

CREATIVE CONNECTIVITY



# SEMI ANNUAL REPORT 2016

For the six months ended September 30, 2016

Connection  
System  
Division



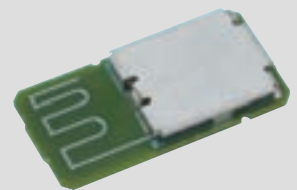
High Speed Data Connectors  
(Right Angle Type)

Functional  
Components  
Division



Bluetooth® Smart-supported  
Standard Voice  
Remote Control

Research &  
Development  
Center



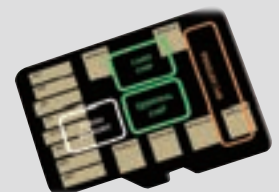
Bluetooth® Smart Module  
"BTS04 Series"

Touch Panel  
Division



"CapSleek Touch"  
Capacitive Touch Panel  
with a Curved Surface

SMK  
LOGOMOTION



LGM Card

SMK CORPORATION

# Financial Highlights

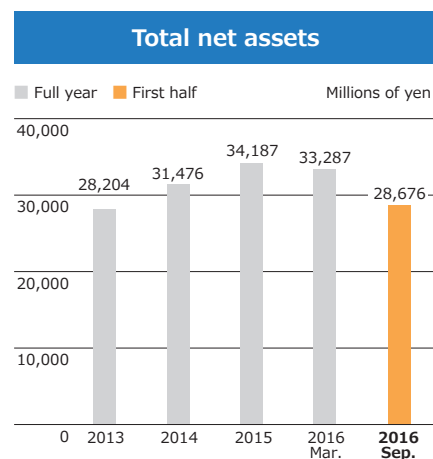
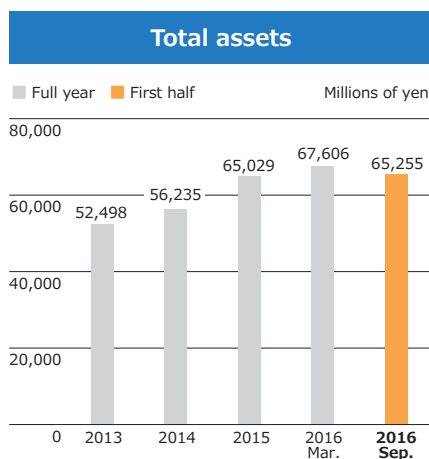
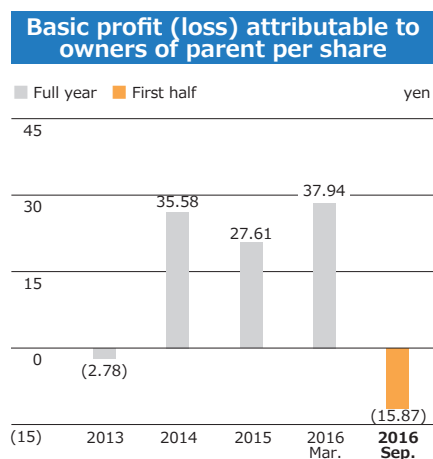
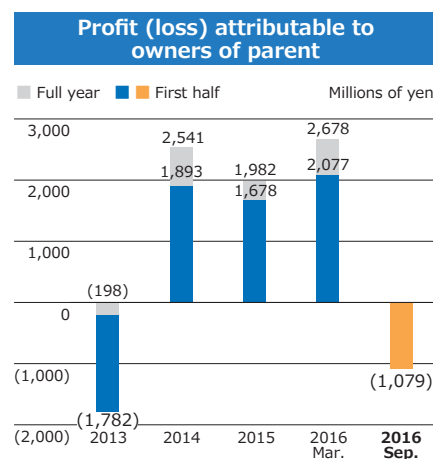
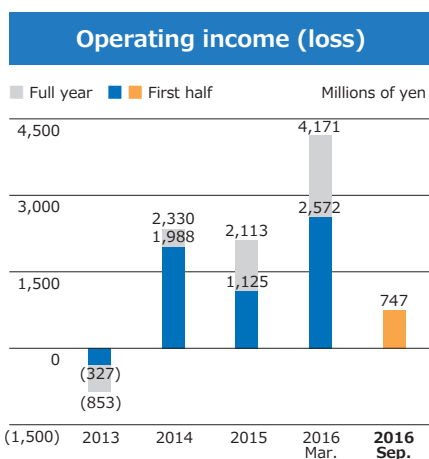
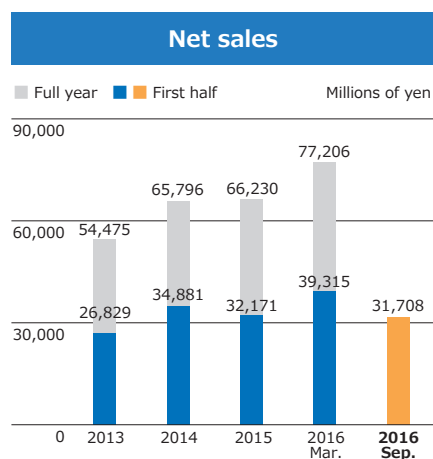
SMK Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2016
<b>Operating Results</b>			
Net sales	¥ 39,315	¥ 31,708	\$ 313,568
Operating income	2,572	747	7,387
Profit (loss) attributable to owners of parent	2,077	(1,079)	(10,670)

