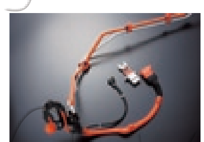
Annual Report 2010

Year Ended March 31, 2010

In management strategy, less picking of winners and more business diversification and flexibility

By firmly maintaining the Sumitomo Spirit, with its 400-year history and tradition, and vigorously pursuing its business [illegible] fairness, Sumitomo Electric Group's employees will all work [illegible]chieve our corporate ideal: to become a Glorious Excelle[illegible]

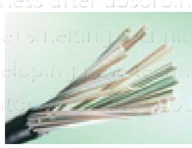
Enriching product ranges by meeting the challenge of change



After 30 years

Ingenious Dynamics

It started with the "Nanban-buki" technique. Some 400 years ago, Riemon Soga laid the foundation stone of Sumitomo's copper business after absorbing European ideas to develop his revolutionary "nanban-buki" (foreign style) smelting [illegible]nique. Since then, the business policy of valuing technology and actively developing [illegible]nology has been a driving force in the evolution of Sumitomo and Sumit[illegible]oup's business from the very beginning.



Coping with change through wide-ranging seed technologies

*For medium-term growth we must eliminate fat and create a lean business structure. Specifically, we must review our cost structure, lower our break-even point, fortify **monozukuri** capabilities and manufacture high-quality products at low cost. Moreover, we must work very hard in existing fields and markets as well as aggressively expand into new markets. It is also vital that we respond to new demand, promote te[illegible]velopment, and broaden existing business and technology fields.*

SUMITOMO ELECTRIC

The Origin of the Sumitomo Electric Group

The Spirit Fostered in Sumitomo's 400-Year Tradition

After centuries of years, our high-minded spirit glows ever more brightly.

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 operation across the world, linking closely with society, it always gives top priority to the cultivation of high corporate ethics to be a world-class company.

The Sumitomo Spirit grew out of the guiding principles set down by Sumitomo's founding father Masatomo Sumitomo in his Monjuin Shiigaki (the Aphorisms of Monjuin), and it has been passed down for over 400 years. The essence of the spirit was condensed in the Sumitomo Business Principles. In Monjuin Shiigaki, he preached the importance of doing one's sincere best in not only business but also every aspect of their life. This is the spirit that we, the members of the entire Sumitomo Electric Group, have inherited and strive to embody.

The Sumitomo Spirit

Business Principles

1: Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.

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

In addition to the Business Principles, the Sumitomo Spirit also includes: Attaching Importance to Technology, Respect for Human Resources, Long-Range Planning, Mutual Prosperity, Respect for the Public Good.

The Ever-Evolving Principles

The Sumitomo Electric Group makes commitments to all of its stakeholders.

Based on the Sumitomo Spirit, the Sumitomo Electric Group Corporate Principles were established as the fundamental spirits of the Group's business operation. In the Corporate Principles, we declare our commitment to the customers, shareholders, society, natural environment and employees. The Principles also emphasize the importance of compliance and public trust.

Sumitomo Electric Group Corporate Principles (Established in June 1997)

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.
- Nurture a lively corporate culture that enables employee self-improvement.

Contents

Ingenious Dynamics™

Each company of the Sumitomo Electric Group combines its unsurpassed creativity with knowledge and experience to generate dynamics that allow the Group to contribute to society.

Forward-Looking Statements

This presentation contains various forward-looking statements which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections and business plans of Sumitomo Electric and its group companies constitute forward-looking statements. Although Sumitomo Electric believes that its expectations and assumptions are reasonable, actual results and trends of Sumitomo Electric's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in the future business circumstances. The factors which may cause such difference include, without limitation:

1. General market and economic conditions in the U.S., Europe, Japan and other Asian countries, especially personal consumption and capital expenditure.
2. Fluctuations of currency exchange rates, especially between Japanese yen and U.S. dollar, Euro and Asian currencies.
3. Rapid technological development and Sumitomo Electric and its affiliated companies'ability to cope with it.
4. Changes in various assumptions including financial, managerial and environmental ones.
5. Current and future laws and regulations by foreign countries about trading and other activities.
6. Change in market value of securities that Sumitomo Electric and its affiliated companies own.

Please be advised that there are possibilities actual sales and profits could be different from those described in this material. Sumitomo Electric and its affiliated companies are not obliged to update and make public any descriptions in forward-looking statements after releasing this material.

This mark denotes pages with related data and information. Please view as needed.

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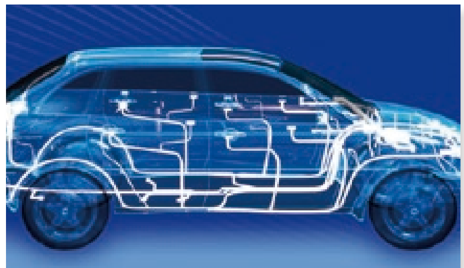
At a Glance

Sumitomo Electric Industries, Ltd. (TSE: 5802), its subsidiaries and affiliates globally undertake product development, manufacturing and marketing as well as service provision in their five business segments: “Automotive,” “Information & Communications,” “Electronics,” “Electric Wire & Cable, Energy,” and “Industrial Materials.”

In research and development, the Group endeavors to create new businesses and



Automotive

Net Sales Breakdown

¥816.6
Billion of yen

43%

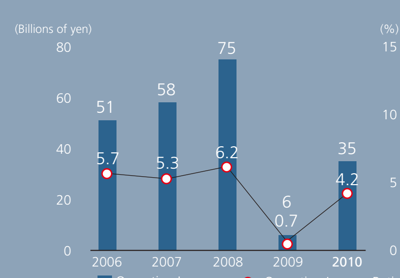
Market Environment

In 2009, global automotive production declined to 57 million units, falling short of 2008 levels by more than 10%. The sharp falloff in the first six months of the year in Japan, the United States and European markets outweighed growth in China and other emerging markets.

Performance

Sales beat our published first-half forecast by ¥41.6 billion at ¥816.6 billion. Recovery in global demand for wiring harnesses and anti-vibration rubber products outweighed the relatively small impact of the termination of car buying incentives in the United States and Germany. Operating income was ¥17.5 billion ahead of the forecast at ¥34.5 billion, on a combination of increased sales volumes and vigorous cost cutting.

Operating Income and Operating Income Ratio



Information & Communications

Net Sales Breakdown

¥271.2
Billion of yen

14%

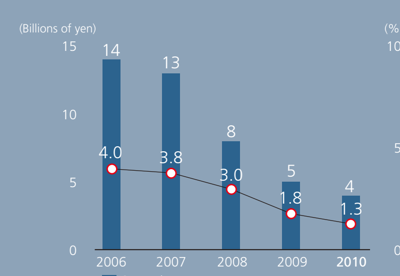
Market Environment

Demand for optical fiber cables was weak in fiscal 2010 in Japan and North America, but grew in China by over 50% year-on-year mainly due to active replacement of metal wires used in mobile phones. We believe that China is the biggest market in this area, accounting for 45% of global demand.

Performance

Sales in this segment fell short of first-half projections by ¥13.8 billion, to ¥271.2 billion, due to falling demand particularly in the Japanese market for communications infrastructure and optical products. Operating income undershot our estimate by ¥2.9 billion, to come in at ¥3.6 billion, due to a combination of reduced demand, and worsening export profitability for optical fiber cables and optical / electronic devices due to the sharp appreciation of the yen.

Operating Income and Operating Income Ratio



products by making the most of its originality. The Group is now focusing development efforts on new research themes that will yield next-generation core products and businesses for its future growth. The Sumitomo Electric Group employs more than 150,000 people worldwide, with operations spanning 30 countries. We will continue making active efforts as a major company leading the global market.

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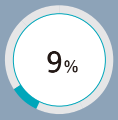
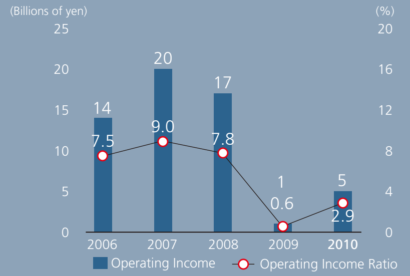
Electronics

¥165.1
Billion of yen



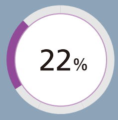
The global mobile-phone market in fiscal 2010 posted negative volume growth for the first time since fiscal 2002. However, growth of nearly 30% was seen for smart phones.

Sales were in line with the first-half forecast of ¥165.1 billion. Despite reduced demand for irradiated products such as irradiated tubes for automobiles and fixity rollers for printers. Demand increased for flexible printed circuits (FPCs) for game consoles and LCDs. Operating income beat the first-half forecast by ¥400 million, to total ¥4.9 billion, on the back of increased earnings for electronic wires and irradiated products.



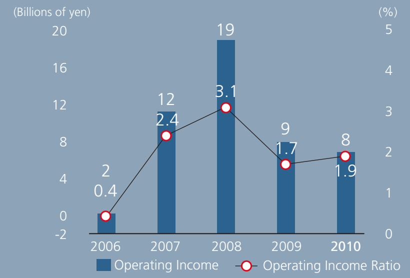
Electric Wire & Cable, Energy

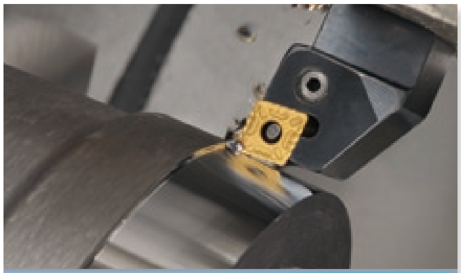
¥412.5
Billion of yen



The global recession drove down private sector capital investment, curbing demand for electric cables and transformer equipment. Demand for magnet wire also fell back as automotive and air-conditioning markets shrank.

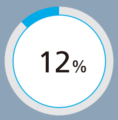
Sales beat the first-half forecast by ¥7.5 billion to total ¥412.5 billion, due to increased demand for magnet wire for automotive and electronics applications from the second half as well as higher copper prices. Operating income was ¥3.4 billion ahead of the first-half forecast at ¥7.9 billion, on a rebound in demand and higher earnings despite reduced revenues at Sumitomo Densetsu Co., Ltd. and Nissin Electric Co., Ltd., which pared fixed costs.





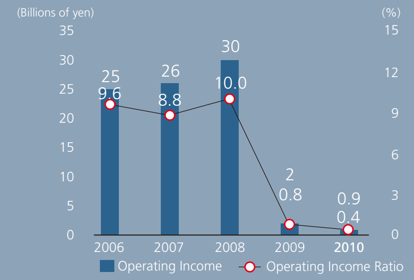
Industrial Materials & Others

¥228.2
Billion of yen



Demand for automotive products declined due to the global reduction in vehicle production notably in the first half. Demand also declined in Japan for prestressed concrete steel wire due to reduced public sector investment.

Sales beat the first-half forecast by ¥3.2 billion to reach ¥228.2 billion on a combination of increased demand from the automotive industry for sintered parts and other components amid resurgent vehicle production, and reawakening demand for cemented carbide tools. Operating income likewise exceeded the first-half forecast by ¥400 million. This segment posted net income of ¥900 million, after the deficit of the previous year, on the strength of a strong performance by cemented carbide tools and sintered parts.



Financial Highlights

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31

	Millions of yen					Thousands of U.S. dollars*1
	2010	2009	2008	2007	2006	2010
For the Year:						
Net sales	¥1,836,352	2,121,978	2,540,858	2,384,395	2,007,134	$19,737,231
Operating income	51,728	23,527	148,996	128,745	105,495	555,976
Income before income taxes and minority interests	55,425	41,126	166,612	144,550	108,279	595,712
Net income	28,708	17,237	87,804	76,029	58,346	308,555
Capital expenditures	81,943	143,182	134,421	128,568	132,707	880,729
Depreciation and amortization	103,848	108,168	106,892	99,802	87,151	1,116,165
R&D expenses	72,259	72,988	72,271	68,373	64,427	776,644
At Year-End:						
Total assets	1,939,935	1,868,174	2,194,882	2,126,405	1,991,048	20,850,548
Total interest-bearing liabilities	355,586	405,477	415,473	456,399	452,808	3,821,862
Total net assets*2	1,064,575	1,014,082	1,128,235	1,052,989	811,121	11,442,122
Cash Flows:						
Net cash provided by operating activities	171,576	168,509	204,612	130,997	124,973	1,844,110
Net cash used in investing activities	(72,899)	(161,050)	(126,414)	(131,193)	(155,340)	(783,523)
Net cash provided by (used in) financing activities	(67,613)	(11,957)	(55,946)	(16,549)	21,102	(726,709)

	Yen					U.S. dollars1
	2010	2009	2008	2007	2006	2010
Per Share Data:						
Net income: Basic	¥ 36.19	21.78	112.74	100.22	76.43	$0.389
Diluted	36.19	21.32	107.71	95.40	72.72	0.389
Cash dividends	16.00	18.00	20.00	17.00	13.00	0.172
Owner's equity*3	1,139.84	1,086.79	1,226.56	1,170.54	1,068.73	12.251
Financial Indexes:						
R&D expenses / net sales (%)	3.9	3.4	2.8	2.9	3.2	
Net income / net sales (%)	1.6	0.8	3.5	3.2	2.9	
Return on owner's equity (%)	3.3	1.9	9.5	8.9	7.8	
Return on assets (%)*4	3.6	1.6	9.8	8.8	7.9	
Current ratio (Times)	1.7	1.6	1.5	1.6	1.6	
Owner's equity ratio (%)	46.6	46.1	44.1	41.8	40.7	

*1 All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥93.04 to U.S. $1.00, the approximate exchange rate prevailing on March 31, 2010.
*2 See page 48.
*3 Owner's equity is sum of total shareholder's equity and total valuation and translation adjustments.
*4 ROA = Operating income divided by average capital employed

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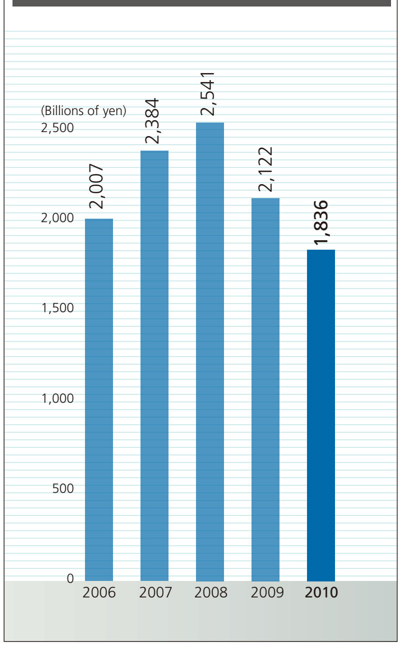
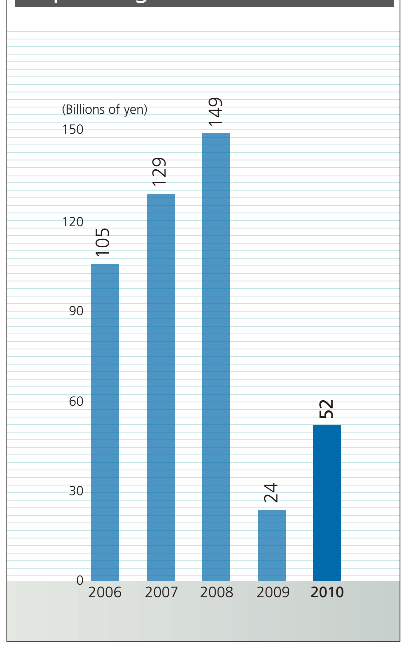
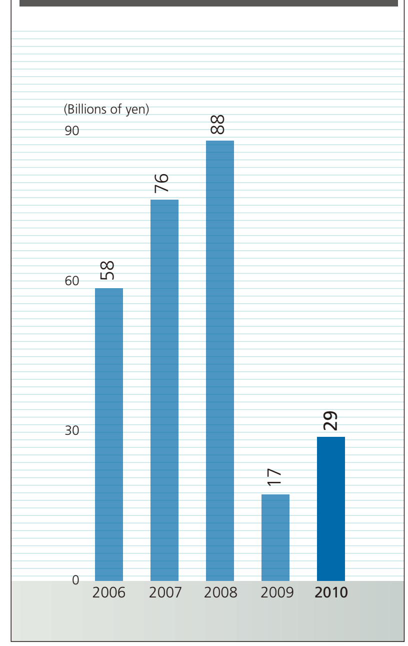
Net Sales



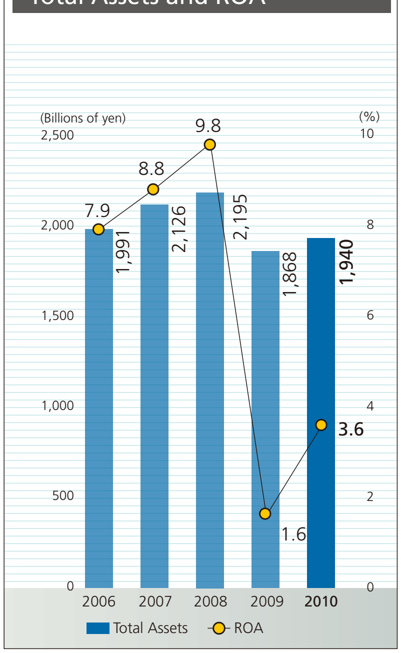
Operating Income



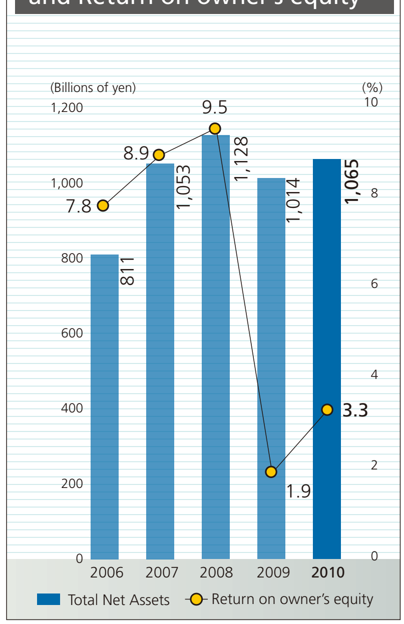
Net Income



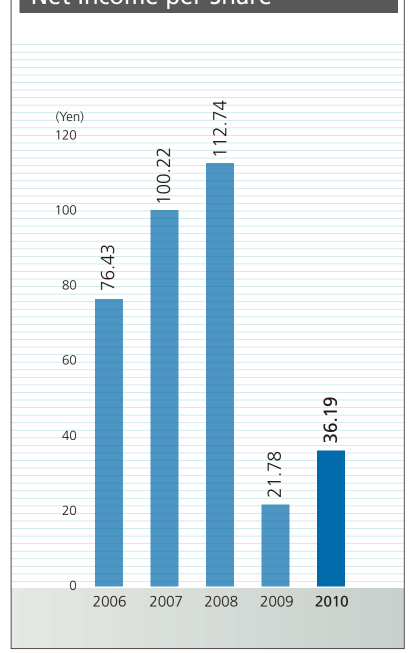
Total Assets and ROA



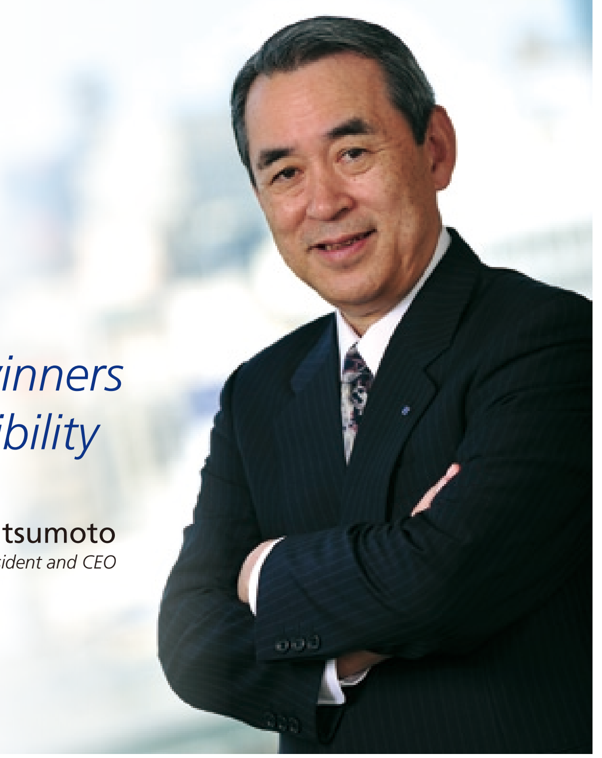
Total Net Assets and Return on owner's equity



Net Income per Share



Message from the President



Getting back to growth:
In management strategy, less picking of winners and more business diversification and flexibility

Masayoshi Matsumoto
President and CEO

Measures, results, and outstanding challenges for the year

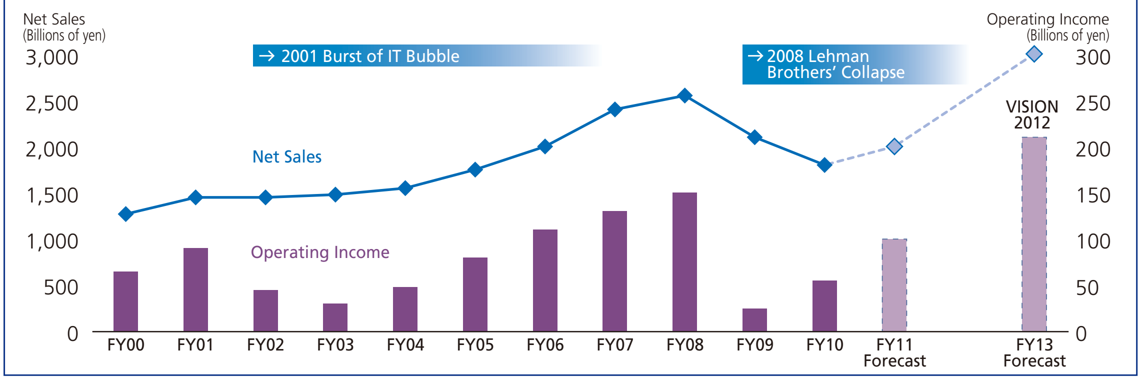
Fiscal 2010 Results and Fiscal 2011 Targets Amid the Global Economic Slowdown

Business conditions for the Sumitomo Electric Group in fiscal 2010 remained harsh overall. This was due to a number of factors including a sharp fall-off in demand for automobiles and electronics on the back of inventory adjustments stemming from the global economic slowdown. During the second half the demand for automobiles showed a modest recovery, yet we still suffered from a decline in product sales prices caused by the strong yen and intensifying global competition through the year.

Against this backdrop, the Group worked vigorously to improve its production efficiency for further cost cutting and implemented structural reforms aimed at responding to the sharp drop in demand. At the same time, the Group focused on developing and expanding sales of new technologies and products in response to changing market needs. Specifically, we conducted a speedy review of workforce size and the scale of Group facilities and worked to reduce total costs through rigorous cutting of personnel costs and expenses. We also relocated our production sites to low-cost regions. As a result of these measures, costs were reduced by ¥49.6 billion, surpassing our initial target of ¥47.4 billion. Furthermore, unremitting efforts to reduce cost produced an additional saving effect of ¥48.5 billion. Despite a 13% decrease in net sales in fiscal 2010 to ¥1,836.4 billion, these effects contributed to a lower break-even point and a 120% increase in operating income to ¥51.7 billion. In new product and technology development, the Group achieved the world's first true green semiconductor laser oscillation as well as the first commercial production of AZ91 magnesium alloy sheets (see pages 16-17), and promoting their commercialization.

The Group has weathered various crises including the bursting of the IT bubble and the more recent Lehman Brothers' collapse. However, once these crises were overcome, earnings recovered quickly. Although it became clear that earnings had been restored in fiscal 2010, especially during the fourth quarter, we will continue to reinforce our business foundation and streamline operations while accelerating the start up of new businesses. We anticipate net sales of ¥2,000 billion and operating income of ¥100 billion in fiscal 2011 as milestones for us on the road to achieving our medium-term business plan "VISION 2012."

