February 10, 2015

Consolidated Financial Highlights for the Third Quarter Ended December 31, 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 : February 10, 2015
Projected starting date of dividend payment : —

1. Consolidated Financial Highlights for the Third Quarter Ended December 31, 2014 (April 1, 2014 to December 31, 2014)

(1) Consolidated Operating Results

(Millions of Yen)

3rd Quarter Ended December 31	Net Sales		Operating Income		Ordinary Income		Net Income	
2014	¥ 339,365	16.0%	¥ 93,708	19.1%	¥ 121,613	26.1%	¥ 84,649	25.9%
2013	¥ 292,587	22.4%	¥ 78,712	33.1%	¥ 96,474	42.0%	¥ 67,228	42.6%

(Note) Comprehensive Income 3Q ended December 31,2014: ¥ 144,160 million 22.4%
3Q ended December 31,2013: ¥ 117,750 million 73.6%

(Yen)

3rd Quarter Ended December 31	Net Income per share	Net Income per share(diluted basis)
2014	¥ 1,258.21	—
2013	¥ 991.54	—

(2) Consolidated Financial Positions

(Millions of Yen)

	Total Assets	Net Assets	Equity Ratio
December 31, 2014	¥ 1,114,535	¥ 907,828	81.3%
March 31, 2014	¥ 966,875	¥ 785,521	81.0%

(Note) Shareholders' equity As of December 31, 2014 : ¥ 905,645 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
2015 (Projected)	NA	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 : None

＊ Notes

(1) Changes in significant subsidiaries during the third quarter ended December 31, 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 December 31, 2014 : 67,369,359
As of March 31, 2014 : 68,869,359
2. Number of treasury shares
As of December 31, 2014 : 183,739
As of March 31, 2014 : 1,326,301
3. Average number of common shares for the nine months ended
December 31, 2014 : 67,277,187
December 31, 2013 : 67,801,880

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

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 period up to the end of the third quarter (from April 1, 2014 to December 31, 2014), although economic growth in newly developing countries became slower, U.S. economy continued strong on the back of expansion of domestic demand, and domestic demand in Europe is gradually picking up mild recovery mainly in personal consumption, and the recovery trend of Japanese economy was also maintained while there was a stagnation in personal consumption, global economy has gradually continued to recover overall mainly in developed countries.

In the automatic control equipment business, there was continuously strong demand related to mainly semiconductor production equipment in North America and Japan region, and related to mainly automobile industry in the European region.

Under these circumstances, SMC group strengthened its expansion of sales force and intensify the sales promotion activities while ongoing an efforts to expand the production capabilities with future prospects.

As a result, consolidated net sales for the third quarter ended 339,365 million yen (increased 16.0% from the previous corresponding period), and operating income was 93,708 million yen (19.1% increase), mainly because revenue growth and beneficial effect on profit increase by the weakened yen. Mainly pushed up of the 18,809 million yen foreign exchange gains, ordinary income was 121,613 million yen (26.1% increase) and net income was 84,649 million yen (25.9% increase).

ROE became 10.0%, gained by 0.8 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the third quarter were 1,114,535 million yen, which was an increase of 147,660 million yen (15.3%) from the previous fiscal year end. The main factors of that were an increase of 85,427 million yen in cash and deposits, an increase of 22,892 million yen in property, plant and equipment, an increase of 19,943 million yen in notes and accounts receivable-trade, and an increase of 6,949 million yen in inventories.

Total liabilities increased 25,353 million yen (14.0%) to 206,707 million yen due to 11,044 million yen increase in short-term loans payable, 6,086 million yen increase in notes and accounts payable-trade, 5,744 million yen increase in provision for bonuses.

Net assets increased 122,306 million yen (15.6%) up to 907,828 million yen, mainly due to retained earnings and foreign currency translation adjustments as a result of the weakened yen.

Equity ratio became 81.3%, its up by 0.3 points from the previous fiscal year end.

(3) Consolidated Forecasts and Other Forward-Looking Information

SMC Corporation has not revised its full-year consolidated forecasts for the year ending March 31, 2015 announced on November 10, 2014.

