



Corporate Section For the year ended March 31, 2018

Annual Report 2018

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Notes Regarding Future Plans and Estimates

This annual report contains projections concerning the future plans, strategies and estimated performance of SMC.

These statements do not include historical data but are based on management's projections given the information currently available.

As a result, these projections involve risks and uncertainties relative to the status of the economy and demand, intensifying competition, exchange rates, taxation and other regulations.

Profile

Founded in 1959 as a manufacturing firm specializing in sintered metal filters and filtration elements, the SMC Group entered the pneumatic equipment market in 1961 and has since engineered and produced a wide variety of pneumatic products for the global market.

The Group has continued to increase the range of its products, which now exceed 700,000 and included directional control valves, actuators, air line equipment and air preparation equipment. The Group's strengths—offering high quality products at low cost and with quick delivery—enable it to retain a high market share in Japan and compete overseas as a leading global integrated manufacturer of pneumatic equipment even as it evolves into an automated control equipment manufacturer.

History

- 1959 ● Established under the name Shoketsu Kinzoku Kogyo Co., Ltd.
- 1961 ● Started manufacture of air line equipment.
- 1967 ● Embarked on overseas operations with capital participation in SMC Australia.
- 1968 ● Soka 1st Factory completed.
- 1970 ● Started manufacture of air cylinders.
- 1971 ● Started manufacture of directional control valves.
- 1977 ● SMC US established.
- 1978 ● SMC Germany established.
- 1978 ● Head Office moved to Shimbashi, Tokyo.
- 1983 ● Tsukuba 1st Factory completed.
- 1986 ● Corporate name changed to SMC Corporation.
- 1986 ● SMC Manufacturing (Singapore) established.
- 1987 ● Listed on the 2nd section of the Tokyo Stock Exchange.
- 1989 ● Listed on the 1st section of the Tokyo Stock Exchange.
- 1989 ● SMC Taiwan established.
- 1991 ● Kamaishi Factory completed.
- 1991 ● Japan Technical Center completed.
- 1994 ● Yamatsuri Factory completed.
- 1994 ● SMC China established.
- 1995 ● SMC Korea established.
- 1997 ● Tono Factory completed.
- 1998 ● Acquired ISO 9001 certification.
- 1999 ● Acquired ISO 14001 certification.
- 2000 ● European Technical Centre established in the U.K.
- 2000 ● SMC (Beijing) Manufacturing established.
- 2002 ● US Technical Center established.
- 2005 ● SMC Guangzhou established.
- 2006 ● Head Office moved to Akihabara, Tokyo.
- 2007 ● Chinese Technical Center established.
- 2013 ● Shimotsuma Factory completed.
- 2014 ● SMC Manufacturing (Vietnam) established.
- 2016 ● SMC (Tianjin) Manufacturing established.

Message from the President



Yoshiyuki Takada
Chairman

Katsunori Maruyama
President

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”.

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 its main business, the automatic control equipment.

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.

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 win the competitions in the global markets and to acquire higher market shares.

Katsunori Maruyama
President

Message from the President

Business Progress and Results

During the fiscal year under review, the global economic growth showed a recovery trend as a whole. Economic expansion continued in the US due to increases in personal consumptions and capital investments, capital investments and production activities picked up mainly in Euro zone in Europe, and high economic growth rate was maintained in China due to various policy effects. In Japan, under continuously stable employment conditions, exports and capital investments increased, and corporate performances improved as well.

Demands for automatic control equipment were steadily expanded in various industries such as electronics, machine tools and automobiles, as well as substantially increased in semi-conductor related industries in Japan, Asia and North America.

Under these circumstances, in order to respond to the strong demands from our customers, we SMC group strengthened our production systems both at home and abroad, while we promoted far-sighted expansion of production capability as well as developed products that meet the needs such as streamlining, cost reductions, energy savings and space savings, and continued to work on issues such as aggressive sales activities.

As a result, consolidated net sales for the fiscal year under review were 591,035 million yen (21.2% increase year on year). Operating profit was 192,428 million yen (36.4% increase) mainly due to a revenue

growth and ordinary profit was 196,846 million yen (32.8% increase) despite increases in foreign exchange losses by strong yen toward the end of the fiscal year. Profit attributable to owners of parent was 136,869 million yen (21.0% increase).

ROE became 12.6%, increased by 1.1 points from the previous period.



Air line equipment



Air cylinders



Solenoid valves

► **Status of domestic sales**

Capital investment in the semiconductor/ display-related sectors grew significantly, and demand for machine tools were also favorable thanks to demand in the smartphone/ semiconductor-related sectors centering in China. Furthermore, demand also increased steadily in the automobile and electronics sectors. As a result, domestic net sales for the fiscal year ended March 31, 2018 increased by 17.8% year on year to 188,205 million yen.

► **Status of overseas sales**

① **North America**

In the United States, demand in the semiconductor-related sector showed a historic boom and this trend also spread in the automobile related sector. Also, marketing efforts to acquire large-sized user- produced fruit. As a result, net sales grew 14.9% year on year to 87,036 million yen.

② **Europe**

Thanks to the stable economic environment overall, demand increased not only in the semiconductor related sector but also in the entire manufacturing sector including automobile, machine tools, and medical equipment. As a result, net sales increased 19.7% to 90,183 million yen.

