

ANNUAL REPORT 2019

YEAR ENDED MARCH 31, 2019





CONNECTED

WE ARE.

CONNECT TO A SAFER MOTORIZED SOCIETY.

Sumitomo Electric wiring harnesses can be found in one out of every four vehicles on the road worldwide.

In a rapidly changing automotive industry, we continue to contribute to the next generation where people, vehicles and society are connected to each other.

We are committed to supporting a comfortable motorized society with a focus on the development of new materials and new technologies for safety.



CONNECT TO ENVIRONMENT- FRIENDLY ENERGY.

Technologies developed by Sumitomo Electric are required for the construction of global energy systems, including infrastructure development in emerging nations and expansion of the use of renewable energy.

Nowadays, new movements such as interchange of electricity between nations are active.

We aim to increase our global presence in the market.



CONNECT TO INNOVATIVE COMMUNICATION TECHNOLOGIES.

Sumitomo Electric is a pioneer in optical fiber and cable technologies. It has attracted widespread attention around the globe as a company that offers ultra-high fiber count and ultra-low loss technologies indispensable for achieving excellent-quality large-capacity optical fibers. Faster, clearer - we continue to gain high levels of trust through the development of products that support 5G wireless connectivity.



To Shareholders

I would like to express my sincere appreciation to all of you for continually providing us with generous support. I am pleased to present the outline of our corporate group's FY2018 business results.

FY2018 Business Results

The Japanese economy in the first half of FY2018 showed stable growth due to the support of domestic demand mainly from a favorable employment environment and capital expenditure. However, the slowdown of the economy in China and Europe led to the weak development of exports and production in the second half of the fiscal year. Regarding the global economy, signs of refraining from consumption and investment in China due to the trade conflict with the U.S. and uncertainty over the outlook of the Chinese economy affected the economies of other countries, resulting in the eventual strengthening of the gradual slowdown trend.

Regarding the business environment of the Sumitomo Electric Group, the first half generally showed steady growth. However, the decrease in production of automobiles in China and Europe became prominent in the second half of last year, and the situation gradually deteriorated due to sluggish sales of smartphones in the global market and decline in demand in some of the cemented carbide tool markets. In this environment, the consolidated financial settlement for FY2018 secured a revenue increase from the previous fiscal year, as net sales amounted to 3,177,985 million yen (previous fiscal year: 3,082,247 million yen, + 3.1%). However, in terms of profits, although we proceeded with global cost reductions, we were faced with price reductions in the automobile industry and cost increase factors such as additional tariffs between the U.S. and China. In addition, we also increased our R&D budgets with an eye on the future. As a result, operating income was 166,260 million yen (previous fiscal year: 173,139 million yen, -4.0%); ordinary income was 188,649 million yen (previous fiscal year: 195,010 million yen, -3.3%); and profit attributable to owners of the parent was 118,063 million yen (previous fiscal year: 120,328 million yen, -1.9%), each of which showed a decrease in profit.

As for the year-end dividend, in consideration of the business results for FY2018 and other matters, we have decided to distribute in the amount of 24 yen per share, a decline by 1 yen from the previous fiscal year. As a result, the dividend for FY2018, including the interim dividend (24 yen), is 48 yen per share, which is 2 yen more than that of the previous fiscal year.

Key Issues Requiring Attention

The future global economy is unpredictable, mainly due to the effects of U.S. trade policy, the outlook of the Chinese economy, and political and geopolitical risks in Europe and Asia. Therefore, there is concern that our operating environment will become even tougher, depending on the tendencies of those factors. Regarding the Japanese economy, it is concerned that the sluggish export and production will be prolonged along with the slowdown in the overseas economy. It is expected that the future outlook will remain unclear.

In these circumstances, we will continue to place our business foundation on the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles, and strive for the further evolution and improvement of "SEQCDD" (safety, environment, quality, cost, delivery and R&D). Also, aiming to become a "Glorious Excellent Company," we will work hard toward achieving our mid-term management plan VISION 2022, launched in FY2018 based on the concept of "Contributing to a better society by leveraging our expertise in connectivity and transmission technologies through the concerted efforts of the entire group." To this end, we will pursue the following strategies in each of our business segments.

In the Automotive segment, we will strive to be a mega supplier, centering on wiring harnesses as the core of the segment. We will accelerate the development and marketing of various types of products designed for electric vehicles, such as high-voltage wiring harnesses and battery-related products, 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, we will strive to further expand our market share for overseas customers. At the same time, we will expand our business with an eye on the widespread use of electric vehicles, automated driving and connected cars. Sumitomo Riko Company Ltd. will market globally in the field of automotive anti-vibration rubbers and hoses, and make efforts for the early recovery of profitability. The company will also work on developing new products for next-generation vehicles.

In the Infocommunications segment, we will focus on responding to the increase in demand for optical fibers and next-generation optical/electronic devices due to an increase in data traffic and the development of a 5G mobile communications system. At the same time, we will also strive for further cost reduction to enhance competitiveness. In addition, we will endeavor to further improve profitability by focusing on marketing extra-low-loss fibers for submarine cables, products related to data centers, such as ultra-high-fiber-count optical fiber cables and optical wiring products, and new products such as access-based network products and new 4K compatible video distribution equipment.

In the Electronics segment, with regard to flexible printed circuits (FPCs) for mobile devices, we will continue to focus on global marketing, in addition to cost reductions through thorough productivity improvement. Furthermore, we will work to ensure the launch of new products that respond to the customers' needs such as high precision, thinness and heat-resistance, and to expand business to automotive markets and other markets. In addition, regarding electronic wires and irradiation tubes, we will capture a wide variety of the needs of high-performance cables, components and materials, and continue to proceed with global marketing.

In the Environment and Energy segment, we will further proceed with ensuring production capacity and cost reductions by strengthening the manufacturing system for power cables. We will strive to expand our business by surely capturing new large-scale overseas power cable projects and domestic demand for facility replacement. In addition, we will proceed with the marketing of flat magnet wires for motors used in electric vehicles, and also focus on expanding business related to renewable energy and smart grids, by leveraging our integrated capabilities, including Nissin Electric Co., Ltd. and Sumitomo Densetsu Co., Ltd.

In the Industrial Materials segment, with regard to cemented carbide tools, we will proceed with global marketing not only in our main automotive field, but also in the fields of industrial machinery, construction machinery and electronics. Moreover, we will strengthen the development and marketing of new products for the machining of difficult-to-cut materials in the fields of aircrafts and medical care. Furthermore, we will work to further strengthen the supply capacity and cost competitiveness of sintered components at each production base. We will also continue to focus on the strengthening of the production system and marketing for tensioning materials used in pre-stressed concrete and precision spring steel wires.

In R&D activities, we will make efforts to create new businesses and products that are original and excel in profitability. Specifically, we will focus on the commercialization of magnesium alloy products, water-treatment systems, superconducting products, silicon carbide (SiC) power semiconductor devices and products for next-generation communication networks. In addition, toward the establishment of a new electricity/energy infrastructure, we will also accelerate the development of redox flow batteries, concentrator photovoltaic systems, and energy management system-related products, along with domestic and international demonstrative experiments, in order to realize early commercialization. Also, taking a long-term perspective, we will focus on leveraging our strengths to develop new products in response to society's needs, including strengthening the development systems for on-board equipment that is compatible with automated driving and electric vehicles, and searching for new materials with new functions. We will also work proactively on production innovation by utilizing artificial intelligence and the Internet of things* at the manufacturing level.

Finally, we believe that our management foundation lies in compliance with laws and regulations and the maintenance of corporate ethics, and that these are the absolute basis for us to continue and develop as a corporate group. In particular, we regard compliance with competition laws as our foremost task. We will continue to operate fairly and honestly based on the tenets of the Sumitomo Spirit: *Banji-nissei*, *Shinyo-kakujitsu* and *Fusu-furi****, ensuring that our corporate activities are trusted by society. In addition, we believe that the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles share common core values with the Sustainable Development Goals adopted at the UN summit in 2015. We will aim to provide various types of value in order to realize a "safe and secure society," a "green society" and a "comfortable and viable society" through our concerted efforts. We would like to receive your further understanding and support toward the future.

June 2019

* Internet of things (IoT): A wide variety of things, not limited to information communication devices including PCs and smartphones, being connected to a network such as the Internet.
 ** *Banji-nissei*: Do your sincere best not only in business but also in every aspect of your life.
 *** *Shinyo-kakujitsu*: Place importance on integrity and sound management.
Fusu-furi: Do not act rashly or carelessly in pursuit of easy gains.

Osamu Inoue
President & COO

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.

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.

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

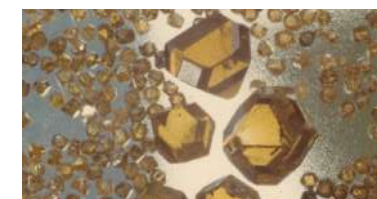
1960s

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.

1890s 1900s 1910s 1920s 1930s 1940s 1950s 1960s 1970s 1980s 1990s 2000s 2010s Recently

1910s

In 1914, we developed 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.

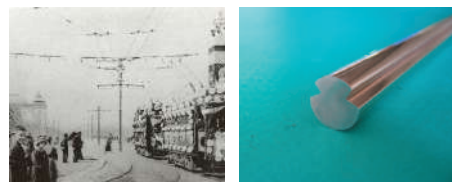
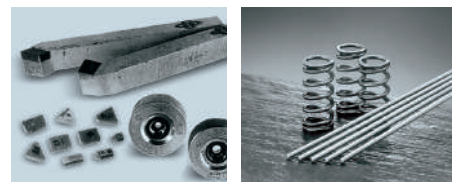


Photo by courtesy of Toei Transportation

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.



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 over 11 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
	FY2018 Mar. 31, 2019	FY2017*6 Mar. 31, 2018	FY2016 Mar. 31, 2017	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2018 Mar. 31, 2019
Net sales	¥3,177,985	¥3,082,247	¥2,814,483	¥2,933,089	¥2,822,811	\$28,633,075
Operating income	166,260	173,139	150,503	143,476	134,457	1,497,973
Profit before income taxes	181,388	193,337	167,792	154,859	167,067	1,634,273
Profit attributable to owners of the parent	118,063	120,328	107,562	91,001	119,771	1,063,726
Capital expenditures*1	190,314	171,110	183,693	167,282	148,213	1,714,695
Depreciation and amortization	148,916	146,098	134,532	134,371	126,663	1,341,706
R&D expenses	129,627	117,735	115,155	110,839	105,604	1,167,916

At Year-End:

	FY2018	FY2017*6	FY2016	FY2015	FY2014	FY2018
Total assets	¥3,053,263	¥2,999,903	¥2,907,292	¥2,742,848	¥2,925,785	\$27,509,352
Total interest-bearing liabilities	540,745	492,567	510,989	457,145	550,839	4,872,015
Total net assets	1,776,313	1,764,086	1,628,615	1,561,289	1,646,913	16,004,262

Cash Flows:

	FY2018	FY2017*6	FY2016	FY2015	FY2014	FY2018
Net cash provided by operating activities	¥177,656	¥239,573	¥209,233	¥240,779	¥153,509	\$1,600,649
Net cash used in investing activities	(184,601)	(174,265)	(194,829)	(117,387)	(86,888)	(1,663,222)
Net cash provided by (used in) financing activities	(4,324)	(66,795)	(4,763)	(115,912)	(64,037)	(38,958)

Per Share Data:	Yen					U.S. dollars
	FY2018	FY2017*6	FY2016	FY2015	FY2014	FY2018
Profit attributable to owners of the parent*2						
Basic	¥151.38	¥154.29	¥137.61	¥114.73	¥151.00	\$1.364
Diluted	—	152.88	137.24	—	—	—
Cash dividends*3	48.00	46.00	40.00	35.00	30.00	0.432
Owner's equity*4	1,988.58	1,973.95	1,815.32	1,715.28	1,804.34	17.917

Financial Indexes:

	FY2018	FY2017*6	FY2016	FY2015	FY2014
Operating income/net sales (%)	5.2	5.6	5.3	4.9	4.8
Profit attributable to owners of the parent/net sales (%)	3.7	3.9	3.8	3.1	4.2
Operating income/invested assets*5 (ROIC)(%)	7.3	7.9	7.2	6.8	6.5
Return on owner's equity (%)	7.6	8.1	7.7	6.5	9.1
Owner's equity ratio (%)	50.8	51.3	48.7	49.6	48.9
Current ratio (Times)	1.7	1.7	1.7	1.8	1.7
R&D expenses/net sales (%)	4.1	3.8	4.1	3.8	3.7

Note : All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥110.99 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2019.

