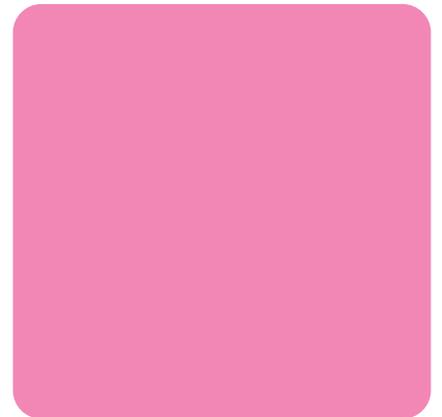


# ANNUAL REPORT

# 2015

For the fiscal year ended March 31, 2015



# 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 93rd fiscal year (from April 1, 2014, to March 31, 2015).

We look forward to your continuing support and encouragement.

June 2015

**Yasumitsu Ikeda**  
President and COO



## Overview

During the fiscal year ended March 31, 2015, the global economy achieved moderate growth led by the favorable U.S. economy. As for the Japanese economy, additional monetary easing measures promoted yen depreciation and higher stock prices, providing a foothold, including the recovery of corporate business results, for getting back on a growth path.

The SMK Group enjoyed favorable sales of its products for car electronics and set-top boxes. Products for the ecological market and the medical and welfare market also achieved steady growth, and the launch of new businesses relating to remote controls and touch panels contributed to sales expansion. However, sales of products for smartphones and ATMs fell below the previous year.

As a result, the Group achieved a slight increase in consolidated net sales from the previous year, whereas consolidated income declined year on year.

## Outlook for the Next Fiscal Year

The SMK Group will continue to seek share expansion in its core markets, including car electronics and information and communications, while focusing on new markets such as ecology, energy and Internet of Things (IoT), and promoting the creation of new businesses. We will also make continuing efforts to enhance profitability, strengthen our ability to develop products and technologies, moreover, reinforce the Group's CSR and corporate governance activities, thereby improving the corporate structure to enable sustainable growth of the Group.

## Challenge, Creativity, Solutions

The SMK Group celebrated its 90th anniversary in April 2015. The Group's core technology that has been fostered in the 90 years of history : wireless technology, connection technology such as connectors and input technology including touch panels and switches. All these technologies connect people to people, people to products, and products to products. As the advancement of the IoT society is expected in the coming years, we are determined to create new added value by connecting creatively people to people, people to products, and products to products, thereby contributing to the realization of fulfilling future society. Such a resolution is expressed in the SMK slogan "Creative Connectivity" that we have set for carrying out our business strategy. Under this slogan, all employees share the SMK vision "Challenge, Creativity, Solutions" and make all-out efforts to tackle the challenges ahead.

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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.

### SMK 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.

# Financial Highlights

Years ended and as of March 31	Millions of yen		Percent change 2014/2015	Thousands of U.S. dollars
	2014	2015		2015
<b>Operating Results</b>				
Net sales	¥ 65,796	¥ 66,230	0.7 %	\$ 551,136
Operating income	2,330	2,113	(9.3)	17,583
Net income	2,541	1,982	(22.0)	16,493

## Financial Position

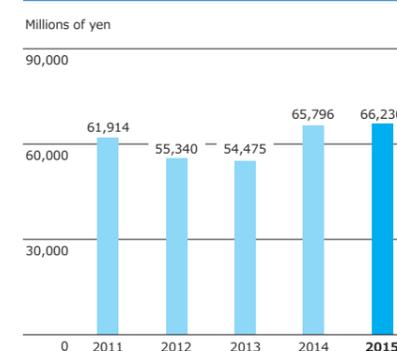
	Millions of yen	Percent change 2014/2015	Thousands of U.S. dollars
Total assets	¥ 56,235	15.6 %	\$ 541,142
Total net assets	31,476	8.6	284,489

## Per Share Data

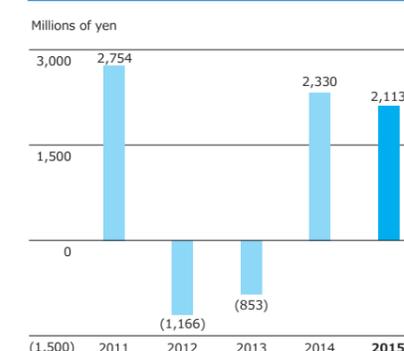
	Yen	U.S. dollars
<b>Net income</b>		
Basic	¥ 35.58	\$ 0.23
Diluted	35.52	0.23
Cash dividends	10.00	0.12

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥120.17 = U.S. \$1.00.

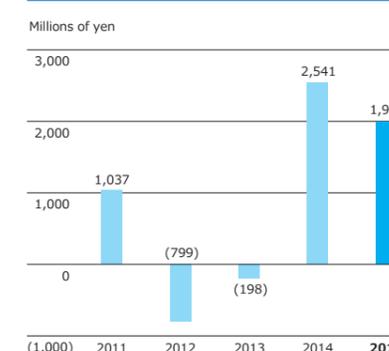
### Net sales



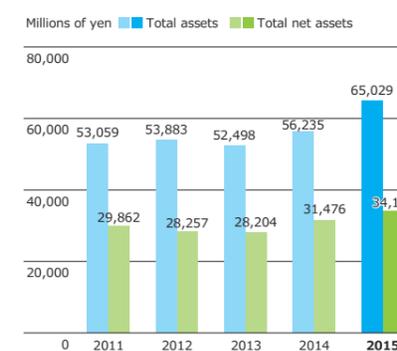
### Operating income (loss)



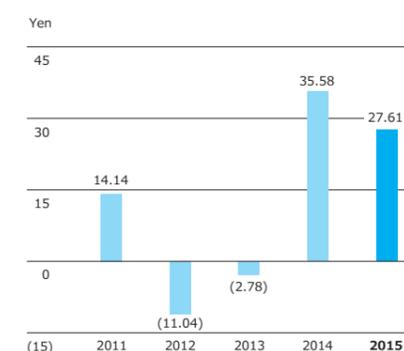
### Net income (loss)



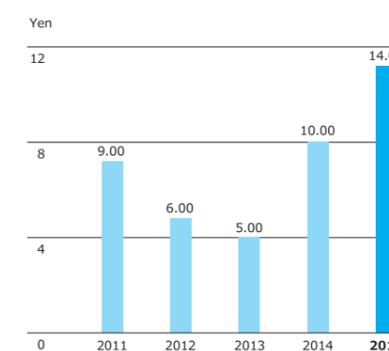
### Total assets / Total net assets



### Basic net income (loss) per share



### Cash dividends per share



# Overview of Consolidated Results by Division

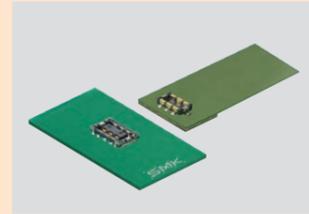
(Year ended March 31, 2015)

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 markets: Communication Market, Information Market, Home Appliance Market, Car Electronics Market and 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 continually meet market requirements in the wide range of markets outlined above. The three divisions handle operations ranging from product planning and design to mass production, whereas the Research & Development Center is primarily in charge of designing and developing products mainly in new fields.

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

## Connection System Division



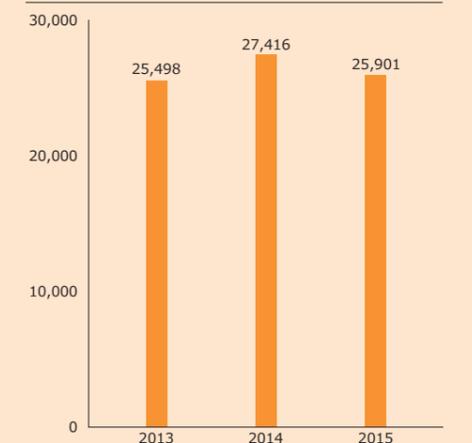
### Major Products

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

In the car electronics market, sales of connectors for rearview cameras, collision avoidance systems and other safety driving functions expanded steadily, centering on the North American market. In the ecological market, connectors for photovoltaic modules and LED lighting performed strongly. Meanwhile, in the communication market, which is our mainstay market, sales of products for smartphones expanded significantly, as customers in China area increasingly adopted our new products and promoted the employment of our products as standard components. However, it was not enough to offset a decline in sales to some customers, leading to sales below the previous year's level.

As a result, net sales of the Connection System Division amounted to ¥25,901 million, or a 5.5% decrease year on year.

