November 10, 2014

Consolidated Financial Highlights for the Second Quarter Ended September 30, 2014 [under Japanese GAAP]

Company name : **SMC Corporation**
Stock exchange listing : Tokyo Stock Exchange first section
Security code : 6273
URL : http://www.smcworld.com/ir/en/
Representative : Katsunori Maruyama, President
Contact person : Ikuji Usui, Executive Managing Director
Projected date of filing quarterly report : November 10, 2014
Projected starting date of dividend payment : December 1, 2014

1. Consolidated Financial Highlights for the Second Quarter Ended September 30, 2014 (April 1, 2014 to September 30, 2014)

(1) Consolidated Operating Results

(Millions of Yen)

2nd Quarter Ended September 30	Net Sales		Operating Income		Ordinary Income		Net Income	
2014	¥ 222,634	14.9%	¥ 63,185	21.6%	¥ 74,141	22.1%	¥52,837	23.3%
2013	¥ 193,818	19.5%	¥ 51,976	21.1%	¥ 60,719	43.1%	¥ 42,867	45.1%

(Note) Comprehensive Income 2Q ended September 30,2014: ¥ 76,479 million 30.2%
2Q ended September 30,2013: ¥ 58,726 million 444.8%

(Yen)

2nd Quarter Ended September 30	Net Income per share	Net Income per share(diluted basis)
2014	¥ 784.82	—
2013	¥ 631.02	—

(2) Consolidated Financial Positions

(Millions of Yen)

	Total Assets	Net Assets	Equity Ratio
September 30, 2014	¥ 1,032,293	¥ 846,152	81.8%
March 31, 2014	¥ 966,875	¥ 785,521	81.0%

(Note) Shareholders' equity As of September 30, 2014 : ¥ 844,038 million
As of March 31, 2014 : ¥ 783,490 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2014 (Actual)	—	80.00	—	90.00	170.00
2015 (Actual)	—	90.00	NA	NA	NA
2015 (Projected)	NA	NA	—	90.00	180.00

(Note) Revision of dividends forecast during this period : None

3. Forecasts of operating results for the year ending March 31, 2015

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per share
	(Millions of Yen)	(Millions of Yen)	(Millions of Yen)	(Millions of Yen)	(Yen)
Year ending March 31, 2015	¥435,000 10.0%	¥120,000 14.1%	¥134,000 10.7%	¥95,000 10.1%	¥1,414.02

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

＊ Notes

(1) Changes in significant subsidiaries during the second quarter ended September 30, 2014: 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: Yes
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, 2014 : 68,869,359
As of March 31, 2014 : 68,869,359
2. Number of treasury shares
As of September 30, 2014 : 1,685,071
As of March 31, 2014 : 1,326,301
3. Average number of common shares for the six months ended
September 30, 2014 : 67,323,631
September 30, 2013 : 67,933,262

Information on status of the audit procedures

At the time of disclosure of these highlights, the quarterly consolidated financial statement review procedures based on the Financial Instruments and Exchange Law of Japan, are completed.

Appropriate use of business forecasts; other special items

1. The revised forecasts of operating results for the year ending March 31, 2015, are shown in this release.
2. The forecast contains forward-looking statements that are based on available data at the time of this release.
Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the first six months (from April 1, 2014 to September 30, 2014), although economic growth in China and newly developing countries became slow, overseas economy continued strong due to steady performance of the U.S. economy and mild recovery in the European economy.

Japanese economy was also gradually continued to recover overall.

In the automatic control equipment business, there was continuously strong demand related to mainly semiconductor production equipment as well tablet and smartphone in North America and Asian regions, and related to mainly automobile industry in the Europe.

Under these circumstances, SMC group strengthened its expansion of sales force and intensify the sales promotion activities while ongoing an efforts to reduce production costs.

As a result, consolidated net sales for the Second quarter were 222,634 million yen (increased 14.9% from the previous corresponding period), and operating income was 63,185 million yen (21.6% increase), mainly because revenue growth and beneficial effect on profit increase by the weakened yen. Mainly pushed up of the 6,281 million yen foreign exchange gains, ordinary income was 74,141 million yen (22.1% increase) and net income was 52,837 million yen (23.3% increase).

