

# ANNUAL REPORT 2016

Year Ended March 31, 2016



**Submarine Power Cable:**

# Challenge to the Largest Market

Construction of offshore wind farms and international and inter-regional power links is heating up in Europe, and this is driving a surge in demand for high-voltage submarine power cables. Under the circumstances, we consider it certain that demand for our DC-XLPE cable, which is well suited to long-distance power transmission, will increase in the future. European manufacturers already hold a large share of the European market for submarine power cables, and conditions are tough for would-be market participants from outside Europe. We will make full use of our successful record and product quality to enter the new markets. J-Power Systems Corporation (JPS), a wholly owned subsidiary, is building up a track record in Europe. At present, it has received orders for 6 submarine power cable projects in Europe.

## JPS's DC 400 kV XLPE Cable

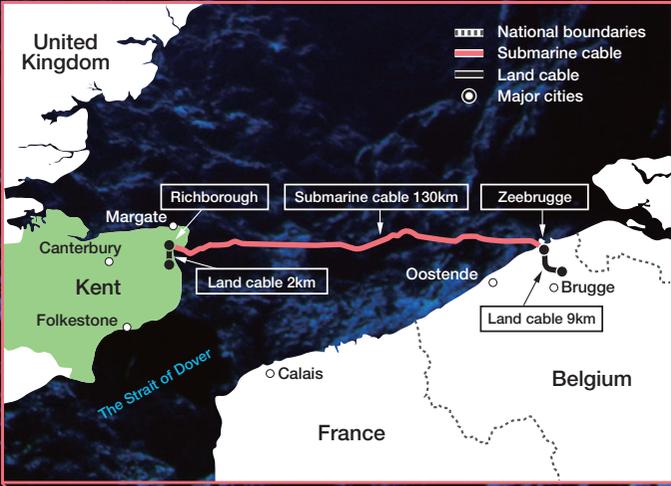
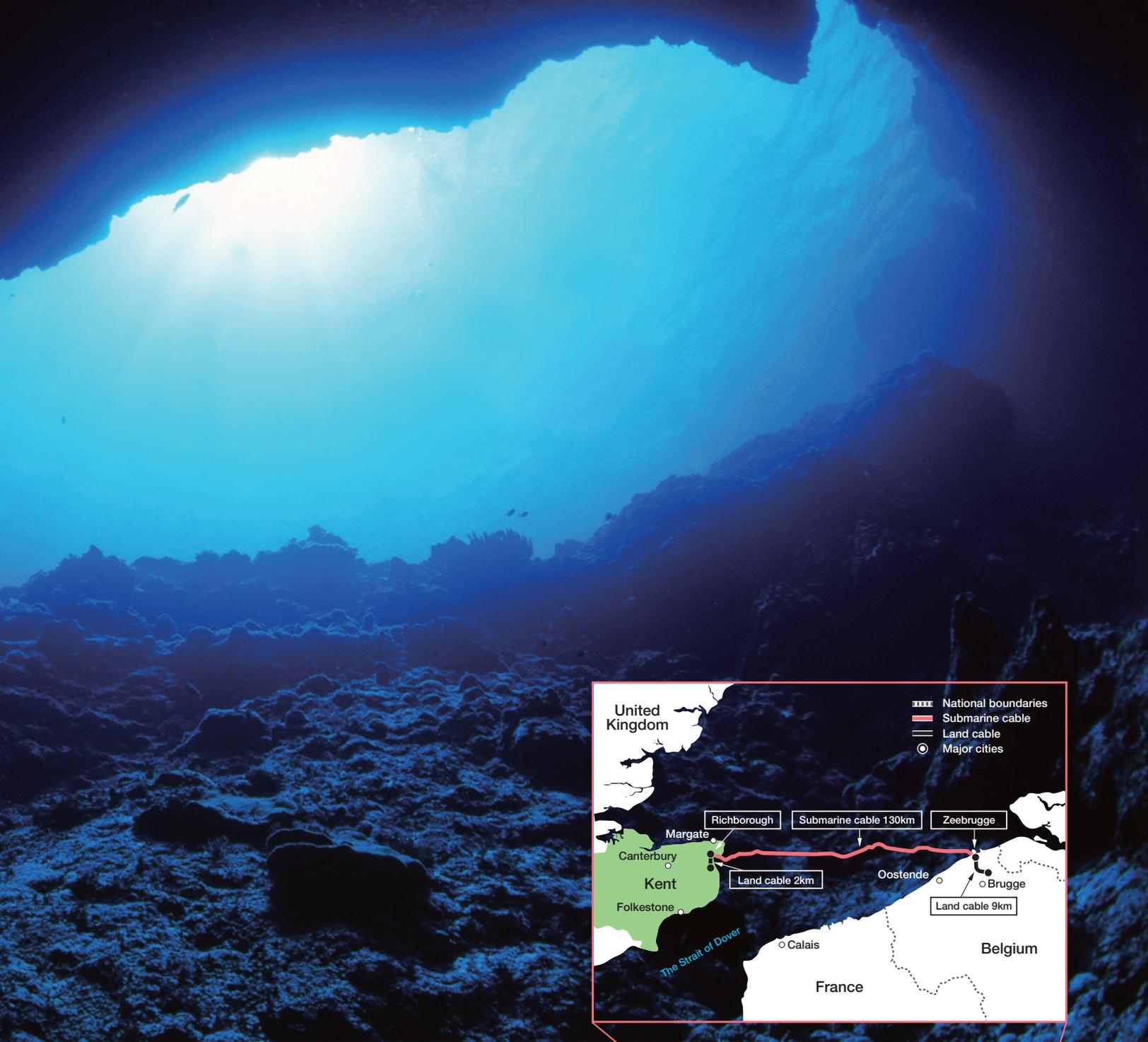
J-Power Systems (JPS) has developed a unique XLPE material suitable for high-voltage direct current (HVDC) application since the 1980's and completed long-term tests up to DC 500 kV. These tests have also been performed for polarity reversal\* operations applicable to line-commutated converters (LCC) systems in heating cycles at 90°C or above. JPS has supplied and installed a DC XLPE submarine cable system, currently under commercial operation as one of the most important interconnectors in Japan.

\* Polarity reversal: interchange between positive and negative voltages (polarity) applied to a cable depending on the operating conditions of an interconnected DC power line.

# DC 400 kV Submarine Power Cable Project in Europe

Sumitomo Electric Group strives to resolve social issues, through its business activity





Project



## J-Power Systems Provides HVDC Submarine Interconnector Cable System between the United Kingdom and Belgium

JPS won a contract for a submarine HVDC interconnector cable system between the United Kingdom and Belgium. The contract was awarded by NEMO Link Limited, a joint venture between National Grid Interconnector Holdings Limited, a subsidiary company of the UK's National Grid Plc, and the Belgian Elia Group. The cable system consists of a 130-km submarine cable route and an 11.5-km land cable route. JPS will undertake the engineering, production, installation, pre-completion testing, and commissioning of the world's highest-voltage DC XLPE-insulated cable ( $\pm 400$  kV) and will hand it over to the client in 2019.

This order holds special significance because it marks the first time that an Asian cable manufacturer has been employed in Europe to construct an international power cable, one of the region's most important pieces of infrastructure.



# Contents

## 3 Overview

- 3 Profile
- 4 Sumitomo Electric at a Glance
- 6 Financial Highlights

## 8 Business Review

- 8 To Our Stakeholders
- 12 Mid-term Management Plan “VISION 2017”
- 14 Review of Operations
- 15 Automotive
- 16 Infocommunications
- 17 Electronics
- 18 Environment and Energy
- 19 Industrial Materials and Others
- 20 Expanding Business on the World Stage

### Forward-Looking Statement

This presentation material contains various outlook and perspective information derived from our own presumptions and judgements based on currently available information on conditions and prospects of each market and economic circumstances such as currency exchange rate fluctuations. All figures and statements with respect to the future performances, projections, and business plans of Sumitomo Electric and its affiliated companies are constituted by the aforementioned outlook and perspective information.

Factors that could cause actual results to differ materially include but not are limited to:

1. Market and economic conditions in the U.S., Europe, Japan and other Asian countries, especially increases and decreases in personal consumption and capital expenditures.
2. Fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar, the euro and Asian currencies.
3. The ability of Sumitomo Electric and its affiliated companies to cope with rapid technological development.
4. Changes in financial, management, environmental and other presumptions.
5. Current and future laws and regulations in foreign countries involving trade and other activities.
6. Changes in the market value of securities owned by Sumitomo Electric and its affiliated companies.

There are possibilities that actual sales and profits may be different materially from those described in this material. Sumitomo Electric and its affiliated companies are not obliged to update or make public any future performances, projections or business plans after releasing this material.

## 22 Basis for Growth

- 22 Research & Development
- 24 Corporate Governance
- 28 Compliance
- 29 Risk Management
- 30 Directors, Audit & Supervisory Board Members and Executive Officers

## 31 Financial Information

- 31 Five-Year Financial Data and Indexes
- 32 Management’s Discussion and Analysis
- 34 Consolidated Balance Sheets
- 36 Consolidated Statements of Income
- 37 Consolidated Statements of Comprehensive Income
- 38 Consolidated Statements of Changes in Net Assets
- 40 Consolidated Statements of Cash Flows
- 42 Notes to Consolidated Financial Statements
- 67 Independent Auditor’s Report

## 68 Corporate Information

- 68 Corporate Directory
- 70 History
- 71 Company Information

# Profile

The history of Sumitomo Electric Industries, Ltd., started in 1897, when the House of Sumitomo established the Sumitomo Copper Rolling Works to manufacture and market bare copper wire. The Company then developed power transmission cables and communication cables to support Japan's rapidly growing power needs and telecommunications infrastructure development.

For more than 110 years, Sumitomo Electric has continued to pursue the challenge of developing proprietary technologies and new businesses based on its electric wire and cable manufacturing technologies. Currently, the Company is engaged in diversified business activities supporting people's daily lives and industry in five business segments: Automotive, Infocommunications, Electronics, Environment and Energy, and Industrial Materials and Others.

## In Business for

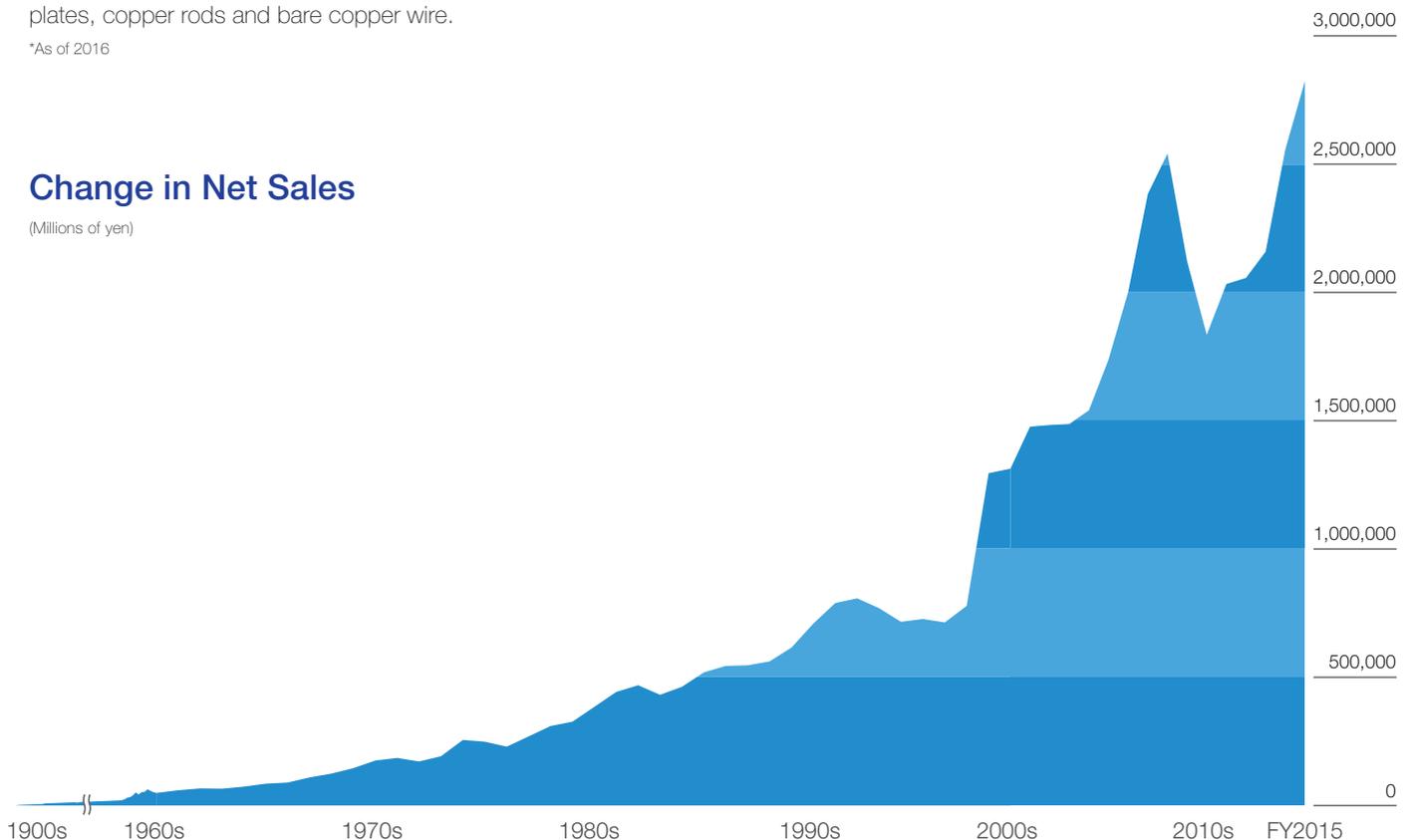
# 119 years\*

Sumitomo Electric Industries, Ltd. was originally established as Sumitomo Copper Rolling Works in 1897 to manufacture copper plates, copper rods and bare copper wire.

\*As of 2016

## Change in Net Sales

(Millions of yen)



### The Sumitomo Spirit

The Sumitomo Electric Group is committed to maintaining public trust by conducting business activities with integrity, in accordance with the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. As the Company expands its business operations across the world, linking closely with society, it always gives top priority to the cultivation of strong corporate ethics as a world-class company.

# Sumitomo Electric at a Glance

FY2015, ended March 31, 2016

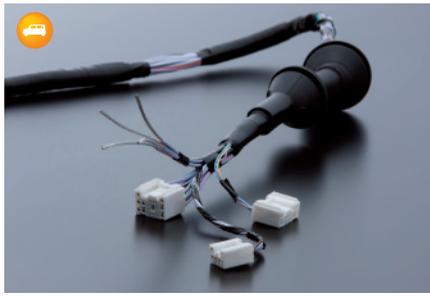
- Automotive**
- 
Page 15

- Infocommunications**
- 
Page 16

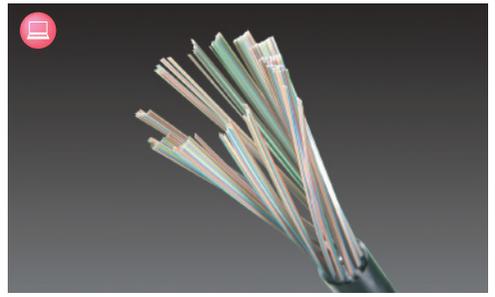
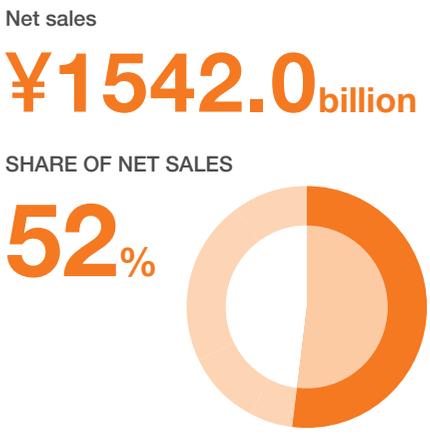
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Page 17

- Environment and Energy**
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Page 18

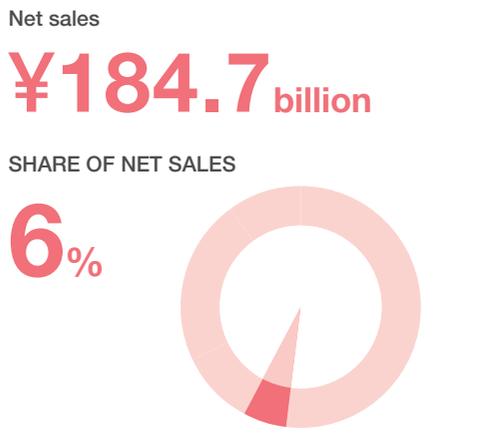
- Industrial Materials and Others**
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Page 19

## Automotive



## Infocommunications



## Business Overview

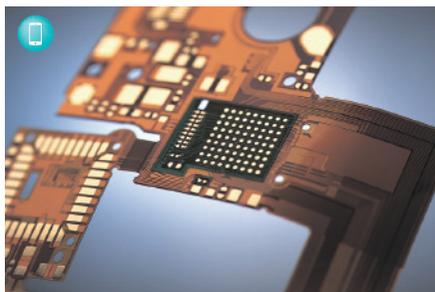
## Main Products

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.

- **Wiring harnesses**
- **Vibration-proof rubber**
- **Automotive hoses**
- **Car electrical equipment**

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 and opto-electronic devices, gigabit Ethernet-passive optical network (GE-PON), and other devices. We also supply traffic control systems and other systems drawing on our telecoms expertise and portfolio of control technologies.

- **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, etc, traffic control)**



## Electronics

Net sales

**¥312.0** billion

SHARE OF NET SALES

**10%**



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 and other highly functional wiring materials, as well as compound semiconductors and fluorine resin products.

- Electronic wire products
- Compound semiconductors
- Metallic material for electronic parts
- Electric-beam irradiation products
- Flexible printed circuits
- Fluorine resin products
- Micro filtration membrane module



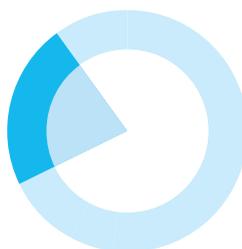
## Environment and Energy

Net sales

**¥659.5** billion

SHARE OF NET SALES

**22%**



Since its inception, the Sumitomo Electric Group has helped underpin modern daily life through its energy transmission businesses, supplying products such as cables for power distribution, railway trolley wires, and wire coils used in home appliances, automobiles, and other applications.

- 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



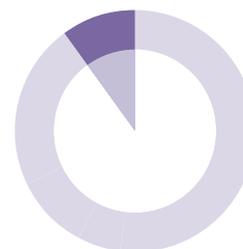
## Industrial Materials and Others

Net sales

**¥312.2** billion

SHARE OF NET SALES

**10%**



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.

- 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

# Financial Highlights

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2013 Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2011 Mar. 31, 2012	FY2015 Mar. 31, 2016
<b>For the Year:</b>						
Net sales	¥2,933,089	¥2,822,811	¥2,568,779	¥2,159,942	¥2,059,344	\$26,030,254
Operating income	143,476	134,457	120,058	76,790	86,946	1,273,305
Profit before income taxes	154,859	167,067	123,833	84,084	99,941	1,374,326
Profit attributable to owners of the parent	91,001	119,771	66,748	37,955	58,861	807,606
Capital expenditures <sup>1</sup>	167,282	148,213	150,823	147,883	135,039	1,484,576
Depreciation and amortization	134,371	126,663	113,271	90,629	77,954	1,192,501
R&D expenses	110,839	105,604	99,520	94,287	86,582	983,662
<b>At Year-End:</b>						
Total assets	¥2,742,848	¥2,925,785	¥2,554,819	¥2,297,567	¥2,072,064	\$24,341,924
Total interest-bearing liabilities	457,145	550,839	534,641	485,569	363,995	4,057,020
Total net assets <sup>2</sup>	1,561,289	1,646,913	1,379,912	1,244,695	1,138,931	13,855,955
<b>Cash Flows:</b>						
Net cash provided by operating activities	¥240,779	¥153,509	¥147,705	¥124,849	¥86,051	\$2,136,839
Net cash used in investing activities	(117,387)	(86,888)	(174,102)	(172,066)	(129,223)	(1,041,773)
Net cash provided by (used in) financing activities	(115,912)	(64,037)	113	64,922	(2,391)	(1,028,683)
<b>Per Share Data:</b>						
Profit attributable to owners of the parent <sup>3</sup> : Basic	¥114.73	¥151.00	¥84.15	¥47.85	¥74.21	\$1.018
Diluted	—	—	—	—	74.20	—
Cash dividends	35.00	30.00	22.00	20.00	19.00	0.311
Owner's equity <sup>4</sup>	1,715.28	1,804.34	1,499.76	1,352.09	1,245.57	15.223
<b>Financial Indexes:</b>						
Operating income/net sales (%)	4.9	4.8	4.7	3.6	4.2	
Profit attributable to owners of the parent/net sales (%)	3.1	4.2	2.6	1.8	2.9	
Operating income/invested assets <sup>5</sup> (ROA) (%)	6.8	6.5	6.6	4.8	5.9	
Return on owner's equity (%)	6.5	9.1	5.9	3.7	6.1	
Owner's equity ratio (%)	49.6	48.9	46.6	46.7	47.7	
Current ratio (Times)	1.8	1.7	1.6	1.7	1.6	
R&D expenses/net sales (%)	3.8	3.7	3.9	4.4	4.2	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥112.68 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2016.

