



SUMITOMO
ELECTRIC

120th
anniversary

Annual Report 2017

Year Ended March 31, 2017





Masayoshi Matsumoto
Chairman & CEO

Osamu Inoue
President & COO

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Forward-Looking Statements

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

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

1. Market and economic conditions in the U.S., Europe, Japan and other Asian countries, especially increases and decreases in personal consumption and capital expenditures.
2. Fluctuations in currency exchange rates, especially between the Japanese yen and the U.S. dollar, the euro and Asian currencies.
3. The ability of Sumitomo Electric and its affiliated companies to cope with rapid technological developments.



Sumitomo Electric Industries, Ltd. celebrates its 120th anniversary this year. The Company would like to express its sincere appreciation to customers and all other parties concerned for their long-term support, which has enabled the Company to continue to operate for so many years.

The Company's history dates back to April 1897, to the establishment of Sumitomo Copper Rolling Works. Originating from the manufacture of electric wire and cable, the Company, including its group companies, has steadily expanded the field of operations over the years. While promoting diversification of operations starting from around 1960, and then globalization, and by making unwavering efforts to achieve technological developments, the Company has been extensively contributing to the development and progress of society not only in Japan but also in other parts of the world.

As a company that underpins the social infrastructure and people's daily lives, Sumitomo Electric continues to accommodate new needs generated by social change through the innovation and integration of the wide variety of products and technological assets accumulated so far. The Company continues to demonstrate ingenuity in creating excellent, original technologies, thereby contributing to society.

- 4. Changes in financial, management, environmental and other assumptions.
- 5. Current and future laws and regulations in other countries involving trade and other activities.
- 6. Changes in the market value of securities owned by Sumitomo Electric and its affiliated companies.

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

Profile and History

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

1890s

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



Photo by courtesy of Sumitomo Historical Archives

1920s

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



Photo by courtesy of Sumitomo Historical Archives

1890s 1900s 1910s 1920s 1930s 1940s 1950s

1910s

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



1930s

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



IGETALLOY™ cemented carbide tools



Special steel wire

infrastructure in developed countries, as we are called upon to make a broader contribution to social progress.

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

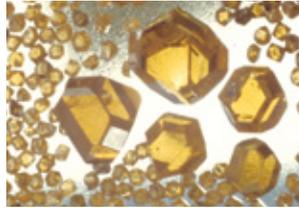
1960s

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



1980s

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



2010s

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

1960s

1970s

1980s

1990s

2000s

2010s

Recently

1970s

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



Recently

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

Financial Highlights

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2016 Mar. 31, 2017	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2013 Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2016 Mar. 31, 2017
For the Year:						
Net sales	¥2,814,483	¥2,933,089	¥2,822,811	¥2,568,779	¥2,159,942	\$25,086,755
Operating income	150,503	143,476	134,457	120,058	76,790	1,341,501
Profit before income taxes	167,792	154,859	167,067	123,833	84,084	1,495,606
Profit attributable to owners of the parent	107,562	91,001	119,771	66,748	37,955	958,749
Capital expenditures ¹	183,693	167,282	148,213	150,823	147,883	1,637,338
Depreciation and amortization	134,532	134,371	126,663	113,271	90,629	1,199,144
R&D expenses	115,155	110,839	105,604	99,520	94,287	1,026,428
At Year-End:						
Total assets	¥2,903,584	¥2,742,848	¥2,925,785	¥2,554,819	¥2,297,567	\$25,880,952
Total interest-bearing liabilities	510,989	457,145	550,839	534,641	485,569	4,554,675
Total net assets ²	1,626,502	1,561,289	1,646,913	1,379,912	1,244,695	14,497,745
Cash Flows:						
Net cash provided by operating activities	¥209,233	¥240,779	¥153,509	¥147,705	¥124,849	\$1,864,988
Net cash used in investing activities	(194,829)	(117,387)	(86,888)	(174,102)	(172,066)	(1,736,599)
Net cash provided by (used in) financing activities	(4,763)	(115,912)	(64,037)	113	64,922	(42,455)
	Yen					U.S. dollars
	FY2016	FY2015	FY2014	FY2013	FY2012	FY2016
Per Share Data:						
Profit attributable to owners of the parent ³ : Basic	¥137.61	¥114.73	¥151.00	¥84.15	¥47.85	\$1.227
Diluted	137.24	—	—	—	—	1.223
Cash dividends ⁴	40.00	35.00	30.00	22.00	20.00	0.357
Owner's equity ⁵	1,814.90	1,715.28	1,804.34	1,499.76	1,352.09	16.177
Financial Indexes:						
Operating income/net sales (%)	5.3	4.9	4.8	4.7	3.6	
Profit attributable to owners of the parent/net sales (%)	3.8	3.1	4.2	2.6	1.8	
Operating income/invested assets ⁶ (ROA) (%)	7.2	6.8	6.5	6.6	4.8	
Return on owner's equity (%)	7.7	6.5	9.1	5.9	3.7	
Owner's equity ratio (%)	48.7	49.6	48.9	46.6	46.7	
Current ratio (Times)	1.7	1.8	1.7	1.6	1.7	
R&D expenses/net sales (%)	4.1	3.8	3.7	3.9	4.4	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥112.19 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2017.

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

² See page 50.

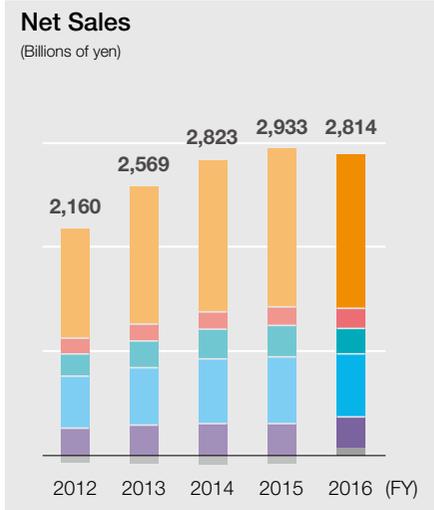
³ From the year ended March 31, 2014 to the year ended March 31, 2016, there were no potential common shares.

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

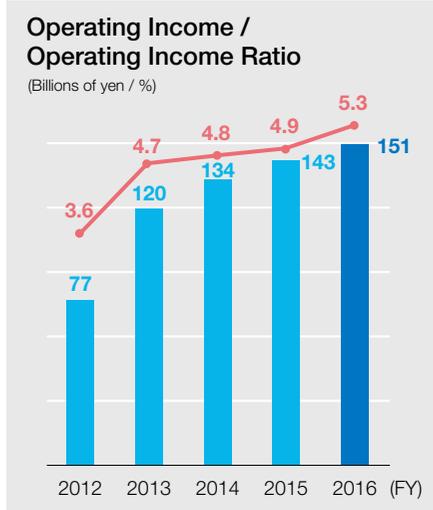
⁴ Cash dividends per share for the year ended March 31, 2017 include 2 yen as commemorative dividends for the 120th anniversary.

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

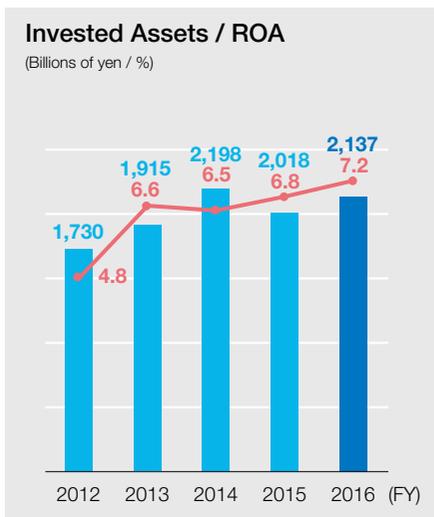
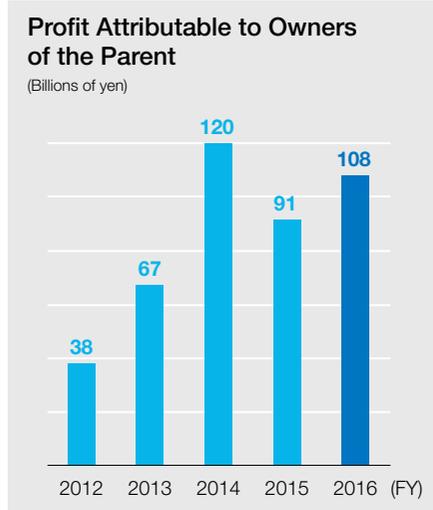
⁶ Invested assets = Total assets - interest-free liabilities



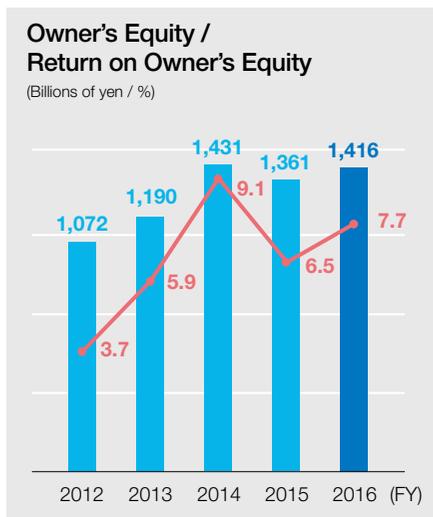
- Automotive
- Infocommunications
- Electronics
- Environment and Energy
- Industrial Materials and Others
- Eliminations



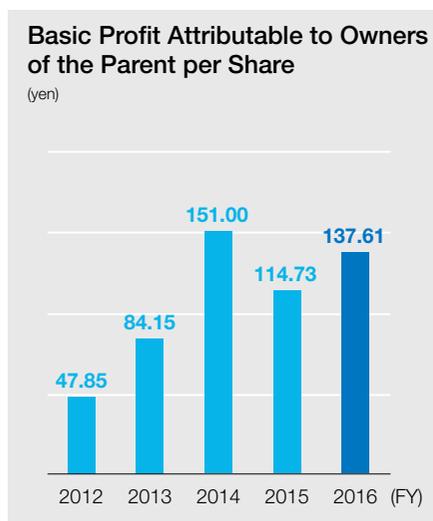
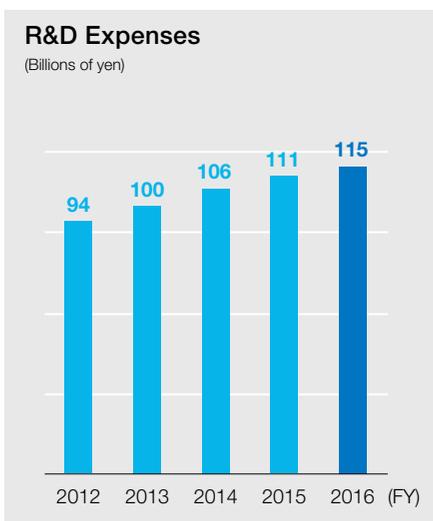
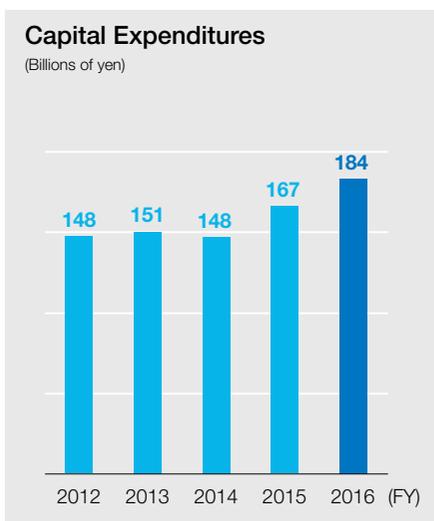
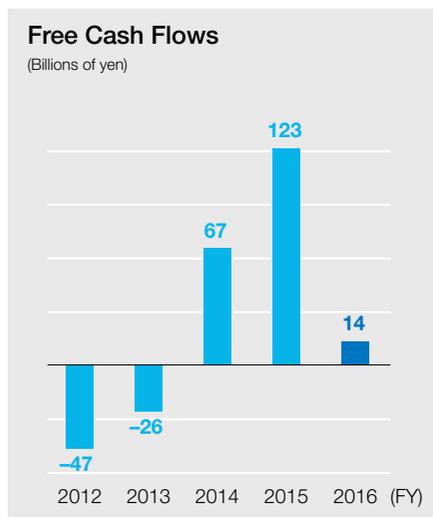
- Operating Income
- Operating Income Ratio



- Invested Assets
- ROA



- Owner's Equity
- Return on Owner's Equity



To Our Stakeholders



Osamu Inoue President & COO

When looking at the global economy for FY 2016, although a moderate recovery trend continued in general, the business climate remained unpredictable, mainly due to the increasing uncertainty triggered by the UK's decision to withdraw from the EU and the inauguration of the new administration in the United States, as well as concerns over the slowdown in the growth of emerging economies. At the same time, the Japanese economy also came to a standstill, mainly because of sluggish consumer spending.

Now that I have assumed the position of president in this very obscure and uncertain time, I am feeling how heavy my responsibility is. However, Chairman Matsumoto continues to be involved in the management of the Sumitomo Electric Group, and I will dedicate myself wholeheartedly to the Group's development in compliance with the Sumitomo Spirit with over 400 years of history.

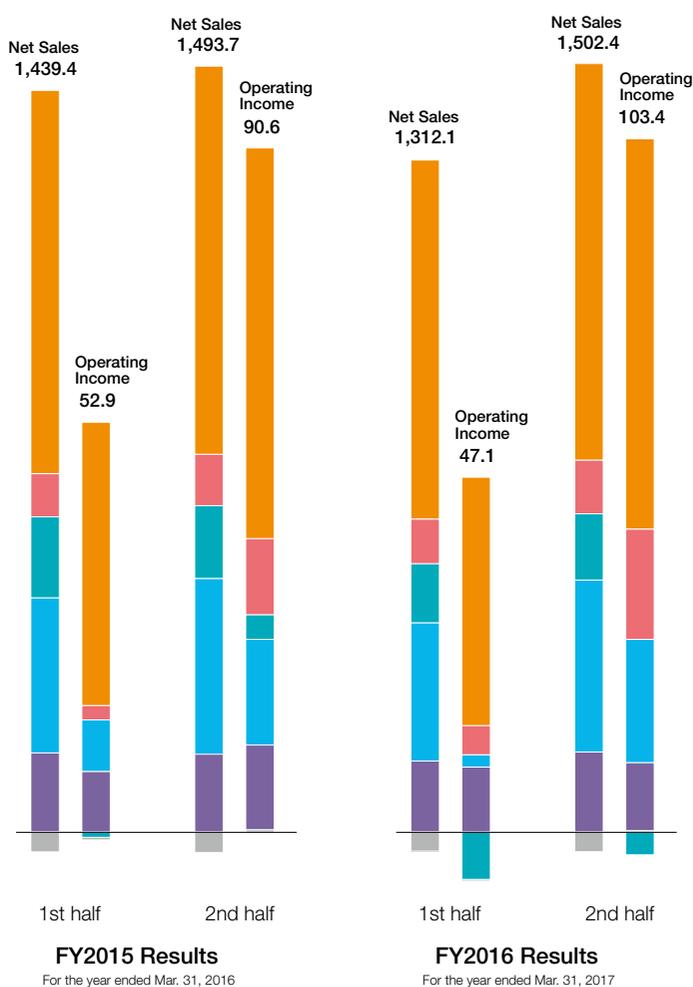
I would like to ask all of you at the Group to continue offering your generous cooperation and support.

