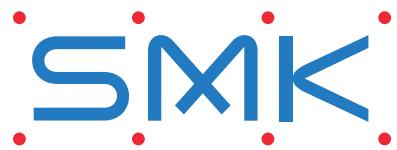


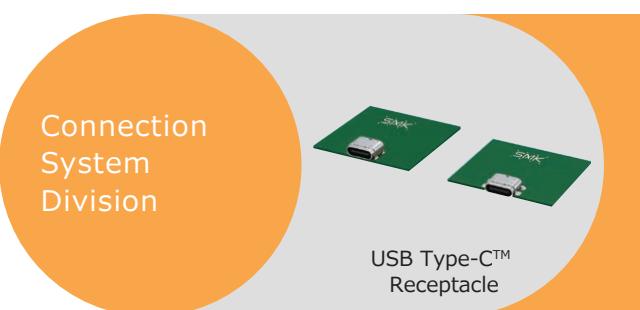
CREATIVE CONNECTIVITY



# ANNUAL REPORT

# 2018

For the fiscal year ended March 31, 2018



**SMK CORPORATION**



## 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 business for the 96th fiscal year (from April 1, 2017 to March 31, 2018).

We look forward to your continuing support and encouragement.

June 2018

**Yasumitsu Ikeda**  
President and CEO/COO



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## SMK Philosophy

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

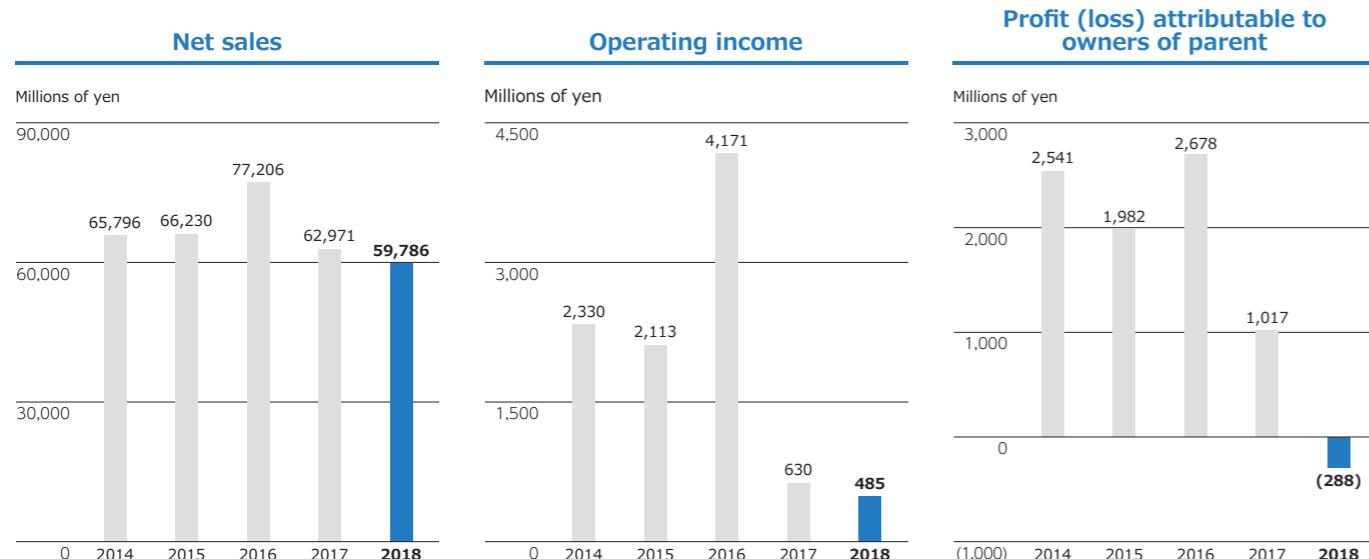
## SMK Action Guidelines

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



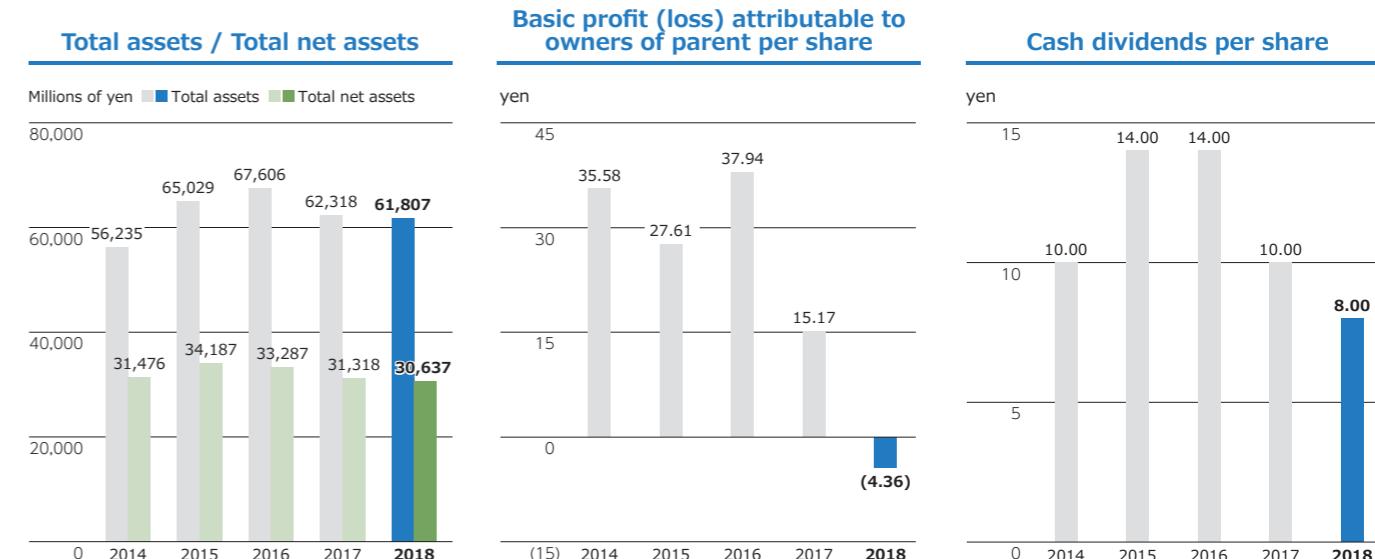
## Financial Highlights

Years ended and as of March 31	Millions of yen		Percent change 2017/2018	Thousands of U.S. dollars		
	2017	2018				
<b>Operating Results</b>						
Net sales						
Net sales	¥ 62,971	¥ 59,786	(5.1) %	\$562,745		
Operating income	630	485	(23.0)	4,565		
Profit (loss) attributable to owners of parent	1,017	(288)	—	(2,711)		
<b>Financial Position</b>						
Total assets	¥ 62,318	¥ 61,807	(0.8) %	\$581,768		
Total net assets	31,318	30,637	(2.2)	288,375		



Years ended and as of March 31	Yen		Percent change 2017/2018	U.S. dollars		
	2017	2018				
<b>Per Share Data</b>						
Profit (loss) attributable to owners of parent						
Basic	¥ 15.17	¥(4.36)	— %	\$ (0.04)		
Diluted	15.16	—	—	—		
Cash dividends	10.00	8.00	(20.0)	0.08		

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥106.24 = U.S. \$1.00.





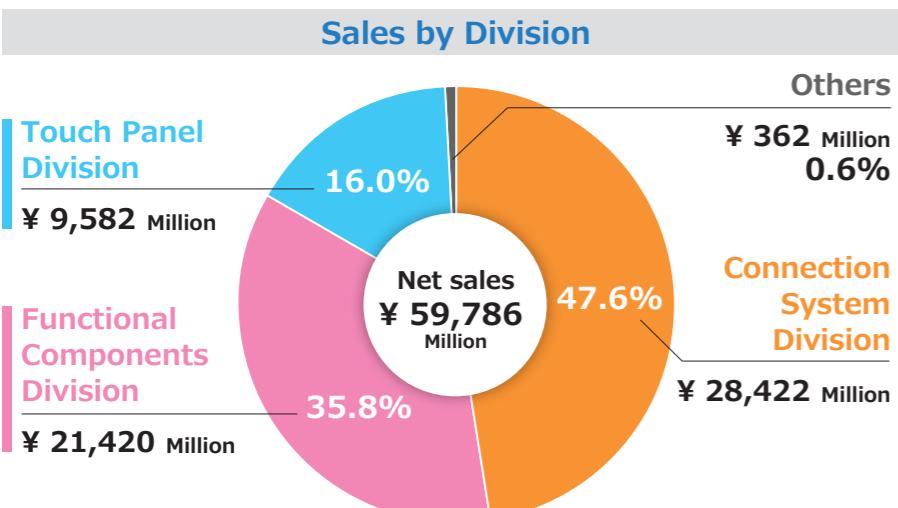
# Overview of Consolidated Results by Division

(April 1, 2017 to March 31, 2018)

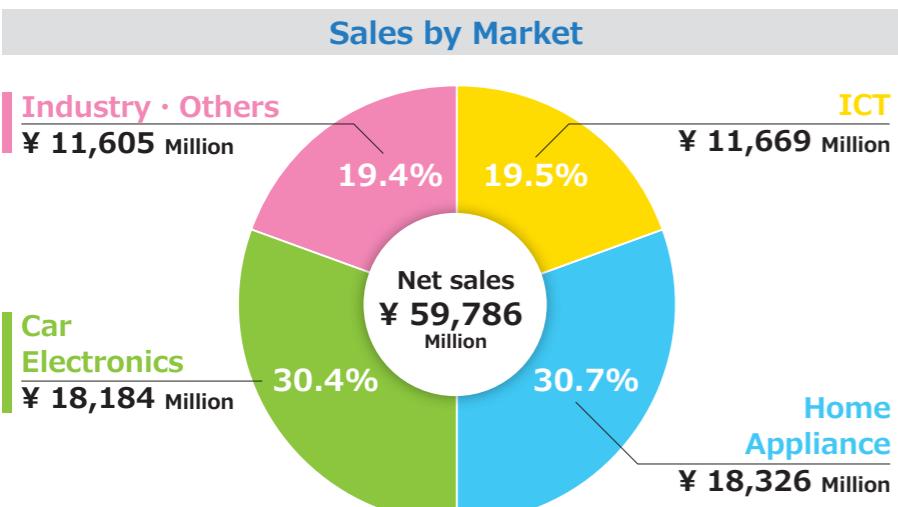
The many different electronic components that SMK produces are widely used by electronics manufacturers in and outside Japan. The markets for these components can be broadly classified into four markets: ICT Market, Home Appliance Market, Car Electronics Market and Industry Market.

