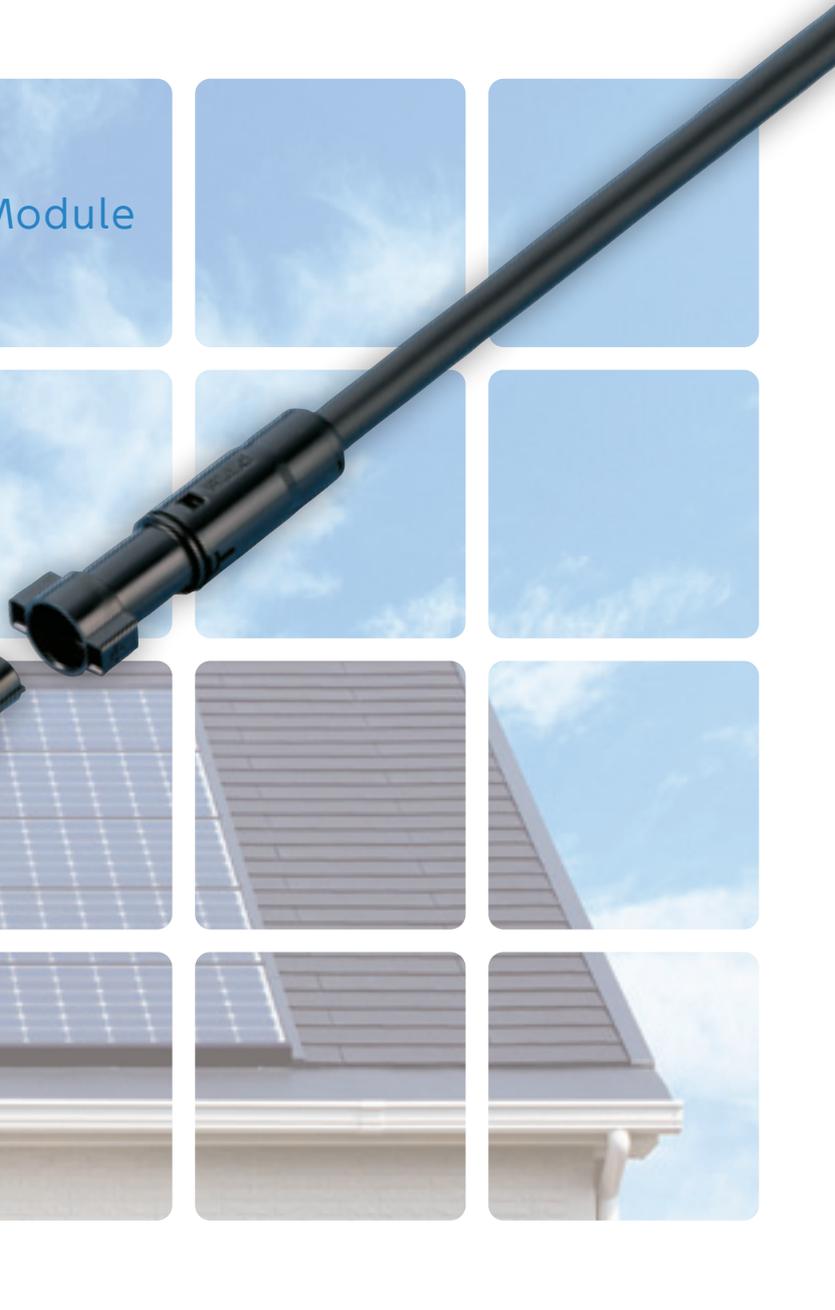


ANNUAL REPORT 2012

For the fiscal year ended March 31, 2012

Connectors for Photovoltaic Module



SMK CORPORATION

To Our Shareholders

We are obliged to you for your continued support and good patronage.

We would like to report on the outline and results of the SMK Group's businesses for the 90th fiscal year (from April 1, 2011 to March 31, 2012).

We look forward to your continuing support and encouragement.

June 2012



Yasumitsu Ikeda
President and COO

Tetsuya Nakamura
Chairman and CEO

Overview

During the fiscal year ended March 31, 2012, the global economy remained uncertain with phenomena such as slowing economies in the Western countries affected by the deteriorating debt issue in Europe and a decline in growth rates in the emerging nations including China.

The Japanese economy continued to see harsh conditions, affected by adverse factors such as the decline in GDP mainly due to the effects of the Great East Japan Earthquake, the impact of the Thai floods on supply chains in the manufacturing industry, historically high appreciation of the yen and the overall slowdown of overseas economies.

The electronic components industry followed a steady track, spurred by expanding demand mainly for components for smartphones, and for automotive components, despite the weakened competitive edge due to the extreme appreciation of the yen and the impact of the Thai floods. Meanwhile, sales of components for digital home appliances represented by flat-panel televisions remained sluggish principally due to weak domestic demand for replacement products and languid overseas economies.

Under these circumstances, the SMK Group's consolidated net sales and profits for the year declined year on year despite our best efforts to actively launch new products, improve price competitiveness, and bolster our sales capability.

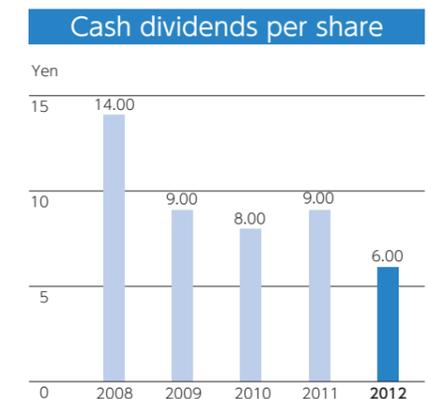
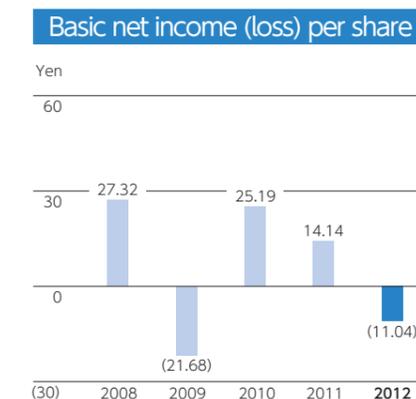
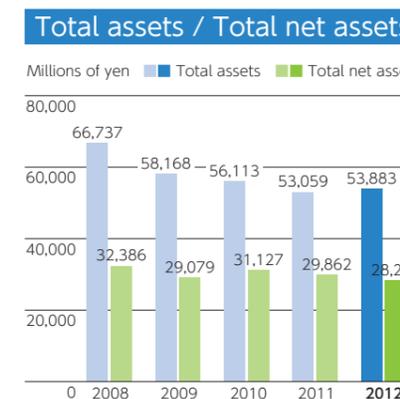
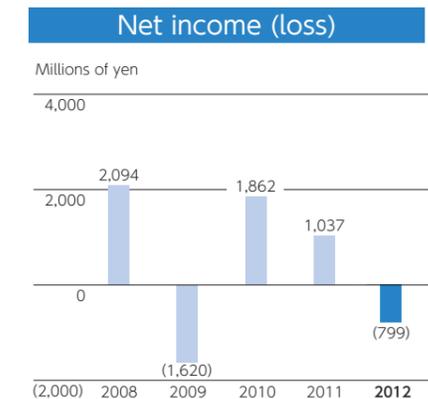
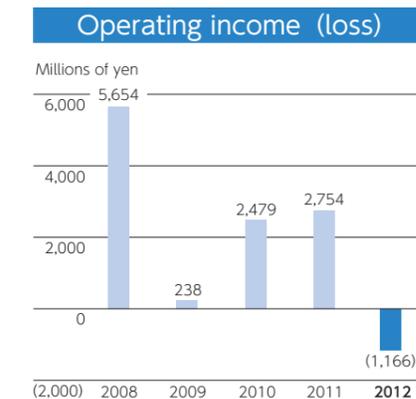
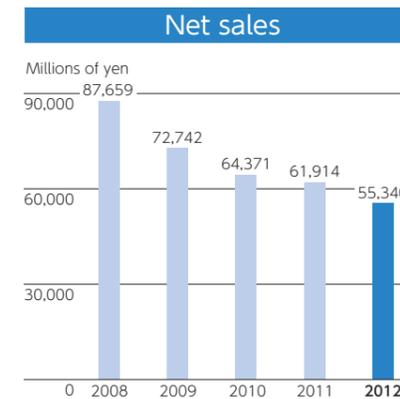
On the basis of our initiatives in fields of communications and automobiles, we will respond quickly to growth fields such as resource-conservation and environment-related opportunities and open up new markets. We will also focus on developing new products and technologies that meet customers' needs, enhancing our production engineering, and streamlining our sales systems. Furthermore, we are committed to making a companywide effort to improve our business performance by further increasing cost competitiveness.

