Dear Shareholders,

(Security Code: 6273)
June 5, 2018

Notice of the 59th Ordinary General Meeting of Shareholders

Notice is hereby given to cordially invite you to attend the 59th 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 26, 2018(Tuesday).

Sincerely,

Katsunori Maruyama
President
SMC Corporation
4-14-1,Soto-Kanda,Chiyoda-ku, Tokyo

1. Date and Time June 27, 2018 (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 59th fiscal term (April 1, 2017 to March 31, 2018)

Matters to be resolved

Proposal 1. Dividend of Surplus

Proposal 2. Election of 10 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 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.

Concerning the return of profit to our shareholders, we adopt a basic policy of maintaining stable dividend payment. At the same time, we will strive to enhance the profit return even further by considering a flexible acquisition of treasury shares depending on the situation.

【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.

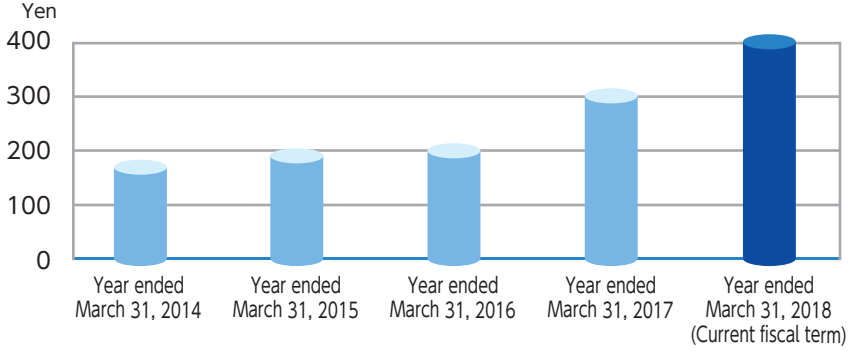
(1) Allocation of divisible assets payable to shareholders and total amount

200 yen per share on the Company's common shares (Ordinary dividend: 100 yen, Special dividend: 100 yen)
Total amount: 13,443,954,200 yen

(2) Effective date of the dividends from surplus

June 28, 2018
Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 400 yen, an increase of 100 yen from the previous fiscal year.

Reference:
Changes in dividend per share



Proposal 2 Election of 10 Directors

The term of office of the current 10 Directors will expire at the conclusion of this Annual General Meeting of Shareholders.

Hence, this is to request the election of 10 Directors (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) Number of the Company's shares held 10,017 shares	April 1959 May 1964 December 1988 May 1989 August 2002 July 2004	Established the Company, Director Executive Managing Director Senior General Manager of Sales Headquarters President Chairman, SMC US (Incumbent) Chairman, the Company (Incumbent)

[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) Number of the Company's shares held 2,000 shares	June 1970 June 1993 June 1999 June 2001 July 2002 July 2003 July 2004	Joined the Company Director Manager of Sales Administration Division General Manager of Planning & Intelligence Service Division Managing Director Executive Managing Director Executive Vice-president President (Incumbent)

[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) Number of the Company's shares held 1,800 shares	June 1993	Joined the Company, Director General Manager of Administration Division
		June 1999	Vice Senior General Manager of Administration Headquarters
		June 2001	Managing Director
		June 2001	Senior General Manager of Administration Headquarters (Incumbent)
		July 2003	Executive Managing Director
		June 2017	Director and Senior Managing Executive Officer (Incumbent)

[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.

4	[Reappointed] **Seiji Kosugi** (March 9, 1945) Number of the Company's shares held 8,400 shares	April 1967	Joined the Company
		June 1999	General Manager of Product Development Division 1
		June 2002	Director
		June 2007	Executive Advisory Engineer
		June 2008	Director
		July 2009	Vice Senior General Manager of Engineering Headquarters
		February 2010	Managing Director
		June 2013	Executive Managing Director
		June 2013	Senior General Manager of Engineering Headquarters (Incumbent)
		June 2017	Director and Senior Managing Executive Officer (Incumbent)

[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.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
5	[Reappointed] **Masahiko Satake** (January 19, 1947) Number of the Company's shares held 1,000 shares	April 1969	Joined the Company
		November 2001	General Manager of Production Division 3
		June 2007	Director
		July 2012	Managing Director and Vice Senior General Manager of Production Headquarters
		June 2013	Executive Managing Director
		June 2013	Senior General Manager of Production Headquarters (Incumbent)
		June 2017	Director and Senior Managing Executive Officer (Incumbent)

[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.

6	[Reappointed] **Osamu Kuwahara** (April 18, 1949) Number of the Company's shares held 1,400 shares	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
		June 2015	Senior General Manager of Sales Headquarters (Incumbent)
		June 2017	Director and Senior Managing Executive Officer (Incumbent)

[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.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
7	[Reappointed] **Yoshiki Takada** (June 6, 1958) Number of the Company's shares held 743,062 shares	April 1987	Joined the Company
		June 1991	On loan to SMC US
		June 1994	Director of the Company
		June 2002	Managing Director
		July 2003	In charge of Overseas Operations
		April 2004	President, SMC US (Incumbent)
		June 2014	In charge of Management for North America , Central and South America Zone of the Company (Incumbent)
		June 2017	Director and Managing Executive Officer (Incumbent)

[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.

8	[Reappointed] **Eiji Ohashi** (September 19, 1951) Number of the Company's shares held 1,300 shares	April 2004	Joined the Company
		February 2005	General Manager of Finance & Accounting Division (Incumbent)
		June 2006	Director
		July 2012	Managing Director
		June 2017	Director and Managing Executive Officer (Incumbent)

[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.