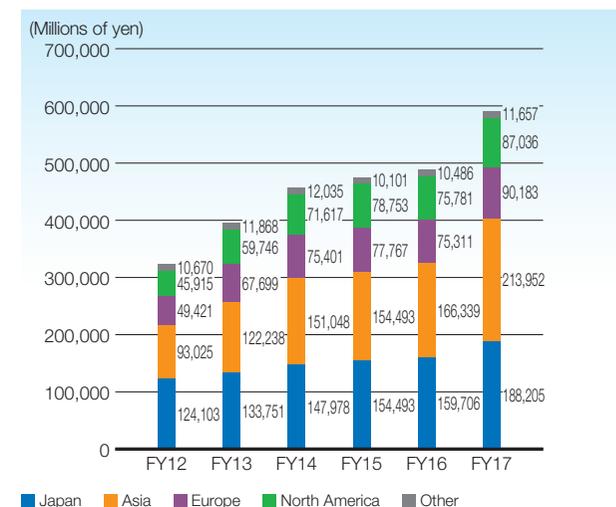
③ **Asia**

Demand grew substantially, mainly for semiconductor/electronic parts, particularly for the smartphone related sector where Chinese makers are expanding their presence. Demand also expanded for automobiles including the secondary battery-related sector for electronic vehicles. As a result, net sales increased 28.6% to 213,952 million yen.

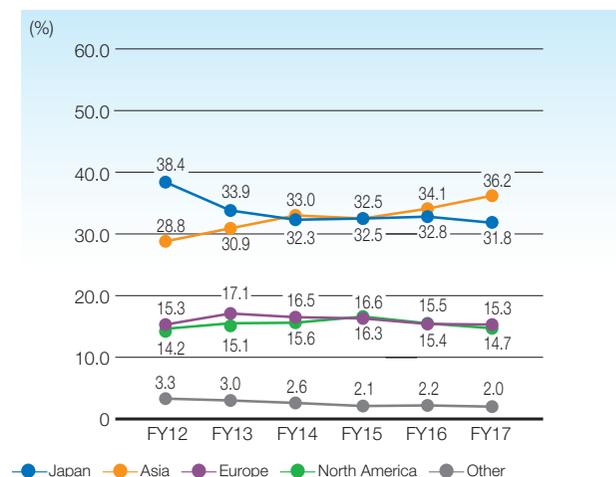
④ **Other regions**

In other regions such as South America and Oceania, demand started recovering on the back of favorable performance of the global economy, and net sales increased 11.2% to 11,657 million yen.

Net Sales by Area



Percentage of Net Sales by Area



Message from the President

Status of research and development activities

The Group, developing products conforming to the rules and needs of different countries and territories, performs research and development activities for automatic control technologies and their peripheral technologies in an effort to address the changing market environment involving the progress of the IoT and smart factories.

The Company's Tsukuba Technical Center plays the central role for these research and development activities. Technical centers established in the U.S., Europe (the U.K. and Germany) and China collect information on the needs of customers in different locations as well as on technologies, before sharing it promptly, thus working closely with each other.

In the automatic control equipment business, the Company strives to develop new products that deliver improved performance for energy conservation, space saving and weight reduction as well as lower production cost. This is in addition to the Company expanding product models catering to a variety of uses such as semiconductor manufacturing equipment, automobiles, medical devices, food machines, plants, fluid-powder transport and general industrial machines.

Research and development expenses for the fiscal year under review stood at 20,239 million yen (5.9% increase).

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 23,683 million yen, an increase of 9.3% year on year.

Listed below are the main facilities completed during the fiscal year ended March 31, 2018.



(i) First and second phase construction of SMC Manufacturing (Vietnam) #1 Factory



(ii) SMC Thailand Training facility and Employee dorm

Financial Highlights

SMC Corporation and Consolidated Subsidiaries

Years ended March 31, 2011 (FY2010), 2012 (FY2011), 2013 (FY2012), 2014 (FY2013), 2015 (FY2014), 2016 (FY2015), 2017 (FY2016), 2018 (FY2017)

