ANNUAL REPORT 2013

For the fiscal year ended March 31, 2013

SMK CORPORATION

To Our Shareholders

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

We would like to report on the outline and results of the SMK Group's businesses for the 91st fiscal year (from April 1, 2012 to March 31, 2013).

We look forward to your continuing support and encouragement.

June 2013

Yasumitsu Ikeda
President and COO

Tetsuya Nakamura
Chairman and CEO

Taking Changes as Opportunities for Growth

Overview

During the fiscal year ended March 31, 2013, the global economy remained uncertain with such phenomena as the lingering debt issue in Europe and a decline in growth rates in the emerging nations including China.
The Japanese economy continued to face severe circumstances due to issues such as the persistently strong yen and energy matters.

The electronic components industry followed a steady track, spurred by expanding demand mainly for components for the information and communication market owing to the rapid spread of smartphones and tablet PCs, as well as for automotive components with high growth overseas, and for components for the eco market. However, sales of components for digital home appliances represented by flat-panel televisions remained sluggish.

Under these circumstances, we took diverse belt-tightening measures to strengthen our business structure, such as the curtailment of labor costs and operating expenses, the restriction on capital investments and the elimination and consolidation of domestic and overseas works. We also actively launched new products, bolstered our sales capability by increasing sales bases in China, the U.S. and EU and proposed our new technologies and ideas at TEXPO 2012, SMK's technical exhibitions and mini TEXPO 2012 exhibitions. Nevertheless, the SMK Group's consolidated net sales for the year under review declined year on year accompanied by harsh profit results.

Implement new growth strategy and build corporate systems to cope with changing markets

Since the beginning of 2013, several bright signs have emerged in the Japanese economy, which is expected to head for recovery, supported by positive factors such as the U.S. economic recovery and correction of the yen appreciation as well as rebound in Japanese stock prices due to expectations of the economic stimulus policies of the new Abe administration.

Looking ahead, to recover business performance, we will further improve management efficiency and reinforce corporate structure through continued cost-cutting and downsizing efforts. Furthermore, we will strive to build corporate systems to cope with changing markets and ensure sustainable growth via the following initiatives: taking a swift approach to those emerging nations with high growth potential, gaining shares in the communications and car electronics fields, and developing business in new markets such as the environment-related and healthcare-related industries.

CONTENTS

SMK Philosophy

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

Action Guidelines

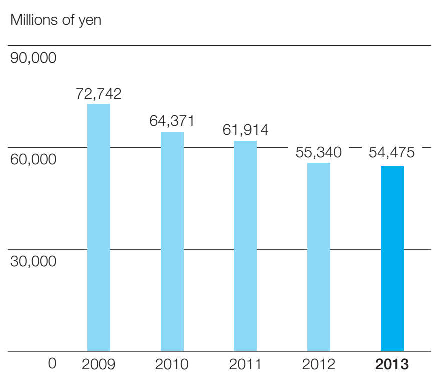
1 Contribute to society with pride and confidence.
2 Be customer-oriented, with zeal and sincerity.
3 Challenge courageously for higher goals without fear of failure.
4 Trust and respect each other for a brighter working atmosphere.
5 Keep an open mind, and view SMK from a global perspective.

Financial Highlights

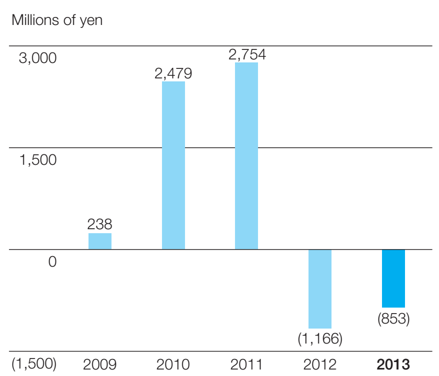
Years ended and as of March 31	Millions of yen 2012	Millions of yen 2013	Percent change 2012/2013	Thousands of U.S. dollars 2013
Operating Results				
Net sales	¥ 55,340	¥ 54,475	(1.6)%	$ 579,213
Operating income (loss)	(1,166)	(853)	—	(9,070)
Net income (loss)	(799)	(198)	—	(2,105)
Financial Position				
Total assets	¥ 53,883	¥ 52,498	(2.6)%	$ 558,192
Total net assets	28,257	28,204	(0.2)	299,884
	Yen			U.S. dollars
Per Share Data				
Net income (loss)				
Basic	¥ (11.04)	¥ (2.78)	— %	$ (0.03)
Cash dividends	6.00	5.00	(16.7)	0.05

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥94.05 = U.S. $1.00.

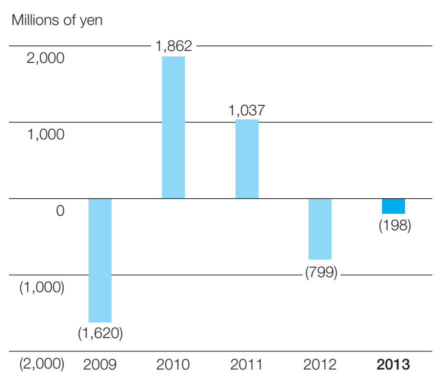
Net sales



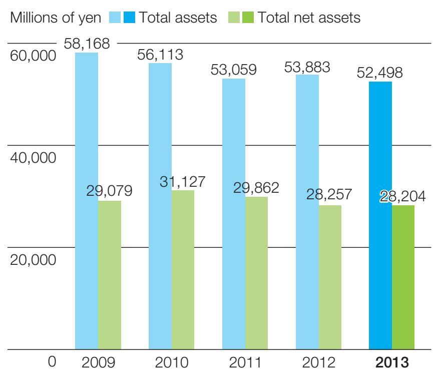
Operating income (loss)



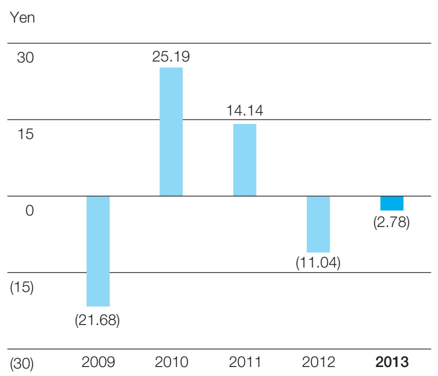
Net income (loss)