### Net sales



## Functional Components Division



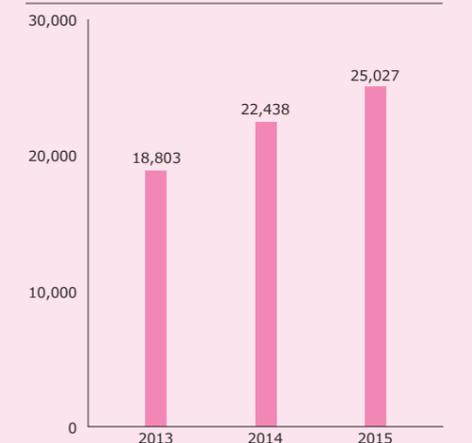
### Major Products

- Remote controls
- Switches
- Wireless devices units
- Camera modules

Sales of remote controls, our mainstay products, expanded significantly, reflecting the start of businesses with new customers, in addition to the continued favorable performance of remote controls for overseas Internet protocol set-top boxes that offer movies, music and game playing for U.S. customers. Sales also increased steadily in the housing equipment sector, including products for photovoltaic power generation monitors, sanitary equipment and air conditioners, and the medical and welfare related sector, including products for nursing-care beds. Sales of units for automotive cameras and communication modules exceeded the previous year's level.

As a result, net sales of the Functional Components Division amounted to ¥25,027 million, or an 11.5% increase year on year.

### Net sales



## Touch Panel Division



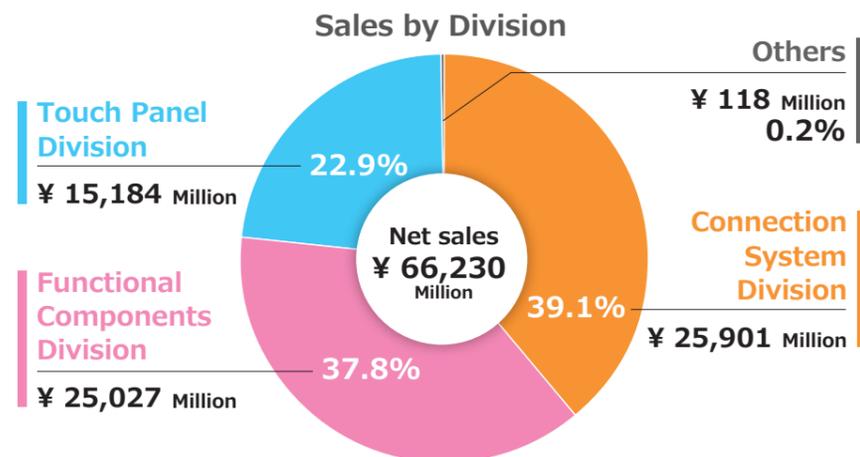
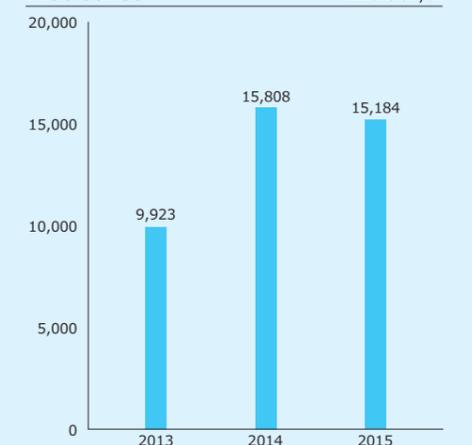
### Major Products

- Resistive touch panels
- Capacitive touch panels
- Optical touch panels

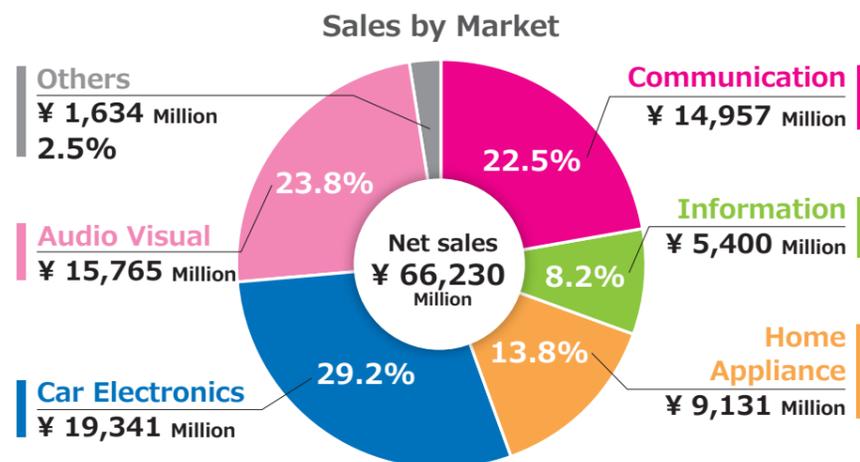
Sales of touch panels for car navigation systems and center consoles in the car electronics market, which is our mainstay market, continued to perform favorably, centering on customers in the North America and China area. However, some customers discontinued the production of models that had employed our products, which adversely affected our results, causing sales to remain unchanged from the previous year's level. We acquired new orders of touch panels for industrial machinery and medical equipment, whereas sales of touch panels for ATMs for the Chinese market declined from the previous year due to intensified price competition. In the home appliances market, for which we recently started businesses, we achieved considerable year on year sales expansion, although the amount of sales was still small.

As a result, net sales of the Touch Panel Division amounted to ¥15,184 million, or a 3.9% decrease year on year.

### Net sales



Others: businesses of other electronic parts, lease, real-estate rental, factoring and worker dispatching undertakings.



Others: markets of Medical Equipment, Rehabilitation Equipment, Industrial Robot, NC Machine, Electrical Measuring Equipment, etc.

## SMK's New Lineup

### New Product Research & Development Center "BTS01 Series" Bluetooth® Smart Module

We have developed and started taking orders for the the "BTS01 Series" Bluetooth® Smart Module, which has a built-in antenna compliant with Bluetooth® Version 4.1 (single mode low energy radio). The stand-alone modules have already acquired the Bluetooth® SIG and the Radio Act certification, and are due to acquire FCC and other overseas standards, which will help customers to cut initial costs when they release their products. We will continue to promote the development of wireless modules that meet customers' demand.



Applications:  
Healthcare devices, sports and fitness devices, smartphone accessories, PC peripherals, and various kinds of remote controls, etc.

### New Product CS Division HSD (High-Speed Data) Connectors

High-speed data (HSD) connectors are interface connectors for high-speed data transmission newly developed to meet the need for connectors that can support the increasingly high communication speeds of car devices such as car navigation systems, car audio equipment and automotive cameras.

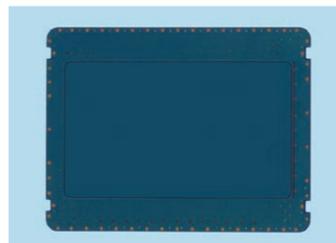
The original structure of the HSD connector, which has a shield covering the signal terminal, makes it highly noise-resistant. In the near future, European automobiles will come with standard-equipped HSD connectors, and expansion of demand is also expected in the North American market.



Applications:  
Car devices, such as car navigation systems, car audio and automotive cameras

### New Product FC Division Capacitive Multi-Touch Pad for Automobiles

Currently, there is increasing demand for the operation console of cars to provide the same level of operability as those of smartphones. The capacitive pad we developed supports two-point touch input and can be operated even with water droplets or coins on the panel due to its original algorithm. Also, this touchpad can be operated with gloves on, because we have overcome the technological challenge of increasing the touch sensitivity while containing the generation of radiation noise.



Applications:  
Remote-control devices and steering switches

### New Product TP Division "Wing Touch® 20" 20-Inch Capacitive Touch Panel

We have mainly developed and sold small and medium-sized touch panels, but we have developed the 20-inch-sized capacitive touch panel Wing Touch® 20 to meet the increasing market demand for larger touch panels. A capacitive panel has excellent operability because it requires only a soft touch to operate. We will promote the development of further larger touch panels to meet the market needs on a continuous basis.

Note:  
Wing Touch® is a trademark of SMK Corporation registered within Japan.



Applications:  
Industrial devices, medical devices, digital signage, etc.

## Feature

# 90-Year History of SMK and the Evolution of Its Products

# 90<sup>th</sup>

CREATIVE CONNECTIVITY

90th anniversary since establishment in April 2015

The SMK Group celebrated its 90th anniversary in April 2015.

The history of the SMK Group from its establishment to the present is summarized below including the transition of its products.

### Transition of SMK Products

1920s

- Low-loss tuner



1930s

- Radio receiver



The late 1940s

- Vacuum tube socket
- Fuse holder

1950s

- MT tube socket
- Cathode-ray tube socket for black-and-white television

1960s

- Cathode-ray tube socket for color television
- Slide switch

1970s

- Ultrasonic remote control



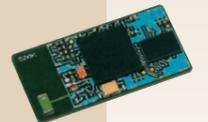
1980s

- Infrared remote control
- Keyboard



2000s

- Bluetooth® module



The early 2010s

- Connector for photovoltaic module



The late 2010s

- Wireless LAN module for IoT



Established in April 1925

1920 1930 1940 1950 1960 1970 1980 1990 2000 2010 2020

### 90-Year History of SMK

1925

Late Heishiro Ikeda established Ikeda Musen Denki Seisakusho.

1937

SMK's Olympic Model 680 dynamic 4-tube receiver was awarded a prize as an outstanding product in the First Radio Exhibition Contest sponsored by the Japan Radio Association.

1947

Started the manufacturing of mechanical parts for electronic appliances.

