

FY2018 1st Half Results and Annual Forecasts

Sumitomo Electric Industries, Ltd.
2018/11/13

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1. FY2018 1st Half Results

1-1. FY2018 1st Half PL

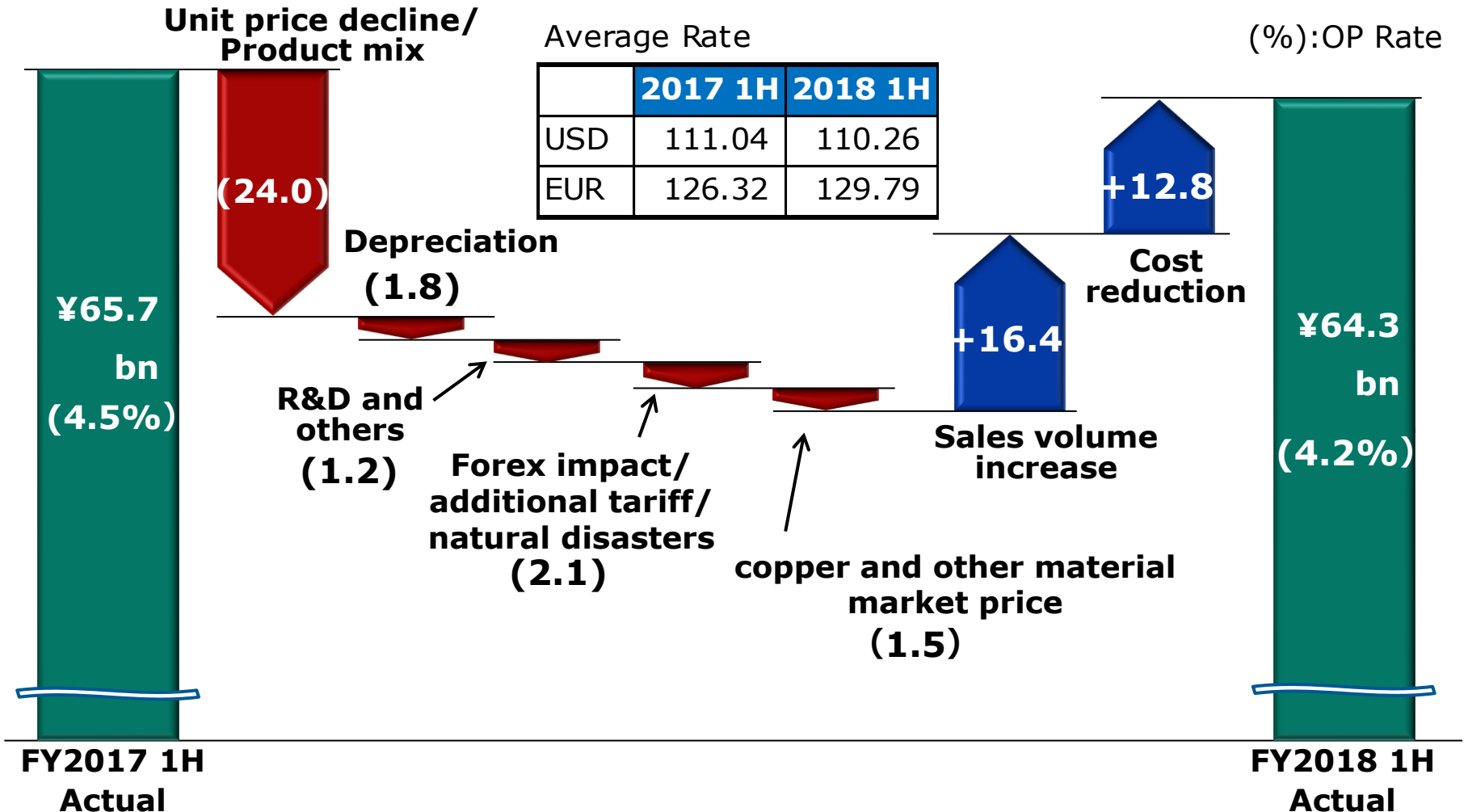
Sales have achieved record-high. OP and ordinary income have decreased, profit attributable to owners of the parent has increased compared with the same period of the previous year.

Each profit item have increased over the original plan.

	FY2017 1H Actual①	FY2018 1H Plan②	FY2018 1H Actual③	Growth ③-①	Difference ③-②
Net Sales	1,459.2	1,550.0	1,528.4	+69.1	(21.6)
Operating Profit	65.7	60.0	64.3	(1.4)	+4.3
Non-Operating Income/Expenses	9.3	10.0	9.5	+0.1	(0.5)
Ordinary Income	75.0	70.0	73.8	(1.3)	+3.8
Gain on sales of investment securities	4.7		-	(4.7)	
Loss on disposal of fixed assets	(1.1)		(1.4)	(0.3)	
Impairment loss on fixed assets	(1.1)		-	+1.1	
Loss on construction related accident	(4.1)	(30.0)	-	+4.1	+4.2
Profit before Income Taxes	73.4		72.4	(1.0)	
Profit Attributable to Non-Controlling Interests	(31.0)		(24.4)	+6.6	
Profit Attributable to Owners of the Parent	42.4	40.0	48.0	+5.5	+8.0

1-2. OP variation factors from FY2017 to FY2018

OP has decreased by ¥1.4bn, due to unit price decline, increase in depreciation and R&D expenditures, additional tariff and natural disasters, despite sales volume increase and cost reduction.



