August 5, 2016

Consolidated Financial Highlights for the First Quarter Ended June 30, 2016 [under Japanese GAAP]

Company name : **SMC Corporation**
Stock exchange listing : **Tokyo Stock Exchange first section**
Security code : **6273**
URL : http://www.smcworld.com/ir/en/
Representative : **Katsunori Maruyama, President**
Contact person : **Ikuji Usui, Executive Managing Director**
Projected date of filing quarterly report: **August 5, 2016**
Projected starting date of dividend payment : **—**

1. Consolidated Financial Highlights for the First Quarter Ended June 30, 2016 (April 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results

(Millions of yen)

1st Quarter ended June 30	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
2016	117,717	(5.5%)	36,445	(3.5%)	24,264	(44.6%)	24,851	(19.0%)
2015	124,543	11.9%	37,778	12.3%	43,796	28.7%	30,682	24.7%

(Note) Comprehensive Income 1Q ended June 30,2016 : ¥ (31,463) million —%
1Q ended June 30,2015 : ¥ 46,095 million 113.3%

(Yen)

1st Quarter ended June 30	Net income per share	Net income per share (diluted basis)
2016	369.86	—
2015	456.67	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
June 30, 2016	1,077,652	903,555	83.6%
March 31, 2016	1,120,171	941,813	83.9%

(Note) Shareholders' equity As of June 30,2016 : ¥ 901,186 million
As of March 31,2016 : ¥ 939,409 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2016(Actual)	—	100.00	—	100.00	200.00
2017(Actual)	NA	NA	NA	NA	NA
2017(Projected)	NA	100.00	NA	100.00	200.00

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

3. Forecasts of operating results for the year ending March 31, 2017

(Millions of yen, except per share figures)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share (Yen)
Half year ending September 30,2016	225,000 (7.4%)	53,500 (24.3%)	57,000 (24.8%)	41,000 (24.0%)	610.20
Year ending March 31,2017	450,000 (5.4%)	107,000 (20.3%)	114,000 (11.8%)	82,000 (11.0%)	1,220.40

(Note) Revision of forecasts of operating results during this period : None

＊Notes

(1) Changes in significant subsidiaries during the first quarter ended June 30, 2016: Yes

(Changes in specified subsidiaries resulting in the change in scope of consolidation)

Newly consolidated： 1 company (company name : SMC Manufacturing (Vietnam) Co., Ltd.)

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1. Changes in accounting policies applied due to revisions of accounting standards: Yes
2. Changes in accounting policies other than the above: None
3. Changes in accounting estimates: None
4. Retrospective restatement: None

(4) Number of shares issued

1. Number of common shares issued (including treasury shares)

As of June 30, 2016 :	67,369,359
As of March 31, 2016 :	67,369,359

2. Number of treasury shares

As of June 30, 2016 :	177,464
As of March 31, 2016 :	178,285

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

June 30, 2016 :	67,191,344
June 30, 2015 :	67,186,577

Information on status of the audit procedures

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

Appropriate use of business forecasts; other special items

The forecast contains forward-looking statements that are based on available data at the time of this release.
Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the first quarter ended (from April 1, 2016 to June 30, 2016), net sales were 117,717 million yen (decreased 5.5% from the previous corresponding period) due to rapid strong yen from the beginning of the period. Operating income was secured 36,445 million yen (3.5% decreased), while ordinary income was 24,264 million yen (44.6% decreased) because non-operating profit and loss turned into 12,181 million yen losses mainly due to recorded 15,252 million yen foreign exchange losses (3,344 million yen foreign exchange gains recorded in the previous corresponding period) related to foreign-currency receivables and payables. Extraordinary income or loss turned into 23 million yen losses. Profit before income taxes was 24,240 million yen (44.6% decreased), while profit attributable to owners of parent was 24,851 million yen (19.0% decreased) because 6,898 million yen was recorded as income taxes for prior periods due to reimbursement of corporate income taxes by mutual agreement between the tax authorities of Japan and Korea regarding the corrections based on the transfer pricing rules.

