Dear Shareholders,

(Security Code: 6273)
June 6, 2016

Notice of the 57th Ordinary General Meeting of Shareholders

Notice is hereby given to cordially invite you to attend the 57th Ordinary General Meeting of Shareholders of SMC Corporation ("Company") to be held as described below.

If you are unable to attend the meeting in person, you are entitled to cast your vote in writing or via the Internet. In this regard, we cordially request that you study the attached "Reference Documents for the General Meeting of Shareholders" and exercise your voting right by 5:00 p.m., on June 27, 2016(Monday).

Sincerely,

Katsunori Maruyama
President
SMC Corporation
4-14-1,Soto-Kanda,Chiyoda-ku, Tokyo

1. Date and Time June 28, 2016 (Tuesday) 10:00 a.m.

2. Venue Conference Room, SMC Corporation
Akihabara UDX Building (15F),
4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

3. Agenda

Matters to be reported

Business Report, Consolidated and Non-consolidated Financial Statements, and Audit Report for Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors, for the 57th fiscal term (April 1, 2015 to March 31, 2016)

Matters to be resolved

Proposal 1. Dividend of Surplus
Proposal 2. Election of 14 Directors
Proposal 3. Election of 1 Corporate Auditor

Should it become necessary to revise the Appendix or Reference Documents for the General Meeting of Shareholders attached to this Notice, those revisions will be shown on the Company' s website*

***The Company's website address: http://www.smcworld.com/ir/en/**

Proposals and References

Proposal 1 Dividend of Surplus

【Basic capital policy】

The Company considers that its highest priority issue is to maximize shareholder value through corporate value improvement accompanied by mid- to long-term profit growth.

The Company will also strive to increase net assets and create an environment enabling smooth capital procurement by maintaining high ratings so that it can build a solid financial base that is not affected by financial and economic turmoil and rapid changes in foreign exchange rates like those occurred in connection with the collapse of Lehman Brothers in 2008.

In addition, the Company will continue to maintain its competitive advantage, positively make necessary investments in production facilities, research and development activities, human resources, etc. for sustained operations, and keep adequate cash on hand to meet relevant capital requirements.

To increase shareholder returns, the Company basically continues to pay stable dividends and also flexibly acquire treasury shares depending on situations.

【Matters related to year-end dividend】

This is to propose that the dividend of surplus for the term be made as described below, based on the above-mentioned basic capital policy.

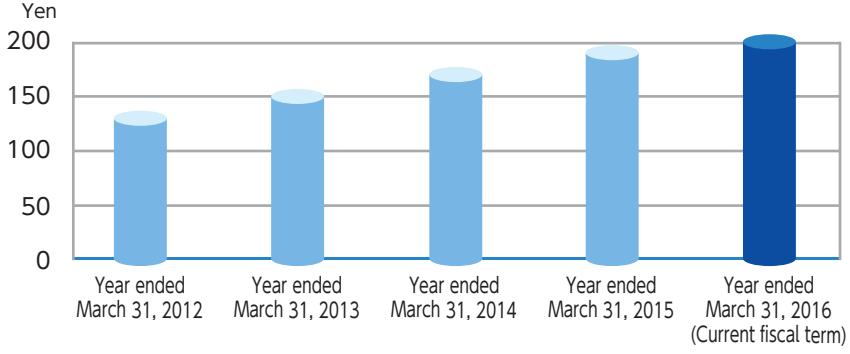
(1) Allocation of divisible assets payable to shareholders and total amount

100 yen per share on the Company's common shares
Total amount: 6,722,117,400 yen

(2) Effective date of the dividends from surplus

June 29, 2016
Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 200 yen, an increase of 10 yen from the previous fiscal year.

Reference:
Changes in dividend per share



Proposal 2 Election of 14 Directors

The term of office of the current 14 Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Hence, this is to request the election of 14 Directors (all 14 Directors will be reappointed; 2 of the Directors are candidates for Outside Directors).

The names and profiles of the candidates for Directors are as follows.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
1	[Reappointed] **Yoshiyuki Takada** (August 20, 1926) Number of the Company's shares held 10,017 shares	April 1959 Established the Company, Director May 1964 Executive Managing Director December 1988 Senior General Manager of Sales Headquarters May 1989 President August 2002 Chairman, SMC US (Incumbent) July 2004 Chairman, the Company (Incumbent)

[Reason for selection as a candidate for Director]
Since the foundation of the Company in 1959, Mr. Yoshiyuki Takada has led overall business activities in R&D, production and sales with strong leadership and high entrepreneurial spirit.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
2	[Reappointed] **Katsunori Maruyama** (March 25, 1947) Number of the Company's shares held 1,900 shares	June 1970 Joined the Company June 1993 Director Manager of Sales Administration Division June 1999 General Manager of Planning & Intelligence Service Division June 2001 Managing Director July 2002 Executive Managing Director July 2003 Executive Vice-president July 2004 President (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Katsunori Maruyama had been in charge of the analysis of market trends for many years and has fulfilled his responsibilities by serving as President and Representative Director, the chief executive for business execution since 2004.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization

3

[Reappointed]

Ikuji Usui

(August 20, 1943)

Number of the Company's shares held 1,600 shares

June 1993	Joined the Company, Director General Manager of Administration Division
June 1999	Vice Senior General Manager of Administration Headquarters
June 2001	Managing Director
June 2001	Senior General Manager of Administration Headquarters (Incumbent)
July 2003	Executive Managing Director (Incumbent)

[Reason for selection as a candidate for Director]

Mr. Ikuji Usui has served as Manager in the Administration Division since joining the Company in 1993, and has fulfilled his responsibilities as Senior General Manager supervising the entire Administration Division including Personnel, Finance and Accounting, and IR Divisions since 2001.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

4

[Reappointed]

Seiji Kosugi

(March 9, 1945)

Number of the Company's shares held 8,300 shares

April 1967	Joined the Company
June 1999	General Manager of Product Development Division 1
June 2002	Director
June 2007	Executive Advisory Engineer
June 2008	Director
July 2009	Vice Senior General Manager of Engineering Headquarters
February 2010	Managing Director
June 2013	Executive Managing Director and Senior General Manager of Engineering Headquarters (Incumbent)

[Reason for selection as a candidate for Director]

Mr. Seiji Kosugi has been engaged in the development and design of the Company's core products since joining the Company, and has fulfilled his responsibilities as Senior General Manager supervising the entire R&D Division since 2013
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

5

[Reappointed]

Masahiko Satake

(January 19, 1947)

Number of the Company's shares held 900 shares

April 1969	Joined the Company
November 2001	General Manager of Production Division 3
June 2007	Director
July 2012	Managing Director and Vice Senior General Manager of Production Headquarters
June 2013	Executive Managing Director and Senior General Manager of Production Headquarters (Incumbent)

[Reason for selection as a candidate for Director]

Mr. Masahiko Satake has been engaged in the management of production cost and projects to streamline operations for many years and has fulfilled his responsibilities as Manager of Kamaishi Factory since 2001 and Senior General Manager of the Production Headquarters supervising the entire Production Division since 2013.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
6	[Reappointed] **Osamu Kuwahara** (April 18, 1949) Number of the Company's shares held 1,300 shares	April 1972 Joined the Company August 2005 Manager of Sales Engineering Division June 2009 Director July 2009 General Manager of Corporate Business Planning Division June 2011 General Manager of Sales Engineering Division (Incumbent) June 2013 Managing Director September 2013 Senior General Manager of Marketing Headquarters (Incumbent) June 2015 Executive Managing Director and Senior General Manager of Sales Headquarters (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Osamu Kuwahara has been engaged in customer services of the Sales Engineering Division, a division serving as a bridge between the Sales Division and R&D Division, for many years. He was positioned as Manager of the Sales Engineering Division in 2011, as Senior General Manager of newly established Marketing Headquarters in 2013, and concurrently as Senior General Manager supervising the entire Sales Division in 2015, fulfilling his responsibilities.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
7	[Reappointed] **Yoshiki Takada** (June 6, 1958) Number of the Company's shares held 743,062 shares	April 1987 Joined the Company June 1991 On loan to SMC US June 1994 Director of the Company June 2002 Managing Director (Incumbent) July 2003 In charge of Overseas Operations April 2004 President, SMC US (Incumbent) June 2014 Managing Director of the Company in charge of Management for North America , Central and South America Zone (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Yoshiki Takada served as President of SMC US for many years, and has engaged in management of the Group companies centered on the North America/Central and South America Zone, and global business operations for the entire Group.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization

8

[Reappointed]

Eiji Ohashi

(September 19, 1951)

Number of the Company's shares held 1,200 shares

April 2004	Joined the Company
February 2005	General Manager of Finance & Accounting Division (Incumbent)
June 2006	Director
July 2012	Managing Director (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Eiji Ohashi has served as General Manager of the Finance and Accounting Division since 2005, engaging in financial strategies for the entire Group.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

9

[Reappointed]

Koichi Shikakura

(September 9, 1951)

Number of the Company's shares held 1,300 shares

July 2000	Joined the Company
June 2001	General Manager of Quality Assurance Division
June 2008	General Manager in charge of Production in the Production Headquarters and General Manager of Corporate Production Planning Division
November 2008	General Manager of Production Division 4
September 2013	General Manager of Production Headquarters and General Manager of Production Engineering Division (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Koichi Shikakura was positioned as Quality Assurance Manager in 2001, and General Manager of the Product Engineering Division responsible for planning, development and implementation of capital expenditure plans since 2008, fulfilling his responsibilities.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

10

[Reappointed]

Koji Ogura

(January 8, 1954)

Number of the Company's shares held 400 shares

February 1980	Joined the Company
November 2007	Manager of Hamamatsu Sales Office
June 2010	Director (Incumbent)
July 2010	General Manager of Sales Headquarters (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Koji Ogura has engaged in sales activities on the frontline for many years, and has been in charge of planning, development and implementation of sales strategies since 2010.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
11	[Reappointed] **Motoichi Kawada** (October 18, 1959) Number of the Company's shares held 800 shares	April 1982 Joined the Company October 2004 Manager of Okayama Sales Office November 2007 Sales Headquarters West Japan Block Leader June 2010 Director (Incumbent) July 2010 General Manager of Sales Headquarters (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Motoichi Kawada has engaged in sales activities on the frontline for many years, and has been in charge of planning, development and implementation of sales strategies since 2010.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

12	[Reappointed] **Susumu Takada** (August 16, 1951) Number of the Company's shares held 391 shares	July 1975 Joined the Company April 2002 Deputy General Manager of Product Development Division 3 July 2004 General Manager of Purchasing Division February 2010 General Manager of Production Division 2 June 2013 Director (Incumbent) September 2013 General Manager of Production Headquarters (Incumbent)

[Reason for selection as a candidate for Director]
Mr. Susumu Takada worked in each of the Research & Development, Procurement, and Production divisions as a division head and is currently driving forward projects for the expansion of production capability and further cost reduction.
With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization

13

[Reappointed]

Candidate for Outside Director

Masanobu Kaizu
(December 27, 1951)

Number of the Company's shares held 0 shares

April 1975	Joined Nomura Research Institute, Ltd.
June 1994	General Manager of Investment Research Division
April 1997	General Manager of Investment Research Division, Nomura Securities, Co., Ltd. Financial Research Center
June 2000	Vice President and General Manager of Corporate Research Division, Nomura Securities, Co., Ltd. Financial Research Center
April 2002	Executive Officer of Nomura Securities, Co. Ltd. and President of Financial Research Center
July 2007	Executive Officer, Nomura Securities, Co. Ltd. and Chief Research Officer of Financial and Economic Research Center
January 2012	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center (Incumbent)
June 2014	Outside Director of the Company (Incumbent)

Important concurrent duties

Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
Vice Chairman, The Securities Analysts Association of Japan
Director, Financial Accounting Standards Foundation

[Reason for selection as a candidate for Outside Director]

- Mr. Masanobu Kaizu is a distinguished economist and securities analyst having a superb personality, insights, and abundant knowledge of economic situations, financial market conditions, corporate management and financial accounting, with broad experience in relevant business activities.
  He has made proposals on management policies based on his own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitoring the Company's management activities from a neutral and objective point of view, enhancing management transparency further, and improving corporate value in the medium – and long-run by promoting continuous corporate growth.
  With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.
- According to the Company's judgment, Mr. Kaizu is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

[Other special notes concerning the Candidates for Outside Directors]

- The Company has made a contract with Mr. Kaizu for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Company Law to the maximum amount stipulated by law).
  If Mr. Kaizu is reelected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kaizu as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered him as such with the TSE.
- Two years will pass at the conclusion of this Ordinary General Meeting of Shareholders after he is elected the Company's Outside Director.