1-3. Sales and OP by Segment

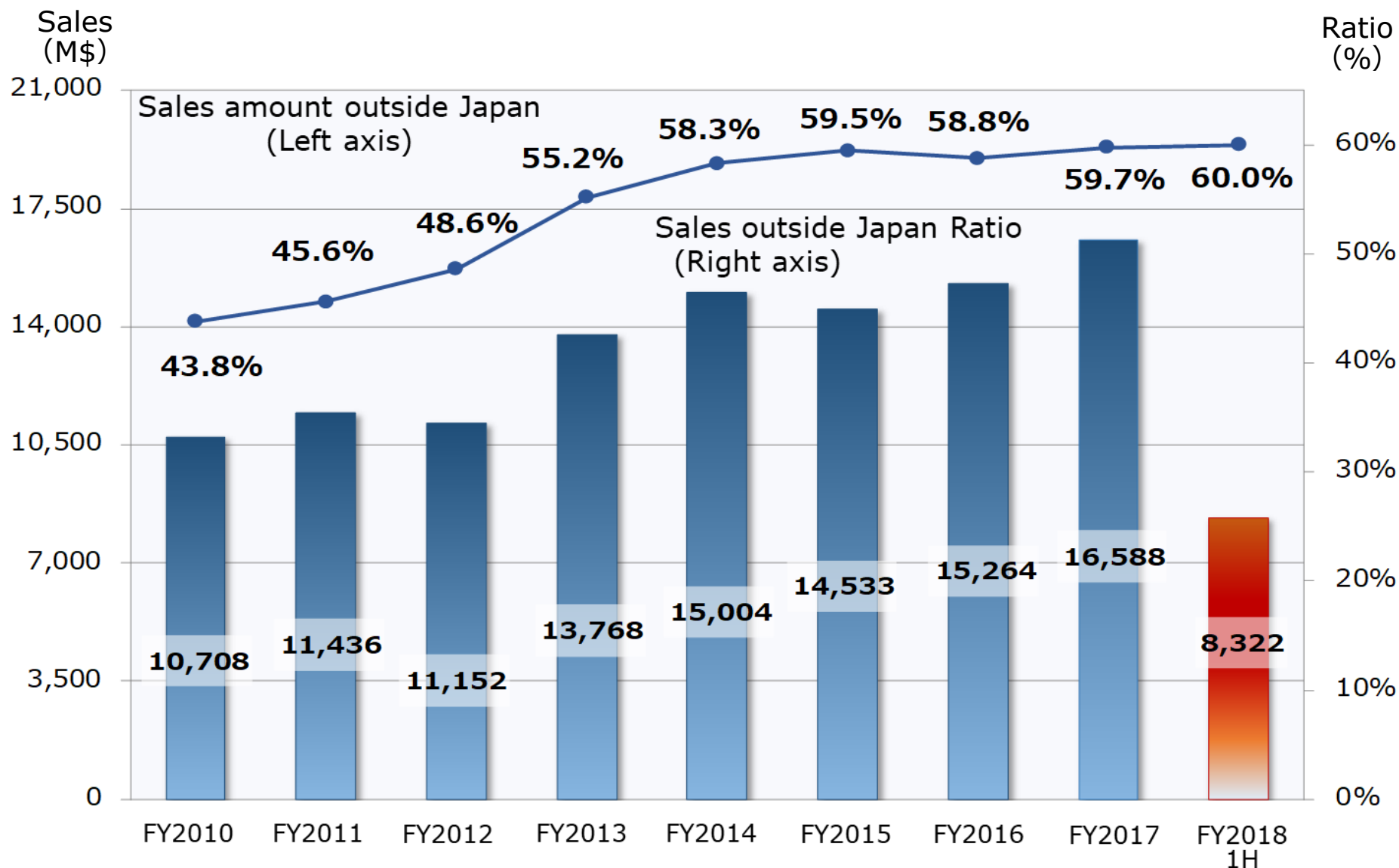
OP has decreased in Automotive and increased in other 4 segments over the same period of the previous year.

OP of Infocommunications, Electronics and Environment & Energy have increased over the original plan.

	FY2017 1H Actual ①		FY2018 1H Plan ②		FY2018 1H Actual ③		Growth ③-①		Difference ③-②		
	¥ bn	Sales	OP	Sales	OP	Sales	OP	Sales	OP	Sales	OP
Automotive		776.4	40.6	820.0	36.0	824.6	34.1	+48.2	(6.6)	+4.6	(1.9)
Infocommunications		103.3	6.3	100.0	5.0	96.6	6.4	(6.8)	+0.1	(3.4)	+1.4
Electronics		119.5	1.0	110.0	0.0	112.9	1.8	(6.7)	+0.8	+2.9	+1.8
Environment and Energy		333.9	6.1	370.0	4.0	357.6	7.1	+23.7	+1.0	(12.4)	+3.1
Industrial Materials and Others		163.6	11.5	190.0	15.0	179.4	15.0	+15.9	+3.4	(10.6)	(0.0)
Total		1,459.2	65.7	1,550.0	60.0	1,528.4	64.3	+69.1	(1.4)	(21.6)	+4.3

※ Differences between the aggregate of all segments and Total are consolidated eliminations.

1-4. Overseas Sales Ratio



1-5. BS as of FY2018 1st Half end

	¥ bn	FY2016 Actual	FY2017 Actual	FY2018 1H Actual
Current Assets		1,426.6	1,401.7	1,472.3
Non-Current Assets		1,480.7	1,598.2	1,585.3
Current Liabilities		824.2	803.7	849.9
Non-Current Liabilities		454.5	432.1	432.3
(Interest Bearing Debt)		(511.0)	(492.6)	(551.4)
Shareholders' Equity		1,324.6	1,410.4	1,438.9
Accumulated Other Comprehensive Income		91.1	129.0	111.0
Non- Controlling Interests		212.9	224.6	225.5
Total Assets		2,907.3	2,999.9	3,057.6
Shareholders' Equity Ratio		48.7%	51.3%	50.7%
Debt/Equity Ratio		0.36	0.32	0.36
		FY2016 Actual	FY2017 Actual	FY2018 Plan
※Operating Profit / Invested Assets(ROIC)		7.2%	7.9%	7.8%
Return on Equity(ROE)		7.7%	8.1%	8.0%

$$\text{※Operating Profit / Invested Assets(ROIC)} = \frac{\text{Operating Profit}}{\text{Total Assets} - \text{Interest-Free Liabilities}}$$

2. FY2018 Forecasts

2-1. FY2018 Forecasts (PL)

FY2018 annual forecasts are on the same level with original plan except ordinary income. Presuppositions of forex rates are the same as the original plan.

