

Dear Shareholders,

(Security Code: 6273)

June 6, 2017

Notice of the 58th Ordinary General Meeting of Shareholders

Notice is hereby given to cordially invite you to attend the 58th Ordinary General Meeting of Shareholders of SMC Corporation (“Company”) to be held as described below.

If you are unable to attend the meeting in person, you are entitled to cast your vote in writing or via the Internet. In this regard, we cordially request that you study the attached “Reference Documents for the General Meeting of Shareholders” and exercise your voting right by 5:00 p.m., on June 27, 2017(Tuesday).

Sincerely,

Katsunori Maruyama
President

SMC Corporation

4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

1. Date and Time June 28, 2017 (Wednesday) 10:00 a.m.

2. Venue Conference Room, SMC Corporation
Akihabara UDX Building (15F),
4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

3. Agenda

Matters to be reported

Business Report, Consolidated and Non-consolidated Financial Statements, and Audit Report for Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors, for the 58th fiscal term (April 1, 2016 to March 31, 2017)

Matters to be resolved

Proposal 1. Dividend of Surplus

Proposal 2. Partial Amendments to Articles of Incorporation

Proposal 3. Election of 10 Directors

Proposal 4. Awards of Directors' Retirement Benefits to Retiring Directors

Should it become necessary to revise the Appendix or Reference Documents for the General Meeting of Shareholders attached to this Notice, those revisions will be shown on the Company's website*

***The Company's website address: <http://www.smcworld.com/ir/en/>**

Proposals and References

Proposal 1 Dividend of Surplus

[Basic capital policy]

The Company considers that its highest priority issue is to maximize shareholder value through corporate value improvement accompanied by mid- to long-term profit growth.

The Company will also strive to increase net assets and create an environment enabling smooth capital procurement by maintaining high ratings so that it can build a solid financial base that is not affected by financial and economic turmoil and rapid changes in foreign exchange rates like those occurred in connection with the collapse of Lehman Brothers in 2008.

In addition, the Company will continue to maintain its competitive advantage, positively make necessary investments in production facilities, research and development activities, human resources, etc. for sustained operations, and keep adequate cash on hand to meet relevant capital requirements.

To increase shareholder returns, the Company basically continues to pay stable dividends and also flexibly acquire treasury shares depending on situations.

[Matters related to year-end dividend]

This is to propose that the dividend of surplus for the term be made as described below, based on the above-mentioned basic capital policy and in consideration of the latest operating results and financial positions.

(1) Allocation of divisible assets payable to shareholders and total amount

200 yen per share on the Company's common shares (Ordinary dividend: 100 yen, Special dividend: 100 yen)

Total amount: 13,444,099,800 yen

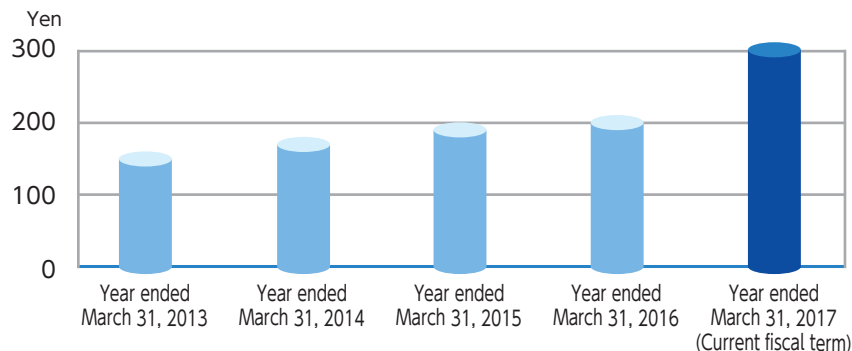
(2) Effective date of the dividends from surplus

June 29, 2017

Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 300 yen, an increase of 100 yen from the previous fiscal year.

Reference:

Changes in dividend per share



Proposal 2

Partial Amendments to Articles of Incorporation

1. Reason for Amendments

To officially introduce an executive officer system to promote segregation of the supervisory function and decision-making function of the Board of Directors from the business-execution function of the same, in order to increase the flexibility and transparency of the decision-making.

Accordingly, the Company has decided to include provisions on executive officers and to reduce the maximum number of directors.

2. Contents of Amendments

(Underline indicates amendments.)

Current Articles of Incorporation	Proposed Amendments
Article 19. (Number) The Company shall have not more than <u>twenty-one</u> (<u>21</u>) directors.	Article 19. (Number) The Company shall have not more than <u>twelve</u> (<u>12</u>) directors.
[Newly established provisions]	Article 29. (Executive Officers) (i) The Company may appoint executive officers by resolution of its Board of Directors to have them share the responsibility to execute the business of the Company. (ii) Matters relating to executive officers shall be governed by the executive officers' regulation which shall be enacted by the Board of Directors.
Article <u>29</u> through Article <u>43</u> [Provisions omitted.]	Article <u>30</u> through Article <u>44</u> [Same as current version.]

Proposal 3 Election of 10 Directors

The term of office of the current 14 Directors will expire at the conclusion of this Annual General Meeting of Shareholders.

To increase the flexibility and transparency of decision-making at the Board of Directors, this is to propose that the number of Directors be reduced by 4 and 10 Directors be elected (all 10 Directors will be reappointed; 2 of the Directors are candidates for Outside Directors).

The names and profiles of the candidates for Directors are as follows.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
1	[Reappointed] Yoshiyuki Takada (August 20, 1926)	April 1959	Established the Company, Director
		May 1964	Executive Managing Director
		December 1988	Senior General Manager of Sales Headquarters
		May 1989	President
		August 2002	Chairman, SMC US (Incumbent)
		July 2004	Chairman, the Company (Incumbent)
	Number of the Company's shares held 10,017 shares		
	[Reason for selection as a candidate for Director] Since the foundation of the Company in 1959, Mr. Yoshiyuki Takada has led overall business activities in R&D, production and sales with strong leadership and high entrepreneurial spirit. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		
2	[Reappointed] Katsunori Maruyama (March 25, 1947)	June 1970	Joined the Company
		June 1993	Director Manager of Sales Administration Division
		June 1999	General Manager of Planning & Intelligence Service Division
		June 2001	Managing Director
		July 2002	Executive Managing Director
		July 2003	Executive Vice-president
		July 2004	President (Incumbent)
	Number of the Company's shares held 2,000 shares		
	[Reason for selection as a candidate for Director] Mr. Katsunori Maruyama had been in charge of the analysis of market trends for many years and has fulfilled his responsibilities by serving as President and Representative Director, the chief executive for business execution since 2004. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
3	[Reappointed] Ikuji Usui (August 20, 1943)	June 1993 June 1999 June 2001 June 2001 July 2003	Joined the Company, Director General Manager of Administration Division Vice Senior General Manager of Administration Headquarters Managing Director Senior General Manager of Administration Headquarters (Incumbent) Executive Managing Director (Incumbent)
	Number of the Company's shares held 1,700 shares	<p>[Reason for selection as a candidate for Director] Mr. Ikuji Usui has served as Manager in the Administration Division since joining the Company in 1993, and has fulfilled his responsibilities as Senior General Manager supervising the entire Administration Division including Personnel, Finance and Accounting, and IR Divisions since 2001. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.</p>	
4	[Reappointed] Seiji Kosugi (March 9, 1945)	April 1967 June 1999 June 2002 June 2007 June 2008 July 2009 February 2010 June 2013	Joined the Company General Manager of Product Development Division 1 Director Executive Advisory Engineer Director Vice Senior General Manager of Engineering Headquarters Managing Director Executive Managing Director and Senior General Manager of Engineering Headquarters (Incumbent)
	Number of the Company's shares held 8,400 shares	<p>[Reason for selection as a candidate for Director] Mr. Seiji Kosugi has been engaged in the development and design of the Company's core products since joining the Company, and has fulfilled his responsibilities as Senior General Manager supervising the entire R&D Division since 2013. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.</p>	
5	[Reappointed] Masahiko Satake (January 19, 1947)	April 1969 November 2001 June 2007 July 2012 June 2013	Joined the Company General Manager of Production Division 3 Director Managing Director and Vice Senior General Manager of Production Headquarters Executive Managing Director and Senior General Manager of Production Headquarters (Incumbent)
	Number of the Company's shares held 1,000 shares	<p>[Reason for selection as a candidate for Director] Mr. Masahiko Satake has been engaged in the management of production cost and projects to streamline operations for many years and has fulfilled his responsibilities as Manager of Kamaishi Factory since 2001 and Senior General Manager of the Production Headquarters supervising the entire Production Division since 2013. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.</p>	

Reference Documents for the General Meeting of Shareholders

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
6	[Reappointed] Osamu Kuwahara (April 18, 1949)	April 1972	Joined the Company
		August 2005	Manager of Sales Engineering Division
		June 2009	Director
		July 2009	General Manager of Corporate Business Planning Division
		June 2011	General Manager of Sales Engineering Division (Incumbent)
		June 2013	Managing Director
		September 2013	Senior General Manager of Marketing Headquarters (Incumbent)
		June 2015	Executive Managing Director and Senior General Manager of Sales Headquarters (Incumbent)
		Number of the Company's shares held 1,400 shares	
		[Reason for selection as a candidate for Director] Mr. Osamu Kuwahara has been engaged in customer services of the Sales Engineering Division, a division serving as a bridge between the Sales Division and R&D Division, for many years. He was positioned as Manager of the Sales Engineering Division in 2011, as Senior General Manager of newly established Marketing Headquarters in 2013, and concurrently as Senior General Manager supervising the entire Sales Division in 2015, fulfilling his responsibilities. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.	
7	[Reappointed] Yoshiki Takada (June 6, 1958)	April 1987	Joined the Company
		June 1991	On loan to SMC US
		June 1994	Director of the Company
		June 2002	Managing Director (Incumbent)
		July 2003	In charge of Overseas Operations
		April 2004	President, SMC US (Incumbent)
		June 2014	Managing Director of the Company in charge of Management for North America , Central and South America Zone (Incumbent)
		Number of the Company's shares held 743,062 shares	
		[Reason for selection as a candidate for Director] Mr. Yoshiki Takada served as President of SMC US for many years, and has engaged in management of the Group companies centered on the North America/Central and South America Zone, and global business operations for the entire Group. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.	