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization

14

[Reappointed]

Candidate for Outside Director

Toshiharu Kagawa

(November 12, 1950)

Number of the Company's shares held 0 shares

May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology
May 2012	President, Japan Fluid Power System Society
January 2014	Professor, Interdisciplinary Graduate School of Science and Engineering, Tokyo Institute of Technology
June 2015	Outside Director of the Company (Incumbent)
April 2016	Institute Professor, Tokyo Institute of Technology (Incumbent)

Important concurrent duties

Institute Professor, Tokyo Institute of Technology

[Reason for selection as a candidate for Outside Director]

- Mr. Toshiharu Kagawa is a Doctor of Engineering specializing in flow measurement and control and has a superb personality and insights. His specialization and the Company's business areas are very closely related.
  He has made proposals on management policies mainly in relation to research and development activities and measures for the training of engineers based on his own specialized knowledge and wide experience as a researcher and educator. He also monitor the Company's management activities from a neutral and objective point of view, enhance management transparency further, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.
  With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.
- According to the Company's judgment, Mr. Kagawa is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

[Other special notes concerning the Candidates for Outside Directors]

- The Company has made a contract with Mr. Kagawa for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Company Law to the maximum amount stipulated by law).
  If Mr. Kagawa is reelected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kagawa as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and register him as such with the TSE.
- One year will pass at the conclusion of this Ordinary General Meeting of Shareholders after he is elected the Company's Outside Director.

(Note) No special interests exist between the candidates and the Company

[Reference] Criteria on independence of independent Outside Directors

Described below are the criteria for judging independence of Outside Directors. To set these criteria, the Company has modified those issued by the Tokyo Stock Exchange and other relevant legal requirements.

◆Any of the following items must not be applicable in the most recent fiscal year (year-end).

(1) A person conducting business operations of the Company's group (e.g. an Executive Director, Executive Officer or employee; hereinafter the same applies)
(2) A main account (*) of the Company's group, or a person conducting business operations for the account
(*) A main account means any of the following persons.
- ○ A customer to which the Company's group makes 2% or more of its consolidated net sales
- ○ A supplier or service provider that makes 2% or more of its consolidated net sales to the Company's group
- ○ A lender from which the Company's group has gotten a loan amounting to 2% or more of its consolidated total assets

(3) A major shareholder of the Company (who holds 10% or more of the total voting rights) or a person conducting business operations of the shareholder
(4) A certified public accountant or a person who belongs to an audit corporation that undertakes statutory audit work for the Company's group
(5) A person who conducts business operations of a company that has interlocking executives or Executive Officers with the Company's group
(6) A professional (e.g. an attorney-at-law, certified public accountant, registered tax accountant, or consultant) who receives compensation, etc. amounting to 10 million yen or more, in addition to Director compensation, from the Company's group (If such professional is a corporation or another organization, a person who belongs to such corporation or organization is applicable.)
(7) An individual, organization or a person who conducts business operations for such individual or organization and receives a contribution of 100 million yen or more from the Company's group
(8) A person who used to be applicable to (1) above in the past 10 years or a person who used to be applicable to any of (2) through (7) above in the past 3 years
(9) The spouse or a relative within the second degree of a person described in (1) through (8) above. However, a "person conducting business operations" is limited to an important person conducting such operations (i.e. a high-ranking employee receiving the same treatment as an officer such as an Executive Director, Executive Officer, or another executive)

Proposal 3 Election of 1 Corporate Auditor

The term of office of 1 out of the current 3 Corporate Auditors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Hence, this is to request the election (reappointment) of 1 Corporate Auditor.

This Proposal has been approved by the Board of Corporate Auditors.

The name and profile of the candidate for Corporate Auditor is as follows.

	Name (Date of birth)	Brief personal profile, position and important concurrent position at other organization
1	[Reappointed] **Eizo Fujino** (November 28, 1946) Number of the Company's shares held 380 shares	May 1970 Joined the Company July 2002 Manager of Shizuoka Sales Office October 2004 General Manager of Sales Headquarters April 2012 General Manager of Audit Office June 2012 Full-Time Corporate Auditor (Incumbent)

[Reason for selection as a candidate for Corporate Auditor]

Mr. Eizo Fujino was engaged in sales activities on the frontline for many years and has also gained managerial experience through assignment to the overseas subsidiary. He is well versed in the Company's overall business activities with excellent ability in data collection and coordination across the Company.
With the expectation that he can contribute to the Company through continued audit activities, he has been selected as a candidate for Corporate Auditor.

(Note) No special interests exist between the candidate and the Company.

1 Matters pertaining to the present status of the Group

❶ Main business activities:

Manufacturing and sales of automatic control equipment, including pneumatic instruments

1 Pneumatic instruments

Instruments that utilize the pressure of compressed air as core energy source and perform automatic operations such as pressing, gripping and turning the objects in place of the manual work by human hands

Key products: Air cylinders, Air grippers, Rotary Actuators, Solenoid valves, Air line equipment, One-touch fittings, Vacuum units


Air dryer


Air line equipment


Solenoid valves


Air cylinders

2 Electric instruments

Key products
Electric actuators



3 Sensor

Key products
Pressure Switch
Flow Switch



4 Temperature control equipment

Key products
Thermo-chiller
Thermo-controller



(For reference) Case example of product introduction

SMC Group's products are making contributions to automation and labor-saving in a variety of industry sectors.

Automobile industry (automobile assembly line)



Semiconductor manufacturing equipment (coater/developer)



Machine tools (laser processing machine)



Food machinery (bottle filling machine)



Medical equipment (hematology analyzer)



❷ Business Progress and results

In the fiscal year ended March 31, 2016, the U.S. economy maintained steady trends in employment and consumer spending, and economies in European countries showed signs of a rebound albeit at a small scale amid their continued monetary easing policies. Meanwhile, economies in emerging countries suffered further slowdowns in growth on the back of sluggish growth in China's economy and a decline in resource prices. In Japan, there was no real sense of an economic rebound due to pressure on corporate performances caused by a sharp increase in the yen's value since the beginning of this year in addition to a continued slump in consumer spending and corporations' modest capital expenditure.

Demand for automatic control equipment for the automobile industry centered on the North America and European regions where we showed steady performances.

Under such circumstances, the Group has striven to reinforce its sales ability and enhance the development and strength of distribution networks, while focusing on expanding production bases.

As a consequence, net sales for the year ended March 31, 2016 increased by 3.8% year on year to 475,608 million yen on a consolidated basis. Operating income increased by 5.1% year on year to 134,233 million yen due to increased revenue affected by a weaker yen and a rise in sales, though sales, general and administrative expenses increased by 7.7% year on year to 103,147 million yen. However, ordinary income declined by 18.7% year on year to 129,188 million yen due to the posting of a foreign exchange loss of 14,245 million yen (foreign exchange gain of 21,858 million yen in the previous fiscal year) and profit attributable to owners of the parent decreased by 15.9% year on year to 92,138 million yen.

The return on equity (ROE) fell by 3.0 percentage points year on year to 9.9%.



Yoshiyuki Takada
Chairman

Katsunori Maruyama
President

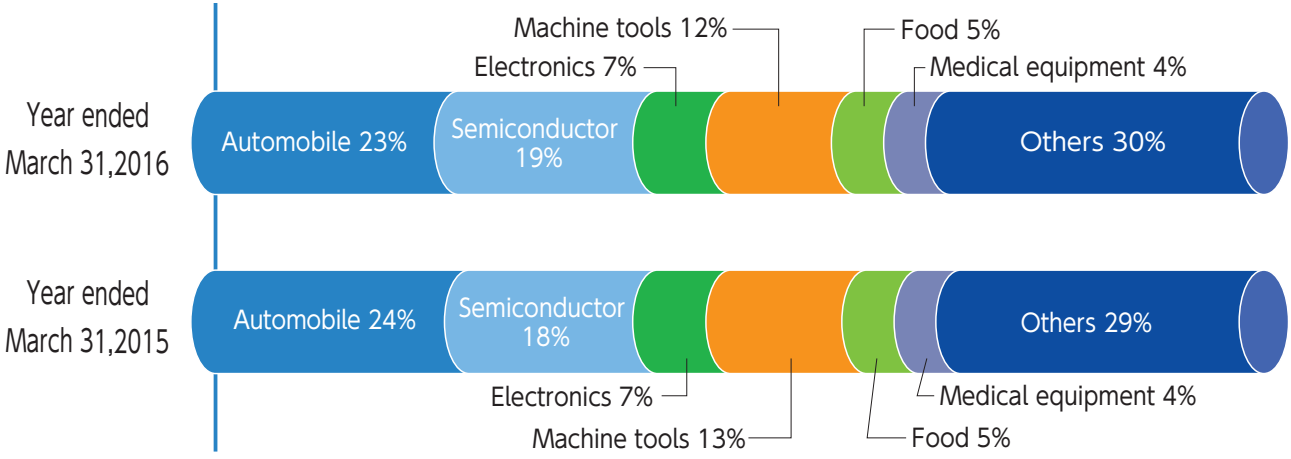
[Status of domestic sales]

In terms of domestic sales by industry, net sales in the automobile sector kept on seeing strong momentum on the back of continued overseas investments, and favorable orders in the semiconductor-related sector in the first half of the fiscal year under review contributed to a boost in revenue for the full fiscal period. Sales in food machinery and medical equipment remained strong, while machine-tool related sales continued to decline toward the latter half of the fiscal year under review.

As a result, domestic net sales for the fiscal year ended March 31, 2016 increased by 4.4% year on year to 154,493 million yen.

Changes in the sales composition by industry on a non-consolidated basis are as shown in the graph below.

Sales composition by industry (non-consolidated)



[Status of overseas sales]

In North America, demand in the U.S. semiconductor-related sector significantly fell due to uncertainty in the Chinese market. In the automobile-related sector, amid a significant boost in automobile production volume on the back of the low price of crude oil, net sales increased by 10.0% year on year to 78,753 million yen due mainly to continued robust capital expenditure in Mexico. This was in spite of the postponed implementation of a large-sized capital spending deal in the U.S.

In Europe, with a limited level of negative impact caused by the fraudulent problem related to exhaust emission regulations, orders from the automobile-related sector remained strong. Net sales increased by 3.1% year on year to 77,767 million yen due to favorable performances in the machine tool-related, food-related and medical equipment-related sectors in spite of the overall sluggish performance in the semiconductor-related sector.