FY2018 Forex Rate
(Original Plan)
¥110/USD
¥130/EUR

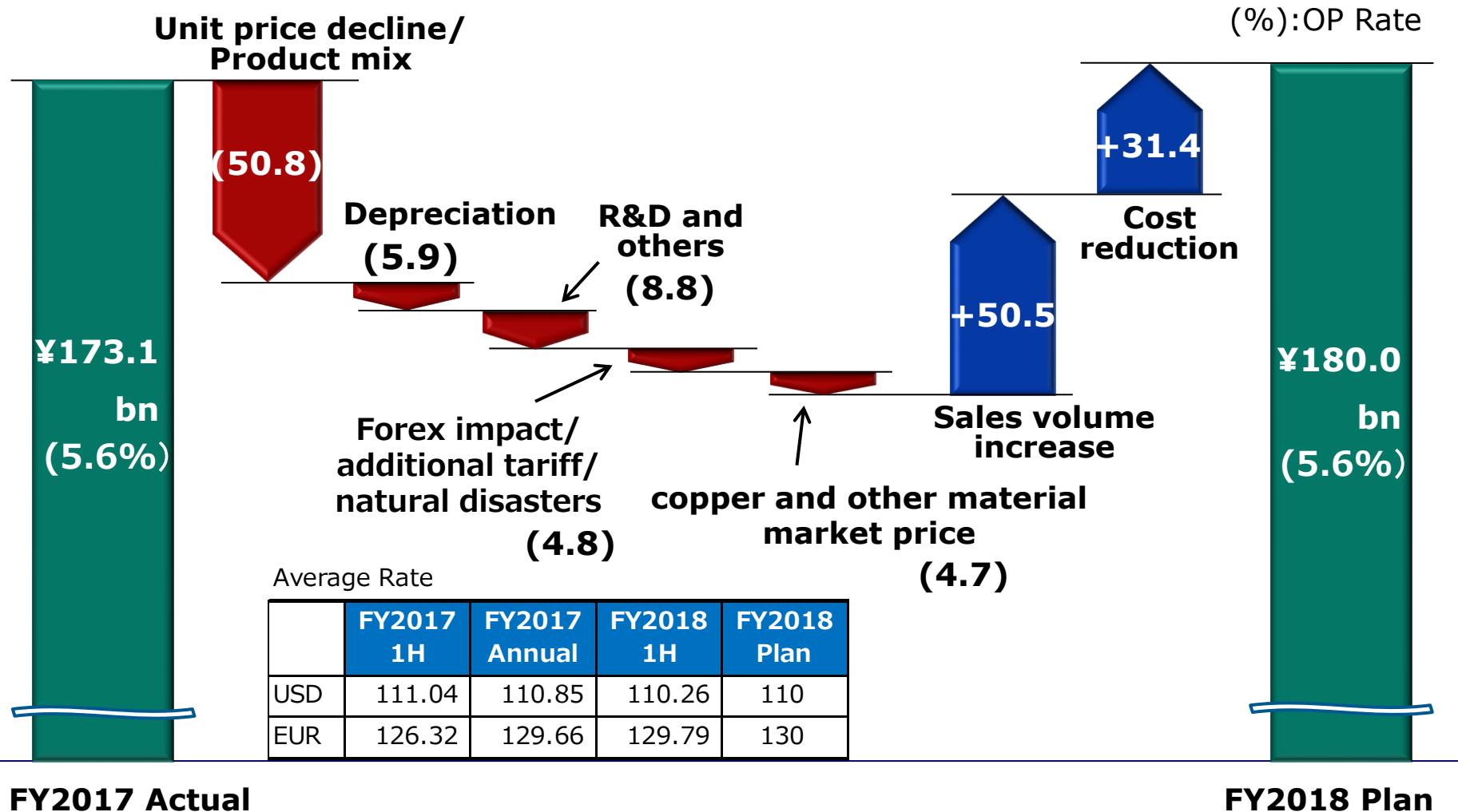
(1H Actual)
¥110.26/USD
¥129.79/EUR

(2H Plan)
¥110/USD
¥130/EUR

¥ bn	FY2017 Actual ①	FY2018 Original Plan			FY2018 Revised Plan			Growth ③-①	Difference ③-②
		1H Plan	2H Plan	Annual Plan②	1H Actual	2H Plan	Annual Plan③		
Net Sales	3,082.2	1,550.0	1,650.0	3,200.0	1,528.4	1,671.6	3,200.0	+117.8	+0.0
Operating Profit	173.1	60.0	120.0	180.0	64.3	115.7	180.0	+6.9	+0.0
Non-Operating Income/Expense	21.9	10.0	15.0	25.0	9.5	13.5	23.0	+1.1	(2.0)
Ordinary Income	195.0	70.0	135.0	205.0	73.8	129.2	203.0	+8.0	(2.0)
Net Extraordinary Income/Loss	(1.7)				(1.4)				
Profit before Income Taxes	193.3	(30.0)	(50.0)	(80.0)	72.4	(52.2)	(78.0)	(3.3)	+2.0
Profit Attributable to Non-Controlling Interests	(73.0)				(24.4)				
Profit Attributable to Owners of the Parent	120.3	40.0	85.0	125.0	48.0	77.0	125.0	+4.7	+0.0

2-2. OP variation factors from FY2017 to FY2018

OP in FY2018 is forecasted to increase by ¥6.9bn compared with FY2017, due to sales volume increase and cost reduction, despite unit price decline and increase in expenditures.



