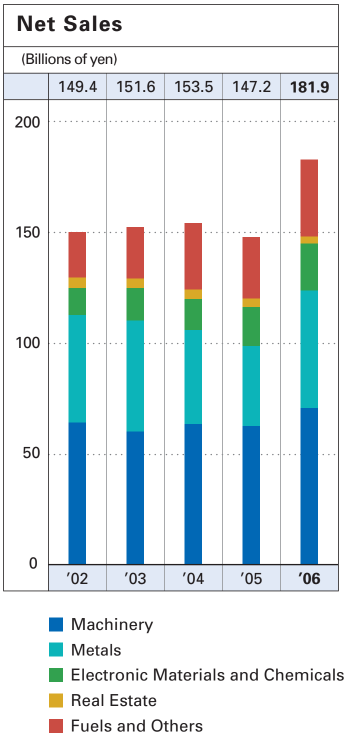
Forward-Looking Statements:
This annual report contains forward-looking statements such as the plans, strategies and statements related to the outlook for future results. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to various risks, uncertainties and assumptions. As such, actual results may differ materially from those projected.

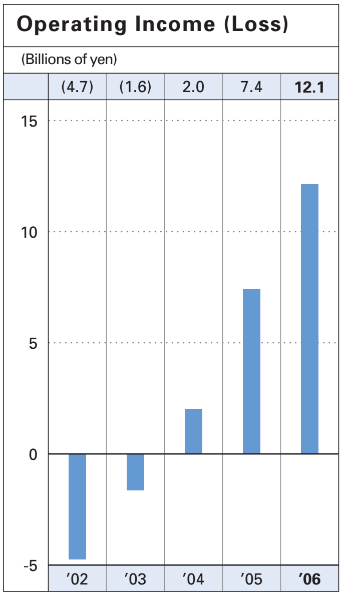
CONSOLIDATED FINANCIAL HIGHLIGHTS

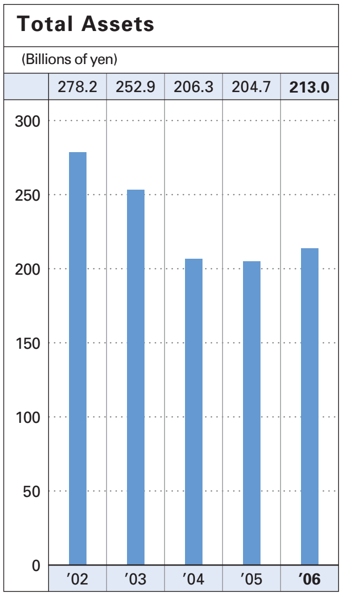
Furukawa Co., Ltd. and consolidated subsidiaries
Years ended 31st March, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars	Percent change
	2006	2005	2004	2006	2006 / 2005
For the year:					
Net sales	¥ 181,938	¥ 147,237	¥ 153,513	$1,555,026	23.6%
Operating income	12,130	7,383	2,024	103,675	64.3
Income (loss) before income taxes and minority interests	9,810	4,199	(35,238)	83,846	133.6
Net income (loss)	5,309	2,257	(27,634)	45,376	135.2
At year-end:					
Total assets	¥ 213,046	¥ 204,651	¥ 206,250	$1,820,906	4.1
Shareholders' equity	43,072	31,335	28,660	368,137	37.5
	Yen			U.S. dollars	
Per share amounts:					
Net income (loss):					
Basic	¥ 13.12	¥ 5.57	¥ (84.61)	$ 0.11	135.5
Diluted	12.37	5.03	—	0.11	145.9
Cash dividends	3.00	—	—	0.03	—

Note: U.S. dollar amounts are translated from yen for convenience only at the rate of ¥117=$1.







Furukawa Co., Ltd. and its consolidated subsidiaries reported increased revenue and profit in fiscal 2006, the year ended March 31, 2006. Implementing the spin-off of business divisions into independent companies is creating a flexible management structure with an emphasis on profitability, and this is providing the engine for tomorrow's success.

Performance in Fiscal 2006

Consolidated net sales for the fiscal year ended March 31, 2006 increased by 23.6% to ¥181,938 million. In our core business Machinery Division, the industrial machinery business continued to face weak demand and intensifying price competition, but income from the rock drills business increased on the strength of vibrant overseas orders, and the UNIC machinery business also increased its sales on the strength of higher replacement demand for ordinary trucks. Revenues in the Metals Division increased sharply as a result of high copper prices and improved Treatment & Refining Charge (T/C, R/C). Net sales overall in the Electronic Materials and Chemicals Division have firmed up.

Operating income rose by 64.3% to ¥12,130 million, mainly on the strength of higher profits in the Machinery Division and the Metals Division. After posting gains on sales of investments in securities, loss on disposal and devaluation of inventories, etc., Furukawa was able to post net income of ¥5,309 million, an increase of 135.2% over the previous fiscal year. Furukawa is pleased to announce that after requesting shareholders' understanding for four years in which no dividend was declared, it is resuming payment of a dividend of ¥3 per share.

Overview of the Medium-Term Management Plan

Fiscal 2006 was the first year of the Medium-Term Management Plan, which runs from April 2005 through March 2008. The most important issues in the Plan are to maximize the value of the overall Group through shifting to an operating holding company system and to further strengthen the Group's financial position and earnings growth. The Plan sets performance targets for fiscal 2008 (April 2007–March 2008) of ¥165,000 million in consolidated net sales, ¥10,500 million in operating income, and a reduction of ¥30,000 million in interest-bearing liabilities.

Based on the performance in fiscal 2006, we are ahead of our 2008 target for consolidated net sales and operating income. Due to continuing record-high prices for copper on world markets, the Metals Division is already exceeding targets for sales and income. Furukawa is bolstering the Machinery Division and Electronic Materials and Chemicals Division so that they will have the strength and the presence to ensure stable income.

In the area of interest-bearing liabilities (corporate bonds and long- and short-term debt), Furukawa is implementing its planned reduction steadily. The balance of interest-bearing liabilities as of March 31, 2006 was ¥99,418 million—a reduction of ¥17,433 million from March 31, 2005 due mainly to bond redemption.

Continuously Promoting Furukawa's Business Restructuring

For several years past, Furukawa has been constructing a platform to assure stable profitability and is fully conscious of the fact that a far-reaching business reorganization is necessary to improve profitability. To this end, the industrial machinery business within the Machinery Division, following the principles of selection and concentration, is shifting its priorities to highly profitable businesses. In practice this means focusing its management resources on environmental products such as sewage treatment pumps and processing equipment, while stone crushers and similar products are transferred to Furukawa Otsuka Co., Ltd. Personnel have also been reduced through reassignment.

Progress of Medium-Term Management Plan (April 2005 to March 2008)

Net Sales by Business Division

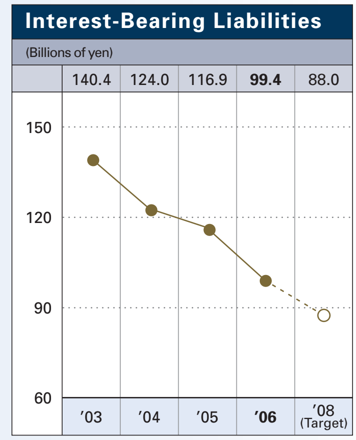
Millions of yen

	2005	2006	2008 (Target)	2006/2008 (Target)
Machinery	62,291	**70,329**	75,500	93.2%
Metals	35,862	**52,662**	35,000	150.5%
Electronic materials and chemicals	17,502	**21,228**	22,000	96.5%
Real estate	3,835	**3,107**	3,800	81.7%
Fuels and others	27,747	**34,612**	28,700	120.6%
Total	147,237	**181,938**	165,000	110.3%

Operating Income by Business Division

Millions of yen

	2005	2006	2008 (Target)	2006/2008 (Target)
Machinery	3,541	**4,244**	4,800	88.4%
Metals	1,027	**5,779**	2,000	289.0%
Electronic materials and chemicals	1,739	**1,498**	2,300	65.1%
Real estate	1,376	**905**	1,300	69.6%
Fuels and others	(329)	**(69)**	200	–
Eliminations and corporate	29	**(227)**	(100)	–
Total	7,383	**12,130**	10,500	115.5%



Note: Interest-bearing liabilities = Long- and short-term debt + Corporate bonds

In addition, Furukawa is improving the groundwater environment at the PKC copper smelter subsidiary in Australia in preparation for a disposal to minimize our future burdens.

Taking the Next Steps to Further Growth

As domestic demand in the rock drill and UNIC machinery businesses within our Machinery Division is not expected to grow substantially, we have strengthened our expansion in overseas markets. To meet the healthy overseas demand, the rock drill business is investing in expanded production capacity with a view to enlarging its market share. Together with implementing capital investment at its three factories in Sakura (Japan), China and Thailand, the UNIC machinery business is bolstering its local sales structure in all territories. (For further information on the overseas expansion plans of both businesses, please refer to pages 4–6.)

The Electronic Materials and Chemicals Division is working on the early introduction of mass-production systems for gallium nitride (GaN) substrates, which are expected to be used as a source material for blue laser diodes (LDs).

Furthermore, the division is also increasing its production capacity of sapphire substrates for use in GaN crystalline substrates, for which the main application is blue and white light-emitting diodes, to meet increased demand. In fiscal 2007 monthly production capacity will be increased from 5,000 to about 10,000 wafers.

Furukawa also energetically starts new businesses to meet society's needs. In April 2006, Furukawa's joint venture (in Gunma Prefecture) with Toho Zinc Co., Ltd. commenced operations in processing medical waste. In addition, manufacture and sales of a composite material made from recycled waste lumber and plastic commenced operations in September 2005, and sample shipments and market development are now progressing.

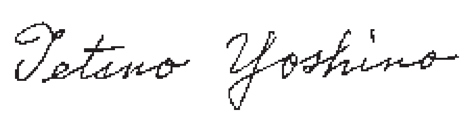
In Conclusion

Since March 2005 Furukawa has spun off several business divisions and transformed itself into a group management system. From that point on, each group company has assumed clear profit-and-loss responsibility and reorganized its business structure in accordance with the priority of profitability. What is more, each group company is implementing speedy and flexible decision-making appropriate for its own speciality, and we are certain that this will create globally competitive products and services.

Two years remain of the Furukawa Company Group's Medium-Term Management Plan, during which we are laying the foundation for the next stage of growth.

We look forward to the continued support and understanding of our shareholders.

September 2006



Tetsuo Yoshino,
President and Representative Director

The Machinery of Global Expansion

Europe

■Rock Drills

・Due largely to hydraulic rock breakers, sales are up 80% compared to five years ago, and a high-profitability earnings structure is in place.

・Immediate plans to expand sales of crawler drills

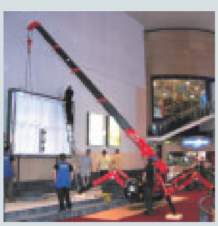
・To expand sales, Furukawa Rock Drill Europe B.V. (The Netherlands) is relocating to new premises. The site provides simple assembly and service and plays a significant role in supporting our sales in Europe.

〈Environmentally conscious, low-noise breaker〉

■UNIC Machinery

・Sales of mini crawler cranes are growing. Mini crawler cranes are extremely valuable in working in narrow spaces between buildings and other areas where trucks cannot gain access.

・Strengthened measures planned to expand the name recognition of straight-boom type truck-mounted cranes to increase sales



〈Mini crawler crane〉

Russia

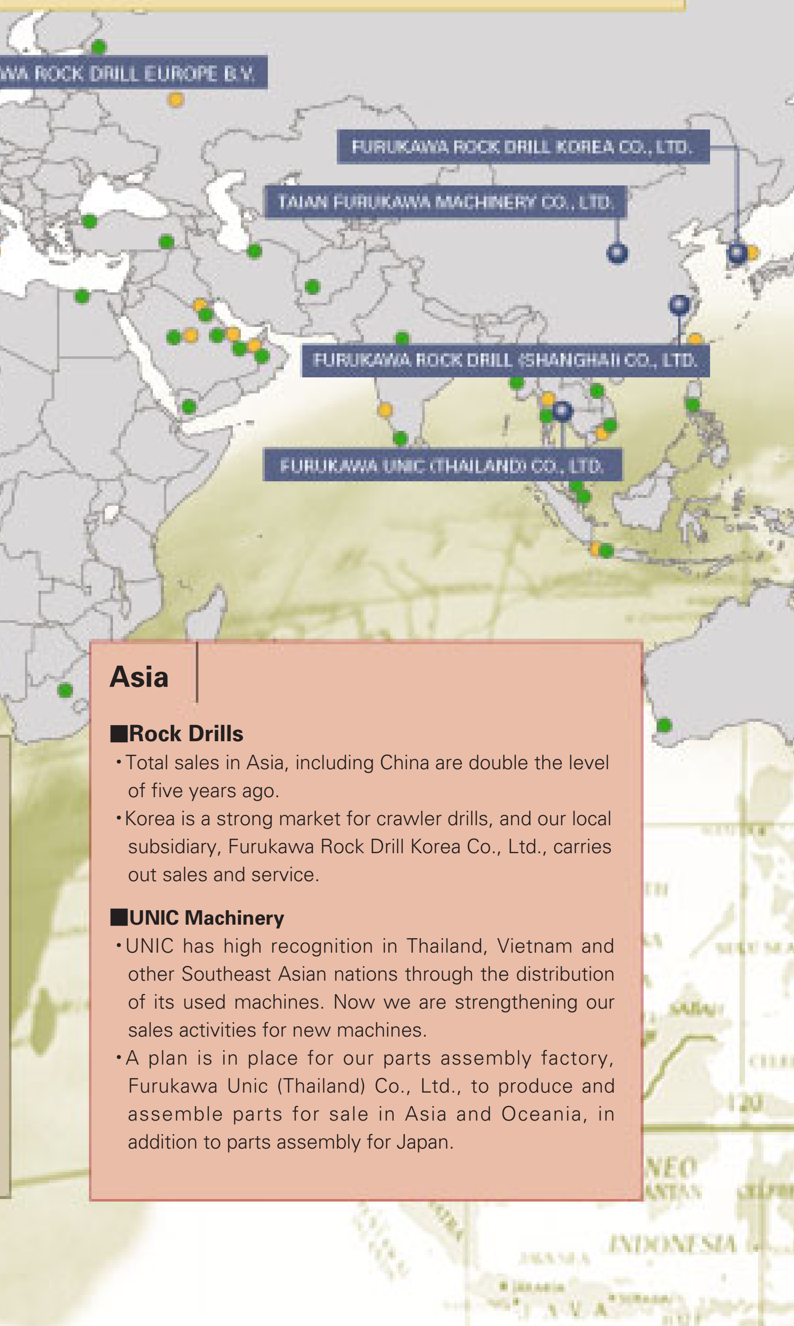
■Rock Drills

・In addition to breaker and crawler drills, we are vigorously expanding sales of drill jumbos for mine developments.