The business environment surrounding the Sumitomo Electric Group was severe. The demand for some products, such as automotive wiring harnesses, optical fiber cables, and optical and electronic devices, was steady especially outside Japan. However, we were considerably affected by the decline in demand for flexible printed circuits (FPCs) for mobile devices, the appreciation of the yen, and the decline in copper prices.

Net Sales / Operating Income

(Billions of yen)

- Automotive
- Infocommunications
- Electronics
- Environment and Energy
- Industrial Materials and Others
- Eliminations



To Our Stakeholders



Under these circumstances, our business results on a consolidated basis for FY2016 were as follows: net sales of 2,814,483 million yen (previous fiscal year: 2,933,089 million yen, down 4.0%); operating income of 150,503 million yen (previous fiscal year: 143,476 million yen, up 4.9%); ordinary income of 173,872 million yen (previous fiscal year: 165,658 million yen, up 5.0%); and profit attributable to owners of the parent company of 107,562 million yen (previous fiscal year: 91,001 million yen, up 18.2%). Although net sales decreased from the previous fiscal year, each of the income items marked an increase from the previous fiscal year as a result of our cost reduction efforts as well as development and sales expansion of new products.

FY2017 Forecast

	FY2016 Results	FY2017		
		1H Forecast (1)	2H Forecast (2)	Year Total (1)+(2)
Net sales	¥ 2,814.5	¥ 1,400	¥ 1,600	¥ 3,000
Operating income	150.5	65	110	175
Ordinary income	173.9	9	11	20
Net extraordinary loss	(5.9)			
Profit before income taxes	167.8	(29)	(51)	(80)
Income taxes, loss attributable to non-controlling interests*	(60.2)			
Profit attributable to owners of the parent*	107.6	45	70	115

Billions of yen

Note: The assumed average exchange rate for FY2017 is ¥110 against the U.S. dollar. The exchange rate was ¥108.34 for FY2016.

In our automotive-related business, we are aiming to become a global comprehensive components manufacturer. To this end, we will accelerate our development and sales expansion of durable, high-strength aluminum wiring harnesses, which will contribute to weight reduction in automobiles; high-voltage wiring harnesses for environment-friendly automobiles; and electronic equipment and high-speed communication connectors for the increasingly complicated and sophisticated electronic control systems.

Moreover, while striving to increase our share of markets targeting overseas customers, we will focus on further cost reductions. At the same time, Sumitomo Riko Co., Ltd. will take advantage of the production bases, sales channels, technologies, and other assets that the company has obtained by acquiring an overseas business in the field of anti-vibration rubber and hoses for automobiles to expand sales on a global basis and continue to reinforce the business structure, thereby improving profitability.

In our infocommunications-related business, we will continue to catch steady overseas demand for optical fiber cables, 100 Gbps high-speed optical devices, and gallium nitride (GaN) devices for mobile base stations. In addition, we will make further efforts to expand the sales of ultra-low-loss optical fibers for submarine cables, ultra-high-fiber-count optical cables used in data centers, and intelligent transport systems. We will also continue to

focus on the sales expansion of new products related to access network equipment, thereby aiming to further increase our profitability.

In our electronics-related business, we recorded sluggish business results in FY 2016 in the field of FPCs for mobile devices, mainly due to shrinking demand and intensified competition, as well as the delay in the launch of new products. However, while committing ourselves to thorough quality improvement, cost reduction, and sales expansion on a global scale, we will strengthen our profitability by leveraging the integrated capabilities of the Sumitomo Electric Group to develop new products with advanced features, such as increased high-definition, ultra-thinness, or high heat-resistance, and to grow our business in the in-car product market. Furthermore, in the field of electronic wires and irradiated tubes, we will also accelerate our efforts on a global scale to reinforce production and expand sales.

In our business related to the environment and energy, last November, we concluded a long-term agreement with the Saudi Arabian national oil company, Saudi Arabian Oil Company regarding submarine power cables. In addition, this March, we agreed to cooperate with the German company Siemens for high-voltage direct current transmission. By combining advanced technologies, such as the company's converters and our high-voltage direct current power cables, we will provide optimized solutions for our customers, thereby accelerating sales

To Our Stakeholders

expansion on a global scale. Moreover, we will continue to improve our profitability through cost reductions and reinforce our product quality. We will also continue to expand the sales of flat magnet wires for motors and porous metals for batteries used in environmentally friendly vehicles, and work in cooperation with Nissin Electric Co., Ltd. and Sumitomo Densetsu Co., Ltd., to expand the business related to renewable energy and smart grids.

In our business related to industrial materials, last September, we acquired the major U.S. sintered powder metal parts manufacturer, Keystone Powdered Metal Company. Through this acquisition, we will strive to improve our presence in the sintered powder metal parts business in the United States and win many more global business opportunities. For cemented carbide tools, we will work hard, more than ever before, to capture demand in the markets of emerging economies such as China, Taiwan, and India, and continue to reinforce our raw materials procurement system. In addition to the main automotive field, we will accelerate our efforts to develop new products and expand sales in the fields of aircraft and precision processing, which are expected to grow in the future. Furthermore, we have also committed ourselves to expansion of our global production system and sales in the fields of prestressed concrete steel and spring steel wire.



A handwritten signature in black ink, which appears to read "Osamu Inoue". The signature is fluid and cursive.

Osamu Inoue
President and COO

August 2017

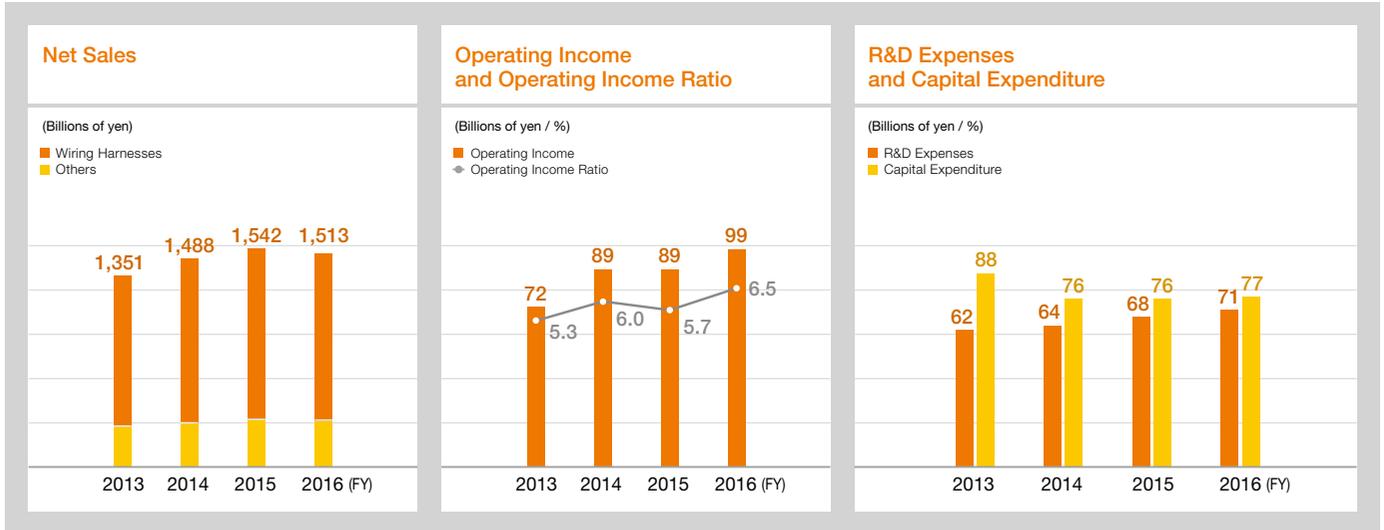
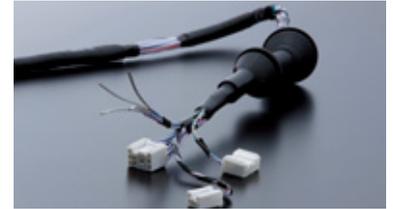
Review of Operations

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

Segment	Net Sales	Business Overview	Main Products
 Automotive	Net sales ¥1,513.2 billion Share of net sales 53% 	The Sumitomo Electric Group is a global supplier of wiring harnesses and anti-vibration rubber, as well as safe, comfortable and environment-friendly automotive components and systems.	<ul style="list-style-type: none"> • Wiring harnesses • Anti-vibration rubber • Automotive hoses • Car electrical equipment
 Infocommunications	Net sales ¥198.2 billion Share of net sales 7% 	Building on its communication cable technologies accumulated for more than 100 years, the Sumitomo Electric Group supplies products and systems that support today's Internet services such as optical fiber cable, opto-electronic devices, gigabit Ethernet-passive optical network (GE-PON), and other devices. We also supply traffic control systems and other systems drawing on our telecoms expertise and portfolio of control technologies.	<ul style="list-style-type: none"> • Optical fiber cables • Telecommunication cables and equipment • Fusion splicers • Optical/wireless devices such as optical transceiver modules/wireless communication devices • Network system products such as access network equipment (GE-PONs, content delivery networks, CATV-related products, traffic control) • Compound semiconductors
 Electronics	Net sales ¥251.1 billion Share of net sales 8% 	Using its proprietary materials technologies, the Sumitomo Electric Group supports the increasing use of electronics devices in society through a diverse range of products such as electronic wires, flexible printed circuits, other highly functional wiring materials and fluorine resin products.	<ul style="list-style-type: none"> • Electronic wire products • Metallic material for electronic parts • Electric-beam irradiation products • Flexible printed circuits • Fluorine resin products • Micro filtration membrane module
 Environment and Energy	Net sales ¥621.4 billion Share of net sales 22% 	Since its inception, the Sumitomo Electric Group has helped underpin modern daily life through its energy transmission businesses, supplying products such as cables for power distribution, railway trolley wires, and wire coils used in home appliances, automobiles, and other applications.	<ul style="list-style-type: none"> • Electric conductors • Power transmission wires/cables/equipment • Magnet wires • Air cushions for railroad vehicles • Power systems • Equipment such as substation equipment/control systems • Charged beam equipment and processing • Electrical/power supply work and engineering, porous metals
 Industrial Materials and Others	Net sales ¥303.9 billion Share of net sales 10% 	Through the manufacture of electric wire and cable, the Sumitomo Electric Group has developed and built up proprietary technologies and products that underpin industry and society. Its cutting tools have contributed to greater efficiency in manufacturing and its sintered parts and special metal wires are used in automotive and a wide range of other industrial fields.	<ul style="list-style-type: none"> • Tensioning materials for prestressed concrete • Precision spring steel wires, steel tire cords, cemented carbide tools • Diamond and CBN tools, laser optics, sintered powder metal parts • Semiconductor heatspreader materials • Grinding tools • Tungsten and molybdenum materials • Heat sinks



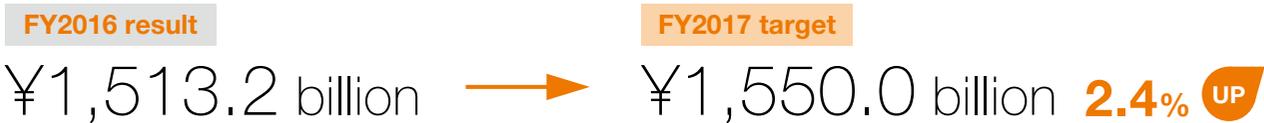
Automotive



Performance in FY2016 and forecast for FY2017

As a result of capturing demand from the growth in adoption of wiring harnesses, automotive electronic parts and anti-vibration rubber in new models, sales volumes rose overseas, particularly in China. On the other hand, net sales were hit by the stronger yen and the fall in copper prices, declining by ¥28.8 billion (1.9%) year on year to ¥1,513.2 billion. Operating income came in at ¥98.6 billion, rising ¥9.9 billion (11.2%) year on year owing to progress made in cost reductions at global production bases, which offset the impact of the stronger yen. For FY2017, we forecast net sales of ¥1,550 billion and operating income of ¥93.0 billion.

Net sales



Operating income

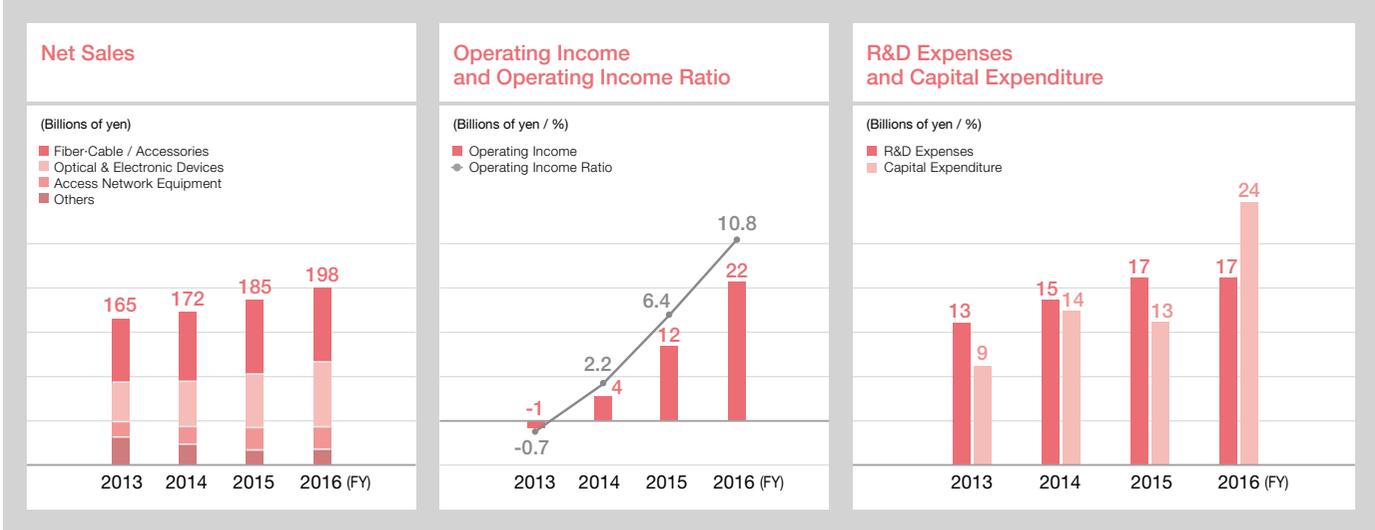


Initiatives in FY2017

- (1) Development of high-strength aluminum wiring harnesses, high-voltage wiring harnesses for environmentally friendly vehicles, connectors for high-speed communication, and electric components for EVs and automatic driving systems
- (2) Further sales promotion to overseas customers and cost reduction
- (3) Global sales promotion by accelerating contribution of the company purchased by Sumitomo Riko Company Limited.



Infocommunications



Performance in FY2016 and forecast for FY2017

Although the segment was affected by the strong yen, demand for optical fiber cable and for optical and electronic devices grew primarily in overseas markets, including China and the US, leading to net sales of ¥198.2 billion, an increase of ¥13.6 billion (7.3%) year on year. Operating income was ¥21.5 billion. In addition to growing demand, improved profitability stemming from the capture of demand for optical fiber used in data centers, and progress in cost reductions led to an increase in profit of ¥9.6 billion. For FY2017, we forecast net sales of ¥250.0 billion and operating income of ¥24.0 billion.