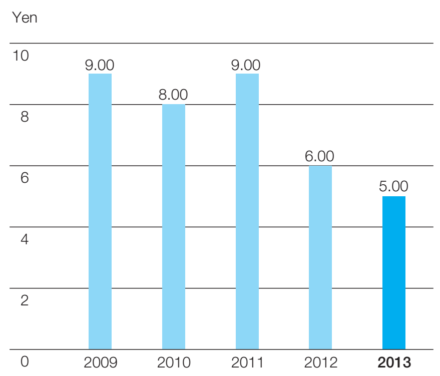
Total assets / Total net assets



Basic net income (loss) per share



Cash dividends per share



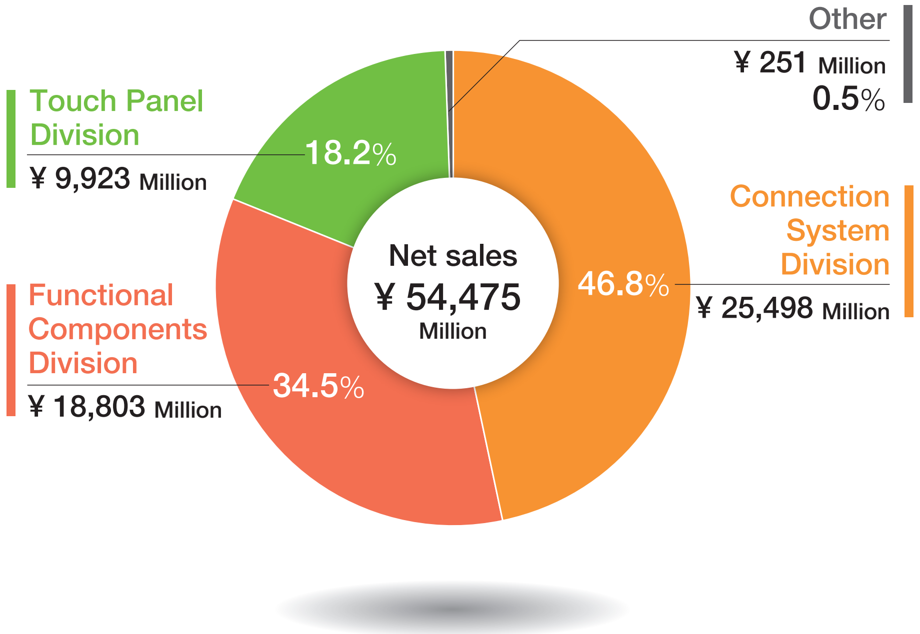
Overview of Consolidated Results by Division

(Year ended March 31, 2013)

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 seven markets: the communication market, the information market, the home appliance market, the industry market, the car electronics market, the audiovisual market and the eco 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 in new and other fields.

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



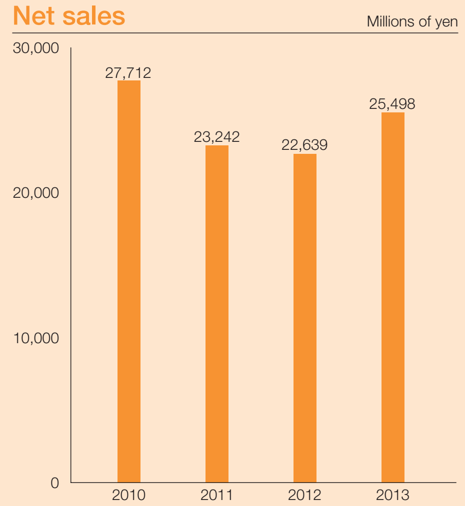
Connection System Division

Major Products

- RF Coaxial connectors
- FPC connectors
- Board to Board connectors
- Jacks

In the IT market, our mainstay, the adoption of our connectors favorably increased for new smartphones and tablet device models by leading manufacturers, which are our primary customers, and sales increased for manufacturers in the Chinese cultural zone. In addition, along with the contribution of the steady expansion of automotive connectors, sales grew remarkably compared with the previous year due to the extended adoption of photovoltaic modules for mega solar systems in the environment field. However, the serious impact of the plunge in sales in the audiovisual (AV) market and unsatisfactory sales of mobile game consoles, as well as sluggishness at several major customers in the communication market, kept us from achieving our target.

We will strive to develop new products and product series in our priority markets including the information and communication, automobile and environmental markets.



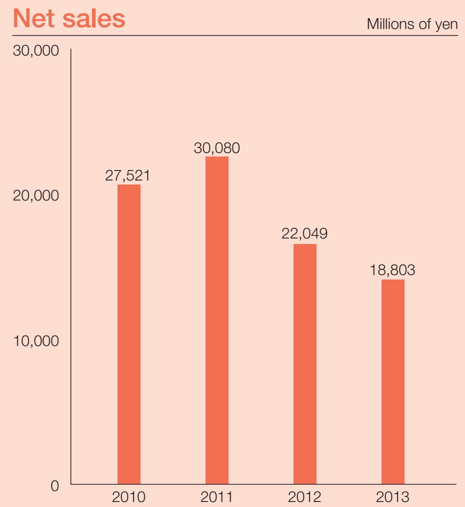
Functional Components Division

Major Products

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

Sales remained stagnant, reflecting a rapid decline in sales of digital home appliances with flat-panel televisions from the second half of the year and declines in the market shares of smartphone manufacturers for which SMK products are adopted. However, after orders received reached bottom during the second quarter, sales of our functional components for air conditioners and of new products for set-top boxes in Western countries rallied in the fourth quarter, contributing to sales and creating a momentum for an undertone of recovery. Nevertheless, overall sales were weak.

Going forward, we will strive to expand sales particularly for the promising home appliance and air-conditioner sector, which draws attention from an energy-saving viewpoint, the audiovisual sector centering on set-top boxes, and the vehicle-mounted and eco-friendly sectors.



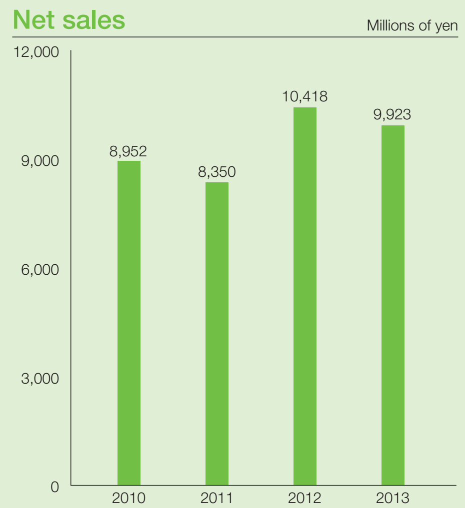
Touch Panel Division

Major Products

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

Sales of our touch panels for the automotive products market were favorable with strong demand for touch panels for car navigation systems supported by vigorous inquiries from North American car manufacturers. Meanwhile, demand for optical touch panels for ATMs expanded in the Chinese market and sales grew steadily. However, sales of touch panels for the smartphone market dropped considerably due to intensified price competition.

We will strive to expand sales further for the automotive products market, where high growth in demand is anticipated, and promote sales especially of capacitive touch panels for the smartphone and tablet device markets.



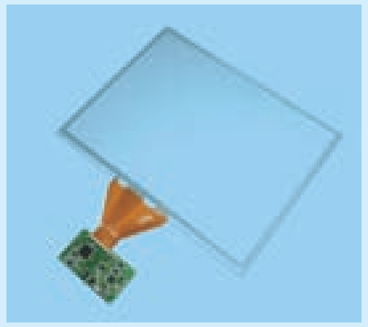
In addition to net sales for the divisions presented above, net sales of ¥251 million were earned by "Other" businesses in the fiscal year under review.
Net sales for the Research & Development Center were included in net sales for "Other" businesses.

SMK's New Lineup

Research & Development Center
Touchless operation panel

In recent years, touch panels have been increasingly employed in various equipment and devices such as car navigation systems and PCs, and the need for touchless operation is increasing from a safety or hygiene viewpoint. This product enables touchless operation without a camera or an infrared ray sensor by ensuring high sensitivity using an original capacitance detection method.

