

November 8, 2016

Consolidated Financial Highlights for the Second Quarter Ended September 30, 2016[under Japanese GAAP]

Company name : **SMC Corporation**
 Stock exchange listing : **Tokyo Stock Exchange first section**
 Security code : **6273**
 URL : <http://www.smcworld.com/ir/en/>
 Representative : **Katsunori Maruyama, President**
 Contact person : **Ikuji Usui, Executive Managing Director**
 Projected date of filing quarterly report: **November 8, 2016**
 Projected starting date of dividend payment : **December 1, 2016**

1. Consolidated Financial Highlights for the Second Quarter Ended September 30, 2016 (April 1, 2016 to September 30, 2016)

(1) Consolidated Operating Results

(Millions of yen)

2nd Quarter ended September 30	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
2016	229,861 (5.4%)	67,830 (4.0%)	54,162 (28.6%)	45,854 (15.0%)
2015	242,887 9.1%	70,640 11.8%	75,807 2.2%	53,916 2.0%

(Note) Comprehensive Income 2Q ended September 30, 2016 : ¥ (17,773) million —%
 2Q ended September 30, 2015 : ¥ 31,437 million (58.9)%

(Yen)

2nd Quarter ended September 30	Net income per share	Net income per share (diluted basis)
2016	682.44	—
2015	802.48	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
September 30, 2016	1,082,481	917,303	84.5%
March 31, 2016	1,120,171	941,813	83.9%

(Note) Shareholders' equity As of September 30, 2016 : ¥ 914,830 million
 As of March 31, 2016 : ¥ 939,409 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2016(Actual)	—	100.00	—	100.00	200.00
2017(Actual)	—	100.00	NA	NA	NA
2017(Projected)	NA	—	—	100.00	200.00

(Note) Revision of dividends forecast during this period : None

3. Forecasts of operating results for the year ending March 31, 2017

(Millions of yen, except per share figures)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share (Yen)
Year ending March 31, 2017	450,000 (5.4%)	122,000 (9.1%)	110,000 (14.9%)	87,000 (5.6%)	1,294.75

(Note) Revision of forecasts of operating results during this period : Yes

* Notes

(1) Changes in significant subsidiaries during the second quarter ended September 30, 2016: Yes

(Changes in specified subsidiaries resulting in the change in scope of consolidation)

Newly consolidated : 1 company (company name : SMC Manufacturing (Vietnam) Co., Ltd.)

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1. Changes in accounting policies applied due to revisions of accounting standards: Yes

2. Changes in accounting policies other than the above: None

3. Changes in accounting estimates: None

4. Retrospective restatement: None

(4) Number of shares issued

1. Number of common shares issued (including treasury shares)

As of September 30, 2016 :	67,369,359
As of March 31, 2016 :	67,369,359

2. Number of treasury shares

As of September 30, 2016 :	175,109
As of March 31, 2016 :	178,285

3. Average number of common shares for the six months ended

September 30, 2016 :	67,192,453
September 30, 2015 :	67,187,282

Information on status of the audit procedures

At the time of disclosure of these highlights, the quarterly consolidated financial statement review procedures based on the Financial Instruments and Exchange Law of Japan are completed.

Appropriate use of business forecasts; other special items

1. The revised forecasts of operating results for the year ending March 31, 2017, are shown in this release.
2. The forecast contains forward-looking statements that are based on available data at the time of this release. Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the second quarter ended (from April 1 to September 30, 2016), net sales were 229,861 million yen (decreased 5.4% from the previous corresponding period) due to rapid strong yen from the beginning of the period. Operating income was 67,830 million yen (4.0% decreased), while ordinary income was 54,162 million yen (28.6% decreased) because non-operating profit and loss turned into 13,668 million yen losses mainly due to recorded 18,030 million yen foreign exchange losses (767 million yen foreign exchange gains recorded in the previous corresponding period) related to foreign-currency receivables and payables. Extraordinary income or loss turned into 1,257 million yen losses mainly due to recorded 1,373 million yen impairment losses related to overseas assets. Profit before income taxes was 52,905 million yen (30.4% decreased), while profit attributable to owners of parent was 45,854 million yen (15.0% decreased) because 6,871 million yen was recorded mainly due to reimbursement of corporate income taxes for prior periods related to the transfer pricing rules.

ROE became 4.9%, declined by 0.9 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the second quarter were 1,082,481 million yen, which was a decrease of 37,689 million yen (3.4%) from the previous fiscal year end. The main factors were 10,670 million yen decrease in cash and deposits, 8,937 million yen decrease in inventory and 8,201 million yen decrease in property, plant and equipment.