Net sales

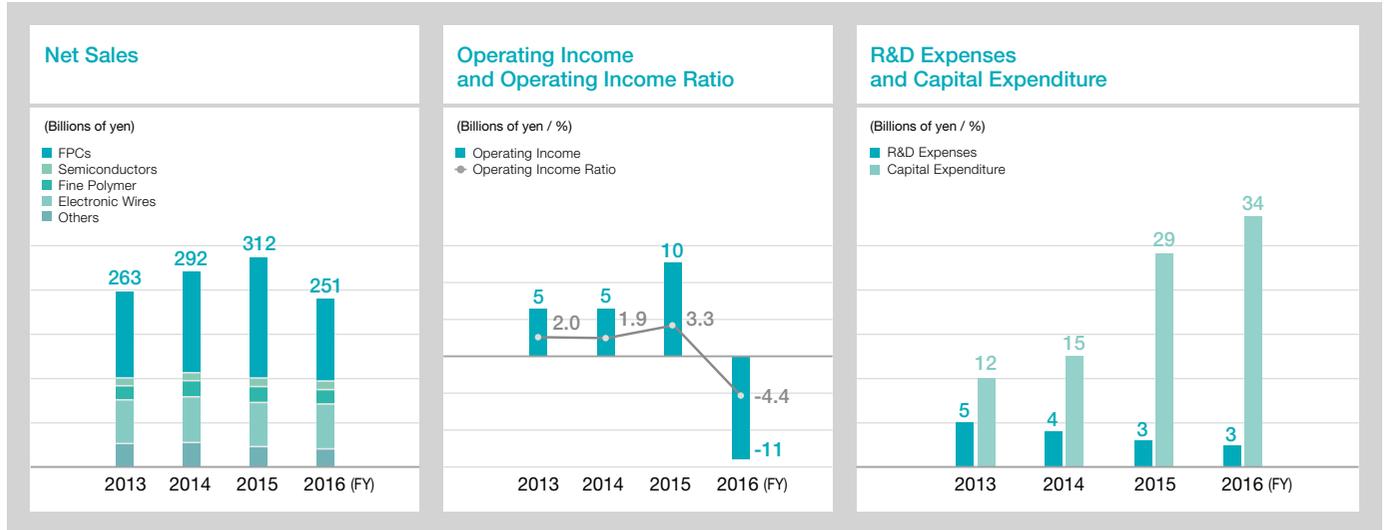
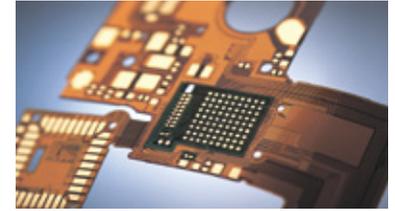
FY2016 result **FY2017 target**
 ¥198.2 billion → ¥250.0 billion **26.1%** UP

Operating income

FY2016 result **FY2017 target**
 ¥21.5 billion → ¥24.0 billion **11.6%** UP

Initiatives in FY2017

- (1) Capturing steady demand for optical fiber cables, 100G optical devices, and GaN devices to be used at mobile base stations
- (2) Sales promotion of optical fibers for submarine cables and ultra-high-fiber-count optical cables for data centers.



Performance in FY2016 and forecast for FY2017

Although the sales volume of electronic wires increased as a result of the development of new sources of demand, demand for FPCs for mobile devices declined and sales volume fell due to delays in starting production of new products. Price competition intensified, and the strong yen also had an effect. As a result, net sales were ¥251.1 billion, down ¥60.9 billion (19.5%) year on year. The operating loss was ¥10.9 billion, with worsening profitability caused in part by the fall in FPC production volumes, contributing to a drastic deterioration of ¥21.1 billion. For FY2017, we forecast net sales of ¥240.0 billion and operating income of ¥5.0 billion.

Net sales

FY2016 result **FY2017 target**
 ¥251.1 billion → ¥240.0 billion **4.4%** **DOWN**

Operating income

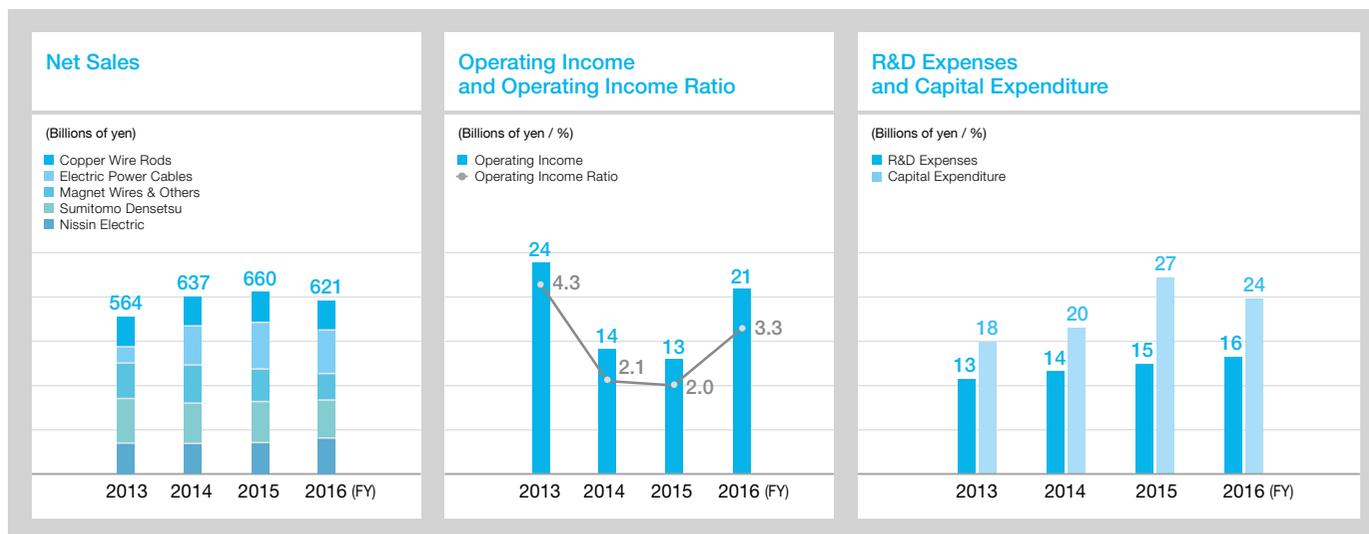
FY2016 result **FY2017 target**
 ¥(10.9) billion → ¥5.0 billion **145.8%** **UP**

Initiatives in FY2017

- (1) Further global quality improvements and cost reduction for FPCs by utilizing all resources
- (2) Development of ultra-thin, fine-pitch, and high-temperature resistant FPCs and expansion of automotive business



Environment and Energy



Performance in FY2016 and forecast for FY2017

Due to the fall in copper prices, net sales were ¥621.4 billion, declining ¥38.1 billion (5.8%) year on year. Despite a loss posted due to the correction of inappropriate accounting for previous fiscal years at an overseas subsidiary of Sumitomo Densetsu Co., Ltd., cost reductions in the production of electric power cables, demand captured by Nissin Electric Co., Ltd. for its ion implanter used in the manufacture of high-definition small and medium-sized flat panel displays, as well as progress made in improving profitability, led to a rise in operating income of ¥7.4 billion (55.2%) year on year to ¥20.8 billion. For FY2017, we forecast net sales of ¥710.0 billion and operating income of ¥24.0 billion.

Net sales



Operating income

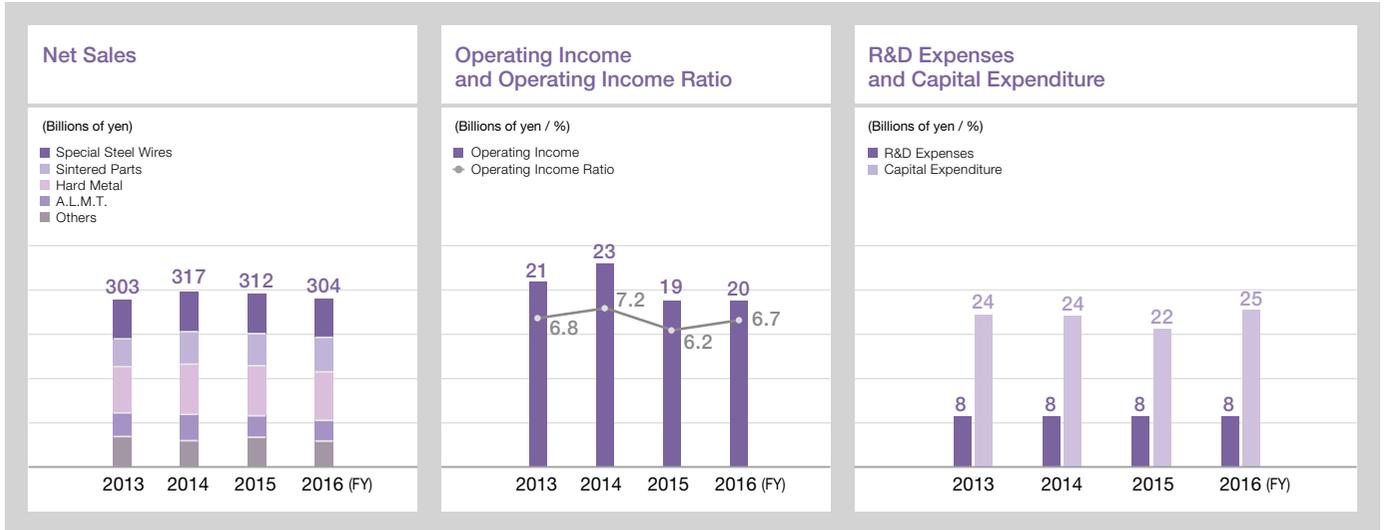


Initiatives in FY2017

- (1) Acceleration of power cable sales through promotions to meet high demand in the overseas submarine power cable market, execution of large projects (already on hand) without delay, establishment of production systems to increase production capacity, and enhancement of cost and quality competitiveness.
- (2) Business expansion in new energy and smart grid markets in cooperation with Sumitomo Densetsu and Nissin Electric.
- (3) Acceleration of development and demonstration of new energy system related products targeting at domestic and overseas markets. (Redox flow batteries, CPV systems, etc.)



Industrial Materials and Others



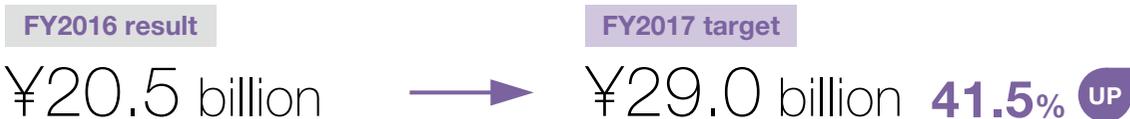
Performance in FY2016 and forecast for FY2017

Due to the effects of the strong yen and other factors, net sales declined by ¥8.2 billion (2.6%) to ¥303.9 billion. As a result of such factors as the removal in the fiscal year under review of the mark-to-market valuation loss on raw materials recorded by A.L.M.T. Corp. in the previous fiscal year resulting from falling prices for tungsten and molybdenum, and the progress made overseas in cost reductions for steel tire cords that led to improvements in profitability, operating income rose ¥1.3 billion (6.5%) year on year to ¥20.5 billion. For FY2017, we forecast net sales of ¥340.0 billion and operating income of ¥29.0 billion.

Net sales



Operating income



Initiatives in FY2017

- (1) Acceleration of global deployment for sintered parts through the purchased US company, Keystone Powdered Metal Company
- (2) Establishment of new business models centering material technology
 - Hard Metal: Sales expansion to aircraft and precision processing markets as well as such emerging economies as China, Taiwan, and India.
 - Allied Material: Intensive cost reduction and concentration of resources in growing areas
 - Prestressed Concrete Steel wire and Steel Wire for Springs: Sales and production promotion to the US, Indonesia, and other countries.

J-Power Systems Saudi Concludes Long-Term Supply Agreement with Saudi Arabian Oil Company for Submarine Power Cables

J-Power Systems Saudi Co., Ltd. (JPS Saudi), a submarine power cable manufacturer located in the Kingdom of Saudi Arabia (KSA), has concluded a long-term supply agreement (LTA) with the Saudi Arabian Oil Company (Saudi Aramco), the largest oil company in the world. Under the agreement, JPS Saudi, a subsidiary of J-Power Systems, Inc. (JPS), itself a subsidiary of Sumitomo Electric, will provide submarine power cables, accessories and services for offshore platforms.

Saudi Aramco requires contracted vendors and suppliers to strictly comply with Saudi Arabian Government policies and guidelines, including localization and Saudization. In full compliance with the standards and regulations of Saudi Aramco, JPS Saudi concluded the LTA to supply "Made in KSA" submarine power cables with the same quality and reliability as Japanese-made cables with more timely delivery.



Sumitomo Electric Acquires Keystone, a US Powdered Metal Component Manufacturer

Sumitomo Electric has decided to acquire Keystone Powdered Metal Company, a US manufacturer of powdered metal components, which is headquartered in Pennsylvania, USA. The powdered metal components business of the Sumitomo Electric Group has expanded globally from Sumitomo Electric Sintered Alloy Ltd. as the mother plant, and supplies a variety of products primarily to Japanese manufacturers of cars, air conditioners, and automotive components. This acquisition will enable us to expand sales networks for US car manufacturers and auto parts manufacturers, enhance our presence in the United States and capturing further business opportunities.

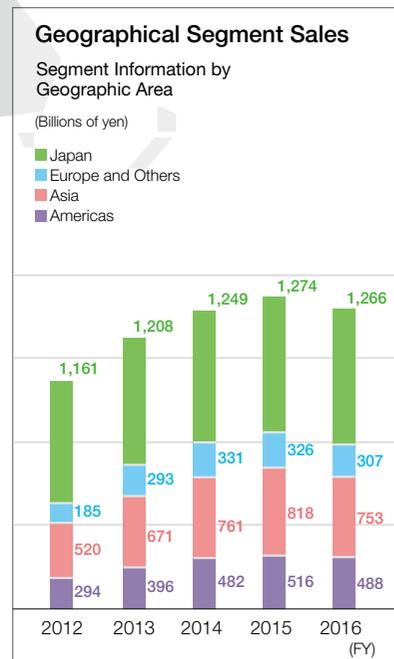
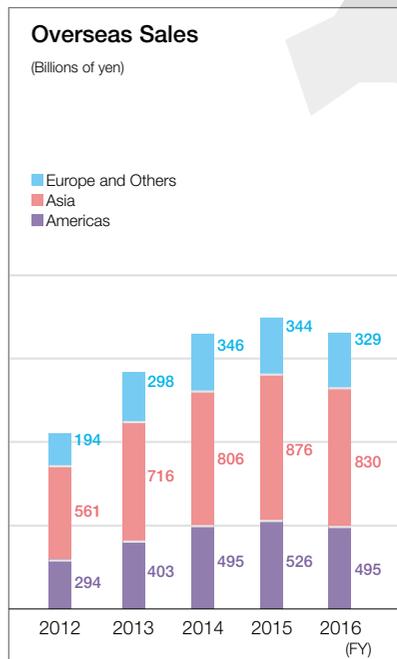
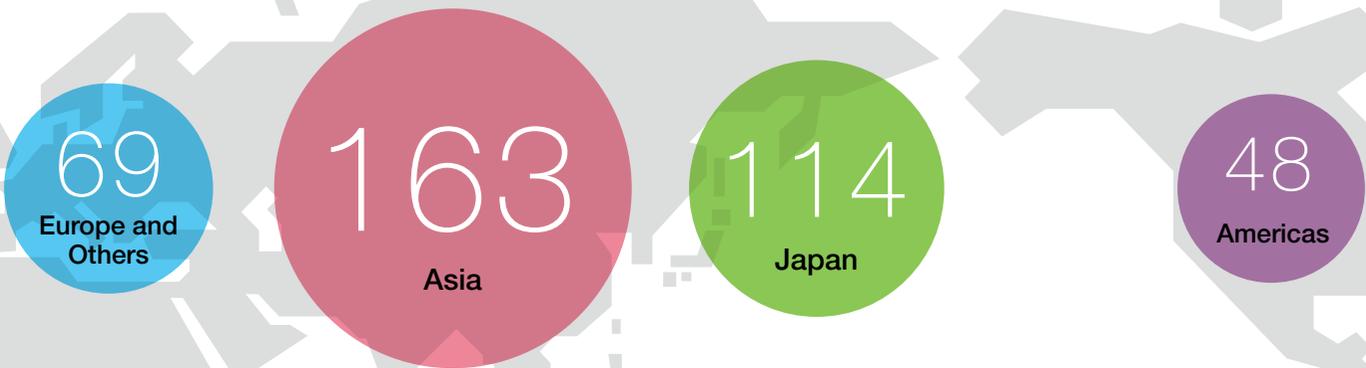


Expanding Business on the World Stage

The Sumitomo Electric Group is expanding marketing bases and optimally reconfiguring production bases around the world to respond more precisely to growing global demand driven by emerging economies. As a result, sales of the Company and its consolidated subsidiaries outside Japan (overseas sales) totaled ¥1,653.7 billion in FY2016, a decrease of ¥92.4 billion from the previous fiscal year. Overseas sales were 58.8% of total sales on a consolidated basis, a year-on-year decrease of 0.7 percentage points.