1963

Toyama Factory (currently Toyama Works) established.

1973

Established SMK Electronics Corporation U.S.A. in the United States.

1978

Listed on the first section of the Tokyo Stock Exchange.

1985

Company name changed to SMK Corporation, and the current Head Office building was completed. The first SMK Technical Exhibition was held.

1999

Gate City Office opened in Osaka, Tokyo.

2015

Established SMK Electronics (Europe) Limited in Ireland. Opened the second plant of SMK Electronics (Phils.) Corporation in Philippines.

"SMK TEXPO 2015" will be held on November 4-6, 2015.

# Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars
	2011	2012	2013	2014	2015	2015
<b>Operating Results</b>						
Net sales	¥ 61,914	¥ 55,340	¥ 54,475	¥ 65,796	<b>¥ 66,230</b>	<b>\$ 551,136</b>
Operating income (loss)	2,754	(1,166)	(853)	2,330	<b>2,113</b>	<b>17,583</b>
Net income (loss)	1,037	(799)	(198)	2,541	<b>1,982</b>	<b>16,493</b>
<b>Financial Position</b>						
Total assets	¥ 53,059	¥ 53,883	¥ 52,498	¥ 56,235	<b>¥ 65,029</b>	<b>\$ 541,142</b>
Total net assets	29,862	28,257	28,204	31,476	<b>34,187</b>	<b>284,489</b>
<b>Per Share Data</b>						
Total net assets	¥ 408.12	¥ 392.59	¥ 394.81	¥ 437.84	<b>¥ 475.42</b>	<b>\$ 3.96</b>
Net income (loss)						
Basic	14.14	(11.04)	(2.78)	35.58	<b>27.61</b>	<b>0.23</b>
Diluted	—	—	—	35.52	<b>27.56</b>	<b>0.23</b>
Cash dividends	9.00	6.00	5.00	10.00	<b>14.00</b>	<b>0.12</b>

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥120.17 = U.S. \$1.00.

**SMK's net sales for the fiscal year ended March 31, 2015, increased 0.7% year on year to ¥66,230 million (US\$551,136 thousand), whereas operating income of ¥2,113 million (US\$17,583 thousand) and net income of ¥1,982 million (US\$16,493 thousand) were recorded, on a consolidated basis.**

### Net Sales

Our products for the information and communication market enjoyed favorable sales owing to the rapid spread of smartphones and tablet PCs. Sales of products for the automobile market grew chiefly in overseas markets. Sales for new markets, including wearable devices, medical and healthcare, increased steadily. As a result, consolidated net sales were ¥66,230 million (US\$551,136 thousand), up 0.7% year on year.

### Operating Income

Consolidated operating income amounted to ¥2,113 million (US\$17,583 thousand), as a result of efforts to streamline the design processes and review the structure of optimally located production, as well as continued cost-cutting efforts.

### Net Income

Although there was foreign exchange gain due to yen depreciation, impairment loss and other factors led to consolidated net income of ¥1,982 million (US\$16,493 thousand).

### Total Assets / ROA

As of March 31, 2015, total assets were ¥65,029 million (US\$541,142 thousand), with ROA of 3.3%.

### Total Net Assets / ROE

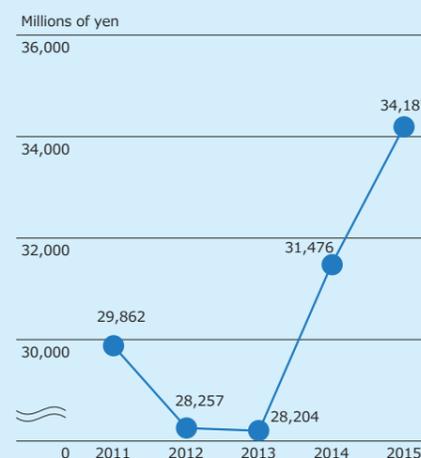
As of March 31, 2015, total net assets were ¥34,187 million (US\$284,489 thousand), with ROE of 6.0%.

### Cash Flows

Net cash provided by operating activities amounted to ¥4,820 million (US\$40,110 thousand), net cash used in investing activities totaled ¥5,938 million (US\$49,413 thousand) and net cash used in financing activities was ¥155 million (US\$1,290 thousand).

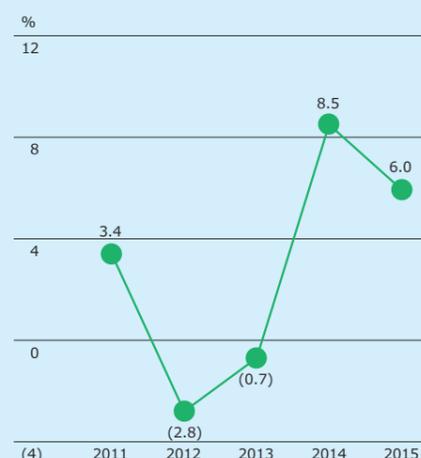
### Total net assets

(As of March 31)



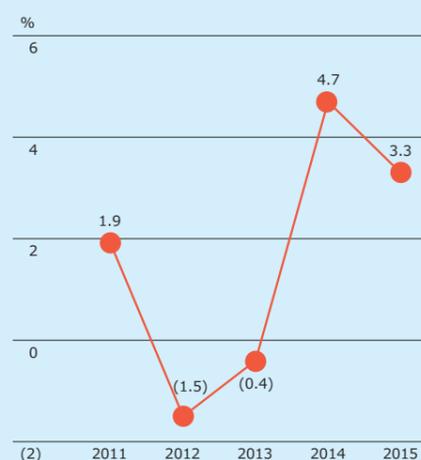
### Return on equity (ROE)

(Years ended March 31)



### Return on assets (ROA)

(Years ended March 31)



# Consolidated Balance Sheet

SMK Corporation and Consolidated Subsidiaries  
As of March 31, 2014 and 2015

Consolidated Balance Sheets

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2015	2015
<b>Current assets</b>			
Cash and cash equivalents (Note 16)	¥ 11,134	¥ 9,999	\$ 83,207
Time deposits (Note 16)	93	183	1,523
Notes and accounts receivable, trade (Note 16)	14,681	16,979	141,292
Allowance for doubtful accounts	(36)	(44)	(366)
Inventories (Note 3)	5,904	6,422	53,441
Deferred tax assets (Note 13)	743	551	4,585
Other current assets (Note 16 and 21)	2,704	3,241	26,970
	35,225	37,333	310,668
<b>Investments and long-term loans</b>			
Investment securities (Note 16 and 17)	2,656	3,104	25,830
Long-term loans receivable	126	108	899
Asset for retirement benefits (Note 6)	511	841	6,998
Other investments (Note 21)	634	654	5,442
Allowance for doubtful accounts	(110)	(108)	(899)
	3,818	4,600	38,279
<b>Property, plant and equipment</b> (Note 5, 12 and 19)			
Land (Note 4)	4,253	7,449	61,987
Buildings	17,337	20,824	173,288
Machinery and vehicles	18,276	21,158	176,067
Tooling and office furniture	21,753	23,058	191,878
Construction in progress	245	438	3,645
	61,865	72,928	606,874
Less-accumulated depreciation	(45,035)	(50,394)	(419,356)
	16,830	22,534	187,518
<b>Other assets</b>			
Deferred tax assets (Note 13)	166	242	2,014
Intangible assets (Note 12)	195	318	2,646
	362	561	4,668
<b>Total assets</b>	¥ 56,235	¥ 65,029	\$ 541,142

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2015	2015
<b>Current liabilities</b>			
Short-term loans payable (Note 5 and 16)	¥ 5,119	¥ 7,605	\$ 63,285
Notes and accounts payable, trade (Note 16)	3,732	4,542	37,796
Accrued income taxes	797	594	4,943
Accrued bonuses	1,068	1,021	8,496
Accrued directors' and officers' bonuses	70	70	583
Accounts payable, non-trade (Note 16)	5,927	5,970	49,680
Other current liabilities	1,405	1,448	12,050
	18,121	21,253	176,858
<b>Long-term liabilities</b>			
Long-term debt (Note 5 and 16)	5,447	6,641	55,263
Deferred tax liabilities (Note 13)	673	1,776	14,779
Accrued directors' and officers' retirement benefits	180	138	1,148
Liability for retirement benefits (Note 6)	36	56	466
Other long-term liabilities	299	976	8,122
	6,637	9,589	79,795
<b>Net assets</b>			
<b>Shareholders' equity</b> (Note 7)			
Common stock			
Authorized : 195,961,274 shares			
Issued and outstanding : 79,000,000 shares	7,996	7,996	66,539
Capital surplus	12,326	12,325	102,563
Retained earnings	15,981	16,537	137,613
Treasury stock	(3,433)	(3,417)	(28,435)
	32,871	33,442	278,289
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on other securities	274	608	5,059
Foreign currency translation adjustments	(2,171)	(697)	(5,800)
Retirement benefits asset and liability adjustments	462	798	6,641
	(1,434)	709	5,900
<b>Subscription rights to shares</b> (Note 8)	39	35	291
	31,476	34,187	284,489
<b>Total liabilities and net assets</b>	¥ 56,235	¥ 65,029	\$ 541,142

