ANNUAL REPORT 2014

YEAR ENDED MARCH 31, 2014

MONOZUKURI INNOVATION

SUMITOMO ELECTRIC
Ingenious Dynamics

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FORWARD-LOOKING STATEMENT

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

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

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

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

WORLD-RENOWNED

MONOZUKURI CAPABILITIES

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

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

IN BUSINESS FOR

117

YEARS

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

CONSOLIDATED COMPANIES

381

The Sumitomo Electric Group includes 381 subsidiaries and affiliates in more than 40 countries around the world.

CONSOLIDATED NET SALES
(FY2013)

GEOGRAPHICAL SEGMENT SALES

JAPAN 44.8%
AMERICAS 15.7%
ASIA 27.9%
EUROPE AND OTHERS 11.6%

NUMBER OF PATENTS
(As of March 31, 2014)

JAPAN	OVERSEAS
6,590*	6,459*

In FY2013, the Sumitomo Electric Group made a total number of 2,388 patent, utility and design applications in Japan and 2,502 outside Japan. The Group's registered patents have continued to increase in number over time, reflecting its vibrant intellectual property activities, in which research and development managers work as a united team with intellectual property managers. By pursuing strategic applications based on careful prior technological research, the Group aims to build a high-volume patent portfolio that is superior in terms of its broad scope and effective rights.

*Excludes patents possessed by Sumitomo Wiring Systems, Ltd., AutoNetworks Technologies, Ltd., Tokai Rubber Industries, Ltd., Nissin Electric Co., Ltd. and A.L.M.T. Corp.

MONOZUKURI INNOVATION

THE SPIRIT FOSTERED IN SUMITOMO'S 400-YEAR TRADITION— AFTER CENTURIES, OUR HIGH-MINDED SPIRIT GLOWS EVER MORE BRIGHTLY.

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

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

What is Monozukuri? The word Monozukuri is used to describe technology and processes integrating development, production and procurement, and it also includes intangible qualities such as craftsmanship and dedication to continuous improvement.

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

INNOVATION IN
AUTOMOTIVE WIRING HARNESSES

Wiring harnesses are essential for the transmittal of data and energy in automobiles. So, everytime you use a turn signal or step on the brakes, the wiring carries that data and gets the job done... and helps get your most precious cargo home, safely. Innovations such as aluminum wiring harnesses that reduce vehicle weight have helped us gain a global market share of 26% in the industry.

GLOBAL MARKET SHARE
26%

INNOVATION IN
OPTICAL FIBER CABLE

Optical fiber cable is essential for constructing optical transmission networks. In companies and households, for example, optical fiber cable contributes greatly, enabling people separated over vast distances to use telecommunication systems safely, securely, and easily via personal computers. By developing technologies to lower the loss of optical fibers, Sumitomo Electric produced optical fiber cable that attains the lowest transmission loss in the world at only 0.149 decibels per kilometer (with a wavelength of 1,550 nanometers). As a result of continually leading the industry with achievements like this, Sumitomo Electric has acquired the third-largest share of the global market for optical fiber cable.

WORLD'S
TOP 3
MANUFACTURER

INNOVATION IN
FLEXIBLE PRINTED CIRCUITS

Flexible printed circuits (FPCs) are wiring materials formed into electric circuits mounted on ultrathin insulation film. Their light weight and excellent heat resistance and flexibility enable broader possibilities for electric circuit design, and with the current push to make all kinds of digital devices more compact and functional, FPCs play an important role. Indeed, they help make daily life more convenient—your smartphone, for instance, is undoubtedly equipped with FPCs. Currently producing high-quality FPCs in Japan, China, Vietnam, the Philippines, along with other countries, the Sumitomo Electric Group provides a steady supply of FPCs to users around the world as one of the global top-three manufacturers of these products.

WORLD'S
TOP 3
MANUFACTURER

INNOVATION IN
PPLP™-MI DIRECT CURRENT SUBMARINE POWER TRANSMISSION CABLE

Sumitomo Electric developed PPLP™-MI direct current (DC) submarine power transmission cable by utilizing polypropylene laminated paper (PPLP™) for composite insulation tape, which is now the de facto standard for cables. Capable of transmitting approximately 30% more electrical capacity than conventional mass impregnated (MI) cable*, PPLP™-MI DC submarine power cable is a major advance in the field of long-distance high-capacity power transmission. By supplying a number of types of electric wire and cable like this product, Sumitomo Electric is contributing to the development of industry and the stability of electric power supplies, which are essential to enriching our daily lives. Sumitomo Electric and a European firm are the only companies in the world capable of manufacturing PPLP™-MI DC submarine power cable.

* Used for long-distance high-capacity power transmission, MI cable is insulated by rolled paper impregnated with high-viscosity oil.

ONLY 2
COMPANIES
IN THE WORLD

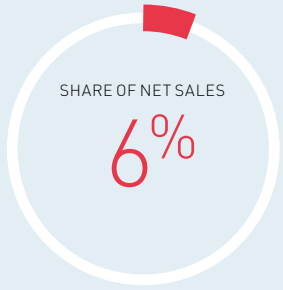
INNOVATION IN

SUMIDIA™ BINDERLESS DIAMOND FOR CUTTING TOOLS

Sumitomo Electric has developed SUMIDIA™ binderless, a nano-polycrystalline diamond with a single-phase nano-polycrystalline structure synthesized by the strong and direct bonding of fine diamond grains of several tens of nanometers. As a result, the Company has produced a diamond with greater hardness compared to conventional synthetic single-crystal diamonds, and eliminated the shortcoming associated with single-crystal diamonds: their tendency to easily cleave in a specific direction. These advantages make SUMIDIA™ binderless a valuable tool for industries that require high-level precision processing methods, such as the aircraft industry and infrastructure-related industries. With this product, Sumitomo Electric has become the first company in the world to successfully develop applications for nano-polycrystalline diamonds.

THE 1ST
COMPANY
IN THE WORLD

Sumitomo Electric at a Glance (FY2013, ended March31, 2014)

	Automotive	Infocommunications
	NET SALES ¥1,351.0 billion	NET SALES ¥164.9 billion
	SHARE OF NET SALES 51%	 SHARE OF NET SALES 6%
Business Overview	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.	Building on its communication cable technologies accumulated for more than 100 years, the Sumitomo Electric Group supplies products and systems that support today's Internet services such as optical fiber cable and opto-electronic devices, gigabit Ethernet-passive optical network (GE-PON), and other devices. We also supply traffic control systems and other systems drawing on our telecoms expertise and portfolio of control technologies.
Main Products	• Wiring harnesses • Vibration-proof rubber • Automotive hoses • Car electrical equipment	• Optical fibers, Optical fiber cables, Optical–related equipment • Optical devices, Optical transceivers, Networking equipment • System products (Traffic control systems, etc.) • Information and communications engineering

Electronics

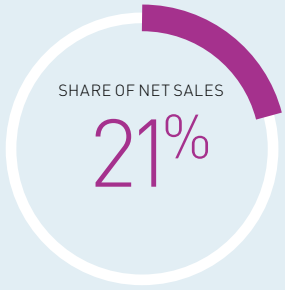
NET SALES
¥262.6 billion

Using its proprietary materials technologies, the Sumitomo Electric Group supports the increasing use of electronics devices in society through a diverse range of products such as electronic wires, flexible printed circuits and other highly functional wiring materials, as well as compound semiconductors and fluorine resin products.

- Electronic wire products
- Flexible printed circuits
- Metallic material for electronic parts
- Compound semiconductors
- Electron-beam irradiated products, Fluorine resin products

Environment and Energy

NET SALES
¥564.2 billion

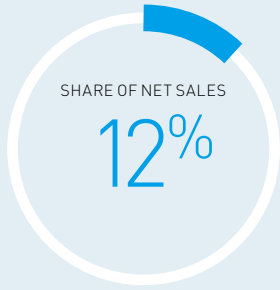


Since its inception, the Sumitomo Electric Group has helped underpin modern daily life through its energy transmission businesses, supplying products such as cables for power distribution, railway trolley wires, and wire coils used in home appliances, automobiles, and other applications.

- Copper wire rods, Power cables, Electrical construction, Power supply construction
- Magnet wires
- Hybrid products
- Power supply system equipment (Substation equipment, Supervisory telecontrol equipment, etc.)

Industrial Materials and Others

NET SALES
¥303.3 billion



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 used in automotive and a wide range of other industrial fields.

- Cutting tools
- Sintered parts
- Reinforcing and pre-stressing steel for concrete, Steel tire cords

Financial Highlights

Sumitomo Electric Industries, Ltd. and Consolidated Subsidiaries

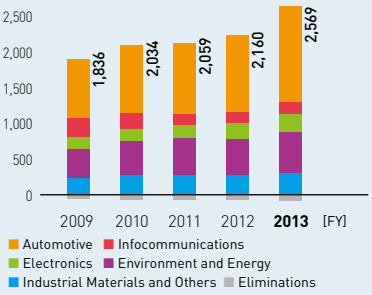
	Millions of yen					Thousands of U.S. dollars*1
	FY2013 Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2011 Mar. 31, 2012	FY2010 Mar. 31, 2011	FY2009 Mar. 31, 2010	**FY2013** Mar. 31, 2014
For the Year:						
Net sales	**¥2,568,779**	¥2,159,942	¥2,059,344	¥2,033,827	¥1,836,352	**$24,958,988**
Operating income	**120,058**	76,790	86,946	103,810	51,728	**1,166,518**
Income before income taxes and minority interests	**123,833**	84,084	99,941	113,781	55,425	**1,203,197**
Net income	**66,748**	37,955	58,861	70,614	28,708	**648,543**
Capital expenditures*2	**150,823**	147,883	135,039	98,424	73,306	**1,465,439**
Depreciation and amortization	**113,271**	90,629	77,954	96,760	103,848	**1,100,573**
R&D expenses	**99,520**	94,287	86,582	79,026	72,259	**966,965**
At Year-End:						
Total assets	**¥2,554,819**	¥2,297,567	¥2,072,064	¥1,956,284	¥1,939,935	**$24,823,348**
Total interest-bearing liabilities	**534,641**	485,569	363,995	341,923	355,586	**5,194,724**
Total net assets *3	**1,379,912**	1,244,695	1,138,931	1,092,610	1,064,575	**13,407,617**
Cash Flows:						
Net cash provided by operating activities	**¥ 147,705**	¥ 124,849	¥ 86,051	¥139,298	¥171,576	**$ 1,435,144**
Net cash used in investing activities	**(174,102)**	(172,066)	(129,223)	(86,551)	(72,899)	**(1,691,625)**
Net cash provided by (used in) financing activities	**113**	64,922	(2,391)	(27,845)	(67,613)	**1,098**

	Yen					U.S. dollars *1
	FY2013	FY2012	FY2011	FY2010	FY2009	**FY2013**
Per Share Data:						
Net income*4: Basic	**¥ 84.15**	¥ 47.85	¥ 74.21	¥ 89.02	¥ 36.19	**$ 0.818**
Diluted	**—**	—	74.20	89.02	36.19	**—**
Cash dividends	**22.00**	20.00	19.00	19.00	16.00	**0.214**
Owner's equity *5	**1,499.76**	1,352.09	1,245.57	1,196.46	1,139.84	**14.572**
Financial Indexes:						
R&D expenses / net sales (%)	**3.9**	4.4	4.2	3.9	3.9	
Net income / net sales (%)	**2.6**	1.8	2.9	3.5	1.6	
Return on owner's equity (%)	**5.9**	3.7	6.1	7.6	3.3	
Return on assets (%) *6	**6.6**	4.8	5.9	7.3	3.6	
Current ratio (Times)	**1.6**	1.7	1.6	1.9	1.7	
Owner's equity ratio (%)	**46.6**	46.7	47.7	48.5	46.6	

***1** All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥102.92 to U.S. $1.00, the approximate exchange rate prevailing on March 31, 2014.
***2** Capital expenditures are recorded as property, plant and equipment.
***3** See page 63.
***4** For the year ended March 31, 2014, there were no potential common shares. For the year ended March 31, 2013, there were no dilutive potential common shares.
***5** Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.
***6** ROA = Operating income divided by average capital employed

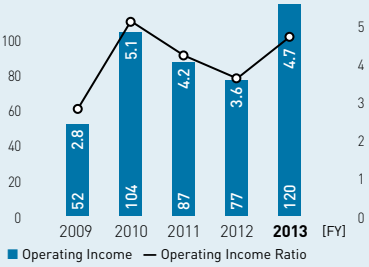
Net Sales

(Billions of yen)



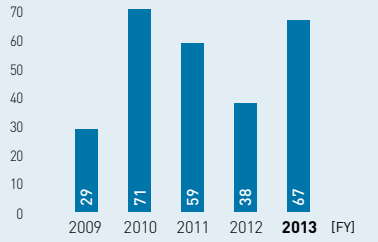
Operating Income / Operating Income Ratio

(Billions of yen) (%)



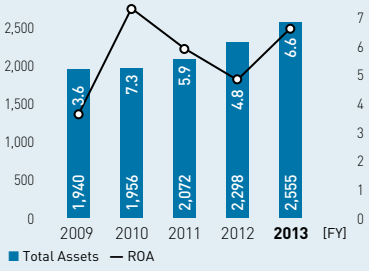
Net Income

(Billions of yen)



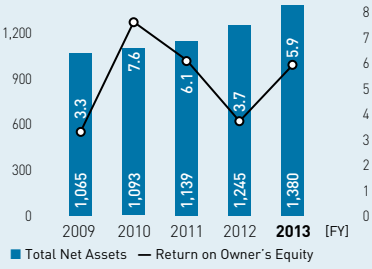
Total Assets / ROA

(Billions of yen) (%)



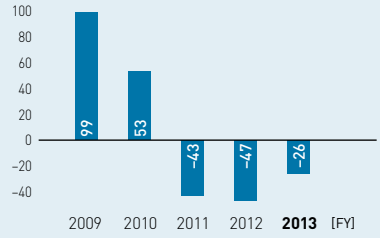
Total Net Assets / Return on Owner's Equity

(Billions of yen) (%)



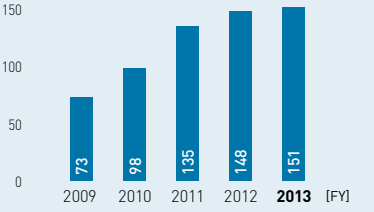
Free Cash Flows

(Billions of yen)



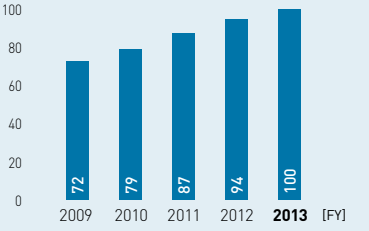
Capital Expenditures

(Billions of yen)



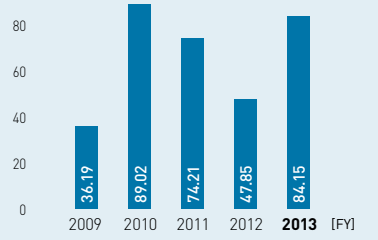
R&D Expenses

(Billions of yen)



Basic Net Income per Share

(Yen)



Medium-term Management Plan

VISION 2017

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

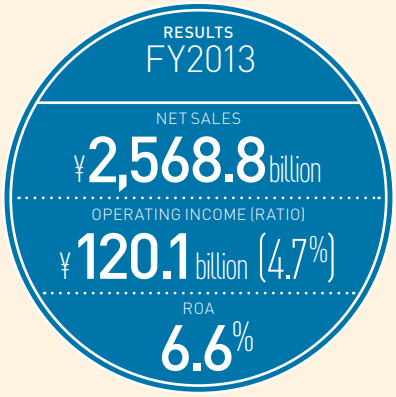
Under VISION 2017, we aim to continuously innovate and provide global services in these fields, creating new value from raw materials to systems and solutions.

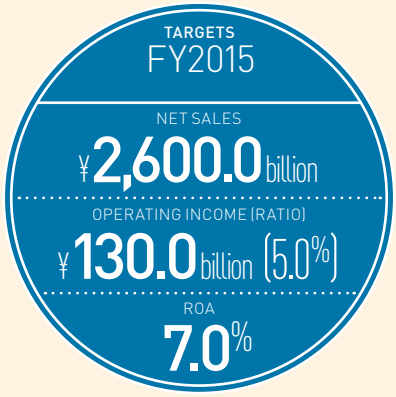
Overall Strategy

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

1. Making the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles the basis of our business activities and holding fast to the three bases of our Group's business: human resources, manufacturing, and finances.
2. Raising the banner of "innovation" as our keyword, we will continue to overhaul and expand current business fields while expanding into integrated business fields and addressing the challenge of developing new business fields.
3. Making high-priority efforts to strengthen "strategic marketing," increasing our "global presence" and enhancing our "leading technologies."
4. Attaining our numerical targets of ¥3 trillion in sales, ¥180 billion in operating income and 9% ROA.

Targets





OTHER INDICATORS
→ We plan to increase the proportions of overseas sales and production to 60% or more.
→ We aim to target a new product sales ratio of 30%.
Note: Our goal for integrated and new business fields is total combined sales on the order of ¥150 billion.

Growth Strategy in Three Domains

New Growth in Current Business Fields

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

Expansion into Integrated Business Fields

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

Challenging New Business Fields

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

Priority Initiatives

1 Strengthen "Strategic Marketing" (Creating New Markets)

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

2 Increase Our "Global Presence" (Promoting Diversity of Personnel)

We are strengthening our global organizational systems and promoting diversity.

3 Enhance Our "Leading Technology" (Accelerating Commercialization)

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

Three Bases

Human Resources Base

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

Manufacturing Base

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

Financial Base

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

To Our Stakeholders

Consolidated Financial Results for FY2013

In FY2013, ended March 31, 2014, we saw a moderate recovery in the Japanese economy. Owing to the government's monetary easing policies and the positive outlook toward its economic policies, the yen depreciated and stock prices rose, and, in turn, consumer spending picked up and corporate earnings improved. The global economy as a whole gradually recovered as well, with the U.S. economy growing steadily and Europe's economy showing signs of progress despite a deceleration of growth in emerging markets such as China and India.

Against this backdrop, the Sumitomo Electric Group's business environment was positive overall. Specifically, strong demand for wiring harnesses continued, especially outside Japan. Likewise, demand was high for power cables, magnet wires, electrical installation works, power generation equipment, and other products handled by our Environment and Energy segment, as well as for cemented carbide tools for automobiles in our Industrial Materials and Others segment.

On the back of this robust demand, the Company's consolidated sales and earnings expanded in every category compared to the previous fiscal year. Net sales amounted to ¥2,568.8 billion, an increase of 18.9% over the ¥2,159.9 billion recorded in the previous fiscal year. In terms of earnings, even though depreciation and amortization expenses rose and we boosted forward-looking investment in R&D, we successfully reduced costs while benefitting from yen depreciation. Consequently, operating income rose 56.3% to ¥120.1 billion, compared to ¥76.8 billion in the previous fiscal year. Net income totaled ¥66.7 billion, a 75.9% increase from ¥38.0 billion in the previous fiscal year.

In consideration of this performance in FY2013, we raised the Company's annual dividend by ¥2 to ¥22 per share, comprised of a year-end dividend of ¥12 and an interim dividend of ¥10 per share (the same amount paid in the previous fiscal year).

Measures to Pursue in the Current Fiscal Year

Future Economic Outlook

A moderate recovery is projected for the global economy overall, although economic growth is expected to continue slowing down in China and Southeast Asian countries. The Japanese economy is expected to continue to recover, despite concerns about a possible slump in demand following the spike in demand ahead of the consumption tax increase implemented in April 2014. As a whole, however, the outlook for global economic growth remains unclear, as business conditions are at risk of changing due to uncertainties in emerging economies and other markets.

Forecasts of Consolidated Financial Results

Our forecasts for FY2014 are net sales of ¥2,700 billion, operating income of ¥125 billion, and net income of ¥70 billion. In consideration of these forecasts, we plan to pay an annual dividend of ¥23 per share, an increase of ¥1 per share over the previous fiscal year.

Under VISION 2017, our medium-term management plan launched in the previous fiscal year, we are targeting consolidated net sales of ¥3 trillion, operating income of ¥180 billion, and return on assets (ROA) of 9% by FY2017. As part of VISION 2017, Sumitomo Electric aims to be a "Glorious Excellent Company" under the banner of innovation, and with the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles providing the basis for all business activities. Accordingly, we are not only working to restructure and expand businesses in the markets where we currently operate, but also striving to advance into integrated business fields and develop all-new businesses.

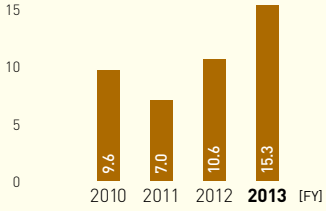
We have set a medium-term target of operating income of ¥130 billion by FY2015, the middle year of our five-year plan, VISION 2017. With this in mind, we are moving forward with efforts to attain the targets we have set for FY2014, achieve the interim target for 2015, and ultimately attain the objectives of VISION 2017.

Masayoshi Matsumoto
PRESIDENT AND CEO

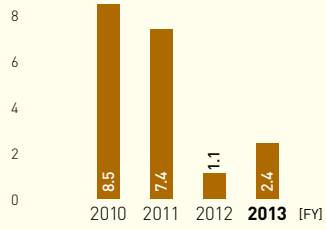
Overseas Sales Ratio and Operating Income by Region

Overseas Sales Ratio (%)

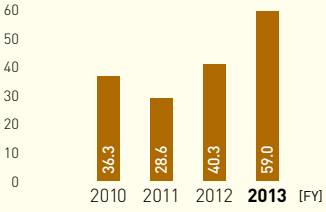
Americas (Billions of yen)



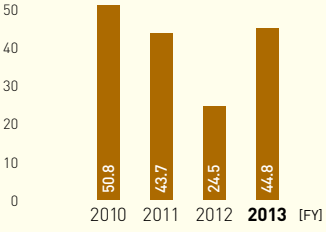
Europe and Others (Billions of yen)



Asia (Billions of yen)



Japan (Billions of yen)



To Our Stakeholders (Cont.)

