



November 8, 2017

Consolidated Financial Highlights for the Second Quarter Ended September 30, 2017[under Japanese GAAP]

Company name : **SMC Corporation**
 Stock exchange listing : **Tokyo Stock Exchange First Section**
 Security code : **6273**
 URL : <http://www.smcworld.com/ir/en/>
 Representative : **Katsunori Maruyama, President**
 Contact person : **Ikuji Usui, Director and Senior Managing Executive Officer**
 Projected date of filing quarterly report : **November 8, 2017**
 Projected starting date of dividend payment : **December 1, 2017**

1. Consolidated Financial Highlights for the Second Quarter Ended September 30, 2017 (April 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results

(Millions of yen)

| 2nd Quarter ended September 30 | Net sales | Operating profit | Ordinary profit | Profit attributable to owners of parent |
|-----------------------------------|----------------|------------------|-----------------|---|
| 2017 | 291,373 26.8% | 95,382 40.6% | 103,446 91.0% | 74,006 61.4% |
| 2016 | 229,861 (5.4%) | 67,830 (4.0%) | 54,162 (28.6%) | 45,854 (15.0%) |

(Note) Comprehensive Income 2Q ended September 30, 2017 : ¥ 99,863 million —%
 2Q ended September 30, 2016 : ¥ (17,773) million —%

(Yen)

| 2nd Quarter ended September 30 | Net income per share | Net income per share (diluted basis) |
|-----------------------------------|-------------------------|---|
| 2017 | 1,101.16 | — |
| 2016 | 682.44 | — |

(2) Consolidated Financial Positions

(Millions of yen)

| | Total assets | Net assets | Equity ratio |
|--------------------|--------------|------------|--------------|
| September 30, 2017 | 1,325,869 | 1,117,581 | 84.1% |
| March 31, 2017 | 1,192,444 | 1,030,369 | 86.2% |

(Note) Shareholders' equity As of September 30, 2017 : ¥ 1,114,595 million
 As of March 31, 2017 : ¥ 1,027,607 million

2. Dividends

(Yen)

| For the year ended March 31 | Dividend per share | | | | |
|--------------------------------|--------------------|--------|----|--------------|--------|
| | 1Q | 2Q | 3Q | 4Q | Total |
| 2017 (Actual) | — | 100.00 | — | 200.00 | 300.00 |
| 2018 (Actual) | — | 200.00 | NA | NA | NA |
| 2018 (Projected) | NA | NA | — | Undetermined | |

(Notes) Revision of dividends forecast from the latest announcement : None

Breakdown of the dividend per share 2017 4Q (Actual) Ordinary dividend: ¥100.00 Special dividend: ¥100.00
 2018 2Q (Actual) Ordinary dividend: ¥100.00 Special dividend: ¥100.00

3. Forecasts of Consolidated Operating Results for the Year Ending March 31, 2018

(Millions of yen, except per share figures)

| | Net sales | Operating profit | Ordinary profit | Profit attributable to owners of parent | Net income per share (Yen) |
|-----------------------------------|---------------|------------------|-----------------|---|----------------------------|
| Year ending March 31, 2018 | 550,000 12.8% | 170,000 20.5% | 180,000 21.4% | 130,000 14.9% | 1,934.31 |

(Note) Revision of forecasts of operating results from the latest announcement : None

* Notes

- (1) Changes in significant subsidiaries during the second quarter ended September 30, 2017: None
- (2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 1. Changes in accounting policies applied due to revisions of accounting standards: None
 2. Changes in accounting policies other than the above: None
 3. Changes in accounting estimates: None
 4. Retrospective restatement: None

(4) Number of shares issued

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

| | |
|----------------------------|------------|
| As of September 30, 2017 : | 67,369,359 |
| As of March 31, 2017 : | 67,369,359 |

2. Number of treasury shares

| | |
|----------------------------|---------|
| As of September 30, 2017 : | 149,158 |
| As of March 31, 2017 : | 172,660 |

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

| | |
|----------------------|------------|
| September 30, 2017 : | 67,207,560 |
| September 30, 2016 : | 67,192,453 |

These consolidated quarterly financial highlights are not subject to quarterly review procedures by the independent accounting auditor.

Explanation of appropriate use of financial forecasts; other special items

Forecasts are based on information and certain premises that we consider to be reasonable at the time we released these consolidated quarterly financial highlights.

Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the second quarter ended (from April 1, 2017 to September 30, 2017), demands for automatic control equipment were substantially increased in semi-conductor related industries for Japan, Asia and North America and demands for other industries also remained steady.

In order to respond to the strong demands from our customers, we SMC group continued to aggressively expand sales activities while enhancing and strengthening our product supply capacity, such as an expansion of domestic and overseas production and distribution bases.