ROE became 6.5%, gained by 0.4 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the second quarter were 1,032,293 million yen, which was an increase of 65,417 million yen (6.8%) from the previous fiscal year end. The main factors of that were an increase of 31,335 million yen in cash and deposits, an increase of 12,537 million yen in notes and accounts receivable-trade, an increase of 12,847 million yen in property, plant and equipment, and an increase of 2,786 million yen in inventories.

Total liabilities increased 4,785 million yen (2.6%) to 186,140 million yen due to 1,506 million yen increase in notes and accounts payable-trade.

Net assets increased 60,631 million yen (7.7%) up to 846,152 million yen, due to retained earnings, purchase of treasury shares from the market, and foreign currency translation adjustments as a result of the weakened yen.

Equity ratio became 81.8%, its up by 0.8 points from the previous fiscal year end.

(3) Consolidated Forecasts and Other Forward-Looking Information

The forecasts of operating results for the year ending March 31, 2015 has been revised in this release based on the actual results up to the second quarter of this year, these will exceed significantly an initial forecasts at each profit level, sales, operating profit, ordinary profit and net profit, that were announced on May 15, 2014.

Average foreign exchange rates for this fiscal year which are precondition for above revised forecasts are 105 yen per 1 US dollar (this has been changed) and 140 yen per 1 Euro.

The above forecast contains forward-looking statements that are based on available data and reasonable conditions at the time of release. Actual results may vary materially from those described herein by some factors that differ from expectations.

2. Summary Information (Notes)

(1) 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 income before income taxes of the fiscal year including this second quarter was reasonably estimated.

And income tax was calculated by multiplying the income 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.

(2) Changes of accounting policies applied, changes in accounting estimates and retrospective restatement

[Change of accounting policy]

SMC Corporation has adopted “the Accounting Standard for Retirement Benefits” (ASBJ Statement No.26, May 17, 2012) and “the Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25 May 17, 2012) in accordance with the stipulations of Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of the Guidance on Accounting Standard for Retirement Benefits, from the first quarter of the current fiscal year.

The period allocation methodology for the estimated retirement benefit amount was changed from a straight line basis to payment calculation type, and the period for securities that serves as the basis for the determination method of discount rate was changed from one decided based on an approximation of the average number of remaining years in an employees’ service period to one which uses a single weighted average discount rate reflecting the expected payment period of retirement benefits and the amounts paid each expected payment period.

In accordance with transitional treatment as stipulated in Article 37 of the Accounting Standard for Retirement Benefits for the application of accounting standards for retirement benefits, the impact on retirement earnings resulting from the change has been recorded in Changes in accounting policy for retirement benefit obligations and service cost at the beginning of the period.

As a result, at the beginning of the current period net defined benefit liability decreased by 291 million yen and net defined benefit assets and retained earnings increased by 188 million yen respectively.

The effect on operating income, ordinary income and income before income taxes and minority interests was immaterial.

3. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of Yen)

	Year end -Previous year As of March 31, 2014	Second quarter end -Current year As of September 30, 2014
[ASSETS]		
Current assets		
Cash and deposits	349,354	380,690
Notes and accounts receivable-trade	102,446	114,983
Merchandise and finished goods	88,886	91,699
Work in process	15,585	15,716
Raw materials and supplies	89,783	89,625
Other	31,743	34,095
Allowance for doubtful accounts	(781)	(834)
Total current assets	**677,018**	**725,977**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	53,196	55,544
Machinery, equipment and vehicles, net	26,751	28,372
Land	29,388	32,851
Other, net	16,501	21,917
Total property, plant and equipment	**125,837**	**138,685**
Intangible assets	4,141	4,400
Investments and other assets		
Investment securities	41,018	42,436
Insurance funds	109,366	112,883
Other	10,622	9,074
Allowance for doubtful accounts	(1,129)	(1,163)
Total investments and other assets	**159,877**	**163,229**
Total non-current assets	**289,857**	**306,315**
Total assets	**966,875**	**1,032,293**

(Millions of Yen)