Future Plans in Each Business Segment

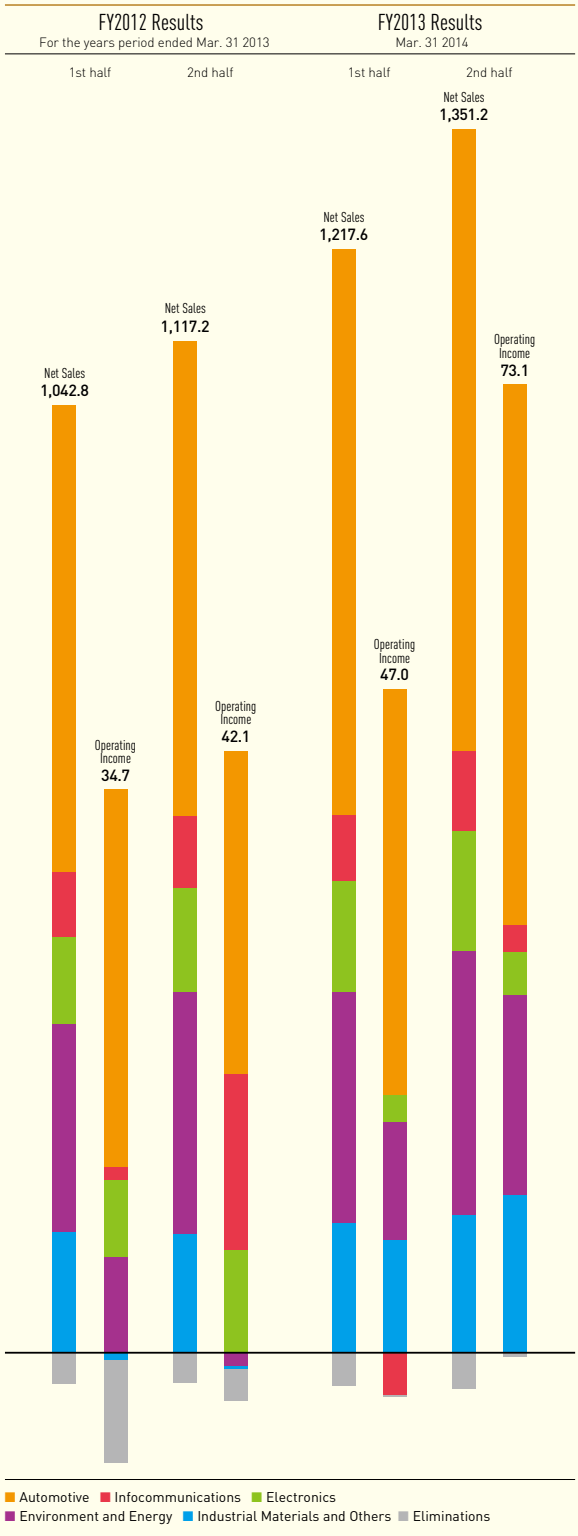
While recognizing that various risks are present in the current economic climate, as I mentioned earlier, we intend to increase our efforts in terms of SEQCDD (safety, environment, quality, cost, delivery, and research & development) improvement, while remaining firm in our commitment to realize the objectives of our VISION 2017 medium-term management plan. Accordingly, we are pursuing a number of strategies in each of our business segments.

In the Automotive segment, the Group is striving to be a global comprehensive parts manufacturer while focusing on developing and marketing wiring harnesses, including aluminum wiring harnesses that contribute to making lighter automobiles, and high-voltage wiring harnesses designed for environmentally friendly vehicles. Meanwhile, Group company Tokai Rubber Industries, Ltd., is working to become a global supplier of anti-vibration rubber and hoses by setting up supply systems in every part of the world, and maximizing synergies with subsidiaries it acquired in the previous fiscal year.

In the Infocommunications segment, the Group is working to boost profitability by marketing extremely low-loss optical fibers and amplifiers for submarine cables in its optical fiber and optical equipment business, while focusing on 40 and 100Gbps high-speed optical devices, gallium nitride (GaN) devices for mobile phone base stations, and advanced road traffic systems.

In the Electronics segment, the Group is working to increase the precision and thinness of flexible printed circuits (FPCs) used for mobile devices. In an effort to expand business, we are promoting Tab-Lead wire for electric vehicles, space-saving high-speed wiring materials compatible with high-speed transmission cables, and FPCs for which we achieved heat resistance of 150˚C in the previous fiscal year.

Net Sales / Operating Income (Billions of yen)



FY2014 Forecast

(Presuppositions in FY2014 are ¥100/$ and ¥130/€)

Billions of Yen

	FY2013 Actual	FY2014		
		1H Forecast (1)	2H Forecast(2)	Year Total (1)+(2)
Net sales	¥2,568.8	¥1,300.0	¥1,400.0	¥2,700.0
Operating income	120.1	45.0	80.0	125.0
Equity in net income	29.6	11.0	15.0	26.0
Net extraordinary loss	(21.5)	(5.7)	(11.0)	(16.7)
Income before income taxes and minority interests	123.9	49.3	79.0	128.3
Income taxes, minority interests	(57.2)	(19.3)	(39.0)	(58.3)
Net income	66.7	30.0	40.0	70.0

In the Environment and Energy segment, the Company made J-Power Systems Corporation a wholly owned subsidiary in April 2014 after accepting a transfer of half of the company's shares from Hitachi Metals, Ltd. Meanwhile, the submarine cable business continued taking orders from customers in the United States and Europe in February and March 2014, and is working to win orders for large-scale projects. The segment is also promoting porous materials for batteries and magnet wires for motors used in environmentally friendly vehicles. Looking ahead, we will strive to develop new ways for society to generate and use energy by applying smart energy systems that reduce the burden on the environment, maintain and improve the quality of power generation, and ensure its security.

In the Industrial Materials and Others segment, we established the Sumitomo Electric Group's first tungsten refining business in North America with the aim of enabling the cemented carbide tools business to integrate production within the Group, ranging from procurement of raw materials to manufacturing of finished products. We are also working to make inroads in new product areas, such as nano-polycrystalline diamonds in our cemented carbide tools business and electric vehicle products in our sintered parts business, by improving and innovating the Group's core technologies and setting up more factories worldwide to respond to local demand.

In R&D activities, the Company and Hokkaido Electric Power Co., Inc., commenced a demonstration project of a large-scale energy storage system employing redox flow batteries in 2013. Moreover, our magnesium alloy sheets were adopted by Toshiba Corporation for its notebook computers. Looking ahead, we intend to focus on developing and commercializing concentrator photovoltaic devices, superconducting products, molten salt electrolyte batteries, ballast water treatment systems, and large-capacity wiring materials for data centers. Taking a long-term perspective, we will leverage the Group's competitive advantages to develop all-new products in response to society's needs, including advanced traffic safety systems and instruments for next-generation medical care.

On behalf of the management, I ask the Company's shareholders and stakeholders for their understanding and ongoing support for our endeavors going forward.

August 2014
Masayoshi Matsumoto
PRESIDENT AND CEO

Automotive

Automotive Segment

→With a focus on the interface between the vehicle and driver, Sumitomo Electric offers a wide range of products to the global market, including wiring harnesses that transmit electric power and information to various points in an automobile. Growing public demand for more eco-friendly vehicles requires the supply of sophisticated hybrid and electric vehicle parts based on various advanced technologies. With this in mind, Sumitomo Electric will continue developing an array of new automotive products that make such vehicles more comfortable, in an effort to achieve even greater harmony between vehicles and people in the years ahead.

Performance in FY2013

→Sales in this segment amounted to ¥1,351.0 billion, a year-on-year increase of ¥279.9 billion, or 26.1%. The growth resulted from strong sales of wiring harnesses outside Japan, particularly in North America and Asia, and the effects of yen depreciation. The segment also benefited from a greater contribution from subsidiary Tokai Rubber Industries, Ltd., which expanded its scope of consolidation through the acquisition of several companies. Meanwhile, operating income totaled ¥71.8 billion, a rise of ¥18.7 billion, owing to factors such as the Group's efforts to cut costs. The operating income ratio improved by 0.3 of a percentage point to 5.3%.

Forecasts and Goals in FY2014

→In FY2014, the Company forecasts that segment sales will increase 4% year on year to ¥1,400 billion due to robust demand for wiring harnesses and the contribution from subsidiary Tokai Rubber Industries, Ltd. Operating income is also forecast to expand 4% to ¥75 billion owing to increased sales volume and reduced costs, despite a projected rise in depreciation and amortization expenses.

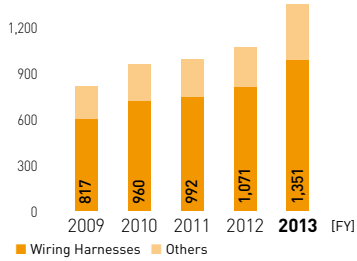
→Looking ahead, the Sumitomo Electric Group aims to be a global comprehensive parts manufacturer. Accordingly, it will continue striving to develop and market its wiring harnesses, including aluminum wiring harnesses that help make automobiles lighter, and high-voltage wiring harnesses designed for environmentally friendly vehicles.

→Subsidiary Tokai Rubber is working to become a global supplier of anti-vibration rubber and hoses. Toward this end, it is setting up supply systems in every part of the world, and maximizing synergies with the companies it acquired in the previous fiscal year.

Net Sales

(Billions of yen)

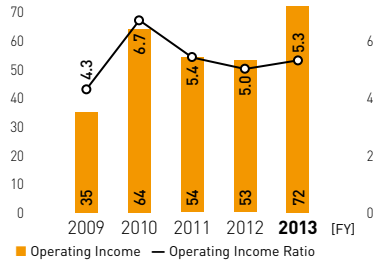
¥1,351billion ↑26.1%



Operating Income and Operating Income Ratio

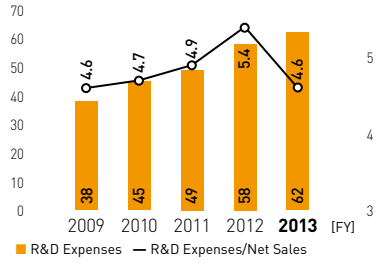
(Billions of yen) (%)

¥72billion ↑35.8%



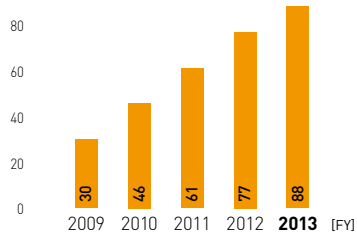
R&D Expenses and as a Percentage of Net Sales

(Billions of yen) (%)



Capital Expenditure

(Billions of yen)



1 Aluminum wiring harnesses
Automotive weight reduction has become a major issue in recent years, as demand grows for greater fuel efficiency and lower carbon dioxide emissions amid deepening environmental concerns. This has led to demands for smaller and lighter wiring harnesses. The Sumitomo Electric Group is developing new electric wires and technologies for better connectivity and corrosion resistance. One result is the successful launch of mass production of aluminum wiring harnesses.

2 Anti-vibration rubber
Anti-vibration rubber that absorbs and suppresses vibration from the engine and the road surface is an important functional component for ensuring a safe, comfortable drive. In recent years, we have been increasing our ranges of such highly functional products combined with electronic control systems.

3 Household charging connectors for electric vehicles
We expect environment-friendly electric vehicles and plug-in hybrid vehicles to spread in the future. Sumitomo Electric has developed charging plugs and automotive connectors that can distribute electricity to the car chassis from the charger of such eco-cars.

STRATEGIC INITIATIVES

With the aim of supplying automotive wiring harnesses to customers in Russia, Sumitomo Electric and its subsidiary Sumitomo Wiring Systems, Ltd. have agreed to jointly establish a holding company in the Netherlands with OAO Zavod Radioapparatury (ZRA), a Russia-based telecommunications and power line manufacturer, and to set up an operating company as a wholly owned subsidiary of the holding company to manufacture and market wiring harnesses in Russia.

The number of automobiles produced and sold in Russia has steadily increased in recent years, and further growth is projected in the future. In this context, many major automakers and automobile parts manufacturers have already entered the market. Taking this into account, Sumitomo Electric and Sumitomo Wiring Systems examined the possibilities of setting up operations in the country, and eventually decided to establish a manufacturing and sales company through a joint venture with ZRA, which had been searching for a global supplier to partner with.

Looking ahead, Sumitomo Electric and Sumitomo Wiring Systems intend to work aggressively to capitalize on the growing demand in Russia by leveraging the Group's expertise in production and quality control developed globally over the years.

Infocommunications

Infocommunications Segment

→Sumitomo Electric provides a wide array of solutions that make society safer, more secure, and more comfortable, including intelligent transport systems, access networks, and telecommunication-related products, particularly optical fibers and cables needed to build optical networks such as fiber-to-the-home (FTTH). The Sumitomo Electric Group is committed to developing innovative technologies and products to contribute to the construction and upgrade of broadband network infrastructure.

Performance in FY2013

→Sales in this segment totaled ¥164.9 billion, a year-on-year increase of ¥9.8 billion, or 6.3%. New 100Gbps products in the Group's lineup of opto-electronic devices contributed to the growth, offsetting a drop in sales volume of access network equipment. Depreciation of the yen also benefited sales outside Japan. On the other hand, it boosted costs for procuring parts from outside the country, which, combined with declining sales volume in the access network equipment business, negatively affected earnings. As a result, the segment recorded an operating loss of ¥1.2 billion, following the loss of the previous fiscal year. Nevertheless, the loss was reduced by ¥9.1 billion owing to measures to cut costs.

Forecasts and Goals in FY2014

→In FY2014, Sumitomo Electric forecasts that segment sales will increase 9% year on year to ¥180 billion owing to rising demand for its products including 100Gbps high-speed optical devices, gallium nitride (GaN) devices for mobile phone base stations, and optical fibers. The Company expects the segment to become profitable during the fiscal year due to the contribution of new products and cost-cutting efforts. Accordingly, operating income is forecast to rise to ¥1.0 billion from the operating loss of ¥1.2 billion in the previous fiscal year, a relatively small increase but a shift to profitability nonetheless.

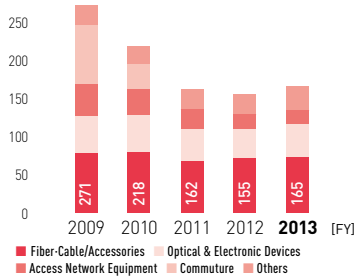
→Looking ahead, the Sumitomo Electric Group will step up marketing of its products in this segment, including ultra-low-loss optical fibers and amplifiers for submarine cables in the optical fiber and optical equipment business, with the aim of boosting profitability.

→In the Infocommunications segment, the Group is focusing on 40/100Gbps high-speed optical devices, GaN devices for mobile phone base stations, and advanced traffic information systems.

Net Sales

(Billions of yen)

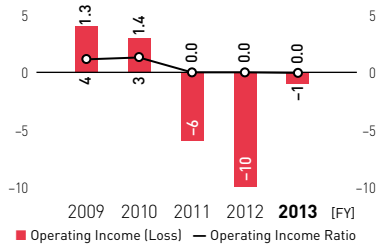
¥165 billion ↑6.3%



Operating Income (Loss) and Operating Income Ratio

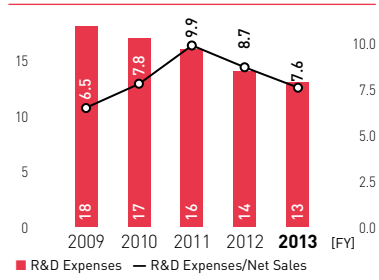
(Billions of yen) (%)

¥–1 billion –%



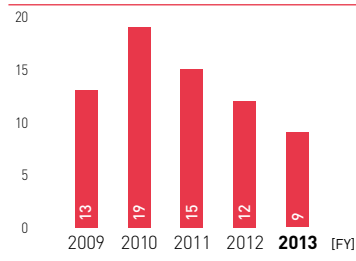
R&D Expenses and as a Percentage of Net Sales

(Billions of yen) (%)



Capital Expenditure

(Billions of yen)



1 Multicore optical fiber cable
Optical fiber comprises fine glass fibers as thin as a human hair. It is a highly effective transmission medium, enabling an optical signal within an optical fiber to be relayed several dozen kilometers. Unaffected by electromagnetic induction noise, these fibers ensure highly stable communication at high speeds and over long transmission distances.

2 Optical fiber fusion splicer
Using electrical discharge, optical fiber fusion splicers connect glass optical fibers together. The Sumitomo Electric Group's Handy Splicer TYPE-201 series is the world's smallest and lightest optical fiber fusion splicers (as of February 22, 2013, according to in-house research), offering excellent high-speed connectivity and environmental resistance characteristics, and contributing to greater efficiency in optical fiber connection works. Shipments of Handy Splicer TYPE-201 began in April 2013.

3 Optical data links
Optical data links are one of the most basic components used in optical communications. They enable large-capacity data transmission by converting electrical signals into optical signals. They are used widely in data center and other broadband networks.

STRATEGIC INITIATIVES

On May 30, 2013, Sumitomo Electric's Gigabit Ethernet Passive Optical Network (G-EPON) products, which support optical broadband access, were among the first in the world to be granted qualification status to implement Version 1.0 of the DOCSIS Provisioning of EPON (DPoE) specifications by Cable Television Laboratories, Inc. (CableLabs), a cable television technical standards organization in the United States.

Sumitomo Electric has been participating actively in CableLabs' activities to standardize DPoE specifications while starting the development of G-EPON products compatible with DPoE 1.0. ahead of others. Its products were accepted as DPoE 1.0 compatible devices following initial compliance tests conducted by CableLabs. Sumitomo Electric is the only Japanese company to have acquired this qualification.

The Sumitomo Electric Group manufactures G-EPON products and has extensive experience supplying them to telecommunications carriers in Japan and other Asian countries. Having acquired this qualification, the Group is now working to market these products to cable television companies in North America and the rest of the world.

Electronics

Electronics Segment

→ Electronics is becoming an increasingly advanced field as devices become more and more compact, lightweight, functional, and sophisticated. To meet demand in this field, Sumitomo Electric has been expanding its product lineup by continuously developing advanced materials, wires, and parts. The Company's leading-edge technologies have been adopted in many popular devices in daily life such as Blu-ray disc players, video game consoles, and mobile phones.

Performance in FY2013

→ Sales in this segment totaled ¥262.6 billion, a year-on-year increase of ¥45.1 billion, or 20.7%. This was mainly due to the growing demand for flexible printed circuits (FPCs) used in mobile phones, as well as electronic wires for automobiles, and flat cables for printers and game devices. Meanwhile, yen depreciation and cost-cutting measures benefited operating income, which amounted to ¥5.3 billion. The operating income ratio improved by 2.0 percentage points to 2.0%.

Forecasts and Goals in FY2014

→ In FY2014, the Sumitomo Electric Group forecasts that segment sales will rise 7% to ¥280 billion, mainly owing to the growing demand for FPCs and electronic wires. Operating income is projected to jump 51% to ¥8 billion.

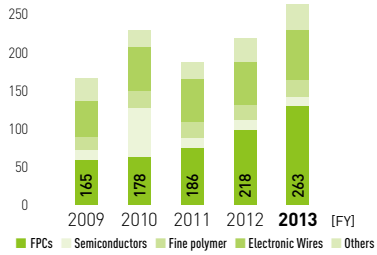
→ Looking ahead, the Sumitomo Electric Group will work to develop more precise and thinner FPCs for use in mobile devices.

→ In this segment, the Group will focus on business expansion of space-saving high-speed transmission cables, FPCs with heat resistance of 150°C, and Tab-Lead wire for mobile devices and electric vehicles.

Net Sales

(Billions of yen)

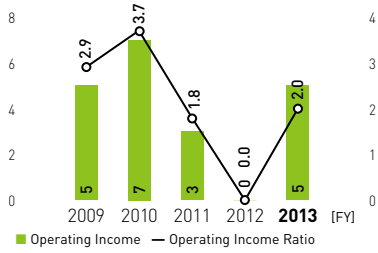
¥263 billion ↑20.7%



Operating Income and Operating Income Ratio

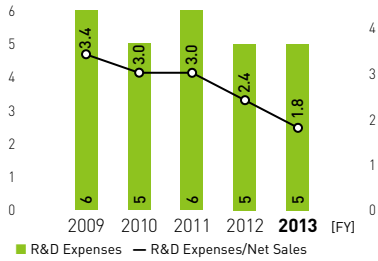
(Billions of yen) (%)

¥5 billion —%



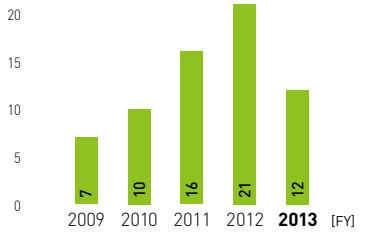
R&D Expenses and as a Percentage of Net Sales

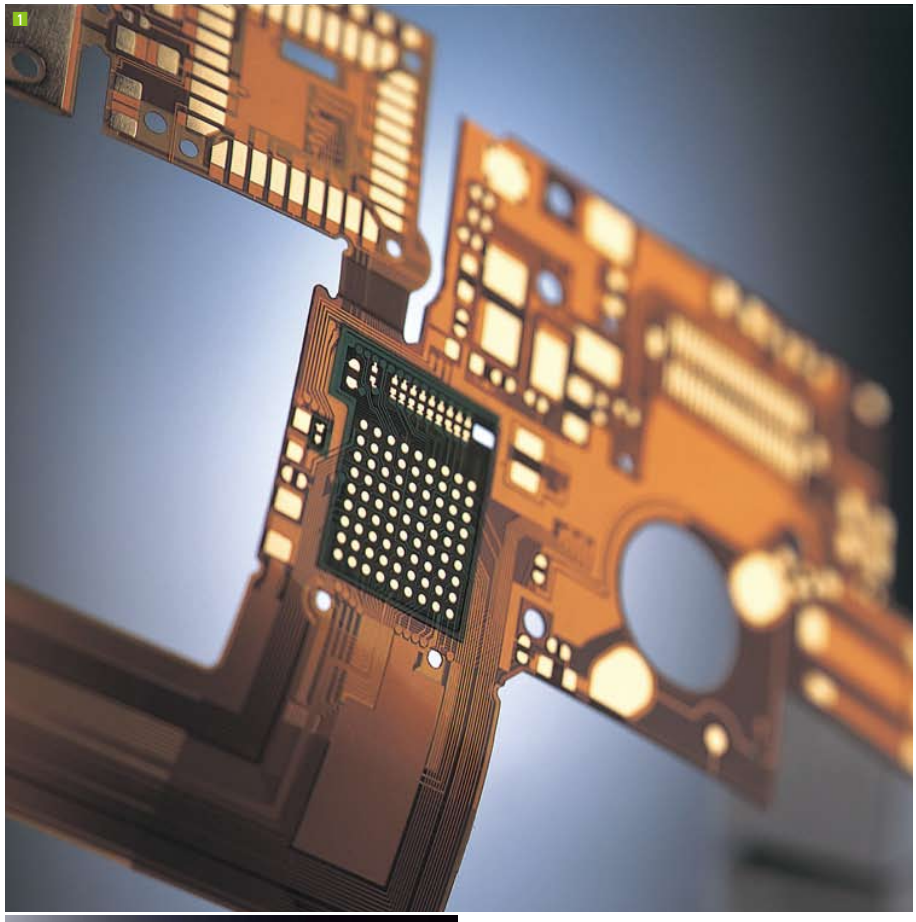
(Billions of yen) (%)



Capital Expenditure

(Billions of yen)





1 Flexible printed circuits (FPCs)
FPCs consist of a copper circuitry overlaid on an ultrathin insulation film. They greatly contribute to the downsizing, weight saving, and cost reduction of electronic devices, and are used in computer hard disk drives, camera-integrated video recorders, mobile phones, etc.