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

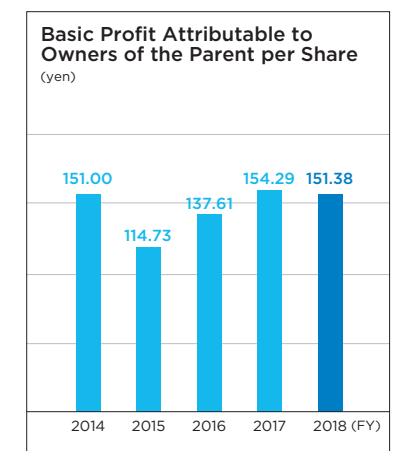
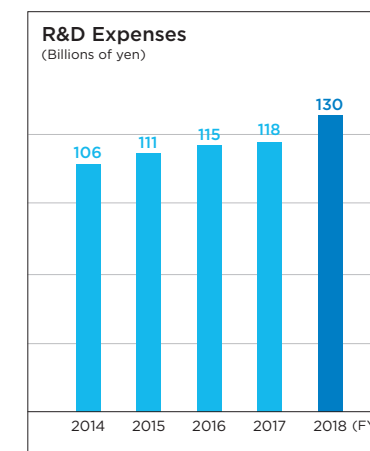
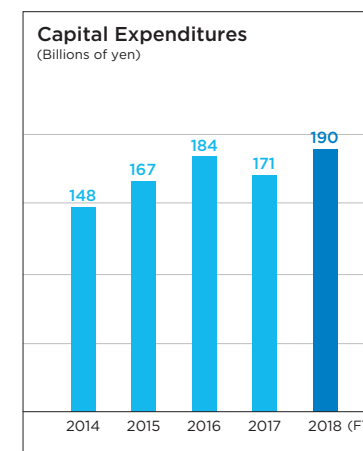
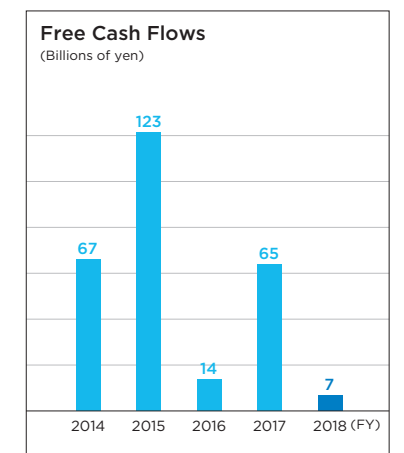
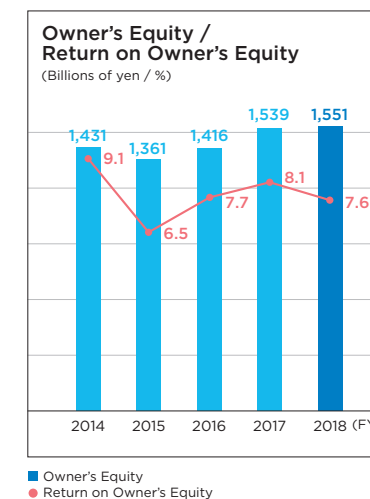
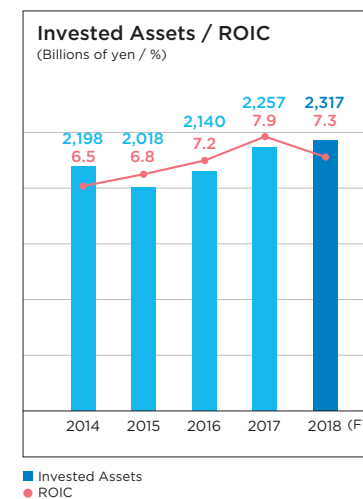
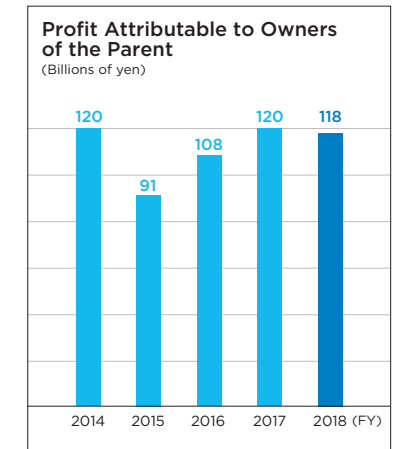
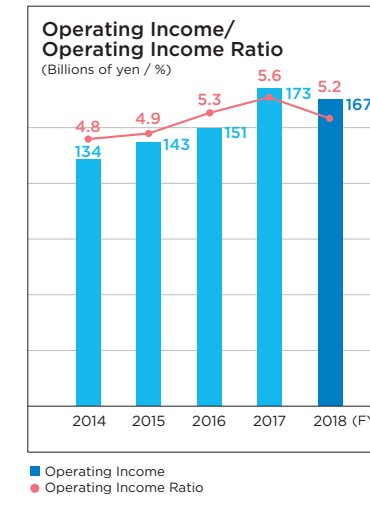
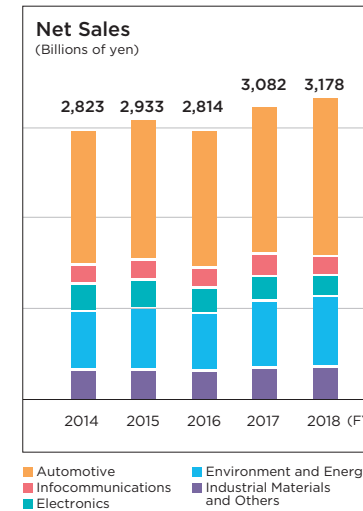
*2 From the year ended March 31, 2015 to the year ended March 31, 2016 and in the year ended March 31, 2019, there were no potentially dilutive common shares.

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

*4 Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

*5 Invested assets = total assets - interest-free liabilities

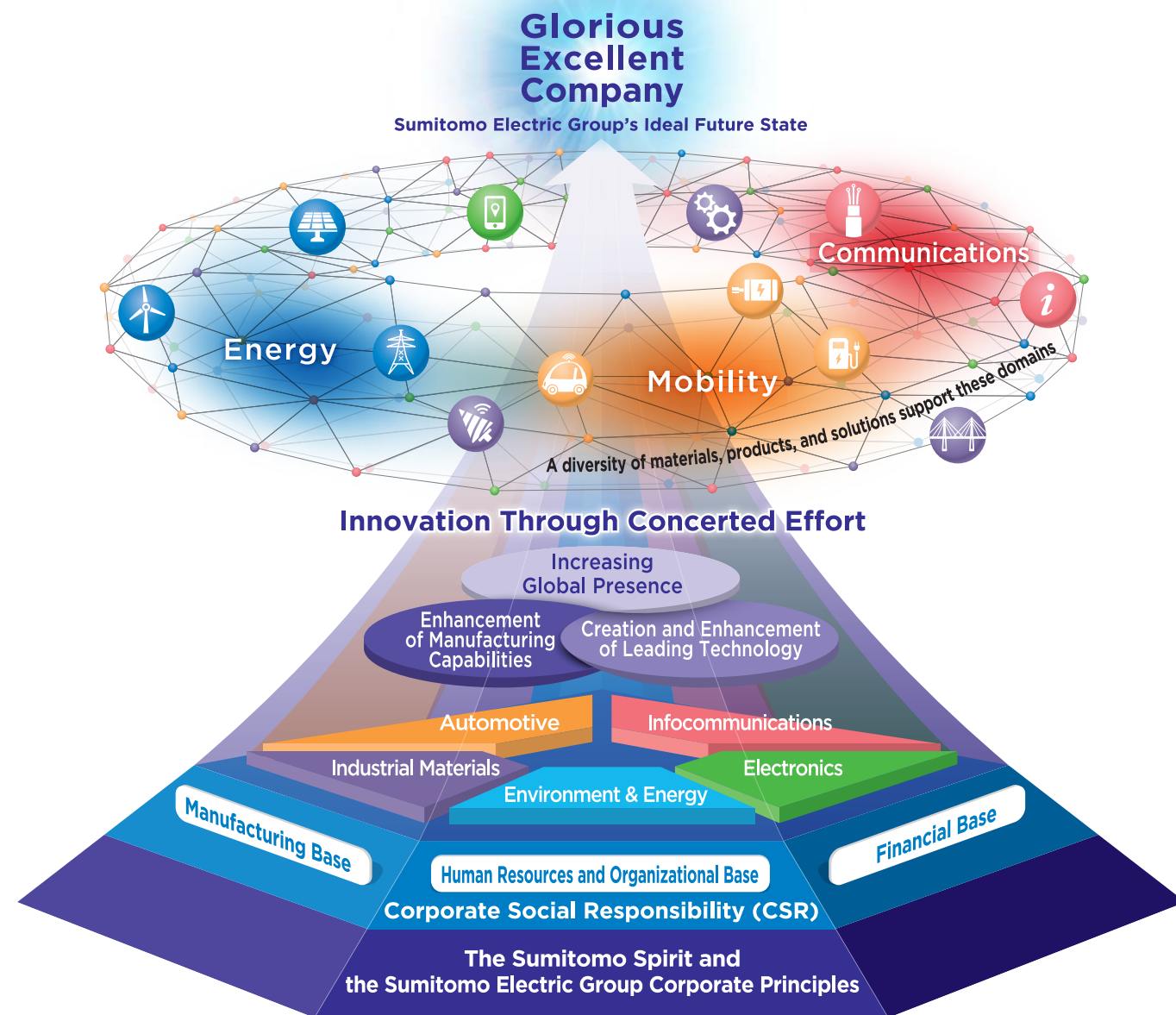
*6 As described in Note 2(r), the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been adopted from the beginning of the fiscal year ended March 31, 2019. The financial data and indexes for the year ended March 31, 2018 have been adjusted retrospectively to conform to this accounting standard.



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**
 - Taking "SEQCDD*" one step further
 - Aim for "the world's top safety company"
 - Create "strong factories" by continuous improvement (kaizen)
 - Share technologies and best practices among group companies worldwide
 - *SEQCDD: S (Safety), E (Environment), Q (Quality), C (Cost), D (Delivery), D (R&D)
- Increasing Global Presence**
 - 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**
 - 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> <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> <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> <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.

NET SALES

OVER
¥ **3** 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.

SALES RATIO OUTSIDE JAPAN

58.5%

Overseas sales ratio has grown steadily 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 LOCATIONS OUTSIDE JAPAN

285

The number of our business locations is gradually increasing from 115 in FY2002 and 182 in FY2007. We will continue to enhance our business by increasing business relationships with customers around the world.

FOUNDED

122 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

¥ **129.6** BILLION

R&D expenses have grown gradually 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.

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.

CONSOLIDATED EMPLOYEES

OVER **270** 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.

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 ¥1,709.4 billion</p> <p>Share of net sales 53%</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 ¥208.4 billion</p> <p>Share of net sales 6%</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 ¥228.9 billion</p> <p>Share of net sales 7%</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 ¥759.7 billion</p> <p>Share of net sales 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 ¥357.8 billion</p> <p>Share of net sales 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

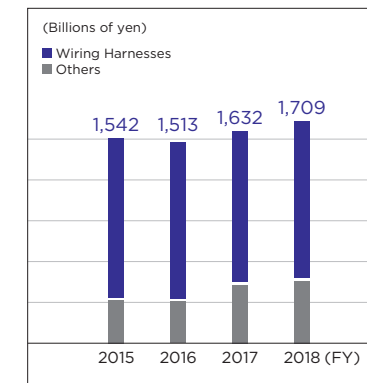


AUTOMOTIVE

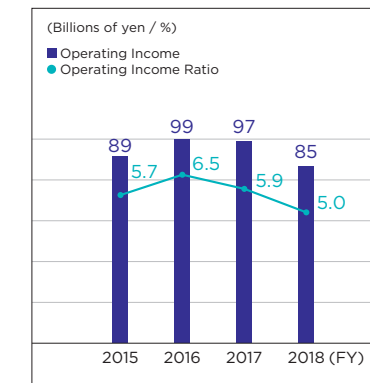
Performance in FY2018 and forecast for FY2019

On the back of a concerted effort to expand sales of wiring harnesses, automotive electronic parts, and anti-vibration rubber, net sales rose by ¥77.5 billion (4.7%) to ¥1,709.4 billion. In addition to price reductions and an increase in expenses related to R&D for future growth, operating income was also influenced by the additional tariffs placed on imports between the U.S. and China and by weaker earnings from anti-vibration rubber products, and decreased ¥12.1 billion to be ¥84.7 billion. In FY 2019, net sales of ¥1,760.0 billion and operating income of ¥85.0 billion are forecasted.

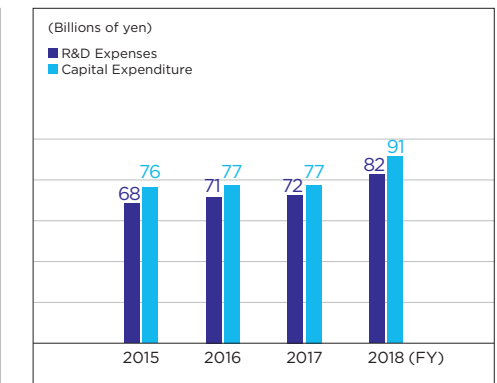
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2018 result: ¥1,709.0 billion
 FY2019 target: ¥1,760.0 billion **▲ 3.0% UP**

Operating Income

FY2018 result: ¥84.6 billion
 FY2019 target: ¥85.0 billion **▲ 0.4% UP**

FY2019 Challenges and Strategies

1. Enhance cost competitiveness in wiring harness and improve business profitability in Europe.
2. Quickly restore profitability in anti-vibration rubber business.
3. Accelerate development of CASE*-related products and promote new overseas customer acquisition.

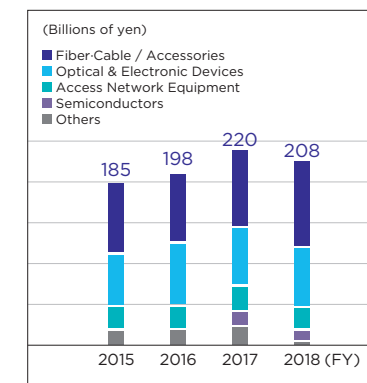
*CASE: Connected, autonomous, shared, and electric vehicles.

INFOCOMMUNICATIONS

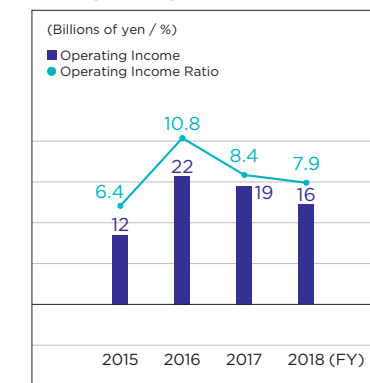
Performance in FY2018 and forecast for FY2019

While sales of optical fiber cables etc. continued to expand, the effect of transferring part of this business to other segments and so forth saw net sales decrease by ¥11.9 billion (5.4%) to ¥208.4 billion. Despite the promotion of cost reductions through productivity improvement, operating income fell by ¥2.2 billion to ¥16.4 billion due to an intensifying business competition and associated sales price decline. In FY 2019, net sales of ¥220.0 billion and operating income of ¥12.0 billion are forecasted.

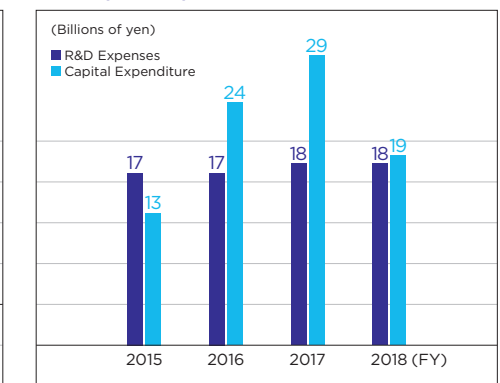
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