■UNIC Machinery

・UNIC machinery is partly distributed through second-hand channels. We are strengthening our sales activities for new machinery by signaling the merits of the straight-boom type model crane for its light weight and excellent operability.

〈Drill jumbo for mine developments〉



The Middle East

■Rock Drills

・With an extensive sales agent and service network now in place, sales in the Middle East are three times the level of five years ago.

■UNIC Machinery

・With plentiful capital for infrastructure spending in the Middle East, we are now promoting the superiority of the straight-boom type, truck-mounted crane for its light weight and excellent operability and are expecting healthy orders.

〈Crawler drill〉

Asia

■Rock Drills

・Total sales in Asia, including China are double the level of five years ago.

・Korea is a strong market for crawler drills, and our local subsidiary, Furukawa Rock Drill Korea Co., Ltd., carries out sales and service.

■UNIC Machinery

・UNIC has high recognition in Thailand, Vietnam and other Southeast Asian nations through the distribution of its used machines. Now we are strengthening our sales activities for new machines.

・A plan is in place for our parts assembly factory, Furukawa Unic (Thailand) Co., Ltd., to produce and assemble parts for sale in Asia and Oceania, in addition to parts assembly for Japan.

In the absence of any signs of a dramatic improvement in domestic demand, the Furukawa Company Group's rock drill and UNIC machinery businesses of the Machinery Division are strengthening their overseas sales activities. With competitive products and an extensive sales and service structure, our target is to become the world's leading manufacturer of rock drills and truck-mounted cranes. The markets in which both businesses operate, their global networks, their sales trends, their strengths and their strategies, are explained below.

The United States

■Rock Drills

- Sales are more than double the level of five years ago; we have established a high profitability earnings structure.
- Sales, service and simple assembly to be provided by sales subsidiary, Gougler Industries Inc. (USA).
- The next step is to extend network of agents and strengthen sales.

■UNIC Machinery

- With the low penetration of trucks capable of mounting a crane, our expanded marketing of the large-truck model UNIC truck-mounted crane has paid off in higher sales.
- Our next steps are to focus similar attention on expanding sales of the small-truck model UNIC crane.
- Further strengthen sales structure by expanding the network of sales agents


〈Large-model UNIC crane〉

China

■Rock Drills

- Furukawa Rock Drill (Shanghai) Co., Ltd. was established in February 2006 with the purpose of offering sales, service and simple assembly. It is in the process of establishing a sales structure to maximize our potential in this growing market.

■UNIC Machinery

- Taian Furukawa Machinery Co., Ltd. is undergoing Phase II of its factory construction, a parts manufacturing facility. When completed, Taian Furukawa will be able to undertake local manufacturing in addition to sales.

〈Taian Furukawa Machinery Co., Ltd.〉


〈A truck-mounted crane assembled at our China factory〉

Expanding the Rock Drill Business Overseas

Sales Trends

Furukawa began exporting rock drill machinery approximately 40 years ago. Now we export to more than 100 countries and have attracted high praise from our customers. In particular, with our recent objective of achieving earnings stability from our overseas operations, we have based our sales initiatives not just on large-scale projects, but also on general trade, and we have worked hard to strengthen our sales network to this end.

As a result, in the fiscal year ended March 31, 2006 the net overseas sales of the rock drill business—based on units sold—was twice the volume of fiscal 2002, and the share of overseas sales exceeded 60%. In breakers and crawler drills, close to 90% of our total production, on a manufactured units base, is sold overseas.

Furukawa's Strengths

With a worldwide agency network of more than 200 companies, Furukawa rock drills enjoy high brand recognition both domestically and internationally. We are especially proud of our technical strengths, through which we can meet customers' particular specifications in any territory.

Strategies and Objectives

Responding to vigorous demand, we are installing new factory equipment and renewing machinery, and over the next three years we are implementing our largest-ever program of capital investment. Together with the further strengthening of our sales and service centers, we are developing our human resources to equip them properly for our global expansion. We are targeting an increase in our share of the market for hydraulic breakers and crawler drills from 30% in fiscal 2006 to 40% within the next few years. And in tunnel jumbo drills, where we have an overwhelming share of the Japanese market, we also aim to be No. 1 in Asia.

Expanding the UNIC Machinery Business Overseas

Market Trends

Truck-mounted cranes can be broadly divided into two types. One is the swing-boom type, which folds and bends the crane boom in the middle and has an attachment at the end that is used to grab the load. The other is the type that has come to represent our UNIC cranes, the straight-boom type crane, in which the boom can be extended and a wire rope lowers a hook that attaches to the load. Of the swing-boom type, some 40,000 units are produced worldwide every year; while for the straight-boom type crane, annual worldwide production is approximately 20,000 units.

The advantages of the straight-boom type are that because the load is suspended from the hook, no additional weight is incurred from the side, and therefore the crane can be lighter and the costs lower. Because the rope is interposed, the movement is smooth and precise, and when lowering the load the drop spot can be easily indicated.

In Japan and Taiwan, straight-boom type cranes account for 97% of all cranes manufactured and in service, whereas in Europe, the Middle East and South America, almost all cranes are swing-boom type. Straight-boom type cranes comprise 50% of the United States market and about one-third of the market in both Australia and Southeast Asia.

Furukawa's Strengths

Operating a crane safely and efficiently requires a high degree of skill. The special feature of UNIC crane machinery, however, is that complex operations can be performed by a simple lever action. With Furukawa's original radio-controlled operation fitted as an option, just a click allows complex movements to be smoothly executed. UNIC cranes are also fitted with excess load warnings and anti-tilt measures, offering a high degree of safety, while their energy-saving and low-noise operation addresses environmental concerns.

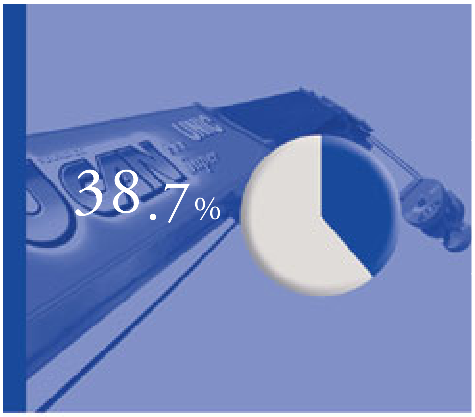
All core parts are designed and manufactured in-house, and with so much of our manufacturing carried out within the company, we continuously develop the technological strengths that lead to highly distinctive products.

Strategies and Objectives

We have a contribution to make to society throughout the world with UNIC crane's efficient, energy-saving operations. As we cultivate the market in the BRICs (Brazil, Russia, India, China) and other newly industrializing countries, we are also challenging the preference for the swing-boom type crane in Europe and America. Our objective is to increase our share of the global market and to raise the overseas share of net sales from 11% in fiscal 2006 to 30% in fiscal 2009. To this end, we are implementing a capital investment program at our factories at Sakura (Chiba, Japan), Thailand and China (Taian).

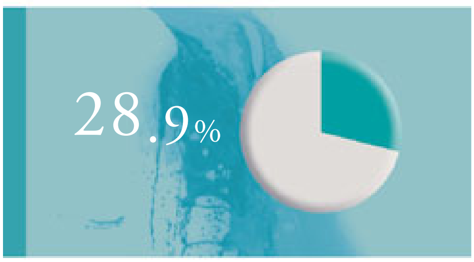
BUSINESS AT A GLANCE

Machinery



% of Net Sales	Businesses	Core Business Company	Main Products
38.7%	Industrial Machinery	Furukawa Industrial Machinery Systems Co., Ltd.	Pumps, environmental treatment facilities, plants, multistory parking systems, steel bridges, stone crushers and semiconductor production equipment
	Rock Drills (Construction & Mining Machinery)	Furukawa Rock Drill Co., Ltd.	Rock drills (hydraulic rock breakers, hydraulic crawler drills, tunnel drill jumbos, etc.) and environmental machinery
	UNIC Machinery	Furukawa UNIC Corporation	Truck-mounted cranes (UNIC cranes, UNICPAL, UNIC carriers and mini crawler cranes, etc.)

Metals

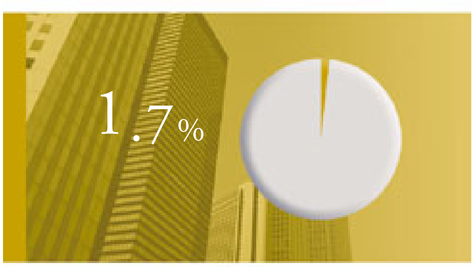


% of Net Sales	Businesses	Core Business Company	Main Products
28.9%	Metals	Furukawa Metals & Resources Co., Ltd.	Copper, gold, silver and sulfuric acid

Electronic Materials and Chemicals

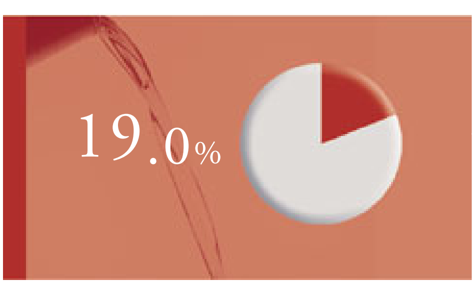
% of Net Sales	Businesses	Core Business Company	Main Products
11.7%	Electronic Materials	Furukawa Denshi Co., Ltd.	High-purity metallic arsenic, aluminum nitride ceramics, core coil for line filters and laser-use lenses, and optical parts
	Chemicals	Furukawa Chemicals Co., Ltd.	Cuprous oxide, sulfuric acid, aluminum sulfate, sapphire substrates and titanium dioxide

Real Estate



% of Net Sales	Businesses	Core Business Company	Main Products
1.7%	Real Estate	Furukawa Co., Ltd.	Construction/sales, mediation/ brokerage and other related services for office buildings and apartments

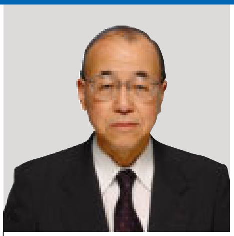
Fuels and Others



% of Net Sales	Businesses	Core Business Company	Main Products
19.0%	Fuels	Furukawa Co., Ltd.	Petroleum, petroleum-related products, LPG, coke, aggregate
	Others	Furukawa Co., Ltd.	Transportation service by trucks and domestic shipping

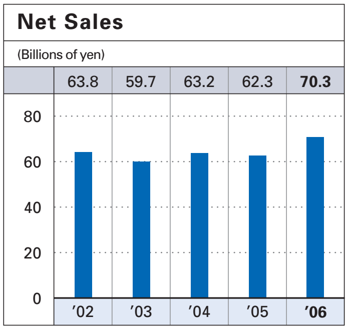
Machinery

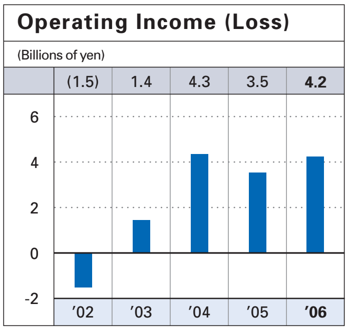
Yasuji Tomiyama
President and Representative Director
Furukawa Industrial Machinery Systems Co., Ltd.

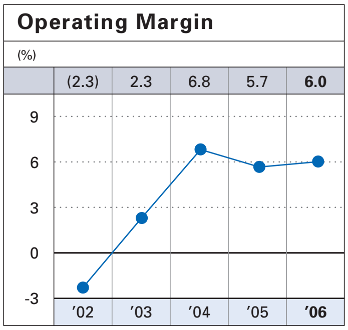


Yoichiro Kato
President and Representative Director
Furukawa Rock Drill Co., Ltd.

Shin Nakamura
President and Representative Director
Furukawa UNIC Corporation







In fiscal 2006, ended March 31, 2006, the Machinery Division recorded an increase of 12.9% in sales over the previous fiscal year, reaching ¥70,329 million. Operating income increased by 19.9% over the corresponding period, and stood at ¥4,244 million. The operating margin improved by 0.3 percentage point to reach 6.0%.