	Millions of yen							Changes in %	Thousands of US dollars	
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2016-2017	FY2017
For the year:										
Net sales	¥325,116	¥341,864	¥323,135	¥395,304	¥458,081	¥475,608	¥487,625	¥591,035	21.2%	\$5,331,847
Operating profit	81,970	88,069	78,027	105,153	127,686	134,233	141,107	192,428	36.4	1,735,932
Profit attributable to owners of parent	47,759	59,279	64,270	86,311	109,583	92,138	113,095	136,869	21.0	1,234,727
Depreciation	10,803	12,236	10,952	12,618	13,620	14,863	14,246	15,252	7.1	137,593
Capital expenditures	14,012	13,371	18,349	22,563	28,669	24,756	21,663	23,683	9.3	213,653
R&D expense	13,776	13,480	13,729	15,544	17,607	18,452	19,115	20,239	5.9	182,584
Free cash flow	46,505	4,234	9,463	23,392	66,412	67,724	30,584	83,656	173.5	754,685
At year end:										
Total assets	716,174	737,957	844,010	966,875	1,129,001	1,120,171	1,192,444	1,360,883	14.1	12,276,801
Shareholders' equity	535,779	585,356	687,532	783,490	919,245	939,409	1,027,607	1,147,245	11.6	10,349,529
Interest-bearing debts	33,077	33,076	32,738	61,295	70,581	49,243	17,073	6,438	(62.3)	58,078
Cash and cash equivalents	165,830	159,224	173,501	208,577	281,716	295,270	277,449	322,690	16.3	2,911,052
Per share data (yen):										
Net income per share (EPS)	696.32	864.29	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	21.0	18,370
Net assets per share	7,811.61	8,534.57	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	11.6	153,965
Dividend per share	110.00	130.00	150.00	170.00	190.00	200.00	300.00	400.00	33.3	3,608
Reference indices:										
Operating income ratio (%)	25.2	25.8	24.1	26.6	27.9	28.2	28.9	32.6	12.8	
Return on equity (%)	9.1	10.6	10.1	11.7	12.9	9.9	11.5	12.6	9.6	
Equity ratio (%)	74.8	79.3	81.5	81.0	81.4	83.9	86.2	84.3	(2.2)	
Debt equity ratio (%)	6.2	5.7	4.8	7.8	7.7	5.2	1.7	0.6	(66.2)	
Dividend ratio (%)	15.8	15.0	16.0	13.3	11.7	14.6	17.8	19.6	10.1	
Other data:										
Market capitalization	983,891	945,800	1,306,584	1,956,643	2,468,622	1,761,035	2,217,799	2,901,598	30.8	26,175,897
Number of engineers	1,581	1,667	1,656	1,648	1,638	1,711	1,777	1,817	2.3	
Number of employees	15,305	15,384	15,596	16,010	17,389	18,382	19,191	19,680	2.5	

Notes:

1. U.S. dollar figures are converted from yen, at the rate of ¥110.85 to U.S.\$1, the approximate rate of exchange on March 31, 2018.
2. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.
3. Net income per share are computed based on the average number of common shares for the respective fiscal years.
4. Dividend per share are computed on the dividend paid in respective fiscal years.