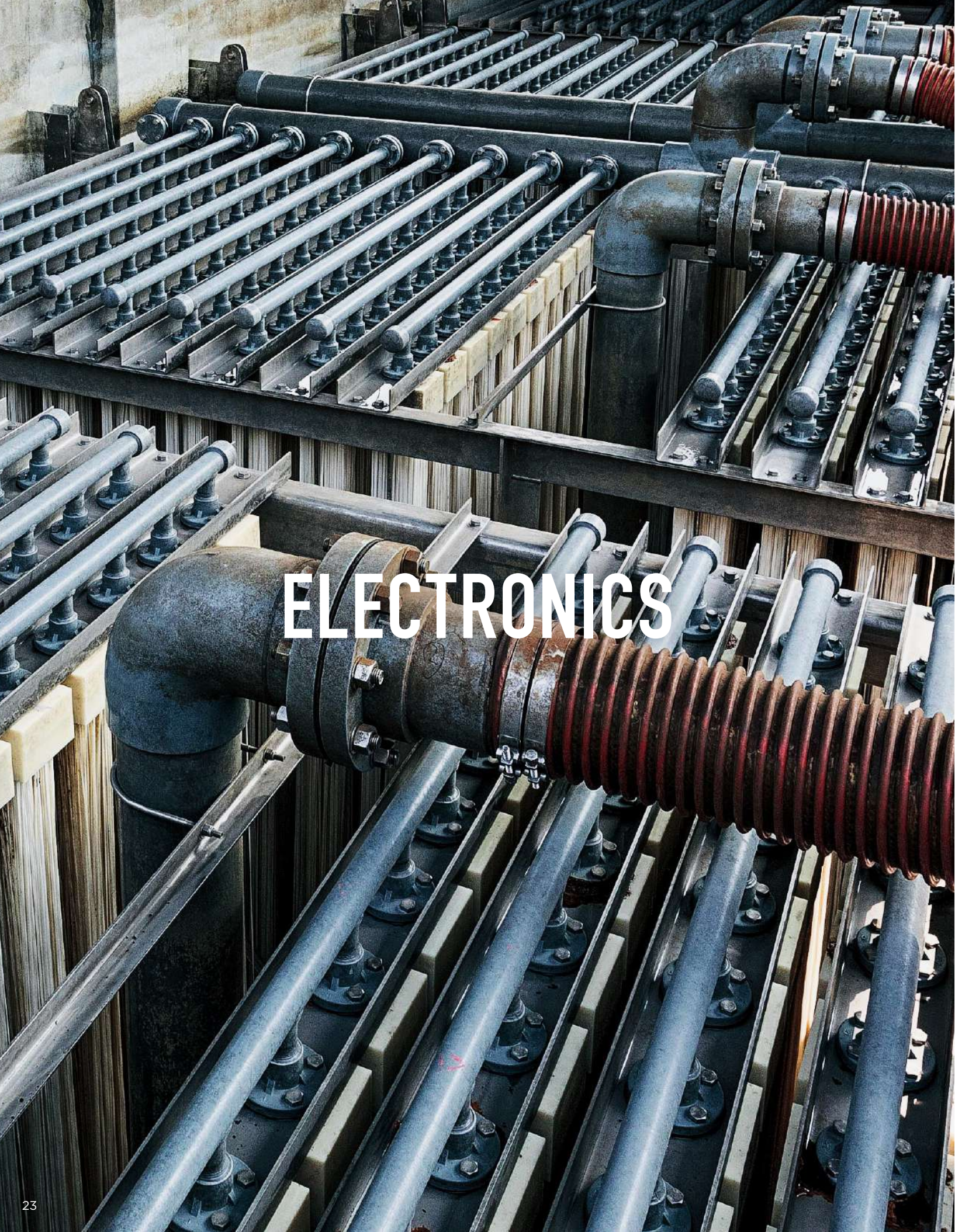
FY2018 result FY2019 target
 ¥208.4 billion ▶ ¥220.0 billion **↑ 5.6% UP**

Operating Income

FY2018 result FY2019 target
 ¥16.3 billion ▶ ¥12.0 billion **↓ 26.8% DOWN**

FY2019 Challenges and Strategies

1. Reduce the costs of standard single-mode optical fibers/preforms and expand sales of high-end products.
2. Introduce differentiated products into data centers and expand sales of high-performance optical fibers.
3. Enhance production capacity of electronic devices for 5G base stations and improve our earning structure for optical components.

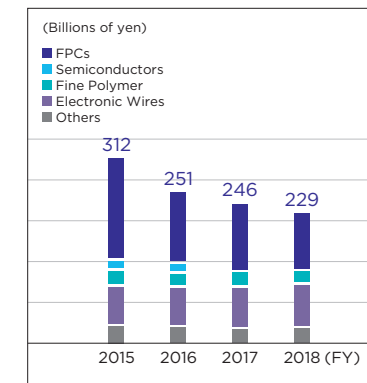


ELECTRONICS

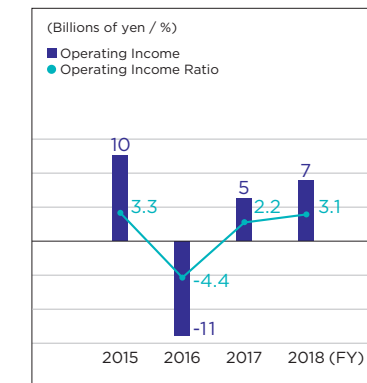
Performance in FY2018 and forecast for FY2019

While sales of electronic wires and irradiated tubes continued to expand, the decrease in Flexible Printed Circuits (FPCs) for mobile devices and so forth saw net sales fall ¥17.4 billion (7.1%) to ¥228.9 billion. Operating income increased by ¥1.6 billion to ¥7.0 billion as a result of profitability improvements gained through cost reduction efforts. For FY 2019, net sales of ¥200.0 billion and operating income of ¥8.0 billion are forecasted.

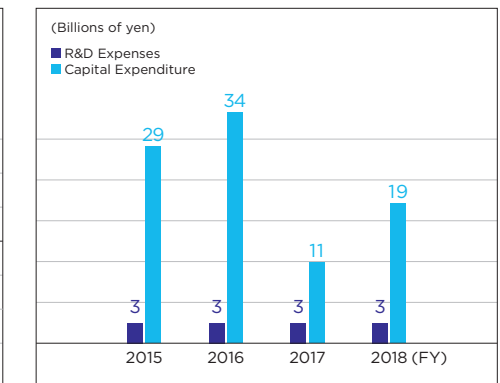
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2018 result: ¥229.0 billion
 FY2019 target: ¥200.0 billion
 ▼ 12.6% DOWN

Operating Income

FY2018 result: ¥7.0 billion
 FY2019 target: ¥8.0 billion
 ▲ 14.0% UP

FY2019 Challenges and Strategies

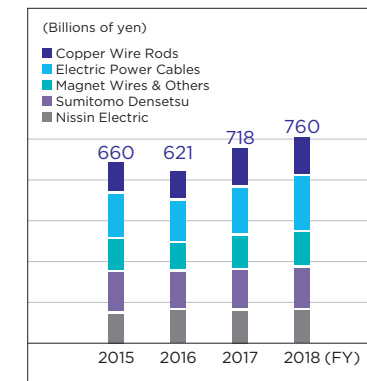
1. Reduce the total cost of FPCs for mobile devices and develop new FPC products and new markets for them.
2. Expand sales of automotive cables and tab-leads for EV batteries.

ENVIRONMENT AND ENERGY

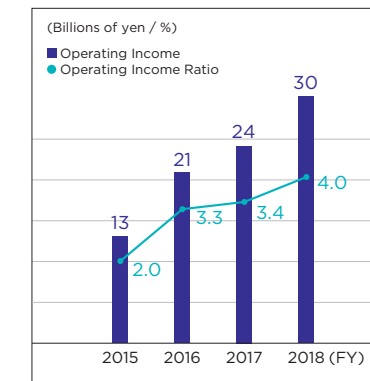
Performance in FY2018 and forecast for FY2019

In addition to an expansion of sales of electric wires and cables, the increase in electrical construction work for Sumitomo Densetsu Co., Ltd. saw net sales rise by ¥41.8 billion (5.8%) to ¥759.8 billion. Operating income rose ¥5.9 billion to come in at ¥30.1 billion. The forecast for FY 2019 is for net sales of ¥740.0 billion and operating income of ¥30.0 billion.

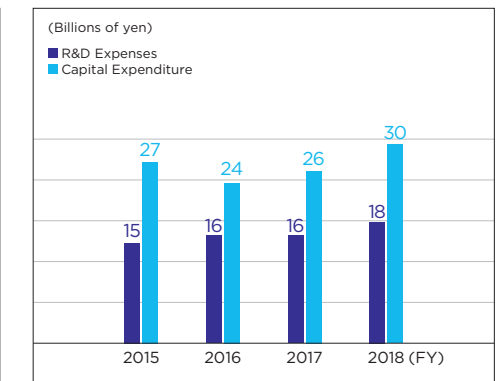
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2018 result: ¥760.0 billion
 FY2019 target: ¥740.0 billion
 ▼ 3.0% DOWN

Operating Income

FY2018 result: ¥30.1 billion
 FY2019 target: ¥30.0 billion
 ▼ 0.2% DOWN

FY2019 Challenges and Strategies

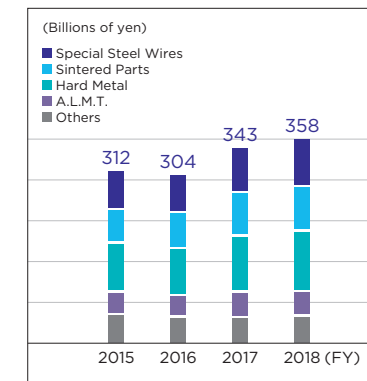
1. Secure large-scale overseas power cable projects and acquire demand in Japan for replacement projects.
2. Expand sales in the renewable energy market by utilizing the capital ties between Sumitomo Densetsu and Nissin Electric.
3. Increase production capacity and expand sales of our rectangular magnet wires for electric vehicles.

INDUSTRIAL MATERIALS AND OTHERS

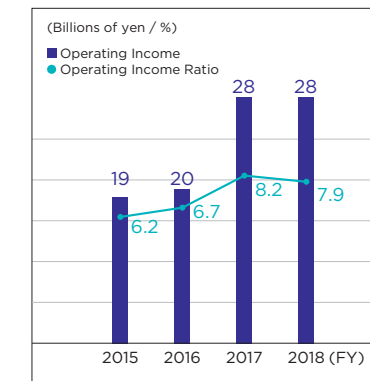
Performance in FY2018 and forecast for FY2019

With an emphasis on primarily expanding sales of cemented carbide tools, net sales increased by ¥14.7 billion (4.3%) to ¥357.8 billion. Year-on-year, operating income rose by ¥22 million to ¥28.2 billion. The forecast for FY 2019 is net sales of ¥370.0 billion and operating income of ¥32.0 billion.

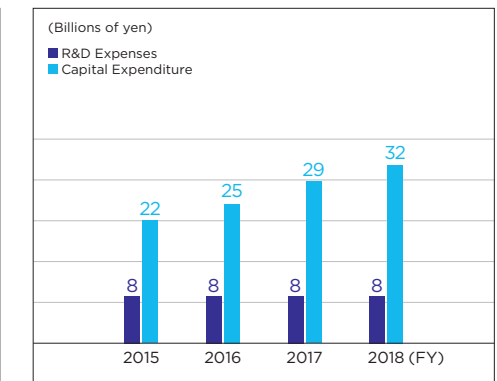
Net Sales



Operating Income and Operating Income Ratio



R&D Expenses and Capital Expenditure



Net Sales

FY2018 result: ¥358.0 billion
 FY2019 target: ¥370.0 billion \uparrow 3.4% UP

Operating Income

FY2018 result: ¥28.2 billion
 FY2019 target: ¥32.0 billion \uparrow 13.5% UP

FY2019 Challenges and Strategies

1. Expand sales of hard metal cutting tools globally and develop new products including tools for aircraft.
2. Enhance the cost and production systems for sintered components, PC steel wires, and steel wires for springs.



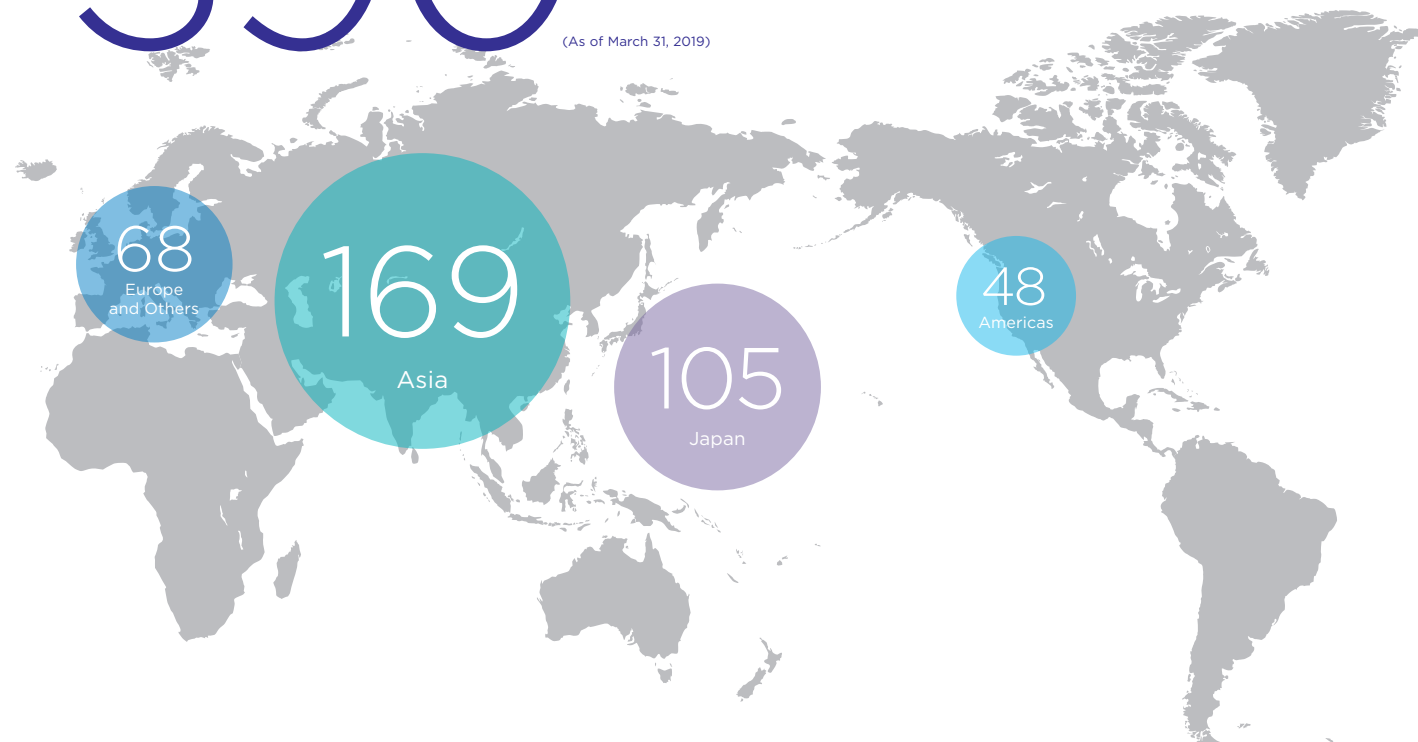
Expanding Business on the World Stage

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 ¥1,858.3 billion in FY2018, an increase of ¥19.4 billion over the previous fiscal year. Overseas sales were 58.5% of total sales on a consolidated basis, a year-on-year decrease of 1.2%.

Number of Consolidated Subsidiaries and Equity-Method Affiliates

390

(As of March 31, 2019)



Americas

Sales in the Americas in FY2018 increased by ¥30.6 billion year-on-year to ¥549.1 billion, or 17.3% of all consolidated sales. Meanwhile, sales for consolidated subsidiaries (to external customers) rose by ¥26.0 billion year-on-year to ¥538.2 billion, while operating income decreased by ¥5.0 billion to ¥15.1 billion. Operating income generated in the region was 9.1% of total consolidated operating income.