	As of March 31 2016	As of September 30 2016	As of September 30 2016
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Financial Position</b>			
Total assets	¥ 67,606	¥ 65,255	\$ 645,322
Total net assets	33,287	28,676	283,584

	Yen		U.S. dollars
	Six months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2016
<b>Per Share Data</b>			
Profit (loss) attributable to owners of parent			
Basic	¥ 29.18	¥ (15.87)	\$ (0.16)
Diluted	¥ 29.13	—	—

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥ 101.12 = U.S. \$1.00.



## To Our Shareholders and Investors

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 first half of the 95th fiscal year (from April 1, 2016 to September 30, 2016).

We look forward to your continuing support and encouragement.

November 2016

**Yasumitsu Ikeda**  
President, CEO and COO



## Performance Overview

During the first half of the 95th fiscal year ended September 30, 2016, uncertainty further intensified in the environment surrounding the global economy mainly due to the U.K.'s exit from the European Union, the slowdown of the Chinese economy and increased geopolitical risk. The U.S. economy maintained a moderate recovery path despite failing to eradicate the concern of an economic slowdown under such an unstable environment. The Japanese economy showed sluggish growth due to the yen appreciation and stagnant consumer spending.

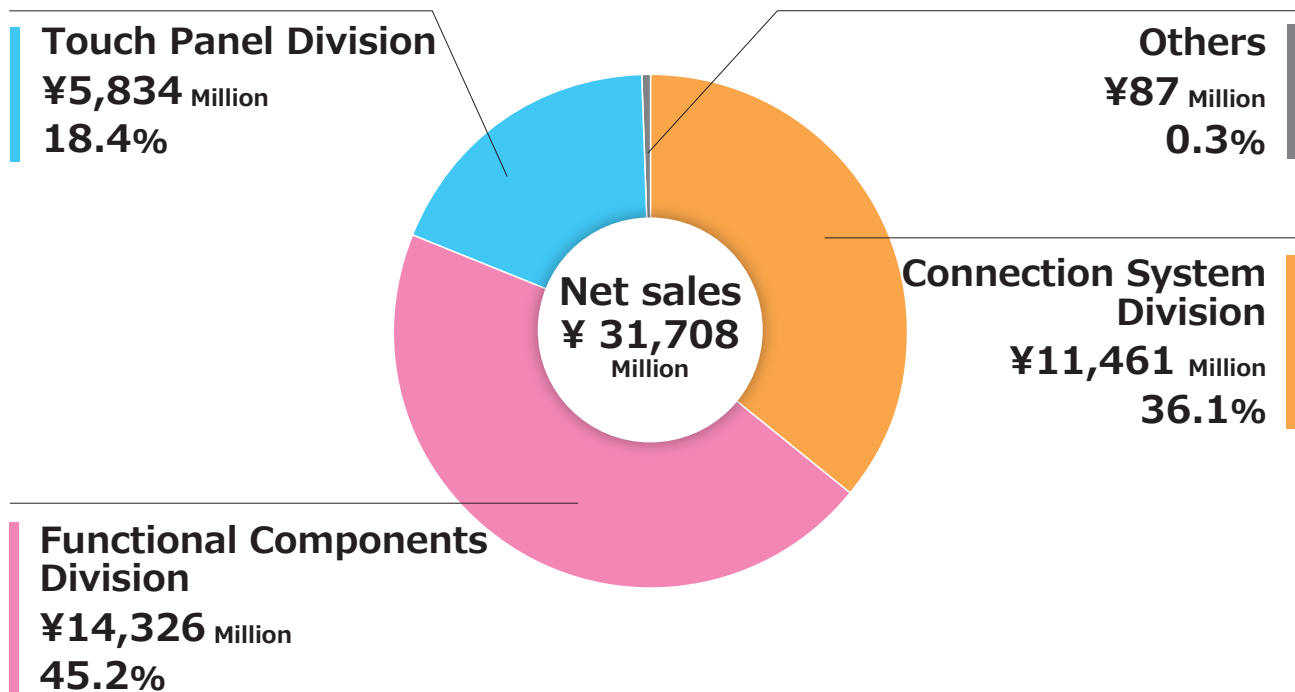
Under these circumstances, despite favorable sales growth in products such as connectors and camera modules for safety driving-related rearview cameras, the SMK group recorded the year-on-year decrease of sales in the whole car electronics market, its mainstay market, due to the sluggish sales of touch panels resulting from effects of customers' inventory adjustments. In addition, sales of connectors for smartphones for North America and the Chinese region and remote control units for set-top boxes for the U.S. market were sluggish due to the impact of our customers' production cutbacks. On the other hand, sales of connectors for the healthcare market continued to expand.