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
9 [Reappointed] Candidate for Outside Director	April 1975	Joined Nomura Research Institute, Ltd.
Masanobu Kaizu (December 27, 1951)	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)
Number of the Company's shares held 0 shares	June 2014	Outside Director of the Company (Incumbent)

Important concurrent duties

Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center

[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.
- 4 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
10	[Reappointed] Candidate for Outside Director **Toshiharu Kagawa** (November 12, 1950) Number of the Company's shares held 0 shares	May 1996 Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology May 2012 President, Japan Fluid Power System Society 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 April 2018 Professor Emeritus at Tokyo Institute of Technology **Important concurrent duties** Professor Emeritus at 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.
- 3 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)

1 Matters pertaining to the present status of the Group

❶ 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

Solenoid valves

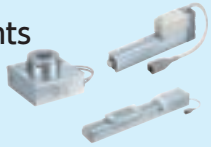
Air cylinders

Air line equipment

Air dryer

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)

❷ Business Progress and results

During the fiscal year under review, the global economic growth showed a recovery trend as a whole. Economic expansion continued in the US due to increases in personal consumptions and capital investments, capital investments and production activities picked up mainly in Euro zone in Europe, and high economic growth rate was maintained in China due to various policy effects. In Japan, under continuously stable employment conditions, exports and capital investments increased, and corporate performances improved as well.

Demands for automatic control equipment were steadily expanded in various industries such as electronics, machine tools and automobiles, as well as substantially increased in semi-conductor related industries in Japan, Asia and North America.

Under these circumstances, in order to respond to the strong demands from our customers, we SMC group strengthened our production systems both at home and abroad, while we promoted far-sighted expansion of production capability as well as developed products that meet the needs such as streamlining, cost reductions, energy savings and space savings, and continued to work on issues such as aggressive sales activities.

As a result, consolidated net sales for the fiscal year under review were 591,035 million yen (21.2% increase year on year). Operating profit was 192,428 million yen (36.4% increase) mainly due to a revenue growth and ordinary profit was 196,846 million yen (32.8% increase) despite increases in foreign exchange losses by strong yen toward the end of the fiscal year. Profit attributable to owners of parent was 136,869 million yen (21.0% increase).

ROE became 12.6%, increased by 1.1 points from the previous period.

Yoshiyuki Takada
Chairman

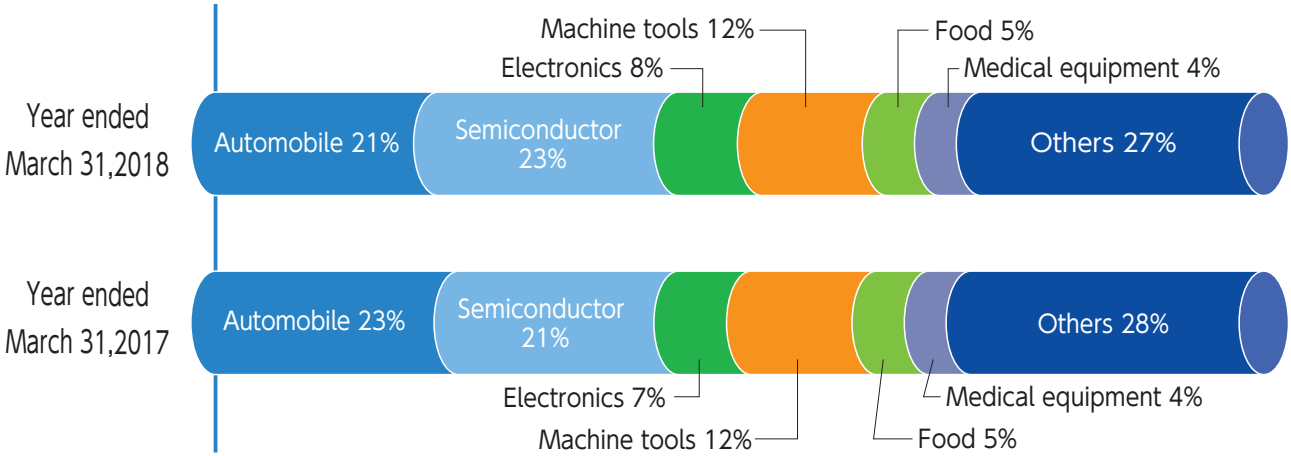
Katsunori Maruyama
President

[Status of domestic sales]

Capital investment in the semiconductor/display-related sectors grew significantly, and demand for machine tools were also favorable thanks to demand in the smartphone/semiconductor-related sectors centering in China. Furthermore, demand also increased steadily in the automobile and electronics sectors. As a result, domestic net sales for the fiscal year ended March 31, 2018 increased by 17.8% year on year to 188,205 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, demand in the semiconductor-related sector showed a historic boom and this trend also spread in the automobile related sector. Also, marketing efforts to acquire large-sized user- produced fruit. As a result, net sales grew 14.9% year on year to 87,036 million yen.

Europe
Thanks to the stable economic environment overall, demand increased not only in the semiconductor related sector but also in the entire manufacturing sector including automobile, machine tools, and medical equipment. As a result, net sales increased 19.7% to 90,183 million yen.

Asia
Demand grew substantially, mainly for semiconductor/electronic parts, particularly for the smartphone related sector where Chinese makers are expanding their presence. Demand also expanded for automobiles including the secondary battery-related sector for electronic cars. As a result, net sales increased 28.6% to 213,952 million yen.

Other regions
In other regions such as South America and Oceania, demand started recovering on the back of favorable performance of the global economy, and net sales increased 11.2% to 11,657 million yen.