In Asia, while the Chinese markets including China, Hong Kong, and Taiwan, remained sluggish overall, strong performance in batteries and liquid-crystal related products contributed to a boost in revenue. In South Korea and Singapore, investments by leading users in the semiconductor-related sector were robust, while India also posted a 10% year-on-year increase in sales. As a consequence, net sales increased by 2.3% year on year to 154,493 million yen.

Net sales in other regions declined by 16.1% year on year to 10,101 million yen mainly due to a slump in Brazil's economy.

Consolidated overseas sales

(Million yen)

	Domestic sales	Overseas sales				Consolidated (Total)
		North America	Europe	Asia	Other	
	154,493	**78,753**	**77,767**	**154,493**	**10,101**	475,608
YoY change	+4.4%	**+10.0%**	**+3.1%**	**+2.3%**	**(16.1%)**	+3.8%
Sales composition	32.5%	**16.6%**	**16.3%**	**32.5%**	**2.1%**	100.0%

❸ Status of capital investments

The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.

In addition, capital investments were made for rationalization of production and cost reduction through purchasing equipment and renewing dies. Total capital investments in the fiscal year under review amounted to 24,756 million yen, a decrease of 13.7% year on year.

Listed below are the main production facilities completed during the fiscal year ended March 31, 2016.



(i)Second phase construction of Shimotsuma factory



(ii)Expansion of Daejeon factory, SMC Korea



(iii)Second phase construction of Vyskov factory, SMC Czech

❹ Issues to be addressed

SMC group declared its "Management Philosophy" as follows. And issues that SMC group needs to deal with toward the future are clarified as the "long-term management vision."

(1) Management philosophy

1) Contributing to automated, labor-saving operations

The Company considers that its social mission is "contributing to automated, labor-saving operations in industries" through the manufacturing and sales of automatic control equipment including pneumatic instruments.

2) Focusing on the main business

As a maker of component parts "contributing to automated, labor-saving operations in industries," the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on the automatic control equipment business, its main business.

3) Supplying products globally

The Company will supply products that can meet the rules and needs of foreign countries and regions and are accepted in all the markets of the world.

(2) Long-term management vision

1)The Company strives to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.

2)The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.

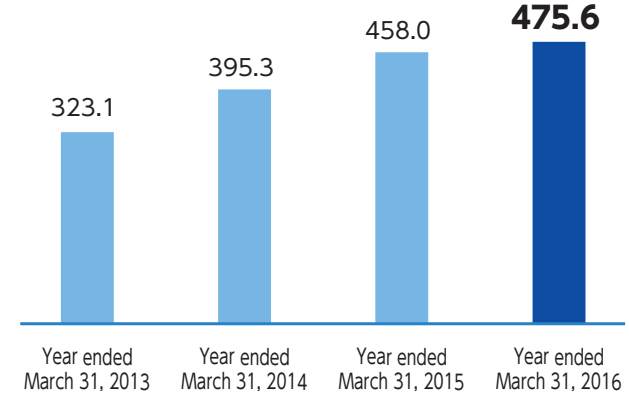
3)The Company aims to survive competitions in the global markets and to acquire higher market shares.

❺ Changes in assets and financial results

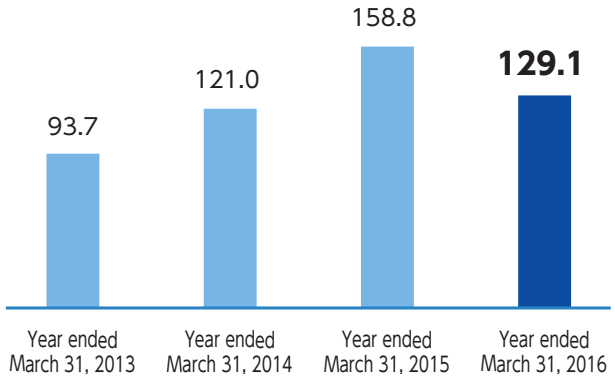
(Million yen)

	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016 (Current fiscal term)
Net Sales	323,135	395,304	458,081	**475,608**
Ordinary Income	93,737	121,073	158,816	**129,188**
Profit attributable to owners of parent	64,270	86,311	109,583	**92,138**
Net Income per share (yen)	937.70	1,274.20	1,629.38	**1,371.34**
Total Assets	844,010	966,875	1,129,001	**1,120,171**
Net Assets	689,359	785,521	921,483	**941,813**
Net Assets per share (yen)	10,031.63	11,599.87	13,682.01	**13,981.17**
Return on Equity	10.1%	11.7%	12.9%	**9.9%**

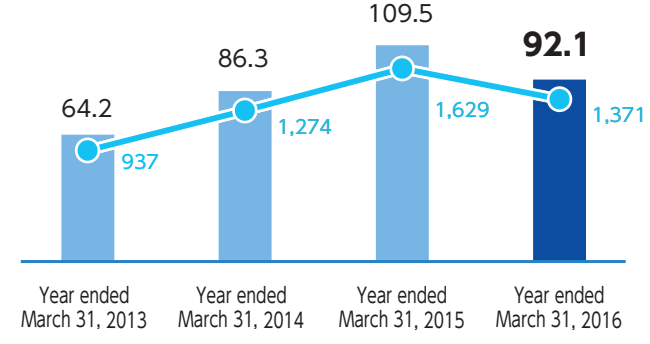
Net Sales (billion yen)



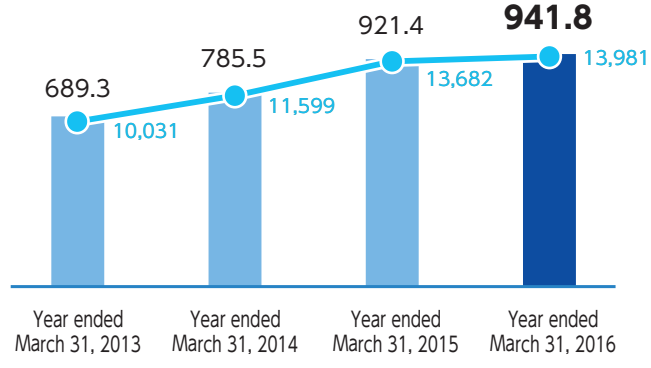
Ordinary Income (billion yen)



Profit attributable to owners of parent (billion yen) ● Net Income per share (yen)



Net Assets (billion yen) ● Net Assets per share (yen)



❻ Status of principal subsidiaries

Company name	Capital stock	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥304 million	47.3	Sale of pneumatic instruments etc.
Seigyo Kizai Corporation	¥100 million	100.0	Sale of pneumatic instruments etc.
SMC US	US$ 172,700,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Germany	EUR 21,729,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC U.K.	£14,500,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Italy	EUR 18,145,000	98.5	Manufacturing and sale of pneumatic instruments etc.
SMC Spain	EUR 3,305,000	99.8	Manufacturing and sale of pneumatic instruments etc.
SMC Singapore	S$5,600,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Hong Kong	HK$ 100,000	*100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Taiwan	NT$ 420,840,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Korea	KRW 46,500 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Guangzhou	CNY 144 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC China	CNY 1,504 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC (Beijing) Manufacturing	CNY 1,716 million	100.0	Manufacturing of pneumatic instruments etc.
SMC Manufacturing (Singapore)	S$ 10,000,000	100.0	Manufacturing of pneumatic instruments etc.
SMC Australia	A$ 20,000,000	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Brazil	BRL 332,525,000	*100.0	Manufacturing and sale of pneumatic instruments etc.

(Note) The Company's percentages of voting rights in SMC Hong Kong and SMC Brazil include those indirectly held by the Company's wholly-owned subsidiaries.

There are 33 consolidated subsidiaries including the abovementioned 17 principal subsidiaries.
SMC Taiwan reinvested dividends in May 2015 and its capital stock increased to NT$420,840,000.
SMC Brazil increased its capital in June 2015 to 332,525,000 Brazilian real for the purpose of purchasing equipment.

Global Network (for reference purpose)

Europe


U. K.


Germany


Austria


Spain


France


Italy

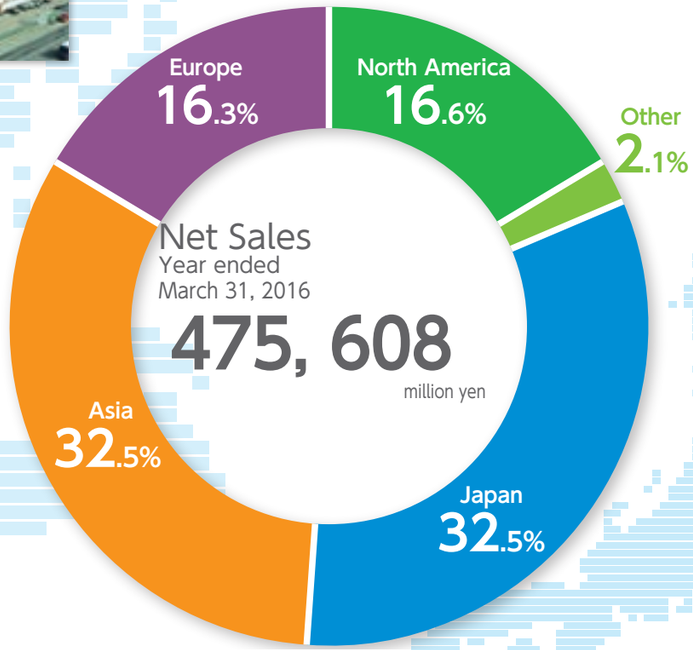
North America / Other


U. S.


Mexico


Australia


Brazil



Asia


Taiwan


Hong Kong


Beijing Manufacturing


China


Korea


India


Mfg Singapore

Japan


Tsukuba Technical Center


Soka Factory


Tsukuba Factory


Shimotsuma Factory


Kamaishi Factory


Tono Factory


Yamatsuri Factory

❼ Status of employees

Number of employees	18,382	Increase against the previous term	993

(Notes)
1. The number of employees represents the number of the actual workforce (i.e., excludes staff seconded to non-Group companies from Group companies and includes staff seconded to Group companies from non-Group companies).
2. In addition to the above, we employ 4,998 temporary staff (average during the term).