Due to the abovementioned results in addition to impact of yen appreciation, the SMK Group recorded year-on-year decreases both in net sales and profit for the first half of the fiscal year ended September 30, 2016. Reflecting these circumstances comprehensively, we decided to pay an interim dividend of ¥5 per share.

Going forward, the SMK Group will strive to increase sales in its mainstay car electronics, smartphone, set-top box and healthcare markets, as well as in new markets such as wearable devices, IoT and VR. Aiming to create new businesses by exploring startup companies and via business collaborations, we will also aggressively promote open innovation. Furthermore, the SMK Group will strive for quality enhancement by promoting "front-loading product development", the method to facilitate early solutions of issues in the initial phase of new product development by collaboration among related divisions, such as quality control, design and production and make all-out company-wide efforts to improve business performance.

# Overview of Consolidated Results by Division

(April 1, 2016 to September 30, 2016)



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

## Connection System Division



### High Performance Pogo Terminal

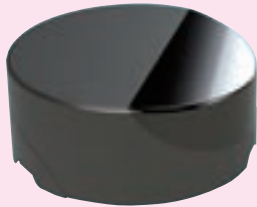
Applications:  
Smartphones, Wearable Devices,  
Automotive Electronic Equipment,  
etc.

### Major Products

- Coaxial Connectors
- Board to Board Connectors
- FPC Connectors
- Jacks

In our mainstay communication market, sales of connectors for smartphones were sluggish due to our customers' production cutbacks in North America and intensified competition among our customers in the Chinese region. In the car electronics market, against a backdrop of accelerating development of car electronics, sales of safety driving-related connectors expanded steadily centered on those for rearview cameras. In the healthcare market in which our efforts to find a new market led to the adoption of our new connectors, sales continued in a favorable trend, resulting in a significant increase from the previous fiscal year. On the other hand, in the ecological market, sales of connectors for photovoltaic modules dropped compared to the previous fiscal year due to changes in market conditions.

## Functional Components Division



**Bluetooth® Smart-enabled  
IR blaster**

Applications:  
Home Equipment,  
Home Appliances, etc.

### Major Products

- Remote Control Units
- Wireless Device Units
- Switches
- Camera Modules

Sales of remote control units, our mainstay products, grew significantly for sanitary goods and medical equipment in Japan. However, sales of the products for set-top boxes for satellite broadcasting in the U. S. dropped year on year due to the impact of a decrease in the volume resulting from the delay in the launch of new products by our customers. Sales of units dropped year on year with the impact of our customers' cutbacks in production of units for home equipment in the U.S., although sales of automotive camera modules with high future potential are expanding steadily by acquiring new orders. On the other hand, sales of switches increased significantly year on year by acquiring new orders for small switches in the smartphone market.