We will expand our relevant businesses through continued R&D efforts toward the commercialization of touchless operation panels, of which the evolution for various applications is forecast.

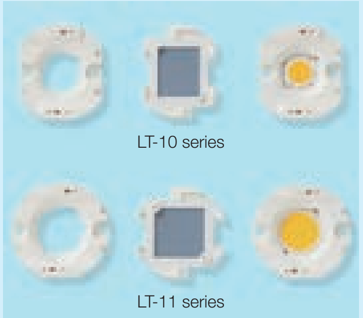


Applications:
Car navigation systems, PCs, game controllers and medical equipment

CS Division
Connector for LED lighting (COB type) LT-10/LT-11 Series

We have extended the product lineup by adding these receptacles for the COB-type LED package as part of the LED lighting for which a high energy-saving effect is expected.

This product consists of a lower cover and an upper cover to efficiently dissipate heat from the LED to the heat sink, considerably improving assembling operability and reliability. We will continue to promote product development in response to market needs.



Applications:
Lighting devices overall such as lighting devices for high-ceiling lamps and street lamps using the COB-type LEDs

FC Division
Car-mounted camera module with 1 million pixels (MDC 100 Series)

The current standard for car-mounted cameras is 0.3 million pixels. We have pioneered, ahead of our global competitors, the development and mass-production of car-mounted camera modules with one million pixels to comply with a large display and sophisticated sensing function. The product outputs digital signals via an LVDS interface. As the product uses a CMOS sensor, high-dynamic range image is produced, according to which images at both high- and low-illuminance spots (e.g., entrances/exits of tunnels) can be simultaneously captured.

Applications:
Car-mounted view cameras, sensing cameras and security cameras

TP Division
Odd-shaped capacitive touch panels

The outer shape of touch panels is usually quadrangular, but recently a variety of profiles have been requested from the viewpoint of differentiation in design, for example, making gentle curbs at the four corners and piercing at some fixed points. To meet such market requests, we have established technology that allows us to create different outer forms via a special chemical process, ensuring further degree of freedom in profile design of capacitive touch panels.

Applications:
Smartphones, tablet devices and car navigation systems

Topics

1 Exhibition Information TEXPO 2012 — mini TEXPO 2012

From June 6 (Wednesday) to June 8 (Friday) 2012, we held SMK TEXPO 2012, SMK's technical exhibition at Garden City Shinagawa, Tokyo. Our first exhibition was held in 1985, and this was the eighth such event. With a theme of "Navigating smartly for the people, the future and the environment," we exhibited approximately 300 items consisting of new products and our latest technologies. Many demonstrations were shown, and we received high evaluations from among the 2,430 guests attending the event.

mini SMK TEXPO 2012

For the period from July 2012 to March 2013, we held mini TEXPO 2012 exhibitions by directly visiting business partners both at home and overseas to introduce our new products and technologies, which had been presented at TEXPO 2012. A total of 93 exhibitions were held in Japan and overseas, and our latest products and technological developments were viewed by approximately 4,500 guests.

2 Integrating the operational bases in Mexico, one-site operation has started

We have moved the location of the production sites of SMK Electronica S.A. DE C.V. in Mexico, and a consolidated plant started operation in January 2013.

Previously, three plants were located at two sites in Mexico. They were moved and integrated into a new plant located about 10 km from the previous production bases which enables one-site operation for more efficient operational management.

In addition, the total space of the plant was expanded from 13,962 m^2 to 14,790 m^2, and the quality level and the in - house production were improved in order to accommodate the possible expansion of production scale due to future increases in demand.

This new Mexican plant is aimed at not only the demand in North America but also the rising need for digital home appliances, automobiles and other items in the Central and South American markets, for which market expansion is highly expected. Going forward, we will endeavor to provide customers in the North, Central and South American markets with our best products in a smooth and flexible manner through initiatives from this locally unified base for both manufacture and sales.

Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen 2009	2010	2011	2012	2013	Thousands of U.S. dollars 2013
Operating Results						
Net sales	¥ 72,742	¥ 64,371	¥ 61,914	¥ 55,340	¥ 54,475	$ 579,213
Operating income (loss)	238	2,479	2,754	(1,166)	(853)	(9,070)
Net income (loss)	(1,620)	1,862	1,037	(799)	(198)	(2,105)
Financial Position						
Total assets	¥ 58,168	¥ 56,113	¥ 53,059	¥ 53,883	¥ 52,498	$ 558,192
Total net assets	29,079	31,127	29,862	28,257	28,204	299,884
	Yen					U.S. dollars
Per Share Data						
Total net assets	¥ 392.15	¥ 420.07	¥ 408.12	¥ 392.59	¥ 394.81	$ 4.20
Net income (loss)						
Basic	(21.68)	25.19	14.14	(11.04)	(2.78)	(0.03)
Cash dividends	9.00	8.00	9.00	6.00	5.00	0.05

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥94.05 = U.S. $1.00.

SMK's net sales for the year ended March 31, 2013 decreased 1.6% year on year to ¥54,475 million (US$579,213 thousand), whereas an operating loss of ¥853 million (US$9,070 thousand) and a net loss of ¥198 million (US$2,105 thousand) were recorded, on a consolidated basis.

Net Sales

Although the global economy and the Japanese economy remained uncertain and harsh on the whole, the electronic components industry experienced steady demand mainly for components in the information and communication market, supported by the rapid popularization of smartphones and tablet PCs, as well as for components for automotive and environment-friendly products where growth is considerable overseas.

As a result, consolidated net sales were ¥54,475 million (US$579,213 thousand), down 1.6% year on year.

Operating Income (Loss)

Despite our efforts to strengthen profitability by introducing new products, expanding sales through a reinforced sales structure, reducing costs, consolidating manufacturing bases and cutting fixed costs, in the face of a decline in profits attributable to decreased net sales from worsening market conditions and a rise in production costs, an operating loss of ¥853 million (US$9,070 thousand) was recorded.

Net Income (Loss)

A net loss of ¥198 million (US$2,105 thousand) was recorded, affected by negative factors such as the posting of deferred income taxes through a partial reversal of deferred tax assets despite foreign exchange gains resulting from recovery of the U.S. economy and the recent depreciation of the yen in anticipation of the economic policies of the new Abe administration.

Total Assets / ROA

As of March 31, 2013, total assets were ¥52,498 million (US$558,192 thousand). ROA stood at negative 0.4%.

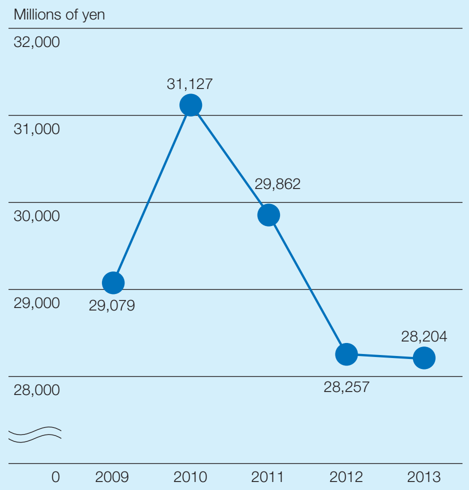
Total Net Assets / ROE

As of March 31, 2013, total net assets were ¥28,204 million (US$299,884 thousand). ROE stood at negative 0.7%.