2-3. Sales and OP by Segment

OP are revised downward in Automotive due to increase in R&D expenditures, additional tariffs and WLTP.

OP are revised upward in Electronics and Environment & Energy due to improvement of product mix and cost reduction.

¥ bn	FY2018 Original Plan				FY2018 Revised Plan				Difference	
	1H Plan		Annual Plan		1H Actual		Annual Plan		Sales	OP
	Sales	OP	Sales	OP	Sales	OP	Sales	OP		
Automotive	820.0	36.0	1,700.0	96.0	824.6	34.1	1,710.0	93.0	+10.0	(3.0)
Infocommunications	100.0	5.0	220.0	19.0	96.6	6.4	220.0	19.0	+0.0	+0.0
Electronics	110.0	0.0	230.0	7.0	112.9	1.8	230.0	8.0	+0.0	+1.0
Environment and Energy	370.0	4.0	780.0	26.0	357.6	7.1	760.0	28.0	(20.0)	+2.0
Industrial Materials and Others	190.0	15.0	380.0	32.0	179.4	15.0	370.0	32.0	(10.0)	+0.0
Total	1,550.0	60.0	3,200.0	180.0	1,528.4	64.3	3,200.0	180.0	+0.0	+0.0

※Differences between the aggregate of all segments and Total are eliminations.

2-4. FY2018 Challenges and Strategies(1)

Automotive

	¥bn	FY2018 Original Plan		FY2018 Revised Plan		Difference	
		1H	Annual	1H Actual	Annual	1H	Annual
Operating Profit		36.0	96.0	34.1	93.0	(1.9)	(3.0)

- ① **Acceleration of developing and commercialization of products** related to NEV and high speed communication
- ② **Strengthening developing capability of new products by collaboration with internal Sumitomo Electric group and making alliance with strategic partners outside the group**
- ③ Sales promotion to Chinese, European and U.S. customers, and **strengthening global production control of Sumitomo Riko**

Infocommunications

	¥bn	FY2018 Original Plan		FY2018 Revised Plan		Difference	
		1H	Annual	1H Actual	Annual	1H	Annual
Operating Profit		5.0	19.0	6.4	19.0	+1.4	+0.0

- ① **Capturing demand in global markets** of optical fiber and cables, high-speed optical devices and GaN HEMTs for Wireless Infrastructure
- ② **Sales promotion** of ultra-low loss optical fibers for submarine cables, ultra-high-fiber-count optical cables and related accessories for data centers and 10G-EPON products
- ③ **Acceleration of developing** high functional products for optical cabling, ultra high definition (4K/8K) video transmission equipment, Set-Top Box and next-generation optical and wireless devices

2-4. FY2018 Challenges and Strategies(2)

Electronics

	FY2018 Original Plan		FY2018 Revised Plan		Difference	
	1H	Annual	1H Actual	Annual	1H	Annual
Operating Profit	0.0	7.0	1.8	8.0	+1.8	+1.0

- ① **FPC:**
- Reviewing **global production, cost reduction by improving productivity**
 - **Development** of fine pitch, ultra-thin and high heat resistant FPC and **developing new markets**
- ② **Electronic wire and Irradiated tubing:**
- **Capturing new marketing opportunities** in automotive and electronic business

Environment and Energy

	FY2018 Original Plan		FY2018 Revised Plan		Difference	
	1H	Annual	1H Actual	Annual	1H	Annual
Operating Profit	4.0	26.0	7.1	28.0	+3.1	+2.0

- ① **Enhancing profit of electric power cable business**
- **Completion of large scale overseas projects, acquiring new orders and capturing demand for power cable replacement in Japan**
 - Further strengthening production and enhancement of competitiveness in cost and quality
- ② Production expansion and sales promotion of rectangular magnet wires for electric vehicles
- ③ Expansion of renewable energy related business in **coordination with Sumitomo Densetsu and Nissin Electric**

2-4. FY2018 Challenges and Strategies(3)

Industrial Materials and Others

	FY2018 Original Plan		FY2018 Revised Plan		Difference	
	1H	Annual	1H Actual	Annual	1H	Annual
Operating Profit	15.0	32.0	15.0	32.0	(0.0)	+0.0

① Hard metal:

- **Sales promotion to industrial machine, construction machine, electronics** in addition to automotive business
- **Development and sales promotion of new products** to process hard-to-cut material in aircraft and energy market

② Sintered parts:

