



Consolidated Financial Highlights for the Second Quarter ended September 30, 2019 [under Japanese GAAP]

1. Consolidated Financial Highlights for the Second Quarter ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(Millions of yen)

| | | | | |
|--------|----------------------|-------------------------------|------------------|---------|
| (Note) | Comprehensive income | 2Q ended September 30, 2019 : | ¥ 8,857 million | (89.4%) |
| | | 2Q ended September 30, 2018 : | ¥ 83,900 million | (16.0%) |

(Yen)

(Millions of yen)

| | | | |
|-------------|----------------------|----------------------------|---------------------|
| (Reference) | Shareholders' equity | As of September 30, 2019 : | ¥ 1,217,313 million |
| | | As of March 31, 2019: | ¥ 1,240,019 million |

(Yen)

(Note) 1. Revision of dividends forecast during this period : Yes

| | | | |
|--|------------------|---------------------------|--------------------------|
| 2. Breakdown of the dividend per share : | 2019 2Q (Actual) | Ordinary dividend:¥100.00 | Special dividend:¥100.00 |
| | 2019 4Q (Actual) | Ordinary dividend:¥100.00 | Special dividend:¥100.00 |
| | 2020 2Q (Actual) | Ordinary dividend:¥100.00 | Special dividend:¥100.00 |

3. Forecasts of Consolidated Operating Results for the Year ending March 31, 2020

(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, 2020 | 520,000 (9.9%) | 143,000 (20.6%) | 150,000 (24.3%) | 105,000 (19.6%) | 1,569.49 |

(Note) 1. Revision of forecasts of operating results during this period : Yes

2. Numbers of net income per share forecasts are calculated by the average number of common shares for this second quarter.

* Notes

(1) Changes in significant subsidiaries during the second quarter ended September 30, 2019: 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, 2019 : | 67,369,359 |
| As of March 31, 2019 : | 67,369,359 |

2. Number of treasury shares

| | |
|----------------------------|---------|
| As of September 30, 2019 : | 850,462 |
| As of March 31, 2019 : | 150,139 |

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

| | |
|----------------------|------------|
| September 30, 2019 : | 66,900,557 |
| September 30, 2018 : | 67,219,628 |

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

1. The revised forecasts of operating results for the fiscal year ending March 31, 2020 (consolidated and non-consolidated), are shown in this release.

2. 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 of the fiscal year 2019 (from April 1, 2019 to September 30, 2019), the overall demand for automatic control equipment remained at a low level since a wide range of industries withheld the investment due to the uncertainty over the future of the global economy caused by serious U.S.-China trade friction. Demands for semi-conductor related industries continued to decline significantly in Japan, North America and Asia. Demands for automotive industries decreased in each region, mainly in Europe and Asia. Demands for machine tool industries remained sluggish in each region.

Under these circumstances, consolidated net sales of SMC group were 264,470 million yen (decreased by 12.6% from the previous corresponding period) and operating profit was 73,472 million yen (decreased by 24.6%) due to the impact of the fall in revenue. Ordinary profit was 72,972 million yen (decreased by 35.1%) due to foreign exchange losses by strong yen against US dollar, profit before income taxes was 72,925 million yen (decreased by 35.1%), and profit attributable to owners of parent was 53,603 million yen (decreased by 29.5%).

ROE became 4.4%, decreased by 2.0 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the second quarter of the fiscal year 2019 were 1,350,521 million yen, decreased 38,786 million yen (2.8%) from the previous fiscal year end. The main factors were 18,192 million yen decrease of notes and accounts receivable-trade by the fall in revenue, and 20,770 million yen decrease of securities due to sales of securities etc.

Total liabilities were 129,850 million yen, decreased 16,205 million yen (11.1%) from the previous fiscal year end. The main factors were 5,704 million yen decrease of income taxes payable due to tax payment, while 4,415 million yen increase of long-term borrowings mainly applying for raising funds related with capital investment by subsidiaries.