## Touch Panel Division



**“Wing Touch MM”  
Capacitive Touch Panel**

Applications:  
Factory Automated (FA) Equipment,  
Office Equipment, POS,  
Digital Signage Equipment, etc.

### Major Products

- Resistive Touch Panels
- Capacitive Touch Panels
- Optical Touch Panels

Sales of touch panels for car navigation systems and for automotive center consoles, which are our mainstay products, decreased compared to the previous fiscal year with the impact of the production adjustments by some of our customers in North America, South Korea and Taiwan. However, sales of the products for the Chinese market increased. Sales of touch panels, except for the car electronics market, increased year on year by acquiring new orders in the industrial machinery and medical equipment markets.

# Introduction of new Directors and Auditor

June 22, 2016, 94th General Meeting of Stockholders was held at Gate City Hall, Gate City Ohsaki. We introduce 2 new directors and 1 new auditor elected this time.

**Director and Executive Vice President**  
**Paul Evans**  
Born in November 22, 1961



I, Paul Evans, have contributed to the sales promotion of products in the Europe and America Regions since joining SMK in 1984. Our overseas production ratio is more than 70% and overseas sales ratio is more than 80%, so overseas business has become more and more important in our company. I have a global viewpoint and will discharge my duties accordingly.

**Director**  
**Toshio Nakamura**  
Born in July 22, 1946



I, Toshio Nakamura, have assumed important posts that contribute to commercial and industrial revitalization for many years including Director-General of Bureau of trade of the Ministry of International Trade and Industry and Director-General of the Small and Medium Enterprise Agency. As an Outside Director, I intend to utilize my extensive experience and knowledge that I gained over the years for SMK's overall management.

## Biography

October 1984	Joined SMK as a "Management Trainee" in Japan
October 1986	Joined SMK Electronics (Europe) Ltd.
April 2000	President of SMK Electronics Corporation U.S.A. (until today)
June 2006	Corporate Vice President, Person in charge of America region
June 2010	Corporate Executive Vice President
April 2012	President of SMK Electronics (Europe) Ltd. (until today) Person in charge of Europe and America regions (until today)

## Biography

April 1970	Joined the Ministry of International Trade and Industry
September 1999	Director-General of Bureau of Trade
June 2000	Director-General of the Small and Medium Enterprise Agency
October 2003	Secretary-General of the Japan Association for the 2005 World Exposition
November 2007	President of the Japan Chamber of Commerce and Industry and President of the Tokyo Chamber of Commerce and Industry
June 2011	Outside Director of NGK INSULATORS, LTD. (until today)
March 2016	Chairman of National Association of Trade Promotion for Small and Medium Enterprises (until today)

**Auditor**  
**Morikazu Fukui**

Born in August 20, 1955



I, Morikazu Fukui, have gained extensive knowledge and experience through my service at financial institutions. As an Outside Auditor, I intend to conduct audits from an objective perspective utilizing my specialized skills.

**Biography**

- April 1978 Joined the Industrial Bank of Japan, Limited ( "IBJ" )
- June 2001 Deputy General Manager of the Tokyo Sales Department I, IBJ
- October 2006 President of DLIBJ Asset Management International Ltd.
- June 2011 Auditor of Mizuho Private Wealth Management Co., Ltd.

# Publication of "90 Years of SMK"

In April 2016, we published "90 Years of SMK" as part of our 90th anniversary project. As past publications about SMK's corporate history, "50 Years of SMK" was published in 1975, followed by the publication of "60 Years of SMK" and "80 Years of SMK." This year, we selected important past episodes of SMK and compiled "Development of SMK's Business:Part1" which is about 60 years history of SMK from the foundation of Ikeda Musen Denki Seisakujo and the establishment of Showa Musen Kogyo Co.,Ltd. to the change of the company name to SMK Corporation, and " Development of SMK's Business:Part2" which covers the following 30 years including the expansion of business overseas and transnational management amid a radically changing management environment.