■ Consolidated overseas sales

(Million yen)

	Domestic sales	Overseas sales				Consolidated (Total)
		North America	Europe	Asia	Other	
	188,205	**87,036**	**90,183**	**213,952**	**11,657**	591,035
YoY change	+17.8%	**+14.9%**	**+19.7%**	**+28.6%**	**+11.2%**	+21.2%
Sales composition	31.8%	**14.7%**	**15.3%**	**36.2%**	**2.0%**	100.0%

❸ 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 23,683 million yen, an increase of 9.3% year on year.

Listed below are the main facilities completed during the fiscal year ended March 31, 2018.

(i) First and second phase construction of SMC Manufacturing (Vietnum) #1 Factory

(ii) SMC Thailand Training facility and Employee dorm

❹ 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.

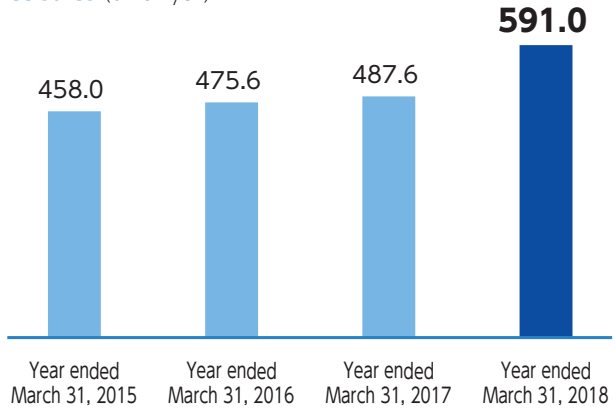
3)The Company aims to survive competitions in the global markets and to acquire higher market shares.

❺ Changes in assets and financial results

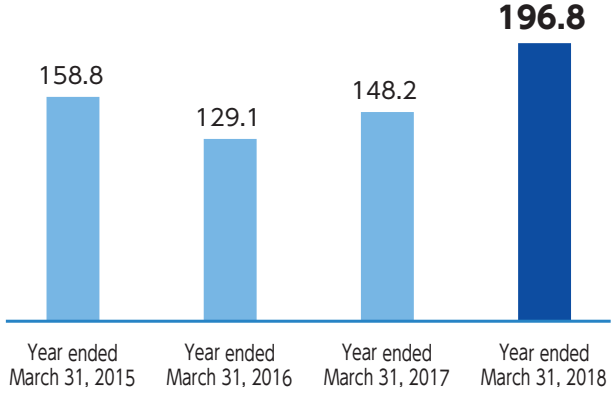
(Million yen)

	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018 (Current fiscal term)
Net Sales	458,081	475,608	487,625	**591,035**
Ordinary profit	158,816	129,188	148,237	**196,846**
Profit attributable to owners of parent	109,583	92,138	113,095	**136,869**
Net Income per share (yen)	1,629.38	1,371.34	1,683.12	**2,036.33**
Total Assets	1,129,001	1,120,171	1,192,444	**1,360,883**
Net Assets	921,483	941,813	1,030,369	**1,150,416**
Net Assets per share (yen)	13,682.01	13,981.17	15,292.53	**17,067.08**
Return on Equity	12.9%	9.9%	11.5%	**12.6%**

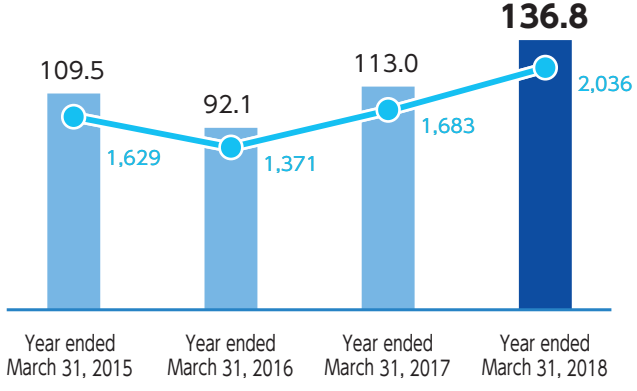
Net Sales (billion yen)



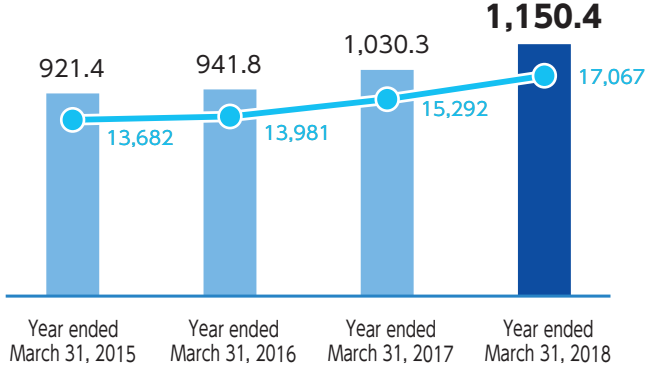
Ordinary Income (billion yen)



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



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



❻ 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 40,501 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.

There are 35 consolidated subsidiaries including the abovementioned 17 principal subsidiaries.
SMC Germany increased its capital in May 2017 to 40,501 thousand euro for the purpose of purchasing equipment.