ROE became 2.8%, declined by 0.5 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the first quarter were 1,077,652 million yen , which was a decrease of 42,519 million yen (3.8%) from the previous fiscal year end. The main factors were 29,920 million yen decrease in cash and deposits, 8,123 million yen decrease in inventory and 6,726 million yen decrease in property, plant and equipment.

Total liabilities were 174,097 million yen , which was a decrease of 4,260 million yen (2.4%) from the previous fiscal year end. The main factor was 4,278 million yen decrease in income tax payable as a result of paying taxes.

Net assets decreased 38,258 million yen (4.1%) to 903,555 million yen , mainly due to 56,574 million yen decrease in foreign currency translation adjustment affected by strong yen, despite 18,050 million yen increase in retained earnings due to recorded quarterly profit attributable to owners of parent from the previous fiscal year end.

Equity ratio became 83.6%.

(3) Consolidated Forecasts and Other Forward-Looking Information

Full-year consolidated forecasts for the year ending March 31, 2017 that was announced on May 13, 2016 has been unchanged.

2. Summary Information (Notes)

(1) Important change in subsidiaries during the period

[**Change in the range of consolidation**]

Since this first quarter, SMC Manufacturing (Vietnam) Co., Ltd. has become a consolidated subsidiary from a non-consolidated subsidiary due to the growing importance and SMC (Tianjin) Manufacturing Co., Ltd. has also become a consolidated subsidiary because it was newly established. In addition, SMC Manufacturing (Vietnam) Co., Ltd. corresponds to the specified subsidiaries.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements

[Calculation of income taxes]

As for income taxes, the effective tax rate after applying the tax effect accounting to the income before income taxes of the fiscal year including this first quarter was reasonably estimated.

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

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

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

[Application of "Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes"]

SMC Corporation has applied "Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes" (PITF No. 32, June 17, 2016) from the first quarter and has changed depreciation method related to buildings and accompanying facilities and structures acquired after April 1, 2016 from declining-balance method to straight-line method.

This adoption had a little impact on the consolidated quarterly financial statements for the first quarter under review.

(4) Additional information

[**Application of "Implementation Guidance on Recoverability of Deferred Tax Assets"**]

SMC Corporation has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (Guideline of ASBJ No. 26, March 28, 2016) from the first quarter.

3. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2016	**First quarter end -Current year** As of June 30, 2016
[ASSETS]		
Current assets		
Cash and deposits	412,707	382,787
Notes and accounts receivable-trade	118,264	116,775
Merchandise and finished goods	79,645	76,759
Work in process	15,650	14,502
Raw materials and supplies	87,267	83,179
Other	34,481	38,140
Allowance for doubtful accounts	(894)	(812)
Total current assets	**747,123**	**711,331**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	65,918	61,357
Machinery, equipment and vehicles, net	32,167	29,113
Land	32,232	30,719
Other, net	17,990	20,392
Total property, plant and equipment	**148,309**	**141,583**
Intangible assets	**4,553**	**6,453**
Investments and other assets		
Investment securities	44,311	46,401
Insurance funds	118,992	117,602
Other	58,770	56,029
Allowance for doubtful accounts	(1,889)	(1,750)
Total investments and other assets	**220,184**	**218,282**
Total non-current assets	**373,048**	**366,320**
Total assets	**1,120,171**	**1,077,652**

(Millions of yen)