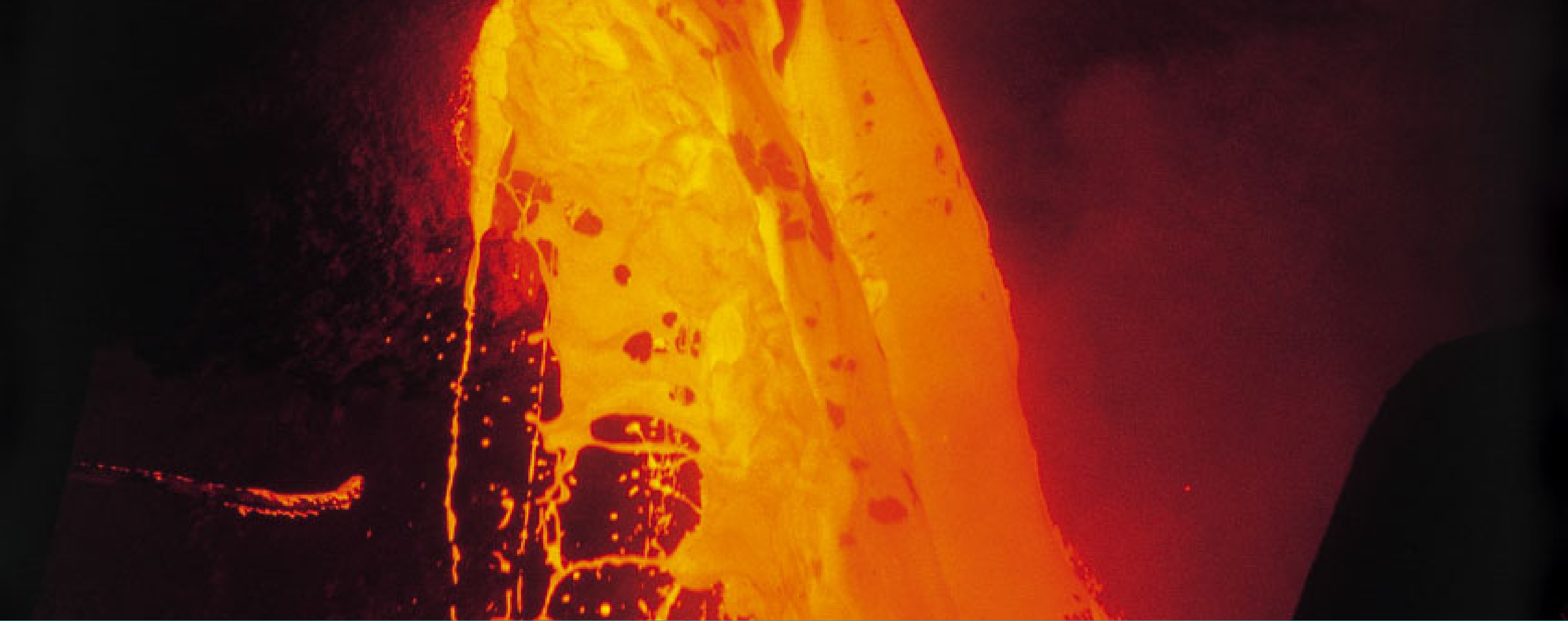
Facing a slump in domestic demand and intensifying price competition, the industrial machinery business is facing difficult circumstances, exacerbated by the influence of an administrative order to suspend business on public works for a fixed period due to an infringement of the Antitrust Act. Given these circumstances, the Group has been concentrating its management resources on environmental machinery such as water and sewage treatment pumps and has concentrated the stone crushing and similar businesses into Furukawa Otsuka Co., Ltd. The merged company has been reorganized with a view to building a reliable business base.

In the construction and mining machinery (rock drills) business, domestic demand continues at low levels, with a decline in sales for tunnel drill jumbos. Strengthened efforts in breakers, crushers and crawler drills resulted in higher sales, while sales in overseas markets improved across all product lines. There was strong growth in sales of crawler drills and breakers in the United States and the Middle East. Europe also saw increased sales of crawler drills. Due to an economic slowdown, sales of crawler drills were depressed in South Korea, but held steady in other markets in Asia and Oceania.

In the UNIC machinery business, domestic sales increased on the back of greater demand for ordinary trucks as stricter regulation of exhaust emissions led to increased replacement orders. However, this was a transient demand and it is expected to subside in fiscal 2007. Anticipating the decline, Furukawa has stressed development of overseas markets. This led to increased exports to the U.S., Europe and Southeast Asia, resulting in an increase in overseas sales of UNIC machinery to 10.9%.

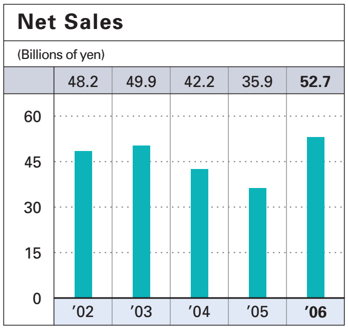
Hydraulic breaker

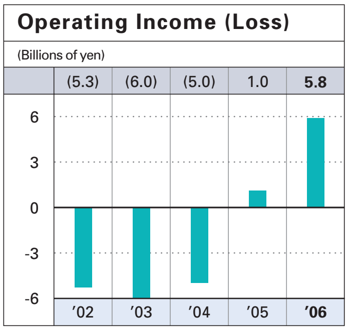
Slurry pump for tunnel shield construction

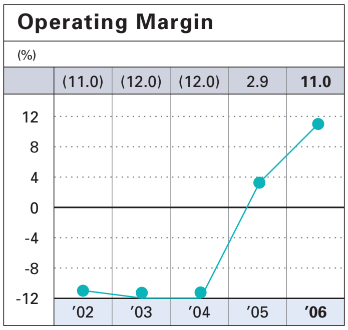


Metals

Yoshihito Emoto
President and Representative Director
Furukawa Metals & Resources Co., Ltd.







Net sales in the Metals Division in the fiscal year under review increased by 46.8% over the previous fiscal year, reaching ¥52,662 million. Operating income increased by a staggering 462.7% to stand at ¥5,779 million, while the operating margin improved by 8.1 percentage points to reach 11.0%.

Electrolyte copper prices continued to rise on overseas markets throughout fiscal 2006 due to expanding demand from China as well as an influx of capital from investment funds, while in Japan the average quotation for the fiscal year was ¥510,000 per ton, a large increase of ¥140,000 per ton from the previous fiscal year. With increased output from large-scale mines, some idle mines restarting operations, and delays in planned increases by some smelters, copper ore continues to be in plentiful supply.

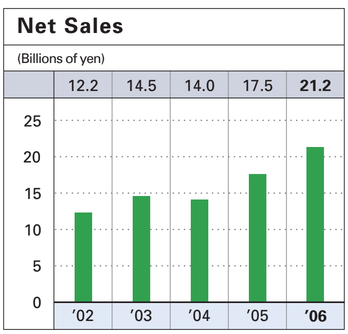
The sharp increases in the price of copper have greatly improved Treatment & Refining Charge (T/C, R/C), and trends toward a weaker yen on currency markets have contributed to a substantial increase in operating income.

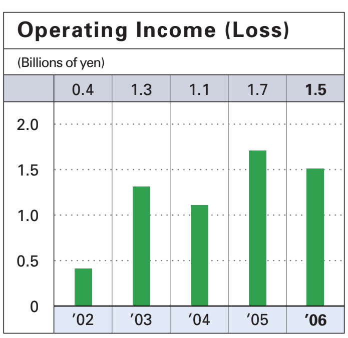
Copper and gold mine, Batu Hijau Mine (Indonesia) in which Furukawa Co., Ltd. invests

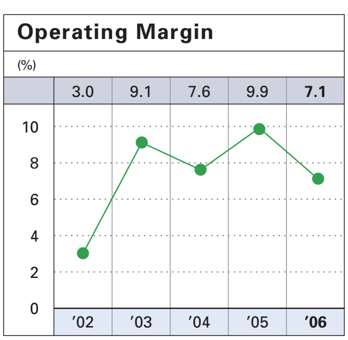
Onahama Smelting & Refining Co., Ltd. in which Furukawa Metals & Resources Co., Ltd. has capital participation

Hibi Kyodo Smelting Co., Ltd. in which Furukawa Metals & Resources Co., Ltd. has capital participation

Electronic Materials and Chemicals







Yasuhei Konagaya
President and Representative Director
Furukawa Denshi Co., Ltd.

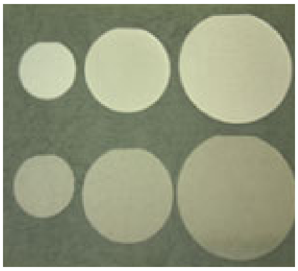
Nobuyoshi Soma
President and Representative Director
Furukawa Chemicals Co., Ltd.

The Electronic Materials and Chemicals Division's net sales in fiscal 2006 increased 21.3% over the previous fiscal year to ¥21,228 million. Operating income fell 13.9% to ¥1,498 million. The operating margin declined 2.8 percentage points to 7.1%.

Shipments of high-purity metallic arsenic were low due to decreased demand for gallium arsenate semiconductors, which is the main use for the material. Gallium arsenate semiconductors, in turn, are used in DVD laser diodes and communications devices for third-generation mobile phones. Although there is strong demand for these products, product miniaturization and improvements in extraction have resulted in lower shipment volumes of high-purity metallic arsenic. Meanwhile, we increased the price of high-purity metallic arsenic from April 2006. Consignment sales of electrolytic aluminum capacitor foil and shipments of healing jewelry containing geranium increased sharply. Shipments of sapphire substrates for use in blue and white LEDs also grew as a result of the phased introduction of mass production capacity.

Revenues from the sale of cuprous oxide, which is used in hull coatings, rose sharply due to the increase in the price of copper. Increased shipments to government and municipal authorities of polymeric ferric sulfate solution used as a coagulant in processing sewage have been a source of revenue. Titanium oxide produced lower revenues, however, on fewer shipments to paint and ink manufacturers, who are its main users.

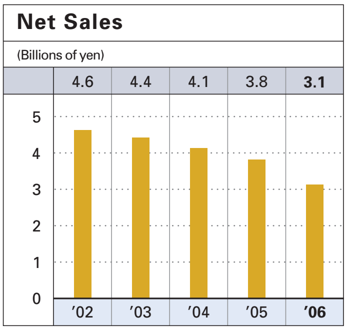

High-purity metallic arsenic

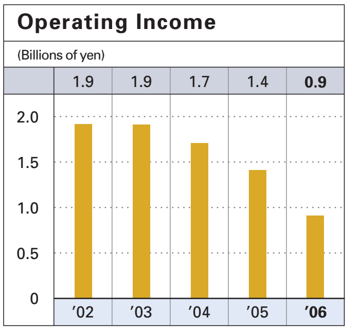

Sapphire substrates

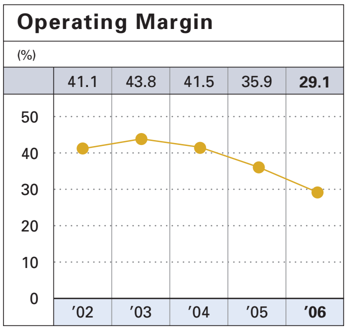
Real Estate

Because of the sale of Furukawa's central Tokyo office building in March 2005, net sales in the Real Estate Division in fiscal 2006 fell by 19.0% over the previous fiscal year to ¥3,107 million. Operating income declined by 34.2% to ¥905 million, and the operating margin fell by 6.8 percentage points to 29.1%.

A recovery of tenant demand in the division's core office-building market was seen, but this has yet to be reflected in rent levels. The division responded to these conditions with strengthened efforts to acquire new tenants, to reduce vacancy rates and to cut operating expenses.



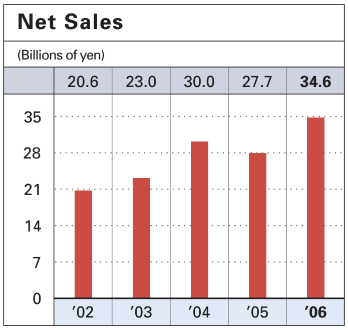


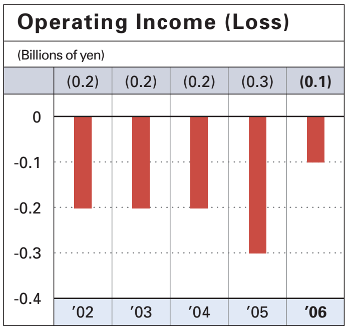


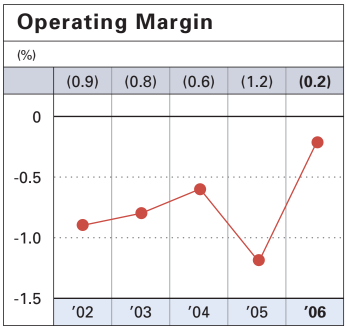
Fuels and Others

Net sales in the Fuels and Others Divisions increased by 24.7% in fiscal 2006 to reach ¥34,612 million. Operating loss narrowed from ¥329 million to ¥69 million, while the operating margin improved slightly from negative 1.2% to negative 0.2%.

