

Sumitomo Electric Mid-term Management Plan **VISION 2022**

Sumitomo Electric Industries, Ltd.

May 25, 2018

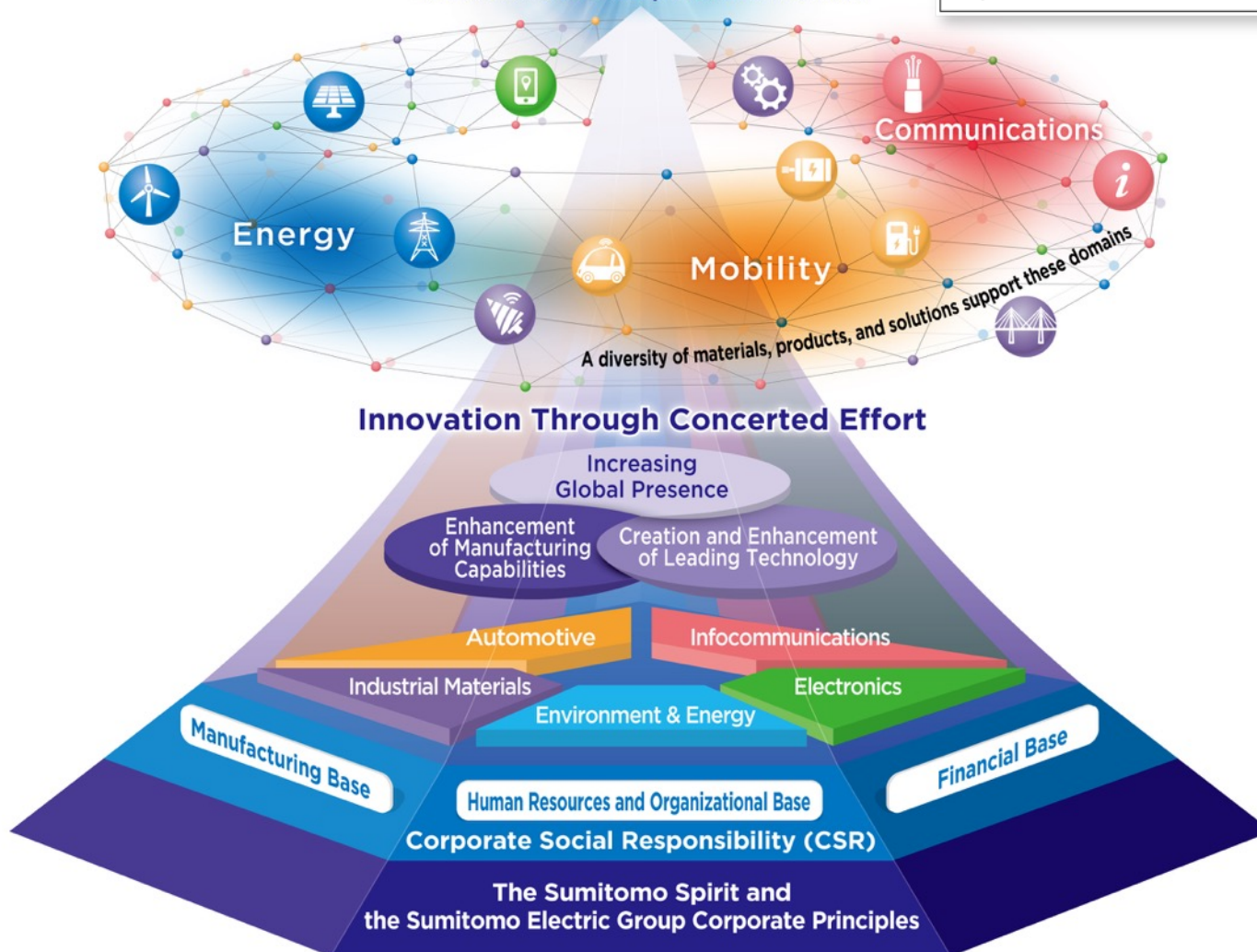
VISION 2022 Mid-term Management Plan: Overall Concept

**Glorious
Excellent
Company**

Sumitomo Electric Group's Ideal Future State

VISION 2022

Net Sales	Operating Income	ROIC	ROE
¥3,600 billion	¥230 billion	9% or more	8% or more



VISION 2022 Mid-term Management Plan: Basic Concepts

VISION 2022 Concept

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

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.