Global Network (for reference purpose)

Europe

U. K.

Germany

Austria

Spain

France

Italy

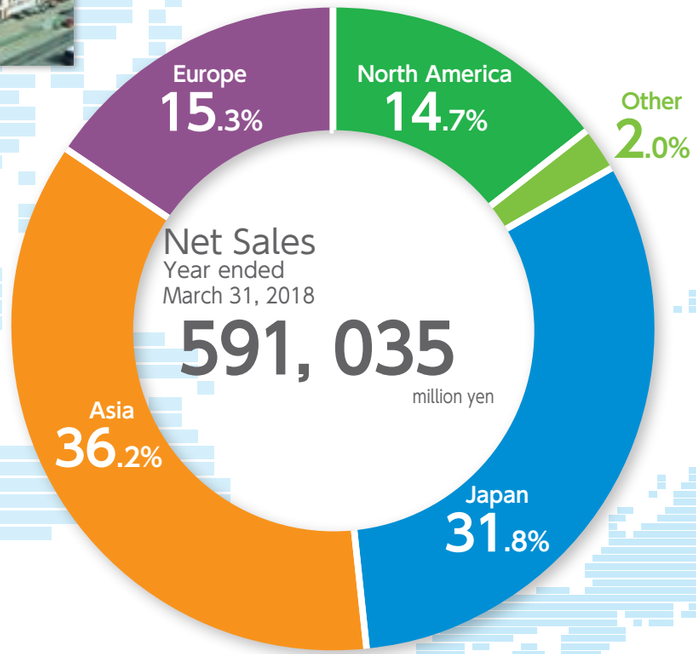
U. S.

Mexico

Australia

Brazil

North America / Other



Asia

Taiwan

Hong Kong

Beijing Manufacturing

China

Korea

India

Mfg Singapore

Japan

Tsukuba Technical Center

Soka Factory

Tsukuba Factory

Shimotsuma Factory

Kamaishi Factory

Tono Factory

Yamatsuri Factory

❼ Status of employees

Number of employees	19,680	Increase against the previous term	489

(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 5,787 temporary staff (average during the term. increased 648 persons from the last year).

❽ The status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited.	¥ 4,425 million

❾ 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

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

None

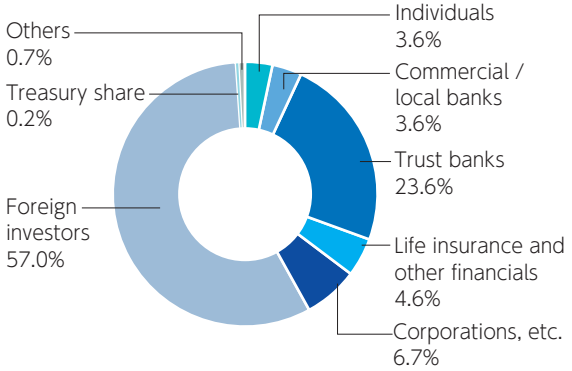
2 Matters pertaining to the Company's shares

❶ **Total number of shares outstanding:** 67,369,359 (including 149,588 shares of treasury share)
❷ **Number of shareholders:** 5,490
❸ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	4,395.1	6.53
TON Finance B.V.	3,443.5	5.12
Master Trust Bank of Japan (Trust account)	3,404.1	5.06
Takada International Co. Ltd.	3,050.0	4.53
JP Morgan Chase Bank 380055	2,666.1	3.96
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	1,369.3	2.03
The Nomura Trust and Banking Co., Ltd. (Trust account 2052208)	1,239.4	1.84
The Bank of New York Mellon 140044	1,226.1	1.82

(Notes)
Percentages of voting rights are calculated based on the number of shares outstanding of 67,219,771 shares (excluding treasury share) and are indicated by rounding down figures to three decimal places.

Distribution of share by shareholders



Individuals	2,454.9 Thousand shares
Commercial/local banks	2,392.5 Thousand shares
Trust banks	15,895.2 Thousand shares
Life insurance and other financials	3,085.2 Thousand shares
Corporations, etc.	4,523.2 Thousand shares
Foreign investors	38,414.3 Thousand shares
Treasury share	149.5 Thousand shares
Others	454.1 Thousand shares

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

❶ 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	Director and Senior Managing Executive Officer	Senior General Manager of Administration Headquarters
Seiji Kosugi	Director and Senior Managing Executive Officer	Senior General Manager of Engineering Headquarters
Masahiko Satake	Director and Senior Managing Executive Officer	Senior General Manager of Production Headquarters
Osamu Kuwahara	Director and Senior Managing Executive Officer	Senior General Manager of Sales Headquarters and Senior General Manager of Marketing Headquarters and General Manager of Sales Engineering Division
Yoshiki Takada	Director and Managing Executive Officer	In charge of Management for North America , Central and South America Zone / President, SMC US
Eiji Ohashi	Director and Managing Executive Officer	General Manager of Finance and Accounting Division
Masanobu Kaizu	Director (Outside Director)	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
Toshiharu Kagawa	Director (Outside Director)	Institute Professor of 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)
1. 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.
2. Messrs. Koichi Shikakura, Koji Ogura, Motoichi Kawada and Susumu Takada retired upon expiration of their terms of office as Director at the conclusion of the 58th Ordinary General Meeting of Shareholders held on June 28, 2017.
3. Mr. Masanobu Kaizu retired from his position as Director of Financial Accounting Standards Foundation and Vice Chairman of the Securities Analysts Association of Japan on August 8, 2017.
4. Mr. Toshiharu Kagawa retired from his position as Institute Professor of Tokyo Institute of Technology and assumed Professor Emeritus at the same university on April 1, 2018.
5. 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.