<sup>1</sup> Capital expenditures are recorded as property, plant and equipment.

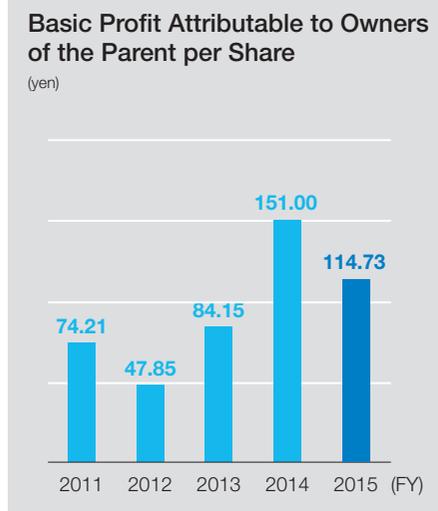
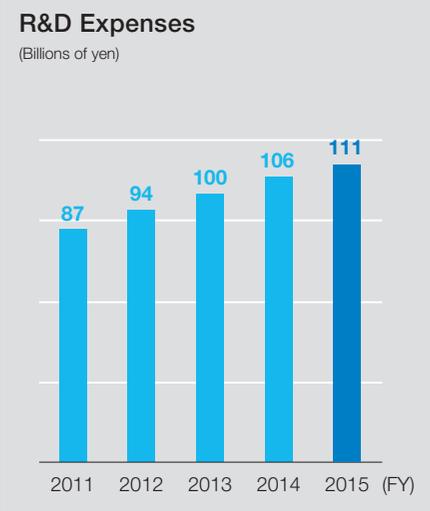
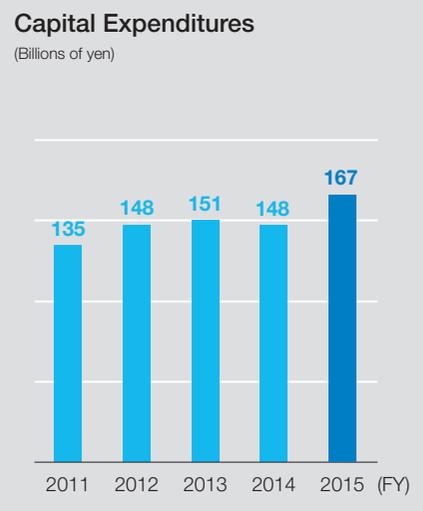
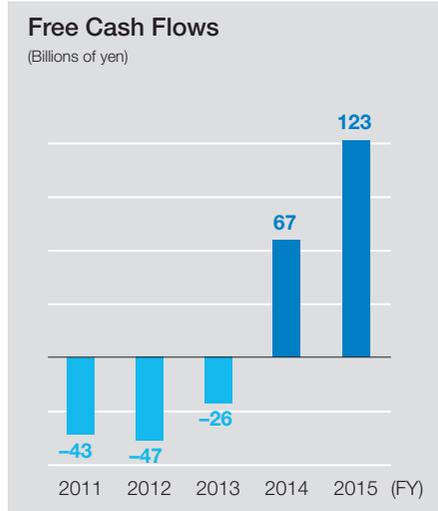
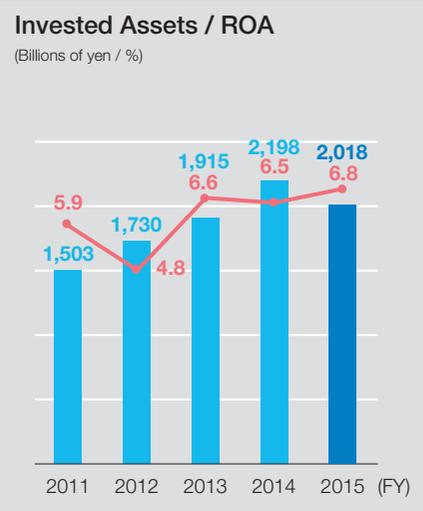
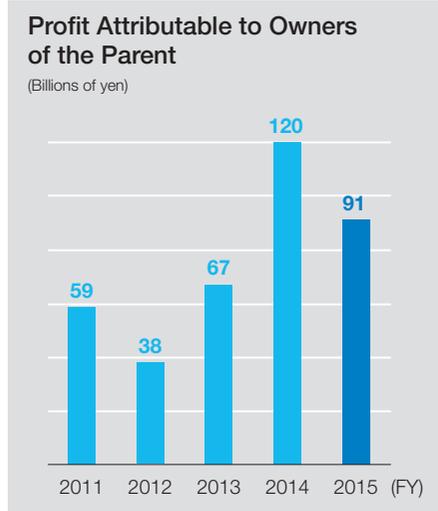
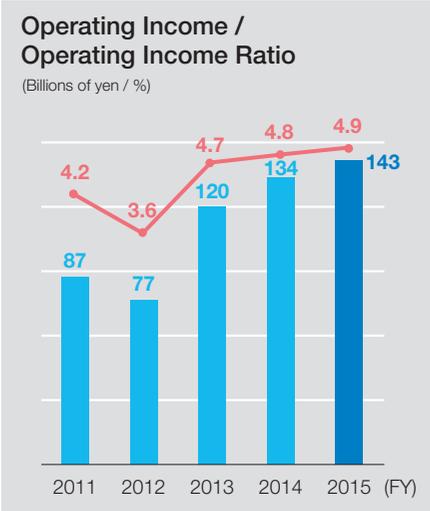
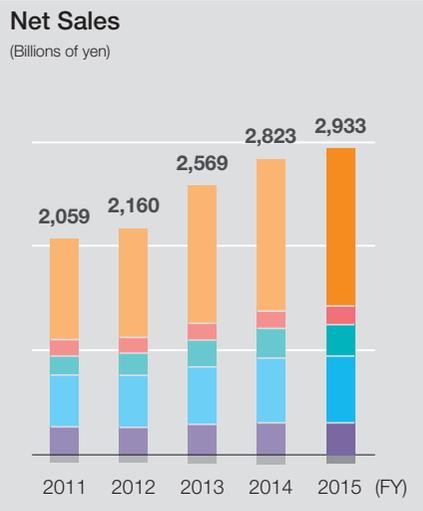
<sup>2</sup> See page 52.

<sup>3</sup> From the year ended March 31, 2014, there were no potential common shares.

For the year ended March 31, 2013, there were no dilutive potential common shares.

<sup>4</sup> Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

<sup>5</sup> Invested assets = Total assets — interest-free liabilities



# To Our Stakeholders



Masayoshi Matsumoto  
President and CEO

## Consolidated Financial Results for FY2015

In FY2015, ended March 31, 2016, although recovery trends continued in the U.S. and Europe picked up as a whole, the outlook became more uncertain for the world economy due, among other factors, to concerns about the effect of the slowing growth of emerging economies. Affected by factors such as China's economic slowdown, the Japanese economy has also been at a standstill exemplified by a halt in the growth of exports and personal consumption.

Regarding the business environment for the Sumitomo Electric Group, demand for wiring harnesses and anti-vibration rubber is steady, mainly in overseas markets such as the U.S., and demand for flexible printed circuits (FPCs) for mobile devices etc. also increased. In this environment, the consolidated financial settlement for this fiscal year saw revenue increase from the previous fiscal year, as net sales amounted to ¥2,933,089 million (previous fiscal year: ¥2,822,811 million, +3.9%). In addition, although there was an increase in depreciation and amortization and in research and development costs because of prior investment, due to the impact of the weaker yen and cost

reductions, operating income was ¥143,476 million (previous fiscal year: ¥134,457 million, +6.7%) and ordinary income was ¥165,658 million (previous fiscal year: ¥160,597 million, +3.2%), each of which shows a year-on-year increase in profit. Profit attributable to owners of the parent decreased to ¥91,001 million (previous fiscal year: ¥119,771 million, -24.0%) due to the posting of extraordinary profits in the previous fiscal year associated with the sale of shares in Sumitomo 3M Ltd. (which changed its corporate name to "3M Japan Limited" as of September 1, 2014).

## Measures to Pursue in the FY2016 Future Economic Outlook

For the global economy hereafter, the risk of an economic downturn is expected to increase, as opposed to the current trend of a mild recovery, due to China's continued economic slowdown, a modification to the U.S. monetary policy, the uncertainty and political unrest in emerging economies, and fluctuations in the financial and capital markets, among other

factors. Also for the Japanese economy, due to these effects, it is expected that exports and personal consumption will continue to lack vigor and that the outlook will remain unclear.

Our forecasts for FY2016, ending March 31, 2017, are net sales of ¥2,950 billion, operating income of ¥160 billion, ordinary income of ¥185 billion, and profit attributable to owners of the parent of ¥100 billion. By business segment, we forecast net sales of ¥1,480 billion in the Automotive segment, ¥210 billion in the Infocommunications segment, ¥310 billion in the Electronics segment, ¥690 billion in the Environment and Energy segment, and ¥320 billion in the Industrial Materials and Others segment.

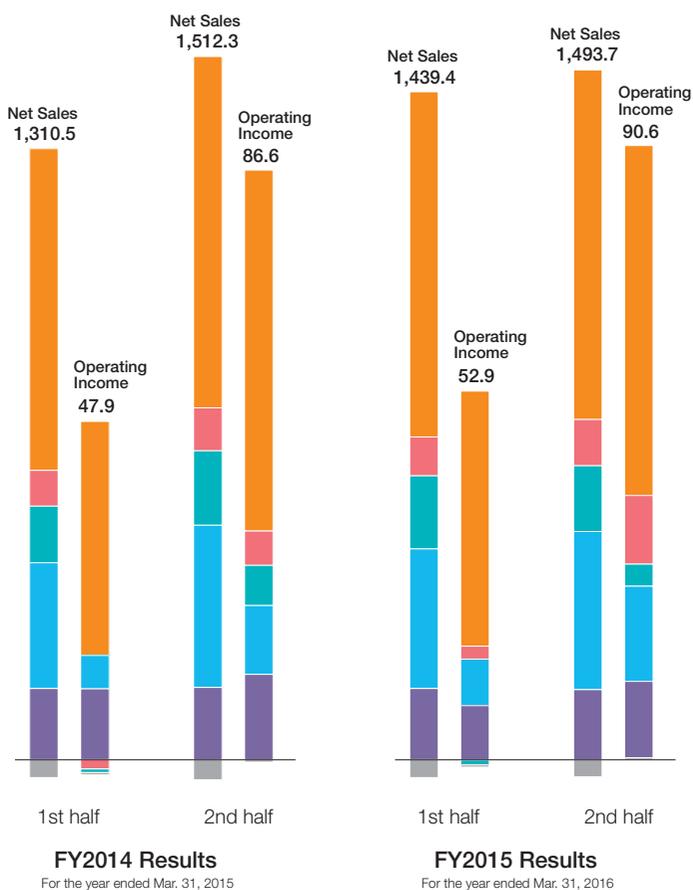
### Future Plans in Each Business Segment

In these circumstances, the Group, having the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles as its foundation, intends to strive to improve SEQCDD (Safety, Environment, Quality, Cost, Delivery, and Research & Development), while working to realize the objectives of our mid-term management plan, VISION 2017. Accordingly, we are pursuing the strategies set out below in each of our business segments.

In the Automotive segment, the Group has developed high-strength aluminum alloy wires, which have a strength reinforced to a level exceeding general copper and are targeted at aluminum wiring harnesses that contribute to making lighter automobiles. Aluminum wiring harnesses using this have, for the first time in the world, been adopted for an engine part requiring high durability. The Group is continuously striving to be a global comprehensive auto-parts manufacturer while proceeding to develop and market new products, including high-voltage wiring harnesses designed for environment-friendly vehicles and complicated and sophisticated electronic components that allow enhanced control of automobiles. In addition, the Group will focus on expanding its market share for non-Japanese customers and further improving its global productivity. Sumitomo Riko Company Ltd. is accelerating the creation of synergies with overseas business operations it has acquired in the field of automotive anti-vibration

### Net Sales / Operating Income

(Billions of yen)



rubbers and hoses and is continuing to drive forward global business expansion and enhancement of profitability.

In the Infocommunications segment, we are continuously working to secure favorable demand from overseas markets for optical fibers, 100Gbps high-speed optical devices, and gallium nitride devices for mobile phone base stations, and proceeding further with marketing of ultra-low-loss fibers for submarine cables and intelligent transport systems. In addition, we will focus on globally marketing new products in the field of access network equipment, striving to further improve profitability.

# To Our Stakeholders

In the Electronics segment, with regard to FPCs for mobile devices, electronic wires and irradiation tubes, we are accelerating our global marketing and striving to optimize our global production organization by expanding our manufacturing bases in areas such as Southeast Asia to drive forward further improvement in profitability. We will also work to increase the precision, thinness, and heat resistance of FPCs and proceed with expanding the business of space-saving, high-speed wiring materials and FPCs for vehicles and other applications.

In the Environment and Energy segment, with respect to power cables, it has recently become difficult to operate profitably due to factors such as intensifying competition. However, in addition to strengthening operational activity, we are accelerating the development of low-cost and high-quality products through the transfer conducted in January 2016 of the operations of design, development, and quality assurance from J-Power Systems Corporation to the Company. While in June 2015 we received an order for a high-voltage, direct current submarine power cable connecting the United Kingdom and Belgium, we are striving to further improve profitability by winning further large-scale projects, including orders in the Pacific Rim, such as Southeast Asia. In addition, the segment is promoting the marketing of flat winding magnet wires and porous metals for the motor batteries of environment-friendly vehicles, while focusing on expanding the

business related to renewable energy and smart grids by taking advantage of the Group's integrated capabilities, including the power system equipment of Nissin Electric Co., Ltd. and the facility construction services of Sumitomo Densetsu Co., Ltd.

In the Industrial Materials segment, we are striving more than ever before to capture demand for cemented carbide tools in the markets of emerging economies and other countries as well as reinforcing our marketing in the fields of aircraft and precision processing that are expected to grow in the future, in addition to the main automotive field. We are also promoting reinforcement of our manufacturing capacity for sintered powder metal parts in countries including Japan, Indonesia, and Mexico. This enables us to strive to further strengthen our global operation and manufacturing system and procurement of raw materials. In addition, we will proceed with enhancement and innovation of core technology and continue to focus on the development and marketing of new products such as nano-polycrystalline diamonds in the field of cemented carbide tools, and electric vehicle products made with sintered powder metal parts.

In research and development activities, we will make efforts to create new businesses and products that are original and excel in profitability. This includes accelerating the development of redox flow batteries, concentrator photovoltaic systems, and power line communication systems, with the aim of establishing a new

## FY2016 Forecast

Billions of yen

	FY2015 Results	FY2016		
		1H Forecast (1)	2H Forecast (2)	Year Total (1)+(2)
Net sales	¥ 2,933.1	¥ 1,400	¥ 1,550	¥ 2,950
Operating income	143.5	55	105	160
Ordinary income	165.7	65	120	185
Net extraordinary loss	(10.8)			
Profit before income taxes	154.9	(25)	(60)	(85)
Income taxes, loss attributable to non-controlling interests*	(63.9)			
Profit attributable to owners of the parent*	91.0	40	60	100

Note: The assumed average exchange rate for FY2016 is ¥110 against the U.S. dollar. The exchange rate was ¥120.15 for FY2015.

electricity/energy infrastructure, and the commercialization of superconductors, magnesium alloy products, water-treatment systems, devices for next-generation communication networks, and large-capacity data transmission cables. Taking a long-term perspective, we will leverage the Group's strengths to develop new products in response to society's needs, including advanced traffic safety systems and research into new materials with new functions.

Ultimately, we believe that compliance with laws and regulations and maintaining corporate ethics constitute the foundation of the Company's management, and that they are the absolute basis for our continued development. In particular, we consider compliance with competition laws as our most important task, and since the establishment of a set of rules and regulations to ensure compliance with this regulation in June 2010, we have worked to strengthen our competition law compliance as an entire group. From now on, under the principles of the Sumitomo Spirit, which values doing one's sincere best, not only in business but in every aspect of life, placing importance on integrity, and not acting rashly or carelessly in pursuit of easy gains, we will make every effort to ensure that all corporate activities are conducted fairly and honestly and can be trusted by society.

We would like to ask our shareholders for your continued support and understanding.

August 2016

*M. Matsumoto*

Masayoshi Matsumoto  
President and CEO



# VISION 2017

In VISION 2017, our Group will leverage our outstanding technology and focus on six fields of business which are essential for society—the three fields of “Mobility,” “Energy,” and “Communications” (ICT) as the current business fields, “Environment & Infrastructure” as an integrated business field that embodies the first three, and “Life Sciences” and “Materials & Resources” as new business fields.

Under VISION 2017, we aim to continuously innovate and provide global services in these fields, creating new value from raw materials to systems and solutions.

## Interim Revision of VISION 2017 Targets

(announced May 2015)

VISION 2017			
Net Sales	Operating Income	ROA	ROE
¥3,300 billion	¥200 billion	Over 9%	Over 8%

(consolidated)

**“Glorious Excellent Company”**



Overview

Business Review

Basis for Growth

Financial Information

Corporate Information

## Overall Strategy

We aim to take a further step toward becoming a “Glorious Excellent Company” by:

- 1 Making the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles the basis of our business activities and holding fast to the three bases of our Group’s business: human resources, manufacturing, and finances.
- 2 Raising the banner of “innovation” as our keyword, we will continue to overhaul and expand current business fields while expanding into integrated business fields and addressing the challenge of developing new business fields.
- 3 Making high-priority efforts to strengthen “strategic marketing,” increasing our “global presence” and enhancing our “leading technologies.”
- 4 Attaining our numerical targets of ¥3,300 billion in net sales, ¥200 billion in operating income, ROA of more than 9% and ROE of more than 8%.

## Growth Strategy in Three Domains

### New Growth in Current Business Fields

By overhauling and developing five established business segments—Automotive, Environment and Energy, Infocommunications, Electronics, and Industrial Materials—we aim to create new value in the business fields of “Mobility,” “Energy,” and “Communications (ICT),” as well as in the materials and product groups that support them.

### Expansion into Integrated Business Fields

We plan to integrate these business fields across group and departmental boundaries, and use our all-round strengths to develop our “Environment & Infrastructure” business.

### Challenging New Business Fields

We are also addressing the challenge of opening up two new business fields, “Life Sciences” and “Materials & Resources,” by making full use of the Group’s wide-ranging technological capabilities.

## Priority Initiatives

### 1 Strengthen “Strategic Marketing” (Creating New Markets)

In addition to strengthening our services for both established and new markets and customers, we are focusing on strengthening our solutions proposal capability, and continuously creating and fostering new markets.

### 2 Increase Our “Global Presence” (Promoting Diversity of Personnel)

We are strengthening our global organizational systems and promoting diversity.

### 3 Enhance Our “Leading Technology” (Accelerating Commercialization)

In addition to accelerating the commercialization of research and development projects, we are building the core businesses of the future.

## Three Bases

### Human Resources Base

- Based on the Global Human Resources Management (HRM) Policy, we are committed to higher standards of recruitment, evaluation and incentivization, deployment and promotion, as well as human resources development.
- Promoting diversity.

### Manufacturing Base

- Greater competitiveness. We are raising standards in quality, cost and delivery, accelerating mass production and commercialization, and strengthening technological development.
- Strengthening basic manufacturing infrastructure and systems. We are creating a production system that is safe, clean, stable and reliable.
- Training human resources with practical skills.

### Financial Base

- Creating a sound and resilient financial position (shareholders’ equity to total assets ratio of 50%, and a dividend payout ratio of 30%).

# Review of Operations

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





# Automotive

## Performance in FY2015 and forecast for FY2016

Firm U.S. and other overseas demand for wiring harnesses and anti-vibration rubber propelled this segment's sales to ¥1,542.0 billion, a year-on-year increase of ¥53.8 billion (3.6%). Although both higher sales and lower costs had a positive effect on operating income, wiring harness subsidiaries incurred an unrecognized actuarial loss on defined benefit retirement plans. The subsidiary treated the loss as a one-time expense, which reduced operating income by ¥0.6 billion (0.7%) to ¥88.7 billion. Sumitomo Electric forecasts FY2016 sales of ¥1,480 billion and operating income of ¥89 billion.

### Net sales

#### FY2015 result

¥1,542.0 billion



#### FY2016 target

¥1,480.0 billion

down 4.0%

### Operating income

#### FY2015 result

¥88.7 billion



#### FY2016 target

¥89.0 billion

up 0.4%

## Initiatives in FY2016

- (1) Sales expansion to overseas customers and smooth mass production launch of new models
- (2) Realize an operating gain from Sumitomo Riko's M&A activity and accelerate synergy effects

### Topics

## Our automotive products used in the fuel cell vehicle FCV MIRAI meet the environmental needs of the motorized society.