VISION 2022 Mid-term Management Plan: Value We Provide



Development of eco-friendly products that limit CO₂ emissions



Encouraging use of renewable energy with smart energy systems



Promoting recycling technologies and pursuing materials development less dependent on scarce resources, driving resource-friendly practices



Car-to-car and car-to-road connectivity for a safer driverless society



Creating a secure urban environment with enhanced infrastructure durability



Increasing telecommunications security for safety and privacy



Achieving faster data transmission through advanced infocommunication technologies underpinning an IoT-based society



Providing technology that connects automobiles to society, liberating transportation and increasing comfort



Developing solutions that connect cars, houses, people, and communities, enabling effective energy-sharing

A Green Society

A Safe and Secure Society

A Comfortable and Viable Society

SUSTAINABLE DEVELOPMENT GOALS

- 6** CLEAN WATER AND SANITATION
- 7** AFFORDABLE AND CLEAN ENERGY
- 8** DECENT WORK AND ECONOMIC GROWTH
- 9** INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 11** SUSTAINABLE CITIES AND COMMUNITIES
- 12** RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13** CLIMATE ACTION
- 14** LIFE BELOW WATER
- 15** LIFE ON LAND
- 17** PARTNERSHIPS FOR THE GOALS

VISION 2022 Mid-term Management Plan: Targets

	FY2017 Result	FY2020 Interim Target	FY2022 Target
Net Sales	¥3,082 billion	¥3,400 billion	¥3,600 billion
Operating Income	¥173.1 billion	¥200 billion	¥230 billion
Operating Margin Ratio	5.6%	5.9%	6.4%
ROIC	7.9%	8.5% or more	9% or more
ROE	8.1%	8% or more	8% or more

Capital Investment (5-Year Cumulative Amount)