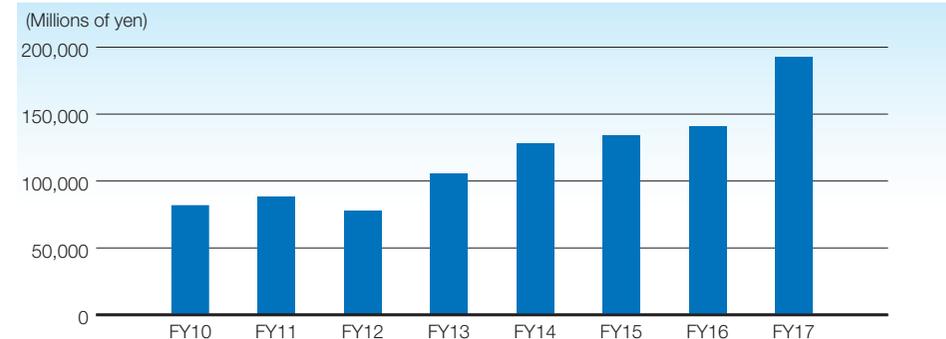
Financial Data

Operating Results

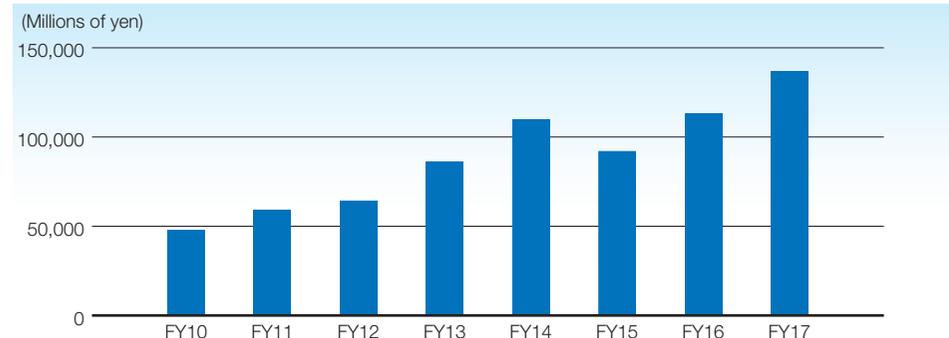
Net Sales



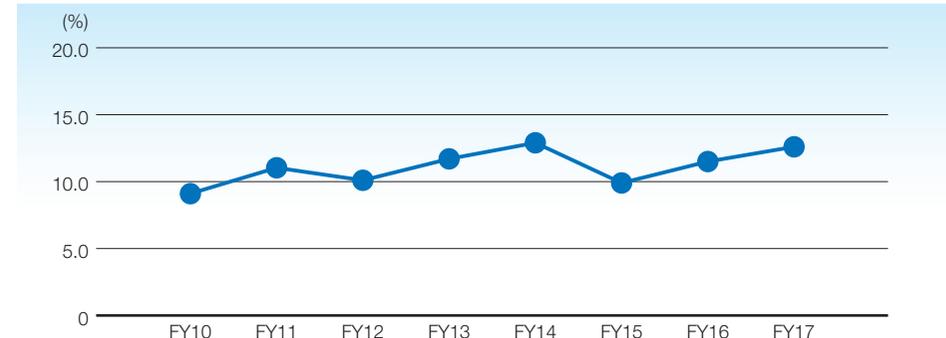
Operating Profit



Profit Attributable to Owners of Parent



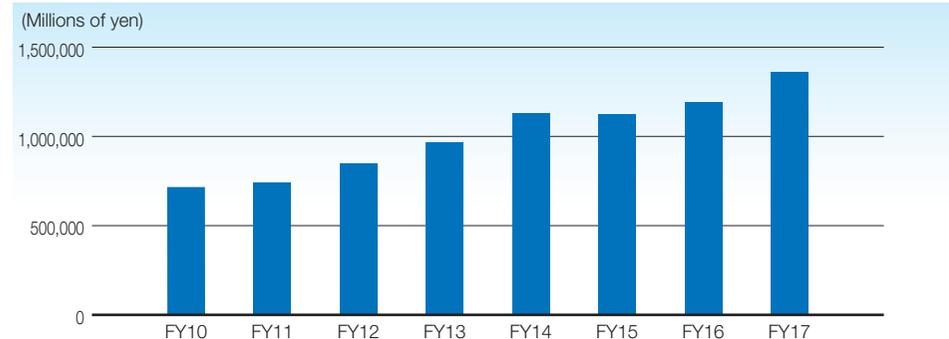
Return on Equity



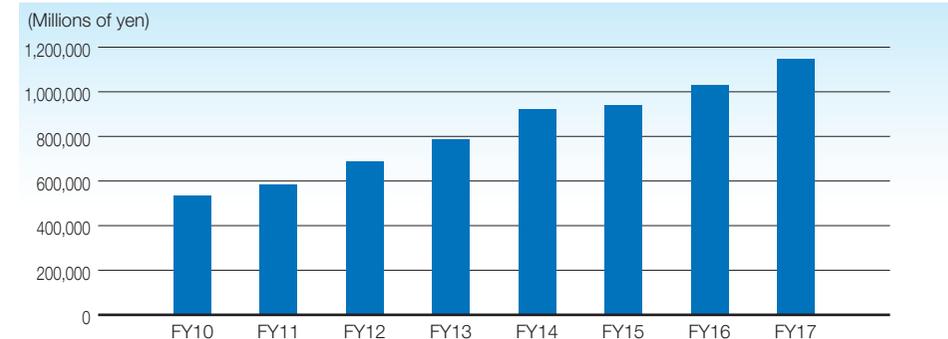
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
								(Millions of yen)
Net Sales	325,116	341,864	323,135	395,304	458,081	475,608	487,625	591,035
Operating Profit	81,970	88,069	78,027	105,153	127,686	134,233	141,107	192,428
Profit Attributable to Owners of Parent	47,759	59,279	64,270	86,311	109,583	92,138	113,095	136,869
Return on Equity (%)	9.1	10.6	10.1	11.7	12.9	9.9	11.5	12.6

Assets and Liabilities

Total Assets



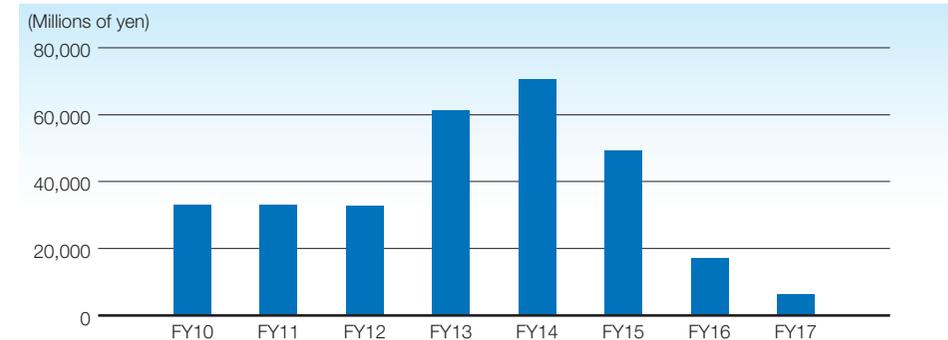
Shareholders' Equity



Inventories



Interest-bearing Debt

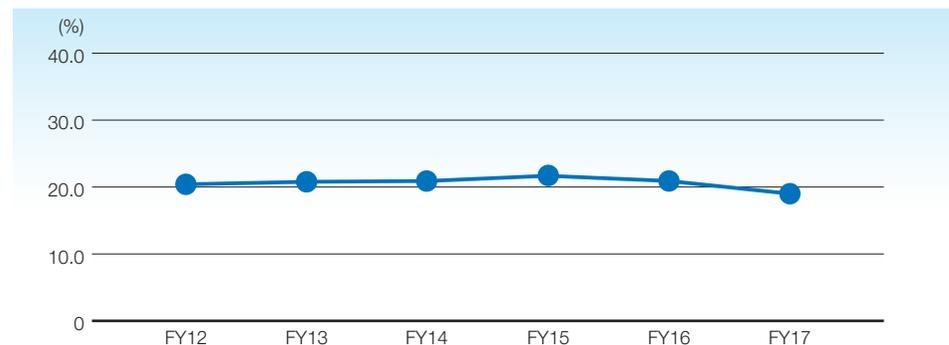


	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total Assets	716,174	737,957	844,010	966,875	1,129,001	1,120,171	1,192,444	1,360,883
Shareholders' Equity	535,779	585,356	687,532	783,490	919,245	939,409	1,027,607	1,147,245
Inventories	140,193	170,570	184,417	194,255	194,573	182,564	179,185	205,660
Interest-bearing Debt	33,077	33,076	32,738	61,295	70,581	49,243	17,073	6,438

