December 14, 2016

Regarding a report about our Financial Statements #2

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

Well Investment Research indicated in their report (herein after “the report”) that they have some doubts about our company financial treatment and accounting audit.
SMC is conducting appropriate financial treatment, and our Stand alone and Consolidated Financial Statements are audited appropriately.

We wish to reply with the following.

1. **Regarding our cash balance.**
   The report contends there is a possibility that 81.7 billion yen cash is missing. However, the report includes certain “N/A” subsidiaries. When cash balances of these subsidiaries and other subsidiaries not listed in the report are added up, the total cash balance equates with the total reported figure by SMC.
   In addition, SMC Corporation checks the bank statements of each subsidiary (including mortgages) to verify these accounts.

2. **On inventory**
   As the report mentioned, SMC Corporation carries a larger inventory compared to competitors. However, this is to carry a large variety of products and provide quick delivery to increase customer satisfaction. This thinking, we believe, is unique.
   On inventory valuation, SMC uses relevant accounting standards and carries out appropriate inventory devaluation. Contrary to the claims made by the report, it is not the case that SMC carries useless inventory.

3. On Resona Kessai Service account payables

The report professes doubts regarding increase in the amount of accounts payable to Resona Kessai Service.

Historically, SMC Japan's vendors were paid in promissory notes or cash. However, to streamline the costs associated with issuing and managing promissory notes, SMC changed over to factoring.

Previously SMC was individually managing these accounts payables but by using Resona Kessai Service, SMC was able to consolidate the payables.

4. On the definition of consolidated subsidiaries

The report states "SMC consolidates just 46% of its subsidiaries by claiming the remainder are immaterial."

SMC bases their consolidated subsidiaries on the regulations for consolidated financial statements. For the fiscal year ended March 2016, SMC declared 33 consolidated subsidiaries. There were 39 non-consolidated subsidiaries and 1 affiliated company. The latter were excluded from the scope of consolidation because their sales, profits, and assets were less important and their influences within SMC group were less important.

The report alleges that "SMC frequently changes the scope of consolidation." This is untrue.