¥950 billion

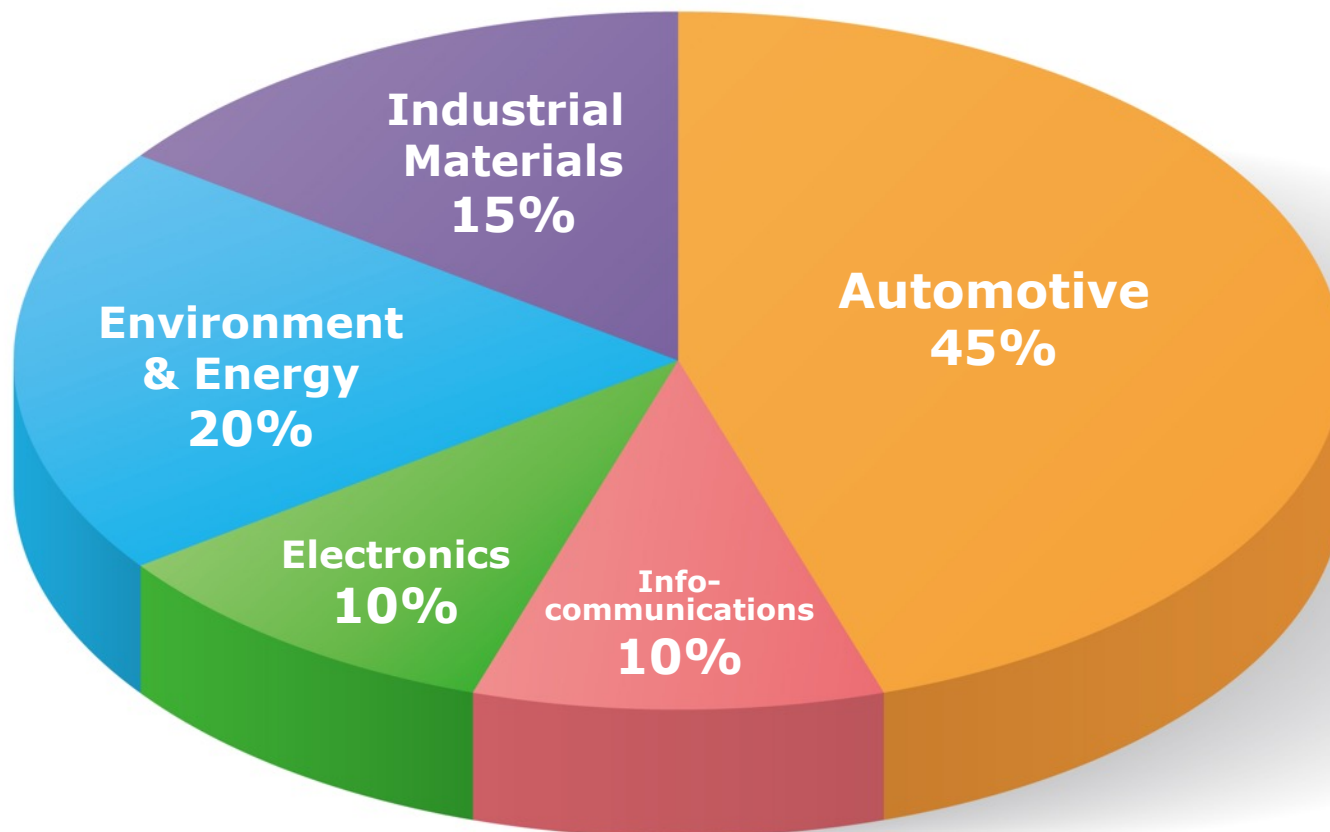
R&D Expenditures (5-Year Cumulative Amount)

¥600 billion

- We aim for a new-product sales ratio of 30%
- We aim to keep our shareholders' equity ratio at 50%
- We aim to maintain a stable dividend for shareholders increasing the dividend payout ratio to about 40% by fiscal year 2022

VISION 2022 Mid-term Management Plan: Portfolio

Operating Income Portfolio in FY2022 (Projected) by Segment



While growing the overall operating income we aim to achieve a balanced portfolio.

VISION 2022 Mid-term Management Plan: 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

VISION 2022 Mid-term Management Plan: Segment Strategy (Automotive)

**Ideal Future
State**

**Become a mega-supplier with
the wiring harnesses business at the core.**

VISION 2022 Growth Strategy

- Promote "Concept-in Activities for Customers"
- Strengthen collaborative relationships with third parties (OEMs, the public sector, service providers, etc.)

**Strengthen our business base
through the consolidation of
SEI Group resources.**

- Expand sales targeting global customers
- Generate new business for CASE*-related products

* CASE: Connected, Autonomous, Shared, Electric

**State
of the
Market**

- Continuous automotive sales growth globally
- Growth in eco-friendly vehicles in line with tightening environmental regulation (ZEV, Co₂ regulation, diesel bans)
- Accelerating improvement delivered by CASE, an industry revolution
- Vendors from other industries entering market, changing the supplier vantage-point

**Our
Strengths**

- Comprehensive and dominant market presence in the wiring harnesses business via the trinity system, comprising Sumitomo Electric, Sumitomo Wiring Systems, and AutoNetworks Technologies
- Global business deployment (33 nations)
- Our business in power systems, telecommunications, and industrial materials enables shared expertise benefiting the development of applicable products for the auto industry

VISION 2022 Mid-term Management Plan: Segment Strategy (Infocommunications)

Ideal Future State

Become a leading supplier in high-capacity network and interconnection markets centering on high-end fiber-optics, connection technologies, transmission devices, compound semiconductors, and access-device technologies.