2 SUMI-CARD™
SUMI-CARD™ flat cable is ideally suited for high-density mounted electronics, with an easy single plug/unplug interface to connectors. Thanks to its extreme lightweight, thin design, SUMI-CARD™ is widely used to reduce the size and weight of digital products we use every day, such as TVs, office automation equipment, and gaming consoles.

3 Thin Thunderbolt cable
In May 2013, we became the first in the world to obtain certification for thin Thunderbolt cable from Intel Corporation, and launched mass production. The cable has an outer diameter about 25% smaller than conventional products, and is about 42% smaller in cross-sectional area. The miniaturization enables greater flexibility and convenience, and satisfies current 10Gbps high-speed transmission requirements.

*Thunderbolt is a trademark of Intel Corporation in the U.S. and / or other countries.

STRATEGIC INITIATIVES

In FY2013, Sumitomo Electric developed FPCs with significantly improved long-term durability under high-temperature conditions of more than 150°C (up to a maximum of 175°C). The adhesive materials that hold the FPCs together were enhanced to greatly improve insulator film adhesion and inter-circuit insulation performance. The Company has begun supplying samples of the products to customers.

Conventional FPCs lose a considerable amount of insulator film adhesiveness if used in high-temperature environments above 150°C, because their structural materials degrade over time. To overcome this problem, the Company developed FPCs with greatly improved durability of basic performance under high-temperature and high-humidity conditions by increasing the heat resistance of the structural adhesives materials.

The products are expected to be used for applications requiring dependable performance under high heat such as vehicle powertrains, light emitting diode (LED) lighting equipment relay cables, and component mounting circuit boards. By marketing the FPCs for these applications, Sumitomo Electric hopes that they will contribute to greater design flexibility for wiring materials and make electronic components more compact, lightweight, dependable and durable.

Environment and Energy

Environment and Energy Segment

→ Since its founding, Sumitomo Electric has worked to develop wire and cable technologies that are essential for ensuring a stable power supply. The Company is now launching new businesses in the fields of renewable energy and smart grids. By supplying environment-friendly and energy-efficient products and systems featuring high functionality and high quality to the global market, Sumitomo Electric is striving to upgrade social infrastructure around the world.

Performance in FY2013

→ Along with rising prices for copper, this segment enjoyed ongoing robust demand for copper wire rods and wire coils. Demand was also strong for Sumitomo Densetsu's electrical works and Nissin Electric's power conditioners for solar power generation and ion implanter equipment used to manufacture high-resolution small- and medium-sized flat panel displays (FPDs). As a result, the sales in this segment totaled ¥564.2 billion, a year-on-year increase of ¥53.0 billion, or 10.4%. Operating income also rose ¥5.1 billion to ¥24.1 billion. The operating income ratio improved by 0.6 of a percentage point to 4.3%. The value of orders for installation work and plants came to ¥285.5 billion for a year-on-year increase of ¥19.0 billion (7.1%). Effective from the first quarter of FY2013, the name of this segment was changed from the Electric Wire & Cable, Energy segment to the Environment and Energy segment.

Forecasts and Goals in FY2014

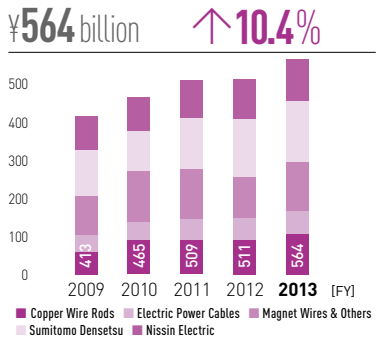
→ In FY2014, Sumitomo Electric forecasts that segment sales will rise 8% to ¥610 billion, mainly owing to the contribution of J-Power Systems Corporation, which became a wholly owned subsidiary in April 2014, along with robust demand for products sold by Nissin Electric, despite declining demand for electric works handled by Sumitomo Densetsu. On the other hand, operating income is forecast to decrease 29% to ¥17 billion. This is due to increases in amortization of goodwill and expenses for depreciation and amortization as well as a rise in research and development costs resulting from forward-looking investments.

→ Looking ahead, Sumitomo Electric will work to obtain orders for large-scale projects in its submarine cable business following the projects in the United States and Europe in February and March 2014. The Company will also focus on developing porous materials for batteries and wire coils for motors used in environment-friendly vehicles.

→ In this segment, the Sumitomo Electric Group will promote smart energy systems that can reduce the environmental burden and contribute to maintaining and improving the quality of power generation while ensuring its security. In these ways, the Group will help society develop new ways of generating and using energy.

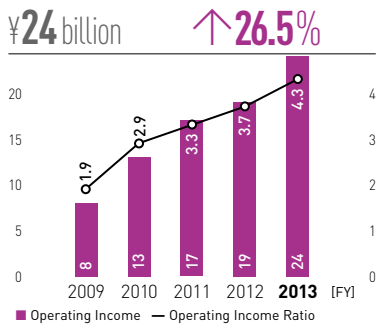
Net Sales

(Billions of yen)



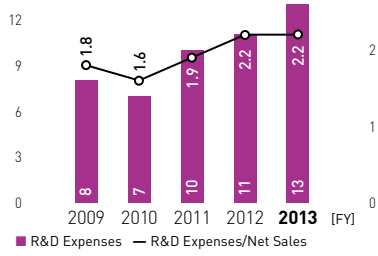
Operating Income and Operating Income Ratio

(Billions of yen) (%)



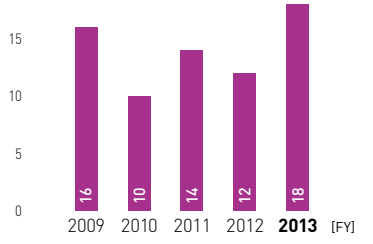
R&D Expenses and as a Percentage of Net Sales

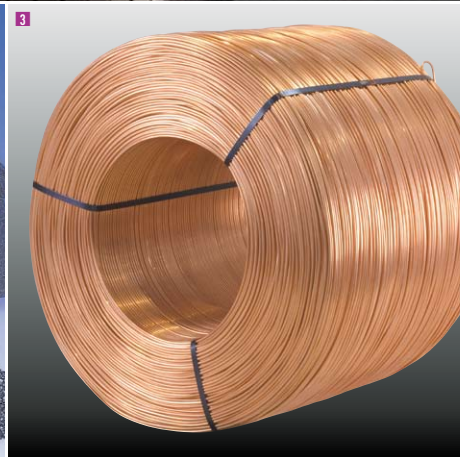
(Billions of yen) (%)



Capital Expenditure

(Billions of yen)





1 Bismuth superconducting cables
Electric cables made from bismuth superconducting wires with zero electrical resistance as well as strong electromagnets help improve energy efficiency and save energy. Sumitomo Electric has started Japan's first power transmission demonstration test using its superconducting cables.

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

3 Wire rods
We have been manufacturing wire rods since our foundation in 1897. Our wire rods are used for the production of a wide variety of electric wires and cables.

STRATEGIC INITIATIVES

Sumitomo Electric and Hokkaido Electric Power Co., Inc., applied for government subsidies for a jointly conducted program for urgent demonstration of large-scale power storage systems in FY2012. After the project was reviewed, it was selected as a subsidized project in FY2013 by the New Energy Promotion Council, an organization in Japan's Ministry of Economy, Trade and Industry.

The project is being carried out amid concerns regarding the quality such as frequency of wind and photovoltaic generated power, since power output fluctuates depending on weather conditions, specifically the amount of wind and sunshine. It also follows Hokkaido Electric Power's efforts to promote the widespread adoption of renewable energy sources while assessing their potential contribution to electric power systems.

Sumitomo Electric and Hokkaido Electric Power are jointly carrying out the demonstration project, which involves installing a large storage battery at the latter's primary substation, testing its performance as a new method for solving fluctuating output from wind and photovoltaic power generation, and developing technologies for optimally regulating the fluctuations. Both companies intend to pool their technologies and expertise with a commitment to promoting greater usage of renewable energy.

Industrial Materials and Others

Industrial Materials and Others Segment

→ Taking advantage of its material development capabilities based on electric wire and cable drawing technology, Sumitomo Electric has developed a range of products with unique features including PC steel wires, steel tire cords, and other special steel wires essential for civil engineering and construction. The Company also supplies a wide variety of superior materials including sintered parts used in automobiles and household appliances, and synthetic diamonds that have gained a reputation as the "ultimate material." As essential materials for tools and machinery needed by many industries, these products contribute to the development of society.

Performance in FY2013

→ In the Industrial Materials and Others segment, sales amounted to ¥303.3 billion, a year-on-year increase of ¥30.8 billion, or 11.3%. This was mainly due to the benefits of yen depreciation on sales outside Japan, and the strong demand for sintered parts, cemented carbide tools and other products for automobiles. Operating income totaled ¥20.5 billion, up ¥5.4 billion. The operating income ratio improved by 1.3 percentage points to 6.8%.

Forecasts and Goals in FY2014

→ In FY2014, Sumitomo Electric forecasts that segment sales will grow 9% to ¥330 billion, taking into account the ongoing robust demand for sintered parts and cemented carbide tools for automobiles. Operating income is forecast to reach ¥24 billion, an increase of 17%, owing to higher gross profit in line with an expected increase in sales volume.

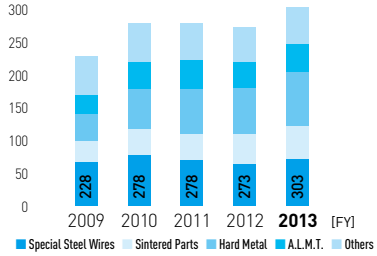
→ In its cemented carbide tools business, Sumitomo Electric has set up its first tungsten refining business in North America with the aim of integrating manufacturing operations within the Group, ranging from procurement of raw materials to manufacturing of finished products.

→ The Sumitomo Electric Group is establishing factories worldwide to respond to local demand and working to improve and innovate its core technologies. In these ways, the Group intends to continue making inroads in new product areas such as nano-polycrystalline diamonds in the cemented carbide tools business and electric vehicle products in the sintered parts business.

Net Sales

(Billions of yen)

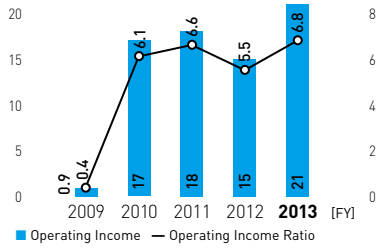
¥303 billion ↑11.3%



Operating Income and Operating Income Ratio

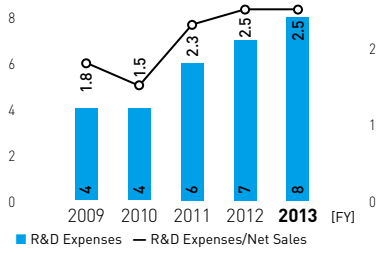
(Billions of yen) (%)

¥21 billion ↑35.8%



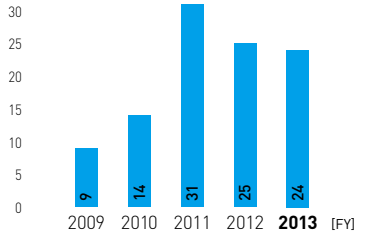
R&D Expenses and as a Percentage of Net Sales

(Billions of yen) (%)



Capital Expenditure

(Billions of yen)



1 Nano-polycrystalline diamond
Sumitomo Electric has been engaged in a diamond business for over 40 years. Meanwhile, the Company has advanced its unique ultra-high pressure technology to release various products. SUMIDIA™ binderless is the ultimate new nano-polycrystalline diamond having hardness higher than that of single crystal diamonds and overcoming cleavage, a shortcoming of single crystal diamonds.

2 Prestressed concrete (PC) steel wires
Prestressed concrete is a technology for high-strength concrete members using high-strength steel wires to generate high compressive force. It is used in construction of large bridges and tanks. The Sumitomo Electric Group is involved in many civil engineering and construction projects using the DYWIDAG™ method, for which it has acquired licensing in Japan.

3 Sintered parts
These products are made by utilizing power metallurgy technology (sintering), a method of producing parts by baking compacts that are molded by compressing metallic powder. Allowing the creation of high accuracy and intricately shaped parts, sintering is popularly used to make automotive engine components and drive train parts, as well as air-conditioner parts.

STRATEGIC INITIATIVES

From March 2014, Sumitomo Electric began operating a tungsten refining and scrap metal recycling business. The business is being conducted by Niagara Refining LLC, a joint venture established by Sumitomo Electric's wholly owned subsidiary Sumitomo Electric Carbide, Inc., and New York Tungsten L.L.C., a subsidiary of Buffalo Tungsten Inc., which produces tungsten powder in the United States. The new company will produce tungsten trioxide (WO_3), which is used as a primary raw material for manufacturing cemented carbide tools and other products.

Before this move, the Company procured WO_3 from China and other countries through Group company A.L.M.T. Corp., which manufactures tungsten carbide powder as a raw material for carbide tools. A.L.M.T. has also been operating a tungsten scrap recycling business at its Toyama Plant since 2011. With the start of operations at Niagara Refining, the Sumitomo Electric Group can now produce tungsten raw materials in-house, by either refining tungsten ore imported from mines around the world or recycling scrap tungsten collected from the market.

Utilizing the WO_3 produced by Niagara Refining and tungsten carbide powder manufactured by A.L.M.T., Sumitomo Electric will work to ensure a stable supply of tungsten raw materials so that the Group can integrate its production of cemented carbide tools, ranging from raw materials to finished products. By coordinating operations within the Group, Sumitomo Electric intends to optimize production as a means to leverage synergy effects and further boost its competitiveness.

EXPANDING BUSINESS

The Sumitomo Electric Group is expanding marketing bases and optimally reconfiguring its network around the world, to respond more accurately to growing global demand driven by the emerging economies.

As a result, sales of the Company and its consolidated subsidiaries outside Japan (overseas sales) totaled ¥1,417.0 billion in FY2013, an increase of ¥368.2 billion from the previous fiscal year. Overseas sales now account for 55.2% of total sales on a consolidated basis, a year-on-year increase of 6.6 percentage points.

Americas

- In FY2013, sales in the Americas amounted to ¥402.5 billion, accounting for 15.7% of total consolidated sales. This was a year-on-year increase of ¥108.5 billion, mainly due to strong demand for automotive wiring harnesses.
- Sales of consolidated subsidiaries in the United States and elsewhere (to external customers) grew ¥2.4 billion year on year to ¥296.3 billion, while operating income rose ¥4.7 billion to ¥15.3 billion. Operating income generated in the region accounted for 12.6% of consolidated operating income.

Asia

- Sales in China increased by ¥110.6 billion year on year to ¥403.0 billion (accounting for 15.7% of all consolidated sales). Sales in other Asian markets increased ¥44.7 billion to ¥313.3 billion, accounting for 12.2% of total sales on a consolidated basis.
- Sales of consolidated subsidiaries in Asia, including China, (to external customers) totaled ¥671.1 billion, an increase of ¥151.3 billion from the previous fiscal year. The growth was mainly due to robust sales of manufactured materials in Asia including sintered parts and wiring harnesses for automobiles. Group company Tokai Rubber Industries, Ltd. raised its sales contribution after expanding its scope of consolidation through the acquisition of several companies. Operating income also increased ¥18.7 billion year on year to ¥59.0 billion. Operating income generated in this region accounted for 48.6% of total operating income on a consolidated basis.

Europe and Others

- Sales in Europe and other areas amounted to ¥298.2 billion, accounting for 11.6% of total consolidated sales. This was an increase of ¥108.5 billion compared to the previous fiscal year, primarily owing to the recovery of the European economy and a rebound in sales of automotive wiring harnesses to the European market.
- At the same time, sales of consolidated subsidiaries in the region (to external customers) increased ¥108.3 billion to ¥293.2 billion, and earnings also rose. Operating income was ¥2.4 billion, up ¥1.3 billion. Operating income generated in this region accounted for 2.0% of total operating income on a consolidated basis.

Global Human Resource Management Policy

Currently, the Sumitomo Electric Group employs around 220,000 people in diversified technological and regional occupations in over 40 countries. It is essential for us to make full use of all of our resources if we are to survive and thrive amid global competition in terms of technology, products and business model. It is also vital to secure and mobilize highly talented human resources to support our business.

The Group has long emphasized the importance of human resources, as stated in the Sumitomo Spirit. In September 2011, the Group compiled the Global Human Resource Management Policy, clearly laying down its basic human resource policy.

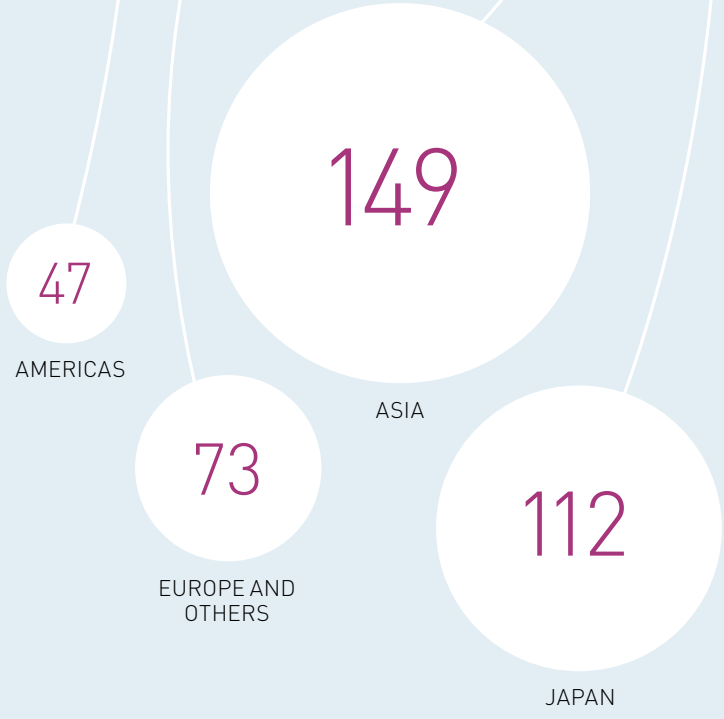
This policy explicitly commits Sumitomo Electric to further accelerating the globalization of human resources and organizational systems and providing training for fostering global players and leaders and career opportunities regardless of nationality, race, ethnicity, religion or gender. The policy has been widely promulgated internally and externally.

We are promoting specific policies for cross-border personnel exchange and training, and for compilation of global guidelines for personnel deployment.

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

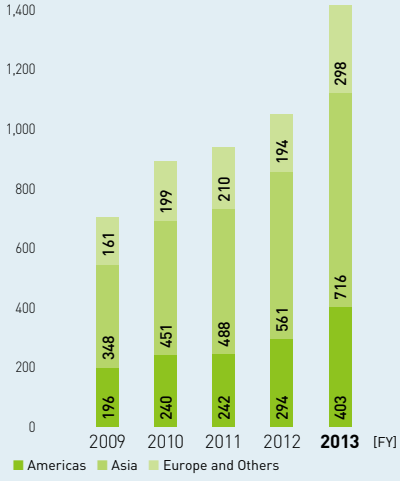
ON THE WORLD STAGE

Total of Consolidated Subsidiaries and Affiliates by the Equity Method



Overseas Net Sales

(Billions of yen)



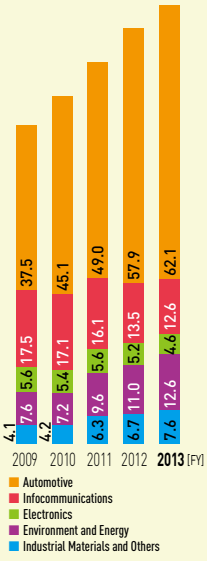
Net Sales (Segment Information by Geographic Area)

(Billions of yen)

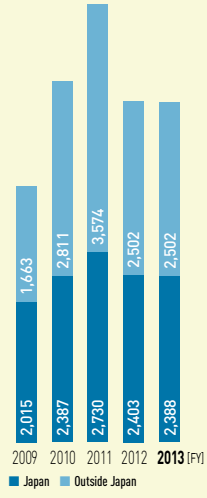
Research & Development

R&D Expenses by Segment

(Billions of yen)



Number of Patent Applications by Region



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

In FY2013, ended March 31, 2014, consolidated R&D expenses totaled ¥99.5 billion.

Automotive Segment

In FY2013, R&D expenses in this segment totaled ¥62.1 billion.

Sumitomo Electric is developing elemental wiring harness technologies necessary to create harness architecture compatible with next-generation in-vehicle systems. As an environmental initiative, it is mass producing wiring harnesses made of aluminum, a lighter material than conventionally used copper, in an effort to help reduce the weight of automobiles. The Company is also further expanding the scope of applications for wiring harnesses. Anticipating the growing markets for electric and hybrid electric vehicles, Sumitomo Electric is striving to develop high-voltage wiring harnesses, connectors, battery internal wire modules and other parts for these vehicles.

An aluminum harness

In the automotive electronic equipment business, the Company is developing power distributors and other electronic devices as well as semiconductor devices, on-board electronic control units, and next-generation automotive local area networks (LANs), along with related software to enable networking of power systems and information systems. To improve the efficiency of new product development and maintain high levels of quality, Sumitomo Electric is developing indispensable testing, analysis, evaluation, and solution techniques to create elemental technologies and ensure reliability. It also employs a wide range of assessment equipment, including environmental testing instruments and analysis devices, and makes full use of simulation techniques based on computer-aided engineering (CAE), enabling the analysis of connector contact-point mechanisms, heat and vibration of electronic equipment, and other factors.

Group company Tokai Rubber Industries, Ltd., promotes industry collaboration and integration of external technologies based on its core technologies with the goal of quickly creating new technologies and developing timely products. In this way, it is working to establish new businesses that can drive future growth amid dynamic changes in its operating environment. As part of its efforts to develop technologies at the forefront of the auto industry, Tokai Rubber strives to make more globally compatible products that lower costs for users, are environmentally friendly, and enhance driving comfort.

Infocommunications Segment

In the fiscal year under review, R&D expenses in this segment totaled ¥12.6 billion.

Beginning with optical communications-related products, Sumitomo Electric carried out R&D on low-loss/low-nonlinearity optical fibers for submarine cable applications, to increase the transmission speed and capacity of optical fiber communications. In FY2012, the Company set a world record for the lowest transmission loss of only 0.149 decibels per kilometer.