The division has been facing record-high oil prices. These initially peaked in August 2005 and subsequently weakened, before soaring again at the start of 2006. The division has responded to these circumstances by balancing price and reliability of supply. The "others" category, of which the main component is the transportation business, experienced a widening of its operating loss due to the start of production of a wood-composite business.







The protection of the environment is one of the most important management issues at the Furukawa Company Group. Our fundamental policy is that each employee should strive in all corporate activities to perform in harmony with the environment, to consider the improvement of the environment, and to contribute to the development of a sustainable society. We are aware of the important role we play in community service as a corporate citizen, and every employee is involved.

Environmental Management

■Environmental management system

The senior decision-making body for environmental protection activities is the Central Committee for Environmental Management, in which everyone from the president down participates. The Environmental Management Subcommittee studies, proposes, directs and monitors environmental protection activities.

The companies of the Furukawa Company Group have each established their own Environmental Management Committees, chaired by their own top management, which formulates environmental protection plans and directs environmental protection programs.

For the purposes of sharing information and resolving issues quickly, the committee of environmental protection supervisors meets every year, bringing together the people who directly guide and manage environmental and safety initiatives in each group company, to analyze and share information on the initiatives each company may undertake and the problems they may face.

■ISO14001 certification

By March 31, 2005 the Furukawa Company Group's principal business sites had obtained ISO14001 certification. Internal and external audits are now being conducted in order to effect continuous improvement in environmental protection activities.

Environmental Protection Activities

Taking fiscal 2004, the year ended March 31, 2004, as its base year, the Furukawa Company Group has set targets for the reduction of natural resources and energy consumption by fiscal 2009. Percentage of fiscal 2006 target achieved and fiscal 2009 targets are shown below.

Category	Fiscal 2009 (target)	Percentage of fiscal 2006 target achieved
Electricity	40% reduction of fiscal 2004 consumption	96.9%
Heavy oil	25% reduction of fiscal 2004 consumption	186.8%
Natural gas	10% reduction of fiscal 2004 consumption	83.6%
Water	25% reduction of fiscal 2004 consumption	114.3%
Total discharge of industrial waste, etc.	35% reduction of fiscal 2004 consumption	89.0%

Environment-Friendly Products

The Furukawa Company Group is vigorously developing environmentally related products that contribute to the realization of an environmentally conscious society. Among these is a composite material made from recycled waste lumber and plastic, for which production commenced in September 2005 and which is now on sale. A feature of the lumber is that it does not contain polyvinyl chloride resin, so it emits no toxic gas when burned. In addition, it is water-resistant, has excellent sound insulation properties, and is finished with an ant repellant.

Another environment-friendly product is the pneumatic micro-powder-producing equipment "Dream Mill" that allows for a more efficient use of raw materials and also contributes to a reduction of industrial waste. With its high bacterial kill-rate, the "Dream Mill" assures the highest levels of safety for food ingredients.

Pneumatic micro-powder-producing equipment "Dream Mill" (DM-150S)

Social Contributions

The bedrock of Furukawa's social contribution activities as a good corporate citizen is the "spirit of harmony," which is one of its management philosophies. The Furukawa Company Group seeks to maintain good relationships and to live in harmony with local communities through stewardship and maintenance of forests owned by Furukawa, afforestation programs, beach cleanup operations, preservation of the "Nikko-Suginamiki" (Avenue of Cedars in Nikko), receiving factory visits, arranging blood donor drives, and loaning its land for free to local environmental associations.

The basic policy of the Furukawa Company Group is to contribute to society, our shareholders and other stakeholders by building an efficient management structure that will yield stable profits and increased corporate value through greater management transparency and continuous innovation in our corporate structure. This policy led to the March 2005 spin-off of six businesses in three divisions and the concomitant shift to a holding company system.

System of Corporate Governance

To clearly separate management oversight functions from executive functions, accelerate decision-making and clarify responsibilities, the Furukawa Company Group has adopted an executive officer system. Representative directors at six companies that conduct the Group's core businesses have become executive officers in the interest of promoting an agile management structure.

The Board of Directors (regular meetings held once per month and extraordinary meetings held when required) has a membership of nine, of whom one is an external director, with the Board overseeing the execution of the Furukawa Company Group's operations. The Management Council (weekly meetings held, in principle) sets the Furukawa Company Group's fundamental management policies and strategies and makes decisions on important matters.

There is also a Management Committee, which meets monthly to discuss the operations of Furukawa and its core subsidiaries, and provides direction. Decisions made by the Management Council that involve the allocation of funds or other important management issues must be approved by a resolution of the Board of Directors.

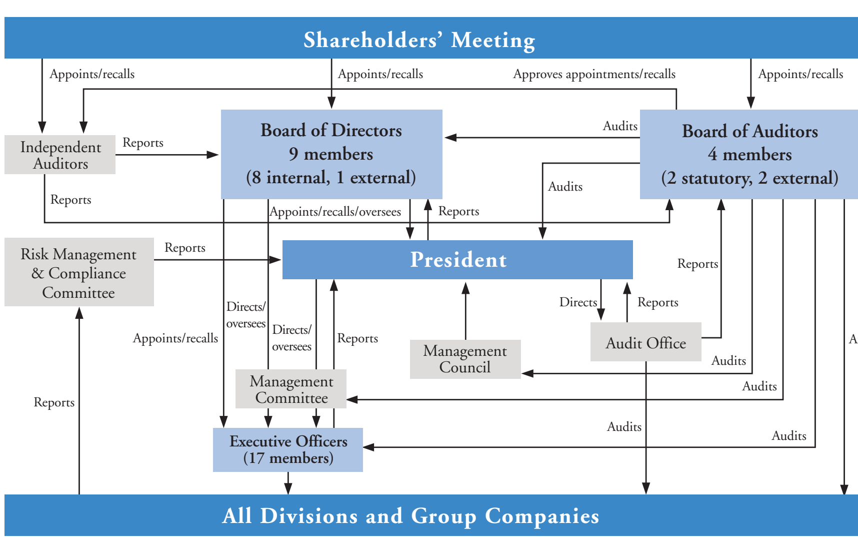
The Furukawa Company Group uses an auditor system, with a Board of Auditors composed of two statutory auditors and two outside auditors. Auditors attend meetings of the Board of Directors, Management Council, Management Committee, and other important management meetings, and audit business sites and subsidiaries, as well as monitor the performance of duties carried out by directors. The audit function is further reinforced by the Audit Office, which audits the Furukawa Company Group's system of internal controls.

Compliance

Taking the view that compliance is not just abiding by laws and regulations, but that companies also have the obligation to act responsibly and to address social and ethical considerations directly, the Furukawa Company Group has drawn up a charter to point the way for all Group employees and thoroughly raise the awareness and practice of compliance. The charter sets employees' duties in accordance with criteria for all of the actions of employees and directors.

Furukawa conducts stringent risk assessment and analysis of its business operations and implements preventive and damage-control measures. The Risk Management & Compliance Committee establishes fundamental policies on hazard control and systems improvement.

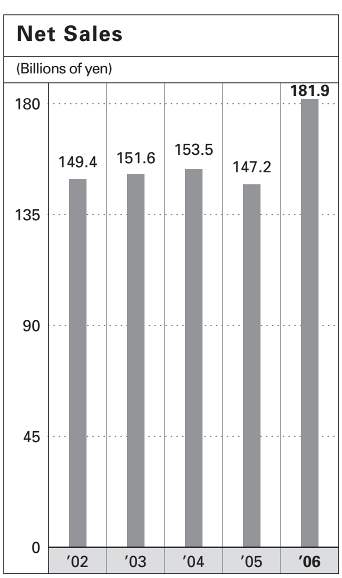
■Corporate Governance Organization Chart

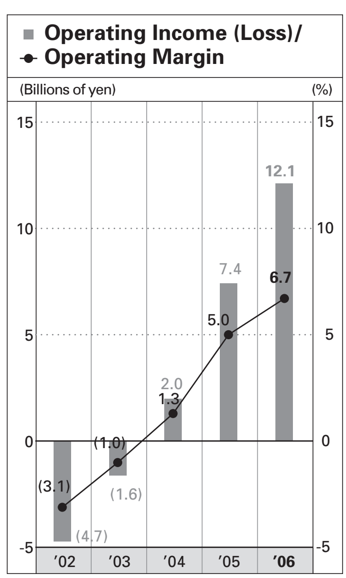


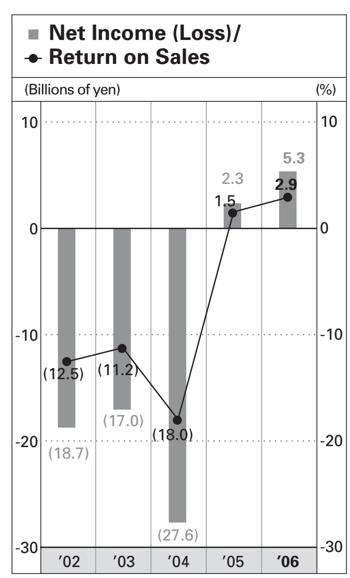
Consolidated Five-year Financial Summary

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended 31st March

	Millions of yen				
	2006	2005	2004	2003	2002
For the year:					
Net sales	**¥181,938**	¥ 147,237	¥ 153,513	¥ 151,630	¥ 149,436
Cost of sales	**153,281**	124,586	135,872	136,509	135,405
Selling, general and administrative expenses	**16,527**	15,268	15,617	16,712	(18,709)
Operating income (loss)	**12,130**	7,383	2,024	(1,591)	(4,678)
Income (loss) before income taxes and minority interests	**9,810**	4,199	(35,238)	(22,032)	(27,962)
Net income (loss)	**5,309**	2,257	(27,634)	(17,000)	(18,696)
Cash flows from operating activities	**8,254**	7,698	(3,083)	(2,153)	4,269
Cash flows from investing activities	**(336)**	7,620	25,602	(4,538)	(7,967)
Cash flows from financing activities	**(18,086)**	(8,227)	(14,962)	1,108	(12,191)
Capital expenditures	**1,777**	2,994	2,995	5,814	7,870
Depreciation and amortization	**2,595**	3,026	6,533	6,261	5,782
At year-end:					
Total assets	**¥213,046**	¥ 204,651	¥ 206,250	¥ 252,856	¥ 278,174
Current assets	**89,055**	92,197	83,777	79,552	87,081
Current liabilities	**88,220**	104,439	81,213	94,056	100,298
Shareholders' equity	**43,072**	31,335	28,660	33,665	49,791
	Yen				
Per share amounts:					
Net income (loss):					
Basic	**¥ 13.12**	¥ 5.57	¥ (84.61)	¥ (67.88)	¥ (74.56)
Diluted	**12.37**	5.03	—	—	—
Cash dividends	**3.00**	—	—	—	—
Net assets	**107**	77	71	134	199
	Percent				
Financial indicators:					
Operating margin	**6.7%**	5.0%	1.3%	(1.0)%	(3.1)%
Return on sales	**2.9**	1.5	(18.0)	(11.2)	(12.5)
Equity ratio	**20.2**	15.3	13.9	13.3	17.9
Return on equity	**14.3**	7.5	(88.7)	(40.7)	(33.6)







Financial Review

Revenue and Expenses

Consolidated net sales in the fiscal year ended March 31, 2006 totaled ¥181,938 million, an increase of 23.6% compared with the previous fiscal year. Within this total, net sales in the Metals Division increased by 46.8% on the strength of high copper prices; and in the Machinery Division, higher sales overseas in the rock drill business and domestically in the UNIC machinery business accounted for an increase of 12.9%. Net sales in the Fuels Division rose by 25.3% over the previous fiscal year due to the high price of oil. The cost of sales increased by 23.0% over the previous fiscal year to ¥153,281 million, but the cost of sales margin fell by 0.4 percentage points and now stands at 84.2%. A primary cause of the improved cost of sales margin was the substantial improvement in profits on smelting operations in the Metals Division. Selling, general and administrative expenses amounted to ¥16,527 million, an increase of 8.2% compared with the previous fiscal year, primarily due to forward charges on freight and increased allowance for salaries and bonuses. Operating income jumped 64.3% to reach ¥12,130 million. This is due in large part to higher operating income in the Metals Division, which grew by 462.7% on the strength of improved Treatment & Refining Charge (T/C, R/C) for copper.

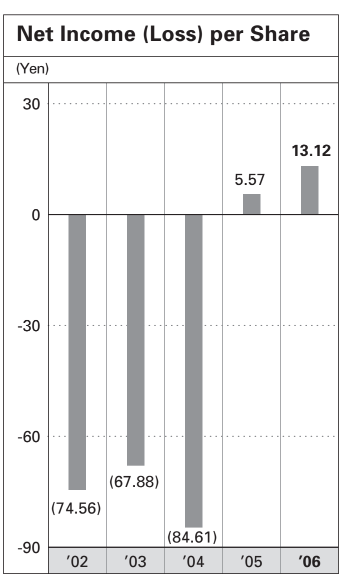
Under other income and expenses, interest and dividend income of ¥490 million was posted, while under other expenses, interest expense of ¥2,267 million was recognized. Other principal items include gain on sales of investments in securities of ¥1,009 million, loss on disposal and devaluation of inventories of ¥568 million, loss on reorganization of local businesses of ¥536 million and loss on copper smelting business in Australia of ¥464 million. (For details please refer to Note 15 of Notes to Consolidated Financial Statements.)