VISION 2022 Growth Strategy

Consolidate our core technology to support IoT-based societies.

Pursue development of innovative new products and proposals that are one step ahead of and exceed customer expectations while improving global market presence.

Continuous enhancement of our business base: innovate IoT-related production technologies and facilitate expansion of our global business base.

State of the Market

- Increase in the amount of data traffic due to development of high-capacity mobile networks (4G to 5G); spread of video services; and transition to cloud computing
- Expansion of infocommunication network market. Rising demand for optical-fiber connectivity and high-capacity submarine/onshore cables or cables for data centers. Growth in high-speed, high-capacity fiber/electronic devices. Demand for data security
- Increasing demand for sensors for use in facial recognition applications and for driver-assisted and driverless vehicle technologies

Our Strengths

- Superior manufacturing technology for low-loss optical-fiber cable enabling high-speed, high-capacity telecommunication
- Established manufacturing technology for super-multicore optical cable
- Leveraging optical precision-molding and mechatronics technologies
- Software development capability for visual- and optical-access devices
- Compound semiconductors for optical/wireless applications developed via collaborative vertical integration from raw materials to finished device

VISION 2022 Mid-term Management Plan: Segment Strategy (Electronics)

**Ideal Future
State**

Become a top global supplier of unique high-performance cables, components, and materials with a focus on mobile devices and mobile electronics.

VISION 2022 Growth Strategy

Strengthen global sales and manufacturing assets primarily in North America, China, and other Asian nations.

Strengthen our development system and proposition system to meet market demands for new functions and more innovative, light, tough, and precise products that facilitate high-speed data transmission.

Strengthen manufacturing capabilities and business base to become more agile and responsive to client demands within a shorter business cycle.

**State
of the
Market**

- Adapting to the introduction of new functionalities and new standards that help drive growth in the mobile device market; respond to the associated exponential increase in data transmission volumes
- Shifting demand from traditional electronics sector to the auto industry as demand for greater sophistication in hybrid, electric, driver-assisted, and driverless vehicles continues to rise
- Continuing demand to reduce aircraft and vehicle body-weight and increase their level of computerization

**Our
Strengths**

- Solid partnerships with clients who lead growing markets
- Unique materials development, design, and processing expertise including high-speed transmission, heat-resistant, high-precision, porous-membrane, and electric-beam irradiation technologies
- Providing clients around the world with high-function wiring, protective-layer wiring, and other high-functionality products via our global supply chain

VISION 2022 Mid-term Management Plan: Segment Strategy (Environment & Energy)

**Ideal Future
State**

Become a holistic end-to-end supplier of environmental and energy products and systems to clients globally.

VISION 2022 Growth Strategy

Build a stronger global presence for the development and provision of electrical power infrastructure including long-distance submarine cables, etc.

Provide products and systems that fit a rapidly changing energy market as evidenced by growing investment in renewable energy and growth in EVs.

Meet demand for new products supporting EV development (rectangular wire for drive motor, etc.) and become more responsive to environmental issues.

**State
of the
Market**

- Unveiling of major international grid-interconnection projects, primarily in Europe
- Growth in infrastructure demand in emerging nations
- Expansion of the energy-system market in response to upgraded electric power infrastructure and increasing use of renewable energy
- New business opportunities for eco-friendly vehicles and related infrastructure as market continues to embrace high-efficiency transport

**Our
Strengths**

- Among Japan's top-tier businesses with an impressive record of achievements
- Innovate technologies that enable creation of new high-value products
- Diverse product family with associated services relating to infrastructure
- Extensive project-planning experience in the energy-system field
- Strength as SEI Group member with powerful affiliate companies in the heavy electrical machinery and engineering fields
- End-to-end system development from raw material to finished product

VISION 2022 Mid-term Management Plan: Segment Strategy (Industrial Materials)

Ideal Future State

Become a leading global supplier of high-performance, high-functionality products by leveraging world-class materials and process technology.

