

ANNUAL REPORT 2018

YEAR ENDED MARCH 31, 2018

An aerial photograph of a city, likely New York City, showing a wide river (the Hudson River) and a dense urban area. The sky is filled with soft, white clouds, and the overall color palette is dominated by blues and greys, with some greenery visible in the lower parts of the image.

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HELLO TO A SAFE, SECURE AND COMFORTABLE NEXT-GENERATION MOTORIZED SOCIETY.

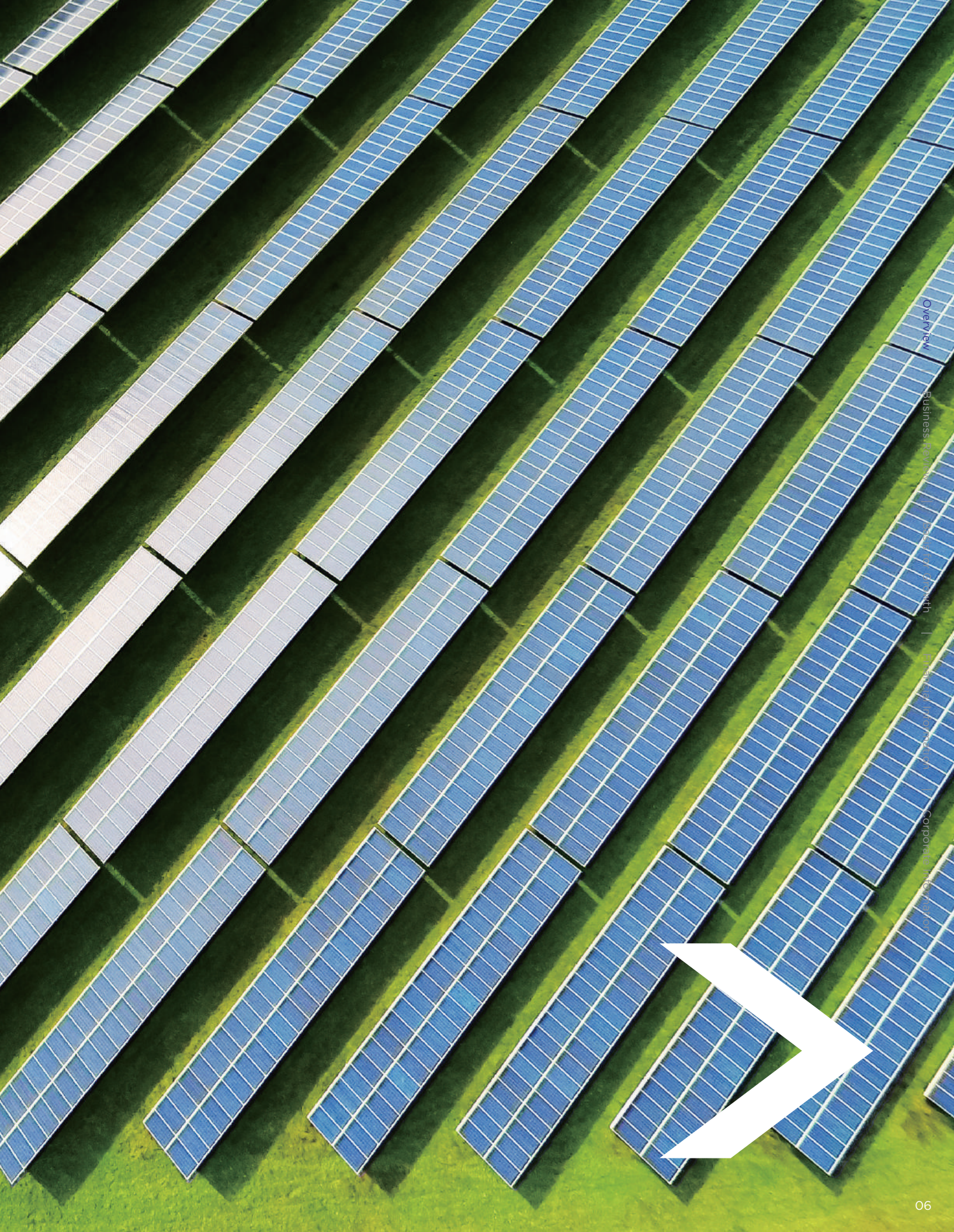
The auto industry is about to undergo a major transformation as research and development into areas such as autonomous driving, car sharing and electrification continue to progress. To swiftly and flexibly respond to the accelerating pace of change, Sumitomo Electric is strengthening its development capacity of in-vehicle components and systems using intelligent transport systems (ITS), which connect people, vehicles and society. We will continue to lead the way in contributing to a safe, secure and comfortable next-generation motorized society.





HELLO TO A SOCIETY WITH AN ADVANCED ELECTRICAL INFRASTRUCTURE.

The world faces rapidly increasing energy demand and environmental problems primarily in emerging economies. Across the globe, there is an increasing environmental consciousness and heightened expectations for the safe and secure supply of energy. Against this backdrop, Sumitomo Electric looks to attain a society that has in place advanced, high-quality power infrastructure through the construction of systems that leverage renewable energy to its fullest extent and through production of power cables and other related products.



HELLO TO A SUPER-SMART SOCIETY.

As Sumitomo Electric finds ourselves in the Fourth Industrial Revolution through the advancement of IoT and AI, information and telecommunications infrastructure is an extremely important part of supporting social change and creating additional value. We are committed to the development of technologies that will support high-speed optical access and 5G wireless connectivity, responding to various needs from all around the world and contributing to a super-smart society where all people can live a comfortable life.





To Our Stakeholders

In FY2017 the global economy showed stable growth on the whole, as indicated by, for example, expansionary trends continuing in the U.S. and signs of recovery in Europe and China. The Japanese economy also continued to show a moderate recovery due to an increase in exports and capital expenditure. Owing to such factors as the effects of U.S. economic policy and geopolitical risks, however, the outlook continues to be unpredictable.

Regarding the business environment for the Sumitomo Electric Group, because of an increase in production of automobiles by carmakers, mainly overseas, the demand for wiring harnesses, powder alloys, and sintered components showed steady growth, and the demand for infocommunications products, such as optical fiber cables, also grew. In this environment, the consolidated financial settlement for FY2017 saw revenue increase from the previous fiscal year, as net sales amounted to 3,082,247 million yen (previous fiscal year: 2,814,483 million yen, up 9.5%). As for profit, due to such factors as the achievement of cost reductions for flexible printed circuits (FPCs) for mobile devices, in addition to an increase in demand, operating income was 173,139 million yen (previous fiscal year: 150,503 million yen, up 15.0%), ordinary income was 195,010 million yen (previous fiscal year: 173,872 million yen, up 12.2%), and profit attributable to owners of the parent was 120,328 million yen (previous fiscal year: 107,562 million yen, up 11.9%), with each of them showing a year-on-year increase.

In these circumstances, we will continue to operate based on the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles, and strive for further evolution of SEQCDD (safety, environment, quality, cost, delivery, and development & research). We will accelerate efforts particularly for further reinforcement of the corporate structure, globalization, and prompt commercialization of products, and devote ourselves to the realization of "VISION 2022," the medium-term management plan launched in FY2018, by marshalling all of the forces of the Sumitomo Electric Group. To this end, we will pursue the following strategies in each of our business segments.

In the automotive segment, striving to become a mega supplier with wiring harnesses as its core, we will accelerate the development and marketing of high-voltage wiring harnesses and battery-related products designed for electric vehicles, high-strength aluminum wiring harnesses that are light and excel in durability, and electronic components and connectors for high-speed communication corresponding to electronic control of automobiles. In addition, aiming to expand our market share for overseas customers, we will strengthen our product development capabilities through reinforcement of cooperation within the Sumitomo Electric Group and collaboration with other companies, in anticipation of popularization of electric vehicles, automated driving, and connected cars, and work to further expand our business. Sumitomo Riko Company Ltd. will endeavor to extend its marketing efforts by taking advantage of sales and development bases that extend globally in the field of automotive anti-vibration rubbers and hoses, and also work on developing new products for next-generation vehicles.

In the infocommunications segment, we will continue to capture global demand for optical fiber cables, 100 Gbps high-speed optical devices, and Gallium Nitride (GaN) devices for mobile phone base stations. We will also proceed further with the marketing of ultra-low loss optical fibers for submarine cables and ultra-high-fiber-count optical fiber cables for data centers. In addition, we will focus on responding to the increase in demand for optical fibers and next-generation optical/electronic devices, in line with an increase in communication data volume as a result of the development of a fifth-generation mobile communications system, expansion of video streaming services and cloud services. In the electronics segment, with regard to FPCs for mobile devices, we will continue to focus on global marketing, in addition to thorough quality improvement and cost reductions. Furthermore, by taking advantage of the integrated capabilities of the Sumitomo Electric Group, we will work to ensure the launch of new products that are ultrathin, highly precise and highly heat resistant, and to expand our business in the automotive and other

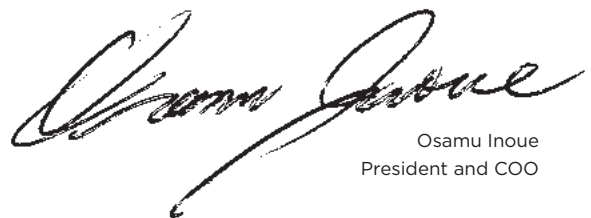
markets. Moreover, with regard to electronic wires and irradiation tubes, we will accelerate the reinforcement of global production and marketing.

In the environment and energy segment, we will strengthen the manufacturing of power cables, and further proceed with cost reductions and quality improvement. We will also endeavor to improve profitability by winning orders for both domestic and international large-scale power cable projects and capturing some of the increased demand related to the renewal of outdated facilities. In addition, we will continue to expand our marketing of flat magnet wires for motors used in electric vehicles, and also focus on expanding business related to renewable energy and smart grids, while taking advantage of the integrated capabilities of the Sumitomo Electric Group, including Nissin Electric Co., Ltd. and Sumitomo Densetsu Co., Ltd.

In the industrial materials segment, with regard to cemented carbide tools, we will strive, more than ever before, to capture domestic and international demand by increasing production capacity. In addition, we will strengthen our development and marketing of new products for the machining of difficult-to-cut materials for not only the main automotive field but also the fields of aircraft and energy. We will also work to further strengthen the domestic and international supply of sintered components, and focus on expansion of the global production and marketing of prestressing steel strands and precision spring steel wires.

In research and development activities, we will make efforts to create new businesses and products that are original and excel in profitability. This includes the acceleration of developing redox flow batteries, concentrator photovoltaic systems, and Power Line Communication applications, with the aim of establishing a new electricity/energy infrastructure, and the commercialization of superconducting products, magnesium alloy products, water-treatment systems, devices for next-generation communication network, and large-capacity data transmission cables. Taking a long-term perspective, we will leverage the Group's strengths to develop new products in response to society's needs, including advanced traffic safety systems and searching for new materials with new functions.

September 2018



Osamu Inoue
President and COO

FOUNDED

121 YEARS
AGO

Since its founding in 1897, the Sumitomo Electric Group has expanded and developed its business domain by developing proprietary technologies based on copper wire manufacturing technology and challenging new business fields.

R&D EXPENSES

¥ **117.7** BILLION

From ¥48.5 billion in FY2002 and ¥73.2 billion in FY2007, the Sumitomo Electric Group continues to invest in R&D. We promote innovation, regarding the great changes underway in society and the energy sector as growth opportunities.

OVERSEAS SALES RATIO

59.7%

From 26.8% in FY2002 and 40.6% in FY2007, our overseas share of sales now surpasses that of domestic sales. We continue to manufacture products that are trusted around the world.

BUSINESS OPERATIONS IN

40 COUNTRIES

The Sumitomo Electric Group has been proactive in pursuing business expansion overseas. Our products, popular with customers worldwide, are made around the world.

BUSINESS LOCATIONS WORLDWIDE

286

From 115 locations in FY2002 and 182 in FY2007, we will continue to enhance our business by increasing business relationships with customers around the world.

CONSOLIDATED EMPLOYEES

OVER **250** THOUSAND

People are the backbone of our business. We have started to actively promote globalization of the human resources employed in group companies in Japan and overseas.

**NET
SALES**

3

**OVER
¥**

TRILLION

Net sales have grown steadily from ¥1.5 trillion in FY2002 and ¥2.5 trillion in FY2007. We continue to be an industry leader in the creation of new business models that anticipate changes in the market environment.

PROFILE and HISTORY

Since being founded in 1897, the Sumitomo Electric Group has built a strong history over these 120 years. In keeping with the Sumitomo business spirit, we have always pursued the most advanced technology that underpins the foundations of society and industry in every era, and have provided support for the development of modern Japan. Today, the fields in which we are active span the globe, and we are using our capabilities to help resolve such issues as the rapid urbanization of emerging countries and we provide increasingly sophisticated infrastructure in developed countries, as we are called upon to make a broader contribution to social progress.

1890s

In 1897, Sumitomo Electric was founded as Sumitomo Copper Rolling Works, marking the beginning of the Company's history. The Company began by manufacturing copper electric cables, contributing toward the development of domestic production of high-voltage underground power transmission cables, which had all been imported up to that time.



Photo by courtesy of Sumitomo Historical Archives

1920s

In 1922, the Company succeeded in manufacturing and laying a submarine cable from Niihama in Ehime Prefecture to Shisakajima. At 21 km, it was the longest cable of its type in the world. Buffeted by violent storms, the cable used in this difficult project was dogged by faults caused by dropping resistance in the insulation and requiring repeated repairs.



Photo by courtesy of Sumitomo Historical Archives

1890s

1900s

1910s

1920s

1930s

1940s

1950s

1910s

Develops contact wires. The first generation of this product was supplied in 1916 to the City of Tokyo, the present-day Tokyo Metropolitan Government. Since then, in addition to supplying domestic railways, the Company also supplied the entire Taiwan High Speed Rail network, which began operating in 2007. In this way, we contribute to the development of the railways that are indispensable for daily life.

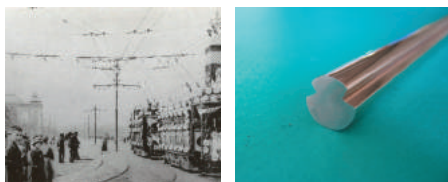
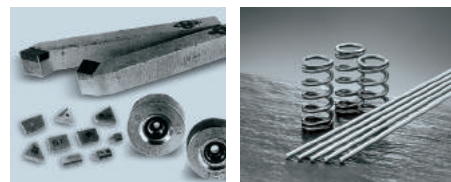


Photo by courtesy of Toei Transportation

1930s

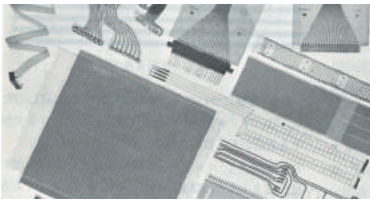
1930 saw the start of the Research Division, and the development of new products accelerated. The product lineup of the current mainstay businesses of the Group were built on technology born at this time.



The strength of our Group lies in a deep understanding of customer needs across a wide range of industries, including automotive, information technology, electronics, environmental energy and industrial materials, and in drawing together and providing solutions for these industries. We manifest this strength through repeated effort and innovation to remain a vital presence for all our stakeholders around the world.

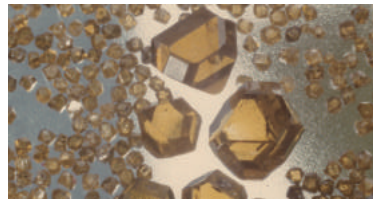
1960s

In 1969, we began making flexible printed circuits (FPCs). This technology made a significant contribution to the spread of portable electronic devices, such as modern smartphones and notebook PCs.



1980s

In 1982, the Company succeeded in the single-crystal synthesis of a diamond with a diameter of 6 mm (1.2 carats). It was listed in the 1984 edition of the Guinness Book of Records as the world's largest synthetic diamond. In 1989, we began volume production of large single-crystal synthetic diamonds of around 1 cm.



2010s

The electric wiring used in wire harnesses in cars is typically made of copper because of its superior conductivity, but the Group developed new aluminum alloy wires that have the same conductivity, though only half the weight. The aluminum harnesses made from these wires were positively received by both domestic and overseas auto manufacturers, and have now been adopted for a large number of models, thus contributing to reduced vehicle weights and cost.

1970s

A communication network project in Nigeria that was awarded to the Company by the Nigerian Ministry of Communications in 1976 was at that time unprecedented anywhere in the world: the largest urban telephone network construction work order taken on by a single company. Three-hundred Japanese employees and 2,000 local people worked on this project, which took 11.5 years to go from order to completion.



Recently

We continue to move ahead with projects that support social infrastructure both in Japan and overseas, including demonstration tests performed jointly with Hokkaido Electric Power Co., Inc. at the Minami Hayakita substation for one of the world's largest redox flow battery installations, and work by the Company and subsidiary J-Power Systems on the design, manufacture, cable laying, servicing and maintenance of a transmission cable system providing unbroken links between the UK and Belgium.

Financial Highlights

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

For the Year:	Millions of yen					Thousands of U.S. dollars
	FY2017 Mar. 31, 2018	FY2016 ^{*7} Mar. 31, 2017	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2013 Mar. 31, 2014	FY2017 Mar. 31, 2018
Net sales	¥3,082,247	¥2,814,483	¥2,933,089	¥2,822,811	¥2,568,779	\$29,012,114
Operating income	173,139	150,503	143,476	134,457	120,058	1,629,697
Profit before income taxes	193,337	167,792	154,859	167,067	123,833	1,819,814
Profit attributable to owners of the parent	120,328	107,562	91,001	119,771	66,748	1,132,605
Capital expenditures ^{*1}	171,110	183,693	167,282	148,213	150,823	1,610,599
Depreciation and amortization	146,098	134,532	134,371	126,663	113,271	1,375,169
R&D expenses	117,735	115,155	110,839	105,604	99,520	1,108,198

At Year-End:

Total assets	¥3,017,303	¥2,903,584	¥2,742,848	¥2,925,785	¥2,554,819	\$28,400,819
Total interest-bearing liabilities	492,567	510,989	457,145	550,839	534,641	4,636,361
Total net assets ^{*2}	1,764,086	1,626,502	1,561,289	1,646,913	1,379,912	16,604,725

Cash Flows:

Net cash provided by operating activities	¥239,573	¥209,233	¥240,779	¥153,509	¥147,705	\$2,255,017
Net cash used in investing activities	(174,265)	(194,829)	(117,387)	(86,888)	(174,102)	(1,640,296)
Net cash provided by (used in) financing activities	(66,795)	(4,763)	(115,912)	(64,037)	113	(628,718)

Per Share Data:

	Yen					U.S. dollars
	FY2017	FY2016 ^{*7}	FY2015	FY2014	FY2013	FY2017
Profit attributable to owners of the parent ^{*3}						
Basic	¥154.29	¥137.61	¥114.73	¥151.00	¥84.15	\$1.452
Diluted	152.88	137.24	—	—	—	1.439
Cash dividends ^{*4}	46.00	40.00	35.00	30.00	22.00	0.433
Owner's equity ^{*5}	1,973.95	1,814.90	1,715.28	1,804.34	1,499.76	18.580

Financial Indexes:

Operating income/net sales (%)	5.6	5.3	4.9	4.8	4.7	
Profit attributable to owners of the parent/net sales (%)	3.9	3.8	3.1	4.2	2.6	
Operating income/invested assets ^{*6} (ROIC)(%)	7.9	7.2	6.8	6.5	6.6	
Return on owner's equity (%)	8.1	7.7	6.5	9.1	5.9	
Owner's equity ratio (%)	51.0	48.7	49.6	48.9	46.6	
Current ratio (Times)	1.8	1.7	1.8	1.7	1.6	
R&D expenses/net sales (%)	3.8	4.1	3.8	3.7	3.9	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥106.24 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2018.