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2015	2015
<b>Net sales</b> (Note 20)	¥ 65,796	¥ 66,230	\$ 551,136
<b>Cost of sales</b> (Note 3 and 9)	54,388	54,728	455,421
<b>Selling, general and administrative expenses</b> (Note 9 and 10)	9,077	9,388	78,123
<b>Operating income</b> (Note 20)	2,330	2,113	17,583
<b>Other income</b>			
Interest and dividend income	89	106	882
Rent income	742	953	7,930
Foreign exchange gain, net	1,420	2,199	18,299
Gain on sales of fixed assets (Note 11)	44	101	840
Gain on sales of investment securities (Note 17)	224	90	749
Other	199	292	2,430
Total other income	2,720	3,744	31,156
<b>Other expenses</b>			
Interest expense	106	124	1,032
Rent expense	266	460	3,828
Loss on disposal of fixed assets (Note 11)	280	82	682
Loss on impairment of fixed assets (Note 12)	613	1,361	11,326
Other	190	170	1,415
Total other expenses	1,456	2,199	18,299
<b>Income before income taxes and minority interests</b>	3,594	3,658	30,440
<b>Income taxes</b> (Note 13)			
Current	1,041	1,098	9,137
Deferred	12	578	4,810
<b>Income before minority interests</b>	2,541	1,982	16,493
<b>Net income</b>	¥ 2,541	¥ 1,982	\$ 16,493

	Yen		U.S. dollars (Note 2)
	2014	2015	2015
<b>Per share data</b> (Note 15)			
Total net assets	¥ 437.84	¥ 475.42	\$ 3.96
Net income			
Basic	35.58	27.61	0.23
Diluted	35.52	27.56	0.23
Cash dividends	10.00	14.00	0.12

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2015	2015
<b>Income before minority interests</b>	¥ 2,541	¥ 1,982	\$ 16,493
<b>Other comprehensive income</b> (Note 14)			
Net unrealized gains (losses) on other securities	204	334	2,779
Foreign currency translation adjustments	570	1,473	12,258
Retirement benefits asset and liability adjustments	—	335	2,788
Total other comprehensive income	775	2,143	17,833
<b>Comprehensive income</b>	¥ 3,316	¥ 4,125	\$ 34,326
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company	¥ 3,316	¥ 4,125	\$ 34,326

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2015

	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	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
<b>Balance at April 1, 2013</b>	79,000,000	¥7,996	¥12,345	¥14,154	¥(3,698)	¥30,798	¥ 69	¥(2,742)	¥ —	¥(2,672)	¥ 78	¥28,204
Cash dividends paid				(714)		(714)						(714)
Net income				2,541		2,541						2,541
Acquisition of treasury stock					(21)	(21)						(21)
Disposition of treasury stock					285	267						267
Net changes in items other than shareholders' equity							204	570	462	1,238	(38)	1,199
Total changes	—	—	(18)	1,827	264	2,073	204	570	462	1,238	(38)	3,272
<b>Balance at March 31, 2014</b>	79,000,000	7,996	12,326	15,981	(3,433)	32,871	274	(2,171)	462	(1,434)	39	31,476
<b>Balance at April 1, 2014</b>	79,000,000	7,996	12,326	15,981	(3,433)	32,871	274	(2,171)	462	(1,434)	39	31,476
<b>Cumulative effect of change in accounting principle</b>				(696)		(696)						(696)
<b>Restated balance at April 1, 2014</b>		7,996	12,326	15,285	(3,433)	32,175	274	(2,171)	462	(1,434)	39	30,780
Cash dividends paid				(719)		(719)						(719)
Change in the scope of consolidation				(10)		(10)						(10)
Net income				1,982		1,982						1,982
Acquisition of treasury stock					(7)	(7)						(7)
Disposition of treasury stock					23	22						22
Net changes in items other than shareholders' equity							334	1,473	335	2,143	(4)	2,139
Total changes	—	—	(1)	1,252	16	1,267	334	1,473	335	2,143	(4)	3,406
<b>Balance at March 31, 2015</b>	79,000,000	¥7,996	¥12,325	¥16,537	¥(3,417)	¥33,442	¥608	¥ (697)	¥ 798	¥ 709	¥ 35	¥34,187

	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	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets	
<b>Balance at April 1, 2014</b>	\$66,539	\$102,571	\$132,987	\$(28,568)	\$273,537	\$2,280	\$(18,066)	\$3,845	\$(11,933)	\$325	\$261,929	
<b>Cumulative effect of change in accounting principle</b>			(5,792)		(5,792)						(5,792)	
<b>Restated balance at April 1, 2014</b>	66,539	102,571	127,195	(28,568)	267,746	2,280	(18,066)	3,845	(11,933)	325	256,137	
Cash dividends paid			(5,983)		(5,983)						(5,983)	
Change in the scope of consolidation			(83)		(83)						(83)	
Net income			16,493		16,493						16,493	
Acquisition of treasury stock				(58)	(58)						(58)	
Disposition of treasury stock				191	183						183	
Net changes in items other than shareholders' equity						—	2,779	12,258	2,788	17,833	(33)	17,800
Total changes	—	(8)	10,419	133	10,543	2,779	12,258	2,788	17,833	(33)	28,343	
<b>Balance at March 31, 2015</b>	\$66,539	\$102,563	\$137,613	\$(28,435)	\$278,289	\$5,059	\$(5,800)	\$6,641	\$ 5,900	\$291	\$284,489	

# Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2015	2015
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥ 3,594	¥ 3,658	\$ 30,440
Depreciation and amortization	3,377	3,669	30,532
Loss on impairment of fixed assets	613	1,361	11,326
Amortization of goodwill	61	—	—
Increase (decrease) in accrued bonuses	590	(55)	(458)
Increase (decrease) in accrued directors' and officers' retirement benefits	37	(42)	(350)
Increase (decrease) in accrued employees' retirement benefits	(162)	—	—
Increase (decrease) in liability for retirement benefits	247	(537)	(4,469)
Interest and dividend income	(89)	(106)	(882)
Interest expense	106	124	1,032
Loss on disposal of fixed assets	280	82	682
(Increase) decrease in notes and accounts receivable, trade	1,239	258	2,147
(Increase) decrease in inventories	(50)	163	1,356
Increase (decrease) in notes and accounts payable, trade	(1,072)	(1,952)	(16,244)
Increase (decrease) in accounts payable, non-trade	(847)	(56)	(466)
Other	421	(589)	(4,901)
Subtotal	8,347	5,978	49,746
Interest and dividends received	101	128	1,065
Interest paid	(108)	(127)	(1,057)
Income taxes paid	(655)	(1,151)	(9,578)
Other	(40)	(7)	(58)
<b>Net cash provided by (used in) operating activities</b>	<b>7,645</b>	<b>4,820</b>	<b>40,110</b>
<b>Cash flows from investing activities</b>			
Payments into time deposits	(81)	(163)	(1,356)
Proceeds from time deposits	78	158	1,315
Purchases of fixed assets	(3,797)	(4,086)	(34,002)
Proceeds from sales of fixed assets	200	184	1,531
Purchases of intangible fixed assets	(91)	(187)	(1,556)
Purchases of investment securities	(490)	—	—
Proceeds from sales of investment securities	745	125	1,040
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	—	(1,991)	(16,568)
Payments for execution of loans	(135)	(46)	(383)
Collection of loans receivable	165	70	583
Other	(14)	(4)	(33)
<b>Net cash provided by (used in) investing activities</b>	<b>(3,420)</b>	<b>(5,938)</b>	<b>(49,413)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	(600)	909	7,564
Proceeds from long-term debt	1,790	3,200	26,629
Payments of long-term debt	(2,200)	(3,487)	(29,017)
Purchases of treasury stock	(19)	(6)	(50)
Proceeds from sales of treasury stock	218	13	108
Dividends paid	(709)	(716)	(5,958)
Other	—	(68)	(566)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,521)</b>	<b>(155)</b>	<b>(1,290)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(199)</b>	<b>125</b>	<b>1,040</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,503</b>	<b>(1,148)</b>	<b>(9,553)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>8,630</b>	<b>11,134</b>	<b>92,652</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiaries</b>	<b>—</b>	<b>14</b>	<b>117</b>
<b>Cash and cash equivalents at end of the year</b>	<b>¥ 11,134</b>	<b>¥ 9,999</b>	<b>\$ 83,207</b>

# 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 the 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 Act 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: 30

From the year ended March 31, 2015, SMK Career Service Co., Ltd. and SMK Eletronica Brasil Ltda were newly included in the scope of consolidation due to increases in materiality.

The Company acquired shares of KOSCO Co., Ltd. in October 2014 and established SMK Electronics (Europe) Ltd. in March 2015, which were newly included in the scope of consolidation.