Sumitomo Electric Group's Net Sales and Operating Income



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Signs of recovery of growth

Performance by Segment in Fiscal 2010 and 2011

In the Automotive segment, despite a decline in sales from the contraction of the global automotive market – especially during the first half of fiscal 2010 – as well as eroding copper prices, operating income jumped 5.6 times, compared with the previous fiscal year, to ¥34.5 billion. This was attributed to the rigorous reduction of fixed costs such as domestic and overseas personnel costs and expenses, the aforementioned accelerated optimization of production systems and other measures. In fiscal 2011, order volume for wiring harnesses is expected to be slightly higher than growth in the global automotive market due to increased demand and new client orders. As a result, we forecast a 23% global market share, a one percentage point increase compared with fiscal 2010.

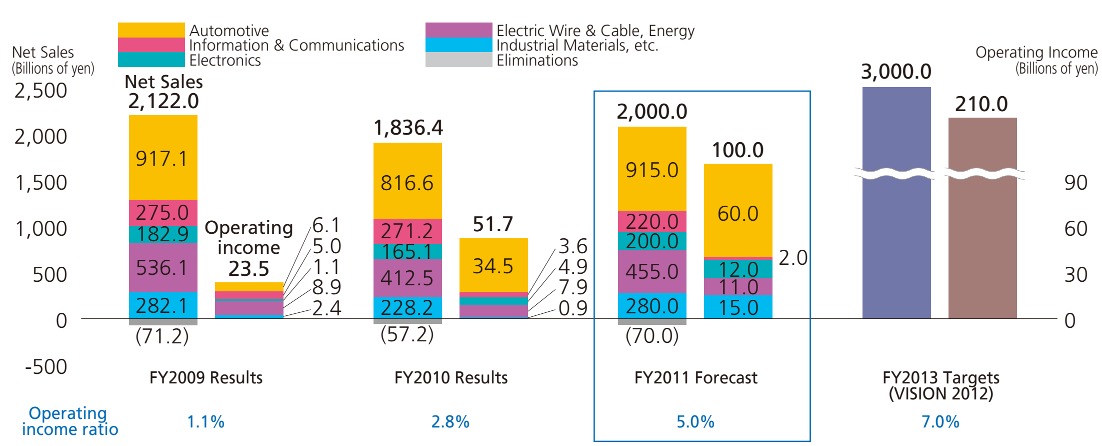
In the Information & Communications segment, sales rose after Sumitomo Electric Device Innovations, Inc. became a subsidiary. However, with a decrease in access network equipment and domestic communications construction work, sales dropped slightly. Operating income fell 28% year-on-year due to the deteriorating profitability of exports caused by the sharp appreciation of the yen. In fiscal 2011, revenues and earnings are expected to decline after consolidated subsidiary Commuture Corp. becomes an equity-method affiliate in the second half, and once demand for next generation network products has run its course.

In the Electronics segment, although demand increased primarily for flexible printed circuits (FPCs) used in smart phones and games, the sales saw a 10% year-on-year decline in total. This is due to the contraction of the electronic wires, irradiated products and compound semiconductors markets during the first half of fiscal 2010. In contrast, operating income surged due to workforce and cost reductions. In fiscal 2011, we expect higher FPC sales from growing smart phone sales and the rollout of package modularization as well as higher revenues and earnings for electronic wires and compound semiconductors buoyed by strong demand for digital consumer appliances and other products.

In the Electric Wire & Cable, Energy segment, sales slumped 23% year-on-year, while a significant decrease in demand caused operating income to fall. Contributing to this decline was weak demand for magnet wire for automotive and electronic applications, as well as for electric power distribution cable and receiving and transmission equipment on the back of declining private sector investments and the effects of sinking copper prices. The outlook for 2011 is for increased revenues and earnings from rising demand for magnet wire and CELMET™, a battery electrode material for hybrid vehicles, and higher demand for beam and vacuum applied devices thanks to a semiconductor market recovery.

In the Industrial Materials & Others segment, sales were down 19% year-on-year. This was attributable to a drop-off in demand for cemented carbide tools, sintered parts, and oil-tempered wire for valve springs following a contraction in the automotive market. In addition, decreased capital investments caused demand for carbide tools for industrial machinery to fall. Despite progress made in restructuring domestic production bases and reducing fixed costs, operating income also tumbled. The outlook for fiscal 2011 is for a moderate rebound in the automotive market along with higher revenues and earnings.

FY2011 Financial Forecast Overview

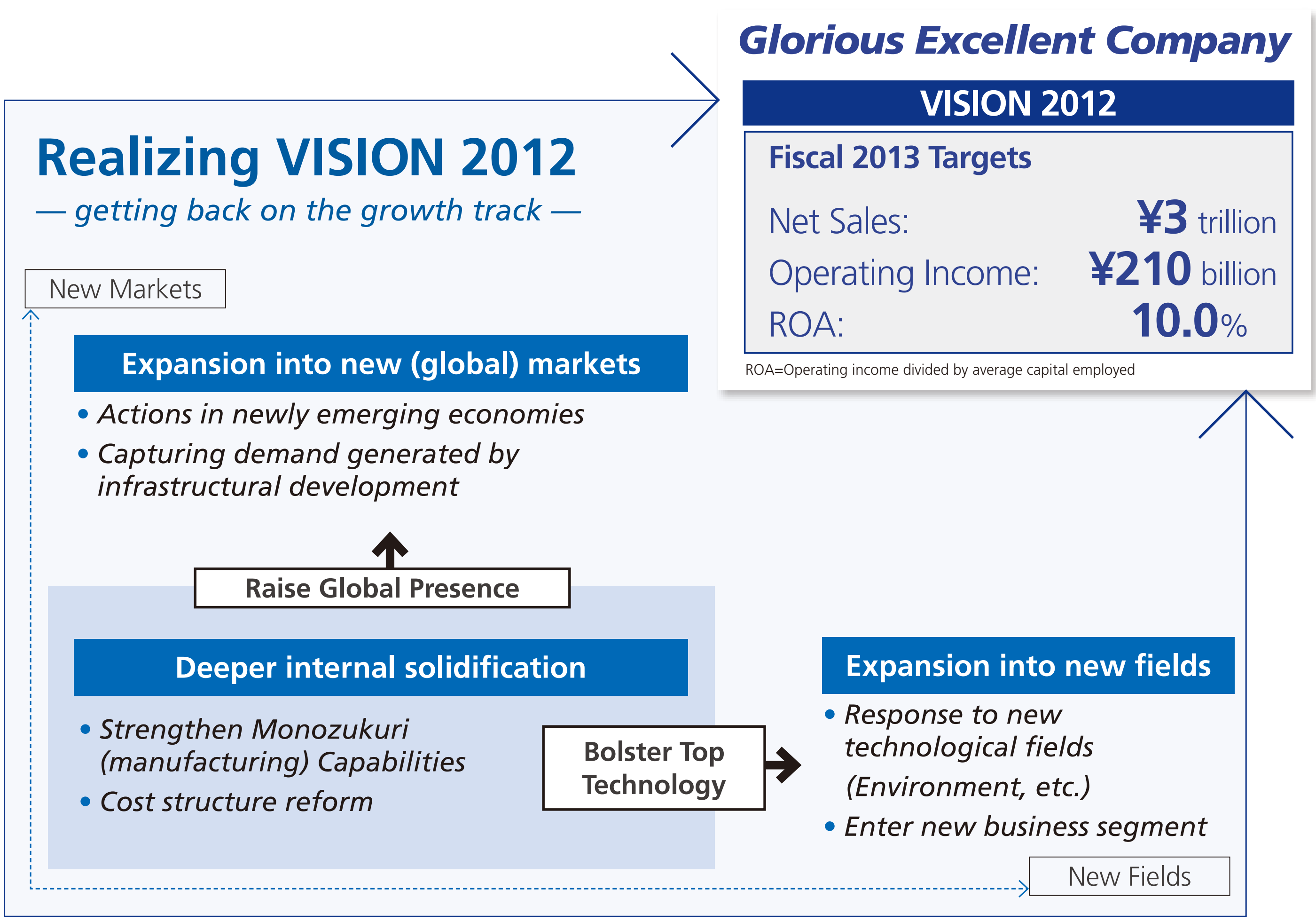


Implementation of the continuous improvement plan

Main Issues to be Addressed for a Getting Back on the Growth Track

The main issues in achieving "VISION 2012" can be broadly divided into two categories, "in" and "around the Group." "In the Group" focuses on achieving "deeper internal solidification." Through SEQCDD (Safety, Environment, Quality, Cost, Delivery, Research & Development), the Group seeks to build a robust business structure capable of achieving profitability under any business environment. As we have been working on this, we will take additional steps to strengthen Monozukuri (manufacturing) capabilities – the lifeblood of a manufacturing company – as well as human resource development. The Group will also reexamine the cost structure to lower the Company's break-even point and create an even stronger competitive edge.

The focus of "around the Group" will be on "expansion into new markets." We will steadily capture automotive and other market demand in emerging economies as well as that for electric power, communications and other infrastructure. The Group will also "expand into new fields" by rolling out its novel products that utilize materials and information and communications technologies, the core technologies of the Sumitomo Electric Group. For details regarding the specific initiatives of each business segment, please refer to the Review of Operations, which begins on page 20.



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Medium-and long-term vision

Efforts Toward the Sustainable Growth

Today, the multi-polarization of the global economy is further progressing and globalization is entering a new phase. Moreover, major structural changes are about to occur with the materialization of various global challenges including global warming, water and food shortages, and energy and resource depletion. To ensure Group growth into the future, it is imperative that we understand these structural changes and create new products and businesses that transcend our existing five business segments.

Based on this realization, in January 2010, we established "NEXT Center." The center aims to draw up and execute our R&D and long-term business strategies for responding to societal needs and structural changes from the long-term perspective of 30 years into the future. It is also expected that the center will accelerate the creation of large businesses that will form the backbone of our future business. We also set up the Power System R&D Labs, where the Group's core technologies, materials technologies and information and communications technologies, are fully integrated to create new products and technologies in the environment and energy fields. Along with these activities, we are responding to such changes in the automotive market as the growth of emerging markets and the development of eco-friendly automobiles. With an eye toward the future, we are also promoting organizational restructuring including the establishment of the Automotive Technology Planning Division, which accelerates new product and technology development.

Finally, regarding the on-site inspection and other actions by the Fair Trade Commission, the Sumitomo Electric Group and its affiliates take the facts very seriously. The Group will improve its Competition Law compliance system and implement fair business practices in good faith so as to win society's trust.

By firmly maintaining the Sumitomo Spirit, with its 400-year history and tradition, and vigorously pursuing its business with sincerity and fairness, Sumitomo Electric Group's employees will all work as one to achieve our corporate ideal: to become a Glorious Excellent Company.

We therefore request the continued understanding and support of our shareholders and investors.

Enriching product ranges by meeting the challenge of change

After 30 years

Research & Development

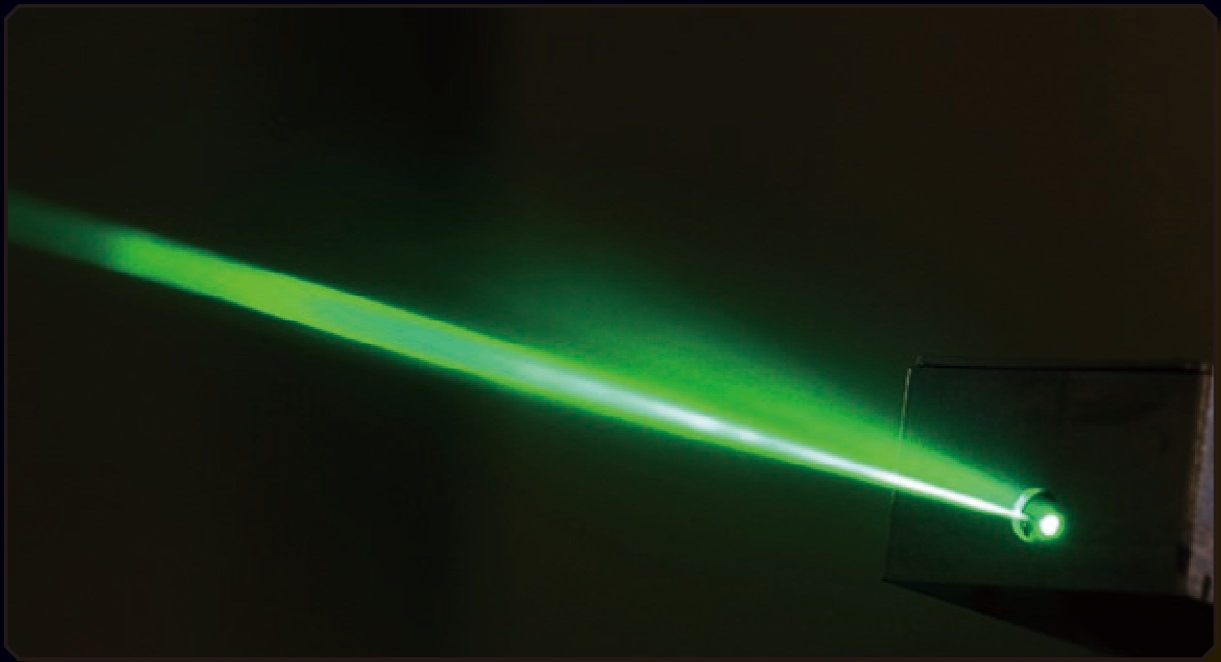
■ **High-voltage wiring harnesses for hybrid vehicles**

This product is a three-phase high-voltage alternating current wiring harnesses used under the vehicle cabin to connect the inverter at the rear with the motor in the engine compartment housed in the front section. Using an aluminum cladding pipe, it is a three-dimensional high-voltage harnesses that has a shielding function to protect wires against external electrical noise and flying stones.

Combining time-honored Sumitomo craftsmanship with superior innovative technologies

Basic Policy

In line with the Sumitomo Electric Group Corporate Principles – building technical expertise, realizing changes and striving for consistent growth – we are focusing on fields with growth potential and working to develop new businesses and products that display originality and have good earnings prospects. We adopt an aggressive stance toward the discovery and nurturing of new research themes that meet future technology needs and that promise to drive the Group's growth into the next generation.



True green semiconductor laser

Sumitomo Electric has successfully developed the world's first green laser diode, based on its original gallium nitride crystal technology. The Company confirmed room temperature pulse operation of a laser diode emitting in the true green region at 531 nm, as well as room temperature continuous wave operation at 520 nm.

Automotive

In the field of wiring harnesses, we are developing harnesses architecture and key element technologies for next-generation in-vehicle computer systems. Meanwhile, we are also focusing on the car electronics field to develop electronic devices that involve great use of IT, sophisticated functionality and advanced networking – more specifically, power distributors, next-generation in-vehicle local area networks (LANs), etc. From an environmental perspective, we are redesigning our wiring harnesses to be lighter through use of aluminum as wiring material and miniaturized connectors. We are also working on high-voltage wiring harnesses and components for electric vehicles (EVs) and hybrid electric vehicles (HEVs).

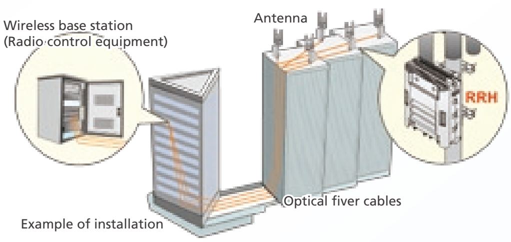
At the same time, we are working to ensure greater efficiency in our R&D activities and higher quality in our products. With this in mind, we are developing essential experimentation, examination, evaluation and analysis methodologies for key element technology development and reliability confirmation. Examples include simulation systems using computer-aided engineering (CAE), such as contact mechanism analysis of connector contact points and thermal and vibration analysis of electronic equipment.

Information & Communications

In the field of optical communication products, we are adding functionality to low-loss/low-nonlinearity optical fiber and optical modules in anticipation of faster trunk-line networks to meet the photonic network needs of the future. We are also developing optical technologies in the new fields of electronics and life sciences, including optical interconnection products for high-speed transmission between device internal units and servers, and fiber laser light source devices based on optical amplification technologies.

In transmission device products, following the conversion of Sumitomo Electric Device Innovations, Inc. into a wholly owned subsidiary in April 2009, we have accelerated the development and launch of new optical and electronic devices based on fusions of different technologies. In optical parts, we have focused on the development of devices that is power efficient and operate in a wide temperature range for high density mounting applications. We have also promoted the development of elements for wavelength tunable lasers (expected to have a key role in next-generation optical communications) and ultra-high-speed optical links. In electronic devices, we are developing gallium nitride (GaN) transistors and microwave monolithic ICs (MMICs), as well as devices for wireless communications and mobile phone base stations and sensors.

In broadband network systems, we are focusing on the development of increasingly high-speed next-generation systems, such as the 10-Gigabit Ethernet*1-passive optical network (10GE-PON). In wireless broadband products, we are developing outdoor wireless terminals used for WiMAX*2 base stations, and high-efficiency wireless amplifiers. Further developments are driver safety support systems using traffic control algorithms and Cooperative Vehicle Infrastructure Systems (CVIS) as well as sensors based on image-processing technologies.



Remote Radio Head (RRH) for WiMAX

*1 Ethernet is a trademark of XEROX Corporation
*2 WiMAX is a trademark of the WiMAX Forum

Electronics

In compound semiconductors, we are working on the refinement of indium phosphide (InP) and gallium arsenide (GaAs) substrates used in high-speed optical communication devices and wireless electronic devices. Similar work is being done on GaN substrates for blue-violet laser diodes and white LEDs and power devices. We have also successfully developed a suitable substrate for green semiconductor lasers, and created the world's first true green laser diode. Further developments include transistors using silicon carbide, seen as next-generation power devices.

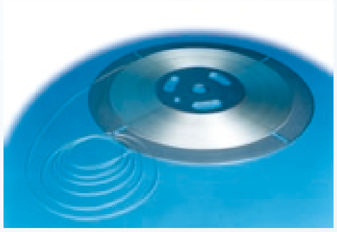
In electronic materials development, we are creating products made from nano metal powder, including pastes that exhibit high electrical conductivity and nano-inks for use in the inkjet printing of electronic circuits. We are also working on high-precision mounting materials, such as anisotropic conductive films for fine-pitch electrodes.

We are developing manufacturing technologies for battery electrode materials to help reduce CO_2 emissions. We have also successfully developed technology for mass production of the world's first AZ91 magnesium alloy sheet.

Electric Wire & Cable, Energy

In the superconducting field, we aim to fully commercialize superconducting wire of world-leading length and performance, by significantly improving the properties of bismuth-based high-temperature superconducting wire. Applications include use in the High Temperature Superconducting Cable Demonstration Project launched by Japanese independent government agency, the New Energy and Industrial Technology Development

Organization (NEDO). In the project, the feasibility of high-temperature superconducting cable with length of 30m was successfully demonstrated. In fiscal 2011, Japan's first on-site trial connecting high-temperature superconducting cables in a live grid transmission system will be carried out at the Tokyo Electric Power Company's Asahi Substation.



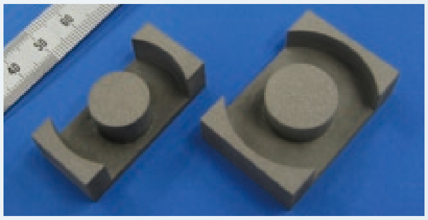
High-Temperature Superconducting Wire DI-BSCCO™

"WinD Lad" R&D Center

Industrial Materials & Others

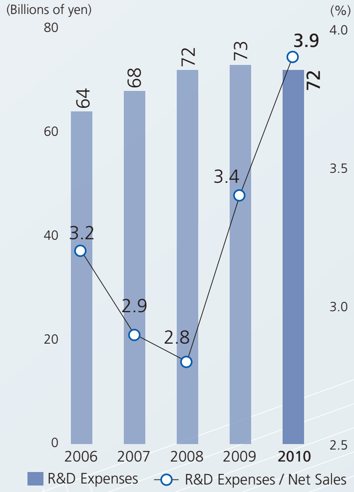
In the field of sintered parts, we are focusing on increasing production of powdered soft magnetic materials based products, whose excellent magnetic properties at high frequency ranges are ideal for components of fuel injection systems used in diesel engines. At the same time, we are concentrating on the development of products using powder magnetic core materials for system electrification in hybrid vehicles, EVs and other eco-cars.

The Group also manufactures and sells products utilizing rare metals such as tungsten and cobalt. We place a high management priority on pursuing the eco-friendly 3R (reduce, reuse and recycle) policy so as to reduce waste. Through collaborations among industry, the government and academia, we have been conducting research on material recovery and recycle technologies, to help lower the environmental load of industrial activities.



Powder magnetic core for choke coil

R&D Expenses
and as a Percentage of Net Sales



Strategy for Intellectual Assets

Basic Policy

Sumitomo Electric views the development of proprietary technologies as a matter of crucial importance. Especially in recent years, we have been making full use of such technologies to develop products in-house. The acquisition of intellectual property rights and the subsequent commercialization of these technologies are top management priorities. We are also actively working to secure global rights for our intellectual assets.

The Japanese government aims to make intellectual property a key driving force behind national prosperity. Since 2002, the government has implemented a variety of measures in quick succession, including the drafting of the Intellectual Property Basic Act, the launch of intellectual property promotion programs, and the establishment of the Intellectual Property High Court. The Intellectual Property Strategy Headquarters has also been set up within the Cabinet Office. Thus, one of Japan's leading policies is to promote the creation, protection and full utilization of intellectual property assets.

To survive the fierce competition with its corporate rivals, Sumitomo Electric has promoted companywide intellectual property management enhancement activities through close collaboration among its business divisions, the R&D Division and the Intellectual Property Division. Specifically, the Company has been focusing on the development of a unified patent portfolio of new products and technologies, and greater utilization of intellectual property. These activities are now being extended to our affiliates. The Sumitomo Electric Group will continue to make groupwide efforts to further expand its intellectual property enhancement and utilization activities.

Special Feature 1

Coping with change through wide-ranging seed technologies

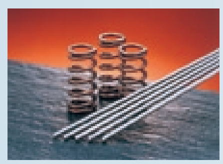
Sumitomo's original "Nanban-buki" smelting technique (Photo courtesy of the Sumitomo Historical Manuscript Institute)

1897
Opened the Sumitomo Copper Rolling Works (The inauguration of the Sumitomo Electric Group)

Cable installation in 1957

1922
Manufactured and laid world's longest submarine power cable

1931
Started production of cemented carbide tools (IGETALLOY™)



1932
Started production of special steel wires

1968
Started traffic control systems business

1969
Started development of flexible printed circuits (FPCs)

1949
Started automotive wiring harnesses business

1957
Delivered first Japan-made television broadcasting antennas

1964
Started production of electron beam irradiation wires

1970
Started compound semiconductor business

The history of the Sumitomo Electric Group is one of addressing challenges – of technological innovation and of development of new businesses, based on our expertise in copper wire and cable manufacturing, stemming from the Sumitomo copper business.

In the 1950s, the then President of Sumitomo Electric, Kazue Kitagawa, proposed a policy of business diversification. He was prompted by the fear that a business model entirely dependent on electric wires and cables had no development potential. Without reducing the value contribution of wire and cable operations, the Company has since systematically worked to expand into other areas. Various businesses have been launched, including compound semiconductors, traffic control systems and optical fibers. These form domains within our current five business segments.

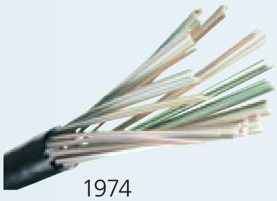
The Company has created a wide range of new products on the basis of its founding business of bare copper wire manufacture, including power and communications cables, electronic wires, and other wire and cable products. Anticipating the advent of the digital age, the Company became a pioneer in the 1970s in the manufacture of optical fibers capable of relaying large volumes of data quickly and securely.

As early as the 1930s, Sumitomo Electric had ventured outside the traditional wire and cable business, developing new products such as special steel wires using proprietary drawing technologies for electric cables, and cemented carbide tools when production of dies essential for wire-drawing was brought in-house. Our powder metallurgical technologies also enabled us to enter the field of sintered powder metal parts in the 1940s and diamond products in the 1970s.