^{*1} Capital expenditures are recorded as property, plant and equipment.

^{*2} See page 55.

^{*3} From the year ended March 31, 2014 to the year ended March 31, 2016, there were no potentially dilutive common shares.

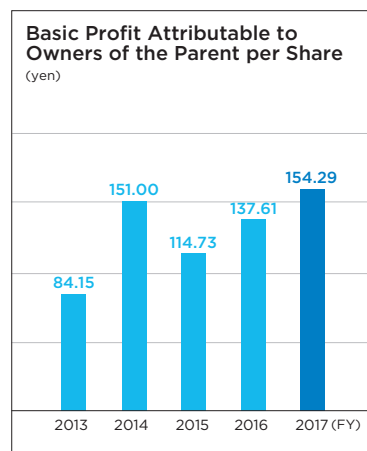
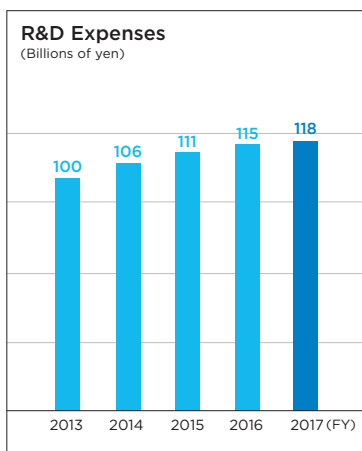
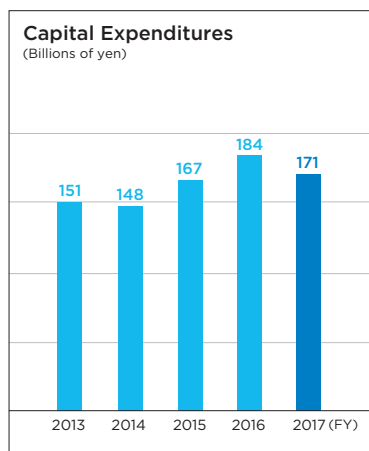
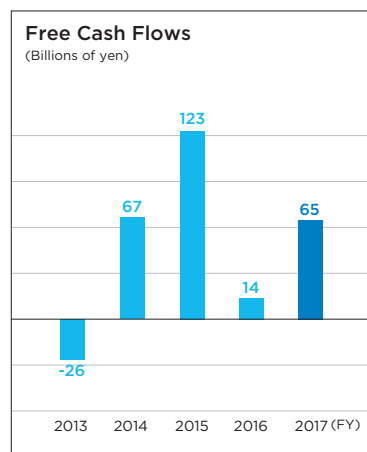
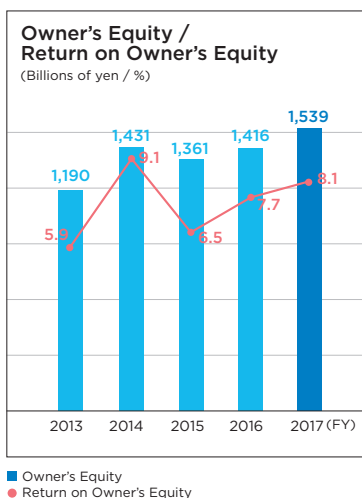
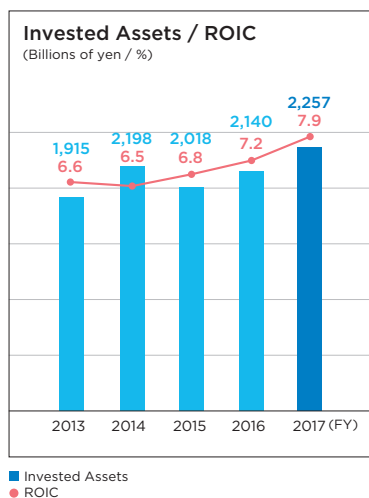
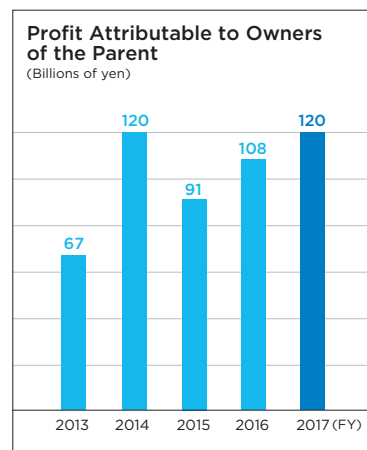
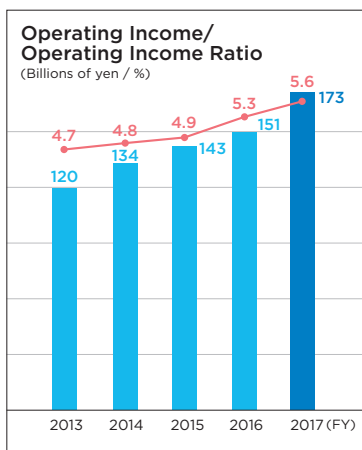
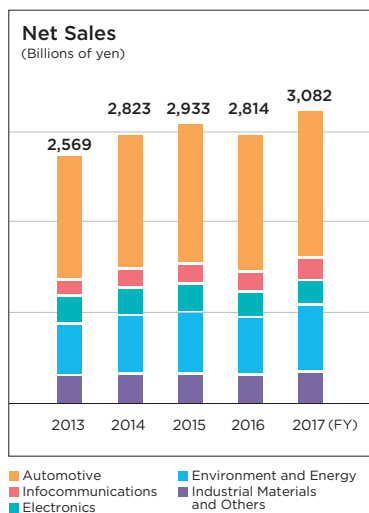
^{*4} Cash dividends per share for the year ended March 31, 2017 include a 2-yen distribution as commemorative dividends for the 120th anniversary.

^{*5} Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

^{*6} Invested assets = total assets - interest-free liabilities

^{*7} Effective from the fiscal year ended March 31, 2018, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements" (ASBJ PITF No. 18, revised on March 29, 2017) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, revised on March 29, 2017). The financial data and indexes for the year ended March 31, 2017 have been adjusted retrospectively to apply the changes in accounting policies.

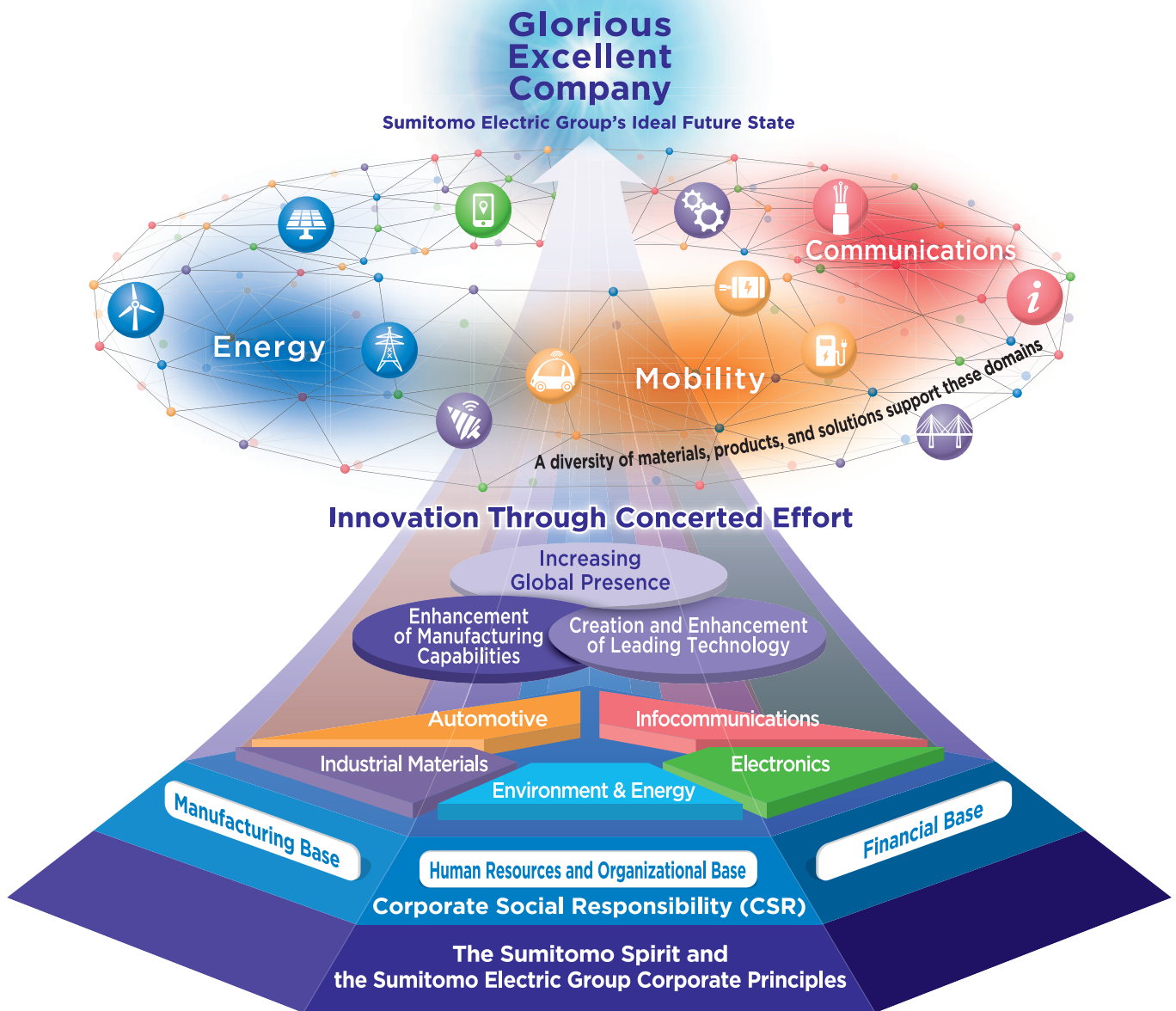
Basic Stance on Compliance



Business Strategy

VISION 2022 Mid-term Management Plan: Overall Concept

Contributing to a better society by leveraging our expertise in connectivity and transmission technologies through concerted efforts of the entire group.



Net Sales
¥ **3.6**
TRILLION

Operating Income
¥ **230**
BILLION

ROIC
9%
OR MORE

ROE
8%
OR MORE

VISION 2022 Growth Strategy

Enhancement and Expansion of Five Business Segments

Sumitomo Electric Group continues to strive for growth in five business segments focusing on Mobility, Energy, and Communications fields as well as materials, products, and solutions supporting these fields. We aim to grow every segment by strengthening revenue bases and improving capital efficiency and to achieve a balanced business portfolio.

Further Growth Through Innovation

In the wake of dramatic changes in the automobile industry together with the renewable energy revolution and exponential growth in data usage worldwide, Sumitomo Electric Group will achieve further growth by enhancing innovation building on the diversity in technologies and business expertise we have cultivated over the years, developing and offering new technologies, products, and services toward a better society.

Our Priorities

Enhancement of Manufacturing Capabilities	<p>Taking “SEQCDD*” one step further</p> <ul style="list-style-type: none"> • Aim for “the world’s top safety company” • Create “strong factories” by continuous improvement (kaizen) • Share technologies and best practices among group companies worldwide <p><small>*SEQCDD: S (Safety), E (Environment), Q (Quality), C (Cost), D (Delivery), D (R&D)</small></p>
Increasing Global Presence	<ul style="list-style-type: none"> • Work to increase market share with global customers • Create new business models that anticipate market changes • Enhance the efficacy of our marketing efforts
Creation and Enhancement of Leading Technology	<ul style="list-style-type: none"> • Continue to enhance core technologies from materials to processes • Innovation that anticipates change in the automotive and energy fields and exploits commercialization opportunities with agility • Challenge ourselves to create innovative technology that encourages social reform

The Three Bases






<p>Manufacturing Base</p> <hr style="border: 0; border-top: 1px solid white; margin-bottom: 10px;"/> <ul style="list-style-type: none"> ■ Consolidating Our Manufacturing Base and Business Quality Maintaining and building secure, safe, clean, reliable, and efficient production systems. ■ Developing Personnel Strengthening basic competence through group-wide education and fostering professional human resources through practical education. 	<p>Human Resources and Organization Base</p> <hr style="border: 0; border-top: 1px solid white; margin-bottom: 10px;"/> <ul style="list-style-type: none"> ■ Promoting Diversity Management (realizing our Global HRM* Policy) ■ Building a global common infrastructure for human resources and organization <p><small>*HRM: Human Resource Management</small></p>	<p>Financial Base</p> <hr style="border: 0; border-top: 1px solid white; margin-bottom: 10px;"/> <ul style="list-style-type: none"> ■ By reinforcing our corporate structure, we strive to build on a robust financial footing. • We aim to keep our shareholders’ equity ratio at 50% • We aim to increase dividend payout ratio to approximately 40%
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The Sumitomo Spirit and The Sumitomo Electric Group Corporate Principles

With the Sumitomo Spirit and The Sumitomo Electric Group Corporate Principles, we can contribute to society through all of our business activities and enrich the public good and our environment.

Review of Operations

Sumitomo Electric operates in five segments: Automotive, Infocommunications, Electronics, Environment and Energy, and Industrial Materials and Others.

Segment	Net Sales	Business Overview	Main Products
Automotive	<p>Net Sales</p> <p>¥1,632.0 billion</p> <p>Share of net sales</p> <p>51%</p> 	<p>The Sumitomo Electric Group is a global supplier of wiring harnesses and anti-vibration rubber, as well as safe, comfortable and environment-friendly automotive components and systems. The Company also supply traffic control systems.</p>	<ul style="list-style-type: none"> • Wiring harnesses • Anti-vibration rubber • Automotive hoses • Car electrical equipment • Traffic control systems
Infocommunications	<p>Net Sales</p> <p>¥220.3 billion</p> <p>Share of net sales</p> <p>7%</p> 	<p>Building on its communication cable technologies accumulated for more than 100 years, the Sumitomo Electric Group supplies products and systems that support today's Internet services such as optical fiber cable, opto-electronic devices, gigabit Ethernet-passive optical network (GE-PON), and other devices.</p>	<ul style="list-style-type: none"> • Optical fiber cables • Telecommunication cables and equipment • Fusion splicers • Optical/wireless devices such as optical transceiver modules/wireless communication devices • Network system products such as access network equipment (GE-PONs, content delivery networks,CATV-related products, traffic control) • Compound semiconductors
Electronics	<p>Net Sales</p> <p>¥246.3 billion</p> <p>Share of net sales</p> <p>8%</p> 	<p>Using its proprietary materials technologies, the Sumitomo Electric Group supports the increasing use of electronics devices in society through a diverse range of products such as electronic wires, flexible printed circuits, other highly functional wiring materials and fluorine resin products.</p>	<ul style="list-style-type: none"> • Electronic wire products • Metallic material for electronic parts • Electric-beam irradiation products • Flexible printed circuits • Fluorine resin products • Micro filtration membrane module
Environment and Energy	<p>Net Sales</p> <p>¥718.0 billion</p> <p>Share of net sales</p> <p>23%</p> 	<p>Since its inception, the Sumitomo Electric Group has helped underpin modern daily life through its energy transmission business, supplying products such as cables for power distribution, railway trolley wires, and wire coils used in home appliances, automobiles, and other applications.</p>	<ul style="list-style-type: none"> • Electric conductors • Power transmission wires/cables/equipment • Magnet wires • Air cushions for railroad vehicles • Power systems • Equipment such as substation equipment/control systems • Charged beam equipment and processing • Electrical/power supply work and engineering, porous metals
Industrial Materials and Others	<p>Net Sales</p> <p>¥343.1 billion</p> <p>Share of net sales</p> <p>11%</p> 	<p>Through the manufacture of electric wire and cable, the Sumitomo Electric Group has developed and built up proprietary technologies and products that underpin industry and society. Its cutting tools have contributed to greater efficiency in manufacturing and its sintered parts and special metal wires are used in automotive and a wide range of other industrial fields.</p>	<ul style="list-style-type: none"> • Tensioning materials for prestressed concrete • Precision spring steel wires, steel tire cords, cemented carbide tools • Diamond and CBN tools, laser optics, sintered powder metal parts • Semiconductor heatspreader materials • Grinding tools • Tungsten and molybdenum materials • Heat sinks

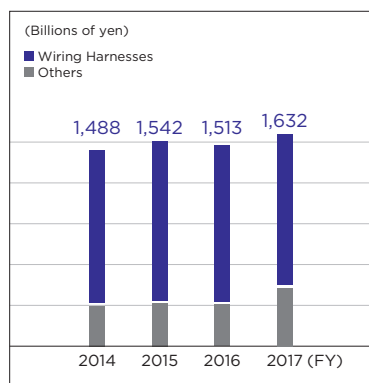
Automotive



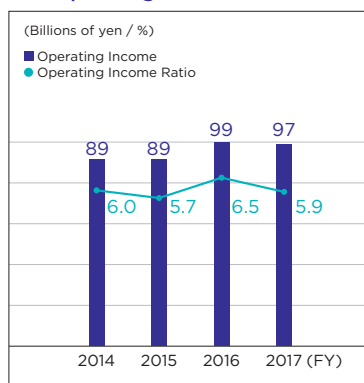
Performance in FY2017 and forecast for FY2018

As a result of capturing global demand for wiring harnesses, automotive electronic parts, and anti-vibration rubber products, net sales rose by ¥118.7 billion (7.8%) year on year to ¥1632.0 billion. Despite our cost reduction efforts on a global scale, operating income declined ¥1.8 billion (1.8%) year on year to ¥96.8 billion, due to an increase in the initial investment cost for launching new anti-vibration rubber products as well as the negative impact of price reduction. For FY2018, we forecast net sales of ¥1,700 billion and operating income of ¥96.0 billion.

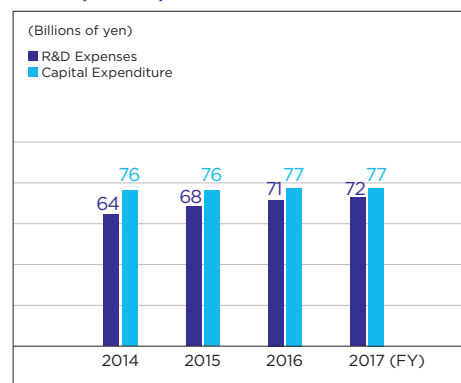
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2017 result

¥1,632 billion



FY2018 target

¥1,700 billion 4.2% UP

Operating Income

FY2017 result

¥96.8 billion



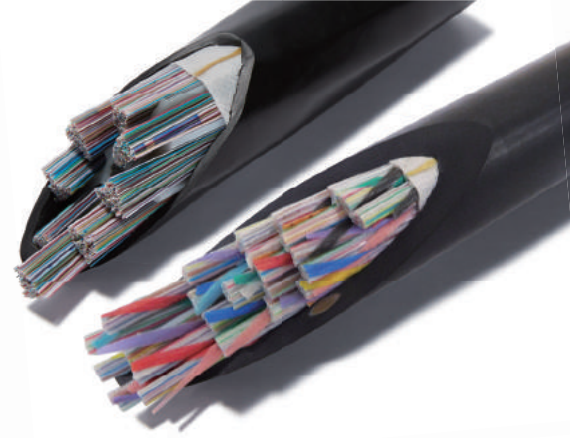
FY2018 target

¥96.0 billion 0.8% DOWN

Initiative in FY2018

1. Accelerating the development and commercialization of products related to neighborhood electric vehicles and high-speed communication.
2. Strengthening the development capability of new products through collaboration within the Group and strategic alliances with business partners.
3. Promoting sales of aluminum harnesses to customers outside of Japan by strengthening global production control through the acquired business of Sumitomo Riko Company Limited.