Financial Highlights

Years ended March 31	Millions of yen		Percent change 2011/2012	Thousands of U.S. dollars
	2011	2012		2012
Operating Results				
Net sales	¥ 61,914	¥ 55,340	(10.6)%	\$ 673,321
Operating income (loss)	2,754	(1,166)	—	(14,195)
Net income (loss)	1,037	(799)	—	(9,724)
Financial Position				
Total assets	¥ 53,059	¥ 53,883	1.6%	\$ 655,594
Total net assets	29,862	28,257	(5.4)	343,805

Per Share Data	Yen		—%	U.S. dollars
	2011	2012		2012
Net income (loss)				
Basic	¥ 14.14	¥ (11.04)	—%	\$ (0.13)
Cash dividends	9.00	6.00	(33.3)	0.07

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥82.19 = U.S. \$1.00.



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SMK Philosophy

SMK is committed to the advancement of mankind through development of the information society, by integrating its current technological strengths and creating advanced technology.

Action Guidelines

- 1 Contribute to society with pride and confidence.
- 2 Be customer-oriented, with zeal and sincerity.
- 3 Challenge courageously for higher goals without fear of failure.
- 4 Trust and respect each other for a brighter working atmosphere.
- 5 Keep an open mind, and view SMK from a global perspective.

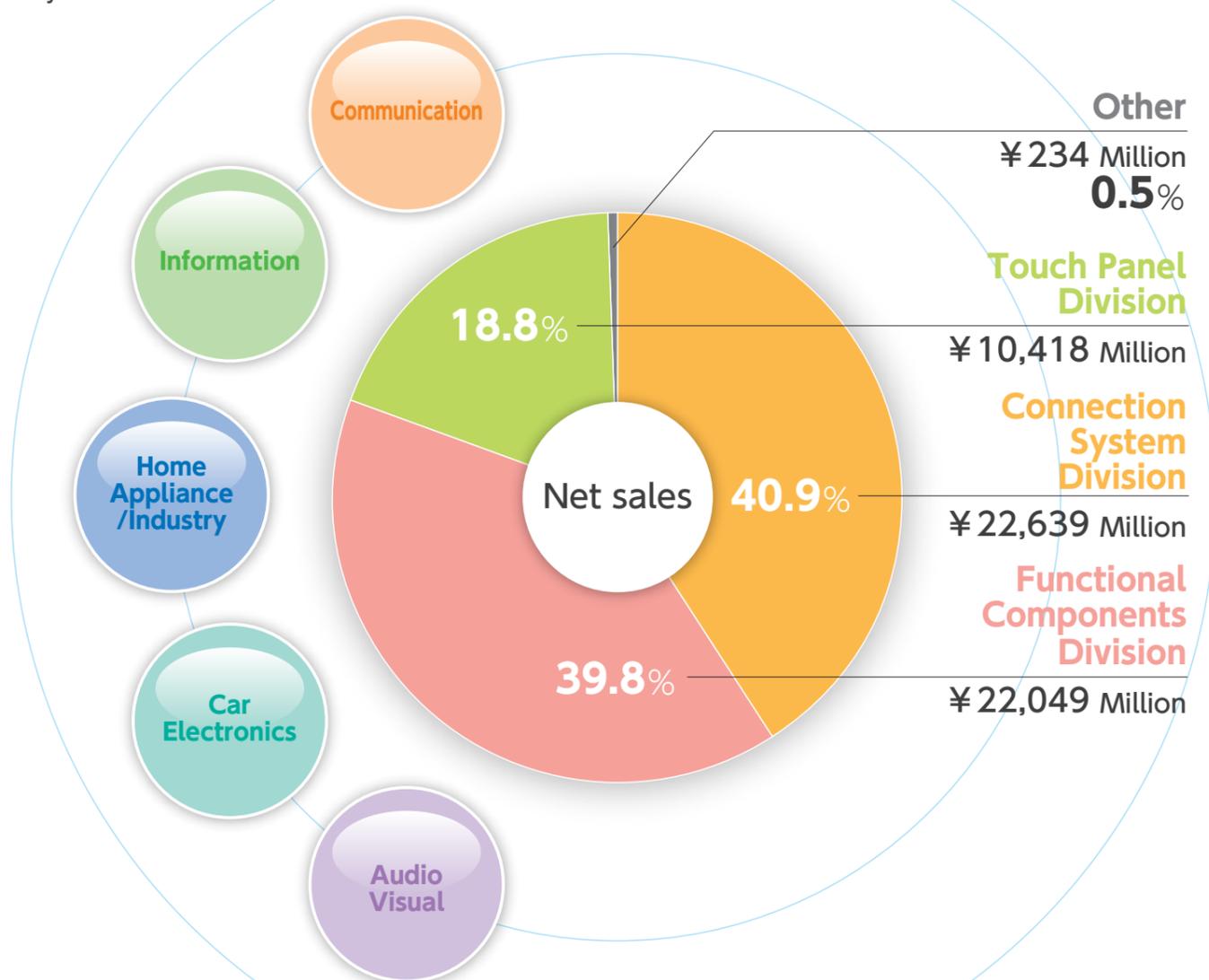
Overview of Consolidated Results by Division

(April 1, 2011 to March 31, 2012)

The many different electronic components that SMK produces are widely used by electronics manufacturers in and outside Japan. The markets for these components can be broadly classified into five categories: the communication market, the information market, the home appliance/industry market, the car electronics market, and the audio visual market.

Three divisions, namely the Connection System (CS) Division, the Functional Components (FC) Division, and the Touch Panel (TP) Division, as well as the Research & Development Center are responsible for developing products that constantly meet market requirements in the five markets outlined above. The three divisions handle operations ranging from product planning and design to mass production, while the Research & Development Center is primarily in charge of designing and developing products in new and other fields.

In this section, we present an overview of the results the three divisions achieved in the fiscal year under review.



Overview of results by division

Connection System Division



- Major Products
- RF coaxial connectors
 - FPC connectors
 - Board to Board connectors
 - Jacks

Sales in the first half of the year were sluggish overall because of restricted demand for components due to the impact of the earthquake. However, a recovery in set production along with a sharp increase in demand for connectors led to sales exceeding the previous year in the second half.

Driven by vigorous sales for smartphones and tablet PCs, steady sales of automotive connectors due to the tax-reduction effect and the adoption of new connectors for TV game consoles and photovoltaic modules contributed considerably to the remarkable performance.

Under an unclear economic environment characterized by foreign exchange fluctuations, the European debt crisis and concerns about an economic slowdown in the United States, the Division will push ahead with developing new products for the information and communication market, our core market, and other expanding markets including digital home appliances, car electronics, and renewable energy systems.

Functional Components Division



- Major Products
- Switches
 - Bluetooth® units
 - Remote controls
 - Camera modules

In the first half of the year, sales were stagnant due to a rapid sales drop in digital home appliances with flat-panel televisions at its core and declines in the market shares of smartphone manufacturers, for which SMK products are adopted, although sales of antennae for cellular phones and accessories were favorable.

In the second half, sales of components for air conditioners and remote controllers as parts for home appliances achieved solid results and those for set-top boxes also rallied. Nevertheless, overall sales were weak, suffering from the lingering impact of negative factors in the first half.

Going forward, the Division aims to make efforts to grow its businesses particularly for the home appliance and air-conditioner sector, which draws attention from an energy-saving viewpoint, the visual sector centering on set-top boxes, and the vehicle-mounted and eco-friendly sectors.

Touch Panel Division



- Major Products
- Resistive touch panels
 - Capacitive touch panels
 - Optical touch panels

Sales of the touch panel division as a whole increased substantially from the previous fiscal year.

In the automotive products market, vehicle-mounted touch panels for car navigation systems sold at high levels throughout the fiscal year under review, supported by vigorous inquiries in Japan and overseas. The ATM market saw increased demand particularly in the Chinese market. Demand for smartphones in the cellular phone market has been rising, but the growth rate slowed in the second half due to intensified competition.

Looking ahead, the Division will aim to further expand sales for capacitive touch panels for the automotive products market and the cellular phone market, where demand has been increasing.