### (d) Application of equity method of accounting

Number of affiliated companies accounted for by the equity method: 1

### (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. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

### (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

Inventories are mainly stated at the lower of cost or market. 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

Consolidated subsidiaries adopt mainly the moving average method.

### (h) Securities

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

- ( i ) Derivatives  
Derivatives are stated at fair value.
- ( j ) Property, plant and equipment and depreciation  
Property, plant and equipment are 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. Certain buildings of the Company and its domestic subsidiaries acquired on or after April 1, 1998 are depreciated by the straight-line method.  
The estimated useful lives of the assets are as follows:  
Buildings: 10 to 50 years  
Machinery and vehicles: 4 to 10 years  
Tooling and office furniture: 2 to 6 years  
The residual values of the property, plant and equipment acquired on or before March 31, 2007 are depreciated equally over a period of 5 years starting from the year following the year in which they have been depreciated up to their depreciable limit or 5% of the acquisition cost.
- ( 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 mainly 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 bonuses 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' and officers' bonuses  
Accrued directors' and officers' bonuses are provided on the estimate of the amounts to be paid subsequent to the balance sheet date.
- ( p ) 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.
- ( q ) Retirement benefits  
Asset for retirement benefits and liability for retirement benefits for employees are recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date.  
The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of employees.
- ( 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 statement of income represent the dividends applicable to the respective period.
- ( u ) Consumption taxes  
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Nondeductible consumption taxes are expensed in the consolidated financial statements.
- ( v ) Standards issued but not yet effective  
Accounting standards for business combinations  
On September 13, 2013, the Accounting Standards Board of Japan (ASBJ) issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10), and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).  
(1) Overview  
Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and accounting treatment for adjustments to provisional amounts during measurement period was also changed.  
(2) Scheduled date of adoption  
The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.  
(3) Impact of adopting revised accounting standards and guidance  
The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.  
Revised Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements  
On March 26, 2015, the ASBJ issued the "Revised Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18).  
(1) Overview  
This revision was made to reflect the change in the accounting treatment of goodwill under U.S. GAAP in January 2014 and the revision of the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22) in September 2013, as well as to clarify the method of amortization of actuarial gain or loss in accounting for retirement benefits.  
(2) Scheduled date of adoption  
The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.  
(3) Impact of adopting revised accounting standards and guidance  
The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.
- ( w ) Change in method of accounting  
The Company adopted Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use a single weighted-average discount rate reflecting the expected timing and amount of benefit payments. The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits. As a result, the liability for retirement benefits increased by ¥184 million (\$1,531 thousand), the asset for retirement benefits decreased by ¥511 million (\$4,252 thousand), and retained earnings decreased by ¥696 (\$5,792 thousand) at April 1, 2014. Also, net assets per share at March 31, 2015 decreased by ¥9.69 (\$0.08).

## 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 = ¥120.17, the approximate rate of exchange at March 31, 2015. 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, 2014 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Finished products	¥ 3,188	¥ 3,161	\$ 26,304
Work in process	725	955	7,947
Raw materials and supplies	1,990	2,306	19,189
Total	¥ 5,904	¥ 6,422	\$ 53,441

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cost of sales	¥ 227	¥ 193	\$ 1,606

## Note 4. Reduction entries

Reduction entries due to acceptance of prefectural government's grants relating to property, plant and equipment as of March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Land	¥ 101	¥ 101	\$ 840

## Note 5. Short-term loans payable and long-term debt

Short-term loans payable and long-term debt as of March 31, 2014 and 2015 consisted of the following:

Short-term loans payable	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Average interest rates on short-term loans payable, principally from banks, is 0.55%			
Secured	¥ 1,117	¥ 2,300	\$ 19,140
Unsecured	3,311	3,300	27,461
Total	¥ 4,429	¥ 5,600	\$ 46,601
Long-term debt	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Average interest rates on long-term debt, principally from banks, is 1.07%			
Secured	¥ 3,931	¥ 3,423	\$ 28,485
Unsecured	2,206	5,224	43,472
Less: portion due within one year	(690)	(2,005)	(16,685)
Total	¥ 5,447	¥ 6,641	\$ 55,263

The assets pledged as collateral for short-term and long-term debt as of March 31, 2014 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
(1) Factory foundation			
Buildings	¥ 1,303	¥ 1,220	\$ 10,152
Machinery and vehicles	209	296	2,463
Tooling and office furniture	75	80	666
Land	256	256	2,130
Total	¥ 1,845	¥ 1,854	\$ 15,428
(2) Other			
Buildings	¥ 482	¥ 463	\$ 3,853
Land	563	563	4,685
Total	¥ 1,047	¥ 1,027	\$ 8,546

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2015 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 2,005	\$ 16,685
2017	1,982	16,493
2018	1,772	14,746
2019	2,246	18,690
2020 and thereafter	640	5,326
Total	¥ 8,647	\$ 71,956

## Note 6. Retirement benefits plans

The Company and certain of its domestic consolidated subsidiaries have either funded or unfunded defined benefit pension plans and defined contribution benefit pension plans.

The Company has funded corporate pension fund plans and defined contribution pension plans. As a defined benefit pension plan, the Company has adopted a cash balance plan. Under the cash balance plan, the plan sponsor contributes money into a plan participant's account based on the points according to the employee's years of service and job performance and the points are calculated with an interest credit that reflects changes in market interest rates.

Certain subsidiaries have unfunded lump-sum payment plans and defined contribution pension plans. The simplified method is applied for the calculation of liability for retirement benefits and retirement benefit expense of certain domestic subsidiaries.

The changes in the retirement benefit obligation during the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥ 7,623	¥ 7,485	\$ 62,287
Cumulative effect of change in accounting principle	—	696	5,792
Restated balance at the beginning of the year	7,623	8,181	68,079
Service cost	326	342	2,846
Interest cost	152	50	416
Actuarial gain and loss	(152)	36	300
Retirement benefit paid	(464)	(433)	(3,603)
Other	0	6	50
Balance at the end of the year	¥ 7,485	¥ 8,184	\$ 68,104

The changes in plan assets during the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥ 7,274	¥ 7,960	\$ 66,239
Expected return on plan assets	196	214	1,781
Actuarial gain and loss	413	700	5,825
Contributions by the Company	536	522	4,344
Retirement benefits paid	(460)	(429)	(3,570)
Balance at the end of the year	¥ 7,960	¥ 8,968	\$ 74,628

The funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligation	¥ 7,448	¥ 8,127	\$ 67,629
Plan assets at fair value	(7,960)	(8,968)	(74,628)
	(511)	(841)	(6,998)
Unfunded retirement benefit obligation	36	56	466
Net liability for retirement benefits in the balance sheet	(474)	(784)	(6,524)
Liability for retirement benefits	36	56	466
Asset for retirement benefits	(511)	(841)	(6,998)
Net liability for retirement benefits in the balance sheet	¥ (474)	¥ (784)	\$ (6,524)

The components of retirement benefit expense for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥ 326	¥ 342	\$ 2,846
Interest cost	152	50	416
Expected return on plan assets	(196)	(214)	(1,781)
Amortization of actuarial gain and loss	345	(198)	(1,648)
Retirement benefit expense	¥ 627	¥ (20)	\$ (166)

The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gain and loss	¥ —	¥ 463	\$ 3,853

The components of retirement benefits asset and liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrecognized actuarial gain and loss	¥ 743	¥ 1,187	\$ 9,878

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 and 2015 were as follows:

	2014	2015
Bonds	4.0%	4.2%
Stocks	35.2	41.2
Life insurances	42.1	39.0
Funds	14.6	13.4
Other	4.1	2.2
Total	100.0%	100.0%

- The total plan assets include retirement benefit trusts which constitute 12.4% for the year ended March 31, 2014 and 13.4% for the year ended March 31, 2015.
- The expected rates of return on plan assets has been estimated based on the anticipated allocation of plan assets to each asset category and the expected long-term returns on plan assets held in each category.

The required contributions to the defined contribution plans by the Company and its consolidated subsidiaries for the year ended March 31, 2014 and 2015 amounted to ¥78 million and ¥81 million (\$674 thousand), respectively.

Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets as of March 31, 2014 and 2015 were as follows:

	2014	2015
Discount rate	2.0%	0.6%
Re-evaluation rate	1.71%	1.55%
Expected rates of return on plan assets	3.0%	3.0%

## Note 7. Net asset

Information regarding changes in net assets for the years ended March 31, 2014 and 2015 were as follows:

### 1. Shares issued and outstanding / Treasury stock

Types of shares	2014			Number of shares at March 31, 2014	2015			Number of shares at March 31, 2015
	Number of shares at April 1, 2013	Increase	Decrease		Number of shares at April 1, 2014	Increase	Decrease	
Shares issued:								
Common stock	79,000,000	—	—	79,000,000	79,000,000	—	—	79,000,000
Treasury stock:								
Common stock	7,760,765	44,680	606,626	7,198,819	7,198,819	16,323	50,950	7,164,192

#### 1. Details of the increase are as follows:

	2014	2015
Increase due to purchase of shares of less than standard unit	18,182	13,027
Increase due to purchase of shares of untraceable shareholders	22,587	—
Increase in shares held by affiliates accounted for by the equity method	3,911	3,296

#### 2. Details of the decrease are as follows:

	2014	2015
Decrease due to exercising stock options	606,000	50,000
Decrease due to sales of shares of less than standard unit	626	950

### 2. Share subscription rights

Company	Description	Millions of yen		Thousands of U.S. dollars
		2014	2015	2015
Parent company	Share subscription rights as stock options granted during the year ended March 31, 2011	39	35	291
Total		39	35	291

### 3. Dividends

#### (1) Dividends paid

2014					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 21, 2013	Common stock	356	5	March 31, 2013	June 24, 2013
Board of Directors' meeting on October 24, 2013	Common stock	357	5	September 30, 2013	November 20, 2013

2015						2015	
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)
Shareholders' meeting on June 24, 2014	Common stock	359	5	March 31, 2014	June 25, 2014	2,987	0.04
Board of Directors' meeting on October 23, 2014	Common stock	359	5	September 30, 2014	November 19, 2014	2,987	0.04

(2) Dividends with the cut-off date in the year ended March 31, 2014 and the effective date in the year ending March 31, 2015

2014						
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 24, 2014	Common stock	Retained earnings	359	5	March 31, 2014	June 25, 2014

Dividends with the cut-off date in the year ended March 31, 2015 and the effective date in the year ending March 31, 2016

2015							2015	
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)
Shareholders' meeting on June 23, 2015	Common stock	Retained earnings	647	9	March 31, 2015	June 24, 2015	5,384	0.07

## Note 8. Stock options

### 1. The account and the amount of stock options charged as expenses

	2014	2015
Cost of sales	9	—
Selling, general and administrative expenses	6	—

### 2. The amount of stock options charged as income due to their forfeiture resulting from nonuse

	2014	2015
Gain on reversal of share subscription rights	5	—

### 3. Description of stock options

Category and number of grantees	269 employees of the Company, and a director and 35 employees of its subsidiaries
Number of stock options	1,141,000 common shares
Grant date	August 11, 2011
Exercise condition	Subscription holders shall remain employees, directors or auditors of the Company or its subsidiaries at the time of exercise
Vesting period	From August 11, 2011 to August 11, 2013
Exercise period	From August 12, 2013 to August 11, 2016

### 4. Change in stock options

Stock option activity during the year ended March 31, 2015 was as follows:

Share subscription rights which are not yet vested		
Outstanding as of March 31, 2014		—
Granted		—
Forfeited		—
Vested		—
Outstanding as of March 31, 2015		—
Share subscription rights which have already been vested		
Outstanding as of March 31, 2014		491,000
Vested		—
Exercised		50,000
Forfeited		—
Outstanding as of March 31, 2015		441,000
Exercise price		¥ 360 (\$3.00)
The fair value of stock options when granted		¥ 80.5 (\$0.67)

### 5. Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of unexercised stock options in the future, the actual number of unexercised stock options is presented.

## Note 9. 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, 2014 and 2015 amounted to ¥3,302 million and ¥3,472 million (\$ 28,892 thousand), respectively.

## Note 10. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Salaries and wages of employees	¥ 3,928	¥ 4,286	\$ 35,666
Provision for bonus	445	444	3,695
Provision for directors' and officers' bonus	70	70	583
Retirement benefit cost	242	47	391
Provision for directors' and officers' retirement benefits	37	50	416

## Note 11. Gains and losses of fixed assets

The components of gains and losses of fixed assets for the year ended March 31, 2014 and 2015 were as follows:

Gain on sales of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Buildings	¥ —	¥ 28	\$ 233
Machinery and vehicles	12	17	141
Tooling and office furniture	21	23	191
Land	1	28	233
Intangible asset	8	2	17
Total	¥ 44	¥ 101	\$ 840

Loss on disposal of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Buildings	¥ 31	¥ 6	\$ 50
Machinery and vehicles	234	66	549
Tooling and office furniture	13	8	67
Intangible asset	0	0	0
Total	¥ 280	¥ 82	\$ 682

## Note 12. Loss on impairment of fixed assets

An impairment loss is recognized when the carrying amount of an asset exceeds undiscounted future net cash flows which are expected to be generated by such asset. The impairment loss is measured by the amount by which the carrying amount of the asset exceeds its recoverable amount being the higher of the discounted future net cash flows or net realizable value.

For the year ended March 31, 2014 and 2015 impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen						
			2014						
			Land	Buildings	Machinery and vehicles	Tooling and office furniture	Software	Goodwill	Total
Toyama works	Japan	Unutilized assets	¥ 123	¥ 19	¥ —	¥ —	¥ —	¥ —	¥ 142
Functional components	Japan	Remote controls/Switch/Unit production facilities	—	—	8	8	2	—	19
SMK Electronics (Dongguan) Co., Ltd.	China	Connector, Remote controls/Switch/Unit, Touch panel production facilities	—	—	256	81	—	—	337
SMK-Link Electronics Corporation	U.S.A.	Other	—	—	—	—	—	113	113
Total			¥ 123	¥ 19	¥ 264	¥ 89	¥ 2	¥ 113	¥ 613

The Company's assets for business operations are categorized into groups on a division-by-division basis and the Company's rental property on an individual basis, whereas consolidated subsidiaries' assets for business operations are categorized into groups on a subsidiary-by-subsidary basis. Of the above asset groups, Toyama Works was recognized as an idle asset for the fiscal year under review, and since it has no plan for future utilization, its book value was reduced to the recoverable amount. For the other asset groups, as net sales and income were on a declining trend due to intense price competition in the market, we estimated future cash flows from these asset groups after reviewing the business plans. As a result, it was found that they could not produce enough earnings to recover the value of the respective asset groups, therefore their book value was reduced to the recoverable amounts.

The recoverable amount of idle assets was measured by the net realizable value. For the recoverable amount of the asset groups of the Functional Components Division and SMK-Link Electronics Corporation, the book value was entirely recognized as impairment loss because no future cash flows are expected. The recoverable amount of the asset group of SMK Electronics (Dongguan) Co., Ltd. was measured by value in use, which was calculated by discounting future cash flows at 6.4%.

Asset group	Location	Use	Millions of yen						
			2015						
			Land	Buildings	Machinery and vehicles	Tooling and office furniture	Software	Goodwill	Total
Connection System	Japan	Connectors/Jack production facilities	—	9	358	76	—	—	444
Functional components	Japan	Remote controls/Switch/Unit production facilities	—	—	37	51	10	—	98
KOSCO Tatebayashi and others	Japan	Buildings	—	818	—	—	—	—	818
Total			¥ —	¥ 827	¥ 396	¥ 127	¥ 10	¥ —	¥ 1,361

Asset group	Location	Use	Thousands of U.S. dollars						
			2015						
			Land	Buildings	Machinery and vehicles	Tooling and office furniture	Software	Goodwill	Total
Connection System	Japan	Connectors/Jack production facilities	—	75	2,979	632	—	—	3,695
Functional components	Japan	Remote controls/Switch/Unit production facilities	—	—	308	424	83	—	816
KOSCO Tatebayashi and others	Japan	Buildings	—	6,807	—	—	—	—	6,807
Total			\$ —	\$ 6,882	\$ 3,287	\$ 1,057	\$ 83	—	\$ 11,326

The Company's assets for business operations are categorized into groups on a division-by-division basis and the Company's rental property on an individual basis, whereas consolidated subsidiaries' assets for business operations are categorized into groups on a subsidiary-by-subsidary basis and their rental property on an individual basis. Of the above asset groups, because the Connection System Division and the Functional Components Division suffered declining trend in net sales and income due to intense price competition in the market, future cash flows from their asset groups were estimated after reviewing their business plans. As a result, it was found that they could not generate sufficient earnings to recover the value of the respective asset groups, therefore their book value was reduced to the recoverable amounts. For KOSCO Tatebayashi and others, the fair value thereof declined below the book value, which was therefore reduced to the recoverable amount.

The recoverable amount of the asset group of the Connection System Division was measured at value in use, which was calculated by discounting future cash flows at 6.6%. The recoverable amount of the asset group of the Functional Components Division was measured at value in use, and since no future cash flows are expected, the book value thereof in the second quarter of the fiscal year ended March 31, 2015 was entirely recognized as impairment loss. The recoverable amount of the assets of KOSCO Tatebayashi and others were measured at net realizable value, which was calculated based on valuations by external independent real estate appraisers.

