

Translation

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**Summary of Consolidated Financial Results
for the Six Months Ended September 30, 2017
(Based on Japanese GAAP)**

October 27, 2017

Company name: SMS CO., LTD.
 Stock exchange listing: Tokyo
 Stock code: 2175 URL <http://www.bm-sms.co.jp/>
 Representative: CEO Natsuki Goto
 Inquiries: CFO Masato Sugizaki TEL 03-6721-2400
 Scheduled date to file Quarterly Securities Report: November 13, 2017
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2017	13,162	9.8	2,146	(7.1)	2,690	(8.2)	1,859	0.9
Six months ended September 30, 2016	11,990	28.6	2,311	21.7	2,930	22.5	1,843	15.0

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2017	42.85		42.69	
Six months ended September 30, 2016	45.44		45.29	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2017	45,157	21,631	39.0
As of March 31, 2017	43,231	21,583	39.6

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2017	–	0.00	–	11.00	11.00
Year ending March 31, 2018	–	0.00			
Year ending March 31, 2018 (Forecast)			–	–	–

3. Forecast of consolidated financial results for the year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	27,804	20.6	4,378	20.1	5,137	15.9	3,396	21.3	78.27

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2017
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2017	43,416,200 shares	As of March 31, 2017	43,382,600 shares
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Number of treasury shares at the end of the period

As of September 30, 2017	113 shares	As of March 31, 2017	113 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2017	43,397,687 shares	Six months ended September 30, 2016	40,561,195 shares
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Quarterly consolidated financial statements
Consolidated balance sheets

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	7,829	9,855
Accounts receivable - trade	3,932	3,869
Merchandise and finished goods	81	67
Work in process	18	16
Supplies	36	28
Accounts receivable - other	2,491	3,410
Prepaid expenses	722	705
Deferred tax assets	239	245
Other	11	12
Allowance for doubtful accounts	(128)	(130)
Total current assets	15,235	18,080
Non-current assets		
Property, plant and equipment		
Buildings	375	419
Accumulated depreciation	(185)	(234)
Buildings, net	189	185
Tools, furniture and fixtures	573	676
Accumulated depreciation	(418)	(428)
Tools, furniture and fixtures, net	154	247
Machinery, equipment and vehicles	43	44
Accumulated depreciation	(19)	(26)
Machinery, equipment and vehicles, net	23	18
Total property, plant and equipment	368	450
Intangible assets		
Goodwill	11,166	11,234
Software	1,544	1,316
Trademark right	9,703	9,329
Customer-related assets	2,692	2,468
Other	0	0
Total intangible assets	25,107	24,348
Investments and other assets		
Investment securities	1,665	1,336
Deferred tax assets	209	234
Lease and guarantee deposits	612	682
Other	33	24
Total investments and other assets	2,521	2,278
Total non-current assets	27,996	27,077
Total assets	43,231	45,157

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	311	284
Short-term loans payable	–	9
Current portion of long-term loans payable	1,201	1,201
Accounts payable - other	4,236	5,194
Accrued expenses	182	284
Income taxes payable	1,139	1,044
Accrued consumption taxes	242	350
Advances received	1,077	1,590
Deposits received	52	67
Provision for bonuses	315	381
Provision for repayment	143	185
Other	8	19
Total current liabilities	8,910	10,612
Non-current liabilities		
Long-term loans payable	10,210	10,576
Net defined benefit liability	135	145
Deferred tax liabilities	2,374	2,175
Other	17	17
Total non-current liabilities	12,737	12,913
Total liabilities	21,648	23,526
Net assets		
Shareholders' equity		
Capital stock	2,153	2,165
Capital surplus	4,148	3,963
Retained earnings	11,662	13,044
Treasury shares	(0)	(0)
Total shareholders' equity	17,963	19,173
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustment	(838)	(1,554)
Total accumulated other comprehensive income	(838)	(1,554)
Subscription rights to shares	110	118
Non-controlling interests	4,347	3,893
Total net assets	21,583	21,631
Total liabilities and net assets	43,231	45,157

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	11,990	13,162
Cost of sales	1,762	1,932
Gross profit	10,228	11,230
Selling, general and administrative expenses	7,916	9,083
Operating profit	2,311	2,146
Non-operating income		
Share of profit of entities accounted for using equity method	609	522
Other	54	43
Total non-operating income	663	565
Non-operating expenses		
Interest expenses	24	20
Other	19	0
Total non-operating expenses	44	21
Ordinary profit	2,930	2,690
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	58	–
Total extraordinary income	58	–
Extraordinary losses		
Loss on sales of investment securities	20	–
Loss on sales of shares of subsidiaries and associates	143	28
Other	–	0
Total extraordinary losses	163	28
Profit before income taxes	2,825	2,662
Income taxes	988	862
Profit	1,836	1,800
Loss attributable to non-controlling interests	(6)	(59)
Profit attributable to owners of parent	1,843	1,859

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Profit	1,836	1,800
Other comprehensive income		
Valuation difference on available-for-sale securities	(9)	0
Foreign currency translation adjustment	(3,822)	(1,274)
Share of other comprehensive income of entities accounted for using equity method	(22)	(6)
Total other comprehensive income	(3,854)	(1,280)
Comprehensive income	(2,017)	519
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,201)	1,143
Comprehensive income attributable to non-controlling interests	(815)	(624)

Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	2,825	2,662
Depreciation	501	523
Amortization of goodwill	334	321
Loss (gain) on sales of investment securities	20	–
Loss (gain) on sales of shares of subsidiaries and associates	84	28
Share of (profit) loss of entities accounted for using equity method	(427)	321
Increase (decrease) in allowance for doubtful accounts	(25)	3
Increase (decrease) in provision for bonuses	(101)	71
Increase (decrease) in provision for repayment	28	42
Increase (decrease) in net defined benefit liability	(0)	9
Decrease (increase) in notes and accounts receivable - trade	437	16
Increase (decrease) in accrued consumption taxes	159	108
Decrease (increase) in accounts receivable - other	(418)	(892)
Decrease (increase) in prepaid expenses	(105)	21
Increase (decrease) in advances received	235	544
Increase (decrease) in accounts payable - other	556	938
Other, net	120	223
Subtotal	4,227	4,946
Interest and dividend income received	6	1
Interest expenses paid	(26)	(21)
Income taxes paid	(825)	(1,106)
Net cash provided by (used in) operating activities	3,382	3,820
Cash flows from investing activities		
Payments into time deposits	–	(451)
Proceeds from withdrawal of time deposits	85	357
Purchase of property, plant and equipment	(67)	(148)
Purchase of intangible assets	(430)	(425)
Purchase of investment securities	(33)	–
Proceeds from sales of shares of subsidiaries and associates	391	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(784)
Payments of loans receivable	(20)	–
Other, net	1	(8)
Net cash provided by (used in) investing activities	(72)	(1,461)

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from financing activities		
Decrease in short-term loans payable	(12,000)	(31)
Proceeds from long-term loans payable	12,012	933
Repayments of long-term loans payable	–	(600)
Proceeds from issuance of subscription rights to shares	1	2
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	4	15
Cash dividends paid	(286)	(477)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(3)	(230)
Net cash provided by (used in) financing activities	(272)	(388)
Effect of exchange rate change on cash and cash equivalents	(76)	(40)
Net increase (decrease) in cash and cash equivalents	2,960	1,930
Cash and cash equivalents at beginning of period	5,147	7,140
Cash and cash equivalents at end of period	8,107	9,071