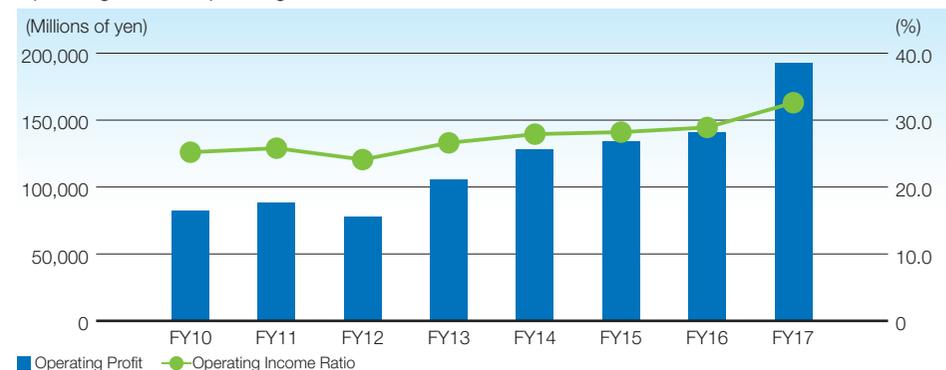
Financial Data

Profitability

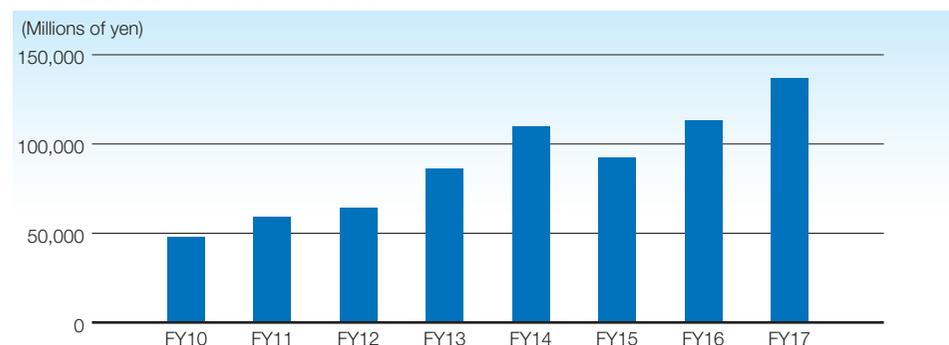
SG & A Ratio



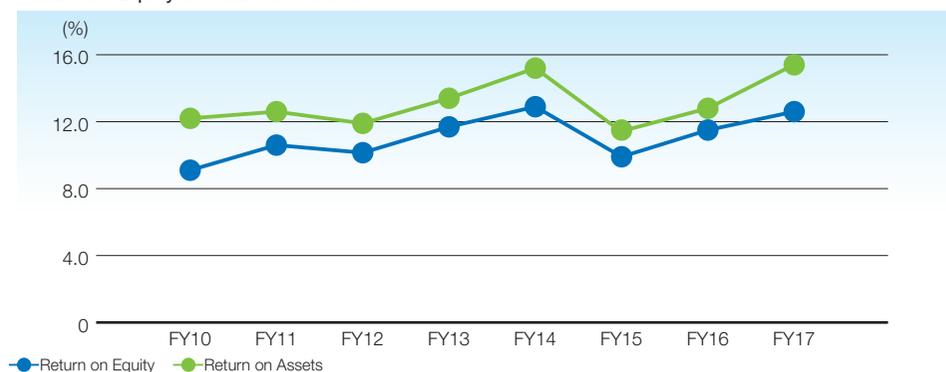
Operating Profit & Operating Income Ratio



Profit Attributable to Owners of Parent



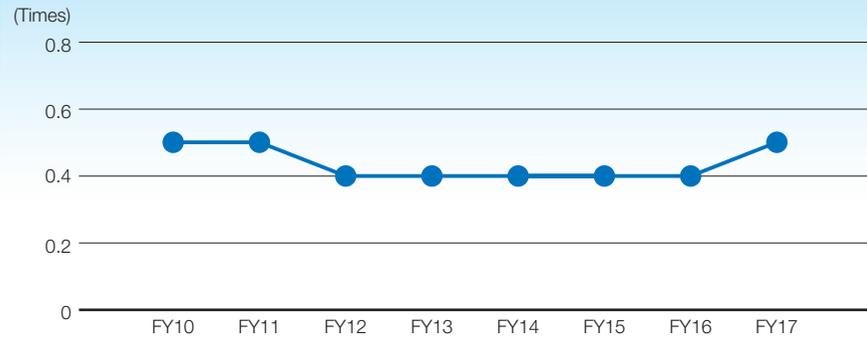
Return on Equity & Return on Assets



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
SG & A Ratio (%)			20.3	20.8	20.9	21.7	20.9	19.0
Operating Profit	81,970	88,069	78,027	105,153	127,686	134,233	141,107	192,428
Operating Income Ratio (%)	25.2	25.8	24.1	26.6	27.9	28.2	28.9	32.6
Profit Attributable to Owners of Parent	47,759	59,279	64,270	86,311	109,583	92,138	113,095	136,869
Return on Equity (%)	9.1	10.6	10.1	11.7	12.9	9.9	11.5	12.6
Return on Assets (%)	12.2	12.6	11.9	13.4	15.2	11.5	12.8	15.4