	Year end -Previous year As of March 31, 2014	Second quarter end -Current year As of September 30, 2014
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	48,687	50,194
Short-term loans payable	52,993	53,496
Income tax payable	20,251	19,672
Provision for bonuses	1,850	2,852
Provision	—	1,184
Other	29,724	31,333
Total current liabilities	**153,508**	**158,734**
Non-current liabilities		
Long-term loans payable	8,302	6,529
Provision for directors' retirement benefits	739	769
Net defined benefit liability	5,028	4,353
Other	13,775	15,753
Total non-current liabilities	**27,845**	**27,406**
Total liabilities	**181,354**	**186,140**
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,677	72,715
Retained earnings	629,616	676,562
Treasury shares	(23,892)	(33,871)
Total shareholders' equity	**739,407**	**776,412**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,813	3,192
Foreign currency translation adjustment	39,282	61,662
Remeasurements of defined benefit plans	2,988	2,771
Total accumulated other comprehensive income	**44,083**	**67,626**
Minority interests	**2,030**	**2,113**
Total net assets	**785,521**	**846,152**
Total liabilities and net assets	**966,875**	**1,032,293**

(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, 2013 From April 1, 2013 to September 30, 2013	Second quarter ended September 30, 2014 From April 1, 2014 to September 30, 2014
Net sales	**193,818**	**222,634**
Cost of sales	**101,655**	**113,857**
Gross profit	**92,163**	**108,777**
Selling, general and administrative expenses	**40,186**	**45,591**
Operating income	**51,976**	**63,185**
Non-operating income		
Interest income	2,156	2,634
Foreign exchange gains	5,341	6,281
Other	1,584	2,378
Total non-operating income	**9,082**	**11,294**
Non-operating expenses		
Interest expenses	155	165
Sales discounts	90	115
Other	92	56
Total non-operating expenses	**339**	**338**
Ordinary income	**60,719**	**74,141**
Extraordinary income		
Gain on sales of non-current assets	43	467
Gain on sales of investment securities	—	428
Gain on bargain purchase	40	—
Gain on transfer of benefit obligation relating to employees' pension fund	128	—
Other	1	4
Total extraordinary income	**213**	**899**
Extraordinary losses		
Loss on retirement of non-current assets	45	37
Loss on change in equity	40	—
Other	9	10
Total extraordinary losses	**95**	**47**
Income before income taxes and minority interests	**60,836**	**74,993**
Income taxes	**17,930**	**22,068**
Income before minority interests	**42,905**	**52,925**
Minority interests in income	**37**	**87**
Net income	**42,867**	**52,837**

Consolidated Quarterly Statement of Comprehensive Income

(Millions of Yen)

	Second quarter ended September 30, 2013 From April 1, 2013 to September 30, 2013	Second quarter ended September 30, 2014 From April 1, 2014 to September 30, 2014
Income before minority interests	**42,905**	**52,925**
Other comprehensive income		
Valuation difference on available-for-sale securities	646	1,395
Foreign currency translation adjustment	15,174	22,375
Remeasurements of defined benefit plans	—	(216)
Total other comprehensive income	**15,821**	**23,554**
Comprehensive income	**58,726**	**76,479**
(Breakdown)		
Comprehensive income attributable to owners of parent	58,656	76,380
Comprehensive income attributable to minority interests	70	99

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption **NA**

Notes in event of significant changes in shareholders' equity **NA**

Supplementary Information

(1) Geographic segment information

(Millions of Yen)

	2Q ended September 30, 2014							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	72,489	33,074	36,908	73,861	6,301	222,634	—	222,634
(2) Intersegment sales	77,100	684	718	19,313	16	97,832	(97,832)	—
Total	149,589	33,758	37,626	93,174	6,317	320,466	(97,832)	222,634
Operating income	37,617	6,050	4,434	16,279	377	64,760	(1,574)	63,185

(2) Capital expenditures, Depreciation and R&D expense

(Millions of Yen)

	2Q ended September 30, 2014		Year ending March 31, 2015 (Forecast)	
Capital expenditures	15,726	46.1%	26,000	15.2%
Depreciation	6,088	1.9%	13,100	7.9%
R&D expense	8,820	14.2%	17,800	14.5%

(3) Foreign currency exchange rates

	2Q ended September 30, 2014 (Actual)		Year ending March 31, 2015 (Forecast)
	(average)	(at end)	(average)
U S $	¥ 103.01	¥ 109.45	¥ 105(*)
E U R	¥ 138.90	¥ 138.85	¥ 140

(*) revised forecast

(4) Full-time employees and temporary employees

(Number of personnel)

	2Q ended September 30, 2014	increase from last year end
Full-time employees (at end)	16,989	979
Temporary employees (average)	4,987	284