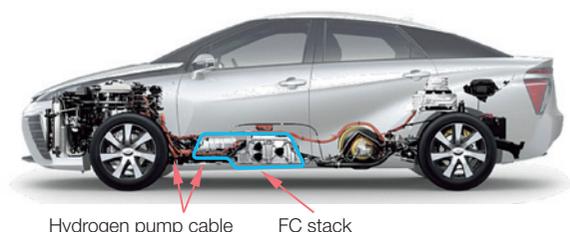
MIRAI is a mass-produced fuel cell vehicle (FCV) launched by Toyota Motor Corporation in 2014. The vehicle incorporates numerous products of the Sumitomo Electric Group because Sumitomo Electric has a long track record in developing and shipping wiring harness products, which the automaker values.

The stack subharness developed by Sumitomo Electric is used in fuel cell (FC) stacks. Hydrogen pump cables used with hydrogen circulation pumps\*1 have also been developed and supplied to the client.

The Sumitomo Electric Group's other wiring harness products include high-voltage cables for air conditioners and water pump cables. Furthermore, the Group has made use of its highly regarded development capabilities to deliver other products for incorporation in electric

vehicles and hybrid electric vehicles, such as Gateway electronic control units (ECUs), hydrogen hoses from Sumitomo Riko Co., Ltd., cell gaskets such as rubber seals, and the anti-vibration rubber stack mount.

\*1 Hydrogen Circulation Pump: A device used to resupply the FC stack with unreacted hydrogen from the power generation process and water produced through chemical reaction. The hydrogen circulation pump enables the FCV to use hydrogen without waste.



## Performance in FY2015 and forecast for FY2016

Owing to higher demand, mainly from overseas, this segment's sales reached ¥184.7 billion, a year-on-year increase of ¥12.7 billion (7.4%). Operating income climbed ¥8.2 billion (217.5%) to ¥11.9 billion on higher demand, increased sales of ultra-low-loss optical fiber for submarine cables, and improved profitability due to cost cutting. Sumitomo Electric forecasts FY2016 sales of ¥210 billion and operating income of ¥13 billion.

### Net sales

**FY2015 result**  
 ¥184.7 billion → **FY2016 target**  
 ¥210.0 billion **up 13.7%**

### Operating income

**FY2015 result**  
 ¥11.9 billion → **FY2016 target**  
 ¥13.0 billion **up 9.2%**

## Initiatives in FY2016

- (1) Response to strong demand from China and other markets
- (2) Continuous introduction and sales expansion of new high-value-added products

### Topics

## Traffic control system maintenance and upkeep technology promotion program started in Bangkok, Thailand

Sumitomo Electric's traffic control system maintenance and upkeep technology promotion program for Bangkok, Thailand, was selected for the spread of private-sector technology for social and economic development in developing countries by the Japan International Cooperation Agency (JICA). After consultation with the relevant authorities in Thailand, the project started with JICA's support.

Our traffic control system, using technology developed in Japan, has car sensors embedded in a roadway to collect data on traffic volume and other factors. To reduce congestion, improve safety, and cut down on greenhouse gas emissions, the timing of traffic lights is

adjusted in real time based on these data.

We will be making the technology more applicable to local conditions so that we can propose the optimum system to improve the transport environment in Bangkok, and in other places where traffic congestion is a pressing issue.





# Electronics

## Performance in FY2015 and forecast for FY2016

Increased demand for mobile phone flexible printed circuits (FPCs) raised this segment's sales to ¥312.0 billion, up ¥20.0 billion (6.9%) year on year. Operating income grew ¥4.7 billion (86.9%) to ¥10.2 billion on higher demand and cost cutting. Sumitomo Electric forecasts FY2016 sales of ¥310 billion and operating income of ¥12 billion.

### Net sales

#### FY2015 result

¥312.0 billion



#### FY2016 target

¥310.0 billion



0.6%

### Operating income

#### FY2015 result

¥10.2 billion



#### FY2016 target

¥12.0 billion



17.6%

## Initiatives in FY2016

- (1) Construction of optimum product portfolio and reinforcement of earnings strength based on development of FPCs, electronic wires, and irradiation tubes for a wider range of customers
- (2) Better quality and cost performance through structural reform of FPC production (dispersal of production bases to alleviate China risk, automation of production processes, etc.)

### Topics

## Sumitomo Electric Receives Thunderbolt 3 Cable Certification from Intel

Based on Intel's Thunderbolt 3\* technology, the new Thunderbolt 3 cable with the new USB Type-C connector enables 40 Gbit/s bi-directional data transmission and reversible connectivity. The cable supports up to 100 W power delivery and multiple data protocols. All Thunderbolt products undergo certification to ensure optimal operation and end-user experience.

The new Thunderbolt 3 cables enable high-speed user experiences like never before: single-cable docking, multiple 4K video displays, external graphics for high-speed gaming, and



Thunderbolt networking between computers.

Intel Corporation said "We are pleased to have worked with Sumitomo Electric over the years to ensure that their cables help to provide users with a great Thunderbolt experience."

\* Thunderbolt 3 technology enables high data transmission of 40 Gbit/s between a PC and peripheral devices. It delivers great responsiveness in data transmission in daisy chain connection.

- Intel and Thunderbolt are trademarks of Intel Corporation in the United States and other countries.
- USB Type-C is a trademark of USB Implementers Forum.
- PCI Express is a trademark or registered trademark of PCI-SIG in the United States and other countries.



## Performance in FY2015 and forecast for FY2016

Due in part to the inclusion of Sumiden Hitachi Cable Ltd. in consolidation beginning in the third quarter of FY2015, this segment's sales reached ¥659.5 billion, a year-on-year increase of ¥23.0 billion (3.6%). Operating income edged down ¥0.12 billion (0.9%) to ¥13.4 billion, because price competition among producers of electric power cable intensified and some overseas submarine cable projects met with bad weather and unexpectedly poor conditions for laying cable, which delayed work and reduced profitability. Sumitomo Electric forecasts FY2016 sales of ¥690 billion and operating income of ¥21 billion in this segment.

### Net sales

#### FY2015 result

¥659.5 billion



#### FY2016 target

¥690.0 billion **up 4.6%**

### Operating income

#### FY2015 result

¥13.4 billion



#### FY2016 target

¥21.0 billion **up 56.7%**

## Initiatives in FY2016

(1) Improve earning power of the electric power cable business

- Focus on winning submarine cable orders overseas, where demand is strong, and ensure smooth execution of major projects once received
- Establish a manufacturing system that ensures competitiveness in both cost and quality

(2) Accelerate cooperation with Sumitomo Densetsu and Nissin Electric

(3) Develop energy system-related products and accelerate domestic and overseas testing to make this a viable business

### Topics

#### UL Product Certification acquired for redox flow cell stack

Cell stacks are the charge/discharge portion of a battery, and they act as the core of our redox flow batteries. Our redox flow cell stack, highly evaluated for its safety and durability, has been awarded UL Product Certification.\*1

In recent years, renewable energy generated from solar, wind, or other natural sources has been trending upward as a share of all power generation. California in the U.S. aims to produce 50% of its electricity from renewable sources by 2030, and there is concern that electric power supply will be destabilized as this share rises.\*2 Therefore, the installation of large-scale storage batteries is being considered and planned as a solution.

A large-scale storage battery has a bigger system, which accordingly makes it more difficult to ensure its safety and durability. Acquiring UL Product Certification not only gives us a foothold in the North American market but also helps to publicize the safety of redox flow batteries in Japan and

overseas. We expect this certification to lead to increased sales.



\*1: UL Product Certification

This is a certification based on product safety standards developed by UL (headquartered in Northbrook, Illinois, USA) that aims to eliminate fires, electric shocks, and other accidents or risks from products. Many electrical products sold in North America acquire the widely known UL Product Certification as proof of their safety.

\*2: Due to the weather dependency of solar and wind power generation, the amount of energy produced by these means tends to fluctuate greatly. Such large fluctuations in the electrical system can hinder the maintenance of stable power voltage and frequency.



# Industrial Materials and Others

## Performance in FY2015 and forecast for FY2016

Owing to reduced demand for A.L.M.T. Corp.'s semiconductor heat sink materials for mobile base stations, as well as cemented carbide tools, this segment's sales decreased to ¥312.2 billion, a year-on-year decline of ¥5.2 billion (1.6%). Operating income fell ¥3.8 billion (16.3%) to ¥19.2 billion, due in part to lower demand, but also due to a loss on revaluation of raw materials necessitated by the reduced value of A.L.M.T.'s tungsten and molybdenum inventories. Sumitomo Electric forecasts FY2016 sales of ¥320 billion and operating income of ¥25 billion.

### Net sales

#### FY2015 result

¥312.2 billion



#### FY2016 target

¥320.0 billion **up 2.5%**

### Operating income

#### FY2015 result

¥19.2 billion



#### FY2016 target

¥25.0 billion **up 30.0%**

## Initiatives in FY2016

- (1) Reinforcement of the global marketing, manufacturing, and quality control system for cemented carbide tools and sintered parts
- (2) Improvement of A.L.M.T. Corp.'s corporate structure and earnings power

### Topics

## Tohoku Sumiden Precision established in Fukushima as a production base for cutting tools

In April 2016, Sumitomo Electric Hardmetal Co., Ltd., a wholly owned subsidiary of Sumitomo Electric, established a new company in Fukushima, Japan as a production base for cutting tools. In November 2017, Tohoku Sumiden Precision Co., Ltd. will start producing cemented carbide drills and steel tools, boosting our ability to supply the global market for both products. The new company will also have our sixth Tool Engineering Center in Japan, a place where customers can ask about technology and conduct processing trials. This will raise the level of our customer service in the Tohoku Area.

To meet growing demand for our products, The IGETALLOY™ and MultiDrill™,

we have built a new, highly efficient production line capable of supplying these products globally.

The Sumitomo Electric Group continues to support economic recovery from the Great East Japan Earthquake while providing its customers with products and services.

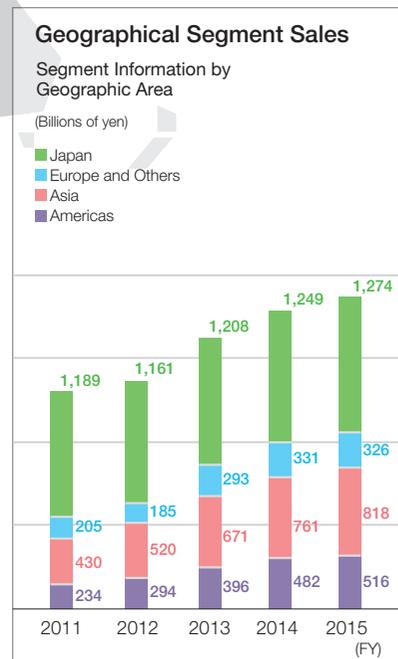
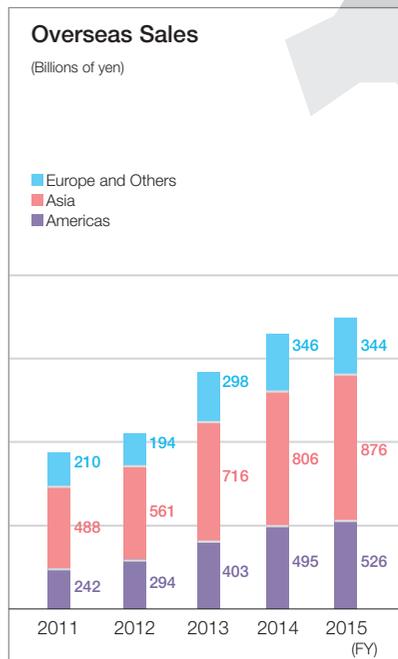
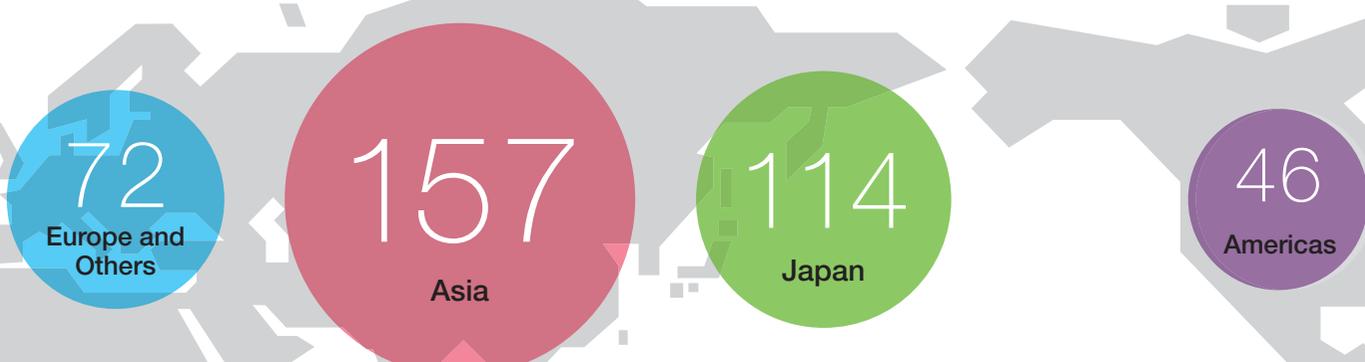


# Expanding Business on the World Stage

The Sumitomo Electric Group is expanding marketing bases and optimally reconfiguring its production bases around the world to respond more accurately to growing global demand driven by the emerging economies. As a result, sales of the Company and its consolidated subsidiaries outside Japan (overseas sales) totaled ¥1,746.1 billion in FY2015, an increase of ¥99.3 billion from the previous fiscal year. Overseas sales now account for 59.5% of total sales on a consolidated basis, a year-on-year increase of 1.2 percentage points.

## Total of Consolidated Subsidiaries and Equity-Method Affiliates

**389** (As of March 31, 2016)



## Americas

In FY2015, sales in the Americas rose by ¥31.6 billion year on year to ¥526.3 billion, accounting for 18.0% of all consolidated sales.

Sales of consolidated subsidiaries in the Americas (to external customers) grew ¥33.4 billion year on year to ¥516 billion, while operating income rose ¥3.9 billion to ¥34.4 billion. Operating income generated in the region accounted for 24.2% of consolidated operating income.

## Asia

Sales in China increased by ¥72.1 billion year on year to ¥532.0 billion, accounting for 18.1% of all consolidated sales. Sales in other Asian markets decreased ¥2.0 billion to ¥344.2 billion, accounting for 11.7% of total sales on a consolidated basis.

Sales of consolidated subsidiaries in Asia, including China, (to external customers) totaled ¥818 billion, an increase of ¥56.8 billion from the previous fiscal year. The sales increase was primarily due to strong demand for automotive wiring harnesses along with steadily growing sales of sintered parts and other industrial materials. Operating income also increased ¥13.9 billion year on year to ¥77.4 billion. Operating income generated in this region accounted for 54.4% of total operating income on a consolidated basis.

## Europe and Others

Sales in Europe and other areas amounted to ¥343.7 billion, accounting for 11.7% of total consolidated sales. This was a decrease of ¥2.3 billion compared to the previous fiscal year.

At the same time, sales of consolidated subsidiaries in the region (to external customers) decreased ¥4.7 billion to ¥326 billion. Operating income was ¥6.1 billion, up ¥0.4 billion. Operating income generated in this region accounted for 4.3% of total operating income on a consolidated basis.

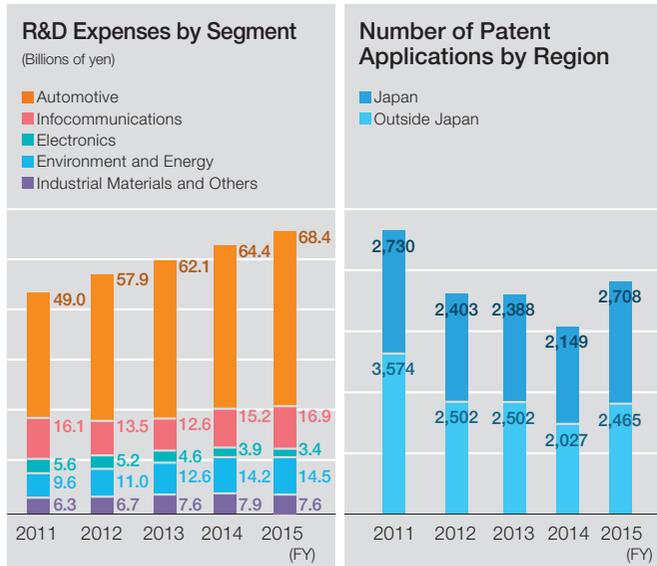
### Global Human Resource Management Policy

Currently, the Sumitomo Electric Group employs around 240,000 people in diversified technological and regional occupations in over 40 countries. It is essential for us to make full use of all of our resources if we are to survive and thrive amid global competition in terms of technology, products and business model. It is also vital to secure and mobilize highly talented human resources to support our business. The Group has long emphasized the importance of human resources, as stated in the Sumitomo Spirit. In September 2011, the Group compiled the Global Human Resource Management Policy, clearly laying down its basic human resource policy. This policy explicitly commits Sumitomo Electric to further accelerating the globalization of human resources and organizational systems and providing training for fostering global players and leaders and career opportunities regardless of nationality, race, ethnicity, religion or gender. The policy has been widely promulgated internally and externally. We are promoting specific policies for cross-border personnel exchange and training, and for compilation of global guidelines for personnel deployment.

# Research & Development

In line with our commitment in our Corporate Principles to build technical expertise, realize changes and strive for consistent growth, we focus on growth in existing areas while developing 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 FY2015, ended March 31, 2016, consolidated R&D expenses totaled ¥110.8 billion.



## Topics

### Sumitomo Electric Wins Thomson Reuters 2015 Top 100 Global Innovators Award

Thomson Reuters (New York, USA) selected Sumitomo Electric as a Top 100 Global Innovator for the third consecutive year.



## Automotive Segment

Applying its unique material and analysis technologies, Sumitomo Electric, together with Sumitomo Wiring Systems, Ltd., and a research firm jointly owned by both companies, AutoNetworks Technologies, Ltd., is developing new wiring harnesses and automotive electronic equipment designed to meet customer needs for safety, ease of use, and environmental friendliness.

The Company is reducing the weight of wiring harnesses for environmental reasons, and is going ahead with mass production of wiring harnesses made of aluminum, which is lighter than copper. Stronger aluminum harnesses have been developed, and they are being used in an expanding range of applications, such as around automobile engines. Sumitomo Electric is also working on high-voltage harnesses and connectors for electric vehicles (EVs) and hybrid electric vehicles (HEVs), as well as battery internal wire modules. In automotive electronic equipment, it is developing a number of products to enable networking of power systems and information systems, such as power distributors, semiconductor devices, onboard electronic control units (ECUs), and next-generation automotive local area networks (LANs), including gateways and other communications equipment.

To improve the efficiency of new product development and

maintain high levels of quality, Sumitomo Electric is developing testing, analysis, evaluation, and solution techniques indispensable to create elemental technologies and ensure reliability.

## Infocommunications Segment

In the Infocommunications segment, Sumitomo Electric is pursuing comprehensive R&D in various product fields, including optical communications-related products and network systems. In optical communications-related products, the Company is preparing for the next big leap in transmission capacity by developing a multicore optical fiber cable, in which multiple cores are formed into a single optical fiber. Practical application issues are being studied now. In FY2015, the Company developed a new coupled multicore optical fiber and achieved a transmission speed of 2.15 Petabit/s\*, which was over twice as fast as the existing world record.

In the device-related field, Sumitomo Electric was quick to bolster its new product development by employing its high-end optical communications devices designed for transmission over

short distances of a few dozen meters to long distances of thousands of kilometers, as well as its electronic device technologies for wireless communications capable of high-speed and high-output performance. Some of the results are coherent communication devices and gallium nitride (GaN) transistors. Currently the Company is working to expand the market for these products. Building on these device technologies, Sumitomo Electric is proceeding with development of near-infrared image sensors and quantum cascade lasers, for which applications are anticipated in diverse fields including life sciences, environmental protection, and infrastructure and industrial process management.

In the network system field, Sumitomo Electric is working on high-quality image compression technology, which will play a role in spreading the 8K standard of ultra-HD image technology.

\* A petabit (Pbit) is 1,000 trillion bits, a terabit (Tbit) is 1 trillion bits, a gigabit (Gbit) is 1 billion bits, and a megabit (Mbit) is 1 million bits. A typical fiber to the home (FTTH) works at a speed of about 2 Gbit/s, and therefore 1 Pbit is approximately 500,000 times faster.

## Electronics Segment

Sumitomo Electric is applying its micro-nano technologies to develop a wide range of new materials and components in this segment, including compound semiconductors and electronic components.

Sumitomo Electric has developed the world's smallest (W13 × D11 × H6 mm) full-color laser module, which combines red, green, and blue laser diodes. This module is a new product made possible by the Company's accumulated material and implementation technology. With its stable light and electrical characteristics, it is well suited for use in illumination, small projectors, and a variety of sensors.