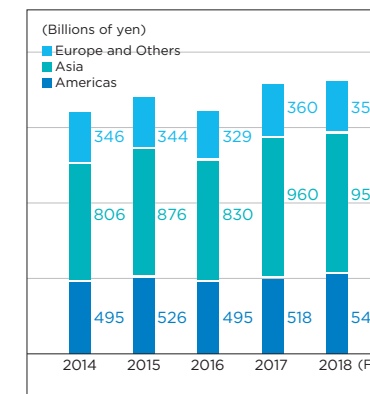
Asia

Sales in China decreased by ¥5.0 billion year-on-year to ¥516.3 billion, or 16.3% of all consolidated sales. In other Asian markets, sales increased ¥3.8 billion on the previous year to ¥442.7 billion, accounting for 13.9% of total sales on a consolidated basis. Sales for consolidated subsidiaries (to external customers) in Asia, including China, totaled ¥883.8 billion, an increase of ¥2.7 billion from the previous fiscal year. Operating income saw a decrease of ¥1.2 billion year-on-year to ¥79.2 billion. Operating income generated in the region was 47.5% of total consolidated operating income.

Europe and Others

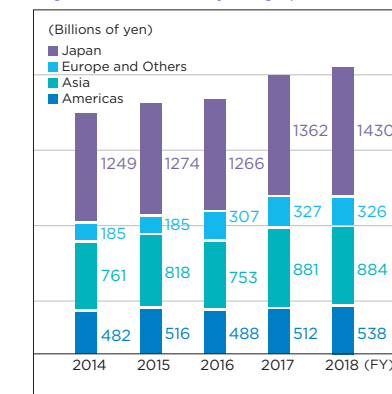
Sales in Europe and other regions in FY2018 came to ¥350.1 billion, or 11.0% of total consolidated sales. This was a decrease of ¥10.0 billion on the previous fiscal year. Operating income was -¥9.7 billion, down ¥11.7 billion. Operating income generated in the region was -5.8% of total operating income on a consolidated basis.

Overseas Sales



Geographical Segment Sales

Segment Information by Geographic Area



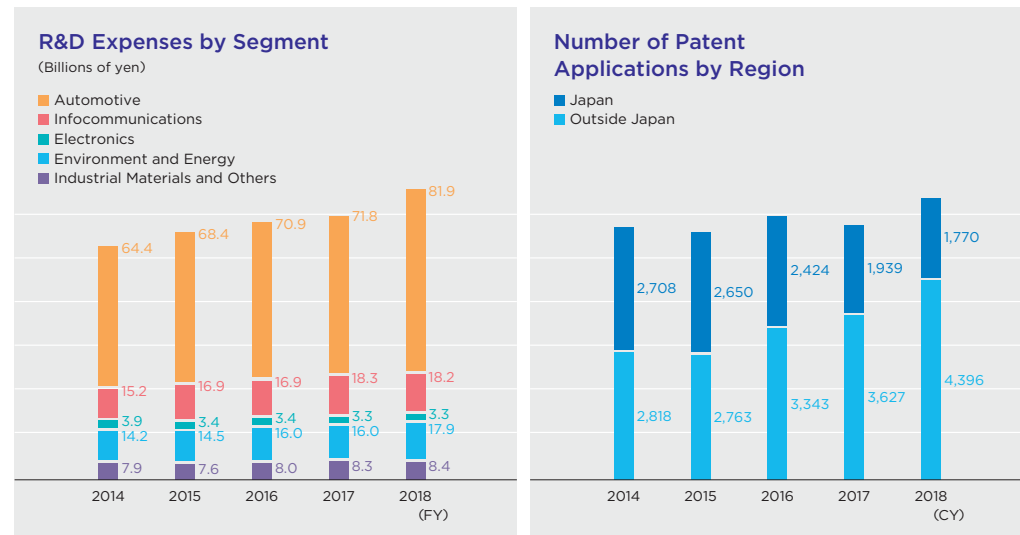
Global Human Resource Management Policy

In the Sumitomo Electric Group, over 270,000 employees are working actively in about 40 countries around the world. We believe that for Sumitomo Electric to win the global competition and grow further, it is essential that we fully mobilize the Group's technologies, products, business models and all other resources, and we acknowledge that it is most important to secure and utilize highly capable employees who support the efforts.

The Group has traditionally attached a high value to human resources based on the Sumitomo Spirit. To clarify the basic policies on human resources, we instituted the Sumitomo Electric Group Global Human Resource Management Policy (Global HRM Policy) in September 2011. This policy specifies the Group's commitment to creation of an environment that helps employees realize growth and self-actualization through work, provision of various career opportunities regardless of nationality, race, ethnicity, religion, age or gender, promotion of diversity and development of global leaders, in order to accelerate our global human resource recruitment and promotion. We have declared the policy to inform people in and outside of the Group about it.

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 FY2018, ended March 31, 2019, consolidated R&D expenses totaled ¥129.6 billion.



Topics | Creating Ultimate EV Road Trip Experience with EV Safe Charge

Sumitomo Electric and EV Safe Charge, announced collaboration on a new mobile app to enable electric vehicle (EV) drivers to experience the optimal road trip on January 10, 2019. During any journey, the EV Safe Charge app, powered by Sumitomo Electric, will provide users with never-before offered features, including benefits from hotel and restaurant partners and specialized travel coordination.

The pertinent features being developed for EV drivers will go beyond mapping chargers and provide data about when to charge based on altitude, weather and other factors to alleviate "range anxiety" - the fear among users that an EV has an insufficient range to reach its destination, which is cited as an obstacle to widespread adoption of all-electric vehicles. Key to the collaboration, the companies are beginning to work with automotive original equipment manufacturer (OEMs) to integrate these app features directly into EV models as well.

By combining the leading-edge of technologies of Sumitomo Electric with the firsthand EV consumer insights from EV Safe Charge, the companies will fill the need for an elevated EV experience during short and longer range trips.

Topics | Developing Next-Generation SiC Transistors with World's Lowest On-State Resistance

Sumitomo Electric Industries, Ltd. has developed V-groove super junction transistors through a joint research project with the National Institute of Advanced Industrial Science and Technology (AIST) using silicon carbide (SiC) semiconductors, and has achieved the world's lowest on-state resistance of SiC transistors.

Sumitomo Electric has already developed V-groove metal-oxide-semiconductor field-effect transistors (VMOSFETs). The VMOSFETs use a particular plane orientation (0-33-8) for the channel that turns on/off the flow of electrons, forming an oxide film interface with low defects and achieving a low on-state resistance. The low-defect performance of the transistors significantly stabilizes the threshold voltage fluctuation that prevents the practical use of SiC transistors. Sumitomo Electric is now working to commercialize VMOSFETs using the production line for 6-inch SiC wafers that AIST and Sumitomo Electric jointly built.

Sumitomo Electric continues to promote the commercialization of power devices with low on-state resistance to improve power conversion efficiency, leading to the contribution to the transition toward an energy-efficient and low-carbon society.

Topics | Initiating Redox Flow Batteries into the U.S. Wholesale Power Market

-Demonstrating the Economic Potential of Storage Batteries-

The New Energy and Industrial Technology Development Organization (NEDO) and Sumitomo Electric Industries, Ltd. connected a 2-MW/8-MWh stationary storage redox flow (RF) battery to the wholesale power market in California, USA. This demonstration is the first example of RF battery operation in the U.S. wholesale power market.

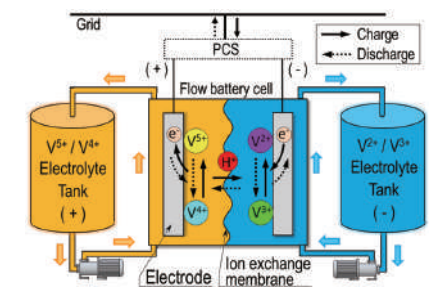
One important feature of the RF battery is that there are no restrictions on depth and number of charge/discharge cycles: one of many features making the RF battery suitable for long-lifetime large scale applications. The demonstration is to examine techniques designed to enhance the economic value of RF batteries by providing frequency regulation and trade-based energy supply, which are central demands of the wholesale power market.



2-MW/8-MWh Redox Flow Battery in California, USA

-Principle and Structure of Redox Flow Battery-

An RF battery is a storage battery made up of a cell in which a battery reaction takes place, tanks that store active materials, and pumps and pipes used to circulate the active materials. Comprising independent blocks of output (kW) and capacity (kWh), RF batteries can be designed to exhibit suitable output and capacity performance for specific applications. Moreover, the RF battery is superb as a long-life and large-storage battery free from deterioration of electrodes and active materials because its charge and discharge reactions only involve changes in the valence states of ions in the electrolytes. Sumitomo Electric developed the system ahead of its competitors in the industry, selecting vanadium (V) as the electrolytes.



Principle of Redox Flow Battery

-The Outline of the Project-

Project Title	International Demonstration Project to Prove Japanese Technology for Improved Energy Consumption Efficiency/Demonstration Project Testing Storage Battery Operation for Both Electricity Transmission and Distribution in California, the United States
Project Period	FY2015 to FY2020
Subcontractor	Sumitomo Electric Industries, Ltd.

Corporate Governance

Basic Principles Concerning Corporate Governance

The unwavering basic policy of the Sumitomo Electric Group is to continue to make a positive contribution to society through the pursuit of fair business practices that are 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. We are committed to enhancing our corporate governance in accordance with the following basic principles.

1. Overview of Corporate Governance Structure and Reasons for Adoption

Sumitomo Electric chose to adopt an Audit & Supervisory Board system as the roles of such a board and its members under this system are clearly intended for ensuring sound business management. With the Board of Directors, executive officers and Audit & Supervisory Board members carrying out their respective duties, the Company intends to pursue sustainable growth and increase its corporate value over the medium to long term in keeping with basic principles.

- Aiming for the sustainable growth of the Company, improvement in its medium to long term corporate value, and enhancement of its profitability and capital efficiency, the Company's Board of Directors is primarily responsible for deliberating and determining basic management policies and other important company matters, as well as supervising the execution of duties by each individual director. In order for the Board of Directors to appropriately fulfill these roles, it deliberates only important issues among individual subjects, such as major investment items, and focuses on the medium-term business plan, annual plans based on it and quarterly follow-ups of the plans.
- When carrying out its supervisory duties, the Board of Directors respects the opinions of independent officers, particularly outside directors, to ensure a more independent and objective standpoint. In addition to possessing a structure that features at least two independent outside directors, we will work to strengthen the support structure and cooperation between auditors, including independent outside auditors, accounting auditors and the internal audit department.

2. Status of Audits by Corporate Auditors

To ensure lawful and proper business management, Sumitomo Electric receives three types of audits: corporate auditor audits, internal audits and accounting audits. With regard to corporate auditor audits, a total of five corporate auditors, including three outside auditors, work with dedicated corporate audit staff (Office of Audit & Supervisory Board Members) to audit the execution of duties by each director and the development and implementation status of internal controls.

3. Outside Directors and Outside Auditors

The Company has appointed three outside directors to further strengthen the supervisory function of the Board of Directors from an external perspective and to enhance the transparency and objectivity of business management. In addition, in order to reinforce the system of ensuring lawful and proper management, we have appointed three outside auditors with expertise in various fields and multifaceted perspectives to occupy a majority of corporate auditor positions.

Outside Directors

Hiroshi Sato

Executive Advisor, Kobe Steel, Ltd.
 Director of the Company since June 2016
 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 wide range of business domains, including materials (primarily steel), machinery and energy.



Michihiro Tsuchiya

Corporate Advisor, Mitsubishi Tanabe Pharma Corporation
 Director of the Company since June 2018
 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
 Director of the Company since June 2018
 Reasons for election: Her extensive experience and ability to offer a global perspective on corporate management and corporate governance, which is her field of research as professor at Hitotsubashi University.



Outside Audit & Supervisory Board Members

Katsuaki Watanabe

Director, Kyushu Financial Group, Inc.
 Audit & Supervisory Board Member of the Company since June 2013
 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)
 Audit & Supervisory Board member, Konishi Co., Ltd.
 Audit & Supervisory Board Member of the Company since June 2018
 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.



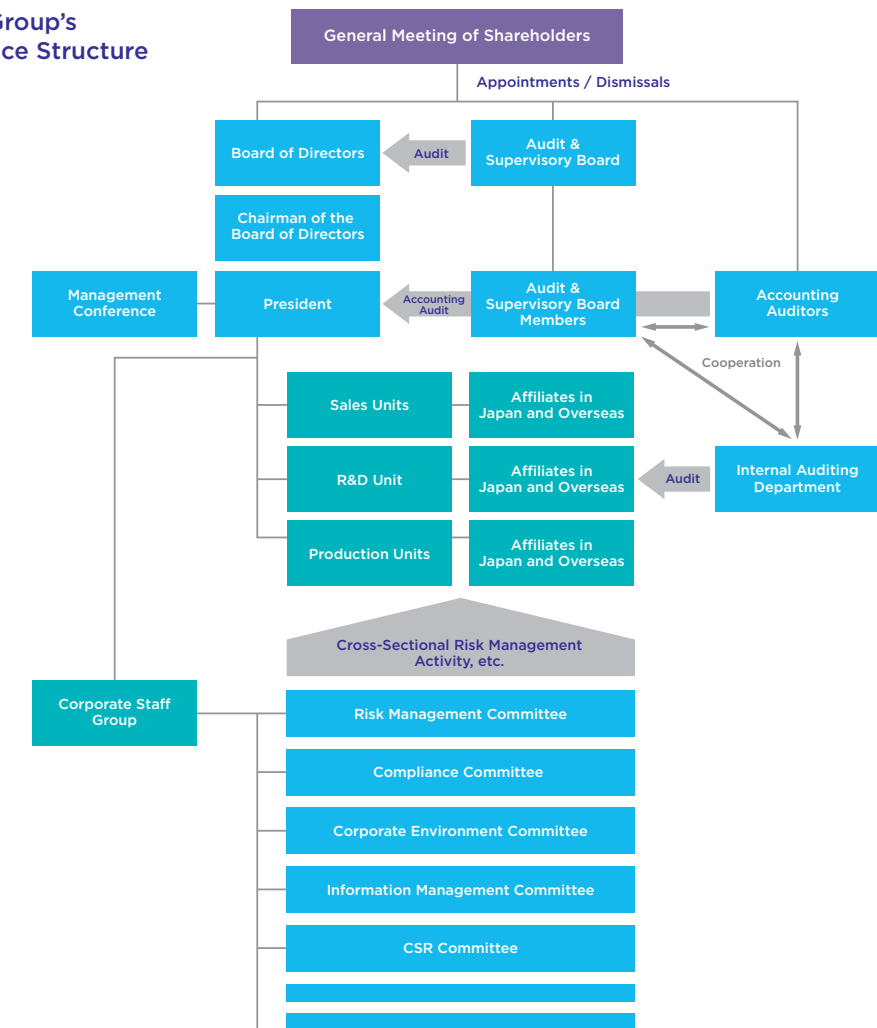
Michiko Uehara

Attorney at Law
 Audit & Supervisory Board Member, Japan Wool Textile Co., Ltd.
 Audit & Supervisory Board Member of the Company since June 2016
 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 : <https://global-sei.com/company/governance.html>

Sumitomo Electric Group's Corporate Governance Structure



Directors, Audit & Supervisory Board Members and Executive Officers (As of June 28, 2019)