Name (Date of birth)		Brief personal profile, position, assignment of work and important concurrent position at other organization	
[Reappointed]		April 2004	Joined the Company
Eiji Ohashi (September 19, 1951)		February 2005	General Manager of Finance & Accounting Division (Incumbent)
		June 2006	Director
		July 2012	Managing Director (Incumbent)

Number of the Company's shares held 1,300 shares

[Reason for selection as a candidate for Director]

Mr. Eiji Ohashi has served as General Manager of the Finance and Accounting Division since 2005, engaging in financial strategies for the entire Group.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Reference Documents for the General Meeting of Shareholders

9

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
[Reappointed]	April 1975	Joined Nomura Research Institute, Ltd.
Candidate for Outside Director	June 1994	General Manager of Investment Research Division
	April 1997	General Manager of Investment Research Division, Nomura Securities, Co., Ltd. Financial Research Center
	June 2000	Vice President and General Manager of Corporate Research Division, Nomura Securities, Co., Ltd. Financial Research Center
	April 2002	Executive Officer of Nomura Securities, Co. Ltd. and President of Financial Research Center
	July 2007	Executive Officer, Nomura Securities, Co. Ltd. and Chief Research Officer of Financial and Economic Research Center
	January 2012	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center (Incumbent)
	June 2014	Outside Director of the Company (Incumbent)
<hr/> Number of the Company's shares held 0 shares		

Important concurrent duties

Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
Vice Chairman, The Securities Analysts Association of Japan
Director, Financial Accounting Standards Foundation

[Reason for selection as a candidate for Outside Director]

- Mr. Masanobu Kaizu is a distinguished economist and securities analyst having a superb personality, insights, and abundant knowledge of economic situations, financial market conditions, corporate management and financial accounting, with broad experience in relevant business activities. He has made proposals on management policies based on his own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitoring the Company's management activities from a neutral and objective point of view, enhancing management transparency further, and improving corporate value in the medium – and long-run by promoting continuous corporate growth. With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.
- According to the Company's judgment, Mr. Kaizu is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

[Other special notes concerning the Candidates for Outside Directors]

- The Company has made a contract with Mr. Kaizu for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Company Law to the maximum amount stipulated by law).
- If Mr. Kaizu is reelected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kaizu as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered him as such with the TSE.
- 3 years will pass at the conclusion of this Ordinary General Meeting of Shareholders after he is elected the Company's Outside Director.

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
[Reappointed]	May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology
Candidate for Outside Director	May 2012	President, Japan Fluid Power System Society
Toshiharu Kagawa (November 12, 1950)	January 2014	Professor, Interdisciplinary Graduate School of Science and Engineering, Tokyo Institute of Technology
	June 2015	Outside Director of the Company (Incumbent)
	April 2016	Institute Professor, Tokyo Institute of Technology (Incumbent)
Number of the Company's shares held 0 shares		

Important concurrent duties

Institute Professor, Tokyo Institute of Technology

[Reason for selection as a candidate for Outside Director]

- Mr. Toshiharu Kagawa is a Doctor of Engineering specializing in flow measurement and control and has a superb personality and insights. His specialization and the Company's business areas are very closely related.

He has made proposals on management policies mainly in relation to research and development activities and measures for the training of engineers based on his own specialized knowledge and wide experience as a researcher and educator. He also monitor the Company's management activities from a neutral and objective point of view, enhance management transparency further, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.

With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.

- According to the Company's judgment, Mr. Kagawa is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

[Other special notes concerning the Candidates for Outside Directors]

- The Company has made a contract with Mr. Kagawa for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Company Law to the maximum amount stipulated by law).
- If Mr. Kagawa is reelected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kagawa as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and register him as such with the TSE.
- 2 years will pass at the conclusion of this Ordinary General Meeting of Shareholders after he is elected the Company's Outside Director.

(Note) No special interests exist between the candidates and the Company

[Reference] Criteria on independence of independent Outside Directors

Described below are the criteria for judging independence of Outside Directors. To set these criteria, the Company has modified those issued by the Tokyo Stock Exchange and other relevant legal requirements.

◆Any of the following items must not be applicable in the most recent fiscal year (year-end).

- (1) A person conducting business operations of the Company's group (e.g. an Executive Director, Executive Officer or employee; hereinafter the same applies)
- (2) A main account (*) of the Company's group, or a person conducting business operations for the account
- (*) A main account means any of the following persons.
 - A customer to which the Company's group makes 2% or more of its consolidated net sales
 - A supplier or service provider that makes 2% or more of its consolidated net sales to the Company's group
 - A lender from which the Company's group has gotten a loan amounting to 2% or more of its consolidated total assets
- (3) A major shareholder of the Company (who holds 10% or more of the total voting rights) or a person conducting business operations of the shareholder
- (4) A certified public accountant or a person who belongs to an audit corporation that undertakes statutory audit work for the Company's group
- (5) A person who conducts business operations of a company that has interlocking executives or Executive Officers with the Company's group
- (6) A professional (e.g. an attorney-at-law, certified public accountant, registered tax accountant, or consultant) who receives compensation, etc. amounting to 10 million yen or more, in addition to Director compensation, from the Company's group (If such professional is a corporation or another organization, a person who belongs to such corporation or organization is applicable.)
- (7) An individual, organization or a person who conducts business operations for such individual or organization and receives a contribution of 100 million yen or more from the Company's group
- (8) A person who used to be applicable to (1) above in the past 10 years or a person who used to be applicable to any of (2) through (7) above in the past 3 years
- (9) The spouse or a relative within the second degree of a person described in (1) through (8) above. However, a "person conducting business operations" is limited to an important person conducting such operations (i.e. a high-ranking employee receiving the same treatment as an officer such as an Executive Director, Executive Officer, or another executive)

Proposal 4 Awards of Directors' Retirement Benefits to Retiring Directors

This is to propose that Directors' retirement benefits be awarded to Messrs. Koichi Shikakura, Koji Ogura, Motoichi Kawada and Susumu Takada, who will retire upon expiration of their terms of office as Director at the conclusion of this Annual General Meeting of Shareholders, in recognition of their services. The amount shall be in the range of the standards prescribed by the Company's designated "Regulations for Directors' Retirement Benefits." We propose that the amount, timing and method of payment be determined by the Board of Directors.

The maximum amount of retirement benefits payable in accordance with the above shall be 40 million yen for retiring Directors.

Name and profile of retiring Directors are as follows.

	Name (Date of birth)	Brief personal profile	
1	Koichi Shikakura (September 9, 1951)	July 2000 June 2001 June 2008 June 2008 November 2008 September 2013	Joined the Company General Manager of Quality Assurance Division Director (Incumbent) General Manager in charge of Production in the Production Headquarters and General Manager of Corporate Production Planning Division General Manager of Production Division 4 General Manager of Production Headquarters and General Manager of Production Engineering Division (Incumbent)
2	Koji Ogura (January 8, 1954)	February 1980 November 2007 June 2010 July 2010	Joined the Company Manager of Hamamatsu Sales Office Director (Incumbent) General Manager of Sales Headquarters (Incumbent)
3	Motoichi Kawada (October 18, 1959)	April 1982 October 2004 November 2007 June 2010 July 2010	Joined the Company Manager of Okayama Sales Office Sales Headquarters West Japan Block Leader Director (Incumbent) General Manager of Sales Headquarters (Incumbent)
4	Susumu Takada (August 16, 1951)	July 1975 April 2002 July 2004 February 2010 June 2013 September 2013	Joined the Company Deputy General Manager of Product Development Division 3 General Manager of Purchasing Division General Manager of Production Division 2 Director (Incumbent) General Manager of Production Headquarters (Incumbent)

(Note) Profiles of retiring Directors are shown for reference purposes, and the amount of Directors' retirement benefits is calculated solely based on the term of office as Director.

1 Matters pertaining to the present status of the Group

① Main business activities:

Manufacturing and sales of automatic control equipment, including pneumatic instruments

1 Pneumatic instruments

Instruments that utilize the pressure of compressed air as core energy source and perform automatic operations such as pressing, gripping and turning the objects in place of the manual work by human hands

Key products Air cylinders, Air grippers, Rotary Actuators, Solenoid valves, Air line equipment, One-touch fittings, Vacuum units



Air dryer



Air line equipment



Solenoid valves



Air cylinders

2 Electric instruments

Key products
Electric actuators



3 Sensor

Key products
Pressure Switch
Flow Switch



4 Temperature control equipment

Key products
Thermo-chiller
Thermo-controller



(For reference) Case example of product introduction

SMC Group's products are making contributions to automation and labor-saving in a variety of industry sectors.

Automobile industry

(automobile assembly line)



Semiconductor manufacturing equipment

(coater/developer)



Machine tools

(laser processing machine)



Food machinery

(bottle filling machine)



Medical equipment

(hematology analyzer)



② Business Progress and results

During the fiscal year under review, economic growth in China and emerging countries continued to decelerate, while economic recovery continued in the US with personal consumption maintaining steady and growth continued in Europe as well, supported by monetary easing measures and expansionary fiscal policies. In Japan, the economy gradually recovered, despite a lack of strong recovery for personal consumption.

In the automatic control equipment business, there was a strong demand related to semiconductor industries mainly in Japan, Asia and the North America and automobile industries mainly in the North America and Europe.

Under these circumstances, SMC group aggressively developed sales promotional activities and made efforts mainly to strengthen its sales capabilities, reduce distribution costs and streamline its production as well as to further enhance its visibility.

As a result, consolidated net sales for the fiscal year under review were 487,625 million yen (2.5% increase year on year). Operating income was 141,107 million yen (5.1% increase) mainly due to a revenue growth brought by increase of a steady demand, despite some factors contributing to a low revenue by the strong yen, and ordinary income was 148,237 million yen (14.7% increase) due to a large decrease in exchange loss compared to the previous period. Net income attributable to the parent company was 113,095 million yen (22.7% increase) mainly due to recorded as reimbursement of corporate income taxes by mutual agreement regarding the transfer pricing rules related to transactions with the subsidiary in South Korea.

ROE became 11.5%, increased by 1.6 points from the previous period.



Yoshiyuki Takada Katsunori Maruyama
Chairman President

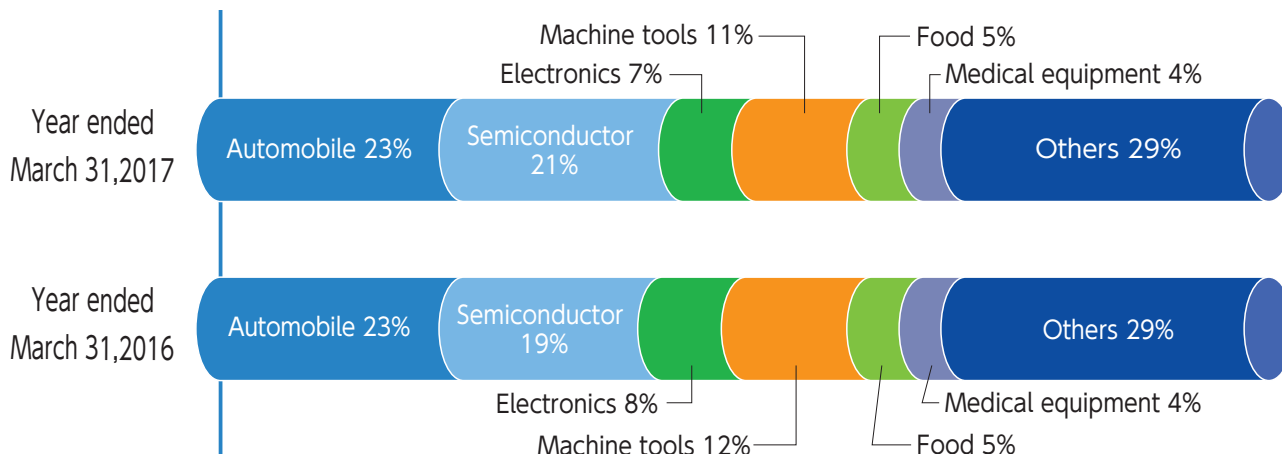
[Status of domestic sales]

In terms of domestic sales by industry, net sales in the semiconductor/liquid crystal-related sectors, automobile-related sector and machine tool-related sectors continued to be favorable on the back of strong capital investment demand in overseas areas including China.

As a result, domestic net sales for the fiscal year ended March 31, 2017 increased by 3.4% year on year to 159,706 million yen.

Changes in the sales composition by industry on a non-consolidated basis are as shown in the graph below.