Efficiency

Total Assets Turnover



Equity Turnover



Inventories Turnover



Fixed Assets Turnover



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total Assets Turnover	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5
Equity Turnover	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Inventories Turnover	2.3	2.2	1.8	2.1	2.4	2.5	2.7	3.1
Fixed Assets Turnover	3.4	3.6	3.1	3.3	3.4	3.2	3.3	3.9

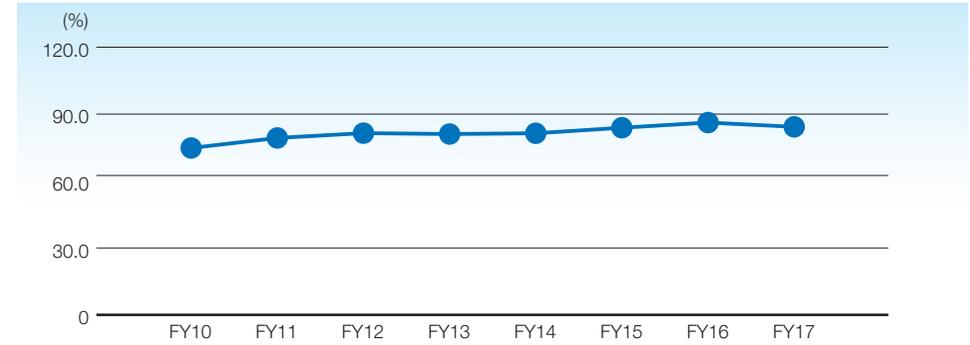
Financial Data

Stability

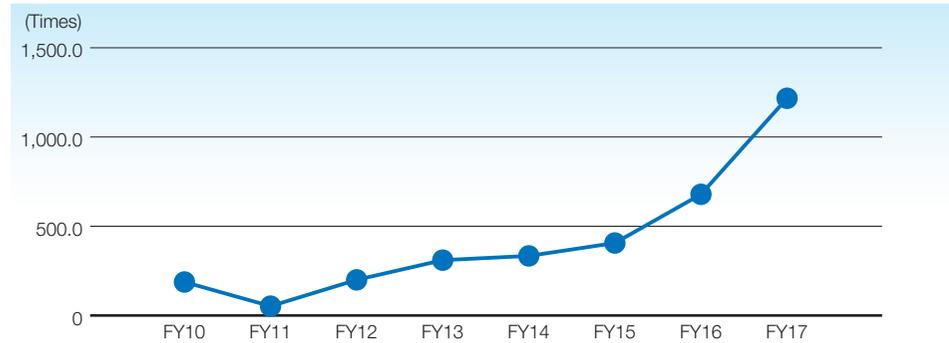
Current Ratio & Fixed Assets Ratio



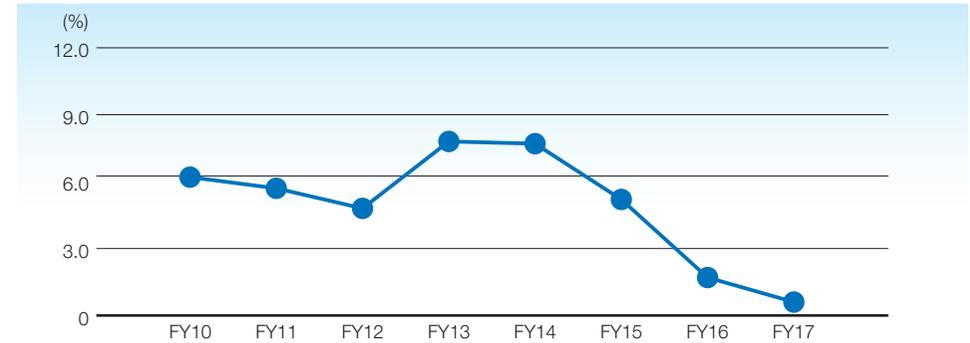
Equity Ratio



Interest Coverage Ratio



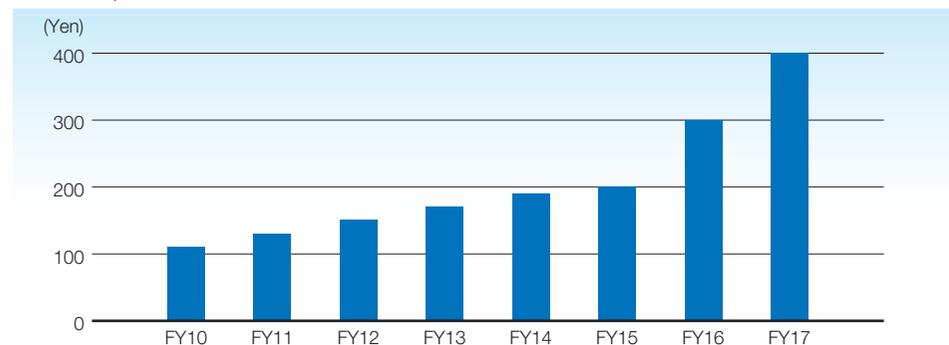
Debt Equity Ratio



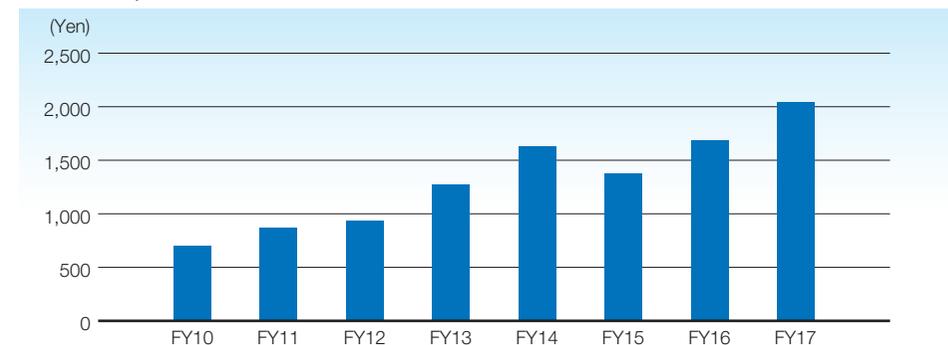
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Current Ratio (%)	358.4	432.9	464.6	441.0	448.0	497.3	645.8	556.8