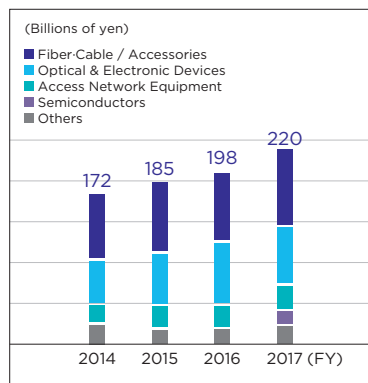
Infocommunications



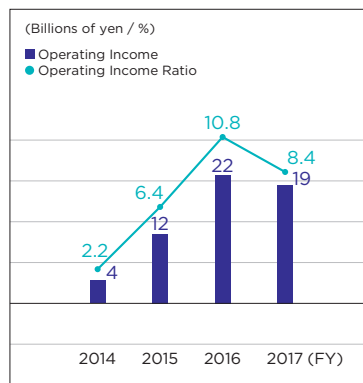
Performance in FY2017 and forecast for FY2018

As a result of aggressive marketing for optical fiber cables, net sales rose by ¥22.1 billion (11.1%) year on year to ¥220.3 billion. Due to the decrease in demand for optical devices, operating income declined to ¥18.6 billion, down ¥2.9 billion (13.5%) year on year. For FY2018, we forecast net sales of ¥220.0 billion and operating income of ¥19.0 billion.

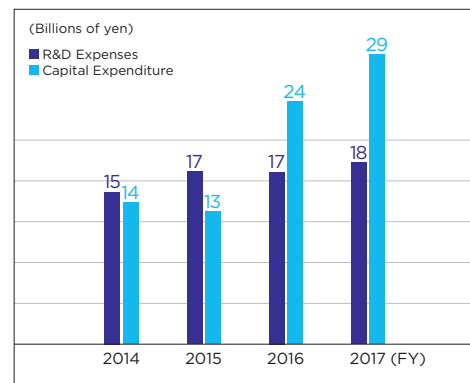
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2017 result

¥220.3 billion



FY2018 target

¥220.0 billion

0.1% DOWN

Operating Income

FY2017 result

¥18.6 billion



FY2018 target

¥19.0 billion

2.2% UP

Initiative in FY2018

1. Capturing demand in the global market: optical fibers and cables, 100 Gbps optical devices, and GaN HEMTs (Gallium Nitride High Electron Mobility Transistors) for wireless infrastructures.
2. Promoting sales: optical fibers used in submarine cables, ultra-high-fiber-count optical cables and their related accessories used in data centers, and 10G-EPON (10 Gigabit Ethernet PON) products.
3. Accelerating the development: ultra-low loss optical fibers, high-functional products for optical cabling, ultra-high definition (4K/8K) video transmission equipment, STB (Set-Top Box), and next-generation optical and wireless devices.

Electronics

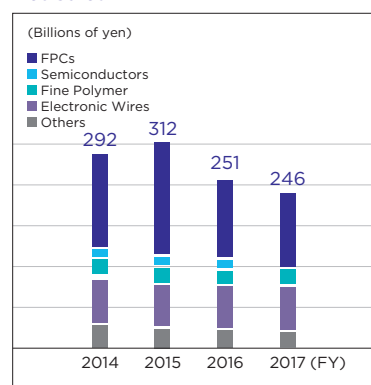
Performance in FY2017 and forecast for FY2018

Despite our sales promotion efforts for electronic wires and FPCs (Flexible Printed Circuits) used in mobile devices, net sales declined by ¥4.8 billion (1.9%) year on year to ¥246.3 billion due to the segment reorganization.

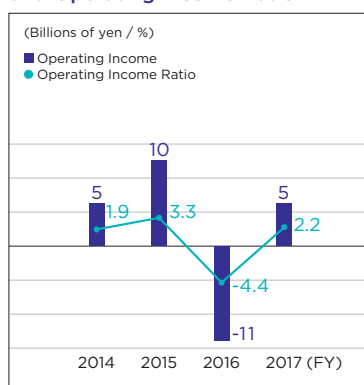
Operating income totaled ¥5.4 billion, an increase of ¥16.3 billion compared to the operating loss of ¥10.9 billion in the previous fiscal year, owing to the progress made in cost reductions for the FPC.

For FY2018, we forecast net sales of ¥230.0 billion and operating income of ¥7.0 billion.

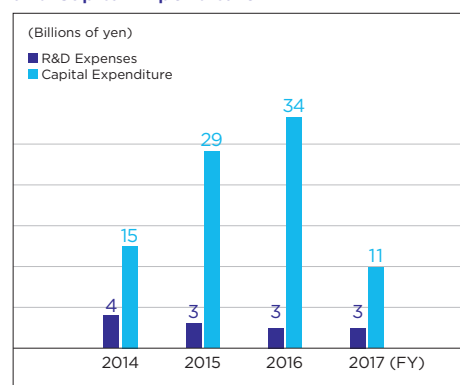
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2017 result

¥246.3 billion

FY2018 target

¥230.0 billion **6.6%** ↓ DOWN

Operating Income

FY2017 result

¥5.4 billion

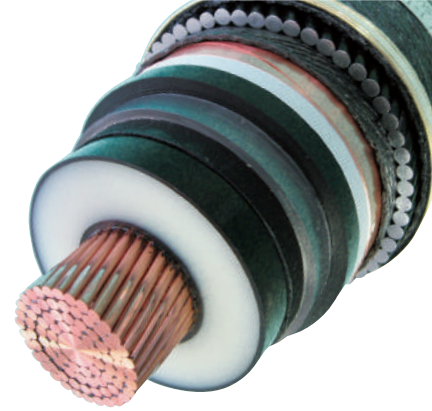
FY2018 target

¥7.0 billion **29.6%** ↑ UP

Initiative in FY2018

1. FPC:
 - Accelerating quality improvement, cost reduction, and sales promotion.
 - Developing ultra-thin, fine-pitch, and high-heat-resistant FPCs and expanding our revenue base by entering/exploring/fostering new markets.
2. Electronic wire:
 - Seizing marketing opportunities in the automotive and electronic businesses.

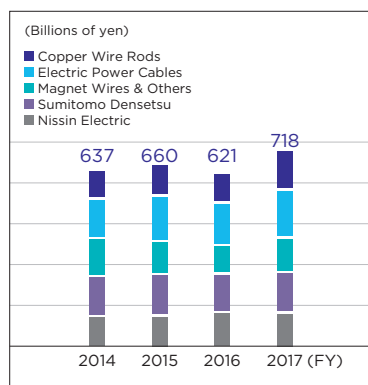
Environment and Energy



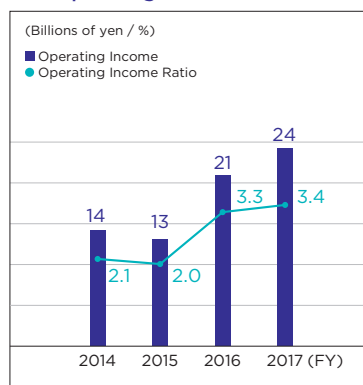
Performance in FY2017 and forecast for FY2018

Under the influence of increased demand in Sumitomo Densetsu Co., Ltd., as well as the price hike of copper, net sales rose by ¥96.6 billion (15.5%) year on year to ¥718.0 billion and operating income by ¥3.3 billion (15.9%) year on year to ¥24.1 billion. For FY2018, we forecast net sales of ¥780.0 billion and operating income of ¥26.0 billion.

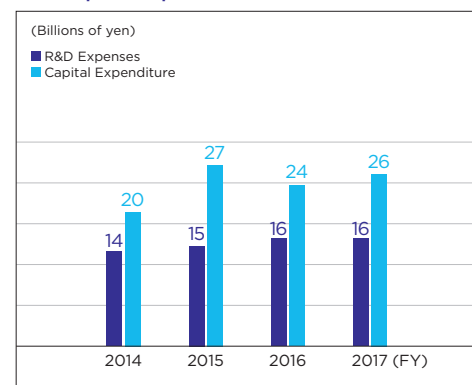
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2017 result

¥717.9 billion

FY2018 target

▶ ¥780.0 billion **8.6%** ↑ UP

Operating Income

FY2017 result

¥24.1 billion

FY2018 target

▶ ¥26.0 billion **7.8%** ↑ UP

Initiative in FY2018

- Enhancing profit from the electric power cable business:
 - Completing ongoing large scale projects, acquiring new orders for power cable projects, and capturing demand for power cable replacement in Japan.
 - Further strengthening production capacity and competitiveness in cost and quality.
- Promoting sales of rectangular magnet wires for electric vehicles.
- Expanding renewable energy-related business in coordination with Sumitomo Densetsu Co.,Ltd. and Nissin Electric Co., Ltd.

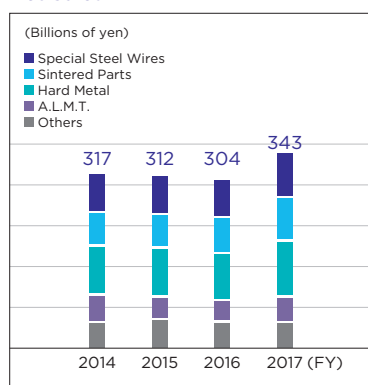
Industrial Materials and Others



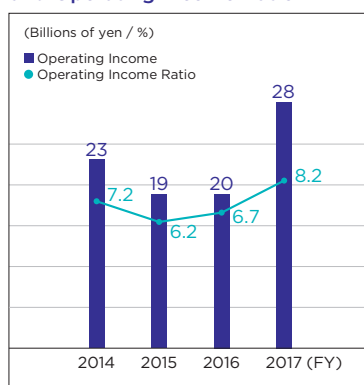
Performance in FY2017 and forecast for FY2018

By expanding sales channels mainly for cemented carbide tools and sintered parts, sales rose by ¥39.2 billion (12.9%) year on year to ¥343.1 billion and operating income by ¥7.7 billion (37.5%) year on year to ¥28.2 billion. For FY2018, we forecast net sales of ¥380.0 billion and operating income of ¥32.0 billion.

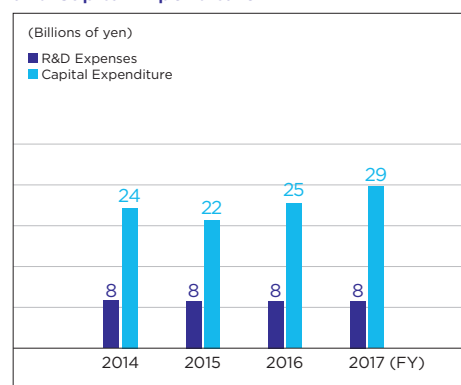
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2017 result

¥343.1 billion

FY2018 target

▶ ¥380.0 billion 10.7% \uparrow UP

Operating Income

FY2017 result

¥28.2 billion

FY2018 target

▶ ¥32.0 billion 13.6% \uparrow UP

Initiative in FY2018

- Cemented carbide:
 - Capturing demand in emerging economies, such as China and India.
 - Expanding marketing targets from our current automotive industry to non-automotive industries.
- Sintered parts: Establishing strengthened global supply systems for increased production capacity.
- A.L.M.T.: Implementing intensive cost reduction and investing in growing markets.
- Prestressed concrete steel wires and steel wires for spring: Establishing global production systems and expanding sales capacity.



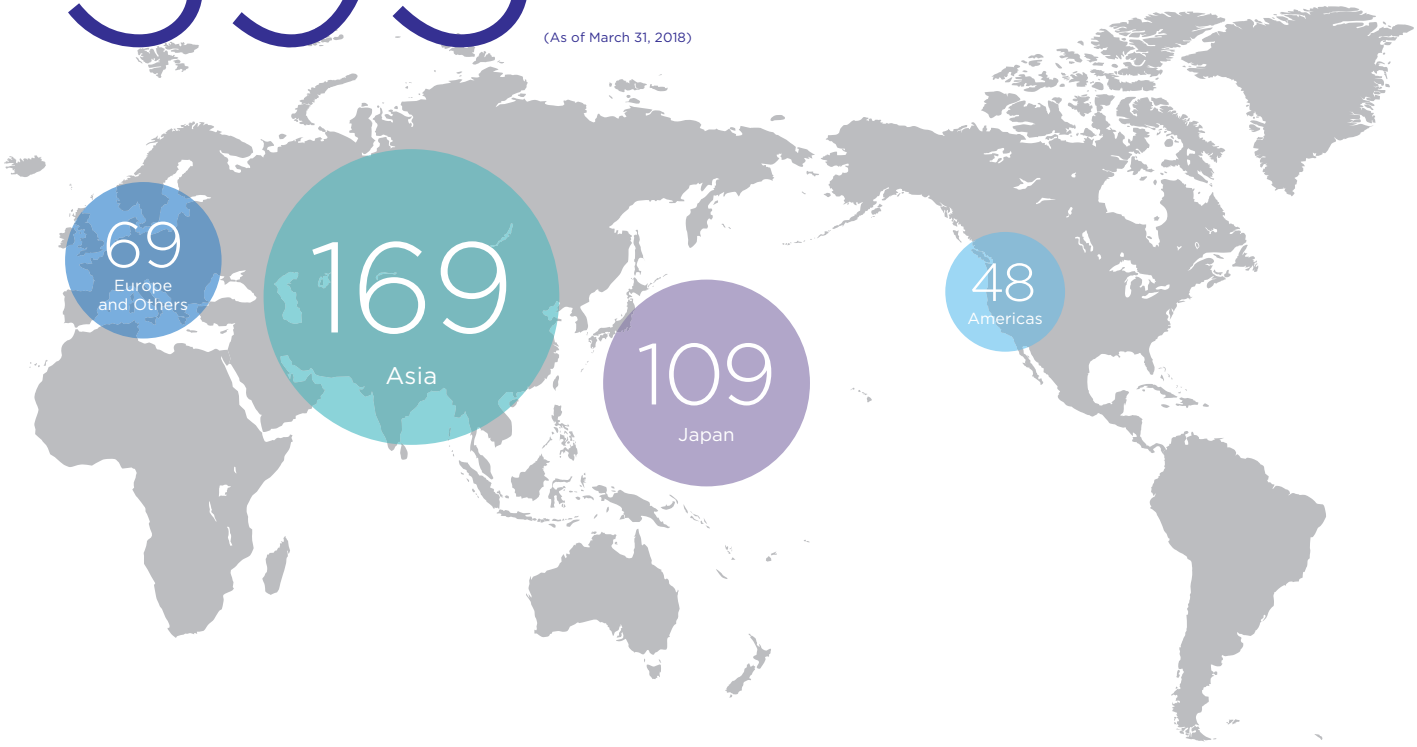
Expanding Business on the World Stage

The Sumitomo Electric Group is expanding marketing bases and establishing an optimal production base structure around the world to respond more precisely to growing global demand driven by emerging economies. As a result, sales for the Company and its consolidated subsidiaries outside Japan (overseas sales) totaled ¥1,838.8 billion in FY2017, an increase of ¥185.1 billion over the previous fiscal year. Overseas sales were 59.7% of total sales on a consolidated basis, a year-on-year increase of 0.9%.

Number of Consolidated Subsidiaries and Equity-Method Affiliates

395

(As of March 31, 2018)



Americas

Sales in the Americas in FY2017 increased by ¥23.8 billion year-on-year to ¥518.5 billion, or 16.8% of all consolidated sales. Meanwhile, sales for consolidated subsidiaries (to external customers) rose by ¥24.1 billion year-on-year to ¥512.3 billion, while operating income decreased by ¥4.3 billion to ¥20.1 billion. Operating income generated in the region was 11.5% of total consolidated operating income.

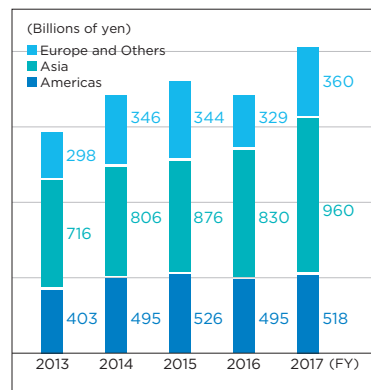
Asia

Sales in China increased by ¥42.0 billion year-on-year to ¥521.4 billion, or 16.9% of all consolidated sales. In other Asian markets, sales increased ¥87.9 billion to ¥438.9 billion, accounting for 14.3% of total sales on a consolidated basis. Sales for consolidated subsidiaries (to external customers) in Asia, including China, totaled ¥881.1 billion, an increase of ¥127.7 billion from the previous fiscal year. Operating income also increased ¥9.0 billion year-on-year to ¥80.4 billion.

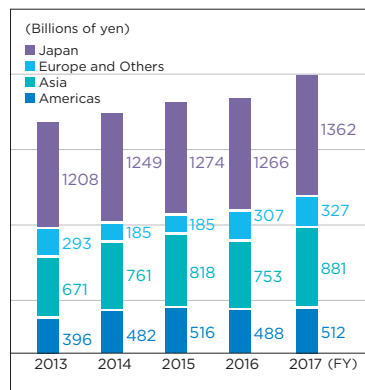
Europe and Others

Sales in Europe and other regions in FY2017 came to ¥360.1 billion, or 11.7% of total consolidated sales. Compared with the previous fiscal year, this was an increase of ¥31.4 billion. At the same time, sales for consolidated subsidiaries (to external customers) rose by ¥20.8 billion to ¥327.4 billion. Operating income was ¥2.0 billion, down ¥3.3 billion. Operating income generated was 1.1% of total operating income on a consolidated basis.