## Note 13. 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 37.9% and 35.5% for the years ended March 31, 2014 and 2015, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2014 and 2015 was as follows:

	2014	2015
Statutory tax rate	37.9%	35.5%
Items such as entertainment expenses permanently non-deductible for tax purposes	1.2	0.9
Items such as dividend income permanently non-taxable	(13.9)	(20.4)
Change in valuation allowance	4.0	13.4
Tax credit for R&D expenses	(3.6)	(1.4)
Foreign withholding taxes	1.5	2.9
Inhabitant tax on per capita basis	0.6	0.6
Statutory tax rate differences in subsidiaries	(22.5)	(20.0)
Elimination of dividend income	14.0	20.1
Accumulated surplus of subsidiaries	6.6	5.8
Decrease of tax assets at fiscal year-end by the change of tax rate	1.2	1.5
Income taxes current for prior years	—	6.0
Other	2.3	0.9
Effective tax rate	29.3%	45.8%

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Deferred tax assets:</b>			
Inventory write-down disallowed	¥ 51	¥ 28	\$ 233
Accrued bonuses disallowed	358	310	2,580
Intercompany profit on inventory	81	79	657
Liability for retirement benefits	411	—	—
Allowance for doubtful accounts	42	38	316
Impairment loss	284	569	4,735
Operating loss carryforwards for tax purposes	559	539	4,485
Other	655	681	5,667
Valuation allowance	(1,487)	(1,425)	(11,858)
Deferred tax assets	956	820	\$ 6,824
<b>Deferred tax liabilities:</b>			
Asset for retirement benefits	—	(216)	(1,797)
Deferred gain on land	(94)	(86)	(716)
Advanced depreciation on buildings	(74)	(62)	(516)
Reserve for special depreciation	(0)	(31)	(258)
Net unrealized gains on other securities	(136)	(261)	(2,172)
Accumulated surplus of foreign subsidiaries	(406)	(620)	(5,159)
Valuation difference on subsidiaries	—	(369)	(3,071)
Other	(24)	(166)	(1,381)
Deferred tax liabilities	(737)	(1,815)	(15,104)
Net deferred tax assets	¥ 219	¥ (994)	\$ (8,272)

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 35.5% to 32.9% and 32.2% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and for the temporary differences expected to be realized or settled from April 1, 2016, respectively.

#### Note 14. Other comprehensive income

The following table present reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Net unrealized gains (losses) on other securities:</b>			
Amount arising during the year	¥ 528	¥ 563	\$ 4,685
Reclassification adjustments for gains and losses included in net income	(224)	(90)	(749)
Amount before tax effect	304	472	3,936
Tax effect	(99)	(138)	(1,148)
Net unrealized gains (losses) on other securities	204	334	2,779
<b>Foreign currency translation adjustments:</b>			
Amount arising during the year	570	1,473	12,258
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	570	1,473	12,258
Tax effect	—	—	—
Foreign currency translation adjustments	570	1,473	12,258
<b>Retirement benefits asset and liability adjustments:</b>			
Amount arising during the year	—	662	5,509
Reclassification adjustments for gains and losses included in net income	—	(198)	(1,648)
Amount before tax effect	—	463	3,853
Tax effect	—	(128)	(1,065)
Retirement benefits asset and liability adjustments	—	335	2,788
Total other comprehensive income	¥ 775	¥ 2,143	\$ 17,833

#### Note 15. Amounts per share

1. Net income per share of common stock is based on the following information

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Basic net income per share:</b>			
Net income	¥ 2,541	¥ 1,982	\$ 16,493
Net income not attributable to common stockholders	—	—	—
Net income attributable to common stock	2,541	1,982	16,493

	Thousands of shares	
	2014	2015
Average number of shares of common stock outstanding during the year	71,442	71,807

2. Diluted net income per share of common stock is based on the following information

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Diluted net income per share:</b>			
Adjustments	¥ —	¥ —	\$ —

	Number of shares	
	2014	2015
Increase in number of shares of common stock (share subscription rights)	115,099	106,546
Description of dilutive securities which were not included in the calculation of diluted net income per share of common stock as they have no dilutive effects	(115,009)	(106,546)

Number of share subscription rights as stock options granted during the year ended March 31, 2009 : 16

#### 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, 2014 and 2015 was summarized as follows:

	2014			2015			2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥ 11,134	¥ 11,134	—	¥ 9,999	¥ 9,999	—	\$ 83,207	\$ 83,207	\$ —
Time deposits	93	93	—	183	183	—	1,523	1,523	—
Notes and accounts receivable, trade	14,681	14,681	—	16,979	16,979	—	141,292	141,292	—
Investment securities	2,436	2,436	—	2,874	2,874	—	23,916	23,916	—
Notes and accounts payable, trade	3,732	3,732	—	4,542	4,542	—	37,796	37,796	—
Short-term loans payable	4,429	4,429	—	5,600	5,600	—	46,601	46,601	—
Accounts payable, non-trade	5,927	5,927	—	5,970	5,970	—	49,680	49,680	—
Long-term debt	6,137	6,104	(32)	8,647	8,581	(66)	71,956	71,407	(549)
Derivatives	(1)	(1)	—	(11)	(11)	—	(92)	(92)	—

Investment securities include 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 18 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
	2014	2015	2015
Unlisted securities	¥ 219	¥ 230	\$ 1,914

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		
	2014			2015			2015		
	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	¥ 11,125	¥ —	¥ —	¥ 9,987	¥ —	¥ —	\$ 83,107	\$ —	\$ —
Notes and accounts receivable, trade	14,681	—	—	16,979	—	—	141,292	—	—
Investment securities (other)	—	53	—	—	61	—	—	508	—
Total	¥ 25,806	¥ 53	¥ —	¥ 26,966	¥ 61	¥ —	\$ 224,399	\$ 508	\$ —

Note 17. Securities

Information regarding securities classified as other securities at March 31, 2014 and 2015 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2014			2015			2015		
	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)
Securities whose fair value exceeds their cost									
Stocks	¥ 1,984	¥ 1,503	¥ 480	¥ 2,407	¥ 1,472	¥ 935	\$ 20,030	\$ 12,249	\$ 7,781
Others	53	21	31	61	21	39	508	175	333
Subtotal	2,037	1,525	511	2,469	1,494	974	20,546	12,432	8,114
Securities whose cost exceeds their fair value									
Stocks	398	500	(101)	404	527	(123)	3,362	4,385	(1,023)
Subtotal	398	500	(101)	404	527	(123)	3,362	4,385	(1,023)
Total	¥ 2,436	¥ 2,025	¥ 410	¥ 2,874	¥ 2,022	¥ 851	\$ 23,916	\$ 16,826	\$ 7,082

Unlisted stocks of ¥31 million at March 31, 2014 and ¥30 million (\$250 thousand) at March 31, 2015 are not included in the above table because there were no quoted market prices available and the fair value is extremely difficult to determine.

Investment securities in unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Investment securities	¥ 188	¥ 200	\$ 1,664

Information regarding sales of securities for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Proceeds from sales of securities	¥ 289	¥ 125	\$ 1,040
Stocks	289	125	1,040
Others	—	—	—
Gains on sales	224	90	749
Stocks	224	90	749
Others	—	—	—

Note 18. 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 hedge the risks from interest rate fluctuations on borrowings. The exceptional 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)
Forward foreign exchange contracts:	2014	2015	2014	2015	2014	2015	2015	2015	2015
Sell:									
US\$	¥ 371	¥ 769	¥ (1)	¥ (11)	¥ (1)	¥ (11)	\$ 6,399	\$ (92)	\$ (92)
MXN	5	—	(0)	—	(0)	—	—	—	—
Total	¥ 376	¥ 769	¥ (1)	¥ (11)	¥ (1)	¥ (11)	\$ 6,399	\$ (92)	\$ (92)

(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
	2014	2015	2014	2015	2015	2015
Interest rate swaps	¥ 3,606	¥ 6,430	¥ 3,230	¥ 4,714	\$ 53,508	\$ 39,228

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 19. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2014 and 2015 amounted to ¥476 million and ¥492 million (\$4,094 thousand), respectively.

Information on the fair value of investment and rental property at March 31, 2014 and 2015 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2014			2015			2015		
	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
	¥ 4,057	¥ 3,873	¥ 10,053	¥ 3,873	¥ 9,019	¥ 15,116	\$ 32,229	\$ 75,052	\$ 125,788

- The fair value represents the acquisition cost less accumulated depreciation.
- The fair value is mainly based upon the amount appraised by outside independent real estate appraisers.

Note 20. 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 in a manner similar to the accounting treatment as described in Note 1. Segment performance is evaluated based on operating income or loss.