The Company also developed a proprietary-structured power transistor from silicon carbide (SiC), a promising material for use in next-generation power semiconductors. With its superior characteristics, such as low on-state resistance and high stability, the new transistor is suitable for use in EVs/HEVs and solar power conditioners.

## Environment and Energy Segment

Sumitomo Electric is proactively developing storage batteries and other energy-related products while working to expand its energy solutions business and other businesses into new markets by leveraging the networking technologies it has developed in its superconducting and next-generation power transmission network businesses.

In the superconducting business, the Company substantially

improved the performance and mass production potential of bismuth-based high-temperature superconducting wires, and is pursuing commercialization and all-out marketing of these wires worldwide as materials for cable projects, motors and magnets. In April 2015, Sumitomo Electric began marketing a recently developed electrical conductive material with a 50%–60% improvement in tensile strength (to about 400 megapascals). This expanded the range of applications for the Company's electrical conductors to include nuclear magnetic resonance (NMR) devices and other super-high field magnets.

In the field of next-generation power transmission network, Sumitomo Electric has been meeting society's need for the increased use of natural energy, energy savings, and decentralized management of power grids by developing and testing a micro smart grid system in which multiple natural energy facilities, including concentrator photovoltaic devices (CPV), are interconnected via DC power cables with small redox flow storage batteries. The Company is also focusing its development resources on automated demand response servers, which adjust electricity use at times of heavy demand; home energy management systems (HEMS); mega-solar monitoring systems equipped with power line communications (PLC); small storage batteries for emergency use; and power conditioners.

## Industrial Materials and Others Segment

Sumitomo Electric is promoting the development of cutting tools, ultra-precision machining tools, various kinds of mechanical and functional parts for automobiles, and components for consumer appliances, drawing on its unique material and processing technologies related to cemented carbide, synthetic diamonds, cubic boron nitride, coating thin film, special steel wires, ceramics, and steel sintered components.

Agriculture, a sector with future growth potential, has not been overlooked. The Company is aiming to fundamentally improve productivity by industrializing agriculture through a combination of ICT technology, environmental control technology, and its proprietary sand cultivation method. In the life sciences field, the Company is searching for new ways to apply its existing technology.

Note: Other company names and product names are trademarks or registered trademarks of the respective companies concerned.

# Corporate Governance

## Basic Policy for Corporate Governance

The consistent basic policy of the Sumitomo Electric Group is to continue to create a positive contribution to society through the pursuit of fair business activities, 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 its operational resources, recognizing that these endeavors are important for both sustaining growth and increasing corporate value over the medium to long term. In this context, the Sumitomo Electric Group is striving to further enhance its corporate governance in accordance with the following basic policy.

- (1) We will develop an environment in which shareholders can exercise their rights appropriately.
- (2) We will take the interests of stakeholders, including shareholders, into consideration, and will cooperate appropriately with stakeholders.
- (3) We will disclose corporate information appropriately and ensure transparency.
- (4) We will emphasize the Board of Directors' functions to make decisions on basic policy, including strategies, as well as to supervise management. We will also focus on developing a system and operating the Board of Directors to ensure the effectiveness of such functions. With respect to executive operations, we have introduced an executive officer system and a business unit system, for the purpose of clarifying authority and responsibilities, and of establishing a flexible system to execute operations in response to changes in the business environment. To ensure sound management, we commit to strengthening audits by corporate auditors and adopting a supervisory system in which independent outside corporate auditors and full-time corporate auditors work with our internal audit department and accounting auditors to ensure lawful and proper management.
- (5) To contribute to sustainable growth and increase corporate value over the medium to long term, we will engage in constructive dialogue with shareholders to a reasonable extent.

In October 2015, the Company drafted its corporate governance guidelines (<http://global-sei.com/company/governance.html>).

## The Sumitomo Spirit

The Sumitomo family's business dates back to about 400 years

ago, when it operated a copper refining business using *nanbanbuki*, a European method for smelting copper and silver. Based at the Besshi copper mine, the business eventually grew into the heart of Japan's mining industry. The Sumitomo Spirit represents the ethical basis underlying the prosperity of this business. It evolved from the guiding principles for business set down by Sumitomo founder Masatomo Sumitomo in his *Aphorisms of Monjuin*. These principles have since deepened and evolved as they were handed down over generations in the Sumitomo family. In 1891, they were rewritten as the Rules Governing the Sumitomo Family, which concisely captured the essence of the original principles.

## Rules Governing the Sumitomo Family

### 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.

### Article 2

Sumitomo's business interest must always be in harmony with the public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

In addition, the principles of attaching importance to technology, respect for human resources, long-range planning, mutual prosperity and respect for the public good have been passed down to today's generation through the Sumitomo Spirit.

## Sumitomo Electric Group Corporate Principles

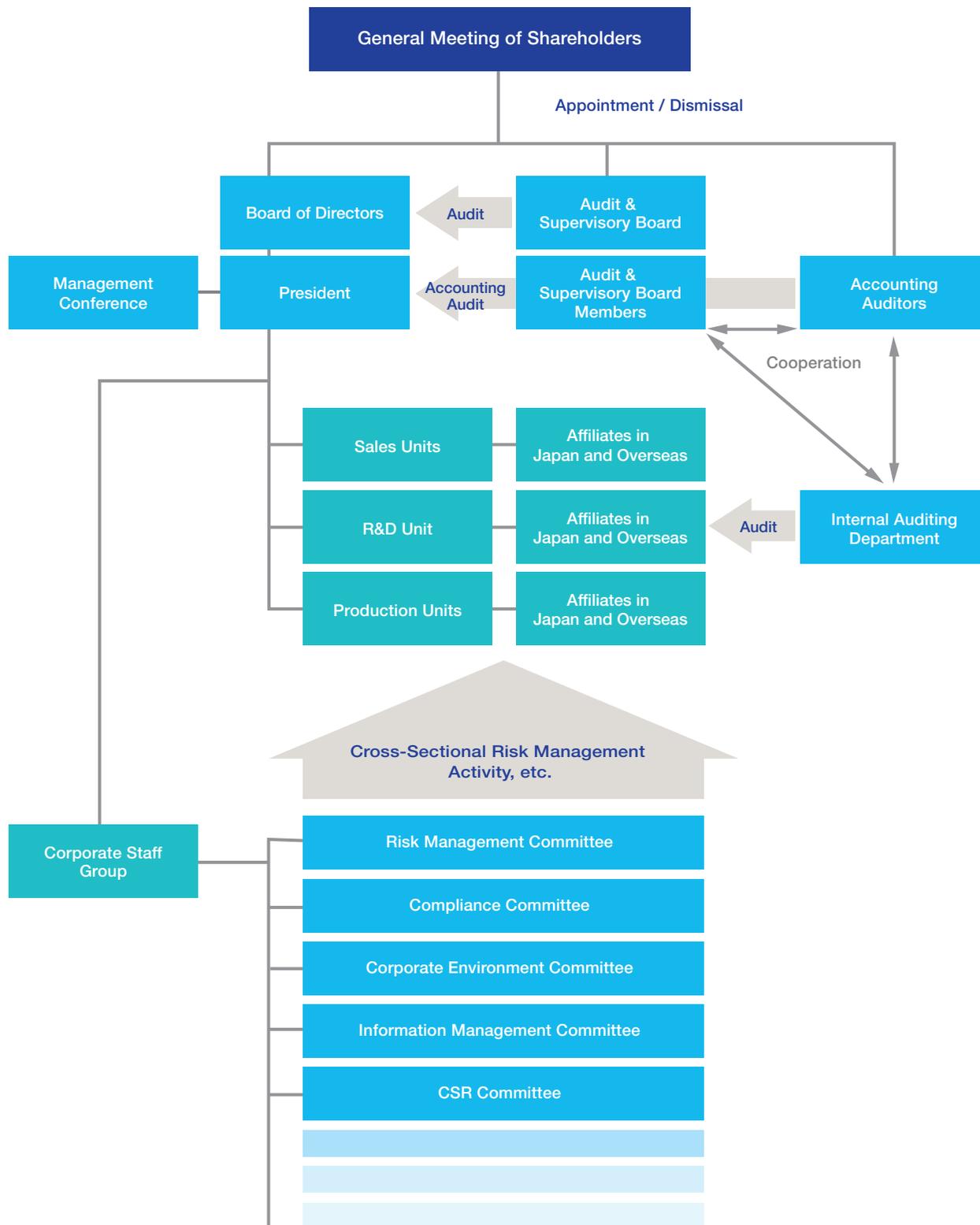
Each company of the Sumitomo Electric Group shall

- 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, and
- nurture a lively corporate culture that enables employee self-improvement.

## Overview of the Corporate Governance System and Reasons for Adopting It

Sumitomo Electric chose to adopt an audit and supervisory board system since the roles of such a board and its members under

## Sumitomo Electric Group's Corporate Governance Structure



# Corporate Governance

this system are clearly intended for ensuring sound management. With the duties of the Board of Directors, Executive Officers, and Audit & Supervisory Board Members precisely specified, the Company intends to pursue sustainable growth and increase its corporate value over the medium and long term according to the following basic principles.

First, under the audit and supervisory board system, the Company's Board of Directors is responsible for making decisions on the execution of business and supervising those operations. To enable the Board of Directors to make sound decisions on important matters that could affect the future course of the Company, and to effectively carry out its supervisory duties, deliberations on particular matters such as investment are limited to those of high importance. Management decisions are implemented while placing importance on deliberations on the medium-term management plan and fiscal year plans based on it, as well as analysis of the results for each fiscal quarter. Furthermore, to ensure that a sufficient and diverse range of opinions is given due consideration during deliberations, the Company appoints Outside Directors to the board, and actively solicits input from Independent Outside Audit & Supervisory Board Members. When carrying out its supervisory duties, the Board of Directors pays serious attention to the opinions of independent officers, particularly Outside Directors, to ensure a more independent and objective standpoint. To help make the Board of Directors more effective, the Company established an advisory committee responsible for decisions regarding nominations and remuneration of directors and executive managers, chaired by an Outside Director and comprised of a majority of Outside Directors. In addition, after the general meeting of shareholders on June 24, 2016, the Company has a system with two independent Outside Directors. Support systems and cooperative arrangements with Audit & Supervisory Board Members, including independent outside members, accounting auditors and the Internal Auditing Department, have been strengthened.

The Board of Directors meets on a regular basis once a month or whenever it is deemed necessary. The President currently chairs the meetings, because the position of Chairman of the Board of Directors is currently vacant. In addition to deliberating and deciding on the matters discussed above, the Board of Directors decides on basic policies for the Company's internal control system, and oversees the maintenance and operations of that system.

Second, the Company has adopted an executive officer system and a business unit system with the goals of clarifying the authority and duties of managers in charge of business execution, and establishing a management organization that can respond flexibly to changes in the operating environment. Authority over business execution has been delegated to each business unit, and their responsibilities have been clearly specified. To establish

a sound internal control function, the Company's in-house regulations have specified the authority of each organization, including the Corporate Staff Group, and operational procedures for managers in charge of business execution.

Third, the majority of Audit & Supervisory Board Members appointed by the Company are Independent Outside Audit & Supervisory Board Members, who collectively possess a wide range of expert knowledge and diverse opinions. Sumitomo Electric has put a system in place that encourages these Audit & Supervisory Board Members as well as full-time Audit & Supervisory Board Members and corporate auditing assistants to cooperate with the Company's Internal Auditing Department and accounting auditors, so that the legality and appropriateness of business management are fully monitored.

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

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

Audit & Supervisory Board Members all attend important meetings of the Board of Directors, pose questions to members of the Board of Directors, the Internal Auditing Department, and other worksites regarding their performance of duties, and inspect important documents for approval based on auditing criteria, objectives and allocated tasks determined by the Audit & Supervisory Board. They also carry out regular visiting audits at major business premises. At the same time, they receive audit reports from other Audit & Supervisory Board Members and exchange necessary information with the accounting auditors.

The Internal Auditing Department is the Company's designated organization in charge of internal audits. While securing an appropriate level of cooperation with Audit & Supervisory Board Members and accounting auditors, the department carries out audits at worksites, including Sumitomo Electric group companies, to examine whether any issues interfere with effective and proper business execution, and provides improvement proposals.

Accounting audits and internal control audits are conducted by the auditing firm KPMG AZSA LLC. The audits are carried out by a team of 10 certified public accountants and 16 other personnel, including Kouichi Kobori, Hiroshi Tani, Tetsuo Yamada, and their auditing assistants.

Sumitomo Electric's full-time Audit & Supervisory Board Member Hideaki Inayama has many years of experience in the Company's Accounting Department and Finance Department, and possesses a considerable level of financial and accounting-related expertise.

Likewise, the Company's Outside Audit & Supervisory Board Member Kan Hayashi also has extensive expertise in financial- and accounting-related matters, having acquired the qualifications of certified public accountant and licensed tax accountant.

## Outside Directors and Outside Audit & Supervisory Board Members

Sumitomo Electric has two Outside Directors for the purpose of improving the supervisory function of the Board of Directors from an external standpoint, and increasing the transparency and objectivity of management. Likewise, to enhance its supervisory system and ensure that management is conducted appropriately and within the scope of the law, the Company has three Outside Audit & Supervisory Board Members—a majority of its total Audit & Supervisory Board Members—with diverse perspectives and broad areas of expertise. These Outside Directors and these Outside Audit & Supervisory Board Members have no special interests that might affect the execution of their respective duties. Business transactions from FY2015 onward between Sumitomo Electric and other companies or organizations for which these individuals have performed duties either currently or in the past 10 years are presented as follows.

- Outside Director Kazuo Hiramatsu is an executive director of Kwansei Gakuin University. The Company's research departments have entrusted the university with research projects, and gave it donations amounting to similar levels as those given to other universities. Given the amount of these donations and the nature of activities, however, they have not influenced the independence of Mr. Hiramatsu.
- Outside Director Hiroshi Sato was the chairman of Kobe Steel, Ltd. until April 1, 2016. Kobe Steel and Sumitomo Electric have a business relationship, but the scale of transactions between the companies is such that they have not influenced the independence of Mr. Sato.
- Outside Audit & Supervisory Board Member Kan Hayashi was a senior partner at the tax accounting firm PricewaterhouseCoopers until June 24, 2010. Sumitomo Electric has not concluded advisory contracts or conducted regular transactions with this firm, but it occasionally commissioned taxation-related examination and consulting work. Given their frequency and scope, however, these transactions have not influenced the independence of Mr.

Hayashi.

- Outside Audit & Supervisory Board Member Katsuaki Watanabe was vice chairman of Toyota Motor Corporation until June 17, 2011. Sumitomo Electric sold products to Toyota, but given their scope, these transactions have not influenced the independence of Mr. Watanabe.
- Outside Audit & Supervisory Board Member Michiko Uehara has no business relationship with the Company.

# 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. For this reason, we have long operated a compliance system. Since the Japan Fair Trade Commission gave Sumitomo Electric a cease and desist warning based on the Antimonopoly Act in February 2003, the Company has made efforts to strengthen its compliance system even more.

## 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

### Compliance Manual

The Company's Compliance Manual is a reference work with real-life examples showing employees how to behave in a socially acceptable way from a legal and ethical perspective. The manual is distributed not only to Sumitomo Electric employees but also to employees of domestic group companies.

### 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 for overseas group companies.

## Speak-Up System

Offices have been established both in Sumitomo Electric and legal offices to enable employees of group companies and other parties to bring matters of concern to attention, allowing the Company to discover compliance problems and correct them. Information offered in this way is quickly investigated by the Compliance Committee, which then takes appropriate measures. The Speak-Up System is publicized monthly in the Company's internal newsletter.

## Competition Law Compliance System

To wipe out cartels, price-fixing conduct, and other suspicious activities within the Group, Sumitomo Electric continues to administer compliance seminars on competition law. In October 2010, it drafted a set of the Competition Law Compliance Action Guidelines (sales-related) and provided training seminars on the guidelines to all Company employees engaged in sales-related work. Since FY2013, training has been given to Group employees via e-learning in 11 languages. Under the Compliance Committee, the Competition Law Compliance Office, established within the Corporate Staff Group, cooperates with a dedicated body in each business unit or with the Competition Law Compliance promotion leader, to monitor the management and observance of competition law compliance regulations, including rules that limit contact with competitors in the same industry.

# Risk Management

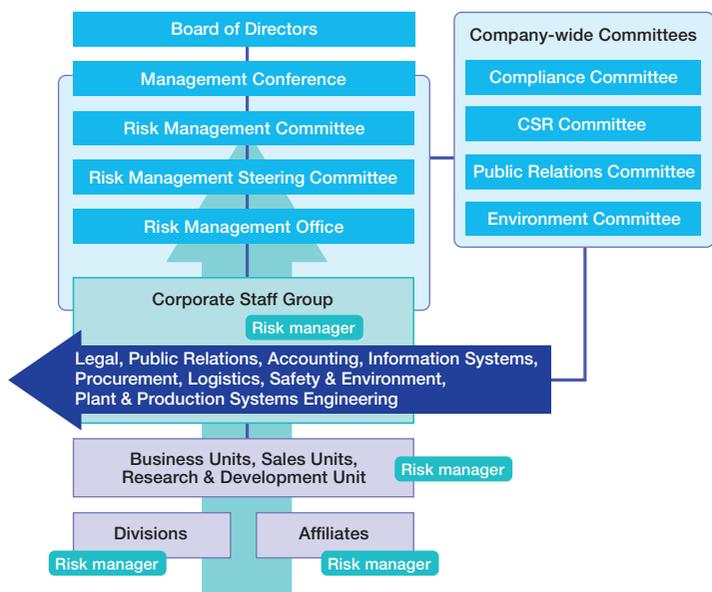
## Basic Policy for Risk Management

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

### Basic Policy of Risk Management

- Give top priority to ensuring quality and safety as a product and service provider
- Maintain favorable relations with stakeholders, including customers, shareholders, local communities, and employees
- Ensure that compliance with laws and regulations and adherence to corporate ethics constitute the basis of the Sumitomo Electric Group's management
- Honor the Sumitomo Spirit, the Sumitomo Electric Group Corporate Principles, and the Sumitomo Electric Group Charter of Corporate Behavior

## Risk Management System



## Business Continuity

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

## Information Security Personal Information Protection

With regard to information on individuals such as customers, business contacts and employees involved in our business, the Company declares that it will observe laws and regulations relating to personal information protection and other codes, and will establish voluntary rules and frameworks. This is stipulated in our personal information protection policy, which was implemented in April 2005. Through employee education programs and other means, the Company works to develop and improve its in-house system for personal information management.

## Strengthening of Our Information Security Management System

On the information security front, the Company enacted its information security policy in October 2003. Based on the policy, we appropriately manage in-house information systems and protect all information handled by the systems. Security countermeasure standards are established on 28 points, covering a variety of situations centered on data leaks and crisis management. The Company will continue to improve its information security management system.

Meanwhile, the Company has also implemented training/education programs for all employees to enhance their security awareness. In FY2005, the Company began to provide support to group companies in creating their own information security policies, so as to establish a group-wide information security management system.