Net assets decreased 22,581 million yen (1.8%) down to 1,220,671 million yen. The main factors were 27,327 million yen decrease due to acquisition of treasury shares and 31,380 million yen decrease (12,824 million yen increase at the previous fiscal year end) of foreign currency translation adjustment with strong yen, while 49,421 million yen increase of retained earnings due to record of profit attributable to owners of parent.

Equity ratio became 90.1%.

(3) Consolidated Forecasts and Other Forward-Looking Information

SMC hereby announces the revision to the consolidated financial forecasts for the fiscal year ending March 31, 2020, released on May 15, 2019, as below, reflecting the recent business environment since demand recovery in major industries has been more sluggish than expected.

SMC also announces the revision to the forecasts of the average exchange rates for the year ending March 31, 2020 as follows: 110 yen to 107 yen per US dollar, 125 yen to 119 yen per Euro and 16.50 yen to 15.30 yen per Chinese yuan.

Ordinarily, non-consolidated financial forecasts are unannounced, however, with the revisions made to the consolidated financial forecasts as per above, there were significant differences occurred between the actual result for the previous fiscal year and the newly calculated non-consolidated financial forecasts for the fiscal year ending March 31, 2020.

SMC hereby announces its details as below.

Revision to consolidated financial forecasts for the fiscal year ending March 31, 2020

(Period from April 1, 2019 through March 31, 2020)

| | Net Sales | Operating Profit | Ordinary Profit | Profit attributable to owners of parent | Net Income per share |
|---|------------------------------|------------------------------|------------------------------|---|----------------------|
| Previous Forecasts (A) (announced on May 15, 2019) | (Millions of Yen) 550,000 | (Millions of Yen) 160,000 | (Millions of Yen) 165,000 | (Millions of Yen) 115,000 | (Yen) 1,711.85 |
| Revised Forecasts (B) | 520,000 | 143,000 | 150,000 | 105,000 | 1,569.49 |
| Increased / Decreased Amount (B-A) | (30,000) | (17,000) | (15,000) | (10,000) | — |
| Rate of Change (%) | (5.5) | (10.6) | (9.1) | (8.7) | — |

<Reference>

| | | | | | |
|---|---------|---------|---------|---------|----------|
| Results of the FY 2018 (Year ended March 31, 2019) | 576,948 | 180,203 | 198,201 | 130,631 | 1,943.35 |
|---|---------|---------|---------|---------|----------|

Difference between the non-consolidated financial forecasts for the fiscal year ending March 31, 2020 and actual results for the fiscal year ended March 31, 2019

(Period from April 1, 2019 through March 31, 2020)

| | Net Sales | Operating Profit | Ordinary Profit | Profit | Net Income per share |
|---|------------------------------|------------------------------|------------------------------|------------------------------|----------------------|
| Results of the FY 2018 (A) (Year ended March 31, 2019) | (Millions of Yen) 371,574 | (Millions of Yen) 111,362 | (Millions of Yen) 150,562 | (Millions of Yen) 112,907 | (Yen) 1,679.69 |
| Newly Announced Forecasts (B) | 330,000 | 89,000 | 87,000 | 61,500 | 919.27 |
| Increased / Decreased Amount (B-A) | (41,574) | (22,362) | (63,562) | (51,407) | — |
| Rate of Change (%) | (11.2) | (20.1) | (42.2) | (45.5) | — |