In addition to net sales for the divisions presented above, net sales of ¥234 million were earned by "Other" businesses in the fiscal year under review. Net sales for the Research & Development Center were included in net sales for "Other" businesses.

New Product Connector for photovoltaic module (PV Series)

In recent years, the market for photovoltaic power generation systems has drawn much attention and demand for the systems has been expanding globally.



Applications: Photovoltaic power generation systems

This product is a relay connector to connect photovoltaic modules with cables. SMK's original waterproof construction has achieved high performance and its terminals in a multi-point contact configuration are acclaimed for stable contact.

The number of orders for adoption has been increasing due to SMK's extended product repertoire such as compact-type and bifurcated connectors. From now, we will actively expand our sales promotion.

New Product 50W/20W enabled AC adapter (EPM Series)

In recent years, energy-efficiency regulations have been legislated internationally in consideration of environmental impacts. In response to this global trend, we have developed the 50W/20W enabled AC adapter (EPM Series).

The original products in this series have considerably reduced noise and energy loss and comply with the safety standards of individual countries and the EMC standards. A stable power supply to activate the circuitry of equipment (e.g., printers and scanners) that requires large electric current is ensured.



Applications: Printers and scanners

New Product Touch panel using an ITO substitute material

Usually, touch panels employ transparent conductive electrodes formed by indium (indium tin oxide: ITO), a kind of rare metal. SMK developed two types of touch panels using an ITO substitute material (carbon nanotube and organic conductive polymer) to reduce the quantity of rare metals used. Carbon nanotube-based touch panels are especially promising for various potential applications because carbon nanotube excels in durability.



Applications: Office machines and FA equipment

New Product Bluetooth® Low Energy compliant module (single mode)

This product is a communication module compliant with the Bluetooth® Low Energy single mode, which enables wireless communications with low power consumption.

Bluetooth® Low Energy (BLE) technology, which was first implemented in Bluetooth® Version 4.0, features relatively low power consumption compared with conventional Bluetooth® technology. The enhanced use of BLE technology to enable wireless communications with low power consumption is highly expected given the recent rising demand to incorporate wireless communication technology in various fields.



Applications: Remote controls, cellular phones, peripheral equipment, security equipment and health care products

01 | Business Development in the Chinese Cultural Zone

Following the opening of a sales office in Xi'an in May 2011, we opened the Tsingtau Office in March 2012 and the office started operation. SMK is increasing the number of sales bases for sales expansion in the Chinese market. The opening of the Tsingtau Office aims to strengthen sales activity and offer support services to local customers of digital home appliances and cellular phones.



Appearance of the building in which SMK's Tsingtau Office is located

In October 2011, we turned the factory in Dongguan, China, to which our subsidiary SMK Electronics (H.K.) Ltd. previously outsourced its manufacturing, into one of our subsidiaries. We intend to further reinforce



our production and sales systems to actively provide local customers with detailed services in the Chinese cultural zone.

02 | Exhibition Information

FPD International 2011

October 26-28, 2011, at PACIFICO YOKOHAMA

FPD International is a comprehensive exposition for flat-panel displays, as well as for their manufacturing equipment, components and materials. For this event, SMK prepared six demonstrative machines. Touch panels using ITO substitute films, for which a press release was distributed before the opening of the exhibition, and capacitive touch panels operable with gloved hands were spotlighted. We had 1,445 visitors to our booth during the 3-day event.

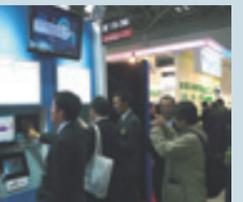


SMK held "SMK TEXPO2012," its own technical exhibition exclusively targeting its business partners, June 6-8, 2012 (in Shinagawa, Tokyo), by assembling all the advanced technologies that it had presented at the above expositions. The theme was "Navigating smartly for the people, the future, and the environment." We informed guests of our eco-friendly product technologies and world-leading miniaturization technologies.

International Automotive Electronics Technology Expo (CAR-ELE JAPAN)

January 18-20, 2012, at Tokyo Big Sight

CAR-ELE JAPAN is an exposition specialized in automotive electronics technologies. At this fourth event, SMK focused on demonstrating car-mounted touch panels and camera modules at its booth. We intend to actively tackle the car electronics market to contribute to the safe and secure driving of cars and comfortable vehicle interiors.



Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars
	2008	2009	2010	2011	2012	2012
Operating Results						
Net sales	¥ 87,659	¥ 72,742	¥ 64,371	¥ 61,914	¥ 55,340	\$ 673,321
Operating income (loss)	5,654	238	2,479	2,754	(1,166)	(14,195)
Net income (loss)	2,094	(1,620)	1,862	1,037	(799)	(9,724)
Financial Position						
Total assets	¥ 66,737	¥ 58,168	¥ 56,113	¥ 53,059	¥ 53,883	\$ 655,594
Total net assets	32,386	29,079	31,127	29,862	28,257	343,805
Per Share Data						
Total net assets	¥ 427.75	¥ 392.15	¥ 420.07	¥ 408.12	¥ 392.59	\$ 4.78
Net income (loss)						
Basic	27.32	(21.68)	25.19	14.14	(11.04)	(0.13)
Diluted	27.30	—	—	—	—	—
Cash dividends	14.00	9.00	8.00	9.00	6.00	0.07

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥82.19 = U.S. \$1.00.

SMK's net sales for the year ended March 31, 2012 decreased 10.6% year on year to ¥55,340 million (US\$673,321 thousand), whereas an operating loss of ¥1,166 million (US\$14,195 thousand) and a net loss of ¥799 million (US\$9,724 thousand) were recorded, on a consolidated basis.

Net Sales

Although the global economy and the Japanese economy remained uncertain and harsh on the whole, the electronics industry experienced steady demand mainly for components for cellular phones, triggered by the rapid propagation of smartphones, and for automotive components. As a result, consolidated net sales were ¥55,340 million (US\$673,321 thousand), down 10.6% year on year.

Operating Income (Loss)

Despite our efforts to strengthen profitability by introducing new products, reducing costs and cutting fixed costs in the face of a decline in profits attributable to decreased net sales, an operating loss of ¥1,166 million (US\$14,195 thousand) was recorded.

Net Income (Loss)

A net loss of ¥799 million (US\$9,724 thousand) was recorded, reflecting a currency exchange loss resulting from appreciation of the yen despite a gain on sales of investment securities and a gain on reversal of subscription rights to shares.

Total Net Assets / ROE

As of March 31, 2012, total net assets were ¥28,257 million (US\$343,805 thousand). ROE stood at negative 2.8%.

Total Assets / ROA

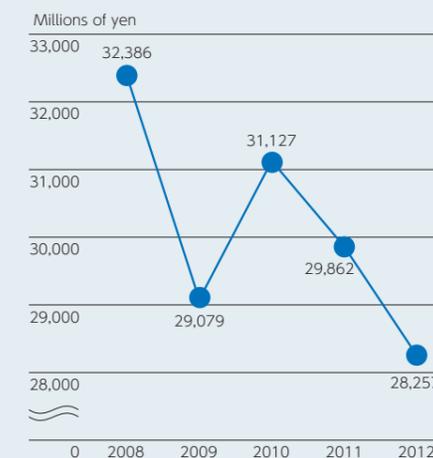
As of March 31, 2012, total assets were ¥53,883 million (US\$655,594 thousand). ROA stood at negative 1.5%.

Cash Flows

Net cash provided by operating activities amounted to ¥2,001 million (US\$24,348 thousand), net cash used in investing activities totaled ¥3,764 million (US\$45,806 thousand) and net cash provided by financing activities was ¥2,686 million (US\$32,684 thousand).