Number of Consolidated Subsidiaries and Equity-Method Affiliates

394 (As of March 31, 2017)



Americas

In FY2016, sales in the Americas decreased by ¥31.6 billion year on year to ¥494.7 billion, or 17.6% of all consolidated sales.

Sales of consolidated subsidiaries in the Americas (to external customers) declined ¥27.6 billion year on year to ¥488 billion, while operating income decreased ¥10.0 billion to ¥24.4 billion. Operating income generated in the region was 16.1% of consolidated operating income.

Asia

Sales in China decreased by ¥52.6 billion year on year to ¥479.4 billion, or 17.0% of all consolidated sales. Sales in other Asian markets increased ¥6.8 billion to ¥350.9 billion, accounting for 12.5% of total sales on a consolidated basis.

Sales of consolidated subsidiaries in Asia, including China, (to external customers) totaled ¥753 billion, a decrease of ¥64.1 billion from the previous fiscal year. Operating income also decreased ¥6.0 billion year on year to ¥71.4 billion. Operating income generated in this region was 47.3% of total operating income on a consolidated basis.

Europe and Others

Sales in Europe and other regions came to ¥328.7 billion, or 11.7% of total consolidated sales. This was a decrease of ¥15.0 billion compared with the previous fiscal year.

At the same time, sales of consolidated subsidiaries (to external customers) decreased ¥19.3 billion to ¥307.0 billion. Operating income was ¥5.2 billion, down ¥0.9 billion. Operating income generated was 3.5% of total operating income on a consolidated basis.

Global Human Resource Management Policy

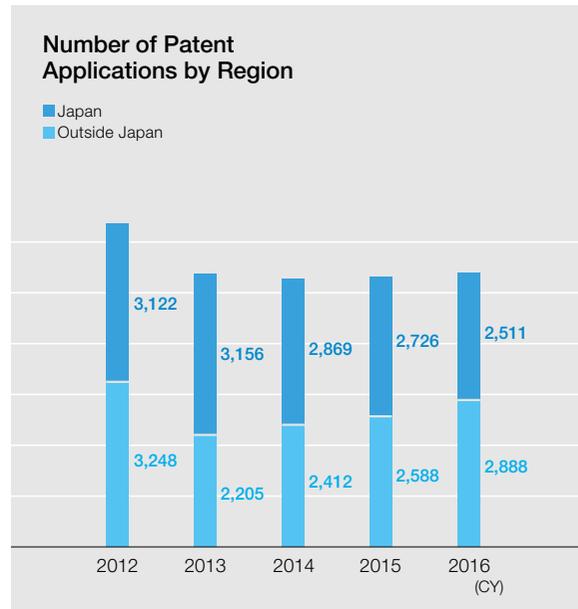
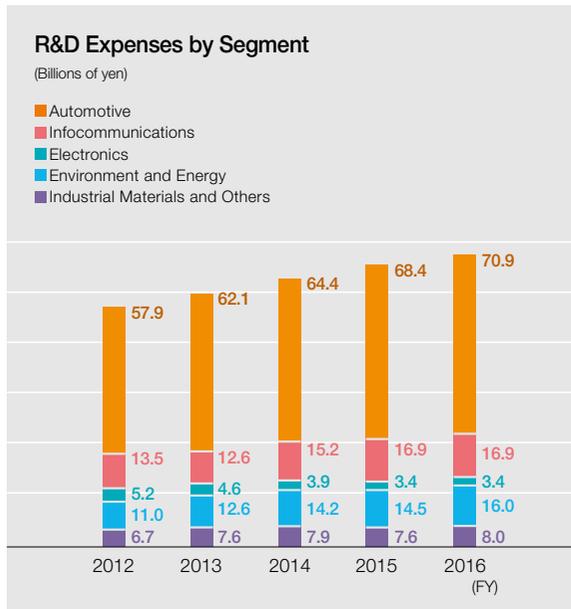
Currently, the Sumitomo Electric Group employs around 240,000 people in diversified technological and regional occupations in over 40 countries. It is essential for us to make full use of all of our resources if we are to survive and thrive amid global competition in terms of technology, products and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

Global Human Resource Management Policy Website: <http://global-sei.com/ghrm/>

Research & Development

In line with our commitment in the Sumitomo Electric Group Corporate Principles to build technical expertise, realize changes and strive for consistent growth, we focus on growing business areas and develop original businesses and new products with strong earnings potential. Anticipating future technological needs, we are committed to identifying and developing new research areas that will drive next-generation growth.

In FY2016, ended March 31, 2017, consolidated R&D expenses totaled ¥115.2 billion.



Topics Sumitomo Electric Receives Top 100 Global Innovators Award 2016 from Thomson Reuters

The Company was chosen as one of the Top 100 Global Innovators in 2016 by awards program sponsor Clarivate Analytics (head office: Philadelphia, USA). The Top 100 Global Innovators Award is given to leading companies and organizations in the global business arena that have used intellectual property rights (IPR) to protect the idea of an original invention, and have then successfully commercialized it. This was the fifth time that the Company has won one of these awards.



Topics Sumitomo Electric Demonstrates Concentrator Photovoltaic Plant in the Kingdom of Morocco

The Company has completed a 1-MW concentrator photovoltaic (CPV) project under a demonstration contract with the Moroccan Agency for Sustainable Energy (MASEN). A completion ceremony was held on November 10, 2016. The ceremony was attended by more than 100 people from the governments of both countries as well as other organizations, including H.E. Mr.

Tsuneo Kurokawa, Ambassador Extraordinary and Plenipotentiary of Japan to the Kingdom of Morocco, and Mr. Mustapha Bakkoury, President of MASEN.

*Official titles were current at the time.



Topics Sumitomo Electric Begins Demonstration of Redox Flow Battery for Large Battery System in California

In cooperation with the State of California and major public utility company San Diego Gas & Electric (SDG&E), the Company began a demonstration project for the largest redox flow battery system in the US. A commencement ceremony was held at the site in San Diego on March 16, 2017. The Company, assigned this work by Japan's New Energy and Industrial Technology Development Organization (NEDO), carried it

out on NEDO's behalf. The ceremony was attended by Mr. Makoto Watanabe, NEDO Executive Director, Mr. Junji Itoh, Sumitomo Electric Managing Director, Ms. Caroline A. Winn, SDG&E Chief Operating Officer, and Mr. Akira Chiba, the Consul General of Japan in Los Angeles, in addition to others from governments and other organizations.

*Official titles were current at the time.



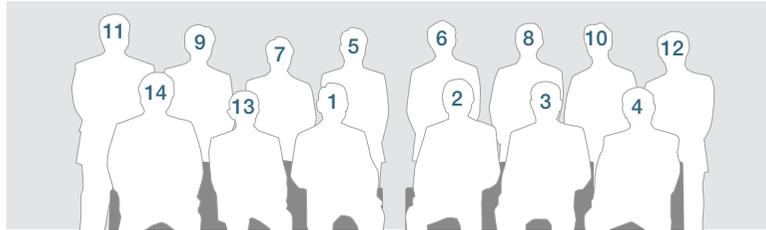
Topics Sumitomo Electric Sets New World Record for Lowest Transmission Loss of Optical Fiber

For optical fiber-related equipment, the Company has been moving ahead with R&D on low-loss, low-nonlinearity optical fiber for submarine cables. The goal is to make further gains in speed and distance for optical fiber. The Company is also developing technology for improved stability in mass production and other improvements. For example, in fiscal 2016 the Company set a new world record for the lowest loss in optical fiber, which was announced at the Optical Fiber Conference (OFC) in March 2017.

Directors, Audit & Supervisory Board Members and Executive Officers



Directors



- 1 Masayoshi Matsumoto : Chairman & CEO
- 2 Osamu Inoue : President & COO
- 3 Fumikiyo Uchioka : Executive Vice President
- 4 Mitsuo Nishida : Executive Vice President
- 5 Nozomi Ushijima : Senior Managing Director
- 6 Makoto Tani : Senior Managing Director
- 7 Junji Itoh : Managing Director

- 8 Yoshitomo Kasui : Managing Director
- 9 Takahiro Nakano : Managing Director
- 10 Akira Nishimura : Managing Director
- 11 Masaki Shirayama : Managing Director
- 12 Hideo Hato : Managing Director
- 13 Kazuo Hiramatsu : Director*
- 14 Hiroshi Sato : Director*

* Mr. Kazuo Hiramatsu and Mr. Hiroshi Sato are Outside Directors.



Audit & Supervisory Board Members

Satoru Ogura
Akira Hayashi
Kan Hayashi*
Katsuaki Watanabe*
Michiko Uehara*

* Mr. Kan Hayashi, Mr. Katsuaki Watanabe and Ms. Michiko Uehara are Outside Corporate Auditors.

Managing Executive Officers

Hiroyasu Torii
Yasuhiro Miyata
Toshiaki Kakii
Tetsuya Hayashi
Kazushi Shimizu
Shigeru Nakajima
Yoshihiro Matsushita
Takafumi Uemiya
Kenichi Urushibata
Masahiro Kobayashi

Executive Officers

Yutaka Nishide
Takashi Yoshioka
Kikaku Tokumaru
Saburo Narahashi
Hiroshi Shikata
Hiroshi Iwano
Tomoaki Nagano
Takaaki Yamamoto
Yasuyuki Shibata
Nobuyuki Kobayashi
Hiroshi Kiyokawa
Yoshiyuki Ogata
Soichiro Seki
Hisashi Togawa
Mitsuhiro Goto
Hiroshi Hayami
Yuichi Sano
Toshiyuki Sahashi
Masataka Inoue

Corporate Governance

Basic Policy for Corporate Governance

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

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

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

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

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

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

3. Outside Directors and Outside Audit & Supervisory Board Members

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

Outside Directors

Kazuo Hiramatsu

Administrative Trustee, Kwansei Gakuin

From June 2008, Director of the Company

Reasons for election: The high degree of knowledge he has gained as a university professor in accounting, his main field of research, as well as his extensive experience in such areas as university management as president of Kwansei Gakuin University.

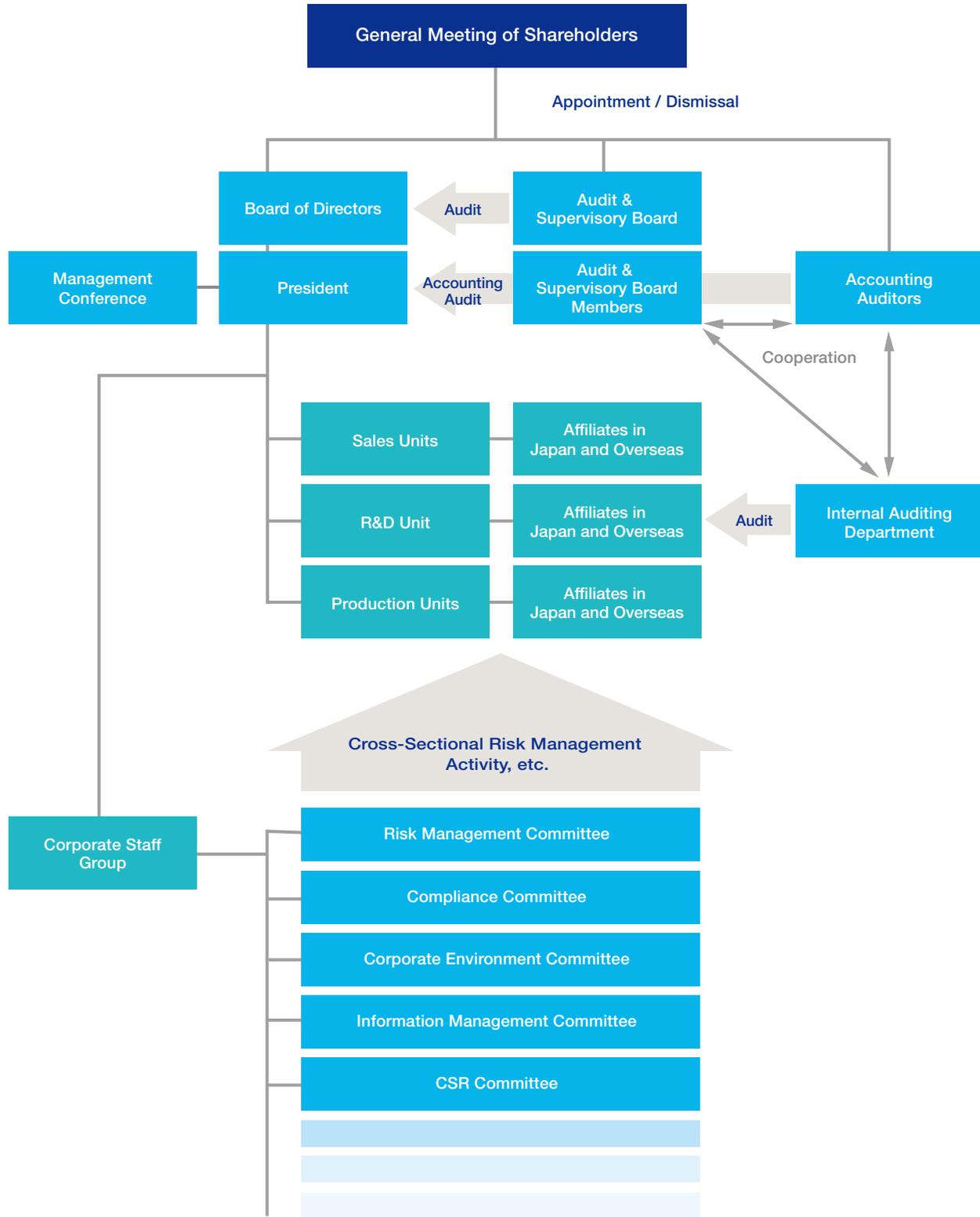
Hiroshi Sato

Senior Adviser and Director, Kobe Steel, Ltd.

From June 2016, Director of the Company

Reasons for election: His extensive experience and high degree of knowledge in all aspects of corporate management derived from his involvement with a company engaged in a range of business domains, including materials (primarily steel), machinery and energy.