Cash Flows

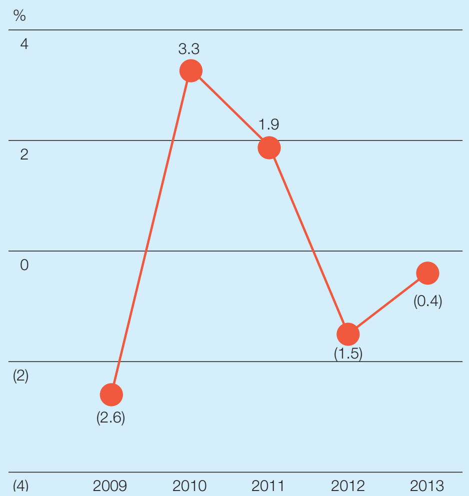
Net cash provided by operating activities amounted to ¥5,310 million (US$56,459 thousand), net cash used in investing activities totaled ¥3,402 million (US$36,172 thousand) and net cash used in financing activities was ¥1,360 million (US$14,459 thousand).

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, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2012	2013	2013
Current assets			
Cash and cash equivalents (Note 15)	¥ 8,390	¥ 8,631	$ 91,770
Time deposits (Note 15)	83	82	872
Notes and accounts receivable, trade (Note 15)	15,223	14,551	154,716
Allowance for doubtful accounts	(45)	(53)	(564)
Inventories (Note 3)	5,473	5,466	58,118
Deferred tax assets (Note 8)	1,149	472	5,019
Other current assets (Notes 15 and 19)	3,213	3,484	37,044
	33,486	32,633	346,975
Investments and long-term loans			
Investment securities (Notes 12 and 15)	2,212	1,908	20,287
Long-term loans receivable	102	141	1,499
Other investments (Note 19)	1,044	619	6,582
Allowance for doubtful accounts	(117)	(112)	(1,191)
	3,241	2,556	27,177
Property, plant and equipment (Notes 4, 7 and 16)			
Land	4,418	4,358	46,337
Buildings	17,242	17,055	181,340
Machinery and vehicles	16,975	17,132	182,158
Tooling and office furniture	20,716	21,174	225,136
Construction in progress	19	357	3,796
	59,370	60,076	638,767
Less-accumulated depreciation	(43,171)	(43,370)	(461,138)
	16,199	16,706	177,629
Other assets			
Deferred tax assets (Note 8)	567	290	3,083
Intangible assets	390	313	3,328
	957	603	6,411
Total assets	¥ 53,883	¥ 52,498	$ 558,192

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
Liabilities and net assets	2012	2013	2013
Current liabilities			
Short-term loans payable (Notes 4 and 15)	¥ 9,675	¥ 7,141	$ 75,928
Notes and accounts payable, trade (Note 15)	3,283	3,194	33,961
Accrued income taxes	94	370	3,934
Accrued bonus	630	476	5,061
Accounts payable, non-trade (Note 15)	7,517	6,657	70,781
Other current liabilities	1,357	1,326	14,099
	22,556	19,164	203,764
Long-term liabilities			
Long-term debt(Notes 4 and 15)	2,483	4,347	46,220
Accrued employees' retirement benefits (Note 13)	21	162	1,722
Accrued directors' and officers' retirement benefits	119	143	1,520
Other long-term liabilities	447	478	5,082
	3,070	5,130	54,544
Net assets			
Shareholders' equity (Note 10)			
Common stock			
Authorized : 195,961,274 shares			
Issued and outstanding : 79,000,000 shares	7,996	7,996	85,019
Capital surplus	12,345	12,345	131,260
Retained earnings	14,785	14,154	150,494
Treasury stock (Note 11)	(3,554)	(3,697)	(39,309)
	31,572	30,798	327,464
Accumulated other comprehensive income			
Net unrealized gains (losses) on other securities	147	70	744
Foreign currency translation adjustments	(3,499)	(2,742)	(29,155)
	(3,352)	(2,672)	(28,411)
Subscription rights to shares (Note 18)	32	78	831
Minority interests	5	—	—
	28,257	28,204	299,884
Total liabilities and net assets	¥ 53,883	¥ 52,498	$ 558,192

Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2013	2013
Net sales (Note 17)	¥ 55,340	¥ 54,475	$ 579,213
Cost of sales (Notes 3 and 5)	48,564	47,047	500,223
Selling, general and administrative expenses (Notes 5 and 6)	7,942	8,281	88,060
Operating income (loss) (Note 17)	(1,166)	(853)	(9,070)
Other income			
Interest and dividend income	67	73	776
Rent income	590	718	7,634
Foreign exchange gain, net	—	1,963	20,872
Gain on sales of fixed assets	45	144	1,531
Gain on sales of investment securities (Note 12)	106	352	3,743
Gain on reversal of subscription rights to shares	121	—	—
Other	241	203	2,158
Total other income	1,170	3,453	36,714
Other expenses			
Interest expense	152	127	1,350
Rent expense	309	294	3,126
Foreign exchange loss, net	246	—	—
Loss on disposal of fixed assets	35	256	2,722
Loss on liquidation of subsidiaries and affiliates	23	108	1,148
Special retirement benefit expenses	—	99	1,053
Loss on compensation for products	102	—	—
Loss on impairment of fixed assets (Note 7)	—	200	2,127
Other	114	169	1,797
Total other expenses	981	1,253	13,323
Income (loss) before income taxes and minority interests	(977)	1,347	14,321
Income taxes (Note 8)			
Current	263	488	5,189
Deferred	(441)	1,062	11,290
Income (loss) before minority interests	(799)	(203)	(2,158)
Minority interests	0	(5)	(53)
Net income (loss)	¥ (799)	¥ (198)	$ (2,105)

	Yen		U.S. dollars (Note 2)
Per share data			
Total net assets	¥ 392.59	¥ 394.81	$ 4.20
Net income (loss)			
Basic	(11.04)	(2.78)	(0.03)
Cash dividends	6.00	5.00	0.05

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2013	2013
Income (loss) before minority interests	¥ (799)	¥ (203)	$ (2,158)
Other comprehensive income (Note 9)			
Net unrealized gains(losses) on other securities	(119)	(77)	(819)
Foreign currency translation adjustments	(50)	757	8,049
Total other comprehensive income	(169)	680	7,230
Comprehensive income	¥ (968)	¥ 477	$ 5,072
Total comprehensive income attributable to:			
Shareholders of the Company	¥ (968)	¥ 482	$ 5,125
Minority interests	0	(5)	(53)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