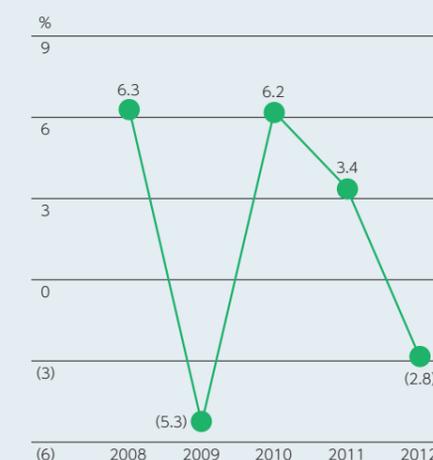
Total net assets

(As of March 31)



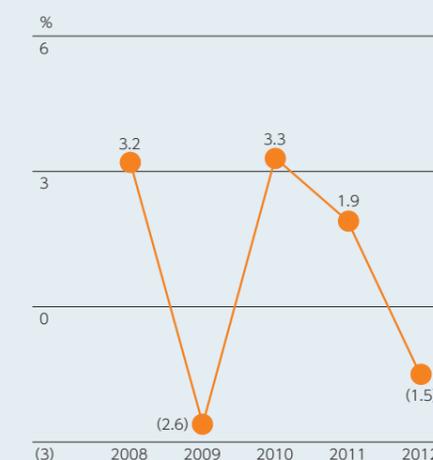
Return on equity (ROE)

(Years ended March 31)



Return on assets (ROA)

(Years ended March 31)



Consolidated Balance Sheets

SMK Corporation and Consolidated Subsidiaries

As of March 31, 2012 and 2011

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2012	2012
Current assets			
Cash and cash equivalents (Note 16)	¥ 7,383	¥ 8,390	\$ 102,078
Time deposits (Note 16)	60	83	1,011
Notes and accounts receivable, trade (Note 16)	14,842	15,223	185,221
Allowance for doubtful accounts	(48)	(45)	(553)
Inventories (Note 3)	5,672	5,473	66,585
Deferred tax assets (Note 7)	885	1,149	13,980
Other current assets (Notes 16 and 20)	3,060	3,213	39,098
	31,854	33,486	407,420
Investments and long-term loans			
Investment securities (Notes 12 and 16)	2,493	2,212	26,911
Long-term loans receivable	103	102	1,240
Other investments (Note 20)	1,602	1,044	12,713
Allowance for doubtful accounts	(116)	(117)	(1,428)
	4,082	3,241	39,436
Property, plant and equipment (Notes 4 and 17)			
Land	4,424	4,418	53,748
Buildings	17,143	17,242	209,786
Machinery and vehicles	16,843	16,975	206,532
Tooling and office furniture	20,503	20,716	252,054
Construction in progress	29	19	232
	58,942	59,370	722,352
Less-accumulated depreciation	(42,696)	(43,171)	(525,258)
	16,246	16,199	197,094
Other assets			
Deferred tax assets (Note 7)	271	567	6,898
Intangible assets	606	390	4,746
	877	957	11,644
Total assets	¥ 53,059	¥ 53,883	\$ 655,594

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2012	2012
Current liabilities			
Short-term loans payable (Notes 4 and 16)	¥ 3,207	¥ 9,675	\$ 117,714
Notes and accounts payable, trade (Note 16)	3,290	3,283	39,948
Accrued income taxes	344	94	1,145
Accrued bonus	771	630	7,664
Accrued directors' bonus	36	—	—
Accounts payable, non-trade (Note 16)	7,691	7,517	91,457
Other current liabilities	1,423	1,357	16,513
	16,762	22,556	274,441
Long-term liabilities			
Long-term debt (Notes 4 and 16)	5,720	2,483	30,211
Accrued employees' retirement benefits (Note 13)	16	21	256
Accrued directors' and officers' retirement benefits	125	119	1,442
Other long-term liabilities	574	447	5,439
	6,435	3,070	37,348
Net assets			
Shareholders' equity (Note 9)			
Common stock			
Authorized : 195,961,274 shares			
Issued and outstanding : 79,000,000 shares	7,996	7,996	97,297
Capital surplus	12,353	12,345	150,206
Retained earnings	15,876	14,785	179,886
Treasury stock (Note 10)	(3,308)	(3,554)	(43,252)
	32,917	31,572	384,137
Accumulated other comprehensive income			
Net unrealized gains (losses) on other securities	266	147	1,789
Foreign currency translation adjustments	(3,449)	(3,499)	(42,578)
	(3,183)	(3,352)	(40,789)
Subscription rights to shares (Note 19)	123	32	395
Minority interests	5	5	62
	29,862	28,257	343,805
Total liabilities and net assets	¥ 53,059	¥ 53,883	\$ 655,594

Consolidated Statements of Income

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2012	2012
Net sales (Note 18)	¥ 61,914	¥ 55,340	\$ 673,321
Cost of sales (Notes 3 and 5)	51,345	48,564	590,876
Selling, general and administrative expenses (Notes 5 and 6)	7,815	7,942	96,640
Operating income (loss) (Note 18)	2,754	(1,166)	(14,195)
Other income			
Interest and dividend income	68	67	814
Rent income	927	590	7,181
Gain on sales of fixed assets	39	45	551
Gain on sales of investment securities	—	106	1,285
Gain on reversal of subscription rights to shares	3	121	1,477
Other	164	241	2,935
Total other income	1,201	1,170	14,243
Other expenses			
Interest expense	156	152	1,844
Rent expense	301	309	3,756
Foreign exchange loss, net	879	246	2,998
Loss on disposal of fixed assets	166	35	432
Loss on liquidation of subsidiaries and affiliates	—	23	280
Loss on disaster	485	—	—
Loss on compensation for products	58	102	1,243
Other	93	114	1,382
Total other expenses	2,138	981	11,935
Income (loss) before income taxes and minority interests	1,817	(977)	(11,887)
Income taxes (Note 7)			
Current	434	263	3,201
Deferred	345	(441)	(5,370)
Income (loss) before minority interests	1,038	(799)	(9,718)
Minority interests	1	0	6
Net income (loss)	¥ 1,037	¥ (799)	\$ (9,724)

Per share data	Yen		U.S. dollars (Note 2)
	2011	2012	2012
Total net assets	¥ 408.12	¥ 392.59	\$ 4.78
Net income (loss)			
Basic	14.14	(11.04)	(0.13)
Cash dividends	9.00	6.00	0.07

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2012	2012
Income (loss) before minority interests	¥ 1,038	¥ (799)	\$ (9,718)
Other comprehensive income (Note 8)			
Net unrealized gains (losses) on other securities	(233)	(119)	(1,453)
Foreign currency translation adjustments	(762)	(50)	(610)
Total other comprehensive income	(995)	(169)	(2,063)
Comprehensive income	¥ 43	¥ (968)	\$ (11,781)
Total comprehensive income attributable to:			
Shareholders of the Company	¥ 42	¥ (968)	\$ (11,787)
Minority interests	1	0	6

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2010	79,000,000	¥ 7,996	¥ 12,353	¥ 15,798	¥ (2,953)	¥ 33,194	¥ 499	¥ (2,687)	¥ (2,188)	¥ 117	¥ 4	¥ 31,127
Cash dividends paid				(959)		(959)						(959)
Net income				1,037		1,037						1,037
Acquisition of treasury stock					(356)	(356)						(356)
Disposition of treasury stock					1	1						1
Net changes in items other than shareholders' equity							(233)	(762)	(995)	6	1	(988)
Total changes			(0)	78	(355)	(277)	(233)	(762)	(995)	6	1	(1,265)
Balance at March 31, 2011	79,000,000	7,996	12,353	15,876	(3,308)	32,917	266	(3,449)	(3,183)	123	5	29,862
Balance at April 1, 2011	79,000,000	7,996	12,353	15,876	(3,308)	32,917	266	(3,449)	(3,183)	123	5	29,862
Cash dividends paid				(292)		(292)						(292)
Net loss				(799)		(799)						(799)
Acquisition of treasury stock					(263)	(263)						(263)
Disposition of treasury stock			(8)		17	9						9
Net changes in items other than shareholders' equity							(119)	(50)	(169)	(91)	0	(260)
Total changes			(8)	(1,091)	(246)	(1,345)	(119)	(50)	(169)	(91)	0	(1,605)
Balance at March 31, 2012	79,000,000	¥ 7,996	¥ 12,345	¥ 14,785	¥ (3,554)	¥ 31,572	¥ 147	¥ (3,499)	¥ (3,352)	¥ 32	¥ 5	¥ 28,257

	Thousands of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets	
Balance at April 1, 2011	\$ 97,297	\$ 150,296	\$ 193,163	\$ (40,255)	\$ 400,501	\$ 3,242	\$ (41,968)	\$ (38,726)	\$ 1,500	\$ 56	\$ 363,331	
Cash dividends paid				(3,553)		(3,553)					(3,553)	
Net loss				(9,724)		(9,724)					(9,724)	
Acquisition of treasury stock					(3,200)	(3,200)					(3,200)	
Disposition of treasury stock			(90)		203	113					113	
Net changes in items other than shareholders' equity							(1,453)	(610)	(2,063)	(1,105)	6	(3,162)
Total changes		(90)	(13,277)	(2,997)	(16,364)	(1,453)	(610)	(2,063)	(1,105)	6	(19,526)	
Balance at March 31, 2012	\$ 97,297	\$ 150,206	\$ 179,886	\$ (43,252)	\$ 384,137	\$ 1,789	\$ (42,578)	\$ (40,789)	\$ 395	\$ 62	\$ 343,805	