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

| | Year end -Previous year As of March 31, 2019 | Second Quarter end -Current year As of September 30, 2019 |
|--|--|---|
| [ASSETS] | | |
| Current assets | | |
| Cash and deposits | 519,609 | 525,037 |
| Notes and accounts receivable-trade | 158,079 | 139,886 |
| Securities | 31,977 | 11,206 |
| Merchandise and finished goods | 102,936 | 102,968 |
| Work in process | 19,753 | 18,149 |
| Raw materials and supplies | 107,578 | 106,566 |
| Other | 28,449 | 15,310 |
| Allowance for doubtful accounts | (460) | (399) |
| Total current assets | 967,924 | 918,727 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 73,752 | 73,058 |
| Machinery, equipment and vehicles, net | 27,928 | 29,543 |
| Land | 38,194 | 38,706 |
| Other, net | 30,465 | 40,217 |
| Total property, plant and equipment | 170,342 | 181,526 |
| Intangible assets | 11,456 | 11,020 |
| Investments and other assets | | |
| Investment securities | 96,320 | 92,657 |
| Insurance funds | 132,936 | 138,018 |
| Other | 11,807 | 9,977 |
| Allowance for doubtful accounts | (1,479) | (1,406) |
| Total investments and other assets | 239,585 | 239,247 |
| Total non-current assets | 421,384 | 431,793 |
| Total assets | 1,389,308 | 1,350,521 |

(Millions of yen)

| | Year end -Previous year As of March 31, 2019 | Second Quarter end -Current year As of September 30, 2019 |
|---|--|---|
| [LIABILITIES] | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 38,513 | 37,516 |
| Short-term borrowings | 4,503 | 2,680 |
| Income taxes payable | 23,800 | 18,095 |
| Provision for bonuses | 2,894 | 3,802 |
| Other | 47,959 | 34,746 |
| Total current liabilities | 117,670 | 96,842 |
| Non-current liabilities | | |
| Long-term borrowings | 2,735 | 7,150 |
| Provision for retirement benefits for directors | 956 | 937 |
| Retirement benefit liability | 6,398 | 6,048 |
| Other | 18,295 | 18,872 |
| Total non-current liabilities | 28,385 | 33,008 |
| Total liabilities | 146,056 | 129,850 |
| [NET ASSETS] | | |
| Shareholders' equity | | |
| Share capital | 61,005 | 61,005 |
| Capital surplus | 73,372 | 73,372 |
| Retained earnings | 1,088,960 | 1,138,382 |
| Treasury shares | (3,086) | (30,414) |
| Total shareholders' equity | 1,220,251 | 1,242,345 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 7,667 | 7,193 |
| Foreign currency translation adjustment | 12,824 | (31,380) |
| Remeasurements of defined benefit plans | (724) | (844) |
| Total accumulated other comprehensive income | 19,767 | (25,032) |
| Non-controlling interests | 3,232 | 3,357 |
| Total net assets | 1,243,252 | 1,220,671 |
| Total liabilities and net assets | 1,389,308 | 1,350,521 |

(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, 2018 From April 1, 2018 to September 30, 2018 | Second Quarter ended September 30, 2019 From April 1, 2019 to September 30, 2019 |
|---|---|---|
| Net sales | 302,462 | 264,470 |
| Cost of sales | 146,022 | 134,191 |
| Gross profit | 156,439 | 130,278 |
| Selling, general and administrative expenses | 58,937 | 56,806 |
| Operating profit | 97,501 | 73,472 |
| Non-operating income | | |
| Interest income | 4,521 | 5,509 |
| Foreign exchange gains | 7,867 | — |
| Other | 2,699 | 2,138 |
| Total non-operating income | 15,088 | 7,648 |
| Non-operating expenses | | |
| Interest expenses | 56 | 75 |
| Sales discounts | 129 | 125 |
| Foreign exchange losses | — | 7,626 |
| Other | 42 | 320 |
| Total non-operating expenses | 229 | 8,148 |
| Ordinary profit | 112,360 | 72,972 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 64 | 123 |
| Gain on liquidation of subsidiaries | — | 117 |
| Other | 9 | 28 |
| Total extraordinary income | 73 | 269 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | 6 | 66 |
| Loss on retirement of non-current assets | 31 | 88 |
| Loss on valuation of shares of subsidiaries | — | 159 |
| Other | 0 | 0 |
| Total extraordinary losses | 38 | 315 |
| Profit before income taxes | 112,395 | 72,925 |
| Income taxes | 36,194 | 19,246 |
| Profit | 76,201 | 53,679 |
| Profit attributable to non-controlling interests | 186 | 76 |
| Profit attributable to owners of parent | 76,014 | 53,603 |