■ Sales composition by industry (non-consolidated)



[Status of overseas sales]

North America

In the United States, capital investment projects started to increase substantially after the U.S. presidential election last November, and growth in demand was particularly strong in the semiconductor- and automobile-related sectors. Although net sales showed positive growth on a local currency basis, net sales in Japanese yen declined to 75,781 million yen (down 3.8% year on year) affected by the yen's appreciation.

Europe

While there were concerns about the impact from Brexit and rise in geopolitical risk, automobile-related orders continued to grow favorably, and orders from precision machines, electronics, food machinery and medical equipment sectors were also steady. Although net sales increased on a local currency basis, net sales

in Japanese yen decreased to 75,311 million yen (down 3.2% year on year) due to an impact from the yen's appreciation.

Asia

In Asia, demand expanded strongly throughout the region including China, South Korea, Singapore, other ASEAN countries and India. By industry, net sales in the semiconductor/liquid crystal-related sectors were good, while net sales in automobile-related and machine tools-related sectors were also firm. Net sales rose to 166,339 million yen (up 7.7% year on year) despite the impact of the stronger yen.

Other regions

In Brazil, while the economy continued to be sluggish, demand for automation to slash personnel costs started to emerge, and net sales in other regions increased to 10,486 million yen (up 3.8% year on year).

■ Consolidated overseas sales

(Million yen)

	Domestic sales	Overseas sales				Consolidated (Total)
		North America	Europe	Asia	Other	
	159,706	75,781	75,311	166,339	10,486	487,625
YoY change	+3.4%	(3.8%)	(3.2%)	+7.7%	+3.8%	+2.5%
Sales composition	32.8%	15.5%	15.4%	34.1%	2.2%	100.0%

③ Status of capital investments

The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.

In addition, capital investments were made for rationalization of production and cost reduction through purchasing equipment and renewing dies. Total capital investments in the fiscal year under review amounted to 21,663 million yen, a decrease of 14.5% year on year.

Listed below are the main production facilities completed during the fiscal year ended March 31, 2017.



(i) First phase construction of SMC Manufacturing (Vietnam)



(ii) Second phase construction of Yamatsuri factory

④ Issues to be addressed

SMC group declared its “Management Philosophy” as follows. And issues that SMC group needs to deal with toward the future are clarified as the “Long-term management vision.”

(1) Management philosophy

1) Contributing to automated, labor-saving operations

The Company considers that its social mission is “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment including pneumatic instruments.

2) Focusing on the main business

As a maker of component parts “contributing to automated, labor-saving operations in industries,” the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on the automatic control equipment business, its main business.

3) Supplying products globally

The Company will supply products that can meet the rules and needs of foreign countries and regions and are accepted in all the markets of the world.

(2) Long-term management vision

1) The Company strives to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.

2) The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.

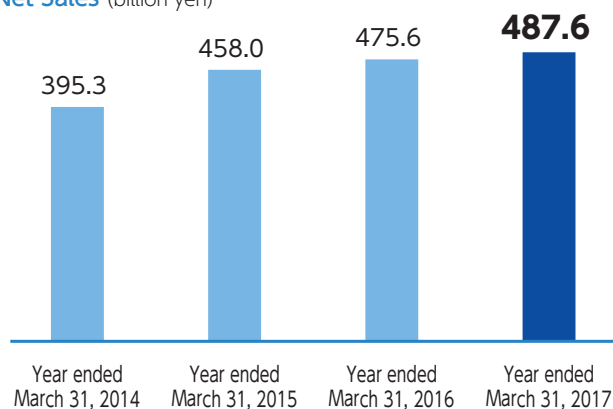
3) The Company aims to survive competitions in the global markets and to acquire higher market shares.

⑤ Changes in assets and financial results

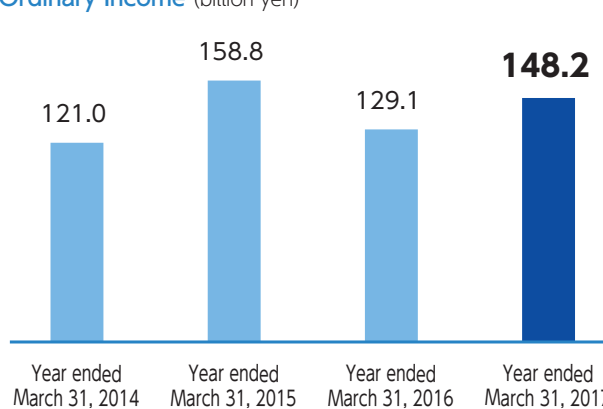
(Million yen)

	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017 (Current fiscal term)
Net Sales	395,304	458,081	475,608	487,625
Ordinary Income	121,073	158,816	129,188	148,237
Profit attributable to owners of parent	86,311	109,583	92,138	113,095
Net Income per share (yen)	1,274.20	1,629.38	1,371.34	1,683.12
Total Assets	966,875	1,129,001	1,120,171	1,192,444
Net Assets	785,521	921,483	941,813	1,030,369
Net Assets per share (yen)	11,599.87	13,682.01	13,981.17	15,292.53
Return on Equity	11.7%	12.9%	9.9%	11.5%

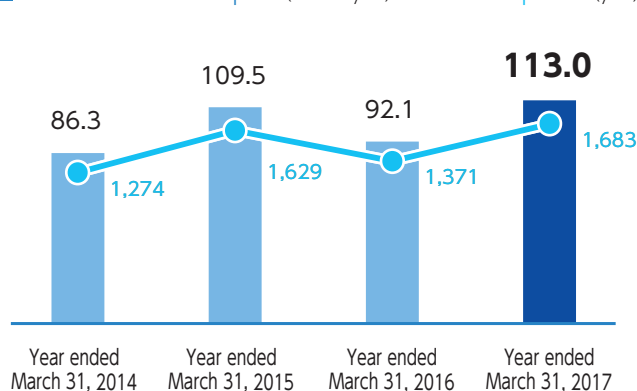
Net Sales (billion yen)



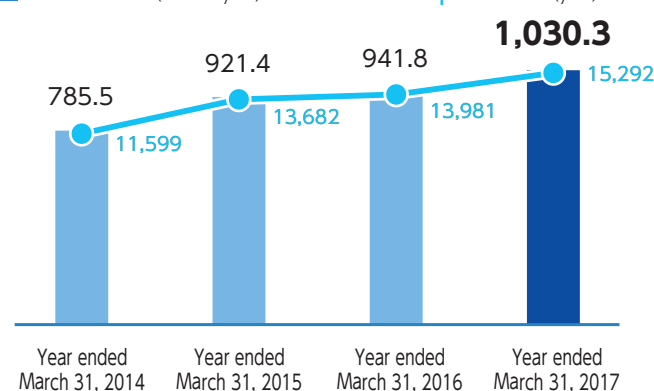
Ordinary Income (billion yen)



Profit attributable to owners of parent (billion yen) Net Income per share (yen)



Net Assets (billion yen) Net Assets per share (yen)



⑥ Status of principal subsidiaries

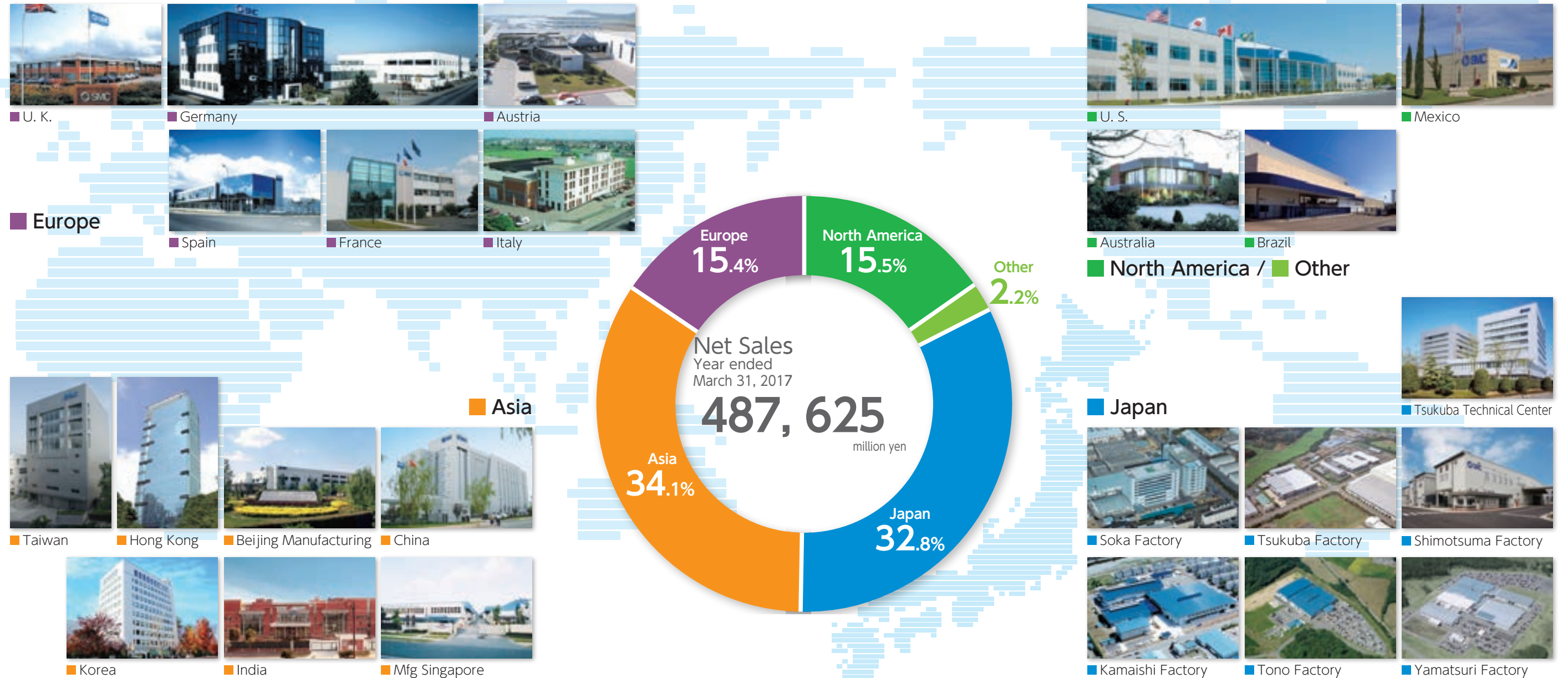
Company name	Capital stock	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥304 million	47.3	Sale of pneumatic instruments etc.
Seigyo Kizai Corporation	¥100 million	100.0	Sale of pneumatic instruments etc.
SMC US	US\$ 172,700 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Germany	EUR 21,729 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC U.K.	£14,500 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Italy	EUR 18,145 thousand	98.5	Manufacturing and sale of pneumatic instruments etc.
SMC Spain	EUR 3,305 thousand	99.8	Manufacturing and sale of pneumatic instruments etc.
SMC Singapore	S\$5,600 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Hong Kong	HK\$ 100 thousand	*100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Taiwan	NT\$ 420,840 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Korea	KRW 46,500 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Guangzhou	CNY 144 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC China	CNY 1,504 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC (Beijing) Manufacturing	CNY 1,716 million	100.0	Manufacturing of pneumatic instruments etc.
SMC Manufacturing (Singapore)	S\$ 10,000 thousand	100.0	Manufacturing of pneumatic instruments etc.
SMC Australia	A\$ 20,000 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Brazil	BRL 332,525 thousand	*100.0	Manufacturing and sale of pneumatic instruments etc.