	Year end -Previous year As of March 31, 2016	**First quarter end -Current year** As of June 30, 2016
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	55,405	57,493
Short-term loans payable	45,918	42,208
Income taxes payable	12,352	8,073
Provision for bonuses	2,611	6,099
Provision	―	641
Other	33,962	30,264
Total current liabilities	**150,249**	**144,780**
Non-current liabilities		
Long-term loans payable	3,325	5,720
Provision for directors' retirement benefits	808	823
Net defined benefit liability	9,388	9,170
Other	14,585	13,602
Total non-current liabilities	**28,108**	**29,316**
Total liabilities	**178,357**	**174,097**
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,778	72,792
Retained earnings	775,655	793,705
Treasury shares	(3,411)	(3,403)
Total shareholders' equity	**906,027**	**924,099**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,879	3,114
Foreign currency translation adjustment	32,336	(24,238)
Remeasurements of defined benefit plans	(1,833)	(1,790)
Total accumulated other comprehensive income	**33,381**	**(22,913)**
Non-controlling interests	**2,403**	**2,368**
Total net assets	**941,813**	**903,555**
Total liabilities and net assets	**1,120,171**	**1,077,652**

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	First quarter ended June 30, 2015 From April 1, 2015 to June 30, 2015	First quarter ended June 30, 2016 From April 1, 2016 to June 30, 2016
Net sales	**124,543**	**117,717**
Cost of sales	**61,293**	**56,374**
Gross profit	**63,249**	**61,342**
Selling, general and administrative expenses	**25,471**	**24,897**
Operating income	**37,778**	**36,445**
Non-operating income		
Interest income	1,782	1,720
Foreign exchange gains	3,344	―
Other	1,062	1,488
Total non-operating income	**6,189**	**3,208**
Non-operating expenses		
Interest expenses	75	45
Sales discounts	56	61
Foreign exchange losses	―	15,252
Other	38	30
Total non-operating expenses	**170**	**15,390**
Ordinary income	**43,796**	**24,264**
Extraordinary income		
Gain on sales of non-current assets	17	20
Gain on sales of investment securities	―	11
Other	1	1
Total extraordinary income	**19**	**33**
Extraordinary losses		
Loss on retirement of non-current assets	16	30
Loss on sales of investment securities	―	18
Other	7	8
Total extraordinary losses	**23**	**57**
Profit before income taxes	**43,792**	**24,240**
Income taxes	**13,090**	**6,281**
Income taxes for prior periods	**―**	**(6,898)**
Profit	**30,702**	**24,857**
Profit attributable to non-controlling interests	**19**	**5**
Profit attributable to owners of parent	**30,682**	**24,851**

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	First quarter ended June 30, 2015 From April 1, 2015 to June 30, 2015	**First quarter ended June 30, 2016** From April 1, 2016 to June 30, 2016
Profit	**30,702**	**24,857**
Other comprehensive income		
Valuation difference on available-for-sale securities	994	237
Foreign currency translation adjustment	14,529	(56,601)
Remeasurements of defined benefit plans, net of tax	(130)	43
Total other comprehensive income	**15,393**	**(56,320)**
Comprehensive income	**46,095**	**(31,463)**
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	46,058	(31,443)
Comprehensive income attributable to non-controlling interests	37	(19)

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption	**N/A**

Notes in event of significant changes in shareholders' equity	**N/A**

Supplementary Information

(1) Geographic segment information (Millions of yen)

	1Q ended June 30, 2016							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	39,010	18,411	19,190	38,749	2,355	117,717	—	117,717
(2) Intersegment sales	43,868	713	341	11,068	2	55,994	(55,994)	—
Total	82,878	19,124	19,532	49,817	2,358	173,711	(55,994)	117,717
Operating income (loss)	20,033	3,541	1,905	7,766	(100)	33,147	3,298	36,445

(2) Consolidated capital expenditures, Depreciation and R&D expense (Millions of yen)

	1Q ended June 30, 2016		Year ending March 31, 2016 (Forecast)	
Capital expenditures	2,954	(55.3%)	47,600	92.3%
Depreciation	3,299	4.6%	14,800	3.2%
R&D expense	4,834	1.4%	18,900	2.4%

(3) Consolidated full-time employees and temporary employees (Number of personnel)

	1Q ended June 30, 2016	Increase (decrease) from last year end
Full-time employees (at end)	18,651	269
Temporary employees (average)	5,223	225