❽ The status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited.	¥ 33,915 million
Mizuho Bank, Ltd.	¥ 13,110 million

❾ Major bases

		Company name and location
SMC Corporation	Head office	Akihabara UDX Building, 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo
	Sales offices	Sendai, Omiya (Saitama), Kofu, Tokyo, Atsugi, Shizuoka, Toyota, Nagoya, Kanazawa, Kyoto, Osaka, Okayama, Hiroshima, Fukuoka
	Production facilities	Soka, Tsukuba (Ibaraki), Yamatsuri, Kamaishi, Tono, Shimotsuma
	R&D centers	Tsukuba Technical Center (Ibaraki)
Domestic sales companies		Nihon Kizai Co., Ltd. (Osaka), Seigyo Kizai Corporation (Tokyo)
Overseas manufacture and sales companies		SMC US, SMC Germany, SMC U.K., SMC Italy, SMC Spain, SMC Singapore, SMC Hong Kong, SMC Taiwan, SMC Korea, SMC Guangzhou, SMC China, SMC Australia, SMC Brazil
Overseas manufacture		SMC (Beijing) Manufacturing, SMC Manufacturing (Singapore)
Overseas R&D bases		US Technical Center, European Technical Center (U.K., Germany), Chinese Technical Center

❿ Other significant matters pertaining to the present status of the Group

None

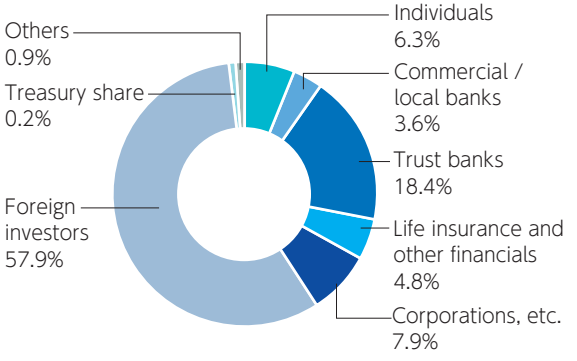
2 Matters pertaining to the Company's shares

❶ **Total number of shares outstanding:** 67,369,359 (including 148,185 shares of treasury share)
❷ **Number of shareholders:** 6,832
❸ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	3,653.4	5.43
TON Finance B.V.	3,443.5	5.12
State Street Bank and Trust Company	3,147.1	4.68
Takada International Co. Ltd.	3,050.0	4.53
Master Trust Bank of Japan (Trust account)	2,378.0	3.53
State Street Bank and Trust Company 505001	2,298.6	3.41
Resona Bank, Limited.	1,959.8	2.91
The Dai-chi Life Insurance Company, Limited	1,713.0	2.54
JP Morgan Chase Bank 385164	1,363.4	2.02
JP Morgan Chase Bank 380055	1,362.8	2.02

(Notes)
Percentages of voting rights are calculated based on the number of shares outstanding of 67,221,174 shares (excluding treasury share) and are indicated by rounding down figures to three decimal places.

Distribution of share by shareholders



Individuals	4,262.2 Thousand shares
Commercial/local banks	2,391.6 Thousand shares
Trust banks	12,421.6 Thousand shares
Life insurance and other financials	3,209.1 Thousand shares
Corporations, etc.	5,332.4 Thousand shares
Foreign investors	39,002.4 Thousand shares
Treasury share	148.1 Thousand shares
Others	601.7 Thousand shares

3 Matters pertaining to the Company's Directors and Corporate Auditors

❶ Directors and Corporate Auditors

Name	Position, assignment of work and significant concurrent position	
Yoshiyuki Takada	Chairman	(Representative Director) / Chairman, SMC US
Katsunori Maruyama	President	(Representative Director)
Ikuji Usui	Executive Managing Director	Senior General Manager of Administration Headquarters
Seiji Kosugi	Executive Managing Director	Senior General Manager of Engineering Headquarters
Masahiko Satake	Executive Managing Director	Senior General Manager of Production Headquarters
Osamu Kuwahara	Executive Managing Director	Senior General Manager of Sales Headquarters and Senior General Manager of Marketing Headquarters and General Manager of Sales Engineering Division
Yoshiki Takada	Managing Director	In charge of Management for North America , Central and South America Zone / President, SMC US
Eiji Ohashi	Managing Director	General Manager of Finance and Accounting Division
Koichi Shikakura	Director	General Manager of Production Headquarters and General Manager of Product Engineering Division
Koji Ogura	Director	General Manager of Sales Headquarters
Motoichi Kawada	Director	General Manager of Sales Headquarters
Susumu Takada	Director	General Manager of Production Headquarters
Masanobu Kaizu	Director (Outside Director)	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd.Financial and Economic Research Center / Director, Financial Accounting Standards Foundation / Vice Chairman, The Securities Analysts Association of Japan
Toshiharu Kagawa	Director (Outside Director)	Institute Professor, Tokyo Institute of Technology
Eizo Fujino	Full-Time Corporate Auditor	
Yoshiaki Ogawa	Corporate Auditor	(Outside Corporate Auditor) / Lawyer
Tatsuo Suzue	Corporate Auditor	(Outside Corporate Auditor) / Lawyer

(Notes)
1. Messrs. Masanobu Kaizu, Toshiharu Kagawa, Yoshiaki Ogawa and Tatsuo Suzue are Independent Directors / Auditors, which Tokyo Stock Exchange, Inc. has required listed companies to have in order to protect the interests of general shareholders.
2. Messrs. Katsunori Tomita, Iwao Mogi, German Berakoetxea, Lup Yin Chan, and Steve Bangs retired upon expiration of their terms of office as Director , and Mr. Takashi Honda and Mr. Koji Takahashi retired upon expiration of their terms of office as Outside Corporate Auditor at the conclusion of the 56th Ordinary General Meeting of Shareholders held on June 25, 2015.
   Mr. Toshiharu Kagawa and Mr. Tatsuo Suzue were elected as Outside Director and Outside Corporate Auditor respectively and assumed office at the 56th Ordinary General Meeting of Shareholders held on June 25, 2015.

3. Change of position of work of Directors during the fiscal year under review.
(effective June 25, 2015) (Underlined parts are changed.)

Name	New position		Former position	
Osamu Kuwahara	Executive Managing Director	Senior General Manager of Sales Headquarters and Senior General Manager of Marketing Headquarters and General Manager of Sales Engineering Division	Managing Director	Senior General Manager of Marketing Headquarters and General Manager of Sales Engineering Division

4. Effective December 11, 2015, the Company established the Independent Executive Council comprising 2 Outside Directors and 2 Outside Corporate Auditors. In addition, Mr. Masanobu Kaizu was elected as the Lead Independent Outside Director by mutual voting by the Outside Directors and assumed office.

❷ Compensation amounts payable to Directors and Corporate Auditors

	Total amount of compensation	Total amount of compensation by type of remuneration		Number of target directors
		Base compensation	Retirement benefits	
Directors	¥ 494 million	¥ 450 million	¥ 43 million	19
(Outside Director)	(¥ 16 million)	(¥ 16 million)	(—)	(2)
Corporate Auditors	¥ 27 million	¥ 27 million	—	5
(Outside Corporate Auditors)	(¥ 11 million)	(¥ 11 million)	(—)	(4)

(Notes)
1. The total amount of compensation as detailed above includes compensation (base compensation for the period from April to June, 2015) and retirement benefits paid to 5 Directors and 2 Corporate Auditors who retired at the conclusion of the 56th Ordinary General Meeting of Shareholders held on June 25, 2015.
2. Compensation to Directors excludes the salary portion paid to Directors who are concurrently employees.
3. The amount of retirement benefits is the total of provision for Directors' retirement benefits during the fiscal year under review and the difference between the actual amount of retirement benefits paid to 5 Directors who retired at the conclusion of the 56th Ordinary General Meeting of Shareholders and the provision for Directors' retirement benefits already recorded.
4. Policy regarding the determination of compensation amounts payable to Directors.
Total amounts of base compensation for Directors and Corporate Auditors were determined to be no more than 900 million yen and 100 million yen per annum, respectively, at the 48th Ordinary General Meeting of Shareholders held on June 28, 2007.
The specific amount of base compensation for individual Directors and Corporate Auditors is determined after the annual Ordinary General Meeting of Shareholders each year by the resolution of the Board of Directors' Meeting for Directors and by the resolution of the Board of Corporate Auditors' Meeting for Corporate Auditors. It is determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director and Corporate Auditor to earnings, position, assignment to work and term of office and the like.
As the basic compensation to each Executive Director is not linked to specific financial indexes, it is not disclosed or processed as performance-linked pay for accounting and taxation purposes. However, the ratio of the fixed portion of compensation is about 35% and the remaining portion (65%) represents the compensation reflecting performance for the year and each Director's job contribution level in each year.
As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is calculated using the basic payment amount that is automatically obtained in accordance with the "rules for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits. When a Director actually retires, the specific amount of retirement benefits is determined by the Board of Directors after the agenda for payment of such benefits is approved at the relevant Meeting of Shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said rules so that the Director's distinguished services performed while in office can be reflected.
When the agenda for payment of retirement benefits is proposed at the relevant Meeting of Shareholders, the upper limit of the total payment amount is also indicated so that shareholders can make their decisions.
Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

❸ Matters pertaining to Outside Directors and Outside Corporate Auditors

① Main activities during the fiscal year under review

Name	Position	Number of the Board of Directors' Meetings attended/held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Masanobu Kaizu	Outside Director	8 out of 8 meetings (100.0%)	—	As an economist and securities analyst, he has supervised the management of the Company and worked for improving the transparency of management based on his professional knowledge of economic situations, financial market conditions, corporate management and financial accounting with neutral and objective viewpoints, in particular, focusing on protecting the interests of general shareholders and investors. He has also made proposals on management policies in light of urging the Company's sustainable growth and improving corporate value in the medium and long term. In addition, he has provided the Board of Directors with the latest information about economic situations and financial market conditions. Furthermore, for the fiscal year under review, he has made proposals on the Company's long-term management issues in the joint name of Director Kagawa.
Toshiharu Kagawa	Outside Director	6 out of 6 meetings (100.0%)	—	As a researcher and educator specialized in flow measurement and control, an area quite closely related to the Company's business domain, he has supervised the management of the Company and worked for further improving the transparency of management based on his professional knowledge and broad experience with neutral and objective viewpoints. He has also made proposals on management policies, in particular, measures centered on R&D activities and the development of engineers in light of urging the Company's sustainable growth and enhancing corporate value in the medium and long term. Furthermore, for the fiscal year under review, he made proposals on the Company's long-term management issues in the joint name of Director Kaizu.
Yoshiaki Ogawa	Outside Corporate Auditor	8 out of 8 meetings (100.0%)	12 out of 13 meetings (92.3%)	As an attorney at law, he has audited the management of the Company based on his professional knowledge and broad experience of corporate laws and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.

Name	Position	Number of the Board of Directors' Meetings attended/ held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Tatsuo Suzue	Outside Corporate Auditor	6 out of 6 meetings (100.0%)	10 out of 10 meetings (100.0%)	As an attorney at law, he has audited the management of the Company based on his professional knowledge and broad experience of corporate laws and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.

(Note) Mr. Toshiharu Kagawa's attendance at the Board of Directors' Meetings and Mr. Tatsuo Suzue's attendance at the Board of Director's Meetings and Board of Corporate Auditors' Meetings began on June 25, 2015 when they took office as new Outside Director and Outside Corporate Auditor respectively.

② Relationships between the Company and organizations to which Outside Directors and Outside Corporate Auditors concurrently belong

There is no special relationship to report.

③ Outline of contracts for the limitation of liability

The Company has made a contract with each of Outside Directors and Outside Corporate Auditors for the limitation of liability in accordance with Article 427, Paragraph 1 of the Company Law and Articles 27 and 36 of the Company's articles of incorporation.

As a result, even in the case that an Outside Director or Outside Corporate Auditor is held liable under Article 423, Paragraph 1 of the Company Law, the amount of such liability is limited to the minimum amount stipulated in Article 425, Paragraph 1 of the Company Law when they act in good faith and are not grossly negligent in performing their duties.