VISION 2022 Growth Strategy

Innovation and Enhancement of Core Technologies

Deepen our advanced high-efficiency lines and develop new products in preparation for motorization.

Strengthen Proposal Capability for Clients

Pitch our products with a full understanding of client needs to emphasize differentiation from our competitors.

Accelerating Overseas Businesses

Maintain consistency of quality regardless of region and provide services in a context that's sensitive to local issues.

State of the Market

- Increasing demand for lightweight materials for EV development
- Growth in the medical and aviation industries
- Intensification of competition in the global marketplace
- Accelerating cobalt procurement to meet demand for battery applications

Our Strengths

- Excellent materials development capabilities with strong differentiation from competitors through the application of our unique materials and recycling technologies
- Unique manufacturing capabilities that leverage our production and product-evaluation technologies to improve our clients' production lines
- Global supply system supporting the globalization of our clients' business

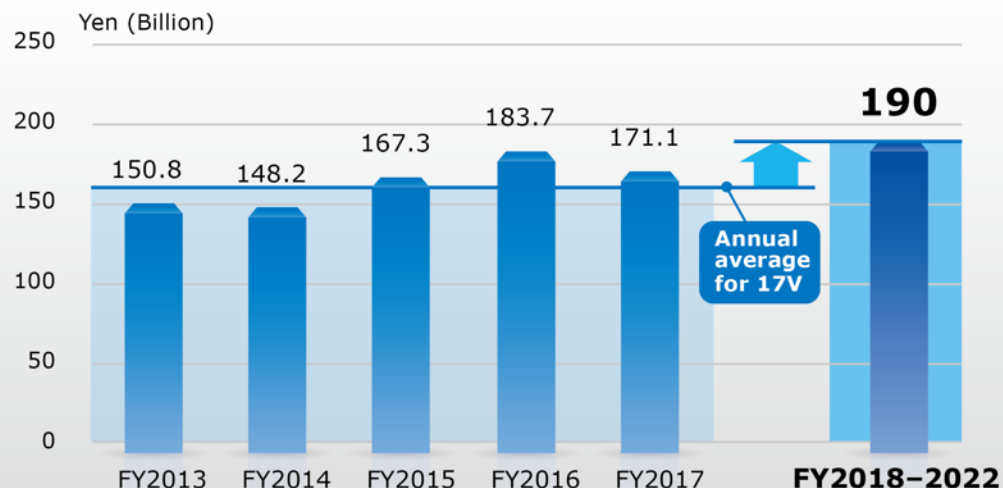
VISION 2022 Mid-term Management Plan: Capital Investment and Research & Development Expenditures

Capital Investment Expenditures

We intend to raise our level of capital investment to strengthen manufacturing abilities and accelerate global expansion.

17V total: ¥822.1 billion
(Approx. ¥164.2 billion/year)

22V total: **¥950 billion**
(¥190 billion/year)