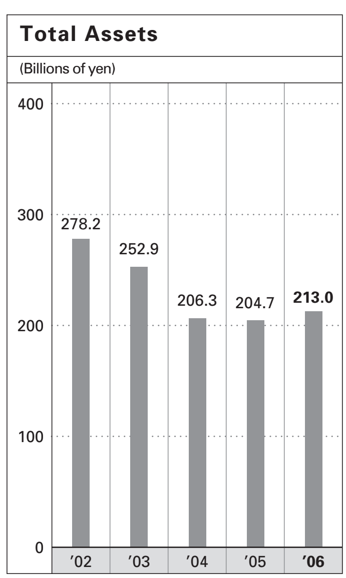
Accounting for the above factors, income before income taxes and minority interests increased by 133.6% compared to the previous fiscal year, reaching ¥9,810 million. After income taxes and minority interests, Furukawa reported a rise in net income of 135.2% to ¥5,309 million. Accordingly, Furukawa is pleased to declare the payment of its first dividend in 5 years, at a rate of ¥3 per share.

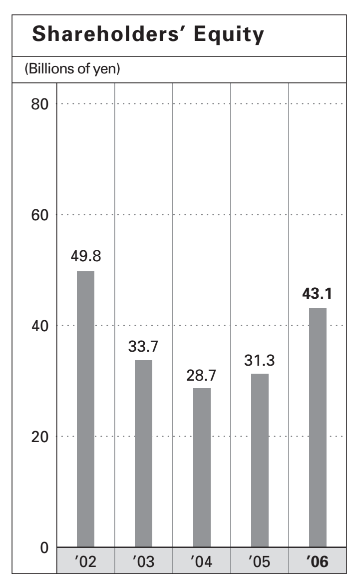
Financial Position

Furukawa pursues financial policies that are intended to accomplish the goals of maintaining liquidity at suitable levels, securing the funds needed for business activities, and preserving the soundness of its balance sheet.

Total assets as of the fiscal year ended March 31, 2006 stood at ¥213,046 million, an increase of 4.1% compared with the previous fiscal year-end. Current assets declined by 3.4% to ¥89,055 million due a reduction in cash and cash equivalents resulting from bond redemption. Inventory increased, however, particularly of metals. Fixed assets grew by 10.3 % and totaled ¥123,991 million. Total investments compared with the previous fiscal year-end grew by 28.5% to ¥50,444 million due to an in-







crease in the value of investment securities, reflecting an increase in unrealized gains. Property, plant and equipment were largely unchanged from the previous fiscal year-end at ¥73,547 million.

Current liabilities contracted by 15.5% to ¥88,220 million owing to a decrease in the current portion of long-term debt and short-term loans. Long-term liabilities increased by 17.6% with additional long-term borrowing and stood at ¥89,896 million. As a result, the fiscal year-end balance of interest-bearing liabilities (corporate bonds and debt) was reduced by ¥17,433 million to ¥99,418 million.

Shareholders' equity at fiscal year-end was 37.5% higher than at the end of the previous fiscal year and stood at ¥43,072 million. This was attributed to an increase in the net unrealized holding gain on securities and in retained earnings. The shareholders' equity ratio climbed 4.9 percentage points to 20.2%.

R&D and Capital Expenditures

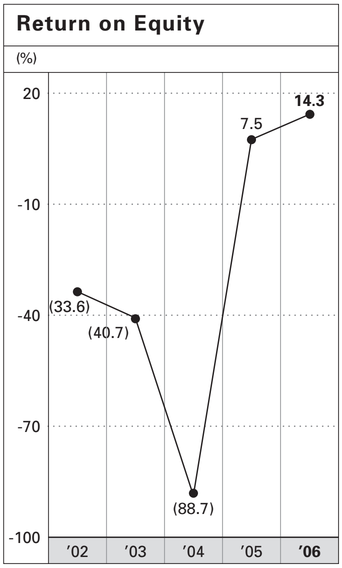
In response to rapid changes in the social and economic environment, the Furukawa Company Group is engaged in research and development of a wide range of new materials and high-value-added products to meet the needs of the market. Research and development expenses for the fiscal year under review were ¥1,859 million, representing 1.0 % of consolidated net sales. Of this, ¥974 million was allocated to the Machinery Division, ¥14 million to the Metals Division, and ¥885 million to the Electronic Materials and Chemicals Division. Capital investment (including investments in intangible fixed assets) amounted to ¥1,777 million. Of this total, ¥516 million was allocated to the Machinery Division, ¥182 million to the Metals Division, and ¥513 million to the Electronic Materials and Chemicals Division, all for improvements in manufacturing efficiency. In addition, ¥73 million was allocated to the Real Estate Division for maintenance on leased buildings and ¥389 million to the Fuels and Others Division for the purchase of vehicles for use in the transportation business.

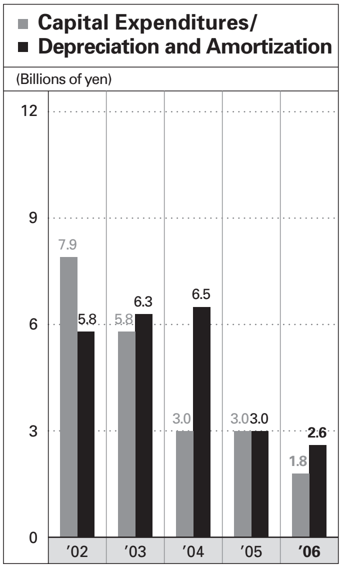
Cash Flows

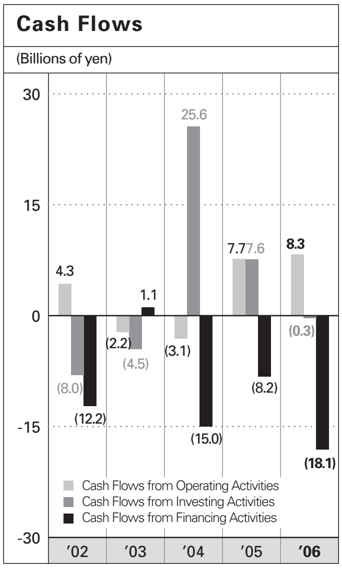
Net cash provided by operating activities during the fiscal year under review totaled ¥8,254 million, chiefly as a result of the increase in income before income taxes and minority interests.

Net cash used in investing activities amounted to ¥336 million due to the disposal of fixed assets.

Net cash used in financing activities totaled ¥18,086 million due largely to the redemption of corporate bonds. As a result, cash and cash equivalents at the end of the fiscal year were down 37.1% to ¥16,743 million.







Business Risks

Port Kembla Copper Pty. Ltd. (Australia)

Operations at Port Kembla Copper Pty. Ltd. (PKC) were halted in August 2003. In the ensuing period, the company has been placed in a care and maintenance status with efforts made to identify a potential investor for ultimate sale. While estimated losses relating to the suspension of operations have been brought to account, potential risks that may impact the Furukawa Company Group's operating results and financial position include costs in connection with negotiations regarding the possible sale of PKC and costs in connection with cleanup activities at plants, sites and other areas, subject to discussion with local authorities.

Fluctuations in the Foreign Exchange and Metals Markets

The Furukawa Company Group is at risk of foreign exchange fluctuations in connection with its export business, the import of raw materials, primarily copper ore, and smelting and processing income. In addition, the Furukawa Company Group's stock of nonferrous metal inventories, an internationally traded commodity, is subject to market movements. While the Furukawa Company Group utilizes foreign exchange contracts as a hedge against the aforementioned risks, its operating results and financial position may be adversely impacted by movements in exchange rates and nonferrous metal markets.

Investments in Securities and Land

Historically, the Furukawa Company Group has maintained relatively high balances of marketable securities and land. In recent years, however, the Group has worked to streamline assets and has sold a portion of its marketable securities and idle assets. As of March 31, 2006 the carrying value of investments in securities was ¥32,775 million, while land stood at ¥46,571 million. In the fiscal year under review, a loss on impairment of fixed assets of ¥302 million was recognized. The Furukawa Company Group's operating results and financial position are therefore at risk of impairment losses, losses from devaluation and losses on sale due to movements in stock and land prices.

Accrued Employees' Retirement Benefits

The employees of the Furukawa Company Group are covered by unfunded employee retirement benefit plans and non-contributory funded employee pension plans as defined-benefit plans. Accrued employees' retirement benefits are provided at an amount calculated based on the retirement benefit obligation and the fair value of pension plan assets at the balance sheet date. In calculating accrued employees' retirement benefits, the Furukawa Company Group adopts assumptions in connection with the discount rate and expected rate of return on plan assets, as well as on other assumptions. Accordingly, the Furukawa Company Group's operating results and financial position are at risk in the event the actual discount rate and expected rate of return on plan assets differs materially from the assumptions, as well as in the event of a change in the assumptions on which accrued employees' retirement benefits are made.

Earthquake and Natural Disasters

The Furukawa Company Group's operating results and financial position are at risk in the event of a suspension in operations and delays in shipments due to damage to manufacturing bases and facilities from earthquakes and other natural disasters.

Environmental Protection

The Furukawa Company Group places the highest importance on environmental protection, environmental safety, and prevention of pollution, and has implemented stringent measures in all business sites, both in Japan and overseas, respecting all laws and regulations. Furthermore, in Japan the Group is vigilant in controlling mine pollution by preventing water run-off from idle mines from contaminating water supplies, and by maintaining tight security at metals deposition sites. However, in the event of new legislation or similar directives, there is a possibility that the Group's operating results and its financial position could be influenced.

Consolidated Balance Sheets

Furukawa Co., Ltd. and consolidated subsidiaries
31st March, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2006**	2005	**2006**
Current Assets:			
Cash and cash equivalents (Note 7)	**¥ 16,743**	¥ 26,608	**$ 143,103**
Receivables, trade (Note 7):			
Notes and accounts	**33,078**	31,733	**282,718**
Affiliates	**1,348**	1,596	**11,521**
Inventories (Notes 5 and 7)	**28,349**	23,338	**242,299**
Deferred income taxes (Note 13)	**936**	1,439	**8,000**
Other current assets (Note 7)	**9,361**	7,871	**80,009**
Allowance for doubtful accounts	**(760)**	(388)	**(6,496)**
Total current assets	**89,055**	92,197	**761,154**
Investments:			
Investments in securities (Notes 6 and 7)	**38,460**	27,301	**328,718**
Investments in affiliates	**1,852**	1,676	**15,829**
Loans receivable	**1,411**	2,192	**12,060**
Deferred income taxes (Note 13)	**61**	169	**521**
Other investments (Note 8)	**9,651**	9,926	**82,487**
Allowance for doubtful accounts	**(991)**	(2,007)	**(8,470)**
Total investments	**50,444**	39,257	**431,145**
Property, Plant and Equipment—at Cost (Notes 7 and 8)**:**			
Land and timberlands	**48,425**	49,128	**413,889**
Buildings and structures	**38,763**	37,381	**331,308**
Machinery and equipment	**45,826**	44,297	**391,675**
Construction in progress	**587**	402	**5,017**
	133,601	131,208	**1,141,889**
Accumulated depreciation	**(60,054)**	(58,011)	**(513,282)**
Property, plant and equipment, net	**73,547**	73,197	**628,607**
Total assets	**¥213,046**	¥204,651	**$1,820,906**

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 4) 2006
Current Liabilities:			
Short-term loans (Note 7)	**¥ 17,713**	¥ 22,415	**$ 151,393**
Current portion of long-term debt (Note 7)	**21,510**	44,192	**183,846**
Payables, trade:			
Notes and accounts (Note 7)	**29,938**	25,725	**255,880**
Affiliates	**4**	5	**34**
Accrued expenses	**11,069**	8,001	**94,607**
Accrued income taxes (Note 13)	**4,291**	482	**36,675**
Deferred income taxes (Note 13)	**2**	29	**17**
Other current liabilities (Note 7)	**3,693**	3,590	**31,565**
Total current liabilities	**88,220**	104,439	**754,017**
Long-term Liabilities:			
Long-term debt (Note 7)	**60,195**	50,244	**514,487**
Accrued employees' retirement benefits (Note 12)	**1,219**	1,187	**10,419**
Deferred income taxes (Note 13)	**14,729**	11,404	**125,889**
Deferred income taxes on surplus on the revaluation of land (Note 13)	**3,184**	3,010	**27,214**
Other long-term liabilities (Note 7)	**10,569**	10,582	**90,333**
Total long-term liabilities	**89,896**	76,427	**768,342**
Minority Interests in Consolidated Subsidiaries	**(8,142)**	(7,550)	**(69,590)**
Contingent Liabilities (Note 14)			
Shareholders' Equity:			
Common stock without par value:			
Authorized—800,000,000 shares			
Issued—404,455,680 shares	**28,208**	28,208	**241,094**
Capital surplus	**—**	—	**—**
Retained earnings (deficit)	**2,634**	(2,871)	**22,513**
Surplus on the revaluation of land, net of income taxes	**3,871**	4,387	**33,086**
Net unrealized holding gain on securities, net of income taxes	**8,412**	2,026	**71,897**
Translation adjustments	**(37)**	(404)	**(316)**
	43,088	31,346	**368,274**
Treasury stock, at cost			
2005—127,084 shares			
2006—147,830 shares	**(16)**	(11)	**(137)**
Total shareholders' equity	**43,072**	31,335	**368,137**
Total liabilities, minority interests and shareholders' equity	**¥213,046**	¥ 204,651	**$ 1,820,906**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended 31st March, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	**2006**
Net Sales	**¥ 181,938**	¥ 147,237	**$ 1,555,026**
Cost of Sales (Note 9)	**(153,281)**	(124,586)	**(1,310,094)**
Gross profit	**28,657**	22,651	**244,932**
Selling, General and Administrative Expenses (Note 9)	**(16,527)**	(15,268)	**(141,257)**
Operating income	**12,130**	7,383	**103,675**
Other Income (Expenses):			
Interest and dividend income	**490**	464	**4,188**
Equity in earnings of affiliates	**191**	69	**1,633**
Interest expense	**(2,267)**	(2,291)	**(19,376)**
Other, net (Note 15)	**(734)**	(1,426)	**(6,274)**
Income before income taxes and minority interests	**9,810**	4,199	**83,846**
Income Taxes (Note 13)**:**			
Current	**(4,757)**	(494)	**(40,658)**
Deferred	**567**	(1,363)	**4,846**
Total	**(4,190)**	(1,857)	**(35,812)**
Minority Interests	**(311)**	(85)	**(2,658)**
Net income	**¥ 5,309**	¥ 2,257	**$ 45,376**
	Yen		U.S. dollars (Note 4)
Net Income per Share:			
Basic	**¥ 13.12**	¥ 5.57	**$ 0.11**
Diluted	**12.37**	5.03	**0.11**
Cash Dividends per Share	**3.00**	—	**0.03**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Furukawa Co., Ltd. and consolidated subsidiaries
For the years ended 31st March, 2006 and 2005