4 Status of Accounting Auditor

❶ Name of Accounting Auditor　Seiyo Audit Corporation

❷ Remuneration amount payable to Accounting Auditor in the term

	Amount payable
Remuneration as Accounting Auditor in the term	¥ 58 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥ 58 million

(Notes)
1. Since the auditing agreement between the Company and its Accounting Auditor does not segregate the amount of remuneration to Auditors pursuant to the Corporate Code and that pursuant to the Financial Instruments and Exchange Law (including internal control audit) as it is substantially difficult to do so, the amount recorded above is the total of these two types of remuneration.
2. Excluding Seigyo Kizai Corporation, audits for the 16 subsidiaries of the 17 principal subsidiaries listed in "1. Matters pertaining to the present status of the Group (6) Status of principal subsidiaries" are performed by either a certified public accountant or auditing firm other than the Company's Accounting Auditor.
3. Reason for the Board of Corporate Auditors'consent to remuneration for the Accounting Auditor
   The Board of Corporate Auditors examined the performance of duties of the Accounting Auditor, details of the auditing plans and a basis for the calculation of the estimated remuneration based on submitted materials and reports received from Directors, relevant internal parties and the Accounting Auditor. As a conclusion, the Board of Corporate Auditors judged that the remuneration paid to the Accounting Auditor was appropriate and provided consent in accordance with Paragraph 1 of Article 399, the Company Law.

❸ Policies on the dismissal or non-reappointment of Accounting Auditor

If any of the dismissal causes stipulated in Article 340 of the Company Law, such as the breach of the aforementioned obligations, neglect of duties, or misconduct as an Accounting Auditor, is applicable to the Accounting Auditor, the Board of Corporate Auditors shall dismiss the Accounting Auditor by obtaining consent from all Corporate Auditors.

Moreover, the Board of Corporate Auditors shall propose an agenda item concerning the dismissal or non-reappointment of the Accounting Auditor to Shareholders' Meeting if it is deemed difficult for the Accounting Auditor to execute its duties adequately.

5 Framework to ensure adequacy of business activities

❶ Framework to ensure that execution of duties by Directors complies with applicable laws and regulations as well as the Articles of Incorporation, other framework to ensure adequacy of business activities

(1) Framework to ensure that execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation

- Formulate "SMC Group Ethical and Corporate Principles" and "SMC Group Code of Conduct" to clarify its stance of striving for becoming a company to be trusted, not only by customers and business partners but also by the broader society, through conducting fair corporate activities complying with applicable laws and regulations as well as the code of ethics.
- Establish a Compliance Committee to strengthen the legal compliance system.
- Develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest throughout the Group to help prevent and correct improper conduct.
- Do not become involved with antisocial forces and organizationally take a resolute attitude toward undue claims in close collaboration with lawyers, police, and others.

(2) Framework for information storage and management with regards to the execution of duties by Directors

- Formulate information management rules to develop a system to prevent leakage of important information.
- Establish an Information Disclosure Committee to promote prompt and adequate information disclosure.

(3) Framework and rules relating to risk of loss management

- Establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, compliance, disaster prevention, etc.
- All information regarding complaints against quality will be reported to the Chairman and President, and actions as well as recurrence prevention measures will be verified.

(4) Framework to ensure that duties of the Directors are efficiently executed

- Establish a Management Committee to facilitate information-sharing among department heads.
- Establish medium to long term management plans as well as annual policies and budgets for each Group company and department, thereby implementing adequate business management.

(5) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- Contracts made with subsidiaries in which advance discussions held with the Company regarding significant matters, regular reports on business plans, financial closing, etc., and regular discussions held with the Company regarding business plans, financial closing, etc., are obligatory for subsidiaries. In addition, operational losses, losses caused by a disaster, etc., occurrence of important events such as the violation of law, and others must be reported to the Company.

- Develop and operate a framework to conduct risk management (internal control related to financial reporting) necessary for ensuring the reliability of financial reporting, and improve its effectiveness through regular assessment.
- Properly manage subsidiaries and promote group strategies in an integrated and efficient manner by implementing the affiliate management rules, dispatching directors, exercising shareholder rights, and having regular discussions with subsidiaries.

(6) Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed

- As full-time audit staff persons who assist Corporate Auditors in executing their duties, employees having knowledge of internal audit, financial accounting and other areas have been properly assigned.
- These audit staff persons are authorized to conduct necessary examinations under the direction of Corporate Auditors so that audits can be completed.
- Before personnel changes are announced or disciplinary actions are taken, consultation with Corporate Auditors is required.

(7) Framework in which Directors and employees give reports to Corporate Auditors/Framework to give other reports to Corporate Auditors

- Directors and employees give business execution reports to Corporate Auditors regularly and at the request of Corporate Auditors.
- In the case that a Director or employee discovers a fact that may cause significant damage to the Company, he or she shall report it immediately to Corporate Auditors.
- In the case that a Director or employee receives a report on a subsidiary's significant matters from the subsidiary's director, employee, or other persons, he or she shall report it to Corporate Auditors in a timely and appropriate manner.
- It is prohibited to unfairly treat Directors and employees of the Company and its subsidiaries on the grounds that relevant matters have been reported to Corporate Auditors.

(8) Matters pertaining to the processing of costs incurred in connection with the execution of duties by Corporate Auditors

- Costs necessary for the execution of duties by Corporate Auditors are immediately processed whenever requested, including prepayments.

(9) Framework to ensure that other audit work by Corporate Auditors is effectively performed

- Corporate Auditors hold meetings periodically with the President, the Accounting Auditor and the internal auditing office in order to improve the auditing environment and strengthen the liaison among Auditors.

❷ Overview of the operation status of the said frameworks

(1) Framework to ensure that the execution of duties of Directors and Employees complies with applicable laws and regulations as well as the Articles of Incorporation

- The Company has disclosed the "SMC Group Ethical and Corporate Principles" on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
- With the placement of the "SMC Group Ethical and Corporate Principles," the Company has established the "SMC Group Code of Conduct" which specifically describes what the Group's Directors and employees should comply with, and distributed an English translation of the Japanese version to the Group companies. As part of the procedures for evaluating the internal control system pertaining to financial reports, the Company confirms every year that the SMC Group Code of Conduct is disseminated among the consolidated subsidiaries.
- The Company has established a contact point outside the Company as a reporting system which can respond to illegal or inappropriate acts engaged in by Directors or acts against laws and regulations on information disclosure. An external law firm versed in practical operations for whistle-blowing processes serves as the contact point.

(2) Framework for information storage and management with regards to the execution of duties by Directors

- In conjunction with the introduction of the My Number system (national identification number in Japan), the Company has taken the necessary measures. These include selecting employees who can handle the personal information of My Number and establishing a specialized operation room equipped with a security device.

(3) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- The Company has revised contracts made with its subsidiaries concerning advance discussions with the Company on significant matters and reports to the Company, and strengthened management frameworks, in particular, the system for capital expenditure.

(4) Framework to ensure that other audit work by Corporate Auditors is effectively performed

- Corresponding to the revision of the Companies Act, the Company revised the Rules of the Board of Corporate Auditors, the Standards for Auditing by Corporate Auditors, etc.

(Note) In the Business Report, amounts are rounded down to match the unit in which they are presented.

Consolidated Balance Sheets (As of March 31, 2016)

(Million yen)

	As of March 31, 2015	As of March 31, 2016
(Assets)		
Current assets	**802,257**	**747,123**
Cash and deposits	453,178	412,707
Notes and accounts receivable-trade	120,956	118,264
Merchandise and finished goods	90,044	79,645
Work in process	16,396	15,650
Raw materials and supplies	88,132	87,267
Deferred tax assets	21,041	20,547
Other	13,796	13,933
Allowance for doubtful accounts	(1,288)	(894)
Non-current assets	**326,743**	**373,048**
Property, plant and equipment	**146,861**	**148,309**
Buildings and structures, net	60,405	65,918
Machinery, equipment and vehicles, net	31,288	32,167
Tools, furniture and fixtures, net	6,410	7,000
Land	32,824	32,232
Construction in progress	15,932	10,990
Intangible assets	**4,884**	**4,553**
Leasehold right	3,842	3,339
Other	1,042	1,213
Investments and other assets	**174,997**	**220,184**
Investment securities	48,294	44,311
Net defined benefit asset	80	73
Insurance funds	115,579	118,992
Other	12,182	58,696
Allowance for doubtful accounts	(1,139)	(1,889)
Total assets	**1,129,001**	**1,120,171**

	As of March 31, 2015	As of March 31, 2016
(Liabilities)		
Current liabilities	**179,071**	**150,249**
Notes and accounts payable-trade	48,753	55,405
Short-term loans payable	63,475	45,918
Income taxes payable	29,528	12,352
Provision for bonuses	2,969	2,611
Other	34,345	33,962
Non-current liabilities	**28,445**	**28,108**
Long-term loans payable	7,106	3,325
Deferred tax liabilities	12,123	7,855
Provision for directors' retirement benefits	794	808
Net defined benefit liability	1,421	9,388
Other	6,999	6,730
Total liabilities	**207,517**	**178,357**
(Net assets)		
Shareholders' equity	**827,178**	**906,027**
Capital stock	61,005	61,005
Capital surplus	72,677	72,778
Retained earnings	696,953	775,655
Treasury shares	(3,458)	(3,411)
Accumulated other comprehensive income	**92,066**	**33,381**
Valuation difference on available-for-sale securities	5,841	2,879
Foreign currency translation adjustment	81,697	32,336
Remeasurements of defined benefit plans	4,527	(1,833)
Non-controlling interests	**2,238**	**2,403**
Total net assets	**921,483**	**941,813**
Total liabilities and net assets	**1,129,001**	**1,120,171**

Consolidated Statements of Income (April 1, 2015 to March 31, 2016)

(Million yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net sales	**458,081**	**475,608**
Cost of sales	**234,578**	**238,227**
Gross profit	**223,503**	**237,381**
Selling, general and administrative expenses	**95,816**	**103,147**
Operating income	**127,686**	**134,233**
Non-operating income	**31,779**	**9,851**
Interest income	5,589	5,553
Gain on investments in insurance funds	1,402	1,823
Foreign exchange gains	21,851	—
Other	2,935	2,474
Non-operating expenses	**650**	**14,897**
Foreign exchange losses	—	14,245
Other	650	651
Ordinary income	**158,816**	**129,188**
Extraordinary income	**955**	**409**
Gain on sales of non-current assets	522	241
Gain on sales of investment securities	428	166
Other	4	1
Extraordinary losses	**1,037**	**253**
Loss on retirement of non-current assets	136	104
Loss on sales of investment securities	—	132
Loss on valuation of investment securities	398	—
Loss on revision of retirement benefit plan	152	—
Impairment loss	267	—
Other	81	16
Profit before income taxes	**158,734**	**129,343**
Income taxes-current	48,736	36,112
Income taxes-deferred	209	874
Profit	**109,788**	**92,356**
Profit attributable to non-controlling interests	204	218
Profit attributable to owners of parent	**109,583**	**92,138**

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2015 to March 31, 2016)

(Million yen)