After years of research into electric conductor technologies essential to electric cables and wires, we also entered the field of compound semiconductor and

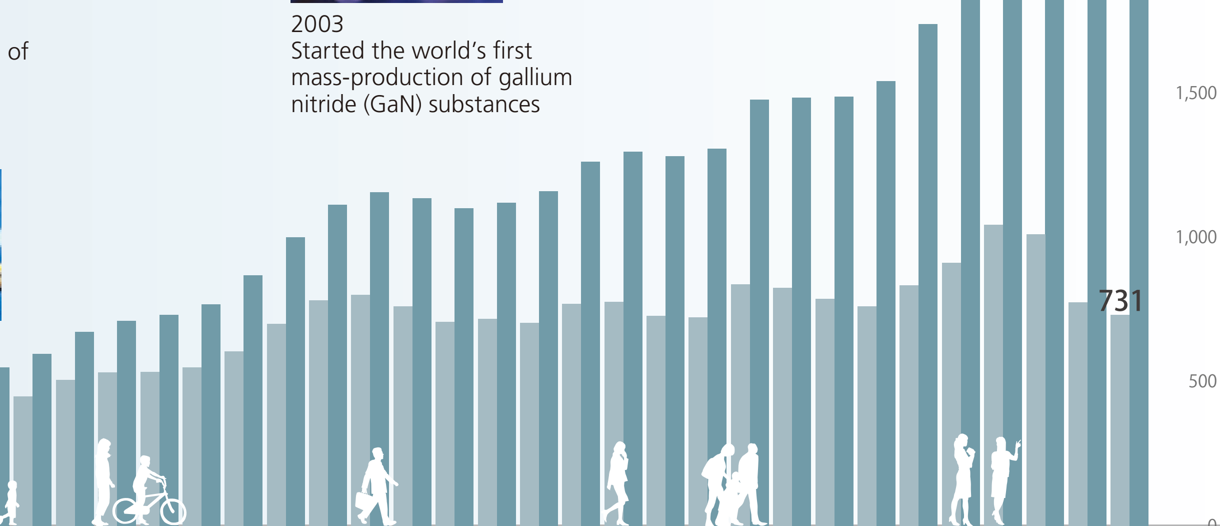
It started with the "Nanban-buki" technique. Some 400 years ago, Riemon Soga laid the foundation stone of Sumitomo's copper business after absorbing European ideas to develop his revolutionary "Nanban-buki" (foreign style) smelting technique. Since then, the business policy of valuing technology and actively developing new technology has been a driving force in the evolution of Sumitomo and Sumitomo Electric Group's business from the very beginning.

2006
HTS cable used in power transmission grid in U.S. started supplying electricity



1974
Started production of optical fiber cables

2003
Started the world's first mass-production of gallium nitride (GaN) substances



1982
Succeeded in production of world's largest class synthetic diamonds

1990
Consolidated sales exceeded ¥1 trillion

1999
Started marketing asymmetric digital subscriber line (ADSL) products for the first time in Japan

2009
Developed world's first true green semiconductor laser

superconducting wire development. We steadily researched and committed resources to compound semiconductor development, which became an R&D focus in the 1950s. In 1970, our development laboratory was opened, enabling accelerated development of important seed technologies that consolidated the basis of our current compound semiconductor business. In 2003, based on our years of expertise in the development and manufacturing of compound semiconductors, we innovated a gallium nitride (GaN) substrate and became the first volume producer of GaN substrates in the world.

That success was followed in 2009 by our development of a true green laser for semiconductors.

From our wire insulation technologies, we also innovated electron beam irradiation products and new rubber and plastic products (now known as hybrid products).

Bringing together the control and transmission technologies acquired through the manufacturing of power cables and electric wires, we eventually extended our business into the fields of systems and electronics. In the 1960s, through research on leaky coaxial cables for railway communications, Sumitomo Electric embarked on the development of computerized traffic control systems. Sumitomo Electric's control systems are used in many places, including the Tokyo Metropolitan Police Department, one of the world's largest traffic control centers.

By leveraging our core materials and information technologies that support operations in our five business segments (Automotive, Information & Communications, Electronics, Electric Wire & Cable, Energy, and Industrial Materials), we plan to further accelerate our entry into new businesses and grow as a company.

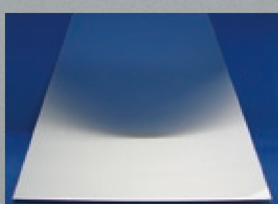
We remain committed to vigorously carrying out the responsibility of "supporting people's daily lives," which we have been fulfilling since the day of our foundation.

Special Feature 2

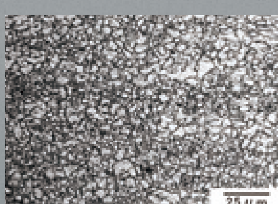
AZ91 Magnesium alloy sheet: The ultimate lightweight challenger among metals World's first commercial production

In 2009, Sumitomo Electric successfully developed a technology with the potential to dramatically increase the applications of magnesium alloys, the new magnesium alloy sheet AZ91. Production has already started. In addition to the lightness of magnesium, AZ91 alloy sheet offers two more highly prized attributes: corrosion resistance and processability. Applications are expected in many products in daily life such as housing of mobile devices and automotive interior trim components.

Corrosion-resistant while retaining good processability



AZ91 Magnesium alloy sheet



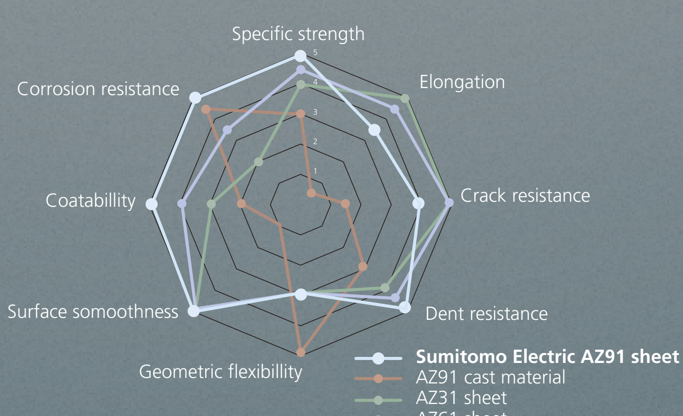
Magnesium alloy parts' internal structures

For mobile products such as mobile phones and laptops, weight is one of the key factors determining product value. From an environmental perspective too, weight reduction in cars is essential as it means lower fuel consumption. Hopes in this regard have centered on the lightest of all the metals in daily use, magnesium. But there is a problem – it is susceptible to corrosion.

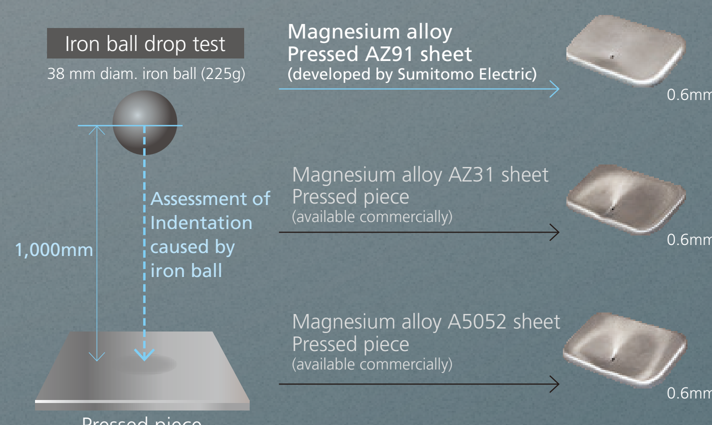
To overcome this drawback, AZ91 alloy includes 9% aluminum and 1% zinc content. However, because of its metallographic characteristics, AZ91 alloy has been used exclusively in the form of the cast components due to the difficulty of rolling and forming. Manufacturers have been frustrated by its limited usability, or have been forced to resort to AZ31 alloy sheet, which has less aluminum (3%) but offers good processability despite inferior corrosion resistance.

Compared to cast components, Sumitomo Electric's AZ91 alloy sheet exhibits a high strength of 340 MPa (improved by more than 1.5 times) and an excellent elongation of over 10% (enhanced by several times). It is the equal of AZ31 alloy sheet in press-workability. AZ91 alloy sheet, which retains the superior corrosion resistance of AZ91 alloy, is truly the metal product that our customers have been waiting for. It is expected to replace traditional materials used in mobile device housing and in automobiles, where lightness is the key to success. It also possesses a smooth surface thanks to its homogeneity and fineness, allowing great design capability in coating and finishing. This means that AZ91 alloy sheet can be used in a wide range of applications including external finishing.

Comparison with other Mg alloys



Dent resistance (comparison with other pressed pieces)



Becoming a leader in magnesium through commercial production

AZ91 alloy sheet has already been confirmed as meeting basic specifications, after evaluation for use in device housings conducted by mobile products manufacturers in Japan and overseas. Automakers in Europe have likewise commended this sheet material as the first of its kind to meet anticorrosion standards. Supported by these achievements, the project is now operating a pilot line ahead of commercial production and establishing the needed technologies. We are aiming to set up commercial production facilities as soon as possible, to have in place a production system that can meet user needs.

Project team members are now carrying out technological and market research to establish possible uses for AZ91 alloy sheet in wide-ranging sectors including medical and welfare, robot, railroad car and aerospace. The first focus is the establishment of an independent business unit to position magnesium as the third main nonferrous metal after copper and aluminum. Moving beyond our remit as a materials manufacturer, we have begun to consider manufacturing and marketing original AZ91 products that have undergone press-processing and surface treatment within the Company.

We want the name Sumitomo Electric to become synonymous with magnesium.

Project team members remain united in their commitment to meeting the challenge of creating the ultimate lightweight metal.

A world first based on years of experience in materials technologies

Sumitomo Electric began working on magnesium materials in 2004. At that time, the Osaka Works focused on casting and the Itami Works on processing, each carrying out research independently into the possibilities of the material within their own manufacturing facilities. Then, in 2005, the research teams of both works were brought together, and the magnesium alloy project was launched.

To safeguard a fine crystal structure in the AZ91 alloy even during rolling and processing, our expertise in melting and casting aluminum, copper and various other materials were leveraged. As a result we were able to develop controlling technologies for AZ91 alloy that had not been realized before.

Issues to Address for Medium-Term Growth

*For medium-term growth we must eliminate fat and create a lean business structure. Specifically, we must review our cost structure, lower our break-even point, fortify **monozukuri** (manufacturing) capabilities and manufacture high-quality products at low cost. Moreover, we must work very hard in existing fields and markets as well as aggressively expand into new markets. It is also vital that we respond to new demand, promote technological development, and broaden existing business and technology fields.*

Deepen Internal Consolidation

To achieve "deeper internal consolidation," the entire Sumitomo Electric Group is working under three management policies. Our first policy is "keeping our organizations appropriate to our abilities and reconstructing our cost systems." This means that we rebuild the organization into one in which each business segment is appropriate in size for the current level of orders, and we lower the break-even point.

Our second principle is to "expand and deepen internal consolidation." This means to take a thorough inventory of essential challenges related to SEQCDD (Safety, Environment, Quality, Cost, Delivery and Research & Development), which were beyond our capacity to handle in the past due to high operation levels, and to take drastic measures to solve them.

Our third principle is to "education rearmament." This means that we strengthen our human resource development, which plays a key role in business expansion, so that we can make a giant leap forward after passing through the recession. As specific examples, we introduced two typical training programs. The "MKP or Monozukuri Kakushin Pro Jissen Dojyo"(Manufacturing Innovation Professionals' Workshop) is a program for developing plant managers in Japan and abroad. The "GKP or Genba Kaizen Pro Jissen Dojo" (On-Site Improvement Professionals' Workshop) is a program for developing leaders who will assume responsibility for improvement activities at the plant. In both programs, on-site issues are selected as training themes and the training serves the two purposes of, 1) strengthening manufacturing capabilities by finding solutions to those issues, and 2) developing human resources. The Technical Training Center, which was established in 2008, is primarily responsible for delivering these trainings to Group companies.

Technical Training Center

Expansion into New Global Markets

As for efforts in new markets, we are improving our response to burgeoning newly emerging markets including China and other Asian countries. Particularly, in the areas of automobiles and electronics, we are creating a stronger global marketing system, expanding local production and working to increase orders.

At the same time, we are also focusing on capturing demand for the upgrading of infrastructure in various countries. For example, by forming joint ventures with influential local companies, we will capture demand for the upgrading of optical fiber communication networks and railway systems in China, electric power grids in ASEAN countries and the Middle East, and bridges and airports in various other nations.

While the current overseas sales ratio stood at almost 40%, through these efforts, we plan to raise it further.

Expansion into New Fields

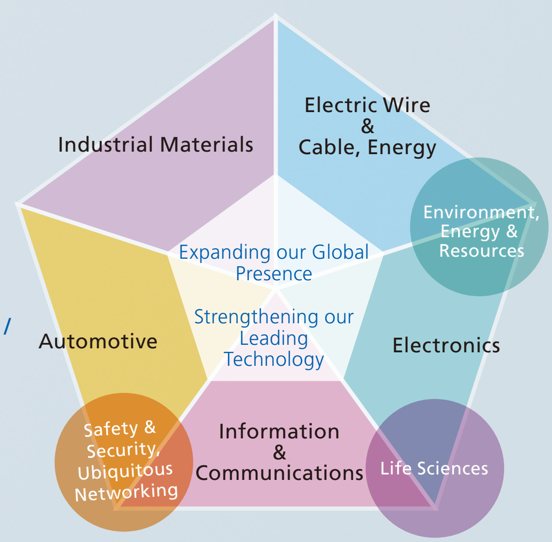
In order to expand into new fields, it is vital that new product development not be constrained by existing businesses. Sumitomo Electric possesses materials technologies as well as information and communications technologies developed over many years. We have established “Environment, Energy and Resources,” “Life Sciences” and “Safety & Security, Ubiquitous Networking” as priority fields that will be responsible for our future growth. We are taking steps to integrate and leverage these two technologies in order to rapidly create new businesses.

Furthermore, in January 2010, we established new organizations – the NEXT Center and the Power System R&D Labs in the R&D Group and the Automotive Technology Planning Division in the Automotive Business Unit. These are organizational reforms aimed at new product development and new business startup.

The NEXT Center investigates and analyzes changes resulting from social trends and technical innovations based on a long-term point of view. It seeks to track areas of future growth and promote activities aimed at creating new, large-scale businesses for the Group. The Power System R&D Labs deals with technological innovations in the electric power infrastructure field resulting from increasing use of reusable energy (with tremendous growth potential), the spread of electric cars and other changes. It pursues business development organically drawing on products and services in which Sumitomo Electric holds an advantage. The Automotive Technology Planning Division responds to such changes in the automotive market as the growth of newly emerging markets and the spread of eco-friendly vehicles, and pursues the development of new products and technologies.

Sumitomo Electric Group’s new products and R&D activities

- Nano multi-crystalline diamond
- CBN-ceramic compounds
- Raw material recycling technology



Innovative green materials and systems technology

- Thin-film wire rod
- Superconducting ship motor
- Superconducting coil
- High performance thin motor

Innovative materials for next-generation safety-assured / green automobiles

- HEV/EV-related technology
- Harnesses-downsizing technology
- Optical LAN on board
- Reactor

Innovative green materials

- Water-treatment, ballast water treatment devices
- High-density battery material, membrane battery
- Broadband near-infrared light source
- Power device
- Green laser
- Mg alloy

Transfer and ITS equipment in anticipation of telecommunication/broadcasting integration and stationary/wireless integration

- Wireless amplifier/device
- Visual information system

Next-generation optical information

- Passive Optical Network (PON)
- Next-generation transmission technology (40G, 100G)
- Photonic crystal fiber
- Optical information transmission line (optical USB)

Optical technology-oriented services other than communications

- Blue-violet laser diode
- Fiber laser
- High-performance glass
- Composition imaging system using near-infrared light

Goal for 2012: Capturing of the world market for

In the Automotive segment, technological development is focused on combining our strengths through fusion of information/communications and environment/energy technologies, to meet a wide range of needs in areas such as environmental protection, energy efficiency, safety and highly advanced IT.

Automotive

Segment Overview

This segment supplies wiring harnesses products for in-vehicle communication and energy applications, vibration-proof rubber products for absorbing and controlling engine and car-body vibration, and a range of automotive hose for fuel and oil systems.

Compact, High-Reliability Relay Box
By adopting the semiconductor relay and a new heatsink structure, we achieved miniaturization and weight reduction of our high-reliability relay box.

Key Challenges under VISION 2012

Three issues need to be addressed by this segment to achieve our goal of a 25% share of the global wiring harnesses market. First, we need to win orders in the BRICs and other newly emerging markets, while maintaining a steady order flow from Japanese automakers for their major car lines and global strategic models. Second, to meet the needs of non-Japanese automakers, we need to strengthen business ties with local manufacturers and scale up overseas business bases including sales units. Third, the segment needs to build out the order book, for example by winning automotive orders now going to rival companies.

Turning to cost reduction, this segment is raising the tempo of measures aimed at reducing overall costs, such as a production shift to lower-cost regions and simplification and streamlining of assembly processes.

At the same time, it will continue to develop new products and technologies for smaller, lighter and more environment-friendly vehicles, and for hybrid and electric vehicles (HEV/EVs).

25% wiring harnesses

Wiring Harnesses
Wiring harnesses are wiring systems that are used both for power supply and data transmission. Users demand that the electronic components of the harnesses be made even smaller, lighter and more reliable.

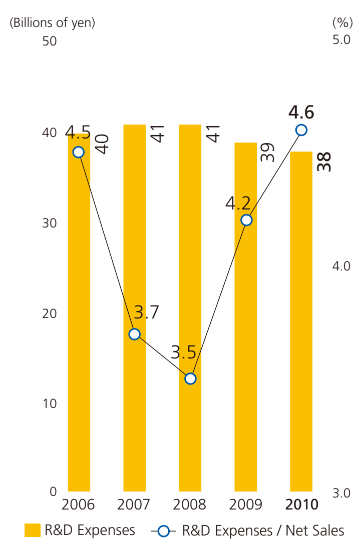
Progress and Future Measures

In steps to respond to the needs of non-Japanese automakers, we have started production of wiring harnesses for new models released by European and United States automakers, and are working to attract orders away from rival suppliers. The segment has also started supplying connectors and some harnesses products to Chinese automakers. We will continue these measures going forward, with the aim of increasing the proportion of orders from the non-Japanese automakers to 15% by 2012.

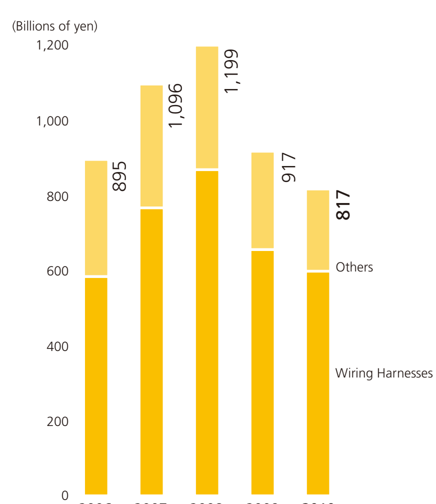
Relocation measures for cost reduction include the transfer of plants set up in Eastern Europe to supply the European market to North Africa. Likewise, production at Mexican plants supplying North American markets is being moved to ASEAN countries. The segment's Japanese plants will specialize in development and other "mother-plant" roles, while plants in China and the South-East Asian region will supply Japanese and North American markets and African bases will serve Europe.

In new products and technologies, the priority is development of, and winning orders for, high-voltage wiring harnesses for HEVs and peripheral equipment. The segment has also begun mass-production of aluminum wiring harnesses to help realize lighter vehicles. To respond to market changes – the rise of the emerging markets and the growing popularity of environment-friendly vehicles – we have also established our Automotive Technology Planning Division to handle new products and technologies in these areas.

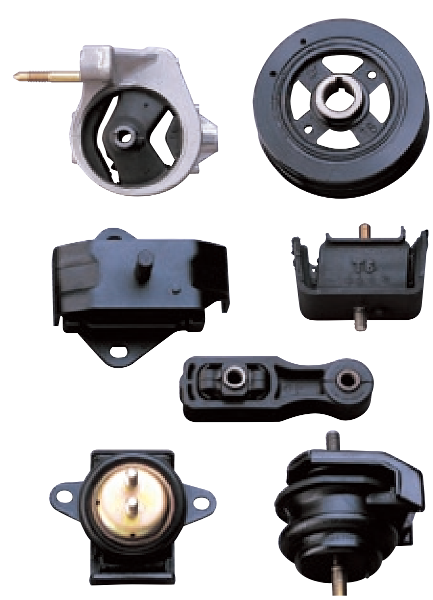
R&D Expenses and as a Percentage of Net Sales



Net Sales



Anti-Vibration Rubber Products
Anti-vibration rubbers are the important functional components that absorb and dampen the vibrations of car bodies and engines.



Development of technologies for

This segment supplies a wide variety of optical communication products to global markets, contributing to the worldwide spread of broadband networks.

Information & Communications

Segment Overview

Through this segment, we supply fiber-to-the-home (FTTH) and other optical network products such as optical fiber cables, modules and fusion splicers. The segment also produces access network equipment including Gigabit Ethernet Passive Optical Network (GE-PON) and home gateway (HGW) products, as well as traffic control systems and other Intelligent Transportation System (ITS) devices.

Key Challenges under VISION 2012

The segment will target demand in fast-growing emerging markets (notably China, India and Southeast Asia) for optical fiber cables and other photonic devices. In optical devices, we plan to expand our range of 10Gbps products, and accelerate development of 40Gbps and 100Gbps devices to meet the need for faster data transmission. In electronic devices, we will increase sales of wireless-related products. In access network equipment, the focus is on developing and expanding sales of products for next-generation-network (NGN) services and wireless communications.

GE-PON device "MegaBit Gear FSU6200"
GE-PON is a transmission technology that utilizes fiber optics and shares 1Gbps transfer rate between multiple lines. MegaBit Gear FSU6200 (OLT) is a GE-PON device that is compliant with IEEE802.3ah standard and allows Internet connection of maximum 1 Gbps.

broadband
all

■ Optical fiber preform
To generate optical fiber, silica glass preform is drawn into hair-thin core fiber, and then coated with resin for protection.

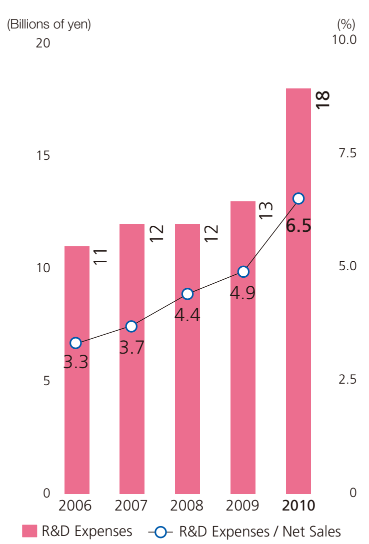
Progress and Future Measures

To respond to demand in the optical fiber cable market in China, the world's largest market, we set up an optical fiber preform manufacturing company through a joint venture with Futong Group, the optical equipment leader in China, with operations scheduled to begin in September 2010. Meanwhile, we plan to expand sales in the European optical fiber cable market by taking a stake in an optical cable manufacturing subsidiary of major French electric cable manufacturer Nexans S.A. In optical devices, we established the joint-venture company SEI-Nanjing Putian Optical Network Co., Ltd. with Nanjing Putian Telecommunications Co., Ltd., in expectation of growth in the Chinese FTTH market; operations are scheduled to begin in August 2010. At the same time, we launched operations at SEI Optifrontier Co., Ltd, formed by a merger of two optical device manufacturers of the Company in Japan, to streamline our domestic manufacturing operations and boost international competitiveness while strengthening marketing by combining existing sales networks.