Fixed Assets Ratio (%)	45.9	40.5	38.3	37.0	35.5	39.7	34.7	34.6
Equity Ratio (%)	74.8	79.3	81.5	81.0	81.4	83.9	86.2	84.3
Interest Coverage Ratio (Times)	187.3	52.0	199.8	310.0	333.8	406.3	679.0	1,216.9
Debt Equity Ratio (%)	6.2	5.7	4.8	7.8	7.7	5.2	1.7	0.6

Per Share Data

Dividends per Share



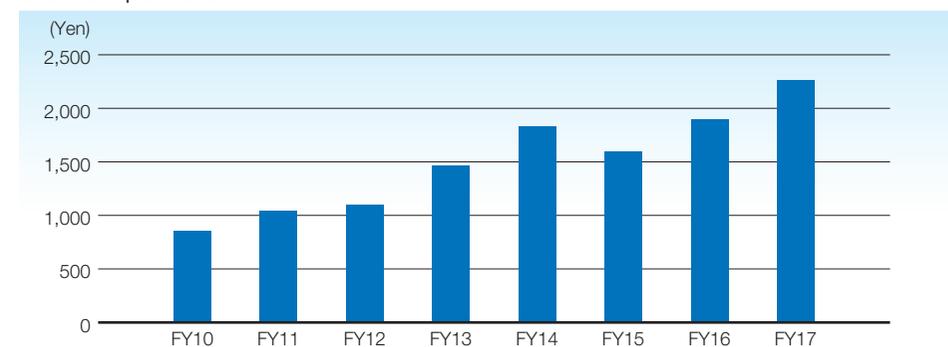
Net Income per Share



Net Assets per Share



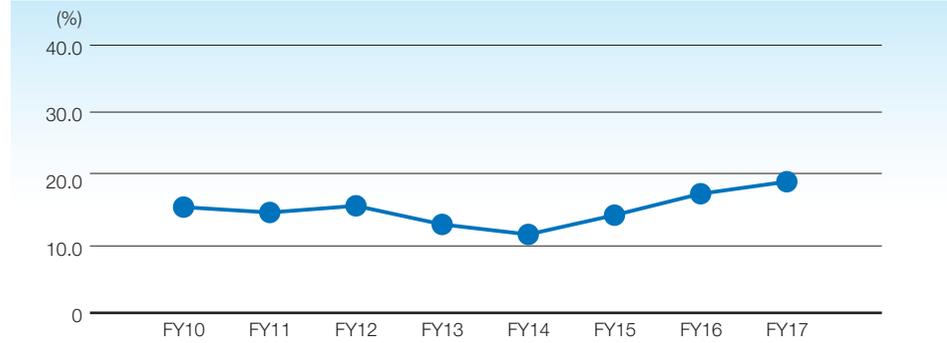
Cash Flow per Share



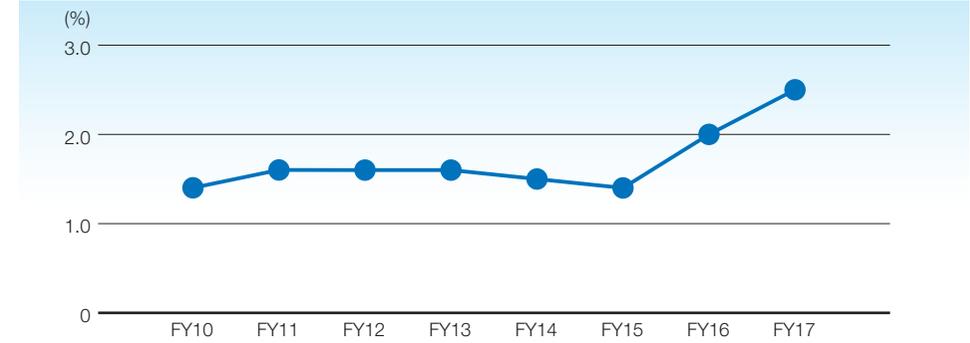
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	(yen)
Dividends per Share	110.00	130.00	150.00	170.00	190.00	200.00	300.00	400.00	
Net Income per Share	696.32	864.29	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	
Net Assets per Share	7,811.61	8,534.57	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	
Cash Flow per Share	853.84	1,042.70	1,097.50	1,460.48	1,831.90	1,592.56	1,895.14	2,263.25	