Items	Year ended March 31, 2015	Year ended March 31, 2016
Cash flows from operating activities	**111,652**	**102,006**
Income before income taxes and minority interests	158,734	129,343
Depreciation	13,620	14,863
Increase (decrease) in net defined benefit liability	(1,244)	(1,325)
Interest and dividend income	(5,984)	(5,953)
Foreign exchange losses (gains)	(15,433)	9,309
Decrease (increase) in notes and accounts receivable-trade	(11,624)	(4,948)
Decrease (increase) in inventories	12,818	391
Increase (decrease) in notes and accounts payable-trade	(4,492)	10,514
Decrease (increase) in other current assets	(867)	(673)
Increase (decrease) in other current liabilities	1,370	12
Other, net	(665)	(1,872)
Subtotal	**146,231**	**149,662**
Interest and dividend income received	5,994	5,700
Interest expenses paid	(334)	(251)
Income taxes (paid) refund	(40,238)	(53,105)
Cash flows from investing activities	**(45,240)**	**(34,282)**
Payments into time deposits	(60,035)	(67,432)
Proceeds from withdrawal of time deposits	42,842	67,895
Purchase of property, plant and equipment	(25,221)	(23,997)
Purchase of investment securities	(3,169)	(1,925)
Proceeds from sales of investment securities	2,544	1,276
Payments for investments in capital of subsidiaries and associates	(2,379)	(6,180)
Purchase of insurance funds	(5,773)	(7,224)
Proceeds from maturity of insurance funds	3,503	3,659
Other, net	2,447	(353)
Cash flows from financing activities	**(12,762)**	**(34,299)**
Net increase (decrease) in short-term loans payable	9,740	(19,814)
Proceeds from long-term loans payable	2,000	2,000
Repayments of long-term loans payable	(2,454)	(3,197)
Purchase of treasury shares	(10,035)	(25)
Cash dividends paid	(12,127)	(13,435)
Other, net	114	173
Effect of exchange rate change on cash and cash equivalents	**19,488**	**(19,870)**
Net increase (decrease) in cash and cash equivalents	**73,138**	**13,554**
Cash and cash equivalents at beginning of period	**208,577**	**281,716**
Cash and cash equivalents at the end of period	**281,716**	**295,270**

(Note) In the consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Balance Sheets (As of March 31, 2016)

(Million yen)

	As of March 31, 2015	As of March 31, 2016
(Assets)		
Current assets	**343,599**	**326,462**
Cash and deposits	158,234	141,564
Notes receivable-trade	16,472	16,638
Accounts receivable-trade	57,393	55,043
Merchandise and finished goods	21,970	23,606
Work in process	7,399	8,100
Raw materials and supplies	54,512	56,596
Deferred tax assets	7,949	7,010
Accounts receivable-other	11,576	10,650
Suspense payments	7,610	6,714
Other	714	803
Allowance for doubtful accounts	(233)	(266)
Non-current assets	**342,639**	**355,731**
Property, plant and equipment	**43,957**	**50,026**
Buildings and structures	19,401	25,110
Machinery, equipment and vehicles	8,356	8,288
Tools, furniture and fixtures	1,784	1,900
Land	11,185	11,258
Construction in progress	3,229	3,468
Intangible assets	**660**	**736**
Software	580	656
Other	80	80
Investments and other assets	**298,021**	**304,968**
Investment securities	31,353	27,052
Shares of subsidiaries and associates	95,467	96,893
Investments in capital of subsidiaries and associates	47,529	53,251
Prepaid pension cost	—	436
Differed tax assets	1,838	2,472
Insurance funds	115,542	118,954
Other	6,329	5,931
Allowance for doubtful accounts	(38)	(23)
Total assets	**686,238**	**682,194**

	As of March 31, 2015	As of March 31, 2016
(Liabilities)		
Current liabilities	**161,423**	**128,379**
Accounts payable-trade	50,713	57,324
Short-term loans payable	67,839	44,048
Accounts payable-other	2,301	1,867
Income tax payable	22,669	6,177
Accrued expenses	10,140	10,458
Other	7,758	8,504
Non-current liabilities	**17,997**	**12,443**
Long-term loans payable	4,336	110
Provision for retirement benefits	7,408	6,140
Provision for directors' retirement benefits	567	551
Other	5,684	5,641
Total liabilities	**179,421**	**140,823**
(Net assets)		
Shareholders' equity	**501,477**	**538,740**
Capital stock	**61,005**	**61,005**
Capital surplus	**72,576**	**72,677**
Legal capital surplus	72,576	72,576
Other capital surplus	—	100
Retained earnings	**371,354**	**408,469**
Legal retained earnings	15,251	15,251
Other retained earnings	356,103	393,217
Reserve for special depreciation	80	57
Reserve for reduction entry of assets	331	326
General reserve	150,250	150,250
Retained earnings brought forward	205,442	242,583
Treasury shares	**(3,458)**	**(3,411)**
Valuation and translation adjustments	**5,339**	**2,630**
Valuation difference on available-for-sale securities	5,339	2,630
Total net assets	**506,817**	**541,370**
Total liabilities and net assets	**686,238**	**682,194**

Non-consolidated Statements of Income (April 1, 2015 to March 31, 2016)

(Million yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net sales	**286,362**	**302,755**
Cost of sales	**179,727**	**186,676**
Gross profit	**106,635**	**116,079**
Selling, general and administrative expenses	**32,171**	**31,824**
Operating income	**74,463**	**84,254**
Non-operating income	**23,567**	**4,251**
Interest and Dividend income	1,035	825
Gain on investments in insurance funds	1,402	1,823
Foreign exchange gains	19,407	—
Dividend income of insurance	449	473
Royalty income	654	588
Other	617	539
Non-operating expenses	**381**	**15,340**
Interest expenses	290	244
Sales discounts	87	92
Foreign exchange losses	—	15,002
Other	3	1
Ordinary income	**97,648**	**73,164**
Extraordinary income	**430**	**168**
Gain on sales of investment securities	428	166
Other	1	1
Extraordinary losses	**451**	**170**
Loss on retirement of non-current assets	47	33
Loss on sales of investment securities	—	132
Loss on valuation of shares of subsidiaries and associates	398	—
Other	5	4
Income before income taxes	**97,627**	**73,162**
Income taxes-current	32,874	20,924
Income taxes-deferred	(88)	1,686
Net income	**64,841**	**50,551**

(Note) In the non-consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

Audit Report of Accounting Auditor on the Consolidated Financial Statements

Independent Auditor's Report

May 19, 2016

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner Executive member CPA Takashi Saito

Designated partner Executive member CPA Kazuhito Ishii

Designated partner Executive member CPA Takanori Ozeki

Pursuant to Article 444, Paragraph 4 of the Company Law, we have audited the consolidated financial statements, i.e., the consolidated balance sheets, the consolidated statements of income, consolidated statements of changes in equity and notes to the consolidated financial statements for the fiscal year from April 1, 2015 to March 31, 2016 of SMC Corporation.

The responsibility of the management for the consolidated financial statements

The management is responsible for preparing and appropriately presenting the consolidated financial statements in accordance with the corporate accounting standards that are generally accepted in Japan. These accounting standards require the management to establish and operate internal control which the management considers necessary to prepare and appropriately present the consolidated financial statements and such like free of material misrepresentation caused by fraudulence or error.

The responsibility of Accounting Auditor

Our responsibility is to express our opinion on the consolidated financial statements and such like as an Accounting Auditor based on the audit we conducted. Our audit was conducted in accordance with auditing standards that are generally accepted in Japan. These auditing standards require us to formulate an audit plan and conduct an audit based on this plan in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misrepresentation.

In conducting the audit, we take procedures to obtain audit evidence on amounts and disclosure of consolidated financial statements. Audit procedures are selected and applied at our discretion based on a risk assessment of whether the consolidated financial statements are free of material misrepresentation caused by fraudulence or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control. However, in performing risk assessment, we examine internal control relating to the preparation and fair presentation of the consolidated financial statements in order to formulate appropriate audit procedures that suit the circumstances. Our audit includes an examination of the overall representation of the consolidated financial statements including the accounting policies adopted by the management, methods of applying these policies, and an evaluation of estimates conducted by the management.

We find that we have obtained sufficient and appropriate audit evidence which serves as the basis for expressing our opinion.

Audit opinion

We find that the above consolidated financial statements are in accordance with the corporate accounting standards that are generally accepted in Japan, and present fairly the assets and profits/losses of the Group, which consists of SMC Corporation and its consolidated subsidiaries, for the fiscal year under review in every important respect.

Conflicts of interest

There are no conflicts of interest between the Company and Seiyo Audit Corporation or executive members for which disclosure would be required under the provisions of the Certified Public Accountants Act.

Audit Report of Accounting Auditor on the Non-consolidated Financial Statements

Independent Auditor's Report

May 19, 2016

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner Executive member CPA Takashi Saito

Designated partner Executive member CPA Kazuhito Ishii

Designated partner Executive member CPA Takanori Ozeki

Pursuant to Article 436, Paragraph 2, Item 1 of the Company Law, we have audited the non-consolidated financial statements, i.e., the non-consolidated balance sheets, the non-consolidated statements of income, non-consolidated statements of changes in equity, notes to the non-consolidated financial statements and supporting documents for the 57th fiscal year from April 1, 2015 to March 31, 2016 of SMC Corporation.

The responsibility of the management for the non-consolidated financial statements, etc.

The management is responsible for preparing and appropriately presenting the non-consolidated financial statements and supporting documents in accordance with the corporate accounting standards that are generally accepted in Japan. These accounting standards require the management to establish and operate internal control which the management considers necessary to prepare and appropriately present the non-consolidated financial statements and supporting documents and such like free of material misrepresentation caused by fraudulence or error.

The responsibility of Accounting Auditor

Our responsibility is to express our opinion on the non-consolidated financial statements and supporting documents and such like as an Accounting Auditor based on the audit we conducted. Our audit was conducted in accordance with auditing standards that are generally accepted in Japan. These auditing standards require us to formulate an audit plan and conduct an audit based on this plan in order to obtain reasonable assurance about whether the non-consolidated financial statements and supporting documents are free of material misrepresentation.

In conducting the audit, we take procedures to obtain audit evidence on amounts and disclosure of non-consolidated financial statements and supporting documents. Audit procedures are selected and applied at our discretion based on a risk assessment of whether the non-consolidated financial statements and supporting documents are free of material misrepresentation caused by fraudulence or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control. However, in performing risk assessment, we examine internal control relating to the preparation and fair presentation of the non-consolidated financial statements and supporting documents in order to formulate appropriate audit procedures that suit the circumstances. Our audit includes an examination of the overall representation of the non-consolidated financial statements and supporting documents including the accounting policies adopted by the management, methods of applying these policies, and an evaluation of estimates conducted by the management.

We find that we have obtained sufficient and appropriate audit evidence which serves as the basis for expressing our opinion.

Audit opinion

We find that the above non-consolidated financial statements and supporting documents are in accordance with the corporate accounting standards that are generally accepted in Japan, and present fairly the assets and profits/losses of SMC Corporation for the fiscal year under review in every important respect.

Conflicts of interest

There are no conflicts of interest between the Company and Seiyo Audit Corporation or executive members for which disclosure would be required under the provisions of the Certified Public Accountants Act.

Audit Report of Board of Corporate Auditors

Auditor's Report

We, the Board of Corporate Auditors, have examined and discussed the execution of Directors' duties during the 57th fiscal year, which lasted from April 1, 2015 to March 31, 2016 based on audit reports prepared by each Corporate Auditor, and prepared our audit report as described below.

1. Auditing Method Employed by Corporate Auditors and Board of Corporate Auditors and Details Thereof

(1) The Board of Corporate Auditors formulated an audit policy, apportion of their business activities, and other audit related items, received reports from each Corporate Auditor on the implementation and results of audits, from the Directors of the Company, the Accounting Auditor, and other parties on the execution of their duties, and requested explanations from them when necessary.

(2) Based on the standards for auditing defined by the Board of Corporate Auditors, and in line with the audit policy, apportion of their business activities and other related items, each Corporate Auditor effectively communicated with Directors, the internal audit division, and other employees, gathered information, and improved the audit environment, implementing audits with the following methods.