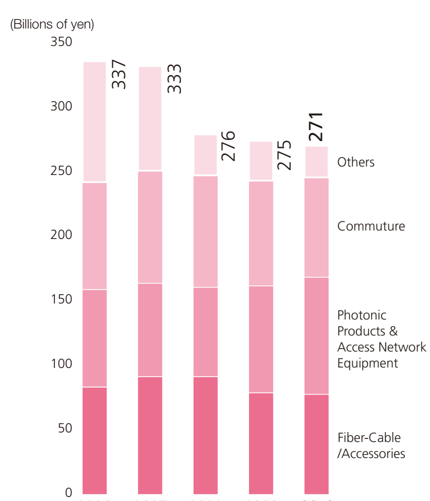
Turning to our optical and electronic device business, Eudyna Devices Inc. became a wholly owned subsidiary of the Company in April 2009, and in August was formally re-launched as Sumitomo Electric Device Innovations, Inc. Sumitomo Electric and the new company have generated synergies by fusing their technologies, overhauling manufacturing networks, streamlining development and expanding product lineups. At the moment, this segment is developing and expanding sales of high-value-added products: 40Gbps and 100Gbps high-speed, highly-functional optical devices and, in electronics, GaN products used in ships.

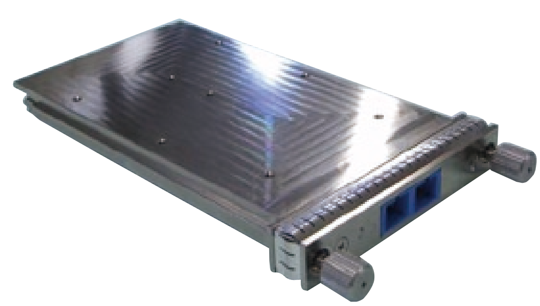
In access network equipment, the current capex cycle for NGN systems has run its course. Nonetheless, the segment remains committed to expansion of sales of new products such as terminals and wireless-related equipment for NGNs, and development of next-generation, high-speed NGN transmission systems, while cultivating overseas growth markets.

R&D Expenses and as a Percentage of Net Sales



Net Sales





■ Devices for optical broadband services
40 Gbit/s Optical Transceiver for 10km Transmission
We has been developing a wide variety of optical transmission devices, ranging from laser diodes, photo diodes, ICs etc. to optical transceiver modules.
The photo shows the world's first 40 Gbit/s optical transceiver module with hot pluggable feature to support flexible change in network configuration.

Creating cutting-product lineup

Electronics is the sector at the heart of the modern age. We are raising our profile as a global player by developing unique new technologies and products, while working rigorously to cut costs.

Electronics

Segment Overview

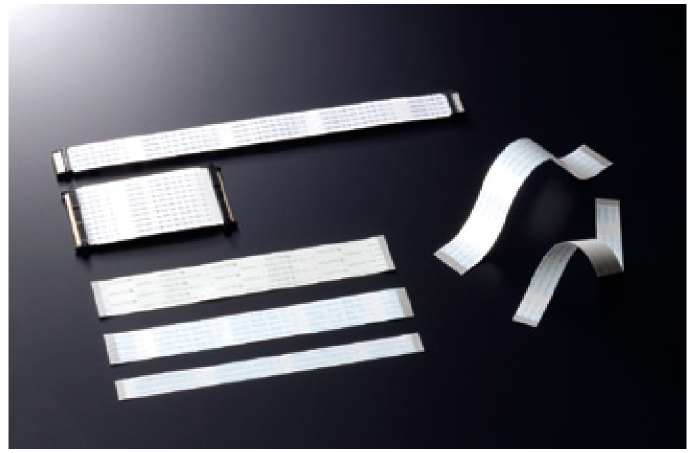
This segment produces components for mobile phones, flat-screen TVs, personal computers and digital cameras. It also supplies flexible printed circuits (FPCs) and electronic wire products that help create more functional and compact electronic devices. Other products are compound semiconductors and heat-shrinkable tubes.

Key Challenges under VISION 2012

The segment's first major task is to expand its range of products and increase sales in growth areas such as mobile phones, LCD screens and game consoles. Second, it needs to strengthen sales and production systems on a global basis, centering them on the newly emerging markets. Other challenges include expanding sales of high-value-added products, lowering the sales cost of mainline products, and development of new products and technologies.

POREFLON™ Module
Using the POREFLON fluoroplastic porous film tubes, filtering of high turbidity solution becomes possible. The POREFLON Modules can be used in various applications including sterile filtration, clarification, wastewater treatment, film distillation, deaeration, and gas dissolution.

edge



■ Sumi-Card™

Sumi-Card is a flat cable which enables easy jointing to connectors. Using the flat square conductor, this flat cable reduces its thickness and allows multi-wiring assembly. We have various types of Sumi-Card, such as whisker-free, halogen free and terminal-processed types.

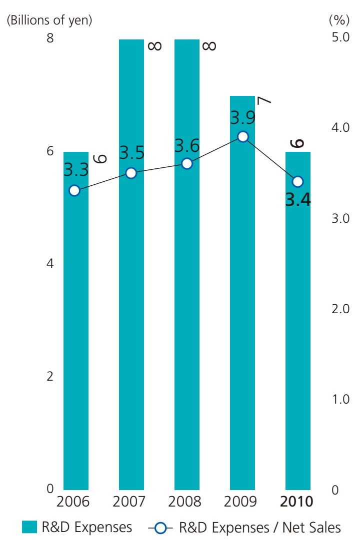
Progress and Future Measures

In the electronic wire business, the segment is expanding sales of products for flat-screen TVs and other digital consumer electronics items, and for automotive and health care applications. Another priority in measures to target emerging markets is capturing demand from manufacturers in China for halogen-free electric wires and Sumi-Card™ flexible flat cables.

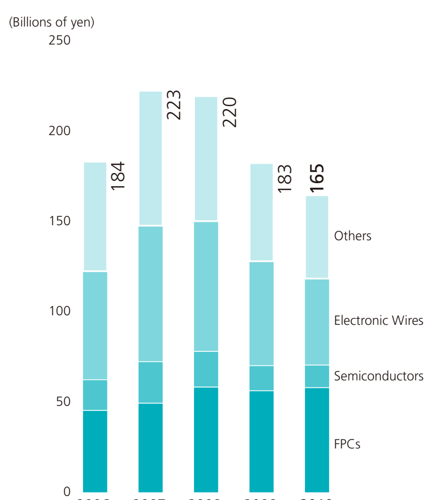
In FPCs, the segment is strengthening overseas marketing networks and reaching out to non-Japanese customers, while expanding sales of high-value-added products for high-growth markets such as smart phones and game consoles. To trim costs, reduce lead times and cut inventory, Sumitomo Electric Interconnect Products (Shenzhen), Ltd. was established in April 2010, and launched integrated production in the summer.

Turning to compound semiconductors, the segment is expanding sales of products using GaN substrates for use with Blu-Ray discs and high-power LEDs, and is also exploring further applications. At the same time, it is taking steps to speed up the development of green lasers using GaN substrates, aiming to commercialize these products at an early date. Other challenges are developing a market in China for our business in superfine filtration membrane modules for water treatment systems, and growing operations in metallic nano-particle materials.

R&D Expenses and as a Percentage of Net Sales

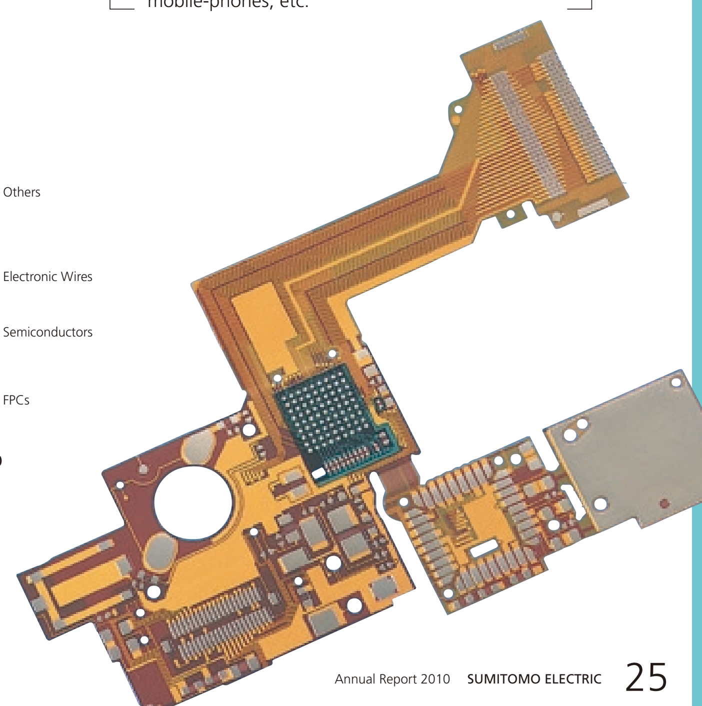


Net Sales



■ Flexible Printed Circuit (FPC)

FPCs consist of a copper circuitry overlaid on an ultra-thin insulation film. They greatly contribute to the downsizing, weight saving, and cost reduction of electronic devices, and are used in computer hard disc drives, cameraintegrated video recorders, mobile-phones, etc.



Innovation in the

Against a backdrop of rising use of renewable energy sources, this segment is engaged in businesses that aim to meet changing needs in the areas of energy, resources and the environment.

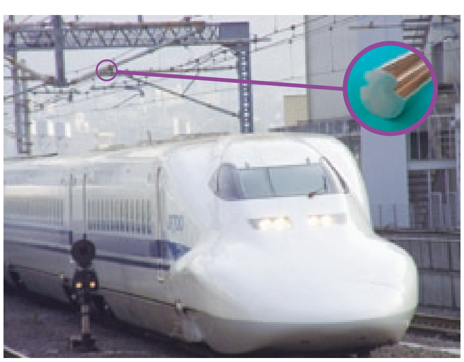
Electric Wire & Cable, Energy

Segment Overview

The segment manufactures cables, railway trolley wires and magnet wires. Power-receiving and transformer equipment is produced and marketed by the Company's subsidiary Nissin Electric Co., Ltd., and another subsidiary Sumitomo Densetsu Co., Ltd. carries out power-related installation projects.

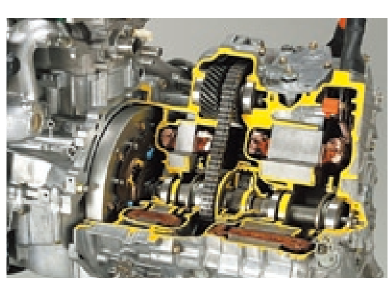
Key Challenges under VISION 2012

The first priority is deepening structural reform in mature business areas and rigorously cutting costs. Second, the segment needs to expand sales in overseas markets that have strong energy-related demand, such as China, India and the Middle East. Third, it needs to develop more products in the automotive and electronics fields, and, fourth, explore new business opportunities in the environment, energy and resource-conservation fields.



Trolley wire

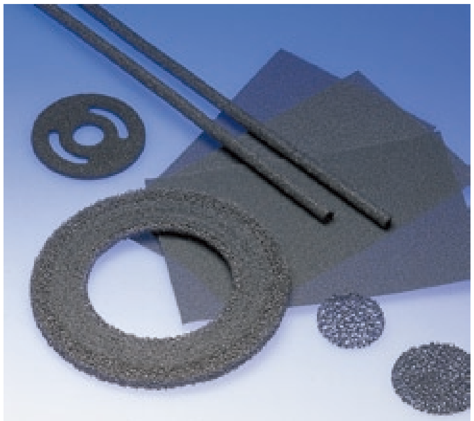
Railroad trolley wires are installed in the bottom of an overhead feeder system, so that it contacts the pantograph of each railcar to feed power to the car. The trolley wire is made of hard-drawn copper or copper alloy, to meet the requirements for low electric resistance and high mechanical strength.



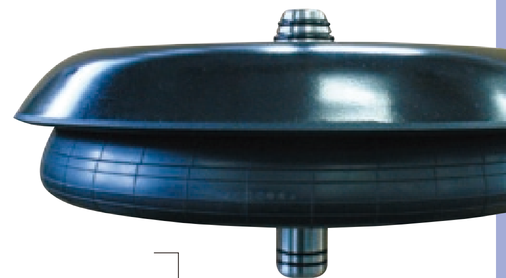
Scratch-Resistant Magnet Wire

Magnet wires are widely used in automotive electric components. Our magnet wires can withstand harsh conditions during coil winding and are used in high-efficiency motors and coils.

energy business



■ **Porous Metal CELMET™**
This porous material features high-porosity and continuous pores, and is used mainly in the electrodes of nickel-hydrogen batteries.



■ **Air Cushion for Railcar**
Our air cushions are used by many railroad companies in Japan and abroad for their railroads, including Shinkansen super-express lines, fulfilling the needs for higher railroad speeds and improved riding comfort.

Progress and Future Measures

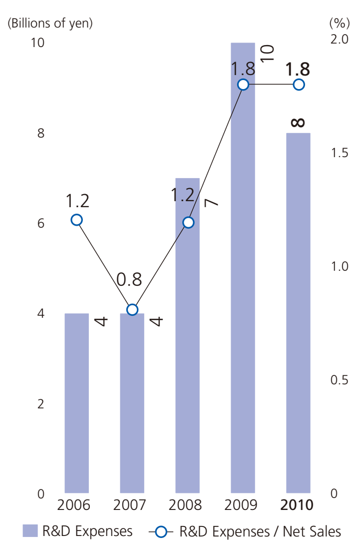
As part of restructuring in mature business areas, the segment is working to return the magnet wire business to profitability by reducing the overall cost of sales.

To boost overseas sales, our equity-method affiliate J-Power Systems Corporation has set up joint ventures in India and Saudi Arabia with local capital partners as part of efforts to establish a global production network for high-voltage cables. These units are scheduled to come onstream during 2011.

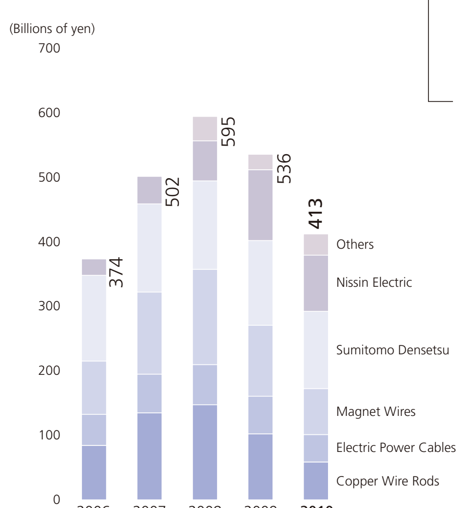
In product development in the automotive and electronics fields, the segment is developing high-strength, high-voltage magnet wires for applications in hybrid cars, and is launching these products on the market. It is also boosting production capacity for CELMET™, used mainly in the electrodes of nickel-hydrogen batteries.

The segment is developing and expanding sales of products that meet renewables-related demand such as solar and wind power equipment, and for electric-efficient infrastructure. It has established a joint venture with a Chinese company for air cushions and trolley wire, to tap into railway infrastructure demand in China and other countries.

R&D Expenses and as a Percentage of Net Sales



Net Sales



■ **Cross-Linked Polyethylene (XLPE) Insulated Cable**
Our high-voltage electric wires and cables, which stably supply large-capacity electric power, serve as the main arteries of energy transmission by power companies in Japan and abroad.

This segment uses the proprietary technologies that the Company has developed through the manufacture of electric wires and cables, enabling it to provide products globally for a wide range of processes in the machinery manufacturing, construction, and automotive industries.

Industrial Materials & Others

Segment Overview

Products in the special steel wire business include prestressed concrete (PC) steel materials used for civil engineering and building construction, and oil-tempered wire for automotive valve springs. In the field of powder metallurgy, the segment provides cutting tools essential for machining, and a wide range of sintered parts used in automobiles, office equipment, home electronics products, and many other industrial sectors.

Key Challenges under VISION 2012

The main challenge facing this segment is accelerating the development of business on a global scale to meet the needs of emerging markets and optimize production for them.

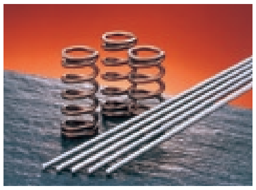
A second priority is development of new materials and products, and further strengthening processing technologies. Third, the segment needs to develop products for the aviation, energy and resource sectors, and other non-automotive sectors. Fourth, it needs to ensure stable supplies of tungsten and other raw materials that are essential for cutting tools.

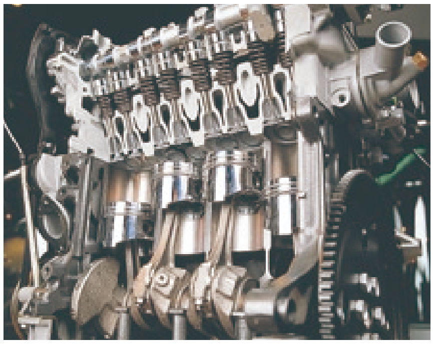
Prestressing Material

Prestressed concrete (PC) technology makes concrete strong and durable by applying prestress using high strength steel wires. PC technology is applied in the fields of civil engineering and building construction. Our products are used in versatile applications such as bridges, tanks, buildings, airport pavements, ground anchors, nuclear reactor containment vessels and offshore structures.

Oil-Tempered Wire for Valve Springs

Oil-tempered wires are used for automotive valve springs and torque converter springs, which are required to have good fatigue resistance under high stress conditions.





industrial materials

■ **Cemented Carbide Tool, IGETALLOY™**
Responding to the need for faster, more efficient and higher-precision machining, IGETALLOY inserts work as a mechanical interface between machine and material, gaining importance in such fields as cutting and plastic working.

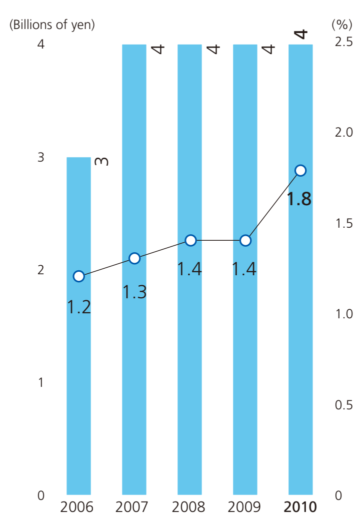
Progress and Future Measures

In the prestressed concrete materials unit of the special steel wire business, we are meeting demand in Japan and overseas for bridge building and airport infrastructure applications. In wire saws, the segment is expanding sales and boosting capacity to supply makers of solar cell panels, for which demand is expected to grow. Meanwhile, in steel cords for tires, the segment is developing business globally with Sumitomo Rubber Industries, Ltd., while working to further cut costs.

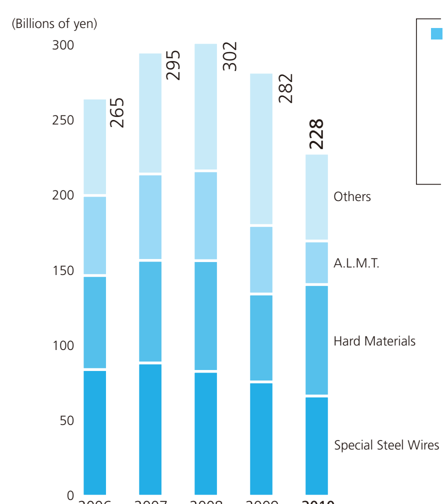
The overseas sales ratio for cemented carbide tools stood at 49% in 2009. The goal is to raise that figure to 55% by 2012, through expansion of sales mainly in emerging markets. Specific measures include establishment of branches in Dalian and Chongqing in China, and a consolidation of production bases for tip-changeable drills and cubic boron nitride (CBN) cutting tools in Japan. At the same time, we are considering establishing facilities for volume production overseas. To ensure a stable supply of raw materials and resources, the segment continues to undertake research with Nagoya University on methods for recycling cemented carbide tools.

In sintered parts, the segment is consolidating production bases and reducing costs, while strengthening business bases in China in measures to optimize global production. At the same time, it is promoting new product development for variable valve timing (VVT) and continuously variable transmission (CVT) to meet environmental requirements.

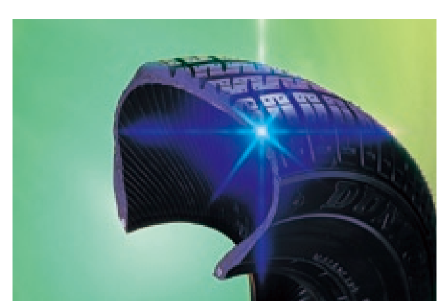
R&D Expenses and as a Percentage of Net Sales



Net Sales



■ **Steel Tire Cord**
Steel cords are used for the reinforcement of radial tires. Our patented steel tire cords feature excellent adhesiveness with rubber, and satisfy not only the basic properties required for automobile tires, but also more advanced and diversified needs of customers.



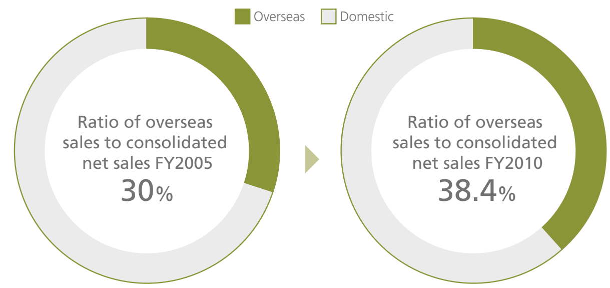
Expanding globally, offering unique value

Review of Operations

Overseas Activities

Overseas Sales

In light of reduced automotive demand and other factors, overseas sales for the reporting term ended March 2010 declined ¥101.3 billion (12.6%) from the previous period to ¥705.4 billion. Overseas sales accounted for 38.4% of total sales on a consolidated basis, for a year-on-year increase of 0.4 percentage point. Regionally, sales in the Americas totaled ¥195.7 billion (accounting for 10.7% of total sales), a decline of ¥52.4 billion (21.2%). Sales in Asia totaled ¥348.3 billion (accounting for 18.9% of total sales), a decline of ¥15.8 billion (4.3%). Sales in Europe and other regions totaled ¥161.4 billion (accounting for 8.8% of total sales), a decline of ¥33.2 billion (17.1%).