As a result, net sales were 291,373 million yen (increased by 26.8% from the previous corresponding period), and operating profit was 95,382 million yen (increased by 40.6%) mainly due to a growth in revenue. Ordinary profit was 103,446 million yen (increased by 91.0%) due to 3,178 million yen foreign exchange gains (18,030 million yen foreign exchange losses were recorded in the previous corresponding period) recorded by stable transition of foreign exchange rates. Profit before income taxes was 102,598 million yen (increased by 93.9%), and profit attributable to owners of parent was 74,006 million yen (increased by 61.4%).

ROE became 6.9%, gained by 2.0 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the second quarter were 1,325,869 million yen , which was an increase of 133,424 million yen (11.2%) from the previous fiscal year end. The main factors were 53,368 million yen increase in cash and deposits, 16,966 million yen increase in notes and accounts receivable-trade, 16,553 million yen increase in inventories, and 40,786 million yen increase in investments securities, while securities were decreased by 11,145 million yen.

Total liabilities were 208,288 million yen , which was an increase of 46,212 million yen (28.5%) from the previous fiscal year end. The main factor was 23,960 million yen increase in notes and accounts payable-trade.

Net assets were 1,117,581 million yen , which was an increase of 87,212 million yen (8.5%) from the previous fiscal year end. The main factors were 60,567 million yen increase in retained earnings mainly due to recorded profit attributable to owners of parent and 21,277 million yen increase in foreign currency translation adjustment affected by weak yen.

Equity ratio became 84.1%.

(3) Consolidated Forecasts and Other Forward-Looking Information

Forecasts of both consolidated and non-consolidated operating results for the year ending March 31, 2018 that were announced on October 27, 2017 have been unchanged.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

| | Year end -Previous year As of March 31, 2017 | Second quarter end -Current year As of September 30, 2017 |
|--|--|---|
| [ASSETS] | | |
| Current assets | | |
| Cash and deposits | 459,874 | 513,242 |
| Notes and accounts receivable-trade | 141,057 | 158,023 |
| Securities | 22,401 | 11,255 |
| Merchandise and finished goods | 79,909 | 87,621 |
| Work in process | 15,001 | 15,875 |
| Raw materials and supplies | 84,274 | 92,242 |
| Other | 34,228 | 50,206 |
| Allowance for doubtful accounts | (818) | (774) |
| Total current assets | 835,928 | 927,693 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 74,603 | 74,520 |
| Machinery, equipment and vehicles, net | 28,332 | 28,611 |
| Land | 32,705 | 35,057 |
| Other, net | 13,611 | 17,645 |
| Total property, plant and equipment | 149,252 | 155,834 |
| Intangible assets | 11,060 | 12,372 |
| Investments and other assets | | |
| Investment securities | 54,187 | 94,973 |
| Insurance funds | 122,966 | 128,148 |
| Other | 20,857 | 8,796 |
| Allowance for doubtful accounts | (1,808) | (1,950) |
| Total investments and other assets | 196,203 | 229,968 |
| Total non-current assets | 356,516 | 398,176 |
| Total assets | 1,192,444 | 1,325,869 |

(Millions of yen)

| | Year end -Previous year As of March 31, 2017 | Second quarter end -Current year As of September 30, 2017 |
|---|--|---|
| [LIABILITIES] | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 60,648 | 84,608 |
| Short-term loans payable | 11,735 | 11,815 |
| Income taxes payable | 20,066 | 26,067 |
| Provision for bonuses | 2,812 | 3,594 |
| Provision | — | 1,709 |
| Other | 34,177 | 45,128 |
| Total current liabilities | 129,439 | 172,922 |
| Non-current liabilities | | |
| Long-term loans payable | 5,338 | 5,153 |
| Provision for directors' retirement benefits | 869 | 862 |
| Net defined benefit liability | 8,427 | 8,117 |
| Other | 18,001 | 21,233 |
| Total non-current liabilities | 32,635 | 35,366 |
| Total liabilities | 162,075 | 208,288 |
| [NET ASSETS] | | |
| Shareholders' equity | | |
| Capital stock | 61,005 | 61,005 |
| Capital surplus | 72,871 | 73,372 |
| Retained earnings | 875,230 | 935,797 |
| Treasury shares | (3,348) | (3,046) |
| Total shareholders' equity | 1,005,758 | 1,067,129 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 8,864 | 13,127 |
| Foreign currency translation adjustment | 14,459 | 35,737 |
| Remeasurements of defined benefit plans | (1,475) | (1,398) |
| Total accumulated other comprehensive income | 21,848 | 47,466 |
| Non-controlling interests | 2,761 | 2,985 |
| Total net assets | 1,030,369 | 1,117,581 |
| Total liabilities and net assets | 1,192,444 | 1,325,869 |