❷ 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	¥ 448 million	¥ 414 million	¥ 34 million	14
(Outside Directors)	(¥ 18 million)	(¥ 18 million)	(—)	(2)
Corporate Auditors	¥ 27 million	¥ 27 million	—	3
(Outside Corporate Auditors)	(¥ 12 million)	(¥ 12 million)	(—)	(2)

(Notes)

1. The total amount of compensation as detailed above includes compensation (base compensation for the period from April to June, 2017) and retirement benefits paid to 4 directors who retired at the conclusion of the 58th Ordinary General Meeting of Shareholders held on June 28, 2017.
2. Compensation to Directors excludes the salary portion paid to Directors who are concurrently employees.
3. The amount of retirement benefits is the total of provision for Directors' retirement benefits during the fiscal year under review and the difference between the actual amounts of retirement benefits paid to 4 Directors who retired at the conclusion of the 58th Ordinary General Meeting of Shareholders and the provision for Directors' retirement benefits already recorded.
4. 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.

❸ 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%)	—	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. 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. In the fiscal year under review, we received many opinions on the Company's long-term management issues.
Toshiharu Kagawa	Outside Director	7 out of 7 meetings (100.0%)	—	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. 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. In the fiscal year under review, we received many opinions on the Company's long-term management issues.
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	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.

(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 37 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

❶ Name of Accounting Auditor Seiyo Audit Corporation

❷ Remuneration amount payable to Accounting Auditor in the term

	Amount payable
Remuneration as Accounting Auditor in the term	¥ 63 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥ 63 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 Seigyo 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. 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 result, the Board of Corporate Auditors concluded that the remuneration paid to the Accounting Auditor was appropriate and provided consent thereto.

❸ 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

❶ 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.

❷ 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" and "SMC Group Code of Conduct" 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

- The Company has adopted an executive officer system on a full-fledged basis. It has reviewed its operation and decided to examine matters related to details of operation execution in the executive committee, and the Board of Directors deliberate the management strategy and investment project of high importance.

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

- The Company revised the Board of Directors Regurations and clarified that all matters of particular importance need to be approved by the Board of Directors including the investment projects, etc. conducted by a subsidiary alone. During the fiscal year under review, the Board of Directors deliberated several numbers of projects in detail and had lively discussions together with Outside Directors.

(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.

(Note) In the Business Report, amounts are rounded down to match the unit in which they are presented.

Consolidated Balance Sheets (As of March 31, 2018)

(Million yen)

	As of March 31, 2017	As of March 31, 2018
(Assets)		
Current assets	**835,928**	**964,085**
Cash and deposits	459,874	506,436
Notes and accounts receivable-trade	141,057	162,637
Securities	22,401	37,074
Merchandise and finished goods	79,909	89,731
Work in process	15,001	18,210
Raw materials and supplies	84,274	97,717
Deferred tax assets	19,806	24,144
Other	14,421	28,829
Allowance for doubtful accounts	(818)	(697)
Non-current assets	**356,516**	**396,798**
Property, plant and equipment	**149,252**	**156,925**
Buildings and structures	74,603	73,203
Machinery, equipment and vehicles	28,332	28,444
Tools, furniture and fixtures	6,278	6,804
Land	32,705	35,391
Construction in progress	7,332	13,081
Intangible assets	**11,060**	**11,756**
Leasehold right	8,349	9,348
Other	2,710	2,408
Investments and other assets	**196,203**	**228,115**
Investment securities	54,187	96,058
Net defined benefit asset	73	60
Insurance funds	122,966	126,861
Other	20,784	6,675
Allowance for doubtful accounts	(1,808)	(1,541)
Total assets	**1,192,444**	**1,360,883**

	As of March 31, 2017	As of March 31, 2018
(Liabilities)		
Current liabilities	**129,439**	**173,151**
Notes and accounts payable-trade	60,648	88,411
Short-term loans payable	11,735	1,640
Income taxes payable	20,066	33,935
Provision for bonuses	2,812	3,062
Other	34,177	46,101
Non-current liabilities	**32,635**	**37,315**
Long-term loans payable	5,338	4,798
Deferred tax liabilities	11,374	17,877
Provision for directors' retirement benefits	869	890
Net defined benefit liability	8,427	7,022
Other	6,627	6,726
Total liabilities	**162,075**	**210,466**
(Net assets)		
Shareholders' equity	**1,005,758**	**1,116,528**
Capital stock	61,005	61,005
Capital surplus	72,871	73,372
Retained earnings	875,230	985,216
Treasury shares	(3,348)	(3,066)
Accumulated other comprehensive income	**21,848**	**30,716**
Valuation difference on available-for-sale securities	8,864	10,864
Foreign currency translation adjustment	14,459	20,594
Remeasurements of defined benefit plans	(1,475)	(742)
Non-controlling interests	**2,761**	**3,171**
Total net assets	**1,030,369**	**1,150,416**
Total liabilities and net assets	**1,192,444**	**1,360,883**

Consolidated Statements of Income (April 1, 2017 to March 31, 2018)

(Million yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net sales	**487,625**	**591,035**
Cost of sales	**244,476**	**286,381**
Gross profit	**243,148**	**304,654**
Selling, general and administrative expenses	**102,041**	**112,226**
Operating profit	**141,107**	**192,428**
Non-operating income	**9,707**	**11,784**
Interest income	5,946	7,885
Gain on investments in insurance funds	716	927
Other	3,044	2,971
Non-operating expenses	**2,577**	**7,366**
Loss on sales of securities	—	876
Foreign exchange losses	2,054	6,025
Other	523	465
Ordinary profit	**148,237**	**196,846**
Extraordinary income	**642**	**259**
Gain on sales of non-current assets	337	197
Gain on sales of investment securities	276	43
Other	28	17
Extraordinary losses	**3,208**	**1,038**
Loss on retirement of non-current assets	81	94
Impairment loss	2,708	923
Loss on sales of investment securities	392	—
Other	25	20
Profit before income taxes	**145,671**	**196,067**
Income taxes-current	35,466	57,592
Income taxes for prior periods	(6,938)	—
Income taxes-deferred	3,726	1,305
Profit	**113,417**	**137,169**
Profit attributable to non-controlling interests	321	300
Profit attributable to owners of parent	**113,095**	**136,869**