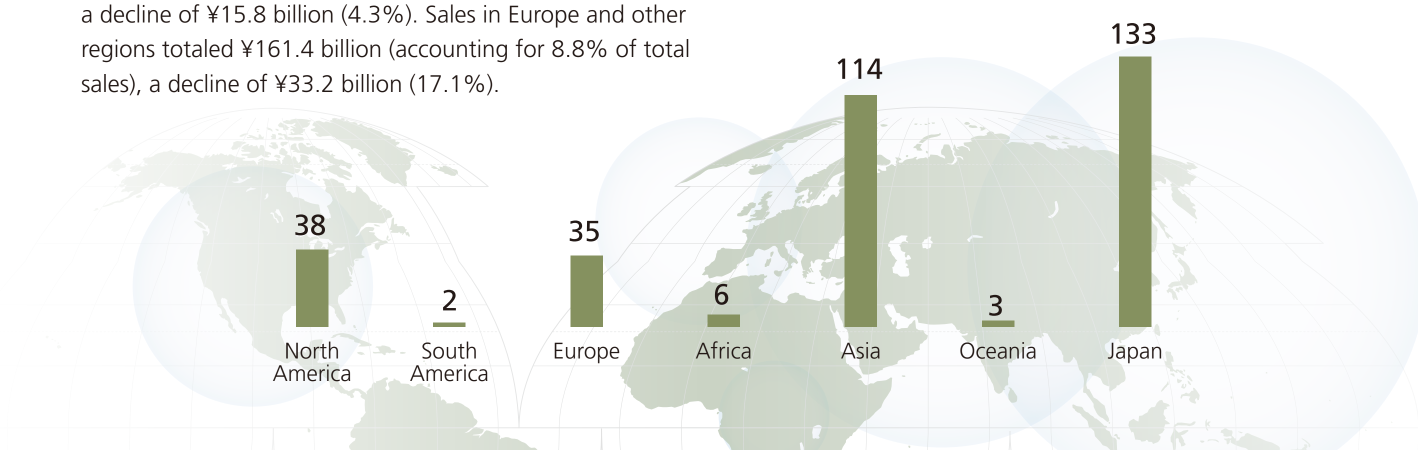


Overseas sales
521.9 Billion Yen

Consolidated net sales
1,740.2 Billion Yen

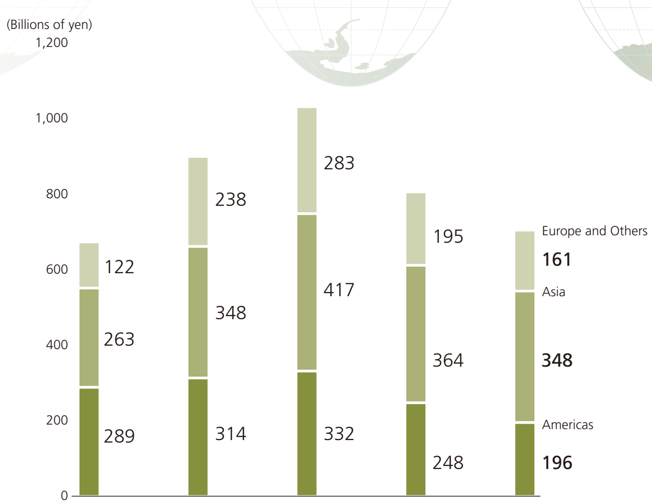
Overseas sales
705.4 Billion Yen

Consolidated net sales
1,836.4 Billion Yen

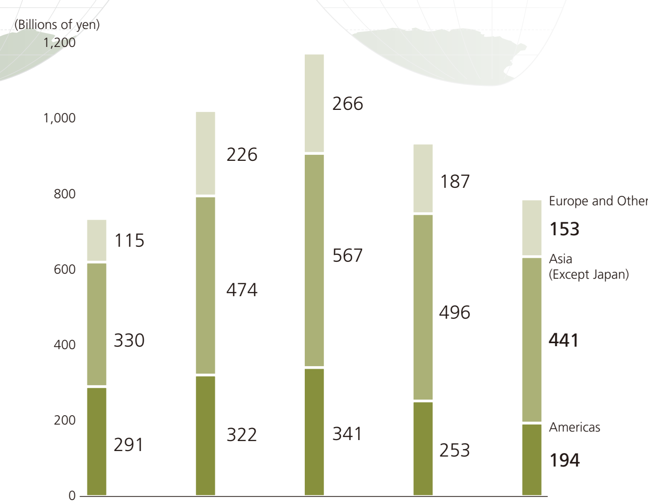


Total of consolidated subsidiaries and equity-method affiliates, as of March 31 2010: 331

Overseas Sales



Geographical Segment Sales



Corporate Governance

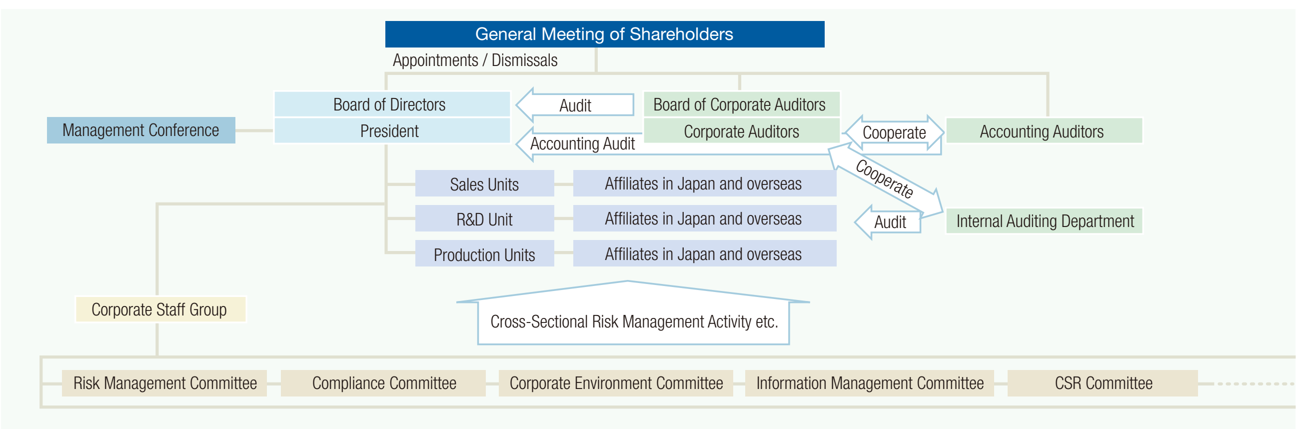
Basic Policy

The consistent basic policy of the Sumitomo Electric Group is to make a positive contribution to society through the pursuit of fair business activities, in line with the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. To develop our business and enhance our corporate value while adhering to this basic policy, we are committed to improving overall management efficiency and speed, and to ensuring the legality and appropriateness of our business decisions and activities. We are also working to further strengthen our management oversight system so as to increase monitoring capabilities and enhance the remedial function.

Specifically, in June 2003 Sumitomo Electric adopted the Executive Officer System, along with the Business Unit System, which resulted in reducing the number of directors. Implementation of these systems accelerated the Board's decision making, improved its supervisory functions, and clarified the scope of authority and responsibilities of individual business units, thereby helping create a flexible system of business execution. At the Company's 138th Annual General Meeting of Shareholders held in June 2008, an (independent) outside corporate auditor was appointed with the aim of further strengthening the supervisory functions of the Board of Directors.

The Executive Officers have been selected not only from among the business executives of Sumitomo Electric, but also from among managers of Sumitomo Electric Group companies, so as to reinforce Group administration. Important initiatives to be implemented by the Group as a whole, such as common corporate principles, compliance and risk management, are overseen from a Group-wide perspective by Sumitomo Electric's corporate staff group and also by Sumitomo Electric's administrative departments, which administer the Group member companies.

Sumitomo Electric Group's Corporate Governance Structure



Compliance

In May 2010, the Company was judged to be in violation of Japan's Antimonopoly Act (AMA) in its marketing of optical fiber cables and related products, and received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission (JFTC). In February 2010, the JFTC also carried out an on-the-spot inspection with regard to automotive wiring harnesses and related-product transactions the Company was involved in.

We take these rulings very seriously, and offer our profound apologies to all our stakeholders for the worry and inconvenience we have caused them.

To uphold legal observance and corporate conduct standards, in the belief that compliance with the AMA is a matter of the highest priority, we will systematically strengthen frameworks for Competition Law Compliance, through measures such as an organizational overhaul and introduction of in-house compliance regulations, to root out and prevent the recurrence of illegal and questionable conduct. We are determined to restore public trust in the fairness of our business activities.

Business Risk

The following major categories of risk could affect the business performance and financial position of the Sumitomo Electric Group. Forward-looking statements in this section represent judgments made by the Group's management as of the end of the fiscal year on a consolidated basis ended March 2010.

Political and economic situations, demand fluctuation

The Group's businesses span the "Automotive," "Information & Communications," "Electronics," "Electric Wire & Cable, Energy" and "Industrial Materials & Others" sectors. In addition to Japan, the Group has business operations in the Americas, the rest of Asia and Europe. For this reason, its business performance, financial position and cash flows do not depend excessively on specific trading partners, products or technologies, but are affected by sector- and locality-specific changes in demand, the shortening of product life cycles due to technological innovation, and political change in the countries in which the Group operates. Most of the Group's products are components for end-user goods, and materials and systems used in public facilities and infrastructure. Hence, the Group is exposed to fluctuations in the business cycle as well as changes in customers' procurement policies and decisions on capital expenditures.

Changes in laws and regulations

In addition to its Japanese facilities, the Group has manufacturing and marketing subsidiaries and affiliates in countries around the world. Operations in each of these markets entail the following risk factors, which are impossible to fully avoid, and which could affect the business performance and financial position of the Group.

— Falling sales or a deterioration in the cost-to-sales ratio due to import restrictions and increases in customs duties.

— Increased tax cost due to changes in taxation systems for domestic or cross-border transactions.

— Inability to recover investment due to foreign currency restrictions, hyperinflation, acts of terrorism, the outbreak of infectious diseases including new influenza, or other factors.

Risks relating to lawsuits, regulations and other legal measures by regulatory authorities

In the course of its ordinary business operations, the Sumitomo Electric Group is exposed to risks related to lawsuits, administrative orders and other legal measures carried out by regulatory authorities, which could result in compensation claims for damages, official pecuniary penalties, or imposition of constraints that could obstruct the Group's ordinary business operations. Any such lawsuit, administrative order or legal measure taken by regulatory authorities could have negative impact on the Group's business operations, earnings performance and financial condition.

In January 2009, the Sumitomo Electric Group was subjected to an on-the-spot inspection by the Japan Fair Trade Commission (JFTC) with regard to collusion and cartel allegations in the high-pressure/special high-voltage electric power cable businesses. Sumitomo Electric had transferred its development, manufacturing and export businesses in this field to J-Power Systems Corporation, our 50-50 joint venture with Hitachi Cable, Ltd., in October 2001, with sales operations targeting domestic power companies transferred in October 2004. Regulatory authorities in the EU, U.S. and later Australia also started investigations into these allegations. In January 2010, the JFTC issued a cease and desist order and an order for payment of an administrative surcharge totaling ¥228 million against J-Power Systems Corporation.

In February 2010, the JFTC also launched an on-the-spot inspection into collusion and cartel allegations with regard to automotive wiring harnesses and related-product transactions Sumitomo Electric was involved in.

Natural disasters

Having sustained significant damage mainly at its Itami Works in the Great Hanshin-Awaji Earthquake of 1995, the Group has earthquake and other disaster measures in place. However, the Group could suffer significant earthquake damage as some of its manufacturing facilities are located in the areas most likely to be affected if earthquakes were to hit the Tokai and Nankai regions.

Interest-rate changes

In its fund-raising activities, the Group takes care of funding requirements, the financial market environment and the balance of funding sources. The Group raises funds mainly through the issuance of long-term, fixed-rate corporate bonds, to ensure a stable, long-term supply of funding for capital investment. For this reason, the Group has relatively little exposure to short-term fluctuations in interest rates, but medium- to long-term rises in interest rates can push up the costs of funding via corporate bonds and other funding sources, which could in turn adversely affect the business performance and financial position of the Group.

Exchange-rate fluctuations

Individual financial statements of overseas subsidiaries and equity-method affiliates of the Group are prepared using local currencies, which are then translated into Japanese yen when the consolidated financial statements are compiled. Therefore, even when there is no major variation in business results in local currency basis, the Group can suffer adverse effects on its business performance and financial position at the time of translation into yen as a result of changes in the exchange rate against the U.S. dollar, the euro and other currencies. The Group carries out its manufacturing and marketing activities in countries all over the world (overseas sales accounted for 38.4% of total sales for the fiscal year, consolidated basis). The Group minimizes risk from short-term exchange-rate fluctuations by using forward exchange contracts and similar instruments, but substantial exchange-rate fluctuations over the medium-to-long term could adversely affect the business performance and the financial position of the Group.

Raw materials procurement

The Group produces a large number of items that use copper as main component, including electrical cables. In setting the sales prices of major products containing copper, risk of market price fluctuation is avoided through the widespread industry practice of using the prevailing copper price quoted on the London Metal Exchange. However, this method is not used for setting the prices of certain Group products containing copper, which means that any rapid rise in cooper market prices could adversely affect the Group's business performance and financial position.

For the procurement of other raw and secondary materials such as non-ferrous metals, steel and petrochemicals, the Group is strengthening measures to purchase at more advantageous terms, for example through joint purchasing. However, a rapid rise in market prices or a sharp drop in the inventory prices of such raw and secondary materials could adversely affect the financial performance and business standing of the Group. Difficulty may also be experienced in procuring needed volumes of rare metals, because rare metal deposits and suppliers are limited. Supplies of other raw materials and secondary materials may also be difficult to obtain in the needed volumes, for reasons such as bankruptcy of the supplier, natural disaster, war, terrorism, strike, and transportation system failure.

Valuation losses on securities held for business purposes

The Group holds shares in its trading partners with the purpose of ensuring stable supplies of raw materials and resilient business relations with customers. Because the Group does not hold securities for the purpose of investment, it is exposed to a relatively low level of risk from share-price fluctuation, but a rapid fall in the stock market could erode the Group's equity ratio.

Intellectual property

In addition to protecting its own technologies through the acquisition of patents, design rights and other intellectual property protection, the Group is scrupulous in its observance of other companies' intellectual property rights. However, circumstances may arise in which it unwittingly violates the intellectual property rights of another company due to diversification of product configuration or manufacturing technology, expansion of overseas business activities, and increased complexity of retail channels. This could result in the Group being forced to suspend marketing activities or make design changes. Further, because the necessary protection cannot always be assured in cases where other companies violate the Group's intellectual property rights, due to differences in legal systems and enforcement practices from one country to another, the Group is unable to guarantee that its products will win a significant share in overseas markets.

Information leakage

In the pursuit of its business activities, the Group holds a great deal of personal and confidential information. The Group has taken every possible measure to uphold confidentiality of such information, but can offer no definitive guarantee that leakage will not occur in the case of unforeseen circumstances. If such circumstances arise, the Group's business performance and financial position could be adversely affected by harm done to its reputation and damage claims.

Defective products and inferior services

Based on predetermined product quality standards, the Group makes every effort to ensure the quality of its products and services. However, in certain unforeseen circumstances, it cannot rule out the possibility of the occurrence of product quality problems leading to large-scale recalls and manufacturer-liability compensation payments. If such circumstances arise, the Group's business performance and financial position could be adversely affected.

Corporate Social Responsibility

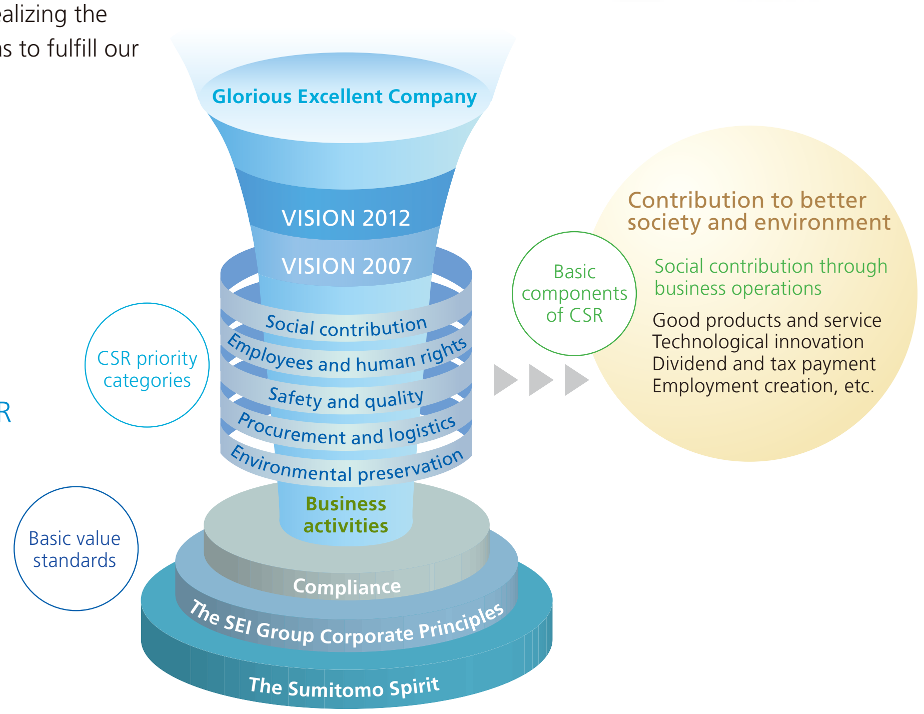
We vigorously conduct CSR activities by addressing priority issues while sharing a clear vision

Sumitomo Electric Group CSR Basic Policy

The Sumitomo Spirit, which gives top priority to social credibility and corporate ethics, is deeply instilled into the Sumitomo Electric Group. The Sumitomo Spirit, as well as the Sumitomo Electric Group Corporate Principles, serves as the basic value standards that guide us. We feel that the Sumitomo Electric Group's CSR basic policy is to contribute to society through business operations in line with compliance regulations.

We have specified five priority categories on which we focus our CSR efforts: environmental preservation; procurement and logistics; safety and quality; employees and human rights; and social contribution. Based on this approach, we will establish good relationships with stakeholders and continue sustained growth with the aim of becoming a Glorious Excellent Company, i.e., realizing the ideal state of the Sumitomo Electric Group, so as to fulfill our corporate social responsibility.

Our Basic Stance on CSR



Highlights of Fiscal 2010

SEI Group CSR Foundation Recognized as a Public Foundation

On February 24, 2010, the SEI Group CSR Foundation was officially recognized as a public interest incorporated foundation by the Cabinet Office. The SEI Group CSR Foundation was established to promote human resource development and academic activities, and to provide research grants in and outside Japan, in accordance with Sumitomo Electric Group Basic Principles for Social Contribution, adopted in commemoration of the 110th anniversary of Sumitomo Electric. The establishment of Sumiden Friend, Ltd. as a special subsidiary under the Law for Employment Promotion etc. of the Disabled, support for local disaster preparedness activities and other safety activities are also Sumitomo Electric Group's CSR activities based on the Basic Principles.

In FY2010, Sumitomo Electric donated a total of ¥192 million to the Foundation (¥100 million in basic assets and ¥92 million in operating donations). In turn, the Foundation has taken over missions from Sumitomo Electric, donating to courses at the University of Tokyo, Tohoku University and Osaka University, and granting scholarships to 20 local students studying at Soochow University, China. In the future, the Foundation will increase its basic assets at appropriate times and offer donations to courses at universities, research aids and scholarships, by publicly soliciting recipients.

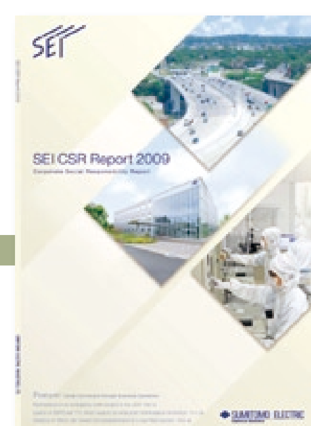
Autonomous and continuous social contribution activities befitting the Sumitomo Electric Group will be conducted by the Foundation.

SEI Group CSR Foundation Outline

Title:	Public Corporation SEI Group CSR Foundation
President:	Masayoshi Matsumoto (Sumitomo Electric President & CEO)
Activities:	Donations to courses at universities, scholarships to local students studying at universities outside Japan, scholarships to foreign students studying in Japan, cultural or artistic activities, and other activities necessary for realizing the above.

Contribution to Preservation of the Global Environment

To promote environmentally friendly procurement activities, we have made efforts to eliminate banned substances from products and enhance control of other harmful substances contained in products, based on the Green Procurement Guidelines. In the future, we will develop a supplier assessment and selection system incorporating the level of environmental management as an indicator, and promote initiatives to contribute to preservation of the global environment through the joint efforts with suppliers. Sumitomo Electric also introduced the ECO Factoring System in June 2009, developed in collaboration with Sumitomo Mitsui Banking Corporation. In this system, Suppliers who meet our original criteria with regard to the environmental conservation activities are certified to be applies a favorable interest rate when suppliers convert accounts receivable into cash before the due date. With this system, we encourage suppliers to perform environmental conservation activities.



Sumitomo Electric Group CSR Report

For further details of the Group's CSR activities, please access our website at:

http://global-sei.com/csr_e/

The 2010 edition of the CSR Report is scheduled for publication in October.

Directors, Corporate Auditors and Executive Officers

Masayoshi Matsumoto
President and CEO

Hiroyuki Takenaka
Executive Vice President

Katsuhide Kurasaka
Senior Managing Director

Mitsuo Nishida
Senior Managing Director

Shigeru Tanaka
Senior Managing Director

Akira Nishimura
Managing Director

Atsushi Yano
Managing Director

Shigeru Noda
Managing Director

Hideaki Inayama
Managing Director

Makoto Nakajima
Managing Director

Akito Kubo
Managing Director

Osamu Inoue
Director

Kazuo Hiramatsu
Director (Outside Director)

President and CEO

Masayoshi Matsumoto

Executive Vice President

Hiroyuki Takenaka

Senior Managing Directors

Katsuhide Kurasaka
Mitsuo Nishida
Shigeru Tanaka

Managing Directors

Akira Nishimura
Atsushi Yano
Shigeru Noda
Hideaki Inayama
Makoto Nakajima
Akito Kubo

Directors

Osamu Inoue
Kazuo Hiramatsu
(Outside Director)

Corporate Auditors

Shintaro Mitake
Kazuyoshi Hasegawa
Takashi Kakimi
Ichiro Kobayashi
Kan Hayashi

Managing Executive Officers

Shosuke Hongo
Hideyuki Shigi
Masato Isobe
Yuzo Tokumaru
Seizo Takamuku
Masanori Yoshikai
Fumiyoshi Kawai
Naoyuki Yamabayashi

Executive Officers

Masamichi Yokogawa
Hisashi Takada
Yasuyoshi Saegusa
Hisato Shingu
Yoshihiro Minato
Makoto Tani
Satoru Ogura
Shigeo Saito
Yasushi Kida
Takashi Yoshioka
Kenji Miyazaki
Hiroyasu Torii
Nozomi Ushijima
Takahiro Nakano

(As of June 2010)

Financial Section 2010

Five-Year Financial Data and Indexes

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the five years in the period ended March 31, 2010

	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2010
For the Year:						
Net sales	**¥1,836,352**	¥2,121,978	¥2,540,858	¥2,384,395	¥2,007,134	**$19,737,231**
Cost of sales	**1,516,688**	1,814,447	2,102,375	1,979,737	1,645,805	**16,301,461**
Selling, general and administrative expenses	**267,936**	284,004	289,487	275,913	255,834	**2,879,794**
Operating income	**51,728**	23,527	148,996	128,745	105,495	**555,976**
Income before income taxes and minority interests	**55,425**	41,126	166,612	144,550	108,279	**595,712**
Net income	**28,708**	17,237	87,804	76,029	58,346	**308,555**
Capital expenditures	**81,943**	143,182	134,421	128,568	132,707	**880,729**
Depreciation and amortization	**103,848**	108,168	106,892	99,802	87,151	**1,116,165**
R&D expenses	**72,259**	72,988	72,271	68,373	64,427	**776,644**
At Year-End:						
Total assets	**1,939,935**	1,868,174	2,194,882	2,126,405	1,991,048	**20,850,548**
Working capital	**402,081**	313,591	387,088	386,791	339,271	**4,321,593**
Total interest-bearing liabilities	**355,586**	405,477	415,473	456,399	452,808	**3,821,862**
Total net assets*[1]	**1,064,575**	1,014,082	1,128,235	1,052,989	811,121	**11,442,122**

	Yen					U.S. dollars
Per Share Data:						
Net income:						
Basic	**¥ 36.19**	¥ 21.78	¥ 112.74	¥ 100.22	¥ 76.43	**$ 0.389**
Diluted	**36.19**	21.32	107.71	95.40	72.72	**0.389**
Cash dividends	**16.00**	18.00	20.00	17.00	13.00	**0.172**
Owner's equity*[2]	**1,139.84**	1,086.79	1,226.56	1,170.54	1,068.73	**12.251**
Weighted average number of shares outstanding (in thousands)	**793,241**	791,414	778,785	758,606	757,929	
Number of employees (at year-end)	**157,203**	152,547	153,725	133,853	124,650	
Financial Indexes:						
R&D expenses / net sales (%)	**3.9**	3.4	2.8	2.9	3.2	
Net income / net sales (%)	**1.6**	0.8	3.5	3.2	2.9	
Return on owner's equity (%)	**3.3**	1.9	9.5	8.9	7.8	
Current ratio (Times)	**1.7**	1.6	1.5	1.6	1.6	
Owner's equity ratio (%)	**46.6**	46.1	44.1	41.8	40.7	
Total assets turnover (Times)	**1.0**	1.0	1.2	1.2	1.1	
Inventory turnover (Times)	**7.1**	7.3	8.7	9.5	9.2	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥93.04 to U.S.$1.00, the approximate exchange rate prevailing on March 31, 2010.
*[1] See Note 9.
*[2] Owner's equity is sum of total shareholders' equity and total valuation and translation adjustments.

Management's Discussion and Analysis

Results of Operations

In fiscal 2010, ended March 31, 2010, the Japanese economy headed toward a moderate recovery marked by government support measures for purchase of automotive and home electronics and the expansion of exports to newly developing countries such as China from the middle of the year, despite a minus growth by global depression in the first half.

The world economy stayed in the low level, in spite of a moderate recovery of demands when the United States of America and Europe had a financial crisis and deteriorating employment conditions. In newly developing countries such as China and India, economies continued to show the growth.

As for the business environment of SEI group, demands recovered gradually, even though demand decreased in the automotive and electronics market by the global depression and inventory adjustment. However, the environment remained the severe situation by the yen's appreciation and the product price decline as result of intensifying international competition.