Overseas Sales



Geographical Segment Sales
Segment Information by Geographic Area

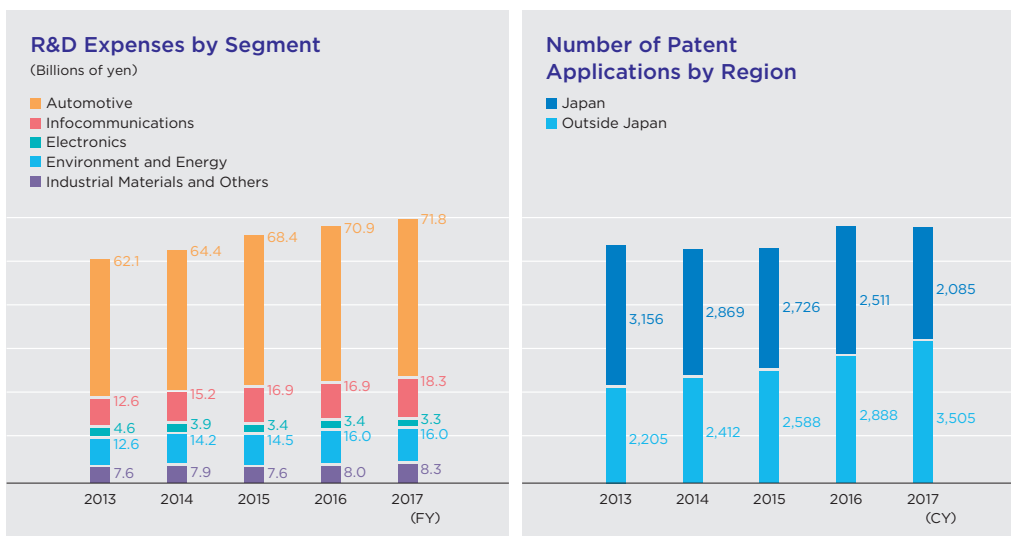


Global Human Resource Management Policy

Currently, the Sumitomo Electric Group employs around 250,000 people in diversified technological and regional occupations in over 40 countries. It is essential for us to make full use of all of our resources if we are to survive and thrive amid global competition in terms of technology, products and business model. It is also vital to secure and mobilize highly talented human resources to support our business. The Group has long emphasized the importance of human resources, as stated in the Sumitomo Spirit. In September 2011, the Group compiled the Global Human Resource Management Policy, clearly laying down its basic human resource policy. This policy explicitly commits Sumitomo Electric to further accelerating the globalization of human resources and organizational systems and providing training for fostering global players and leaders and career opportunities regardless of nationality, race, ethnicity, religion or gender. The policy has been widely promulgated internally and externally. We are promoting specific policies for cross-border personnel exchange and training, and for compilation of global guidelines for personnel development.

Research & Development

In line with our commitment in the Sumitomo Electric Group Corporate Principles to build technical expertise, realize changes and strive for consistent growth, we focus on growing business areas and develop original businesses and new products with strong earnings potential. Anticipating future technological needs, we are committed to identifying and developing new research areas that will drive next-generation growth. In FY2017, ended March 31, 2018, consolidated R&D expenses totaled ¥117.7 billion.



Topics

Participation in the Virtual Power Plant Construction and Demonstration Project – Toward the Realization of a New Electricity Supply and Demand System

Sumitomo Electric is participating in a project in collaboration with other companies in Japan that aims to optimize energy use across society and further introduce renewable energy sources into the power grid. Conventionally, electric power supply and demand have been balanced on the supplier side by adjusting output from the power generation equipment itself. However, in a virtual power plant (VPP) system, by applying Internet of Things (IoT) technology to consumer devices scattered throughout the power system to enable collective control, the consumer side adjusts demand and supply of electricity – it is as if the VPP functions as a single electricity generation plant.

The Benefits of a VPP System

- Reduction of energy costs for consumers
- Expansion of revenue sources
- Further expansion of renewable energy
- Improvement in value of electric vehicles (EVs)

Specific Initiatives

■ Testing remote control charging of electric vehicles

As part of the VPP Construction and Demonstration Project, Sumitomo Electric has joined with Nissan Motor Co., Ltd. and Kansai Electric Power Co., Inc. (KEPCO) to start testing remote control charging of EVs.



EVs at a KEPCO office

In a first for Japan, sixty electric and plug-in hybrid vehicles owned by KEPCO and general customers have been fitted with newly-developed EV switches to enable remote control charging. Based on the EV information obtained through the linkage with the Nissan Telematics service, KEPCO's VPP server and Sumitomo Electric's EV server determine available charging capacity and through the EV switch, charge the Nissan EV remotely. In addition, tests assuming real-world operation using a smartphone app to confirm availability of EVs by owners were conducted. The data obtained on such aspects as EV usage and charging control was collected and analyzed to evaluate the use of EVs as power sources for the VPP. In line with initial expectations, this trial confirmed that the operation of the VPP is possible. KEPCO in its role as a power company, Sumitomo Electric as a manufacturer of automotive equipment, and automobile manufacturer Nissan are working together to achieve a low-carbon transportation future and a stable electricity supply as EVs become widespread and will continue to conduct demonstration testing to accumulate technical knowledge by linking the VPP system and information collected from EVs.

Topics	Sumitomo Electric Launches High Quality SiC Epitaxial Wafer "EpiEra™"
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Sumitomo Electric Industries, Ltd. has launched a high quality SiC epitaxial wafer, EpiEra™, which attains a more than 99% defect free area in a wafer. Power devices are semiconductor devices used in a wide range of applications such as power transmission, trains, automobiles, and electric appliances. They are increasingly required to offer higher efficiency at lower energy consumption. Utilizing its Multi-Parameter and Zone control technology (MPZ™^{*1}) and 30-year experience in compound semiconductor development, Sumitomo Electric has succeeded in developing a high-quality SiC epitaxial wafer, EpiEra™, and entered mass production stage. EpiEra™ has achieved an industry-leading 99% defect-free area (DFA^{*2}), eliminating surface defects^{*3} and Basal Plane Dislocations (BPD^{*4}). This improves quality, stability and reliability in customers' products.



*1	Multi-parameter and zone controlled SiC growth technology (MPZ): Sumitomo Electric's SiC growth technology that adjusts various parameters depending on the area and time zone utilizing simulation and monitoring techniques. Parameters include temperature, pressure, gas reactions, and others.
*2	Defect-free area (DFA): An area with no surface defect or basal plane dislocation (BPD) on the wafer surface.
*3	Surface defect: Morphological irregularity on the epitaxial layer surface. It impacts the device yield.
*4	Basal Plane Dislocations (BPD): Dislocation generated on the basal plane in an SiC single crystal. It impacts the long-term device reliability.

Topics	Success of Ultra-high Capacity Optical Fiber Transmission Breaking the World Record by a Factor of Five and Reaching a 10 Petabits per Second.
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KDDI Research Inc., and Sumitomo Electric Industries, Ltd., announced that its success of ultra-high capacity optical fiber transmission experiment which has broken the world record of transmission capacity through a single optical fiber (2.15 petabits/second) and achieved 10.16 petabits/second with the multicore, multimode optical fiber, which enables 114 space multiplicity. With the transmission capacity of 10 petabits/second, data for 25,000 Blu-ray disks (50 GB/both sides) would be transmitted in one second, or 100 million people can simultaneously communicate at 100 megabits. The mobile communication system after 5G requires innovations both in wireless technologies and in network and optical fiber transmission technologies that support them. Our new technology would be expected to be a key technology that will support broadband and a low latency mobile communications system after 5G and will provide new experiences and services.

Basis for Growth

Corporate Governance

Basic Policy for Corporate Governance

The consistent basic policy of the Sumitomo Electric Group is to continue to make a positive contribution to society through the pursuit of fair business practices, aligned with the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. While maintaining this basic stance, the Group is working to ensure transparent and fair management based on sound corporate governance, and to determine and implement innovation-focused growth strategies that make the most of operational resources, recognizing that these endeavors are important for both sustaining growth and increasing corporate value over the medium to long term.

1. Overview of the Corporate Governance System and Reasons for Adopting It

Sumitomo Electric chose to adopt an Audit & Supervisory Board system since the roles of such a board and its members under this system are clearly intended for ensuring sound management. With the Board of Directors, executive officers, and Audit & Supervisory Board members clearly specified, the Company intends to pursue sustainable growth and increase its corporate value over the medium and long term according to the following basic principles.

- Under the Audit & Supervisory Board system, the Company's Board of Directors is responsible for making decisions on the execution of business and supervising those operations. To enable the Board of Directors to make sound decisions on important matters that could affect the future course of the Company, and to effectively carry out its supervisory duties, deliberations on particular matters, such as investments, are limited to those of high importance. Management decisions are implemented while placing importance on deliberations on the medium-term management plan and fiscal year plans, as well as analysis of the results for each fiscal quarter.
- When carrying out its supervisory duties, the Board of Directors pays serious attention to the opinions of independent officers, particularly outside directors, to ensure a more independent and objective standpoint. To help make the Board of Directors more effective, the Company established an advisory committee responsible for decisions regarding the nominations and remuneration of directors and executive managers, chaired by an outside director and comprised of a majority of outside directors.

2. Current Framework for Internal Audits and Audits by Audit & Supervisory Board Members

The Company receives three types of audits—Audit & Supervisory Board members' audits, internal audits, and accounting audits—to ensure the legality and appropriateness of its business management. In the Audit & Supervisory Board members' audits, five Audit & Supervisory Board members, three of whom are outside auditors, inspect the performance of the Board of Directors in business execution, supported by the corporate auditor assistants (the Office of Audit & Supervisory Board members).

3. Outside Directors and Outside Audit & Supervisory Board Members

Sumitomo Electric has three outside directors for the purpose of improving the supervisory function of the Board of Directors from an external standpoint, as well as increasing the transparency and objectivity of management. To enhance its supervisory system and ensure that management is conducted appropriately and within the scope of the law, the Company has three outside Audit & Supervisory Board members—the majority of its Audit & Supervisory Board members—with diverse perspectives and broad areas of expertise.

Outside Directors

Hiroshi Sato

Executive Advisor, Kobe Steel, Ltd.
From June 2016, Director of the Company
Reasons for election: His extensive experience and high degree of knowledge in all aspects of corporate management derived from his involvement with a company engaged in a range of business domains, including materials (primarily steel), machinery and energy.



Michihiro Tsuchiya

Corporate Advisor, Mitsubishi Tanabe Pharma Corporation
From June 2018, Director of the Company
Reasons for election: His rich experience and deep insight into all facets of corporate management derived from his experience at a company that expanded its business activities globally.



Christina L. Ahmadjian

Professor, Graduate School of Business Administration, Hitotsubashi University
From June 2018, Director of the Company
Reasons for election: Her extensive experience and ability to offer a global perspective on corporate management and corporate governance, her field of research as professor at Hitotsubashi University.



Outside Audit & Supervisory Board Members

Katsuaki Watanabe

Director, Kyushu Financial Group, Inc.
 Former President, Toyota Motor Corporation
 From June 2013, Audit & Supervisory Board Member of the Company
 Reasons for election: His extensive experience and superior insight into all aspects of corporate management stemming from his involvement over many years with a company that expanded its business activities globally.



Ikuo Yoshikawa

Certified Public Accountant (CPA)
 From June 2018, Audit & Supervisory Board Member of the Company
 Reasons for election: His high degree of knowledge of the field of accounting derived from his extensive experience over many years as a CPA and his research into accounting in his capacity as university professor.



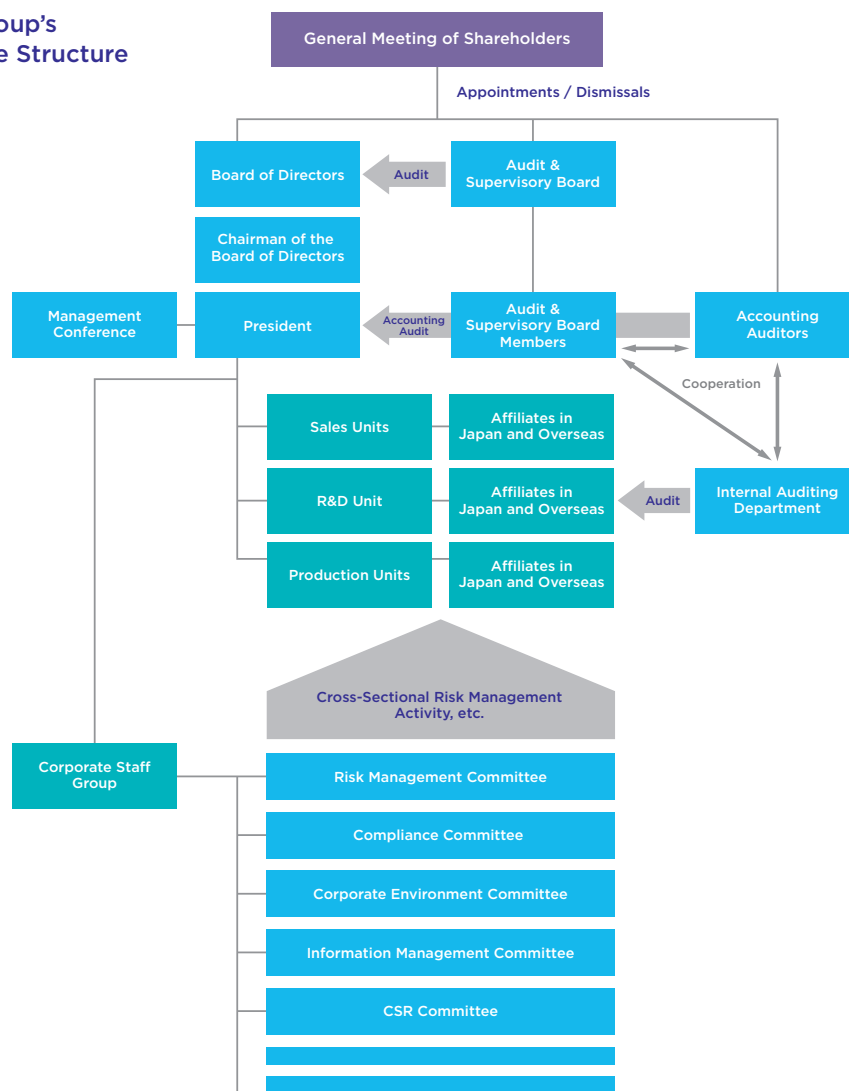
Michiko Uehara

Attorney at Law
 From June 2016, Audit & Supervisory Board Member of the Company
 Reasons for election: Her extensive experience and high degree of knowledge in relation to corporate law, including compliance, derived from her work in the judicial system as a judge and attorney.



The Sumitomo Electric Corporate Governance Guidelines are available online : <http://global-sei.com/company/governance.html>

Sumitomo Electric Group's Corporate Governance Structure



Basis for Growth

Directors, Audit & Supervisory Board Members and Executive Officers (As of June 28, 2018)



Directors

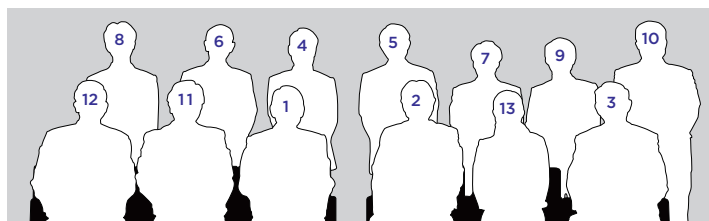
- 1 Masayoshi Matsumoto : Chairman & CEO
- 2 Osamu Inoue : President & COO
- 3 Mitsuo Nishida : Executive Vice President
- 4 Nozomi Ushijima : Senior Managing Director
- 5 Makoto Tani : Senior Managing Director
- 6 Yoshitomo Kasui : Senior Managing Director
- 7 Junji Ito : Managing Director
- 8 Akira Nishimura : Managing Director
- 9 Hideo Hato : Managing Director
- 10 Masaki Shirayama : Managing Director
- 11 Hiroshi Sato : Director*
- 12 Michihiro Tsuchiya : Director*
- 13 Christina L. Ahmadjian : Director*

*Mr. Hiroshi Sato, Mr. Michihiro Tsuchiya and Ms. Christina L. Ahmadjian are Outside Directors.

Audit & Supervisory Board Members

- Satoru Ogura : Audit & Supervisory Board Member
Akira Hayashi : Audit & Supervisory Board Member
Katsuaki Watanabe : Audit & Supervisory Board Member*
Michiko Uehara : Audit & Supervisory Board Member*
Ikkuo Yoshikawa : Audit & Supervisory Board Member*

*Mr. Katsuaki Watanabe, Ms. Michiko Uehara and Mr. Ikkuo Yoshikawa are Outside Corporate Auditors.





Executive Officers

Yasuhiro Miyata : Managing Executive Officer
Toshiaki Kakii : Managing Executive Officer
Tetsuya Hayashi : Managing Executive Officer
Shigeru Nakajima : Managing Executive Officer
Yoshihiro Matsushita : Managing Executive Officer
Takafumi Uemiya : Managing Executive Officer
Kenichi Urushibata : Managing Executive Officer
Masahiro Kobayashi : Managing Executive Officer
Tomoaki Nagano : Managing Executive Officer
Yasuyuki Shibata : Managing Executive Officer
Yuichi Sano : Managing Executive Officer

Yutaka Nishide : Executive Officer
Kikaku Tokumaru : Executive Officer
Saburo Narahashi : Executive Officer
Hiroshi Shikata : Executive Officer
Hiroshi Iwano : Executive Officer
Takaaki Yamamoto : Executive Officer
Nobuyuki Kobayashi : Executive Officer
Hiroshi Kiyokawa : Executive Officer
Yoshiyuki Ogata : Executive Officer
Soichiro Seki : Executive Officer
Hisashi Togawa : Executive Officer

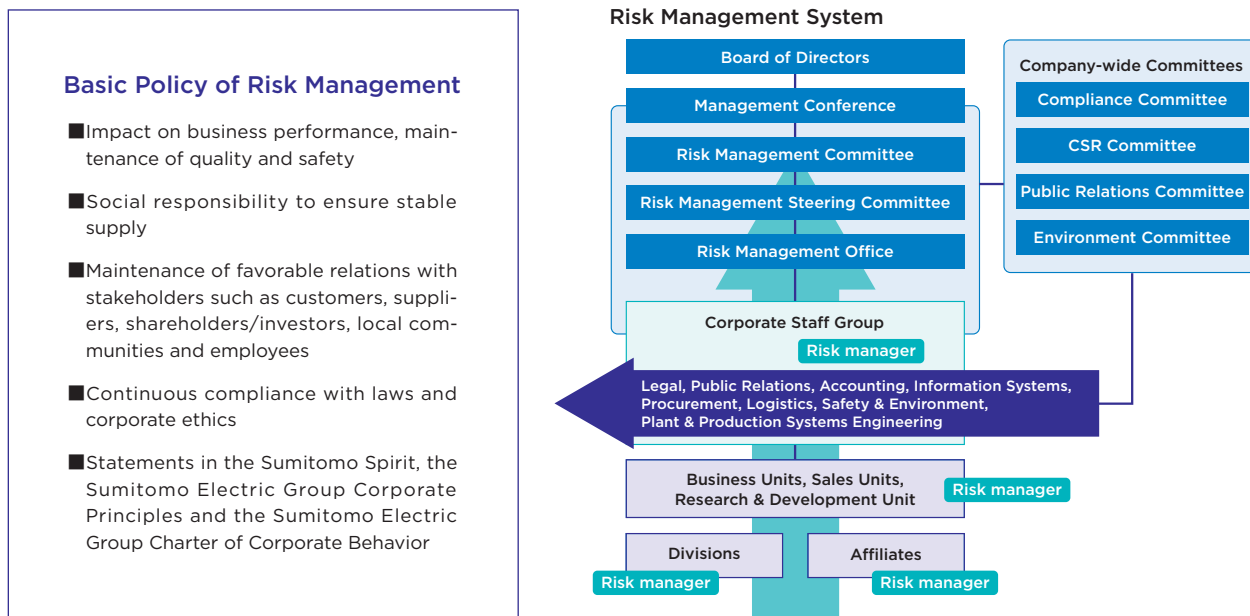
Mitsuhiro Goto : Executive Officer
Hiroshi Hayami : Executive Officer
Toshiyuki Sahashi : Executive Officer
Masataka Inoue : Executive Officer
Hidetoshi Saito : Executive Officer
Hidetoshi Ishiguro : Executive Officer
Koji Niikura : Executive Officer

Basis for Growth

Risk Management

Basic Policy for Risk Management

Sumitomo Electric has established the Risk Management Committee, which is chaired by the president and promotes measures that mitigate risks associated with our business activities such as risks related to safety, disasters, quality and the environment. A crisis management system is formed by the Risk Management Office to promptly and properly manage risks coming to the surface based on our basic policy of risk management.