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2017 to March 31, 2018)

(Million yen)

Items	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from operating activities	**120,949**	**154,315**
Profit before income taxes	145,671	196,067
Depreciation	14,246	15,252
Impairment loss	2,708	923
Increase (decrease) in net defined benefit liability	(439)	(392)
Interest and dividend income	(6,513)	(8,379)
Foreign exchange losses (gains)	(155)	5,094
Decrease (increase) in notes and accounts receivable-trade	(24,750)	(19,819)
Decrease (increase) in inventories	(206)	(25,951)
Increase (decrease) in notes and accounts payable-trade	6,483	26,882
Decrease (increase) in other current assets	(315)	(3,501)
Increase (decrease) in other current liabilities	3,782	3,840
Other, net	(678)	(82)
Subtotal	**139,833**	**189,934**
Interest and dividend income received	5,739	9,047
Interest expenses paid	(178)	(126)
Income taxes (paid) refund	(28,676)	(44,540)
Refund of income taxes for prior periods	4,232	—
Cash flows from investing activities	**(90,365)**	**(70,658)**
Payments into time deposits	(114,485)	(118,580)
Proceeds from withdrawal of time deposits	73,585	110,455
Purchase of property, plant and equipment	(19,273)	(24,152)
Purchase of intangible assets	(4,953)	(1,364)
Purchase of short-term and long-term investment securities	(24,738)	(45,400)
Proceeds from sales and redemption of short-term and long-term investment securities	2,657	11,327
Purchase of insurance funds	(7,533)	(8,233)
Proceeds from maturity of insurance funds	3,995	4,099
Other, net	379	1,190
Cash flows from financing activities	**(45,507)**	**(36,785)**
Net increase (decrease) in short-term loans payable	(30,200)	(10,070)
Proceeds from long-term loans payable	3,668	1,000
Repayments of long-term loans payable	(5,638)	(1,565)
Cash dividends paid	(13,438)	(26,880)
Other, net	101	730
Effect of exchange rate change on cash and cash equivalents	**(4,837)**	**(1,630)**
Net increase (decrease) in cash and cash equivalents	**(19,760)**	**45,241**
Cash and cash equivalents at beginning of period	**295,270**	**277,449**
Increase (decrease) in cash and cash equivalents resulting form change of scope of consolidation	**1,939**	**—**
Cash and cash equivalents at the end of period	**277,449**	**322,690**

(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, 2018)

(Million yen)

	As of March 31, 2017	As of March 31, 2018
(Assets)		
Current assets	**349,521**	**397,232**
Cash and deposits	135,256	119,764
Notes receivable-trade	20,193	27,234
Accounts receivable-trade	63,468	75,380
Securities	22,401	37,074
Merchandise and finished goods	23,177	24,290
Work in process	8,349	9,483
Raw materials and supplies	54,621	63,968
Deferred tax assets	8,153	9,195
Accounts receivable-other	12,473	28,821
Other	1,602	2,203
Allowance for doubtful accounts	(178)	(183)
Non-current assets	**378,741**	**435,226**
Property, plant and equipment	**56,787**	**57,091**
Buildings and structures	30,689	29,671
Machinery, equipment and vehicles	7,843	8,809
Tools, furniture and fixtures	1,685	1,788
Land	13,760	13,810
Construction in progress	2,808	3,011
Intangible assets	**666**	**582**
Software	586	502
Other	79	79
Investments and other assets	**321,286**	**377,552**
Investment securities	34,000	74,981
Shares of subsidiaries and associates	99,604	101,661
Investments in capital of subsidiaries and associates	60,304	71,552
Prepaid pension cost	606	907
Insurance funds	122,925	126,819
Other	3,877	1,658
Allowance for doubtful accounts	(33)	(29)
Total assets	**728,262**	**832,458**

	As of March 31, 2017	As of March 31, 2018
(Liabilities)		
Current liabilities	**108,496**	**145,786**
Accounts payable-trade	62,939	88,945
Short-term loans payable	10,145	145
Accounts payable-other	1,855	12,893
Income taxes payable	15,970	26,951
Accrued expenses	10,839	11,561
Other	6,746	5,289
Non-current liabilities	**15,460**	**16,061**
Long-term loans payable	3,023	2,878
Provision for retirement benefits	5,774	5,427
Provision for directors' retirement benefits	580	574
Deferred tax liabilities	323	1,324
Other	5,759	5,856
Total liabilities	**123,957**	**161,848**
(Net assets)		
Shareholders' equity	**595,880**	**660,145**
Capital stock	**61,005**	**61,005**
Capital surplus	**72,769**	**73,270**
Legal capital surplus	72,576	72,576
Other capital surplus	193	694
Retained earnings	**465,454**	**528,934**
Legal retained earnings	15,251	15,251
Other retained earnings	450,202	513,683
Reserve for special depreciation	36	36
Reserve for reduction entry of assets	313	301
General reserve	150,250	150,250
Retained earnings brought forward	299,602	363,095
Treasury shares	**(3,348)**	**(3,066)**
Valuation and translation adjustments	**8,423**	**10,465**
Valuation difference on available-for-sale securities	8,423	10,465
Total net assets	**604,304**	**670,610**
Total liabilities and net assets	**728,262**	**832,458**