In this business environment, the Group worked on drastic cost reduction such as structural improvement of employments and costs, and global production optimization. The Group has also continued to work on developing new technologies and products. As a result, in the reporting period (the fiscal year ended March 2010) net sales decreased 13.5% year-on-year, to ¥1,836.4 billion; operating income increased 119.9%, to ¥51.7 billion; and net income was up by 66.5%, at ¥28.7 billion.

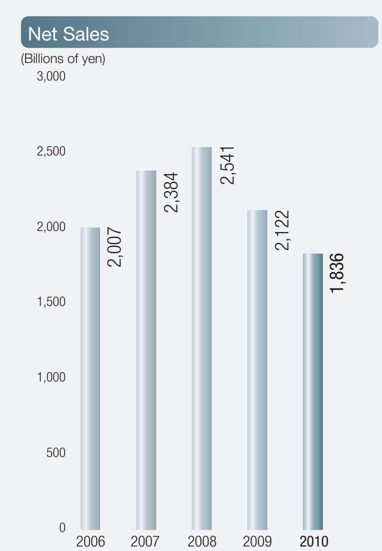
Business Segment Information

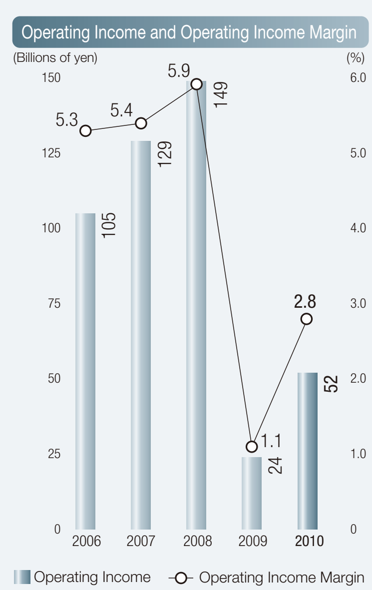
In the Automotive segment, sales for the reporting period fell 11.0% year-on-year, to ¥816.6 billion reflecting a decrease in demand for wiring harnesses and anti-vibration rubber products, and an effect of falling prices of copper. The operating income increased by ¥28.4 billion to ¥34.5 billion due to move production bases to the low cost area, with a decrease in the fixed costs. The operating income margin increased 3.5 of a percentage point, to 4.2%.

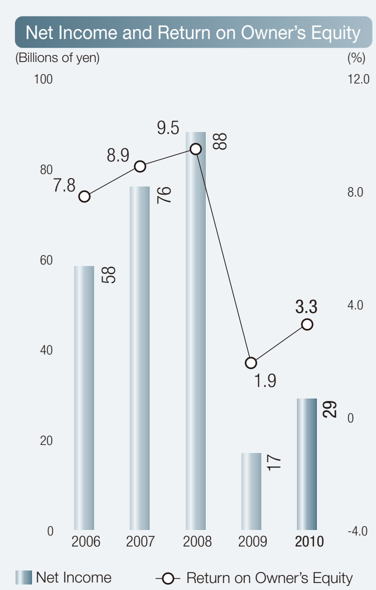
In the Information & Communications segment, sales decreased 1.4% to ¥271.2 billion due to a decrease in demand for the networking equipment and construction of communication network and operating income fell 27.7% to ¥3.6 billion in the reporting period due to unprofitability of exports of optical fibers and optical devices. The operating income margin was down by 0.5 of a percentage point from the previous year at 1.3%.

In the Electronics segment, sales fell 9.7% to ¥165.1 billion due to a decrease demand for electronics wires and irradiated products by shrinking the electronics market on the first half, and operating income increased by ¥3.7 billion to ¥4.8 billion due to a fixed cost reduction. The operating income margin was up by 2.3 percentage points, at 2.9%.

In the Electric Wire & Cable, Energy segment, sales fell 23.1% to ¥412.5 billion and operating income decreased by ¥1.0 billion to ¥7.9 billion due to falling prices of copper and a decrease in demand for magnet wires in automotive and electronics. The operating income margin increased 0.2 of a percentage point to 1.9%.







In the Industrial Materials & Others segment, sales were down 19.1% at ¥228.2 billion due to a decrease in demand for special steel wires, hard materials and sintered parts, and operating income decreased 59.8% to ¥0.9 billion. The operating income margin was down by 0.4 percentage points to 0.4%.

Performance by Geographical Segment

In Japan, sales decreased 10.0% year-on-year, to ¥1,445.0 billion, and operating income came to ¥30.4 billion, due to a decrease in overall demand (operating loss was ¥1.1 billion in the previous year).

In the Americas, sales decreased 23.2% to ¥194.2 billion and operating income was down 5.6% to ¥1.2 billion due to a decrease in automotive demand. The operating income margin increased 0.1 of a percentage point to 0.6%.

In Asia, sales and operating income decreased by 11.1% to ¥440.8 billion, and by 1.8% to ¥23.6 billion, respectively, due to a decrease in automotive demand. The operating income margin was up by 0.5 percentage points at 5.4%.

In Europe and other regions, sales decreased 18.2% to ¥152.7 billion due to a decrease in automotive demand. Operating loss came to ¥3.3 billion (operating loss was ¥2.2 billion in the previous year).

Overseas Sales

Overseas sales decreased 12.6% to ¥705.4 billion, and the ratio to net sales increased 0.4 percentage points to 38.4% due to a decrease in demand of automotive market. Sales in the Americas amounted to ¥195.7 billion, or 10.7% of net sales; sales in Asia totaled ¥348.3 billion, or 18.9% of net sales; and sales in Europe and other regions came to ¥161.4 billion, or 8.8% of net sales.

Cash Flows

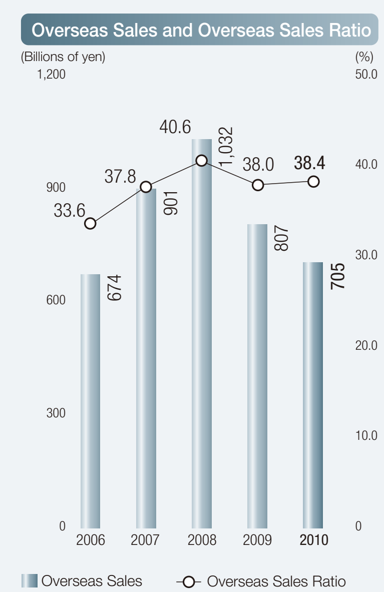
The term-end balance of cash and cash equivalents increased by ¥31.7 billion, or 22%, compared with the previous term-end, to stand at ¥175.6 billion.

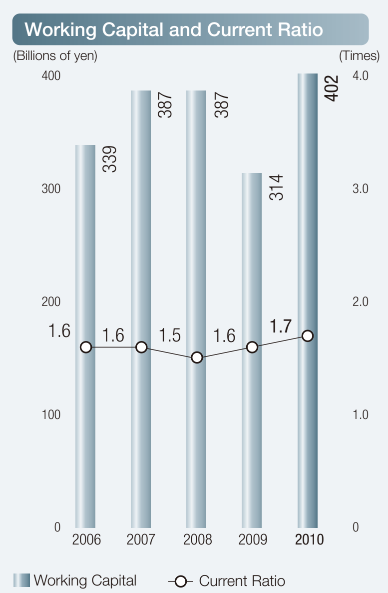
Net cash provided by operating activities increased by ¥3.1 billion to ¥171.6 billion. This is primarily attributable to ¥55.4 billion in income before income taxes and minority interests and ¥103.7 billion in depreciation and amortization.

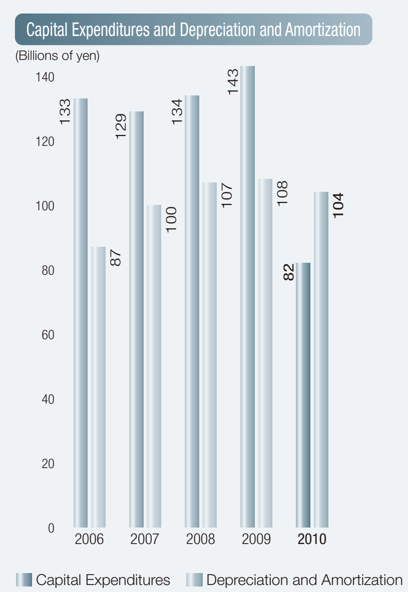
Net cash used in investing activities decreased by ¥88.2 billion to ¥72.9 billion. Expenditures for purchase of property, plant and equipment decreased to ¥84.6 billion, which was set off by incomes for sale of investment securities in the amount of ¥13.8 billion.

Free cash flow, cash flows provided from operating activities and investing activities (combined), posted a positive figure in the amount of ¥98.7 billion, compared with ¥7.5 billion (positive) in the previous year.

Net cash used in financing activities came to ¥67.6 billion, compared with ¥12.0 billion used in the previous year. This is primarily attributable to the decrease of short-term debt.







Consolidated Balance Sheets

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	**¥ 143,851**	¥ 131,239	**$ 1,546,120**
Securities (Notes 4 and 5)	**32,000**	13,500	**343,938**
Receivables (Notes 4 and 11):			
Trade notes and accounts	**441,892**	371,309	**4,749,484**
Other	**41,312**	35,071	**444,024**
Allowance for doubtful receivables	**(2,902)**	(3,199)	**(31,191)**
	480,302	403,181	**5,162,317**
Inventories (Note 7)	**251,727**	268,078	**2,705,578**
Deferred income taxes (Note 12)	**31,755**	28,155	**341,305**
Other current assets	**20,315**	24,660	**218,347**
Total current assets	**959,950**	868,813	**10,317,605**
Property, Plant and Equipment (Note 8)**:**			
Land	**82,619**	80,399	**887,995**
Buildings and structures	**480,389**	446,929	**5,163,252**
Machinery, equipment and others	**1,097,870**	1,066,830	**11,799,979**
Construction in progress	**15,868**	26,653	**170,550**
	1,676,746	1,620,811	**18,021,776**
Accumulated depreciation	**(1,152,089)**	(1,079,495)	**(12,382,728)**
Net property, plant and equipment	**524,657**	541,316	**5,639,048**
Investments and Other Assets:			
Investments in and loans to unconsolidated subsidiaries and affiliates (Note 4)	**156,254**	174,017	**1,679,428**
Investment securities (Notes 4, 5 and 8)	**161,681**	144,453	**1,737,758**
Deferred income taxes (Note 12)	**23,133**	26,506	**248,635**
Other	**114,260**	113,069	**1,228,074**
Total investments and other assets	**455,328**	458,045	**4,893,895**
Total assets	**¥1,939,935**	¥1,868,174	**$20,850,548**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
LIABILITIES			
Current Liabilities:			
Short-term debt (Notes 4 and 8)	**¥ 93,938**	¥ 168,620	**$ 1,009,652**
Current portion of long-term debt (Notes 4 and 8)	**50,695**	37,984	**544,873**
Notes and accounts payable (Notes 4 and 11):			
Trade	**255,574**	208,153	**2,746,926**
Construction	**21,431**	29,482	**230,342**
Accrued expenses	**72,039**	66,805	**774,280**
Accrued income taxes	**16,886**	9,418	**181,492**
Provision for surcharge (Note 18)	**6,763**	—	**72,689**
Other current liabilities (Note 12)	**40,543**	34,760	**435,758**
Total current liabilities	**557,869**	555,222	**5,996,012**
Long-Term Liabilities:			
Long-term debt (Notes 4 and 8)	**210,953**	198,873	**2,267,337**
Accrued pension and severance costs (Note 13)	**32,716**	28,560	**351,634**
Deferred income taxes (Note 12)	**61,176**	57,296	**657,524**
Other long-term liabilities	**12,646**	14,141	**135,919**
Total long-term liabilities	**317,491**	298,870	**3,412,414**
Total liabilities	**875,360**	854,092	**9,408,426**
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock;			
Authorized—3,000,000 thousand shares in 2010 and 2009			
Issued—793,941 thousand shares in 2010 and 2009	**99,737**	99,737	**1,071,980**
Capital surplus	**171,020**	171,020	**1,838,134**
Retained earnings	**637,478**	622,186	**6,851,655**
Treasury stock, at cost; 702 thousand shares in 2010 and 696 thousand shares in 2009	**(619)**	(612)	**(6,653)**
Total shareholders' equity	**907,616**	892,331	**9,755,116**
Valuation and Translation Adjustments:			
Net unrealized holding gains on available-for-sale securities	**50,087**	31,514	**538,338**
Deferred gains and losses on hedges	**33**	377	**355**
Land revaluation	**(1,188)**	(1,422)	**(12,769)**
Foreign currency translation adjustments	**(52,387)**	(60,713)	**(563,059)**
Total valuation and translation adjustments	**(3,455)**	(30,244)	**(37,135)**
Share Warrants	**22**	37	**237**
Minority Interests	**160,392**	151,958	**1,723,904**
Total net assets	**1,064,575**	1,014,082	**11,442,122**
Total liabilities and net assets	**¥1,939,935**	¥1,868,174	**$20,850,548**

Consolidated Statements of Income

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net Sales (Note 11)	**¥1,836,352**	¥2,121,978	**$19,737,231**
Cost of Sales (Note 11)	**1,516,688**	1,814,447	**16,301,461**
Gross profit	**319,664**	307,531	**3,435,770**
Selling, General and Administrative Expenses	**267,936**	284,004	**2,879,794**
Operating income	**51,728**	23,527	**555,976**
Other Income (Expenses):			
Interest and dividend income	**5,323**	8,032	**57,212**
Interest expense	**(6,186)**	(8,294)	**(66,488)**
Equity in net income	**12,159**	12,529	**130,686**
Gain on sales of property, plant and equipment	**1,825**	—	**19,615**
Gain on sales of investment securities	**7,140**	—	**76,741**
Gain on contribution of securities to retirement benefit trust	**—**	31,231	**—**
Loss on disposal of property, plant and equipment	**(4,371)**	(3,635)	**(46,980)**
Loss on valuation of investment securities	**(1,240)**	(9,067)	**(13,328)**
Impairment losses of fixed assets (Note 16)	**(3,595)**	(8,713)	**(38,639)**
Restructuring expenses (Note 17)	**(5,777)**	(6,463)	**(62,092)**
Provision for surcharge (Note 18)	**(6,763)**	—	**(72,689)**
Other, net	**5,182**	1,979	**55,698**
	3,697	17,599	**39,736**
Income before Income Taxes and Minority Interests	**55,425**	41,126	**595,712**
Income Taxes (Note 12)**:**			
Current	**24,971**	17,690	**268,390**
Deferred	**(8,050)**	782	**(86,522)**
	16,921	18,472	**181,868**
Minority Interests	**(9,796)**	(5,417)	**(105,289)**
Net Income	**¥ 28,708**	¥ 17,237	**$ 308,555**

	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10)**:**			
Net income (basic)	**¥36.19**	¥21.78	**$0.389**
Net income (diluted)	**36.19**	21.32	**0.389**
Cash dividends	**16.00**	18.00	**0.172**

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
For the years ended March 31, 2010 and 2009

	Millions of yen										
	Shareholders' Equity				Valuation and Translation Adjustments						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation	Foreign currency translation adjustments	Share warrants	Minority interests	Total net assets
Balance at March 31, 2009...........	¥99,737	¥171,020	¥622,186	¥(612)	¥31,514	¥377	¥(1,422)	¥(60,713)	¥37	¥151,958	¥1,014,082
Cash dividends			**(11,107)**								**(11,107)**
Net income for the year..............			**28,708**								**28,708**
Effect arising from net increase in number of subsidiaries and affiliates for consolidation			**(593)**								**(593)**
Purchases of treasury stock				**(7)**							**(7)**
Other		**0**	**(1,716)**	**0**	**18,573**	**(344)**	**234**	**8,326**	**(15)**	**8,434**	**33,492**
Balance at March 31, 2010...........	**¥99,737**	**¥171,020**	**¥637,478**	**¥(619)**	**¥50,087**	**¥ 33**	**¥(1,188)**	**¥(52,387)**	**¥22**	**¥160,392**	**¥1,064,575**

	Millions of yen										
	Shareholders' Equity				Valuation and Translation Adjustments						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation	Foreign currency translation adjustments	Share warrants	Minority interests	Total net assets
Balance at March 31, 2008...........	¥96,914	¥168,197	¥616,834	¥(600)	¥70,408	¥(237)	¥(1,422)	¥17,435	¥31	¥160,675	¥1,128,235
Effect arising from the change of accounting policies of foreign subsidiaries			1,194								1,194
Conversions of convertible bonds...	2,823	2,823									5,646
Cash dividends			(16,616)								(16,616)
Net income for the year..............			17,237								17,237
Effect arising from net increase in number of subsidiaries and affiliates for consolidation			1,625								1,625
Purchases of treasury stock				(17)							(17)
Disposal of treasury stock		0		5							5
Other			1,912		(38,894)	614		(78,148)	6	(8,717)	(123,227)
Balance at March 31, 2009...........	¥99,737	¥171,020	¥622,186	¥(612)	¥31,514	¥377	¥(1,422)	¥(60,713)	¥37	¥151,958	¥1,014,082

	Thousands of U.S. dollars (Note 1)										
	Shareholders' Equity				Valuation and Translation Adjustments						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation	Foreign currency translation adjustments	Share warrants	Minority interests	Total net assets
Balance at March 31, 2009...........	$1,071,980	$1,838,134	$6,687,296	$(6,578)	$338,714	$4,052	$(15,284)	$(652,547)	$398	$1,633,255	$10,899,420
Cash dividends			**(119,379)**								**(119,379)**
Net income for the year..............			**308,555**								**308,555**
Effect arising from net increase in number of subsidiaries and affiliates for consolidation			**(6,374)**								**(6,374)**
Purchases of treasury stock				**(75)**							**(75)**
Other		**0**	**(18,443)**	**0**	**199,624**	**(3,697)**	**2,515**	**89,488**	**(161)**	**90,649**	**359,975**
Balance at March 31, 2010...........	**$1,071,980**	**$1,838,134**	**$6,851,655**	**$(6,653)**	**$538,338**	**$ 355**	**$(12,769)**	**$(563,059)**	**$237**	**$1,723,904**	**$11,442,122**

The accompanying notes to consolidated financial statements are an integral part of these statements (see Note 9).

Consolidated Statements of Cash Flows

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 55,425**	¥ 41,126	**$ 595,712**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**103,712**	107,840	**1,114,703**
Impairment losses of fixed assets	**4,948**	11,471	**53,181**
Interest and dividend income	**(5,323)**	(8,032)	**(57,212)**
Interest expense	**6,186**	8,294	**66,488**
Equity in net income	**(12,159)**	(12,529)	**(130,686)**
Gain on contribution of securities to retirement benefit trust	**—**	(31,231)	**—**
Increase (decrease) in accrued pension and severance costs	**2,089**	(678)	**22,453**
Loss on disposal of property, plant and equipment	**4,891**	3,972	**52,569**
Gain on sales of investment securities	**(7,140)**	—	**(76,741)**
Loss on valuation of investment securities	**1,418**	9,067	**15,241**
Provision for surcharge	**6,763**	—	**72,689**
(Increase) decrease in trade notes and accounts receivable	**(58,559)**	163,086	**(629,396)**
Decrease in inventories	**28,307**	16,748	**304,245**
Increase (decrease) in trade notes and accounts payable	**37,275**	(88,191)	**400,634**
Other, net	**8,982**	(26,349)	**96,539**
Subtotal	**176,815**	194,594	**1,900,419**
Interest and dividend received	**8,309**	11,719	**89,306**
Interest paid	**(6,042)**	(8,154)	**(64,940)**
Income taxes paid	**(19,732)**	(30,164)	**(212,081)**
Income tax refunds	**12,226**	514	**131,406**
Net cash provided by operating activities	**171,576**	168,509	**1,844,110**
Cash Flows from Investing Activities:			
Expenditures for purchase of property, plant and equipment	**(84,565)**	(126,350)	**(908,910)**
Proceeds from sales of property, plant and equipment	**6,669**	1,721	**71,679**
Expenditures for purchase of securities	**(10,103)**	(18,684)	**(108,588)**
Proceeds from sales and redemption of securities	**27,296**	1,358	**293,379**
Expenditures for purchase of investments in subsidiaries	**(2,473)**	(592)	**(26,580)**
Special dividend distribution received from an affiliate	**4,723**	—	**50,763**
Expenditures for acquisition of shares of newly consolidated subsidiaries	**(7,037)**	—	**(75,634)**
Other, net	**(7,409)**	(18,503)	**(79,632)**
Net cash used in investing activities	**(72,899)**	(161,050)	**(783,523)**
Cash Flows from Financing Activities:			
Net (decrease) increase in short-term debt	**(62,946)**	33,464	**(676,548)**
Net (decrease) increase in commercial paper	**(14,997)**	14,997	**(161,189)**
Proceeds from long-term debt	**68,203**	42,210	**733,050**
Repayment of long-term debt	**(43,372)**	(83,154)	**(466,165)**
Proceeds from issuance of stock to minority shareholders	**—**	634	**—**
Sale of treasury stock	**0**	5	**0**
Purchase of treasury stock	**(4)**	(11)	**(43)**
Cash dividends paid	**(11,107)**	(16,616)	**(119,379)**
Cash dividends paid to minority shareholders	**(2,738)**	(3,204)	**(29,428)**
Other, net	**(652)**	(282)	**(7,007)**
Net cash used in financing activities	**(67,613)**	(11,957)	**(726,709)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(264)**	(6,767)	**(2,838)**
Net Increase (Decrease) in Cash and Cash Equivalents	**30,800**	(11,265)	**331,040**
Cash and Cash Equivalents at Beginning of Year	**143,946**	151,778	**1,547,141**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**1,146**	3,946	**12,317**
Cash and Cash Equivalents of Deconsolidated Subsidiaries	**(472)**	(513)	**(5,073)**
Increase in Cash and Cash Equivalents resulting from merger with unconsolidated subsidiaries	**197**	—	**2,118**
Cash and Cash Equivalents at End of Year (Note 3)	**¥175,617**	¥143,946	**$1,887,543**

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, 2010 and 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Electric Industries, Ltd. (the "Company") and its consolidated domestic 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 of International Financial Reporting Standards.

Prior to the year ended March 31, 2009, the accounts of overseas consolidated subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2. s), the accounts of overseas consolidated subsidiaries for the year ended March 31, 2010 and 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

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. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 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 amortized over periods within 20 years, however, most are in five years.

Investments in significant affiliates and unconsolidated subsidiaries are accounted for by the equity method.

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

All but five of the overseas consolidated subsidiaries have December 31 balance sheet date in fiscal 2010: whereas all but two of the overseas consolidated subsidiaries have December 31 balance sheet date in fiscal 2009. Any significant differences in intercompany accounts and transactions during the period from January 1 through March 31 have been adjusted, if necessary.

b) Translation of Foreign Currencies

All assets, liabilities, revenues and expenses of overseas subsidiaries and affiliates are translated into Japanese yen at the current exchange rate of the respective fiscal year end, and shareholders' equity at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of minority 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 by 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 minority interests are reported as a separate component of net assets. Available-for-sale securities which do not have fair values are stated at average cost. Realized gains or losses on sales of such securities are computed using 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 and loans to unconsolidated subsidiaries and affiliates and investment securities.

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008). The effect of this change was immaterial to the consolidated financial statements.

e) Derivatives and Hedging Transactions

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

Derivative financial instruments are stated at fair value. If 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 exchange contracts, currency options 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 case where interest rate swap contract is used as hedges and meet 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 is executed.

The Company and its consolidated subsidiaries utilize hedging instruments to hedge risks of future changes in foreign exchange rates and interest rates 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 case where interest rate swap contract is 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 average cost or net realizable value.

In fiscal 2009, in accordance with "Accounting Standard for Measurement of Inventories" ("ASBJ Statement No.9" issued by the Accounting Standards Board of Japan on July 5, 2006), the Company and its domestic consolidated subsidiaries changed the valuation principle for inventories excluding principal raw materials, which, as a result, were mainly stated at the lower of average cost or net realizable value at March 31, 2009, while until fiscal 2008 they had been mainly stated at average cost. The effect of this change was to decrease operating income by ¥16,660 million and income before income taxes and minority interests by ¥8,793 million.