Front Cover of Japanese Edition



Round Table Talk      SMK Technologies      English Edition

Also included are "Round Table Talk" by young managers, who will play important roles in SMK's future (included in only Japanese edition), and "SMK Technologies" which summarizes the historical changes in SMK's mainstay products and technologies. In September 2016, we reconstructed "90 Years of SMK" and published its first English and Chinese editions.

# Consolidated Balance Sheets

SMK Corporation and Consolidated Subsidiaries

Assets	Millions of yen		Thousands of U.S. dollars
	As of March 31 2016	As of September 30 2016	As of September 30 2016
<b>Current assets</b>			
Cash and cash equivalents	¥ 10,668	¥ 11,003	\$ 108,811
Time deposits	110	100	989
Notes and accounts receivable, trade	16,509	16,546	163,627
Allowance for doubtful accounts	(47)	(46)	(455)
Inventories	7,187	6,871	67,949
Deferred tax assets	657	423	4,183
Other current assets	3,282	2,049	20,263
	38,368	36,948	365,388
<b>Investments and long-term loans</b>			
Investment securities	2,406	2,247	22,221
Long-term loans receivable	96	93	920
Asset for retirement benefits	541	525	5,192
Other investments	593	584	5,775
Allowance for doubtful accounts	(60)	(60)	(593)
	3,577	3,391	33,534
<b>Property, plant and equipment</b>			
Land	7,426	7,377	72,953
Buildings	21,544	21,174	209,395
Machinery and vehicles	21,181	20,353	201,276
Tooling and office furniture	23,492	23,320	230,617
Construction in progress	213	313	3,095
	73,858	72,539	717,356
Less-accumulated depreciation	(50,946)	(50,157)	(496,015)
	22,912	22,382	221,341
<b>Other assets</b>			
Deferred tax assets	216	189	1,869
Goodwill	380	348	3,441
Intangible assets	2,151	1,995	19,729
	2,748	2,533	25,049
<b>Total assets</b>	¥ 67,606	¥ 65,255	\$ 645,322

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥ 101.12 = U.S. \$1.00.



Liabilities and net assets	Millions of yen		Thousands of U.S. dollars
	As of March 31 2016	As of September 30 2016	As of September 30 2016
<b>Current liabilities</b>			
Short-term loans payable	¥ 12,287	¥ 17,637	\$ 174,417
Notes and accounts payable, trade	4,808	5,822	57,575
Accrued income taxes	489	437	4,322
Accrued bonuses	966	713	7,051
Accrued directors' and officers' bonuses	75	—	—
Accounts payable, non-trade	6,245	3,500	34,612
Other current liabilities	1,793	1,761	17,415
	26,666	29,873	295,421
<b>Long-term liabilities</b>			
Long-term debt	5,258	4,709	46,568
Deferred tax liabilities	1,121	776	7,674
Accrued directors' and officers' retirement benefits	188	199	1,968
Liability for retirement benefits	49	45	445
Other long-term liabilities	1,033	973	9,622
	7,651	6,705	66,307
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Common stock			
Authorized : 195,961,274 shares			
Issued : 79,000,000 shares as of March 31 2016	7,996	7,996	79,074
75,000,000 shares as of September 30 2016			
Capital surplus	12,309	12,057	119,235
Retained earnings	18,149	14,848	146,835
Treasury stock	(4,353)	(3,991)	(39,468)
	34,102	30,910	305,676
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on other securities	176	123	1,216
Foreign currency translation adjustments	(1,506)	(2,770)	(27,393)
Retirement benefits asset and liability adjustments	223	168	1,661
	(1,106)	(2,477)	(24,496)
<b>Share subscription rights</b>	25	—	—
<b>Non-controlling interests</b>	266	243	2,403
	33,287	28,676	283,584
<b>Total liabilities and net assets</b>	¥ 67,606	¥ 65,255	\$ 645,322