Total liabilities were 165,178 million yen, which was a decrease of 13,179 million yen (7.4%) from the previous fiscal year end. The main factor was 14,203 million yen decrease in short-term loans payable.

Net assets decreased 24,510 million yen (2.6%) to 917,303 million yen from the previous fiscal year end, mainly due to 65,279 million yen decrease in foreign currency translation adjustment affected by strong yen, despite 39,054 million yen increase in retained earnings due to recorded quarterly profit attributable to owners of parent.

Equity ratio became 84.5%.

(3) Consolidated Forecasts and Other Forward-Looking Information

The forecasts of operating results for the year ending March 31, 2017 has been revised in this release based on the actual results up to the second quarter of this year, from the previous forecasts announced on May 13, 2016.

Average foreign exchange rates for the period which are precondition for above revised forecasts had been changed to 103 yen per 1 US dollar and 115 yen per 1 Euro.

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Net Income per share
Previous Forecasts (A) (announced on May 13, 2016)	(Millions of Yen) 450,000	(Millions of Yen) 107,000	(Millions of Yen) 114,000	(Millions of Yen) 82,000	(Yen) 1,220.40
Revised Forecasts (B)	450,000	122,000	110,000	87,000	1,294.75
Changes (B-A)	—	15,000 14.0%	(4,000) (3.5%)	5,000 6.1%	—

<Reference>

Results of the Previous FY 2015 (Year ended March 31, 2016)	475,608	134,233	129,188	92,138	1,371.34
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The above forecast contains forward-looking statements that are based on available data and reasonable conditions at the time of release. Actual results may vary materially from those described herein by some factors that differ from expectations.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the second quarter ended September 30, 2016

[Change in scope of consolidation]

Since this first quarter, SMC Manufacturing (Vietnam) Co., Ltd. has become a consolidated subsidiary from a non-consolidated subsidiary due to the growing importance and SMC (Tianjin) Manufacturing Co., Ltd. has also become a consolidated subsidiary because it was newly established. In addition, SMC Manufacturing (Vietnam) Co., Ltd. corresponds to the specified subsidiary.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements

[Calculation of income taxes]

As for income taxes, the effective tax rate after applying the tax effect accounting to the income before income taxes of the fiscal year including this Second quarter was reasonably estimated.

And income tax was calculated by multiplying the income before income taxes by this estimated effective tax rate.

Income taxes for some subsidiaries were computed with effective statutory tax rates instead of estimated effective tax rates. Recoverable amount for differed tax assets were reasonably estimated.

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

[Application of “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes”]

SMC Corporation has applied “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes” (PITF No. 32, June 17, 2016) from the first quarter and has changed depreciation method related to buildings and accompanying facilities and structures acquired after April 1, 2016 from declining-balance method to straight-line method.

This adoption had a little impact on the consolidated quarterly financial statements for the second quarter under review.

(4) Additional information

[Application of “Implementation Guidance on Recoverability of Deferred Tax Assets”]

SMC Corporation has applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (Guideline of ASBJ No. 26, March 28, 2016) from the first quarter.

3. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2016	Second quarter end -Current year As of September 30, 2016
[ASSETS]		
Current assets		
Cash and deposits	412,707	402,037
Notes and accounts receivable-trade	118,264	114,163
Merchandise and finished goods	79,645	77,649
Work in process	15,650	14,428
Raw materials and supplies	87,267	81,548
Other	34,481	36,408
Allowance for doubtful accounts	(894)	(726)
Total current assets	747,123	725,509
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	65,918	63,782
Machinery, equipment and vehicles, net	32,167	28,081
Land	32,232	29,188
Other, net	17,990	19,055
Total property, plant and equipment	148,309	140,108
Intangible assets	4,553	6,270
Investments and other assets		
Investment securities	44,311	47,380
Insurance funds	118,992	121,221
Other	58,770	43,831
Allowance for doubtful accounts	(1,889)	(1,838)
Total investments and other assets	220,184	210,594
Total non-current assets	373,048	356,972
Total assets	1,120,171	1,082,481

(Millions of yen)