Low-loss/ low-nonlinearity optical fibers

The Company is working to expand its transmission device-related products business by aggressively entering markets and developing new products. To this end, it is

integrating technologies obtained through the acquisition in March 2012 of EMCORE Corporation's vertical cavity surface emitting laser (VCSEL) operations, while maximizing its electronic device technologies for wireless communications as well as high-end optical communication devices designed for transmission over short distances of a few dozen meters to long distances of thousands of kilometers.

Sumitomo Electric has focused on developing optical transceiver devices capable of transmission speeds above 40/100Gbps. The Company offers a lineup of products rated at 2, 10, and 40 kilometers, and aims to make more compact, energy-saving products. It has developed a 40Gbps optical transceiver that complies with the Quad Small Form-Factor Pluggable Plus (QSFP+) standard and features one-tenth less volume and one-third less power consumption than conventional models. It is also developing a 100Gbps optical transceiver that meets CFP4 specifications and achieves about one-tenth the volume and one-third the power consumption of conventional models.

In the electronic device business, Sumitomo Electric has developed a world-leading gallium nitride (GaN) transistor capable of high efficiency and high output capacity, and is commercializing it for mobile phone base station applications. The Company intends to further improve efficiency and output capacity to respond to calls for low power consumption, the shift to the Long-Term Evolution (LTE) standard, and other market demands. Furthermore, it is proceeding to develop 10GHz radar applications and GaN monolithic microwave integrated circuit (MMIC) products for satellite communications and transmission between base stations at over 20GHz, while widely deploying GaN transistor technologies in wireless applications.

In the network system business, Sumitomo Electric is conducting R&D on information and communication equipment. By innovating its information and communications technologies, the Company aims to help make society more sustainable with greater safety, security and comfort.

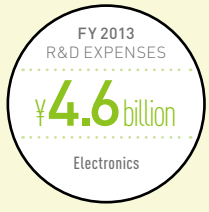
In the wire communication system business, Sumitomo Electric is carrying out R&D on next-generation systems that perform at higher speeds, such as the 10 Gigabit Ethernet Passive Optical Network (10G-EPON) standard. In the wireless communication system business, it is developing a new type of outdoor active antenna wireless unit for mobile phone base stations, and applying Internet of Things (IoT) oriented machine-to-machine (M2M) communications to enable wireless communication technologies to support advanced service implementation platforms.

In the energy network business, Sumitomo Electric is developing stationary storage battery systems and optical-communication network equipment for remotely controlling power grids. It is also carrying out R&D on a home energy management system (HEMS) and cloud-based demand response systems that instantly and automatically regulate electricity usage in the event of a power shortage.

Finally, Sumitomo Electric is achieving advances in safety- and security-related technologies. To make transportation safer, the Company is developing safe driving support systems utilizing traffic system control algorithms and vehicle infrastructure integration (VII) applications. It is also developing imaging sensors and radio wave sensors for crime-prevention and surveillance systems.

Electronics Segment

In FY2013, R&D expenses in this segment totaled ¥4.6 billion.



In its compound semiconductor business, Sumitomo Electric is striving to raise the quality of its indium phosphide (InP) and gallium arsenide (GaAs) substrates used in wireless electronic devices and high-speed transmission optical devices, which provide the basis for telecommunications, as well as GaN substrates used in such applications as blue-violet laser diodes, white light-emitting diodes (WLEDs), and power devices. The Company has also successfully developed a substrate suitable for green lasers and realized the world's first

Research & Development (Cont.)

pulse oscillation with a true green laser. Moreover, Sumitomo Electric is developing semiconductor materials for use in new optical and electronic devices.

A green laser

In the electronic material and parts business, the Company is developing a conductive paste by utilizing metal nano-powder derived from its proprietary liquid-phase reduction process. It is also developing nano-ink for forming circuits and high-density mounting materials such as anisotropic conductive film for fine-pitch electrodes. Employing unique adhesive material techniques and fine circuit pattern formation technologies, the Company is pursuing the development of electronic circuit boards for mobile devices, module components, and heat dissipation materials.

Environment and Energy Segment

In FY2013, R&D expenses in this segment totaled ¥12.6 billion.

In the superconducting business, the Company substantially improved the performance and mass production potential of bismuth-based high-temperature superconducting wires, and is pursuing commercialization and all-out marketing of these wires worldwide as materials for cable projects, motors and magnets. In the superconducting cable system business, Sumitomo Electric has been involved since 2007 in a high-temperature superconducting cable demonstration project overseen by the New Energy and Industrial Technology Development Organization (NEDO), an independent administrative agency in Japan. The Company successfully completed the first in-grid trial operations in Japan, spanning a period of more than a year from October 2012 to December 2013. Long-term testing of a high-temperature superconducting power distribution system was also conducted at the Company's Osaka Works.

In addition, since March 2013 Sumitomo Electric has focused on applying its technologies to high-temperature superconducting cable systems. As part of these activities, it is involved in a project commissioned by Japan's Ministry of the Economy, Trade and Industry to demonstrate the supply of high-temperature superconducting direct-current (DC) electricity.

In its next-generation power transmission network business, Sumitomo Electric is responding to public demands for adopting natural energy, conserving energy, and decentralizing the electric power industry. For example, the Company has been conducting demonstration tests of a micro smart-grid system at its Osaka Works since June 2011. The system features numerous pieces of natural energy generation equipment, including concentrator photovoltaic (CPV) devices developed in-house, interconnected via DC power cables with small redox flow storage batteries and other equipment. Moreover, the Company has been developing a large-scale electric power storage and generation system at its Yokohama Works since July 2012. The system comprises 100-kilowatt fixed-output CPV devices and redox flow batteries with megawatt-class output and capacity. While using the system to supply power onsite, Sumitomo Electric is verifying the feasibility of its operations for commercialization. In addition, the Company has focused on the development of next-generation superconducting wires, mega-solar monitoring systems equipped with power line communications (PLC), small storage batteries for emergency use and power conditioners.

A redox flow battery

In the storage battery business, Sumitomo Electric is exploring the possibility of realizing a compact assembled molten salt electrolyte battery made of nonflammable materials, and is designing and evaluating prototypes according to a wide range of needs based on information provided from customers. The Company has also developed Aluminum-CELMET™,

a porous metal that can contribute to improving the performance of storage batteries as a current collecting material, and is seeking to develop mass production technologies for lithium-ion batteries and storage devices such as capacitors.

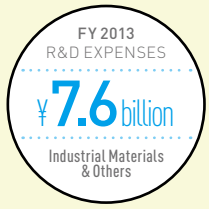
To meet diverse needs in the market, Group company Sumitomo Densetsu Co., Ltd., is utilizing the latest technologies and computer capabilities to develop energy-saving techniques, new installation methods and a wide spectrum of systems, including storage battery systems, superconductivity cooling systems, energy management and other building management system technologies, and maintenance and monitoring systems for photovoltaic power generation systems.

Concurrently, Group company Nissin Electric Co., Ltd., is conducting R&D with an emphasis on next-generation devices, including power system equipment, renewable energy- and environment-related products, and charged beam equipment and processing applications. In the power system equipment business, Nissin Electric is orienting its product development toward international markets, and developing products that offer superior maintenance and expandability while researching technologies related to electric power storage networks. In the charged beam equipment and processing business, the company focuses its R&D on next-generation products such as thin-film coating equipment, ion implanters for semiconductor production, and electron beam processing systems. In the new energy and environment business, it is channeling product development toward power conditioners for photovoltaic power systems, while researching and demonstrating technologies related to energy management systems.

Industrial Materials and Others Segment

In FY2013, R&D expenses in this segment totaled ¥7.6 billion.

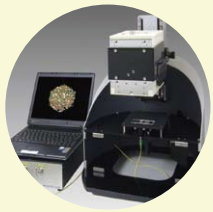
In its synthetic diamond business, Sumitomo Electric has developed an ultrahard nano-polycrystalline diamond made from ultrafine grains of several tens of nanometers, by combining its new proprietary processes and a new ultrahigh-voltage technology employing atmospheric pressure of 150,000 atm and heat of over 2,000°C. Having demonstrated that this nano-polycrystalline diamond has greatly superior mechanical qualities compared to conventional synthetic diamonds, the Company is working to promote it as a tool for next-generation high-precision machining.



In its sintered parts business, the Company is developing products, such as fuel-injection equipment parts used in diesel engines, for soft magnetic powder materials, which have excellent magnetic characteristics in the high-frequency range. Responding to the growing use of electrical systems in cars, Sumitomo Electric is focusing its product development on high-performance soft magnetic powder materials made especially for electric and hybrid electric vehicles.

In the cutting tools business, Sumitomo Electric is drawing on its extensive cemented carbide technologies and coating techniques to develop friction stir welding tools that can attract attention as new welding methods. The Company also aims to enter new markets unrelated to cutting tools.

As part of its efforts to establish new businesses, Sumitomo Electric is focusing on developing ballast water treatment systems and pretreatment equipment for seawater desalination. By applying its semiconductor and communication device technologies, the Company has also developed a near-infrared composition imaging system called Compovision™, which generates real-time images of previously undetectable compositional differences and of the concentration distribution of material. The Company is working to commercialize the system as an application for quality inspections at factories, and is using its near-infrared light technology to develop medical instruments.



The Compovision™ imaging system

Environment and Corporate Social Responsibility

Based on the Sumitomo Electric Group Corporate Principles, Sumitomo Electric established its environmental policy from a global perspective, positioning environmental preservation initiatives as a top-priority issue for management.

Promoting Resource Saving and Recycling

The Sumitomo Electric Group is carrying out activities intended to reduce its total emissions rate to zero.

Company spotlight

P.T. Sumiden Serasi Wire Products was established in Indonesia in 1990 as a manufacturer of prestressing concrete (PC) steel wires in the Group's special steel wire business. The company gradually expanded its product lineup after starting operations in 1992, and now produces and sells steel wires for springs and tires in addition to PC steel wires.

Although the company was already recycling materials such as sludge and waste acid, it had been sending general waste to landfills. Numerous items, such as plastic bottles and paper, were mixed in its general waste facilities. In FY2011, however, it began separating items such as sellable paper and wood chips for recycling, as well as combustible items for sale to third parties for use as fuel. As a result, the amount of waste sent to landfills was cut from 18 tons per month in FY2011 to six tons per month in FY2013, and the total emissions rate was reduced to 2%.

Sumitomo Electric Group CSR Basic Policy

The Sumitomo Spirit, which gives top priority to upholding public trust and corporate ethics, is deeply instilled in the Sumitomo Electric Group. Based on the values embedded in the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles, the Group is working to enhance its social value by ensuring compliance in business activities while helping to achieve a better society and environment.

We have specified five core categories on which we focus our CSR efforts: environmental preservation; procurement and logistics; safety and quality; employees and human rights; and social contribution. Based on this approach, we will establish strong relationships with stakeholders and continue sustained growth with the aim of becoming a "Glorious Excellent Company."

Highlights of FY2013

Activities of the SEI Group CSR Foundation

Established in April 2009 for the purpose of promoting human resources training and academic development in various fields in Japan and overseas, the SEI Group CSR Foundation obtained official recognition in February 2010 from the Prime Minister of Japan and his Cabinet as a public interest incorporated foundation.

In FY2013, Sumitomo Electric donated a total of ¥632 million to the SEI Group CSR Foundation, of which ¥500 million was allocated to the foundation's basic fund and the remainder was used for operations. Funding was allocated in three areas: ¥94.5 million for university courses, ¥20.0 million for academic and research activities, and ¥23.6 million for scholarships. The scholarships were awarded to 18 international students studying in Japan and 80 local students studying at overseas universities. Among the university courses receiving funding, one course was new and seven continued from the previous fiscal year. The eight courses were as follows:

- → Plant Bioengineering for Bioenergy Laboratory, Osaka University
- → Manufacturing engineer and researcher training course, Osaka University
- → Solution study of plant biomass, Kyoto University
- → Nano-interface Photonics Institute, Kyoto University
- → Research course on tsunami marine hazards, Kobe University
- → New research course on terminal care for elderly patients suffering from chronic heart disease, Saga University
- → Research on neuroimaging, Tohoku University
- → Course on environmental laws and policies toward reconstruction from the earthquake disaster and the nuclear power plant accident, Hitotsubashi University

Contributing to communities with donations

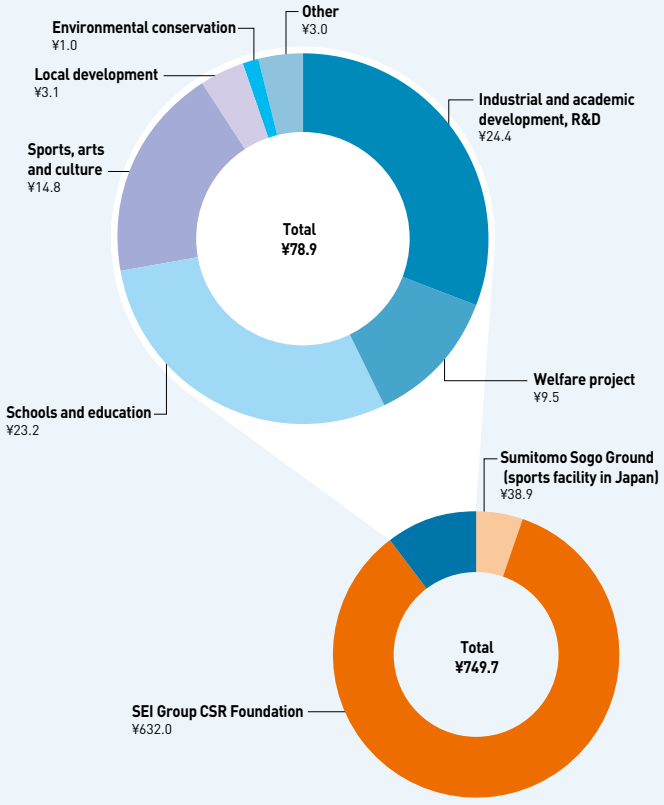
In FY2013, Sumitomo Electric offered donations to a wide array of community organizations to support schools and education, and promote industrial and academic development, R&D, culture and the arts, welfare projects, local development, environmental conservation, sports, and other fields. The Company was involved in important community activities, donating to symphony orchestras and opera groups to support culture and the arts, and providing support to nature conservation funds as part of its environmental preservation efforts. The Company also concurrently donated an amount equal to the donations given by its employees to the Japan

Committee for UNICEF, the Japanese Red Cross Society, and the World Wide Fund for Nature Japan.

Besides these activities in Japan, Sumitomo Electric contributes to communities all over the world. For example, it provided monetary donations for rebuilding the areas and assisting the victims of a typhoon that damaged the Philippines in November 2013.

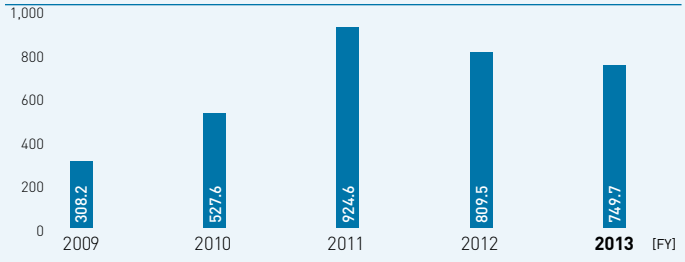
Amount of Donations from Sumitomo Electric by Category

(Millions of yen)



Total Amount of Donations

(Millions of yen)



Working together with NPOs

To contribute to society and promote good health, Sumitomo Electric began a Table for Two campaign at cafeterias in its Tokyo headquarters in October 2011, and its Yokohama Works in October 2012. Led by the nonprofit organization Table for Two International, this campaign is a social contribution program originating in Japan that aims to reduce obesity and lifestyle-related diseases in advanced countries as well as fight hunger in the developing countries of Ethiopia, Uganda, Rwanda, Malawi, and South Africa. In accordance with the organization's guidelines, the cafeterias provide a low-calorie, nutritionally balanced meal each day, and donate ¥20 from the sale of each meal.

Sumitomo Electric Group Citizenship Activity Smile Relay

In May 2011, Sumitomo Electric opened Sumitomo Electric Group Citizenship Activity Smile Relay, a blog to introduce the Group's community-based corporate citizen activities. This blog features the various CSR initiatives conducted by Group companies and employees in Japan and other countries described in their own words, while introducing the characteristic features of particular countries and regions.

Website: http://global-sei.com/smile/

Sumitomo Electric Group CSR Report

SEI CSR Report 2013

For more information about CSR activities of the Group, please see the website.

http://global-sei.com/csr/index.html

Our CSR Report 2014 will be issued in November 2014 .

Corporate Governance

Basic Policy for Corporate Governance

The consistent basic policy of the Sumitomo Electric Group is to continue to create a positive contribution to society through the pursuit of fair business activities, aligned with the Sumitomo Spirit and the Sumitomo Electric Group Corporate Principles. To develop our business and enhance our corporate value while adhering to this basic policy, we are committed to improving overall management efficiency and speed to ensure the legality and appropriateness of our business decisions and activities. We are also strengthening related supervisory and remedial systems.

In June 2003, Sumitomo Electric adopted the executive officer and business unit systems, with the aim of creating a flexible system of business execution by accelerating the Board's decision-making, improving its supervisory functions, and clarifying the scope of its authority and responsibility.

In June 2008, outside corporate auditors were appointed with the aim of further strengthening the supervisory functions of the Board of Directors.

To ensure soundness of management, we have strengthened auditing functions and ensured that independent outside audit & supervisory board members comprise over half of the corporate auditor team. The outside audit & supervisory board members have a high degree of specialist knowledge and multi-faceted expertise. Outside audit & supervisory board members, the full-time audit & supervisory board members, and their support staff members work with the Internal Auditing Department and the accounting auditors to ensure that business is conducted in a legal and appropriate way.

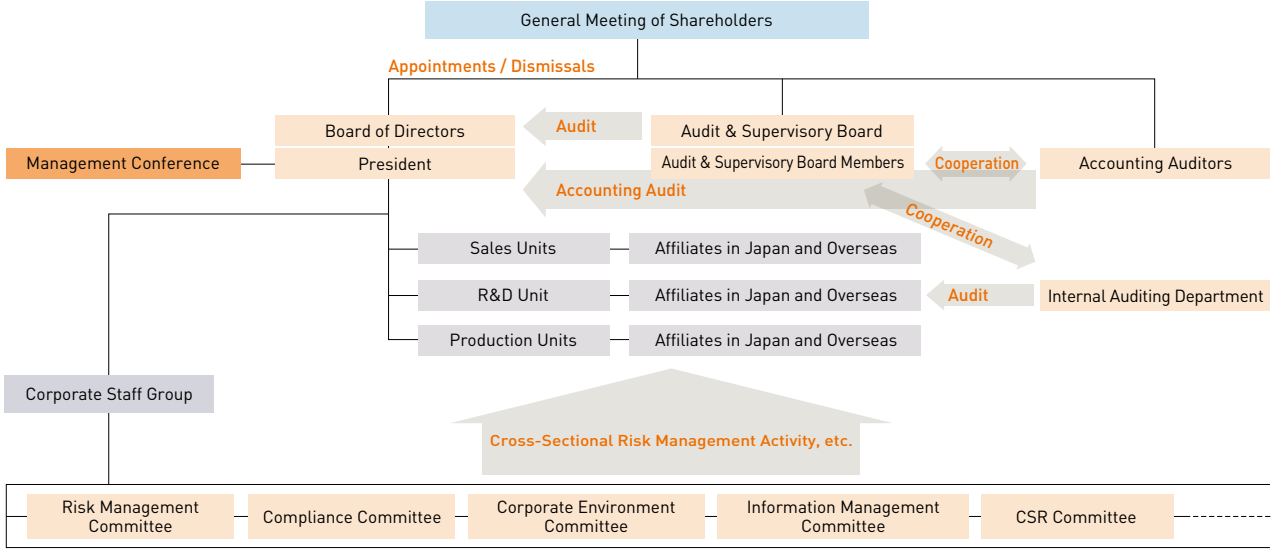
At meetings of the Board of Directors, the independent outside executive officers offer their opinions on matters such as improving management efficiency. Looking ahead, we plan to further improve our internal governance systems.

Board of Directors

The Board of Directors meets regularly once a month and from time to time when deemed necessary to discuss and approve important business matters such as investment and business restructuring, with the president as the chairman because the position of the chairman of the Board of Directors is vacant. Before submitting agendas to the Board, the management conference comprising the president and executive directors discusses and improves the agenda in advance.

Conduct of operations based on the decisions of the Board of Directors and other committees is entrusted to unit general managers and directors and executive officers heading the Corporate Staff Group, all of whom report to the president. At the same time, to establish a functioning system of internal checks, clear organizational authority and responsibilities have been laid down

Sumitomo Electric Group's Corporate Governance Structure



in the in-house regulations, along with appropriate operational procedures.

In addition to receiving monthly reports on sales and earnings as well as financial position and other matters from the director in charge of accounting, the Board of Directors receives reports on orders received and sales at each business unit headed by a director, as well as progress in achieving management targets and conducting operations.

Auditing and Supervisory System

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 audit & supervisory board members, inspect the performance of Board members in business execution, supported by the corporate auditor support staff (the Office of Corporate Auditors).

Audit & supervisory board members all attend important meetings of the Board of Directors, based on the brief they were assigned—audit planning, policy making and task allocation—by the Audit & Supervisory Board. They question the Board of Directors, Internal Auditing Department, and other offices on their performance of duties, and read through important documents for approval. They also carry out regular visiting audits at major business premises. At the same time, they receive audit reports from other audit & supervisory board members and exchange necessary information with the accounting auditors.

Outside Director and Outside Audit & Supervisory Board Members

Sumitomo Electric appoints one outside director for the purpose of improving the supervisory function of the Board of Directors from an external standpoint, and increasing transparency and objectivity of management. Likewise, to enhance its supervisory system and ensure that management is conducted appropriately and within the scope of the law, the Company appoints three outside audit & supervisory board members—a majority of its total audit & supervisory board members—with diverse perspectives and broad areas of expertise. This outside director and these outside audit & supervisory board members have no special interests that might affect the execution of their respective duties. Business transactions from FY2013 onward between Sumitomo Electric and other companies or organizations for which these individuals have performed duties either currently or in the past 10 years are presented as follows.

- Outside Director Kazuo Hiramatsu is a director of Kwansei Gakuin University. The Company's research department entrusted university with research projects, and gave it donations amounting to similar levels as those given to other universities. Given the amount of these donations and the nature of activities, however, they have not influenced the independence of Mr. Hiramatsu.
- Outside Audit & Supervisory Board Member Takashi Kakimi has not been a manager of a company that has engaged in business relations with Sumitomo Electric either currently or in the past 10 years.
- Outside Audit & Supervisory Board Member Kan Hayashi was a senior partner at the tax accounting firm PricewaterhouseCoopers until June 24, 2010. Sumitomo Electric has not concluded advisory contracts or conducted regular transactions with this firm, but it occasionally commissioned taxation-related examination and consulting work. Given their frequency and scope, however, these transactions have not influenced the independence of Mr. Hayashi.
- Outside Audit & Supervisory Board Member Katsuaki Watanabe was vice chairman of the board of Toyota Motor Corporation until June 17, 2011. Sumitomo Electric sold products to Toyota, but given their scope, these transactions have not influenced the independence of Mr. Watanabe.