Consolidated Statements of Cash Flows

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2012	2012
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ 1,817	¥ (977)	\$ (11,887)
Depreciation and amortization	3,653	3,664	44,585
Amortization of goodwill	155	184	2,236
Increase (decrease) in accrued directors' bonus	1	(36)	(438)
Increase (decrease) in accrued employees' retirement benefits	0	6	68
(Increase) decrease in prepaid pension costs	87	522	6,356
Increase (decrease) in accrued directors' and officers' retirement benefits	(28)	(7)	(85)
Interest and dividend income	(68)	(67)	(814)
Interest expense	156	152	1,844
Gain on reversal of subscription rights to shares	(3)	(121)	(1,477)
Loss on disposal of fixed assets	166	35	432
Loss on disaster	485	—	—
Loss on compensation of products	58	102	1,243
(Increase) decrease in notes and accounts receivable, trade	706	(339)	(4,130)
(Increase) decrease in inventories	(683)	196	2,383
Increase (decrease) in notes and accounts payable, trade	990	(166)	(2,018)
Increase (decrease) in accounts payable, non-trade	221	(121)	(1,477)
Other	(1,005)	(275)	(3,342)
Subtotal	6,708	2,752	33,479
Interest and dividends received	58	68	832
Interest paid	(157)	(147)	(1,792)
Compensation of products paid	—	(246)	(2,996)
Income taxes paid	(418)	(644)	(7,834)
Income taxes refunded	39	218	2,659
Net cash provided by (used in) operating activities	6,230	2,001	24,348
Cash flows from investing activities			
Payments into time deposits	(87)	(138)	(1,681)
Proceeds from time deposits	59	118	1,440
Purchases of fixed assets	(3,598)	(3,926)	(47,772)
Proceeds from sale of fixed assets	68	130	1,582
Purchases of intangible fixed assets	(49)	(31)	(377)
Proceeds from sale of investment securities	0	87	1,058
Payments for execution of loans	(52)	(145)	(1,761)
Collection of loans receivable	112	112	1,364
Payments for acquisition of business (Note 11)	(473)	—	—
Other	19	29	341
Net cash provided by (used in) investing activities	(4,001)	(3,764)	(45,806)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(1,383)	3,261	39,674
Proceeds from long-term debt	—	816	9,928
Payments of long-term debt	(656)	(840)	(10,217)
Purchases of treasury stock	(355)	(262)	(3,183)
Proceeds from sale of treasury stock	1	3	34
Dividends paid	(954)	(292)	(3,552)
Net cash provided by (used in) financing activities	(3,347)	2,686	32,684
Effect of exchange rate changes on cash and cash equivalents	(248)	84	1,025
Increase (decrease) in cash and cash equivalents	(1,366)	1,007	12,251
Cash and cash equivalents at beginning of the year	8,749	7,383	89,827
Cash and cash equivalents at end of the year	¥ 7,383	¥ 8,390	\$ 102,078

Notes to Consolidated Financial Statements

SMK Corporation and Consolidated Subsidiaries

Note 1. Summary of significant accounting policies

- (a) Basis of presenting financial statements
The accompanying consolidated financial statements of SMK Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. For the purpose of this document, certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation.
- (b) Basis of consolidation and investments in affiliated companies
The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries over which substantial control is exercised either through majority ownership of voting stock and/or by other means.
All significant intercompany balances and transactions have been eliminated in consolidation.
Certain foreign subsidiaries' fiscal period ends on December 31, which differs from the year-end date of the Company; however, the accounts of these companies were tentatively closed as of March 31 and the necessary adjustments for consolidation were made.
Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.
All assets and liabilities of the Company's subsidiaries are revalued at the acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.
- (c) Scope of consolidation
Number of consolidated subsidiaries: 26
The remaining 2 subsidiaries which are unconsolidated are deemed immaterial and, accordingly, their results of operations had no significant effect on the consolidated financial statements.
- (d) Application of equity method of accounting
Number of affiliated companies accounted for by the equity method: 1
The 2 unconsolidated subsidiaries are deemed immaterial. As the effect of their results of operations on the consolidated financial statements would be insignificant, the equity method of accounting has not been applied to these companies.
- (e) Translation of foreign currencies
All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the appropriate year-end exchange rates. Shareholders' equity, which is translated at rates of exchange prevailing at the time the transactions occurred. Revenue and expense accounts are translated at the average rates of exchange prevailing during the year.
- (f) Cash and cash equivalents
Cash and cash equivalents are composed of cash and time deposits all of which are low-risk, short-term financial instruments readily convertible into cash.
- (g) Inventories
The following inventories are measured principally by their respective methods:
Finished products: Retail cost method
Work in process: Actual raw material cost, determined by the most recent purchase cost method, plus direct labor costs and manufacturing overheads
Raw materials and supplies: Most recent purchase cost method
- (h) Securities
Securities are classified into three categories depending upon the holding purpose and accounted for as follows:
i) trading securities, which are held for the purpose of earning capital gains in the short-term, are stated at fair market value, with related gain and loss realized on disposal and unrealized gain and loss from market fluctuations recognized as gain or loss in the statement of income in the year of the change; ii) held-to-maturity debt securities, which a company has the positive intent to hold until maturity, are stated at amortized cost; and iii) other securities, which are not classified as either of the aforementioned categories but are stated at fair market value if such value is available, or, if not, at moving-average cost, with unrealized gain and loss, net of the applicable taxes, reported as a separate component of net assets. Realized gain and loss on sales of such securities are calculated based on the moving-average cost.
- (i) Derivatives
Derivatives are stated at fair value.
- (j) Property, plant and equipment and depreciation
Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is calculated principally by the declining-balance method for the Company and its domestic subsidiaries, and by the straight-line method mainly for foreign subsidiaries.
- (k) Intangible assets
Amortization of intangible assets is calculated by the straight-line method. Software for own use is amortized based on the utilizable period (5 years).
Goodwill is amortized by the straight-line method over 5 years.
- (l) Leases
Finance leases which are deemed to transfer the ownership of the leased assets to the lessee are capitalized and depreciated over their lease term with no residual value.
- (m) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at the amount of estimated uncollectable accounts, based on individual collectability with respect to identified doubtful receivables and past experience of doubtful receivables.
- (n) Accrued bonus
Accrued bonus are provided on the estimate of the amounts to be paid in the future by the Company, domestic consolidated subsidiaries and certain overseas subsidiaries based on an accrual basis at the balance sheet date.
- (o) Accrued directors' bonus
Accrued directors' bonus are provided on the estimate of the amounts to be paid in the future by the Company based on an accrual basis at the balance sheet date.
- (p) Accrued employees' retirement benefits
To cover projected employee retirement benefits, the Company and consolidated subsidiaries record the estimated obligations at the end of the fiscal year based on projected year-end benefit obligations and plan assets, as adjusted for unrecognized actuarial gains or losses and unrecognized prior service cost.
Unrecognized actuarial gains or losses are amortized in the year following the year in which the gains or losses are incurred by the straight-line method over the period of 5 years which is within the average remaining years of service of the employees.
- (q) Accrued directors' and officers' retirement benefits
Accrued directors' and officers' retirement benefits have been provided at an amount equal to 100% of the amount which would be required to be paid based on the Company's bylaws if all directors and officers resigned from the Company on the balance sheet date.
- (r) Hedge accounting
(1) Method of hedge accounting
The exceptional method of hedge accounting is applied for the transactions of interest rate swaps, in cases meeting certain conditions.
(2) Hedge instrument and hedged item
Hedge instrument: interest rate swap
Hedged item: interest rate for long-term debt subject to interest rate fluctuations.
(3) Hedge policy
The Company uses interest rate swaps to avoid risks from interest rate fluctuations on borrowings, only when approved by the management.
(4) Assessment of hedge effectiveness
As the exceptional method is applied for interest rate swap, the assessment of hedge effectiveness is omitted.
- (s) Income taxes
Deferred income taxes are recognized based on the differences between financial reporting and the tax bases of the assets and liabilities and are calculated using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(t) Per share information

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to shareholders and weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Net assets per share is computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the balance sheet date. Cash dividends per share shown for each period in the consolidated statements of income represent the dividends applicable to the respective period.