(Note) The Company's percentages of voting rights in SMC Hong Kong and SMC Brazil include those indirectly held by the Company's wholly-owned subsidiaries.

From the fiscal year ended March 31, 2017, the Company added SMC Manufacturing (Vietnam), whose significance in the Group increased, and SMC (Tianjin) Manufacturing, which was newly established, in the scope of consolidation.

As a result, the number of consolidated subsidiaries has become 35, including the 17 significant subsidiaries mentioned above.

Global Network (for reference purpose)



⑦ Status of employees

Number of employees	19,191	Increase against the previous term	809
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(Notes)

1. The number of employees represents the number of the actual workforce (i.e., excludes staff seconded to non-Group companies from Group companies and includes staff seconded to Group companies from non-Group companies).
2. In addition to the above, we employ 5,139 temporary staff (average during the term. increased 141 persons from the last year).

⑧ The status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited.	¥ 11,575 million
Mizuho Bank, Ltd.	¥ 3,690 million

⑨ Major bases

	Company name and location
SMC Corporation	Head office Akihabara UDX Building, 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo
	Sales offices Sendai, Omiya (Saitama), Kofu, Tokyo, Atsugi, Hamamatsu, Toyota, Nagoya, Kanazawa, Kyoto, Osaka, Okayama, Hiroshima, Fukuoka
	Production facilities Soka, Tsukuba (Ibaraki), Yamatsuri, Kamaishi, Tono, Shimotsuma
	R&D centers Tsukuba Technical Center (Ibaraki)
Domestic sales companies	Nihon Kizai Co., Ltd. (Osaka), Seigyo Kizai Corporation (Tokyo)
Overseas manufacture and sales companies	SMC US, SMC Germany, SMC U.K., SMC Italy, SMC Spain, SMC Singapore, SMC Hong Kong, SMC Taiwan, SMC Korea, SMC Guangzhou, SMC China, SMC Australia, SMC Brazil
Overseas manufacture	SMC (Beijing) Manufacturing, SMC Manufacturing (Singapore)
Overseas R&D bases	US Technical Center, European Technical Center (U.K., Germany), Chinese Technical Center

⑩ Other significant matters pertaining to the present status of the Group

None

2 Matters pertaining to the Company's shares

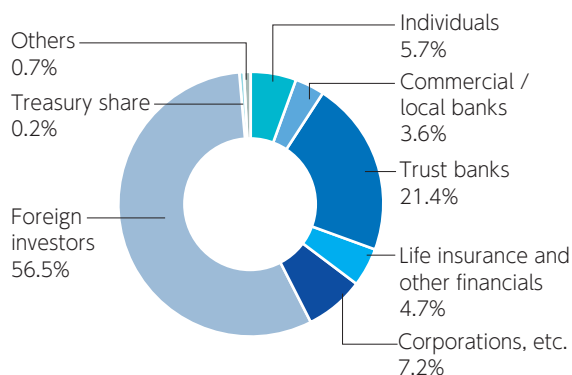
- ① **Total number of shares outstanding:** 67,369,359 (including 148,860 shares of treasury share)
- ② **Number of shareholders:** 4,507
- ③ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	3,847.4	5.72
State Street Bank and Trust Company	3,590.2	5.34
TON Finance B.V.	3,443.5	5.12
Master Trust Bank of Japan (Trust account)	3,139.2	4.67
Takada International Co. Ltd.	3,050.0	4.53
Resona Bank, Limited.	1,959.8	2.91
The Dai-ichi Life Insurance Company, Limited	1,713.0	2.54
JP Morgan Chase Bank 385164	1,446.1	2.15
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,405.4	2.09
The Bank of New York Mellon 140044	1,318.6	1.96

(Notes)

Percentages of voting rights are calculated based on the number of shares outstanding of 67,220,499 shares (excluding treasury share) and are indicated by rounding down figures to three decimal places.

Distribution of share by shareholders



Individuals.....	3,826.0 Thousand shares
Commercial/local banks....	2,420.4 Thousand shares
Trust banks.....	14,429.5 Thousand shares
Life insurance and other financials....	3,137.8 Thousand shares
Corporations, etc.....	4,872.7 Thousand shares
Foreign investors.....	38,030.1 Thousand shares
Treasury share.....	148.8 Thousand shares
Others.....	503.7 Thousand shares

3 Matters pertaining to the Company's Directors and Corporate Auditors

1 Directors and Corporate Auditors

Name	Position, assignment of work and significant concurrent position	
Yoshiyuki Takada	Chairman	(Representative Director) / Chairman, SMC US
Katsunori Maruyama	President	(Representative Director)
Ikuji Usui	Executive Managing Director	Senior General Manager of Administration Headquarters
Seiji Kosugi	Executive Managing Director	Senior General Manager of Engineering Headquarters
Masahiko Satake	Executive Managing Director	Senior General Manager of Production Headquarters
Osamu Kuwahara	Executive Managing Director	Senior General Manager of Sales Headquarters and Senior General Manager of Marketing Headquarters and General Manager of Sales Engineering Division
Yoshiki Takada	Managing Director	In charge of Management for North America , Central and South America Zone / President, SMC US
Eiji Ohashi	Managing Director	General Manager of Finance and Accounting Division
Koichi Shikakura	Director	General Manager of Production Headquarters and General Manager of Product Engineering Division
Koji Ogura	Director	General Manager of Sales Headquarters
Motoichi Kawada	Director	General Manager of Sales Headquarters
Susumu Takada	Director	General Manager of Production Headquarters
Masanobu Kaizu	Director (Outside Director)	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd.Financial and Economic Research Center / Director, Financial Accounting Standards Foundation / Vice Chairman, The Securities Analysts Association of Japan
Toshiharu Kagawa	Director (Outside Director)	Institute Professor, Tokyo Institute of Technology
Eizo Fujino	Full-Time Corporate Auditor	
Yoshiaki Ogawa	Corporate Auditor (Outside Corporate Auditor) / Lawyer	
Tatsuo Suzue	Corporate Auditor (Outside Corporate Auditor) / Lawyer	

(Notes)

- Messrs. Masanobu Kaizu, Toshiharu Kagawa, Yoshiaki Ogawa and Tatsuo Suzue are Independent Directors / Auditors, which Tokyo Stock Exchange, Inc. has required listed companies to have in order to protect the interests of general shareholders.
- The Company established the Independent Executive Council comprising only Outside Directors and Outside Corporate Auditors. In addition, Mr. Masanobu Kaizu was elected as the Lead Independent Outside Director by mutual voting by the Outside Directors.

② Compensation amounts payable to Directors and Corporate Auditors

	Total amount of compensation	Total amount of compensation by type of remuneration		Number of target directors
		Base compensation	Retirement benefits	
Directors (Outside Directors)	¥ 481 million (¥ 18 million)	¥ 452 million (¥ 18 million)	¥ 28 million (—)	14 (2)
Corporate Auditors (Outside Corporate Auditors)	¥ 27 million (¥ 12 million)	¥ 27 million (¥ 12 million)	— (—)	3 (2)

(Notes)

1. Compensation to Directors excludes the salary portion paid to Directors who are concurrently employees.
2. The amount of retirement benefits is the total of provision for Directors' retirement benefits during the fiscal year under review.
3. Policy regarding the determination of compensation amounts payable to Directors.

Total amounts of base compensation for Directors and Corporate Auditors were determined to be no more than 900 million yen and 100 million yen per annum, respectively, at the 48th Ordinary General Meeting of Shareholders held on June 28, 2007.

The specific amount of base compensation for individual Directors and Corporate Auditors is determined after the annual Ordinary General Meeting of Shareholders each year by the resolution of the Board of Directors' Meeting for Directors and by the resolution of the Board of Corporate Auditors' Meeting for Corporate Auditors. It is determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director and Corporate Auditor to earnings, position, assignment to work and term of office and the like.

As the basic compensation to each Executive Director is not linked to specific financial indexes, it is not disclosed or processed as performance-linked pay for accounting and taxation purposes. However, the ratio of the fixed portion of compensation is about 35% and the remaining portion (65%) represents the compensation reflecting performance for the year and each Director's job contribution level in each year.

As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is calculated using the basic payment amount that is automatically obtained in accordance with the "rules for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits. When a Director actually retires, the specific amount of retirement benefits is determined by the Board of Directors after the agenda for payment of such benefits is approved at the relevant Meeting of Shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said rules so that the Director's distinguished services performed while in office can be reflected.

When the agenda for payment of retirement benefits is proposed at the relevant Meeting of Shareholders, the upper limit of the total payment amount is also indicated so that shareholders can make their decisions.

Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

③ Matters pertaining to Outside Directors and Outside Corporate Auditors

(1) Main activities during the fiscal year under review

Name	Position	Number of the Board of Directors' Meetings attended/held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Masanobu Kaizu	Outside Director	7 out of 7 meetings (100.0%)	—	<p>As an economist and securities analyst, he has supervised the management of the Company and worked for improving the transparency of management based on his professional knowledge of economic situations, financial market conditions, corporate management and financial accounting with neutral and objective viewpoints, in particular, focusing on protecting the interests of general shareholders and investors.</p> <p>He has also made proposals on management policies in light of urging the Company's sustainable growth and improving corporate value in the medium and long term. In addition, he has provided the Board of Directors with the latest information about economic situations and financial market conditions.</p> <p>Furthermore, for the fiscal year under review, he stated many useful opinions in accordance with the proposals on the Company's long-term management issues, which was submitted in the joint name of Director Kagawa, in the previous fiscal year.</p>
Toshiharu Kagawa	Outside Director	7 out of 7 meetings (100.0%)	—	<p>As a researcher and educator specialized in flow measurement and control, an area quite closely related to the Company's business domain, he has supervised the management of the Company and worked for further improving the transparency of management based on his professional knowledge and broad experience with neutral and objective viewpoints.</p> <p>He has also made proposals on management policies, in particular, measures centered on R&D activities and the development of engineers in light of urging the Company's sustainable growth and enhancing corporate value in the medium and long term.</p> <p>Furthermore, for the fiscal year under review, he stated many useful opinions in accordance with the proposals on the Company's long-term management issues, which was submitted in the joint name of Director Kaizu, in the previous fiscal year.</p>

Name	Position	Number of the Board of Directors' Meetings attended/held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Yoshiaki Ogawa	Outside Corporate Auditor	7 out of 7 meetings (100.0%)	12 out of 12 meetings (100.0%)	As an attorney at law, he has audited the management of the Company based on his professional knowledge and broad experience of corporate laws and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.
Tatsuo Suzue	Outside Corporate Auditor	6 out of 7 meetings (85.7%)	12 out of 12 meetings (100.0%)	As an attorney at law, he has audited the management of the Company based on his professional knowledge and broad experience of corporate laws and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.

(2) Relationships between the Company and organizations to which Outside Directors and Outside Corporate Auditors concurrently belong

There is no special relationship to report.

(3) Outline of contracts for the limitation of liability

The Company has made a contract with each of Outside Directors and Outside Corporate Auditors for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Articles 27 and 36 of the Company's articles of incorporation.

As a result, even in the case that an Outside Director or Outside Corporate Auditor is held liable under Article 423, Paragraph 1 of the Company Law, the amount of such liability is limited to the minimum amount stipulated in Article 425, Paragraph 1 of the Company Law when they act in good faith and are not grossly negligent in performing their duties.