Masayoshi Matsumoto
Chairman & CEO



Osamu Inoue
President & COO



Mitsuo Nishida
Executive Vice President



Nozomi Ushijima
Executive Vice President



Yoshitomo Kasui
Senior Managing Director



Akira Nishimura
Senior Managing Director



Hideo Hato
Senior Managing Director



Junji Ito
Managing Director



Masaki Shirayama
Managing Director



Nobuyuki Kobayashi
Managing Director



Hiroshi Sato
Director*



Michihiro Tsuchiya
Director*



Christina L. Ahmadian
Director*

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

Audit & Supervisory Board Members

Satoru Ogura
Akira Hayashi
Katsuaki Watanabe*
Michiko Uehara*
Ikuo Yoshikawa*

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

Managing Executive Officer

Yasuhiro Miyata
Toshiaki Kakii
Shigeru Nakajima
Takafumi Uemiya
Kenichi Urushibata
Masahiro Kobayashi
Tomoaki Nagano
Yasuyuki Shibata
Yuichi Sano
Toshiyuki Sahashi
Hidetoshi Saito

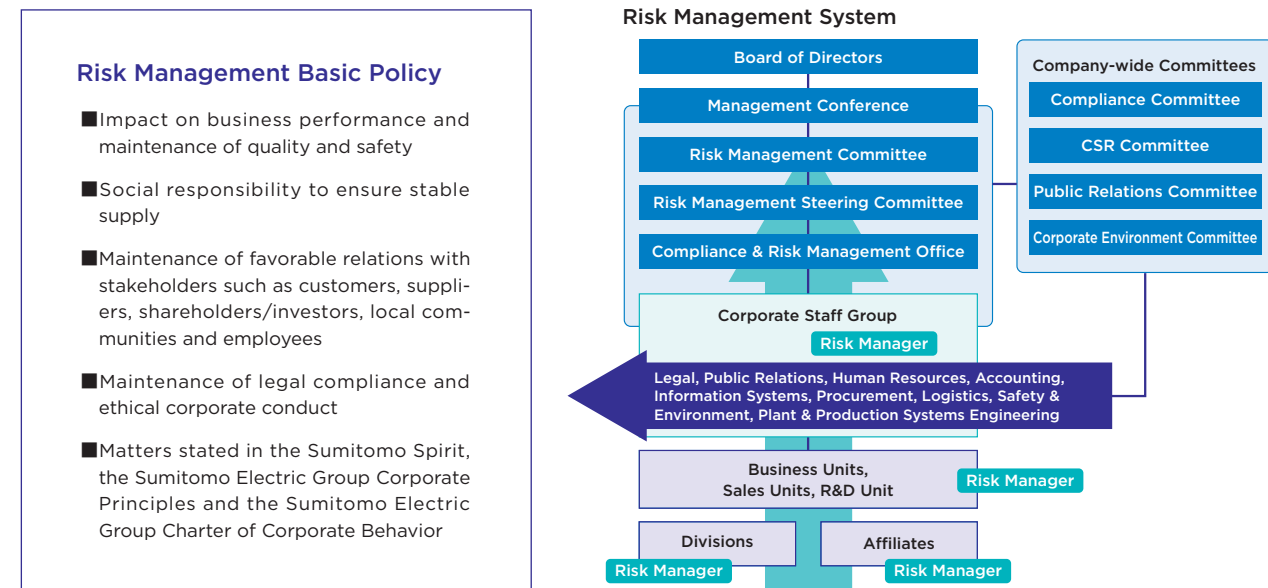
Executive Officer

Tetsuya Hayashi
Kikaku Tokumaru
Hiroshi Shikata
Hiroshi Iwano
Takaaki Yamamoto
Hiroshi Kiyokawa
Yoshiyuki Ogata
Soichiro Seki
Hisashi Togawa
Mitsuhiro Goto
Hiroshi Hayami
Masataka Inoue
Hidetoshi Ishiguro
Koji Niikura
Shigeru Suemori
Masatoshi Nakata
Kazuhira Harada
Kiyonori Yokoi
Atsushi Kittaka
Atsushi Murayama

Risk Management

Basic Approach

The Sumitomo Electric Group identifies, analyzes and assesses factors that may hinder or adversely affect the execution of its business activities or achievement of management goals and strategies, and seeks to reduce and minimize risks at reasonable cost and effort. With respect to cross-sectional risks common to all divisions and affiliates in the Group, the relevant corporate staff divisions, as well as company-wide committees organized by officers in charge, seek to identify, analyze and assess risks in accordance with their area of responsibility and take measures to mitigate them. For risks associated with business operations in each business division, sales group and R&D group, each division or group will individually identify, analyze and assess the risks associated with their business operations and take measures to reduce such risks.



Business Continuity Initiatives

Sumitomo Electric has been working on a business continuity plan (BCP) since 2007 to ensure that core business functions can be maintained in the event of emergencies such as earthquakes or influenza pandemics and operations can be swiftly resumed after any interruption. Furthermore, we promote business continuity management (BCM) to ensure the continuous improvement of the BCP. In addition to reviewing the BCP on an annual basis, we verify the effectiveness of emergency response plans and take inventory of supply chain risks.

Strengthening Personal Information Protection/Information Security

The Sumitomo Electric Group is working to improve its information management system and related rules in each division and affiliate, and is enhancing mechanisms to prevent the leakage of information. In terms of social media usage, we have established a social media policy that specifies basic approaches to its use in addition to social media guidelines that set out specific points to note when using social media. Together, these serve to raise awareness among employees. We will continue to improve the structure of our domestic and overseas affiliates and enhance employee training to further improve information management within the Group.

Protection of Personal Information

In accordance with its Personal Information Protection Policy, Personal Information Protection Regulations and other rules, Sumitomo Electric appropriately handles the personal information of its customers, business partners and employees in the course of business in compliance with laws and regulations pertaining to the protection and use of personal information. The Regulations Concerning Specific Personal Information Protection were established in November 2015 to ensure the appropriate handling of specific personal information based on the provisions of laws and regulations and to prevent external leaks and so on. In addition, the Personal Information Protection Policy, Personal Information Protection Regulations and other rules were revised in response to the full enforcement of the Revised Personal Information Protection Act in May 2017 and we promote the appropriate protection and use of personal information according to the provisions of laws and regulations. In addition, with the EU General Data Protection Regulation (GDPR) coming into effect in May 2018, we formulated the Personal Information Protection Regulations for EU Residents to ensure the proper protection of the personal information of EU residents as specified by the GDPR and we have concluded contract procedures to facilitate the sharing of the personal information of those residing in the EU within the Sumitomo Electric Group. Furthermore, we have put in place a system for the prompt reporting of any leak, loss, damage or other infringement of the personal data of EU residents to the supervisory body in the EU.

Strengthening of Information Security Measures

In terms of information security, ICT Management Committees have been set up in China, Thailand, Indonesia, Malaysia and the United States to form the basis of our global expansion. The work they have done has produced actual results, such as a reduction in the risk of computer virus infection and the implementation of information security training. In terms of structure, the newly-established SEI-CSIRT (Computer Security Incident Response Team) is now playing a central role in our efforts to promptly identify and respond to any incidents relating to information security at Group companies.

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

Japan's economy in the current consolidated fiscal year remained steady in the first half, supported by favorable employment conditions and domestic demand centered on capital investment. However, the second half of the year saw exports and production weaken due to the slowdown in economic activity in China and Europe. In the global economy, U.S.-China trade conflict and uncertainty in the economic outlook have led to a decline in consumption and investment in China, affecting other economies and leading to a gradual slowdown in their economic growth.

As for business conditions surrounding the Sumitomo Electric Group, while the first half of the year saw business remain relatively strong, the second half of 2018 was marked by a decline in automobile production in China and Europe. The stagnation in the global smartphone market and decline in demand for cemented carbide tools in certain markets also served to make the situation increasingly severe. Against this backdrop, net sales for the current fiscal year came to ¥3,178.0 billion (an increase of 3.1% over ¥3,082.2 billion in FY2017), securing a year-on-year increase in revenue. In terms of profit, despite the promotion of cost reductions, operating income went down to ¥166.3 billion (a 4% decrease from ¥173.1 billion in FY2017) and the operating income margin came in at 5.2% (0.4 percentage points down on 5.6% in FY2017) due to an increase in R&D investment as well as declining prices in the automotive business and rising costs associated with such things as additional duties placed on imports by the U.S. and China. Profit attributable to owners of the parent fell to ¥118.1 billion (decreasing 1.9% from ¥120.3 billion in FY2017).

Automotive

On the back of a concerted effort to expand sales of wiring harnesses, automotive electronic parts and anti-vibration rubber, net sales rose by ¥77.5 billion (4.7%) to ¥1,709.4 billion. In addition to price reductions and an increase in expenses related to R&D for future growth, operating income was also influenced by the additional duties placed on imports by the U.S. and China and by weaker earnings from anti-vibration rubber products, declining ¥12.1 billion to ¥84.7 billion. The operating income margin fell by 0.9 percentage points to 5.0%.

Infocommunications

In the Infocommunications business segment, while sales of optical fiber cables continued to expand, the effect of transferring portions of this business to another segment and so forth saw a decline in net sales, dropping ¥11.9 billion (5.4%) to ¥208.4 billion. Despite the promotion of cost reductions through productivity improvement, operating income fell by ¥2.2 billion to ¥16.4 billion due to an increasingly tough business environment. The operating income margin dropped 0.5 percentage points to 7.9%.

Electronics

While sales of electronic wires and irradiated tubes continued to expand, the decrease in FPCs for mobile devices and so forth saw net sales fall ¥17.4 billion (7.1%) to ¥228.9 billion. Operating income increased by ¥1.6 billion to ¥7.0 billion as a result of profitability improvements gained through cost reduction efforts. The operating income margin increased by 0.9 percentage points to 3.1%.

Environment and Energy

In addition to an expansion of sales of electric wires and cables, the increase in electrical construction work by Sumitomo Densetsu Co., Ltd. saw net sales rise by ¥41.8 billion (5.8%) to ¥759.8 billion. Operating income rose ¥5.9 billion to come in at ¥30.1 billion. The operating income margin went up 0.6 percentage points to 4.0%. Meanwhile, orders received for plant and installation work came to ¥287.1 billion, a decline of ¥18.7 billion (6.1%) on the previous fiscal year.

Industrial Materials and Others

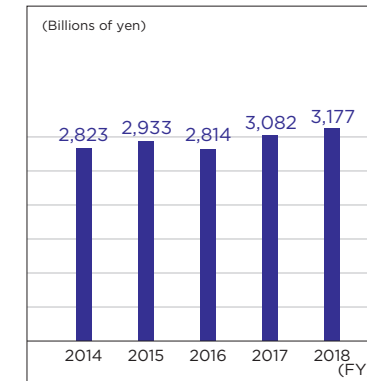
With the emphasis on primarily expanding sales of cemented carbide tools, net sales increased by ¥14.7 billion (4.3%) to ¥357.8 billion. Year-on-year, operating income rose by ¥22.0 million to ¥28.2 billion. The operating income margin, meanwhile, fell by 0.3 percentage points to 7.9%.

Cashflows

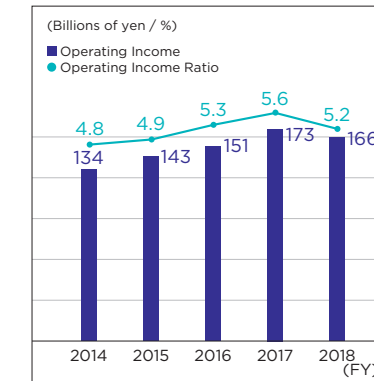
The fiscal year-end balance of cash and cash equivalents was ¥168.9 billion, a year-on-year decrease of ¥11.2 billion (6.2%). Net cash provided by operating activities came to ¥177.7 billion, down ¥61.9 billion on the previous fiscal year. This was the result of factors such as the fluctuation in working capital being subtracted from profit before income taxes of ¥181.4 billion in addition to depreciation and amortization of ¥148.9 billion – in other words, a cash flow generated by business activity totaling ¥330.3 billion. In terms of cash flows from investment activities, net cash used came to ¥184.6 billion (up ¥10.3 billion on the previous fiscal year). This was due, among other factors, to capital expenditure of ¥178.0 billion on the purchase of tangible fixed assets. Meanwhile, free cash flow, calculated by deducting net cash used in investing activities from net cash provided by operating activities, was ¥6.9 billion in the negative (in contrast, free cash flow was ¥65.3 billion in the positive in FY2017).

Cash flow from financing activities saw a decrease of ¥4.3 billion (a decrease of ¥66.8 billion was recorded in the previous fiscal year). This was mainly due to the payment of dividends subtracted from the increase in loans payable.

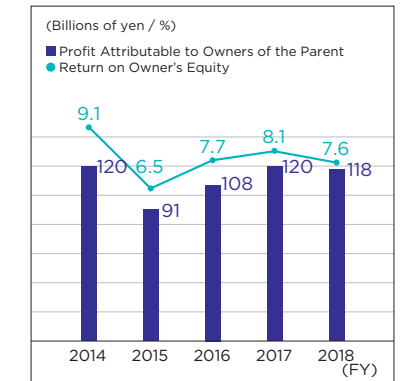
Net Sales



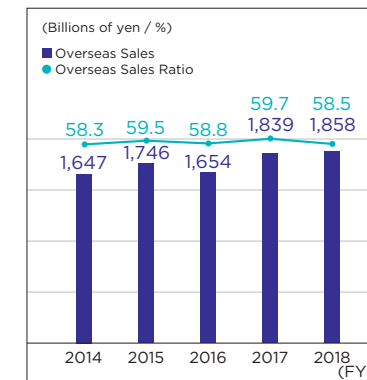
Operating Income / Operating Income Ratio



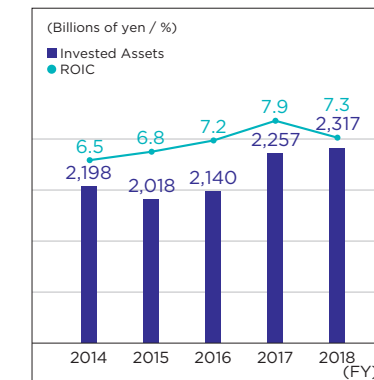
Profit Attributable to Owners of the Parent / Return on Owner's Equity