(u) Supplemental information

Effective April 1, 2011, the Company adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No.24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on December 4, 2009).

Note 2. U.S. Dollar amounts

The U.S. dollar amounts are stated solely for the convenience of the reader at the rate of U.S.\$1.00 = ¥82.19, the approximate rate of exchange at March 31, 2012. The translation should not be construed as a representation that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at that or any other rate.

Note 3. Inventories

Inventories as of March 31, 2011 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Finished products	¥ 2,572	¥ 2,749	\$ 33,440
Work in process	648	539	6,562
Raw materials and supplies	2,452	2,185	26,583
Total	¥ 5,672	¥ 5,473	\$ 66,585

The write-downs of inventories resulted from decreased profitability for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Cost of sales	¥ 290	¥ 205	\$ 2,491

Note 4. Short-term loans payable and long-term debt

Short-term loans payable and long-term debt as of March 31, 2011 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Short-term loans payable			
Average interest rate on short-term loans payable, principally from banks is 0.74%			
Secured	¥ 255	¥ 1,293	\$ 15,733
Unsecured	2,112	4,329	52,668
Total	¥ 2,367	¥ 5,622	\$ 68,401
Long-term debt			
Average interest rate on long-term debt, principally from banks is 1.08%			
Secured	¥ 4,110	¥ 3,786	\$ 46,064
Unsecured	2,450	2,750	33,460
Less: portion due within one year	(840)	(4,053)	(49,313)
Total	¥ 5,720	¥ 2,483	\$ 30,211

The assets pledged as collateral for short-term and long-term debt as of March 31, 2011 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Property, plant and equipment-book value	¥ 1,896	¥ 2,277	\$ 27,705

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2012 were summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2013	2014	2012
2013	¥ 4,053		\$ 49,312
2014	1,842		22,411
2015	274		3,339
2016	150		1,822
2017 and thereafter	217		2,639
Total	¥ 6,536		\$ 79,523

Note 5. Research and development costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2011 and 2012 amounted to ¥2,903 million and ¥3,080 million (\$3,471 thousand), respectively.

Note 6. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Salaries and wages of employees	¥ 3,382	¥ 3,389	\$ 41,228
Provision for bonus	312	262	3,188
Provision for directors' and officers' bonus	36	—	—
Retirement benefit cost	243	384	4,667
Provision for directors' and officers' retirement benefit	35	—	—
Provision for doubtful accounts	9	3	32

Note 7. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.5% for the years ended March 31, 2011 and 2012, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2011 was as follows. A reconciliation for the year ended March 31, 2012 is omitted because a net loss was recorded:

	2011	2012
Statutory tax rate	40.5%	—%
Items such as entertainment expenses permanently not deductible for tax purposes	1.8	—
Items such as dividend income permanently not deductible for tax purposes	(20.6)	—
Tax credit for research and development cost	(3.8)	—
Change in valuation allowance	13.1	—
Statutory tax rate differences in subsidiaries	(9.1)	—
Elimination of dividend income	20.9	—
Other	(0.0)	—
Effective tax rates	42.8%	—%

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets:			
Inventory write-down disallowed	¥ 131	¥ 64	\$ 780
Accrued bonus disallowed	297	222	2,696
Intercompany profit on inventory	65	60	732
Retirement benefits disallowed	301	481	5,853
Allowance for doubtful accounts	47	43	519
Impairment loss	176	104	1,267
Operating loss carryforwards for tax purposes	209	403	4,902
Carried forward foreign tax credit	250	37	446
Undistributed earnings of consolidated subsidiaries	—	329	4,005
Other	669	613	7,461
Valuation allowance	(557)	(321)	(3,904)
Deferred tax assets	1,588	2,035	24,757
Deferred tax liabilities:			
Deferred gain on land	(108)	(95)	(1,156)
Advanced depreciation on buildings	(108)	(88)	(1,075)
Reserve for special depreciation	(21)	(13)	(161)
Net unrealized gains on other securities	(199)	(128)	(1,556)
Other	(122)	(110)	(1,334)
Deferred tax liabilities	(558)	(434)	(5,282)
Net deferred tax assets	¥ 1,030	¥ 1,601	\$ 19,475

The "Act on Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.5% to 37.9% for the temporary differences and operating loss carryforwards for tax purposes expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and from 37.9% to 35.5% for temporary differences and operating loss carryforwards for tax purposes expected to be realized or settled from fiscal years beginning April 1, 2015. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, net by ¥87 million (\$1,060 thousand), increase deferred income taxes by ¥99 million (\$1,202 thousand) and increase net unrealized gains on other securities by ¥12 million (\$141 thousand) as of and for the year ended March 31, 2012.

Note 8. Other Comprehensive Income

The following table present reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012.

	Millions of yen		Thousands of U.S. dollars
	2012	2012	2012
Net unrealized gains (losses) on other securities:			
Amount arising during the year	¥ (190)		\$ (2,317)
Reclassification adjustments for gains and losses included in net income	(22)		(266)
Amount before tax effect	(212)		(2,583)
Tax effect	93		1,130
Net unrealized gains (losses) on other securities	(119)		(1,453)
Foreign currency translation adjustments:			
Amount arising during the year	(99)		(1,206)
Reclassification adjustments for gains and losses included in net income	—		—
Amount before tax effect	(99)		(1,206)
Tax effect	49		596
Foreign currency translation adjustments	(50)		(610)
Total other comprehensive income	¥ (169)		\$ (2,063)

Note 9. Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholder's meeting, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Note 10. Treasury stock

The number of common stock of the Company held by the Company, consolidated subsidiaries and affiliated companies subject to the equity method at March 31, 2011 and 2012 totaled 6,142,417 shares and 7,119,784 shares, respectively.

Note 11. Supplementary information on the Consolidated Statements of Cash Flows

Assets acquired and liabilities assumed resulting from the acquisition of business and related payments for the year ended March 31, 2011 were as follows:

	Millions of yen	
	2011	
Current assets	¥	270
Non current assets		273
Total assets		543
Current liabilities		(70)
Total liabilities		(70)
Payments for acquisition of business	¥	473

Note 12. Securities

Information regarding securities classified as other securities at March 31, 2011 and 2012 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars			
	2011			2012			2012			
	Fair value	Costs	Unrealized gain (loss)	Fair value	Costs	Unrealized gain (loss)	Fair value	Costs	Unrealized gain (loss)	
Securities whose fair value exceeds their cost										
Stocks	¥ 1,950	¥ 1,456	¥ 494	¥ 719	¥ 364	¥ 355	\$ 8,752	\$ 4,426	\$ 4,326	
Others	48	36	12	46	36	10	560	438	122	
	1,998	1,492	506	765	400	365	9,312	4,864	4,448	
Securities whose cost exceeds their fair value										
Stocks	268	332	(64)	1,264	1,399	(135)	15,375	17,029	(1,654)	
	268	332	(64)	1,264	1,399	(135)	15,375	17,029	(1,654)	
Total	¥ 2,266	¥ 1,824	¥ 442	¥ 2,029	¥ 1,799	¥ 230	\$ 24,687	\$ 21,893	\$ 2,794	

Unlisted stocks of ¥36 million at March 31, 2011 and ¥32 million (\$394 thousand) at March 31, 2012 are not included in the above table because there were no quoted market prices available and the fair value is extremely difficult to determine.

Information regarding sales of securities for the year ended March 31, 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012		2012	
Proceeds from sales of securities	¥	47	\$	570
Gains on sales		22		266
Losses on sales		(0)		(0)

Note 13. Accrued employees' retirement benefits

(a) Outline of retirement benefit plans

The Company and certain of its domestic consolidated subsidiaries transferred the retirement benefit plans to the corporate pension fund plans under the Defined Benefits Enterprise Pension Law of Japan on April 1, 2004. On the same day the approval was obtained for the exemption from the substituted portion of the welfare pension fund plans from the Minister of Health, Labor and Welfare. At the same time, the Company and certain of its domestic consolidated subsidiaries revised the retirement benefit schemes and adopted the cash balance pension plans and the defined contribution pension plans for a part of future contribution.