Non-consolidated Statements of Income (April 1, 2017 to March 31, 2018)

(Million yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net sales	**315,875**	**394,581**
Cost of sales	**199,274**	**233,937**
Gross profit	**116,601**	**160,644**
Selling, general and administrative expenses	**33,809**	**33,143**
Operating profit	**82,791**	**127,500**
Non-operating income	**4,623**	**5,000**
Interest and dividend income	1,823	1,964
Gain on investments in insurance funds	716	927
Foreign exchange gains	104	—
Dividend income of insurance	482	525
Royalty income	705	994
Other	791	587
Non-operating expenses	**220**	**5,716**
Interest expenses	116	76
Sales discounts	92	108
Loss on sales of securities	—	876
Foreign exchange losses	—	4,651
Other	11	3
Ordinary profit	**87,194**	**126,784**
Extraordinary income	**3,487**	**43**
Gain on sales of investment securities	276	43
Adjustment for transfer pricing taxation	3,208	—
Other	2	0
Extraordinary losses	**459**	**38**
Loss on retirement of non-current assets	54	37
Loss on sales of investment securities	392	—
Other	12	1
Profit before income taxes	**90,222**	**126,789**
Income taxes-current	24,479	37,373
Income taxes for prior periods	(3,774)	—
Income taxes-deferred	(905)	(947)
Profit	**70,423**	**90,363**

(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, 2018

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner Executive member CPA Kazutomi Asai

Designated partner Executive member CPA Kazuhito Ishii

Designated partner Executive member CPA Takahiro Otofuji

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, 2017 to March 31, 2018 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, 2018

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner Executive member CPA Kazutomi Asai

Designated partner Executive member CPA Kazuhito Ishii

Designated partner Executive member CPA Takahiro Otofuji

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 59th fiscal year from April 1, 2017 to March 31, 2018 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 59th fiscal year, which lasted from April 1, 2017 to March 31, 2018 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 22, 2018

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 59th Ordinary General Meeting of Shareholders

June 2018

SMC Corporation

Contents

1. Consolidated Statement of Changes in Equity Page 1

2. Notes to the Consolidated Financial Statements Page 2

3. Non-consolidated Statement of Changes in Equity Page 11

4. Notes to the Non-consolidated Financial Statements Page 13

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, 2017 to March 31, 2018)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of the period	61,005	72,871	875,230	(3,348)	1,005,758
Changes of items during period					
Dividends of surplus			(26,883)		(26,883)
Profit attributable to owners of parent			136,869		136,869
Purchase of treasury shares				(30)	(30)
Disposal of treasury shares		501		312	814
Net changes of items other than shareholders' equity					
Total changes of items during period	—	501	109,986	282	110,769
Balance at end of the period	61,005	73,372	985,216	(3,066)	1,116,528

	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	8,864	14,459	(1,475)	21,848	2,761	1,030,369
Changes of items during period						
Dividends of surplus						(26,883)
Profit attributable to owners of parent						136,869
Purchase of treasury shares						(30)
Disposal of treasury shares						814
Net changes of items other than shareholders' equity	1,999	6,134	733	8,868	409	9,277
Total changes of items during period	1,999	6,134	733	8,868	409	120,047
Balance at end of the period	10,864	20,594	(742)	30,716	3,171	1,150,416

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

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

(Reasons for exclusion from the scope of consolidation)

The 39 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 38 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, 2018 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 recognized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition of each fiscal year, starting 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.

[Additional Information]

(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.

Provision of the above-mentioned ESOP trust has finished due to expiration of the trust period initially established.

[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 312 million yen in the previous fiscal year and they are registered as Treasury shares under Shareholders' equity. This matter is not applicable at the end of the fiscal year under review.

b) Number of shares at the end of period of the said stocks was 23,800 in the previous fiscal year and this matter is not applicable in the fiscal year under review.

The average number of shares is 26,898 in the previous fiscal year and 6,446 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	209,082
2. For non-consolidated subsidiaries and affiliates	
Investment securities (shares)	19,217
"Other" under Investments and other assets (investments)	1,095

[Notes on Consolidated Statements of Income]

(Million yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	38,873
Bonuses	9,633
Retirement benefit expenses	1,757
Provision of allowance for doubtful accounts	444
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs for the term	20,239

[Notes on Consolidated Statement of Changes in Equity]

1. Matters pertaining to outstanding shares and treasury share

(Shares)

	Type	At the beginning of Fiscal 2017	Increase	Decrease	At the end of Fiscal 2017
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury share	Common share	172,660	728	23,800	149,588

Note: 728 shares increase in the number of treasury share was due to purchase of odd-lot shares. Of the 23,800 shares that were reduced from the treasury shares, 700 shares were due to sale of the shares from ESOP trust to the employees' share ownership program, and 23,100 shares were due to sale of the shares to the market following the expiration of trust period of the ESOP trust.

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 (June 28, 2017)	Common share	¥13,439million	¥ 200	March 31, 2017	June 29, 2017
Board of Directors' Meeting (November 8, 2017)	Common share	¥13,444million	¥ 200	September 30, 2017	December 1, 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 the dividend for the said share (dividend of 4 million yen resolved at the Ordinary General Meeting of Shareholders held on June 28, 2017).