Strengthening global supply volume by increasing production capacity

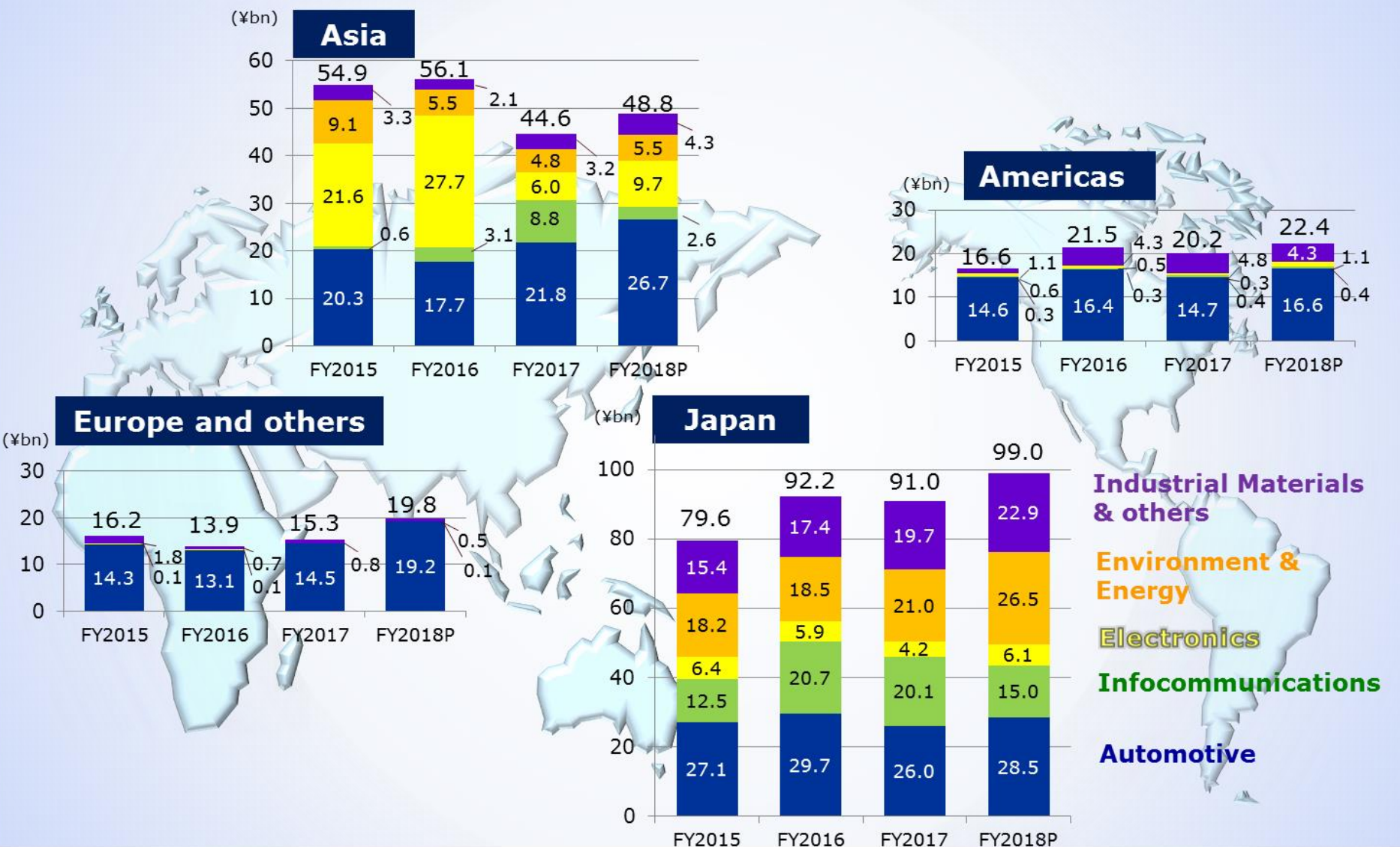
③ A.L.M.T.: Intensive cost reduction, **concentration of resources in growing market**

④ Prestressed concrete steel wires, Steel wires for spring :

Global production expansion and sales promotion

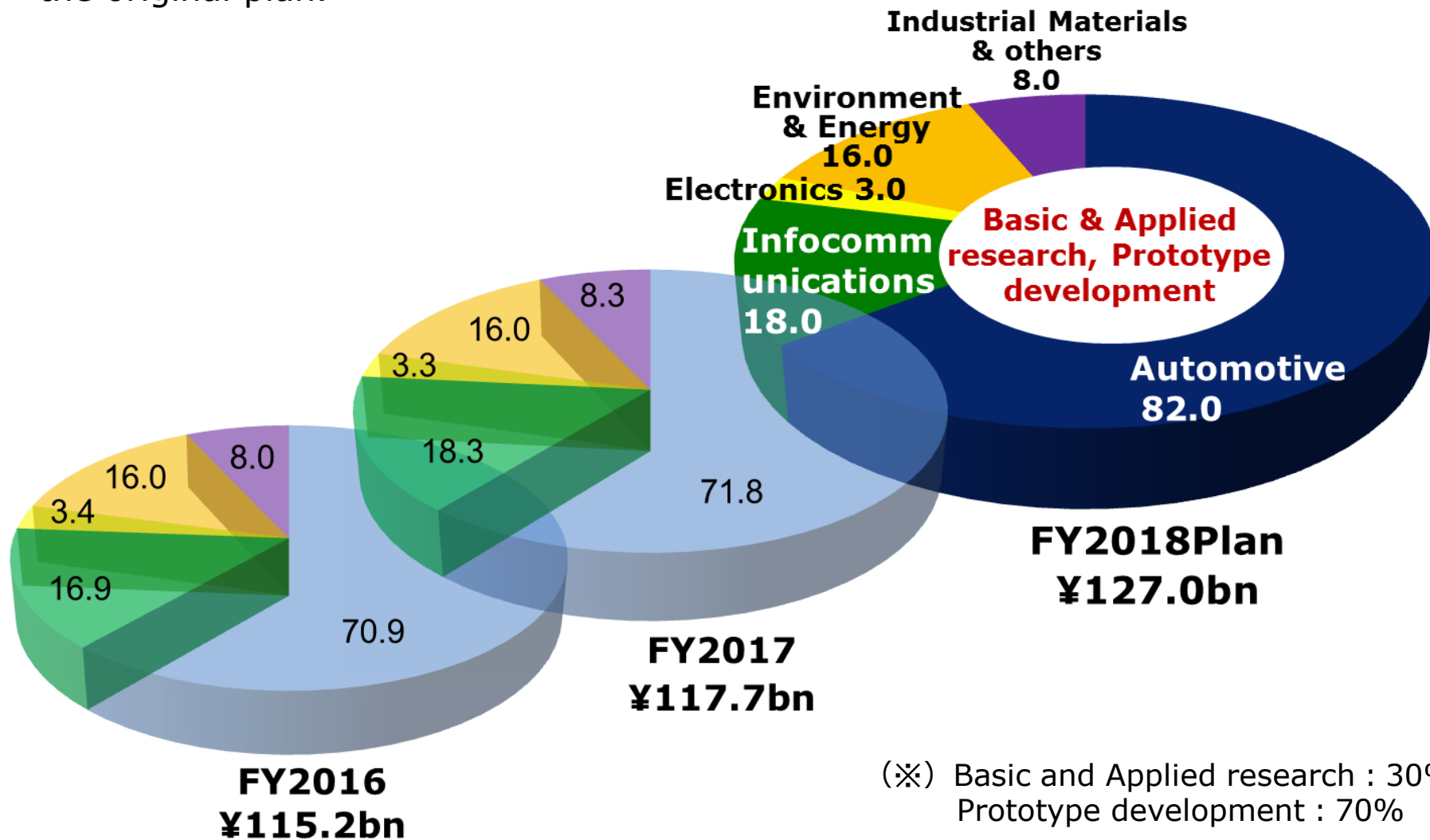
2-5. Capital Investment by Region/Segment