① Each Corporate Auditor attended the Board of Directors' Meetings and other important meetings, received from Directors and employees reports on the execution of their duties, requested explanations from them when necessary, reviewed significant approval documents, and investigated the status of operations and assets at the Company's head office and other principal offices. Regarding auditing of the subsidiaries, each Corporate Auditor ensured sufficient communication and information exchange with Directors and Corporate Auditors of the subsidiaries and received reports from the subsidiaries on their businesses when necessary.

② The Company has a framework to ensure that Directors' duties stated in the business report comply with laws and regulations as well as the Articles of Incorporation of the Company, and other frameworks established based on the substance at the resolutions of the Board of Directors' Meetings and those resolutions concerning the establishment of the frameworks stipulated in Article 100, Paragraph 1 and 3 of the Order for Enforcement of the Company Law that are necessary for ensuring the appropriateness of operations of a corporate group consisting of a joint-stock company and its subsidiaries (internal control system). Regarding these frameworks, each Corporate Auditor received reports about the formation and the status of their operation on a regular basis, requested explanations from Directors and employees when necessary and expressed opinions.

③ The Corporate Auditors monitored and examined whether the Accounting Auditor maintained its independent position and conducted its audits in an appropriate manner. The Corporate Auditors also received from the Accounting Auditor reports on the execution of its duties and requested explanations when necessary. The Corporate Auditors were notified from the Accounting Auditor that the entity has established a "System to Ensure Independent Accountants' Appropriate Execution of Duties" (Item stipulated in Article 131 of the Corporate Calculation Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005), and requested explanations when necessary.

Through these methods, we reviewed the business report and its supporting documents, the non-consolidated financial statements (the balance sheets, the statements of income, the statements of changes in equity and notes to non-consolidated financial statements) and their supporting documents as well as the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in equity and notes to consolidated financial statements), for the fiscal year under review.

2. Conclusions of Audit

(1) Results of the audit of the business report, etc.

a. We confirmed that the business report and its supporting documents fairly present the status of the Company in conformity with applicable laws and regulations as well as the Articles of Incorporation of the Company.

b. We confirmed that there were no fraudulent acts or material facts that violated the applicable laws and regulations or the Articles of Incorporation of the Company in the course of the performance of the duties of the Directors.

c. We confirmed that the substance of the resolutions made by the Board of Directors regarding the internal control system is appropriate. We did not recognize any matters that should be pointed out with regard to the details stated in the business report and the performance of the duties of the Directors regarding the said internal control system.

(2) Results of the audit of the non-consolidated financial statements and their supporting documents

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

(3) Results of the audit of the consolidated financial statements

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

May 20, 2016

Board of Corporate Auditors SMC Corporation

Full-time Corporate Auditor Eizo Fujino
Outside Corporate Auditor Yoshiaki Ogawa
Outside Corporate Auditor Tatsuo Suzue

To Our Shareholders

Internet Disclosure on the Notice of Convocation of the 57th Ordinary General Meeting of Shareholders

June 2016

SMC Corporation

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4. Notes to the Non-consolidated Financial Statements Page 13

The above materials shall be deemed to be provided to our shareholders by publishing on the Company's website (http://www.smcworld.com/ir/en/) based on the Ordinance on Company Accounting and the Articles of Incorporation of the Company.

Consolidated Statement of Changes in Equity

(April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of the period	61,005	72,677	696,953	(3,458)	827,178
Changes of items during period					
Dividends of surplus			(13,437)		(13,437)
Profit attributable to owners of parent			92,138		92,138
Purchase of treasury shares				(25)	(25)
Disposal of treasury shares		100		72	173
Net changes of items other than shareholders' equity					
Total changes of items during period	—	100	78,701	46	78,848
Balance at end of the period	61,005	72,778	775,655	(3,411)	906,027

	Other accumulated comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of the period	5,841	81,697	4,527	92,066	2,238	921,483
Changes of items during period						
Dividends of surplus						(13,437)
Profit attributable to owners of parent						92,138
Purchase of treasury shares						(25)
Disposal of treasury shares						173
Net changes of items other than shareholders' equity	(2,962)	(49,360)	(6,361)	(58,684)	165	(58,518)
Total changes of items during period	(2,962)	(49,360)	(6,361)	(58,684)	165	20,329
Balance at end of the period	2,879	32,336	(1,833)	33,381	2,403	941,813

Notes to the Consolidated Financial Statements

[Notes to the premises of a going concern]

None

[Notes on significant matters constituting the basis for preparing the Consolidated Financial Statements]

1. Matters pertaining to the scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 33

Names of major consolidated subsidiaries

Nihon Kizai Co., Ltd.	SMC Italy	SMC Guangzhou
Seigyo Kizai Corporation	SMC Spain	SMC China
SMC US	SMC Singapore	SMC (Beijing) Manufacturing
SMC Germany	SMC Hong Kong	SMC Manufacturing (Singapore)
SMC U.K.	SMC Taiwan	SMC Australia
	SMC Korea	SMC Brazil

(2) Names of major non-consolidated subsidiaries: SMC Poland, SMC Manufacturing (Vietnam)

(Reasons for exclusion from the scope of consolidation)

The 39 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

2. Matters pertaining to the scope of application of the equity method

Non-consolidated subsidiaries (SMC Poland and 38 other subsidiaries) and 1 associate that are not accounted for under the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

3. Matters pertaining to the fiscal terms of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2016 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, and SMC Brazil, whose fiscal year-end date is December 31.

4. Matters pertaining to accounting policies

(1) Valuation standards and methods of significant assets

(i) Short-term investment securities

Other securities

a. With fair value: Stated at fair value based on the market value of the settlement date.
(All unrealized gains and losses are included in Shareholders' Equity and cost of sales is principally computed using the moving average method.)

b. Without fair value: Stated at cost using the moving average method.

(ii) Inventories: Principally stated at cost based on the total average method (where market value shall be recorded in the balance sheet in the case of a decline in profitability).

(2) Depreciation methods of significant depreciable assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation of Property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally under the declining balance method (except for buildings acquired on and after April 1, 1998 (excluding equipment of buildings) applies the straight line method) and that of foreign consolidated subsidiaries is determined in accordance with the straight line method pursuant to the accounting principles of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles / Tools, furniture and fixtures: 2-20 years

(ii) Intangible assets (excluding lease assets)

Depreciation of intangible assets of the Company and its consolidated domestic subsidiaries is computed in accordance with the straight line method and that of consolidated foreign subsidiaries is determined in accordance with the straight line method pursuant to the accounting principles of the corresponding nation.

Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years).

(3) Significant allowances

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Consolidated foreign subsidiaries provide an allowance for possible loan losses in the amount deemed irrecoverable based on an individual assessment of each claim.

(ii) Provision for bonuses

Some of the Company's consolidated subsidiaries provide a reserve for bonuses for employees.

(iii) Provision for directors' retirement benefits

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for Directors and Corporate Auditors in the required amount to be paid based on the internal rules for such payments.

(4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated assets and loans are translated into Japanese yen at exchange rates prevailing at the end of the term and the difference resulting from the translation is recognized as income. Meanwhile, assets and liabilities held by consolidated foreign subsidiaries are translated into Japanese yen at exchange rates prevailing at the end of the term, while earnings and expenses are translated into Japanese yen at average rates of exchange during the term and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under shareholders' equity.

(5) Other significant matters constituting the basis for preparing the Consolidated Financial Statements

(i) Net defined benefit and Net defined benefit liability

The amount calculated by deducting pension assets from net benefit liabilities based on the projected amount as of the end of the fiscal year under review is recorded to prepare for retirement benefit payments to employees. For the calculation of net benefit liabilities, the retirement benefit formula is used to attribute expected retirement benefits to the period until the consolidated fiscal year under review.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition.

Actuarial net gain or loss is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition from the succeeding period.

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt a simplified method for the calculation of net defined benefit and retirement benefit costs, and recognize the amount payable to employees retiring due to personal reasons at year-end as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by applying the tax.

[Notes on changes in accounting policies]

SMC Corporation has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013, hereinafter the “Business Combinations Standard”), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013, hereinafter the “Consolidated Financial Statements Standard”), and the “Accounting Standard for Business Divestures” (ASBJ Statement No.7, September 13, 2013, hereinafter the “Business Divestures Standard”), etc. from the beginning of the consolidated fiscal year under review, causing differences resulting from changes in the SMC’s ownership of subsidiaries of which ownership continues to be recorded in capital surplus and changing the method of recording acquisition-related expenses in the fiscal year in which such expenses are incurred. Also, for corporate combinations occurring after the beginning of the consolidated fiscal year under review, the allocation of acquisition costs determined under provisional accounting treatment have been revised, reflecting such cost in the consolidated financial statements for the consolidated fiscal year to which the business combination date belongs. Furthermore, the presentation of "net income" and other related items has been changed, and the presentation of "minority interests" has been changed to "non-controlling interests". The consolidated financial statements for the previous fiscal year have been revised to reflect these changes in presentation.

With regard to application of the Business Combinations Standard, etc., in accordance with transitional treatments as stipulated in paragraph 58-2(4) of the Business Combinations Standard, paragraph 44-5(4) of the Consolidated Financial Statements Standard, and paragraph 57-4(4) of the Business Divestitures Standard, these standards will be applied going forward from the beginning of the consolidated fiscal year under review.

These adoptions had no impact on the consolidated financial statements for the consolidated fiscal year under review.

[Notes on changes in the presentation method]

(Consolidated statements of income)

1. “Gain on investments in insurance funds” that was included in “Interest income” under non-operating income for the previous consolidated fiscal year is separately presented from the consolidated fiscal year under review because of the increased materiality of the amount.

2. “Interest expenses” and “Sales discounts” under non-operating expenses which were separately presented for the previous consolidated fiscal year are included in “Other” for the consolidated fiscal year under review because the amounts are not material.

[Notes on Consolidated Balance Sheets]

(Million yen)

1. Accumulated depreciation of property, plant and equipment	200,772
2. For non-consolidated subsidiaries and affiliates	
Investment securities (equity)	15,954
"Other" under Investments and other assets (investments)	8,630

[Notes on Consolidated Statements of Income]

(Million yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	36,364
Bonuses	8,295
Retirement benefit expenses	1,363
Provision of allowance for doubtful accounts	876
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs for the term	18,452

[Notes on Consolidated Statement of Changes in Equity]

1. Matters pertaining to outstanding shares and treasury share

(Shares)

	Type	At the beginning of Fiscal 2015	Increase	Decrease	At the end of Fiscal 2015
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury share	Common share	182,971	841	5,527	178,285

Note: Increase in the number of treasury share was due to purchase of odd-lot shares. Of the decrease in the number of treasury share, 5,500 shares were due to sale of the shares from the Employee Stock Ownership Association Trust (ESOP) to the employees' stock ownership association and 27 shares were due to sale of odd-lot shares.

2. Matters pertaining to dividends

(1) Dividend amount

Resolved	Type	Total dividend amount	Dividend per share	Record date	Effective date
Ordinary General Meeting of Shareholders (Jun. 25, 2015)	Common share	¥ 6,718 million	¥ 100	March 31, 2015	June 26, 2015
Board of Directors' Meeting (Nov. 9, 2015)	Common share	¥ 6,718 million	¥ 100	September 30, 2015	December 1, 2015

Note: The Company recognizes its shares owned by the ESOP Trust as treasury share in accounting. Therefore, the total dividend amount in the above does not include the dividend for the said share (dividend of 3 million yen resolved at the Ordinary General Meeting of Shareholders held on June 25, 2015 and 3 million yen resolved at the Board of Directors' Meeting held on November 9, 2015).