	Number of shares of common stock (thousands)	Millions of yen						
		Common stock	Capital surplus	Retained earnings (deficit)	Surplus on the revaluation of land	Net unrealized holding gain on securities	Translation adjustments	Treasury stock, at cost
Balance as of 31st March, 2004	404,456	¥ 28,208	¥ 29,534	¥ (50,390)	¥ 20,172	¥ 1,349	¥ (206)	¥ (7)
Elimination of deficit	—	—	(29,534)	29,534	—	—	—	—
Decrease due to the change in the Company's ownership interests in the affiliate	—	—	—	—	(49)	—	—	—
Reversal of surplus on the revaluation of land	—	—	—	15,736	(15,736)	—	—	—
Net income for the year	—	—	—	2,257	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(8)	—	—	—	—
Net change during the year	—	—	—	—	—	677	(198)	(4)
Balance as of 31st March, 2005	404,456	28,208	—	(2,871)	4,387	2,026	(404)	(11)
Decrease due to the change in the Company's ownership interests in the affiliate	**—**	**—**	**—**	**—**	**(313)**	**—**	**—**	**—**
Reversal of surplus on the revaluation of land	**—**	**—**	**—**	**203**	**(203)**	**—**	**—**	**—**
Net income for the year	**—**	**—**	**—**	**5,309**	**—**	**—**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(7)**	**—**	**—**	**—**	**—**
Net change during the year	**—**	**—**	**—**	**—**	**—**	**6,386**	**367**	**(5)**
Balance as of 31st March, 2006	**404,456**	**¥28,208**	**¥ —**	**¥ 2,634**	**¥ 3,871**	**¥ 8,412**	**¥ (37)**	**¥(16)**

	Thousands of U.S. dollars (Note 4)						
	Common stock	Capital surplus	Retained earnings (deficit)	Surplus on the revaluation of land	Net unrealized holding gain on securities	Translation adjustments	Treasury stock, at cost
Balance as of 31st March, 2005	$ 241,094	$ —	$ (24,538)	$ 37,496	$ 17,316	$ (3,453)	$ (94)
Decrease due to the change in the Company's ownership interests in the affiliate	**—**	**—**	**—**	**(2,675)**	**—**	**—**	**—**
Reversal of surplus on the revaluation of land	**—**	**—**	**1,735**	**(1,735)**	**—**	**—**	**—**
Net income for the year	**—**	**—**	**45,376**	**—**	**—**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**(60)**	**—**	**—**	**—**	**—**
Net change during the year	**—**	**—**	**—**	**—**	**54,581**	**3,137**	**(43)**
Balance as of 31st March, 2006	**$241,094**	**$ —**	**$ 22,513**	**$ 33,086**	**$71,897**	**$ (316)**	**$(137)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Furukawa Co., Ltd. and consolidated subsidiaries

For the years ended 31st March, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	**2006**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 9,810**	¥ 4,199	**$ 83,846**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**2,595**	3,026	**22,179**
Increase (decrease) in allowance for doubtful accounts, net	**177**	(173)	**1,513**
Increase in accrued employees' retirement benefits	**701**	772	**5,991**
Gain from establishment of trust for retirement benefits plans	**—**	(1,484)	**—**
Loss on disposal and sales of property, plant and equipment	**138**	789	**1,179**
Gain on sales of property, plant and equipment	**(178)**	(1,913)	**(1,521)**
Gain on sales of investments in securities	**(1,009)**	(2,118)	**(8,624)**
Loss on impairment of land resulting from spin off of businesses	**—**	3,891	**—**
Interest and dividend income	**(490)**	(464)	**(4,188)**
Interest expense	**2,267**	2,291	**19,376**
Loss on impairment of fixed assets	**302**	—	**2,581**
Changes in operating assets and liabilities:			
Receivables, trade	**(902)**	629	**(7,709)**
Inventories	**(4,710)**	(2,816)	**(40,256)**
Payables, trade	**5,788**	6,673	**49,470**
Other	**(2,928)**	809	**(25,025)**
Subtotal	**11,561**	14,111	**98,812**
Interest and dividends received	**501**	488	**4,282**
Interest paid	**(2,636)**	(2,344)	**(22,530)**
Payments related to copper smelting business in Australia	**(406)**	(3,407)	**(3,470)**
Income taxes paid	**(827)**	(539)	**(7,068)**
Income taxes refunded	**253**	—	**2,162**
Other	**(192)**	(611)	**(1,641)**
Net cash provided by operating activities	**8,254**	7,698	**70,547**
Cash Flows from Investing Activities:			
Increase in time deposits	**(5)**	(356)	**(43)**
Decrease in time deposits	**22**	702	**188**
Purchases of property, plant and equipment	**(1,767)**	(2,978)	**(15,103)**
Proceeds from sales of property, plant and equipment	**639**	8,154	**5,462**
Decrease in restricted deposits	**15**	401	**128**
Purchases of investments in securities	**(1,896)**	(4,384)	**(16,205)**
Proceeds from sales of investments in securities	**2,513**	4,742	**21,479**
Proceeds from sales of subsidiaries' stock	**—**	1,180	**—**
Proceeds from rental of real estate	**150**	191	**1,282**
Other	**(7)**	(32)	**(60)**
Net cash (used in) provided by investing activities	**(336)**	7,620	**(2,872)**
Cash Flows from Financing Activities:			
Proceeds from long-term loans payable	**31,588**	21,700	**269,983**
Repayment of long-term loans payable	**(19,587)**	(22,569)	**(167,410)**
Proceeds from short-term loans	**6,797**	14,296	**58,094**
Repayment of short-term loans	**(11,745)**	(16,250)	**(100,385)**
Proceeds from issuance of notes	**—**	500	**—**
Repayment of notes	**(25,196)**	(5,000)	**(215,350)**
Repayment of finance lease obligations	**(161)**	(895)	**(1,376)**
Proceeds from issuance of common stock of a consolidated subsidiary to a minority shareholder	**232**	—	**1,983**
Other	**(14)**	(9)	**(120)**
Net cash used in financing activities	**(18,086)**	(8,227)	**(154,581)**
Effect of exchange rate changes on cash and cash equivalents	**303**	63	**2,590**
Net (decrease) increase in cash and cash equivalents	**(9,865)**	7,154	**(84,316)**
Cash and Cash Equivalents at Beginning of Year	**26,608**	19,454	**227,419**
Cash and Cash Equivalents at End of Year	**¥ 16,743**	¥ 26,608	**$ 143,103**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Furukawa Co., Ltd. and consolidated subsidiaries
31st March, 2006

1. Basis of Presentation

The accompanying consolidated financial statements of Furukawa Co., Ltd. (the “Company”) and consolidated subsidiaries (together the “Furukawa Group”) have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In preparing these statements, the Company has made certain reclassifications and rearrangements to the consolidated financial statements prepared in Japan in order to present these statements in a form which is more familiar to readers outside Japan.

In addition, certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The Company had 39 subsidiaries as of 31st March, 2006 (38 as of 31st March, 2005). The consolidated financial statements included the accounts of the Company and 39 subsidiaries as of 31st March, 2006 (38 as of 31st March, 2005).

Compared with the previous year, the number of subsidiaries increased by 1 due to establishment.

For the purpose of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Furukawa Group have been eliminated.

Certain foreign subsidiaries have a 31st December year-end. Relevant adjustments have been made for significant transactions with such subsidiaries during the period from 1st January to 31st March.

Although the Company had 11 affiliates as of 31st March, 2006 (14 affiliates as of 31st March, 2005), the equity method was applied to 4 affiliates as of 31st March, 2006 (6 as of 31st March, 2005) in preparing the consolidated financial statements, and investments in the rest of those affiliates are carried at cost or less.

(2) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

(3) Marketable Securities and Investments in Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. The Furukawa Group does not hold any trading or held-to-maturity securities as of 31st March, 2006 and 2005. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders’ equity. Fair value is determined based on the average of the market value during the last month of the fiscal year. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(4) Inventories

Finished copper products and work in process relating to copper products are stated at cost determined by the moving average method. Other inventories are mainly stated at cost determined by the average method.

(5) Allowance for Doubtful Accounts

In order to cover probable losses on collection, the allowance for doubtful accounts is calculated based on the historical default rates for normal receivables plus estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers who are experiencing financial difficulties.

(6) Property, Plant and Equipment, and Depreciation
Property, plant and equipment is stated at cost. Depreciation is mainly calculated by the straight-line method based on the estimated useful lives of the assets. The range of useful lives of property, plant and equipment are summarized as follows:

Buildings and structures 5 to 60 years
Machinery and equipment 2 to 25 years

Amortization is calculated by the straight-line method for intangible assets.

(7) Leases
Non-cancelable lease transactions entered into by the Company and domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases), except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessees are accounted for as finance leases. However, leases of foreign consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

(8) Retirement Benefit Plans
The employees of the Company and most of its domestic consolidated subsidiaries are covered by unfunded employee retirement benefit plans and non-contributory funded employee pension plans as defined benefit plans. The employee retirement benefit plans provide for lump-sum payments. The employee pension plans, which are funded, were instituted to replace a certain portion of the benefits under the retirement benefit plans with respect to employees who retire at the mandatory retirement age. Certain consolidated subsidiaries (both domestic and foreign) have defined contribution plans.

Accrued employees' retirement benefits have been provided at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation has been attributed to each period by the straight-line method over the years of service of the eligible employees. The net retirement benefit obligation at transition was fully amortized by the year ended 31st March, 2005.

Prior service cost is being amortized by the straight-line method over a period of principally 15 years, which is shorter than the average remaining years of service of the employees. Actuarial gain and loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the period of mainly 15 years, which is shorter than the average remaining years of service of the employees.

(9) Surplus on the Revaluation of Land
Pursuant to the "Law Concerning the Revaluation of Land", land used for the Company's business operations was revalued on 31st March, 2002. The income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as "Deferred income taxes on surplus on the revaluation of land" and the remaining balance has been presented under shareholders' equity as "Surplus on the revaluation of land" in the accompanying consolidated balance sheets. Revaluation of land was determined based on the official notice prices published by the Commissioner of the National Tax Authorities in accordance with Paragraph 4, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation," with relevant adjustments. The carrying value of the land after revaluation exceeded its fair value by ¥1,401 million ($11,974 thousand) and ¥1,299 million as of 31st March, 2006 and 2005, respectively.

(10) Income Taxes
Current income taxes comprising corporation tax, enterprise tax and inhabitants' taxes are provided for based on amounts currently payable for each year. Deferred income taxes arising from temporary differences between financial reporting and tax bases of the assets and liabilities, which were measured using the enacted tax rates and laws which will be in effect when the temporary differences are expected to reverse, are reflected in the consolidated financial statements.

(11) Amounts per Share
Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income attributable to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible notes.

(12) Foreign Currency Translation
Foreign currency denominated monetary assets and liabilities are translated into Japanese yen using the rates of exchange in effect at the balance sheet date. Resulting gains or losses are credited or charged to income as incurred.

Assets, liabilities, revenue and expense accounts of the foreign consolidated subsidiaries are translated at the rates of exchange in effect at the balance sheet date. Shareholders' equity is translated at the historical rate. Differences arising from translation are included in minority interests and translation adjustments.

(13) Appropriation of Retained Earnings
Cash dividends, and bonuses to directors and statutory auditors are recorded in the fiscal year in which the proposed appropriations of retained earnings are approved by the board of directors and/or shareholders' meeting.

(14) Hedging Activities
The Furukawa Group uses derivative financial instruments for the purpose of hedging the risks of adverse fluctuations in foreign exchange rates and interest rates on the receivables, payables and forecast transactions denominated in foreign currencies. All derivative financial instruments except below are stated at fair value and related gain or loss on the changes in the fair values of derivative financial instruments is deferred as an asset or liability in the balance sheet until the recognition of gain or loss on hedged items when those derivative financial instruments qualify for hedge accounting.

Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the relating forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not carried at fair value but any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense or income over the life of each swap, thereby adjusting the effective interest rate on the hedged items.