Sumitomo Electric Group's Corporate Governance Structure



Corporate Governance

Outside Audit & Supervisory Board Members

Kan Hayashi

Until June 2010, CEO of PricewaterhouseCoopers Tax Japan
From June 2010, Audit & Supervisory Board Member of the Company

Reasons for election: His specialized knowledge and experience as a certified public accountant and licensed tax accountant, which covers the field of international taxation, in addition to his deep insight into the global business activities of companies that he accumulated during his practice, including corporate acquisitions and restructuring, as well as when he lived overseas.

Katsuaki Watanabe

Advisor, Toyota Motor Corporation
From June 2013, Audit & Supervisory Board Member of the Company

Reasons for election: His extensive experience and high degree of knowledge of all aspects of corporate management derived from his involvement over many years with a company that expanded its business activities globally.

Michiko Uehara

Attorney at Law
From June 2016, Audit & Supervisory Board Member of the Company

Reasons for election: Her extensive experience and high degree of knowledge in relation to corporate law, including compliance, derived from her work in the judicial system as a judge and attorney.

The Sumitomo Electric Corporate Governance Guidelines are available online:

<http://global-sei.com/company/governance.html>

Compliance

Basic Stance on Compliance

Compliance with laws and regulations and maintenance of our corporate ethics form the core of Sumitomo Electric's management and are part of our social responsibility. At the same time, they are the absolute foundation of the Company's continued existence and development. For this reason, we have long operated a compliance system. Since the Japan Fair Trade Commission gave Sumitomo Electric a cease and desist warning based on the Antimonopoly Act in February 2003, the Company has made every effort to strengthen the compliance system.

Compliance Committee

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

Initiatives to Deepen Awareness of Compliance

1. Compliance Manual

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

2. Compliance Education

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

3. Speak-Up System

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

4. Competition Law Compliance System

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

Basis for Growth

Risk Management

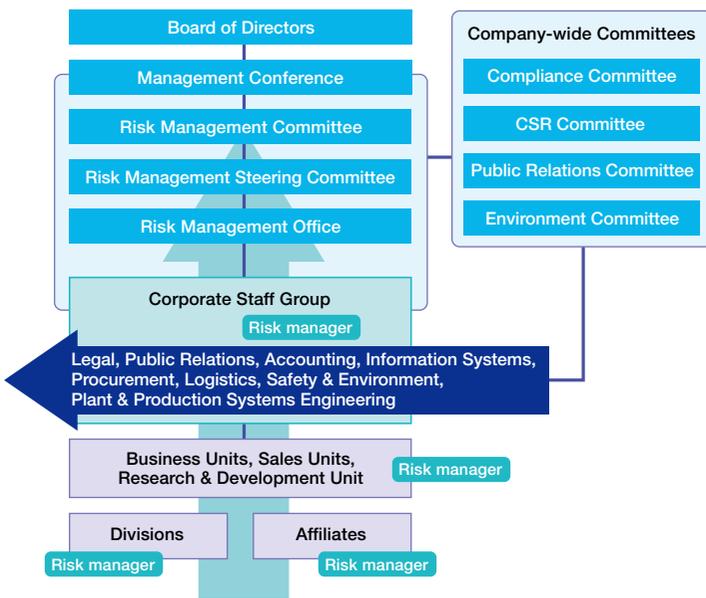
Basic Policy for Risk Management

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

Basic Policy for Risk Management

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

Risk Management System



Business Continuity

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

Personal Information Protection

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

Strengthening Our Information Security Management System

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

Five-Year Financial Data and Indexes

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2016 Mar. 31, 2017	FY2015 Mar. 31, 2016	FY2014 Mar. 31, 2015	FY2013 Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2016 Mar. 31, 2017
For the Year:						
Net sales	¥2,814,483	¥2,933,089	¥2,822,811	¥2,568,779	¥2,159,942	\$25,086,755
Cost of sales	2,284,190	2,397,166	2,310,606	2,104,728	1,785,052	20,360,014
Selling, general and administrative expenses	379,790	392,447	377,748	343,993	298,100	3,385,239
Operating income	150,503	143,476	134,457	120,058	76,790	1,341,501
Profit before income taxes	167,792	154,859	167,067	123,833	84,084	1,495,606
Profit attributable to owners of the parent	107,562	91,001	119,771	66,748	37,955	958,749
Capital expenditures ¹	183,693	167,282	148,213	150,823	147,883	1,637,338
Depreciation and amortization	134,532	134,371	126,663	113,271	90,629	1,199,144
R&D expenses	115,155	110,839	105,604	99,520	94,287	1,026,428

At Year-End:

Total assets	¥2,903,584	¥2,742,848	¥2,925,785	¥2,554,819	¥2,297,567	\$25,880,952
Total interest-bearing liabilities	510,989	457,145	550,839	534,641	485,569	4,554,675
Total net assets ²	1,626,502	1,561,289	1,646,913	1,379,912	1,244,695	14,497,745

	Yen					U.S. dollars
	FY2016	FY2015	FY2014	FY2013	FY2012	FY2016
Per Share Data:						
Profit attributable to owners of the parent ³ :						
Basic	¥137.61	¥114.73	¥151.00	¥84.15	¥47.85	\$1.227
Diluted	137.24	—	—	—	—	1.223
Cash dividends ⁴	40.00	35.00	30.00	22.00	20.00	0.357
Owner's equity ⁵	1,814.90	1,715.28	1,804.34	1,499.76	1,352.09	16.177
Weighted average number of shares outstanding (in thousands)	781,638	793,189	793,194	793,200	793,206	
Number of employees (at year-end)	248,330	240,865	240,798	225,484	206,323	
Average number of temporary employees	(38,168)	(39,124)	(34,553)	(34,457)	(30,317)	

Financial Indexes:

Operating income/net sales (%)	5.3	4.9	4.8	4.7	3.6
Profit attributable to owners of the parent/net sales (%)	3.8	3.1	4.2	2.6	1.8
Operating income/invested assets ⁶ (ROA) (%)	7.2	6.8	6.5	6.6	4.8
Return on owner's equity (%)	7.7	6.5	9.1	5.9	3.7
Owner's equity ratio (%)	48.7	49.6	48.9	46.6	46.7
Current ratio (Times)	1.7	1.8	1.7	1.6	1.7
R&D expenses/net sales (%)	4.1	3.8	3.7	3.9	4.4

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥112.19 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2017.

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

² See Note 9.

³ From the year ended March 31, 2014 to the year ended March 31, 2016, there were no potential common shares.

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

⁴ Cash dividends per share for the year ended March 31, 2017 include 2 yen as commemorative dividends for the 120th anniversary.

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

⁶ Invested assets = Total assets - interest-free liabilities

Management's Discussion and Analysis

Business Conditions in FY2016

In the 2016 consolidated fiscal year ended on March 31, 2017, the overall trend of a moderate recovery in the global economy continued. However, due to increased unpredictability — caused by factors such as the decision of the UK to leave the EU, a new administration in the US, and the impact of slowing growth in emerging economies — concern grew over uncertainty for the future. Also, the Japanese economy came to a standstill due to low consumer spending.

Review of Operations in FY2016

For the business environment surrounding us, demand grew strongly for automotive wiring harnesses, optical fiber cables, and optical and electronic devices, primarily in overseas markets. On the other hand, demand fell for flexible printed circuits (FPCs) used in mobile devices, and there was a significant impact from the strong yen and falling copper prices, leading to challenging circumstances for our operations. Against this backdrop, consolidated net sales for FY2016 came in at ¥2,814.5 billion (a decrease of 4.0% from ¥2,933.1 billion in FY2015), a relative decline from the previous fiscal year. For profits, however, we pushed ahead with worldwide cost reduction initiatives, new product development, and sales expansion programs. As a result, operating income came to ¥150.5 billion (an increase of 4.9% over ¥143.5 billion in FY2015). Profit attributable to owners of the parent was ¥107.6 billion, rising 18.2% from ¥91.0 billion in FY2015. Consequently, every profit category posted a year-on-year increase.

Segment Information

Automotive

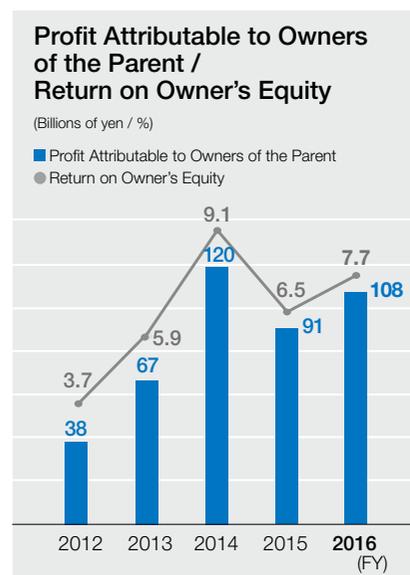
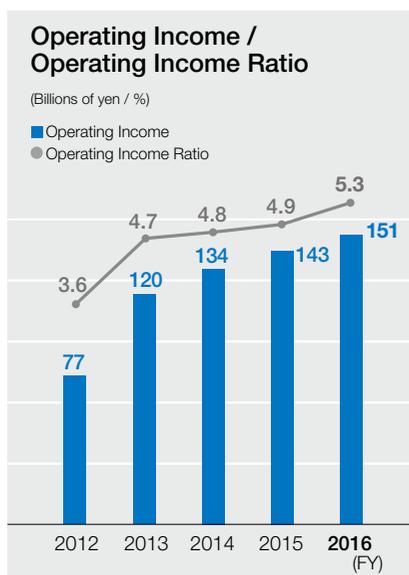
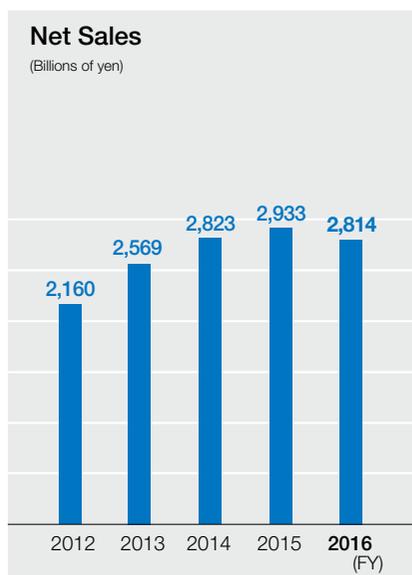
Sales volumes rose overseas, particularly in China, due to our worldwide initiatives to capture demand for wiring harnesses, automotive electronic parts, and anti-vibration rubber to be used in new models. On the other hand, net sales were affected by the strong yen and a drop in copper prices, falling by ¥28.8 billion (1.9%) to ¥1,513.2 billion. Operating income came in at ¥98.6 billion, rising ¥10.0 billion year on year owing to progress made in reducing costs at production bases around the world, which offset the impact of the strong yen. The operating income margin improved by 0.8 percentage points to 6.5%.

Infocommunications

Although this segment was affected by the strong yen, demand for optical fiber cables and optical and electronic devices grew primarily in overseas markets, including China and the US, leading to net sales of ¥198.2 billion, an increase of ¥13.6 billion (7.3%) year on year. Operating income was ¥21.5 billion. In addition to rising demand, profits grew from capitalizing on the demand for optical fibers used in data centers, and further cost cutting led to an increase in profits of ¥9.6 billion. The operating income margin improved by 4.4 percentage points to 10.8%.

Electronics

Although sales of electronic wires increased as a result of developing new sources for sales, demand declined for FPCs for mobile devices. FPC sales volume fell due to delays in beginning production of new products, intensified price competition, and the strong yen. As a result, net sales were ¥251.1 billion, down ¥60.9 billion (19.5%) year on year. The operating loss was ¥10.9 billion, a sharp fall of ¥21.1 billion.



Environment and Energy

Due primarily to falling copper prices, net sales were ¥621.4 billion, declining ¥38.1 billion (5.8%). Operating income rose ¥7.4 billion year on year to ¥20.8 billion, despite a posted loss due to the correction of inappropriate accounting for previous fiscal years at an overseas subsidiary of Sumitomo Densetsu Co., Ltd. The positive factors for this segment were cost cutting in electric power cable production, more demand captured by Nissin Electric Co., Ltd. for ion implanters used to make small and medium-sized high-definition flat panel displays, and progress in improving profitability. The operating income margin improved by 1.3 percentage points to 3.3%. Orders received for plant and installation work reached ¥293.0 billion, a decrease of ¥26.9 billion (8.4%) from the previous fiscal year.

Industrial Materials and Others

Due to the effects of the strong yen and other factors, net sales declined by ¥8.2 billion (2.6%) to ¥303.9 billion. Operating income rose ¥1.3 billion year on year to ¥20.5 billion as a result of such factors as the removal in the period under review of the mark-to-market valuation loss on raw materials recorded by A.L.M.T. Corp. due to falling prices for tungsten and molybdenum in the previous consolidated accounting period and the progress made overseas in cost cutting for steel tire cords that led to improvement in profitability. The operating income margin improved by 0.5 percentage points to 6.7%.

Cash Flows

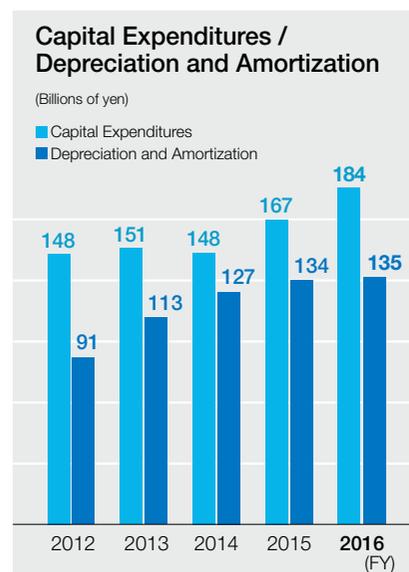
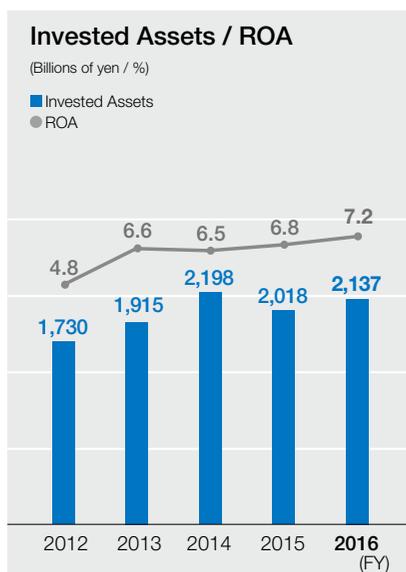
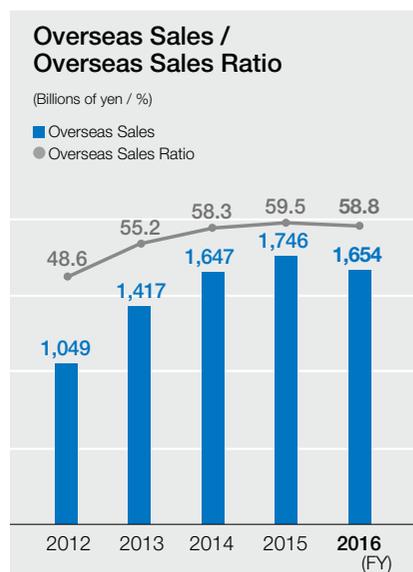
The consolidated fiscal year-end balance of cash and cash equivalents was ¥180.0 billion, a year-on-year increase of ¥5.9 billion.