In fiscal 2009, the Company and some of its consolidated subsidiaries changed the valuation method of principal raw materials from last-in, first-out to moving average or average. The change was in response to the current discrepancy between the carrying value and market value of inventories caused by the fluctuation of market prices of principal raw materials. The effect of this change was to increase both operating income and income before income taxes and minority interests by ¥1,490 million.

h) Property, Plant and Equipment (excluding Leases)

The Company and its domestic consolidated subsidiaries principally use the straight-line method for depreciation of buildings and the declining-balance method for other depreciable assets, and overseas subsidiaries principally use the straight-line method, based on the estimated useful lives of the respective assets.

In fiscal 2009, the Company and its domestic consolidated subsidiaries changed the useful lives of certain tangible fixed assets based on the reassessment of the useful lives in light of the change in the Japanese Corporate Tax Law (the "Tax Law"). The effect of this change was to decrease operating income by ¥3,055 million and income before income taxes and minority interests by ¥3,067 million.

i) Land Revaluation

Pursuant to the "Law Concerning Land Revaluation," a domestic consolidated subsidiary revaluated land used in business activities on March 31, 2002. The net unrealized losses in value of the subsidiary's land, net of related income taxes and minority interests, are recorded as "Land revaluation" in net assets based upon a real estate tax value.

j) Revenue Recognition

Sales are generally recorded at the time of shipment of products.

Prior to the year ended March 31, 2010, for significant long-term and large-scale construction contracts, revenue was recognized using the percentage-of-completion method. The completed-contract method was used for all other contracts. In applying the completed-contract method, during the construction period, accumulated costs of the contracts were included in inventories and advances from customers received on the related contracts were included in other current liabilities.

Effective from the year ended March 31, 2010, the Company and its consolidated domestic subsidiaries have adopted the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007).

Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing in the year ended March 31, 2010, 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.

The effect of this change was immaterial to net sales, operating income, income before income taxes and minority interests and segment information.

k) Research and Development

Expenses related to research and development activities are charged to income as incurred and totaled ¥72,259 million (US$776,644 thousand) and ¥72,988 million for the years ended March 31, 2010 and 2009, respectively.

l) Pension and Severance Costs

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 some subsidiaries have prepaid retirement allowance plans. Some overseas subsidiaries have defined benefit plans.

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No.19 issued on July 31, 2008).

This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

In fiscal 2009, the Company and one of its domestic consolidated subsidiaries contributed certain securities to the employees' retirement benefit trust. A gain of ¥31,231 million was recognized and is included in other income representing the excess of market value over the acquisition cost of such securities.

m) Income Taxes

Income taxes are accounted for under the asset and 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. Valuation allowances are provided to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In fiscal 2009, in accordance with the Tax Law revised in 2009, the Company treated a portion of dividends receivable from overseas subsidiaries as non-taxable income. The effect of this change was to decrease the deferred tax liabilities for undistributed earnings of the overseas consolidated subsidiaries and the affiliates by ¥9,434 million, with the increase of the net income, net of minority interests, by ¥8,408 million.

n) Leases

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

In fiscal 2009, in accordance with the Accounting Standard ("ASBJ Statement No.13" issued by the Accounting Standards Board of Japan on March 30, 2007), ("ASBJ Guidance No.16" issued by the Accounting Standards Board of Japan on March 30, 2007), finance leases which do not transfer ownership have been accounted for as purchase and sale transactions, while they had been accounted for in the same manner as operating leases with disclosures of certain "as if capitalized" information until fiscal 2008. The effect of this change was immaterial to the operating income and income before income taxes and minority interests.

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 financial year in which the appropriation of retained earnings is approved at the shareholders' meeting.

q) Use of Estimates

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

r) Reclassifications and Restatement

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

s) Accounting Policies Applied to Foreign Subsidiaries

In fiscal 2009, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("ASBJ Practical Issues Task Force No.18" issued by the Accounting Standards Board of Japan on May 17, 2006) was applied to the accounts of the Company's overseas consolidated subsidiaries for consolidation purpose. As a result of this change, the effect of the necessary adjustments was immaterial to the operating income or income before income taxes and minority interests.

3. CASH AND CASH EQUIVALENTS

The reconciliations between cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and time deposits	**¥143,851**	¥131,239	**$1,546,120**
Securities (excluding held-to-maturity debt securities)	**32,000**	13,000	**343,938**
Deposits placed with banks with a maturity of over three months	**(234)**	(201)	**(2,515)**
Compensating balances	**—**	(92)	**—**
Cash and cash equivalents	**¥175,617**	¥143,946	**$1,887,543**

In fiscal 2010, the Company and its consolidated subsidiaries did not have any significant non-cash transactions.

In fiscal 2009, the decrease in convertible bonds of the Company due to conversion is ¥5,646 million.

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 using 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 utilize 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 are mainly held to build and maintain good customer relationship. The Company and its consolidated subsidiaries review the circumstances periodically and evaluate the fair value of the securities or the financial condition of the issuer, 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 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 at March 31, 2010 are as follows. Financial instruments whose fair value is hard to determine are not included in the table.

	Millions of yen			Thousands of U.S. dollars		
2010	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	¥143,851	¥143,851	—	$1,546,120	$1,546,120	—
Trade notes and accounts receivable	441,892	441,892	—	4,749,484	4,749,484	—
Securities and investment securities	250,592	274,442	23,850	2,693,379	2,949,721	256,342
Total assets	836,335	860,185	23,850	8,988,983	9,245,325	256,342
Trade notes and accounts payable	255,574	255,574	—	2,746,926	2,746,926	—
Construction notes and accounts payable	21,431	21,431	—	230,342	230,342	—
Loans in current liabilities	101,170	101,170	—	1,087,382	1,087,382	—
Bonds	138,000	140,566	2,566	1,483,233	1,510,812	27,579
Long-term loans	115,337	115,439	102	1,239,650	1,240,746	1,096
Total liabilities	631,512	634,180	2,668	6,787,533	6,816,208	28,675
Derivative transactions	60	60	—	645	645	—

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 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. Investment securities, including investment in affiliates, which have a quoted market value are stated at the fair market value. The fair value of investment securities 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, construction notes and accounts payable:
The carrying amount approximates fair value because of the short maturity.

Loans in current liabilities:
The carrying amount approximates fair value because of the short maturity.

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

Long-term loans:
The fair value of long-term loans 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

2010	Millions of yen	Thousands of U.S. dollars
Unlisted securities (available-for-sale securities)	¥ 7,297	$ 78,429
Unlisted investments in affiliates	91,845	987,156

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

5. SECURITIES

The carrying amounts of securities in current assets and investment securities at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities in current assets:			
Available-for-sale securities	¥ 32,000	¥ 13,000	$ 343,938
Held-to-maturity debt securities	—	500	—
	¥ 32,000	¥ 13,500	$ 343,938
Investment securities:			
Available-for-sale securities	¥161,672	¥144,444	$1,737,661
Held-to-maturity debt securities	9	9	97
	¥161,681	¥144,453	$1,737,758

Available-for-sale securities with fair value or quoted market values included in investment securities, at March 31, 2010 and 2009 are as follows:

	Millions of yen			
2010	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
Equity securities	¥36,721	¥110,142	¥(2,643)	¥144,220
Other	10,000	155	—	10,155
	¥46,721	¥110,297	¥(2,643)	¥154,375

	Millions of yen			
2009	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity securities	¥34,267	¥84,685	¥(4,981)	¥113,971
Other	—	—	—	—
	¥34,267	¥84,685	¥(4,981)	¥113,971

	Thousands of U.S. dollars			
2010	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
Equity securities	$394,680	$1,183,813	$(28,407)	$1,550,086
Other	107,480	1,666	—	109,146
	$502,160	$1,185,479	$(28,407)	$1,659,232

Proceeds from sales of available-for-sale securities were ¥8,127 million (US$87,350 thousand) and ¥357 million for the years ended March 31, 2010 and 2009, respectively. The gross realized gains and losses on those sales were ¥5,485 million (US$58,953 thousand) and ¥1 million (US$11 thousand), respectively, for the year ended March 31, 2010. The net realized gains on sales were ¥140 million for the year ended March 31, 2009.

Impairment losses of securities during fiscal 2010 amounted to ¥1,418 million (US$15,241 thousand), which consist of ¥1,240 million (US$13,328 thousand) for the available-for-sale securities and ¥178 million (US$1,913 thousand) for the securities of the non-consolidated subsidiaries, which is included in “Restructuring expenses.”

6. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries have entered into foreign currency forward exchange contracts, currency options and foreign currency swap contracts to hedge risks of exchange rate fluctuations of foreign currency monetary assets and liabilities, interest rate swap contracts to hedge risks of interest rate fluctuations, and commodity forward contracts, etc., for copper and aluminum to hedge risks of price fluctuations. 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, 2010 and 2009 is as follows:

	Millions of yen					Thousands of U.S. dollars				
	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	
2010	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Interest rate swap contracts	**¥ 5,000**	**¥(88)**	**¥(88)**	**¥ 8,000**	**¥127**	**$ 53,740**	**$(946)**	**$(946)**	**$ 85,985**	**$1,365**
Foreign currency forward exchange contracts:										
Buy	**3,830**	**2**	**2**	**4,291**	**108**	**41,165**	**22**	**22**	**46,120**	**1,161**
Sell	**6,594**	**38**	**38**	**10,962**	**(180)**	**70,873**	**408**	**408**	**117,820**	**(1,935)**
Commodity forward contracts for copper										
Buy	**1,267**	**0**	**0**	**—**	**—**	**13,618**	**0**	**0**	**—**	**—**
Sell	**1,191**	**(13)**	**(13)**	**—**	**—**	**12,801**	**(140)**	**(140)**	**—**	**—**
Copper swap contracts	**—**	**—**	**—**	**516**	**66**	**—**	**—**	**—**	**5,546**	**709**
	¥17,882	**¥(61)**	**¥(61)**	**¥23,769**	**¥121**	**$192,197**	**$(656)**	**$(656)**	**$255,471**	**$1,300**

* Certain interest rate swap contracts (contracted amount ¥63,381 million (US$681,223 thousand)) meeting certain hedging criteria are excluded from the table above. Certain foreign currency forward exchange contracts (contracted amount "Buy" ¥10,134 million (US$108,921 thousand), "Sell" ¥77,248 million (US$830,267 thousand)) meeting certain hedging criteria are excluded from the table above. See Note 4.

The following is a summary of only the derivative contracts which do not meet the Japanese GAAP criteria for hedge accounting. The net changes in market value are recorded in the consolidated statements of income for the year ended March 31, 2009.

	Millions of yen		
2009	Contracted amount	Fair value	Recognized gain (loss)
Interest rate swap contracts	¥ 5,000	¥(88)	¥(88)
Foreign currency swap contracts	5,024	79	79
	¥10,024	¥ (9)	¥ (9)

7. INVENTORIES

Inventories at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Merchandise and finished goods	**¥ 73,192**	¥ 72,505	**$ 786,672**
Work in process	**101,803**	107,307	**1,094,185**
Raw materials and supplies	**76,732**	88,266	**824,721**
	¥251,727	¥268,078	**$2,705,578**

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Unsecured	**¥86,763**	¥143,229	**$ 932,535**
Secured	**7,175**	10,394	**77,117**
Commercial papers	**—**	14,997	**—**
	¥93,938	¥168,620	**$1,009,652**

Weighted average year end interest rates were approximately 1.5% and 2.7% in 2010 and 2009, respectively. The Company and its consolidated subsidiaries have had no difficulty in renewing such notes upon maturity.

Long-term debt at March 31, 2010 and 2009 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured bonds, payable in yen, due 2009 to 2016, interest 0.55%–2.48%	¥138,000	¥165,000	$1,483,233
Secured loans from banks, insurance companies and other financial institutions, due 2010–2015, interest 1.0%–1.8%	1,617	1,938	17,380
Unsecured loans from banks, insurance companies and other financial institutions, due 2010–2020, interest 0.6%–12.3%	120,952	69,150	1,300,000
Finance lease obligations, due 2010–2015	1,079	769	11,597
	261,648	236,857	2,812,210
Current portion of long-term debt and finance lease obligations	(50,695)	(37,984)	(544,873)
	¥210,953	¥198,873	$2,267,337

Substantially all of the loans from banks are made under basic agreements, customary in Japan, which provide that, with respect to all present or future liabilities to the banks, the Company and its consolidated subsidiaries shall provide collateral or a third-party guarantee at the request of any such banks, that any collateral provided under any agreement will be applicable to all indebtedness to the banks and that lending banks have the right to offset deposits with them against any debt or obligation that becomes due and, in case of default or certain other specified events, against all debts payable to the banks.

The aggregate annual maturities of long-term debt outstanding at March 31, 2010 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 50,695	$ 544,873
2012	43,245	464,800
2013	46,858	503,633
2014	36,680	394,239
2015	41,863	449,946
2016 and thereafter	42,307	454,719
	¥261,648	$2,812,210

The following assets were pledged as collateral for short-term debt and long-term debt, including current portion, at March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Investment securities	¥11,426	¥ 8,510	$122,807
Property, plant and equipment, net of accumulated depreciation	2,241	3,701	24,086
	¥13,667	¥12,211	$146,893

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 share exchange can be included in capital surplus up to a 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 where 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.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Law by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the capital surplus account.

a) Stock Information

Changes in number of shares issued and outstanding during the years ended March 31, 2010 and 2009 are as follows:

Common stock outstanding

	Thousands of shares	
	2010	2009
Balance at beginning	**793,941**	789,502
Increase due to conversion of convertible bonds	**—**	4,439
Balance at end	**793,941**	793,941

Treasury stock outstanding

	Thousands of shares	
	2010	2009
Balance at beginning	**696**	684
Increase due to purchase of odd-lot stocks	**4**	10
Other, net	**2**	2
Balance at end	**702**	696

b) Dividend Information

Dividends paid in fiscal 2010

			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S.dollars
The shareholders' meeting on June 25, 2009	March 31, 2009	June 26, 2009	¥5,553	$59,684
The board of directors on October 30, 2009	September 30, 2009	December 1, 2009	¥5,553	$59,684

Dividend paid after March 31, 2010 with record date in fiscal 2010

			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S.dollars
The shareholders' meeting on June 25, 2010	March 31, 2010	June 28, 2010	¥7,140	$76,741

10. EARNINGS PER SHARE

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income 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 dilutive bonds and exercise of 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.

11. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Sales to and purchases from unconsolidated subsidiaries and affiliates, related year end trade notes and accounts receivable and payable, and other receivables in current assets from those companies are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
For the years ended March 31:			
Sales	**¥90,809**	¥101,097	**$976,021**
Purchases	**63,025**	81,427	**677,397**
As of March 31:			
Trade notes and accounts receivable	**25,929**	23,113	**278,687**
Trade notes and accounts payable	**14,105**	15,631	**151,601**
Other receivables in current assets	**1,191**	6,054	**12,801**

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, result in statutory tax rates of approximately 40.6% for the years ended March 31, 2010 and 2009.

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, 2010 and 2009:

	2010	2009
Statutory tax rate	**40.6%**	40.6%
Equity in net income	**(8.9)**	(12.4)
Expenses not deductible for tax purposes	**0.6**	1.3
Dividend income from overseas consolidated subsidiaries	**6.7**	17.6
Tax credits	**(5.2)**	(3.5)
Effect of lower tax rates for overseas consolidated subsidiaries	**(11.6)**	(13.6)
Valuation allowance	**(1.3)**	16.7
Intercompany profits	**(0.6)**	2.4
Undistributed earnings of consolidated subsidiaries and affiliates	**0.9**	(10.8)
Amortization of goodwill in 2010 and impairment and amortization of goodwill in 2009	**1.4**	6.2
Provision for surcharge	**5.0**	—
Other	**2.9**	0.4
Effective tax rate	**30.5%**	44.9%

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred income taxes (current assets)	**¥31,755**	¥28,155	**$341,305**
Deferred income taxes (investments and other assets)	**23,133**	26,506	**248,635**
Other current liabilities	**(405)**	(415)	**(4,353)**
Deferred income taxes (long-term liabilities)	**(61,176)**	(57,296)	**(657,524)**
	¥ (6,693)	¥ (3,050)	**$ (71,937)**

Significant components of the deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 34,207**	¥ 27,614	**$ 367,659**
Fixed assets	**19,272**	20,559	**207,137**
Accrued pension and severance costs	**12,238**	12,199	**131,535**
Accrued expenses	**13,165**	11,941	**141,498**
Inventories	**7,344**	8,252	**78,934**
Intercompany profits	**6,136**	5,670	**65,950**
Investment securities	**6,278**	5,065	**67,476**
Accrued contributions of transfer to defined contribution plans	**1,855**	2,039	**19,938**
Allowance for doubtful receivables	**1,399**	2,033	**15,037**
Other	**19,696**	21,943	**211,693**
	121,590	117,315	**1,306,857**
Less—Valuation allowance	**(38,506)**	(39,205)	**(413,865)**
Total deferred tax assets	**83,084**	78,110	**892,992**
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	**(44,279)**	(32,805)	**(475,914)**
Prepaid pension cost	**(16,302)**	(18,519)	**(175,215)**
Undistributed earnings of consolidated subsidiaries and affiliates	**(12,972)**	(13,892)	**(139,424)**
Reserve for deferred gains on sales of fixed assets	**(6,540)**	(6,078)	**(70,292)**
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	**(4,906)**	(4,701)	**(52,730)**
Accelerated depreciation of overseas consolidated subsidiaries	**(2,593)**	(2,818)	**(27,870)**
Land revaluation	**(652)**	(745)	**(7,008)**
Other	**(1,533)**	(1,602)	**(16,476)**
Total deferred tax liabilities	**(89,777)**	(81,160)	**(964,929)**
Net deferred tax liabilities	**¥ (6,693)**	¥ (3,050)	**$ (71,937)**

13. PENSION AND SEVERANCE COSTS

The following table sets forth the employee benefit obligations, plan assets and funded status of the Company and its consolidated subsidiaries at March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligation at end of year	**¥(261,250)**	¥(250,805)	**$(2,807,932)**
Fair value of plan assets at end of year	**234,496**	195,699	**2,520,378**
Funded status:			
Plan assets in excess of (less than) benefit obligation	**(26,754)**	(55,106)	**(287,554)**
Unrecognized actuarial differences	**61,649**	96,455	**662,608**
Unrecognized prior service cost	**(1,858)**	(2,634)	**(19,970)**
Subtotal	**33,037**	38,715	**355,084**
Advances to funded pension plans	**64,105**	65,443	**689,005**
Accrued pension and severance costs for employees in the consolidated balance sheets	**¥ (31,068)**	¥ (26,728)	**$ (333,921)**

In addition, retirement benefits for directors and corporate auditors of certain subsidiaries of ¥1,648 million (US$17,713 thousand) and ¥1,832 million are included in accrued pension and severance costs as of March 31, 2010 and 2009, respectively.

Pension and severance costs of the Company and its consolidated subsidiaries consist of the following components for the years ended March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 9,971	¥ 9,186	$107,169
Interest cost	6,286	6,131	67,562
Expected return on plan assets	(2,699)	(2,982)	(29,009)
Amortization:			
Actuarial differences	9,640	7,984	103,611
Prior service cost	(192)	(652)	(2,063)
Net periodic pension and severance costs	¥23,006	¥19,667	$247,270

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2010 and 2009 are as follows:

	2010	2009
Method of attributing benefits to periods of service	Straight-line basis	Straight-line basis
Discount rates	Mainly 2.5%	Mainly 2.5%
Long-term rates of expected return on plan assets	0.0%–7.0%	0.0%–6.2%
Amortization period for prior service cost	Mainly 15 years	Mainly 15 years
Amortization period for actuarial differences	Average remaining service period or less (mainly 15 years)	Average remaining service period or less (mainly 15 years)

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2010, are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted	¥ 574	$ 6,169
Notes receivable endorsed	567	6,094
Guarantees:		
Guarantees for debt of employees, unconsolidated subsidiaries and affiliates	6,009	64,585
Contingent guarantees for debt of unconsolidated subsidiaries and affiliates	334	3,590
Keepwell agreements and letters of awareness for debt of unconsolidated subsidiaries and affiliates	1,120	12,038

15. LEASES

Information related to non-capitalized finance leases commenced prior to April 1, 2008, except for which the ownership of the leased assets is considered to be transferred to the lessee, and operating leases is as follows:

a) Finance Leases as Lessor

Finance leases as lessor, at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost	¥404	¥432	$4,342
Accumulated depreciation	316	270	3,396
Net book value	¥ 88	¥162	$ 946

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Payments due within one year	¥ 66	¥ 72	$ 709
Payments due after one year	59	125	634
	¥125	¥197	$1,343

Lease payments received under such leases for the years ended March 31, 2010 and 2009 were ¥72 million (US$774 thousand) and ¥89 million, respectively.

b) Finance Leases as Lessee

Information on lease obligations for non-capitalized finance leases accounted for as operating leases at March 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Original lease obligation*	¥6,851	¥7,064	$73,635
Payments made to date	4,475	3,687	48,098
Payments remaining*	¥2,376	¥3,377	$25,537

* Including assumed future interest

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Payments due within one year	¥ 784	¥ 987	$ 8,426
Payments due after one year	1,592	2,390	17,111
	¥2,376	¥3,377	$25,537

Lease payments under such leases for the years ended March 31, 2010 and 2009 were ¥986 million (US$10,598 thousand) and ¥1,649 million, respectively.

c) Operating Leases as Lessee

Lease obligations under non-cancellable operating leases, at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Payments due within one year	¥ 3,347	¥ 3,148	$ 35,974
Payments due after one year	7,196	8,482	77,343
	¥10,543	¥11,630	$113,317

16. IMPAIRMENT LOSSES OF FIXED ASSETS

Details of impairment losses of fixed assets for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Machinery, equipment and others	¥1,876	¥ 4,307	$20,163
Buildings and structures	1,682	2,136	18,078
Construction in progress	61	446	656
Intangible assets	487	4,451	5,234
Other	842	131	9,050
	¥4,948*1	¥11,471*2	$53,181

*1 The amount of ¥3,595 million (US$38,639 thousand) is shown as "Impairment losses of fixed assets" and the amount of ¥1,353 million (US$14,542 thousand) is included in "Restructuring expenses" (Note 17) in the consolidated statement of income for fiscal 2010.

*2 The amount of ¥8,713 million is shown as "Impairment losses of fixed assets" and the amount of ¥2,758 million is included in "Restructuring expenses" (Note 17) in the consolidated statement of income for fiscal 2009.

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 ¥4,948 million (US$53,181 thousand) and ¥11,471 million to the recoverable amounts in fiscal 2010 and 2009, respectively.

The recoverable amount is the net selling price or the value in use.

Figures of impairment losses of fixed assets for each business segment are disclosed in Note 19 a).

17. RESTRUCTURING EXPENSES

In fiscal 2010 and 2009, restructuring expenses are mainly related to the restructuring of manufacturing locations in overseas automotive business for the purpose of business structure improvement.

Details of the expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Impairment losses of fixed assets (Note 16)	¥1,353	¥2,758	$14,542
Loss on disposal of property, plant and equipment	520	337	5,589
Extra payment of retirement benefit and others	3,904	3,368	41,961
	¥5,777	¥6,463	$62,092

18. PROVISION FOR SURCHARGE

In fiscal 2010, the Company recognized a provision for surcharge as a result of a prior notice of draft of surcharge payment orders from the Japan Fair Trade Commission with respect to the sale of optical fiber cables for telecommunications carriers and related products.