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

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



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



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

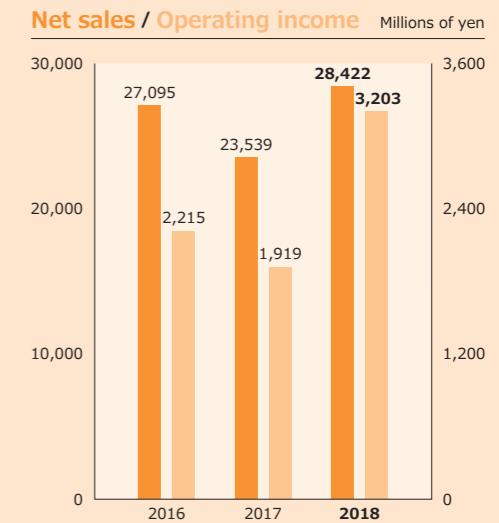
## Connection System Division



- Major Products**
- Coaxial Connectors
  - Board to Board Connectors
  - FPC Connectors
  - Jacks

Sales of connectors in the ICT market were on par with the previous fiscal year, as sales grew for connectors for tablets of customers in North America, although connectors for smartphones struggled due to intensified competition with other connector manufacturers for supply to customers in China. Sales of connectors in the car electronics market, a priority area which continues to show stable growth, grew steadily mainly for products for rearview cameras, with the accelerating development of car electronics serving as a tailwind. Sales of connectors for the industry market increased sharply year on year due to continued strong growth in connectors for the healthcare-related product.

As a result, net sales of the Connection System Division amounted to ¥28,422 million (20.7% increase year on year), and operating income was ¥3,203 million (66.9% increase year on year).



## Functional Components Division



- Major Products**
- Remote Control Units
  - Wireless Units
  - Switches
  - Camera Modules

Sales of remote control units, our mainstay products, grew steadily for sanitary and home equipment in Japan. However, sales of the products for set-top boxes dropped sharply year on year, affected by a decrease in sales volume to U.S. customers due to increased competition with other manufacturers of remote control units. As for units, sales increased year on year, as sales of automotive camera modules and home-related products expanded steadily. Sales of switches decreased year on year, due to weak sales of switches for smartphones.

As a result, net sales of the Functional Components Division amounted to ¥21,420 million (21.4% decrease year on year), and operating loss was ¥1,360 million (compared to an operating loss of ¥786 million in the previous fiscal year).



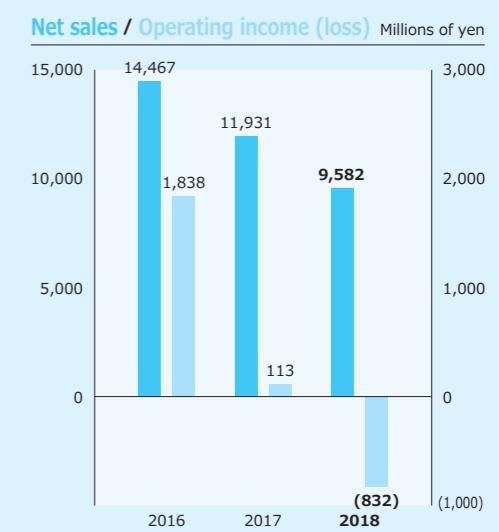
## Touch Panel Division



- Major Products**
- Resistive Touch Panels
  - Capacitive Touch Panels
  - Optical Touch Panels

In the touch panel market for car navigation systems and for automotive center consoles, which are our mainstay products for this division, the market environment continues to change significantly due to a shift in demand to capacitive touch panels from resistive touch panels. Despite new orders won for capacitive touch panels and orders continuously received for touch panels other than for car electronics, such as for machine tools and for wearable devices, sales of overall touch panels fell year on year because a decline in sales of resistive models was not offset.

As a result, net sales of the Touch Panel Division amounted to ¥9,582 million (19.7% decrease year on year), and operating loss was ¥832 million (compared to an operating income of ¥113 million in the previous fiscal year).



# Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars	
	2014	2015	2016	2017	2018	2018	2018
<b>Operating Results</b>							
Net sales	¥ 65,796	¥ 66,230	¥ 77,206	¥ 62,971	<b>¥ 59,786</b>	<b>\$ 562,745</b>	
Operating income	2,330	2,113	4,171	630	<b>485</b>	<b>4,565</b>	
Profit (loss) attributable to owners of parent	2,541	1,982	2,678	1,017	<b>(288)</b>	<b>(2,711)</b>	
<b>Financial Position</b>							
Total assets	¥ 56,235	¥ 65,029	¥ 67,606	¥ 62,318	<b>¥ 61,807</b>	<b>\$ 581,768</b>	
Total net assets	31,476	34,187	33,287	31,318	<b>30,637</b>	<b>288,375</b>	
<b>Per Share Data</b>							
Total net assets	¥ 437.84	¥ 475.42	¥ 471.02	¥ 473.50	<b>¥ 463.50</b>	<b>\$ 4.36</b>	
Profit (loss) attributable to owners of parent	35.58	27.61	37.94	15.17	<b>(4.36)</b>	<b>(0.04)</b>	
Basic	35.52	27.56	37.86	15.16	—	—	
Diluted	10.00	14.00	14.00	10.00	<b>8.00</b>	<b>0.08</b>	

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥106.24 = U.S. \$1.00.

**SMK's net sales for the fiscal year ended March 31, 2018, decreased 5.1% year on year to ¥59,786 million (US\$562,745 thousand), whereas operating income of ¥485 million (US\$4,565 thousand) and loss attributable to owners of parent of ¥288 million (US\$2,711 thousand) were recorded.**

## Net Sales

Despite favorable sales growth in products such as connectors for the healthcare market and automotive camera modules, sales of products such as connectors for smartphones for China, remote control units for set-top boxes for the U.S. customers and touch panels for automobiles were sluggish due to intensified competition in the market environment and other factors.

As a result, net sales were ¥59,786 million (US\$562,745 thousand), down 5.1% year on year.

## Operating Income

Despite our efforts such as proactive launch of new products and initiatives taken to reduce cost of sales and cut expenses, operating income amounted to ¥485 million (US\$4,565 thousand) due to profit decreasing factors such as decreases in net sales and currency fluctuations.

## Loss attributable to owners of parent

Loss attributable to owners of parent was ¥288 million (US\$2,711 thousand) as a result of recording rent income, rent expense, gain on sales of fixed assets, loss on impairment of fixed assets, etc. in other income and other expenses.

## Total Assets / ROA

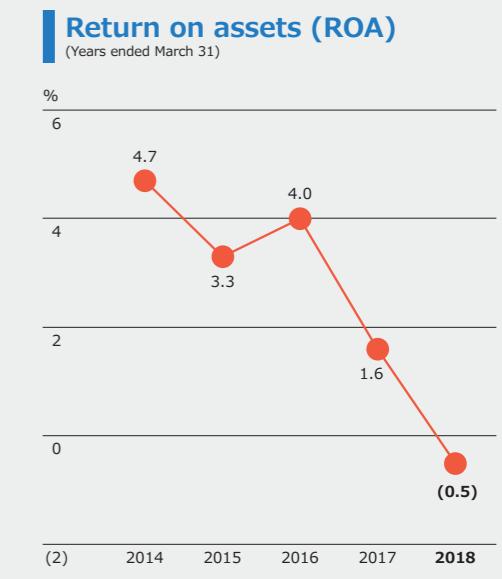
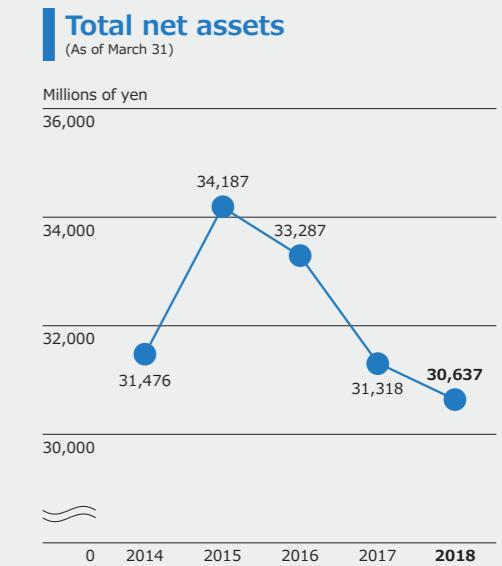
As of March 31, 2018, total assets were ¥61,807 million (US\$581,768 thousand), with ROA of (0.5) %.

## Total Net Assets / ROE

As of March 31, 2018, total net assets were ¥30,637 million (US\$288,375 thousand), with ROE of (0.9) %.

## Cash Flows

Net cash provided by operating activities amounted to ¥2,788 million (US\$26,242 thousand), net cash used in investing activities totaled ¥787 million (US\$7,408 thousand), and net cash used in financing activities was ¥1,774 million (US\$16,698 thousand).