Business Continuity

As part of the Company's risk management efforts, Sumitomo Electric developed Business Continuity Plans (BCPs) to ensure that our important and core businesses can continue even in the event of natural disasters, pandemics, and unexpected accidents, and that we can swiftly resume operations should they be interrupted. Since then, we have improved the plans on a regular basis. To confirm the effectiveness of the plans, we will continue to promote practical drills and training programs.

Protection of Personal Information

In accordance with its Personal Information Protection Policy, Personal Information Protection Rules and other rules, Sumitomo Electric properly deals with the personal information of customers, business partners and employees handled in the course of its business while complying with laws, regulations and other standards relating to the protection and use of personal information. We also formulated the rules for handling specified personal information in November 2015 to ensure that such information is handled properly in accordance with laws and regulations and to prevent leakage and other problems. In addition, we revised the aforementioned policy and rules in May 2017 in response to the full implementation of the amended Act on the Protection of Personal Information.

Strengthening of Our Information Security Management System

To better manage information security, the Company drew up the Information Security Policy in October 2003. This policy is used to promote maintenance and to improve the Group global security management system as well as to establish security countermeasure standards related primarily to internal information systems, to prevent information leaks from our information systems and for risk management. Furthermore, in October 2016, based on the idea that maintaining a high level of security for the Company's products is a social duty, the SEI-CSIRT Office started operations to oversee the information security of the entire Group, working on initiatives to further strengthen the information security management system that covers the Company's products and production plants.

Basis for Growth

Compliance

Basic Stance on Compliance

Compliance with laws and regulations and maintenance of our corporate ethics form the core of Sumitomo Electric's management and are part of our social responsibility. At the same time, they are the absolute foundation of the Company's continued existence and development.

In response to the on-site investigation by the Japan Fair Trade Commission (JFTC) in June 2009 concerning optical fiber cables and related products, we have taken corrective action out of recognition of the seriousness of the matter, including the exhaustive compliance with the Antimonopoly Act and prompt recruitment of outside experts to conduct studies into other infringement behavior, if any, in order to identify and eliminate conduct that violates the Act. Additionally, we have conducted intensive training, enforced Competition Law Compliance Regulations and established a system to ensure the administration and management of the Regulations by specialized organizations in order to reinforce competition law compliance by the entire Group.

Compliance Committee

The Sumitomo Electric Group has established the Compliance Committee, chaired by the president, as an organization that promotes measures necessary to develop and further strengthen its compliance system. The committee engages in various activities, including preparing and distributing the Sumitomo Electric Group Compliance Manual and organizing compliance training seminars. In addition, the committee identifies and analyzes group-wide compliance risks, disseminates preventive measures, and monitors compliance activities implemented by each division and subsidiary.

Initiatives to Deepen Awareness of Compliance

1. Code of Conduct

The Code is a statement of our shared values and the standards of conduct that are expected of each of us. It describes the fundamental principles and key policies that govern how we conduct business. The Code applies to all Company employees, officers, and directors, at every level.

2. Compliance Education

To check compliance risks, ensure implementation of preventive measures, as well as enhance and spread awareness of compliance, the Compliance Committee organizes regular training seminars for all officers and managers every year. New employees and newly promoted personnel are also provided with training seminars. At overseas consolidated subsidiaries, a business code of conduct in line with local laws is being introduced along with compliance training.

3. Speak-Up System

We have established the Speak-Up System, which enables employees to directly report and consult on potential compliance-related issues, so as to identify and resolve such issues by ourselves at an early stage. In addition to the Company's compliance staff, a law firm has been appointed as an external contact in the Speak-Up System. To address issues reported through this System, the Compliance Committee swiftly conducts investigation and takes necessary action. Sumitomo Electric instructed Group companies in Japan to establish their own in-house consultation contacts. At the same time, Sumitomo Electric positions outside contacts in its Speak-Up System as those for the entire Sumitomo Electric Group.

4. Competition Law Compliance System

The Compliance & Risk Management Office has been set up within the Corporate Staff Group to investigate suspicious behavior involving the Group, including cartels and bid rigging, as well as to implement compliance education based on the Competition Law. In partnership with dedicated organizations within each business unit, or with the Competition Law Compliance promotion leaders, this office manages and monitors the state of compliance based on the Competition Law Compliance Action Guidelines, including rules restricting contact with competitors in the same industry.

5. Anti-bribery Compliance System

Sumitomo Electric introduced an anti-bribery program in April 2013 to enhance its anti-bribery compliance system on a global scale. This program has established rules on bribery-related issues, including ban of bribery, as well as ex ante approval and ex post report on gifts, donations and offering entertainment, in the Bribery Prevention Compliance Policy in response to the recent tightening of regulations on bribery of domestic and foreign public officers in the US, Europe and emerging markets. One bribery prevention manager is appointed in each unit to build a system to apply the rules.

6. Awareness of Compliance among Overseas Group Companies

We are also committed to the development of the compliance system among group companies overseas in line with the globalization of our businesses. Sumitomo Electric has introduced the Business Code of Conduct (BCC) to overseas consolidated subsidiaries based on the local legal systems and also provides compliance training seminars for local managers.

Financial Information

Management's Discussion and Analysis

With the expanding US economy and signs of recovery in the EU and China, the global economy generally remained strong in the 2017 consolidated fiscal year ended on March 31, 2018. Meanwhile, the Japanese economy also continued to show signs of moderate recovery due to an increase in exports and capital expenditure. However, with the effects of US economic policies and geopolitical risks, the overall economic outlook remains unpredictable.

As for business conditions surrounding the Sumitomo Electric Group, demand for wiring harnesses, powder alloys, and sintered components continued to grow strongly primarily in overseas markets due to an increase in automobile production by carmakers, and the demand for infocommunications products such as optical fiber cables also grew. Against this backdrop, consolidated net sales for FY2017 came to ¥3,082.2 billion (a 9.5% increase on ¥2,814.5 billion in FY2016). In addition to increased demand, factors such as cost reductions in flexible printed circuits (FPCs) saw operating income come in at ¥173.1 billion (an increase of 15.0% over ¥150.5 billion in FY2016), ordinary income at ¥195 billion (rising 12.2% from ¥173.9 billion in FY2016), and profit attributable to owners of the parent at ¥120.3 billion (an increase of 11.9% over ¥107.6 billion in FY2016). In short, every profit category posted a year-on-year increase.

Automotive

As a result of active efforts to capture global demand for wiring harnesses, automotive electronic parts, and anti-vibration rubber, net sales rose ¥118.7 billion (7.8%) to ¥1,632 billion. While progress was made in cost reductions at global production bases, in addition to the effect of a decline in prices, there was an increase in costs for launching new anti-vibration rubber products, causing a decline in operating income of ¥1.8 billion down to ¥96.8 billion year-on-year. The operating income margin fell by 0.6 percentage points to 5.9%.

Infocommunications

Sales of optical fiber cables continued to expand, leading to net sales of ¥220.3 billion, an increase of ¥22.1 billion (11.1%) year-on-year. Due to a decrease in demand for optical devices, operating income was ¥18.6 billion, a decline of ¥2.9 billion. The operating income margin dropped by 2.4 percentage points to 8.4%.

Electronics

While sales of electronic wires and FPCs for mobile devices continued to expand, the reorganization of certain segments saw net sales fall ¥4.8 billion (1.9%) to ¥246.3 billion. Progress in cost reductions across the Company in FPCs resulted in an improvement in operating income, which stood at ¥16.3 billion, up ¥5.4 billion year-on-year (a loss of ¥10.9 billion in previous fiscal year). The operating income margin improved by 6.5 percentage points to 2.2%.

Environment and Energy

In addition to an increase in demand from Sumitomo Densetsu Co., Ltd., the effect of rising copper prices saw net sales come in at ¥718.0 billion, an increase of ¥96.5 billion (15.5%). Operating income rose ¥3.3 billion year-on-year to ¥24.1 billion. The operating income margin rose by 0.1 percentage points to 3.4%. Orders received for plants and installation work reached ¥305.7 billion, an increase of ¥12.7 billion (4.3%) from the previous fiscal year.

Industrial Materials and Others

Due to expanding sales of mainly cemented carbide tools and sintered components, net sales increased by ¥39.2 billion (12.9%) to ¥343.1 billion. Operating income rose ¥7.7 billion year-on-year to ¥28.2 billion. The operating income margin improved by 1.5 percentage points to 8.2%.

Cashflows

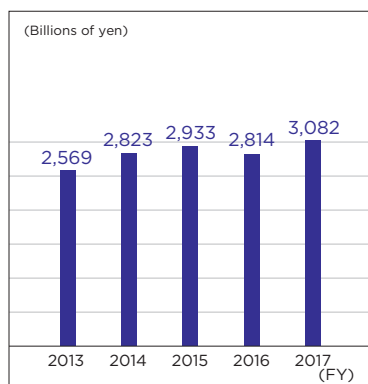
The consolidated fiscal year-end balance of cash and cash equivalents was ¥180.1 billion, a year-on-year increase of ¥106 million (0.1%). Net cash provided by operating activities increased by ¥30.3 billion from the previous fiscal year to ¥239.6 billion. This was the result of factors such as fluctuation in working capital being subtracted from profit before income taxes of ¥193.3 billion as well as depreciation and amortization of ¥141.4 billion—that is, a cash flow generated by business activity totaling ¥334.8 billion.

Net cash used in investment activities was ¥174.3 billion (a decrease in expenditures of ¥20.6 billion). This was due, among other factors, to capital expenditure driving purchases of property, plant, and equipment of ¥172.0 billion.

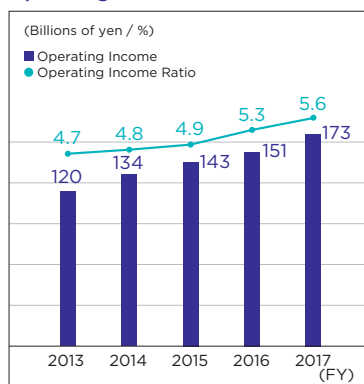
Meanwhile, free cash flow, calculated by deducting net cash used in investment activities from net cash provided by operating activities, was ¥65.3 billion (up ¥14.4 billion on the previous fiscal year).

Cash flow from financing activities was ¥66.8 billion (a decline of ¥4.8 billion from the previous fiscal year). This was due to repayment of loans payable and payment of dividends.

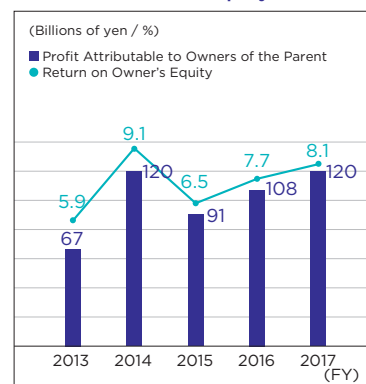
Net Sales



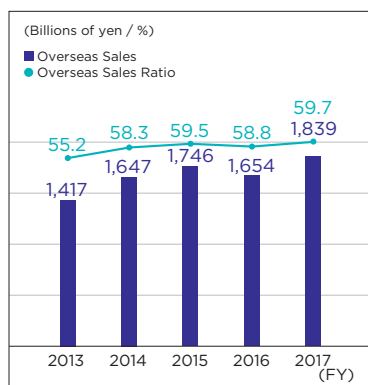
Operating Income / Operating Income Ratio



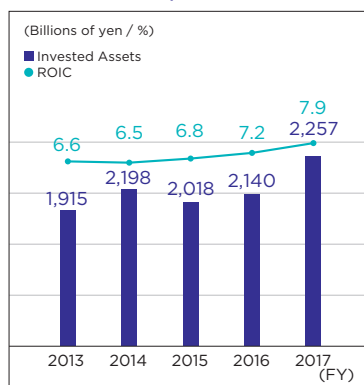
Profit Attributable to Owners of the Parent / Return on Owner's Equity



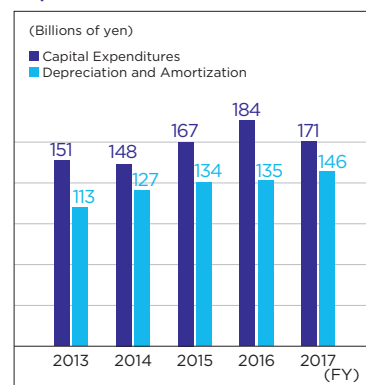
Overseas Sales / Overseas Sales Ratio



Invested Assets / ROIC



Capital Expenditures / Depreciation and Amortization



Consolidated Balance Sheets
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	¥ 178,918	¥ 180,034	\$1,684,093
Trade notes and accounts receivable (Note 4)	668,616	648,411	6,293,449
Securities (Notes 3, 4 and 5)	2,065	792	19,437
Inventories (Note 7)	466,437	449,070	4,390,409
Deferred tax assets (Note 12)	43,422	49,734	408,716
Other current assets	88,277	101,245	830,919
Allowance for doubtful receivables	(2,616)	(2,733)	(24,623)
Total current assets	1,445,119	1,426,553	13,602,400
Non-current Assets:			
Property, Plant and Equipment (Note 8):			
Buildings and structures	666,919	644,054	6,277,476
Machinery, equipment and others	1,651,452	1,604,321	15,544,541
Land	88,461	87,904	832,652
Construction in progress	51,705	46,813	486,681
	2,458,537	2,383,092	23,141,350
Accumulated depreciation	(1,612,703)	(1,559,907)	(15,179,810)
Net property, plant and equipment	845,834	823,185	7,961,540
Intangible Assets	49,115	54,316	462,203
Investments and Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	311,435	282,042	2,931,429
Investment securities (Notes 4 and 5)	167,326	158,998	1,574,981
Net defined benefit asset (Note 13)	134,470	98,739	1,265,719
Deferred tax assets (Note 12)	16,967	19,680	159,704
Other	49,171	46,219	462,830
Allowance for doubtful receivables	(2,134)	(2,440)	(20,087)
Total investments and other assets	677,235	603,238	6,374,576
Total non-current assets	1,572,184	1,480,739	14,798,419
Total assets	¥3,017,303	¥2,907,292	\$28,400,819

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
LIABILITIES			
Current Liabilities:			
Trade notes and accounts payable (Note 4)	¥ 367,297	¥ 378,110	\$3,457,238
Short-term debt (Notes 4 and 8)	186,931	179,584	1,759,516
Current portion of bonds (Notes 4 and 8)	—	15,000	—
Accrued income taxes	17,935	17,797	168,816
Other current liabilities (Notes 8 and 12)	231,540	233,684	2,179,406
Total current liabilities	803,703	824,175	7,564,976
Non-current Liabilities:			
Bonds (Notes 4 and 8)	74,805	60,000	704,113
Long-term debt (Notes 4 and 8)	226,627	253,862	2,133,161
Deferred tax liabilities (Note 12)	75,028	67,583	706,212
Net defined benefit liabilities (Note 13)	54,661	54,553	514,505
Other non-current liabilities (Note 8)	18,393	18,504	173,127
Total non-current liabilities	449,514	454,502	4,231,118
Total liabilities	1,253,217	1,278,677	11,796,094
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock:			
Authorized—3,000,000 thousand shares in FY2017 and FY2016	99,737	99,737	938,790
Issued—793,941 thousand shares in FY2017 and FY2016			
Capital surplus	170,849	170,849	1,608,142
Retained earnings	1,160,601	1,074,770	10,924,331
Treasury stock, at cost: 14,057 thousand shares in FY2017 and 14,049 thousand shares in FY2016	(20,749)	(20,736)	(195,303)
Total shareholders' equity	1,410,438	1,324,620	13,275,960
Accumulated Other Comprehensive Income:			
Net unrealized holding gains on available-for-sale securities	86,251	78,725	811,851
Deferred gains or losses on hedges	(230)	56	(2,165)
Foreign currency translation adjustments	238	(9,019)	2,240
Remeasurements of defined benefit plans	42,756	21,372	402,447
Total accumulated other comprehensive income	129,015	91,134	1,214,373
Non-controlling Interests			
	224,633	212,861	2,114,392
Total net assets	1,764,086	1,628,615	16,604,725
Total liabilities and net assets	¥3,017,303	¥2,907,292	\$28,400,819

Consolidated Statements of Income
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Net Sales	¥3,082,247	¥2,814,483	\$29,012,114
Cost of Sales	2,507,434	2,284,190	23,601,600
Gross profit	574,813	530,293	5,410,514
Selling, General and Administrative Expenses	401,674	379,790	3,780,817
Operating income	173,139	150,503	1,629,697
Other Income (Expenses):			
Interest and dividend income	5,201	4,833	48,955
Interest expense	(5,514)	(4,831)	(51,901)
Share of profit of investments accounted for using the equity method	27,813	28,200	261,794
Loss on claims	(5,334)	(2,089)	(50,207)
Gain on sales of investment securities	13,506	14,432	127,127
Loss on disposal of property, plant and equipment	(3,728)	(4,331)	(35,090)
Impairment loss on fixed assets (Notes 15 and 16)	(3,439)	—	(32,370)
Restructuring expenses (Note 16)	(3,951)	(6,046)	(37,189)
Loss on overseas construction related accident (Note 17)	(4,061)	—	(38,225)
Settlement package	—	(10,135)	—
Other, net	(295)	(2,744)	(2,777)
	20,198	17,289	190,117
Profit before Income Taxes	193,337	167,792	1,819,814
Income Taxes (Note 12):			
Current	48,918	39,068	460,448
Deferred	4,431	2,379	41,707
	53,349	41,447	502,155
Profit for the year	139,988	126,345	1,317,658
Profit Attributable to Non-controlling Interests	(19,660)	(18,783)	(185,053)
Profit Attributable to Owners of the Parent	¥ 120,328	¥ 107,562	\$ 1,132,605
	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic	¥154.29	¥137.61	\$1.452
Diluted	152.88	137.24	1.439
Cash dividends	46.00	40.00	0.433

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Profit for the year	¥139,988	¥126,345	\$1,317,658
Other Comprehensive Income (Loss) (Note 11):			
Net unrealized holding gains on available-for-sale securities	8,360	3,923	78,690
Deferred gains or losses on hedges	(377)	(2,015)	(3,549)
Foreign currency translation adjustments	1,594	(15,283)	15,003
Remeasurements of defined benefit plans	20,450	18,095	192,489
Share of other comprehensive income (loss) of affiliates accounted for using equity method	10,788	(10,913)	101,544
Total other comprehensive income (loss)	40,815	(6,193)	384,177
Comprehensive Income (Loss)	¥180,803	¥120,152	\$1,701,835
Comprehensive income (loss) attributable to:			
Owners of the parent	158,163	102,922	1,488,733
Non-controlling interests	22,640	17,230	213,102