Sumitomo Electric has not established any particular criteria or policies related to the independence of members of management appointed from outside the Company. Nevertheless, recognizing the importance of independence from the Company for the proper fulfillment of the roles of outside director and outside audit & supervisory board member, Sumitomo Electric carefully examines and confirms whether any interest with the Company exists when selecting candidates for these positions. Given that the current outside director and outside audit & supervisory board member all met evaluation standards covering independence as set by the Tokyo Stock Exchange, Inc., the Company believed that these outside members would perform the duties of their respective roles appropriately and without related problems, and foresaw no conflict of interests with general shareholders. Accordingly, it appointed these outside members as independent officers as defined by the Tokyo Stock Exchange and other regulations.

Compliance

Compliance Committee

The Sumitomo Electric Group has established the Compliance Committee, chaired by the president, as an organization that promotes measures necessary to develop and further strengthen its compliance system. The committee engages in various activities, including preparing and distributing the Sumitomo Electric Group Compliance Manual and organizing compliance training seminars. In addition, the committee identifies and analyzes Group-wide compliance risks, disseminates preventive measures (Group-wide), and monitors compliance activities implemented by each division and subsidiary. By the end of March 2014, the committee convened four times, in May, August, and November 2013, and in March 2014.

Compliance Manual

Based on the Sumitomo Spirit, the Sumitomo Electric Group Corporate Principles and the Sumitomo Electric Charter of Corporate Behavior, the Compliance Committee created the Sumitomo Electric Group Compliance Manual, which explains specific instructions for employees to act in a socially acceptable way from legal and ethical perspectives. We distributed this manual to employees of both Sumitomo Electric and its subsidiaries in Japan.

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 administrative members every year. New employees and newly promoted personnel are also provided with training seminars.

In December 2013, it was confirmed that members of the Company had been involved in fixing bids for orders of overhead transmission lines for Tokyo Electric Power Co., Inc. In response, the Company gave employees in specialist and generalist posts compliance training in FY2013, which was originally provided annually only to management staff. The training covered compliance with competition laws, prevention of bribery, and other related matters.

Types of personnel trained and training periods in FY2013 are listed as follows.

Type of staff targeted	Training period
Senior managers (including executive officers)	December 2013
Managers, specialists, and general employees at Sumitomo Electric and its Japanese subsidiaries	February to May 2014
Newly promoted personnel	February to March 2014
Newly hired employees (of Sumitomo Electric)	April and October 2013

Speak-Up System

We have established the Speak-Up System, which enables employees to directly report and consult on potential compliance related issues, to identify and resolve such issues internally at an early stage and enable the Compliance Committee to swiftly mount an investigation based on information it has received and take the necessary measures. In addition to overseeing the setting up of in-house offices for Group companies in Japan, we have set up external offices (law offices) under the Speak-Up System for all Group companies to use. We are working to disseminate the Speak-Up System to employees through articles in monthly in-house magazines.

Strengthening of the Competition Law Compliance System

1. Development of Competition Law Compliance Rules

In June 2010, new Competition Law Compliance Regulations, including rules that restrict contact with competitors, were established and put into effect. Similar regulations and rules were in place at subsidiaries in Japan and overseas by the end of March 2013.

2. Formation of Dedicated Organizations and Establishment of an Auditing System

In June 2010, Sumitomo Electric established a Competition Law Compliance Office in its Corporate Staff Group that is solely dedicated to promoting compliance with competition laws. We also established a Sales Compliance Office in electric wire-related sales unit and assigned a Competition Law Compliance promotion manager and promotion leader at each business unit. In March 2011, we set up an Automotive Compliance Office in the Automotive Business Unit.

Under the Compliance Committee, the Competition Law Compliance Office closely collaborates with the dedicated organizations or managers assigned at each unit that actually engages in businesses activities. Operating the rules to restrict contact with competitors based on Competition Law Compliance Regulation and promoting related activities such as monitoring and auditing of compliance with the Competition Law and Competition Law Regulation will put the regulations in place as an effective framework and prevent the recurrence of legal violations.

Set up in the Company's headquarters, which is subject to investigations by authorities in charge of competition-related laws, the Sales Compliance Office and the Automotive Compliance Office take the lead in ensuring that thoroughgoing countermeasures are implemented. Their activities include monitoring orders received and holding periodic meetings on the status of compliance with competition laws.

3. Enhanced and Continuous Competition Law Training

Instead of the regular compliance training seminars for administrative members organized each year, special training programs on compliance with competition laws were conducted intensively in spring of 2010 for all members of Sumitomo Electric and its subsidiaries in Japan, excluding those working at manufacturing sites. (A total of 81 sessions were held in 40 locations nationwide for 5,000 participants.)

In compliance training sessions held on a regular basis, we will give priority to Competition Law issues and effect a fundamental change in employee attitudes.

In FY2013, the Company set up a global e-learning system and commenced training of members of subsidiaries outside Japan.

4. Establishment of Action Guidelines for Competition Law Compliance

Sumitomo Electric has been considering competition laws as a top priority to be observed in the Compliance Manual. To clearly specify prohibited conduct and rules of compliance and to also address foreign competition laws, new sales-related Competition Law Action Guidelines were established in October 2010. Training sessions were organized in October and November 2010 to make the guidelines familiar to all employees involved in sales activities. Sumitomo Electric will continue to work to ensure compliance with these guidelines.

Business Risks

The following major categories of risk could affect the business performance and financial position of the Sumitomo Electric Group. Forward-looking statements in this section represent judgments made by the Group's management on a consolidated basis as of March 31, 2014.

Political and Economic Situations and Demand Fluctuations

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

Changes in Laws and Regulations

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

- → Falling sales or a deterioration in the cost-of-sales ratio due to import restrictions and increases in customs duties.
- → Increased tax cost due to changes in taxation systems for domestic or cross-border transactions.
- → Inability to recover investment due to foreign currency restrictions, hyperinflation, acts of terrorism, the outbreak of infectious diseases including new types of influenza, or other factors.

Risks Related to Lawsuits, Regulations and Other Legal Measures by Regulatory Authorities

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

Since January 2009, Sumitomo Electric has been under investigation by authorities overseeing compliance with the EU Competition Laws outside Japan in connection with high-voltage and extra high-voltage power cables. In April 2014, the European Commission issued a fine of €2,630,000 to Sumitomo Electric and €20,741,000 to J-Power Systems Corporation (JPS), which the Company made into a wholly owned subsidiary in April of the same year, after determining that they had infringed on competition laws in Europe. Sumitomo Electric had transferred its high-voltage power cable operations to JPS, which it originally established as a 50-50 joint venture with Hitachi Cable, Ltd. (currently Hitachi Metals, Ltd.). After integrating these operations, JPS began developing, manufacturing, and exporting the cables in October 2001, and marketing the products to Japanese electric power companies in October 2004.

Competition authorities outside Japan have also investigated Sumitomo Electric in connection with transactions for wiring harness-related products handled by its Automotive segment. In July 2013, the European Commission judged that the Company had violated competition laws, but waived its fine because the Group had fully cooperated in the commission's investigation. Sumitomo Electric has also been fully cooperating with investigations by authorities in charge of competition-related laws in the United States, Canada and Australia. Accordingly, the Company believes that it will not be subject to legal penalties or administrative measures in the future by these authorities in connection with the same transactions.

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

In December 2013, Sumitomo Electric received a fine of ¥30 million from the Japan Fair Trade Commission for its involvement in rigging bids for overhead power transmission lines for Tokyo Electric Power Co., Inc. (TEPCO). Consequently, in April 2014 Sumitomo Electric was ordered by the Ministry of Land, Infrastructure,

Business Risks (Cont.)

Transport and Tourism to suspend its electrical construction work in civil engineering projects in Japan for a 30-day period, in accordance with the Construction Business Act of Japan.

In addition, Group company Sumitomo Densetsu Co., Ltd., received fines totaling ¥344 million from the Japan Fair Trade Commission in December 2013 and January 2014 in connection with rigging bids for underground power transmission line work for TEPCO, and for overhead and underground power transmission lines for Kansai Electric Power Co., Inc. As a result, in April 2014, Sumitomo Densetsu was ordered by the Ministry of Land, Infrastructure, Transport and Tourism to suspend its electrical construction work in civil engineering projects related to underground power transmission lines for TEPCO for a 60-day period, in accordance with the Construction Business Act.

Natural Disasters

Having sustained significant damage in the Great Hanshin-Awaji Earthquake of 1995 and the Great East Japan Earthquake of 2011, the Group has earthquake and other disaster measures in place. However, the Group could suffer significant earthquake damage such as from a tsunami and liquefaction in the event of a massive earthquake, as some of its manufacturing facilities are located in the areas most likely to be affected, specifically coastal areas, if earthquakes were to hit the Tokai, Tonankai or Nankai regions. Moreover, because the Group has expanded its business globally, the Group could suffer direct damage from earthquakes, typhoons or other natural disasters in each country and region, and its production activities might not proceed as planned due to damage-affected customers, material distribution disruption, aftershocks, large-scale electric power shortages in the Kanto and Kansai regions, or other factors.

Industrial Accidents

Any event of fire, explosion or other industrial accident or of environmental or other pollution at a Group production site, severely affecting Group operations or local communities, could result in a loss of public trust. The costs of accident response, including compensation, and opportunity losses due to suspension of production activities and customer compensation, could adversely affect the earnings performance and financial condition of the Group.

Interest Rate Changes

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

Exchange Rate Fluctuations

Individual financial statements of overseas subsidiaries and equity method affiliates of the Group are prepared using local currencies, which are then converted into Japanese yen when the consolidated financial statements are compiled. Therefore, even when there is no major variation in business results on local currency basis, the Group could suffer adverse effects on its business performance and financial position at the time of translation into yen as a result of changes in the exchange rate against the U.S. dollar, euro, or other currencies.

The Group carries out its manufacturing and sales activities in countries all over the world (overseas sales accounted for 55.2% of total sales for the year ended March 2014 on a consolidated basis). The Group minimizes risk from short-term exchange rate fluctuations by using forward exchange contracts and similar instruments, but substantial exchange rate fluctuations over the medium to long term could adversely affect the business performance and financial position of the Group.

Raw Materials Procurement

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

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

Valuation Losses on Securities Held for Business Purposes

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

Intellectual Property

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

Defective Products and Inferior Services

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

Defective Products and Inferior Services

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

Directors, Audit & Supervisory Board Members and Executive Officers

Masayoshi Matsumoto
President and CEO

Hiroyuki Takenaka
Executive Vice President

Fumikiyo Uchioke
Executive Vice President

Mitsuo Nishida
Executive Vice President

Shigeru Tanaka
Senior Managing Director

Makoto Nakajima
Senior Managing Director

Atsushi Yano
Managing Director

Fumiyoshi Kawai
Managing Director

Nozomi Ushijima
Managing Director

Shigeo Saito
Managing Director

Junji Itoh
Managing Director

Makoto Tani
Managing Director

Yoshitomo Kasui
Managing Director

Kazuo Hiramatsu
Director (Outside)

President and CEO
Masayoshi Matsumoto

Executive Vice Presidents
Hiroyuki Takenaka
Fumikiyo Uchioke
Mitsuo Nishida

Senior Managing Directors
Shigeru Tanaka
Makoto Nakajima

Managing Directors
Atsushi Yano
Fumiyoshi Kawai
Nozomi Ushijima
Shigeo Saito
Junji Itoh
Makoto Tani
Yoshitomo Kasui

Director (Outside)
Kazuo Hiramatsu

Audit & Supervisory Board Members
Kazuyoshi Hasegawa
Hideaki Inayama
Takashi Kakimi
Kan Hayashi
Katsuaki Watanabe

Managing Executive Officers
Masamichi Yokogawa
Hiroyasu Torii
Yasushi Kida
Kenji Miyazaki
Takahiro Nakano
Yutaka Nishide
Yasuhiro Miyata
Masaki Shirayama

Executive Officers
Yoshihiro Minato
Satoru Ogura
Takashi Yoshioka
Toshiaki Kakii
Kenichi Urushibata
Kazuhiko Hayashi
Kunihiro Tomita
Mamoru Moritani
Kikaku Tokumaru
Tetsuya Hayashi
Akira Nishimura
Kazushi Shimizu
Masayoshi Fuse
Junichi Shiraishi
Saburo Narahashi
Hiroshi Shikata
Hiroshi Iwano

(As of June 2014)

Five-Year Financial Data and Indexes

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen					Thousands of U.S. dollars*1
For the Year:	**FY2013** Mar. 31, 2014	FY2012 Mar. 31, 2013	FY2011 Mar. 31, 2012	FY2010 Mar. 31, 2011	FY2009 Mar. 31, 2010	**FY2013** Mar. 31, 2014
Net sales	**¥2,568,779**	¥2,159,942	¥2,059,344	¥2,033,827	¥1,836,352	**$24,958,988**
Cost of sales	**2,104,728**	1,785,052	1,688,370	1,656,750	1,516,688	**20,450,136**
Selling, general and administrative expenses	**343,993**	298,100	284,028	273,267	267,936	**3,342,334**
Operating income	**120,058**	76,790	86,946	103,810	51,728	**1,166,518**
Income before income taxes and minority interests	**123,833**	84,084	99,941	113,781	55,425	**1,203,197**
Net income	**66,748**	37,955	58,861	70,614	28,708	**648,543**
Capital expenditures*2	**150,823**	147,883	135,039	98,424	73,306	**1,465,439**
Depreciation and amortization	**113,271**	90,629	77,954	96,760	103,848	**1,100,573**
R&D expenses	**99,520**	94,287	86,582	79,026	72,259	**966,965**
At Year-End:						
Total assets	**¥2,554,819**	¥2,297,567	¥2,072,064	¥1,956,284	¥1,939,935	**$24,823,348**
Working capital	**463,173**	458,616	411,551	457,833	402,081	**4,500,320**
Total interest-bearing liabilities	**534,641**	485,569	363,995	341,923	355,586	**5,194,724**
Total net assets*3	**1,379,912**	1,244,695	1,138,931	1,092,610	1,064,575	**13,407,617**

	Yen					U.S. dollars*1
Per Share Data:	**FY2013**	FY2012	FY2011	FY2010	FY2009	**FY2013**
Net income*4:						
Basic	**¥ 84.15**	¥ 47.85	¥ 74.21	¥ 89.02	¥ 36.19	**$ 0.818**
Diluted	**—**	—	74.20	89.02	36.19	**—**
Cash dividends	**22.00**	20.00	19.00	19.00	16.00	**0.214**
Owner's equity*5	**1,499.76**	1,352.09	1,245.57	1,196.46	1,139.84	**14.572**
Weighted average number of shares outstanding (in thousands)	**793,200**	793,206	793,210	793,225	793,241	
Number of employees (at year-end)*6	**225,484**	206,323	194,734	182,773	157,203	
Average number of temporary employees	**(34,457)**	(30,317)				

Financial Indexes:					
R&D expenses / net sales (%)	**3.9**	4.4	4.2	3.9	3.9
Net income / net sales (%)	**2.6**	1.8	2.9	3.5	1.6
Return on owner's equity (%)	**5.9**	3.7	6.1	7.6	3.3
Current ratio (Times)	**1.6**	1.7	1.6	1.9	1.7
Owner's equity ratio (%)	**46.6**	46.7	47.7	48.5	46.6
Total assets turnover (Times)	**1.1**	1.0	1.0	1.0	1.0
Inventory turnover (Times)	**7.1**	6.6	6.9	7.6	7.1

*1 All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rateof ¥102.92 to U.S. $1.00, the approximate exchange rate prevailing on March 31, 2014.
*2 Capital expenditures are recorded as property, plant and equipment.
*3 See Note 9.
*4 For the year ended March 31, 2014, there were no potential common shares. For the year ended March 31, 2013, there were no dilutive potential common shares.
*5 Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.
*6 From the year ended March 31, 2013, the average number of temporary employees is stated in parentheses as the number of temporary employees is over 10% of the total number of employees.

Management's Discussion and Analysis

Business Conditions in FY2013

During FY2013, ended March 31, 2014, the Japanese economy recovered moderately. Both consumer spending and corporate earnings improved amid rising stock prices and yen depreciation, which resulted from the Japanese government's monetary easing policies and a positive outlook for its economic measures. Concurrently, the global economy as a whole gradually rebounded despite decelerating growth in emerging economies such as China and India, as the U.S. economy grew steadily and Europe's economy showed signs of progress.

Overview of Operations in FY2013

The business environment surrounding the Sumitomo Electric Group was generally positive. Robust demand for wiring harnesses continued, particularly outside Japan, and demand grew strongly for products handled by the Group's Environment and Energy segment including power cables, magnet wires, electrical installation works, and power generation equipment. Products sold by the Industrial Materials and Others segment, such as cemented carbide tools for automobiles, also enjoyed high demand.

As a result of these and other factors, consolidated net sales in FY2013 grew to ¥2,568.8 billion, up 18.9% from ¥2,159.9 billion in the previous fiscal year. Earnings also rose significantly owing to yen depreciation and the Group's efforts to cut costs, despite increases in depreciation and amortization expenses and investment in research and development. Operating income jumped 56.3% to ¥120.1 billion, compared to ¥76.8 billion in the previous fiscal year. Net income totaled ¥66.7 billion, a 75.9% increase over the ¥38.0 billion recorded in the previous fiscal year.

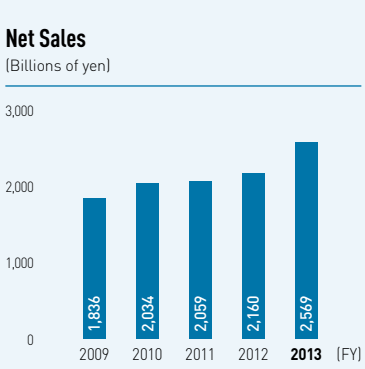
Segment Information

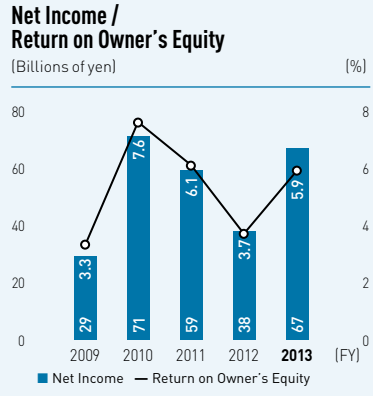
Automotive

In the Automotive segment, both sales and earnings expanded as a result of yen depreciation, cost reductions, and strong sales of wiring harnesses outside Japan, notably in North America and Asia. Group company Tokai Rubber Industries, Ltd., also contributed to higher sales and earnings reflecting the expansion of its scope of consolidation through the acquisition of several companies . Owing to these factors, segment sales amounted to ¥1,351.0 billion, a year-on-year increase of ¥279.9 billion, or 26.1%. Operating income also grew, rising ¥18.7 billion to ¥71.8 billion. The operating income ratio improved by 0.3 of a percentage point to 5.3%.

Infocommunications

In this segment, sales and earnings were negatively affected by the declining sales volume of access network equipment and rising costs for parts procurement from outside Japan, owing to yen depreciation. Nevertheless, new 100 Gbps products in the Group's lineup of opto-electronic devices contributed to sales, while yen depreciation resulted in cost reductions. Accordingly, segment sales rose year on year to ¥164.9 billion, up ¥9.8 billion, or 6.3%. In contrast, the segment recorded an operating loss of ¥1.2 billion, remaining in the red despite a loss reduction of ¥9.1 billion compared to the previous fiscal year.





Electronics

Demand grew for flexible printed circuits (FPCs) used in mobile phones, electronic wires for automobiles, and electronic wire tape for printers and game devices. Owing to these results, segment sales totaled ¥262.6 billion, a year-on-year increase of ¥45.1 billion, or 20.7%. Operating income rose ¥5,327 million to ¥5,332 million, benefiting from yen depreciation and successful efforts to cut costs. The operating income ratio improved by 2.0 percentage points to 2.0%.

Environment and Energy

Along with rising prices for copper, this segment enjoyed ongoing robust demand for copper wire rods and wire coils. Demand was also strong for Sumitomo Densetsu Co., Ltd.'s electrical works and Nissin Electric Co., Ltd.'s power conditioners for solar power generation and ion implanter equipment used to manufacture high-resolution small and medium-sized flat panel displays (FPDs). As a result of these factors, segment sales totaled ¥564.2 billion, a year-on-year increase of ¥53.0 billion, or 10.4%. Operating income was also up, rising ¥5.1 billion to ¥24.1 billion. The operating income ratio improved by 0.6 of a percentage point to 4.3%. The value of orders for installation work and plants came to ¥285.5 billion for a year-on-year increase of ¥19.0 billion (7.1%).

The name of this segment was changed from the Electric Wire & Cable, Energy segment to the Environment and Energy segment, effective from the fiscal year under review.

Industrial Materials and Others

Results benefited from yen depreciation and high demand for cemented carbide tools, sintered parts, and other products for automobiles in this segment. Consequently, segment sales grew to ¥303.3 billion, a year-on-year increase of ¥30.8 billion, or 11.3%. Operating income also increased, rising ¥5.4 billion to ¥20.5 billion. The operating income ratio improved by 1.3 percentage points to 6.8%.

Cash Flows

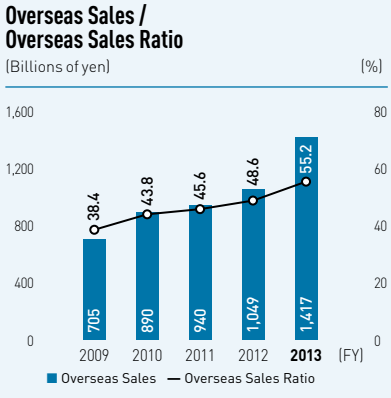
The fiscal year-end balance of cash and cash equivalents amounted to ¥160.1 billion, a year-on-year decrease of ¥16.4 billion.

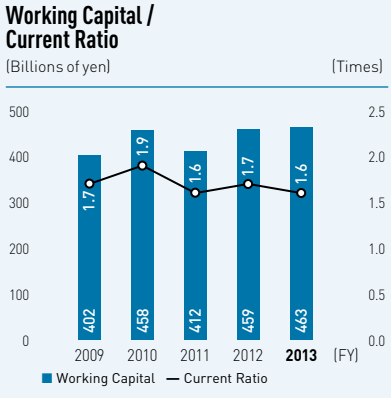
Net cash provided by operating activities increased by ¥22.9 billion to ¥147.7 billion. The main factors behind this outcome were income before income taxes and minority interests of ¥123.8 billion and depreciation and amortization expenses of ¥110.4 billion, adjusted for changes in working capital.