(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 27, 2018.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 13,443million	¥ 200	March 31, 2018	June 28, 2018

[Notes relating to financial instruments]

1. Matters relating to the status of financial instruments

(1) Policy on financial instruments

The SMC Group procures fund through self-financing and external sources centering on loans from financial instructions including 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 short-term bank deposits, etc.

Regarding the derivative transactions, we limit derivative transactions within the range of actual demand and through internal regulations and do not 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 also subject to the risk of exchange-rate fluctuations.

Securities and investment securities, which consist mainly of stocks of companies that have business relationships with the Company, government bonds, 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.

Short-term loans payable are mainly fund procurement for general purpose working capital. Long-term loans payable have a due date of up to five years after the fiscal year under review.

(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.

(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 securities and 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, 2018 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	506,436	506,436	—
(2) Notes and accounts receivable-trade	162,637	162,637	—
(3) Securities and investment securities			
Available-for-sale securities	113,734	113,734	—
Total assets	782,808	782,808	—
(4) Notes and accounts payable-trade	88,411	88,411	—
(5) Short-term loans payable	1,640	1,640	—
Total liabilities	90,051	90,051	—
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) Securities and investment securities

Of the investment securities, fair values of stocks are based on market prices on securities exchanges and fair values of government 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	¥ 19,217 million
Unlisted stocks	¥ 182 million

The above items are excluded from “(3) Securities and 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	506,413	—	—	—
(2) Notes and accounts receivable-trade	162,637	—	—	—
(3) Securities and investment securities				
Held-to-maturity bonds				
(Government bonds)	15,940	42,508	—	—
(other)	—	2,105	—	—
Total	684,991	44,613	—	—

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

	1 year or less
Short-term loans payable	¥ 1,640 million

[Notes on per share information]

1. Shareholders' equity per share: 17,067.08 yen

2. Net income per share: 2,036.33 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, 2017 to March 31, 2018)

(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	General reserve
Balance at beginning of the period	61,005	72,576	193	72,769	15,251	36	313	150,250
Changes of items during period								
Provision of reserve for special depreciation						13		
Reversal of reserve for special depreciation						(13)		
Reversal of reserve for reduction entry of assets							(12)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Disposal of treasury shares			501	501				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	501	501	—	(0)	(12)	—
Balance at end of the period	61,005	72,576	694	73,270	15,251	36	301	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: Retained earnings brought forward	Total retained earnings					
Balance at beginning of the period	299,602	465,454	(3,348)	595,880	8,423	8,423	604,304
Changes of items during period							
Provision of reserve for special depreciation	(13)	—		—			—
Reversal of reserve for special depreciation	13	—		—			—
Reversal of reserve for reduction entry of assets	12	—		—			—
Dividends of surplus	(26,883)	(26,883)		(26,883)			(26,883)
Profit	90,363	90,363		90,363			90,363
Purchase of treasury shares			(30)	(30)			(30)
Disposal of treasury shares			312	814			814
Net changes of items other than shareholders' equity					2,041	2,041	2,041
Total changes of items during period	63,493	63,480	282	64,264	2,041	2,041	66,305
Balance at end of the period	363,095	528,934	(3,066)	660,145	10,465	10,465	670,610

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 recognized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition of each fiscal year, starting from the succeeding period.

(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 Balance Sheets]

	(Million yen)
1. Accumulated depreciation of property, plant and equipment	115,652
2. Receivables and payables in relation to subsidiaries and associates	
Short-term receivables	80,649
Short-term payables	9,259

[Notes on Statements of income]

Transactions with subsidiaries and associates

	(Million yen)
Net sales	264,328
Purchase amount	57,120
Selling, general and administrative expenses	1,430
Non-operating transaction amount	1,187

[Notes on Statement of Changes in Equity]

Matters pertaining to treasury share

(Shares)

	Type	At the beginning of Fiscal 2017	Increase	Decrease	At the end of Fiscal 2017
Treasury share	Common share	172,660	728	23,800	149,588

Note: 728 shares increase in the number of treasury share was due to purchase of odd-lot shares. Of the 23,800 shares that were reduced from the treasury shares, 700 shares were due to sale of the shares from ESOP trust to the employees' share ownership program, and 23,100 shares were due to sale of the shares to the market following the expiration of trust period of the ESOP trust.

[Notes on deferred tax accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Million yen)

	The 59th fiscal term (As of March 31, 2018)
Deferred tax assets	
Loss on valuation of investment securities	580
Valuation loss on inventories	4,769
One-time depreciable assets	35
Loss on valuation of shares of subsidiaries and affiliates	1,159
Allowance for doubtful accounts	65
Accounts payable other	114
Accrued enterprise taxes, accrued business office taxes	1,516
Accrued expenses	2,630
Provision for retirement benefits	1,661
Provision for directors' retirement benefits	176
Asset retirement obligations	76
Other	953
Total deferred tax assets	13,739
Deferred tax liabilities	
Asset retirement obligations	(7)
Prepaid pension cost	(277)
Reserve for special depreciation	(16)
Reserve for reduction entry of assets	(133)
Valuation difference on available-for-sale securities	(5,435)
Total deferred tax liabilities	(5,869)
Net deferred tax assets	7,870

[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	45,601	Accounts receivable-trade	10,190
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	45,982	Accounts receivable-trade	11,068

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: 9,976.38 yen

2. Net income per share: 1,344.42 yen

[Notes on significant subsequent events]

The Company received dividend of surplus amounting 15,588 million yen (CNY 900 million) on May 15, 2018 from SMC China, its consolidated subsidiary.

Following the above transaction, the Company will recognize dividend income of 15,588 million yen as non-operating income in the fiscal year ending March 31, 2019.

(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.