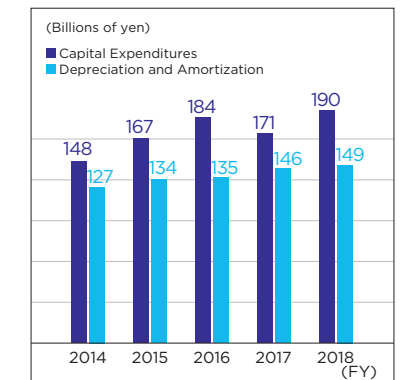
Overseas Sales / Overseas Sales Ratio



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)
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	¥ 167,225	¥ 178,918	\$ 1,506,667
Trade notes and accounts receivable (Note 4)	708,617	668,616	6,384,512
Securities (Notes 3, 4 and 5)	2,084	2,065	18,776
Inventories (Note 7)	528,789	466,437	4,764,294
Other current assets	108,534	88,277	977,872
Allowance for doubtful receivables	(1,609)	(2,616)	(14,497)
Total current assets	1,513,640	1,401,697	13,637,625
Non-current Assets:			
Property, Plant and Equipment (Note 8):			
Buildings and structures	690,809	666,919	6,224,065
Machinery, equipment and others	1,731,217	1,651,452	15,597,955
Land	89,229	88,461	803,937
Construction in progress	52,747	51,705	475,241
	2,564,002	2,458,537	23,101,198
Accumulated depreciation	(1,678,179)	(1,612,703)	(15,120,092)
Net property, plant and equipment	885,823	845,834	7,981,106
Intangible Assets	40,695	49,115	366,655
Investments and Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	276,257	311,435	2,489,026
Investment securities (Notes 4 and 5)	170,302	167,326	1,534,390
Net defined benefit asset (Note 13)	87,569	134,470	788,981
Deferred tax assets (Note 12)	33,382	42,989	300,766
Other	47,822	49,171	430,868
Allowance for doubtful receivables	(2,227)	(2,134)	(20,065)
Total investments and other assets	613,105	703,257	5,523,966
Total non-current assets	1,539,623	1,598,206	13,871,727
Total assets	¥3,053,263	¥2,999,903	\$27,509,352

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)
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
LIABILITIES			
Current Liabilities:			
Trade notes and accounts payable (Note 4)	¥ 379,844	¥ 367,297	\$ 3,422,326
Short-term debt (Notes 4 and 8)	248,583	186,931	2,239,688
Accrued income taxes	22,845	17,935	205,829
Other current liabilities (Note 8)	229,479	231,505	2,067,565
Total current liabilities	880,751	803,668	7,935,409
Non-current Liabilities:			
Bonds (Notes 4 and 8)	74,828	74,805	674,187
Long-term debt (Notes 4 and 8)	213,330	226,627	1,922,065
Deferred tax liabilities (Note 12)	36,690	57,663	330,570
Net defined benefit liabilities (Note 13)	55,867	54,661	503,352
Other non-current liabilities (Note 8)	15,484	18,393	139,508
Total non-current liabilities	396,199	432,149	3,569,682
Total liabilities	1,276,950	1,235,817	11,505,091
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock:			
Authorized—3,000,000 thousand shares in FY2018 and FY2017	99,737	99,737	898,612
Issued—793,941 thousand shares in FY2018 and FY2017			
Capital surplus	170,868	170,849	1,539,490
Retained earnings	1,216,207	1,160,601	10,957,807
Treasury stock, at cost: 14,047 thousand shares in FY2018 and 14,057 thousand shares in FY2017	(20,749)	(20,749)	(186,945)
Total shareholders' equity	1,466,063	1,410,438	13,208,965
Accumulated Other Comprehensive Income:			
Net unrealized holding gains on available-for-sale securities	83,430	86,251	751,689
Deferred gains or losses on hedges	(128)	(230)	(1,153)
Foreign currency translation adjustments	(13,927)	238	(125,480)
Remeasurements of defined benefit plans	15,445	42,756	139,157
Total accumulated other comprehensive income	84,820	129,015	764,213
Non-controlling Interests	225,430	224,633	2,031,084
Total net assets	1,776,313	1,764,086	16,004,262
Total liabilities and net assets	¥3,053,263	¥2,999,903	\$27,509,352

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Net Sales	¥3,177,985	¥3,082,247	\$28,633,075
Cost of Sales	2,593,363	2,507,434	23,365,736
Gross profit	584,622	574,813	5,267,339
Selling, General and Administrative Expenses	418,362	401,674	3,769,367
Operating income	166,260	173,139	1,497,973
Other Income (Expenses):			
Interest and dividend income	5,801	5,201	52,266
Interest expense	(6,897)	(5,514)	(62,141)
Share of profit of investments accounted for using the equity method	25,051	27,813	225,705
Gain on sales of investment securities	—	13,506	—
Gain on return of assets from retirement benefit trust (Note 15)	8,905	—	80,232
Loss on disposal of property, plant and equipment(Note 16)	(3,094)	(3,728)	(27,876)
Impairment loss on fixed assets (Note 17)	(10,715)	(3,439)	(96,540)
Restructuring expenses (Note 18)	(2,357)	(3,951)	(21,236)
Loss on overseas construction related accident (Note 19)	—	(4,061)	—
Other, net	(1,566)	(295)	(14,109)
	15,128	20,198	136,301
Profit before Income Taxes	181,388	193,337	1,634,273
Income Taxes (Note 12):			
Current	51,118	48,918	460,564
Deferred	63	4,431	568
	51,181	53,349	461,132
Profit for the year	130,207	139,988	1,173,142
Profit Attributable to Non-controlling Interests	(12,144)	(19,660)	(109,415)
Profit Attributable to Owners of the Parent	¥ 118,063	¥ 120,328	\$ 1,063,726
	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic	¥151.38	¥154.29	\$1.364
Diluted	—	152.88	—
Cash dividends	48.00	46.00	0.432

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)
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Profit for the year	¥130,207	¥139,988	\$1,173,142
Other Comprehensive Income (Loss) (Note 11):			
Net unrealized holding gains on available-for-sale securities	(527)	8,360	(4,748)
Deferred gains or losses on hedges	135	(377)	1,216
Foreign currency translation adjustments	1,123	1,594	10,118
Remeasurements of defined benefit plans	(26,463)	20,450	(238,427)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(19,042)	10,788	(171,565)
Total other comprehensive income (loss)	(44,774)	40,815	(403,406)
Comprehensive Income (Loss)	¥ 85,433	¥180,803	\$ 769,736
Comprehensive income (loss) attributable to:			
Owners of the parent	73,835	158,163	665,240
Non-controlling interests	11,598	22,640	104,496

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 FY2017	¥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 of 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	
Balance at Beginning of FY2018	¥99,737	¥170,849	¥1,160,601	¥(20,749)	¥86,251	¥(230)	¥ 238	¥42,756	¥224,633	¥1,764,086	
Cash dividends			(38,224)							(38,224)	
Profit attributable to owners of the parent for the year			118,063							118,063	
Purchases of treasury stock				(3)						(3)	
Disposal of treasury stock		(0)		3						3	
Effect arising from net change of scope of consolidation			(24,233)							(24,233)	
Change in ownership interests arising from transactions with non-controlling shareholders		19								19	
Other					(2,821)	102	(14,165)	(27,311)	797	(43,398)	
Balance at End of FY2018	¥99,737	¥170,868	¥1,216,207	¥(20,749)	¥83,430	¥(128)	¥(13,927)	¥15,445	¥225,430	¥1,776,313	

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 FY2018	\$898,612	\$1,539,319	\$10,456,807	\$(186,945)	\$777,106	\$(2,072)	\$ 2,144	\$385,224	\$2,023,903	\$15,894,099	
Cash dividends			(344,391)							(344,391)	
Profit attributable to owners of the parent for the year			1,063,726							1,063,726	
Purchases of treasury stock				(27)						(27)	
Disposal of treasury stock		(0)		27						27	
Effect arising from net change of scope of consolidation			(218,335)							(218,335)	
Change in ownership interests arising from transactions with non-controlling shareholders		171								171	
Other					(25,417)	919	(127,624)	(246,067)	7,181	(391,008)	
Balance at End of FY2018	\$898,612	\$1,539,490	\$10,957,807	\$(186,945)	\$751,689	\$(1,153)	\$(125,480)	\$139,157	\$2,031,084	\$16,004,262	

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)
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Cash Flows from Operating Activities:			
Profit before income taxes	¥181,388	¥193,337	\$1,634,273
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	148,916	141,439	1,341,706
Impairment loss on fixed assets	11,879	3,751	107,028
Amortization of goodwill	2,140	2,205	19,281
Interest and dividend income	(5,801)	(5,201)	(52,266)
Interest expenses	6,897	5,514	62,141
Share of profit of investments accounted for using the equity method	(25,051)	(27,813)	(225,705)
Net gain on sales of property, plant and equipment	(1,777)	(600)	(16,010)
Net gain on sales of investment securities	(212)	(13,462)	(1,910)
Loss on disposal of property, plant and equipment	3,094	4,410	27,876
Loss on valuation of investment securities	28	34	252
Gain on return of assets from retirement benefit trust	(8,905)	—	(80,232)
(Increase) decrease in trade notes and accounts receivable	(41,044)	(18,750)	(369,799)
(Increase) decrease in inventories	(60,006)	(17,568)	(540,643)
Increase (decrease) in trade notes and accounts payable	12,824	(11,572)	115,542
Increase (decrease) in net defined benefit assets and liabilities	7,916	(5,734)	71,322
Other, net	(26,620)	19,346	(239,841)
Subtotal	205,666	269,336	1,853,014
Interest and dividend received	14,930	15,313	134,517
Interest paid	(6,901)	(5,833)	(62,177)
Settlement package paid	—	(3,676)	—
Income taxes paid	(36,039)	(35,567)	(324,705)
Net cash provided by operating activities	177,656	239,573	1,600,649
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(178,046)	(171,951)	(1,604,163)
Proceeds from sales of property, plant and equipment	5,484	4,046	49,410
Purchase of investment securities	(2,411)	(2,462)	(21,723)
Proceeds from sales of investment securities	7,445	17,464	67,078
Other, net	(17,073)	(21,362)	(153,825)
Net cash used in investing activities	(184,601)	(174,265)	(1,663,222)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt	49,043	(5,143)	441,869
Proceeds from long-term debt	48,464	22,865	436,652
Redemption of bonds and repayments of long-term debt	(51,221)	(51,428)	(461,492)
Proceeds from issuance of bonds	—	15,000	—
Payments for purchase of treasury stock	(3)	(4)	(27)
Cash dividends paid	(38,224)	(34,324)	(344,391)
Dividends paid to non-controlling interests	(9,926)	(10,991)	(89,431)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,698)	(4)	(15,299)
Other, net	(759)	(2,766)	(6,838)
Net cash used in financing activities	(4,324)	(66,795)	(38,958)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			
	(639)	1,262	(5,757)
Net Increase (Decrease) in Cash and Cash Equivalents	(11,908)	(225)	(107,289)
Cash and Cash Equivalents at Beginning of Year	180,108	180,002	1,622,741
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	673	127	6,064
Increase in Cash and Cash Equivalents Resulting from Merger with Unconsolidated Subsidiaries	—	204	—
Cash and Cash Equivalents at End of Year (Note 3)	¥168,873	¥180,108	\$1,521,515

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, 2019 and 2018

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, 2019, which was ¥110.99 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.

Amounts in the consolidated financial statements and notes are rounded to the nearest million yen. For translations into U. S. dollars, amounts are rounded to the nearest thousand dollars. As a result, a totals shown in the consolidated financial statements and notes do not necessarily agree with the sum of the individual amounts.

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 holding 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 and 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 ¥129,627 million (US\$1,167,916 thousand) and ¥117,735 million for the years ended March 31, 2019 and 2018, 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.

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been adopted from the beginning of the fiscal year ended March 31, 2019. As a result, information regarding net operating loss carryforwards has been added in Note 12.

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.

In particular, upon application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended March 31, 2019, the Company and its subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of investments and other assets and non-current liabilities, respectively. As a result, both the prior year amount of total assets and total liabilities decreased by ¥17,400 million through the offsetting of the deferred tax assets and deferred tax liabilities on the same taxable entity.

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) 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 and its domestic consolidated companies plan to adopt the standards from the beginning of the fiscal year ending March 31, 2021.

(3) Impact of Adoption

The Company is in the process of assessing the impact of adopting the accounting standards.

• Lease (IFRS16, January 13, 2016 and ASU2016-02, February 25, 2016)

(1) Summary

These standards require lessees to recognize most leases on the balance sheet, resulting in the recognition of lease assets and liabilities.

(2) Planned Adoption Date

The foreign consolidated subsidiaries plan to adopt IFRS 16 from the beginning of the fiscal year ending March 31, 2020 and adopt ASU 2016-02 from the beginning of the fiscal year ending March 31, 2021.

(3) Impact of Adoption

The Company is in the process of assessing the impact of adopting the accounting standards.

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
As of	March 31, 2019	March 31, 2018	March 31, 2019
Cash and time deposits	¥167,225	¥178,918	\$1,506,667
Cash equivalents included in securities	2,084	2,065	18,776
Deposits placed with banks with a maturity of over three months	(436)	(875)	(3,928)
Cash and cash equivalents	¥168,873	¥180,108	\$1,521,515

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, 2019 and 2018 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		
	FY2018			FY2017			FY2018		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
	As of	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2019	March 31, 2019	March 31, 2019
Cash and time deposits	¥ 167,225	¥ 167,225	¥ —	¥ 178,918	¥ 178,918	¥ —	\$ 1,506,667	\$ 1,506,667	\$ —
Trade notes and accounts receivable	708,617	708,617	—	668,616	668,616	—	6,384,512	6,384,512	—
Securities, investments in unconsolidated subsidiaries and affiliates and investment securities	351,589	466,752	115,163	384,356	624,336	239,980	3,167,754	4,205,352	1,037,598
Total assets	1,227,431	1,342,594	115,163	1,231,890	1,471,870	239,980	11,058,933	12,096,531	1,037,598
Trade notes and accounts payable	379,844	379,844	—	367,297	367,297	—	3,422,326	3,422,326	—
Short-term debt	248,583	248,583	—	186,931	186,931	—	2,239,688	2,239,688	—
Bonds	74,828	75,966	1,138	74,805	75,338	533	674,187	684,440	10,253
Long-term debt	213,330	216,805	3,475	226,627	229,801	3,174	1,922,065	1,953,374	31,309
Total liabilities	916,585	921,198	4,613	855,660	859,367	3,707	8,258,267	8,299,829	41,562
Derivative transactions	1,261	1,261	—	422	422	—	11,361	11,361	—

(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
	FY2018 As of March 31, 2019	FY2017 March 31, 2018	FY2018 March 31, 2019
Unlisted securities (available-for-sale securities)	¥ 6,443	¥ 5,961	\$ 58,050
Unlisted investments in unconsolidated subsidiaries and affiliates	90,611	90,509	816,389

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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	As of FY2018 March 31, 2019	FY2017 March 31, 2018	FY2018 March 31, 2019
Securities in current assets:			
Available-for-sale securities	¥2,084	¥2,065	\$18,776
Held-to-maturity debt securities	—	—	—
	¥2,084	¥2,065	\$18,776
Investment securities:			
Available-for-sale securities	¥170,302	¥167,326	\$1,534,390
Held-to-maturity debt securities	—	—	—
	¥170,302	¥167,326	\$1,534,390

Available-for-sale securities with fair values or quoted market values included in securities in current assets and investment securities as of March 31, 2019 and 2018 were as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2018				
Equity securities	¥27,134	¥126,903	¥(313)	¥153,724
Other	12,084	135	—	12,219
	¥39,218	¥127,038	¥(313)	¥165,943
FY2017				
Equity securities	¥24,016	¥127,158	¥(75)	¥151,099
Other	12,065	266	—	12,331
	¥36,081	¥127,424	¥(75)	¥163,430

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2018				
Equity securities	\$244,472	\$1,143,373	\$(2,820)	\$1,385,026
Other	108,875	1,216	—	110,091
	\$353,347	\$1,144,590	\$(2,820)	\$1,495,117

Proceeds from sales of available-for-sale securities were ¥2,906 million (US\$26,183 thousand) and ¥16,706 million for the years ended March 31, 2019 and 2018, respectively. The net realized gains were ¥493 million (US\$4,442 thousand) and ¥13,391 million, respectively.