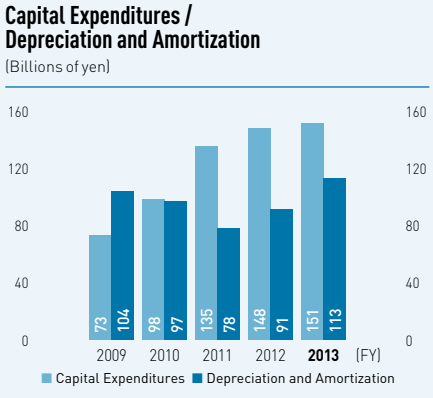
Net cash used in investing activities increased ¥2.0 billion year on year to ¥174.1 billion. The primary factor was ¥142.7 billion for the purchase of property, plant and equipment.

Free cash flow (combined net cash flows provided from operating activities and investing activities) was a negative ¥26.4 billion, compared with a negative ¥47.2 billion in the previous fiscal year.

Net cash provided by financing activities amounted to ¥0.1 billion, compared to ¥64.9 billion in the previous fiscal year. The main factors included cash dividends paid and an increase in interest-bearing liabilities.







Consolidated Balance Sheets

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013	FY2012	**FY2013**
	As of **March 31, 2014**	March 31, 2013	**March 31, 2014**
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	**¥ 161,797**	¥ 172,637	**$ 1,572,066**
Trade notes and accounts receivable (Note 4)	**563,599**	502,000	**5,476,088**
Securities (Notes 3, 4 and 5)	**343**	4,164	**3,333**
Inventories (Note 7)	**382,634**	343,766	**3,717,781**
Deferred income taxes (Note 12)	**32,273**	32,028	**313,574**
Other current assets (Note 3)	**67,020**	63,876	**651,184**
Allowance for doubtful receivables	**(4,047)**	(2,710)	**(39,322)**
Total current assets	**1,203,619**	1,115,761	**11,694,704**
Non-Current Assets:			
Property, Plant and Equipment (Note 8)**:**			
Buildings and structures	**574,283**	533,021	**5,579,897**
Machinery, equipment and others	**1,369,476**	1,266,690	**13,306,218**
Land	**87,610**	83,325	**851,244**
Construction in progress	**38,343**	38,558	**372,551**
	2,069,712	1,921,594	**20,109,910**
Accumulated depreciation	**(1,344,835)**	(1,270,543)	**(13,066,799)**
Net property, plant and equipment	**724,877**	651,051	**7,043,111**
Intangible Assets	**63,301**	37,045	**615,051**
Investments and Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	**260,035**	224,420	**2,526,574**
Investment securities (Notes 4, 5 and 8)	**193,485**	164,414	**1,879,955**
Net defined benefit assets (Note 13)	**64,317**	—	**624,922**
Deferred income taxes (Note 12)	**19,423**	18,572	**188,719**
Other (Note 13)	**27,220**	87,713	**264,478**
Allowance for doubtful receivables	**(1,458)**	(1,409)	**(14,166)**
Total investments and other assets	**563,022**	493,710	**5,470,482**
Total non-current assets	**1,351,200**	1,181,806	**13,128,644**
Total assets	**¥2,554,819**	¥2,297,567	**$24,823,348**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013	FY2012	**FY2013**
	As of **March 31, 2014**	March 31, 2013	**March 31, 2014**
LIABILITIES			
Current Liabilities:			
Trade notes and accounts payable (Note 4)	**¥ 329,021**	¥ 300,669	**$ 3,196,862**
Short-term debt (Notes 4 and 8)	**215,379**	167,961	**2,092,684**
Current portion of bonds (Notes 4 and 8)	**10,620**	20,000	**103,187**
Accrued income taxes	**20,895**	18,227	**203,021**
Other current liabilities (Notes 8 and 12)	**164,531**	150,288	**1,598,630**
Total current liabilities	**740,446**	657,145	**7,194,384**
Non-Current Liabilities:			
Bonds (Notes 4 and 8)	**46,230**	56,850	**449,184**
Long-term debt (Notes 4 and 8)	**258,954**	238,608	**2,516,071**
Deferred income taxes (Note 12)	**65,719**	54,450	**638,545**
Accrued pension and severance costs (Note 13)	**—**	32,148	**—**
Net defined benefit liabilities (Note 13)	**47,507**	—	**461,592**
Other non-current liabilities (Note 8)	**16,051**	13,671	**155,955**
Total non-current liabilities	**434,461**	395,727	**4,221,347**
Total liabilities	**1,174,907**	1,052,872	**11,415,731**
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock; Authorized—3,000,000 thousand shares in FY2013 and FY2012 Issued—793,941 thousand shares in FY2013 and FY2012	**99,737**	99,737	**969,073**
Capital surplus	**171,020**	171,020	**1,661,679**
Retained earnings	**819,179**	763,159	**7,959,376**
Treasury stock, at cost; 744 thousand shares in FY2013 and 738 thousand shares in FY2012	**(659)**	(649)	**(6,403)**
Total shareholders' equity	**1,089,277**	1,033,267	**10,583,725**
Accumulated Other Comprehensive Income:			
Net unrealized holding gains on available-for-sale securities	**85,170**	66,687	**827,536**
Deferred gains or losses on hedges	**(1,097)**	(1,254)	**(10,659)**
Foreign currency translation adjustments	**24,902**	(26,215)	**241,955**
Accumulated remeasurements of defined benefit plans	**(8,644)**	—	**(83,988)**
Total accumulated other comprehensive income	**100,331**	39,218	**974,844**
Minority Interests	**190,304**	172,210	**1,849,048**
Total net assets	**1,379,912**	1,244,695	**13,407,617**
Total liabilities and net assets	**¥2,554,819**	¥2,297,567	**$24,823,348**

Consolidated Statements of Income

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013	FY2012	**FY2013**
For the years ended	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Net Sales	**¥2,568,779**	¥2,159,942	**$24,958,988**
Cost of Sales	**2,104,728**	1,785,052	**20,450,136**
Gross profit	**464,051**	374,890	**4,508,852**
Selling, General and Administrative Expenses	**343,993**	298,100	**3,342,334**
Operating income	**120,058**	76,790	**1,166,518**
Other Income (Expenses):			
Interest and dividend income	**5,039**	4,151	**48,960**
Interest expense	**(7,055)**	(5,065)	**(68,548)**
Equity in net income	**29,626**	22,115	**287,855**
Gain on sales of investment securities	**—**	6,682	**—**
Gain on return of assets from retirement benefits trust (Note 13)	**1,487**	—	**14,448**
Loss on disposal of property, plant and equipment	**(3,668)**	(3,307)	**(35,639)**
Loss on valuation of investment securities	**(1,170)**	(1,720)	**(11,368)**
Impairment losses of fixed assets (Notes 15 and 16)	**(5,430)**	(2,586)	**(52,759)**
Restructuring expenses (Note 16)	**(2,742)**	(9,101)	**(26,642)**
Settlement package	**(9,998)**	—	**(97,143)**
Other, net	**(2,314)**	(3,875)	**(22,485)**
	3,775	7,294	**36,679**
Income before Income Taxes and Minority Interests	**123,833**	84,084	**1,203,197**
Income Taxes (Note 12)**:**			
Current	**43,439**	35,562	**422,066**
Deferred	**779**	(816)	**7,569**
	44,218	34,746	**429,635**
Income before Minority Interests	**79,615**	49,338	**773,562**
Minority Interests	**(12,867)**	(11,383)	**(125,019)**
Net Income	**¥ 66,748**	¥ 37,955	**$ 648,543**

	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10)**:**			
Net income (basic)	**¥84.15**	¥47.85	**$0.818**
Net income (diluted)	**—**	—	**—**
Cash dividends	**22.00**	20.00	**0.214**

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)
	FY2013	FY2012	**FY2013**
For the years ended	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Income before Minority Interests	**¥ 79,615**	¥ 49,338	**$ 773,562**
Other Comprehensive Income (Note 11):			
Net unrealized holding gains on available-for-sale securities	**16,992**	10,111	**165,099**
Deferred gains or losses on hedges	**(128)**	(356)	**(1,244)**
Foreign currency translation adjustments	**37,581**	52,819	**365,148**
Share of other comprehensive income of affiliates accounted for using equity method	**22,849**	10,073	**222,007**
Total other comprehensive income	**77,294**	72,647	**751,010**
Comprehensive Income	**¥156,909**	¥121,985	**$1,524,572**
Comprehensive income attributable to:			
Owners of the Company	**135,690**	99,169	**1,318,402**
Minority interests	**21,219**	22,816	**206,170**

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	Accumulated remeasure-ments of defined benefit plans	Share warrants	Minority interests	Total net assets (Note 9)
Balance at Beginning of FY2012	¥99,737	¥171,020	¥741,192	¥(645)	¥57,306	¥ (192)	¥(80,420)	¥—	¥10	¥150,923	¥1,138,931
Cash dividends			(15,867)								(15,867)
Net income for the year			37,955								37,955
Purchases of treasury stock				(4)							(4)
Disposal of treasury stock		0		0							0
Effect arising from net change in scope of consolidation			1,423								1,423
Other			(1,544)		9,381	(1,062)	54,205	—	(10)	21,287	82,257
Balance at End of FY2012	¥99,737	¥171,020	¥763,159	¥(649)	¥66,687	¥(1,254)	¥(26,215)	¥—	¥—	¥172,210	¥1,244,695
Balance at Beginning of FY2013	**¥99,737**	**¥171,020**	**¥763,159**	**¥(649)**	**¥66,687**	**¥(1,254)**	**¥(26,215)**	**¥ —**	**¥—**	**¥172,210**	**¥1,244,695**
Cash dividends			**(15,867)**								**(15,867)**
Net income for the year			**66,748**								**66,748**
Purchases of treasury stock				**(10)**							**(10)**
Disposal of treasury stock		**0**		**0**							**0**
Effect arising from net change in scope of consolidation			**(621)**								**(621)**
Other			**5,760**		**18,483**	**157**	**51,117**	**(8,644)**	**—**	**18,094**	**84,967**
Balance at End of FY2013	**¥99,737**	**¥171,020**	**¥819,179**	**¥(659)**	**¥85,170**	**¥(1,097)**	**¥ 24,902**	**¥(8,644)**	**¥—**	**¥190,304**	**¥1,379,912**

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	Accumulated remeasure-ments of defined benefit plans	Share warrants	Minority interests	Total net assets (Note 9)
Balance at Beginning of FY2013	**$969,073**	**$1,661,679**	**$7,415,070**	**$(6,306)**	**$647,950**	**$(12,184)**	**$(254,712)**	**$ —**	**$—**	**$1,673,241**	**$12,093,811**
Cash dividends			**(154,168)**								**(154,168)**
Net income for the year			**648,543**								**648,543**
Purchases of treasury stock				**(97)**							**(97)**
Disposal of treasury stock		**0**		**0**							**0**
Effect arising from net change in scope of consolidation			**(6,034)**								**(6,034)**
Other			**55,965**		**179,586**	**1,525**	**496,667**	**(83,988)**	**—**	**175,807**	**825,562**
Balance at End of FY2013	**$969,073**	**$1,661,679**	**$7,959,376**	**$(6,403)**	**$827,536**	**$(10,659)**	**$241,955**	**$(83,988)**	**$—**	**$1,849,048**	**$13,407,617**

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

For the years ended	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013	FY2012	**FY2013**
	March 31, 2014	March 31, 2013	**March 31, 2014**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥123,833**	¥ 84,084	**$1,203,197**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**110,441**	88,916	**1,073,076**
Impairment losses of fixed assets	**6,312**	5,213	**61,329**
Amortization of goodwill	**2,175**	1,220	**21,133**
Interest and dividend income	**(5,039)**	(4,151)	**(48,960)**
Interest expense	**7,055**	5,065	**68,548**
Equity in net income	**(29,626)**	(22,115)	**(287,855)**
Gain on sales of investment securities	**(374)**	(6,682)	**(3,634)**
Loss on disposal of property, plant and equipment	**4,005**	3,595	**38,914**
Loss on valuation of investment securities	**1,170**	1,720	**11,368**
Gain on return of assets from retirement benefits trust	**(1,487)**	—	**(14,448)**
Settlement package	**9,998**	—	**97,143**
(Increase) decrease in trade notes and accounts receivable	**(30,246)**	43,405	**(293,879)**
(Increase) decrease in inventories	**(14,002)**	(2,998)	**(136,047)**
Increase (decrease) in trade notes and accounts payable	**10,679**	(33,556)	**103,760**
Increase (decrease) in accrued pension and severance costs	**—**	283	—
Increase (decrease) in net defined benefit assets and liabilities	**5,288**	—	**51,380**
Other, net	**(19,167)**	(8,842)	**(186,232)**
Subtotal	**181,015**	155,157	**1,758,793**
Interest and dividend received	**11,199**	7,897	**108,813**
Interest paid	**(6,437)**	(4,897)	**(62,544)**
Settlement package paid	**(3,268)**	—	**(31,753)**
Payments for surcharge	—	(2,102)	—
Income taxes paid	**(39,098)**	(34,875)	**(379,887)**
Income tax refunds	**4,294**	3,669	**41,722**
Net cash provided by operating activities	**147,705**	124,849	**1,435,144**
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	**(142,662)**	(151,725)	**(1,386,145)**
Proceeds from sales of property, plant and equipment	**3,492**	1,579	**33,929**
Purchase of investment securities	**(4,477)**	(10,239)	**(43,500)**
Proceeds from sales and redemption of investment securities	**4,728**	10,501	**45,939**
Purchase of investments in subsidiaries	**(762)**	(828)	**(7,404)**
Net cash for the acquisition of shares of newly consolidated subsidiaries (Note 3)	**(15,901)**	(7,357)	**(154,499)**
Payments for long-term loans	**(523)**	(2,258)	**(5,082)**
(Increase) decrease in short-term loans	**(236)**	(1,269)	**(2,293)**
Other, net	**(17,761)**	(10,470)	**(172,570)**
Net cash used in investing activities	**(174,102)**	(172,066)	**(1,691,625)**

For the years ended	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013	FY2012	**FY2013**
	March 31, 2014	March 31, 2013	**March 31, 2014**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt	**(21,363)**	3,141	**(207,569)**
Proceeds from bonds and long-term debt	**94,934**	132,061	**922,406**
Repayment of bonds and long-term debt	**(48,632)**	(48,750)	**(472,522)**
Proceeds from issuance of stock to minority shareholders	**—**	1,627	**—**
Purchase of treasury stock	**(6)**	(2)	**(58)**
Sale of treasury stock	**0**	0	**0**
Cash dividends paid	**(15,867)**	(15,867)	**(154,168)**
Cash dividends paid to minority shareholders	**(7,581)**	(6,535)	**(73,659)**
Other, net	**(1,372)**	(753)	**(13,332)**
Net cash provided by financing activities	**113**	64,922	**1,098**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**6,665**	10,058	**64,759**
Net Increase (Decrease) in Cash and Cash Equivalents	**(19,619)**	27,763	**(190,624)**
Cash and Cash Equivalents at Beginning of Year	**176,543**	142,359	**1,715,342**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**3,205**	6,724	**31,141**
Cash and Cash Equivalents of Deconsolidated Subsidiaries	**—**	(303)	**—**
Cash and Cash Equivalents at End of Year (Note 3)	**¥160,129**	¥176,543	**$1,555,859**

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, 2014 and 2013

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 of 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 five 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
e) Accounting for net income attributable to minority interests

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 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 and amortized over periods within 20 years (mostly 10 years).

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 33 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 33 overseas consolidated subsidiaries that have a fiscal year ending December 31 reported on a calendar year for consolidation purpose in fiscal year 2013. Any significant transactions that occurred between January 1 and March 31, 2014, 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 the current exchange rate of 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 minority interests.

c) Cash and Time Deposits

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

d) Securities

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

Held-to-maturity debt securities are stated at amortized cost. Investments in unconsolidated subsidiaries and affiliates, excluding those accounted for 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 minority interests, are reported as a separate component of net assets. Available-for-sale securities which do not have fair values are stated at average cost. Realized gains or losses on sales of such securities are computed using average cost.

Held-to-maturity debt securities and available-for-sale securities maturing within one year from the fiscal year end, and highly liquid investment funds are included in securities in current assets. Other securities are included in investments in 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 and currency options hedging foreign currency monetary assets and liabilities, foreign currency swap contracts hedging foreign currency debt, interest rate swap contracts hedging interest on debt and bonds, and commodity forward contracts, etc., hedging raw materials.

Derivative financial instruments are stated at fair value. If derivative financial instruments meet certain hedging criteria, the Company and its consolidated subsidiaries defer the recognition of gains or losses until the hedged transactions occur. Certain foreign currency forward exchange contracts, currency options and foreign currency swap contracts, meeting certain conditions, are accounted for as a part of translating foreign currency monetary assets and liabilities in the consolidated balance sheets. In case where 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 is executed.

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

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

f) Allowance for Doubtful Receivables

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

g) Inventories

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

h) Property, Plant and Equipment (excluding Leases)

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

i) Revenue Recognition

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

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.

j) Research and Development

Expenses related to research and development activities are charged to expenses as incurred and totaled ¥99,520 million (US$966,965 thousand) and ¥94,287 million for the years ended March 31, 2014 and 2013, respectively.

k) Retirement Benefits

(1) Method of attributing benefits to periods of service

When calculating retirement benefit obligations, the straight-line basis is used for attributing expected retirement benefits to periods of service.

(2) Method of expenses for actuarial gains and losses and past service costs

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 lives of employees (mainly 15 years) from the year in which it arises, or accounted for as an expense when it arises.

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

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

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

n) 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.

o) 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.

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

q) 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.

r) Changes in Accounting Policy
Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012 (“Statement No. 26”)) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012 (“Guidance No. 25”)) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and unrecognized actuarial gains and losses and unrecognized past service costs have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as net defined benefit liabilities (or assets).

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the application, accumulated other comprehensive income has decreased by ¥8,644 million (US$83,988 thousand), at the end of fiscal year 2013.

s) Unapplied Accounting Standards
・Accounting Standard for Retirement Benefits (ASBJ Statement No.26, May 17, 2012)
・Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, May 17, 2012)

(1) Summary
Under the amended rule, unrecognized actuarial gains and losses and unrecognized past service costs in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining the method of attributing benefits to periods of service, the new standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended .

(2) Effective dates
Amendments relating to the determination of retirement benefit obligations and current service costs are effective from the beginning of fiscal year 2014. Other amendments have been applied from fiscal year 2013.

(3) Impact of application of the standards
The Company and its consolidated subsidiaries are currently in the process of estimating the effects of the unapplied new standards on the consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

a) Reconciliations

The reconciliations between cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Cash and time deposits	**¥161,797**	¥172,637	**$1,572,066**
Securities maturing within three months from the acquisition dates	**343**	4,164	**3,333**
Other current assets (Short-term loan)	**418**	465	**4,061**
Deposits placed with banks with a maturity of over three months	**(2,429)**	(723)	**(23,601)**
Cash and cash equivalents	**¥160,129**	¥176,543	**$1,555,859**

b) Obtaining Control of Subsidiary

In FY2013, the Company and its consolidated subsidiaries obtained control of Anvis Group GmbH and some other companies due to the acquisition of shares.

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

FY2013	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 17,288**	**$ 167,974**
Non-current assets	**17,088**	**166,032**
Goodwill	**11,667**	**113,360**
Current liabilities	**(12,888)**	**(125,223)**
Non-current liabilities	**(7,951)**	**(77,254)**
Minority interests and acquisition cost of shares a subsidiary purchased previously, etc.	**(6,982)**	**(67,839)**
Acquisition cost	**18,222**	**177,050**
Cash and cash equivalents	**(2,016)**	**(19,588)**
Cash paid in FY2012	**(305)**	**(2,963)**
Net cash paid for the acquisition	**¥ 15,901**	**$ 154,499**

In FY2012, the Company and its consolidated subsidiaries obtained control of Dytech-Dynamic Fluid Technologies S.p.A. and some other companies due to the acquisition of shares.

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

FY2012	Millions of yen
Current assets	¥ 14,365
Non-current assets	14,810
Goodwill	7,409
Current liabilities	(23,416)
Non-current liabilities	(4,142)
Minority interests	(444)
Acquisition cost	8,582
Cash and cash equivalents	(824)
Acquisition cost unpaid in cash	(401)
Net cash paid for the acquisition	¥ 7,357

4. FINANCIAL INSTRUMENTS

a) Qualitative Information on Financial Instruments

(1) Policies for using financial instruments

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

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

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

The main purpose of holding debt and issuing bonds is to secure financing for equipment and operating capital. The derivative transactions entered into comprise forward exchange contracts to hedge exchange risks of foreign currency debts and credits, interest swap contracts to hedge fluctuation risks of interest rates and fair value for debt and bonds, and commodity forward transactions to hedge the risk of price fluctuation for materials. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

b) Fair Value of Financial Instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2014 and 2013 are as follows. Financial instruments whose fair value is hard to determine are not included in the table.

	Millions of yen						Thousands of U.S. dollars		
	FY2013			FY2012			**FY2013**		
As of	**March 31, 2014**			March 31, 2013			**March 31, 2014**		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	**¥ 161,797**	**¥ 161,797**	**¥ —**	¥172,637	¥ 172,637	¥ —	**$ 1,572,066**	**$ 1,572,066**	**$ —**
Trade notes and accounts receivable	**563,599**	**563,599**	**—**	502,000	502,000	—	**5,476,088**	**5,476,088**	**—**
Securities, investments in unconsolidated subsidiaries and affiliates and investment securities	**325,564**	**403,341**	**77,777**	269,199	348,523	79,324	**3,163,272**	**3,918,976**	**755,704**
Total assets	**1,050,960**	**1,128,737**	**77,777**	943,836	1,023,160	79,324	**10,211,426**	**10,967,130**	**755,704**
Trade notes and accounts payable	**329,021**	**329,021**	**—**	300,669	300,669	—	**3,196,862**	**3,196,862**	**—**
Short-term debt	**215,379**	**215,379**	**—**	167,961	167,961	—	**2,092,684**	**2,092,684**	**—**
Bonds	**56,850**	**57,485**	**635**	76,850	77,890	1,040	**552,371**	**558,541**	**6,170**
Long-term debt	**258,954**	**261,887**	**2,933**	238,608	241,462	2,854	**2,516,071**	**2,544,569**	**28,498**
Total liabilities	**860,204**	**863,772**	**3,568**	784,088	787,982	3,894	**8,357,988**	**8,392,656**	**34,668**
Derivative transactions	**(196)**	**(196)**	**—**	(223)	(223)	—	**(1,904)**	**(1,904)**	**—**

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

Cash and time deposits, trade notes and accounts receivable:
The carrying amount approximates fair value because of the short maturity.