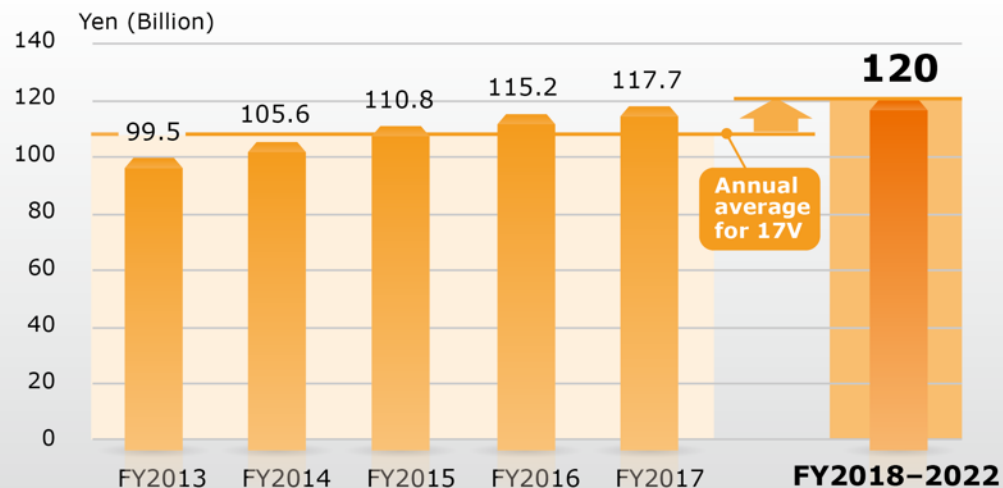


Research & Development Expenditures

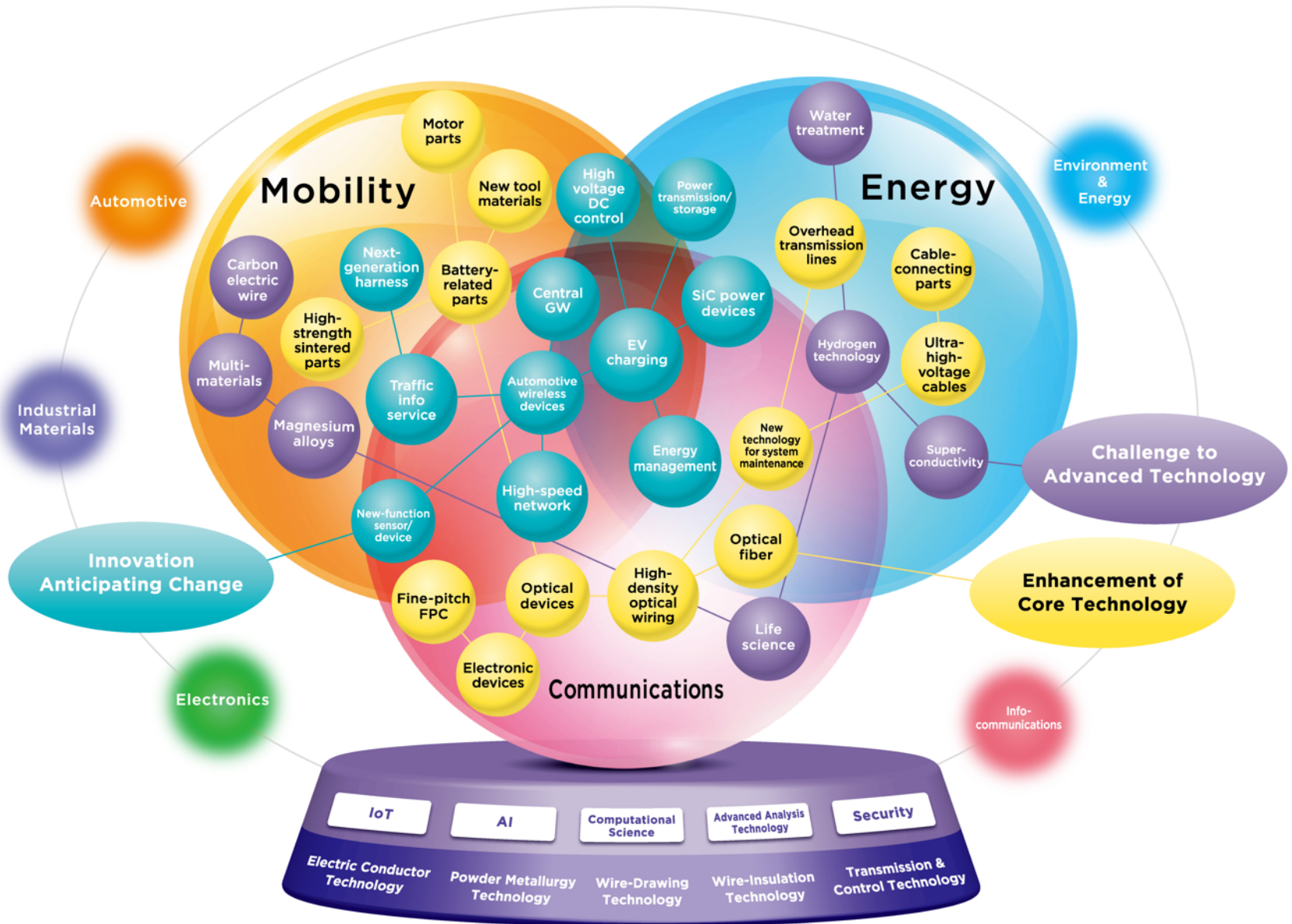
Continue to promote R&D throughout our group to deepen our core technologies and encourage further innovation.

