

November 7, 2018

Consolidated Financial Highlights for the Second Quarter Ended September 30, 2018[under Japanese GAAP]

Company name : **SMC Corporation**
 Stock exchange listing : **Tokyo Stock Exchange First Section**
 Security code : **6273**
 URL : <https://www.smcworld.com/ir/en/>
 Representative : **Katsunori Maruyama, President**
 Contact person : **Ikuji Usui, Director and Senior Managing Executive Officer**

Projected date of filing quarterly report : **November 7, 2018**

Projected starting date of dividend payment : **November 30, 2018**

1. Consolidated Financial Highlights for the Second Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(1) Consolidated Operating Results

(Millions of yen)

2nd Quarter ended September 30	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
2018	302,462 3.8%	97,501 2.2%	112,360 8.6%	76,014 2.7%
2017	291,373 26.8%	95,382 40.6%	103,446 91.0%	74,006 61.4%

(Note) Comprehensive Income 2Q ended September 30, 2018: ¥ 83,900 million (16.0 %)
 2Q ended September 30, 2017: ¥ 99,863 million — %

(Yen)

2nd Quarter ended September 30	Net income per share	Net income per share (diluted basis)
2018	1,130.84	—
2017	1,101.16	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
September 30, 2018	1,371,734	1,220,846	88.8%
March 31, 2018	1,342,890	1,150,416	85.4%

(Note) Shareholders' equity As of September 30, 2018: ¥ 1,217,536 million
 As of March 31, 2018: ¥ 1,147,245 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2018 (Actual)	—	200.00	—	200.00	400.00
2019 (Actual)	—	200.00	NA	NA	NA
2019 (Projected)	NA	NA	—	Undetermined	

(Notes) Revision of dividends forecast during this period : Yes

Breakdown of the dividend per share 2018 2Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00
 2018 4Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00
 2019 2Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00

3. Forecasts of Consolidated Operating Results for the Year Ending March 31, 2019

(Millions of yen, except per share figures)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share (Yen)
Year ending March 31, 2019	590,000 (0.2%)	188,000 (2.3%)	203,000 3.1%	140,000 2.3%	2,082.72

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

* Notes

- (1) Changes in significant subsidiaries during the second quarter ended September 30, 2018: None
- (2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 1. Changes in accounting policies applied due to revisions of accounting standards: None
 2. Changes in accounting policies other than the above: None
 3. Changes in accounting estimates: None
 4. Retrospective restatement: None

(4) Number of shares issued

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

As of September 30, 2018:	67,369,359
As of March 31, 2018:	67,369,359

2. Number of treasury shares

As of September 30, 2018:	149,869
As of March 31, 2018:	149,588

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

September 30, 2018:	67,219,628
September 30, 2017:	67,207,560

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

Explanation of appropriate use of financial forecasts; other special items

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

Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the second quarter under review (from April 1, 2018 to September 30, 2018), the overall demands for automatic control equipment remained weak due to a cooling down of investments caused by serious U.S.-China trade friction. Demands for semi-conductor related industries significantly decreased in North America and South Korea, and also slowed down in Japan and China after July. Demands for automotive industries decreased in North America, but remained steady in other regions. Demands for machine tool industries remained steady in each region.

Under these circumstances, consolidated net sales of SMC group were 302,462 million yen (increased by 3.8% from the previous corresponding period) and operating profit was 97,501 million yen (increased by 2.2%) due to higher revenue. Ordinary profit was 112,360 million yen (increased by 8.6%) due to foreign exchange gains by weakened yen against US dollar, profit before income taxes was 112,395 million yen (increased by 9.5%), and profit attributable to owners of parent was 76,014 million yen (increased by 2.7%).

ROE became 6.4%, decreased by 0.5 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the second quarter under review were 1,371,734 million yen, increased 28,843 million yen (2.1%) from the previous fiscal year end, mainly due to 23,293 million yen increase of cash and deposits, 17,025 million yen increase of inventories while 20,124 million yen decrease of securities.

Total liabilities were 150,888 million yen, decreased 41,585 million yen (21.6%) from the previous fiscal year end. Mainly due to 43,833 million yen decrease of notes and accounts payable-trade according to shortening payment periods, despite 12,848 million yen increase of short-term loans payable mainly applying for the tax payment.

Net assets increased 70,429 million yen (6.1%) up to 1,220,846 million yen. The main factors were 62,570 million yen increase of retained earnings due to recorded profit attributable to owners of parent while decrease due to dividend payments.

Equity ratio became 88.8%.

(3) Consolidated Forecasts and Other Forward-Looking Information

Based on the trends of its recent business environment, SMC Corporation hereby announces the revision to consolidated financial forecasts for the year ending March 31, 2019 announced on May 15, 2018 as below.

We also hereby announce the revision to our forecasts of the average exchange rate against US dollar from 1 US\$ = 105 yen to 1 US\$ = 110 yen for the year ending March 31, 2019.

Revision to consolidated financial forecasts for the year ending March 31, 2019

(Period from April 1, 2018 through September 30, 2018)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
Previous Forecasts (A) (announced on May 15, 2018)	(Millions of Yen) 610,000	(Millions of Yen) 200,000	(Millions of Yen) 205,000	(Millions of Yen) 143,000	(Yen) 2,127.35
Revised Forecasts (B)	590,000	188,000	203,000	140,000	2,082.72
Changes (B-A)	(20,000) (3.3%)	(12,000) (6.0%)	(2,000) (1.0%)	(3,000) (2.1%)	—