# Consolidated Balance Sheet

SMK Corporation and Consolidated Subsidiaries  
As of March 31, 2017 and 2018

Consolidated Balance Sheets

Assets	Thousands of U.S. dollars (Note 2)		
	Millions of Yen	2017	2018
<b>Current assets</b>			
Cash and cash equivalents (Note 17)	¥ 10,011	¥ 10,482	\$ 98,663
Time deposits (Note 17)	106	117	1,101
Notes and accounts receivable, trade (Note 6 and 17)	14,853	15,251	143,552
Allowance for doubtful accounts	(48)	(56)	(527)
Inventories (Note 3)	7,199	8,775	82,596
Deferred tax assets (Note 14)	431	539	5,073
Other current assets (Note 17,18,19 and 22)	1,719	1,439	13,545
	34,274	36,548	344,014
<b>Investments and long-term loans</b>			
Investment securities (Note 17 and 18)	2,305	2,460	23,155
Long-term loans receivable (Note 22)	117	93	875
Asset for retirement benefits (Note 7)	860	1,440	13,554
Other investments (Note 22)	554	599	5,638
Allowance for doubtful accounts	(102)	(87)	(819)
	3,736	4,506	42,413
<b>Property, plant and equipment (Note 5, 13 and 20)</b>			
Land (Note 4)	7,027	6,615	62,265
Buildings	21,275	19,320	181,852
Machinery and vehicles	22,025	22,077	207,803
Tooling and office furniture	23,494	23,050	216,962
Construction in progress	100	327	3,078
	73,923	71,390	671,969
Less-accumulated depreciation	(51,953)	(51,266)	(482,549)
	21,970	20,124	189,420
<b>Other assets</b>			
Deferred tax assets (Note 14)	487	411	3,869
Intangible assets (Note 13)	1,850	215	2,024
	2,337	627	5,902
<b>Total assets</b>	¥ 62,318	¥ 61,807	\$ 581,768

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Thousands of U.S. dollars (Note 2)		
	Millions of Yen	2017	2018
<b>Current liabilities</b>			
Short-term loans payable (Note 5 and 17)	¥ 13,592	¥ 12,731	\$ 119,832
Notes and accounts payable, trade (Note 6 and 17)	6,118	6,807	64,072
Accrued income taxes	647	542	5,102
Accrued bonuses	626	668	6,288
Accrued directors' and officers' bonuses	24	1	9
Accounts payable, non-trade (Note 17)	1,407	1,919	18,063
Other current liabilities (Note 19)	1,710	1,716	16,152
	24,127	24,387	229,546
<b>Long-term liabilities</b>			
Long-term debt (Note 5 and 17)	4,855	4,526	42,602
Deferred tax liabilities (Note 14)	974	1,304	12,274
Accrued directors' and officers' retirement benefits	203	171	1,610
Liability for retirement benefits (Note 7)	54	40	377
Other long-term liabilities	784	738	6,947
	6,872	6,782	63,837
<b>Net assets</b>			
<b>Shareholders' equity (Note 8)</b>			
Common stock			
Authorized : 195,961,274 shares			
Issued : 75,000,000 shares	7,996	7,996	75,264
Capital surplus	12,057	12,057	113,488
Retained earnings	16,614	15,730	148,061
Treasury stock	(3,995)	(4,001)	(37,660)
	32,672	31,783	299,162
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on other securities	348	331	3,116
Net unrealized gains (losses) from hedging instruments (Note 19)	(3)	(9)	(85)
Foreign currency translation adjustments	(1,976)	(1,907)	(17,950)
Retirement benefits asset and liability adjustments	263	440	4,142
	(1,368)	(1,145)	(10,777)
<b>Non-controlling interests</b>			
	14	—	—
	31,318	30,637	288,375
<b>Total liabilities and net assets</b>	¥ 62,318	¥ 61,807	\$ 581,768

## Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of Yen	Thousands of U.S. dollars (Note 2)	
	2017	2018	2018
<b>Net sales (Note 21)</b>	¥ 62,971	¥ 59,786	\$ 562,745
<b>Cost of sales (Note 3 and 10)</b>	52,211	49,429	465,258
<b>Selling, general and administrative expenses (Note 10 and 11)</b>	10,130	9,871	92,912
<b>Operating income (Note 21)</b>	630	485	4,565
<b>Other income</b>			
Interest and dividend income (Note 22)	95	98	922
Rent income	1,243	1,175	11,060
Gain on sales of fixed assets (Note 12)	459	2,341	22,035
Gain on sales of investment securities (Note 18)	99	0	0
Gain on redemption of investment securities	—	46	433
Other	378	297	2,796
Total other income	2,275	3,960	37,274
<b>Other expenses</b>			
Interest expense	124	114	1,073
Rent expense (Note 22)	615	571	5,375
Foreign exchange loss, net	25	921	8,669
Loss on disposal of fixed assets (Note 12)	260	172	1,619
Loss on impairment of fixed assets (Note 13)	443	1,815	17,084
Loss on valuation of investment securities	—	181	1,704
Other	195	96	904
Total other expenses	1,664	3,875	36,474
<b>Profit before income taxes</b>	1,241	570	5,365
<b>Income taxes (Note 14)</b>			
Current	749	821	7,728
Deferred	(272)	51	480
<b>Profit (loss)</b>	764	(302)	(2,843)
<b>Loss attributable to non-controlling interests</b>	(252)	(14)	(132)
<b>Profit (loss) attributable to owners of parent</b>	¥ 1,017	¥ (288)	\$ (2,711)

	Yen	U.S. dollars (Note 2)
<b>Per share data (Note 16)</b>		
Total net assets	¥ 473.50	¥ 463.50
Profit (loss) attributable to owners of parent		\$ 4.36
Basic	15.17	(4.36)
Diluted	15.16	(0.04)
Cash dividends	10.00	8.00
		0.08

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of Yen	Thousands of U.S. dollars (Note 2)	
	2017	2018	2018
<b>Profit (loss)</b>	¥ 764	¥ (302)	\$ (2,843)
<b>Other comprehensive income (Note 15)</b>			
Net unrealized gains (losses) on other securities	171	(17)	(160)
Net unrealized gains (losses) from hedging instruments	(3)	(5)	(47)
Foreign currency translation adjustments	(469)	69	649
Retirement benefits asset and liability adjustments	39	177	1,666
Total other comprehensive income	(262)	223	2,099
<b>Comprehensive income</b>	¥ 502	¥ (79)	\$ (744)
<b>Total comprehensive income attributable to:</b>			
Owners of parent	¥ 754	¥ (65)	\$ (612)
Non-controlling interests	¥ (252)	¥ (14)	\$ (132)

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen														
		Shareholders' equity			Accumulated other comprehensive income										
		Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	shareholders' equity	Total gains (losses)	Net unrealized gains (losses) on other from hedging securities instruments	Foreign currency translation adjustments	Retirement benefits asset and liability comprehensive income	other	Subscription rights to shares	Non-controlling interests	Total assets
<b>Balance at April 1, 2016</b>	79,000,000	¥7,996	¥12,309	¥18,149	¥(4,353)	¥34,102	¥176	¥—	¥(1,506)	¥223	¥(1,106)	¥25	¥266	¥33,287	
Cash dividends paid					(891)	(891)						—	(891)		
Profit attributable to owners of parent						1,017	1,017					—	1,017		
Acquisition of treasury stock						(1,579)	(1,579)					—	(1,579)		
Disposition of treasury stock					(0)	(0)	25	24				—	24		
Retirement of treasury stock		(4,000,000)		(251)	(1,660)	1,911						—	—		
Net changes in items other than shareholders' equity							—	171	(3)	(469)	39	(262)	(25)	(539)	
Total changes	—	—	(252)	(1,534)	357	(1,429)	171	(3)	(469)	39	(262)	(25)	(1,969)		
<b>Balance at March 31, 2017</b>	75,000,000	7,996	12,057	16,614	(3,995)	32,672	348	(3)	(1,976)	263	(1,368)	—	14	31,318	
<b>Balance at April 1, 2017</b>	75,000,000	7,996	12,057	16,614	(3,995)	32,672	348	(3)	(1,976)	263	(1,368)	—	14	31,318	
Cash dividends paid					(594)	(594)						—	(594)		
Loss attributable to owners of parent					(288)	(288)						—	(288)		
Acquisition of treasury stock					(5)	(5)						—	(5)		
Disposition of treasury stock						—						—	—		
Retirement of treasury stock						—						—	—		
Net changes in items other than shareholders' equity							—	(160)	(47)	649	1,666	2,099	—	(132)	1,958
Total changes	—	—	(8,311)	(47)	(8,368)	(160)	(47)	649	1,666	2,099	—	(132)	(6,401)		
<b>Balance at March 31, 2018</b>	75,264</														

# Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries

Years ended March 31, 2017 and 2018

	Millions of Yen	Thousands of U.S. dollars (Note 2)	
	2017	2018	2018
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 1,241	¥ 570	\$ 5,365
Depreciation and amortization	4,381	4,187	39,411
Loss on impairment of fixed assets	443	1,815	17,084
Amortization of goodwill	137	—	—
Increase (decrease) in accrued bonuses	(337)	40	377
Increase (decrease) in accrued directors' and officers' retirement benefits	15	(31)	(292)
Increase (decrease) in asset and liability for retirement benefits	(257)	(382)	(3,596)
Interest and dividend income	(95)	(98)	(922)
Interest expense	124	114	1,073
(Gain) loss on sales of investment securities	(99)	(0)	(0)
(Gain) loss on redemption of investment securities	—	(46)	(433)
(Gain) loss on sales of fixed assets	(459)	(2,339)	(22,016)
(Gain) loss on valuation of investment securities	—	181	1,704
Loss on disposal of fixed assets	260	172	1,619
(Increase) decrease in notes and accounts receivable, trade	1,110	(626)	(5,892)
(Increase) decrease in inventories	(192)	(1,662)	(15,644)
Increase (decrease) in notes and accounts payable, trade	2,047	777	7,314
(Increase) decrease in accounts receivable, non-trade	1,459	160	1,506
Increase (decrease) in accounts payable, non-trade	(4,364)	692	6,514
Other	(41)	209	1,967
Subtotal	5,371	3,735	35,156
Interest and dividends received	95	87	819
Interest paid	(124)	(110)	(1,035)
Income taxes paid	(737)	(923)	(8,688)
<b>Net cash provided by (used in) operating activities</b>	<b>4,604</b>	<b>2,788</b>	<b>26,242</b>
<b>Cash flows from investing activities</b>			
Payments into time deposits	(103)	(116)	(1,092)
Proceeds from time deposits	101	108	1,017
Purchases of fixed assets	(4,680)	(3,626)	(34,130)
Proceeds from sales of fixed assets	1,039	3,161	29,753
Payments for retirement of fixed assets	—	(29)	(273)
Purchases of intangible fixed assets	(162)	(59)	(555)
Purchases of investment securities	(50)	(282)	(2,654)
Proceeds from sales of investment securities	430	0	0
Proceeds from redemption of investment securities	—	68	640
Payments for execution of loans	(125)	(39)	(367)
Collection of loans receivable	97	70	659
Other	(11)	(43)	(405)
<b>Net cash provided by (used in) investing activities</b>	<b>(3,465)</b>	<b>(787)</b>	<b>(7,408)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	1,395	(1,668)	(15,700)
Proceeds from long-term debt	1,494	2,490	23,438
Payments of long-term debt	(1,987)	(2,007)	(18,891)
Purchases of treasury stock	(1,578)	(4)	(38)
Proceeds from sales of treasury stock	24	—	—
Dividends paid	(889)	(594)	(5,591)
Other	—	10	94
<b>Net cash provided by (used in) financing activities</b>	<b>(1,541)</b>	<b>(1,774)</b>	<b>(16,698)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(254)</b>	<b>242</b>	<b>2,278</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(656)</b>	<b>470</b>	<b>4,424</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>10,668</b>	<b>10,011</b>	<b>94,230</b>
<b>Cash and cash equivalents at end of the year</b>	<b>¥10,011</b>	<b>¥10,482</b>	<b>\$98,663</b>

# Notes to Consolidated Financial Statements

SMK Corporation and Consolidated Subsidiaries

## Note 1. Summary of significant accounting policies

### (a) Basis of presenting financial statements

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

### (b) Basis of consolidation and investments in affiliated companies

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries over which substantial control is exercised either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Certain foreign subsidiaries' fiscal period ends on December 31, which differs from the year-end date of the Company; however, the accounts of these companies were tentatively closed as of March 31 and the necessary adjustments for consolidation were made.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method. Consolidated profit attributable to owners of parent includes the Company's equity in the current profit attributable to owners of parent 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: 28

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

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

### (e) Translation of foreign currencies

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

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

### (f) Cash and cash equivalents

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

### (g) Inventories

Inventories are mainly stated at the lower of cost or market. The following inventories are measured principally by their respective methods:

Finished products: Retail cost method

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

Raw materials and supplies: Most recent purchase cost method

Consolidated subsidiaries adopt mainly the moving average method.

### (h) Securities

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

### (i) Derivatives

Derivatives are stated at fair value.

### (j) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is calculated principally by the declining-balance method for the Company and its domestic subsidiaries, and by the straight-line method mainly for foreign subsidiaries. Certain buildings of the Company and its domestic subsidiaries acquired on or after April 1, 1998 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 are depreciated by the straight-line method.

The estimated useful lives of the assets are as follows:

Buildings: 10 to 50 years

Machinery and vehicles: 4 to 10 years

Tooling and office furniture: 2 to 6 years

The residual values of the property, plant and equipment acquired on or before March 31, 2007 are depreciated equally over a period of 5 years starting from the year following the year in which they have been depreciated up to their depreciable limit or 5% of the acquisition cost.

### (k) Intangible assets

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

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

- (l) Allowance for doubtful accounts  
The allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.
- (m) Accrued bonus  
Accrued bonuses are provided on the estimate of the amounts to be paid in the future by the Company, domestic consolidated subsidiaries and certain overseas subsidiaries based on an accrual basis at the balance sheet date.
- (n) Accrued directors' and officers' bonuses  
Accrued directors' and officers' bonuses are provided on the estimate of the amounts to be paid subsequent to the balance sheet date.
- (o) 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.
- (p) Retirement benefits  
Asset and liability for retirement benefits for employees are recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of employees.
- (q) Hedge accounting  
 (1) Method of hedge accounting  
Deferral hedge accounting is applied for interest rate swap transactions. The exceptional treatment is applied for interest rate swap transactions meeting certain conditions.  
 (2) Hedging instruments and hedged items  
Hedging instruments: interest rate swaps  
Hedged items: long-term debt subject to interest rate fluctuation risk.  
 (3) Hedging policy  
The Company uses interest rate swaps to hedge risks from interest rate fluctuations on borrowings, only when approved by the management.  
 (4) Assessment of effectiveness of hedging activities  
The Company evaluates the hedge effectiveness by comparing accumulated fluctuations of the hedging instrument and hedged item every quarter.  
When the exceptional treatment is applied for interest rate swaps, the assessment of hedge effectiveness is omitted.
- (r) 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.
- (s) 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 profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and 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.
- (t) Consumption taxes  
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Nondeductible consumption taxes are expensed in the consolidated financial statements.
- (u) Accounting standards issued but not yet effective  
Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets  
On February 16, 2018, the Accounting Standards Board of Japan (ASBJ) issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (ASBJ Guidance No.26).  
 (1) Overview  
The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.  
 (2) Scheduled date of adoption  
The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.  
 (3) Impact of the adoption of implementation guidance  
The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

**Accounting Standards and Implementation Guidance on Revenue Recognition**  
On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).  
 (1) Overview  
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:  
 1. Identify the contract(s) with a customer  
 2. Identify the performance obligations in the contract  
 3. Determine the transaction price  
 4. Allocate the transaction price to the performance obligations in the contract  
 5. Recognize revenue when (or as) the entity satisfies a performance obligation  
 (2) Schedule date of adoption  
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.  
 (3) Impact of the adoption of accounting standard and implementation guidance  
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

(v) Additional information  
During the consolidated fiscal year ended March 31, 2018, the Company and some of its consolidated subsidiaries applied for the adoption of consolidated taxation regime, and the consolidated taxation regime was admitted to start from the consolidated fiscal year ending March 31, 2019. In line with this, effective the consolidated fiscal year ended March 31, 2018, the Company and some of its consolidated subsidiaries have applied accounting procedures taking into consideration of the adoption of consolidated taxation regime, based on "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ PITF No.5 revised on January 16, 2015) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No.7 revised on January 16, 2015).

## 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 = ¥106.24, the approximate rate of exchange at March 31, 2018. 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, 2017 and 2018 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2018
	2018	
Finished products	¥ 2,881	¥ 3,891
Work in process	738	839
Raw materials and supplies	3,579	4,044
Total	¥ 7,199	¥ 8,775
		\$ 82,596

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2018
	2018	
Cost of sales	¥ 251	¥ 333
		\$ 3,134

## Note 4. Reduction entries

Reduction entries due to acceptance of prefectural government's grants relating to property, plant and equipment as of March 31, 2017 and 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2018
	2018	
Land	¥ 101	¥ 101
		\$ 951

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

Short-term loans payable and long-term debt as of March 31, 2017 and 2018 consisted of the following:

Short-term loans payable	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Average interest rate on short-term loans payable, principally from banks, is 0.48%			
Secured	¥ 5,500	¥ 3,400	\$ 32,003
Unsecured	6,200	6,627	62,378
Total	¥ 11,700	¥ 10,027	\$ (94,381)
Long-term debt	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Average interest rate on long-term debt, principally from banks, is 0.84%			
Secured	¥ 2,969	¥ 3,485	\$ 32,803
Unsecured	3,778	3,745	35,250
Less: portion due within one year	(1,892)	(2,704)	(25,452)
Total	¥ 4,855	¥ 4,526	\$ 42,602

The assets pledged as collateral for short-term and long-term debt as of March 31, 2017 and 2018 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
(1) Factory foundation			
Buildings	¥ 1,476	¥ 1,240	\$ 11,672
Machinery and vehicles	161	76	715
Tooling and office furniture	86	82	772
Land	256	256	2,410
Total	¥ 1,981	¥ 1,655	\$ 15,578
(2) Other			
Buildings	¥ 55	¥ 51	\$ 480
Tooling and office furniture	3	2	19
Land	39	39	367
Total	¥ 98	¥ 92	\$ 866

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2018 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 2,704	\$ 25,452
2020	1,897	17,856
2021	1,857	17,479
2022	550	5,177
2023 and thereafter	222	2,090
Total	¥ 7,230	\$ 68,054

## Note 6. Notes receivable and payable maturing on the balance sheet date

Notes receivable and payable maturing on the balance sheet date are treated as if they were settled at the clearing date of notes. Consequently, as the balance sheet date for the fiscal year was a bank holiday, the following notes receivable and payable maturing on the balance sheet date were included in the amount of each balance at March 31, 2018.