17V total: ¥548.8 billion
(Approx. ¥109.8 billion/year)

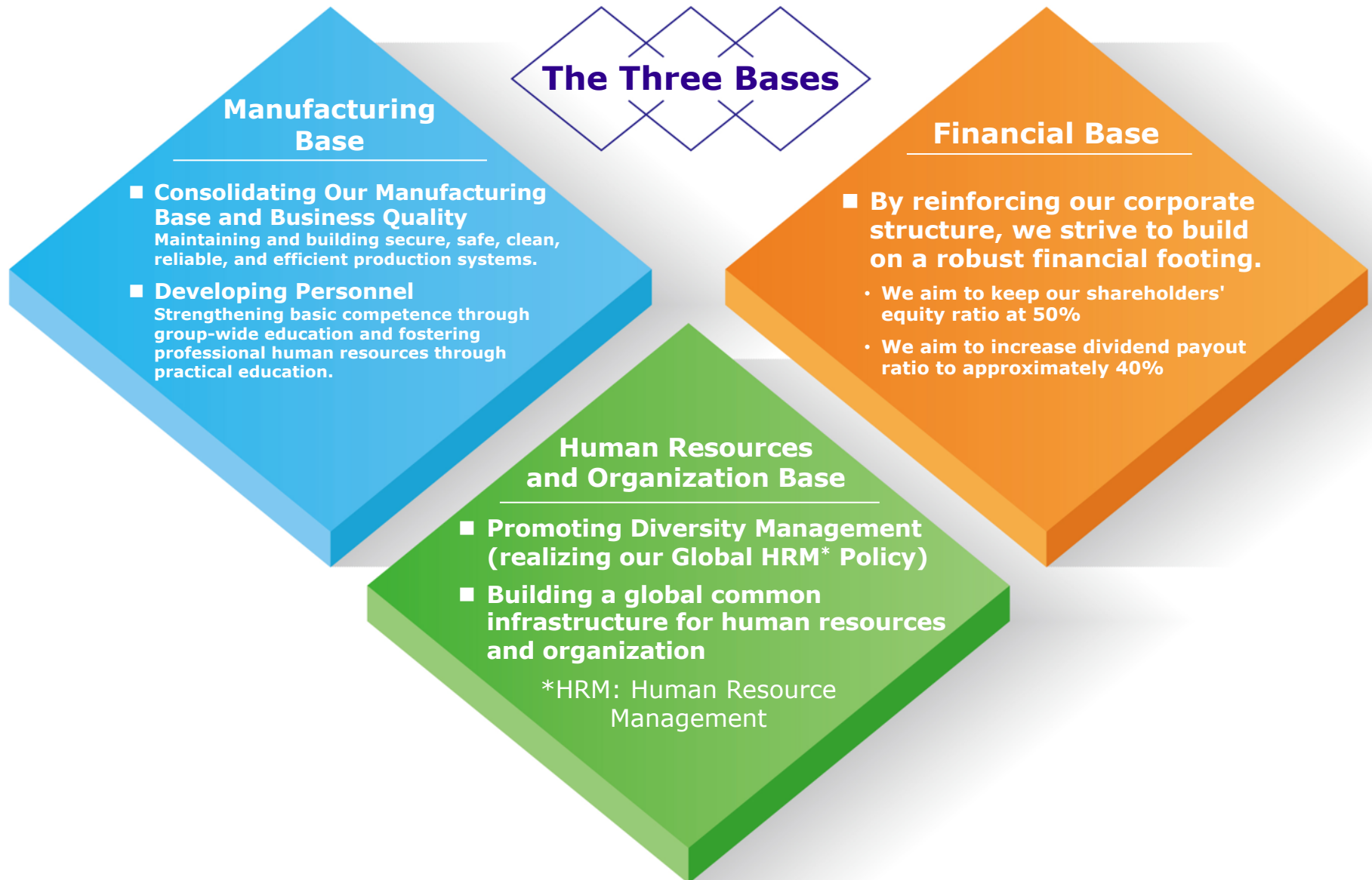
22V total: **¥600 billion**
(¥120 billion/year)