Millions of yen

	Shareholders' equity						Accumulated other comprehensive income					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2011	79,000,000	¥ 7,996	¥ 12,353	¥ 15,876	¥ (3,308)	¥ 32,917	¥ 266	¥ (3,449)	¥ (3,183)	¥ 123	¥ 5	¥ 29,862
Cash dividends paid				(292)		(292)			–			(292)
Net income (loss)				(799)		(799)			–			(799)
Acquisition of treasury stock					(263)	(263)			–			(263)
Disposition of treasury stock			(8)		17	9			–			9
Net changes in items other than shareholders' equity						–	(119)	(50)	(169)	(91)	0	(260)
Total changes	–	–	(8)	(1,091)	(246)	(1,345)	(119)	(50)	(169)	(91)	0	(1,605)
Balance at March 31, 2012	79,000,000	7,996	12,345	14,785	(3,554)	31,572	147	(3,499)	(3,352)	32	5	28,257
Balance at April 1, 2012	79,000,000	7,996	12,345	14,785	(3,554)	31,572	147	(3,499)	(3,352)	32	5	28,257
Cash dividends paid				(433)		(433)			–			(433)
Net income (loss)				(198)		(198)			–			(198)
Acquisition of treasury stock					(143)	(143)			–			(143)
Disposition of treasury stock			(0)		0	0			–			0
Net changes in items other than shareholders' equity						–	(77)	757	680	46	(5)	721
Total changes	–	–	(0)	(631)	(143)	(774)	(77)	757	680	46	(5)	(53)
Balance at March 31, 2013	79,000,000	¥ 7,996	¥ 12,345	¥ 14,154	¥ (3,697)	¥ 30,798	¥ 70	¥ (2,742)	¥ (2,672)	¥ 78	¥ –	¥ 28,204

Thousands of U.S. dollars (Note 2)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012	$ 85,019	$ 131,260	$ 157,204	$ (37,788)	$ 335,695	$ 1,563	$ (37,204)	$ (35,641)	$ 340	$ 53	$ 300,447
Cash dividends paid			(4,605)		(4,605)			–			(4,605)
Net income (loss)			(2,105)		(2,105)			–			(2,105)
Acquisition of treasury stock				(1,521)	(1,521)			–			(1,521)
Disposition of treasury stock		(0)		0	0			–			0
Net changes in items other than shareholders' equity					–	(819)	8,049	7,230	491	(53)	7,668
Total changes	–	(0)	(6,710)	(1,521)	(8,231)	(819)	8,049	7,230	491	(53)	(563)
Balance at March 31, 2013	$ 85,019	$ 131,260	$ 150,494	$ (39,309)	$ 327,464	$ 744	$ (29,155)	$ (28,411)	$ 831	$ –	$ 299,884

Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2013	2013
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ (977)	¥ 1,347	$ 14,322
Depreciation and amortization	3,664	3,439	36,566
Loss on impairment of fixed assets	—	200	2,127
Amortization of goodwill	184	110	1,170
Increase (decrease) in accrued directors' bonus	(36)	—	—
Increase (decrease) in accrued employees' retirement benefits	6	138	1,467
(Increase) decrease in prepaid pension costs	522	410	4,359
Increase (decrease) in accrued directors' and officers' retirement benefits	(7)	25	266
Interest and dividend income	(67)	(73)	(776)
Interest expense	152	127	1,350
Gain on reversal of subscription rights to shares	(121)	—	—
Loss on disposal of fixed assets	35	256	2,722
Loss on liquidation of subsidiaries and affiliates	—	108	1,148
Special retirement benefit expenses	—	99	1,053
Loss on compensation for products	102	—	—
(Increase) decrease in notes and accounts receivable, trade	(339)	2,520	26,794
(Increase) decrease in inventories	196	541	5,752
Increase (decrease) in notes and accounts payable, trade	(166)	(2,236)	(23,775)
Increase (decrease) in accounts payable, non-trade	(121)	(925)	(9,835)
Other	(275)	(355)	(3,773)
Subtotal	2,752	5,731	60,937
Interest and dividends received	68	79	840
Interest paid	(147)	(129)	(1,372)
Compensation for products paid	(246)	—	—
Income taxes paid	(644)	(181)	(1,925)
Income taxes refunded	218	16	170
Payments of liquidation of subsidiaries and affiliates	—	(107)	(1,138)
Payments of special retirement benefit expenses	—	(99)	(1,053)
Net cash provided by (used in) operating activities	2,001	5,310	56,459
Cash flows from investing activities			
Payments into time deposits	(138)	(65)	(691)
Proceeds from time deposits	118	77	819
Purchases of fixed assets	(3,926)	(3,823)	(40,649)
Proceeds from sale of fixed assets	130	439	4,668
Purchases of intangible fixed assets	(31)	(62)	(659)
Proceeds from sale of investment securities	87	38	404
Payments for execution of loans	(145)	(112)	(1,191)
Collection of loans receivable	112	70	744
Other	29	36	383
Net cash provided by (used in) investing activities	(3,764)	(3,402)	(36,172)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	3,261	(800)	(8,506)
Proceeds from long-term debt	816	2,940	31,260
Payments of long-term debt	(840)	(2,928)	(31,132)
Purchases of treasury stock	(262)	(142)	(1,510)
Proceeds from sale of treasury stock	3	0	1
Dividends paid	(292)	(430)	(4,572)
Net cash provided by (used in) financing activities	2,686	(1,360)	(14,459)
Effect of exchange rate changes on cash and cash equivalents	84	(307)	(3,266)
Increase (decrease) in cash and cash equivalents	1,007	241	2,562
Cash and cash equivalents at beginning of the year	7,383	8,390	89,208
Cash and cash equivalents at end of the year	¥ 8,390	¥ 8,631	$ 91,770

Notes to Consolidated Financial Statements

SMK Corporation and Consolidated Subsidiaries

Note 1. Summary of significant accounting policies

(a) Basis of presenting financial statements

The accompanying consolidated financial statements of SMK Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. For the purpose of this document, certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation.

(b) Basis of consolidation and investments in affiliated companies

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries over which substantial control is exercised either through majority ownership of voting stock and/or by other means.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain foreign subsidiaries' fiscal period ends on December 31, which differs from the year-end date of the Company; however, the accounts of these companies were tentatively closed as of March 31 and the necessary adjustments for consolidation were made.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

All assets and liabilities of the Company's subsidiaries are revalued at the acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.

(c) Scope of consolidation

Number of consolidated subsidiaries: 26

The remaining 2 subsidiaries which are unconsolidated are deemed immaterial and, accordingly, their results of operations had no significant effect on the consolidated financial statements.

(d) Application of equity method of accounting

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

The 2 unconsolidated subsidiaries are deemed immaterial. As the effect of their results of operations on the consolidated financial statements would be insignificant, the equity method of accounting has not been applied to these companies.

(e) Translation of foreign currencies

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the appropriate year-end exchange rates . Shareholders' equity, which is translated at rates of exchange prevailing at the time the transactions occurred. Revenue and expense accounts are translated at the average rates of exchange prevailing during the year.

(f) Cash and cash equivalents

Cash and cash equivalents are composed of cash and time deposits all of which are low-risk, short-term financial instruments readily convertible into cash.

(g) Inventories

The following inventories are measured principally by their respective methods:

Finished products: Retail cost method

Work in process: Actual raw material cost, determined by the most recent purchase cost method, plus direct labor costs and manufacturing overheads

Raw materials and supplies: Most recent purchase cost method

(h) Securities

Securities are classified into three categories depending upon the holding purpose and accounted for as follows:

i) trading securities, which are held for the purpose of earning capital gains in the short-term, are stated at fair market value, with related gain and loss realized on disposal and unrealized gain and loss from market fluctuations recognized as gain or loss in the statement of income in the year of the change; ii) held-to-maturity debt securities, which a company has the positive intent to hold until maturity, are stated at amortized cost; and iii) other securities, which are not classified as either of the aforementioned categories but are stated at fair market value if such value is available, or, if not, at moving-average cost, with unrealized gain and loss, net of the applicable taxes, reported as a separate component of net assets. Realized gain and loss on sales of such securities are calculated based on the moving-average cost.