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

Consolidated Quarterly Statement of Income

(Millions of yen)

| | Second quarter ended September 30, 2016 From April 1, 2016 to September 30, 2016 | Second quarter ended September 30, 2017 From April 1, 2017 to September 30, 2017 |
|---|---|---|
| Net sales | 229,861 | 291,373 |
| Cost of sales | 112,727 | 139,976 |
| Gross profit | 117,134 | 151,396 |
| Selling, general and administrative expenses | 49,303 | 56,013 |
| Operating profit | 67,830 | 95,382 |
| Non-operating income | | |
| Interest income | 2,861 | 3,396 |
| Foreign exchange gains | — | 3,178 |
| Other | 1,745 | 1,815 |
| Total non-operating income | 4,607 | 8,389 |
| Non-operating expenses | | |
| Interest expenses | 85 | 53 |
| Sales discounts | 122 | 127 |
| Loss on sales of securities | — | 114 |
| Foreign exchange losses | 18,030 | — |
| Other | 37 | 29 |
| Total non-operating expenses | 18,275 | 325 |
| Ordinary profit | 54,162 | 103,446 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 174 | 104 |
| Gain on sales of investment securities | 11 | — |
| Other | 4 | 11 |
| Total extraordinary income | 190 | 115 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 40 | 24 |
| Impairment loss | 1,373 | 933 |
| Other | 33 | 6 |
| Total extraordinary losses | 1,447 | 963 |
| Profit before income taxes | 52,905 | 102,598 |
| Income taxes | 13,831 | 28,446 |
| Income taxes for prior periods | (6,871) | — |
| Profit | 45,945 | 74,151 |
| Profit attributable to non-controlling interests | 90 | 145 |
| Profit attributable to owners of parent | 45,854 | 74,006 |

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

| | Second quarter ended September 30, 2016 From April 1, 2016 to September 30, 2016 | Second quarter ended September 30, 2017 From April 1, 2017 to September 30, 2017 |
|--|---|---|
| Profit | 45,945 | 74,151 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,502 | 4,328 |
| Foreign currency translation adjustment | (65,307) | 21,306 |
| Remeasurements of defined benefit plans, net of tax | 87 | 77 |
| Total other comprehensive income | (63,718) | 25,711 |
| Comprehensive income | (17,773) | 99,863 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | (17,857) | 99,623 |
| Comprehensive income attributable to non-controlling interests | 84 | 239 |

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption N/A

Notes in event of significant changes in shareholders' equity N/A

Adoption of special accounting methods for presenting quarterly consolidated financial statements

[Calculation of income taxes]

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

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

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

Supplementary Information

(1) Geographic segment information

(Millions of yen)

| | 2Q ended September 30, 2017 | | | | | | | |
|---------------------------------|-----------------------------|---------------|--------|---------|-------|---------|---------------------------|--------------|
| | Japan | North America | Europe | Asia | Other | Total | Intersegment Eliminations | Consolidated |
| Net sales | | | | | | | | |
| (1) Sales to external customers | 90,001 | 44,061 | 42,215 | 109,368 | 5,725 | 291,373 | — | 291,373 |
| (2) Intersegment sales | 117,947 | 2,821 | 695 | 28,125 | 8 | 149,597 | (149,597) | — |
| Total | 207,949 | 46,883 | 42,910 | 137,493 | 5,734 | 440,971 | (149,597) | 291,373 |
| Operating profit (loss) | 66,038 | 9,675 | 4,341 | 25,625 | 657 | 106,338 | (10,955) | 95,382 |

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

(Millions of yen)

| | 2Q ended September 30, 2017 | | Year ending March 31, 2018 (Forecast) | |
|----------------------|-----------------------------|-------|--|-------|
| | | | | |
| Capital expenditures | 12,637 | 47.4% | 35,500 | 63.9% |
| Depreciation | 7,539 | 9.4% | 15,300 | 7.4% |
| R&D expense | 10,100 | 6.0% | 20,000 | 4.6% |

(3) Foreign currency exchange rates

| | 2Q ended September 30, 2017 | | Year ending March 31, 2018 (Forecast) |
|--------|-----------------------------|----------|---------------------------------------|
| | (average) | (at end) | (average) |
| U S \$ | ¥ 111.05 | ¥ 112.74 | ¥ 110 |
| E U R | ¥ 126.31 | ¥ 132.81 | ¥ 126 |
| C N Y | ¥ 16.42 | ¥ 16.96 | ¥ 16.30 |

(Note) The forecasted average exchange rates of US\$, EUR and CNY for the year ending March 31, 2018 are respectively changed as above from the previous forecasts (1 US\$ = 105 yen, 1 EUR = 115 yen, 1 CNY = 15.80 yen) in accordance with the notice on October 27, 2017.

(4) Consolidated full-time employees and temporary employees

(Number of personnel)

| | 2Q ended September 30, 2017 | Increase from last year end |
|-------------------------------|-----------------------------|-----------------------------|
| Full-time employees (at end) | 19,725 | 534 |
| Temporary employees (average) | 5,734 | 595 |