February 8, 2017

Consolidated Financial Highlights for the Third Quarter Ended December 31, 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: **February 8, 2017**
Projected starting date of dividend payment : ―

1. Consolidated Financial Highlights for the Third Quarter Ended December 31, 2016 (April 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results

(Millions of yen)

3rd Quarter ended December 31	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
2016	351,001	(2.3%)	100,576	(2.7%)	112,332	2.3%	88,405	12.4%
2015	359,266	5.9%	103,349	10.3%	109,758	(9.7%)	78,617	(7.1%)

(Note) Comprehensive Income 3Q ended December 31,2016 : ¥ 83,476 million 54.7 %
3Q ended December 31,2015 : ¥ 53,956 million (62.6 %)

(Yen)

3rd Quarter ended December 31	Net income per share	Net income per share (diluted basis)
2016	1,315.68	―
2015	1,170.11	―

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
December 31, 2016	1,189,568	1,011,891	84.8%
March 31, 2016	1,120,171	941,813	83.9%

(Note) Shareholders' equity As of December 31,2016 : ¥ 1,009,132 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)	―	100.00	―	NA	NA
2017 (Projected)	NA	NA	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)
Year ending March 31,2017	470,000 (1.2%)	130,000 (3.2%)	135,000 4.5%	100,000 8.5%	1,488.18

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

＊Notes

(1) Changes in significant subsidiaries during the third quarter ended December 31, 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 December 31, 2016 :	67,369,359
As of March 31, 2016 :	67,369,359

2. Number of treasury shares

As of December 31, 2016 :	173,221
As of March 31, 2016 :	178,285

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

December 31, 2016 :	67,193,224
December 31, 2015 :	67,187,867

Information on status of the audit procedures

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

Appropriate use of business forecasts; other special items

1. The revised forecasts of operating results for the year ending March 31, 2017, are shown in this release.
2. The forecast contains forward-looking statements that are based on available data at the time of this release. Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the third quarter ended (from April 1 to December 31, 2016), net sales were 351,001 million yen (decreased 2.3% from the previous corresponding period) due to rapid strong yen from the beginning of the period. Operating income was 100,576 million yen (2.7% decreased), while ordinary income was 112,332 million yen (2.3% increased) because non-operating profit and loss turned into 11,755 million yen gains due to recorded 5,155 million yen foreign exchange gains (175 million yen foreign exchange losses recorded in the previous corresponding period) by rapid weak yen since last November. Extraordinary income or loss turned into 1,244 million yen losses mainly due to recorded 1,402 million yen impairment losses related to overseas assets. Profit before income taxes was 111,087 million yen (1.0% increased), while profit attributable to owners of parent was 88,405 million yen (12.4% increased) because 6,898 million yen income taxes for prior periods was recorded mainly due to reimbursement of corporate income taxes related to the transfer pricing rules.

ROE became 9.1%, risen by 0.7 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the third quarter were 1,189,568 million yen , which was an increase of 69,396 million yen (6.2%) from the previous fiscal year end. The main factors were 55,194 million yen increase in cash and deposits and 13,689 million yen increase in notes and accounts receivable-trade.

Total liabilities were 177,676 million yen , which was a decrease of 681 million yen (0.4%) from the previous fiscal year end. The main factors were 9,947 million yen increase in notes and accounts payable-trade, while 14,163 million yen decrease in short-term loans payable.

Net assets increased 70,078 million yen (7.4%) to 1,011,891 million yen from the previous fiscal year end, mainly due to 74,884 million yen increase in retained earnings affected by quarterly profit attributable to owners of parent, despite 9,882 million yen decrease in foreign currency translation adjustment.

Equity ratio became 84.8%.

(3) Consolidated Forecasts and Other Forward-Looking Information

The forecasts of operating results for the year ending March 31, 2017 has been revised in this release based on the actual results and the trends in foreign currency exchange rates up to the third quarter of this fiscal year, from the previous forecasts announced on November 8, 2016.

The average foreign currency exchange rates for the fourth quarter of this fiscal year, which are preconditions for the revised forecasts are expected to be 112 yen per 1 US dollar and 122 yen per 1 Euro.

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Net Income per share
Previous Forecasts (A) (announced on November 8, 2016)	(Millions of Yen) 450,000	(Millions of Yen) 122,000	(Millions of Yen) 110,000	(Millions of Yen) 87,000	(Yen) 1,294.75
Revised Forecasts (B)	**470,000**	**130,000**	**135,000**	**100,000**	**1,488.18**
Changes (B-A)	20,000 4.4%	8,000 6.6%	25,000 22.7%	13,000 14.9%	—
<Reference>					
Results of the Previous FY 2015 (Year ended March 31, 2016)	475,608	134,233	129,188	92,138	1,371.34

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

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the third quarter ended December 31, 2016

[**Change in scope of consolidation**]

Since the 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 subsidiary.

(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 third quarter was reasonably estimated.