(i) Derivatives

Derivatives are stated at fair value.

(j) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is calculated principally by the declining-balance method for the Company and its domestic subsidiaries, and by the straight-line method mainly for foreign subsidiaries.

(k) Intangible assets

Amortization of intangible assets is calculated by the straight-line method. Software for own use is amortized based on the utilizable period (5 years).

Goodwill is amortized by the straight-line method over 5 years.

(l) Leases

Finance leases which are deemed to transfer the ownership of the leased assets to the lessee are capitalized and depreciated over their lease term with no residual value.

(m) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at the amount of estimated uncollectable accounts, based on individual collectability with respect to identified doubtful receivables and past experience of doubtful receivables.

(n) Accrued bonus

Accrued bonus are provided on the estimate of the amounts to be paid in the future by the Company, domestic consolidated subsidiaries and certain overseas subsidiaries based on an accrual basis at the balance sheet date.

(o) Accrued directors' bonus

Accrued directors' bonus are provided on the estimate of the amounts to be paid in the future by the Company based on an accrual basis at the balance sheet date.

(p) Accrued employees' retirement benefits

To cover projected employee retirement benefits, the Company and consolidated subsidiaries record the estimated obligations at the end of the fiscal year based on projected year-end benefit obligations and plan assets, as adjusted for unrecognized actuarial gains or losses and unrecognized prior service cost.

Unrecognized actuarial gains or losses are amortized in the year following the year in which the gains or losses are incurred by the straight-line method over the period of 5 years which is within the average remaining years of service of the employees.

(q) Accrued directors' and officers' retirement benefits

Accrued directors' and officers' retirement benefits have been provided at an amount equal to 100% of the amount which would be required to be paid based on the Company's bylaws if all directors and officers resigned from the Company on the balance sheet date.

(r) Hedge accounting

(1) Method of hedge accounting

The exceptional method of hedge accounting is applied for the transactions of interest rate swaps, in cases meeting certain conditions.

(2) Hedge instrument and hedged item

Hedge instrument: interest rate swap

Hedged item: interest rate for long-term debt subject to interest rate fluctuations.

(3) Hedge policy

The Company uses interest rate swaps to avoid risks from interest rate fluctuations on borrowings, only when approved by the management.

(4) Assessment of hedge effectiveness

As the exceptional method is applied for interest rate swap, the assessment of hedge effectiveness is omitted.

(s) Income taxes

Deferred income taxes are recognized based on the differences between financial reporting and the tax bases of the assets and liabilities and are calculated using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(t) Per share information

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

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

(u) Standards issued but not yet effective

On May 17, 2012, the Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(v) Change in method of accounting

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, other than certain buildings, to reflect the methods prescribed in the amended Corporation Tax Law. The impact of this change on net loss for the year ended March 31, 2013 was minor.

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 = ¥94.05, the approximate rate of exchange at March 31, 2013. 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, 2012 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Finished products	¥ 2,749	¥ 2,805	$ 29,825
Work in process	539	731	7,772
Raw materials and supplies	2,185	1,930	20,521
Total	¥ 5,473	¥ 5,466	$ 58,118

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Cost of sales	¥ 205	¥ 311	$ 3,307

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

Short-term loans payable and long-term debt as of March 31, 2012 and 2013, consisted of the following:

Short-term loans payable	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Average interest rate on short-term loans payable, principally from banks, is 0.67%			
Secured	¥ 1,293	¥ 1,364	$ 14,503
Unsecured	4,329	3,576	38,022
Total	¥ 5,622	¥ 4,940	$ 52,525

Long-term debt	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Average interest rate on long-term debt, principally from banks, is 1.23%			
Secured	¥ 3,786	¥ 4,160	$ 44,232
Unsecured	2,750	2,388	25,391
Less: portion due within one year	(4,053)	(2,201)	(23,403)
Total	¥ 2,483	¥ 4,347	$ 46,220

The assets pledged as collateral for short-term and long-term debt as of March 31, 2012 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Property, plant and equipment-book value	¥ 2,277	¥ 2,206	$ 23,456

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2013 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 2,201	$ 23,403
2015	632	6,720
2016	1,308	13,907
2017	1,285	13,663
2018 and thereafter	1,122	11,930
Total	¥ 6,548	$ 69,623

Note 5. Research and development costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2012 and 2013 amounted to ¥3,080 million and ¥3,172 million ($33,727 thousand), respectively.

Note 6. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Salaries and wages of employees	¥ 3,389	¥ 3,443	$ 36,608
Provision for bonus	262	211	2,243
Retirement benefit cost	384	403	4,285
Provision for directors' and officers' retirement benefits	—	42	447

Note 7. 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 an 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, 2013 an impairment loss was recognized for the following assets.

			Millions of yen				
			2013				
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furnitures	Software	Total
Functional components	Japan	Remote controls/Switch/Unit production facilities	¥ 46	¥ 118	¥ 29	¥ 7	¥ 200

			Thousands of U.S. dollars				
			2013				
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furnitures	Software	Total
Functional components	Japan	Remote controls/Switch/Unit production facilities	$ 489	$ 1,256	$ 308	$ 74	$ 2,127

Note 8. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.5% and 37.9% for the years ended March 31, 2012 and 2013, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 was as follows. A reconciliation for the year ended March 31, 2012 is omitted because a loss before income taxes and minority interests was recorded:

	2012	2013
Statutory tax rate	—%	37.9%
Items such as entertainment expenses permanently non-deductible for tax purposes	—	2.3
Items such as dividend income permanently non-taxable	—	(22.8)
Change in valuation allowance	—	66.0
Inhabitant tax on per capita basis	—	1.6
Statutory tax rate differences in subsidiaries	—	7.1
Elimination of dividend income	—	23.1
Other	—	(0.1)
Effective tax rate	—%	115.1%

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Deferred tax assets:			
Inventory write-down disallowed	¥ 64	¥ 60	$ 638
Accrued bonus disallowed	222	153	1,627
Intercompany profit on inventory	60	71	755
Retirement benefits disallowed	481	670	7,124
Allowance for doubtful accounts	43	44	468
Impairment loss	104	144	1,531
Operating loss carryforwards for tax purposes	403	472	5,019
Undistributed earnings of consolidated subsidiaries	329	—	—
Other	650	549	5,836
Valuation allowance	(321)	(1,195)	(12,706)
Deferred tax assets	2,035	968	10,292
Deferred tax liabilities:			
Deferred gain on land	(95)	(95)	(1,010)
Advanced depreciation on buildings	(88)	(81)	(861)
Reserve for special depreciation	(13)	(4)	(43)
Net unrealized gains on other securities	(128)	(37)	(393)
Other	(110)	(215)	(2,286)
Deferred tax liabilities	(434)	(432)	(4,593)
Net deferred tax assets	¥ 1,601	¥ 536	$ 5,699

Note 9. Other comprehensive income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2012 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Net unrealized gains (losses) on other securities:			
Amount arising during the year	¥ (190)	¥ 170	$ 1,808
Reclassification adjustments for gains and losses included in net income	(22)	(293)	(3,115)
Amount before tax effect	(212)	(123)	(1,307)
Tax effect	93	46	488
Net unrealized gains (losses) on other securities	(119)	(77)	(819)
Foreign currency translation adjustments:			
Amount arising during the year	(99)	806	8,570
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	(99)	806	8,570
Tax effect	49	(49)	(521)
Foreign currency translation adjustments	(50)	757	8,049
Total other comprehensive income	¥ (169)	¥ 680	$ 7,230

Note 10. Shareholders' equity

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

Note 11. Treasury stock

The number of common stock of the Company held by the Company, consolidated subsidiaries and affiliated companies subject to the equity method at March 31, 2012 and 2013 totaled 7,119,784 shares and 7,760,765 shares, respectively.