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

Trade notes and accounts payable:
The carrying amount approximates fair value because of the short maturity.

Short-term debt:
The carrying amount approximates fair value because of the short maturity of one year or less.

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

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

Derivative transactions:
See Note 6.

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

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Unlisted securities (available-for-sale securities)	**¥ 7,639**	¥ 8,031	**$ 74,223**
Unlisted investments in unconsolidated subsidiaries and affiliates	**120,660**	115,768	**1,172,367**

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, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Securities in current assets:			
Available-for-sale securities	**¥ 343**	¥ 4,164	**$ 3,333**
Held-to-maturity debt securities	**—**	—	**—**
	¥ 343	¥ 4,164	**$ 3,333**
Investment securities:			
Available-for-sale securities	**¥193,485**	¥164,414	**$1,879,955**
Held-to-maturity debt securities	**—**	—	**—**
	¥193,485	¥164,414	**$1,879,955**

Available-for-sale securities with fair value or quoted market values included in investment securities as of March 31, 2014 and 2013 are as follows:

	Millions of yen			
FY2013	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
Equity securities	**¥35,124**	**¥140,504**	**¥(372)**	**¥175,256**
Other	**10,000**	**590**	**—**	**10,590**
	¥45,124	**¥141,094**	**¥(372)**	**¥185,846**

	Millions of yen			
FY2012	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
Equity securities	¥31,065	¥115,580	¥(923)	¥145,722
Other	10,000	661	—	10,661
	¥41,065	¥116,241	¥(923)	¥156,383

	Thousands of U.S. dollars			
FY2013	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
Equity securities	**$341,275**	**$1,365,176**	**$(3,614)**	**$1,702,837**
Other	**97,163**	**5,733**	**—**	**102,896**
	$438,438	**$1,370,909**	**$(3,614)**	**$1,805,733**

Proceeds from sales of available-for-sale securities were ¥495 million (US$4,810 thousand) and ¥9,922 million for the years ended March 31, 2014 and 2013, respectively. The net realized gains on those sales were ¥186 million (US$1,807 thousand) and ¥6,682 million for the years ended March 31, 2014 and 2013, respectively. Impairment losses of securities during fiscal year 2013 amounted to ¥1,246 million (US$12,106 thousand), which consist of ¥925 million (US$8,987 thousand) for available-for-sale securities, ¥133 million (US$1,292 thousand) for investments in unconsolidated subsidiaries and ¥188 million (US$1,827 thousand) for investments in affiliated companies not accounted for using the equity method. Impairment losses of securities during fiscal year 2012 amounted to ¥2,069 million, which consist of ¥1,720 million for available-for-sale securities and ¥349 million for the investments in unconsolidated subsidiaries.

6. DERIVATIVE TRANSACTIONS

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

Additional information for derivative transactions as of and for the years ended March 31, 2014 and 2013 is as follows:

Millions of yen

	FY2013					FY2012				
	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	**¥10,937**	**¥(26)**	**¥(26)**	**¥ 5,689**	**¥ 149**	¥ 4,816	¥(44)	¥(44)	¥29,796	¥ 151
Sell	**56,580**	**73**	**73**	**13,892**	**(393)**	4,868	(25)	(25)	13,898	(354)
Interest rate and currency swap contracts	—	—	—	**907**	**53**	—	—	—	—	—
Commodity forward contracts (copper and nickel):										
Buy	**1,778**	**1**	**1**	—	—	1,755	0	0	71	(1)
Sell	**1,791**	**1**	**1**	**194**	**22**	1,791	6	6	75	(0)
Commodity swap contracts (copper)	—	—	—	**1,365**	**(76)**	—	—	—	1,509	44
	¥71,086	**¥ 49**	**¥ 49**	**¥22,047**	**¥(245)**	¥13,230	¥(63)	¥(63)	¥45,349	¥(160)

Thousands of U.S. dollars

	FY2013				
	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	**$106,267**	**$(253)**	**$(253)**	**$ 55,276**	**$1,448**
Sell	**549,747**	**709**	**709**	**134,978**	**(3,819)**
Interest rate and currency swap contracts	—	—	—	**8,813**	**515**
Commodity forward contracts (copper and nickel):					
Buy	**17,276**	**10**	**10**	—	—
Sell	**17,402**	**10**	**10**	**1,885**	**214**
Commodity swap contracts (copper)	—	—	—	**13,263**	**(738)**
	$690,692	**$ 476**	**$ 476**	**$214,215**	**$(2,380)**

* Certain interest rate swap contracts (contracted amount ¥173,169 million (US$1,682,559 thousand) and ¥126,164 million for the years ended March 31, 2014 and 2013, respectively) meeting certain hedging criteria are excluded from the table above. Certain foreign currency forward exchange contracts (contracted amount “Buy” ¥21,084 million (US$204,858 thousand) and ¥19,599 million, “Sell” ¥144,930 million (US$1,408,181 thousand) and ¥124,686 million for the years ended March 31, 2014 and 2013, respectively) meeting certain hedging criteria are excluded from the table above. See Note 4.

7. INVENTORIES

Inventories as of March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
As of	**FY2013 March 31,2014**	FY2012 March 31,2013	**FY2013 March 31,2014**
Merchandise and finished goods	**¥119,507**	¥102,693	**$1,161,164**
Work in process	**132,116**	122,668	**1,283,677**
Raw materials and supplies	**131,011**	118,405	**1,272,940**
	¥382,634	¥343,766	**$3,717,781**

8. INTEREST-BEARING LIABILITIES

a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Short-term debt, principally from banks (with a weighted-average interest rate of 1.37% at March 31, 2014)	**¥141,352**	¥143,734	**$1,373,417**
Current portion of long-term debt, principally from banks and insurance companies (with a weighted-average interest rate of 0.69% at March 31, 2014)	**74,027**	24,227	**719,267**
Current portion of bonds, interest rate of 0.83%-1.403%	**10,620**	20,000	**103,187**
	¥225,999	¥187,961	**$2,195,871**

b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Unsecured bonds, due 2013 to 2023, interest rate of 0.288%–1.75%	**¥ 56,850**	¥ 76,850	**$ 552,371**
Long-term debt, principally from banks and insurance companies, due 2013–2024 (with a weighted-average interest rate of 0.64% at March 31, 2014)	**332,981**	262,835	**3,235,338**
	389,831	339,685	**3,787,709**
Current portion of bonds and long-term debt	**(84,647)**	(44,227)	**(822,454)**
	¥305,184	¥295,458	**$2,965,255**

The aggregate annual maturities of bonds and long-term debt at March 31, 2014 are as follows:

(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2015 (= current portion)	¥10,620	$103,187
2016	10,620	103,187
2017	10,610	103,090
2018	15,000	145,744
2019	—	—
2020 and thereafter	10,000	97,163
	¥56,850	$552,371

(Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2015 (= current portion)	¥ 74,027	$ 719,267
2016	17,036	165,527
2017	41,173	400,049
2018	20,952	203,576
2019	25,350	246,308
2020 and thereafter	154,443	1,500,611
	¥332,981	$3,235,338

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Investment securities	**¥13,613**	¥ 9,090	**$132,268**
Property, plant and equipment, net of accumulated depreciation	**4,010**	2,332	**38,962**
	¥17,623	¥11,422	**$171,230**

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, 2014 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2015 (= current portion)	¥1,070	$10,397
2016	384	3,731
2017	279	2,711
2018	203	1,972
2019	95	923
2020 and thereafter	1,427	13,865
	¥3,458	$33,599

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, 2014 and 2013 are as follows:

Common stock outstanding	Thousands of shares	
	FY2013	FY2012
For the years ended	**March 31, 2014**	March 31, 2013
Balance at beginning	**793,941**	793,941
Balance at end	**793,941**	793,941

Treasury stock outstanding	Thousands of shares	
	FY2013	FY2012
For the years ended	**March 31, 2014**	March 31, 2013
Balance at beginning	**738**	732
Increase due to purchase of odd-lot stocks	**3**	3
Other, net	**3**	3
Balance at end	**744**	738

b) Dividend Information

Dividends paid in fiscal year 2013			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 26, 2013	March 31, 2013	June 27, 2013	¥7,933	$77,079
Board of Directors on October 31, 2013	September 30, 2013	December 2, 2013	¥7,933	$77,079

Dividend paid after March 31, 2014 with respect to fiscal year 2013			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 26, 2014	March 31, 2014	June 27, 2014	¥9,520	$92,499

Dividends paid in fiscal year 2012			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 27, 2012	March 31, 2012	June 28, 2012	¥7,933
Board of Directors on October 31, 2012	September 30, 2012	December 3, 2012	¥7,933

Dividend paid after March 31, 2013 with respect to fiscal year 2012			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 26, 2013	March 31, 2013	June 27, 2013	¥7,933

10. AMOUNTS PER SHARE

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

For the year ended March 31, 2014, there were no potential common shares.

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

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

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
For the years ended	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Net Unrealized Holding Gains on Available-for-Sale Securities:			
Increase (decrease) during the year	**¥25,479**	¥18,599	**$247,561**
Reclassification adjustments	**137**	(5,062)	**1,331**
Subtotal, before tax	**25,616**	13,537	**248,892**
Tax effects	**(8,624)**	(3,426)	**(83,793)**
Subtotal, net of tax	**¥16,992**	¥10,111	**$165,099**
Deferred Gains or Losses on Hedges:			
Increase (decrease) during the year	**¥ (211)**	¥ (521)	**$ (2,050)**
Reclassification adjustments	**(5)**	(4)	**(49)**
Subtotal, before tax	**(216)**	(525)	**(2,099)**
Tax effects	**88**	169	**855**
Subtotal, net of tax	**¥ (128)**	¥ (356)	**$ (1,244)**
Foreign Currency Translation Adjustments:			
Increase (decrease) during the year	**¥37,302**	¥52,795	**$362,437**
Reclassification adjustments	**279**	24	**2,711**
Subtotal, before tax	**37,581**	52,819	**365,148**
Tax effects	**—**	—	**—**
Subtotal, net of tax	**¥37,581**	¥52,819	**$365,148**
Share of Other Comprehensive Income of Affiliates Accounted for Using Equity Method:			
Increase (decrease) during the year	**¥23,221**	¥ 9,931	**$225,622**
Reclassification adjustments	**(372)**	142	**(3,615)**
Subtotal, net of tax	**22,849**	10,073	**222,007**
Total other comprehensive income	**¥77,294**	¥72,647	**$751,010**

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

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 37.9% for the years ended March 31, 2014 and 2013.

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, 2014 and 2013:

For the years ended	**FY2013 March 31, 2014**	FY2012 March 31, 2013
Statutory tax rate	**37.9%**	37.9%
Equity in net income	**(9.0)**	(9.9)
Expenses not deductible for tax purposes	**0.6**	0.5
Dividend income from overseas consolidated subsidiaries	**0.6**	0.9
Tax credits	**(1.0)**	(0.9)
Effect of lower tax rates for overseas consolidated subsidiaries	**(9.0)**	(8.9)
Valuation allowance	**5.5**	9.0
Intercompany profits	**0.5**	0.0
Undistributed earnings of consolidated subsidiaries and affiliates	**2.7**	4.7
Amortization of goodwill	**0.6**	0.3
Adjustment of deferred tax assets due to change in corporate tax rate	**1.3**	—
Other	**5.0**	7.7
Effective tax rate	**35.7%**	41.3%

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

On March 31, 2014, amendments to the Japanese tax regulations, "Act for Partial Revision of the Income Tax Act etc.," (Act No.10 of 2014) was enacted into law. For years beginning on or after April 1, 2014, special corporate tax for reconstruction will not be imposed. As a result of this amendment, the statutory effective tax rate for the Company will be reduced from 37.9% to 35.6% for years beginning on or after April 1, 2014.

Based on the amendments, the statutory effective tax rate utilized for the measurement of deferred tax assets and liabilities expected to be realized from April 1, 2014 is 35.6%.

The effect of this change in statutory effective tax rate was to decrease net deferred tax assets by ¥1,620 million (US$15,740 thousand) and to increase deferred income taxes by ¥1,620 million (US$15,740 thousand) for fiscal year 2013.

Deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
As of	**FY2013 March 31, 2014**	FY2012 March 31, 2013	**FY2013 March 31, 2014**
Deferred income taxes (current assets)	**¥ 32,273**	¥32,028	**$ 313,574**
Deferred income taxes (investments and other assets)	**19,423**	18,572	**188,719**
Other current liabilities	**(1)**	(106)	**(9)**
Deferred income taxes (non-current liabilities)	**(65,719)**	(54,450)	**(638,545)**
	¥(14,024)	¥ (3,956)	**$(136,261)**

Significant components of the deferred tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 48,361**	¥ 41,324	**$ 469,889**
Fixed assets	**19,865**	18,461	**193,014**
Accrued pension and severance costs	**—**	11,114	**—**
Net defined benefit liabilities	**17,031**	—	**165,478**
Accrued expenses	**13,350**	12,986	**129,712**
Inventories	**8,155**	7,762	**79,236**
Intercompany profits	**8,132**	7,799	**79,013**
Investment securities	**4,445**	4,510	**43,189**
Allowance for doubtful receivables	**1,132**	929	**10,999**
Accrued contributions of transfer to defined contribution plans	**—**	336	**—**
Other	**20,325**	21,044	**197,484**
	140,796	126,265	**1,368,014**
Less—valuation allowance	**(54,160)**	(47,076)	**(526,234)**
Total deferred tax assets	**86,636**	79,189	**841,780**
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	**(49,425)**	(40,718)	**(480,227)**
Undistributed earnings of consolidated subsidiaries and affiliates	**(22,573)**	(18,047)	**(219,326)**
Prepaid pension cost	**—**	(12,307)	**—**
Net defined benefit assets	**(13,633)**	—	**(132,462)**
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates	**(6,926)**	(4,334)	**(67,295)**
Accelerated depreciation of overseas consolidated subsidiaries	**(3,899)**	(3,688)	**(37,884)**
Reserve for deferred gains on sales of fixed assets	**(1,324)**	(1,376)	**(12,864)**
Other	**(2,880)**	(2,675)	**(27,983)**
Total deferred tax liabilities	**(100,660)**	(83,145)	**(978,041)**
Net deferred tax liabilities	**¥ (14,024)**	¥ (3,956)	**$ (136,261)**

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 for fiscal year 2012

The following table sets forth the employee benefit obligations, plan assets and funded status of the Company and its consolidated subsidiaries at March 31, 2013.

FY2012	Millions of yen
Benefit obligation at the end of the fiscal year	¥(273,815)
Fair value of plan assets at the end of the fiscal year	261,956
Funded status:	
Plan assets in excess of (less than) benefit obligation	(11,859)
Unrecognized actuarial gains and losses	44,286
Unrecognized past service costs	(1,143)
Subtotal	31,284
Advances to funded pension plans[*1]	63,432
Retirement benefit costs for employees in the consolidated balance sheets	¥ (32,148)

[*1] Advances to funded pension plans are disclosed as other non-current assets in the consolidated balance sheet.

Pension and severance costs of the Company and its consolidated subsidiaries consist of the following components for the year ended March 31, 2013:

FY2012	Millions of yen
Service cost	¥ 9,479
Interest cost	5,775
Expected return on plan assets	(2,835)
Amortization:	
Actuarial gains and losses	7,838
Past service costs	105
Total retirement benefit costs	¥20,362

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2013 are as follows:

FY2012	
Method of attributing benefits to periods of service	Straight-line basis (Some subsidiaries adopt a point basis.)
Discount rates	Mainly 1.6%
Long-term expected rates of return	0.0%–6.1%
Amortization period for past service costs	Mainly 15 years
Amortization period for actuarial gains and losses	Average remaining service period or less (mainly 15 years)

b) Defined benefit plans for fiscal year 2013

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

FY2013	Millions of yen	Thousands of U.S. dollars
Balance at beginning	**¥269,802**	**$2,621,473**
Service cost	**11,311**	**109,901**
Interest cost	**4,876**	**47,377**
Actuarial gains and losses	**2,010**	**19,530**
Benefits paid	**(13,730)**	**(133,405)**
Other	**7,162**	**69,588**
Balance at end	**¥281,431**	**$2,734,464**

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

FY2013	Millions of yen	Thousands of U.S. dollars
Balance at beginning	**¥260,048**	**$2,526,700**
Expected return on plan assets	**3,168**	**30,781**
Actuarial gains and losses	**31,499**	**306,053**
Contributions paid by the employer	**14,851**	**144,297**
Benefits paid	**(8,930)**	**(86,766)**
Return of assets from retirement benefits trust	**(5,125)**	**(49,796)**
Other	**4,769**	**46,337**
Balance at end	**¥300,280**	**$2,917,606**

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

FY2013	Millions of yen	Thousands of U.S. dollars
Balance at beginning	**¥2,105**	**$20,453**
Retirement benefit costs	**236**	**2,293**
Benefits paid	**(104)**	**(1,010)**
Contributions paid by the employer	**(310)**	**(3,012)**
Other	**112**	**1,088**
Balance at end	**¥2,039**	**$19,812**

(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

FY2013	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligations	**¥266,706**	**$ 2,591,391**
Plan assets	**(303,394)**	**(2,947,862)**
	(36,688)	**(356,471)**
Unfunded retirement benefit obligations	**19,878**	**193,141**
Total net defined benefit liabilities (assets)	**¥ (16,810)**	**$ (163,330)**
Net defined benefit liabilities	**¥ 47,507**	**$ 461,592**
Net defined benefit assets	**(64,317)**	**(624,922)**
Total net defined benefit liabilities (assets)	**¥ (16,810)**	**$ (163,330)**

(5) Retirement benefit costs

FY2013	Millions of yen	Thousands of U.S. dollars
Service cost	**¥11,311**	**$109,901**
Interest cost	**4,876**	**47,377**
Expected return on plan assets	**(3,168)**	**(30,781)**
Amortization:		
Actuarial gains and losses	**8,370**	**81,325**
Past service costs	**(235)**	**(2,283)**
Retirement benefit costs from plans applying the simplified method	**236**	**2,293**
Gain on return of assets from retirement benefits trust[*2]	**(1,487)**	**(14,448)**
Other	**942**	**9,152**
Total retirement benefit costs	**¥20,845**	**$202,536**

[*2] For FY 2013, consolidated subsidiaries withdrew a portion of the assets from the retirement benefits trust. As a result of this withdrawal, a profit of ¥1,487 million (US$14,448 thousand) was recognized as other income in the consolidated statements of income.

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

FY2013	Millions of yen	Thousands of U.S. dollars
Unrecognized past service costs	**¥ (921)**	**$ (8,949)**
Unrecognized actuarial gains and losses	**7,586**	**73,708**
Total	**¥6,665**	**$64,759**

(7) Plan assets

1. Plan assets comprise:

FY2013	
Equity securities	**54.1%**
Bonds	**24.6**
General account	**10.1**
Cash and cash equivalents	**1.5**
Other	**9.7**
Total	**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.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follows:

FY2013	
Discount rate	**1.9%**
Long-term expected rate of return	**1.2%**

c) Defined contribution plans for fiscal year 2013

The amount of required contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥4,919 million (US$47,794 thousand).

14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013	FY2012	**FY2013**
As of	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Notes receivable endorsed	**¥ 399**	¥ 342	**$ 3,877**
Guarantees:			
Guarantees for debt of employees, unconsolidated subsidiaries and affiliates	**5,305**	7,927	**51,545**
Contingent guarantees for debt of unconsolidated subsidiaries and affiliates	**1,678**	459	**16,304**
Keepwell agreements and letters of awareness for debt of unconsolidated subsidiaries and affiliates	**309**	808	**3,002**

15. IMPAIRMENT LOSSES OF FIXED ASSETS

The Company and its consolidated subsidiaries grouped long-lived assets into asset groups by business segment and conducted impairment tests with the conclusion that the carrying amounts should be reduced by ¥6,312 million (US$61,329 thousand) and ¥5,213 million to the recoverable amounts in FY2013 and FY2012, respectively.

The recoverable amount is the net selling price.

Impairment losses of fixed assets for each reportable segment are disclosed in Note 18 b), for the years ended March 31, 2014 and 2013.

Details of impairment losses of fixed assets for the years ended March 31, 2014 and 2013 are as follows:

FY2013	Millions of yen	Thousands of U.S. dollars
Machinery, equipment and others	**¥2,421**	**$23,523**
Intangible assets	**2,242**	**21,784**
Buildings and structures	**1,102**	**10,707**
Other	**547**	**5,315**
	¥6,312[*1]	**$61,329**[*1]

[*1] The amount of ¥5,430 million (US$52,759 thousand) is shown as "Impairment losses of fixed assets," and the amount of ¥882 million (US$8,570 thousand) is included in "Restructuring expenses" (Note 16) in the consolidated statements of income for fiscal year 2013.

FY2012	Millions of yen
Machinery, equipment and others	¥2,661
Buildings and structures	950
Intangible assets	639
Other	963
	¥5,213[*2]

[*2] The amount of ¥2,586 million is shown as "Impairment losses of fixed assets," and the amount of ¥2,627 million is included in "Restructuring expenses" (Note 16) in the consolidated statements of income for fiscal year 2012.

16. RESTRUCTURING EXPENSES

In fiscal year 2013, restructuring expenses of ¥2,742 million (US$26,642 thousand) are related to the reorganization of the business locations of the Company and its consolidated subsidiaries in response to the rapid deceleration of the business environment.

In fiscal year 2012, restructuring expenses of ¥9,101 million are related mainly to the drastic reorganization of business structure in response to the rapid deceleration in the opto-electronic device business and the restructuring of manufacturing locations in the overseas automotive business as part of the business structure improvement.

The major details of the expenses for the years ended March 31, 2014 and 2013 are as follows:

FY2013	Millions of yen	Thousands of U.S. dollars
Impairment losses of fixed assets (Note 15)	**¥882**	**$8,570**
Extra payment of retirement benefits	**699**	**6,792**

FY2012	Millions of yen
Loss on valuation of inventories	¥3,455
Impairment losses of fixed assets (Note 15)	2,627

17. BUSINESS COMBINATIONS

Business combinations resulting from acquisitions during the year ended March 31, 2014

a) Outline of business combination

(1) Name and a description of the acquiree

Anvis Group GmbH ("Anvis")

Manufacture and sale of anti-vibration rubber

(2) Primary reasons for the business combination

Through the conversion of Anvis into a wholly-owned subsidiary, acquired by Tokai Rubber Industries, Ltd., which is the consolidated subsidiary, the Company enhances its supply capacity in Europe by making use of its European customer base and applying the development and manufacturing technologies to small to mid-sized vehicles. Therefore, the Company can further accelerate the global supply of Japanese automotive manufacturings and break into foreign manufacturings.