Impairment loss on securities during fiscal year 2018 amounted to ¥28 million (US\$252 thousand), which consisted of ¥28 million (US\$252 thousand) for available-for-sale securities. Impairment loss of securities during fiscal year 2017 amounted to ¥34 million, which consisted of ¥34 million for available-for-sale securities.

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, 2019 and 2018 is as follows:

	Millions of yen									
	FY2018					FY2017				
	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	¥ 25,394	¥ 35	¥ 35	¥ 36,103	¥ 78	¥ 21,974	¥(155)	¥(155)	¥ 29,475	¥(115)
Sell	82,251	607	607	175,020	463	80,305	373	373	164,105	427
Interest rate and currency swap contracts										
	623	0	0	—	—	597	(56)	(56)	—	—
Commodity forward contracts (copper, nickel and aluminum):										
Buy	5,715	10	10	1,295	187	749	1	1	539	(27)
Sell	10,425	(106)	(106)	4,836	(85)	1,721	19	19	2,978	(25)
Commodity swap contracts (copper and silver)										
	—	—	—	1,276	72	—	—	—	1,600	(20)
	¥124,408	¥546	¥546	¥218,530	¥715	¥105,346	¥ 182	¥ 182	¥198,697	¥ 240

	Thousands of U.S. dollars				
	FY2018				
	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	\$ 228,795	\$ 315	\$ 315	\$ 325,282	\$ 703
Sell	741,067	5,469	5,469	1,576,899	4,172
Interest rate and currency swap contracts					
	5,613	0	0	—	—
Commodity forward contracts (copper, nickel and aluminum):					
Buy	51,491	90	90	11,668	1,685
Sell	93,927	(955)	(955)	43,571	(766)
Commodity swap contracts (copper and silver)					
	—	—	—	11,497	649
	\$1,120,894	\$4,919	\$4,919	\$1,968,916	\$6,442

* 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, 2019 and 2018. Certain interest rate swap contracts in the amount of ¥124,620 million (US\$1,122,804 thousand) and ¥148,346 million for the years ended March 31, 2019 and 2018, respectively, meeting certain hedging criteria are excluded from the table above.

7. INVENTORIES

Inventories as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Merchandise and finished goods	¥162,318	¥148,328	\$1,462,456
Work in process	181,055	160,647	1,631,273
Raw materials and supplies	185,416	157,462	1,670,565
	¥528,789	¥466,437	\$4,764,294

8. INTEREST-BEARING LIABILITIES

a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Short-term debt, principally from banks, with a weighted average interest rate of 2.07% at March 31, 2019	¥187,432	¥136,648	\$1,688,729
Current portion of long-term debt, principally from banks and insurance companies, with a weighted average interest rate of 0.74% at March 31, 2019	61,151	50,283	550,960
Current portion of bonds	—	—	—
	¥248,583	¥186,931	\$2,239,688

b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Unsecured bonds, due 2022 to 2031, with an interest rate of 0.08%-0.936%	¥ 74,828	¥ 74,805	\$ 674,187
Long-term debt, principally from banks and insurance companies, due 2019 to 2029, with a weighted average interest rate of 0.48% at March 31, 2019	274,481	276,910	2,473,025
	349,309	351,715	3,147,211
Current portion of bonds and long-term debt	(61,151)	(50,283)	(550,960)
	¥288,158	¥301,432	\$2,596,252

The aggregate annual maturities of bonds and long-term debt at March 31, 2019 were as follows:

(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2020 (= current portion)	—	—
2021	—	—
2022	¥10,000	\$90,098
2023	10,000	90,098
2024	—	—
2025 and thereafter	55,000	495,540

(Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2020 (= current portion)	¥61,151	\$550,960
2021	50,977	459,294
2022	46,619	420,029
2023	43,039	387,774
2024	35,203	317,173
2025 and thereafter	37,490	337,778

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Property, plant and equipment, net of accumulated depreciation	¥2,370	¥2,554	\$21,353

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, 2019 and 2018 were as follows:

Common stock outstanding	Thousands of shares	
	FY2018 For the years ended March 31, 2019	FY2017 March 31, 2018
Balance at beginning of year	793,941	793,941
Balance at end of year	793,941	793,941

Treasury stock outstanding	Thousands of shares	
	FY2018 For the years ended March 31, 2019	FY2017 March 31, 2018
Balance at beginning of year	14,057	14,049
Increase due to purchase of shares of common stocks	—	—
Increase due to purchase of odd-lot stocks	2	2
Other, net	(12)	6
Balance at end of year	14,047	14,057

b) Dividend Information

Resolution	Record date	Effective date	Total amount	
			Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 27, 2018	March 31, 2018	June 28, 2018	¥19,502	\$175,710
Board of Directors on November 1, 2018	September 30, 2018	December 3, 2018	¥18,722	\$168,682

Resolution	Record date	Effective date	Total amount	
			Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 21, 2019	March 31, 2019	June 24, 2019	¥18,722	\$168,682

Resolution	Record date	Effective date	Total amount	
			Millions of yen	
Shareholders' meeting on June 28, 2017	March 31, 2017	June 29, 2017	¥17,942	
Board of Directors on November 7, 2017	September 30, 2017	December 1, 2017	¥16,382	

Resolution	Record date	Effective date	Total amount	
			Millions of yen	
Shareholders' meeting on June 27, 2018	March 31, 2018	June 28, 2018	¥19,502	

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.

In the year ended March 31, 2019, there were no potentially dilutive common shares.

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Net Unrealized Holding Gains on Available-for-Sale Securities:			
Increase during the year	¥ 12	¥ 24,905	\$ 108
Reclassification adjustments	(531)	(13,404)	(4,784)
Subtotal, before tax	(519)	11,501	(4,676)
Tax effects	(8)	(3,141)	(72)
Subtotal, net of tax	¥(527)	¥ 8,360	\$(4,748)
Deferred Gains or Losses on Hedges:			
Increase (decrease) during the year	¥307	¥(160)	\$2,766
Reclassification adjustments	(153)	(432)	(1,379)
Subtotal, before tax	154	(592)	1,388
Tax effects	(19)	215	(171)
Subtotal, net of tax	¥135	¥(377)	\$1,216
Foreign Currency Translation Adjustments:			
Increase during the year	¥1,123	¥1,477	\$10,118
Reclassification adjustments	—	117	—
Subtotal, before tax	1,123	1,594	10,118
Tax effects	—	—	—
Subtotal, net of tax	¥1,123	¥1,594	\$10,118
Remeasurements of Defined Benefit Plans			
Increase (decrease) during the year	¥(25,906)	¥32,736	\$(233,408)
Reclassification adjustments	(12,113)	(3,639)	(109,136)
Subtotal, before tax	(38,019)	29,097	(342,544)
Tax effects	11,556	(8,647)	104,117
Subtotal, net of tax	¥(26,463)	¥20,450	\$(238,427)
Share of Other Comprehensive Income (Loss) of Affiliates Accounted for Using Equity Method:			
Increase (decrease) during the year	¥(18,673)	¥10,861	\$(168,240)
Reclassification adjustments	(369)	(73)	(3,325)
Subtotal, net of tax	¥(19,042)	¥10,788	\$(171,565)
Total other comprehensive income (loss)	¥(44,774)	¥40,815	\$(403,406)

* 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 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

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, 2019 and 2018:

	For the years ended	
	FY2018 March 31, 2019	FY2017 March 31, 2018
Statutory tax rate	30.6%	30.8%
Share of profit of investments accounted for using the equity method	(4.2)	(4.4)
Non-deductible expenses	0.2	0.2
Non-taxable dividend income	(0.2)	(0.1)
Tax credits	(2.4)	(1.6)
Effect of lower tax rates for overseas consolidated subsidiaries	(2.1)	(3.6)
Change in valuation allowance	(0.4)	0.6
Intercompany profits	(0.3)	0.1
Change in undistributed earnings of consolidated subsidiaries and affiliates	0.7	1.1
Amortization of goodwill	1.1	0.3
Foreign income taxes	3.3	1.8
Other	1.9	2.4
Effective tax rate	28.2%	27.6%

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Deferred tax assets	¥ 33,382	¥ 42,989	\$ 300,766
Deferred tax liabilities	(36,690)	(57,663)	(330,570)
	¥ (3,308)	¥(14,674)	\$ (29,804)

Significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2018 As of March 31, 2019	FY2017 March 31, 2018	FY2018 March 31, 2019
Deferred tax assets:			
Net operating loss carryforwards*	¥ 48,608	¥ 47,285	\$ 437,949
Fixed assets	17,573	18,237	158,330
Net defined benefit liabilities	17,348	16,677	156,302
Accrued expenses	14,441	14,285	130,111
Intercompany profits	11,476	10,423	103,397
Inventories	10,458	9,683	94,225
Foreign tax credits	7,320	6,688	65,952
Investment securities	3,326	2,855	29,967
Allowance for doubtful receivables	899	1,274	8,100
Other	24,449	24,794	220,281
	155,898	152,201	1,404,613
Valuation allowance regarding net operating loss carryforwards*	(41,524)	—	(374,124)
Valuation allowance regarding deductible temporary differences	(19,015)	—	(171,322)
Total valuation allowance	(60,539)	(61,534)	(545,446)
Total deferred tax assets	95,359	90,667	859,167
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(38,460)	(38,557)	(346,518)
Undistributed earnings of consolidated subsidiaries and affiliates	(26,645)	(25,303)	(240,067)
Net defined benefit assets	(18,748)	(27,266)	(168,916)
Accelerated depreciation of overseas consolidated subsidiaries	(6,185)	(4,112)	(55,726)
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	(4,518)	(4,999)	(40,706)
Reserve for tax purpose reduction entry of non-current assets	(907)	(940)	(8,172)
Other	(3,204)	(4,164)	(28,867)
Total deferred tax liabilities	(98,667)	(105,341)	(888,972)
Net deferred tax assets (liabilities)	¥ (3,308)	¥ (14,674)	\$ (29,804)

* Net operating loss carryforwards at March 31, 2019 will expire as follows:

	Millions of yen		
	FY2018		
March 31	Net operating loss carryforwards†	Valuation allowance	Deferred tax assets
2020	¥ 1,025	¥ (787)	¥ 238
2021	1,666	(1,275)	391
2022	4,151	(2,166)	1,985
2023	1,327	(1,268)	59
2024	1,976	(1,629)	347
2025 and thereafter	38,463	(34,399)	4,064
	¥48,608	¥(41,524)	¥7,084
Thousands of U.S. dollars			
FY2018			
March 31	Net operating loss carryforwards†	Valuation allowance	Deferred tax assets
2020	\$ 9,235	\$ (7,091)	\$ 2,144
2021	15,010	(11,488)	3,523
2022	37,400	(19,515)	17,884
2023	11,956	(11,424)	532
2024	17,803	(14,677)	3,126
2025 and thereafter	346,545	(309,929)	36,616
	\$437,949	\$(374,124)	\$63,825

† This amount is net operating loss carryforwards multiplied by statutory tax rate.

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
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Balance at beginning of year	¥317,586	¥315,441	\$2,861,393
Service cost	14,582	14,449	131,381
Interest cost	4,002	3,984	36,057
Actuarial gains and losses	13,460	(2,975)	121,272
Benefits paid	(16,484)	(14,715)	(148,518)
Other	1,317	1,402	11,866
Balance at end of year	¥334,463	¥317,586	\$3,013,452

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

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Balance at beginning of year	¥399,643	¥361,462	\$3,600,712
Expected return on plan assets	7,764	3,750	69,952
Actuarial gains and losses	(9,494)	33,545	(85,539)
Contributions paid by the employer	12,838	10,618	115,668
Benefits paid	(10,857)	(10,232)	(97,820)
Return of assets from retirement benefit trust	(31,674)	—	(285,377)
Other	549	500	4,946
Balance at end of year	¥368,769	¥399,643	\$3,322,543

(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
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Balance at beginning of year	¥2,248	¥1,835	\$20,254
Retirement benefit costs	577	504	5,199
Benefits paid	(140)	(176)	(1,261)
Contributions paid by the employer	(93)	(132)	(838)
Other	12	217	108
Balance at end of year	¥2,604	¥2,248	\$23,462

(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
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Funded retirement benefit obligations	¥299,985	¥285,264	\$2,702,811
Plan assets	(370,544)	(401,361)	(3,338,535)
	(70,559)	(116,097)	(635,724)
Unfunded retirement benefit obligations	38,857	36,288	350,095
Total net defined benefit liabilities (assets)	¥ (31,702)	¥ (79,809)	\$ (285,629)
Net defined benefit liabilities	¥ 55,867	¥ 54,661	\$ 503,352
Net defined benefit assets	(87,569)	(134,470)	(788,981)
Total net defined benefit liabilities (assets)	¥ (31,702)	¥ (79,809)	\$ (285,629)

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Service cost	¥14,116	¥13,994	\$127,183
Interest cost	4,002	3,984	36,057
Expected return on plan assets	(7,764)	(3,750)	(69,952)
Amortization:			
Actuarial gains and losses	(7,043)	(4,719)	(63,456)
Past service cost	1,559	271	14,046
Retirement benefit costs from plans applying the simplified method	577	504	5,199
Gain on return of assets from retirement benefit trust	(8,905)	—	(80,232)
Other	487	519	4,388
Total retirement benefit costs	¥(2,971)	¥10,803	\$(26,768)

1. Employee' contribution to the corporate pension fund is deducted from "Service cost."

2. In addition to the retirement benefit costs listed above, an extra payment of retirement benefits in the amount of ¥465 million (US\$4,190 thousand) and ¥2,121 million were recognized as restructuring expenses in the consolidated statements of income for fiscal years 2018 and 2017, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	For the years ended March 31, 2019	March 31, 2018	March 31, 2019
Past service cost	¥ (457)	¥ 2,361	\$ (4,117)
Actuarial gains and losses	38,476	(31,458)	346,662
Total	¥38,019	¥(29,097)	\$342,544

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

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Unrecognized past service cost	¥ 1,867	¥ 2,324	\$ 16,821
Unrecognized actuarial gains and losses	(19,826)	(58,300)	(178,629)
Total	¥(17,959)	¥(55,976)	\$(161,807)

(8) Plan assets

1. Plan assets comprise:

	FY2018	FY2017
Equity securities	46.1%	48.5%
Bonds	29.0	23.4
General account	11.2	10.4
Cash and cash equivalents	1.9	5.3
Other	11.8	12.4
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, 2019 and 2018 (expressed as weighted averages) were as follows:

	FY2018	FY2017
Discount rate	0.9%	1.2%
Long-term expected rate of return	2.0	1.0

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 ¥5,783 million (US\$52,104 thousand) and ¥5,486 million for FY2018 and FY2017, respectively.