	Year end -Previous year As of March 31, 2016	Second quarter end -Current year As of September 30, 2016
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	55,405	56,169
Short-term loans payable	45,918	31,714
Income taxes payable	12,352	11,893
Provision for bonuses	2,611	3,014
Provision	—	1,302
Other	33,962	31,506
Total current liabilities	150,249	135,602
Non-current liabilities		
Long-term loans payable	3,325	5,733
Provision for directors' retirement benefits	808	838
Net defined benefit liability	9,388	8,997
Other	14,585	14,007
Total non-current liabilities	28,108	29,576
Total liabilities	178,357	165,178
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,778	72,821
Retained earnings	775,655	814,709
Treasury shares	(3,411)	(3,374)
Total shareholders' equity	906,027	945,161
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,879	4,358
Foreign currency translation adjustment	32,336	(32,942)
Remeasurements of defined benefit plans	(1,833)	(1,746)
Total accumulated other comprehensive income	33,381	(30,330)
Non-controlling interests	2,403	2,472
Total net assets	941,813	917,303
Total liabilities and net assets	1,120,171	1,082,481

(2) Consolidated Quarterly Statement of Income and Consolidated Quarterly Statement of Comprehensive Income

Consolidated Quarterly Statement of Income

(Millions of yen)

	Second quarter ended September 30, 2015 From April 1, 2015 to September 30, 2015	Second quarter ended September 30, 2016 From April 1, 2016 to September 30, 2016
Net sales	242,887	229,861
Cost of sales	119,984	112,727
Gross profit	122,902	117,134
Selling, general and administrative expenses	52,262	49,303
Operating income	70,640	67,830
Non-operating income		
Interest income	2,801	2,861
Foreign exchange gains	767	—
Other	1,918	1,745
Total non-operating income	5,486	4,607
Non-operating expenses		
Interest expenses	147	85
Sales discounts	111	122
Foreign exchange losses	—	18,030
Other	60	37
Total non-operating expenses	319	18,275
Ordinary income	75,807	54,162
Extraordinary income		
Gain on sales of non-current assets	87	174
Gain on sales of investment securities	166	11
Other	1	4
Total extraordinary income	255	190
Extraordinary losses		
Loss on retirement of non-current assets	34	40
Impairment loss	—	1,373
Other	9	33
Total extraordinary losses	44	1,447
Profit before income taxes	76,018	52,905
Income taxes	22,032	13,831
Income taxes for prior periods	—	(6,871)
Profit	53,986	45,945
Profit attributable to non-controlling interests	69	90
Profit attributable to owners of parent	53,916	45,854

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	Second quarter ended September 30, 2015 From April 1, 2015 to September 30, 2015	Second quarter ended September 30, 2016 From April 1, 2016 to September 30, 2016
Profit	53,986	45,945
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,869)	1,502
Foreign currency translation adjustment	(20,412)	(65,307)
Remeasurements of defined benefit plans, net of tax	(266)	87
Total other comprehensive income	(22,548)	(63,718)
Comprehensive income	31,437	(17,773)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	31,384	(17,857)
Comprehensive income attributable to non-controlling interests	52	84

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption	N/A
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Notes in event of significant changes in shareholders' equity	N/A
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Supplementary Information

(1) Geographic segment information

(Millions of yen)

	2Q ended September 30, 2016							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	77,687	35,966	35,918	75,271	5,017	229,861	—	229,861
(2) Intersegment sales	83,790	1,608	767	21,299	6	107,472	(107,472)	—
Total	161,478	37,574	36,685	96,570	5,024	337,334	(107,472)	229,861
Operating income (loss)	40,677	6,470	3,418	14,549	(21)	65,094	2,736	67,830

(2) Consolidated capital expenditures, Depreciation and R&D expense

(Millions of yen)

	2Q ended September 30, 2016		Year ending March 31, 2016 (Forecast)	
Capital expenditures	7,453	(48.1%)	25,500	3.0%
Depreciation	6,522	(9.9%)	14,300	(0.3%)
R&D expense	9,532	1.8%	19,000	3.0%

(Note) Previous forecasts of capital expenditures, depreciation and R&D expense announced on May 13, 2016, are revised in this quarterly financial statement.

(3) Foreign currency exchange rates

	2Q ended September 30, 2016		Year ending March 31, 2017 (Forecast)
	(average)	(at end)	(average)
U S \$	¥ 105.25	¥ 101.12	¥ 103
E U R	¥ 118.11	¥ 113.29	¥ 115

(Note) Previous forecasts of foreign currency exchange rates announced on May 13, 2016, are revised in this quarterly financial statement.

(4) Consolidated full-time employees and temporary employees

(Number of personnel)

	2Q ended September 30, 2016	Increase (decrease) from last year end
Full-time employees (at end)	18,957	575
Temporary employees (average)	5,153	155