# Directors, Audit & Supervisory Board Members and Executive Officers



**Masayoshi Matsumoto**  
President and CEO



**Fumikiyo Uchioko**  
Executive Vice President



**Mitsuo Nishida**  
Executive Vice President



**Fumiyo Kawai**  
Senior Managing Director



**Atsushi Yano**  
Managing Director



**Nozomi Ushijima**  
Managing Director



**Junji Itoh**  
Managing Director



**Makoto Tani**  
Managing Director



**Yoshitomo Kasui**  
Managing Director



**Takahiro Nakano**  
Managing Director



**Akira Nishimura**  
Managing Director



**Kazuo Hiramatsu**  
Director (Outside)



**Hiroshi Sato**  
Director (Outside)

## Audit & Supervisory Board Members

Hideaki Inayama  
Satoru Ogura  
Kan Hayashi  
Katsuaki Watanabe  
Michiko Uehara

## Managing Executive Officers

Masamichi Yokogawa  
Hiroyasu Torii  
Yutaka Nishide  
Yasuhiro Miyata  
Masaki Shirayama  
Toshiaki Kakii  
Tetsuya Hayashi  
Kazushi Shimizu  
Shigeru Nakajima  
Hideo Hato  
Yoshihiro Matsushita

## Executive Officers

Takashi Yoshioka  
Kenichi Urushibata  
Kikaku Tokumaru  
Masayoshi Fuse  
Saburo Narahashi  
Hiroshi Shikata  
Hiroshi Iwano  
Tomoaki Nagano  
Takaaki Yamamoto  
Yasuyuki Shibata  
Masahiro Kobayashi

Takafumi Uemiya  
Nobuyuki Kobayashi  
Hiroshi Kiyokawa  
Yoshiyuki Ogata

(As of June 2016)

# Five-Year Financial Data and Indexes

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2013 Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2011 Mar. 31, 2012	FY2014 Mar. 31, 2015
<b>For the Year:</b>						
Net sales	<b>¥2,933,089</b>	¥2,822,811	¥2,568,779	¥2,159,942	¥2,059,344	<b>\$26,030,254</b>
Cost of sales	<b>2,397,166</b>	2,310,606	2,104,728	1,785,052	1,688,370	<b>21,274,104</b>
Selling, general and administrative expenses	<b>392,447</b>	377,748	343,993	298,100	284,028	<b>3,482,845</b>
Operating income	<b>143,476</b>	134,457	120,058	76,790	86,946	<b>1,273,305</b>
Profit before income taxes	<b>154,859</b>	167,067	123,833	84,084	99,941	<b>1,374,326</b>
Profit attributable to owners of the parent	<b>91,001</b>	119,771	66,748	37,955	58,861	<b>807,606</b>
Capital expenditures <sup>1</sup>	<b>167,282</b>	148,213	150,823	147,883	135,039	<b>1,484,576</b>
Depreciation and amortization	<b>134,371</b>	126,663	113,271	90,629	77,954	<b>1,192,501</b>
R&D expenses	<b>110,839</b>	105,604	99,520	94,287	86,582	<b>983,662</b>

## At Year-End:

Total assets	<b>¥2,742,848</b>	¥2,925,785	¥2,554,819	¥2,297,567	¥2,072,064	<b>\$24,341,924</b>
Total interest-bearing liabilities	<b>457,145</b>	550,839	534,641	485,569	363,995	<b>4,057,020</b>
Total net assets <sup>2</sup>	<b>1,561,289</b>	1,646,913	1,379,912	1,244,695	1,138,931	<b>13,855,955</b>

	Yen					U.S. dollars
	FY2015	FY2014	FY2013	FY2012	FY2011	FY2015
<b>Per Share Data:</b>						
Profit attributable to owners of the parent <sup>3</sup> :						
Basic	<b>¥114.73</b>	¥151.00	¥84.15	¥47.85	¥74.21	<b>\$1.018</b>
Diluted	—	—	—	—	74.20	—
Cash dividends	<b>35.00</b>	30.00	22.00	20.00	19.00	<b>0.311</b>
Owner's equity <sup>4</sup>	<b>1,715.28</b>	1,804.34	1,499.76	1,352.09	1,245.57	<b>15.223</b>
Weighted average number of shares outstanding (in thousands)	<b>793,189</b>	793,194	793,200	793,206	793,210	
Number of employees (at year-end)	<b>240,865</b>	240,798	225,484	206,323	194,734	
Average number of temporary employees <sup>5</sup>	<b>(39,124)</b>	(34,553)	(34,457)	(30,317)		

## Financial Indexes:

Operating income/net sales (%)	<b>4.9</b>	4.8	4.7	3.6	4.2
Profit attributable to owners of the parent/net sales (%)	<b>3.1</b>	4.2	2.6	1.8	2.9
Operating income/invested assets <sup>6</sup> (ROA) (%)	<b>6.8</b>	6.5	6.6	4.8	5.9
Return on owner's equity (%)	<b>6.5</b>	9.1	5.9	3.7	6.1
Owner's equity ratio (%)	<b>49.6</b>	48.9	46.6	46.7	47.7
Current ratio (Times)	<b>1.8</b>	1.7	1.6	1.7	1.6
R&D expenses/net sales (%)	<b>3.8</b>	3.7	3.9	4.4	4.2

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥112.68 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2016.

<sup>1</sup> Capital expenditures are recorded as property, plant and equipment.

<sup>2</sup> See page 52.

<sup>3</sup> From the year ended March 31, 2014, there were no potential common shares. For the year ended March 31, 2013, there were no dilutive potential common shares.

<sup>4</sup> Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

<sup>5</sup> From the year ended March 31, 2013, the average number of temporary employees is stated in parentheses as the number of temporary employees is over 10% of the total number of employees.

<sup>6</sup> Invested assets = Total assets — interest-free liabilities

# Management's Discussion and Analysis

## Business Conditions in FY2015

In FY2015, ended March 31, 2016, the US economy continued on its recovery path and Europe firmed up overall, but a slowdown in emerging markets gave rise to concern about the outlook for the global economy. Due to China's slowdown and other factors, Japanese exports and private consumption underperformed, causing Japan's economy to stall.

## Review of Operations in FY2015

The Sumitomo Electric Group's operating environment was characterized by firm demand in the United States and other overseas markets for automobile wiring harnesses and anti-vibration rubber. Demand for flexible printed circuits (FPCs) also grew. Against this backdrop, the Group recorded net sales of ¥2,933.1 billion in FY2015, an increase of 3.9% from ¥2,822.8 billion in FY2014. Despite the effects of increased depreciation and R&D expenses arising from prior investment, operating income reached ¥143.5 billion, up 6.7% from ¥134.5 billion in FY2014, helped by the weak-yen effect and cost cutting. Profit attributable to owners of the parent was ¥91.0 billion, a decline of 24.0% from ¥119.8 billion in FY2014. The decline mainly reflected the posting of extraordinary income in FY2014, which arose from the Company's sale of shares in Sumitomo 3M Limited (which changed its name to 3M Japan Limited on September 1, 2014).

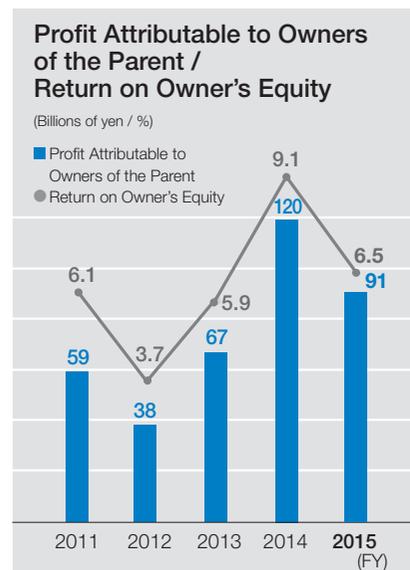
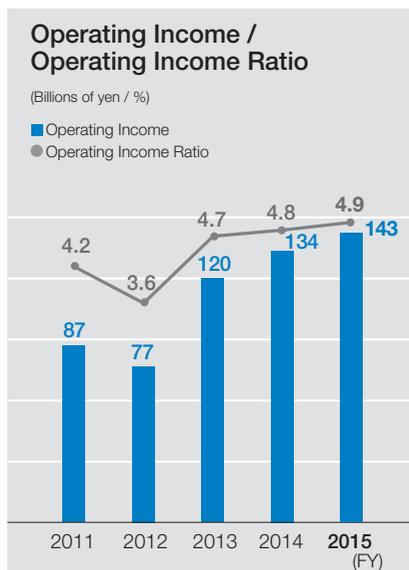
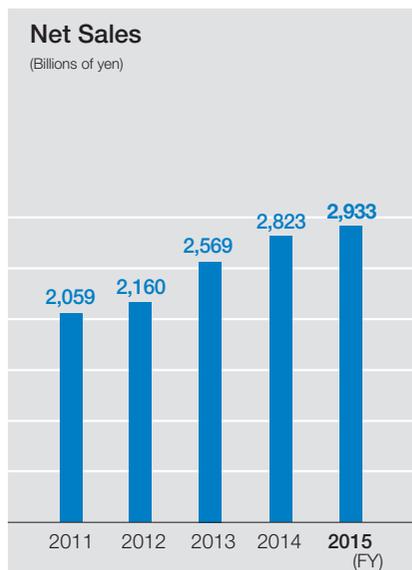
## Segment Information

### Automotive

Demand was steady for wiring harnesses and anti-vibration rubber overseas, such as in the United States, and net sales increased ¥53.8 million (3.6%) to ¥1,542.0 billion. Operating income decreased ¥0.6 billion to ¥88.7 billion, although the segment enjoyed growth in revenue and the positive effects of cost reductions. This is because consolidated subsidiaries of wiring harnesses, which post actuarial gains and losses related to retirement benefits as expenses in a lump sum when those gains and losses arise, posted a temporary profit last fiscal year due to factors such as a rise in share prices. Whereas, this fiscal year, costs for retirement benefits increased temporarily due to factors such as a fall in the discount rate against the backdrop of the introduction of the Bank of Japan's negative interest rate policy. The Automotive segment's operating income ratio declined 0.3 percentage point to 5.7%.

### Infocommunications

Due to rising demand for opto-electronic devices and optical fibers and cables mainly in overseas markets, Infocommunications segment sales reached ¥184.7 billion, a year-on-year increase of ¥12.7 billion (7.4%). Operating income rose to ¥11.9 billion, up ¥8.2 billion, on stronger demand, higher sales of ultra-low-loss optical fiber for submarine cables, and improved profitability due to cost cutting. The Infocommunications segment's operating income ratio rose 4.2 percentage points to 6.4%.



## Electronics

Greater demand for mobile phone-use FPCs raised Electronics segment sales to ¥312.0 billion, up ¥20.0 billion (6.9%) year on year. Operating income climbed ¥4.7 billion to ¥10.2 billion on stronger demand and cost cutting. The segment's operating income ratio rose 1.4 percentage points to 3.3%.

## Environment and Energy

Due in part to the inclusion of Sumiden Hitachi Cable Ltd. in consolidation beginning in the third quarter of FY2014, Environment & Energy segment sales reached ¥659.5 billion, a year-on-year increase of ¥23.0 billion (3.6%). Operating income dipped ¥0.1 billion to ¥13.4 billion because price competition among producers of electric power cable intensified and some overseas submarine cable projects met with bad weather and unexpectedly poor conditions for laying cable, and this delayed work and reduced profitability.

Accordingly, the operating income ratio decreased 0.1 percentage point to 2.0%. The value of orders for installation work and plants reached ¥320.0 billion, a year-on-year increase of ¥26.8 billion, or 9.1%.

## Industrial Materials and Others

Owing to reduced demand for A.L.M.T. Corp.'s semiconductor heat sink materials for mobile phone base stations, as well as for cemented carbide tools, this segment's sales declined to ¥312.2 billion, a year-on-year drop of ¥5.2 billion (1.6%). Operating income fell ¥3.8 billion to ¥19.2 billion on reduced demand and a loss on revaluation of raw materials necessitated by the lower value of A.L.M.T.'s tungsten and molybdenum inventories. The segment's operating income ratio declined 1.0 percentage point to 6.2%.

## Cash Flows

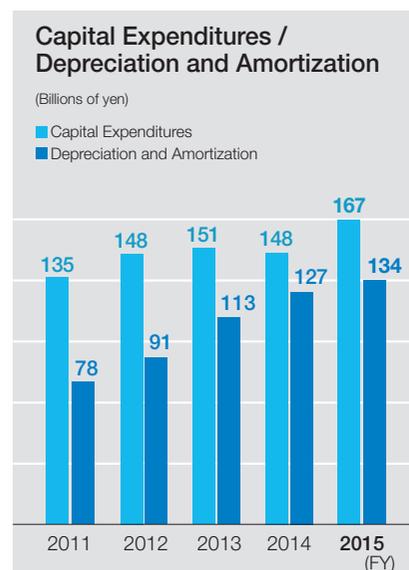
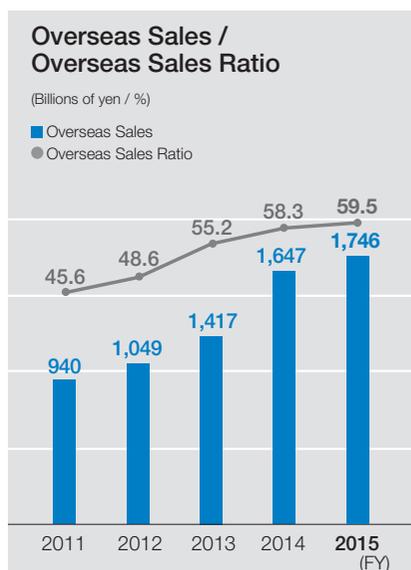
The fiscal year-end balance of cash and cash equivalents amounted to ¥174.1 billion, a year-on-year decrease of ¥3.1 billion.

Net cash provided by operating activities increased by ¥87.3 billion to ¥240.8 billion. The main factors behind this outcome were profit before income taxes of ¥154.9 billion and depreciation and amortization expenses of ¥131.1 billion, adjusted for changes in working capital.

Net cash used in investing activities amounted to ¥117.4 billion, a year-on-year increase of ¥30.5 billion. Expenditures for the purchase of property, plant, and equipment totaled ¥160.3 billion, and proceeds from sales of investment securities amounted to ¥56.5 billion.

Free cash flow, which is defined as net cash provided by operating activities minus net cash used in investing activities, totaled ¥123.4 billion compared with ¥66.6 billion in the previous fiscal year.

Net cash used in financing activities amounted to ¥115.9 billion compared to ¥64.0 billion in the previous fiscal year. This mainly reflected the repayment of loans payable and payment of cash dividends.



Consolidated Balance Sheets

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Notes 3 and 4)	¥ 174,686	¥ 172,697	\$ 1,550,284
Trade notes and accounts receivable (Note 4)	622,944	644,834	5,528,435
Securities (Notes 3, 4 and 5)	57	5,009	506
Inventories (Note 7)	422,976	450,276	3,753,781
Deferred tax assets (Note 12)	48,764	40,995	432,765
Other current assets (Note 3)	91,359	106,003	810,782
Allowance for doubtful receivables	(3,590)	(4,253)	(31,860)
<b>Total current assets</b>	<b>1,357,196</b>	<b>1,415,561</b>	<b>12,044,693</b>
<b>Non-Current Assets:</b>			
<b>Property, Plant and Equipment (Note 8):</b>			
Buildings and structures	620,088	622,847	5,503,088
Machinery, equipment and others	1,511,016	1,509,637	13,409,798
Land	87,512	88,435	776,642
Construction in progress	48,505	38,006	430,467
	<b>2,267,121</b>	<b>2,258,925</b>	<b>20,119,995</b>
Accumulated depreciation	(1,487,001)	(1,469,150)	(13,196,672)
<b>Net property, plant and equipment</b>	<b>780,120</b>	<b>789,775</b>	<b>6,923,323</b>
<b>Intangible Assets</b>	<b>51,733</b>	<b>67,232</b>	<b>459,114</b>
<b>Investments and Other Assets:</b>			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	264,986	258,615	2,351,668
Investment securities (Notes 4, 5 and 8)	155,773	241,674	1,382,437
Net defined benefit assets (Note 13)	75,728	105,305	672,062
Deferred tax assets (Note 12)	17,829	19,344	158,227
Other	40,911	29,641	363,073
Allowance for doubtful receivables	(1,428)	(1,362)	(12,673)
<b>Total investments and other assets</b>	<b>553,799</b>	<b>653,217</b>	<b>4,914,794</b>
<b>Total non-current assets</b>	<b>1,385,652</b>	<b>1,510,224</b>	<b>12,297,231</b>
<b>Total assets</b>	<b>¥2,742,848</b>	<b>¥2,925,785</b>	<b>\$24,341,924</b>

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Trade notes and accounts payable (Note 4)	¥ 349,360	¥ 367,253	\$ 3,100,461
Short-term debt (Notes 4 and 8)	162,213	213,637	1,439,590
Current portion of bonds (Notes 4 and 8)	10,610	10,620	94,160
Accrued income taxes	19,279	17,033	171,095
Other current liabilities (Notes 8 and 12)	229,711	201,326	2,038,615
Total current liabilities	771,173	809,869	6,843,921
<b>Non-Current Liabilities:</b>			
Bonds (Notes 4 and 8)	25,000	35,610	221,867
Long-term debt (Notes 4 and 8)	256,239	288,160	2,274,042
Deferred tax liabilities (Note 12)	59,228	88,327	525,630
Net defined benefit liabilities (Note 13)	51,562	39,408	457,597
Other non-current liabilities (Note 8)	18,357	17,498	162,912
Total non-current liabilities	410,386	469,003	3,642,048
Total liabilities	1,181,559	1,278,872	10,485,969
<b>Contingent Liabilities (Note 14)</b>			
<b>NET ASSETS (Note 9)</b>			
<b>Shareholders' Equity:</b>			
Common stock;			
Authorized—3,000,000 thousand shares in FY2015 and FY2014	99,737	99,737	885,135
Issued—793,941 thousand shares in FY2015 and FY2014	171,314	171,020	1,520,359
Capital surplus	981,413	920,850	8,709,736
Treasury stock, at cost; 754 thousand shares in FY2015 and 749 thousand shares in FY2014	(677)	(667)	(6,009)
Total shareholders' equity	1,251,787	1,190,940	11,109,221
<b>Accumulated Other Comprehensive Income:</b>			
Net unrealized holding gains on available-for-sale securities	74,629	127,416	662,309
Deferred gains or losses on hedges	2,134	(838)	18,939
Foreign currency translation adjustments	27,680	88,444	245,651
Remeasurements of defined benefit plans	4,309	25,224	38,241
Total accumulated other comprehensive income	108,752	240,246	965,140
<b>Non-Controlling Interests</b>			
	200,750	215,727	1,781,594
Total net assets	1,561,289	1,646,913	13,855,955
Total liabilities and net assets	¥2,742,848	¥2,925,785	\$24,341,924

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015	FY2014	FY2015
	For the years ended March 31, 2016	March 31, 2015	March 31, 2016
<b>Net Sales</b>	<b>¥2,933,089</b>	¥2,822,811	<b>\$26,030,254</b>
<b>Cost of Sales</b>	<b>2,397,166</b>	2,310,606	<b>21,274,104</b>
Gross profit	<b>535,923</b>	512,205	<b>4,756,150</b>
<b>Selling, General and Administrative Expenses</b>	<b>392,447</b>	377,748	<b>3,482,845</b>
Operating income	<b>143,476</b>	134,457	<b>1,273,305</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income	<b>5,271</b>	5,019	<b>46,778</b>
Interest expenses	<b>(5,271)</b>	(6,694)	<b>(46,778)</b>
Share of profit of investments accounted for using the equity method	<b>29,645</b>	27,187	<b>263,090</b>
Gain on sales of investment securities	<b>32,186</b>	49,613	<b>285,641</b>
Foreign exchange losses	<b>(3,907)</b>	—	<b>(34,673)</b>
Gain on step acquisitions	—	5,797	—
Loss on disposal of property, plant and equipment	<b>(3,275)</b>	(2,916)	<b>(29,065)</b>
Loss on valuation of investment securities	—	(1,071)	—
Impairment losses of fixed assets (Notes 15 and 16)	<b>(12,479)</b>	(7,926)	<b>(110,747)</b>
Restructuring expenses (Note 16)	<b>(6,046)</b>	(16,944)	<b>(53,656)</b>
Surcharge (Note 17)	—	(4,851)	—
Special transportation expenses (Note 18)	<b>(524)</b>	(4,212)	<b>(4,650)</b>
Environmental expenses	—	(1,050)	—
Settlement package	<b>(20,661)</b>	(9,970)	<b>(183,360)</b>
Other, net	<b>(3,556)</b>	628	<b>(31,559)</b>
	<b>11,383</b>	32,610	<b>101,021</b>
<b>Profit before Income Taxes</b>	<b>154,859</b>	167,067	<b>1,374,326</b>
<b>Income Taxes</b> (Note 12):			
Current	<b>50,002</b>	48,962	<b>443,752</b>
Deferred	<b>(176)</b>	(11,926)	<b>(1,562)</b>
	<b>49,826</b>	37,036	<b>442,190</b>
<b>Profit for the year</b>	<b>105,033</b>	130,031	<b>932,135</b>
<b>Profit Attributable to Non-Controlling Interests</b>	<b>(14,032)</b>	(10,260)	<b>(124,529)</b>
<b>Profit Attributable to Owners of the Parent</b>	<b>¥ 91,001</b>	¥ 119,771	<b>\$807,606</b>
	Yen		U.S. dollars (Note 1)
<b>Per Share of Common Stock</b> (Note 10):			
Basic	<b>¥114.73</b>	¥151.00	<b>\$1.018</b>
Diluted	—	—	—
Cash dividends	<b>35.00</b>	30.00	<b>0.311</b>

The accompanying notes to 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)
	FY2015	FY2014	FY2015
	For the years ended March 31, 2016	March 31, 2015	March 31, 2016
<b>Profit for the year</b>	<b>¥105,033</b>	¥130,031	<b>\$ 932,135</b>
<b>Other Comprehensive Income (Loss)</b> (Note 11):			
Net unrealized holding gains on available-for-sale securities	(54,798)	42,221	(486,315)
Deferred gains or losses on hedges	3,193	148	28,337
Foreign currency translation adjustments	(53,685)	62,195	(476,438)
Remeasurements of defined benefit plans	(27,300)	32,347	(242,279)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(13,394)	19,434	(118,868)
Total other comprehensive income (loss)	(145,984)	156,345	(1,295,563)
<b>Comprehensive Income (Loss)</b>	<b>¥ (40,951)</b>	¥286,376	<b>\$(363,428)</b>
Comprehensive income (loss) attributable to:			
Owners of the parent	(38,300)	259,195	(339,901)
Non-controlling interests	(2,651)	27,181	(23,527)