4 Status of Accounting Auditor

① Name of Accounting Auditor Seiyō Audit Corporation

② Remuneration amount payable to Accounting Auditor in the term

	Amount payable
Remuneration as Accounting Auditor in the term	¥ 60 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥ 60 million

(Notes)

1. Since the auditing agreement between the Company and its Accounting Auditor does not segregate the amount of remuneration to Auditors pursuant to the Corporate Code and that pursuant to the Financial Instruments and Exchange Law (including internal control audit) as it is substantially difficult to do so, the amount recorded above is the total of these two types of remuneration.
2. Excluding Seigyō Kizai Corporation, audits for the 16 subsidiaries of the 17 principal subsidiaries listed in "1. Matters pertaining to the present status of the Group (6) Status of principal subsidiaries" are performed by auditing firms other than the Company's Accounting Auditor.
3. Reason for the Board of Corporate Auditors' consent to remuneration for the Accounting Auditor
The Board of Corporate Auditors examined the performance of duties of the Accounting Auditor, details of the auditing plans and the basis of calculation of the estimated remuneration based on submitted materials and reports received from Directors, relevant internal parties and the Accounting Auditor. As a conclusion, the Board of Corporate Auditors judged that the remuneration paid to the Accounting Auditor was appropriate and provided consent thereto.

③ Policies on the dismissal or non-reappointment of Accounting Auditor

If any of the dismissal causes stipulated in Article 340 of the Company Law, such as the breach of the aforementioned obligations, neglect of duties, or misconduct as an Accounting Auditor, is applicable to the Accounting Auditor, the Board of Corporate Auditors shall dismiss the Accounting Auditor by obtaining consent from all Corporate Auditors.

Moreover, the Board of Corporate Auditors shall propose an agenda item concerning the dismissal or non-reappointment of the Accounting Auditor to Shareholders' Meeting if it is deemed difficult for the Accounting Auditor to execute its duties adequately.

5 Framework to ensure adequacy of business activities

① Framework to ensure that execution of duties by Directors complies with applicable laws and regulations as well as the Articles of Incorporation, other framework to ensure adequacy of business activities

(1) Framework to ensure that execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation

- Formulate “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” to clarify its stance of striving for becoming a company to be trusted, not only by customers and business partners but also by the broader society, through conducting fair corporate activities complying with applicable laws and regulations as well as the code of ethics.
- Establish a Compliance Committee to strengthen the legal compliance system.
- Develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest throughout the Group to help prevent and correct improper conduct.
- Do not become involved with antisocial forces and organizationally take a resolute attitude toward undue claims in close collaboration with lawyers, police, and others.

(2) Framework for information storage and management with regards to the execution of duties by Directors

- Formulate information management rules to develop a system to prevent leakage of important information.
- Establish an Information Disclosure Committee to promote prompt and adequate information disclosure.

(3) Framework and rules relating to risk of loss management

- Establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, compliance, disaster prevention, etc.
- All information regarding complaints against quality will be reported to the Chairman and President, and actions as well as recurrence prevention measures will be verified.

(4) Framework to ensure that duties of the Directors are efficiently executed

- Establish a Management Committee to facilitate information-sharing among department heads.
- Establish medium to long term management plans as well as annual policies and budgets for each Group company and department, thereby implementing adequate business management.

(5) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- Contracts made with subsidiaries in which advance discussions held with the Company regarding significant matters, regular reports on business plans, financial closing, etc., and regular discussions held with the Company regarding business plans, financial closing, etc., are obligatory for subsidiaries. In addition, operational losses, losses caused by a disaster, etc., occurrence of important events such as the violation of law, and others must be reported to the Company.

- Develop and operate a framework to conduct risk management (internal control related to financial reporting) necessary for ensuring the reliability of financial reporting, and improve its effectiveness through regular assessment.
- Properly manage subsidiaries and promote group strategies in an integrated and efficient manner by implementing the affiliate management rules, dispatching directors, exercising shareholder rights, and having regular discussions with subsidiaries.

(6) Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed

- As full-time audit staff persons who assist Corporate Auditors in executing their duties, employees having knowledge of internal audit, financial accounting and other areas have been properly assigned.
- These audit staff persons are authorized to conduct necessary examinations under the direction of Corporate Auditors so that audits can be completed.
- Before personnel changes are announced or disciplinary actions are taken, consultation with Corporate Auditors is required.

(7) Framework in which Directors and employees give reports to Corporate Auditors/Framework to give other reports to Corporate Auditors

- Directors and employees give business execution reports to Corporate Auditors regularly and at the request of Corporate Auditors.
- In the case that a Director or employee discovers a fact that may cause significant damage to the Company, he or she shall report it immediately to Corporate Auditors.
- In the case that a Director or employee receives a report on a subsidiary's significant matters from the subsidiary's director, employee, or other persons, he or she shall report it to Corporate Auditors in a timely and appropriate manner.
- It is prohibited to unfairly treat Directors and employees of the Company and its subsidiaries on the grounds that relevant matters have been reported to Corporate Auditors.

(8) Matters pertaining to the processing of costs incurred in connection with the execution of duties by Corporate Auditors

- Costs necessary for the execution of duties by Corporate Auditors are immediately processed whenever requested, including prepayments.

(9) Framework to ensure that other audit work by Corporate Auditors is effectively performed

- Corporate Auditors hold meetings periodically with the President, the Accounting Auditor and the internal auditing office in order to improve the auditing environment and strengthen the liaison among Auditors.

② Overview of the operation status of the said frameworks

(1) Framework to ensure that the execution of duties of Directors and Employees complies with applicable laws and regulations as well as the Articles of Incorporation

- The Company has disclosed the “SMC Group Ethical and Corporate Principles” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
- With the placement of the “SMC Group Ethical and Corporate Principles,” the Company has established the “SMC Group Code of Conduct” which specifically describes what the Group’s Directors and employees should comply with, and distributed an English translation of the Japanese version to the Group companies. As part of the procedures for evaluating the internal control system pertaining to financial reports, the Company confirms every year that the SMC Group Code of Conduct is disseminated among the consolidated subsidiaries.
- The Company has established a contact point outside the Company as a reporting system which can respond to illegal or inappropriate acts engaged in by Directors or acts against laws and regulations on information disclosure. An external law firm versed in practical operations for whistle-blowing processes serves as the contact point.

(2) Framework for information storage and management with regards to the execution of duties by Directors

- Concerning management of the My Number system (national identification number in Japan), take necessary measures such as selection of employees who are responsible for handling My Number and establishment of a special workroom that has security equipment installed in it, among others.

(3) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- Revise the Board of Directors regulation and exclude some of the details of business execution (personnel changes of line executives, for example) from matters to be resolved at the Board of Directors.

(4) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- Revise the Board of Directors regulation and clarify that investment projects, etc. conducted by a subsidiary alone also need to be approved by the Board of Directors of the Company, particularly if they are an important project.

(5) Framework to ensure that other audit work by Corporate Auditors is effectively performed

- Further strengthen collaboration among the Board of Corporate Auditors, the Accounting Auditor and internal audit department.

Consolidated Balance Sheets (As of March 31, 2017)

(Million yen)

	As of March 31, 2016	As of March 31, 2017		As of March 31, 2016	As of March 31, 2017
(Assets)			(Liabilities)		
Current assets	747,123	835,928	Current liabilities	150,249	129,439
Cash and deposits	412,707	459,874	Notes and accounts payable-trade	55,405	60,648
Notes and accounts receivable-trade	118,264	141,057	Short-term loans payable	45,918	11,735
Securities	—	22,401	Income taxes payable	12,352	20,066
Merchandise and finished goods	79,645	79,909	Provision for bonuses	2,611	2,812
Work in process	15,650	15,001	Other	33,962	34,177
Raw materials and supplies	87,267	84,274	Non-current liabilities	28,108	32,635
Deferred tax assets	20,547	19,806	Long-term loans payable	3,325	5,338
Other	13,933	14,421	Deferred tax liabilities	7,855	11,374
Allowance for doubtful accounts	(894)	(818)	Provision for directors' retirement benefits	808	869
Non-current assets	373,048	356,516	Net defined benefit liability	9,388	8,427
Property, plant and equipment	148,309	149,252	Other	6,730	6,627
Buildings and structures	65,918	74,603	Total liabilities	178,357	162,075
Machinery, equipment and vehicles	32,167	28,332	(Net assets)		
Tools, furniture and fixtures	7,000	6,278	Shareholders' equity	906,027	1,005,758
Land	32,232	32,705	Capital stock	61,005	61,005
Construction in progress	10,990	7,332	Capital surplus	72,778	72,871
Intangible assets	4,553	11,060	Retained earnings	775,655	875,230
Leasehold right	3,339	8,349	Treasury shares	(3,411)	(3,348)
Other	1,213	2,710	Accumulated other comprehensive income	33,381	21,848
Investments and other assets	220,184	196,203	Valuation difference on available-for-sale securities	2,879	8,864
Investment securities	44,311	54,187	Foreign currency translation adjustment	32,336	14,459
Net defined benefit asset	73	73	Remeasurements of defined benefit plans	(1,833)	(1,475)
Insurance funds	118,992	122,966	Non-controlling interests	2,403	2,761
Other	58,696	20,784	Total net assets	941,813	1,030,369
Allowance for doubtful accounts	(1,889)	(1,808)	Total liabilities and net assets	1,120,171	1,192,444
Total assets	1,120,171	1,192,444			

Consolidated Statements of Income (April 1, 2016 to March 31, 2017)

(Million yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	475,608	487,625
Cost of sales	238,227	244,476
Gross profit	237,381	243,148
Selling, general and administrative expenses	103,147	102,041
Operating income	134,233	141,107
Non-operating income	9,851	9,707
Interest income	5,553	5,946
Gain on investments in insurance funds	1,823	716
Other	2,474	3,044
Non-operating expenses	14,897	2,577
Foreign exchange losses	14,245	2,054
Other	651	523
Ordinary income	129,188	148,237
Extraordinary income	409	642
Gain on sales of non-current assets	241	337
Gain on sales of investment securities	166	276
Other	1	28
Extraordinary losses	253	3,208
Loss on retirement of non-current assets	104	81
Impairment loss	—	2,708
Loss on sales of investment securities	132	392
Other	16	25
Profit before income taxes	129,343	145,671
Income taxes-current	36,112	35,466
Income taxes for prior periods	—	(6,938)
Income taxes-deferred	874	3,726
Profit	92,356	113,417
Profit attributable to non-controlling interests	218	321
Profit attributable to owners of parent	92,138	113,095

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2016 to March 31, 2017)

(Million yen)