(2) Dividend whose record date is within the term and effective date in the succeeding term

The following is to be proposed at the Ordinary General Meeting of Shareholders scheduled to be held on June 28, 2016.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 6,719million	¥ 100	March 31, 2016	June 29, 2016

Note: The Company recognizes its shares owned by the ESOP Trust as treasury share in accounting. Therefore, the total dividend amount in the above does not include 3 million yen of dividend for the said share.

[Notes relating to financial instruments]

1. Matters relating to the status of financial instruments

(1) Policy on financial instruments

The SMC Group is financing funds for working capital through self-financing and fund procurement from external sources centering on loans from banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in short-term investment securities in principle and invest them instead in bank deposits, etc.

Regarding the derivative transactions, we have established internal regulations to decide upon the company's internal policy to limit derivative transactions within the range of actual demand and not to make speculative transactions.

(2) Contents and risk of financial instruments

Notes and accounts receivable-trade, which are operating receivables, are subject to the credit risk of customers. Foreign-currency-denominated notes and accounts receivable-trade are subject to the risk of exchange-rate fluctuations.

Investment securities, which mainly consist of stocks of companies that have business relationships with the Company and securities investment trusts, are subject to market price volatility risk and other risks.

Notes and accounts payable-trade, which are operating debts, have a due date of one year or less. Foreign-currency-denominated notes and accounts payable-trade drawn for imports of raw materials, etc. are subject to the risk of exchange-rate fluctuations.

Loans payable consist of borrowings at a fixed interest rate that are appropriated for working capital. Long-term loans payable have a due date of up to five years after the consolidated financial statement date.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to non-performance by customers)

Regarding credit risk management for operating receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect information on the credit status of customers on a daily basis. We perform risk assessment regularly to ensure receivables are protected. In the meantime, the Company receives guarantee deposits from its principal distribution agents.

We limit derivative transactions to only those financial institutions with high credit ratings.

(ii) Market risk management (risk of fluctuations in exchange rates and interest rates)

For foreign-currency-denominated operating receivables and operating debts, the Company and some of its consolidated subsidiaries may be engaged in foreign exchange forward contract transactions when required. The balance of foreign-currency-denominated operating debts is constantly within the balance of foreign-currency-denominated operating receivables.

We regularly keep track of the fair values and financial conditions of the issuers of investment securities.

(iii) Liquidity risk management relating to financing (risk of inability to repay on the due date)

We manage liquidity risk by methods such as creating a cash flow plan.

(4) Supplementary explanation of matters relating to fair value of financial instruments and others

Fair values of financial instruments include the values based on market prices, and the

values deemed to be market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

2. Matters relating to fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and differences between them as of March 31, 2016 Items whose fair values are extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Million yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	412,707	412,707	—
(2) Notes and accounts receivable-trade	118,264	118,264	—
(3) Investment securities			
Available-for-sale securities	28,143	28,143	—
Total assets	559,115	559,115	—
(4) Notes and accounts payable-trade	55,405	55,405	—
(5) Short-term loans payable	45,918	45,918	—
Total liabilities	101,323	101,323	—
Derivative transactions	—	—	—

(Notes)

1. Calculation method of fair value of financial instruments and matters relating to short-term investment securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Since contractual terms of these items are short and fair values of these items approximate book values, we deem the book values to be fair values.

(3) Investment securities

Of the investment securities, fair values of stocks are based on market prices on securities exchanges and fair values of bonds and beneficiary rights of securities investment trust are based on market prices on securities exchanges or prices offered by correspondent financial institutions.

Liabilities

(4) Notes and accounts payable-trade and (5) Short-term loans payable

Since contractual terms of these items are short and fair values of these items approximate book values, we deem the book values to be fair values.

Derivative transactions

There are no relevant matters for the fiscal year under review.

2. Financial instruments whose fair values are deemed extremely difficult to determine

Category	Consolidate balance sheet amount
Shares of subsidiaries and associates	¥ 15,954 million
Unlisted stocks	¥ 213 million

The above items are excluded from "(3) Investment securities" as they have no market prices and we deem it extremely difficult to determine the fair values.

3. Projected redemption amounts for monetary claims and securities that have maturity dates after the consolidated balance sheet date

(Million yen)

	1 year or less	More than 1 year but not more than 5 years	More than 5 years but not more than 10 years	More than 10 years
(1) Cash and deposits	412,688	—	—	—
(2) Notes and accounts receivable-trade	118,264	—	—	—
(3) Investment securities				
Held-to-maturity bonds				
(Government bonds)	—	5,731	—	—
(other)	—	4,533	—	—
Total	530,952	10,265	—	—

4. Projected redemption amounts for Short-term loans payable after the consolidated balance sheet date

	1 year or less
Short-term loans payable	¥ 45,918 million

[Notes on per share information]

1. Shareholders' equity per share: 13,981.17 yen

2. Net income per share: 1,371.34 yen

[Notes on significant subsequent events]

None

(Note) In the Consolidated Financial Statement of Changes in Equity and the Notes to the Consolidated Financial Statement, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Statement of Changes in Equity

(April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for reduction entry of assets	Reserve for dividends
Balance at beginning of the period	61,005	72,576	—	72,576	15,251	80	331	150,250
Changes of items during period								
Reversal of reserve for special depreciation						(22)		
Provision of reserve for reduction entry of assets							0	
Reversal of reserve for reduction entry of assets							(5)	
Dividends of surplus								
Net income								
Purchase of treasury shares								
Disposal of treasury shares			100	100				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	100	100	—	(22)	(4)	—
Balance at end of the period	61,005	72,576	100	72,677	15,251	57	326	150,250

(Million yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
	Retained earnings brought forward						
Balance at beginning of the period	205,442	371,354	(3,458)	501,477	5,339	5,339	506,817
Changes of items during period							
Reversal of reserve for special depreciation	22	—		—			—
Provision of reserve for reduction entry of assets	(0)	—		—			—
Reversal of reserve for reduction entry of assets	5	—		—			—
Dividends of surplus	(13,437)	(13,437)		(13,437)			(13,437)
Net income	50,551	50,551		50,551			50,551
Purchase of treasury shares			(25)	(25)			(25)
Disposal of treasury shares			72	173			173
Net changes of items other than shareholders' equity					(2,709)	(2,709)	(2,709)
Total changes of items during period	37,141	37,114	46	37,262	(2,709)	(2,709)	34,553
Balance at end of the period	242,583	408,469	(3,411)	538,740	2,630	2,630	541,370

Notes to the Non-consolidated Financial Statements

[Notes to the premises of a going concern]

None

[Significant matters pertaining to accounting policies]

1. Valuation standards and methods of short-term investment securities

(1) Shares of subsidiaries and affiliates: Stated at cost using the moving average method.

(2) Other securities

1) With fair value: Stated at fair value based on the market value of the settlement date.
(All unrealized gains and losses are included in Shareholders' Equity and cost of sales is computed using the moving average method.)

2) Without fair value: Stated at cost using the moving average method.

2. Valuation standards and methods of inventory assets

Principally stated at cost based on the total average method (where market value shall be recorded in the balance sheet in the case of a decline in profitability).

3. Depreciation methods of non-current assets

(1) Property, plant and equipment (excluding lease assets)

In accordance with the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding equipment of buildings) are amortized based on the straight-line method.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles / Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding lease assets)

In accordance with the straight-line method.

Internal-use software is amortized on a straight-line basis over the useful life period (5 years).

4. Allowances

(1) Allowance for doubtful accounts

An allowance is provided for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims.

(2) Provision for retirement benefits

A reserve is provided for employee retirement benefits based on the projected amount of benefit obligations and pension plan assets in the term. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits to the period until the fiscal year under review.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition from the succeeding year.

(3) Provision for directors' retirement benefits

A reserve is provided for retirement benefits for Directors in the required amount to be paid based on the internal rules for such payments.

5. Other significant matters constituting the basis for preparing the Financial Statements

(1) Accounting procedures for retirement benefits

The accounting procedures for unrecognized actuarial net gains or losses and unrecognized prior service costs related to retirement benefits are different from those adopted to prepare the consolidated financial statements.

(2) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by applying the tax.

[Notes on changes in presentation method]

(Statement of income)

"Gain on investments in insurance funds," "Dividend income of insurance" and "Royalty income" that were included in "Other" under non-operating income for the previous fiscal year are separately presented from the fiscal year under review because of the increased materiality of the amounts.

[Notes on Balance Sheets]

(Million yen)

1. Accumulated depreciation of property, plant and equipment	118,464
2. Receivables and payables in relation to subsidiaries and associates	
Short-term receivables	52,264
Long-term receivables	1,991
Short-term payables	8,264

[Notes on Statements of income]

Transactions with subsidiaries and associates

(Million yen)

Net sales	195,068
Purchase amount	50,630
Selling, general and administrative expenses	2,051
Non-operating transaction amount	787

[Notes on Statement of Changes in Equity]

Matters pertaining to treasury share (Shares)

	Type	At the beginning of Fiscal 2015	Increase	Decrease	At the end of Fiscal 2015
Treasury share	Common share	182,971	841	5,527	178,285

Note: Of the increase in the number of treasury share was due to purchase of odd-lot shares.
Of the decrease in the number of treasury share of 5,500 shares were due to sale of the shares from the ESOP Trust to the employees' stock ownership association and 27 shares were due to sale of odd-lot shares.

[Notes on deferred tax accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Million yen)

	The 57th fiscal term (As of March 31, 2016)
Deferred tax assets	
Loss on valuation of investment securities	580
Valuation loss on inventories	3,683
One-time depreciable assets	36
Loss on valuation of shares of subsidiaries and affiliates	1,159
Allowance for doubtful accounts	89
Accounts payable other	98
Accrued enterprise taxes, accrued business office taxes	540
Accrued expenses	2,518
Provision for retirement benefits	1,751
Provision for directors' retirement benefits	168
Asset retirement obligations	81
Other	728
Total deferred tax assets	11,437
Deferred tax liabilities	
Asset retirement obligations	(10)
Reserve for special depreciation	(25)
Reserve for reduction entry of assets	(144)
Valuation difference on available-for-sale securities	(1,773)
Total deferred tax liabilities	(1,953)
Net deferred tax assets	9,483

Revision of the amounts of deferred tax assets and deferred tax liabilities due to the changes in income tax rates

Under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) promulgated on March 29, 2016, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review (limited, however, to those reversed on or after April 1, 2016) will be changed from 32.3% for the previous fiscal year to 30.9% if the period of collection or payment is anticipated to be from April 1, 2016 to March 31, 2018 and to 30.6% if such period is anticipated to start on or after April 1, 2018.

The effects of this tax rate change are a decrease of deferred tax assets by 470 million yen (after deduction of deferred tax liabilities), an increase of income taxes-deferred by 533 million yen for the fiscal year under review, and an increase of valuation difference on available-for-sale securities by 63 million yen.

[Notes on transactions with related parties]

Subsidiaries (Million yen)

Attributes	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC US	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	35,188	Accounts receivable-trade	7,231
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	30,637	Accounts receivable-trade	7,495

Transaction conditions and policies on determining such conditions

The sales price is determined in consideration of the prevailing market price.

[Notes on per share information]

1. Shareholders' equity per share: 8,057.18 yen

2. Net income per share: 752.38 yen

[Notes on significant subsequent events]

None

(Note) In the Non-consolidated Statement of Changes in Equity and the Notes to the Non-consolidated Financial Statements, amounts are rounded down to match the unit in which they are presented.