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					
	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	Total net assets (Note 9)
<b>Balance at Beginning of FY2014</b>	¥99,737	¥171,020	¥819,179	¥(659)	¥ 85,170	¥(1,097)	¥24,902	¥(8,644)	¥190,304	¥1,379,912
Cumulative effect of changes in accounting policies			935						1,462	2,397
<b>Restated Balance at Beginning of FY2014</b>	99,737	171,020	820,114	(659)	85,170	(1,097)	24,902	(8,644)	191,766	1,382,309
Cash dividends			(19,040)							(19,040)
Profit attributable to owners of the parent for the year			119,771							119,771
Purchases of treasury stock				(8)						(8)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			5							5
Change in ownership interests arising from transactions with non-controlling shareholders										—
Other					42,246	259	63,542	33,868	23,961	163,876
<b>Balance at End of FY2014</b>	¥99,737	¥171,020	¥920,850	¥(667)	¥127,416	¥ (838)	¥88,444	¥25,224	¥215,727	¥1,646,913
<b>Balance at Beginning of FY2015</b>	¥99,737	¥171,020	¥920,850	¥(667)	¥127,416	¥ (838)	¥88,444	¥25,224	¥215,727	¥1,646,913
Cumulative effect of changes in accounting policies										—
<b>Restated Balance at Beginning of FY2015</b>	99,737	171,020	920,850	(667)	127,416	(838)	88,444	25,224	215,727	1,646,913
Cash dividends			(27,767)							(27,767)
Profit attributable to owners of the parent for the year			91,001							91,001
Purchases of treasury stock				(10)						(10)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			(61)							(61)
Change in ownership interests arising from transactions with non-controlling shareholders		294								294
Other (Note 9)			(2,610)		(52,787)	2,972	(60,764)	(20,915)	(14,977)	(149,081)
<b>Balance at End of FY2015</b>	¥99,737	¥171,314	¥981,413	¥(677)	¥ 74,629	¥2,134	¥27,680	¥ 4,309	¥200,750	¥1,561,289

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					
	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	Total net assets (Note 9)
<b>Balance at Beginning of FY2015</b>	\$885,135	\$1,517,749	\$8,172,258	\$(5,919)	\$1,130,777	\$(7,437)	\$784,913	\$223,855	\$1,914,510	\$14,615,841
Cumulative effect of changes in accounting policies										—
<b>Restated Balance at Beginning of FY2015</b>	885,135	1,517,749	8,172,258	(5,919)	1,130,777	(7,437)	784,913	223,855	1,914,510	14,615,841
Cash dividends			(246,424)							(246,424)
Profit attributable to owners of the parent for the year			807,606							807,606
Purchases of treasury stock				(90)						(90)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			(541)							(541)
Change in ownership interests arising from transactions with non-controlling shareholders		2,610								2,610
Other (Note 9)			(23,163)		(468,468)	26,376	(539,262)	(185,614)	(132,916)	(1,323,047)
<b>Balance at End of FY2015</b>	\$885,135	\$1,520,359	\$8,709,736	\$(6,009)	\$662,309	\$18,939	\$245,651	\$38,241	\$1,781,594	\$13,855,955

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)
	FY2015	FY2014	FY2015
	For the years ended March 31, 2016	March 31, 2015	March 31, 2016
<b>Cash Flows from Operating Activities:</b>			
Profit before income taxes	¥ 154,859	¥ 167,067	\$1,374,326
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	131,117	123,471	1,163,623
Impairment losses of fixed assets	15,405	13,634	136,715
Amortization of goodwill	3,844	4,721	34,114
Interest and dividend income	(5,271)	(5,019)	(46,778)
Interest expenses	5,271	6,694	46,778
Share of profit of investments accounted for using the equity method	(29,645)	(27,187)	(263,090)
Net gain on sales of investment securities	(32,170)	(49,548)	(285,499)
Loss on disposal of property, plant and equipment	3,644	4,635	32,339
Loss on valuation of investment securities	843	1,071	7,481
Gain on step acquisitions	—	(5,797)	—
Settlement package	20,661	9,970	183,360
Surcharge	—	4,851	—
(Increase) decrease in trade notes and accounts receivable	2,714	(14,672)	24,086
(Increase) decrease in inventories	7,952	(22,004)	70,572
Increase (decrease) in trade notes and accounts payable	(8,157)	6,486	(72,391)
Increase in net defined benefit assets and liabilities	2,590	611	22,985
Other, net	13,886	(13,625)	123,234
Subtotal	287,543	205,359	2,551,855
Interest and dividend received	14,386	11,674	127,671
Interest paid	(5,675)	(7,467)	(50,364)
Settlement package paid	(17,634)	(3,373)	(156,496)
Surcharge paid	—	(8,387)	—
Income taxes paid	(42,752)	(49,602)	(379,411)
Income taxes refund	4,911	5,305	43,584
Net cash provided by operating activities	240,779	153,509	2,136,839
<b>Cash Flows from Investing Activities:</b>			
Purchase of property, plant and equipment	(160,309)	(146,158)	(1,422,692)
Proceeds from sales of property, plant and equipment	5,823	3,972	51,677
Purchase of investment securities	(4,159)	(13,071)	(36,910)
Proceeds from sales of investment securities	56,472	86,073	501,171
Purchase of investments in subsidiaries	—	(390)	—
Net cash for the acquisition of shares of newly consolidated subsidiaries (Note 3)	—	(6,660)	—
Other, net	(15,214)	(10,654)	(135,019)
Net cash used in investing activities	(117,387)	(86,888)	(1,041,773)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015	FY2014	FY2015
	For the years ended March 31, 2016	March 31, 2015	March 31, 2016
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in short-term debt	(64,008)	10,873	(568,051)
Proceeds from bonds and long-term debt	18,756	43,483	166,454
Redemption of bonds and repayments of long-term debt	(32,115)	(91,087)	(285,011)
Cash dividends paid	(27,767)	(19,040)	(246,424)
Dividends paid to non-controlling interests	(10,023)	(7,419)	(88,951)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(908)	—	(8,058)
Other, net	153	(847)	1,358
Net cash used in financing activities	(115,912)	(64,037)	(1,028,683)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	(10,554)	11,817	(93,664)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(3,074)	14,401	(27,281)
<b>Cash and Cash Equivalents at Beginning of Year</b>	177,107	160,129	1,571,770
<b>Decrease in Cash and Cash Equivalents from Change in Closing Period of Consolidated Subsidiaries (Note 2a)</b>	(8)	—	(71)
<b>Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries</b>	30	2,500	266
<b>Increase in Cash and Cash Equivalents Resulting from Merger with Unconsolidated Subsidiaries</b>	—	77	—
<b>Cash and Cash Equivalents at End of Year (Note 3)</b>	<b>¥ 174,055</b>	<b>¥ 177,107</b>	<b>\$1,544,684</b>

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, 2016 and 2015

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Electric Industries, Ltd. (the "Company") and 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 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified following 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, 2016, which was ¥112.68 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Consolidation

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

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for using the equity method.

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

All but 5 of the overseas consolidated subsidiaries that have a fiscal year ending other than March 31 have processed additional annual financial closings at March-end for consolidation purposes, aiming at a more appropriate disclosure.

The remaining 5 overseas consolidated subsidiaries that have a fiscal year ending December 31 reported on a calendar year for consolidation purpose in fiscal year 2015. Any significant transactions that occurred between January 1 and March 31, 2016 have been adjusted for, if necessary.

27 overseas consolidated subsidiaries have changed the fiscal year-end from December 31 to March 31 starting from April 1, 2015, or have changed to process additional financial closings at March-end for consolidation purposes, aiming at a more appropriate disclosure. As a result of these changes, the Company consolidated the 12 months' result from April 1, 2015 to March 31, 2016. As for those 27 companies, 3 months gains and losses from January 1, 2015 to March 31, 2015, are included in the retained earnings on the Balance Sheet. Additionally, 3 months cash flows during the period are included in an adjustment item of cash and cash equivalents at the beginning of year on the Statement of Cash Flows.

#### b) Translation of Foreign Currencies

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

#### c) Cash and Time Deposits

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

**d) Securities**

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

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

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

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

**e) Derivatives and Hedging Transactions**

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

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

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

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

**f) Allowance for Doubtful Receivables**

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

**g) Inventories**

Inventories are mainly stated 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 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)**

For construction contracts, when the outcome of individual contracts 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 to the estimated total cost.

**k) Research and Development**

Expenses relating to research and development activities are charged to expenses as incurred and totaled ¥110,839 million (US\$983,662 thousand) and ¥105,604 million for the years ended March 31, 2016 and 2015, respectively.

**l) Retirement Benefits**

(1) Method of attributing expected benefit 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 15 years) from the year in which it arises, or accounted for as an expense when it arises.

Actuarial gains and losses are amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 15 years) from the year following that in which they arise. At some consolidated subsidiaries, it is accounted for as an expense when it arises.

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

**n) Leases**

Finance leases which do not transfer ownership are accounted for as purchase and sale transactions and are depreciated to a residual value of zero by the straight-line method over their lease terms, while some such leases are accounted for in the same manner as operating leases if they commenced prior to April 1, 2008.

**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, as a charge directly to retained earnings, cash dividends 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) Accounting for Consumption Taxes**

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

**s) Adoption of Consolidated Taxation System**

The Company and its wholly owned domestic consolidated subsidiaries have adopted the consolidated taxation system from the fiscal year ended March 31, 2016.

**t) Changes in Accounting Policy**

Effective from the fiscal year ended March 31, 2016, the Company has applied "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013 ("Statement No. 21")), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 ("Statement No. 22")) and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 ("Statement No. 7")). As a result, the Company has recorded the difference caused by changes in ownership interests in subsidiaries in which the Company continues to control as capital surplus. In addition, the Company has recorded acquisition related costs as expenses in the fiscal year in which the costs are incurred. Regarding business combination after the beginning of the fiscal year ended March 31, 2016, the Company has reallocated the acquisition costs arising from finalization of provisional accounting treatment on the consolidated financial statements to the fiscal year that the date of the business combination belongs to. In addition, the presentation of "Net income" has been changed, and the presentation of "Minority interests" has been changed to "Non-controlling interests." The consolidated financial statements for the previous fiscal year have been revised to reflect these changes in presentation.

On the consolidated statements of cash flow for the fiscal year ended March 31, 2016, cash flows related to the acquisition and disposal of shares in subsidiaries unaccompanied by changes in the scope of consolidation are now recorded in "Cash Flows from Financing Activities." Cash flows related to the acquisition cost of shares in subsidiaries accompanied by changes in the scope of consolidation and cash flows related to costs for the acquisition and disposal of shares in subsidiaries unaccompanied by changes in the scope of consolidation are now recorded in "Cash Flows from Operating Activities."

The Company has applied these accounting standards prospectively from the beginning of the year ended March 31, 2016, in accordance with the transitional treatment stated in Article 58-2 (4) of "Statement No. 21," Article 44-5 (4) of "Statement No. 22" and Article 57-4 (4) of "Statement No. 7."

The effect of these changes on profit or loss for the fiscal year ended March 31, 2016 and capital surplus at March 31, 2016 was immaterial.

**u) Standard Issued but Not Yet Adopted**

• Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

**(1) Summary**

Following the framework in Auditing Committee Report No. 66, "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary.

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5
2. Criteria for types 2 and 3
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3

**(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2017.

**(3) Impact of adoption**

The Company and its consolidated subsidiaries are currently in the process of estimating the effects of this new guidance on the consolidated financial statements.

## 3. CASH AND CASH EQUIVALENTS

## a) Reconciliations

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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Cash and time deposits	¥174,686	¥172,697	\$1,550,284
Cash equivalents included in securities	57	5,009	506
Other current assets (Short-term loan)	—	39	—
Deposits placed with banks with a maturity of over three months	(688)	(638)	(6,106)
Cash and cash equivalents	¥174,055	¥177,107	\$1,544,684

## b) Obtaining Control of Subsidiary

In FY2014, the Company and its consolidated subsidiaries obtained control of J-Power Systems Corporation and some other companies due to the acquisition of shares.

The assets and liabilities of these companies at the time of consolidation in connection with acquisition cost and net cash paid for the acquisition are as follows:

FY2014	Millions of yen
Current assets	¥ 87,424
Non-current assets	9,364
Goodwill	11,129
Current liabilities	(84,148)
Non-current liabilities	(4,152)
Gain on step acquisitions	(5,797)
Non-controlling interests and acquisition cost of shares in a subsidiary purchased previously, etc.	(4,552)
Acquisition cost	9,268
Cash and cash equivalents	(2,608)
Net cash paid for the acquisition	¥ 6,660

## 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 based on 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 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, but the Company and its consolidated subsidiaries try to reduce the risk according to rules for credit control. Operating receivables denominated in foreign currency are exposed to foreign exchange risks, but 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.

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, 2016 and 2015 are as follows. 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		
	FY2015			FY2014			FY2015		
	March 31, 2016			March 31, 2015			March 31, 2016		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 174,686	¥ 174,686	¥ —	¥ 172,697	¥ 172,697	¥ —	\$1,550,284	\$1,550,284	\$ —
Trade notes and accounts receivable	622,944	622,944	—	644,834	644,834	—	5,528,435	5,528,435	—
Securities, investments in unconsolidated subsidiaries and affiliates and investment securities	327,993	455,109	127,116	415,253	664,469	249,216	2,910,835	4,038,950	1,128,115
<b>Total assets</b>	<b>1,125,623</b>	<b>1,252,739</b>	<b>127,116</b>	<b>1,232,784</b>	<b>1,482,000</b>	<b>249,216</b>	<b>9,989,554</b>	<b>11,117,669</b>	<b>1,128,115</b>
Trade notes and accounts payable	349,360	349,360	—	367,253	367,253	—	3,100,461	3,100,461	—
Short-term debt	162,213	162,213	—	213,637	213,637	—	1,439,590	1,439,590	—
Bonds	35,610	36,124	514	46,230	46,894	664	316,027	320,589	4,562
Long-term debt	256,239	263,376	7,137	288,160	291,833	3,673	2,274,042	2,337,381	63,339
<b>Total liabilities</b>	<b>803,422</b>	<b>811,073</b>	<b>7,651</b>	<b>915,280</b>	<b>919,617</b>	<b>4,337</b>	<b>7,130,120</b>	<b>7,198,021</b>	<b>67,901</b>
Derivative transactions	2,101	2,101	—	(1,676)	(1,676)	—	18,646	18,646	—

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

**Cash and time deposits, trade notes and accounts receivable:**

The carrying amount approximates 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 fair value because they consist of negotiable certificates of deposit 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 fair value because of the short maturity.

**Short-term debt:**

The carrying amount approximates 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
	FY2015 As of March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Unlisted securities (available-for-sale securities)	¥ 7,736	¥ 7,875	\$ 68,655
Unlisted investments in unconsolidated subsidiaries and affiliates	85,087	82,170	755,121

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, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	As of <b>FY2015</b> March 31, 2016	FY2014 March 31, 2015	<b>FY2015</b> March 31, 2016
<b>Securities in current assets:</b>			
Available-for-sale securities	¥ 57	¥ 5,009	\$ 506
Held-to-maturity debt securities	—	—	—
	¥ 57	¥ 5,009	\$ 506
<b>Investment securities:</b>			
Available-for-sale securities	¥155,773	¥241,674	\$1,382,437
Held-to-maturity debt securities	—	—	—
	¥155,773	¥241,674	\$1,382,437

Available-for-sale securities with fair values or quoted market values included in investment securities as of March 31, 2016 and 2015 are as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
<b>FY2015</b>				
Equity securities	¥26,024	¥111,762	¥(412)	¥137,374
Other	10,099	564	—	10,663
	¥36,123	¥112,326	¥(412)	¥148,037
<b>FY2014</b>				
Equity securities	¥27,330	¥195,431	¥(151)	¥222,610
Other	10,638	551	—	11,189
	¥37,968	¥195,982	¥(151)	¥233,799
<b>FY2015</b>				
Equity securities	\$230,955	\$991,853	\$(3,656)	\$1,219,152
Other	89,625	5,005	—	94,630
	\$320,580	\$996,858	\$(3,656)	\$1,313,782

Proceeds from sales of available-for-sale securities were ¥38,265 million (US\$339,590 thousand) and ¥13,451 million for the years ended March 31, 2016 and 2015, respectively. The net realized gains on those sales were ¥32,063 million (US\$284,549 thousand) and ¥5,221 million for the years ended March 31, 2016 and 2015, respectively. Impairment losses of securities during fiscal year 2015 amounted to ¥843 million (US\$7,481 thousand), which consist of ¥63 million (US\$559 thousand) for available-for-sale securities, ¥286 million (US\$2,538 thousand) for investments in unconsolidated subsidiaries and ¥494 million (US\$4,384 thousand) for investments in affiliated companies not accounted for using the equity method. Impairment losses of securities during fiscal year 2014 amounted to ¥1,240 million, which consist of ¥436 million for available-for-sale securities, ¥602 million for the investments in unconsolidated subsidiaries and ¥202 million for investments in affiliated companies not accounted for using the equity method.

## 6. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries have entered into foreign currency forward exchange contracts and foreign currency swap contracts to hedge risks of exchange rate fluctuations in connection with foreign currency monetary assets and liabilities, interest rate swap contracts to hedge risks of interest rate fluctuations and commodity forward contracts, etc., to hedge risks of fluctuations in the price of raw materials. The Company and its consolidated subsidiaries use derivative transactions for managing market risk related to recorded assets and liabilities as well as for future commitments and not for speculation or dealing purposes. The Company and its consolidated subsidiaries deal 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 authorities and amounts.

Additional information for derivative transactions as of and for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen									
	FY2015					FY2014				
	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	¥ 25,005	¥ (856)	¥ (856)	¥ 20,323	¥ (56)	¥18,537	¥ 95	¥ 95	¥ 21,687	¥ 466
Sell	92,546	2,027	2,027	157,832	1,014	29,827	849	849	140,337	(3,122)
Interest rate and currency swap contracts	—	—	—	439	57	—	—	—	620	39
Commodity forward contracts (copper, nickel and aluminum):										
Buy	1,169	(2)	(2)	203	(5)	1,832	(1)	(1)	141	(16)
Sell	2,823	(10)	(10)	4,261	81	4,579	(125)	(125)	1,032	167
Commodity swap contracts (copper and silver)	—	—	—	1,675	(149)	—	—	—	1,574	(28)
	<b>¥121,543</b>	<b>¥1,159</b>	<b>¥1,159</b>	<b>¥184,733</b>	<b>¥ 942</b>	<b>¥54,775</b>	<b>¥ 818</b>	<b>¥ 818</b>	<b>¥165,391</b>	<b>¥(2,494)</b>

	Thousands of U.S. dollars				
	FY2015				
	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	\$ 221,912	\$ (7,597)	\$ (7,597)	\$ 180,360	\$ (497)
Sell	821,316	17,990	17,990	1,400,710	8,998
Interest rate and currency swap contracts	—	—	—	3,896	506
Commodity forward contracts (copper, nickel and aluminum):					
Buy	10,375	(18)	(18)	1,802	(44)
Sell	25,053	(89)	(89)	37,815	719
Commodity swap contracts (copper and silver)	—	—	—	14,865	(1,322)
	<b>\$1,078,656</b>	<b>\$10,286</b>	<b>\$10,286</b>	<b>\$1,639,448</b>	<b>\$8,360</b>

\* 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, 2016 and 2015, respectively. Certain interest rate swap contracts (contracted amount ¥152,896 million (US\$1,356,905 thousand) and ¥152,887 million for the years ended March 31, 2016 and 2015, respectively) meeting certain hedging criteria are excluded from the table above.