Items	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from operating activities	102,006	120,949
Profit before income taxes	129,343	145,671
Depreciation	14,863	14,246
Impairment loss	—	2,708
Increase (decrease) in net defined benefit liability	(1,325)	(439)
Interest and dividend income	(5,953)	(6,513)
Foreign exchange losses (gains)	9,309	(155)
Decrease (increase) in notes and accounts receivable-trade	(4,948)	(24,750)
Decrease (increase) in inventories	391	(206)
Increase (decrease) in notes and accounts payable-trade	10,514	6,483
Decrease (increase) in other current assets	(673)	(315)
Increase (decrease) in other current liabilities	12	3,782
Other, net	(1,872)	(678)
Subtotal	149,662	139,833
Interest and dividend income received	5,700	5,739
Interest expenses paid	(251)	(178)
Income taxes (paid) refund	(53,105)	(28,676)
Refund of income taxes for prior periods	—	4,232
Cash flows from investing activities	(34,282)	(90,365)
Payments into time deposits	(67,432)	(114,485)
Proceeds from withdrawal of time deposits	67,895	73,585
Purchase of property, plant and equipment	(23,997)	(19,273)
Purchase of intangible assets	(585)	(4,953)
Purchase of short-term and long-term investment securities	(1,925)	(24,738)
Proceeds from sales and redemption of short-term and long-term investment securities	1,276	2,657
Payments for investments in capital of subsidiaries and associates	(6,180)	—
Purchase of insurance funds	(7,224)	(7,533)
Proceeds from maturity of insurance funds	3,659	3,995
Other, net	232	379
Cash flows from financing activities	(34,299)	(45,507)
Net increase (decrease) in short-term loans payable	(19,814)	(30,200)
Proceeds from long-term loans payable	2,000	3,668
Repayments of long-term loans payable	(3,197)	(5,638)
Cash dividends paid	(13,435)	(13,438)
Other, net	147	101
Effect of exchange rate change on cash and cash equivalents	(19,870)	(4,837)
Net increase (decrease) in cash and cash equivalents	13,554	(19,760)
Cash and cash equivalents at beginning of period	281,716	295,270
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	1,939
Cash and cash equivalents at the end of period	295,270	277,449

(Note) In the consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Balance Sheets (As of March 31, 2017)

(Million yen)

	As of March 31, 2016	As of March 31, 2017
(Assets)		
Current assets	326,462	349,521
Cash and deposits	141,564	135,256
Notes receivable-trade	16,638	20,193
Accounts receivable-trade	55,043	63,468
Securities	—	22,401
Merchandise and finished goods	23,606	23,177
Work in process	8,100	8,349
Raw materials and supplies	56,596	54,621
Deferred tax assets	7,010	8,153
Accounts receivable-other	10,650	12,473
Other	7,518	1,602
Allowance for doubtful accounts	(266)	(178)
Non-current assets	355,731	378,741
Property, plant and equipment	50,026	56,787
Buildings and structures	25,110	30,689
Machinery, equipment and vehicles	8,288	7,843
Tools, furniture and fixtures	1,900	1,685
Land	11,258	13,760
Construction in progress	3,468	2,808
Intangible assets	736	666
Software	656	586
Other	80	79
Investments and other assets	304,968	321,286
Investment securities	27,052	34,000
Shares of subsidiaries and associates	96,893	99,604
Investments in capital of subsidiaries and associates	53,251	60,304
Prepaid pension cost	436	606
Deferred tax assets	2,472	—
Insurance funds	118,954	122,925
Other	5,931	3,877
Allowance for doubtful accounts	(23)	(33)
Total assets	682,194	728,262

	As of March 31, 2016	As of March 31, 2017
(Liabilities)		
Current liabilities	128,379	108,496
Accounts payable-trade	57,324	62,939
Short-term loans payable	44,048	10,145
Accounts payable-other	1,867	1,855
Income taxes payable	6,177	15,970
Accrued expenses	10,458	10,839
Other	8,504	6,746
Non-current liabilities	12,443	15,460
Long-term loans payable	110	3,023
Provision for retirement benefits	6,140	5,774
Provision for directors' retirement benefits	551	580
Deferred tax liabilities	—	323
Other	5,641	5,759
Total liabilities	140,823	123,957
(Net assets)		
Shareholders' equity	538,740	595,880
Capital stock	61,005	61,005
Capital surplus	72,677	72,769
Legal capital surplus	72,576	72,576
Other capital surplus	100	193
Retained earnings	408,469	465,454
Legal retained earnings	15,251	15,251
Other retained earnings	393,217	450,202
Reserve for special depreciation	57	36
Reserve for reduction entry of assets	326	313
General reserve	150,250	150,250
Retained earnings brought forward	242,583	299,602
Treasury shares	(3,411)	(3,348)
Valuation and translation adjustments	2,630	8,423
Valuation difference on available-for-sale securities	2,630	8,423
Total net assets	541,370	604,304
Total liabilities and net assets	682,194	728,262

Non-consolidated Statements of Income (April 1, 2016 to March 31, 2017)

(Million yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	302,755	315,875
Cost of sales	186,676	199,274
Gross profit	116,079	116,601
Selling, general and administrative expenses	31,824	33,809
Operating income	84,254	82,791
Non-operating income	4,251	4,623
Interest and dividend income	825	1,823
Gain on investments in insurance funds	1,823	716
Foreign exchange gains	—	104
Dividend income of insurance	473	482
Royalty income	588	705
Other	539	791
Non-operating expenses	15,340	220
Interest expenses	244	116
Sales discounts	92	92
Foreign exchange losses	15,002	—
Other	1	11
Ordinary income	73,164	87,194
Extraordinary income	168	3,487
Gain on sales of investment securities	166	276
Adjustment for transfer pricing taxation	—	3,208
Other	1	2
Extraordinary losses	170	459
Loss on retirement of non-current assets	33	54
Loss on sales of investment securities	132	392
Other	4	12
Profit before income taxes	73,162	90,222
Income taxes-current	20,924	24,479
Income taxes for prior periods	—	(3,774)
Income taxes-deferred	1,686	(905)
Net income	50,551	70,423

(Note) In the non-consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

Audit Report of Accounting Auditor on the Consolidated Financial Statements

Independent Auditor's Report

May 18, 2017

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner
Executive member CPA Kazuhito Ishii

Designated partner
Executive member CPA Takanori Ozeki

Designated partner
Executive member CPA Takahiro Otofujii

Pursuant to Article 444, Paragraph 4 of the Company Law, we have audited the consolidated financial statements, i.e., the consolidated balance sheets, the consolidated statements of income, consolidated statements of changes in equity and notes to the consolidated financial statements for the fiscal year from April 1, 2016 to March 31, 2017 of SMC Corporation.

The responsibility of the management for the consolidated financial statements

The management is responsible for preparing and appropriately presenting the consolidated financial statements in accordance with the corporate accounting standards that are generally accepted in Japan. These accounting standards require the management to establish and operate internal control which the management considers necessary to prepare and appropriately present the consolidated financial statements and such like free of material misrepresentation caused by fraudulence or error.

The responsibility of Accounting Auditor

Our responsibility is to express our opinion on the consolidated financial statements and such like as an Accounting Auditor based on the audit we conducted. Our audit was conducted in accordance with auditing standards that are generally accepted in Japan. These auditing standards require us to formulate an audit plan and conduct an audit based on this plan in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misrepresentation.

In conducting the audit, we take procedures to obtain audit evidence on amounts and disclosure of consolidated financial statements. Audit procedures are selected and applied at our discretion based on a risk assessment of whether the consolidated financial statements are free of material misrepresentation caused by fraudulence or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control. However, in performing risk assessment, we examine internal control relating to the preparation and fair presentation of the consolidated financial statements in order to formulate appropriate audit procedures that suit the circumstances. Our audit includes an examination of the overall representation of the consolidated financial statements including the accounting policies adopted by the management, methods of applying these policies, and an evaluation of estimates conducted by the management.

We find that we have obtained sufficient and appropriate audit evidence which serves as the basis for expressing our opinion.

Audit opinion

We find that the above consolidated financial statements are in accordance with the corporate accounting standards that are generally accepted in Japan, and present fairly the assets and profits/losses of the Group, which consists of SMC Corporation and its consolidated subsidiaries, for the fiscal year under review in every important respect.

Conflicts of interest

There are no conflicts of interest between the Company and Seiyo Audit Corporation or executive members for which disclosure would be required under the provisions of the Certified Public Accountants Act.

Audit Report of Accounting Auditor on the Non-consolidated Financial Statements

Independent Auditor's Report

May 18, 2017

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner
Executive member CPA Kazuhito Ishii

Designated partner
Executive member CPA Takanori Ozeki

Designated partner
Executive member CPA Takahiro Otofujii

Pursuant to Article 436, Paragraph 2, Item 1 of the Company Law, we have audited the non-consolidated financial statements, i.e., the non-consolidated balance sheets, the non-consolidated statements of income, non-consolidated statements of changes in equity, notes to the non-consolidated financial statements and supporting documents for the 58th fiscal year from April 1, 2016 to March 31, 2017 of SMC Corporation.

The responsibility of the management for the non-consolidated financial statements, etc.

The management is responsible for preparing and appropriately presenting the non-consolidated financial statements and supporting documents in accordance with the corporate accounting standards that are generally accepted in Japan. These accounting standards require the management to establish and operate internal control which the management considers necessary to prepare and appropriately present the non-consolidated financial statements and supporting documents and such like free of material misrepresentation caused by fraudulence or error.

The responsibility of Accounting Auditor

Our responsibility is to express our opinion on the non-consolidated financial statements and supporting documents and such like as an Accounting Auditor based on the audit we conducted. Our audit was conducted in accordance with auditing standards that are generally accepted in Japan. These auditing standards require us to formulate an audit plan and conduct an audit based on this plan in order to obtain reasonable assurance about whether the non-consolidated financial statements and supporting documents are free of material misrepresentation.

In conducting the audit, we take procedures to obtain audit evidence on amounts and disclosure of non-consolidated financial statements and supporting documents. Audit procedures are selected and applied at our discretion based on a risk assessment of whether the non-consolidated financial statements and supporting documents are free of material misrepresentation caused by fraudulence or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control. However, in performing risk assessment, we examine internal control relating to the preparation and fair presentation of the non-consolidated financial statements and supporting documents in order to formulate appropriate audit procedures that suit the circumstances. Our audit includes an examination of the overall representation of the non-consolidated financial statements and supporting documents including the accounting policies adopted by the management, methods of applying these policies, and an evaluation of estimates conducted by the management.

We find that we have obtained sufficient and appropriate audit evidence which serves as the basis for expressing our opinion.

Audit opinion

We find that the above non-consolidated financial statements and supporting documents are in accordance with the corporate accounting standards that are generally accepted in Japan, and present fairly the assets and profits/losses of SMC Corporation for the fiscal year under review in every important respect.

Conflicts of interest

There are no conflicts of interest between the Company and Seiyo Audit Corporation or executive members for which disclosure would be required under the provisions of the Certified Public Accountants Act.

Audit Report of Board of Corporate Auditors

Auditor's Report

We, the Board of Corporate Auditors, have examined and discussed the execution of Directors' duties during the 58th fiscal year, which lasted from April 1, 2016 to March 31, 2017 based on audit reports prepared by each Corporate Auditor, and prepared our audit report as described below.