Capital investment in FY2018 are planned to be ¥190.0bn in total, which is the same level as the original plan.



2-6. R&D Expenditures by Segment

R&D expenditures in FY2018 are planned to increase by ¥2.0bn compared with the original plan.



3. Enhancing Production Capacity in Growing Markets

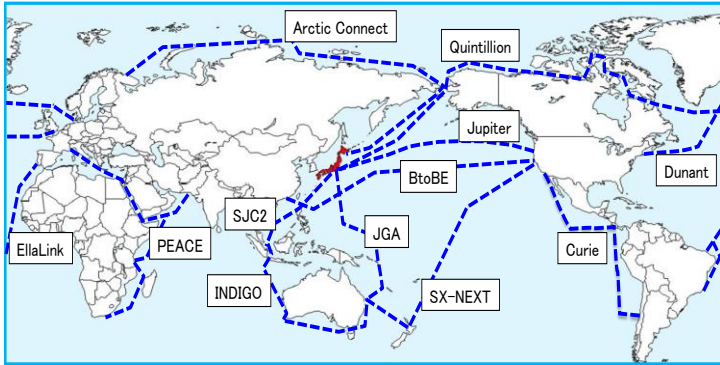
3-1. Optical Fibers and Cables

- Capacity enlargement of mobile and internet services
- Growing cloud services (high-resolution video)
- Self-driving technology



- Growing FTTH and commercialization of 5G systems
- Increasing data center (DC)-related traffic
 - • Capacity enlargement of submarine/land trunk lines
 - Growing demand for installation of metro and access networks

Market environment for optical fibers and cables



Intercontinental

Optical fibers for submarine cable

Expected growth rate: 20%/year



Plan for FY 2022

Optical fibers for submarine cable

Strive for the best transmission loss reduction performance. Continue to hold the highest market share.

Production capacity enhancement up 80% from 2016

Conventional optical fibers

Establish tie-ins with global strategic partners. Compete consistently in the world's leading group. Continue cost reduction efforts.

Production capacity enhancement up 50% from 2016

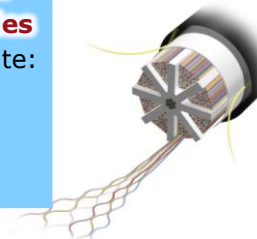


Ultra-high-fiber-count optical cables

Develop ultra-high-fiber-count optical cables ahead of our competitors, and achieve differentiation in terms of ease of handling.

Continue to hold the highest market share.

Production capacity enhancement up 100% from 2016



Metro

Conventional optical fibers

Expected growth rate: 5%/year

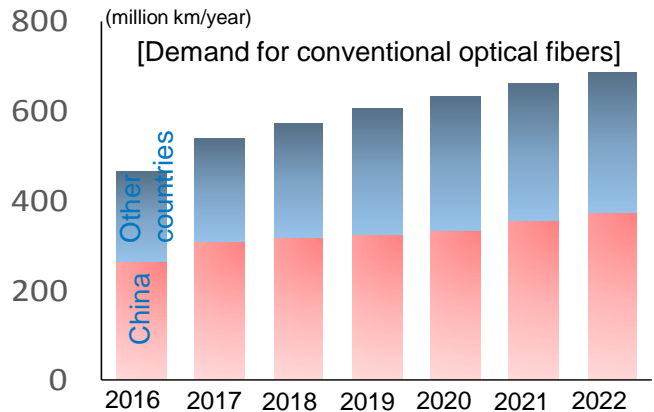
Data centers

Ultra-high-fiber-count optical cables

Expected growth rate: 15%/year

Access

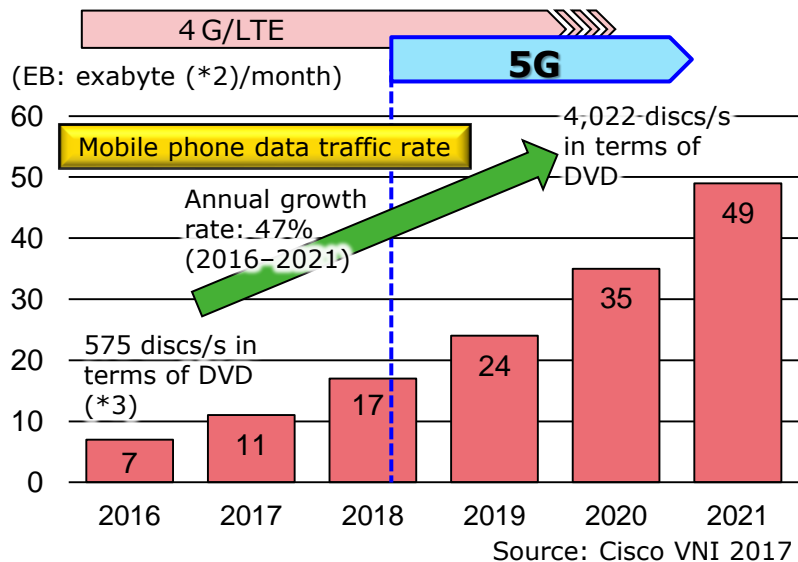
Conventional optical cables



(Estimates by Sumitomo Electric based on CRU)