## 7. INVENTORIES

Inventories as of March 31, 2016 and 2015 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	March 31, 2016	March 31, 2015	March 31, 2016
Merchandise and finished goods	<b>¥134,696</b>	¥146,912	<b>\$1,195,385</b>
Work in process	<b>153,257</b>	157,980	<b>1,360,109</b>
Raw materials and supplies	<b>135,023</b>	145,384	<b>1,198,287</b>
	<b>¥422,976</b>	¥450,276	<b>\$3,753,781</b>

## 8. INTEREST-BEARING LIABILITIES

## a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2016 and 2015 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	March 31, 2016	March 31, 2015	March 31, 2016
Short-term debt, principally from banks, with a weighted-average interest rate of 1.29% at March 31, 2016	<b>¥113,453</b>	¥192,115	<b>\$1,006,860</b>
Current portion of long-term debt, principally from banks and insurance companies, with a weighted-average interest rate of 0.81% at March 31, 2016	<b>48,760</b>	21,522	<b>432,730</b>
Current portion of bonds, interest rate of 0.479%-1.09%	<b>10,610</b>	10,620	<b>94,160</b>
	<b>¥172,823</b>	¥224,257	<b>\$1,533,750</b>

## b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2016 and 2015 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	March 31, 2016	March 31, 2015	March 31, 2016
Unsecured bonds, due 2016 to 2023, interest rate of 0.288%–1.09%	<b>¥ 35,610</b>	¥ 46,230	<b>\$ 316,027</b>
Long-term debt, principally from banks and insurance companies, due 2017–2024, with a weighted-average interest rate of 0.52% at March 31, 2016	<b>304,999</b>	309,682	<b>2,706,771</b>
	<b>340,609</b>	355,912	<b>3,022,798</b>
Current portion of bonds and long-term debt	<b>(59,370)</b>	(32,142)	<b>(526,889)</b>
	<b>¥281,239</b>	¥323,770	<b>\$2,495,909</b>

The aggregate annual maturities of bonds and long-term debt at March 31, 2016 are as follows:

(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2017 (= current portion)	¥10,610	\$ 94,160
2018	15,000	133,120
2019	—	—
2020	—	—
2021	—	—
2022 and thereafter	10,000	88,747
	<b>¥35,610</b>	<b>\$316,027</b>

## (Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2017 (= current portion)	¥ 48,760	\$ 432,730
2018	30,003	266,267
2019	41,624	369,400
2020	50,104	444,657
2021	40,792	362,016
2022 and thereafter	93,716	831,701
	<b>¥304,999</b>	<b>\$2,706,771</b>

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	FY2015		FY2015
	As of	March 31, 2016	March 31, 2016
Investment securities	¥	—	\$ —
Property, plant and equipment, net of accumulated depreciation		<b>3,044</b>	<b>27,015</b>
		<b>¥3,044</b>	<b>\$27,015</b>

**c) Lease Obligations**

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

The aggregate annual maturities of lease obligations at March 31, 2016 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2017 (= current portion)	¥ 670	\$ 5,946
2018	352	3,124
2019	249	2,210
2020	183	1,624
2021	142	1,260
2022 and thereafter	1,487	13,197
	<b>¥3,083</b>	<b>\$27,361</b>

**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 number of shares issued and outstanding during the years ended March 31, 2016 and 2015 are as follows:

Common stock outstanding	Thousands of shares	
	FY2015	FY2014
	For the years ended March 31, 2016	March 31, 2015
Balance at beginning	793,941	793,941
Balance at end	793,941	793,941

Treasury stock outstanding	Thousands of shares	
	FY2015	FY2014
	For the years ended March 31, 2016	March 31, 2015
Balance at beginning	749	744
Increase due to purchase of odd-lot stocks	3	3
Other, net	2	2
Balance at end	754	749

**b) Dividend Information**

Resolution	Record date	Effective date	Total amount	
			Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 25, 2015	March 31, 2015	June 26, 2015	¥14,280	\$126,731
Board of Directors on October 29, 2015	September 30, 2015	December 1, 2015	¥13,487	\$119,693

Resolution	Record date	Effective date	Total amount	
			Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 24, 2016	March 31, 2016	June 27, 2016	¥14,280	\$126,731

Resolution	Record date	Effective date	Total amount
			Millions of yen
Shareholders' meeting on June 26, 2014	March 31, 2014	June 27, 2014	¥9,520
Board of Directors on October 30, 2014	September 30, 2014	December 1, 2014	¥9,520

Resolution	Record date	Effective date	Total amount
			Millions of yen
Shareholders' meeting on June 25, 2015	March 31, 2015	June 26, 2015	¥14,280

**c) Other**

Other changes in retained earnings of ¥(1,631) million (US\$(14,475) thousand) are a result of affiliates accounted for using the equity method that have a fiscal year ending December 31 having changed the method for calculating retirement benefit obligation and service cost pursuant to "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015) and ¥(979) million (US\$(8,688) thousand) as a result of some overseas consolidated subsidiaries having changed their fiscal year-end from December 31 to March 31 or having processed additional financial closings at March-end for consolidation purposes.

## 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. The related interest expense, net of income taxes, has been eliminated for the purpose of this calculation.

For the year ended March 31, 2016 and 2015, there were no potential 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 For the years ended March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
<b>Net Unrealized Holding Gains on Available-for-Sale Securities:</b>			
Increase (decrease) during the year	¥(47,766)	¥60,077	\$(423,908)
Reclassification adjustments	(31,967)	(4,793)	(283,697)
Subtotal, before tax	(79,733)	55,284	(707,605)
Tax effects	24,935	(13,063)	221,290
Subtotal, net of tax	¥(54,798)	¥42,221	\$(486,315)
<b>Deferred Gains or Losses on Hedges:</b>			
Increase during the year	¥4,098	¥709	\$36,368
Reclassification adjustments	254	(40)	2,255
Subtotal, before tax	4,352	669	38,623
Tax effects	(1,159)	(521)	(10,286)
Subtotal, net of tax	¥3,193	¥148	\$28,337
<b>Foreign Currency Translation Adjustments:</b>			
Increase (decrease) during the year	¥(53,420)	¥62,209	\$(474,086)
Reclassification adjustments	(265)	(14)	(2,352)
Subtotal, before tax	(53,685)	62,195	(476,438)
Tax effects	—	—	—
Subtotal, net of tax	¥(53,685)	¥62,195	\$(476,438)
<b>Remeasurements of Defined Benefit Plans</b>			
Increase (decrease) during the year	¥(41,963)	¥41,951	\$(372,409)
Reclassification adjustments	2,006	5,184	17,803
Subtotal, before tax	(39,957)	47,135	(354,606)
Tax effects	12,657	(14,788)	112,327
Subtotal, net of tax	¥(27,300)	¥32,347	\$(242,279)
<b>Share of Other Comprehensive Income (Loss) of Affiliates Accounted for Using Equity Method:</b>			
Increase (decrease) during the year	¥ (17,038)	¥ 21,305	\$ (151,207)
Reclassification adjustments	3,644	(1,871)	32,339
Subtotal, net of tax	¥ (13,394)	¥ 19,434	\$ (118,868)
Total other comprehensive income (loss)	¥(145,984)	¥156,345	\$(1,295,563)

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

## 12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 33.0% and 35.6% for the years ended March 31, 2016 and 2015, 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, 2016 and 2015:

	For the years ended	FY2015 March 31, 2016	FY2014 March 31, 2015
Statutory tax rate		33.0%	35.6%
Share of profit of investments accounted for using the equity method		(6.2)	(5.7)
Expenses not deductible for tax purposes		0.2	0.2
Dividend income from overseas consolidated subsidiaries		0.6	0.6
Gain on sales of shares of an affiliate		—	(9.4)
Tax credits		(1.3)	(1.3)
Effect of lower tax rates for overseas consolidated subsidiaries		(5.7)	(5.5)
Change in valuation allowance		3.9	0.9
Intercompany profits		(0.7)	0.4
Change in undistributed earnings of consolidated subsidiaries and affiliates		0.1	2.9
Amortization of goodwill		2.4	2.2
Foreign corporate income taxes		1.8	1.3
Adjustment of deferred tax assets due to change in corporate tax rate		1.4	2.2
Other		2.7	(2.2)
Effective tax rate		<b>32.2%</b>	22.2%

## Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On March 29, 2016, amendments to the Japanese tax regulations, "Act for Partial Revision of the Income Tax Act etc.," (Act No. 15 of 2016) and "Act for Partial Revision etc. of the Local Tax Act etc.," (Act No. 13 of 2016) were enacted in the Diet.

Based on the amendments, the statutory income tax rates used for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.2% for the fiscal year ended March 31, 2016 to 30.8% and 30.6%, respectively, as of March 31, 2016.

The effect of this change in statutory effective tax rate was to decrease net deferred tax assets by ¥42 million (US\$373 thousand) and to increase deferred income taxes by ¥2,096 million (US\$18,601 thousand), net unrealized holding gains on available-for-sale securities by ¥2,003 million (US\$ 17,776 thousand), deferred gains or losses on hedges by ¥38 million (US\$337 thousand) and remeasurements of defined benefit plans by ¥13 million (US\$115 thousand) for fiscal year 2015.

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2015 March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Deferred tax assets (current assets)		¥ 48,764	¥ 40,995	\$ 432,765
Deferred tax assets (investments and other assets)		17,829	19,344	158,227
Other current liabilities		(55)	(15)	(488)
Deferred tax liabilities (non-current liabilities)		(59,228)	(88,327)	(525,630)
		<b>¥ 7,310</b>	<b>¥(28,003)</b>	<b>\$ 64,874</b>

Significant components of the deferred tax assets and liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 As of March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
<b>Deferred tax assets:</b>			
Net operating loss carryforwards	¥ 56,544	¥ 56,237	\$ 501,810
Fixed assets	19,241	19,914	170,758
Net defined benefit liabilities	16,491	13,023	146,353
Accrued expenses	13,344	13,074	118,424
Inventories	10,122	9,450	89,830
Intercompany profits	10,003	9,002	88,774
Investment securities	3,954	4,213	35,091
Allowance for doubtful receivables	1,424	1,506	12,638
Other	34,376	29,461	305,074
	<b>165,499</b>	<b>155,880</b>	<b>1,468,752</b>
Valuation allowance	(62,015)	(55,389)	(550,364)
Total deferred tax assets	<b>103,484</b>	<b>100,491</b>	<b>918,388</b>
<b>Deferred tax liabilities:</b>			
Net unrealized holding gains on available-for-sale securities	(37,293)	(62,406)	(330,964)
Undistributed earnings of consolidated subsidiaries and affiliates	(26,349)	(26,569)	(233,839)
Net defined benefit assets	(16,695)	(24,307)	(148,163)
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	(5,406)	(6,030)	(47,977)
Accelerated depreciation of overseas consolidated subsidiaries	(4,623)	(4,622)	(41,028)
Reserve for deferred gains on sales of fixed assets	(1,001)	(1,080)	(8,884)
Other	(4,807)	(3,480)	(42,659)
Total deferred tax liabilities	<b>(96,174)</b>	<b>(128,494)</b>	<b>(853,514)</b>
Net deferred tax assets (liabilities)	<b>¥ 7,310</b>	<b>¥ (28,003)</b>	<b>\$ 64,874</b>

## 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, while 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. And some subsidiaries apply the simplified method for the computation of benefit obligations.

## a) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars	
			FY2015	
	As of	FY2015 March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Balance at beginning of year		<b>¥288,032</b>	¥281,431	<b>\$2,556,195</b>
Cumulative effect of changes in accounting policies		—	(2,466)	—
Restated balance at beginning of year		<b>288,032</b>	278,965	<b>2,556,195</b>
Service cost		<b>12,662</b>	12,312	<b>112,371</b>
Interest cost		<b>4,474</b>	4,809	<b>39,705</b>
Actuarial gains and losses		<b>10,634</b>	1,565	<b>94,373</b>
Benefits paid		<b>(12,940)</b>	(14,620)	<b>(114,838)</b>
Other		<b>(1,413)</b>	5,001	<b>(12,539)</b>
Balance at end of year		<b>¥301,449</b>	¥288,032	<b>\$2,675,267</b>

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

	Millions of yen		Thousands of U.S. dollars	
			FY2015	
	As of	FY2015 March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Balance at beginning of year		<b>¥355,915</b>	¥300,280	<b>\$3,158,635</b>
Expected return on plan assets		<b>3,454</b>	3,491	<b>30,653</b>
Actuarial gains and losses		<b>(35,014)</b>	45,585	<b>(310,738)</b>
Contributions paid by the employer		<b>13,580</b>	13,355	<b>120,518</b>
Benefits paid		<b>(8,529)</b>	(9,114)	<b>(75,692)</b>
Other		<b>(2,125)</b>	2,318	<b>(18,859)</b>
Balance at end of year		<b>¥327,281</b>	¥355,915	<b>\$2,904,517</b>

(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	
			FY2015	
	As of	FY2015 March 31, 2016	FY2014 March 31, 2015	FY2015 March 31, 2016
Balance at beginning of year		<b>¥1,986</b>	¥2,039	<b>\$17,625</b>
Retirement benefit costs		<b>404</b>	544	<b>3,585</b>
Benefits paid		<b>(111)</b>	(362)	<b>(985)</b>
Contributions paid by the employer		<b>(136)</b>	(331)	<b>(1,207)</b>
Other		<b>(477)</b>	96	<b>(4,233)</b>
Balance at end of year		<b>¥1,666</b>	¥1,986	<b>\$14,785</b>

## (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
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
Funded retirement benefit obligations	¥275,493	¥265,403	\$2,444,914
Plan assets	(330,870)	(359,565)	(2,936,368)
	(55,377)	(94,162)	(491,454)
Unfunded retirement benefit obligations	31,211	28,265	276,989
Total net defined benefit liabilities (assets)	¥ (24,166)	¥ (65,897)	\$ (214,465)
Net defined benefit liabilities	¥ 51,562	¥ 39,408	\$ 457,597
Net defined benefit assets	(75,728)	(105,305)	(672,062)
Total net defined benefit liabilities (assets)	¥ (24,166)	¥ (65,897)	\$ (214,465)

## (5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
Service cost	¥12,662	¥12,312	\$112,371
Interest cost	4,474	4,809	39,705
Expected return on plan assets	(3,454)	(3,491)	(30,653)
Amortization:			
Actuarial gains and losses	5,796	2,667	51,438
Past service cost	(141)	(167)	(1,251)
Retirement benefit costs from plans applying the simplified method	404	544	3,585
Other	183	225	1,624
Total retirement benefit costs	¥19,924	¥16,899	\$176,819

In addition to the retirement benefit costs listed above, an extra payment of retirement benefits in the amount of ¥1,202 million (US\$10,667 thousand) and ¥4,003 million were recognized as restructuring expenses in the consolidated statements of income for fiscal years 2015 and 2014, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
Past service cost	¥ 235	¥ 195	\$ 2,086
Actuarial gains and losses	39,722	(47,330)	352,520
Total	¥39,957	¥(47,135)	\$354,606

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

	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
Unrecognized past service cost	¥(491)	¥ (726)	\$(4,358)
Unrecognized actuarial gains and losses	(22)	(39,744)	(195)
Total	¥(513)	¥(40,470)	\$(4,553)

## (8) Plan assets

## 1. Plan assets comprise:

	FY2015	FY2014
Equity securities	46.9%	54.8%
Bonds	26.8	23.7
General account	12.1	9.3
Cash and cash equivalents	2.2	1.4
Other	12.0	10.8
Total	<b>100.0%</b>	100.0%

## 2. Long-term expected rate of return

Current and target asset allocations, 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, 2016 and 2015 (expressed as weighted averages) are as follows:

	FY2015	FY2014
Discount rate	1.2%	1.6%
Long-term expected rate of return	1.1%	1.1%

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

**b) Defined contribution plans**

The amount of required contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥5,927 million (US\$52,600 thousand) and ¥5,425 million for FY2015 and FY2014, respectively.

## 14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015	FY2014	FY2015
	As of March 31, 2016	March 31, 2015	March 31, 2016
Notes receivable discounted	¥1,558	¥ 591	\$13,827
Notes receivable endorsed	608	870	5,396
Guarantees:			
Guarantees for debt of employees, unconsolidated subsidiaries and affiliates	4,878	5,385	43,291
Contingent guarantees for debt of unconsolidated subsidiaries and affiliates	878	1,422	7,792
Keepwell agreements and letters of awareness for debt of unconsolidated subsidiaries and affiliates	1,595	1,486	14,155

## 15. IMPAIRMENT LOSSES OF 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 by ¥15,405 million (US\$136,715 thousand) and ¥13,634 million to the recoverable amounts in FY2015 and FY2014, respectively.

The recoverable amount is mainly the net selling price or the value in use, which is equal to net future cash flow discounted at 4%-14%.

Impairment losses of fixed assets for each reportable segment are disclosed in Note 19 b), for the years ended March 31, 2016 and 2015.

Details of impairment losses of fixed assets for the years ended March 31, 2016 and 2015 are as follows:

FY2015	Millions of yen	Thousands of U.S. dollars
Goodwill	¥ 7,315	\$ 64,918
Machinery, equipment and others	5,338	47,373
Buildings and structures	1,651	14,652
Other	1,101	9,772
	¥15,405*1	\$136,715*1

\*1 The amount of ¥12,479 million (US\$110,747 thousand) is shown as "Impairment losses of fixed assets," and the amount of ¥2,926 million (US\$25,968 thousand) is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2015.

FY2014	Millions of yen
Goodwill	¥ 5,903
Machinery, equipment and others	5,240
Buildings and structures	1,329
Other	1,162
	¥13,634*2

\*2 The amount of ¥7,926 million is shown as "Impairment losses of fixed assets," and the amount of ¥5,708 million is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2014.

## 16. RESTRUCTURING EXPENSES

In fiscal year 2015, restructuring expenses of ¥6,046 million (US\$53,656 thousand) are related to the reorganization of the business locations and the restructuring of some part of the R&D themes to make work productivity more efficient and strengthen new product development of the Company and certain consolidated subsidiaries in response to the rapid deceleration of the business environment. The expenses are also related to optimizing the work force according to the size of the business to strengthen profitability.

In fiscal year 2014, restructuring expenses of ¥16,944 million are related to the reorganization of the business locations and the restructuring of the R&D system to make work productivity more efficient and strengthen new product development of the Company and certain consolidated subsidiaries in response to the rapid deceleration of the business environment.

The major details of the expenses for the years ended March 31, 2016 and 2015 are as follows:

FY2015	Millions of yen	Thousands of U.S. dollars
Impairment losses of fixed assets (Note 15)	¥2,926	\$25,968
Extra payment of retirement benefits	1,202	10,667

FY2014	Millions of yen
Impairment losses of fixed assets (Note 15)	¥5,708
Extra payment of retirement benefits	4,003

## 17. SURCHARGE

In fiscal year 2014, a surcharge was imposed due to the decision the Company received from the National Development and Reform Commission of China stating that the Company violated China's Anti-Monopoly Law in connection with the supply of automotive wiring harnesses and related products.

## 18. SPECIAL TRANSPORTATION EXPENSES

In fiscal year 2015 and 2014, special transportation expenses were incurred in connection with significantly increased transportation costs for imported products and materials in some consolidated subsidiaries in the U.S., due to the long delay in cargo handling caused by the rapid deterioration of the labor-management relations at harbor facilities on the West Coast of the U.S.

## 19. SEGMENT INFORMATION

**a) Reportable Segments**

The reportable segments of the Company are business areas of which divided financial information is available for the President, the supreme decision maker of the Company, to make decisions regarding management resources allocation and evaluate each business result.

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

The method of calculation for sales, profit or loss, assets and other items by reportable segment is pursuant to the accounting policies stated in Note 2. Intersegment sales are stated at current market value.

**Automotive:**

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

**Infocommunications:**

Optical fiber cables, optical fiber fusion splicers, optical data links and other optical components, access network system products such as GE-PON, CDN and CATV related products and traffic control systems

**Electronics:**

Electronic wires, compound semiconductors, materials for electronic components, irradiated products and flexible printed circuits (FPCs)

**Environment and Energy:**

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

**Industrial Materials and Others:**

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

Reportable segment information for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen						
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
<b>FY2015</b>							
Sales to customers	¥1,540,817	¥182,685	¥297,330	¥641,515	¥270,742	¥ —	¥2,933,089
Intersegment sales	1,168	2,003	14,691	18,028	41,412	(77,302)	—
Net sales	¥1,541,985	¥184,688	¥312,021	¥659,543	¥312,154	¥ (77,302)	¥2,933,089
Segment profit or loss	¥ 88,654	¥ 11,903	¥ 10,203	¥ 13,404	¥ 19,234	¥ 78	¥ 143,476
Segment assets	¥1,242,498	¥218,229	¥215,032	¥571,483	¥541,037	¥ (45,431)	¥2,742,848
Depreciation and amortization	¥ 71,696	¥ 11,368	¥ 15,949	¥ 14,577	¥ 20,781	¥ —	¥ 134,371
Amortization of goodwill	1,342	5	181	2,278	38	—	3,844
Investments in equity method affiliates	178,562	26,178	488	6,197	39,714	—	251,139
Amount of increase in tangible and intangible fixed assets	86,052	15,230	29,693	28,902	22,948	—	182,825

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
<b>FY2014</b>							
Sales to customers	¥1,486,183	¥170,114	¥277,485	¥617,536	¥271,493	¥ —	¥2,822,811
Intersegment sales	2,031	1,897	14,520	18,976	45,867	(83,291)	—
Net sales	¥1,488,214	¥172,011	¥292,005	¥636,512	¥317,360	¥(83,291)	¥2,822,811
Segment profit or loss	¥ 89,252	¥ 3,749	¥ 5,460	¥ 13,528	¥ 22,992	¥ (524)	¥ 134,457
Segment assets	¥1,290,669	¥219,185	¥223,150	¥567,945	¥680,636	¥(55,800)	¥2,925,785
Depreciation and amortization	¥ 67,413	¥ 11,379	¥ 14,376	¥ 14,283	¥ 19,212	¥ —	¥ 126,663
Amortization of goodwill	2,189	(11)	178	2,284	81	—	4,721
Investments in equity method affiliates	172,369	25,739	449	5,935	39,358	—	243,850
Amount of increase in tangible and intangible fixed assets	83,500	15,584	16,000	21,182	25,409	—	161,675

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
<b>FY2015</b>							
Sales to customers	\$13,674,272	\$1,621,273	\$2,638,711	\$5,693,246	\$2,402,752	\$ —	\$26,030,254
Intersegment sales	10,366	17,776	130,378	159,993	367,518	(686,031)	—
Net sales	\$13,684,638	\$1,639,049	\$2,769,089	\$5,853,239	\$2,770,270	\$(686,031)	\$26,030,254
Segment profit or loss	\$ 786,777	\$ 105,635	\$ 90,548	\$ 118,956	\$ 170,697	\$ 692	\$ 1,273,305
Segment assets	\$11,026,784	\$1,936,715	\$1,908,342	\$5,071,734	\$4,801,535	\$(403,186)	\$24,341,924
Depreciation and amortization	\$ 636,280	\$ 100,887	\$ 141,542	\$ 129,366	\$ 184,426	\$ —	\$ 1,192,501
Amortization of goodwill	11,910	44	1,606	20,217	337	—	34,114
Investments in equity method affiliates	1,584,682	232,322	4,331	54,996	352,450	—	2,228,781
Amount of increase in tangible and intangible fixed assets	763,685	135,162	263,516	256,496	203,656	—	1,622,515

1. Segment profit or loss included in Adjustments of ¥78 million (US\$692 thousand) and ¥(524) million for FY2015 and FY2014, respectively, consists mainly of unrealized profits caused by intersegment transactions.
2. Segment assets included in Adjustments of ¥(45,431) million (US\$(403,186) thousand) and ¥(55,800) million as of March 31, 2016 and 2015, respectively, consist mainly of elimination of receivables caused by intersegment transactions, cash and time deposits and investment securities owned by the Company.
3. Segment profit or loss corresponds to operating income in the consolidated statements of income.

