



SMC Corporation

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 : None

* Notes

- (1) Changes in significant subsidiaries during the third quarter ended December 31, 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 December 31, 2018:	67,369,359
As of March 31, 2018:	67,369,359

2. Number of treasury shares

As of December 31, 2018:	150,099
As of March 31, 2018:	149,588

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

December 31, 2018:	67,219,564
December 31, 2017:	67,211,746

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 third quarter ended (from April 1, 2018 to December 31, 2018), the overall demands for automatic control equipment remained weak, especially after the fall in 2018, due to decrease caused by backlash against drastic increase in the previous year and serious U.S.-China trade friction. Demands for semiconductor related industries significantly decreased in North America and South Korea, and also became sluggish in China. Demands for automotive related industries and machine tool related industries remained steady in Japan and Europe, while the demands tended to slow down mainly in North America and China.

Under these circumstances, consolidated net sales of SMC group were 444,197 million yen (increased by 1.2% from the previous corresponding period), while operating profit was 140,863 million yen (decreased by 2.1% mainly due to increased personnel expenses and logistics expenses. Ordinary profit was 154,319 million yen (decreased by 1.9%) mainly due to decreased foreign exchange gains, profit before income taxes was 154,470 million yen (decreased by 1.3%), and profit attributable to owners of parent was 108,656 million yen (decreased by 4.7%).

ROE became 9.2%, decreased by 1.2 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of this third quarter were 1,358,349 million yen, increased 15,458 million yen (1.2%) from the previous fiscal year end, mainly due to 19,559 million yen increase of cash and deposits, 20,692 million yen increase of inventories while 20,047 million yen decrease of securities, 8,070 million yen decrease of investment securities.

Total liabilities were 144,617 million yen, decreased 47,856 million yen (24.9%) from the previous fiscal year end. Mainly due to 42,738 million yen decrease of notes and accounts payable-trade, 16,457 million yen decrease of income taxes payable, despite 22,973 million yen increase of short-term loans payable.

Net assets increased 63,315 million yen (5.5%) up to 1,213,731 million yen from the previous fiscal year end, mainly due to 81,768 million yen increase of retained earnings.

Equity ratio became 89.1%.

(3) Consolidated Forecasts and Other Forward-Looking Information

Forecasts of consolidated operating results for the year ending March 31, 2019 that were announced on November 7, 2018 have been unchanged.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2018	Third quarter end -Current year As of December 31, 2018
[ASSETS]		
Current assets		
Cash and deposits	506,436	525,996
Notes and accounts receivable-trade	162,637	163,464
Securities	37,074	17,027
Merchandise and finished goods	89,731	102,574
Work in process	18,210	19,663
Raw materials and supplies	97,717	104,113
Other	28,829	14,538
Allowance for doubtful accounts	(697)	(516)
Total current assets	939,940	946,863
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	73,203	75,019
Machinery, equipment and vehicles, net	28,444	27,050
Land	35,391	38,162
Other, net	19,886	25,635
Total property, plant and equipment	156,925	165,868
Intangible assets	11,756	11,754
Investments and other assets		
Investment securities	96,058	87,988
Insurance funds	126,861	132,578
Other	12,888	14,790
Allowance for doubtful accounts	(1,541)	(1,495)
Total investments and other assets	234,267	233,863
Total non-current assets	402,950	411,485
Total assets	1,342,890	1,358,349

(Millions of yen)

	Year end -Previous year As of March 31, 2018	Third quarter end -Current year As of December 31, 2018
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	88,411	45,673
Short-term loans payable	1,640	24,613
Income taxes payable	33,935	17,477
Provision for bonuses	3,062	9,157
Other	45,986	29,178
Total current liabilities	173,036	126,099
Non-current liabilities		
Long-term loans payable	4,798	2,545
Provision for directors' retirement benefits	890	935
Net defined benefit liability	7,022	6,410
Other	6,726	8,627
Total non-current liabilities	19,437	18,517
Total liabilities	192,473	144,617
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	985,216	1,066,985
Treasury shares	(3,066)	(3,085)
Total shareholders' equity	1,116,528	1,198,278
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,864	5,741
Foreign currency translation adjustment	20,594	7,209
Remeasurements of defined benefit plans	(742)	(789)
Total accumulated other comprehensive income	30,716	12,161
Non-controlling interests	3,171	3,291
Total net assets	1,150,416	1,213,731
Total liabilities and net assets	1,342,890	1,358,349

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	Third quarter ended December 31, 2017 From April 1, 2017 to December 31, 2017	Third quarter ended December 31, 2018 From April 1, 2018 to December 31, 2018
Net sales	439,026	444,197
Cost of sales	210,677	214,970
Gross profit	228,349	229,226
Selling, general and administrative expenses	84,455	88,362
Operating profit	143,894	140,863
Non-operating income		
Interest income	5,667	6,760
Foreign exchange gains	5,581	2,974
Other	2,652	4,065
Total non-operating income	13,901	13,800
Non-operating expenses		
Interest expenses	81	86
Sales discounts	192	188
Loss on sales of securities	114	—
Other	47	70
Total non-operating expenses	436	345
Ordinary profit	157,359	154,319
Extraordinary income		
Gain on sales of non-current assets	157	89
Gain on sales of investment securities	—	214
Other	14	15
Total extraordinary income	171	318
Extraordinary losses		
Loss on retirement of non-current assets	41	154
Impairment loss	932	—
Other	13	12
Total extraordinary losses	987	167
Profit before income taxes	156,544	154,470
Income taxes	42,342	45,556
Profit	114,201	108,914
Profit attributable to non-controlling interests	210	257
Profit attributable to owners of parent	113,991	108,656

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	Third quarter ended December 31, 2017 From April 1, 2017 to December 31, 2017	Third quarter ended December 31, 2018 From April 1, 2018 to December 31, 2018
Profit	114,201	108,914
Other comprehensive income		
Valuation difference on available-for-sale securities	6,170	(5,234)
Foreign currency translation adjustment	32,644	(13,394)
Remeasurements of defined benefit plans, net of tax	116	(46)
Total other comprehensive income	38,931	(18,675)
Comprehensive income	153,132	90,238
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	152,787	90,101
Comprehensive income attributable to non-controlling interests	345	136

(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 third quarter was reasonably estimated.

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

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

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)

	3Q ended December 31, 2018							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	145,884	62,985	70,447	155,949	8,930	444,197	—	444,197
(2) Intersegment sales	161,112	3,538	1,386	38,575	9	204,621	(204,621)	—
Total	306,996	66,523	71,833	194,524	8,940	648,818	(204,621)	444,197
Operating profit	93,410	7,054	6,305	32,298	1,280	140,349	514	140,863

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

(Millions of yen)

	3Q ended December 31, 2018		Year ending March 31, 2019 (Forecast)	
Capital expenditures	23,331	24.7%	40,000	68.9%
Depreciation	11,718	3.8%	16,000	4.9%
R&D expense	15,865	5.7%	21,300	5.2%

(3) Consolidated full-time employees and temporary employees

(Number of personnel)

	3Q ended December 31, 2018	Increase (decrease) from the previous fiscal year end
Full-time employees (at end)	19,954	274
Temporary employees (average)	5,581	(206)