Note 12. Securities

Information regarding securities classified as other securities at March 31, 2012 and 2013 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			2013			2013		
	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	¥ 719	¥ 364	¥ 355	¥ 298	¥ 152	¥ 146	$ 3,169	$ 1,616	$ 1,553
Others	46	36	10	40	21	19	425	223	202
Subtotal	765	400	365	338	173	165	3,594	1,839	1,755
Securities whose cost exceeds their fair value									
Stocks	1,264	1,399	(135)	1,368	1,425	(57)	14,545	15,152	(607)
Subtotal	1,264	1,399	(135)	1,368	1,425	(57)	14,545	15,152	(607)
Total	¥ 2,029	¥ 1,799	¥ 230	¥ 1,706	¥ 1,598	¥ 108	$ 18,139	$ 16,991	$ 1,148

Unlisted stocks of ¥32 million at March 31, 2012 and ¥31 million ($330 thousand) at March 31, 2013 are not included in the above table because there were no quoted market prices available and the fair value is extremely difficult to determine.

Information regarding sales of securities for the years ended March 31, 2012 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Proceeds from sales of securities	¥ 47	¥ 493	$ 5,242
Stocks	47	476	5,061
Others	—	17	181
Gains on sales	22	352	3,743
Stocks	22	349	3,711
Others	—	3	32
Losses on sales	(0)	—	—
Stocks	(0)	—	—
Others	—	—	—

Note 13. Accrued employees' retirement benefits

(a) Outline of retirement benefit plans

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

(b) Retirement benefit obligation as of March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Retirement benefit obligation	¥ 7,486	¥ 7,623	$ 81,053
Fair value of plan assets	(6,455)	(7,274)	(77,342)
Funded status	1,031	349	3,711
Unrecognized actuarial gains (losses)	(1,420)	(187)	(1,989)
Net amount recognized in the consolidated balance sheets	(389)	162	1,722
Prepaid pension costs	410	—	—
Accrued employees' retirement benefits	¥ 21	¥ 162	$ 1,722

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Service cost, net of plan participants' contributions	¥ 324	¥ 325	$ 3,456
Interest cost	147	150	1,595
Expected returns on plan assets	(195)	(176)	(1,871)
Amortization of unrecognized actuarial (gains) losses	810	812	8,634
Contribution to defined contribution pension plan	82	80	851
Net periodic cost	¥ 1,168	¥ 1,191	$ 12,665

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

	2012	2013
Discount rate	2.0%	2.0%
Expected return on plan assets	3.0%	3.0%
Amortization period of unrecognized actuarial gains or losses	5 years	5 years

Note 14. Derivatives

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

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

The Company uses interest rate swaps to 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:	2012	2013	2012	2013	2012	2013	2013	2013	2013
Sell:									
US$	¥ 2,218	¥ 1,237	¥ (105)	¥ (84)	¥ (105)	¥ (84)	$ 13,153	$ (893)	$ (893)
MXN	—	556	—	18	—	18	5,912	191	191
Total	¥ 2,218	¥ 1,793	¥ (105)	¥ (66)	¥ (105)	¥ (66)	$ 19,065	$ (702)	$ (702)

(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
	2012	2013	2012	2013	2013	2013
Interest rate swaps	¥ 1,969	¥ 3,635	¥ 200	¥ 3,316	$ 38,650	$ 35,258

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 15.

Note 15. 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, 2012 and 2013 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			2013			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥ 8,390	¥ 8,390	¥ —	¥ 8,631	¥ 8,631	¥ —	$ 91,770	$ 91,770	$ —
Time deposits	83	83	—	82	82	—	872	872	—
Notes and accounts receivable, trade	15,223	15,223	—	14,551	14,551	—	154,716	154,716	—
Investment securities	2,029	2,029	—	1,706	1,706	—	18,139	18,139	—
Notes and accounts payable, trade	3,283	3,283	—	3,194	3,194	—	33,961	33,961	—
Short-term loans payable	5,622	5,622	—	4,940	4,940	—	52,525	52,525	—
Accounts payable, non-trade	7,517	7,517	—	6,657	6,657	—	70,781	70,781	—
Long-term debt	6,536	6,534	(2)	6,548	6,542	(6)	69,623	69,559	(64)
Derivatives	(105)	(105)	—	(66)	(66)	—	(702)	(702)	—

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

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

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

Cash and cash equivalents, time deposits, and notes and accounts receivable, trade

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

Investment securities

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

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

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

Long-term debt

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

Derivatives

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Unlisted securities	¥ 198	¥ 202	$ 2,148

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		
	2012			2013			2013		
	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	¥ 8,465	—	¥ —	¥ 8,705	¥ —	—	$ 92,557	$ —	—
Notes and accounts receivable, trade	15,223	—	—	14,551	—	—	154,716	—	—
Investment securities (other)	15	—	31	—	40	—	—	425	—
Total	¥ 23,703	—	¥ 31	¥ 23,256	¥ 40	—	$ 247,273	$ 425	—

Note 16. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2012 and 2013 amounted to ¥281 million and ¥424 million ($4,508 thousand), respectively.
Information on the fair value of investment and rental property at March 31, 2012 and 2013 was summarized as follows:

Millions of yen						Thousands of U.S. dollars		
2012			2013			2013		
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
¥ 4,055	¥ 4,101	¥ 8,259	¥ 4,100	¥ 4,057	¥ 10,010	$ 43,594	$ 43,137	$ 106,433

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

Note 17. 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.