(b) Retirement benefit obligation as of March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars	
	2011	2012	2012	
Retirement benefit obligation	¥ 7,330	¥ 7,486	\$ 91,080	
Fair value of plan assets	(6,188)	(6,455)	(78,539)	
Funded status	1,142	1,031	12,541	
Unrecognized actuarial gains (losses)	(2,059)	(1,420)	(17,276)	
Net amount recognized in the consolidated balance sheets	(917)	(389)	(4,735)	
Prepaid pension costs	933	410	4,991	
Accrued employees' retirement benefits	¥ 16	¥ 21	\$ 256	

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars	
	2011	2012	2012	
Service cost, net of plan participants' contributions	¥ 327	¥ 324	\$ 3,947	
Interest cost	144	147	1,786	
Expected returns on plan assets	(194)	(195)	(2,380)	
Amortization of unrecognized actuarial (gains) losses	377	810	9,856	
Contribution to defined contribution pension plan	63	82	997	
Net periodic cost	¥ 717	¥ 1,168	\$ 14,206	

(d) Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets

	2011	2012
Discount rate	2.0%	2.0%
Expected return on plan assets	3.5%	3.5%
Amortization period of unrecognized actuarial gains or losses	5 years	5 years

Note 14. Derivatives

As a matter of policy, the Company does not speculate in derivative transactions. The Company does not anticipate nonperformance by any of the counterparties to the derivative transactions, all of whom are leading domestic financial institutions with high bond ratings.

In accordance with the Company's policy, the accounting department controls derivative transactions and requires approval by the director responsible for accounting and the representative directors of the Company. The director who has the responsibility to control the performance and the related risks connected with derivatives reports these to the Management Committee of the Company.

The Company uses interest rate swaps to avoid risks from interest rate fluctuations on borrowings. The exception method of hedge accounting is used to account for those transactions.

(Currency related)

	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Fair value		Unrealized gain (loss)		Contract amount	Fair value	Unrealized gain (loss)
	2011	2012	2011	2012	2011	2012	2012	2012	2012
Forward foreign exchange contracts:									
Sell:									
US\$	¥ 2,029	¥ 2,218	¥ (29)	¥ (105)	¥ (29)	¥ (105)	\$ 26,991	\$ (1,274)	\$ (1,274)

(1) Calculation of fair value

The fair value is calculated by the forward exchange rate.

(2) Derivative transactions to which hedge accounting was applied are excluded from the above table.

(Interest related)

	Millions of yen				Thousands of U.S. dollars	
	Contract amount		Due after one year		Contract amount	Due after one year
	2011	2012	2011	2012	2012	2012
Interest rate swaps	¥ 2,468	¥ 1,969	¥ 1,969	¥ 200	\$ 23,957	\$ 2,433

Since exceptional treatment is applied to interest rate swaps transactions, they are accounted for as if they were an integral part of the hedged long-term debt, and their fair value is included in the fair value of long-term debt in Note 16.

Note 15. Leases

Future minimum lease payments for non-cancellable operating leases subsequent to March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2011	2012	2012	
Due within one year	¥ 4	¥ 3	\$ 32	
Due after one year	1	7	88	
Total	¥ 5	¥ 10	\$ 120	

Note 16. Financial instruments

(1) Policy for financial instruments

The Company and consolidated subsidiaries raise funds through bank borrowings.

The Company and consolidated subsidiaries use derivatives for the purpose of reducing risk and do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. Regarding this risk, the credit management is executed periodically.

Marketable securities and investment securities are exposed to market risk. The fair value of those securities is reported in a board meeting periodically.

Substantially all trade payables—trade notes and accounts payable—have payment due dates within one year.

Short-term loans payable are raised mainly in connection with business activities, and the repayment dates of long-term debt extend up to four years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Company and consolidated subsidiaries utilizes interest rate swap transactions as a hedging instrument.

Information regarding fair value of financial instruments at March 31, 2011 and 2012 were summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2011			2012			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥ 7,383	¥ 7,383	¥ —	¥ 8,390	¥ 8,390	¥ —	\$ 102,078	\$ 102,078	\$ —
Time deposits	60	60	—	83	83	—	1,011	1,011	—
Notes and accounts receivable, trade	14,842	14,842	—	15,223	15,223	—	185,221	185,221	—
Investment securities	2,267	2,267	—	2,029	2,029	—	24,687	24,687	—
Notes and accounts payable, trade	3,290	3,290	—	3,283	3,283	—	39,948	39,948	—
Short-term loans payable	2,367	2,367	—	5,622	5,622	—	68,402	68,402	—
Accounts payable, non-trade	7,691	7,691	—	7,517	7,517	—	91,457	91,457	—
Long-term debt	6,560	6,529	(31)	6,536	6,534	(2)	79,523	79,493	(30)
Derivatives	(29)	(29)	—	(105)	(105)	—	(1,274)	(1,274)	—

Investment securities includes securities recorded as other current assets in the consolidated balance sheets.

Long-term debt includes current portion of long-term debt recorded as short-term loans payable in the consolidated balance sheets.

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and cash equivalents, time deposits, and notes and accounts receivable, trade
Since these items are settled in a short period of time, their carrying value approximates fair value.

Investment securities

The fair value of stocks is based on quoted market prices.

Short-term loans payable, notes and accounts payable, trade and accounts payable, non-trade

Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.

Derivatives

Please refer to Note 14 Derivatives of the notes to the consolidated financial statements.

2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Unlisted securities	¥ 226	¥ 198	\$ 2,407

Unlisted securities are not included in the investment securities because there were no quoted market prices available and the fair value is extremely difficult to determine.

3. The schedules for redemption of monetary assets and securities with maturities

	Millions of yen						Thousands of U.S. dollars		
	2011		2012		2012		Due within one year	Due after one year through five years	Due after five years through ten years
	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years			
Cash equivalents and time deposits	¥ 7,435	¥ —	¥ —	¥ 8,465	—	¥ —	\$ 102,994	—	\$ —
Notes and accounts receivable, trade	14,842	—	—	15,223	—	—	185,221	—	—
Investment securities (other)	—	15	33	15	—	31	183	—	378
Total	¥ 22,277	¥ 15	¥ 33	¥ 23,703	—	¥ 31	\$ 288,398	—	\$ 378

Note 17. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2011 and 2012 amounted to ¥627 million and ¥281 million (\$3,424 thousand), respectively. Information on the fair value of investment and rental property at March 31, 2011 and 2012 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2011		2012		2012		Book value beginning of the year	Book value end of the year	Fair value
	Book value beginning of the year	Book value end of the year	Fair value	Book value beginning of the year	Book value end of the year	Fair value			
	¥ 4,119	¥ 4,055	¥ 8,282	¥ 4,055	¥ 4,101	¥ 8,259	\$ 49,331	\$ 49,894	\$ 100,481

- The fair value represents the acquisition cost less accumulated depreciation.
- The fair value is mainly estimated by real estate agency.

Note 18. Segment information

(Overview)

The reportable segments of the Company and consolidated subsidiaries are designed as business segments whose segregated financial information can be obtained and to which the management reviews to decide on the allocation of managerial and financial resources and to evaluate their financial performance.

The Company and consolidated subsidiaries are primarily engaged in the three divisions as follows:

CS (Connection System) Division: The division produces and sells connectors and jacks.

FC (Functional Components) Division: The division produces and sells switches, units, remote controls and camera modules.

TP (Touch Panel) Division: The division produces and sells touch panels.

The business segment information is prepared by taking almost the same methods as described in Note 1.

1. Business segment information

	Millions of yen						Total	Adjustment	Consolidated
	Reportable Segments			Other					
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated	
2011									
Net sales									
Outside customers	¥ 23,242	¥ 30,080	¥ 8,350	¥ 61,672	¥ 242	¥ 61,914	¥ —	¥ 61,914	
Intersegment sales	—	—	—	—	—	—	—	—	
Total	23,242	30,080	8,350	61,672	242	61,914	—	61,914	
Operating income (loss)	565	2,223	(143)	2,645	109	2,754	—	2,754	
Identifiable assets	14,038	13,646	5,307	32,991	4,326	37,317	15,742	53,059	
Others									
Depreciation	2,223	1,017	295	3,535	8	3,543	—	3,543	
Increase in fixed assets and intangible fixed assets	2,254	833	814	3,901	25	3,926	—	3,926	

	Millions of yen						Total	Adjustment	Consolidated
	Reportable Segments			Other					
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated	
2012									
Net sales									
Outside customers	¥ 22,639	¥ 22,049	¥ 10,418	¥ 55,106	¥ 234	¥ 55,340	¥ —	¥ 55,340	
Intersegment sales	—	—	—	—	—	—	—	—	
Total	22,639	22,049	10,418	55,106	234	55,340	—	55,340	
Operating income (loss)	(312)	(717)	(154)	(1,183)	17	(1,166)	—	(1,166)	
Identifiable assets	14,914	11,610	6,282	32,806	4,433	37,239	16,644	53,883	
Others									
Depreciation	2,321	826	405	3,552	4	3,556	—	3,556	
Increase in fixed assets and intangible fixed assets	2,698	615	290	3,603	198	3,801	—	3,801	