3-2. GaN Devices

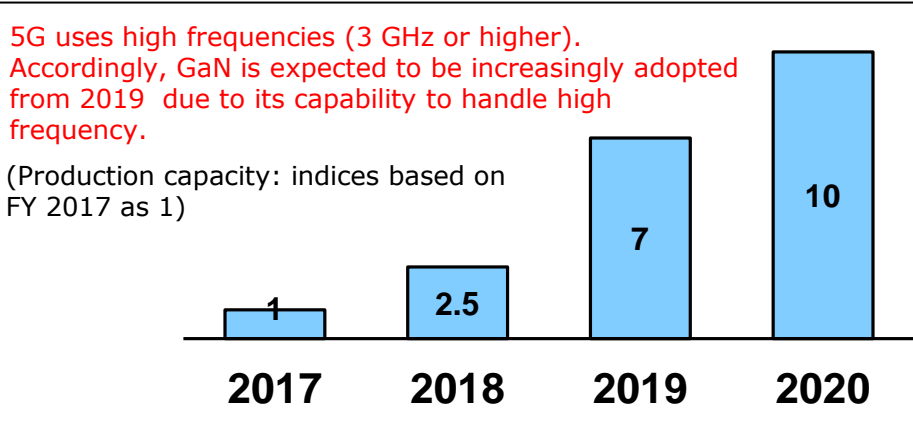
Electronic device (for base stations) market trends



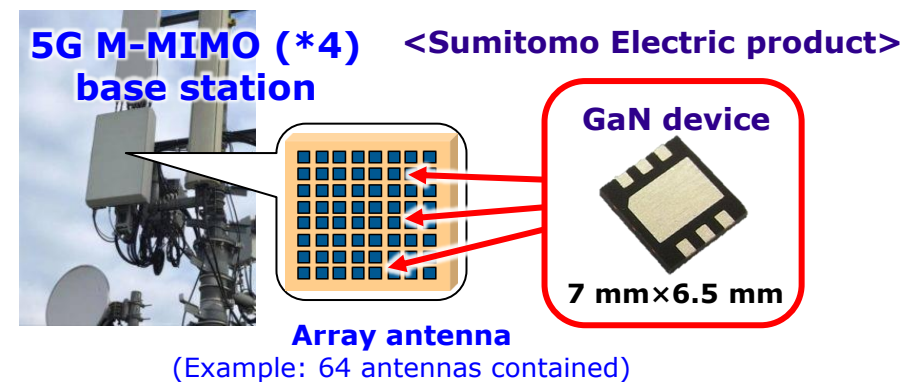
- Continued increase in mobile phone data traffic rate (Annual growth rate: 47%)
- Transition of communication standards from 4G/LTE to 5G (x100 speed improvements at the maximum)
Commencement of 5G service: Implemented in Japan, China, North America, and other regions one year earlier than originally planned (2019-)
- In response to the growing 5G market, Sumitomo Electric will accelerate its capacity to produce GaN devices (*1).

(*1) GaN device: A transistor that uses gallium nitride (GaN) for high-frequency amplification
 (*2) Exabyte (10¹⁸ bytes): million terabytes
 (*3) In terms of DVD: 4.7 gigabytes/disc

M-MIMO GaN device production capacity



5G base station application example



(*4) M-MIMO: massive multiple-input and multiple-output
 M-MIMO is a 5G-based wireless communication technology designed for the use of multiple antennas for transmission and reception.

3-3. Hardmetal

Market environment for cemented carbide tools

- [Domestic] Sharp increase in orders for machine tools and accelerated moves towards the use of robots and automation
- [Overseas] Growing demand in America, Europe, and China principally in the aircraft and automotive industries



- [America/Europe] Enhancing service capabilities of local production plants to make inroads into the thriving automotive industry
 - [China] Use of diverse sales channels and collaboration with European sites of Sumitomo Electric to earn contracts for European user projects
 - [Aircraft industry] Winning orders for various projects taking advantage of specialty tool materials
- **Our growing domestic and global market share has come within sight of the Global Top 3 target in VISION 2022.**

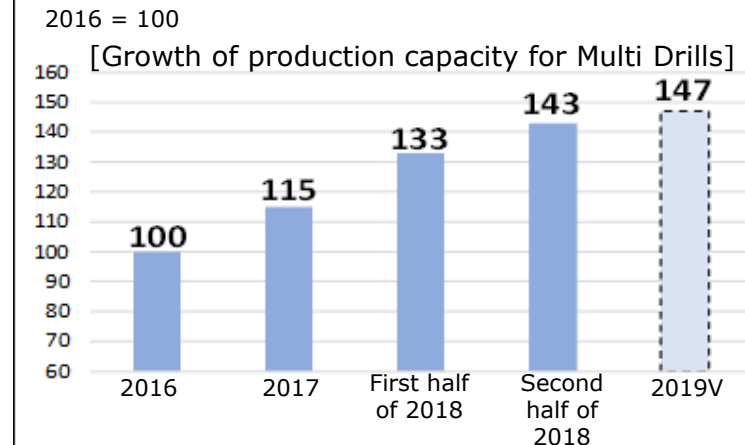
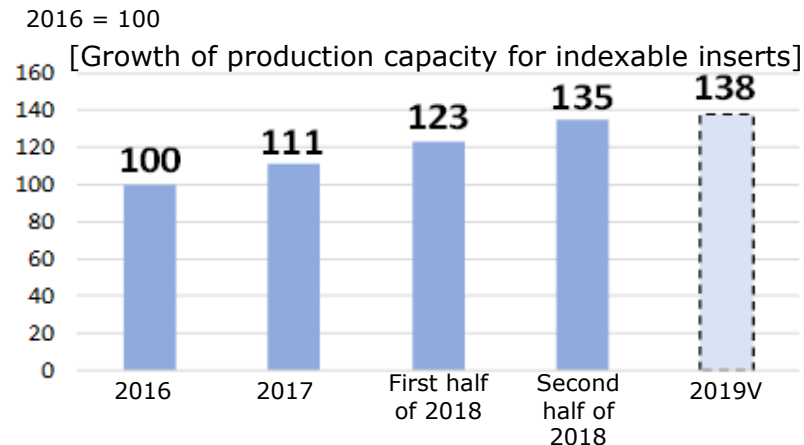
Indexable inserts