1. Business segment information

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

	Millions of yen							
	Reportable Segments							
2013	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated
Net sales								
Outside customers	¥ 25,498	¥ 18,803	¥ 9,923	¥ 54,224	¥ 251	¥ 54,475	¥ —	¥ 54,475
Intersegment sales	—	—	—	—	—	—	—	—
Total	25,498	18,803	9,923	54,224	251	54,475	—	54,475
Operating income (loss)	521	(1,430)	12	(897)	44	(853)	—	(853)
Identifiable assets	15,907	10,430	6,000	32,337	4,646	36,983	15,515	52,498
Others								
Depreciation	2,245	651	435	3,331	3	3,334	—	3,334
Increase in fixed assets and intangible fixed assets	2,402	393	667	3,462	30	3,492	—	3,492

	Thousands of U.S. dollars							
	Reportable Segments							
2013	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated
Net sales								
Outside customers	$ 271,111	$ 199,926	$ 105,508	$ 576,545	$ 2,668	$ 579,213	$ —	$ 579,213
Intersegment sales	—	—	—	—	—	—	—	—
Total	271,111	199,926	105,508	576,545	2,668	579,213	—	579,213
Operating income (loss)	5,540	(15,205)	128	(9,537)	467	(9,070)	—	(9,070)
Identifiable assets	169,133	110,898	63,796	343,827	49,399	393,226	164,966	558,192
Others								
Depreciation	23,870	6,922	4,625	35,417	32	35,449	—	35,449
Increase in fixed assets and intangible fixed assets	25,540	4,179	7,092	36,811	319	37,130	—	37,130

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

2. Geographical information
(1) Net sales

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

	Millions of yen					
2013	Japan	Asia	North America	Europe	Other	Consolidated
Net sales	¥ 14,130	¥ 24,737	¥ 14,551	¥ 1,048	¥ 9	¥ 54,475

	Thousands of U.S. dollars					
2013	Japan	Asia	North America	Europe	Other	Consolidated
Net sales	$ 150,239	$ 263,019	$ 154,716	$ 11,143	$ 96	$ 579,213

(2) Fixed assets

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

	Millions of yen				
2013	Japan	Asia	North America	Europe	Consolidated
Fixed assets	¥ 10,161	¥ 5,820	¥ 294	¥ 431	¥ 16,706

	Thousands of U.S. dollars				
2013	Japan	Asia	North America	Europe	Consolidated
Fixed assets	$ 108,038	$ 61,882	$ 3,126	$ 4,583	$ 177,629

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 amortization of goodwill and the balance of goodwill

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	Functional Components Division		Functional Components Division
Amortization	¥ 184	¥ 109	$ 1,159
Balance	252	164	1,744

Note 18. Changes in stock options

At the board of directors meeting held on April 24, 2008, a stock option plan was approved. Under this plan, certain employees of the Company and a director and employees of affiliated companies were granted options to purchase common stock of 1,102,000 shares in total at an exercise price of ¥509. Those eligible could exercise the options when the market price exceeded 130% of the exercise price for preceding day within the term of exercise, which was from June 1, 2010 to May 31, 2013.
At the board of directors meeting held on July 27, 2011, a stock option plan was approved. Under this plan, certain employees of the Company and a director and employees of affiliated companies were granted options to purchase common stock of 1,141,000 shares in total at an exercise price of ¥360.
Stock option activity during the year ended March 31, 2013 was as follows:

	April 24, 2008	July 27, 2011
Share subscription rights which are not yet vested		
Outstanding as of March 31, 2012	—	1,116,000
Granted	—	—
Forfeited	—	7,000
Vested	—	—
Outstanding as of March 31, 2013	—	1,109,000
Share subscription rights which have already been vested		
Outstanding as of March 31, 2012	16,000	—
Forfeited	—	—
Outstanding as of March 31, 2013	16,000	—
The fair value of stock options when granted	¥115 ($1.22)	¥81 ($0.86)

Note 19. Related party transactions

Significant transactions with related parties for the years ended March 31, 2012 and 2013 were as follows:

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

	Millions of yen			
2013	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	¥ 14	¥ 15	¥ 1

	Thousands of U.S. dollars			
2013	Transactions		Balances	
	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	$ 149	$ 159	$ 11

Note 20. Subsequent events

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was approved at a shareholders' meeting held on June 21, 2013.

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Cash dividends (¥5.00 = $0.05 per share)	¥ 356	$ 3,785

Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
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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, 2013, 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, 2013, 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.

June 21, 2013
Tokyo, Japan

Ernst & Young ShinNihon LLC

Officer Introduction

(As of June 21, 2013)

Directors

Tetsuya Nakamura
Chairman and CEO

Yasumitsu Ikeda
President and COO

Yoshio Sakurai
Director,
Executive Deputy President,
Chief Information Officer

Yoshiyuki Kaku
Director,
Executive Vice President,
Chief Technology Officer

Yuji Tanahashi
Director

Auditors

Terutaka Ikeda
Auditor and Chairman of Auditors Meeting

Hajime Yamada
Auditor

Kouichiro Sugihara
Auditor

Naru Nakashima
Auditor

Corporate Executive Officers

Paul Evans
Executive Vice President

Mikio Wakabayashi
Executive Vice President

Kohei Ohgaki
Executive Vice President,
Chief Financial Officer

Hideo Matsumoto
Vice President

Tsutomu Isoda
Vice President

Hiroshi Miyakawa
Vice President

Shigechika Yanagi
Vice President

Takemi Ishibashi
Vice President

Harutaka Seki
Vice President

Masanobu Ikeo
Vice President

Corporate Information

(As of March 31, 2013)

Corporate Data

Name	SMK Corporation
Established	April 1925
Registered	January 15, 1929
Primary business	Manufacture and sale of various parts for electro-communication device and electronic equipment
Capital	¥ 7,996,828,021
Stock exchange listing	Tokyo Stock Exchange
Administrator of shareholders register	Mitsubishi UFJ Trust and Banking Corporation
Independent auditors	Ernst & Young ShinNihon LLC Tokyo, Japan
Employees (SMK-Group)	7,121
Head office	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL 81-3-3785-1111 FAX 81-3-3785-1878
Subsidiaries & affiliates	
Domestic	Subsidiaries - 4companies Affiliates - 1company
Overseas	Subsidiaries - 22companies
Website	http://www.smk.co.jp/

Shares and Shareholders

Authorized shares	195,961,274
Issued shares	79,000,000
Number of shareholders	10,371

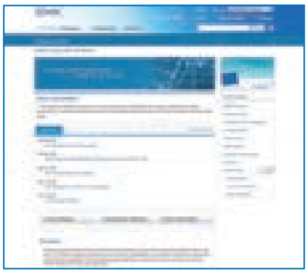
Major Shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Nippon Life Insurance Company	3,601	5.05
Mizuho Corporate Bank, Ltd.	3,531	4.94
Dai Nippon Printing Co., Ltd.	3,200	4.48
SMK Cooperating Company Share Holding Association	3,008	4.21
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.51
SMK Employees Share Holding Association	1,969	2.76
Mitsubishi UFJ Trust and Banking Corporation	1,937	2.71
The Showa Ikeda Memorial Foundation	1,500	2.10
Terutaka Ikeda	1,471	2.06
Meiji Yasuda Life Insurance Company	1,379	1.93

Note: SMK holds 7,620 thousand shares of treasury stock, but these are excluded from the above list. Figures for percentage of shares are calculated excluding the treasury stock.

Please see our website for detailed IR information.

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

Home page



IR Information

Share ownership by number	
1 - 999 shares	2,110 (20.34%)
1,000 - 9,999 shares	7,521 (72.52%)
10,000 - 99,999 shares	669 (6.46%)
100,000 - 499,999 shares	55 (0.53%)
500,000 shares -	16 (0.15%)

Share ownership by shareholder type (unit : share)	
Financial institutions	20,853,685 (26.40%)
Financial instruments dealers	925,751 (1.17%)
Companies and other entities	11,413,948 (14.45%)
Foreign investors	3,643,581 (4.61%)
Individuals and others	34,542,242 (43.72%)
Treasury stock	7,620,793 (9.65%)

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