Net cash provided by operating activities declined by ¥31.5 billion from the previous fiscal year to ¥209.2 billion. This was the result of several factors, including the change in working capital being subtracted from profit before income taxes of ¥167.8 billion as well as depreciation and amortization of ¥130.7 billion.

Net cash used in investment activities was ¥194.8 billion (an increase of ¥77.4 billion over the previous fiscal year). This was due, among other factors, to capital expenditure driving purchases of property, plant, and equipment of ¥175.2 billion.

Free cash flow, calculated by deducting net cash used in investment activities from net cash provided by operating activities, was ¥14.4 billion, compared with ¥123.4 billion for the previous fiscal year.

Net cash used in financing activities was ¥4.8 billion (compared with ¥115.9 billion for the previous fiscal year). Although there were proceeds from issuing corporate bonds, this was offset by disbursements to purchase treasury shares and to pay dividends.



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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	As of March 31, 2017	March 31, 2016	March 31, 2017
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	¥ 180,034	¥ 174,686	\$1,604,724
Trade notes and accounts receivable (Note 4)	648,411	622,944	5,779,579
Securities (Notes 3, 4 and 5)	792	57	7,059
Inventories (Note 7)	449,070	422,976	4,002,763
Deferred tax assets (Note 12)	49,734	48,764	443,302
Other current assets	101,245	91,359	902,442
Allowance for doubtful receivables	(2,733)	(3,590)	(24,360)
Total current assets	1,426,553	1,357,196	12,715,509
Non-Current Assets:			
Property, Plant and Equipment (Note 8):			
Buildings and structures	644,054	620,088	5,740,743
Machinery, equipment and others	1,604,321	1,511,016	14,300,036
Land	87,904	87,512	783,528
Construction in progress	46,813	48,505	417,265
	2,383,092	2,267,121	21,241,572
Accumulated depreciation	(1,559,907)	(1,487,001)	(13,904,153)
Net property, plant and equipment	823,185	780,120	7,337,419
Intangible Assets	54,316	51,733	484,143
Investments and Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	283,540	264,986	2,527,320
Investment securities (Notes 4 and 5)	153,792	155,773	1,370,817
Net defined benefit assets (Note 13)	98,739	75,728	880,105
Deferred tax assets (Note 12)	19,680	17,829	175,417
Other	46,219	40,911	411,971
Allowance for doubtful receivables	(2,440)	(1,428)	(21,749)
Total investments and other assets	599,530	553,799	5,343,881
Total non-current assets	1,477,031	1,385,652	13,165,443
Total assets	¥2,903,584	¥2,742,848	\$25,880,952

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	As of March 31, 2017	March 31, 2016	March 31, 2017
LIABILITIES			
Current Liabilities:			
Trade notes and accounts payable (Note 4)	¥ 378,110	¥ 349,360	\$3,370,265
Short-term debt (Notes 4 and 8)	179,584	162,213	1,600,713
Current portion of bonds (Notes 4 and 8)	15,000	10,610	133,702
Accrued income taxes	17,797	19,279	158,633
Other current liabilities (Notes 8 and 12)	233,684	229,711	2,082,930
Total current liabilities	824,175	771,173	7,346,243
Non-Current Liabilities:			
Bonds (Notes 4 and 8)	60,000	25,000	534,807
Long-term debt (Notes 4 and 8)	253,862	256,239	2,262,786
Deferred tax liabilities (Note 12)	65,988	59,228	588,181
Net defined benefit liabilities (Note 13)	54,553	51,562	486,255
Other non-current liabilities (Note 8)	18,504	18,357	164,935
Total non-current liabilities	452,907	410,386	4,036,964
Total liabilities	1,277,082	1,181,559	11,383,207
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock:			
Authorized—3,000,000 thousand shares in FY2016 and FY2015	99,737	99,737	889,001
Issued—793,941 thousand shares in FY2016 and FY2015	170,849	171,314	1,522,854
Capital surplus	1,061,374	981,413	9,460,504
Treasury stock, at cost: 14,049 thousand shares in FY2016 and 754 thousand shares in FY2015	(20,736)	(677)	(184,829)
Total shareholders' equity	1,311,224	1,251,787	11,687,530
Accumulated Other Comprehensive Income:			
Net unrealized holding gains on available-for-sale securities	76,784	74,629	684,410
Deferred gains or losses on hedges	227	2,134	2,023
Foreign currency translation adjustments	6,547	27,680	58,357
Remeasurements of defined benefit plans	20,644	4,309	184,009
Total accumulated other comprehensive income	104,202	108,752	928,799
Non-Controlling Interests			
	211,076	200,750	1,881,416
Total net assets	1,626,502	1,561,289	14,497,745
Total liabilities and net assets	¥2,903,584	¥2,742,848	\$25,880,952

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Net Sales	¥2,814,483	¥2,933,089	\$25,086,755
Cost of Sales	2,284,190	2,397,166	20,360,014
Gross profit	530,293	535,923	4,726,740
Selling, General and Administrative Expenses	379,790	392,447	3,385,239
Operating income	150,503	143,476	1,341,501
Other Income (Expenses):			
Interest and dividend income	4,833	5,271	43,079
Interest expenses	(4,831)	(5,271)	(43,061)
Share of profit of investments accounted for using the equity method	28,200	29,645	251,359
Gain on sales of investment securities	14,432	32,186	128,639
Foreign exchange losses	—	(3,907)	—
Loss on disposal of property, plant and equipment	(4,331)	(3,275)	(38,604)
Impairment loss on fixed assets (Notes 15 and 16)	—	(12,479)	—
Restructuring expenses (Note 16)	(6,046)	(6,046)	(53,891)
Special transportation expenses (Note 17)	—	(524)	—
Settlement package	(10,135)	(20,661)	(90,338)
Other, net	(4,833)	(3,556)	(43,079)
	17,289	11,383	154,105
Profit before Income Taxes	167,792	154,859	1,495,606
Income Taxes (Note 12):			
Current	39,068	50,002	348,231
Deferred	2,379	(176)	21,205
	41,447	49,826	369,436
Profit for the year	126,345	105,033	1,126,170
Profit Attributable to Non-Controlling Interests	(18,783)	(14,032)	(167,421)
Profit Attributable to Owners of the Parent	¥ 107,562	¥ 91,001	\$ 958,749
	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic	¥137.61	¥114.73	\$1.227
Diluted	137.24	—	1.223
Cash dividends	40.00	35.00	0.357

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

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Profit for the year	¥126,345	¥ 105,033	\$1,126,170
Other Comprehensive Income (Loss) (Note 11):			
Net unrealized holding gains on available-for-sale securities	4,501	(54,798)	40,119
Deferred gains or losses on hedges	(2,015)	3,193	(17,961)
Foreign currency translation adjustments	(15,283)	(53,685)	(136,223)
Remeasurements of defined benefit plans	18,095	(27,300)	161,289
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(11,304)	(13,394)	(100,758)
Total other comprehensive income (loss)	(6,006)	(145,984)	(53,534)
Comprehensive Income (Loss)	¥120,339	¥ (40,951)	\$1,072,636
Comprehensive income (loss) attributable to:			
Owners of the parent	102,824	(38,300)	916,517
Non-controlling interests	17,515	(2,651)	156,119

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

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

	Millions of yen									
	Shareholders' Equity				Accumulated Other Comprehensive Income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets (Note 9)
Balance at Beginning of FY2015	¥99,737	¥171,020	¥920,850	¥(667)	¥127,416	¥ (838)	¥88,444	¥25,224	¥215,727	¥1,646,913
Cash dividends			(27,767)							(27,767)
Profit attributable to owners of the parent for the year			91,001							91,001
Purchases of treasury stock				(10)						(10)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			(61)							(61)
Change in ownership interests arising from transactions with non-controlling shareholders		294								294
Other (Note 9)			(2,610)		(52,787)	2,972	(60,764)	(20,915)	(14,977)	(149,081)
Balance at End of FY2015	¥99,737	¥171,314	¥981,413	¥(677)	¥ 74,629	¥2,134	¥27,680	¥ 4,309	¥200,750	¥1,561,289
Balance at Beginning of FY2016	¥99,737	¥171,314	¥ 981,413	¥(677)	¥ 74,629	¥2,134	¥27,680	¥ 4,309	¥200,750	¥1,561,289
Cash dividends			(27,541)							(27,541)
Profit attributable to owners of the parent for the year			107,562							107,562
Purchases of treasury stock				(20,059)						(20,059)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			(60)							(60)
Change in ownership interests arising from transactions with non-controlling shareholders		(465)								(465)
Other					2,155	(1,907)	(21,133)	16,335	10,326	5,776
Balance at End of FY2016	¥99,737	¥170,849	¥1,061,374	¥(20,736)	¥76,784	¥ 227	¥ 6,547	¥20,644	¥211,076	¥1,626,502

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

Thousands of U.S. dollars (Note 1)

	Shareholders' Equity				Accumulated Other Comprehensive Income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets (Note 9)
Balance at Beginning of FY2016	\$889,001	\$1,526,999	\$8,747,776	\$(6,034)	\$665,202	\$19,021	\$246,724	\$38,408	\$1,789,375	\$13,916,472
Cash dividends			(245,485)							(245,485)
Profit attributable to owners of the parent for the year			958,749							958,749
Purchases of treasury stock				(178,795)						(178,795)
Disposal of treasury stock		0		0						0
Effect arising from net change in scope of consolidation			(536)							(536)
Change in ownership interests arising from transactions with non-controlling shareholders		(4,145)								(4,145)
Other					19,208	(16,998)	(188,367)	145,601	92,041	51,485
Balance at End of FY2016	\$889,001	\$1,522,854	\$9,460,504	\$(184,829)	\$684,410	\$ 2,023	\$ 58,357	\$184,009	\$1,881,416	\$14,497,745

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

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Cash Flows from Operating Activities:			
Profit before income taxes	¥ 167,792	¥ 154,859	\$ 1,495,606
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	130,700	131,117	1,164,988
Impairment loss on fixed assets	2,391	15,405	21,312
Amortization of goodwill	1,806	3,844	16,098
Interest and dividend income	(4,833)	(5,271)	(43,079)
Interest expenses	4,831	5,271	43,061
Share of profit of investments accounted for using the equity method	(28,200)	(29,645)	(251,359)
Net gain on sales of investment securities	(14,403)	(32,170)	(128,380)
Loss on disposal of property, plant and equipment	6,208	3,644	55,335
Loss on valuation of investment securities	1,871	843	16,677
Settlement package	10,135	20,661	90,338
(Increase) decrease in trade notes and accounts receivable	(29,405)	2,714	(262,100)
(Increase) decrease in inventories	(29,509)	7,952	(263,027)
Increase (decrease) in trade notes and accounts payable	29,848	(8,157)	266,049
Increase in net defined benefit assets and liabilities	1,406	2,590	12,531
Other, net	9,037	13,886	80,550
Subtotal	259,675	287,543	2,314,600
Interest and dividend received	10,903	14,386	97,183
Interest paid	(4,884)	(5,675)	(43,533)
Settlement package paid	(21,006)	(17,634)	(187,236)
Income taxes paid	(35,455)	(37,841)	(316,026)
Net cash provided by operating activities	209,233	240,779	1,864,988
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(175,170)	(160,309)	(1,561,369)
Proceeds from sales of property, plant and equipment	4,852	5,823	43,248
Purchase of investment securities	(13,507)	(4,159)	(120,394)
Proceeds from sales of investment securities	19,984	56,472	178,126
Net cash for the acquisition of shares of newly consolidated subsidiaries	(6,205)	—	(55,308)
Other, net	(24,783)	(15,214)	(220,902)
Net cash used in investing activities	(194,829)	(117,387)	(1,736,599)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt	33,200	(64,008)	295,927
Proceeds from long-term debt	32,279	18,756	287,717
Redemption of bonds and repayments of long-term debt	(62,295)	(32,115)	(555,263)
Proceeds from issuance of bonds	50,000	—	445,673
Payments for purchase of treasury stock	(20,002)	(6)	(178,287)
Cash dividends paid	(27,541)	(27,767)	(245,485)
Dividends paid to non-controlling interests	(9,815)	(10,023)	(87,486)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,230)	(908)	(10,964)
Other, net	641	159	5,713
Net cash used in financing activities	(4,763)	(115,912)	(42,455)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,544)	(10,554)	(31,589)
Net Increase (Decrease) in Cash and Cash Equivalents	6,097	(3,074)	54,345
Cash and Cash Equivalents at Beginning of Year	174,055	177,107	1,551,431
Decrease in Cash and Cash Equivalents from Change in Closing Period of Consolidated Subsidiaries	—	(8)	—
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	545	30	4,858
Decrease in Cash and Cash Equivalents Resulting from Exclusion of subsidiaries from consolidation	(695)	—	(6,195)
Cash and Cash Equivalents at End of Year (Note 3)	¥ 180,002	¥ 174,055	\$ 1,604,439

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, 2017 and 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

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

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

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

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

The remaining 5 overseas consolidated subsidiaries that have a fiscal year ending December 31 reported on a calendar year for consolidation purpose in fiscal year 2016. Any significant transactions that occurred between January 1 and March 31, 2017 have been adjusted for, if necessary.

b) Translation of Foreign Currencies

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

c) Cash and Time Deposits

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

d) Securities

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

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

Debt and equity securities not classified as above are classified as available-for-sale securities. Available-for-sale securities which have fair values are stated at the fair value at the fiscal year end, and unrealized gains and losses, net of

related taxes and non-controlling interests, are reported as a separate component of net assets. Available-for-sale securities which do not have fair values are stated at moving average cost. Realized gains and losses on sales of such securities are computed using moving average cost.

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

e) Derivatives and Hedging Transactions

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

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

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

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

f) Allowance for Doubtful Receivables

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

g) Inventories

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

h) Property, Plant and Equipment (Excluding Leases)

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

i) Goodwill

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

j) Revenue Recognition (Construction contracts)

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

k) Research and Development

Expenses relating to research and development activities are charged to expenses as incurred and totaled ¥115,155 million (US\$1,026,428 thousand) and ¥110,839 million for the years ended March 31, 2017 and 2016, respectively.

l) Retirement Benefits

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

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

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

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

Past service cost is amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 15 years) from the year in which it arises, or accounted for as an expense when it arises at some consolidated subsidiaries.

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

m) Income Taxes

Income tax expense comprises current and deferred tax.

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

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

n) Leases

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

o) Consolidated Statements of Cash Flows

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

p) Appropriation of Retained Earnings

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

q) Use of Estimates

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

r) Reclassifications and Restatements

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

s) Accounting for Consumption Taxes

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

t) Adoption of Consolidated Taxation System

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

u) Additional Information

Effective from the fiscal year ended March 31, 2017, the Company and its domestic subsidiaries have adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 26, March 28, 2016).

v) Standard Issued but Not Yet Adopted

- Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements (ASBJ PITF No. 18 revised on March 29, 2017)
- Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ PITF No. 24 revised on March 29, 2017)

(1) Summary

PITF No.18, etc., are amended to include domestic subsidiaries and affiliates which apply the designated IFRSs or Japan's Modified International Standards to their consolidated financial statements prepared and disclosed in accordance with Financial Instruments and Exchange Act.

(2) Effective Date

Effective from the beginning of the fiscal year ending March 31, 2018.

(3) Impact of Adoption

The Company is currently in the process of estimating the effects of the revised practical solutions on the consolidated financial statements.