## b) Related Information

(1) Information about products and services

	Millions of yen		
	Wiring harnesses	Others	Total
<b>FY2015</b>			
Sales to customers	¥1,116,901	¥1,816,188	¥2,933,089

	Millions of yen		
	Wiring harnesses	Others	Total
<b>FY2014</b>			
Sales to customers	¥1,089,562	¥1,733,249	¥2,822,811

	Thousands of U.S. dollars		
	Wiring harnesses	Others	Total
<b>FY2015</b>			
Sales to customers	\$9,912,149	\$16,118,105	\$26,030,254

## (2) Information about geographical areas

## Sales to customers

FY2015	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	<b>¥1,186,951</b>	<b>¥531,989</b>	<b>¥344,189</b>	<b>¥386,912</b>	<b>¥139,338</b>	<b>¥343,710</b>	<b>¥2,933,089</b>

FY2014	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	¥1,175,996	¥459,896	¥346,227	¥351,689	¥142,995	¥346,008	¥2,822,811

FY2015	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	<b>\$10,533,821</b>	<b>\$4,721,237</b>	<b>\$3,054,571</b>	<b>\$3,433,724</b>	<b>\$1,236,581</b>	<b>\$3,050,320</b>	<b>\$26,030,254</b>

## Net property, plant and equipment

FY2015	Millions of yen					Consolidated
	Japan	Asia		Americas	Europe and Others	
		China	Others			
Net property, plant and equipment	<b>¥404,251</b>	<b>¥88,460</b>	<b>¥147,673</b>	<b>¥69,928</b>	<b>¥69,808</b>	<b>¥780,120</b>

FY2014	Millions of yen					Consolidated
	Japan	Asia		Americas	Europe and Others	
		China	Others			
Net property, plant and equipment	¥392,652	¥108,269	¥146,919	¥73,546	¥68,389	¥789,775

FY2015	Thousands of U.S. dollars					Consolidated
	Japan	Asia		Americas	Europe and Others	
		China	Others			
Net property, plant and equipment	<b>\$3,587,602</b>	<b>\$785,055</b>	<b>\$1,310,552</b>	<b>\$620,589</b>	<b>\$619,525</b>	<b>\$6,923,323</b>

## (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 FY2015 or FY2014.

## (4) Information about impairment losses of fixed assets by reportable segment

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
<b>FY2015</b>							
Impairment losses of fixed assets	<b>¥2,500</b>	<b>¥158</b>	<b>¥752</b>	<b>¥7,003</b>	<b>¥3,636</b>	<b>¥1,356</b>	<b>¥15,405</b>

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
<b>FY2014</b>							
Impairment losses of fixed assets	¥7,256	¥1,549	¥2,372	¥55	¥230	¥2,172	¥13,634

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
<b>FY2015</b>							
Impairment losses of fixed assets	<b>\$22,187</b>	<b>\$1,402</b>	<b>\$6,674</b>	<b>\$62,149</b>	<b>\$32,269</b>	<b>\$12,034</b>	<b>\$136,715</b>

Adjustments of ¥1,356 million (US\$12,034 thousand) for FY2015 represent impairment losses of Research and Development equipment and others that were not attributable to any reportable segment.

## (5) Information about goodwill by reportable segment

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others		Total
<b>FY2015</b>							
Amortization	<b>¥1,342</b>	<b>¥5</b>	<b>¥181</b>	<b>¥2,278</b>	<b>¥ 38</b>		<b>¥3,844</b>
Balance at end	<b>¥8,440</b>	<b>¥4</b>	<b>¥168</b>	<b>¥ 135</b>	<b>¥140</b>		<b>¥8,887</b>

	Millions of yen						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others		Total
<b>FY2014</b>							
Amortization	¥ 2,189	¥(11)	¥178	¥2,284	¥ 81		¥ 4,721
Balance at end	¥12,312	¥ 9	¥343	¥9,037	¥195		¥21,896

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others		Total
<b>FY2015</b>							
Amortization	<b>\$11,910</b>	<b>\$44</b>	<b>\$1,606</b>	<b>\$20,217</b>	<b>\$ 337</b>		<b>\$34,114</b>
Balance at end	<b>\$74,902</b>	<b>\$35</b>	<b>\$1,491</b>	<b>\$ 1,198</b>	<b>\$1,243</b>		<b>\$78,869</b>

## 20. RELATED PARTY INFORMATION

## a) Related party transactions

The Company entered into the following transaction with a related party in FY2014.

**FY2014**

Party type	Affiliate
Party name	Sumitomo 3M Ltd.
Address	Shinagawa-ku, Tokyo, Japan
Capital	¥18,929 million
Business	Chemical and industrial products, electric and electrical products, reflective materials, tapes and film products
% of voting stock held	Direct 25.0
Business relationship	Sending a board member to Sumitomo 3M Ltd.
Details of transactions	The Company sold all its shares in Sumitomo 3M Ltd., accepting the request from Sumitomo 3M Ltd. to buy back its own shares.
Transaction amount	Selling amount ¥90,000 million Gain on sale ¥44,255 million
Account title and balance at the end	—

1. The sale price was decided based on a negotiation between the two parties.
2. As a result of the transaction noted above, which was made in September 2014, Sumitomo 3M Ltd. is no longer a related party of the Company. Each item mentioned above is stated based on the circumstances under which the transaction was made. None of board members was sent to Sumitomo 3M Ltd. at the end of FY2014.

## b) Notes to significant affiliates

Condensed financial information of a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2015 is as follows:

	Millions of yen	Thousands of U.S. dollars
<b>FY2015</b>		
Total current assets	<b>¥433,408</b>	<b>\$3,846,361</b>
Total non-current assets	<b>502,746</b>	<b>4,461,715</b>
Total current liabilities	<b>284,170</b>	<b>2,521,921</b>
Total non-current liabilities	<b>198,216</b>	<b>1,759,105</b>
Total net assets	<b>453,768</b>	<b>4,027,050</b>
Sales	<b>848,663</b>	<b>7,531,621</b>
Profit before income taxes	<b>73,929</b>	<b>656,097</b>
Profit attributable to owners of the parent	<b>55,834</b>	<b>495,509</b>

Condensed financial information of a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2014 is as follows:

	Millions of yen
<b>FY2014</b>	
Total current assets	¥440,296
Total non-current assets	533,291
Total current liabilities	292,305
Total non-current liabilities	234,322
Total net assets	446,960
Sales	837,647
Profit before income taxes	87,411
Profit attributable to owners of the parent	53,206

**21. OTHER**

Class action lawsuits have been filed in countries including the U.S. against the Company and its subsidiaries for damages caused by violation of antitrust law in the Automotive segment. Also, the Company is in negotiations with some automakers for compensation.

**22. SUBSEQUENT EVENTS**

The Company's Board of Directors resolved at its meeting held on May 13, 2016 to repurchase shares of its common stock pursuant to Article 156 of the Companies Act of Japan (the "Companies Act") as applied pursuant to Article 165, Paragraph 3 of the Companies Act. Details of the repurchase of the shares of its common stock are as follows:

Reason for share repurchase	To enable a flexible implementation of capital policy
Class of shares to be repurchased	Common stock of the Company
Total number of shares to be repurchased	16 million shares (maximum)
Total amount of repurchase	¥20,000 million (US\$177,494 thousand) (maximum)
Period of repurchase	From May 16, 2016 to September 30, 2016
Method of repurchase	Purchase on the Tokyo Stock Exchange

Under the above resolution, the Company repurchased shares of its common stock as follows:

Class of shares of repurchase	Common stock of the Company
Total number of shares of repurchase	13,245,400 shares
Total amount of repurchase	¥20,000 million (US\$177,493 thousand)
Period of repurchase	From May 16, 2016 to June 14, 2016
Method of repurchase	Purchase on the Tokyo Stock Exchange



## 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, 2016, 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 misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016, 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, 2016 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 24, 2016  
Osaka, Japan

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

# Corporate Directory

(As of March 2016)

## Head Office (Osaka)

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

## Head Office (Tokyo)

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

## DOMESTIC WORKS

### Osaka Works

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

Main Products:

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

### Itami Works

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

Main Products:

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

### Yokohama Works

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

Main Products:

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

**Consolidated Companies (389 Companies)**

## AUTOMOTIVE

### DOMESTIC CONSOLIDATED SUBSIDIARIES

- Sumitomo Riko Company Ltd.
- Sumitomo Wiring Systems, Ltd.
- ★ AutoNetworks Technologies, Ltd.

### OVERSEAS CONSOLIDATED SUBSIDIARIES

- Sumitomo Electric Wiring Systems, Inc.
- Sumitomo Wiring Systems (U.S.A.) Inc.
- Sumidenso do Brasil Industrias Eletricas Ltda.
- Sumitomo Electric Wiring Systems (Europe) Ltd.
- Sumitomo Electric Bordnetze AG
- SEWS-CABIND S.p.A.
- Huizhou Zhurun Wiring Systems Co., Ltd.
- Fuzhou Zhu Wiring Systems Co., Ltd.
- Sumidenso Mediatech Suzhou Co., Ltd.
- Sumidenso Vietnam Co., Ltd.

## INFOCOMMUNICATIONS

### DOMESTIC CONSOLIDATED SUBSIDIARIES

- Sumitomo Electric Device Innovations, Inc.
- Sumitomo Electric System Solutions Co., Ltd.

### OVERSEAS CONSOLIDATED SUBSIDIARIES

- Sumitomo Electric Lightwave Corp.
- Sumitomo Electric Device Innovations U.S.A., Inc.
- Hangzhou SEI-Futong Optical Fiber Co., Ltd.
- Sumitomo Electric Optical Components (Wuxi) Co., Ltd.
- Sumitomo Electric Photo-Electronics Components (Suzhou), Ltd.

## ELECTRONICS

### DOMESTIC CONSOLIDATED SUBSIDIARIES

- Sumitomo (SEI) Electronic Wire, Inc.
- Sumiden Fine Conductors Co., Ltd.
- Sumiden Semiconductor Materials Co., Ltd.
- Sumitomo Electric Printed Circuits, Inc.
- Sumitomo Electric Fine Polymer, Inc.

## OVERSEAS CONSOLIDATED SUBSIDIARIES

- Judd Wire, Inc.
- Sumitomo Electric Semiconductor Materials, Inc.
- Sumitomo Electric Interconnect Products (Suzhou), Ltd.
- Sumitomo Electric Interconnect Products (Hong Kong), Ltd.
- Sumitomo Electric Interconnect Products (Shenzhen), Ltd.

## ENVIRONMENT AND ENERGY

### DOMESTIC CONSOLIDATED SUBSIDIARIES

- J-Power Systems Corporation
- **Sumitomo Densetsu Co., Ltd.**
- **Nissin Electric Co., Ltd.**
- Daikoku Electric Wire Co., Ltd.
- Sumitomo Electric Toyama Co., Ltd.
- Sumitomo Electric Industrial Wire & Cable, Inc.
- Sumitomo Electric Wintec, Inc.

### OVERSEAS CONSOLIDATED SUBSIDIARIES

- P.T. Karya Sumiden Indonesia
- **P.T. Sumi Indo Kabel Tbk.**
- Sumitomo Electric Wintec (Wuxi) Co., Ltd.

## INDUSTRIAL MATERIALS AND OTHERS

### DOMESTIC CONSOLIDATED SUBSIDIARIES

- Sumitomo Electric Hardmetal Corp.
- Sumitomo Electric Sintered Alloy Ltd.
- A.L.M.T. Corp.
- Sumitomo (SEI) Steel Wire Corp.
- Sumitomo Electric Tochigi Co., Ltd.

### OVERSEAS CONSOLIDATED SUBSIDIARIES

- ★ Sumitomo Electric Finance U.S.A., Inc.
- ★ Sumitomo Electric U.S.A., Inc.
- ★ Sumitomo Electric Carbide, Inc.
- ★ Sumitomo Electric Finance U.K. Ltd.
- ★ Sumitomo Electric Europe Ltd.
- ★ Sumitomo Electric Hartmetall GmbH
- Sumiden Steel Wire (Thailand) Co., Ltd.
- ★ Sumitomo Electric Asia, Ltd.

## SUBSIDIARIES AND AFFILIATES ACCOUNTED FOR BY THE EQUITY METHOD

### DOMESTIC

- Kitanihon Electric Cable Co., Ltd.
- ★ **TECHNO ASSOCIE, Co., Ltd.**
- **Sumitomo Rubber Industries, Ltd.**
- Dyden Corporation
- ★ **MIRAIT Holdings Corporation**

### OVERSEAS

- Kyungshin Corporation
- Chengdu SEI-Futong Optical Cable Co., Ltd.

Notes: 1. Publicly listed companies are indicated in bold print.  
2. Information as of March 31, 2016.

- Manufacturing / Construction company
- ★ Sales company / Others

## History

<b>1897</b>	Establishment The history of Sumitomo Electric Industries, Ltd., started in 1897, when the House of Sumitomo established the Sumitomo Copper Rolling Works to manufacture and market bare copper wire.	<b>1970</b>	Started production of compound semiconductors
<b>1900</b>	Started production of coated wires	<b>1971</b>	Opened the Kanto Works
<b>1908</b>	Started production of power cables	<b>1974</b>	Started production of optical fiber cables
<b>1909</b>	Started trial production of telecommunication cables	<b>1975</b>	Contracted to construct a power transmission line in Iran
<b>1911</b>	Established Sumitomo Electric Wire & Cable Works Laid first Japan-made high-voltage underground cables	<b>1976</b>	Received an order for a large telecommunications network construction project in Nigeria
<b>1916</b>	Opened a new factory (now the Osaka Works) Started production of enamel wires	<b>1978</b>	Delivered and put into operation the world's first bidirectional fiber optics CATV system called "Hi-OVIS"
<b>1920</b>	Sumitomo Electric Wire & Cable Works incorporated as a limited company	<b>1981</b>	Delivered and installed fiber optic LAN systems for the first time in its history
<b>1931</b>	Started production of cemented carbide tools	<b>1982</b>	Succeeded in producing the world's-largest-class synthetic diamonds (1.2 carats)
<b>1932</b>	Started production of special steel wires	<b>1996</b>	Developed a technology for producing long-length oxide high-voltage superconducting wires
<b>1939</b>	Changed to current company name, Sumitomo Electric Industries, Ltd.	<b>1998</b>	Developed and started marketing ecology wires and cables
<b>1941</b>	Opened the Itami Works	<b>1999</b>	Sumitomo Electric Fine Polymer, Inc. (fine polymer products) started operation
<b>1943</b>	Started production of vibration-proof rubber products and fuel tanks	<b>2001</b>	J-Power Systems Corporation (high-voltage power cables) started operation
<b>1946</b>	Opened a branch office in Tokyo (now the Tokyo Head Office)	<b>2002</b>	Sumitomo Electric Networks, Inc. (network equipment), Sumitomo (SEI) Steel Wire Corp. (special steel wires) and Sumitomo Electric Wintec, Inc. (magnet wires) started operation
<b>1948</b>	Started marketing sintered powder metal products	<b>2003</b>	Sumiden Hitachi Cable Ltd. (wires and cables for buildings and industrial equipment) and Sumitomo Electric Hardmetal Corp. (powder metal and diamond products) started operation
<b>1949</b>	Entered into the construction business of overhead transmission lines	<b>2004</b>	A.L.M.T. Corp. became a wholly owned subsidiary
<b>1957</b>	Delivered the first Japan-made television broadcasting antennas	<b>2006</b>	The HTS cable used in a power transmission grid in the U.S. started supplying electricity
<b>1961</b>	Opened the Yokohama Works Delivered wiring harnesses for four-wheel vehicles for the first time in its history	<b>2007</b>	Sumitomo Wiring Systems, Ltd. became a wholly owned subsidiary Nissin Electric Co., Ltd. became a consolidated subsidiary
<b>1962</b>	Started production of the Irrax™ Tube electron beam irradiation tubes Moved head office from Osaka's Konohana Ward to its present location in Chuo Ward	<b>2008</b>	Opened the Technical Training Center
<b>1963</b>	Started production of disc brakes	<b>2009</b>	Eudyna Devices Inc. became a wholly owned subsidiary and changed its trade name to Sumitomo Electric Device Innovations, Inc.
<b>1964</b>	Started production of electron beam irradiation wires	<b>2010</b>	Opened WinD Lab, a new laboratory building at Osaka Works SEI Optifrontier Co., Ltd. started the lightwave network product business
<b>1968</b>	Entered the traffic control systems business	<b>2014</b>	J-Power Systems became a wholly owned subsidiary
<b>1969</b>	Established first overseas production subsidiary in Thailand (SIAM Electric Industries Co., Ltd.) Started development of flexible printed circuits (FPCs)		

# Company Information

## Sumitomo Electric Industries, Ltd.

(As of March 31, 2016)

### HEAD OFFICE (OSAKA)

4-5-33, Kitahama, 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: 240,865

Non-Consolidated: 4,984

### COMMON STOCK

Issued: 793,940,571 shares

### NUMBER OF SHAREHOLDERS

57,723

### STOCK EXCHANGE LISTINGS

Three domestic stock and securities exchanges: Tokyo, Nagoya, and Fukuoka

Ticker Code: 5802

### SHAREHOLDER REGISTER MANAGER

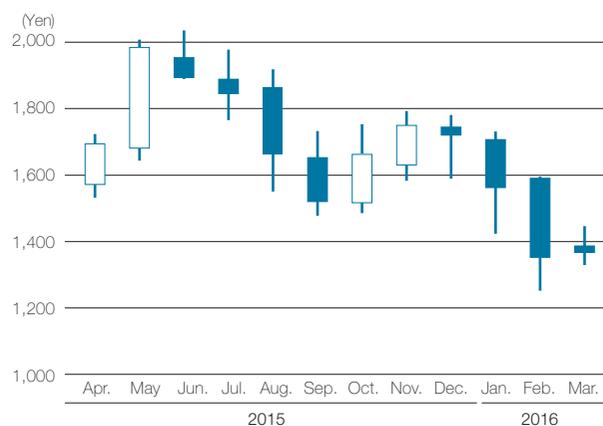
Sumitomo Mitsui Trust Bank, Limited.

1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

### PRINCIPAL SHAREHOLDERS

	Number of Shares Held (Thousands)	Shareholding Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	53,456	6.74
The Master Trust Bank of Japan, Ltd. (trust account)	46,180	5.82
Nippon Life Insurance Company	24,703	3.11
Japan Trustee Services Bank, Ltd. (trust account 9)	16,832	2.12
SUMITOMO LIFE INSURANCE COMPANY	15,556	1.96
CBNY - GOVERNMENT OF NORWAY	12,714	1.60
Sumitomo Mitsui Banking Corporation	12,551	1.58
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	11,943	1.51
THE BANK OF NEW YORK MELLON SA/NV 10	11,694	1.47
STATE STREET BANK WEST CLIENT - TREATY 505234	11,473	1.45
Total	217,107	27.37

## SHARE PRICE



## BREAKDOWN OF SHAREHOLDERS

### Financial Institutions

320,874 thousand shares  
40.41% (Shareholders: 173)

### Securities Companies

16,979 thousand shares  
2.14% (Shareholders: 64)

### Other Corporations

36,334 thousand shares  
4.58% (Shareholders: 632)

### Individuals and Others

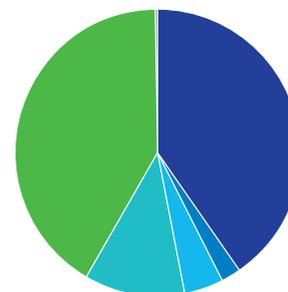
90,878 thousand shares  
11.45% (Shareholders: 56,155)

### Foreign Investors

328,270 thousand shares  
41.35% (Shareholders: 698)

### Treasury Stock

606 thousand shares  
0.07%



 **SUMITOMO ELECTRIC INDUSTRIES, LTD.**

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