Multi Drills



Growth of production capacity

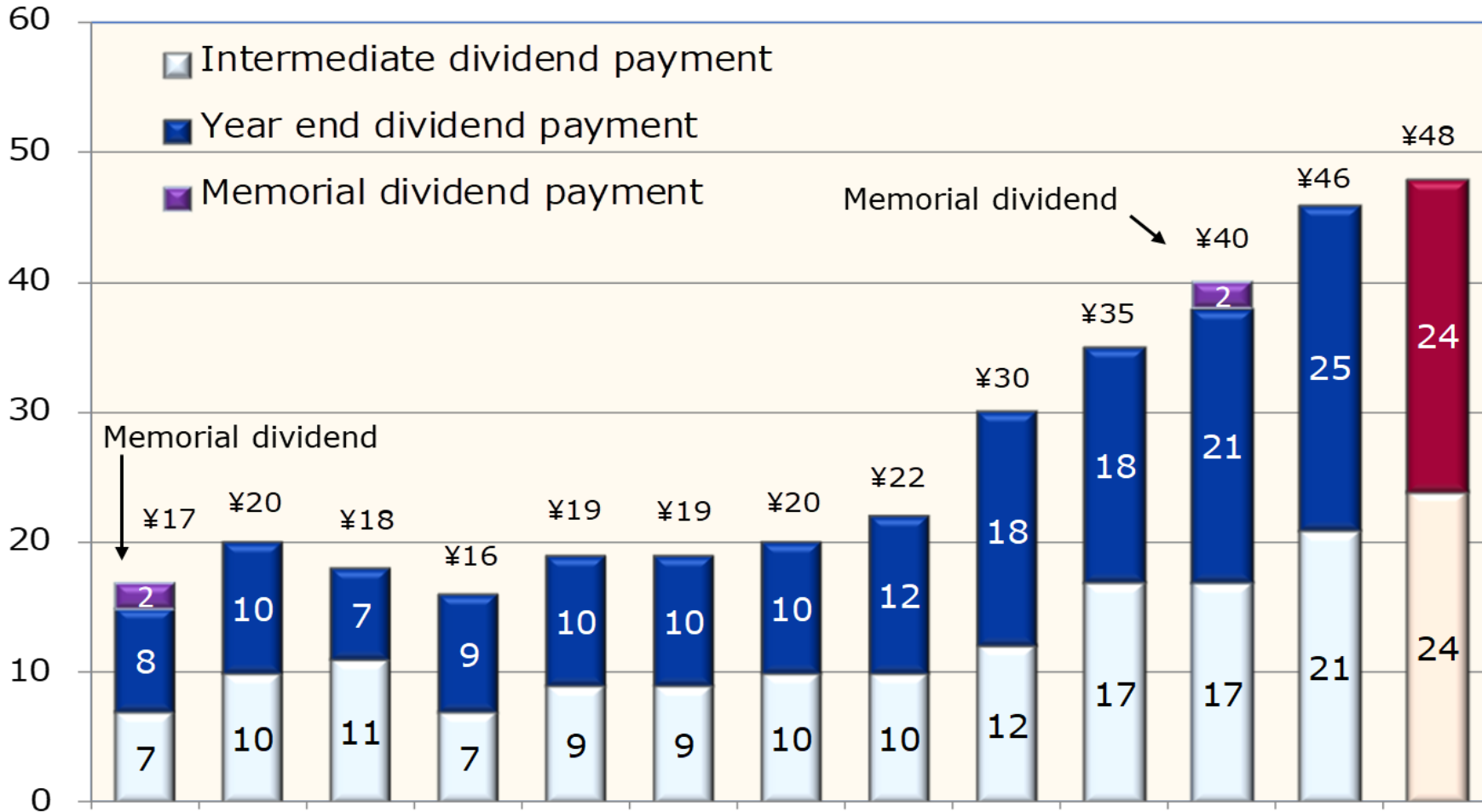


4. Dividend

4. Dividend

FY2018 annual dividend is planned to be ¥48/share, which is the same amount as the original plan.

(¥/share)



Fiscal Year	Net Income per Share (Yen)	Dividend Payout Ratio
FY2006	100.22	17.0%
FY2007	112.74	17.7%
FY2008	21.78	82.6%
FY2009	36.19	44.2%
FY2010	89.02	21.3%
FY2011	74.21	25.6%
FY2012	47.85	41.8%
FY2013	84.15	26.1%
FY2014	151.00	19.9%
FY2015	114.73	30.5%
FY2016	137.61	29.1%
FY2017	154.29	29.8%
FY2018P	160.28	29.9%

Notes on Perspective Information

This presentation material contains various outlook and perspective information derived from our own presumptions and judgments 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 those outlook and perspective information. Factors that could cause actual results to differ materially include, but not limited to:

1. Market and economic conditions in the United States, 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.

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