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

| | Second Quarter ended September 30, 2018 From April 1, 2018 to September 30, 2018 | Second Quarter ended September 30, 2019 From April 1, 2019 to September 30, 2019 |
|--|---|---|
| Profit | 76,201 | 53,679 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,298 | (478) |
| Foreign currency translation adjustment | 6,431 | (44,222) |
| Remeasurements of defined benefit plans, net of tax | (31) | (120) |
| Total other comprehensive income | 7,698 | (44,821) |
| Comprehensive income | 83,900 | 8,857 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 83,746 | 8,802 |
| Comprehensive income attributable to non-controlling interests | 153 | 55 |

(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

Notes to change in scope of consolidation or change in scope of equity method

Since this first quarter of the fiscal year, SMC has included the following 9 subsidiaries which were non-consolidated until the previous fiscal year, in the scope of consolidation by their growing importance:

SMC Vietnam, Nihon Kizai Shanghai, SMC Indonesia, SMC Poland, SMC Turkey, SMC Finland, SMC Hungary, SMC Denmark, SMC Slovenia

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 calculated with effective statutory tax rates instead of estimated effective tax rates. Recoverable amount for deferred tax assets were reasonably estimated.

3. Supplementary Information

(1) Geographic segment information

(Millions of yen)

| | Second Quarter ended September 30, 2019 | | | | | | | |
|---------------------------------|---|---------------|--------|---------|-------|---------|---------------------------|--------------|
| | Japan | North America | Europe | Asia | Other | Total | Intersegment Eliminations | Consolidated |
| Net sales | | | | | | | | |
| (1) Sales to external customers | 82,148 | 37,960 | 45,056 | 93,566 | 5,738 | 264,470 | — | 264,470 |
| (2) Intersegment sales | 93,539 | 1,140 | 963 | 22,611 | 7 | 118,261 | (118,261) | — |
| Total | 175,687 | 39,100 | 46,020 | 116,177 | 5,745 | 382,731 | (118,261) | 264,470 |
| Operating profit | 49,328 | 4,087 | 3,733 | 17,077 | 768 | 74,996 | (1,523) | 73,472 |

(2) Consolidated capital expenditures, Depreciation and R&D expenses

(Millions of yen)

| | Second Quarter ended September 30, 2019 | | Year ending March 31, 2020 (Forecast) | |
|----------------------|---|-------|---------------------------------------|--------|
| Capital expenditures | 20,918 | 42.1% | 49,000 | 53.4% |
| Depreciation | 7,906 | 2.6% | 16,200 | (0.3%) |
| R&D expenses | 10,928 | 4.4% | 22,000 | 3.0% |

(Note) Depreciation for the fiscal year ending March 31, 2020 has been changed from the initial forecast (18,100 million yen) to the above amount.

(3) Foreign currency exchange rates

| | Second Quarter ended September 30, 2019 | | Year ending March 31, 2020 (Forecast) |
|--------|---|----------|---------------------------------------|
| | (average) | (at end) | (average) |
| U S \$ | ¥ 108.60 | ¥ 107.96 | ¥ 107 |
| E U R | ¥ 121.40 | ¥ 118.04 | ¥ 119 |
| C N Y | ¥ 15.67 | ¥ 15.14 | ¥ 15.30 |

(Note) Predicted average exchange rates of US\$, EUR and CNY for the fiscal year ending March 31, 2020 are respectively changed as above from the initial forecast (1 US\$ = 110 yen, 1 EUR = 125 yen and 1 CNY = 16.50 yen).

(4) Consolidated full-time employees and temporary employee

(Number of personnel)

| | Second Quarter ended September 30, 2019 | increase from last year end |
|-------------------------------|---|-----------------------------|
| Full-time employees (at end) | 20,826 | 1,080 |
| Temporary employees (average) | 5,185 | (328) |