(15) Shareholders' Equity
The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and capital surplus equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the capital surplus and the legal reserve exceeds 25% of the common stock account, the amount of the excess (if any) is available for appropriations by resolution of the shareholders.

3. Accounting Change
Effectively 1st April, 2005, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets.

The effect of this change was to decrease income before taxes and minority interests by ¥302 million ($2,581 thousand) from the amount which would have been reported if the previous treatment had been applied consistently.

4. U.S. Dollar Amounts
The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥117=US$1.00, the exchange rate prevailing on 31st March, 2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Inventories

Inventories as of 31st March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished products	**¥ 12,961**	¥ 12,619	**$ 110,778**
Work in process	**5,483**	3,537	**46,863**
Raw materials and supplies	**9,905**	7,182	**84,658**
Total	**¥ 28,349**	¥ 23,338	**$ 242,299**

6. Investments in Securities

The aggregate acquisition cost, carrying value and unrealized gain or loss pertaining to the marketable other securities as of 31st March, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Listed corporate shares	**¥ 18,062**	**¥ 32,328**	**¥ 14,266**	**$ 154,376**	**$ 276,308**	**$ 121,932**
Government bonds	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
	18,062	**32,328**	**14,266**	**154,376**	**276,308**	**121,932**
Securities whose acquisition cost exceeds their carrying value:						
Listed corporate shares	**498**	**432**	**(66)**	**4,256**	**3,692**	**(564)**
Government bonds	**16**	**15**	**(1)**	**137**	**128**	**(9)**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
	514	**447**	**(67)**	**4,393**	**3,820**	**(573)**
Total	**¥ 18,576**	**¥ 32,775**	**¥14,199**	**$ 158,769**	**$ 280,128**	**$121,359**

	Millions of yen		
	2005		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Listed corporate shares	¥ 16,960	¥ 20,542	¥ 3,582
Government bonds	—	—	—
Corporate bonds	—	—	—
	16,960	20,542	3,582
Securities whose acquisition cost exceeds their carrying value:			
Listed corporate shares	1,209	1,097	(112)
Government bonds	16	16	(0)
Corporate bonds	—	—	—
	1,225	1,113	(112)
Total	¥ 18,185	¥ 21,655	¥ 3,470

Proceeds from sales of securities classified as other securities with aggregate gain and loss for the years ended 31st March, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Sales proceeds	**¥ 2,456**	¥ 5,316	**$ 20,991**
Aggregate gain	**1,009**	2,118	**8,624**
Aggregate loss	**—**	—	**—**

7. Short-Term Loans and Long-Term Debt

Short-term loans, most of which are unsecured, represented notes payable to banks, with the average interest rates of 1.6% and 1.5% as of 31st March, 2006 and 2005, respectively.

Long-term debt as of 31st March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
0.90% yen convertible notes due 2006	**¥ —**	¥ 20,196	**$ —**
1.91% yen notes due 2005	**—**	5,000	**—**
0.37% yen notes due 2006	**1,000**	1,000	**8,547**
2.21% yen notes due 2007	**4,100**	4,100	**35,043**
0.65% yen notes due 2008	**500**	500	**4,273**
Loans, principally from banks, insurance companies and government agencies, most of which are secured, due 2006 to 2021	**76,105**	63,640	**650,470**
	81,705	94,436	**698,333**
Current portion of long-term debt	**(21,510)**	(44,192)	**(183,846)**
	¥ 60,195	¥ 50,244	**$ 514,487**

The 0.90% yen convertible notes due 2006 were fully redeemed on 30th September, 2005.

The average interest rate applicable to the above loans amounting to ¥76,105 million ($650,470 thousand) was 2.1% as of 31st March, 2006.

The aggregate annual maturities of long-term debt subsequent to 31st March, 2006 were as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2007	**¥ 21,510**	**$ 183,846**
2008	**26,631**	**227,615**
2009	**15,175**	**129,701**
2010	**11,133**	**95,154**
2011 and thereafter	**7,256**	**62,017**
	¥81,705	**$698,333**

The Company and certain consolidated subsidiaries have entered into overdraft and loan commitment agreements amounting to ¥29,245 million ($249,957 thousand) with 25 banks and ¥47,284 million with 27 banks as of 31st March, 2006 and 2005, respectively. The borrowings outstanding and the unused balances under these credit facilities amounted to ¥12,819 million ($109,564 thousand) and ¥16,426 million ($140,393 thousand), respectively, as of 31st March, 2006 and amounted to ¥16,810 million and ¥30,474 million, respectively, as of 31st March, 2005. In addition, the following lease obligations are included in "Other current liabilities" and "Other long-term liabilities" in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Non current portion	**¥ 5,602**	¥ 5,059	**$ 47,880**

Assets pledged as collateral for payables, trade of ¥1,296 million ($11,077 thousand) and ¥373 million, short-term debt of ¥1,070 million ($9,145 thousand) and ¥1,089 million, long-term debt (including current portion) of ¥7,494 million ($64,051 thousand) and ¥9,416 million and lease obligations (included in other long-term liabilities) of ¥5,602 million ($47,880 thousand) and ¥5,059 million as of 31st March, 2006 and 2005, respectively, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash and cash equivalents	**¥ 1,048**	¥ 1,501	**$ 8,957**
Receivables, trade	**92**	45	**786**
Inventories	**28**	45	**239**
Other current assets	**3,699**	3,530	**31,616**
Investments in securities	**3,411**	3,783	**29,154**
Property, plant and equipment, net	**20,165**	20,977	**172,351**
	¥ 28,443	¥ 29,881	**$ 243,103**

Above assets include those of a foreign consolidated subsidiary which are pledged as collateral for lease obligations. The foreign consolidated subsidiary has discretionary powers to dispose of these assets other than machinery and equipment leased under the lease contracts and restricted deposits (partly time deposit and included in other current assets) with the aggregated carrying value of ¥3,463 million ($29,598 thousand) and ¥3,243 million as of 31st March, 2006 and 2005, respectively.

8. Depreciation and Amortization

Depreciation and amortization for the years ended 31st March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Property, plant and equipment	**¥ 2,569**	¥ 2,958	**$ 21,957**
Other investments	**26**	68	**222**
	¥ 2,595	¥ 3,026	**$ 22,179**

9. Research and Development Expenses

Research and development expenses, included in selling, general and administrative expenses and cost of sales for the years ended 31st March, 2006 and 2005 amounted to ¥1,859 million ($15,889 thousand) and ¥1,777 million, respectively.

10. Leases

The Furukawa Group leases certain machinery and equipment under non-cancelable finance lease agreements, of which ownership is all non-transferable.

The pro forma amounts representing acquisition costs, accumulated depreciation and net carrying value for the machinery and equipment held under the finance leases currently accounted for as operating leases as of 31st March, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition costs	**¥ 1,552**	¥ 1,570	**$ 13,265**
Less accumulated depreciation	**638**	780	**5,453**
Net carrying value	**¥ 914**	¥ 790	**$ 7,812**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥264 million ($2,256 thousand) and ¥262 million for the years ended 31st March, 2006 and 2005, respectively, which were equal to the depreciation expense of leased assets computed by the straight-line method over the lease terms.

Future minimum lease payments including an interest element under the finance leases outstanding as of 31st March, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Within one year	**¥ 253**	¥ 218	**$ 2,162**
Over one year	**661**	572	**5,650**
	¥ 914	¥ 790	**$ 7,812**

The future minimum lease payments under lease agreements other than finance leases as of 31st March, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Within one year	**¥ 785**	¥ 838	**$ 6,709**
Over one year	**787**	1,598	**6,727**
	¥ 1,572	¥ 2,436	**$ 13,436**

11. Financial Instruments

The Furukawa Group entered into swap agreements to manage interest rate risks. Interest rate swaps convert floating rate of long-term debt to a fixed basis. The Furukawa Group also entered into forward foreign exchange contracts to hedge against transactions in foreign currencies.

There are market risks in these derivatives. As the counterparties to the derivative transactions are major financial institutions and trading companies, the Furukawa Group believes that their derivative financial instruments entail minimal credit risks. Furthermore, the Furukawa Group does not use derivative financial instruments that would increase market risks.

As of 31st March, 2006 and 2005, there is no derivative transaction for which hedge accounting is not applied.

12. Retirement Benefits

The balances of the retirement benefit obligation and plan assets, funded status and the amounts recognized in the consolidated balance sheets as of 31st March, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Retirement benefit obligation	**¥ (14,353)**	¥ (13,828)	**$ (122,675)**
Plan assets at fair value	**19,477**	12,083	**166,470**
Unfunded status	**5,124**	(1,745)	**43,795**
Unrecognized actuarial loss	**910**	8,420	**7,778**
Unrecognized prior service cost	**81**	89	**692**
Prepaid pension expenses	**(7,334)**	(7,951)	**(62,684)**
Accrued employees' retirement benefits	**¥ (1,219)**	¥ (1,187)	**$ (10,419)**

The components of retirement benefit expenses for the years ended 31st March, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 668**	¥ 702	**$ 5,710**
Interest cost	**372**	329	**3,179**
Expected return on plan assets	**(182)**	(133)	**(1,556)**
Amortization of prior service cost	**8**	8	**68**
Amortization of actuarial loss	**749**	779	**6,402**
Amortization of net retirement benefit obligation at transition	**—**	112	**—**
Retirement benefit expenses	**1,615**	1,797	**13,803**
Employees' contributions to the defined benefit pension plans	**9**	16	**77**
Total	**¥ 1,624**	¥ 1,813	**$ 13,880**

The assumptions used in accounting for the above plans are as follows:

	2006	2005
Discount rates	**mainly 2.4%**	mainly 2.4%
Expected return on plan assets	**mainly 2.0%**	mainly 2.0%

13. Income Taxes

The reconciliation between the statutory tax rate and the effective tax rate of the Furukawa Group for the year ended 31st March, 2005 was summarized as follows:

Statutory tax rate	40.7%
Non-deductible expenses for tax purposes	1.7
Non-taxable dividends and other income	(0.2)
Inhabitants per capita tax	1.7
Equity in earnings of affiliated companies	(0.7)
Amortization of goodwill	(1.3)
Changes in valuation allowance	6.6
Other	(4.3)
Effective tax rate	44.2%

The above information for 2006 has not been presented because the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥ 662	¥ 167	$ 5,658
Accrued employees' retirement benefits	4,528	4,055	38,701
Investments in securities	8,430	8,197	72,051
Loss on impairment of fixed assets	10,605	11,788	90,641
Unrealized gains on sales of property, plant and equipment	612	616	5,231
Net operating loss carryforwards	15,249	18,367	130,333
Land	1,754	1,468	14,992
Accrued enterprise tax	416	—	3,556
Other	567	1,198	4,846
Total gross deferred tax assets	42,823	45,856	366,009
Valuation allowance	(33,836)	(37,975)	(289,197)
Total deferred tax assets	8,987	7,881	76,812
Deferred tax liabilities:			
Net unrealized holding gain on securities	(5,772)	(1,435)	(49,333)
Statutory reserves provided for tax purposes	(188)	(182)	(1,607)
Gain from establishment of trust for retirement benefit plans	(4,327)	(4,327)	(36,983)
Land	(9,225)	(9,093)	(78,846)
Capitalized interest of a foreign subsidiary	(2,760)	(2,023)	(23,590)
Other	(449)	(646)	(3,838)
Total deferred tax liabilities	(22,721)	(17,706)	(194,197)
Net deferred tax liabilities	(13,734)	(9,825)	(117,385)
Deferred tax liabilities on surplus on the revaluation of land	¥ (3,184)	¥ (3,010)	$ (27,214)

14. Contingent Liabilities

Contingent liabilities as of 31st March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Notes receivable discounted and endorsed	¥ 2,495	¥ 4,266	$ 21,325
Loans guaranteed	1,721	2,315	14,709

15. Other Income (Expenses)—Other, Net

Other Income (Expenses)—Other, net for the years ended 31st March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Rental income from real estate	**¥ 150**	¥ 191	**$ 1,282**
Gain on foreign exchange	**448**	82	**3,829**
Gain on sales of property, plant and equipment	**178**	1,913	**1,521**
Gain on sales of investments in securities	**1,009**	2,118	**8,624**
Gains from establishment of trust for retirement benefits	**—**	1,484	**—**
Payments for closing mines	**(192)**	(612)	**(1,641)**
Loss on impairment of fixed assets	**(302)**	—	**(2,581)**
Loss on disposal and devaluation of inventories	**(568)**	(417)	**(4,855)**
Loss on impairment of land resulting from spin off of businesses	**—**	(4,011)	**—**
Loss on copper smelting business in Australia	**(464)**	(1,476)	**(3,966)**
Loss on disposal and sales of property, plant and equipment	**(138)**	(789)	**(1,179)**
Loss on reorganization of local businesses	**(536)**	—	**(4,581)**
Payment related to antitrust laws	**(280)**	—	**(2,393)**
Other, net	**(39)**	91	**(334)**
	¥ (734)	¥ (1,426)	**$ (6,274)**

16. Segment Information

The business of the Furukawa Group is divided into the following six categories: machinery, metals, electronic materials and chemicals, real estate, fuels and others.