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Notes receivable	¥ —	¥ 138	\$ 1,299
Notes payable	¥ —	¥ 2	\$ 19

## Note 7. Retirement benefits plans

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

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

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

The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Balance at the beginning of the year	¥ 7,865	¥ 7,660	\$ 72,101
Service cost	322	326	3,069
Interest cost	49	48	452
Actuarial gain and loss	120	(135)	(1,271)
Retirement benefit paid	(693)	(849)	(7,991)
Other	(4)	(6)	(56)
Balance at the end of the year	¥ 7,660	¥ 7,042	\$ 66,284

The changes in plan assets during the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Balance at the beginning of the year	¥ 8,357	¥ 8,466	\$ 79,688
Expected return on plan assets	225	154	1,450
Actuarial gain and loss	338	343	3,229
Contributions by the Company	231	323	3,040
Retirement benefits paid	(686)	(845)	(7,954)
Balance at the end of the year	¥ 8,466	¥ 8,443	\$ 79,471

The funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Funded retirement benefit obligation	¥ 7,645	¥ 7,021	\$ 66,086
Plan assets at fair value	(8,466)	(8,443)	(79,471)
Unfunded retirement benefit obligation	14	20	188
Net liability for retirement benefits in the balance sheet	(806)	(1,400)	(13,178)
Liability for retirement benefits	54	40	377
Asset for retirement benefits	(860)	(1,440)	(13,554)
Net liability for retirement benefits in the balance sheet	¥ (806)	¥ (1,400)	\$ (13,178)

The components of retirement benefit expense for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Service cost	¥ 322	¥ 326	\$ 3,069
Interest cost	49	48	452
Expected return on plan assets	(225)	(154)	(1,450)
Amortization of actuarial gain and loss	(161)	(237)	(2,231)
Retirement benefit expense	¥ (14)	¥ (16)	\$ (151)

The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Actuarial gain and loss	¥ 56	¥ 241	\$ 2,268

The components of retirement benefits asset and liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	
Unrecognized actuarial gain and loss	¥ 382	¥ 623	\$ 5,864

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2018 were as follows:

	2017	2018
Bonds	4.3%	4.1%
Stocks	41.8	43.6
Life insurances	38.3	36.2
Funds	14.4	14.8
Other	1.2	1.3
Total	100.0%	100.0%

1. The total plan assets include retirement benefit trusts which constitute 11.5% for the year ended March 31, 2017 and 12.5% for the year ended March 31, 2018.
2. The expected rates of return on plan assets has been estimated based on the anticipated allocation of plan assets to each asset category and the expected long-term returns on plan assets held in each category.

The required contributions to the defined contribution plans by the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2018 amounted to ¥90 million and ¥91 million (\$85

Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets as of March 31, 2017 and 2018 were as follows:

	2017	2018
Discount rate	0.6%	0.6%
Re-evaluation rate	1.23%	1.00%
Expected rates of return on plan assets	3.0%	2.0%

#### Note 8. Net assets

Information regarding changes in net assets for the years ended March 31, 2017 and 2018 were as follows:

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

Types of shares	2017			2018				
	Number of shares at April 1, 2016	Increase	Decrease	Number of shares at March 31, 2017	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at March 31, 2018
<b>Shares issued:</b>								
Common stock	79,000,000	—	4,000,000	75,000,000	75,000,000	—	—	75,000,000
<b>Treasury stock:</b>								
Common stock	8,947,853	3,994,537	4,054,950	8,887,440	8,887,440	12,319	—	8,899,759

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

	2017	2018
Increase due to purchase of shares	3,979,000	—
Increase due to purchase of shares of less than standard unit	11,350	8,891
Increase in shares held by affiliates accounted for by the equity method	4,187	3,428

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

	2017	2018
Decrease due to exercising stock options	54,000	—
Decrease due to retirement of shares	4,000,000	—
Decrease due to sales of shares of less than standard unit	950	—

##### 2. Share subscription rights

Not applicable.

##### 3. Dividends

###### (1) Dividends paid

<b>2017</b>					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 22, 2016	Common stock	561	8	March 31, 2016	June 23, 2016
Board of Directors' meeting on October 25, 2016	Common stock	331	5	September 30, 2016	November 21, 2016
<b>2018</b>					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 22, 2017	Common stock	331	5	March 31, 2017	June 23, 2017
Board of Directors' meeting on October 25, 2017	Common stock	265	4	September 30, 2017	November 20, 2017

##### (2) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ended March 31, 2018

<b>2017</b>					
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date
Shareholders' meeting on June 22, 2017	Common stock	Retained earnings	331	5	March 31, 2017
<b>2018</b>					
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date

<b>2018</b>					
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date
Shareholders' meeting on June 22, 2018	Common stock	Retained earnings	264	4	March 31, 2018
					June 25, 2018

<b>2019</b>					
Resolution	Type of shares	Source of dividends	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Effective date
Shareholders' meeting on June 22, 2018	Common stock	Retained earnings	2,485	0.04	

#### Note 9. Stock options

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

Not applicable.

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

	2017	2018
Gain on reversal of share subscription rights	20	—

3. Description of stock options

Not applicable.

4. Change in stock options

Not applicable.

5. Estimation of the number of stock options vested

Not applicable.

#### Note 10. 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, 2017 and 2018 amounted to ¥3,314 million and ¥3,150 million (\$ 29,649 thousand), respectively.

#### Note 11. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
Salaries and wages of employees	¥ 4,384	¥ 4,531	\$ 42,649
Provision for bonus	316	338	3,181
Provision for directors' and officers' bonus	23	1	9
Retirement benefit cost	38	37	348
Provision for directors' and officers' retirement benefits	33	5	47
Provision for doubtful accounts	(0)	(1)	(9)

#### Note 12. Gains and losses of fixed assets

The components of gains and losses of fixed assets for the year ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
Gains on sales of fixed assets	¥ 459	¥ 2,341	

For the year ended March 31, 2018, impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen 2018					
			Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	Total
TP Division	Japan	Touch panel production facilities	¥ 171	¥ 89	¥ 9	¥ —	¥ 0	¥ 271
SMK Manufacturing, Inc. U.S.A.		Remote controls/Switch/Unit production facilities	5	68	57	0	2	133
SMK Electronica S.A. de C.V.	MEXICO	Remote controls/Switch/Unit production facilities	22	30	4	—	0	56
SMK-LOGOMOTION Corporation	Japan	Other	—	—	6	—	1,347	1,353
<b>Total</b>			<b>¥ 199</b>	<b>¥ 188</b>	<b>¥ 77</b>	<b>¥ 0</b>	<b>¥ 1,350</b>	<b>¥ 1,815</b>
Thousands of U.S. dollars 2018								
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	Total
TP Division	Japan	Touch panel production facilities	\$ 1,610	\$ 838	\$ 85	\$ —	\$ 0	\$ 2,551
SMK Manufacturing, Inc. U.S.A.		Remote controls/Switch/Unit production facilities	47	640	537	0	19	1,252
SMK Electronica S.A. de C.V.	MEXICO	Remote controls/Switch/Unit production facilities	207	282	38	—	0	527
SMK-LOGOMOTION Corporation	Japan	Other	—	—	56	—	12,679	12,735
<b>Total</b>			<b>\$ 1,873</b>	<b>\$ 1,770</b>	<b>\$ 725</b>	<b>\$ 0</b>	<b>\$ 12,707</b>	<b>\$ 17,084</b>

The Company's assets for business operations are categorized into groups on a division-by-division basis and the Company's rental property on an individual basis, whereas consolidated subsidiaries' assets for business operations are categorized into groups on a subsidiary-by-subsidiary basis and their rental property on an individual basis.

Of the above asset groups, because the TP (Touch Panel) Division, SMK Manufacturing, Inc. and SMK Electronica S.A. de C.V. suffered declining trends in net sales and income due to intense price competition in the market, the future cash flows from their asset groups were estimated after revising their business plans. As a result, it was found that they could not generate sufficient earnings to recover the carrying value of the respective asset groups, and therefore their book value was reduced to the recoverable amounts. As for SMK-LOGOMOTION Corporation, because operating loss has been recorded continually and future plan was not certain, its book value was reduced to the recoverable amount.

The recoverable amount of the asset group of the TP Division was measured at value in use, and since no future cash flows are expected, the full amount of the book value of the fixed assets regarding this business at the end of the second quarter is recorded as impairment loss. The recoverable amounts of the asset group of the SMK Manufacturing, Inc., SMK Electronica S.A. de C.V. and SMK-LOGOMOTION Corporation were measured at value in use, and since no future cash flows are expected, the full amount of the book value of the fixed assets regarding these businesses is recorded as impairment loss.

#### Note 14. 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 30.8% for the years ended March 31, 2017 and 2018, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2017 and 2018 was as follows:

	2017	2018
Statutory tax rate	30.8%	30.8%
Items such as entertainment expenses permanently non-deductible for tax purposes	1.3	5.8
Items such as dividend income permanently non-taxable	(71.1)	(106.4)
Change in valuation allowance	19.7	121.7
Tax credit for R&D expenses	—	(8.9)
Foreign withholding taxes	12.1	2.9
Inhabitant tax on per capita basis	1.7	3.6
Statutory tax rate differences in subsidiaries	(9.5)	(31.9)
Elimination of dividend income	73.4	109.5
Accumulated surplus of subsidiaries	(18.9)	(12.2)
Decrease of deferred tax assets at fiscal year-end due to the change of tax rate	—	38.6
Other	(1.1)	(0.4)
<b>Effective tax rate</b>	<b>38.4%</b>	<b>153.1%</b>

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2018 were as follows:

	2017	2018	Thousands of U.S. dollars 2018
<b>Deferred tax assets:</b>			
Inventory write-down disallowed	¥ 21	¥ 57	\$ 537
Accrued bonuses disallowed	167	213	2,005
Intercompany profit on inventory	62	62	584
Liability for retirement benefits	4	6	56
Allowance for doubtful accounts	33	46	433
Impairment loss	609	1,020	9,601
Operating loss carryforwards for tax purposes	1,246	1,210	11,389
Other	698	732	6,890
Valuation allowance	(1,749)	(2,324)	(21,875)
Deferred tax assets	1,095	1,026	9,657
<b>Deferred tax liabilities:</b>			
Asset for retirement benefits	(28)	(439)	(4,132)
Deferred gain on land	(81)	(81)	(762)
Advanced depreciation on buildings	(50)	(7)	(66)
Reserve for special depreciation	(21)	(17)	(160)
Net unrealized gains on other securities	(139)	(134)	(1,261)
Accumulated surplus of foreign subsidiaries	(342)	(265)	(2,494)
Valuation difference on subsidiaries	(330)	(338)	(3,181)
Other	(155)	(124)	(1,167)
Deferred tax liabilities	(1,150)	(1,408)	(13,253)
Net deferred tax assets	¥ (54)	¥ (382)	\$ (3,596)

Change in deferred tax assets due to reduction in corporate income tax rate

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018. Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

As a result, as of and for the year ended March 31, 2018, net deferred tax assets have decreased by ¥219 million (\$2,061 thousand) and income taxes-deferred have increased by ¥219 million (\$2,061 thousand).