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of
	FY2016	FY2015	FY2016
As of	March 31, 2017	March 31, 2016	March 31, 2017
Cash and time deposits	¥180,034	¥174,686	\$1,604,724
Cash equivalents included in securities	792	57	7,059
Deposits placed with banks with a maturity of over three months	(824)	(688)	(7,344)
Cash and cash equivalents	¥180,002	¥174,055	\$1,604,439

4. FINANCIAL INSTRUMENTS

a) Qualitative Information on Financial Instruments

(1) Policies for using financial instruments

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

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

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

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

b) Fair Value of Financial Instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2017 and 2016 are as follows. Financial instruments whose fair value is hard to determine are not included in the table.

As of	Millions of yen						Thousands of U.S. dollars		
	FY2016			FY2015			FY2016		
	March 31, 2017			March 31, 2016			March 31, 2017		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	¥180,034	¥180,034	¥-	¥ 174,686	¥ 174,686	¥ -	\$1,604,724	\$1,604,724	\$-
Trade notes and accounts receivable	648,411	648,411	-	622,944	622,944	-	5,779,579	5,779,579	-
Securities, investments in unconsolidated subsidiaries and affiliates and investment securities	348,381	548,312	199,931	327,993	455,109	127,116	3,105,277	4,887,352	1,782,075
Total assets	1,176,826	1,376,757	199,931	1,125,623	1,252,739	127,116	10,489,580	12,271,655	1,782,075
Trade notes and accounts payable	378,110	378,110	-	349,360	349,360	-	3,370,265	3,370,265	-
Short-term debt	179,584	179,584	-	162,213	162,213	-	1,600,713	1,600,713	-
Bonds	75,000	75,164	164	35,610	36,124	514	668,509	669,971	1,462
Long-term debt	253,862	258,115	4,253	256,239	263,376	7,137	2,262,786	2,300,695	37,909
Total liabilities	886,556	890,973	4,417	803,422	811,073	7,651	7,902,273	7,941,644	39,371
Derivative transactions	280	280	-	2,101	2,101	-	2,496	2,496	-

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

Cash and time deposits, trade notes and accounts receivable:

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

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

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

Trade notes and accounts payable:

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

Short-term debt:

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

Bonds:

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

Long-term debt:

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

Derivative transactions:

See Note 6.

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

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2016 March 31, 2017	FY2015 March 31, 2016	FY2016 March 31, 2017
Unlisted securities (available-for-sale securities)		¥6,247	¥ 7,736	\$55,682
Unlisted investments in unconsolidated subsidiaries and affiliates		83,496	85,087	744,237

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

5. SECURITIES

The carrying amounts of securities in current assets and investment securities as of March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2016 March 31, 2017	FY2015 March 31, 2016	FY2016 March 31, 2017
Securities in current assets:				
Available-for-sale securities		¥792	¥57	\$7,059
Held-to-maturity debt securities		—	—	—
		¥792	¥57	\$7,059
Investment securities:				
Available-for-sale securities		¥153,792	¥155,773	\$1,370,817
Held-to-maturity debt securities		—	—	—
		¥153,792	¥155,773	\$1,370,817

Available-for-sale securities with fair values or quoted market values included in securities in current assets and investment securities as of March 31, 2017 and 2016 are as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2016				
Equity securities	¥25,828	¥111,377	¥(49)	¥137,156
Other	10,792	389	—	11,181
	¥36,620	¥111,766	¥(49)	¥148,337
FY2015				
Equity securities	¥26,024	¥111,762	¥(412)	¥137,374
Other	10,156	564	—	10,720
	¥36,180	¥112,326	¥(412)	¥148,094
FY2016				
Equity securities	\$230,217	\$992,753	\$(437)	\$1,222,533
Other	96,194	3,467	—	99,661
	\$326,411	\$996,220	\$(437)	\$1,322,194

Proceeds from sales of available-for-sale securities were ¥20,290 million (US\$180,854 thousand) and ¥38,265 million for the years ended March 31, 2017 and 2016, respectively. The net realized gains on those sales were ¥14,408 million (US\$128,425 thousand) and ¥32,063 million for the years ended March 31, 2017 and 2016, respectively. Impairment loss on securities during fiscal year 2016 amounted to ¥1,871 million (US\$16,677 thousand), which consist of ¥26 million (US\$232 thousand) for available-for-sale securities, ¥1,838 million (US\$16,383 thousand) for investments in unconsolidated subsidiaries and ¥7 million (US\$62 thousand) for investments in affiliated companies not accounted for using the equity method. Impairment losses of securities during fiscal year 2015 amounted to ¥843 million, which consist of ¥63 million for available-for-sale securities, ¥286 million for the investments in unconsolidated subsidiaries and ¥494 million for investments in affiliated companies not accounted for using the equity method.

6. DERIVATIVE TRANSACTIONS

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

Additional information for derivative transactions as of and for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen									
	FY2016					FY2015				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*		Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange contracts:										
Buy	¥20,350	¥(18)	¥(18)	¥ 21,833	¥ 45	¥ 25,005	¥ (856)	¥ (856)	¥ 20,323	¥ (56)
Sell	71,658	507	507	171,258	(266)	92,546	2,027	2,027	157,832	1,014
Interest rate and currency swap contracts	—	—	—	144	22	—	—	—	439	57
Commodity forward contracts (copper, nickel and aluminum):										
Buy	737	0	0	1,064	(27)	1,169	(2)	(2)	203	(5)
Sell	739	4	4	4,723	(101)	2,823	(10)	(10)	4,261	81
Commodity swap contracts (copper and silver)	—	—	—	1,399	114	—	—	—	1,675	(149)
	¥93,484	¥493	¥493	¥200,421	¥(213)	¥121,543	¥1,159	¥1,159	¥184,733	¥ 942

	Thousands of U.S. dollars				
	FY2016				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted*	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange contracts:					
Buy	\$181,389	\$ (160)	\$ (160)	\$ 194,607	\$ 401
Sell	638,720	4,519	4,519	1,526,500	(2,371)
Interest rate and currency swap contracts	—	—	—	1,284	196
Commodity forward contracts (copper, nickel and aluminum):					
Buy	6,569	0	0	9,484	(241)
Sell	6,587	36	36	42,098	(900)
Commodity swap contracts (copper and silver)	—	—	—	12,470	1,016
	\$833,265	\$4,395	\$4,395	\$1,786,443	\$(1,899)

* Certain foreign currency forward exchange contracts meeting certain hedging criteria except forecasted transactions are excluded from the fair value of the table above for the years ended March 31, 2017 and 2016, respectively. Certain interest rate swap contracts (contracted amount ¥151,013 million (US\$1,346,047 thousand) and ¥152,896 million for the years ended March 31, 2017 and 2016, respectively) meeting certain hedging criteria are excluded from the table above.

7. INVENTORIES

Inventories as of March 31, 2017 and 2016 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	March 31, 2017	March 31, 2016	March 31, 2017
Merchandise and finished goods	¥138,595	¥134,696	\$1,235,360
Work in process	167,635	153,257	1,494,206
Raw materials and supplies	142,840	135,023	1,273,197
	¥449,070	¥422,976	\$4,002,763

8. INTEREST-BEARING LIABILITIES

a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2017 and 2016 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	March 31, 2017	March 31, 2016	March 31, 2017
Short-term debt, principally from banks, with a weighted-average interest rate of 1.51% at March 31, 2017	¥146,733	¥113,453	\$1,307,897
Current portion of long-term debt, principally from banks and insurance companies, with a weighted-average interest rate of 0.93% at March 31, 2017	32,851	48,760	292,816
Current portion of bonds, interest rate of 0.288%	15,000	10,610	133,702
	¥194,584	¥172,823	\$1,734,415

b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2017 and 2016 consist of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	March 31, 2017	March 31, 2016	March 31, 2017
Unsecured bonds, due 2018 to 2031, interest rate of 0.08%-0.936%	¥ 75,000	¥ 35,610	\$ 668,509
Long-term debt, principally from banks and insurance companies, due 2017 to 2024, with a weighted-average interest rate of 0.51% at March 31, 2017	286,713	304,999	2,555,602
	361,713	340,609	3,224,111
Current portion of bonds and long-term debt	(47,851)	(59,370)	(426,518)
	¥313,862	¥281,239	\$2,797,593

The aggregate annual maturities of bonds and long-term debt at March 31, 2017 are as follows:
(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2018 (= current portion)	¥15,000	\$133,702
2019	—	—
2020	—	—
2021	—	—
2022	10,000	89,135
2023 and thereafter	50,000	445,672
	¥75,000	\$668,509

(Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2018 (= current portion)	¥ 32,851	\$ 292,816
2019	47,230	420,982
2020	56,104	500,080
2021	45,928	403,761
2022	34,900	311,079
2023 and thereafter	69,700	626,884
	<u>¥286,713</u>	<u>\$2,555,602</u>

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	As of March 31, 2017	March 31, 2016	March 31, 2017
Property, plant and equipment, net of accumulated depreciation	¥2,956	¥3,044	\$26,348

c) Lease Obligations

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

The aggregate annual maturities of lease obligations at March 31, 2017 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2018 (= current portion)	¥ 518	\$ 4,617
2019	151	1,346
2020	186	1,658
2021	158	1,408
2022	155	1,382
2023 and thereafter	1,375	12,256
	<u>¥2,543</u>	<u>\$22,667</u>

9. NET ASSETS

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

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

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

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

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

a) Stock Information

Changes in number of shares issued and outstanding during the years ended March 31, 2017 and 2016 are as follows:

Common stock outstanding	Thousands of shares	
	FY2016	FY2015
	March 31, 2017	March 31, 2016
For the years ended		
Balance at beginning	793,941	793,941
Balance at end	793,941	793,941

Treasury stock outstanding	Thousands of shares	
	FY2016	FY2015
	March 31, 2017	March 31, 2016
For the years ended		
Balance at beginning	754	749
Increase due to purchase of shares of common stocks	13,245	—
Increase due to purchase of odd-lot stocks	2	3
Other, net	48	2
Balance at end	14,049	754

b) Dividend Information

Dividends paid in fiscal year 2016			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 24, 2016	March 31, 2016	June 27, 2016	¥14,280	\$127,284
Board of Directors on November 1, 2016	September 30, 2016	December 1, 2016	¥13,261	\$118,201

Dividend paid after March 31, 2017 with respect to fiscal year 2016			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 28, 2017	March 31, 2017	June 29, 2017	¥17,942	\$159,925

Dividends paid in fiscal year 2015			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 25, 2015	March 31, 2015	June 26, 2015	¥14,280
Board of Directors on October 29, 2015	September 30, 2015	December 1, 2015	¥13,487

Dividend paid after March 31, 2016 with respect to fiscal year 2015			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 24, 2016	March 31, 2016	June 27, 2016	¥14,280

c) Other

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

10. AMOUNTS PER SHARE

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

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

11. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effects on other comprehensive income (loss) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	FY2016	FY2015	U.S. dollars
	For the years ended	March 31, 2016	March 31, 2017
Net Unrealized Holding Gains on Available-for-Sale Securities:			
Increase (decrease) during the year	¥ 9,349	¥ (47,766)	\$ 83,332
Reclassification adjustments	(8,473)	(31,967)	(75,524)
Subtotal, before tax	876	(79,733)	7,808
Tax effects	3,625	24,935	32,311
Subtotal, net of tax	¥ 4,501	¥ (54,798)	\$ 40,119
Deferred Gains or Losses on Hedges:			
Increase during the year	¥(2,898)	¥ 4,098	\$(25,831)
Reclassification adjustments	(17)	254	(152)
Subtotal, before tax	(2,915)	4,352	(25,983)
Tax effects	900	(1,159)	8,022
Subtotal, net of tax	¥(2,015)	¥ 3,193	\$(17,961)
Foreign Currency Translation Adjustments:			
Increase (decrease) during the year	¥(15,315)	¥(53,420)	\$(136,508)
Reclassification adjustments	32	(265)	285
Subtotal, before tax	(15,283)	(53,685)	(136,223)
Tax effects	—	—	—
Subtotal, net of tax	¥(15,283)	¥(53,685)	\$(136,223)
Remeasurements of Defined Benefit Plans			
Increase (decrease) during the year	¥22,940	¥(41,963)	\$204,475
Reclassification adjustments	3,426	2,006	30,537
Subtotal, before tax	26,366	(39,957)	235,012
Tax effects	(8,271)	12,657	(73,723)
Subtotal, net of tax	¥18,095	¥(27,300)	\$161,289
Share of Other Comprehensive Income (Loss) of Affiliates Accounted for Using Equity Method:			
Increase (decrease) during the year	¥ (9,424)	¥ (17,038)	\$ (84,001)
Reclassification adjustments	(1,880)	3,644	(16,757)
Subtotal, net of tax	¥(11,304)	¥ (13,394)	\$(100,758)
Total other comprehensive income (loss)	¥ (6,006)	¥(145,984)	\$ (53,534)

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

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 30.8% and 33.0% for the years ended March 31, 2017 and 2016, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2017 and 2016:

	FY2016		FY2015
	For the years ended	March 31, 2017	March 31, 2016
Statutory tax rate		30.8%	33.0%
Share of profit of investments accounted for using the equity method		(5.1)	(6.2)
Expenses not deductible for tax purposes		0.2	0.2
Dividend income from overseas consolidated subsidiaries		0.5	0.6
Tax credits		(1.2)	(1.3)
Effect of lower tax rates for overseas consolidated subsidiaries		(3.8)	(5.7)
Change in valuation allowance		1.6	3.9
Intercompany profits		(0.1)	(0.7)
Change in undistributed earnings of consolidated subsidiaries and affiliates		(2.0)	0.1
Amortization of goodwill		0.3	2.4
Other		3.5	5.9
Effective tax rate		24.7%	32.2%

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	As of	FY2016	FY2015
		March 31, 2017	March 31, 2016
Deferred tax assets (current assets)		¥ 49,734	¥ 48,764
Deferred tax assets (investments and other assets)		19,680	17,829
Other current liabilities		(814)	(55)
Deferred tax liabilities (non-current liabilities)		(65,988)	(59,228)
		¥ 2,612	¥ 7,310
			\$ 23,282

Significant components of the deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2016 As of March 31, 2017	FY2015 March 31, 2016	FY2016 March 31, 2017
Deferred tax assets:			
Net operating loss carryforwards	¥ 52,943	¥ 56,544	\$ 471,905
Fixed assets	18,169	19,241	161,948
Net defined benefit liabilities	17,343	16,491	154,586
Accrued expenses	13,345	13,344	118,950
Inventories	10,923	10,122	97,362
Intercompany profits	9,901	10,003	88,252
Investment securities	3,961	3,954	35,306
Allowance for doubtful receivables	1,606	1,424	14,315
Other	30,831	34,376	274,811
	159,022	165,499	1,417,435
Valuation allowance	(60,322)	(62,015)	(537,677)
Total deferred tax assets	98,700	103,484	879,758
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(33,700)	(37,293)	(300,383)
Undistributed earnings of consolidated subsidiaries and affiliates	(23,162)	(26,349)	(206,453)
Net defined benefit assets	(22,831)	(16,695)	(203,503)
Accelerated depreciation of overseas consolidated subsidiaries	(5,756)	(4,623)	(51,306)
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	(5,495)	(5,406)	(48,979)
Reserve for deferred gains on sales of fixed assets	(978)	(1,001)	(8,717)
Other	(4,166)	(4,807)	(37,135)
Total deferred tax liabilities	(96,088)	(96,174)	(856,476)
Net deferred tax assets (liabilities)	¥ 2,612	¥ 7,310	\$ 23,282