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

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

(3) Changes in accounting policies, 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 third 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	Third quarter end -Current year As of December 31, 2016
[ASSETS]		
Current assets		
Cash and deposits	412,707	467,902
Notes and accounts receivable-trade	118,264	131,954
Short-term investment securities	—	854
Merchandise and finished goods	79,645	87,178
Work in process	15,650	14,908
Raw materials and supplies	87,267	84,468
Other	34,481	33,466
Allowance for doubtful accounts	(894)	(721)
Total current assets	**747,123**	**820,012**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	65,918	67,811
Machinery, equipment and vehicles, net	32,167	29,506
Land	32,232	31,313
Other, net	17,990	20,750
Total property, plant and equipment	**148,309**	**149,382**
Intangible assets	**4,553**	**6,829**
Investments and other assets		
Investment securities	44,311	51,964
Insurance funds	118,992	124,041
Other	58,770	39,191
Allowance for doubtful accounts	(1,889)	(1,853)
Total investments and other assets	**220,184**	**213,343**
Total non-current assets	**373,048**	**369,555**
Total assets	**1,120,171**	**1,189,568**

(Millions of yen)

	Year end -Previous year As of March 31, 2016	**Third quarter end -Current year** As of December 31, 2016
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	55,405	65,353
Short-term loans payable	45,918	31,754
Income taxes payable	12,352	11,714
Provision for bonuses	2,611	8,189
Provision	―	1,938
Other	33,962	26,710
Total current liabilities	**150,249**	**145,661**
Non-current liabilities		
Long-term loans payable	3,325	5,808
Provision for directors' retirement benefits	808	854
Net defined benefit liability	9,388	8,886
Other	14,585	16,466
Total non-current liabilities	**28,108**	**32,015**
Total liabilities	**178,357**	**177,676**
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,778	72,856
Retained earnings	775,655	850,540
Treasury shares	(3,411)	(3,351)
Total shareholders' equity	**906,027**	**981,050**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,879	7,330
Foreign currency translation adjustment	32,336	22,454
Remeasurements of defined benefit plans	(1,833)	(1,702)
Total accumulated other comprehensive income	**33,381**	**28,081**
Non-controlling interests	**2,403**	**2,759**
Total net assets	**941,813**	**1,011,891**
Total liabilities and net assets	**1,120,171**	**1,189,568**

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	Third quarter ended December 31, 2015 From April 1, 2015 to December 31, 2015	Third quarter ended December 31, 2016 From April 1, 2016 to December 31, 2016
Net sales	**359,266**	**351,001**
Cost of sales	**178,002**	**175,535**
Gross profit	**181,263**	**175,465**
Selling, general and administrative expenses	**77,913**	**74,888**
Operating income	**103,349**	**100,576**
Non-operating income		
Interest income	4,497	4,644
Foreign exchange gains	—	5,155
Other	2,530	2,295
Total non-operating income	**7,028**	**12,095**
Non-operating expenses		
Interest expenses	214	120
Sales discounts	173	171
Foreign exchange losses	175	—
Other	55	48
Total non-operating expenses	**618**	**339**
Ordinary income	**109,758**	**112,332**
Extraordinary income		
Gain on sales of non-current assets	133	189
Gain on sales of investment securities	166	47
Other	1	7
Total extraordinary income	**301**	**243**
Extraordinary losses		
Loss on retirement of non-current assets	57	45
Impairment loss	—	1,402
Loss on sales of investment securities	31	18
Other	7	21
Total extraordinary losses	**96**	**1,488**
Profit before income taxes	**109,963**	**111,087**
Income taxes	**31,266**	**29,250**
Income taxes for prior periods	**—**	**(6,898)**
Profit	**78,696**	**88,735**
Profit attributable to non-controlling interests	**79**	**330**
Profit attributable to owners of parent	**78,617**	**88,405**

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	Third quarter ended December 31, 2015 From April 1, 2015 to December 31, 2015	**Third quarter ended December 31, 2016** From April 1, 2016 to December 31, 2016
Profit	**78,696**	**88,735**
Other comprehensive income		
Valuation difference on available-for-sale securities	(510)	4,501
Foreign currency translation adjustment	(23,824)	(9,891)
Remeasurements of defined benefit plans, net of tax	(405)	131
Total other comprehensive income	**(24,740)**	**(5,258)**
Comprehensive income	**53,956**	**83,476**
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	53,872	83,104
Comprehensive income attributable to non-controlling interests	84	371

(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**

4. Supplementary Information

(1) Geographic segment information

(Millions of yen)

	3Q ended December 31, 2016							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	118,045	53,295	53,667	118,364	7,629	351,001	—	351,001
(2) Intersegment sales	126,071	2,539	1,044	31,496	9	161,162	(161,162)	—
Total	244,116	55,835	54,712	149,861	7,638	512,163	(161,162)	351,001
Operating income	60,504	10,312	4,356	22,511	92	97,777	2,799	100,576

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

(Millions of yen)

	3Q ended December 31, 2016		Year ending March 31, 2017 (Forecast)	
Capital expenditures	10,931	(41.3%)	25,500	3.0%
Depreciation	9,800	(8.4%)	14,300	(0.3%)
R&D expense	14,230	2.4%	19,000	3.0%

(3) Foreign currency exchange rates

	3Q ended December 31, 2016		Year ending March 31, 2017 (Forecast)
	(average)	(at end)	(average)
U S $	¥106.65	¥116.53	¥108
E U R	¥118.04	¥122.73	¥119

(Note) Previous forecasts of foreign currency exchange rates announced on November 8, 2016, are revised in this release.

(4) Consolidated full-time employees and temporary employees

(Number of personnel)

	3Q ended December 31, 2016	Increase (decrease) from last year end
Full-time employees (at end)	19,110	728
Temporary employees (average)	5,132	134