#### Note 15. 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, 2017 and 2018.

	2017	2018	Thousands of U.S. dollars 2018
<b>Net unrealized gains (losses) on other securities:</b>			
Amount arising during the year	¥ 345	¥ 23	\$ 216
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(98)	(46)	(433)
Amount before tax effect	246	(23)	(216)
Tax effect	(74)	5	47
Net unrealized gains (losses) on other securities	171	(17)	(160)
<b>Net unrealized gains (losses) from hedging instruments:</b>			
Amount arising during the year	(3)	(5)	(47)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	—	—	—
Amount before tax effect	(3)	(5)	(47)
Tax effect	—	—	—
Net unrealized gains (losses) from hedging instruments	(3)	(5)	(47)
<b>Foreign currency translation adjustments:</b>			
Amount arising during the year	(469)	90	847
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	—	—	—
Amount before tax effect	(469)	90	847
Tax effect	—	(20)	(188)
Foreign currency translation adjustments	(469)	69	649
<b>Retirement benefits asset and liability adjustments:</b>			
Amount arising during the year	217	478	4,499
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(161)	(237)	(2,231)
Amount before tax effect	56	241	2,268
Tax effect	(16)	(63)	(593)
Retirement benefits asset and liability adjustments	39	177	1,666
Total other comprehensive income	¥ (262)	¥ 223	\$ 2,099

## Note 16. Amounts per share

1. Profit (loss) attributable to owners of parent per share of common stock is based on the following information

	2017	2018	Thousands of U.S. dollars 2018
	Millions of yen	Millions of yen	
Basic profit (loss) attributable to owners of parent per share:			
Profit (loss) attributable to owners of parent	¥ 1,017	¥ (288)	(\$2,711)
Profit (loss) attributable to owners of parent not attributable to common stockholders	—	—	—
Profit (loss) attributable to owners of parent attributable to common stock	1,017	(288)	(2,711)
Average number of shares of common stock outstanding during the year	67,064	66,106	

2. Diluted profit attributable to owners of parent per share of common stock is based on the following information

	2017	2018	Thousands of U.S. dollars 2018
	Millions of yen	Millions of yen	
Diluted profit attributable to owners of parent per share:			
Adjustments	¥ —	¥ —	\$ —
Increase in number of shares of common stock	15	—	
(share subscription rights)	15	—	
Description of dilutive securities which were not included in the calculation of diluted profit attributable to owners of parent per share of common stock as they have no dilutive effects	—	—	

## Note 17. Financial instruments

### (1) Policy for financial instruments

The Company and consolidated subsidiaries manage temporary cash surpluses through low-risk financial assets.

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 the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of effectiveness of hedging activities is found in Note 1 (q).

Execution and management of derivatives transactions are carried out in accordance with the company rules specifying the transaction authority. In addition, in order to alleviate credit risk, derivative transactions are restricted to banks with high credit ratings. Although operating liabilities and loans payable are exposed to liquidity risk, the Group's companies are able to manage it by using methods such as preparing monthly cash management plans.

### (3) Additional information regarding fair value of financial instruments

Fair value of financial instruments includes the value based on the market price. In addition, if such information is absent, reasonable assessments of their value are included. Furthermore, the contract amounts, etc. relating to derivatives transactions are described in Note 19. Derivatives themselves do not serve as indicators of market risk involved in derivatives transactions.

Information regarding fair value of financial instruments at March 31, 2017 and 2018 was summarized as follows:

	2017			2018			Thousands of U.S. dollars 2018
	Book value	Fair value	Difference	Book value	Fair value	Difference	
Cash and cash equivalents	¥10,011	¥10,011	¥ —	¥10,482	¥10,482	¥ —	\$98,663
Time deposits	106	106	—	117	117	—	1,101
Notes and accounts receivable, trade	14,853	14,853	—	15,251	15,251	—	143,552
Other current assets and Investment securities	2,063	2,063	—	2,019	2,019	—	19,004
Notes and accounts payable, trade	6,118	6,118	—	6,807	6,807	—	64,072
Short-term loans payable	11,700	11,700	—	10,027	10,027	—	94,381
Accounts payable, non-trade	1,407	1,407	—	1,919	1,919	—	18,063
Long-term debt	6,747	6,743	(3)	7,230	7,228	(2)	68,053
Derivatives	2	2	—	37	37	—	348

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

The assets and liabilities arising from derivatives are shown on a net basis with the amount in parentheses representing a net liability position.

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 19 Derivatives of the notes to the consolidated financial statements.

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

	2017	2018	Thousands of U.S. dollars 2018
	Millions of yen	Millions of yen	
Unlisted securities	¥ 306	¥ 440	\$ 4,142

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

	2017					2018					Thousands of U.S. dollars 2018		
	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	Due within one year	Due after one year through five years	Due after five years through ten years	
Cash equivalents and time deposits	¥9,996	¥ —	¥ —	¥10,590	¥ —	¥ —	\$ 99,680	\$ —	\$ —	\$ 14,703	\$ 9,930	\$ 4,772	
Notes and accounts receivable, trade	14,853	—	—	15,251	—	—	143,552	—	—	—	—	—	
Other current assets and Investment securities	64	—	—	—	—	—	—	—	—	—	—	—	
Total	¥24,914	¥ —	¥ —	¥25,841	¥ —	¥ —	\$ 243,232	\$ —	\$ —	\$ 19,004	\$ 14,627	\$ 4,367	

## Note 18. Securities

Information regarding securities classified as other securities at March 31, 2017 and 2018 was summarized as follows:

	2017			2018			Thousands of U.S. dollars 2018
	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)	
Securities whose fair value exceeds their cost							
Stocks	¥ 1,632	¥ 1,051	¥ 581	¥1,562	¥ 1,055	¥ 507	\$ 14,703
Others	64	21	42	—	—	—	—
Subtotal	1,697	1,073	623	1,562	1,055	507	14,703
Sec							

## Note 19. 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)	
	2017	2018	2017	2018	2017	2018	2018	2018	2018	2018	2018	2018
Forward foreign exchange contracts:												
Sell: US\$ / Buy: Yen	¥ 1,281	¥ 1,853	¥ 6	¥ 47	¥ 6	¥ 47	\$ 17,442	\$ 442	\$ 442			
Sell: US\$ / Buy: GBP	44	39	(0)	0	(0)	0	367	0	0			
Sell: US\$ / Buy: EUR	29	78	0	0	0	0	734	0	0			
Total	¥ 1,355	¥ 1,971	¥ 6	¥ 47	¥ 6	¥ 47	\$ 18,552	\$ 442	\$ 442			

(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		Fair value		Contract amount		Due after one year		Fair value	
	2017	2018	2017	2018	2017	2018	2018	2018	2018	2018	2018	2018
Interest rate swaps (Deferral hedge accounting)	¥ 800	¥ 1,941	¥ 800	¥ 1,872	¥ (3)	¥ (9)	\$ 18,270	\$ 17,620	\$ (85)			
Interest rate swaps (Exceptional treatment)	¥ 3,598	¥ 1,938	¥ 1,938	¥ 1,240	¥ —	¥ —	\$ 18,242	\$ 11,672	\$ —			

(1) Calculation of fair value

The fair value is calculated by the forward interest rate.

(2) Regarding interest rate swaps to which the exceptional treatment applied, 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 17.

## Note 20. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2017 and 2018 amounted to ¥627 million and ¥604 million (\$5,685 thousand), respectively.

Information on the fair value of investment and rental property at March 31, 2017 and 2018 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars					
	2017		2018		2018		2017		2018		2018	
	Book value beginning of the year	Book value end of the year	Book value beginning of the year	Book value end of the year	Book value beginning of the year	Fair value	Book value beginning of the year	Book value end of the year	Book value beginning of the year	Fair value	Book value beginning of the year	Fair value
	¥ 8,875	¥ 8,410	¥ 15,481	¥ 8,410	¥ 7,603	¥ 14,158	\$ 79,160	\$ 71,564	\$ 133,264			

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 21. 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, remote controls and camera modules.

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

The business segment information is prepared in a manner similar to the accounting treatment as described in Note 1. Segment performance is evaluated based on operating income or loss.