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen										
	Shareholders' Equity				Accumulated Other Comprehensive Income						Total net assets (Note 9)
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests		
Balance at Beginning of FY2016	¥99,737	¥171,314	¥ 981,413	¥ (677)	¥74,629	¥2,134	¥27,680	¥ 4,309	¥200,750	¥1,561,289	
Cumulative effects of changes in accounting policies			13,396		2,210	(143)	(15,701)	182	2,070	2,014	
Restated Balance at Beginning of FY 2016	99,737	171,314	994,809	(677)	76,839	1,991	11,979	4,491	202,820	1,563,303	
Cash dividends			(27,541)							(27,541)	
Profit attributable to owners of the parent for the year			107,562							107,562	
Purchases of treasury stock				(20,059)						(20,059)	
Disposal of treasury stock		0		0						0	
Effect arising from net change in scope of consolidation			(60)							(60)	
Change in ownership interests arising from transactions with non-controlling shareholders		(465)								(465)	
Other					1,886	(1,935)	(20,998)	16,881	10,041	5,875	
Balance at End of FY2016	¥99,737	¥170,849	¥1,074,770	¥(20,736)	¥78,725	¥ 56	¥ (9,019)	¥21,372	¥212,861	¥1,628,615	
Balance at Beginning of FY2017	¥99,737	¥170,849	¥1,074,770	¥(20,736)	¥78,725	¥ 56	¥(9,019)	¥21,372	¥212,861	¥1,628,615	
Cumulative effects of changes in accounting policies											
Restated Balance at Beginning of FY 2017	99,737	170,849	1,074,770	(20,736)	78,725	56	(9,019)	21,372	212,861	1,628,615	
Cash dividends			(34,324)							(34,324)	
Profit attributable to owners of the parent for the year			120,328							120,328	
Purchases of treasury stock				(13)						(13)	
Disposal of treasury stock		0		0						0	
Effect arising from net change in scope of consolidation			(173)							(173)	
Change in ownership interests arising from transactions with non-controlling shareholders											
Other					7,526	(286)	9,257	21,384	11,772	49,653	
Balance at End of FY2017	¥99,737	¥170,849	¥1,160,601	¥(20,749)	¥86,251	¥(230)	¥ 238	¥42,756	¥224,633	¥1,764,086	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Thousands of U.S. dollars (Note 1)

	Shareholders' Equity				Accumulated Other Comprehensive Income						Total net assets (Note 9)
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests		
Balance at Beginning of FY2017	\$938,790	\$1,608,142	\$10,116,434	\$(195,181)	\$741,011	\$ 527	\$(84,893)	\$201,167	\$2,003,587	\$15,329,584	
Cumulative effects of changes in accounting policies											
Restated Balance at Beginning of FY 2017	938,790	1,608,142	10,116,434	(195,181)	741,011	527	(84,893)	201,167	2,003,587	15,329,584	
Cash dividends			(323,080)							(323,080)	
Profit attributable to owners of the parent for the year			1,132,605							1,132,605	
Purchases of treasury stock				(122)						(122)	
Disposal of treasury stock		0		0						0	
Effect arising from net change in scope of consolidation			(1,628)							(1,628)	
Change in ownership interests arising from transactions with non-controlling shareholders											
Other					70,840	(2,692)	87,133	201,280	110,805	467,366	
Balance at End of FY2017	\$938,790	\$1,608,142	\$10,924,331	\$(195,303)	\$811,851	\$(2,165)	\$ 2,240	\$402,447	\$2,114,392	\$16,604,725	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Cash Flows from Operating Activities:			
Profit before income taxes	¥193,337	¥167,792	\$1,819,814
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	141,439	130,700	1,331,316
Impairment loss on fixed assets	3,751	2,391	35,307
Amortization of goodwill	2,205	1,806	20,755
Interest and dividend income	(5,201)	(4,833)	(48,955)
Interest expenses	5,514	4,831	51,901
Share of profit of investments accounted for using the equity method	(27,813)	(28,200)	(261,794)
Net gain on sales of property, plant and equipment	(600)	(1,910)	(5,648)
Net gain on sales of investment securities	(13,462)	(14,403)	(126,713)
Loss on disposal of property, plant and equipment	4,410	6,208	41,510
Loss on valuation of investment securities	34	1,871	320
Settlement package	—	10,135	—
(Increase) decrease in trade notes and accounts receivable	(18,750)	(29,405)	(176,487)
(Increase) decrease in inventories	(17,568)	(29,509)	(165,361)
Increase (decrease) in trade notes and accounts payable	(11,572)	29,848	(108,923)
Increase (decrease) in net defined benefit assets and liabilities	(5,734)	1,406	(53,972)
Other, net	19,346	10,947	182,096
Subtotal	269,336	259,675	2,535,166
Interest and dividend received	15,313	10,903	144,136
Interest paid	(5,833)	(4,884)	(54,904)
Settlement package paid	(3,676)	(21,006)	(34,601)
Income taxes paid	(35,567)	(35,455)	(334,780)
Net cash provided by operating activities	239,573	209,233	2,255,017
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(171,951)	(175,170)	(1,618,515)
Proceeds from sales of property, plant and equipment	4,046	4,852	38,084
Purchase of investment securities	(2,462)	(13,507)	(23,174)
Proceeds from sales of investment securities	17,464	19,984	164,383
Net cash for the acquisition of shares of newly consolidated subsidiaries	—	(6,205)	—
Other, net	(21,362)	(24,783)	(201,074)
Net cash used in investing activities	(174,265)	(194,829)	(1,640,296)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt	(5,143)	33,200	(48,409)
Proceeds from long-term debt	22,865	32,279	215,220
Redemption of bonds and repayments of long-term debt	(51,428)	(62,295)	(484,074)
Proceeds from issuance of bonds	15,000	50,000	141,190
Payments for purchase of treasury stock	(4)	(20,002)	(38)
Cash dividends paid	(34,324)	(27,541)	(323,080)
Dividends paid to non-controlling interests	(10,991)	(9,815)	(103,454)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4)	(1,230)	(38)
Other, net	(2,766)	641	(26,035)
Net cash used in financing activities	(66,795)	(4,763)	(628,718)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,262	(3,544)	11,879
Net Increase (Decrease) in Cash and Cash Equivalents	(225)	6,097	(2,118)
Cash and Cash Equivalents at Beginning of Year	180,002	174,055	1,694,296
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	127	545	1,195
Decrease in Cash and Cash Equivalents Resulting from Exclusion of subsidiaries from consolidation	—	(695)	—
Increase in Cash and Cash Equivalents Resulting from Merger with Unconsolidated Subsidiaries	204	—	1,921
Cash and Cash Equivalents at End of Year (Note 3)	¥180,108	¥180,002	\$1,695,294

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2018 and 2017

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Electric Industries, Ltd. (the "Company") and most of its domestic consolidated subsidiaries maintain their accounts and records in Japanese yen and in accordance with the provisions set forth in the Japanese Corporate Law (the "Law"), the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas consolidated subsidiaries and some domestic consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the following specified four items as applicable.

- a) Goodwill not subject to amortization
- b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
- c) Capitalized expenditures for research and development activities
- d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance in Japan as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory consolidated financial statements prepared in Japanese, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. All significant intercompany transactions and balances have been eliminated. The difference between the cost of investments in consolidated subsidiaries and the underlying equity at dates of acquisition is treated as goodwill.

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for using the equity method are stated at cost.

All of the overseas consolidated subsidiaries that have a fiscal year ending other than March 31 have processed additional annual financial closings for the March-end date for consolidation purposes, aiming at a more appropriate disclosure.

b) Translation of Foreign Currencies

All assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the respective fiscal year-end exchange rates, revenues and expenses are translated at average exchange rates, and shareholders' equity is translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of non-controlling interests.

c) Cash and Time Deposits

Cash and time deposits include cash on hand, readily available deposits and deposits with a maturity of one year or less.

d) Securities

The Company and its domestic consolidated subsidiaries classify and account for securities as follows:

Held-to-maturity debt securities are stated at amortized cost. Investments in unconsolidated subsidiaries and affiliates, excluding those accounted for using the equity method, are stated at cost.

Debt and equity securities not classified as above are classified as available-for-sale securities. Available-for-sale securities which have fair values are stated at the fair value at the fiscal year end, and unrealized gains and losses, net of related taxes and non-controlling interests, are reported as a separate component of net assets. Available-for-sale securities which do not have fair values are stated at moving average cost. Realized gains and losses on sales of such securities are computed using moving average cost.

Held-to-maturity debt securities and available-for-sale securities maturing within one year from the fiscal year end, and highly liquid investment funds are included in securities in current assets. Other securities are included in investments in unconsolidated subsidiaries and affiliates and investment securities.

e) Derivatives and Hedging Transactions

The Company and its consolidated subsidiaries utilize hedge accounting for foreign currency forward exchange contracts hedging foreign currency monetary assets and liabilities, foreign currency swap contracts hedging foreign currency debt and others, interest rate swap contracts hedging interest on debt and others and commodity forward contracts, etc., hedging raw materials.

Derivative financial instruments are stated at fair value. If the derivative financial instruments meet certain hedging criteria, the Company and its consolidated subsidiaries defer the recognition of gains or losses until the hedged transactions occur. Certain foreign currency forward exchange contracts and foreign currency swap contracts meeting certain conditions, are accounted for as a part of translating foreign currency monetary assets and liabilities in the consolidated balance sheets. In cases in which an interest rate swap contract is used as a hedge and meets certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Company and its consolidated subsidiaries utilize hedging instruments to hedge risks of future changes in foreign exchange rates, interest rates and prices of raw materials in accordance with respective internal policies and procedures on risk control.

The Company and its consolidated subsidiaries assess the effectiveness of each hedge contract by comparing the total cash flow fluctuation of hedging instruments and hedged items, except in cases in which interest rate swap contracts are used as hedges and meet certain hedging criteria.

f) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided based upon estimated uncollectible amounts for individually identified doubtful receivables and historical loss experience for other receivables.

g) Inventories

Inventories are stated mainly at the lower of the cost, using the weighted average method, or net realizable value.

h) Property, Plant and Equipment (Excluding Leases)

The Company and its consolidated subsidiaries use the straight-line method over the estimated useful life of the asset to depreciate property, plant and equipment.

i) Goodwill

Goodwill is amortized on a straight-line basis over a period within 20 years (mostly 5 or 10 years).

j) Revenue Recognition (Construction Contracts)

When the outcome of an individual construction contract can be estimated reliably, the percentage-of-completion method is applied; otherwise, the completed contract method is applied. The percentage of completion at the end of the reporting period is measured by the proportion of the cost incurred during the period to the estimated total cost.

k) Research and Development

Expenses related to research and development activities are charged to expenses as incurred and totaled ¥117,735 million (US\$1,108,198 thousand) and ¥115,155 million for the years ended March 31, 2018 and 2017, respectively.

l) Retirement Benefits

(1) Method of attributing expected benefits to periods of service

When calculating retirement benefit obligations, a benefit formula basis is used for attributing expected retirement benefits to periods of service.

(2) Method for calculating expenses for actuarial gains and losses and past service cost

The amount for defined benefit liabilities (assets) is based on the benefit obligation and fair value of plan assets at the end of the fiscal year.

Past service cost is amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 5 years) from the year in which it arises or accounted for as an expense when it arises at some consolidated subsidiaries.

Actuarial gains and losses are amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 14 years) from the year following that in which they arise. At some consolidated subsidiaries, they are accounted for as expense when they arise.

m) Income Taxes

Income tax expense comprises current and deferred tax.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is accounted for by the asset-liability method. Deferred tax assets and liabilities are determined based on the financial statements carrying amounts and tax bases of assets and liabilities using the effective tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carryforwards.

n) Leases

Finance leases which do not transfer ownership of the leased assets are accounted for as purchase and sale transactions and are depreciated to a residual value of zero by the straight-line method over the lease term.

o) Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

p) Appropriation of Retained Earnings

The Company and its domestic consolidated subsidiaries record cash dividends as a charge directly to retained earnings in the fiscal year in which the appropriation of retained earnings is approved at the shareholders' meeting.

q) Use of Estimates

The management has made estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in preparing these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

r) Reclassifications and Restatements

Certain prior year amounts are reclassified and restated to conform to the current year presentation. These reclassifications and restatements have no effect on previously reported results of operations or retained earnings.

s) Accounting for Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of the applicable tax.

t) Adoption of Consolidated Taxation System

The Company and its wholly owned domestic consolidated subsidiaries have adopted the consolidated taxation system.

u) Changes in Accounting Policy

Effective from the fiscal year ended March 31, 2018, the Company has applied “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc., for Consolidated Financial Statements” (ASBJ PITF No. 18, revised on March 29, 2017) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No. 24, revised on March 29, 2017). The Company has made necessary adjustments in its consolidation procedures, utilizing the consolidated financial statements of a domestic consolidated subsidiary, Sumitomo Riko Co., Ltd., and a domestic affiliate, Sumitomo Rubber Industries, Ltd., which applied the designated IFRSs, according to the practical solution on “Unification of Accounting Policies of Foreign Subsidiaries, etc., in Consolidation Procedures.”

As a result, the balance on the consolidated balance sheet for the fiscal year ended March 31, 2017 increased by ¥3,708 million in investment securities, ¥1,595 million in deferred tax liabilities (noncurrent liabilities), ¥1,941 million in net unrealized holding gains on available-for-sales securities, ¥728 million in remeasurements of defined benefit plans and ¥1,785 million in non-controlling interests respectively, while it decreased by ¥171 million in deferred gains or losses on hedges and ¥15,566 million in foreign currency transaction adjustments.

Reflecting the cumulative effects to the beginning balance of net assets, the balance of retained earnings at the beginning of the fiscal year ended March 31, 2017 on the consolidated statement of changes in net assets increased by ¥13,396 million.

v) Change in Accounting Estimate

Actuarial gains and losses were previously amortized mainly over 15 years. The Company has changed the amortization period to mainly over 14 years effective from the fiscal year ended March 31, 2018 due to a decrease in the average remaining service years of employees.

As a result, operating income and profit before income taxes for the fiscal year ended March 31, 2018 each increased by ¥2,786 million.

w) Standards Issued but Not Yet Adopted

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Summary

IASB and FASB jointly developed comprehensive accounting standards for revenue recognition. “Revenue from contracts with customers” was issued in May, 2014 (IFRS 15 by the IASB and Topic 606 by the FASB). IFRS 15 is effective for fiscal years beginning after January 1, 2018, and Topic 606 is effective for fiscal years beginning after December 15, 2017. The comprehensive accounting standard for revenue recognition was developed and issued together with the implementation guideline by ASBJ.

From the viewpoint of comparability between financial statements, which is one of the benefits of consistency with IFRS 15, ASBJ decided to establish its accounting standard with the incorporation of the basic principles of IFRS 15 and added alternative treatment for items that have been subjected to accounting practices in Japan to the extent that comparability is not impaired.

(2) Planned Adoption Date

The Company plans to adopt the standard from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of Adoption

The Company is in the process of estimating the effects of the Accounting Standard for Revenue Recognition, etc.

3. CASH AND CASH EQUIVALENTS

The reconciliations between cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
Cash and time deposits	¥178,918	¥180,034	\$1,684,093
Cash equivalents included in securities	2,065	792	19,437
Deposits placed with banks with a maturity of over three months	(875)	(824)	(8,236)
Cash and cash equivalents	¥180,108	¥180,002	\$1,695,294

4. FINANCIAL INSTRUMENTS

a) Qualitative Information on Financial Instruments

(1) Policies for using financial instruments

The Company and its consolidated subsidiaries finance investment in equipment and operating capital for business mainly through borrowings from banks and the issuance of bonds in accordance with their cash flow planning. Temporary excess cash is managed with low risk financial assets. The Company and its consolidated subsidiaries use derivative transactions only to hedge risks of future changes in cash flows and fair values and not for trading purpose.

(2) Details of financial instruments used and the exposures to risk and how they arise

Trade notes and accounts receivable are exposed to the credit risks of customers. The Company and its consolidated subsidiaries try to reduce and manage the risk according to rules for credit control. Operating receivables denominated in foreign currency are exposed to foreign exchange risks. The Company and its consolidated subsidiaries hedge the risks using forward exchange contracts, etc., for the net position of foreign currency operating receivables and payables. Securities and investment securities are held mainly to build and maintain good trading relationships and are exposed to market value fluctuation risks. The Company and its consolidated subsidiaries review the circumstances periodically and evaluate the fair value of the securities and investment securities and the financial condition of the issuers, which are generally business counterparties.

Payment terms of operating payables such as trade notes and accounts payable are mostly less than one year. Operating payables denominated in foreign currency are exposed to foreign exchange risks, but it is consistently less than the accounts receivable balance denominated in the same foreign currency. The main purpose of holding debt and issuing bonds is to secure financing for equipment and operating capital. The derivative transactions entered into comprise forward exchange contracts to hedge exchange risks of foreign currency debts and credits, interest swap contracts to hedge fluctuation risks of interest rates and fair value for debt and bonds and commodity forward transactions to hedge the risk of price fluctuation for raw materials. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

b) Fair Value of Financial Instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2018 and 2017 are set forth in the table below. Financial instruments whose fair value is hard to determine are not included in the table.

As of	Millions of yen						Thousands of U.S. dollars		
	FY2017			FY2016			FY2017		
	March 31, 2018			March 31, 2017			March 31, 2018		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	¥178,918	¥178,918	¥—	¥180,034	¥180,034	¥—	\$1,684,093	\$1,684,093	\$—
Trade notes and accounts receivable	668,616	668,616	—	648,411	648,411	—	6,293,449	6,293,449	—
Securities, investments in unconsolidated subsidiaries and affiliates and investment securities	384,356	624,336	239,980	352,281	553,710	201,429	3,617,808	5,876,656	2,258,848
Total assets	1,231,890	1,471,870	239,980	1,180,726	1,382,155	201,429	11,595,350	13,854,198	2,258,848
Trade notes and accounts payable	367,297	367,297	—	378,110	378,110	—	3,457,238	3,457,238	—
Short-term debt	186,931	186,931	—	179,584	179,584	—	1,759,516	1,759,516	—
Bonds	74,805	75,338	533	75,000	75,164	164	704,113	709,130	5,017
Long-term debt	226,627	229,801	3,174	253,862	258,115	4,253	2,133,161	2,163,037	29,876
Total liabilities	855,660	859,367	3,707	886,556	890,973	4,417	8,054,028	8,088,921	34,893
Derivative transactions	422	422	—	280	280	—	3,972	3,972	—

(1) Valuation approach for the fair value of financial instruments

Cash and time deposits, trade notes and accounts receivable:

The carrying amount approximates the fair value because of the short maturity.

Securities, investments in unconsolidated subsidiaries and affiliates and investment securities:

Securities in current assets are stated at the carrying amount which approximates the fair value because they are settled in the short term. Investments in unconsolidated subsidiaries and affiliates and investment securities which have a quoted market value are stated at the fair market value. The fair value of those which do not have a quoted market value is estimated based on the present value of future cash flows using appropriate current discount rates.

Trade notes and accounts payable:

The carrying amount approximates the fair value because of the short maturity.

Short-term debt:

The carrying amount approximates the fair value because of the short maturity of one year or less.

Bonds:

The fair value of bonds is stated at the fair market value.

Long-term debt:

The fair value of long-term debt is estimated based on the present value of future cash flows using appropriate current discount rates.

Derivative transactions:

See Note 6.

(2) Financial instruments whose fair value is hard to determine

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
Unlisted securities (available-for-sale securities)	¥5,961	¥6,055	\$56,109
Unlisted investments in unconsolidated subsidiaries and affiliates	90,509	83,496	851,930

These financial instruments do not have quoted market values and their future cash flows cannot be estimated. Because the fair value is hard to determine, these instruments are not included in "Securities, investments in unconsolidated subsidiaries and affiliates and investment securities."