## Consolidated Statements of Income

SMK Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2016
<b>Net sales</b>	¥ 39,315	<b>¥ 31,708</b>	<b>\$ 313,568</b>
<b>Cost of sales</b>	31,585	<b>26,036</b>	<b>257,476</b>
<b>Selling, general and administrative expenses</b>	5,157	<b>4,924</b>	<b>48,695</b>
<b>Operating income</b>	2,572	<b>747</b>	<b>7,387</b>
<b>Other income</b>			
Interest and dividend income	55	<b>45</b>	<b>445</b>
Rent income	633	<b>624</b>	<b>6,171</b>
Gain on sales of fixed assets	112	<b>40</b>	<b>396</b>
Gain on sales of investment securities	107	<b>31</b>	<b>307</b>
Gain on reversal of share subscription rights	0	<b>20</b>	<b>198</b>
Other	161	<b>198</b>	<b>1,958</b>
Total other income	1,070	<b>961</b>	<b>9,504</b>
<b>Other expenses</b>			
Interest expense	53	<b>67</b>	<b>663</b>
Rent expense	283	<b>297</b>	<b>2,937</b>
Foreign exchange loss, net	95	<b>2,021</b>	<b>19,986</b>
Loss on disposal of fixed assets	182	<b>136</b>	<b>1,345</b>
Loss on liquidation of subsidiaries and affiliates	191	—	—
Other	91	<b>80</b>	<b>791</b>
Total other expenses	897	<b>2,603</b>	<b>25,742</b>
<b>Profit (loss) before income taxes</b>	2,745	<b>(895)</b>	<b>(8,851)</b>
<b>Income taxes</b>			
Current	628	<b>274</b>	<b>2,710</b>
Deferred	64	<b>(67)</b>	<b>(663)</b>
<b>Profit (loss)</b>	2,053	<b>(1,102)</b>	<b>(10,898)</b>
<b>Loss attributable to non-controlling interests</b>	(23)	<b>(22)</b>	<b>(218)</b>
<b>Profit (loss) attributable to owners of parent</b>	¥ 2,077	<b>¥ (1,079)</b>	<b>\$ (10,670)</b>

Yen

U.S. dollars

<b>Per share data</b>	Yen		U.S. dollars
	Profit (loss) attributable to owners of parent		
Basic	¥ 29.18	<b>¥ (15.87)</b>	<b>\$ (0.16)</b>
Diluted	29.13	—	—

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥ 101.12 = U.S. \$1.00.

## Consolidated Statements of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2016
<b>Profit (loss)</b>	¥ 2,053	<b>¥ (1,102)</b>	<b>\$ (10,898)</b>
<b>Other comprehensive income</b>			
Net unrealized gains (losses) on other securities	(197)	<b>(53)</b>	<b>(524)</b>
Foreign currency translation adjustments	(188)	<b>(1,263)</b>	<b>(12,490)</b>
Retirement benefits asset and liability adjustments	(63)	<b>(54)</b>	<b>(534)</b>
Total other comprehensive income	(448)	<b>(1,371)</b>	<b>(13,558)</b>
<b>Comprehensive income</b>	¥ 1,604	<b>¥ (2,473)</b>	<b>\$ (24,456)</b>
<b>Total comprehensive income attributable to:</b>			
Owners of parent	¥ 1,628	<b>¥ (2,451)</b>	<b>\$ (24,239)</b>
Non-controlling interests	(23)	<b>(22)</b>	<b>(218)</b>