1. Auditing Method Employed by Corporate Auditors and Board of Corporate Auditors and Details Thereof

- (1) The Board of Corporate Auditors formulated an audit policy, apportion of their business activities, and other audit related items, received reports from each Corporate Auditor on the implementation and results of audits, from the Directors of the Company, the Accounting Auditor, and other parties on the execution of their duties, and requested explanations from them when necessary.
- (2) Based on the standards for auditing defined by the Board of Corporate Auditors, and in line with the audit policy, apportion of their business activities and other related items, each Corporate Auditor effectively communicated with Directors, the internal audit division, and other employees, gathered information, and improved the audit environment, implementing audits with the following methods.
 - ① Each Corporate Auditor attended the Board of Directors' Meetings and other important meetings, received from Directors and employees reports on the execution of their duties, requested explanations from them when necessary, reviewed significant approval documents, and investigated the status of operations and assets at the Company's head office and other principal offices. Regarding auditing of the subsidiaries, each Corporate Auditor ensured sufficient communication and information exchange with Directors and Corporate Auditors of the subsidiaries and received reports from the subsidiaries on their businesses when necessary.
 - ② The Company has a framework to ensure that Directors' duties stated in the business report comply with laws and regulations as well as the Articles of Incorporation of the Company, and other frameworks established based on the substance at the resolutions of the Board of Directors' Meetings and those resolutions concerning the establishment of the frameworks stipulated in Article 100, Paragraph 1 and 3 of the Order for Enforcement of the Company Law that are necessary for ensuring the appropriateness of operations of a corporate group consisting of a joint-stock company and its subsidiaries (internal control system). Regarding these frameworks, each Corporate Auditor received reports about the formation and the status of their operation on a regular basis, requested explanations from Directors and employees when necessary and expressed opinions.
 - ③ The Corporate Auditors monitored and examined whether the Accounting Auditor maintained its independent position and conducted its audits in an appropriate manner. The Corporate Auditors also received from the Accounting Auditor reports on the execution of its duties and requested explanations when necessary. The Corporate Auditors were notified from the Accounting Auditor that the entity has established a "System to Ensure Independent Accountants' Appropriate Execution of Duties" (Item stipulated in Article 131 of the Corporate Calculation Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005), and requested explanations when necessary.

Through these methods, we reviewed the business report and its supporting documents, the non-consolidated financial statements (the balance sheets, the statements of income, the statements of changes in equity and notes to non-consolidated financial statements) and their supporting documents as well as the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in equity and notes to consolidated financial statements), for the fiscal year under review.

2. Conclusions of Audit

(1) Results of the audit of the business report, etc.

- a. We confirmed that the business report and its supporting documents fairly present the status of the Company in conformity with applicable laws and regulations as well as the Articles of Incorporation of the Company.
- b. We confirmed that there were no fraudulent acts or material facts that violated the applicable laws and regulations or the Articles of Incorporation of the Company in the course of the performance of the duties of the Directors.
- c. We confirmed that the substance of the resolutions made by the Board of Directors regarding the internal control system is appropriate. We did not recognize any matters that should be pointed out with regard to the details stated in the business report and the performance of the duties of the Directors regarding the said internal control system.

(2) Results of the audit of the non-consolidated financial statements and their supporting documents

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

(3) Results of the audit of the consolidated financial statements

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

May 19, 2017

Board of Corporate Auditors SMC Corporation

Full-time Corporate Auditor Eizo Fujino

Outside Corporate Auditor Yoshiaki Ogawa

Outside Corporate Auditor Tatsuo Suzue

To Our Shareholders

Internet Disclosure on the Notice of Convocation
of the 58th Ordinary General Meeting of Shareholders

June 2017

SMC Corporation

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The above materials shall be deemed to be provided to our shareholders by publishing on the Company's website (<http://www.smcworld.com/ir/en/>) based on the Ordinance on Company Accounting and the Articles of Incorporation of the Company.

Consolidated Statement of Changes in Equity

(April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of the period	61,005	72,778	775,655	(3,411)	906,027
Changes of items during period					
Dividends of surplus			(13,438)		(13,438)
Profit attributable to owners of parent			113,095		113,095
Purchase of treasury shares				(20)	(20)
Disposal of treasury shares		92		83	175
Change of scope of consolidation			(81)		(81)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	92	99,575	63	99,730
Net assets at end of the period	61,005	72,871	875,230	(3,348)	1,005,758

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of the period	2,879	32,336	(1,833)	33,381	2,403	941,813
Changes of items during period						
Dividends of surplus						(13,438)
Profit attributable to owners of parent						113,095
Purchase of treasury shares						(20)
Disposal of treasury shares						175
Change of scope of consolidation						(81)
Net changes of items other than shareholders' equity	5,985	(17,876)	357	(11,533)	357	(11,175)
Total changes of items during period	5,985	(17,876)	357	(11,533)	357	88,555
Balance at end of the period	8,864	14,459	(1,475)	21,848	2,761	1,030,369

Notes to the Consolidated Financial Statements

[Notes to the premises of a going concern]

None

[Notes on significant matters constituting the basis for preparing the Consolidated Financial Statements]

1. Matters pertaining to the scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 35

Names of major consolidated subsidiaries

Nihon Kizai Co., Ltd.	SMC Italy	SMC Guangzhou
Seigyo Kizai Corporation	SMC Spain	SMC China
SMC US	SMC Singapore	SMC (Beijing) Manufacturing
SMC Germany	SMC Hong Kong	SMC Manufacturing (Singapore)
SMC U.K.	SMC Taiwan	SMC Australia
	SMC Korea	SMC Brazil

Since the consolidated fiscal year under review, SMC Manufacturing (Vietnam) has become a consolidated subsidiary from a non-consolidated subsidiary due to the growing importance and SMC (Tianjin) Manufacturing has also become a consolidated subsidiary because it was newly established.

(2) Names of major non-consolidated subsidiaries: Nihon Kizai (Shanghai), SMC Poland

(Reasons for exclusion from the scope of consolidation)

The 38 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

2. Matters pertaining to the scope of application of the equity method

Non-consolidated subsidiaries (Nihon Kizai (Shanghai) and 37 other subsidiaries) and 1 affiliate that are not accounted for under the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

3. Matters pertaining to the fiscal terms of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2017 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil and SMC (Tianjin) Manufacturing whose fiscal year-end date is December 31.

4. Matters pertaining to accounting policies

(1) Valuation standards and methods of significant assets

(i) Short-term investment securities

Other securities

- a. With fair value: Stated at fair value based on the market value of the settlement date.

(All unrealized gains and losses are included in Shareholders' Equity and cost of sales is principally computed using the moving average method.)

- b. Without fair value: Stated at cost using the moving average method.

(ii) Inventories: Principally stated at cost based on the total average method (where market value shall be recorded in the balance sheet in the case of a decline in profitability).

(2) Depreciation methods of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

Depreciation of Property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are amortized based on the straight-line method.

And that of foreign consolidated subsidiaries is determined in accordance with the straight line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles / Tools, furniture and fixtures: 2-20 years

(ii) Intangible assets (excluding leased assets)

Depreciation of intangible assets of the Company and its domestic consolidated subsidiaries is computed in accordance with the straight line method and that of foreign consolidated subsidiaries is determined in accordance with the straight line method pursuant to the accounting standards of the corresponding nation.

Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years).

(3) Significant allowances

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Consolidated foreign subsidiaries provide an allowance for possible loan losses in the amount deemed irrecoverable based on an individual assessment of each claim.

(ii) Provision for bonuses

Some of the Company's consolidated subsidiaries provide a reserve for bonuses for employees.

(iii) Provision for directors' retirement benefits

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for Directors and Corporate Auditors in the required amount to be paid based on the internal rules for such payments.

(4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated assets and loans are translated into Japanese yen at exchange rates prevailing at the end of the term and the difference resulting from the translation is recognized as income. Meanwhile, assets and liabilities held by consolidated foreign subsidiaries are translated into Japanese yen at exchange rates prevailing at the end of the term, while earnings and expenses are translated into Japanese yen at average rates of exchange during the term and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under shareholders' equity.

(5) Other significant matters constituting the basis for preparing the Consolidated Financial Statements

(i) Net defined benefit and Net defined benefit liability

The amount calculated by deducting pension assets from net benefit liabilities based on the projected amount as of the end of the fiscal year under review is recorded to prepare for retirement benefit payments to employees. For the calculation of net benefit liabilities, the retirement benefit formula is used to attribute expected retirement benefits to the period until the consolidated fiscal year under review.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition.

Actuarial net gain or loss is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition from the

succeeding period.

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt a simplified method for the calculation of net defined benefit and retirement benefit costs, and recognize the amount payable to employees retiring due to personal reasons at year-end as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by applying the tax.

[Notes on changes in accounting policies]

(Application of "Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes")

The Company 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 consolidated fiscal year under review, 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 application had a little impact on the consolidated financial statements for the consolidated fiscal year under review.

[Additional Information]

(Application of "Implementation Guidance on Recoverability of Deferred Tax Assets")

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (Guideline of ASBJ No. 26, March 28, 2016) from the consolidated fiscal year under review.

(Transactions of delivering the Company's own shares to employees, etc. through trusts)

(1) Overview of transactions

The Company adopted the Employee Stock Ownership Plan ("ESOP") trust aimed at enhancing employees' morale and motivation by giving them an incentive to improve the Company's medium- to long-term corporate value. At the same time, the ESOP trust is for the purpose of increasing employees' awareness of the Company's share value and promoting their asset formation by encouraging them to purchase and hold the Company's shares through the ESOP.

[Overview of the ESOP trust]

a) Type: Specified money in trust (third-party benefit trust)

b) Settlor: SMC Corporation

- c) Trustee: Resona Bank, Limited
 - d) Beneficiaries: Of the members of the Company's employee stock ownership association (including former members), those who fulfill the conditions of beneficiaries.
 - e) Term of the trust: From May 17, 2012 to June 30, 2017
 - f) Exercise of voting rights: The voting right of the Company's share owned by the ESOP trust shall be exercised in accordance with the instructions given by the Trust Caretaker.
- (2) Accounting treatment
- The Company applies the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015) and continues to apply the same method as the existing method.
- (3) Matters related to the Company's own share possessed by the trust
- a) Book values of the Company's own shares possessed by the trust are 395 million yen in the previous fiscal year and 312 million in the fiscal year under review, and they are registered as Treasury shares under Shareholders' equity.
 - b) Total number of the said shares at the end of the year is 30,100 shares in the previous fiscal year and 23,800 shares in the fiscal year under review. The average number of shares is 33,075 in the previous fiscal year and 26,898 in the fiscal year under review, and they are included in treasury shares that are deducted for the calculation of per share information.

[Notes on Consolidated Balance Sheets]

	(Million yen)
1. Accumulated depreciation of property, plant and equipment	200,706
2. For non-consolidated subsidiaries and affiliates	
Investment securities (shares)	18,454
"Other" under Investments and other assets (investments)	512

[Notes on Consolidated Statements of Income]

	(Million yen)
1. Principal items under selling, general and administrative expenses	
Salaries and allowances	35,664
Bonuses	8,339
Retirement benefit expenses	1,479
Provision of allowance for doubtful accounts	188

(Million yen)

- 2. Research and development expenses included under general and administrative expenses as well as manufacturing costs for the term** 19,115

[Notes on Consolidated Statement of Changes in Equity]

1. Matters pertaining to outstanding shares and treasury share

(Shares)

	Type	At the beginning of Fiscal 2016	Increase	Decrease	At the end of Fiscal 2016
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury share	Common share	178,285	719	6,344	172,660

Note: Increase in the number of treasury share was due to purchase of odd-lot shares. Of the decrease in the number of treasury share, 6,300 shares were due to sale of the shares from the Employee Stock Ownership Plan (ESOP) trust to the employees' stock ownership association and 44 shares were due to sale of odd-lot shares.