The business segment information of the Furukawa Group for the year ended 31st March, 2006 was as follows:

Year ended 31st March, 2006	Millions of yen							
	Machinery	Metals	Electronic Materials and Chemicals	Real Estate	Fuels	Others	Eliminations and Corporate	Consolidated
I. Sales and operating income (loss)								
Outside customers	**¥ 70,329**	**¥ 52,662**	**¥ 21,228**	**¥ 3,107**	**¥ 33,589**	**¥ 1,023**	**¥ —**	**¥ 181,938**
Intersegment	**766**	**554**	**181**	**46**	**367**	**1,353**	**(3,267)**	**—**
Total	**71,095**	**53,216**	**21,409**	**3,153**	**33,956**	**2,376**	**(3,267)**	**181,938**
Costs and expenses	**(66,851)**	**(47,437)**	**(19,911)**	**(2,248)**	**(33,806)**	**(2,595)**	**3,040**	**169,808**
Operating income (loss)	**¥ 4,244**	**¥ 5,779**	**¥ 1,498**	**¥ 905**	**¥ 150**	**¥ (219)**	**¥ (227)**	**¥ 12,130**
II. Assets, depreciation, impairment loss on fixed assets and capital expenditures								
Total assets	**¥ 70,982**	**¥ 26,913**	**¥ 28,671**	**¥14,277**	**¥ 7,744**	**¥ 2,367**	**¥ 62,092**	**¥ 213,046**
Depreciation	**1,041**	**237**	**787**	**317**	**25**	**66**	**122**	**2,595**
Impairment loss on fixed assets	**3**	**—**	**—**	**78**	**17**	**—**	**204**	**302**
Capital expenditures	**516**	**182**	**513**	**73**	**6**	**383**	**104**	**1,777**

	Thousands of U.S. dollars							
	Machinery	Metals	Electronic Materials and Chemicals	Real Estate	Fuels	Others	Eliminations and Corporate	Consolidated
I. Sales and operating income (loss)								
Outside customers	**$ 601,103**	**$ 450,103**	**$ 181,436**	**$ 26,556**	**$ 287,085**	**$ 8,743**	**$ —**	**$ 1,555,026**
Intersegment	**6,547**	**4,735**	**1,547**	**393**	**3,137**	**11,564**	**(27,923)**	**—**
Total	**607,650**	**454,838**	**182,983**	**26,949**	**290,222**	**20,307**	**(27,923)**	**1,555,026**
Costs and expenses	**(571,376)**	**(405,444)**	**(170,180)**	**(19,214)**	**(288,940)**	**(22,180)**	**25,983**	**1,451,351**
Operating income (loss)	**$ 36,274**	**$ 49,394**	**$ 12,803**	**$ 7,735**	**$ 1,282**	**$ (1,873)**	**$ (1,940)**	**$ 103,675**
II. Assets, depreciation, impairment loss on fixed assets and capital expenditures								
Total assets	**$ 606,684**	**$ 230,026**	**$ 245,051**	**$ 122,026**	**$ 66,188**	**$ 20,230**	**$ 530,701**	**$ 1,820,906**
Depreciation	**8,897**	**2,026**	**6,726**	**2,709**	**214**	**564**	**1,043**	**22,179**
Impairment loss on fixed assets	**26**	**—**	**—**	**667**	**145**	**—**	**1,743**	**2,581**
Capital expenditures	**4,410**	**1,556**	**4,385**	**624**	**51**	**3,273**	**889**	**15,188**

The Furukawa Group spun off its machinery, metals, electronic materials and chemicals segments to subsidiaries and changed the group management system in March 2005. As a result, the allocation basis of company-wide common expenses to each segment was changed.

Until the year ended 31st March, 2005, company-wide common expenses were allocated to each segment based on sales. Effective the year ended 31st March, 2006, the company-wide common expenses except for those related to metal mine former site property and coal mine former site property are started to be allocated to each segment based on the services received.

In addition, as the Furukawa Group defined its groups of assets upon the adoption of the new accounting standard for the impairment of fixed assets, effective April 1, 2006, metal mine former site property and coal mine former site property were included in the "Elimination or Corporate" segment. Until the year ended 31st March, 2005, those assets had been included in the "Metal" and the "Other" segments, respectively.

The effect of this change was to increase operating expenses in the "Machinery," the "Electronic Materials," the "Real Estate," the "Others," and the "Elimination or Corporate" segments by ¥343 million, ($2,932 thousand), ¥489 million ($4,179 thousand), ¥11 million ($94 thousand), ¥80 million ($684 thousand) and ¥78 million ($667 thousand), respectively, and to decrease operating expenses in the "Metal" and the "Fuels" segments by ¥636 million ($5,436 thousand) and ¥368 million ($3,145 thousand), respectively, compared with the corresponding figures which would have been recorded if the previous method had been adopted.

Had the new allocation method been adopted, the business segment information for the year ended 31st March, 2005 would have been as follows:

Year ended 31st March, 2005	Millions of yen							
	Machinery	Metals	Electronic Materials and Chemicals	Real Estate	Fuels	Others	Eliminations and Corporate	Consolidated
I. Sales and operating income (loss)								
Outside customers	¥ 62,291	¥ 35,862	¥ 17,502	¥ 3,835	¥ 26,815	¥ 932	¥ —	¥ 147,237
Intersegment	437	637	151	107	245	1,307	(2,884)	—
Total	62,728	36,499	17,653	3,942	27,060	2,239	(2,884)	147,237
Costs and expenses	(59,411)	(34,972)	(16,373)	(2,560)	(27,038)	(2,337)	2,837	(139,854)
Operating income (loss)	¥ 3,317	¥ 1,527	¥ 1,280	¥ 1,382	¥ 22	¥ (98)	¥ (47)	¥ 7,383
II. Assets, depreciation and capital expenditures								
Total assets	¥ 64,952	¥ 22,555	¥ 29,219	¥14,922	¥ 7,370	¥ 1,874	¥63,759	¥ 204,651
Depreciation	1,223	365	802	450	24	63	99	3,026
Capital expenditures	895	487	464	821	5	276	46	2,994

The geographic segment information for the year ended 31st March, 2006 and 2005 has not been presented, because the amounts of operating revenues and total assets in Japan exceed 90% of consolidated totals.

Overseas sales, which include exports of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, totaled ¥24,530 million ($209,658 thousand) and ¥18,245 million or 13.5% and 12.4% of the consolidated net sales for the years ended 31st March, 2006 and 2005, respectively.

17. Subsequent Event

The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥3.00 = $0.026 per share)	**¥1,212**	**$10,359**
Transfer to legal reserve	**122**	**1,043**
	¥1,334	**$11,402**

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Tel: 03 3503-1100
Fax: 03 3503-1197

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Furukawa Co., Ltd.

We have audited the accompanying consolidated balance sheets of Furukawa Co., Ltd. and consolidated subsidiaries as of 31st March, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, 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.

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 Furukawa Co., Ltd. and consolidated subsidiaries as of 31st March, 2006 and 2005, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2006 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 4.

29th June, 2006

Ernst & Young ShinNihon

Company Name	Principal Business	Paid-in Capital
Subsidiaries		
Furukawa Industrial Machinery Systems Co., Ltd.	Sales and manufacture of machinery	JPY 300 million
Furukawa Rock Drill Co., Ltd.	Sales and manufacture of rock drills	JPY 400 million
Furukawa UNIC Corporation	Sales and manufacture of UNIC products	JPY 200 million
Furukawa Metals & Resources Co., Ltd.	Copper smelting	JPY 100 million
Furukawa Denshi Co., Ltd.	Sales and manufacture of electronic materials	JPY 300 million
Furukawa Chemicals Co., Ltd.	Sales and manufacture of chemical products	JPY 300 million
Furukawa Transportation Co., Ltd.	Transportation	JPY 150 million
Furukawa Otsuka Co., Ltd.	Sales and manufacture of crushers	JPY 140 million
Oita Mining Co., Ltd.	Mining and sales of limestone	JPY 125 million
Ashio Smelting Co., Ltd.	Copper smelting and industrial waste treatment	JPY 100 million
Furukawa Commerce Co., Ltd.	Sales of petroleum and management of gas stations, sales of industrial machinery and non–life insurance, and management of bowling alleys	JPY 95 million
Furukawa Castec Co., Ltd.	Sales and manufacture of castings and industrial machines	JPY 50 million
Heiko Bridge Co., Ltd.	Construction of bridges	JPY 50 million
Tsubame Industrial Community Limited	Manufacture of machine tools and industrial machinery	JPY 40 million
Furukawa Plant Engineering and Construction Co., Ltd.	Construction and installation of various types of plants	JPY 30 million
Gunma Kankyo Recycle Center Co., Ltd.	Industrial medical waste treatment	JPY 40 million
Ashio Construction Co., Ltd.	Civil engineering and construction	JPY 30 million
UNIC Kanto Sales Co., Ltd.	Sales of UNIC cranes	JPY 30 million
UNIC Kyushu Sales Co., Ltd.	Sales of UNIC cranes	JPY 30 million
Furukawa Mansion Maintenance Co., Ltd.	Maintenance of apartments	JPY 20 million
UNIC Tohoku Sales Co., Ltd.	Sales of UNIC cranes	JPY 16 million
Ashio Rock Drill Co., Ltd.	Manufacture and repair of rock drills and industrial machinery	JPY 10 million
Iwaki Kosan Co., Ltd.	Administration of real estate	JPY 10 million
Dojima Jitsugyo Co., Ltd.	Maintenance of buildings	JPY 10 million
Wellness Co., Ltd.	Sales of health-care products	JPY 10 million
Furukawa Rock Drill Korea Co., Ltd.	Sales of rock drills machinery	KRW 300 million
Furukawa Rock Drill (Shanghai) Co., Ltd.	Sales and manufacture of hydraulic breakers	JPY 50 million
Port Kembla Copper Pty. Ltd. (Australia)	Copper smelting (Operations currently suspended)	AUD 369.5 million
Furukawa Unic (Thailand) Co., Ltd. (Thailand)	Manufacture of UNIC cranes, parts, and accessories	THB 200 million
Furukawa Rock Drill Europe B.V. (The Netherlands)	Sales of breakers and crawler drills	EUR 0.9 million
Gougler Industries, Inc. (U.S.A.)	Sales of breakers and crawler drills, production and sales of molds	USD 59.5 million
Furukawa Services S.A.S. (France)	Service of construction machinery	EUR 5 million
Taian Furukawa Machinery Co., Ltd.	Sales of UNIC cranes	USD 4.9 million
Affiliates		
Tohpe Corporation	Production of paints	JPY 2,087 million
Iwaki Semiconductors Co., Ltd.	Production of semiconductors, such as gallium arsenate semiconductors	JPY 60 million
Hibi Kyodo Smelting Co., Ltd.	Copper smelting	JPY 4,700 million

CORPORATE DATA

(As of March 31, 2006)

Directors and Auditors (As of June 29, 2006)

President and Representative Director	Tetsuo Yoshino
Senior Managing Director	Isao Asada
Managing Director	Koji Toda
Managing Director	Nakao Yamashita
Managing Director	Nobuyoshi Soma
Director	Junnosuke Furukawa
Director	Yasuhei Konagaya
Director	Hiroyuki Shiaku
Director	Manabu Zama
Statutory Auditor	Tsuyoshi Ishii
Statutory Auditor	Ryoji Ohnuma
Auditor	Toshiharu Nagao
Auditor	Fuminori Anai

Executive Officers (As of June 29, 2006)

Senior Managing Executive Officer	Isao Asada
Managing Executive Officer	Koji Toda
Managing Executive Officer	Nakao Yamashita
Managing Executive Officer	Nobuyoshi Soma
Senior Executive Officer	Yasuhei Konagaya
Senior Executive Officer	Hiroyuki Shiaku
Senior Executive Officer	Manabu Zama
Executive Officer	Shin Nakamura
Executive Officer	Masafumi Miyata
Executive Officer	Taketsugu Saitsu
Executive Officer	Toshikazu Nakagawa
Executive Officer	Yoichiro Kato
Executive Officer	Toshio Matsumoto
Executive Officer	Yasuji Tomiyama
Executive Officer	Makoto Iwasaki
Executive Officer	Yoshihito Emoto
Executive Officer	Akira Usui

Company Name: Furukawa Co., Ltd.

Head Office: 2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo
100-8370, Japan
(Head office relocated on May 15, 2006)

TEL: +81-3-3212-6570 **FAX:** +81-3-3212-6578

Date of Foundation: August 1875

Date of Establishment: April 1918

Number of Shares Authorized: 800,000,000 shares
Number of Shares Outstanding: 404,455,680 shares

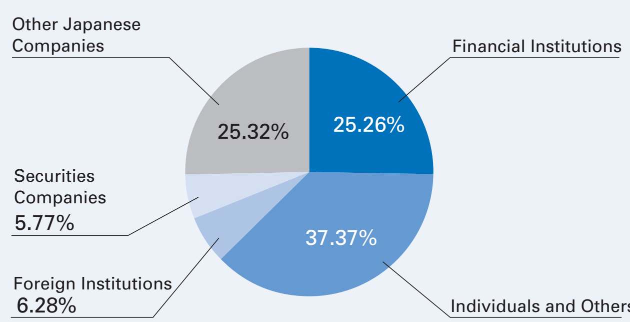
Stock Exchange Listing: Tokyo, Osaka

Securities Code Number: 5715

Employees: Consolidated 2,247; Non-consolidated 202

Stock Transfer Agent: The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo
105-8574, Japan

Composition of Shareholders:



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FURUKAWA CO.,LTD.
2-3, Marunouchi 2-chome, Chiyoda-ku,
Tokyo 100-8370, Japan

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