<Reference>

Results of the Previous FY 2017 (Year ended March 31, 2018)	591,035	192,428	196,846	136,869	2,036.33
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2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2018	Second quarter end -Current year As of September 30, 2018
[ASSETS]		
Current assets		
Cash and deposits	506,436	529,730
Notes and accounts receivable-trade	162,637	168,878
Securities	37,074	16,950
Merchandise and finished goods	89,731	102,131
Work in process	18,210	19,056
Raw materials and supplies	97,717	101,497
Other	28,829	16,064
Allowance for doubtful accounts	(697)	(671)
Total current assets	939,940	953,639
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	73,203	77,439
Machinery, equipment and vehicles, net	28,444	27,533
Land	35,391	38,610
Other, net	19,886	20,786
Total property, plant and equipment	156,925	164,370
Intangible assets	11,756	12,008
Investments and other assets		
Investment securities	96,058	97,766
Insurance funds	126,861	133,084
Other	12,888	12,341
Allowance for doubtful accounts	(1,541)	(1,475)
Total investments and other assets	234,267	241,716
Total non-current assets	402,950	418,095
Total assets	1,342,890	1,371,734

(Millions of yen)

	Year end -Previous year As of March 31, 2018	Second quarter end -Current year As of September 30, 2018
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	88,411	44,577
Short-term loans payable	1,640	14,488
Income taxes payable	33,935	34,583
Provision for bonuses	3,062	4,102
Other	45,986	34,945
Total current liabilities	173,036	132,697
Non-current liabilities		
Long-term loans payable	4,798	2,095
Provision for directors' retirement benefits	890	914
Net defined benefit liability	7,022	6,651
Other	6,726	8,530
Total non-current liabilities	19,437	18,190
Total liabilities	192,473	150,888
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	985,216	1,047,787
Treasury shares	(3,066)	(3,076)
Total shareholders' equity	1,116,528	1,179,088
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,864	12,199
Foreign currency translation adjustment	20,594	27,022
Remeasurements of defined benefit plans	(742)	(773)
Total accumulated other comprehensive income	30,716	38,448
Non-controlling interests	3,171	3,309
Total net assets	1,150,416	1,220,846
Total liabilities and net assets	1,342,890	1,371,734

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	Second quarter ended September 30, 2017 From April 1, 2017 to September 30, 2017	Second quarter ended September 30, 2018 From April 1, 2018 to September 30, 2018
Net sales	291,373	302,462
Cost of sales	139,976	146,022
Gross profit	151,396	156,439
Selling, general and administrative expenses	56,013	58,937
Operating profit	95,382	97,501
Non-operating income		
Interest income	3,396	4,521
Foreign exchange gains	3,178	7,867
Other	1,815	2,699
Total non-operating income	8,389	15,088
Non-operating expenses		
Interest expenses	53	56
Sales discounts	127	129
Loss on sales of securities	114	—
Other	29	42
Total non-operating expenses	325	229
Ordinary profit	103,446	112,360
Extraordinary income		
Gain on sales of non-current assets	104	64
Other	11	9
Total extraordinary income	115	73
Extraordinary losses		
Loss on retirement of non-current assets	24	31
Impairment loss	933	—
Other	6	6
Total extraordinary losses	963	38
Profit before income taxes	102,598	112,395
Income taxes	28,446	36,194
Profit	74,151	76,201
Profit attributable to non-controlling interests	145	186
Profit attributable to owners of parent	74,006	76,014

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	Second quarter ended September 30, 2017 From April 1, 2017 to September 30, 2017	Second quarter ended September 30, 2018 From April 1, 2018 to September 30, 2018
Profit	74,151	76,201
Other comprehensive income		
Valuation difference on available-for-sale securities	4,328	1,298
Foreign currency translation adjustment	21,306	6,431
Remeasurements of defined benefit plans, net of tax	77	(31)
Total other comprehensive income	25,711	7,698
Comprehensive income	99,863	83,900
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	99,623	83,746
Comprehensive income attributable to non-controlling interests	239	153

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption

N/A

Notes in event of significant changes in shareholders' equity

N/A

Adoption of special accounting methods for presenting quarterly consolidated financial statements

[Calculation of income taxes]

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

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

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

Additional Information

[Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"]

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) was adopted from the beginning of fiscal 2019 first quarter. Accordingly, deferred tax assets are classified as part of "Investments and other assets" and deferred tax liabilities are classified as part of "Long-term liabilities".

Supplementary Information

(1) Geographic segment information

(Millions of yen)

	2Q ended September 30, 2018							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	96,676	42,877	47,532	109,252	6,123	302,462	—	302,462
(2) Intersegment sales	110,437	2,726	764	27,535	4	141,467	(141,467)	—
Total	207,113	45,603	48,296	136,787	6,128	443,930	(141,467)	302,462
Operating profit	62,690	5,481	4,288	23,077	923	96,461	1,040	97,501

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

(Millions of yen)

	2Q ended September 30, 2018		Year ending March 31, 2019(Forecast)	
Capital expenditures	14,723	16.5%	40,000	68.9%
Depreciation	7,706	2.2%	16,000	4.9%
R&D expense	10,472	3.7%	21,300	5.2%

(Note) Depreciation for the year ending March 31, 2019 has been changed from the initial forecast (16,800 million yen) to the above amount.

(3) Foreign currency exchange rates

	2Q ended September 30, 2018		Year ending March 31, 2019 (Forecast)
	(average)	(at end)	(average)
U S \$	¥ 110.26	¥ 113.58	¥ 110
E U R	¥ 129.78	¥ 132.15	¥ 130
C N Y	¥ 16.74	¥ 16.50	¥ 16.50

(Note) The forecast of the average exchange rate against US dollar for the year ending March 31, 2019 has been changed from the initial forecast (1 US\$ = 105 yen) to the above rate.

(4) Consolidated full-time employees and temporary employees

(Number of personnel)

	2Q ended September 30, 2018	Increase from last year end
Full-time employees (at end)	20,063	383
Temporary employees (average)	5,662	(125)