13. RETIREMENT BENEFITS

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

a) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars	
	For the years ended	FY2016	FY2015	
		March 31, 2017	March 31, 2016	FY2016 March 31, 2017
Balance at beginning of year		¥301,449	¥288,032	\$2,686,951
Service cost		13,608	12,662	121,294
Interest cost		3,772	4,474	33,622
Actuarial gains and losses		395	10,634	3,521
Benefits paid		(14,185)	(12,940)	(126,437)
Net change as a result of business combinations		10,481	-	93,422
Other		(79)	(1,413)	(705)
Balance at end of year		¥315,441	¥301,449	\$2,811,668

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

	Millions of yen		Thousands of U.S. dollars	
	For the years ended	FY2016	FY2015	
		March 31, 2017	March 31, 2016	FY2016 March 31, 2017
Balance at beginning of year		¥327,281	¥355,915	\$2,917,203
Expected return on plan assets		3,899	3,454	34,754
Actuarial gains and losses		23,465	(35,014)	209,154
Contributions paid by the employer		10,428	13,580	92,949
Benefits paid		(9,229)	(8,529)	(82,262)
Net change as a result of business combinations		5,916	-	52,732
Other		(298)	(2,125)	(2,656)
Balance at end of year		¥361,462	¥327,281	\$3,221,874

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

	Millions of yen		Thousands of U.S. dollars	
	For the years ended	FY2016	FY2015	
		March 31, 2017	March 31, 2016	FY2016 March 31, 2017
Balance at beginning of year		¥1,666	¥1,986	\$14,850
Retirement benefit costs		859	404	7,657
Benefits paid		(64)	(111)	(570)
Contributions paid by the employer		(106)	(136)	(945)
Other		(520)	(477)	(4,636)
Balance at end of year		¥1,835	¥1,666	\$16,356

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

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	As of March 31, 2017	March 31, 2016	March 31, 2017
Funded retirement benefit obligations	¥ 286,055	¥275,493	\$ 2,549,737
Plan assets	(363,569)	(330,870)	(3,240,654)
	(77,514)	(55,377)	(690,917)
Unfunded retirement benefit obligations	33,328	31,211	297,067
Total net defined benefit liabilities (assets)	¥ (44,186)	¥ (24,166)	\$ (393,850)
Net defined benefit liabilities	¥ 54,553	¥ 51,562	\$ 486,255
Net defined benefit assets	(98,739)	(75,728)	(880,105)
Total net defined benefit liabilities (assets)	¥ (44,186)	¥ (24,166)	\$ (393,850)

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Service cost	¥13,608	¥12,662	\$121,294
Interest cost	3,772	4,474	33,622
Expected return on plan assets	(3,899)	(3,454)	(34,754)
Amortization:			
Actuarial gains and losses	3,627	5,796	32,329
Past service cost	(11)	(141)	(98)
Retirement benefit costs from plans applying the simplified method	859	404	7,657
Other	189	183	1,685
Total retirement benefit costs	¥18,145	¥19,924	\$161,735

In addition to the retirement benefit costs listed above, an extra payment of retirement benefits in the amount of ¥1,146 million (US\$10,215 thousand) and ¥1,202 million were recognized as restructuring expenses in the consolidated statements of income for fiscal years 2016 and 2015, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	For the years ended March 31, 2017	March 31, 2016	March 31, 2017
Past service cost	¥ 454	¥ 235	\$ 4,047
Actuarial gains and losses	(26,820)	39,722	(239,059)
Total	¥(26,366)	¥39,957	\$ (235,012)

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

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
	As of March 31, 2017	March 31, 2016	March 31, 2017
Unrecognized past service cost	¥ (37)	¥(491)	\$ (330)
Unrecognized actuarial gains and losses	(26,842)	(22)	(239,255)
Total	¥(26,879)	¥(513)	\$ (239,585)

(8) Plan assets

1. Plan assets comprise:

	FY2016	FY2015
Equity securities	48.3%	46.9%
Bonds	25.3	26.8
General account	11.5	12.1
Cash and cash equivalents	2.0	2.2
Other	12.9	12.0
Total	100.0%	100.0%

2. Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2016 (expressed as weighted averages) are as follows:

	FY2016	FY2015
Discount rate	1.2%	1.2%
Long-term expected rate of return	1.2%	1.1%

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

b) Defined contribution plans and prepaid retirement allowance plans

The amount of required contributions to the defined contribution plans and the prepaid retirement allowance plans of the Company and its consolidated subsidiaries was ¥5,150 million (US\$45,904 thousand) and ¥5,927 million for FY2016 and FY2015, respectively.

14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2016	FY2015	FY2016
As of	March 31, 2017	March 31, 2016	March 31, 2017
Notes receivable discounted	¥ 782	¥1,558	\$ 6,970
Notes receivable endorsed	390	608	3,476
Guarantees:			
Guarantees for debt of employees, unconsolidated subsidiaries and affiliates	4,841	4,878	43,150
Contingent guarantees for debt of unconsolidated subsidiaries and affiliates	431	878	3,842
Keepwell agreements and letters of awareness for debt of unconsolidated subsidiaries and affiliates	1,043	1,595	9,297

15. IMPAIRMENT LOSS ON FIXED ASSETS

The Company and its consolidated subsidiaries grouped long-lived assets into asset groups by business segment and conducted impairment tests with the conclusion that the carrying amounts should be reduced by ¥2,391 million (US\$21,312 thousand) and ¥15,405 million to the recoverable amounts in FY2016 and FY2015, respectively.

The recoverable amount is mainly the net selling price.

Impairment loss on fixed assets for each reportable segment are disclosed in Note 18 b), for the years ended March 31, 2017 and 2016.

Details of impairment loss on fixed assets for the years ended March 31, 2017 and 2016 are as follows:

FY2016	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥1,293	\$11,525
Machinery, equipment and others	482	4,296
Other	616	5,491
	¥2,391*1	\$21,312*1

*1 The amount of ¥2,391 million (US\$21,312 thousand) is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2016.

FY2015	Millions of yen
Goodwill	¥ 7,315
Machinery, equipment and others	5,338
Buildings and structures	1,651
Other	1,101
	¥15,405*2

*2 The amount of ¥12,479 million is shown as "Impairment loss on fixed assets," and the amount of ¥2,926 million is included in "Restructuring expenses" (Note 16) in the consolidated statement of income for fiscal year 2015.

16. RESTRUCTURING EXPENSES

In fiscal year 2016, restructuring expenses of ¥6,046 million (US\$53,891 thousand) are related to the reorganization of the business locations, to improve the efficiency of tensioning materials for prestressed concrete business and Brazil wiring harnesses business, etc.

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

The major details of the expenses for the years ended March 31, 2017 and 2016 are as follows:

FY2016	Millions of yen	Thousands of U.S. dollars
Impairment loss on fixed assets (Note 15)	¥2,391	\$21,312
Loss on disposal of property, plant and equipment	1,877	16,731

FY2015	Millions of yen
Impairment loss on fixed assets (Note 15)	¥2,926
Extra payment of retirement benefits	1,202

17. SPECIAL TRANSPORTATION EXPENSES

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

18. SEGMENT INFORMATION

a) Reportable Segments

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

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

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

Automotive:

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

Infocommunications:

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

Electronics:

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

Environment and Energy:

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

Industrial Materials and Others:

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

Reportable segment information for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen						
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
FY2016							
Sales to customers	¥1,511,739	¥196,173	¥235,981	¥607,494	¥263,096	¥ —	¥2,814,483
Intersegment sales	1,482	2,067	15,132	13,924	40,847	(73,452)	—
Net sales	¥1,513,221	¥198,240	¥251,113	¥621,418	¥303,943	¥ (73,452)	¥2,814,483
Segment profit or loss	¥ 98,616	¥ 21,509	¥(10,898)	¥ 20,807	¥ 20,491	¥ (22)	¥ 150,503
Segment assets	¥1,302,039	¥243,473	¥215,210	¥621,281	¥585,908	¥ (64,327)	¥2,903,584
Depreciation and amortization	¥ 69,896	¥ 11,749	¥ 17,744	¥ 15,504	¥ 19,639	¥ —	¥ 134,532
Amortization of goodwill	1,144	4	131	54	473	—	1,806
Investments in equity method affiliates	181,322	36,045	685	5,838	48,915	—	272,805
Amount of increase in tangible and intangible fixed assets	85,361	25,894	35,167	25,220	25,278	—	196,920

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

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
FY2016							
Sales to customers	\$13,474,811	\$1,748,578	\$2,103,405	\$5,414,868	\$2,345,093	\$ —	\$25,086,755
Intersegment sales	13,209	18,424	134,878	124,111	364,088	(654,710)	—
Net sales	\$13,488,020	\$1,767,002	\$2,238,283	\$5,538,979	\$2,709,181	\$(654,710)	\$25,086,755
Segment profit or loss	\$ 879,009	\$ 191,719	\$ (97,139)	\$ 185,462	\$ 182,646	\$ (196)	\$1,341,501
Segment assets	\$11,605,660	\$2,170,185	\$1,918,264	\$5,537,757	\$5,222,462	\$(573,376)	\$25,880,952
Depreciation and amortization	\$ 623,015	\$ 104,724	\$ 158,160	\$ 138,194	\$ 175,051	\$ —	\$ 1,199,144
Amortization of goodwill	10,197	36	1,168	481	4,216	—	16,098
Investments in equity method affiliates	1,616,205	321,285	6,106	52,037	436,001	—	2,431,634
Amount of increase in tangible and intangible fixed assets	760,861	230,805	313,459	224,797	225,315	—	1,755,237

1. Segment profit or loss included in Adjustments of ¥(22) million (US\$196 thousand) and ¥78 million for FY2016 and FY2015, respectively, consists mainly of unrealized profits caused by intersegment transactions.
2. Segment assets included in Adjustments of ¥(64,327) million (US\$(573,376) thousand) and ¥(45,431) million as of March 31, 2017 and 2016, respectively, consist mainly of elimination of receivables caused by intersegment transactions, cash and time deposits and investment securities owned by the Company.
3. Segment profit or loss is reconciled with operating income in the consolidated statements of income.

b) Related Information

(1) Information about products and services

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

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

	Thousands of U.S. dollars		
FY2016	Wiring harnesses	Others	Total
Sales to customers	\$9,724,628	\$15,362,127	\$25,086,755

(2) Information about geographical areas

Sales to customers

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

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

FY2016	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	\$10,346,305	\$4,272,752	\$3,128,167	\$3,207,541	\$1,201,756	\$2,930,234	\$25,086,755

Net property, plant and equipment

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

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

FY2016	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	\$3,799,973	\$711,124	\$1,458,196	\$752,696	\$615,430	\$7,337,419	

(3) Information about major customers

This information is omitted because the Company does not have any major customers that account for 10% or more of net sales in the consolidated statements of income for FY2016 or FY2015.

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

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

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

	Thousands of U.S. dollars						
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2016							
Impairment loss on fixed assets	\$3,975	\$1,694	\$4,876	\$2,335	\$8,432	\$—	\$21,312

(5) Information about goodwill by reportable segment

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

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

	Thousands of U.S. dollars					
	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2016						
Amortization	\$10,197	\$36	\$1,168	\$481	\$ 4,216	\$16,098
Balance at end	\$60,620	\$—	\$ 116	\$722	\$36,207	\$97,665

19. RELATED PARTY INFORMATION

Notes to significant affiliates

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

	Millions of yen	Thousands of U.S. dollars
FY2016		
Total current assets	¥412,559	\$3,677,324
Total non-current assets	485,075	4,323,692
Total current liabilities	252,003	2,246,216
Total non-current liabilities	186,090	1,658,704
Total equity	459,541	4,096,096
Sales revenue	756,696	6,744,772
Profit before tax	70,093	624,770
Profit for the year attributable to:		
Owners of the parent company	41,364	368,696

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

	Millions of yen
FY2015	
Total current assets	¥433,408
Total non-current assets	502,746
Total current liabilities	284,170
Total non-current liabilities	198,216
Total net assets	453,768
Sales	848,663
Profit before income taxes	73,929
Profit attributable to owners of the parent	55,834

20. OTHER

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



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sumitomo Electric Industries, Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 28, 2017
Osaka, Japan

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

Corporate Information

History

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

Company Information

Sumitomo Electric Industries, Ltd.

(As of March 31, 2017)

HEAD OFFICE (OSAKA)

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

HEAD OFFICE (TOKYO)

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

ESTABLISHED

1897

NUMBER OF EMPLOYEES

Consolidated: 248,330

Non-Consolidated: 5,034

DOMESTIC WORKS

Osaka Works

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

Main Products:

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

Itami Works

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

Main Products:

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

Yokohama Works

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

Main Products:

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

COMMON STOCK

Issued: 793,940,571 shares

NUMBER OF SHAREHOLDERS

53,832

STOCK EXCHANGE LISTINGS

Three domestic stock and securities exchanges:

Tokyo, Nagoya, and Fukuoka

Ticker Code: 5802

SHAREHOLDER REGISTER MANAGER

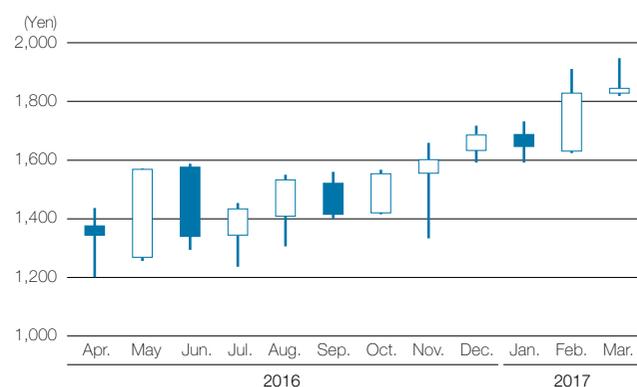
Sumitomo Mitsui Trust Bank, Limited.

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

PRINCIPAL SHAREHOLDERS

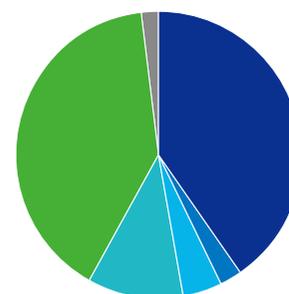
	Number of Shares Held (Thousands)	Shareholding Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	61,136	7.84
The Master Trust Bank of Japan, Ltd. (trust account)	49,536	6.35
Nippon Life Insurance Company	24,703	3.17
SUMITOMO LIFE INSURANCE COMPANY	15,556	1.99
Japan Trustee Services Bank, Ltd. (trust account 5)	14,490	1.86
Japan Trustee Services Bank, Ltd. (trust account 9)	14,099	1.81
GOVERNMENT OF NORWAY	11,851	1.52
STATE STREET BANK WEST CLIENT – TREATY 505234	11,475	1.47
Japan Trustee Services Bank, Ltd. (trust account 7)	10,907	1.40
Japan Trustee Services Bank, Ltd. (trust account 1)	10,739	1.38
Total	224,496	28.78

SHARE PRICE



BREAKDOWN OF SHAREHOLDERS

- Financial Institutions**
 320,768 thousand shares
 40.40% (Shareholders: 172)
- Securities Companies**
 19,685 thousand shares
 2.48% (Shareholders: 57)
- Other Corporations**
 36,081 thousand shares
 4.54% (Shareholders: 605)
- Individuals and Others**
 85,450 thousand shares
 10.76% (Shareholders: 52,220)
- Foreign Investors**
 318,102 thousand shares
 40.07% (Shareholders: 777)
- Treasury Stock**
 13,853 thousand shares
 1.75%



 **Sumitomo Electric Industries, Ltd.**

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