1. Business segment information

	Millions of yen						Total	Adjustment	Consolidated
	Reportable Segments			Other					
2014	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated	
<b>Net sales</b>									
Outside customers	¥ 27,416	¥ 22,438	¥ 15,808	¥ 65,662	¥ 134	¥ 65,796	¥ —	¥ 65,796	
Intersegment sales	—	—	—	—	—	—	—	—	
Total	27,416	22,438	15,808	65,662	134	65,796	—	65,796	
<b>Operating income (loss)</b>	1,403	(963)	1,866	2,306	24	2,330	—	¥ 2,330	
<b>Identifiable assets</b>	15,702	9,876	7,863	33,442	4,132	37,575	18,660	56,235	
<b>Others</b>									
Depreciation	2,311	445	523	3,281	4	3,285	—	3,285	
Increase in fixed assets and intangible fixed assets	2,648	427	933	4,009	42	4,052	—	4,052	

2015	Millions of yen							
	Reportable Segments				Other	Total	Adjustment	Consolidated
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal				
<b>Net sales</b>								
Outside customers	¥ 25,901	¥ 25,027	¥ 15,184	¥ 66,112	¥ 118	¥ 66,230	¥ —	¥ 66,230
Intersegment sales	—	—	—	—	—	—	—	—
Total	25,901	25,027	15,184	66,112	118	66,230	—	66,230
<b>Operating income (loss)</b>	921	(723)	1,909	2,107	6	2,113	—	2,113
<b>Identifiable assets</b>	16,072	12,768	7,756	36,597	9,613	46,210	18,819	65,029
<b>Others</b>								
Depreciation	2,355	490	647	3,493	1	3,495	—	3,495
Increase in fixed assets and intangible fixed assets	2,221	991	438	3,651	164	3,816	—	3,816

2015	Thousands of U.S. dollars							
	Reportable Segments				Other	Total	Adjustment	Consolidated
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal				
<b>Net sales</b>								
Outside customers	\$ 215,536	\$ 208,263	\$ 126,354	\$ 550,154	\$ 982	\$ 551,136	\$ —	\$ 551,136
Intersegment sales	—	—	—	—	—	—	—	—
Total	215,536	208,263	126,354	550,154	982	551,136	—	551,136
<b>Operating income (loss)</b>	7,664	(6,016)	15,886	17,533	50	17,583	—	17,583
<b>Identifiable assets</b>	133,744	106,249	64,542	304,544	79,995	384,539	156,603	541,142
<b>Others</b>								
Depreciation	19,597	4,078	5,384	29,067	8	29,084	—	29,084
Increase in fixed assets and intangible fixed assets	18,482	8,247	3,645	30,382	1,365	31,755	—	31,755

Other is business segments not included in the reportable segments. It includes other parts, leasing, property rental, factoring and worker dispatch businesses.

Adjustment includes corporate assets which are not allocable to the reportable segments.

## 2. Geographical information

### (1) Net sales

2014	Millions of yen					
	Japan	Asia	North America	Europe	Other	Consolidated
Net sales	¥ 13,877	¥ 28,664	¥ 21,153	¥ 2,066	¥ 34	¥ 65,796

2015	Millions of yen					
	Japan	Asia	North America	Europe	Other	Consolidated
Net sales	¥ 12,168	¥ 27,548	¥ 24,375	¥ 2,115	¥ 21	¥ 66,230

2015	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Other areas	Consolidated
Net sales	\$ 101,257	\$ 229,242	\$ 202,838	\$ 17,600	\$ 175	\$ 551,136

### (2) Fixed assets

2014	Millions of yen				
	Japan	Asia	North America	Europe	Consolidated
Fixed assets	¥ 10,045	¥ 5,993	¥ 287	¥ 504	¥ 16,830

2015	Millions of yen				
	Japan	Asia	North America	Europe	Consolidated
Fixed assets	¥ 14,699	¥ 7,071	¥ 303	¥ 460	¥ 22,534

2015	Thousands of U.S. dollars				
	Japan	Asia	North America	Europe	Consolidated
Fixed assets	\$ 122,318	\$ 58,842	\$ 2,521	\$ 3,828	\$ 187,518

## 3. Information about major customers

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

## 4. Information about the loss on impairment of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Connection System Division	¥ 181	¥ 444	\$ 3,695
Functional Components Division	278	98	816
Touch Panel Division	11	—	—
Subtotal	470	543	4,511
Other	—	818	6,807
Adjustments and eliminations	142	—	—
Consolidated	¥ 613	¥ 1,361	\$ 11,326

## 5. Information about the amortization of goodwill and the balance of goodwill

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Amortization	¥ 61	¥ —	\$ —
Balance	—	—	—

## Note 21. Related party transactions

Significant transactions with related parties for the years ended March 31, 2014 and 2015 were as follows:

2014	Millions of yen			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	¥ 13	¥ 14	¥ 1

2015	Millions of yen			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	¥ 13	¥ 14	¥ 1

2015	Thousands of U.S. dollars			
	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	\$ 108	\$ 117	\$ 8

## Note 22. Subsequent events

1. The Company approved a resolution at the Board of Directors' meeting held on April 27, 2015 to establish a joint venture with Logomotion, s.r.o. (based in the Slovak Republic) to expand the near field communication business. The related joint venture contract was concluded on April 30, 2015, and the joint venture was established as of May 7, 2015.

The venture paid ¥1,071 million (US\$8,912 thousand) to Logomotion, s.r.o., as part of the consideration for acquiring patent rights for the purpose of future business development.

Company Name: SMK-LOGOMOTION Corporation

Representative: Yoshiyuki Kaku

Location: 17-14 Togoshi 5-chome, Shinagawa-ku, Tokyo

Capital: ¥480 million (\$3,994 thousand)

Ownership ratio: SMK Corporation: Logomotion, s.r.o. = 51% : 49%

2. The Company resolved to acquire treasury stock in accordance with Article 165 (3) of the Companies Act at the Board of Directors' meeting held on May 22, 2015.

Objective: To enable flexible management in response to changes in the business environment

Class of treasury stock: Common stock

Total treasury stock the Company may acquire: 1,000,000 shares, at maximum

Total acquisition amount: ¥500 million (\$4,160 thousand), at maximum

Acquisition period: From May 25, 2015 to July 9, 2015

Method of acquisition: Market transactions on the Tokyo Stock Exchange

# Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
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Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2015, 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, 2015, 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 23, 2015  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

# Officer Introduction

(As of June 23, 2015)

## Directors



**Yasumitsu Ikeda**  
President and COO



**Yoshio Sakurai**  
Director,  
Executive Deputy President,  
Chief Information Officer



**Yoshiyuki Kaku**  
Director,  
Executive Vice President,  
Chief Technology Officer



**Mikio Wakabayashi**  
Director,  
Executive Vice President



**Yuji Tanahashi**  
Director

## Auditors



**Terutaka Ikeda**  
Chairman of  
Auditors Meeting



**Tetsuya Nakamura**  
Auditor



**Naru Nakashima**  
Statutory Auditor



**Ichiro Shimizu**  
Statutory Auditor

## Corporate Executive Officers



**Paul Evans**  
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



**Masanobu Ikeo**  
Vice President



**Mitsuhiko Goto**  
Vice President



**Tetsuo Hara**  
Vice President

# Corporate Information

(As of March 31, 2015)

## Corporate Data

<b>Name</b>	SMK Corporation
<b>Established</b>	April 3, 1925
<b>Registered</b>	January 15, 1929
<b>Primary business</b>	Manufacture and sale of various parts for electro-communication device and electronic equipment
<b>Capital</b>	¥ 7,996,828,021
<b>Stock exchange listing</b>	Tokyo Stock Exchange
<b>Administrator of shareholders register</b>	Mitsubishi UFJ Trust and Banking Corporation
<b>Independent auditors</b>	Ernst & Young ShinNihon LLC Tokyo, Japan
<b>Employees (SMK-Group)</b>	5,772
<b>Head office</b>	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL: +81-3-3785-1111 FAX: +81-3-3785-1878

## Global Network

<b>Domestic Bases</b>	Gate City Ohsaki, Toyama, Hitachi, Osaka, Nagoya, Ibaraki, Hokuriku and Fukuoka
<b>Overseas Bases</b>	Taiwan, Hong Kong, China, Singapore, Thailand, Malaysia, Philippines, Korea, Belgium, U.K., France, Germany, Hungary, U.S.A., Mexico and Brazil



Head Office



Gate City Office

## Shares and Shareholders

<b>Authorized shares</b>	195,961,274
<b>Issued shares</b>	79,000,000
<b>Number of shareholders</b>	8,735

<b>Major Shareholders (top ten)</b>	Shares Owned (1,000 shares)	Percentage of Shares (%)
Mizuho Bank, Ltd.	3,531	4.91
Nippon Life Insurance Company	3,241	4.50
Dai Nippon Printing Co., Ltd.	3,200	4.45
SMK Cooperating Company Share Holding Association	2,919	4.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,823	3.92
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.48
Japan Trustee Services Bank, Ltd. (Trust Account)	2,241	3.11
Mitsubishi UFJ Trust and Banking Corporation	1,800	2.50
SMK Employees Share Holding Association	1,702	2.36
The Showa Ikeda Memorial Foundation	1,500	2.08

Note: SMK holds 7,017 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	1,880 (21.52%)
1,000 - 9,999 shares	6,211 (71.11%)
10,000 - 99,999 shares	561 ( 6.42%)
100,000 - 499,999 shares	61 ( 0.70%)
500,000 shares -	22 ( 0.25%)

## Share ownership by shareholder type (unit : share)

Financial institutions	24,510,685 (31.03%)
Financial instruments dealers	1,737,781 ( 2.20%)
Companies and other entities	10,953,689 (13.87%)
Foreign entities, etc.	6,757,075 ( 8.55%)
Individuals and others	35,040,770 (44.35%)

### 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.

**Website** <http://www.smk.co.jp/>

## SMK CORPORATION

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