(3) Date of business combination

May 28, 2013

(4) Legal form of the business combination

Share acquisition by cash

(5) Name of the company after the business combination

Anvis Group GmbH

(6) Percentage of voting rights acquired

100%

b) Period of operation of the acquired company included in the accompanying consolidated financial statements

From April 1, 2013, to December 31, 2013, as a result of the date of the business combination being deemed April 1, 2013, in consideration of the fact that the acquired company's fiscal year end date is December 31.

c) Acquisition cost and breakdown

FY2013	Millions of yen	Thousands of U.S. dollars
Acquisition price	**¥16,419**	**$159,532**
Cost associated with acquisition	**523**	**5,081**
Total	**¥16,942**	**$164,613**

d) Amount of goodwill recognized, the factors that make up the goodwill recognized and goodwill amortization method and period

(1) Amount of goodwill

FY2013	Millions of yen	Thousands of U.S. dollars
Amount of goodwill	**¥9,899**	**$96,182**

(2) Factors that make up the goodwill recognized

Goodwill was recognized as the acquisition cost exceeded the net amount allocated to assets acquired and liabilities assumed.

(3) Goodwill amortization method and period

Straight-line amortization over 10 years

e) Allocation of acquisition cost

As allocation of acquisition cost other than goodwill, intangible assets of ¥5,634 million (US$54,742 thousand) were recognized. The major breakdown and its amortization period by components are as follows:

FY2013	Millions of yen	Thousands of U.S. dollars	Amortization period (years)
Intangible assets related to customers	**¥3,447**	**$33,492**	**10**
Intangible assets related to technologies	**1,597**	**15,517**	**7**

f) Amounts recognized as of the date of the business combination for each major class of assets acquired and liabilities assumed

FY2013	Millions of yen	Thousands of U.S. dollars
Current assets	**¥12,811**	**$124,476**
Non-current assets	**12,131**	**117,868**
Total assets	**¥24,942**	**$242,344**
Current liabilities	**¥10,739**	**$104,343**
Non-current liabilities	**7,029**	**68,296**
Total liabilities	**¥17,768**	**$172,639**

g) Net sales and income or loss of the combined entity for the current reporting period as though the date of the business combination for all business combination that occurred during the year had been as of beginning of the annual reporting period and the calculation method

FY2013	Millions of yen	Thousands of U.S. dollars
Net sales	**¥9,429**	**$91,615**
Income before income taxes and minority interests	**106**	**1,030**
Net income	**38**	**369**

(Calculation method of approximate impact)

The estimated impact is calculated as the difference between the net sales and income of the acquired company assuming that the business combination had been completed at the beginning of the fiscal year and the actual net sales and income recorded in the Company's consolidated statements of income.

The amounts of approximate impact are unaudited.

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 making body of the Company, to make decisions regarding management resources allocation and evaluate each business result.

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

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

Automotive:

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

Infocommunications:

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

Electronics:

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

Environment and Energy:

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

Industrial Materials and Others:

Special steel wires, hard materials and sintered parts

Reportable segment information for the years ended March 31, 2014 and 2013 is as follows:

Millions of yen

FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
Sales to customers	**¥1,350,124**	**¥162,945**	**¥248,770**	**¥547,471**	**¥259,469**	**¥ —**	**¥2,568,779**
Intersegment sales	**925**	**1,948**	**13,854**	**16,686**	**43,830**	**(77,243)**	**—**
Net sales	**¥1,351,049**	**¥164,893**	**¥262,624**	**¥564,157**	**¥303,299**	**¥(77,243)**	**¥2,568,779**
Segment profit or loss	**¥ 71,781**	**¥ (1,155)**	**¥ 5,332**	**¥ 24,134**	**¥ 20,509**	**¥ (543)**	**¥ 120,058**
Segment assets	**¥1,165,307**	**¥204,166**	**¥197,765**	**¥476,528**	**¥561,452**	**¥(50,399)**	**¥2,554,819**
Depreciation and amortization	**¥ 60,227**	**¥ 11,576**	**¥ 13,300**	**¥ 11,241**	**¥ 16,927**	**¥ —**	**¥ 113,271**
Amortization of goodwill	**1,736**	**(20)**	**234**	**144**	**81**	**—**	**2,175**
Investments in equity method affiliates	**118,417**	**32,861**	**518**	**51,151**	**42,119**	**—**	**245,066**
Amount of increase in tangible and intangible fixed assets	**97,856**	**12,424**	**12,037**	**19,959**	**24,929**	**—**	**167,205**

	Millions of yen						
FY2012	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
Sales to customers	¥1,070,650	¥153,188	¥207,048	¥496,077	¥232,979	¥ —	¥2,159,942
Intersegment sales	518	1,944	10,523	15,105	39,545	(67,635)	—
Net sales	¥1,071,168	¥155,132	¥217,571	¥511,182	¥272,524	¥(67,635)	¥2,159,942
Segment profit or loss	¥ 53,116	¥ (10,255)	¥ 5	¥ 19,084	¥ 15,100	¥ (260)	¥ 76,790
Segment assets	¥ 986,799	¥207,167	¥197,487	¥449,730	¥486,523	¥(30,139)	¥2,297,567
Depreciation and amortization	¥ 44,122	¥ 11,264	¥ 10,153	¥ 9,551	¥ 15,539	¥ —	¥ 90,629
Amortization of goodwill	240	102	219	620	39	—	1,220
Investments in equity method affiliates	87,833	31,564	408	44,880	36,605	—	201,290
Amount of increase in tangible and intangible fixed assets	81,358	16,108	22,424	13,221	26,059	—	159,170

	Thousands of U.S. dollars						
FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
Sales to customers	**$13,118,189**	**$1,583,220**	**$2,417,120**	**$5,319,384**	**$2,521,075**	**$ —**	**$24,958,988**
Intersegment sales	**8,988**	**18,927**	**134,609**	**162,126**	**425,865**	**(750,515)**	**—**
Net sales	**$13,127,177**	**$1,602,147**	**$2,551,729**	**$5,481,510**	**$2,946,940**	**$(750,515)**	**$24,958,988**
Segment profit or loss	**$ 697,445**	**$ (11,222)**	**$ 51,807**	**$ 234,493**	**$ 199,271**	**$ (5,276)**	**$ 1,166,518**
Segment assets	**$11,322,454**	**$1,983,735**	**$1,921,541**	**$4,630,082**	**$5,455,227**	**$(489,691)**	**$24,823,348**
Depreciation and amortization	**$ 585,183**	**$ 112,476**	**$ 129,227**	**$ 109,221**	**$ 164,466**	**$ —**	**$ 1,100,573**
Amortization of goodwill	**16,867**	**(194)**	**2,274**	**1,399**	**787**	**—**	**21,133**
Investments in equity method affiliates	**1,150,573**	**319,287**	**5,033**	**496,998**	**409,240**	**—**	**2,381,131**
Amount of increase in tangible and intangible fixed assets	**950,797**	**120,715**	**116,955**	**193,927**	**242,217**	**—**	**1,624,611**

1. Segment profit or loss included in Adjustments of ¥(543) million (US$(5,276)thousand) and ¥(260) million for FY2013 and FY2012, respectively, consists mainly of unrealized profits caused by intersegment transactions.
2. Segment assets included in Adjustments of ¥(50,399) million (US$(489,691) thousand) and ¥(30,139) million as of March 31, 2014 and 2013, respectively, consist mainly of elimination of receivables caused by intersegment transactions, cash and time deposits and investment securities owned by the Company.
3. Segment profit or loss corresponds to operating income in the consolidated statements of income.
4. From FY2013, the segment name of the "Electric Wire & Cable, Energy" has been changed to "Environment and Energy." Accordingly, segment information for FY2012 uses the name after the change. The change was made to the segment name only. The classification of the business segment remains unchanged.

b) Related Information

(1) Information about products and services

	Millions of yen		
FY2013	Wiring harnesses	Others	Total
Sales to customers	**¥982,609**	**¥1,586,170**	**¥2,568,779**

	Millions of yen		
FY2012	Wiring harnesses	Others	Total
Sales to customers	¥809,080	¥1,350,862	¥2,159,942

	Thousands of U.S. dollars		
FY2013	Wiring harnesses	Others	Total
Sales to customers	**$9,547,309**	**$15,411,679**	**$24,958,988**

(2) Information about geographical areas

Sales to customers

	Millions of yen						
	Japan	Asia		Americas		Europe and Others	Consolidated
FY2013		China	Others	U.S.	Others		
Sales to customers	**¥1,151,770**	**¥402,957**	**¥313,312**	**¥281,203**	**¥121,303**	**¥298,234**	**¥2,568,779**

	Millions of yen						
	Japan	Asia		Americas		Europe and Others	Consolidated
FY2012		China	Others	U.S.	Others		
Sales to customers	¥1,111,131	¥292,420	¥268,624	¥208,282	¥85,717	¥193,768	¥2,159,942

	Thousands of U.S. dollars						
	Japan	Asia		Americas		Europe and Others	Consolidated
FY2013		China	Others	U.S.	Others		
Sales to customers	**$11,190,925**	**$3,915,245**	**$3,044,229**	**$2,732,248**	**$1,178,614**	**$2,897,727**	**$24,958,988**

For FY2013, the U.S. has been separately listed as its net sales account for 10% or more of net sales stated in the consolidated statements of income. Accordingly, the U.S. has been separately listed for FY2012 as well.

Net property, plant and equipment

	Millions of yen					
	Japan	Asia		Americas	Europe and Others	Consolidated
FY2013		China	Others			
Net property, plant and equipment	**¥382,655**	**¥95,862**	**¥116,695**	**¥62,359**	**¥67,306**	**¥724,877**

	Millions of yen					
	Japan	Asia		Americas	Europe and Others	Consolidated
FY2012		China	Others			
Net property, plant and equipment	¥372,628	¥86,172	¥90,890	¥51,602	¥49,759	¥651,051

	Thousands of U.S. dollars					
	Japan	Asia		Americas	Europe and Others	Consolidated
FY2013		China	Others			
Net property, plant and equipment	**$3,717,985**	**$931,422**	**$1,133,842**	**$605,898**	**$653,964**	**$7,043,111**

(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 FY2013 and FY2012.

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

	Millions of yen					
FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Impairment losses of fixed assets	**¥2,199**	**¥2,896**	**¥317**	**¥722**	**¥178**	**¥6,312**

	Millions of yen					
FY2012	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Impairment losses of fixed assets	¥2,372	¥872	¥217	¥543	¥1,209	¥5,213

	Thousands of U.S. dollars					
FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Impairment losses of fixed assets	**$21,366**	**$28,138**	**$3,080**	**$7,015**	**$1,730**	**$61,329**

(5) Information about goodwill by reportable segment

	Millions of yen					
FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Amortization	**¥ 1,736**	**¥(20)**	**¥234**	**¥144**	**¥ 81**	**¥ 2,175**
Balance at end	**¥20,472**	**¥ (2)**	**¥569**	**¥140**	**¥274**	**¥21,453**

	Millions of yen					
FY2012	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Amortization	¥ 240	¥102	¥219	¥620	¥ 39	¥1,220
Balance at end	¥7,514	¥ (22)	¥713	¥284	¥295	¥8,784

	Thousands of U.S. dollars					
FY2013	Automotive	Infocommuni-cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
Amortization	**$ 16,867**	**$(194)**	**$2,274**	**$1,399**	**$ 787**	**$ 21,133**
Balance at end	**$198,912**	**$ (19)**	**$5,529**	**$1,360**	**$2,661**	**$208,443**

19. RELATED PARTY INFORMATION

Condensed financial information of a significant affiliate, Sumitomo Rubber Industries, Ltd., at the end of FY2013 is as follows:

FY2013	Millions of yen	Thousands of U.S. dollars
Total current assets	**¥407,482**	**$3,959,211**
Total non-current assets	**459,981**	**4,469,306**
Total current liabilities	**313,185**	**3,042,995**
Total non-current liabilities	**195,434**	**1,898,892**
Total net assets	**358,844**	**3,486,630**
Sales	**780,608**	**7,584,609**
Income before income taxes and minority interests	**74,021**	**719,209**
Net income	**44,794**	**435,231**

Condensed financial information of a significant affiliate, Sumitomo Rubber Industries, Ltd., at the end of FY2012 is as follows:

FY2012	Millions of yen
Total current assets	¥356,174
Total non-current assets	381,353
Total current liabilities	252,671
Total non-current liabilities	213,753
Total net assets	271,102
Sales	710,246
Income before income taxes and minority interests	64,062
Net income	35,451

20. OTHER

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

21. SUBSEQUENT EVENTS

On April 1, 2014, the Company acquired by cash 50% of the outstanding shares of J-Power Systems Corporation (”JPS”), an affiliate accounted for using the equity method owned equally (50% shares) by Hitachi Metals, Ltd. and the Company. Therefore, JPS became a wholly-owned subsidiary on that date.

Breakdown of the acquisition costs

	Millions of yen	Thousands of U.S. dollars
Fair value of shares of JPS at the acquisition date, held by the Company immediately before the acquisition	**¥ 9,030**	**$ 87,738**
Cash paid for additional acquisition	**9,030**	**87,738**
Total	**¥18,060**	**$175,476**

KPMG

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, 2014, 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, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 to the consolidated financial statements, on April 1, 2014, the Company acquired 50% of the outstanding shares of J-Power Systems Corporation ("JPS"), an affiliate accounted for using equity method, and JPS became a wholly–owned subsidiary of the Company.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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 26, 2014
Osaka, Japan

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

Corporate Directory (As of March 2014)

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

Head Office (Tokyo)
Akasaka Center Building,
1-3-13, Motoakasaka, Minato-ku,
Tokyo 107-8468, Japan
Tel : +81 (3) 6406-2600
Fax: +81 (3) 6406-2700

DOMESTIC WORKS

Osaka Works
Main Products:
Electric conductors, electric power cables, power line construction and engineering, optical fiber cables, telecommunication cables, information systems, control systems, high frequency products, hybrid products

Itami Works
Main Products:
Special steel wires, powdered alloys, sintered powder metal products, diamond products, compound semiconductors

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

Consolidated Subsidiaries (381 Companies)

AUTOMOTIVE

DOMESTIC CONSOLIDATED SUBSIDIARIES

- **Tokai Rubber Industries, Ltd.** *
- Sumitomo Wiring Systems, Ltd.

★AutoNetworks Technologies, Ltd.

* The company will change its name to Sumitomo Riko Co., Ltd. on October 1, 2014.

OVERSEAS CONSOLIDATED SUBSIDIARIES

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

INFOCOMMUNICATIONS

DOMESTIC CONSOLIDATED SUBSIDIARIES

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

OVERSEAS CONSOLIDATED SUBSIDIARIES

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

ELECTRONICS

DOMESTIC CONSOLIDATED SUBSIDIARIES

★Sumiden Shoji Co., Ltd.

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

OVERSEAS CONSOLIDATED SUBSIDIARIES

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

ENVIRONMENT AND ENERGY

DOMESTIC CONSOLIDATED SUBSIDIARIES

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

OVERSEAS CONSOLIDATED SUBSIDIARIES

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

INDUSTRIAL MATERIALS AND OTHERS

DOMESTIC CONSOLIDATED SUBSIDIARIES

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

OVERSEAS CONSOLIDATED SUBSIDIARIES

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

★Sumitomo Electric Asia, Ltd.

SUBSIDIARIES AND AFFILIATES ACCOUNTED FOR BY THE EQUITY METHOD

DOMESTIC

- Kitanihon Electric Cable Co., Ltd.

★**TECHNO ASSOCIE, Co., Ltd.**

- Sumitomo 3M, Ltd.*
- **Sumitomo Rubber Industries, Ltd.**
- Daiden Corporation

★**MIRAIT Holdings Corporation**

* Sumitomo 3M will be excluded from Sumitomo Electric's affiliates by the equity method on September 1, 2014.

OVERSEAS

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

Notes: 1. Publicly listed companies are indicated in bold print.
2. The number of the companies is as of March 31, 2014.

• Manufacturing / Construction company
★Sales company / Others

History

1897 Sumitomo Copper Rolling Works was founded

1900 Started production of coated wires

1908 Started production of power cables

1909 Started trial production of telecommunication cables

1911 Established Sumitomo Electric Wire & Cable Works
Laid first Japan-made high-voltage underground cables

1916 Opened a new factory (now the Osaka Works)
Started production of enamel wires

1920 Sumitomo Electric Wire & Cable Works incorporated as a limited company

1931 Started production of cemented carbide tools

1932 Started production of special steel wires

1939 Company name changed to the current name, Sumitomo Electric Industries, Ltd.

1941 Opened the Itami Works

1943 Started production of vibration-proof rubber products and fuel tanks

1946 Opened a branch office in Tokyo (now the Tokyo Head Office)

1948 Started marketing sintered powder metal products

1949 Entered into the construction business of overhead transmission lines

1957 Delivered the first Japan-made television broadcasting antennas

1961 Opened the Yokohama Works
Delivered the wiring harnesses for four-wheel vehicles for the first time in its history

1962 Started production of the Irrax™ Tube electron beam irradiation tubes
The head office was moved from Osaka's Konohana Ward to its present location in Chuo Ward

1963 Started production of disc brakes

1964 Started production of electron beam irradiation wires

1968 Entered into the traffic control systems business

1969 Established the first overseas production subsidiary in Thailand (SIAM Electric Industries Co., Ltd.)
Started development of flexible printed circuits (FPCs)

1970 Started production of compound semiconductors

1971 Opened the Kanto Works

1974 Started production of optical fiber cables

1975 Contracted to construct a power transmission line in Iran

1976 Received an order for a large telecommunications network construction project in Nigeria

1978 Delivered and put into operation the world's first bidirectional fiber optics CATV system called "Hi-OVIS"

1981 Delivered and installed fiber optic LAN systems for the first time in its history

1982 Succeeded in producing the world's-largest-class synthetic diamonds (1.2 carats)

1996 Developed a technology for producing long-length oxide high-voltage superconducting wires

1998 Developed and started marketing ecology wires and cables

1999 Sumitomo Electric Fine Polymer, Inc. (fine polymer products) started operation

2001 J-Power Systems Corporation (high-voltage power cables) started operation

2002 Sumitomo Electric Networks, Inc. (network equipment), Sumitomo (SEI) Steel Wire Corp. (special steel wires) and Sumitomo Electric Wintec, Inc. (magnet wires) started operation

2003 Sumiden Hitachi Cable Ltd. (wires and cables for buildings and industrial equipment) and Sumitomo Electric Hardmetal Corp. (powder metal and diamond products) started operation

2004 A.L.M.T. Corp. was made into a wholly owned subsidiary

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

2007 Sumitomo Wiring Systems, Ltd. was made into a wholly owned subsidiary
Nissin Electric Co., Ltd. was made into a consolidated subsidiary

2008 Opened the Technical Training Center

2009 Eudyna Devices Inc. was made into a wholly owned subsidiary and changed its trade name to Sumitomo Electric Device Innovations, Inc.

2010 Opened WinD Lab, a new laboratory building at Osaka Works
SEI Optifrontier Co., Ltd. started the lightwave network product business

2014 J-Power Systems was made into a wholly owned subsidiary

Company Information

Sumitomo Electric Industries, Ltd. (As of March 31, 2014)

HEAD OFFICE (OSAKA)
4-5-33, Kitahama, Chuo-ku, Osaka 541-0041, Japan

HEAD OFFICE (TOKYO)
Akasaka Center Building, 1-3-13, Motoakasaka, Minato-ku, Tokyo 107-8468, Japan

INCORPORATED
December 1920

NUMBER OF EMPLOYEES
225,484

COMMON STOCK
Issued: 793,940,571 shares

NUMBER OF SHAREHOLDERS
56,281

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

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

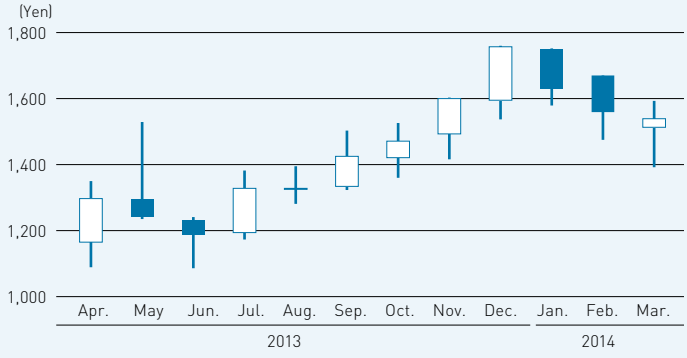
PRINCIPAL SHAREHOLDERS

	Shareholdings (Thousands)	Outstanding voting share (%)
The Master Trust Bank Japan, Ltd. (Trust Account)	52,293	6.59
Japan Trustee Services Bank, Ltd. (Trust Account)	48,801	6.15
Nippon Life Insurance Company	26,804	3.38
Sumitomo Life Insurance Company	15,557	1.96
Sumitomo Mitsui Banking Corporation	12,552	1.58
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	12,367	1.56
Japan Trustee Services Bank, Ltd. (Trust Account 9)	10,429	1.31
STATE STREET BANK AND TRUST COMPANY 505225	10,364	1.31
THE BANK OF NEW YORK MELLON SA/NV 10	10,152	1.28
Nomura Trust and Banking Co., Ltd. (Trust Account)	9,594	1.21
Total	208,987	26.33

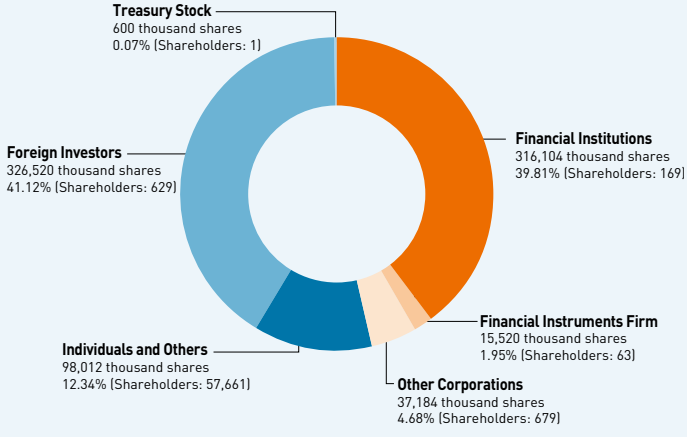
SHARE PRICE RANGE (Yen)

Year	Month	High	Low
2013	Apr.	1,347	1,086
	May	1,526	1,232
	Jun.	1,238	1,083
	Jul.	1,379	1,170
	Aug.	1,392	1,278
	Sep.	1,500	1,320
	Oct.	1,523	1,357
	Nov.	1,600	1,413
	Dec.	1,757	1,534
2014	Jan.	1,749	1,576
	Feb.	1,667	1,472
	Mar.	1,590	1,389

SHARE PRICE



BREAKDOWN OF SHAREHOLDERS



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