19. SEGMENT INFORMATION

a) Business Segments

Automotive:

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

Information & Communications:

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

Electronics:
Electronic wires, compound semiconductors, materials for electronic components, irradiated products and flexible printed circuits (FPCs)
Electric Wire & Cable, 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 & Others:
Special steel wires, hard materials and sintered parts

Business segment information for the years ended March 31, 2010 and 2009 is as follows:

2010 (Millions of yen)	Automotive	Information & Communications	Electronics	Electric Wire & Cable, Energy	Industrial Materials & Others	Eliminations & Corporate	Consolidated
Sales to customers	**¥814,821**	**¥269,952**	**¥156,950**	**¥401,712**	**¥192,917**	**¥ —**	**¥1,836,352**
Intersegment sales	**1,802**	**1,225**	**8,100**	**10,799**	**35,308**	**(57,234)**	**—**
Net sales	**¥816,623**	**¥271,177**	**¥165,050**	**¥412,511**	**¥228,225**	**¥(57,234)**	**¥1,836,352**
Operating income	**¥ 34,526**	**¥ 3,624**	**¥ 4,849**	**¥ 7,893**	**¥ 944**	**¥ (108)**	**¥ 51,728**
Total assets	**¥705,376**	**¥237,635**	**¥136,578**	**¥390,313**	**¥427,849**	**¥ 42,184**	**¥1,939,935**
Depreciation and amortization	**50,586**	**12,200**	**10,290**	**13,347**	**17,425**	**—**	**103,848**
Impairment losses of fixed assets	**952**	**755**	**80**	**882**	**926**	**—**	**3,595**
Capital expenditures	**32,920**	**15,202**	**7,288**	**16,725**	**9,808**	**—**	**81,943**

2009 (Millions of yen)	Automotive	Information & Communications	Electronics	Electric Wire & Cable, Energy	Industrial Materials & Others	Eliminations & Corporate	Consolidated
Sales to customers	¥914,652	¥268,783	¥172,188	¥519,292	¥247,063	¥ —	¥2,121,978
Intersegment sales	2,473	6,183	10,682	16,798	34,993	(71,129)	—
Net sales	¥917,125	¥274,966	¥182,870	¥536,090	¥282,056	¥(71,129)	¥2,121,978
Operating income	¥ 6,142	¥ 5,010	¥ 1,104	¥ 8,899	¥ 2,346	¥ 26	¥ 23,527
Total assets	¥657,739	¥255,405	¥126,821	¥397,473	¥413,619	¥ 17,117	¥1,868,174
Depreciation and amortization	55,316	10,260	11,301	12,957	18,334	—	108,168
Impairment losses of fixed assets	4,543	593	1,472	849	1,256	—	8,713
Capital expenditures	74,351	12,421	12,678	20,872	22,860	—	143,182

2010 (Thousands of U.S. dollars)	Automotive	Information & Communications	Electronics	Electric Wire & Cable, Energy	Industrial Materials & Others	Eliminations & Corporate	Consolidated
Sales to customers	**$8,757,749**	**$2,901,462**	**$1,686,909**	**$4,317,627**	**$2,073,484**	**$ —**	**$19,737,231**
Intersegment sales	**19,368**	**13,166**	**87,059**	**116,068**	**379,493**	**(615,154)**	**—**
Net sales	**$8,777,117**	**$2,914,628**	**$1,773,968**	**$4,433,695**	**$2,452,977**	**$(615,154)**	**$19,737,231**
Operating income	**$ 371,089**	**$ 38,951**	**$ 52,117**	**$ 84,834**	**$ 10,146**	**$ (1,161)**	**$ 555,976**
Total assets	**$7,581,427**	**$2,554,117**	**$1,467,949**	**$4,195,110**	**$4,598,549**	**$ 453,396**	**$20,850,548**
Depreciation and amortization	**543,702**	**131,126**	**110,598**	**143,454**	**187,285**	**—**	**1,116,165**
Impairment losses of fixed assets	**10,232**	**8,115**	**860**	**9,480**	**9,952**	**—**	**38,639**
Capital expenditures	**353,826**	**163,392**	**78,332**	**179,762**	**105,417**	**—**	**880,729**

1. Corporate assets included in Eliminations & Corporate of ¥111,324 million (US$1,196,518 thousand) and ¥89,118 million at March 31, 2010 and 2009, respectively, consist mainly of cash and time deposits and investment securities owned by the Company.

2. Changes in Accounting Policies and Estimates

As stated in the "Notes to Consolidated Financial Statements 2.g)", in fiscal 2009, "Accounting Standard for Measurement of Inventories" ("ASBJ Statement No.9" issued by the Accounting Standards Board of Japan on July 5, 2006) was applied. The effect of this change was to decrease operating income by ¥6,009 million in the Automotive segment, ¥3,552 million in the Information & Communications segment, ¥1,611 million in the Electronics segment, ¥3,051 million in the Electric Wire & Cable, Energy segment, and ¥2,437 million in the Industrial Materials & Others segment in fiscal 2009.

In fiscal 2009, the Company and some of its consolidated subsidiaries changed the valuation method of principal raw materials from last-in, first-out to moving average or average. The effect of this change was to increase operating income by ¥2,068 million in the Automotive segment, and ¥496 million in the Industrial Materials & Others segment, and to decrease operating income by ¥59 million in the Electronics segment, and ¥1,015 million in the Electric Wire & Cable, Energy segment in fiscal 2009.

As stated in the "Notes to Consolidated Financial Statements 2.s)", in fiscal 2009, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("ASBJ Practical Issues Task Force No.18" issued by the Accounting Standards Board of Japan on May 17, 2006) was applied. As a result of this change, the effect of the necessary adjustments was immaterial to the operating income of each business segment in fiscal 2009.

As stated in the "Notes to Consolidated Financial Statements 2.h)", in fiscal 2009, the Company and its domestic consolidated subsidiaries changed the estimate of the useful lives of certain tangible fixed assets. The effect of this change was to decrease operating income by ¥1,639 million in the Automotive segment, ¥279 million in the Information & Communications segment, ¥352 million in the Electronics segment, and ¥889 million in the Electric Wire & Cable, Energy segment, and to increase operating income by ¥104 million in the Industrial Materials & Others segment, in fiscal 2009.

b) Geographical Segments

The operations of the Company and its consolidated subsidiaries are classified into geographical areas as follows: Japan, Americas (U.S.A. and others), Asia (China and others) and Europe and Others (Germany, U.K. and others).

Information by geographic area for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen					
2010	Japan	Americas	Asia	Europe and Others	Eliminations & Corporate	Consolidated
Sales to customers	**¥1,208,235**	**¥188,334**	**¥289,011**	**¥150,772**	**¥ —**	**¥1,836,352**
Intersegment sales	**236,735**	**5,839**	**151,804**	**1,892**	**(396,270)**	**—**
Net sales	**¥1,444,970**	**¥194,173**	**¥440,815**	**¥152,664**	**¥(396,270)**	**¥1,836,352**
Operating income (loss)	**¥ 30,351**	**¥ 1,199**	**¥ 23,627**	**¥ (3,337)**	**¥ (112)**	**¥ 51,728**
Total assets	**¥1,645,223**	**¥130,526**	**¥305,326**	**¥112,218**	**¥(253,358)**	**¥1,939,935**

	Millions of yen					
2009	Japan	Americas	Asia	Europe and Others	Eliminations & Corporate	Consolidated
Sales to customers	¥1,366,321	¥243,108	¥330,593	¥181,956	¥ —	¥2,121,978
Intersegment sales	239,293	9,839	165,463	4,749	(419,344)	—
Net sales	¥1,605,614	¥252,947	¥496,056	¥186,705	¥(419,344)	¥2,121,978
Operating income (loss)	¥ (1,089)	¥ 1,270	¥ 24,069	¥ (2,150)	¥ 1,427	¥ 23,527
Total assets	¥1,557,175	¥147,643	¥279,111	¥115,586	¥(231,341)	¥1,868,174

	Thousands of U.S. dollars					
2010	Japan	Americas	Asia	Europe and Others	Eliminations & Corporate	Consolidated
Sales to customers	**$12,986,189**	**$2,024,226**	**$3,106,309**	**$1,620,507**	**$ —**	**$19,737,231**
Intersegment sales	**2,544,443**	**62,758**	**1,631,599**	**20,336**	**(4,259,136)**	**—**
Net sales	**$15,530,632**	**$2,086,984**	**$4,737,908**	**$1,640,843**	**$(4,259,136)**	**$19,737,231**
Operating income (loss)	**$ 326,215**	**$ 12,887**	**$ 253,944**	**$ (35,866)**	**$ (1,204)**	**$ 555,976**
Total assets	**$17,682,964**	**$1,402,902**	**$3,281,664**	**$1,206,126**	**$(2,723,108)**	**$20,850,548**

Changes in Accounting Policies and Estimates

As stated in the "Notes to Consolidated Financial Statements 2.g)", in fiscal 2009, "Accounting Standard for Measurement of Inventories" ("ASBJ Statement No.9" issued by the Accounting Standards Board of Japan on July 5, 2006) was applied. The effect of this change was to increase operating losses by ¥15,403 million in Japan, and ¥238 million in Europe and Others, and to decrease operating income by ¥39 million in Americas, and ¥980 million in Asia in fiscal 2009.

In fiscal 2009, the Company and some of its consolidated subsidiaries changed the valuation method of principal raw materials from last-in, first-out to moving average or average. The effect of this change was to decrease operating losses by ¥1,490 million in Japan in fiscal 2009.

As stated in the "Notes to Consolidated Financial Statements 2.s)", in fiscal 2009, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("ASBJ Practical Issues Task Force No.18" issued by the Accounting Standards Board of Japan on May 17, 2006) was applied. As a result of this change, the effect of the necessary adjustments was immaterial to the operating income (loss) of each business segment.

As stated in the "Notes to Consolidated Financial Statements 2.h)", in fiscal 2009, the Company and its domestic consolidated subsidiaries changed the estimate of the useful lives of certain tangible fixed assets. The effect of this change was to increase operating losses by ¥3,055 million in Japan in fiscal 2009.

c) Overseas Sales

The main countries of the geographical areas mentioned below are as follows: Americas (U.S.A. and others), Asia (China, and others) and Europe and Others (Germany, France, Italy, U.K. and others).

Overseas sales for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen			
2010	Americas	Asia	Europe and Others	Total
Overseas sales	**¥195,716**	**¥348,254**	**¥161,387**	**¥ 705,357**
Consolidated net sales				**¥1,836,352**
Ratio of overseas sales to consolidated net sales	**10.7%**	**18.9%**	**8.8%**	**38.4%**

	Millions of yen			
2009	Americas	Asia	Europe and Others	Total
Overseas sales	¥248,121	¥364,004	¥194,562	¥ 806,687
Consolidated net sales				¥2,121,978
Ratio of overseas sales to consolidated net sales	11.7%	17.1%	9.2%	38.0%

	Thousands of U.S. dollars			
2010	Americas	Asia	Europe and Others	Total
Overseas sales	**$2,103,568**	**$3,743,057**	**$1,734,598**	**$7,581,223**

20. RELATED PARTY TRANSACTIONS

The Company entered into the following transaction with a related party in fiscal 2010:

Party type:	Affiliate
Party name:	Sumitomo 3M Ltd.
Address:	Setagaya-ku, Tokyo, Japan
Capital:	¥18,929 million (US$203,450 thousand)
Business:	Industrial, electrical, electric, power and communications, automotive, construction, sign and display, lifestyle, health care products
% of voting stock held:	Direct 25.0
Business relationship:	Sending a board member to Sumitomo 3M
Details of transaction: *	Application for offer of share buyback for the purpose of own share retirement
Transaction amount:	¥23,221 million (US$249,581 thousand)
Account title and balance at year end:	Other current assets (¥9,446 million (US$101,526 thousand)) and other assets (¥4,723 million (US$50,763 thousand))

* The Company determined sales price based on the appraised value by an expert outside company.

21. OTHER

The Company has been investigated by the Japan Fair Trade Commission about its trade in automotive wiring harnesses and related products.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Electric Industries, Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Electric Industries, Ltd. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2 (g) to the consolidated financial statements, effective April 1, 2008, Sumitomo Electric Industries, Ltd. and consolidated domestic subsidiaries adopted new accounting standard for measurement of inventories.

(2) As discussed in Note 2 (g) to the consolidated financial statements, Sumitomo Electric Industries, Ltd. and some of its consolidated subsidiaries changed the valuation method of principal raw materials for the year ended March 31, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 & Co.

Osaka, Japan
June 25, 2010

Corporate Directory

Head Office (Osaka)
5-33, Kitahama 4-chome, Chuo-ku, Osaka
541-0041, Japan
Tel.: 81 (6) 6220-4141
Fax: 81 (6) 6222-3380

Head Office (Tokyo)
Shibaura Renasite Tower 3-9-1 Shibaura,
Minato-ku, Tokyo 108-8539, Japan
Tel.: 81 (3) 6722-3100
Fax: 81 (3) 6722-3109

DOMESTIC WORKS

Osaka Works
Main Products: Electric conductors, Electric power cables, Power line construction and engineering, Optical fiber cables, Telecommunication cables, Optical transmission components, Information systems, Control systems, High frequency products, Hybrid products

Itami Works
Main Products: Special steel wires, Powdered alloys, Sintered powder metal products, Diamond products, Compounds semiconductors

Yokohama Works
Main Products: Optical fiber cables, Telecommunication cables, Optical connectors, Optical fiber fusion splicers, Optical amplifiers, Optical transmission components

AUTOMOTIVE

DOMESTIC CONSOLIDATED SUBSIDIARIES

• **Tokai Rubber Industries, Ltd.**
Main Products: Rubber products

• Sumitomo Wiring Systems, Ltd.
Main Products: Automotive wiring harnesses

★AutoNetworks Technologies, Ltd.
Main Service: Automotive wiring harnesses R&D

• Sumiden Electronics, Ltd.
Main Products: Electronic components and devices for automobiles

OVERSEAS CONSOLIDATED SUBSIDIARIES

• Sumitomo Electric Wiring Systems, Inc.
Kentucky, U.S.A.
Main Products: Automotive wiring harnesses

★K&S Wiring System, Inc.
Tennessee, U.S.A.
Main Products: Automotive wiring harnesses

• Sumitomo do Brazil Industrias Eletricas Ltd.
Sao Paulo, Brazil
Main Products: Wiring harnesses for two-wheel vechicle

• Sumidenso Vietnam Co., Ltd.
Hai Duong, Vietnam
Main Products: Automotive wiring harnesses

• Sumidenso Mediatech Suzhou Co., Ltd.
Suzhou, China
Main Products: Automotive wiring harnesses

• Huizhou Zhurun Wiring Systems Co., Ltd.
Huizhou, China
Main Products: Automotive wiring harnesses

• Sumitomo Electric Wiring Systems (Europe) Ltd.
Staffordshire, U.K.
Main Products: Automotive wiring harnesses

• Sumitomo Electric Bordnetze GmbH
Wolfsburg, Germany
Main Products: Automotive wiring harnesses

• SEWS-CABIND S.p.A.
Collegno, Italy
Main Products: Automotive wiring harnesses

117 other companies

INFORMATION & COMMUNICATIONS

DOMESTIC CONSOLIDATED SUBSIDIARIES

• Sumitomo Electric Device Innovations, Inc. (ex. Eudyna Devices Inc.)
Main Products: Optical and electronic devices

• **Commuture Corp.**
Main Service: Communications facilities designing and installation

• Sumitomo Electric Networks, Inc.
Main Products: Information and communications equipment

• Kiyohara Sumiden, Ltd.
Main Products: Optical fibers

OVERSEAS CONSOLIDATED SUBSIDIARIES

• Sumitomo Electric Lightwave Corp.
North Carolina, U.S.A.
Main Products: Optical fiber fusion splicers and optical fiber cables

• Sumitomo Electric Device Innovation (U.S.A.), Inc. (ex. ExceLight Communications, Inc.)
North Carolina, U.S.A.
Main Products: Optical transmission components

• Sumitomo Electric Optical Components (Wuxi) Co., Ltd.
Wuxi, China
Main Products: Optical couplers and optical connectors

13 other companies

ELECTRONICS

DOMESTIC CONSOLIDATED SUBSIDIARIES

• Sumitomo (SEI) Electronic Wire, Inc.
Main Products: Electric wires and electric wire products

• Sumitomo Electric Flat Components, Inc.
Main Products: Flat cables

• Sumitomo Electric Printed Circuits, Inc.
Main Products: Flexible printed circuits

• Sumitomo Electric Fine Polymer, Inc.
Main Products: Fine polymer products

★Sumiden Tomita Shoji Co., Ltd.
Main Products: Electronic components, wire and systems

OVERSEAS CONSOLIDATED SUBSIDIARIES

• Judd Wire, Inc.
Massachusetts, U.S.A.
Main Products: Electronic wires

• Sumitomo Electric Semiconductor Materials, Inc.
Oregon, U.S.A.
Main Products: Compound semiconductor materials

• Sumitomo Electric Interconnect Products (Suzhou), Ltd.
Suzhou, China
Main Products: Electronic wires for electronic and information equipment

• Suzhou Sumiden Electric Materials Co., Ltd.
Suzhou, China
Main Products: Electronic parts

• Sumitomo Electric Interconnect Products (Hong Kong), Ltd.
Hong Kong, China
Main Products: Electric wires, FPCs, Irradiated products

14 other companies

ELECTRIC WIRE & CABLE, ENERGY

DOMESTIC CONSOLIDATED SUBSIDIARIES

• **Nissin Electric Co., Ltd.**
Main Products: Electric-power control systems

• **Sumitomo Densetsu Co., Ltd.**
Main Service: Electric transmission lines installation

• Sumitomo Electric Wintec, Inc.
Main Products: Magnet wires and related products

• Sumitomo Electric Toyama Co., Ltd.
Main Products: Electric wires and cables and metal materials

• Sumitomo Electric Industrial Wire & Cable, Inc.
Main Products: Electric wires and cables

• Daikoku Electric Wire Co., Ltd.
Main Products: Electric Wires and coils

OVERSEAS CONSOLIDATED SUBSIDIARIES

• P.T. Karya Sumiden Indonesia
Jakarta, Indonesia
Main Products: Copper wire rods

• **P.T. Sumi Indo Kabel Tbk**
Jakarta, Indonesia
Main Products: Power cables

• Sumitomo Electric Wintec (Wuxi) Co., Ltd.
Wuxi, China
Main Products: Magnet wires and DG coils

49 other companies

INDUSTRIAL MATERIALS & OTHERS

DOMESTIC CONSOLIDATED SUBSIDIARIES

• Sumitomo Electric Hardmetal Corp.
Main Products: Cemented carbide and sintered diamond cutting tools

• Sumitomo Electric Sintered Alloy, Ltd.
Main Products: Sintered parts

• A.L.M.T. Corp.
Main Products: Tungsten and molybdenum products

• Sumitomo (SEI) Steel Wire Corp.
Main Products: Special steel wires

• Sumitomo Electric Tochigi Co., Ltd.
Main Products: Steel cords

OVERSEAS CONSOLIDATED SUBSIDIARIES

★Sumitomo Electric U.S.A., Inc.
New York, U.S.A.
Regional headquarter

★Sumitomo Electric Finance U.S.A., Inc.
New York, U.S.A.
Finance company

★Sumitomo Electric Carbide, Inc.
Illinois, U.S.A.
Main Products: Cemented carbide tools

• Sumitomo Electric Hardmetal Manufacturing (Thailand), Ltd.
Samutprakarn, Thailand
Main Products: Cemented carbide tools

• P.T. Sumiden Serasi Wire Products
Java Barat, Indonesia
Main Products: Special steel wires

★Sumitomo Electric Asia, Ltd.
Hong Kong, China
Regional Headquarter

★Sumitomo Electric Europe Ltd.
London, U.K.
Regional Headquarter

★Sumitomo Electric Finance U.K. Ltd.
London, U.K.
Finance company

★Sumitomo Electric Hartmetall GmbH
Willich, Germany
Main Products: Cemented carbide alloys

46 other companies

SUBSIDIARIES AND AFFILIATES ACCOUNTED FOR BY THE EQUITY METHOD

DOMESTIC

• **Sumitomo Rubber Industries, Ltd.**
Main Products: Automotive tires and sporting goods

★**TECHNO ASSOCIE, CO., LTD.**
Main Products: Threads and non-ferrous metal products

• Sumitomo 3M Ltd.
Main Products: Abrasives and industrial tapes

• J-Power Systems Corp.
Main Products: Power transmission cables and cable accessories

• Kitanihon Electric Cable Co., Ltd.
Main Products: Electric wires and cables

• Daiden Co., Ltd.
Main Products: Electric wires and cables

• Nuclear Fuel Industries, Ltd.
Main Products: Nuclear fuel

OVERSEAS

• Kyungshin Industrial Co., Ltd.
Incheon, South Korea
Main Products: Automotive wiring harnesses

31 other companies

Notes 1. Publicly listed companies are indicated in bold print.
2. The number of the companies is as of March 31, 2010.

• Manufacturing / Construction company
★Sales company / Others

History

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

Company Information

Sumitomo Electric Industries, Ltd. (As of March 31, 2010)

HEAD OFFICE (OSAKA)

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

HEAD OFFICE (TOKYO)

Shibaura Renasite Tower 3-9-1 Shibaura, Minato-ku,
Tokyo 108-8539, Japan

INCORPORATED

December 1920

NUMBER OF EMPLOYEES

157,203

COMMON STOCK

Authorized: 3,000,000,000 shares
Issued: 793,940,571 shares

NUMBER OF SHAREHOLDERS

77,034

STOCK EXCHANGE LISTINGS

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

SHAREHOLDER REGISTER MANAGER

The Sumitomo Trust & Banking Co., Ltd.
5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

SUMITOMO ELECTRIC VIA THE INTERNET

Sumitomo Electric Group's web site provides a wide range of corporate information, including the latest annual report, news releases, and financial results.
http://global-sei.com/

PRINCIPAL SHAREHOLDERS

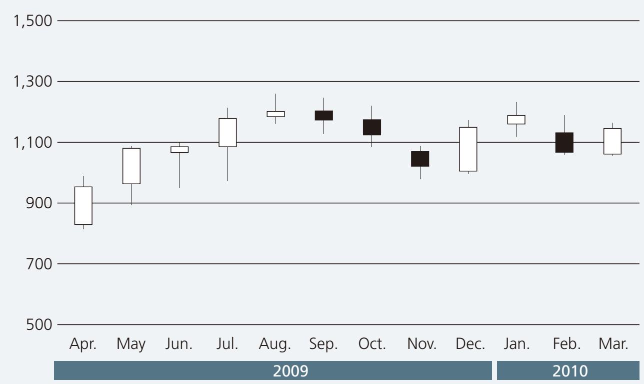
	Shareholdings (Thousands)	Outstanding voting share (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	71,916	9.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,532	6.50
Nippon Life Insurance Company	41,289	5.20
Japan Trustee Services Bank, Ltd. (Trust Account 9)	19,262	2.43
Sumitomo Life Insurance Company	15,556	1.96
Sumitomo Mitsui Banking Corporation	12,551	1.58
STATE STREET BANK AND TRUST COMPANY 505225	10,117	1.28
Japan Trustee Services Bank, Ltd. (Trust Account 4)	9,866	1.24
SSBT OD05 OMNIBUS ACCOUNT CHINA TREATY CLIENTS	9,400	1.18
The Dai-ichi Mutual Life Insurance Company	9,389	1.18

SHARE PRICE RANGE

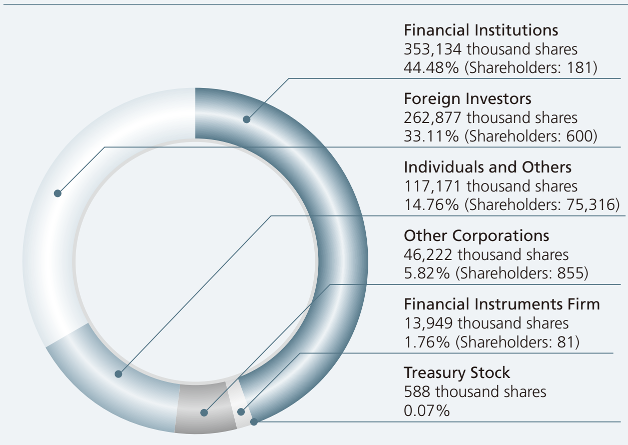
		Yen	
Year	Month	High	Low
2009	Apr.	992	816
	May	1,089	896
	Jun.	1,103	951
	Jul.	1,216	976
	Aug.	1,262	1,164
	Sep.	1,250	1,130
	Oct.	1,223	1,087
	Nov.	1,089	982
	Dec.	1,174	997
2010	Jan.	1,234	1,121
	Feb.	1,191	1,062
	Mar.	1,166	1,058

SHARE PRICE

(Yen)



BREAKDOWN OF SHAREHOLDERS



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