# Consolidated Statements of Cash Flows

SMK Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2016
<b>Cash flows from operating activities</b>			
Profit (loss) before income taxes	¥ 2,745	¥ (895)	\$ (8,851)
Depreciation and amortization	1,847	2,136	21,123
Amortization of goodwill	32	52	514
Increase (decrease) in accrued bonuses	(116)	(246)	(2,433)
Increase (decrease) in accrued directors' and officers' retirement benefits	19	11	109
Increase (decrease) in asset and liability for retirement benefits	(307)	(69)	(682)
Interest and dividend income	(55)	(45)	(445)
Interest expense	53	67	663
Loss on disposal of fixed assets	182	136	1,345
Loss on liquidation of subsidiaries and affiliates	191	—	—
(Increase) decrease in notes and accounts receivable, trade	(2,248)	(2,106)	(20,827)
(Increase) decrease in inventories	(891)	(314)	(3,105)
Increase (decrease) in notes and accounts payable, trade	1,364	3,321	32,842
Increase (decrease) in accounts receivable, non-trade	9	880	8,703
Increase (decrease) in accounts payable, non-trade	110	(2,399)	(23,724)
Other	74	60	593
Subtotal	3,012	588	5,815
Interest and dividends received	47	46	455
Interest paid	(49)	(62)	(613)
Income taxes paid	(559)	(328)	(3,244)
<b>Net cash provided by (used in) operating activities</b>	<b>2,451</b>	<b>243</b>	<b>2,403</b>
<b>Cash flows from investing activities</b>			
Payments into time deposits	(48)	(44)	(435)
Proceeds from time deposits	120	40	396
Purchases of fixed assets	(1,744)	(2,480)	(24,525)
Proceeds from sale of fixed assets	145	159	1,572
Purchases of intangible fixed assets	(1,467)	(134)	(1,325)
Purchases of investment securities	—	(25)	(247)
Proceeds from sale of investment securities	123	50	494
Payment for execution of loans	(65)	(25)	(247)
Collection of loans receivable	27	24	237
<b>Net cash provided by (used in) investing activities</b>	<b>(2,908)</b>	<b>(2,434)</b>	<b>(24,070)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	5,100	5,395	53,352
Proceeds from long-term debt	600	800	7,911
Payments of long-term debt	(1,392)	(1,394)	(13,786)
Purchases of treasury stock	(998)	(1,575)	(15,576)
Proceeds from sales of treasury stock	25	24	237
Proceeds from non-controlling shareholders	352	—	—
Dividends paid	(645)	(559)	(5,528)
<b>Net cash provided by (used in) financing activities</b>	<b>3,041</b>	<b>2,690</b>	<b>26,602</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(79)</b>	<b>(164)</b>	<b>(1,622)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,505</b>	<b>335</b>	<b>3,313</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>9,999</b>	<b>10,668</b>	<b>105,498</b>
<b>Cash and cash equivalents at end of six months and the year</b>	<b>¥ 12,505</b>	<b>¥ 11,003</b>	<b>\$ 108,811</b>

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥ 101.12 = U.S. \$1.00.

# Corporate Information

(As of September 30, 2016)

## 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>	6,457
<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

## Shares and Shareholders

<b>Authorized shares</b>	195,961,274	
<b>Issued shares</b>	75,000,000	
<b>Number of shareholders</b>	7,922	
Major shareholders (top ten)		
	Shares owned (1,000 shares)	Percentage of shares (%)
Mizuho Bank, Ltd.	3,287	4.96
Nippon Life Insurance Company	3,241	4.89
Dai Nippon Printing Co., Ltd.	3,200	4.82
SMK Cooperating Company Share Holding Association	3,105	4.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,247	3.39
SMK Employees Share Holding Association	1,820	2.74
Mitsubishi UFJ Trust and Banking Corporation	1,800	2.71
Showa Ikeda Memorial Foundation	1,500	2.26
Terutaka Ikeda	1,420	2.14

Note: SMK holds 8,738 thousand shares of treasury stock, but these are excluded from the above list. Figures for percentage of shares are calculated excluding the treasury stock.

## Officer Introduction

### Directors

President, Chief Executive Officer and Chief Operating Officer	Yasumitsu Ikeda
Director and Executive Deputy President	Yoshio Sakurai
Director and Executive Vice President, Chief Technology Officer	Yoshiyuki Kaku
Director and Executive Vice President	Mikio Wakabayashi
Director and Executive Vice President	Paul Evans
Director	Toshio Nakamura

### Auditors

Auditor and Chairman of Auditors Meeting	Tetsuya Nakamura
Auditor	Naru Nakashima
Auditor	Ichiro Shimizu
Auditor	Morikazu Fukui

### Corporate Executive Officers

Executive Vice President, Chief Financial Officer	Kohei Ohgaki
Executive Vice President	Shigechika Yanagi
Vice President	Hideo Matsumoto
Vice President	Hiroshi Miyakawa
Vice President	Takemi Ishibashi
Vice President	Harutaka Seki
Vice President	Masanobu Ikee
Vice President	Mitsuhiko Goto
Vice President	Tetsuo Hara
Vice President	Mitsuyuki Masubuchi
Vice President, Chief Information Officer	Hiroshi Usami

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