14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Notes receivable discounted	¥ –	¥2,177	\$ –
Notes receivable endorsed	677	446	6,100

FY2018	As of March 31, 2019	Millions of yen	Thousands of U.S. dollars
Guarantees: Debt guarantees and similar agreements			
		¥1,895	\$17,074
		857	7,721
		236	2,126
		296	2,667

FY2017	As of March 31, 2018	Millions of yen
Guarantees: Debt guarantees and similar agreements		
		¥1,907
		1,501
		302
		638

15. GAIN ON RETURN OF ASSETS FROM RETIREMENT BENEFIT TRUST

In fiscal year 2018, gain on return of assets from retirement benefit trust were gains resulting from the amortization of unrecognized actuarial gains and losses related to the return of a portion of retirement benefit trust of the Company and its consolidated subsidiary.

16. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Loss on disposal of property, plant and equipment for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2018	FY2017	FY2018
	As of March 31, 2019	March 31, 2018	March 31, 2019
Buildings and structures	¥ 762	¥1,470	\$ 6,865
Machinery, equipment and others	1,805	1,609	16,263
Other	466	526	4,199

17. 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 ¥11,879 million (US\$107,028 thousand) and ¥3,751 million in FY2018 and FY2017, respectively. The recoverable amount is mainly the net selling price.

Impairment loss on fixed assets for each reportable segment is disclosed in Note 20 b) (4), for the years ended March 31, 2019 and 2018.

Impairment loss on fixed assets for the years ended March 31, 2019 and 2018 was as follows:

FY2018	Millions of yen	Thousands of U.S. dollars
Goodwill	¥ 4,537	\$ 40,878
Machinery, equipment and others	2,615	23,561
Land	1,771	15,956
Buildings and structures	1,275	11,488
Intangible Assets	929	8,370
Other	752	6,775
	¥11,879	\$107,028*1

*1 The amount of ¥1,164 million (US\$10,487 thousand) is included in "Restructuring expenses" (Note 18) in the consolidated statement of income for fiscal year 2018.

FY2017	Millions of yen
Machinery, equipment and others	¥2,047
Intangible Assets	648
Buildings and structures	427
Other	629
	¥3,751*1

*1 The amount of ¥312 million is included in "Restructuring expenses" (Note 18) in the consolidated statement of income for fiscal year 2017.

18. RESTRUCTURING EXPENSES

In fiscal year 2018, restructuring expenses of ¥2,357 million (US\$21,236 thousand) were related to the closure of some products, etc., to improve the efficiency of the optical devices business, etc.

In fiscal year 2017, restructuring expenses of ¥3,951 million were related to the reorganization of the business locations to improve the efficiency of the wiring harnesses business, etc.

Major expenses for the years ended March 31, 2019 and 2018 were as follows:

FY2018	Millions of yen	Thousands of U.S. dollars
Impairment loss on fixed assets (Note 17)	¥1,164	\$10,487
Loss on valuation of inventories	578	5,208

FY2017	Millions of yen
Extra payment of retirement benefits	¥2,121
Loss on disposal of property, plant and equipment	682

19. 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.

(2) Information about geographical areas

Sales to customers

FY2018	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	¥1,319,721	¥516,347	¥442,689	¥409,579	¥139,509	¥350,140	¥3,177,985

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

FY2018	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	\$11,890,450	\$4,652,194	\$3,988,549	\$3,690,233	\$1,256,951	\$3,154,699	\$28,633,075

Net property, plant and equipment

FY2018	Millions of yen						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	¥461,606	¥85,660	¥162,219	¥91,171	¥85,167	¥885,823	

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

FY2018	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	\$4,158,987	\$771,781	\$1,461,564	\$821,434	\$767,339	\$7,981,106	

(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 FY2018 or FY2017.

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

FY2018	Millions of yen						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	

FY2017	Millions of yen						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	

FY2018	Thousands of U.S. dollars						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	

(5) Information about goodwill by reportable segment

FY2018	Millions of yen						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others		
						Amortization	
Balance at end	¥280	¥—	¥—	¥11	¥2,197	¥2,488	

FY2017	Millions of yen						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others		
						Amortization	
Balance at end	¥6,127	¥—	¥—	¥35	¥2,966	¥9,128	

FY2018	Thousands of U.S. dollars						Total
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others		
						Amortization	
Balance at end	\$2,523	\$—	\$—	\$99	\$19,795	\$22,416	

21. RELATED PARTY INFORMATION

a) Related party transactions

Transactions with the corporate pension for employees

FY2018

(Millions of yen)

Relationship	Name of company	Location	Paid-in-Capital or Advance	Description of business	Share of voting rights (%)	Relations with related parties	Description of transaction	Amount of transactions	Financial statement line-item	Amount outstanding at end of year
Corporate pension	Employee pension trust	—	—	—	—	Pension assets of retirement benefit accounting	Return of assets from retirement benefit trust	30,000	—	—

(Thousands of U.S. dollars)

Relationship	Name of company	Location	Paid-in-Capital or Advance	Description of business	Share of voting rights (%)	Relations with related parties	Description of transaction	Amount of transactions	Financial statement line-item	Amount outstanding at end of year
Corporate pension	Employee pension trust	—	—	—	—	Pension assets of retirement benefit accounting	Return of assets from retirement benefit trust	270,295	—	—

b) 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 FY2018 is as follows:

	Millions of yen	Thousands of U.S. dollars
FY2018		
Total current assets	¥476,890	\$4,296,693
Total non-current assets	525,493	4,734,598
Total current liabilities	324,126	2,920,317
Total non-current liabilities	205,450	1,851,068
Total equity	472,807	4,259,906
Sales revenue	894,243	8,056,969
Profit before tax	50,349	453,635
Profit for the year attributable to:		
Owners of the parent company	36,246	326,570

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:

	Millions of yen
FY2017	
Total current assets	¥465,973
Total non-current assets	552,293
Total current liabilities	303,299
Total non-current liabilities	224,081
Total equity	490,886
Sales revenue	877,866
Profit before tax	65,733
Profit for the year attributable to:	
Owners of the parent company	46,979

22. OTHER

The Company is in negotiations with some automakers for damages regarding violation of competition law by it in the automotive segment.

23. SUBSEQUENT EVENTS

The Company resolved, at its Board of Directors meeting held on May 10, 2019, to acquire ordinary shares of TECHNO ASSOCIE Co., Ltd. (the "Target Company"), an associate accounted for using the equity method, by means of a tender offer, in order to make the company a consolidated subsidiary of the Company. A summary, etc. of the tender offer is as follows:

a) Purpose of the Tender Offer

The Company published its mid-term management plan "VISION 2022" in May 2018 and stated that "creating innovation" was one of the main elements of the growth strategy in the plan. The Company believes that it can enhance its marketing functions such as market creation and development of customer base by coordination with the Target Company, which is famous for its sales style that focuses on development and proposals.

In addition, the Company decided to make the Target Company a consolidated subsidiary of the Company to increase the corporate value of the two companies through the synergy effects expected by: (1) expanding sales of the Company's products through the Target Company's wide and varied network of customers and its global network of operating bases, (2) lowering procurement costs of metal parts and processed plastic parts, etc. through the Target Company's network of suppliers, (3) developing human resources in sales departments through personnel exchanges between the two companies and (4) sharing information systems and resources in cooperate departments such as the accounting and human resources departments.

b) Outline of the Target Company

Corporate Name TECHNO ASSOCIE Co., Ltd.

Business Description Sales of fasteners, processed components, raw steel, electrical components, chemical products, industrial instruments, etc., and associated activities

c) Outline of the Tender Offer

(1) Conditions to the Tender Offer

The tender offer will be implemented if the following conditions are satisfied (or if the Company waives these conditions to the tender offer): necessary procedures and actions required under domestic and foreign competition laws have been completed; the Board of Directors of the Target Company has duly and validly approved expressing its opinion supporting the tender offer, and has made a public announcement to that effect; and no event that would have a material adverse effect on the financial position of the Target Company has occurred.

(2) Schedule, Etc.

The Company aims to commence the tender offer by August 2019, when the necessary procedures and actions required under domestic and foreign competition laws will be completed. In addition, the tender offer period shall be for 20 business days, in principle.

(3) Number of Share Certificates, Etc. to Be Purchased

Number of share certificates, etc. to be purchased	2,734,100 shares
Minimum number of share certificates, etc. to be purchased	— shares
Maximum number of share certificates, etc. to be purchased	2,734,100 shares

(Note) If the total number of tendered share certificates, etc. is equal to or less than the number of share certificates, etc. to be purchased (2,734,100 shares), the Company will purchase all of the tendered share certificates, etc. If the total number of tendered share certificates, etc. exceeds the maximum number of the share certificates, etc. to be purchased (2,734,100 shares), the Company will not purchase all or any part of that excess amount, and will implement the delivery and other settlement for purchasing share certificates, etc. on a pro rata basis as provided for in Article 27-13, Paragraph 5 of the Financial Instruments and Exchange Act and Article 32 of the Cabinet Office Order on Disclosure Required for Tender Offer for Share Certificates by Persons Other Than Issuers.

The total number of shares of the Target Company held by the Company, in addition to shares indirectly held through the Company's subsidiary, is 6,761,126 shares (ownership ratio: 36.25%) and the number will be 9,495,226 shares (ownership ratio: 50.92%) after purchase of the number of shares to be purchased through the tender offer.

(4) Price of the Tender Offer
1,380 yen per ordinary share

(5) Purchase Price
3,773,058,000 yen (scheduled)

Five-Year Financial Data and Indexes
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen					Thousands of U.S. dollars
	FY2018	FY2017 ⁷	FY2016	FY2015	FY2014	FY2018
	For the years ended Mar. 31, 2019	Mar. 31, 2018	Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2015	Mar. 31, 2019
For the Year:						
Net sales	¥3,177,985	¥3,082,247	¥2,814,483	¥2,933,089	¥2,822,811	\$28,633,075
Cost of sales	2,593,363	2,507,434	2,284,190	2,397,166	2,310,606	23,365,736
Selling, general and administrative expenses	418,362	401,674	379,790	392,447	377,748	3,769,367
Operating income	166,260	173,139	150,503	143,476	134,457	1,497,973
Profit before income taxes	181,388	193,337	167,792	154,859	167,067	1,634,273
Profit attributable to owners of the parent	118,063	120,328	107,562	91,001	119,771	1,063,726
Capital expenditures ¹	190,314	171,110	183,693	167,282	148,213	1,714,695
Depreciation and amortization	148,916	146,098	134,532	134,371	126,663	1,341,706
R&D expenses	129,627	117,735	115,155	110,839	105,604	1,167,916
At Year-End:						
Total assets	3,053,263	2,999,903	2,907,292	2,742,848	2,925,785	27,509,352
Total interest-bearing liabilities	540,745	492,567	510,989	457,145	550,839	4,872,015
Total net assets ²	1,776,313	1,764,086	1,628,615	1,561,289	1,646,913	16,004,262
Yen						
U.S. dollars						
Per Share Data:						
Profit attributable to owners of the parent ³ :						
Basic	¥ 151.38	¥ 154.29	¥ 137.61	¥ 114.73	¥ 151.00	\$ 1.364
Diluted	—	152.88	137.24	—	—	—
Cash dividends ⁴	48.00	46.00	40.00	35.00	30.00	0.432
Owner's equity ⁵	1,988.58	1,973.95	1,815.32	1,715.28	1,804.34	17.917
Weighted average number of shares outstanding (in thousands)	779,897	779,888	781,638	793,189	793,194	
Number of employees (at year-end)	272,796	255,133	248,330	240,865	240,798	
Average number of temporary employees	(40,134)	(38,136)	(38,168)	(39,124)	(34,553)	
Financial Indexes:						
Operating income / net sales (%)	5.2	5.6	5.3	4.9	4.8	
Profit attributable to owners of the parent / net sales (%)	3.7	3.9	3.8	3.1	4.2	
Operating income / invested assets ⁶ (ROIC) (%)	7.3	7.9	7.2	6.8	6.5	
Return on owner's equity (%)	7.6	8.1	7.7	6.5	9.1	
Owner's equity ratio (%)	50.8	51.3	48.7	49.6	48.9	
Current ratio (times)	1.7	1.7	1.7	1.8	1.7	
R&D expenses / net sales (%)	4.1	3.8	4.1	3.8	3.7	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥110.99 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2019.

¹ Capital expenditures are recorded as property, plant and equipment.

² See Note 9.

³ From the year ended March 31, 2015 to the year ended March 31, 2016 and in the year ended March 31, 2019, 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 As described in Note 2(r), the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been adopted from the beginning of the fiscal year ended March 31, 2019. The financial data and indexes for the year ended March 31, 2018 have been adjusted retrospectively to conform to this accounting standard.



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, 2019, 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 judgment, 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, 2019, 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, 2019 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 21, 2019
Osaka, Japan

Corporate Information

Sumitomo Electric Industries, Ltd. (As of March 31, 2019)

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: 272,796
Non-Consolidated: 5,377

COMMON STOCK

Issued: 793,940,571 shares

NUMBER OF SHAREHOLDERS

59,884

STOCK EXCHANGE LISTINGS

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

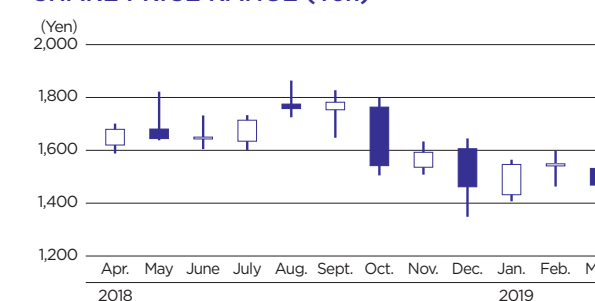
SHAREHOLDER REGISTER MANAGER

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

PRINCIPAL SHAREHOLDERS

	Number of Shares Held (Thousands)	Shareholding Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	60,928	7.81
Japan Trustee Services Bank, Ltd. (trust account)	58,646	7.52
Nippon Life Insurance Company	24,703	3.17
JP MORGAN CHASE BANK 385151	16,231	2.08
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	15,929	2.04
SUMITOMO LIFE INSURANCE COMPANY	15,556	1.99
Japan Trustee Services Bank, Ltd. (trust account 5)	14,505	1.86
Japan Trustee Services Bank, Ltd. (trust account 4)	11,948	1.53
STATE STREET BANK WEST CLIENT - TREATY 505234	11,700	1.50
STATE STREET BANK AND TRUST COMPANY 505225	11,101	1.42
Total	241,252	30.93

SHARE PRICE RANGE (Yen)



BREAKDOWN OF SHAREHOLDERS

- Financial Institutions**
331,204 thousand shares
41.72% (Shareholders: 193)
- Securities Companies**
28,056 thousand shares
3.53% (Shareholders: 56)
- Other Corporations**
36,197 thousand shares
4.56% (Shareholders: 654)
- Individuals and Others**
89,319 thousand shares
11.25% (Shareholders: 58,207)
- Foreign Investors**
295,308 thousand shares
37.19% (Shareholders: 773)
- Treasury Stock**
13,858 thousand shares
1.75%