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 third 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	Third quarter end -Current year As of December 31, 2014
[ASSETS]		
Current assets		
Cash and deposits	349,354	434,782
Notes and accounts receivable-trade	102,446	122,389
Merchandise and finished goods	88,886	95,113
Work in process	15,585	16,096
Raw materials and supplies	89,783	89,994
Other	31,743	34,415
Allowance for doubtful accounts	(781)	(1,232)
Total current assets	**677,018**	**791,560**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	53,196	59,344
Machinery, equipment and vehicles, net	26,751	30,406
Land	29,388	33,648
Other, net	16,501	25,331
Total property, plant and equipment	**125,837**	**148,729**
Intangible assets	**4,141**	**4,704**
Investments and other assets		
Investment securities	41,018	43,815
Insurance funds	109,366	115,066
Other	10,622	11,891
Allowance for doubtful accounts	(1,129)	(1,233)
Total investments and other assets	**159,877**	**169,540**
Total non-current assets	**289,857**	**322,975**
Total assets	**966,875**	**1,114,535**

(Millions of Yen)

	Year end -Previous year As of March 31, 2014	Third quarter end -Current year As of December 31, 2014
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	48,687	54,774
Short-term loans payable	52,993	64,038
Income tax payable	20,251	19,717
Provision for bonuses	1,850	7,595
Provision	—	1,801
Other	29,724	29,628
Total current liabilities	**153,508**	**177,555**
Non-current liabilities		
Long-term loans payable	8,302	6,834
Provision for directors' retirement benefits	739	784
Net defined benefit liability	5,028	4,173
Other	13,775	17,358
Total non-current liabilities	**27,845**	**29,151**
Total liabilities	**181,354**	**206,707**
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,677	72,677
Retained earnings	629,616	672,001
Treasury shares	(23,892)	(3,465)
Total shareholders' equity	**739,407**	**802,219**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,813	4,272
Foreign currency translation adjustment	39,282	96,491
Remeasurements of defined benefit plans	2,988	2,662
Total accumulated other comprehensive income	**44,083**	**103,426**
Minority interests	**2,030**	**2,182**
Total net assets	**785,521**	**907,828**
Total liabilities and net assets	**966,875**	**1,114,535**

(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, 2013 From April 1, 2013 to December 31, 2013	Third quarter ended December 31, 2014 From April 1, 2014 to December 31, 2014
Net sales	**292,587**	**339,365**
Cost of sales	**152,680**	**175,305**
Gross profit	**139,906**	**164,059**
Selling, general and administrative expenses	**61,193**	**70,350**
Operating income	**78,712**	**93,708**
Non-operating income		
Interest income	3,562	4,474
Foreign exchange gains	12,573	18,809
Other	2,118	5,118
Total non-operating income	**18,255**	**28,402**
Non-operating expenses		
Interest expenses	237	239
Sales discounts	136	175
Other	119	81
Total non-operating expenses	**493**	**497**
Ordinary income	**96,474**	**121,613**
Extraordinary income		
Gain on sales of non-current assets	62	504
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	2	4
Total extraordinary income	**233**	**937**
Extraordinary losses		
Loss on retirement of non-current assets	—	398
Loss on change in equity	40	—
Other	194	89
Total extraordinary losses	**235**	**487**
Income before income taxes and minority interests	**96,472**	**122,063**
Income taxes	**29,194**	**37,277**
Income before minority interests	**67,277**	**84,785**
Minority interests in income	**49**	**136**
Net income	**67,228**	**84,649**

Consolidated Quarterly Statement of Comprehensive Income

(Millions of Yen)

	Third quarter ended December 31, 2013 From April 1, 2013 to December 31, 2013	Third quarter ended December 31, 2014 From April 1, 2014 to December 31, 2014
Income before minority interests	**67,277**	**84,785**
Other comprehensive income		
Valuation difference on available-for-sale securities	1,955	2,481
Foreign currency translation adjustment	48,517	57,218
Remeasurements of defined benefit plans	—	(325)
Total other comprehensive income	**50,473**	**59,374**
Comprehensive income	**117,750**	**144,160**
(Breakdown)		
Comprehensive income attributable to owners of parent	117,632	143,992
Comprehensive income attributable to minority interests	117	167

(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)

	3Q ended December 31, 2014							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	110,215	51,578	55,713	112,665	9,192	339,365	—	339,365
(2) Intersegment sales	117,526	1,135	1,112	29,928	25	149,728	(149,728)	—
Total	227,741	52,713	56,826	142,593	9,217	489,093	(149,728)	339,365
Operating income	56,875	9,386	6,609	24,242	362	97,477	(3,768)	93,708

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

(Millions of Yen)

	3Q ended December 31, 2014		Year ending March 31, 2015 (Forecast)	
Capital expenditures	23,231	22.5%	26,000	15.2%
Depreciation	9,415	2.5%	13,100	7.9%
R&D expense	13,106	13.7%	17,800	14.5%

(3) Full-time employees and temporary employees

(Number of personnel)

	3Q ended December 31, 2014	increase from last year end
Full-time employees (at end)	17,190	1,180
Temporary employees (average)	4,955	252