### 1. Business segment information

	Reportable Segments								Millions of yen									
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Total	Adjustment	Consolidated		
	Net sales	Outside customers	Intersegment sales	Total	Operating income (loss)	Identifiable assets	Others	Depreciation	Increase in fixed assets and intangible fixed assets	Net sales	Outside customers	Intersegment sales	Total	Operating income (loss)	Identifiable assets	Others	Depreciation	Increase in fixed assets and intangible fixed assets
2017										Net sales	Outside customers	Intersegment sales	Total	Operating income (loss)	Identifiable assets	Others	Depreciation	Increase in fixed assets and intangible fixed assets
<b>Net sales</b>										<b>Net sales</b>	Outside customers	Intersegment sales	Total	Operating income (loss)	Identifiable assets	Others	Depreciation	Increase in fixed assets and intangible fixed assets
Outside customers	¥ 23,539	¥ 27,238	¥ 11,931	¥ 62,708	¥ 263	¥ 62,971	¥ —	¥ 62,971	Outside customers	¥ 28,422	¥ 21,420	¥ 9,582	¥ 59,424	¥ 362	¥ 59,786	¥ —	¥ 59,786	
Intersegment sales	—	—	—	—	—	—	—	—	Intersegment sales	—	—	—	—	—	—	—	—	
Total	23,539	27,238	11,931	62,708	263	62,971	—	62,971	Total	28,422	21,420	9,582	59,424	362	59,786	—	59,786	
<b>Operating income (loss)</b>	1,919	(786)	113	1,246	(616)	630	—	630	<b>Operating income (loss)</b>	3,203	(1,360)	(832)	1,011	(526)	485	—	485	
<b>Identifiable assets</b>	13,779	14,070	6,047	33,897	11,927	45,824	16,493	62,318	<b>Identifiable assets</b>	16,359	13,289	5,107	34,756	9,553	44,310	17,496	61,807	
<b>Others</b>									<b>Others</b>									
Depreciation	2,117	1,131	636	3,885	495	4,381	—	4,381	Depreciation	2,235	943	580	3,759	427	4,187	—	4,187	
Increase in fixed assets and intangible fixed assets	2,263	1,637	543	4,443	152	4,595	—	4,595	Increase in fixed assets and intangible fixed assets	2,053	542	442	3,038	121	3,160	—	3,160	
2018									2018									
<b>Net sales</b>									<b>Net sales</b>									
Outside customers	¥ 28,422	¥ 21,420	¥ 9,582	¥ 59,424	¥ 362	¥ 59,786	¥ —	¥ 59,786	Outside customers	¥ 267,526								

### 3. Information about major customers

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

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

	Millions of yen	Thousands of U.S. dollars
	2017	2018
	2017	2018
Connection System Division	¥ —	\$ —
Functional Components Division	443	190
Touch Panel Division	—	271
Subtotal	443	461
Other	—	1,353
Adjustments and eliminations	—	—
Consolidated	¥ 443	\$ 17,084
	¥ 1,815	75,000,000 shares

The amount of other is related to SMK-LOGOMOTION Corporation.

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

	Reportable Segments						
	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other	Adjustment	Consolidated
2017							
Amortization	¥ —	¥ 91	¥ 45	¥ 137	¥ —	¥ —	¥ 137
Balance	—	—	—	—	—	—	—

Impairment loss on goodwill in the amount of ¥263 million was recognized for the year ended March 31, 2017.

Not applicable for the year ended March 31, 2018.

### Note 22. Related party transactions

Significant transactions with related parties for the years ended March 31, 2017 and 2018 were as follows:

	Transactions					Balances	
	Purchase of golf membership	Guaranty money deposited	Rent	Other investments	Other current assets		
Terutaka Ikeda (Supreme corporate adviser)	¥ 12	¥ —	¥ 14	¥ 14	¥ 1		
Millions of yen							
Paul Evans (Director)	¥ 1	¥ 1	¥ 1	¥ 35			
Millions of yen							
2018	Transactions					Balances	
	Purchase of golf membership	Guaranty money deposited	Rent	Other investments	Other current assets		
Terutaka Ikeda (Supreme corporate adviser)	¥ —	¥ —	¥ 14	¥ 14	¥ 1		
Millions of yen							
Paul Evans (Director)	¥ 1	¥ 1	¥ 30	¥ 2			
Thousands of U.S. dollars							
	Transactions					Balances	
	Purchase of golf membership	Guaranty money deposited	Rent	Other investments	Other current assets		
Terutaka Ikeda (Supreme corporate adviser)	\$ —	\$ —	\$ 132	\$ 132	\$ 9		
Thousands of U.S. dollars							
Paul Evans (Director)	\$ 9	\$ 9	\$ 282	\$ 19			

### Note 23. Subsequent Events

#### Change of the number of shares to constitute one unit and consolidation of shares

On April 26, 2018, the Board of Directors resolved to change the number of shares to constitute one unit. In addition, the Board of Directors resolved to propose an agenda item of the consolidation of shares at the 96th General Meeting of Shareholders on June 22, 2018. This proposal for the consolidation of shares was approved at the General Meeting of Shareholders. The details of this are as follows.

#### (1) Purpose of change of the number of shares to constitute one unit and consolidation of shares

Japanese stock exchanges (including the Tokyo Stock Exchange) set a deadline of October 1, 2018 by which the trading units of all listed companies in Japan must be unified to 100 shares. Therefore, we changed the trading unit of our common

stock from the current 1,000 shares to 100 shares to respect the spirit of this movement as a company that is listed on the Tokyo Stock Exchange. In addition, we will also maintain the level with respect to the price per trading unit of our shares. Together with this, we will implement a consolidation to turn ten of our shares into one share so that no changes occur in the number of voting rights of each shareholder.

#### (2) Particulars of consolidation of shares

##### (i) Type of shares to be consolidated

Common shares

##### (ii) Consolidation ratio

On October 1, 2018, shares held by shareholders recorded in the latest Shareholder Registry as of September 30, 2018 (actually September 28) will be consolidated at the ratio of 10 shares to 1 share.

##### (iii) Number of shares reduced through consolidation

Total number of shares issued before consolidation (as of March 31, 2018)

75,000,000 shares

Number of shares reduced through consolidation

67,500,000 shares

Total number of shares issued after consolidation

7,500,000 shares

#### (3) Treatment of fractional shares

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of the Companies Act, the Company will sell all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions.

#### (4) Schedule

Resolution of the Board of Directors

April 26, 2018

Resolution of General Meeting of Shareholders

June 22, 2018

Effective date of consolidation of shares and change of the number of shares to constitute one unit

October 1, 2018

#### (5) Effects on per share information

The following provides the per share information of the previous consolidated fiscal year and this consolidated fiscal year under the assumption that the applicable consolidation of shares was enforced at the beginning of the previous consolidated fiscal year.

	Yen	2018	2018
Net assets per share	¥ 4,734.95	¥ 4,635.03	\$ 43.63
Net income (loss) per share	151.65	(43.63)	(0.41)

#### Introduction of Board Benefit Trust

We resolved at the Board of Directors' meeting held on April 26, 2018 to introduce a new share-based compensation plan, a "Board Benefit Trust (BBT)" (the "Plan") and the Plan was approved at the 96th General Meeting of Shareholders on June 22, 2018 (the "General Shareholders' Meeting").

##### (1) Background and purpose

Our Board of Directors resolved to introduce the Plan, subject to the approval of shareholders at the General Shareholders' Meeting regarding executive compensation, for the purpose of raising awareness of contributing to the improvement of medium- to long-term business results and increasing corporate value by further clarifying the link between the compensation of directors (including executive officer, excluding outside directors; "Directors") and our share value, and by Directors sharing with shareholders not only the benefits of share price rises, but also the risks of share price declines. Our Board of Directors submitted a proposal for the Plan to the General Shareholders' Meeting.

##### (2) Outline of the Plan

###### (i) Outline of the Plan

The Plan is a share-based compensation plan under which our shares are acquired through a trust (the trust established in accordance with the Plan, the "Trust") by using the funds contributed by us. Directors will receive our shares as well as the amount of money equivalent to the market value of our shares (as at the date of the retirement of Directors) through the Trust in accordance with the officer stock benefit rules formulated by us. In principle, Directors will receive benefits, such as Shares, on their retirement.

###### (ii) Scope of the Plan

Directors and executive officers (excluding outside directors and auditors)

###### (iii) Trust period

The trust period shall be from August 2018 (planned) up to the expiry of the Trust (a specific expiry date has not been determined for the trust period of the Trust, and the Trust will continue as long as the Plan continues; the Plan shall be terminated if the Company's shares are delisted, the Officer Stock Benefit Regulations are discontinued, or other similar circumstances arise.)

###### (iv) Trust amount

Subject to the approval of the Plan at the General Shareholders' Meeting, the Company shall introduce the Plan to cover the period of three fiscal years from the fiscal year ending on March 31, 2019 to the fiscal year ending on March 31, 2021 (hereinafter, this period of three fiscal years is referred to as the "initial applicable period," and the initial applicable period and each period of three fiscal years starting after the initial applicable period are referred to as an "applicable period") and each subsequent applicable period, and the Company shall contribute cash to the Trust as follows as funds for the acquisition of the Company's shares by the Trust, in order to deliver the Company's shares to Directors, etc.

First, at the start of the trust period described in (iii) above, the Company shall contribute funds to the Trust up to ¥430 million (US\$4,047 thousand) as the funds required for the initial applicable period (including ¥192 million (US\$1,807 thousand) for Directors).

In addition, after the initial applicable period, the Company shall continue to make additional contributions to the Trust up to ¥430 million (US\$4,047 thousand) (including ¥192 million (US\$1,807 thousand) for Directors) for each applicable period, in principle, until the Plan is terminated. However, if the Company's shares (excluding those that correspond to points granted to Directors, etc. for each applicable period until the immediately preceding period, that have yet to be delivered to

Directors, etc.) and cash ("residual shares, etc.") remain in the trust assets when making such additional contributions, the total amount of the residual shares, etc. (for the Company's shares, the fair value on the final day of the immediately preceding applicable period) and any amount additionally contributed shall be no more than ¥430 million (US\$4,047 thousand) (including ¥192 million (US\$1,807 thousand) for Directors).

Furthermore, the Company may contribute funds to the Trust on multiple occasions during an applicable period, including the initial applicable period, until the cumulative amount of contributions in that applicable period reaches the aforementioned maximum amount for each applicable period. If the Company decides to make additional contributions, they shall be disclosed in a timely and appropriate manner.

(v) Method of acquiring the Company's shares and number of shares to be acquired

The Trust shall acquire the Company's shares through trading markets or acquiring treasury shares from the Company, using the funds contributed as described in (iv) above, and no new shares shall be issued.

For the initial applicable period, the Trust shall acquire up to 438,000 shares promptly upon the establishment of the Trust.