	Thousands of U.S. dollars						Total	Adjustment	Consolidated
	Reportable Segments			Other					
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated	
2012									
Net sales									
Outside customers	\$ 275,448	\$ 268,269	\$ 126,756	\$ 670,473	\$ 2,848	\$ 673,321	\$ —	\$ 673,321	
Intersegment sales	—	—	—	—	—	—	—	—	
Total	275,448	268,269	126,756	670,473	2,848	673,321	—	673,321	
Operating income (loss)	(3,799)	(8,727)	(1,876)	(14,402)	207	(14,195)	—	(14,195)	
Identifiable assets	181,460	141,257	76,437	399,154	53,940	453,094	202,500	655,594	
Others									
Depreciation	28,243	10,049	4,930	43,222	46	43,268	—	43,268	
Increase in fixed assets and intangible fixed assets	32,831	7,479	3,534	43,844	2,408	46,252	—	46,252	

Other is business segments not included in the reportable segments. It includes other parts, leasing, property rental and factoring businesses. Adjustment includes corporate assets which are not allocatable to the reportable segments.

2. Geographical information

(1) Net sales

	Millions of yen					Consolidated
	Japan	Asia	North America	Europe	Other	
2011						
Net sales	¥ 18,010	¥ 25,358	¥ 16,197	¥ 2,057	¥ 292	¥ 61,914

	Millions of yen					Consolidated
	Japan	Asia	North America	Europe	Other	
2012						
Net sales	¥ 17,150	¥ 22,496	¥ 14,096	¥ 1,524	¥ 74	¥ 55,340

	Thousands of U.S. dollars					Consolidated
	Japan	Asia	North America	Europe	Other	
2012						
Net sales	\$ 208,669	\$ 273,713	\$ 171,506	\$ 18,538	\$ 895	\$ 673,321

(2) Fixed assets

	Millions of yen					Consolidated
	Japan	Asia	North America	Europe	Other	
2011						
Fixed assets	¥ 11,230	¥ 4,290	¥ 331	¥ 395	¥ 16,246	

	Millions of yen					Consolidated
	Japan	Asia	North America	Europe	Other	
2012						
Fixed assets	¥ 11,210	¥ 4,337	¥ 277	¥ 375	¥ 16,199	

	Thousands of U.S. dollars					Consolidated
	Japan	Asia	North America	Europe	Other	
2012						
Fixed assets	\$ 136,396	\$ 52,769	\$ 3,365	\$ 4,564	\$ 197,094	

3. Information about major customers

The company and consolidated subsidiaries have no major customers which account for at or more than 10% of net sales.

4. Information about the amortization of goodwill and the balance of goodwill

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Amortization	¥ 155	¥ 184	\$ 2,236
Book value	446	252	3,069

Note 19. Changes in stock option

At the board of directors meeting held on April 24, 2008, a stock option plan was approved. Under this plan, certain employees of the Company and a director and employees of affiliated companies were granted options to purchase common stock of 1,102,000 shares in total at an exercise price of ¥509. Those eligible could exercise the options when the market price exceeded 130% of the exercise price for preceding day within the term of exercise, which was from June 1, 2010 to May 31, 2013.

At the board of directors meeting held on July 27, 2011, a stock option plan was approved. Under this plan, certain employees of the Company and a director and employees of affiliated companies were granted options to purchase common stock of 1,141,000 shares in total at an exercise price of ¥360.

Stock option activities during the year ended March 31, 2012 were as follows:

	April 24, 2008	July 27, 2011
	Share subscription rights which are not yet vested	
Outstanding as of March 31, 2011	—	—
Granted	—	1,141,000
Forfeited	—	25,000
Vested	—	—
Outstanding as of March 31, 2012	—	1,116,000
Share subscription rights which have already been vested		
Outstanding as of March 31, 2011	1,072,000	—
Forfeited	1,056,000	—
Outstanding as of March 31, 2012	16,000	—
The fair value of stocks when granted	¥115 (\$1.40)	¥81 (\$0.99)

Note 20. Related party transactions

Significant transactions with related parties for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
2011				
Terutaka Ikeda	—	¥ 14	¥ 15	¥ 1

	Millions of yen			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
2012				
Terutaka Ikeda	—	¥ 14	¥ 15	¥ 1

	Thousands of U.S. dollars			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
2012				
Terutaka Ikeda	—	\$ 169	\$ 176	\$ 14

Note 21. Subsequent events

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, was approved at a shareholders' meeting held on June 22, 2012.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Cash dividends (¥6.00 = \$0.07 per share)	¥ 432	\$ 5,257



Independent Auditor's Report

The Board of Directors
SMK Corporation

We have audited the accompanying consolidated financial statements of SMK Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, 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 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of SMK Corporation and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 22, 2012
Tokyo, Japan

(As of June 22, 2012)

Directors



Tetsuya Nakamura
Chairman and CEO

Yasumitsu Ikeda
President and COO

Yoshio Sakurai
Director,
Executive Deputy President,
Chief Information Officer

Yoshiyuki Kaku
Director,
Executive Vice President,
Chief Technology Officer

Yuji Tanahashi
Director

Auditors



Terutaka Ikeda
Auditor and Chairman of
Auditors Meeting

Hajime Yamada
Auditor

Kouichiro Sugihara
Auditor

Naru Nakashima
Auditor

Corporate Executive Officers



Paul Evans
Executive Vice President

Mikio Wakabayashi
Executive Vice President

Kohei Ohgaki
Executive Vice President,
Chief Financial Officer

Hideo Matsumoto
Vice President



Tsutomu Isoda
Vice President

Hiroshi Miyakawa
Vice President

Shigechika Yanagi
Vice President

Takemi Ishibashi
Vice President

Harutaka Seki
Vice President

Corporate Information

(As of March 31, 2012)

Corporate Data

Name	SMK Corporation
Established	January 15, 1929
Primary business	Manufacture and sale of various parts for electro-communication device and electronic equipment
Capital	¥ 7,996,828,021
Stock exchange listing	Tokyo Stock Exchange
Administrator of shareholders register	Mitsubishi UFJ Trust and Banking Corporation
Independent auditors	Ernst & Young ShinNihon LLC Tokyo, Japan
Employees (SMK-Group)	8,020
Head office	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL 81-3-3785-1111 FAX 81-3-3785-1878
Subsidiaries & affiliates	
Domestic	Subsidiaries - 5companies Affiliates - 1company
Overseas	Subsidiaries - 22companies
Website	http://www.smk.co.jp/

Please see our website for detailed IR information.

The IR Information section of SMK's website includes annual reports and presentation materials. The website also carries information about SMK's products, corporate data, CSR initiatives, and commitment to the environment.



Home page



IR Information

Shares and Shareholders

Authorized shares	195,961,274
Issued shares	79,000,000
Number of shareholders	10,951

Major Shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Nippon Life Insurance Company	3,601	5.00
Mizuho Corporate Bank, Ltd.	3,562	4.94
Dai Nippon Printing Co., Ltd.	3,200	4.44
SMK Cooperating Company Share Holding Association	2,582	3.58
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.48
Japan Trustee Services Bank, Ltd. (Trust Account)	2,096	2.91
Mitsubishi UFJ Trust and Banking Corporation	1,937	2.68
SMK Employees Share Holding Association	1,738	2.41
The Showa Ikeda Memorial Foundation	1,500	2.08
Terutaka Ikeda	1,466	2.03

Note: SMK holds 6,985 thousand shares of treasury stock, but these are excluded from the above list. Figures for percentage of shares are calculated excluding the treasury stock.

Share ownership by number

1 - 999 shares	2,151 (19.64%)
1,000 - 9,999 shares	8,056 (73.56%)
10,000 - 99,999 shares	676 (6.18%)
100,000 - 499,999 shares	52 (0.47%)
500,000 shares -	16 (0.15%)

Share ownership by shareholder type (unit : share)

Financial institutions	21,607,685 (27.35%)
Financial instruments dealers	822,014 (1.04%)
Companies and other entities	11,033,873 (13.97%)
Foreign investors	3,349,188 (4.24%)
Individuals and others	35,201,572 (44.56%)
Treasury Stock	6,985,668 (8.84%)



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