5. SECURITIES

The carrying amounts of securities in current assets and investment securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2017 March 31, 2018	FY2016 March 31, 2017	FY2017 March 31, 2018
Securities in current assets:				
Available-for-sale securities		¥2,065	¥792	\$19,437
Held-to-maturity debt securities		—	—	—
		¥2,065	¥792	\$19,437
Investment securities:				
Available-for-sale securities		¥167,326	¥158,998	\$1,574,981
Held-to-maturity debt securities		—	—	—
		¥167,326	¥158,998	\$1,574,981

Available-for-sale securities with fair values or quoted market values included in securities in current assets and investment securities as of March 31, 2018 and 2017 were as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2017				
Equity securities	¥24,016	¥127,158	¥(75)	¥151,099
Other	12,065	266	—	12,331
	¥36,081	¥127,424	¥(75)	¥163,430
	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2016				
Equity securities	¥26,020	¥116,583	¥(49)	¥142,554
Other	10,792	389	—	11,181
	¥36,812	¥116,972	¥(49)	¥153,735
	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2017				
Equity securities	\$226,054	\$1,196,894	\$(706)	\$1,422,242
Other	113,564	2,504	—	116,067
	\$339,618	\$1,199,398	\$(706)	\$1,538,309

Proceeds from sales of available-for-sale securities were ¥16,706 million (US\$157,248 thousand) and ¥20,290 million for the years ended March 31, 2018 and 2017, respectively. The net realized gains were ¥13,391 million (US\$126,045 thousand) and ¥14,408 million, respectively.

Impairment loss on securities during fiscal year 2017 amounted to ¥34 million (US\$320 thousand), which consisted of ¥34 million (US\$320 thousand) for available-for-sale securities. Impairment loss of securities during fiscal year 2016 amounted to ¥1,871 million, which consisted of ¥26 million for available-for-sale securities, ¥1,838 million for the investments in unconsolidated subsidiaries and ¥7 million for investments in affiliated companies not accounted for using the equity method.

6. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries have entered into foreign currency forward exchange contracts and foreign currency swap contracts to hedge risks of exchange rate fluctuations in connection with foreign currency monetary assets and liabilities, interest rate swap contracts to hedge risks of interest rate fluctuations and commodity forward contracts, etc., to hedge risks of fluctuations in the price of raw materials. The Company and its consolidated subsidiaries use derivative transactions for managing market risk related to recorded assets and liabilities as well as for future commitments and not for speculation or dealing purposes. The Company and its consolidated subsidiaries deal only with highly rated international financial institutions and trading concerns as counterparties to these transactions to minimize credit risk exposure. Derivative transactions are entered into by each operational division, and the processing of the transactions is controlled and reviewed by administrative divisions in accordance with established policies that restrict dealing in derivatives, including limits on authority and amounts.

Additional information for derivative transactions as of and for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen									
	FY2017					FY2016				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*		Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange contracts:										
Buy	¥ 21,974	¥(155)	¥(155)	¥ 29,475	¥(115)	¥20,350	¥(18)	¥(18)	¥ 21,833	¥ 45
Sell	80,305	373	373	164,105	427	71,658	507	507	171,258	(266)
Interest rate and currency swap contracts	597	(56)	(56)	—	—	—	—	—	144	22
Commodity forward contracts (copper, nickel and aluminum):										
Buy	749	1	1	539	(27)	737	0	0	1,064	(27)
Sell	1,721	19	19	2,978	(25)	739	4	4	4,723	(101)
Commodity swap contracts (copper and silver)	—	—	—	1,600	(20)	—	—	—	1,399	114
	¥105,346	¥ 182	¥ 182	¥198,697	¥ 240	¥93,484	¥493	¥493	¥200,421	¥(213)

	Thousands of U.S. dollars				
	FY2017				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange contracts:					
Buy	\$206,834	\$(1,459)	\$(1,459)	\$ 277,438	\$(1,082)
Sell	755,883	3,511	3,511	1,544,663	4,019
Interest rate and currency swap contracts	5,619	(527)	(527)	—	—
Commodity forward contracts (copper, nickel and aluminum):					
Buy	7,050	9	9	5,073	(254)
Sell	16,199	179	179	28,031	(235)
Commodity swap contracts (copper and silver)	—	—	—	15,060	(189)
	\$991,585	\$ 1,713	\$ 1,713	\$1,870,265	\$ 2,259

* Certain foreign currency forward exchange contracts meeting certain hedging criteria, except forecasted transactions, are excluded from the fair value of the table above for the years ended March 31, 2018 and 2017. Certain interest rate swap contracts in the amount of ¥148,346 million (US\$1,396,329 thousand) and ¥151,013 million for the years ended March 31, 2018 and 2017, respectively, meeting certain hedging criteria are excluded from the table above.

7. INVENTORIES

Inventories as of March 31, 2018 and 2017 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	March 31, 2018	March 31, 2017	March 31, 2018
Merchandise and finished goods	¥148,328	¥138,595	\$1,396,160
Work in process	160,647	167,635	1,512,114
Raw materials and supplies	157,462	142,840	1,482,135
	¥466,437	¥449,070	\$4,390,409

8. INTEREST-BEARING LIABILITIES

a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2018 and 2017 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	March 31, 2018	March 31, 2017	March 31, 2018
Short-term debt, principally from banks, with a weighted average interest rate of 1.84% at March 31, 2018	¥136,648	¥146,733	\$1,286,220
Current portion of long-term debt, principally from banks and insurance companies, with a weighted average interest rate of 0.74% at March 31, 2018	50,283	32,851	473,296
Current portion of bonds	—	15,000	—
	¥186,931	¥194,584	\$1,759,516

b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2018 and 2017 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	March 31, 2018	March 31, 2017	March 31, 2018
Unsecured bonds, due 2022 to 2031, with an interest rate of 0.08%-0.936%	¥ 74,805	¥ 75,000	\$ 704,113
Long-term debt, principally from banks and insurance companies, due 2018 to 2024, with a weighted average interest rate of 0.54% at March 31, 2018	276,910	286,713	2,606,457
	351,715	361,713	3,310,570
Current portion of bonds and long-term debt	(50,283)	(47,851)	(473,296)
	¥301,432	¥313,862	\$2,837,274

The aggregate annual maturities of bonds and long-term debt at March 31, 2018 were as follows:

(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2019 (= current portion)	—	—
2020	—	—
2021	—	—
2022	¥10,000	\$ 94,127
2023	10,000	94,127
2024 and thereafter	55,000	517,696

(Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2019 (= current portion)	¥ 50,283	\$ 473,296
2020	60,097	565,672
2021	50,251	472,995
2022	46,599	438,620
2023	27,992	263,479
2024 and thereafter	41,688	392,395

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
Property, plant and equipment, net of accumulated depreciation	¥2,554	¥2,956	\$24,040

c) Lease Obligations

Lease obligations are disclosed as other current liabilities and other non-current liabilities in the consolidated balance sheets.

The aggregate annual maturities of lease obligations at March 31, 2018 were as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2019 (= current portion)	¥1,089	\$10,250
2020	328	3,087
2021	212	1,995
2022	271	2,551
2023	131	1,233
2024 and thereafter	2,173	20,454

9. NET ASSETS

Under the Law, the entire amount of the issue price of shares is required to be accounted for as common stock. However a company may, by a resolution of the Board of Directors, account for an amount not exceeding 50% of the issue price of the new shares as additional paid-in capital, which is included in capital surplus. However, an increase resulting from a share exchange can be included in capital surplus up to the full amount.

The Law provides that the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve, in cases in which a dividend distribution of surplus is made.

Under the Law, additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by a resolution of the shareholders' meeting, and legal earnings reserve may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that a company can distribute as dividends is calculated based on its non-consolidated financial statements in accordance with the Law.

a) Stock Information

Changes in the number of shares issued and outstanding during the years ended March 31, 2018 and 2017 were as follows:

Common stock outstanding	Thousands of shares	
	FY2017 March 31, 2018	FY2016 March 31, 2017
For the years ended		
Balance at beginning of year	793,941	793,941
Balance at end of year	793,941	793,941

Treasury stock outstanding	Thousands of shares	
	FY2017 March 31, 2018	FY2016 March 31, 2017
For the years ended		
Balance at beginning of year	14,049	754
Increase due to purchase of shares of common stocks	-	13,245
Increase due to purchase of odd-lot stocks	2	2
Other, net	6	48
Balance at end of year	14,057	14,049

b) Dividend Information

Dividends paid in fiscal year 2017			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 28, 2017	March 31, 2017	June 29, 2017	¥17,942	\$168,882
Board of Directors on November 7, 2017	September 30, 2017	December 1, 2017	¥16,382	\$154,198

Dividends paid after March 31, 2018 with respect to fiscal year 2017			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 27, 2018	March 31, 2018	June 28, 2018	¥19,502	\$183,566

Dividends paid in fiscal year 2016			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 24, 2016	March 31, 2016	June 27, 2016	¥14,280
Board of Directors on November 1, 2016	September 30, 2016	December 1, 2016	¥13,261

Dividends paid after March 31, 2017 with respect to fiscal year 2016			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 28, 2017	March 31, 2017	June 29, 2017	¥17,942

10. AMOUNTS PER SHARE

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed based on the weighted average number of shares of common stock outstanding increased by the number of shares which would have been outstanding assuming the conversion of all dilutive bonds and the exercise of all dilutive share warrants at the beginning of the period after giving effect to the dilutive potential of shares. The related interest expense, net of income taxes, has been eliminated for the purpose of this calculation.

Cash dividends per share in the consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the consolidated fiscal year.

11. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effects on other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	FY2017	FY2016	U.S. dollars
	For the years ended March 31, 2018	March 31, 2017	FY2017 March 31, 2018
Net Unrealized Holding Gains on Available-for-Sale Securities:			
Increase (decrease) during the year	¥ 24,905	¥ 9,867	\$ 234,422
Reclassification adjustments	(13,404)	(8,473)	(126,167)
Subtotal, before tax	11,501	1,394	108,255
Tax effects	(3,141)	2,529	(29,565)
Subtotal, net of tax	¥ 8,360	¥ 3,923	\$ 78,690
Deferred Gains or Losses on Hedges:			
Increase during the year	¥(160)	¥(2,898)	\$(1,507)
Reclassification adjustments	(432)	(17)	(4,066)
Subtotal, before tax	(592)	(2,915)	(5,573)
Tax effects	215	900	2,024
Subtotal, net of tax	¥(377)	¥(2,015)	\$(3,549)
Foreign Currency Translation Adjustments:			
Increase (decrease) during the year	¥1,477	¥(15,315)	\$13,902
Reclassification adjustments	117	32	1,101
Subtotal, before tax	1,594	(15,283)	15,003
Tax effects	—	—	—
Subtotal, net of tax	¥1,594	¥(15,283)	\$15,003
Remeasurements of Defined Benefit Plans			
Increase (decrease) during the year	¥32,736	¥22,940	\$308,133
Reclassification adjustments	(3,639)	3,426	(34,253)
Subtotal, before tax	29,097	26,366	273,880
Tax effects	(8,647)	(8,271)	(81,391)
Subtotal, net of tax	¥20,450	¥18,095	\$192,489
Share of Other Comprehensive Income (Loss) of Affiliates Accounted for Using Equity Method:			
Increase (decrease) during the year	¥ 10,861	¥ (9,033)	\$ 102,231
Reclassification adjustments	(73)	(1,880)	(687)
Subtotal, net of tax	¥10,788	¥(10,913)	\$101,544
Total other comprehensive income (loss)	¥ 40,815	¥ (6,193)	\$ 384,177

* Reclassification adjustments of the portion of other comprehensive income (loss) of affiliates accounted for using the equity method include adjustments for the acquisition cost of assets.

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2018 and 2017:

	For the years ended	FY2017 March 31, 2018	FY2016 March 31, 2017
Statutory tax rate		30.8%	30.8%
Share of profit of investments accounted for using the equity method		(4.4)	(5.1)
Non-deductible expenses		0.2	0.2
Non-taxable dividend income		(0.1)	(0.1)
Tax credits		(1.6)	(1.2)
Effect of lower tax rates for overseas consolidated subsidiaries		(3.6)	(3.8)
Change in valuation allowance		0.6	1.6
Intercompany profits		0.1	(0.1)
Change in undistributed earnings of consolidated subsidiaries and affiliates		1.1	(2.0)
Amortization of goodwill		0.3	0.3
Foreign income taxes		1.8	1.7
Other		2.4	2.4
Effective tax rate		27.6%	24.7%

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	As of	FY2017 March 31, 2018	FY2016 March 31, 2017
Deferred tax assets (current assets)		¥43,422	\$408,716
Deferred tax assets (investments and other assets)		16,967	19,680
Other current liabilities		(35)	(814)
Deferred tax liabilities (non-current liabilities)		(75,028)	(67,583)
		¥(14,674)	¥ 1,017
			\$(138,121)

Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2017 As of March 31, 2018	FY2016 March 31, 2017	FY2017 March 31, 2018
Deferred tax assets:			
Net operating loss carryforwards	¥47,285	¥52,943	\$445,077
Fixed assets	18,237	18,169	171,659
Net defined benefit liabilities	16,677	17,343	156,975
Accrued expenses	14,285	13,345	134,460
Intercompany profits	10,423	9,901	98,108
Inventories	9,683	10,923	91,143
Investment securities	2,855	3,961	26,873
Allowance for doubtful receivables	1,274	1,606	11,992
Other	31,482	30,831	296,328
	152,201	159,022	1,432,615
Valuation allowance	(61,534)	(60,322)	(579,198)
Total deferred tax assets	90,667	98,700	853,417
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(38,557)	(35,295)	(362,924)
Net defined benefit assets	(27,266)	(22,831)	(256,645)
Undistributed earnings of consolidated subsidiaries and affiliates	(25,303)	(23,162)	(238,168)
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	(4,999)	(5,495)	(47,054)
Accelerated depreciation of overseas consolidated subsidiaries	(4,112)	(5,756)	(38,705)
Reserve for deferred gains on sales of fixed assets	(940)	(978)	(8,848)
Other	(4,164)	(4,166)	(39,194)
Total deferred tax liabilities	(105,341)	(97,683)	(991,538)
Net deferred tax assets (liabilities)	¥(14,674)	¥ 1,017	\$(138,121)

13. RETIREMENT BENEFITS

The Company and most of its domestic consolidated subsidiaries have contributory and noncontributory defined benefit plans and lump-sum retirement benefit plans. The Company and some of its subsidiaries have defined contribution plans and prepaid retirement allowance plans. Some overseas subsidiaries have defined benefit plans and defined contribution plans. Some subsidiaries apply the simplified method for the computation of benefit obligations.

a) Defined Benefit Plans

(1) Movements in retirement benefit obligations, except for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
		FY2017	FY2017
	For the years ended	March 31, 2018	March 31, 2018
Balance at beginning of year		¥315,441	\$2,969,136
Service cost		13,994	131,721
Interest cost		3,984	37,500
Actuarial gains and losses		(2,975)	(28,003)
Benefits paid		(14,715)	(138,507)
Net change as a result of business combinations		—	—
Other		1,857	17,479
Balance at end of year		¥317,586	\$2,989,326

(2) Movements in plan assets, except for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
		FY2017	FY2017
	For the years ended	March 31, 2018	March 31, 2018
Balance at beginning of year		¥361,462	\$3,402,316
Expected return on plan assets		3,750	35,297
Actuarial gains and losses		33,545	315,747
Contributions paid by the employer		10,618	99,944
Benefits paid		(10,232)	(96,310)
Net change as a result of business combinations		—	—
Other		500	4,706
Balance at end of year		¥399,643	\$3,761,700

(3) Movements in net defined benefit liabilities (or assets) for defined benefit plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
		FY2017	FY2017
	For the years ended	March 31, 2018	March 31, 2018
Balance at beginning of year		¥1,835	\$17,272
Retirement benefit costs		504	4,744
Benefits paid		(176)	(1,657)
Contributions paid by the employer		(132)	(1,242)
Other		217	2,043
Balance at end of year		¥2,248	\$21,160

(4) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liabilities (assets) in the consolidated balance sheets, including the defined benefit plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
Funded retirement benefit obligations	¥285,264	¥ 286,055	\$2,685,090
Plan assets	(401,361)	(363,569)	(3,777,870)
	(116,097)	(77,514)	(1,092,780)
Unfunded retirement benefit obligations	36,288	33,328	341,566
Total net defined benefit liabilities (assets)	¥ (79,809)	¥ (44,186)	\$ (751,214)
Net defined benefit liabilities	¥54,661	¥ 54,553	\$ 514,505
Net defined benefit assets	(134,470)	(98,739)	(1,265,719)
Total net defined benefit liabilities (assets)	¥ (79,809)	¥ (44,186)	\$ (751,214)

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Service cost	¥13,994	¥13,608	\$131,721
Interest cost	3,984	3,772	37,500
Expected return on plan assets	(3,750)	(3,899)	(35,297)
Amortization:			
Actuarial gains and losses	(4,719)	3,627	(44,418)
Past service cost	271	(11)	2,551
Retirement benefit costs from plans applying the simplified method	504	859	4,744
Other	519	189	4,884
Total retirement benefit costs	¥10,803	¥18,145	\$101,685

In addition to the retirement benefit costs listed above, an extra payment of retirement benefits in the amount of ¥2,121 million (US\$19,964 thousand) and ¥1,146 million were recognized as restructuring expenses in the consolidated statements of income for fiscal years 2017 and 2016, respectively.

(6) Remeasurements of defined benefit plans (before tax)

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	For the years ended March 31, 2018	March 31, 2017	March 31, 2018
Past service cost	¥ 2,361	¥ 454	\$ 22,223
Actuarial gains and losses	(31,458)	(26,820)	(296,103)
Total	¥(29,097)	¥(26,366)	\$(273,880)

(7) Accumulated remeasurements of defined benefit plans (before tax)

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
	As of March 31, 2018	March 31, 2017	March 31, 2018
Unrecognized past service cost	¥ 2,324	¥ (37)	\$ 21,875
Unrecognized actuarial gains and losses	(58,300)	(26,842)	(548,758)
Total	¥(55,976)	¥(26,879)	\$(526,883)

(8) Plan assets

1. Plan assets comprise:

	FY2017	FY2016
Equity securities	48.5%	48.3%
Bonds	23.4	25.3
General account	10.4	11.5
Cash and cash equivalents	5.3	2.0
Other	12.4	12.9
Total	100.0%	100.0%

2. Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2018 and 2017 (expressed as weighted averages) were as follows:

	FY2017	FY2016
Discount rate	1.2%	1.2%
Long-term expected rate of return	1.0%	1.2%

The Company and some of its consolidated subsidiaries do not apply expected rates of pay raises to calculate retirement benefit obligations because they adopt a point basis.

b) Defined Contribution Plans and Prepaid Retirement Allowance Plans

The amount of required contributions to the defined contribution plans and the prepaid retirement allowance plans of the Company and its consolidated subsidiaries was ¥5,486 million (US\$51,638 thousand) and ¥5,150 million for FY2017 and FY2016, respectively.