The details of the acquisition of the Company's shares by the Trust shall be disclosed in a timely and appropriate manner.

(vi) Method of calculating the number of the Company's shares to be delivered to Directors, etc.

For each fiscal year, Directors, etc. shall be granted a number of points determined in consideration of their position, level of achievement of business results, and other factors, based on the Officer Stock Benefit Regulations. However, points shall not be granted if operating income is negative for that fiscal year. The maximum total number of points to be granted to Directors, etc. per fiscal year shall be 146,000 points (including 65,000 points for Directors). This number has been determined by comprehensively taking into consideration of the current level of officer remuneration paid, trends in the number of Directors, etc., future expectations, and other factors. The Company has determined it to be appropriate. Each point granted to Directors, etc. shall be converted into one share of common stock of the Company when the Company's shares are delivered as described in (vii) below (however, in case of events such as a stock split, a gratis allotment of shares or a reverse stock split of the Company's shares after approval and resolution by shareholders at this Shareholders' Meeting, the maximum number of points, the number of points already granted and the conversion ratio shall be reasonably adjusted in accordance with the ratio thereof and other conditions).

In principle, the standard number of points for a Director, etc. when delivering the Company's shares as described in (vii) below shall be the number of points granted up to the time of retirement (hereinafter, the number of points thus calculated shall be referred to as the "vested number of points").

(vii) Delivery of the Company's shares

If a Director, etc. retires and he or she satisfies the beneficiary requirements set forth in the Officer Stock Benefit Regulations, he or she shall receive delivery from the Trust of a number of the Company's shares corresponding to his or her "vested number of points" determined as set forth in (vi) above after retirement, in principle, by completing the prescribed beneficiary vesting procedures.

(viii) Exercise of voting rights

Voting rights pertaining to the Company's shares held in the Trust account shall not be exercised altogether, in accordance with the directions of the trust administrator, to ensure neutrality to the Company's management.

(ix) Treatment of dividends

The Trust shall receive dividends pertaining to the Company's shares held in the Trust account, and they shall be used for purposes such as funds for acquiring the Company's shares and trust fees for the trustee. Furthermore, if the Trust is terminated, any residual dividends, etc. in the Trust shall be distributed to incumbent Directors, etc. at that time in proportion with the respective number of points held, in accordance with the provisions of the Officer Stock Benefit Regulations.

(x) At the expiry of the Trust

The Trust shall be terminated if the Company's shares are delisted, the Officer Stock Benefit Regulations are discontinued, or other similar circumstances arise.

The Company intends to acquire without consideration all of the Company's shares among the Trust's residual assets at its expiry and retire them by resolution of the Board of Directors. Any cash among the Trust's residual assets at its expiry shall be delivered to the Company after excluding any cash to be delivered to Directors, etc. in accordance with (ix) above.

(xi) Overview of the Trust

1. Name: Board Benefit Trust (BBT)
2. Entrustor: SMK corporation
3. Trustee: Mizuho Trust & Banking Co., Ltd. (re-entrusted by: Asset Management Trust & Custody Services Bank, Ltd.)
4. Beneficiaries: Retired Directors who meet the beneficiary eligibility requirements provided in the Officer Stock Benefit Regulations
5. Trust administrator: A third party with no conflict of interests with us is to be selected
6. Types of trust: Money trust other than cash trusts (third-party benefit trust)
7. Date of conclusion of this trust agreement: August 2018 (planned)
8. Date on which the funds are entrusted: August 2018 (planned)
9. Period of the Trust: From August 2018 (planned) until the Trust is terminated (No specific date has been set for the termination of the Trust; the Trust will continue as long as the Plan continues).

## Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries



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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, 2018, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### Convenience Translation

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

*Ernst & Young ShinNihon LLC*

June 22, 2018  
Tokyo, Japan

A member firm of Ernst & Young Global Limited



## Officer Introduction

(As of June 22, 2018)

### Directors



**Yasumitsu Ikeda**

President,  
Chief Executive Officer and  
Chief Operating Officer



**Yoshiyuki Kaku**  
Director and  
Executive Deputy President,  
Chief Technology Officer



**Mikio Wakabayashi**  
Director and  
Executive Vice President



**Paul Evans**  
Director and  
Executive Vice President



**Toshio Nakamura**  
Outside Director



**Kaoru Ishikawa**  
Outside Director

### Auditors



**Tetsuya Nakamura**  
Auditor and  
Chairman of Auditors'  
Meeting



**Naru Nakashima**  
Outside Auditor



**Ichiro Shimizu**  
Outside Auditor



**Morikazu Fukui**  
Outside Auditor

### Corporate Executive Officers



**Kohei Ohgaki**  
Executive Vice President,  
Chief Financial Officer



**Shigechika Yanagi**  
Executive Vice President



**Masanobu Ikeo**  
Executive Vice President



**Tetsuo Hara**  
Executive Vice President



**Hideo Matsumoto**  
Vice President



**Hiroshi Miyakawa**  
Vice President



**Takemi Ishibashi**  
Vice President



**Mitsuhiro Goto**  
Vice President



**Mitsuyuki Masubuchi**  
Vice President



**Hiroshi Usami**  
Vice President,  
Chief Information Officer



**Atsushi Obinata**  
Vice President



**Fumikazu Hata**  
Vice President



## Topics

### 1 Relocation of SMK Shenzhen Factory

SMK Electronics (Shenzhen) Co., Ltd. in Shenzhen, China, relocated and started operating from March, 2018.

The Shenzhen factory is the SMK Group's main overseas connector factory, where it produces a wide variety of connectors and harnesses for the ICT, car electronics and industry market.

The factory relocated to a high-tech business enterprise zone owned by Shenzhen City, Nanshan District local government, which is located approximately 6km from the old factory. This industrial park comes complete with welfare facilities such as a kindergarten, company dormitory, supermarket, and canteen.

By relocating to a new factory, we will be equipped to handle a wider range of products.



**Location** Section 5, Bldg. 23, Baiwangxin Industrial Area, Songbai Road, Xili Street, Nanshan District, Shenzhen City, Guangdong, China

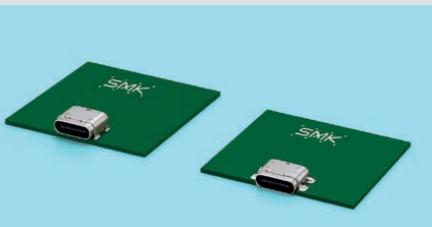
<Main Products of the Shenzhen factory>



Small Coaxial Connector for Automotive Camera Module



Waterproof FAKRA Connector for Automotive Devices



USB Type-C™ Receptacle

### 2 Relocation of SMK's China Technology Development Center

SMK Electronics Technology Development (Shenzhen) Co., Ltd., in Shenzhen, China, relocated to the New Jianxing Block in the Jianxing Science & Technology Building, located in the Nanshan District, Shenzhen City in June, 2017.

The new office is located on the top floor (9F) of a building in the business district that is easily accessible by public transport.

With a beautiful view, in the most suitable environment for design, engineers of Development Center are working on the development of new products of connectors, remote control units and touch panels.



Entrance



Design office

**Location** New Jianxing Block A 901, Jianxing Science & Technology Building, ShaHe West Road, Nanshan District, Shenzhen City, Guangdong, China



# Corporate Information

(As of March 31, 2018)

## Corporate Data

<b>Name</b>	SMK Corporation
<b>Established</b>	April 3, 1925
<b>Registered</b>	January 15, 1929
<b>Primary business</b>	Manufacture and sale of various parts for electro-communication device and electronic equipment
<b>Capital</b>	¥ 7,996,828,021
<b>Stock exchange listing</b>	Tokyo Stock Exchange
<b>Administrator of shareholders register</b>	Mitsubishi UFJ Trust and Banking Corporation
<b>Independent auditors</b>	Ernst & Young ShinNihon LLC Tokyo, Japan
<b>Employees (SMK-Group)</b>	5,926
<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
<b>Global Network</b>	
<b>Domestic Bases</b> (9 Bases)	Shinagawa, Tokyo (Head office) Gate City Ohsaki, Toyama, Hitachi, Osaka, Nagoya, Ibaraki, Hokuriku and Fukuoka
<b>Overseas Bases</b> (17 Countries/Areas, 37 Bases)	Taiwan, Hong Kong, China, Singapore, Thailand, Malaysia, Philippines, Korea, Ireland, U.K., France, Germany, Belgium, Slovakia, U.S.A., Mexico and Brazil



Head Office



Gate City Office

- \* ECHONETLite is a trademark of the ECHONET CONSORTIUM.
- \* USB Type-C™ is a trademark of USB Implementers Forum.
- \* Other products and company names listed in this report are the registered trademarks or trademarks of their respective holders.

## SMK CORPORATION

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>	7,413	
<b>Major Shareholders (top ten)</b>		
Major Shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
SMK Cooperating Company Share Holding Association	3,381	5.10
Mizuho Bank, Ltd.	3,287	4.96
Nippon Life Insurance Company	3,241	4.89
Dai Nippon Printing Co., Ltd.	3,200	4.83
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.79
SMK Employees Share Holding Association	1,800	2.72
Mitsubishi UFJ Trust and Banking Corporation	1,800	2.72
The Showa Ikeda Memorial Foundation	1,500	2.26
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,487	2.24
Meiji Yasuda Life Insurance Company	1,379	2.08

(Notes) 1. SMK holds 8,753 thousand shares of treasury stock, but these are excluded from the above list. Figures for percentage of shares are calculated excluding the treasury stock.  
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its company name to MUFG Bank, Ltd. on April 1, 2018.

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

Financial institutions	20,562,685 (27.42%)
Financial instruments dealers	1,222,181 ( 1.63%)
Other entities	10,135,406 (13.51%)
Foreign entities, etc.	8,395,748 (11.19%)
Individuals and others	34,683,980 (46.25%)

## Please see our website for detailed IR information.

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

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