VISION 2022 Mid-term Management Plan: Research and Development for the Next Generation



VISION 2022 Mid-term Management Plan: The Three Bases



VISION 2022 Mid-term Management Plan: The Sumitomo Spirit and our Corporate Philosophy

The Sumitomo Spirit reflects our desire to earn society's trust and is renewed by our group's determination to elevate corporate ethics above all else. As we pursue VISION 2022 goals, our fundamental values remain rooted in The Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. With an emphasis on compliance, we can contribute to society through all of our business activities and enrich the public good and our environment.

■ The Sumitomo Spirit

From the preamble of *Monjuin Shiigaki (The Aphorisms of Monjuin)*:

"Do your sincere best, not only in business, but also in every aspect of your life." – **"Banji-nissei"**

Business Principles from the original *Sumitomo Company Rules (1891)*:

Article 1 "Sumitomo shall achieve prosperity based on a solid foundation by placing prime importance on integrity and sound management in the conduct of its business." – **"Shinyo-kakujitsu"**

Article 2 "Sumitomo's business interests must always be in harmony with the public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business." – **"Fusu-furi"**

Other principles have been continually handed down to the present time. They include attaching importance to technology, respect for human resources, long-range planning, mutual prosperity, and respect for the public good.

■ The Sumitomo Electric Group Corporate Principles

Each company in Sumitomo Electric Group shall:

- Offer the very best goods and services to satisfy customer needs
- Build technical expertise, realize changes, and strive for consistent growth
- Contribute to creating a better society and environment with a firm awareness of our social responsibility
- Maintain high corporate ethics and strive to become a company worthy of society's trust
- Nurture a lively corporate culture that enables employee self-improvement

VISION 2022 Mid-term Management Plan: ESG and Deepening CSR Commitment

“Glorious Excellent Company” is Sumitomo Electric Group’s future ideal. It focuses on commitment to corporate values founded on The Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. We believe our philosophies share the same principles of today’s compliance, CSR, and ESG.

Environment

- Pursuing measures to combat causes of global warming
- Strengthening our response towards resource saving (reducing waste emissions and promoting recycling)
- Increasing the availability of eco-friendly products (water treatment products; sales expansion of light-weight wiring harnesses)

Social

- Promotion of Diversity Management (gender-parity and equal-opportunity employment, etc.)
- Strengthening the development of human resources (enhancement of group and global training opportunities)
- Diversification of employment formats and facilitation of sound management practices
- CSR procurement (90% or more transactions within domestic group)
- Social contribution activities (SEI Group CSR Foundation, contribution to sports/culture development)

Governance

- Enhancement of corporate governance by strengthening our compliance system and fulfilling the terms of risk management systems



**SUMITOMO
ELECTRIC**

<http://global-sei.com>