14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2017	FY2016	FY2017
As of	March 31, 2018	March 31, 2017	March 31, 2018
Notes receivable discounted	¥2,177	¥ 782	\$20,491
Notes receivable endorsed	446	390	4,198

FY2017 As of March 31, 2018	Millions of yen	Thousands of U.S. dollars
Guarantees: Debt guarantees and similar agreements		
Tianjin SEI-Futong Optical Cable Co., Ltd.	¥1,907	\$17,950
Jiaxing SEI-Futong Optical Fiber Co., Ltd.	1,501	14,128
Employees	302	2,843
Others	638	6,005

FY2016 As of March 31, 2017	Millions of yen
Guarantees: Debt guarantees and similar agreements	
Sumiden Light Alloy (Changzhou) Co., Ltd.	¥2,380
Tianjin SEI-Futong Optical Cable Co., Ltd.	1,836
Precision Sintered Products (Wuxi) Co., Ltd.	431
Employees	384
Others	1,284

15. IMPAIRMENT LOSS ON FIXED ASSETS

The Company and its consolidated subsidiaries grouped long-lived assets into asset groups by business segment and conducted impairment tests with the conclusion that the carrying amounts should be reduced to the recoverable amounts by ¥3,751 million (US\$35,307 thousand) and ¥2,391 million in FY2017 and FY2016, respectively. The recoverable amount is mainly the net selling price.

Impairment loss on fixed assets for each reportable segment is disclosed in Note 18 b) (4), for the years ended March 31, 2018 and 2017.

Impairment loss on fixed assets for the years ended March 31, 2018 and 2017 was as follows:

FY2017	Millions of yen	Thousands of U.S. dollars
Machinery, equipment and others	¥2,047	\$19,268
Intangible Assets	648	6,099
Buildings and structures	427	4,019
Other	629	5,921
	¥3,751*1	\$35,307*1

*1 The amount of ¥312 million (US\$2,937 thousand) is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2017.

FY2016	Millions of yen
Buildings and structures	¥1,293
Machinery, equipment and others	482
Other	616
	¥2,391*1

*1 The amount of ¥2,391 million is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2016.

16. RESTRUCTURING EXPENSES

In fiscal year 2017, restructuring expenses of ¥3,951 million (US\$37,189 thousand) were related to the reorganization of the business locations to improve the efficiency of the wiring harnesses business, etc.

In fiscal year 2016, restructuring expenses of ¥6,046 million were related to the reorganization of the business locations to improve the efficiency of tensioning materials for the prestressed concrete business and the Brazil wiring harnesses business, etc.

Major expenses for the years ended March 31, 2018 and 2017 were as follows:

FY2017	Millions of yen	Thousands of U.S. dollars
Extra payment of retirement benefits	¥2,121	\$19,964
Loss on disposal of property, plant and equipment	682	6,419

FY2016	Millions of yen
Impairment loss on fixed assets (Note 15)	¥2,391
Loss on disposal of property, plant and equipment	1,877

17. LOSS ON OVERSEAS CONSTRUCTION RELATED ACCIDENT

In fiscal year 2017, loss on overseas construction related accident included restoration costs arising from an accident in which laid cable was damaged by external factors in overseas high-voltage submarine power cables construction.

Regarding insurance income and compensation for the accident, a portion of the insurance income that is almost certain to be paid was recorded as income, but the remaining portions were not recorded because their payment was not certain at the time.

18. SEGMENT INFORMATION

a) Reportable Segments

The reportable segments of the Company are business areas for which separate financial information is available for the President, the supreme decision maker in the Company, to make decisions regarding resource allocation and to evaluate business results.

The Company has adopted a business unit system based upon similarities in each product category, methods for manufacturing, sales markets, etc., and devises comprehensive strategies for the Company and its affiliates by dividing businesses such as product development, manufacturing, sales and supplementary services into the following five classifications: "Automotive," "Infocommunications," "Electronics," "Environment and Energy" and "Industrial Materials and Others." Therefore, the Company considers the above five classifications as reportable segments.

The methods used to account for sales, profit or loss, assets and other items by reportable segment are in accordance with the accounting policies stated in Note 2. Intersegment sales are stated at current market value.

As described in Note 2(u), "Changes in Accounting Policy," effective from the fiscal year ended March 31, 2018, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc., for Consolidated Financial Statements" (ASBJ PITF No. 18, revised on March 29, 2017) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, revised on March 29, 2017). The financial data for the year ended March 31, 2017 has been adjusted retrospectively to apply the changes in accounting policies.

Automotive:

Wiring harnesses, anti-vibration rubber products and other automotive parts

Infocommunications:

Optical fiber cables, optical fiber fusion splicers, optical data links and other optical components, access network system products such as GE-PON, set-top box and CATV related products

Electronics:

Electronic wires, irradiated products and flexible printed circuits (FPCs)

Environment and Energy:

Copper wire rods, electric power cables, magnet wires, power system equipment such as substation equipment, supervisory telecontrol equipment and power cable construction works

Industrial Materials and Others:

Special steel wires, cutting tools, diamond and CBN tools, sintered parts and heatspreader materials

Reportable segment information for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen						
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
FY2017							
Sales to customers	¥1,631,039	¥216,802	¥229,890	¥701,745	¥302,771	¥ —	¥3,082,247
Intersegment sales	913	3,524	16,429	16,227	40,355	(77,448)	—
Net sales	¥1,631,952	¥220,326	¥246,319	¥717,972	¥343,126	¥ (77,448)	¥3,082,247
Segment profit or loss	¥ 96,805	¥ 18,603	¥ 5,410	¥ 24,120	¥ 28,171	¥ 30	¥ 173,139
Segment assets	¥1,367,074	¥283,933	¥180,735	¥635,301	¥619,781	¥ (69,521)	¥3,017,303
Depreciation and amortization	¥ 75,540	¥ 14,956	¥ 17,905	¥ 16,539	¥ 21,158	¥ —	¥ 146,098
Amortization of goodwill	1,235	—	14	46	910	—	2,205
Investments in equity method affiliates	201,937	39,271	651	6,256	53,441	—	301,556
Amount of increase in tangible and intangible fixed assets	83,550	30,904	11,273	26,899	29,589	—	182,215

Millions of yen

	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
FY2016							
Sales to customers	¥1,511,739	¥196,173	¥235,981	¥607,494	¥263,096	¥ —	¥2,814,483
Intersegment sales	1,482	2,067	15,132	13,924	40,847	(73,452)	—
Net sales	¥1,513,221	¥198,240	¥251,113	¥621,418	¥303,943	¥ (73,452)	¥2,814,483
Segment profit or loss	¥ 98,616	¥ 21,509	¥ (10,898)	¥ 20,807	¥ 20,491	¥ (22)	¥ 150,503
Segment assets	¥1,305,747	¥243,473	¥215,210	¥621,281	¥585,908	¥ (64,327)	¥2,907,292
Depreciation and amortization	¥ 69,896	¥ 11,749	¥ 17,744	¥ 15,504	¥ 19,639	¥ —	¥ 134,532
Amortization of goodwill	1,144	4	131	54	473	—	1,806
Investments in equity method affiliates	179,824	36,045	685	5,838	48,915	—	271,307
Amount of increase in tangible and intangible fixed assets	85,361	25,894	35,167	25,220	25,278	—	196,920

Thousands of U.S. dollars

	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
FY2017							
Sales to customers	\$15,352,400	\$2,040,681	\$2,163,874	\$6,605,281	\$2,849,878	\$ —	\$29,012,114
Intersegment sales	8,594	33,170	154,640	152,739	379,848	(728,991)	—
Net sales	\$15,360,994	\$2,073,851	\$2,318,514	\$6,758,020	\$3,229,726	\$(728,991)	\$29,012,114
Segment profit or loss	\$ 911,192	\$ 175,104	\$ 50,922	\$ 227,033	\$ 265,164	\$ 282	\$ 1,629,697
Segment assets	\$12,867,790	\$2,672,562	\$1,701,195	\$5,979,866	\$5,833,783	\$(654,377)	\$28,400,819
Depreciation and amortization	\$ 711,032	\$ 140,776	\$ 168,534	\$ 155,676	\$ 199,151	\$ —	\$ 1,375,169
Amortization of goodwill	11,625	—	132	433	8,565	—	20,755
Investments in equity method affiliates	1,900,762	369,644	6,128	58,886	503,021	—	2,838,441
Amount of increase in tangible and intangible fixed assets	786,427	290,889	106,109	253,191	278,510	—	1,715,126

1. Segment profit or loss included in Adjustments of ¥30 million or US\$282 thousand and ¥(22) million for FY2017 and FY2016, respectively, consists mainly of unrealized profits caused by intersegment transactions.
2. Segment assets included in Adjustments of ¥(69,521) million or US\$(654,377) thousand and ¥(64,327) million as of March 31, 2018 and 2017, respectively, consist mainly of elimination of receivables caused by intersegment transactions, cash and time deposits and investment securities owned by the Company.
3. Segment profit or loss is reconciled with operating income in the consolidated statements of income.

b) Related Information

(1) Information about products and services

Millions of yen

	Wiring harnesses	Others	Total
FY2017			
Sales to customers	¥1,176,264	¥1,905,983	¥3,082,247

Millions of yen

	Wiring harnesses	Others	Total
FY2016			
Sales to customers	¥1,091,006	¥1,723,477	¥2,814,483

Thousands of U.S. dollars

	Wiring harnesses	Others	Total
FY2017			
Sales to customers	\$11,071,762	\$17,940,352	\$29,012,114

(2) Information about geographical areas

Sales to customers

	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
FY2017							
Sales to customers	¥1,243,424	¥521,356	¥438,859	¥385,652	¥132,827	¥360,129	¥3,082,247

	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
FY2016							
Sales to customers	¥1,160,752	¥479,360	¥350,949	¥359,854	¥134,825	¥328,743	¥2,814,483

	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
FY2017							
Sales to customers	\$11,703,916	\$4,907,342	\$4,130,826	\$3,630,008	\$1,250,254	\$3,389,768	\$29,012,114

Net property, plant and equipment

	Millions of yen						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
FY2017							
Net property, plant and equipment	¥442,575	¥87,225	¥153,964	¥84,741	¥77,329	¥845,834	

	Millions of yen						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
FY2016							
Net property, plant and equipment	¥426,319	¥79,781	¥163,595	¥84,445	¥69,045	¥823,185	

	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
FY2017							
Net property, plant and equipment	\$4,165,804	\$821,018	\$1,449,209	\$797,637	\$727,872	\$7,961,540	

(3) Information about major customers

This information is omitted because the Company does not have any major customers that account for 10% or more of net sales in the consolidated statements of income for FY2017 or FY2016.

(4) Information about impairment loss on fixed assets by reportable segment

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2017							
Impairment loss on fixed assets	¥973	¥1,115	¥818	¥465	¥380	¥-	¥3,751

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2016							
Impairment loss on fixed assets	¥446	¥190	¥547	¥262	¥946	¥-	¥2,391

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2017							
Impairment loss on fixed assets	\$9,159	\$10,495	\$7,700	\$4,377	\$3,576	\$-	\$35,307

(5) Information about goodwill by reportable segment

	Millions of yen					
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2017						
Amortization	¥1,235	¥-	¥14	¥46	¥ 910	¥2,205
Balance at end	¥6,127	¥-	¥ -	¥35	¥2,966	¥9,128

	Millions of yen					
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2016						
Amortization	¥1,144	¥ 4	¥131	¥54	¥ 473	¥ 1,806
Balance at end	¥6,801	¥-	¥ 13	¥81	¥4,062	¥10,957

	Thousands of U.S. dollars					
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2017						
Amortization	\$11,625	\$-	\$132	\$433	\$ 8,565	\$20,755
Balance at end	\$57,671	\$-	\$ -	\$329	\$27,919	\$85,919

19. RELATED PARTY INFORMATION

Notes on Significant Affiliates

Condensed financial information for a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2017 is as follows:

FY2017	Millions of yen	Thousands of U.S. dollars
Total current assets	¥465,973	\$4,386,041
Total non-current assets	552,293	5,198,541
Total current liabilities	303,299	2,854,848
Total non-current liabilities	224,081	2,109,196
Total equity	490,886	4,620,538
Sales revenue	877,866	8,263,046
Profit before tax	65,733	618,722
Profit for the year attributable to:		
Owners of the parent company	46,979	442,197

Condensed financial information for a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2016 is as follows:

FY2016	Millions of yen
Total current assets	¥412,559
Total non-current assets	485,075
Total current liabilities	252,003
Total non-current liabilities	186,090
Total equity	459,541
Sales revenue	756,696
Profit before tax	70,093
Profit for the year attributable to:	
Owners of the parent company	41,364

20. OTHER

The Company is in negotiations with some automakers for compensation regarding violation of antitrust law in the Automotive segment.

Five-Year Financial Data and Indexes

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen					Thousands of U.S. dollars
	FY2017	FY2016 ⁷	FY2015	FY2014	FY2013	FY2017
	For the years ended Mar. 31, 2018	Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2015	Mar. 31, 2014	Mar. 31, 2018
For the Year:						
Net sales	¥3,082,247	¥2,814,483	¥2,933,089	¥2,822,811	¥2,568,779	\$29,012,114
Cost of sales	2,507,434	2,284,190	2,397,166	2,310,606	2,104,728	23,601,600
Selling, general and administrative expenses	401,674	379,790	392,447	377,748	343,993	3,780,817
Operating income	173,139	150,503	143,476	134,457	120,058	1,629,697
Profit before income taxes	193,337	167,792	154,859	167,067	123,833	1,819,814
Profit attributable to owners of the parent	120,328	107,562	91,001	119,771	66,748	1,132,605
Capital expenditures ^{*1}	171,110	183,693	167,282	148,213	150,823	1,610,599
Depreciation and amortization	146,098	134,532	134,371	126,663	113,271	1,375,169
R&D expenses	117,735	115,155	110,839	105,604	99,520	1,108,198
At Year-End:						
Total assets	3,017,303	2,907,292	2,742,848	2,925,785	2,554,819	28,400,819
Total interest-bearing liabilities	492,567	510,989	457,145	550,839	534,641	4,636,361
Total net assets ^{*2}	1,764,086	1,628,615	1,561,289	1,646,913	1,379,912	16,604,725
			Yen			U.S. dollars
Per Share Data:						
Profit attributable to owners of the parent ^{*3} :	FY2017	FY2016 ⁷	FY2015	FY2014	FY2013	FY2017
Basic	¥154.29	¥137.61	¥114.73	¥151.00	¥84.15	\$1.452
Diluted	152.88	137.24	—	—	—	1.439
Cash dividends ^{*4}	46.00	40.00	35.00	30.00	22.00	0.433
Owner's equity ^{*5}	1,973.95	1,815.32	1,715.28	1,804.34	1,499.76	18.580
Weighted average number of shares outstanding (in thousands)	779,888	781,638	793,189	793,194	793,200	
Number of employees (at year-end)	255,133	248,330	240,865	240,798	225,484	
Average number of temporary employees	(38,136)	(38,168)	(39,124)	(34,553)	(34,457)	
Financial Indexes:						
Operating income / net sales (%)	5.6	5.3	4.9	4.8	4.7	
Profit attributable to owners of the parent / net sales (%)	3.9	3.8	3.1	4.2	2.6	
Operating income / invested assets ^{*6} (ROIC) (%)	7.9	7.2	6.8	6.5	6.6	
Return on owner's equity (%)	8.1	7.7	6.5	9.1	5.9	
Owner's equity ratio (%)	51.0	48.7	49.6	48.9	46.6	
Current ratio (times)	1.8	1.7	1.8	1.7	1.6	
R&D expenses / net sales (%)	3.8	4.1	3.8	3.7	3.9	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥106.24 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2018.

^{*1} Capital expenditures are recorded as property, plant and equipment.

^{*2} See Note 9.

^{*3} From the year ended March 31, 2014 to the year ended March 31, 2016, there were no potentially dilutive common shares.

^{*4} Cash dividends per share for the year ended March 31, 2017 include a 2-yen distribution as commemorative dividends for the 120th anniversary.

^{*5} Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

^{*6} Invested assets = total assets - interest-free liabilities

^{*7} Effective from the fiscal year ended March 31, 2018, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements" (ASBJ PITF No. 18, revised on March 29, 2017) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, revised on March 29, 2017). The financial data and indexes for the year ended March 31, 2017 have been adjusted retrospectively to apply the changes in accounting policies.



Independent Auditor's Report

To the Board of Directors of Sumitomo Electric Industries, Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Electric Industries, Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2018
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Company Information

Sumitomo Electric Industries, Ltd. (As of March 31, 2018)

HEAD OFFICE (OSAKA)

5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

HEAD OFFICE (TOKYO)

Akasaka Center Building, 1-3-13, Motoakasaka, Minato-ku, Tokyo 107-8468, Japan

ESTABLISHED

1897

NUMBER OF EMPLOYEES

Consolidated: 255,133
Non-Consolidated: 5,100

DOMESTIC WORKS

Osaka Works

1-1-3, Shimaya, Konohana-ku, Osaka 554-0024, Japan

Main Products:

Electric conductors, electric power cables, power line construction and engineering, information systems, control systems, high-frequency products, hybrid products

Itami Works

1-1-1, Koyakita, Itami, Hyogo 664-0016, Japan

Main Products:

Special steel wires, powdered alloys, sintered powder metal products, diamond products, compound semiconductors

Yokohama Works

1, Taya-cho, Sakae-ku, Yokohama 244-8588, Japan

Main Products:

Optical fiber cables, telecommunication cables, optical connectors, optical fiber fusion splicers, optical amplifiers, optical transmission components

COMMON STOCK

Issued: 793,940,571 shares

NUMBER OF SHAREHOLDERS

59,512

STOCK EXCHANGE LISTINGS

Three domestic stock and securities exchanges: Tokyo, Nagoya, and Fukuoka
Ticker Code: 5802

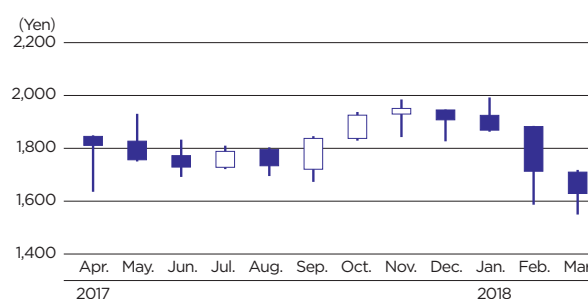
SHAREHOLDER REGISTER MANAGER

Sumitomo Mitsui Trust Bank, Limited.
1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan

PRINCIPAL SHAREHOLDERS

	Number of Shares held (Thousands)	Shareholding Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	57,128	7.32
The Master Trust Bank of Japan, Ltd. (trust account)	50,897	6.52
Nippon Life Insurance Company	24,703	3.17
SUMITOMO LIFE INSURANCE COMPANY	15,556	1.99
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	14,472	1.86
STATE STREET BANK WEST CLIENT - TREATY 505234	14,399	1.85
Japan Trustee Services Bank, Ltd. (trust account 5)	14,129	1.81
Japan Trustee Services Bank, Ltd. (trust account 9)	12,283	1.57
STATE STREET BANK AND TRUST COMPANY 505225	11,358	1.46
Japan Trustee Services Bank, Ltd. (trust account 1)	10,521	1.35
Total	225,452	28.9

SHARE PRICE RANGE



BREAKDOWN OF SHAREHOLDERS

- Financial Institutions**
317,590 thousand shares
40.00% (Shareholders: 202)
- Securities Companies**
22,307 thousand shares
2.81% (Shareholders: 64)
- Other Corporations**
35,848 thousand shares
4.51% (Shareholders: 647)
- Individuals and Others**
88,418 thousand shares
11.14% (Shareholders: 57,798)
- Foreign Investors**
315,922 thousand shares
39.79% (Shareholders: 800)
- Treasury Stock**
13,856 thousand shares
1.75%