2. Matters pertaining to dividends

(1) Dividend amount

Resolved	Type	Total dividend amount	Dividend per share	Record date	Effective date
Ordinary General Meeting of Shareholders (Jun. 28, 2016)	Common share	¥ 6,719million	¥ 100	March 31, 2016	June 29, 2016
Board of Directors' Meeting (Nov. 8, 2016)	Common share	¥ 6,719million	¥ 100	September 30, 2016	December 1, 2016

Note: The Company recognizes its shares owned by the ESOP trust as treasury share in accounting. Therefore, the total dividend amount in the above does not include the dividend for the said share (dividend of 3 million yen resolved at the Ordinary General Meeting of Shareholders held on June 28, 2016 and 2 million yen resolved at the Board of Directors' Meeting held on November 8, 2016).

(2) Dividend whose record date is within the term and effective date in the succeeding term

The following is to be proposed at the Ordinary General Meeting of Shareholders scheduled to be held on June 28, 2017.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 13,439million	¥ 200	March 31, 2017	June 29, 2017

Note: The Company recognizes its shares owned by the ESOP trust as treasury share in accounting. Therefore, the total dividend amount in the above does not include 4 million yen of dividend for the said share.

[Notes relating to financial instruments]

1. Matters relating to the status of financial instruments

(1) Policy on financial instruments

The SMC Group is financing funds for working capital through self-financing and fund procurement from external sources centering on loans from banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in short-term investment securities in principle and invest them instead in bank deposits, etc.

Regarding the derivative transactions, we have established internal regulations to decide upon the company's internal policy to limit derivative transactions within the range of actual demand and not to make speculative transactions.

(2) Contents and risk of financial instruments

Notes and accounts receivable-trade, which are operating receivables, are subject to the credit risk of customers. Foreign-currency-denominated notes and accounts receivable-trade are subject to the risk of exchange-rate fluctuations.

Investment securities, which mainly consist of stocks of companies that have business relationships with the Company and securities investment trusts, are subject to market price volatility risk and other risks.

Notes and accounts payable-trade, which are operating debts, have a due date of one year or less. Foreign-currency-denominated notes and accounts payable-trade drawn for imports of raw materials, etc. are subject to the risk of exchange-rate fluctuations.

Loans payable consist of borrowings at a fixed interest rate that are appropriated for working capital. Long-term loans payable have a due date of up to five years after the consolidated financial statement date.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to non-performance by customers)

Regarding credit risk management for operating receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect information on the credit status of customers on a daily basis. We perform risk assessment regularly to ensure receivables are protected. In the meantime, the Company receives guarantee deposits from its principal distribution agents.

We limit derivative transactions to only those financial institutions with high credit ratings.

(ii) Market risk management (risk of fluctuations in exchange rates and interest rates)

For foreign-currency-denominated operating receivables and operating debts, the

Company and some of its consolidated subsidiaries may be engaged in foreign exchange forward contract transactions when required. The balance of foreign-currency-denominated operating debts is constantly within the balance of foreign-currency-denominated operating receivables.

We regularly keep track of the fair values and financial conditions of the issuers of investment securities.

- (iii) Liquidity risk management relating to financing (risk of inability to repay on the due date)

We manage liquidity risk by methods such as creating a cash flow plan.

- (4) Supplementary explanation of matters relating to fair value of financial instruments and others

Fair values of financial instruments include the values based on market prices, and the values deemed to be market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

2. Matters relating to fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and differences between them as of March 31, 2017. Items whose fair values are extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Million yen)			
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	459,874	459,874	—
(2) Notes and accounts receivable-trade	141,057	141,057	—
(3) Investment securities			
Available-for-sale securities	57,939	57,939	—
Total assets	658,872	658,872	—
(4) Notes and accounts payable-trade	60,648	60,648	—
(5) Short-term loans payable	11,735	11,735	—
Total liabilities	72,383	72,383	—
Derivative transactions	—	—	—

(Notes)

1. Calculation method of fair value of financial instruments and matters relating to short-term investment securities and derivative transactions

Assets

- (1) Cash and deposits and (2) Notes and accounts receivable-trade

Since contractual terms of these items are short and fair values of these items approximate book values, we deem the book values to be fair values.

(3) Investment securities

Of the investment securities, fair values of stocks are based on market prices on securities exchanges and fair values of bonds and beneficiary rights of securities investment trust are based on market prices on securities exchanges or prices offered by correspondent financial institutions.

Liabilities

(4) Notes and accounts payable-trade and (5) Short-term loans payable

Since contractual terms of these items are short and fair values of these items approximate book values, we deem the book values to be fair values.

Derivative transactions

There are no relevant matters for the fiscal year under review.

2. Financial instruments whose fair values are deemed extremely difficult to determine

Category	Consolidate balance sheet amount
Shares of subsidiaries and associates	¥ 18,454 million
Unlisted stocks	¥ 194 million

The above items are excluded from “(3) Investment securities” as they have no market prices and we deem it extremely difficult to determine the fair values.

3. Projected redemption amounts for monetary claims and securities that have maturity dates after the consolidated balance sheet date

(Million yen)

	1 year or less	More than 1 year but not more than 5 years	More than 5 years but not more than 10 years	More than 10 years
(1) Cash and deposits	459,851	—	—	—
(2) Notes and accounts receivable-trade	141,057	—	—	—
(3) Investment securities				
Held-to-maturity bonds				
(Government bonds)	22,440	5,610	—	—
(other)	—	2,205	—	—
Total	623,349	7,815	—	—

4. Projected redemption amounts for Short-term loans payable after the consolidated balance sheet date

	1 year or less
Short-term loans payable	¥ 11,735 million

[Notes on per share information]

- | | |
|---|---------------|
| 1. Shareholders' equity per share: | 15,292.53 yen |
| 2. Net income per share: | 1,683.12 yen |

[Notes on significant subsequent events]

None

(Note) In the Consolidated Financial Statement of Changes in Equity and the Notes to the Consolidated Financial Statement, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Statement of Changes in Equity

(April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for reduction entry of assets	Reserve for dividends
Balance at beginning of the period	61,005	72,576	100	72,677	15,251	57	326	150,250
Changes of items during period								
Reversal of reserve for special depreciation						(20)		
Reversal of reserve for reduction entry of assets							(12)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Disposal of treasury shares			92	92				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	92	92	—	(20)	(12)	—
Balance at end of the period	61,005	72,576	193	72,769	15,251	36	313	150,250

(Million yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
	Retained earnings brought forward						
Balance at beginning of the period	242,583	408,469	(3,411)	538,740	2,630	2,630	541,370
Changes of items during period							
Reversal of reserve for special depreciation	20	—		—			—
Reversal of reserve for reduction entry of assets	12	—		—			—
Dividends of surplus	(13,438)	(13,438)		(13,438)			(13,438)
Profit	70,423	70,423		70,423			70,423
Purchase of treasury shares			(20)	(20)			(20)
Disposal of treasury shares			83	175			175
Net changes of items other than shareholders' equity					5,792	5,792	5,792
Total changes of items during period	57,018	56,985	63	57,140	5,792	5,792	62,933
Balance at end of the period	299,602	465,454	(3,348)	595,880	8,423	8,423	604,304

Notes to the Non-consolidated Financial Statements

[Notes to the premises of a going concern]

None

[Significant matters pertaining to accounting policies]

1. Valuation standards and methods of short-term investment securities

(1) Shares of subsidiaries and affiliates: Stated at cost using the moving average method.

(2) Other securities

1) With fair value: Stated at fair value based on the market value of the settlement date.

(All unrealized gains and losses are included in Shareholders' Equity and cost of sales is computed using the moving average method.)

2) Without fair value: Stated at cost using the moving average method.

2. Valuation standards and methods of inventory assets

Principally stated at cost based on the total average method (where market value shall be recorded in the balance sheet in the case of a decline in profitability).

3. Depreciation methods of non-current assets

(1) Property, plant and equipment (excluding leased assets)

In accordance with the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are amortized based on the straight-line method.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles / Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding leased assets)

In accordance with the straight-line method.

Internal-use software is amortized on a straight-line basis over the useful life period (5 years).

4. Allowances

(1) Allowance for doubtful accounts

An allowance is provided for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims.

(2) Provision for retirement benefits

A reserve is provided for employee retirement benefits based on the projected amount of benefit obligations and pension plan assets in the term. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits to the period until the fiscal year under review.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition from the succeeding year.

(3) Provision for directors' retirement benefits

A reserve is provided for retirement benefits for Directors in the required amount to be paid based on the internal rules for such payments.

5. Other significant matters constituting the basis for preparing the Financial Statements

(1) Accounting procedures for retirement benefits

The accounting procedures for unrecognized actuarial net gains or losses and unrecognized prior service costs related to retirement benefits are different from those adopted to prepare the consolidated financial statements.

(2) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by applying the tax.

[Notes on changes in presentation method]

(Balance Sheets)

The item of "Suspense payments" that was separately presented under current assets in the previous fiscal year is included in "Other" from the fiscal year under review because the materiality of the amounts has decreased.

[Notes on Balance Sheets]

	(Million yen)
1. Accumulated depreciation of property, plant and equipment	115,239
2. Receivables and payables in relation to subsidiaries and associates	
Short-term receivables	63,268
Long-term payables	8,931

[Notes on Statements of income]

Transactions with subsidiaries and associates

(Million yen)

Net sales	204,524
Purchase amount	45,427
Selling, general and administrative expenses	2,028
Non-operating transaction amount	4,625

[Notes on Statement of Changes in Equity]

Matters pertaining to treasury share

(Shares)

	Type	At the beginning of Fiscal 2016	Increase	Decrease	At the end of Fiscal 2016
Treasury share	Common share	178,285	719	6,344	172,660

Note: Of the increase in the number of treasury share was due to purchase of odd-lot shares.

Of the decrease in the number of treasury share of 6,300 shares were due to sale of the shares from the ESOP trust to the employees' stock ownership association and 44 shares were due to sale of odd-lot shares.

[Notes on deferred tax accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Million yen)

	The 58th fiscal term (As of March 31, 2017)
Deferred tax assets	
Loss on valuation of investment securities	577
Valuation loss on inventories	4,337
One-time depreciable assets	41
Loss on valuation of shares of subsidiaries and affiliates	1,159
Allowance for doubtful accounts	65
Accounts payable other	101
Accrued enterprise taxes, accrued business office taxes	864
Accrued expenses	2,595
Provision for retirement benefits	1,773
Provision for directors' retirement benefits	177
Asset retirement obligations	81
Other	313
Total deferred tax assets	12,088
Deferred tax liabilities	
Asset retirement obligations	(8)
Reserve for special depreciation	(16)
Reserve for reduction entry of assets	(138)
Valuation difference on available-for-sale securities	(3,910)
Other	(185)
Total deferred tax liabilities	(4,259)
Net deferred tax assets	7,829

[Notes on transactions with related parties]

Subsidiaries

(Million yen)

Attributes	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC US	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	29,173	Accounts receivable-trade	7,514
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	35,589	Accounts receivable-trade	9,319

Transaction conditions and policies on determining such conditions

The sales price is determined in consideration of the prevailing market price.

[Notes on per share information]

- | | |
|---|--------------|
| 1. Shareholders' equity per share: | 8,993.07 yen |
| 2. Net income per share: | 1,048.06 yen |

[Notes on significant subsequent events]

None

(Note) In the Non-consolidated Statement of Changes in Equity and the Notes to the Non-consolidated Financial Statements, amounts are rounded down to match the unit in which they are presented.