Investment Data

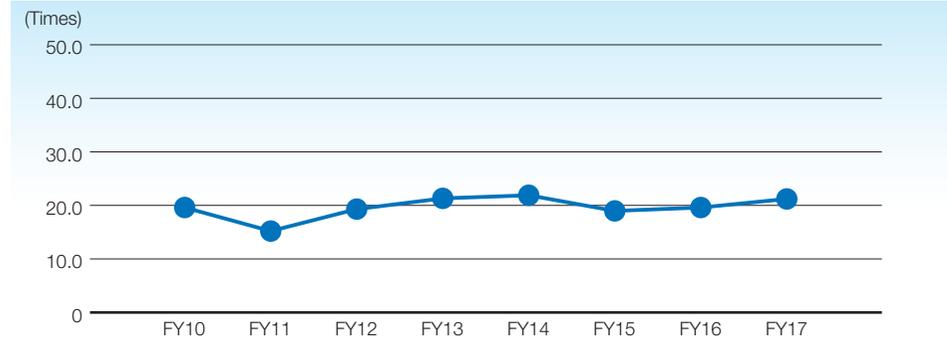
Dividend Ratio



Dividends on Equity



Price Earnings Ratio



Price Book Value Ratio



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Dividend Ratio (%)	15.8	15.0	16.0	13.3	11.7	14.6	17.8	19.6
Dividends on Equity (%)	1.4	1.6	1.6	1.6	1.5	1.4	2.0	2.5
Price Earnings Ratio (Times)	19.6	15.2	19.3	21.3	21.9	19.0	19.6	21.2
Price Book Value Ratio (Times)	1.8	1.5	1.8	2.4	2.6	1.9	2.2	2.5

Global Network



U. S.



Mexico



Soka Factory



Tsukuba Factory



Tsukuba Technical Center



Shimotsuma Factory



Australia



Brazil



Japan



Kamaishi Factory



Tono Factory



Yamatsuri Factory



North America
/ Other



Europe



Asia



U. K.



Germany



Austria



Taiwan



Hong Kong



Beijing Manufacturing



China



Spain



France



Italy



Korea



India



Manufacturing Singapore

Corporate Information / Board of Directors

SMC Corporation

Head Office	4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan Tel: 03-5207-8271 Fax: 03-5298-5361
Established	April 27, 1959
Capital Stock	JPY 61,005 million
Number of Employees	Consolidated 19,680
Current Status of Stocks	Total number of shares 240,000,000 Shares outstanding 67,369,359 Number of shareholders 5,490
Stock Listing	First Section, Tokyo Stock Exchange
Administrator of Register of Shareholders	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Board of Directors

Chairman
Yoshiyuki Takada

President
Katsunori Maruyama

Director and Senior Managing Executive Officers

Ikuji Usui
Seiji Kosugi
Masahiko Satake
Yoshiki Takada

Director and Managing Executive Officer

Eiji Ohashi

Outside Directors

Masanobu Kaizu
Toshiharu Kagawa

Full-Time Corporate Auditor

Eizo Fujino

Outside Corporate Auditors

Yoshiaki Ogawa
Tatsuo Suzue

Annual Report 2018

Financial Section For the year ended March 31, 2018

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■ Analysis and Deliberation of Operating Results from the Management’s Perspective

The following paragraphs outline the recognition and analysis-deliberation of SMC Group’s operating results from the management’s perspective.

Forward-looking matters mentioned in the text are those judged as of the end of the fiscal year under review.

1. Significant accounting policies and estimations

The consolidated financial statements of the Group were prepared in conformity with accounting standards generally accepted in Japan as being fair and appropriate. For the preparation, the management is required to select and apply accounting policies as well as perform estimations that may affect reportable amounts of assets and liabilities and income and expenses as well as their disclosure. Although the management makes judgments reasonably for these estimations, based on past business results, actual results may potentially differ from the estimations due to uncertainty inherent in estimation.

Significant accounting policies used for the consolidated financial statements of the Group are set forth in the section titled “Notes to consolidated financial statements.”

2. Recognition and analysis-deliberation of the operating results for the fiscal year under review

(1) Analysis of operating results

Net sales for the fiscal year under review were 591,035 million yen (21.2% increase year on year).

Gross profit was 304,654 million yen (25.3% increase), and gross profit margin increased 1.6 percentage points yoy to 51.5% thanks to higher net sales, increased production, rationalization and cost-saving efforts as well as the yen’s depreciation in spite of sharp rises in material prices.

Selling, general and administrative expenses were 112,226 million yen (10.0% increase) and the selling, general and administrative expense ratio declined 1.9 percentage points yoy to 19.0%. Operating profit was 192,428 million yen (36.4% increase) and operating profit margin rose 3.6 percentage points yoy to 32.6%.

For non-operating income and expenses, foreign exchange losses of 6,025 million yen were incurred (foreign exchange losses of 2,054 million yen for the previous fiscal year), affected by the yen's appreciation toward the end of the fiscal year under review. However, since financial income was 8,949 million yen (30.7% increase), ordinary profit was 196,846 million yen (32.8% increase) and the ordinary profit margin rose 2.9 percentage points yoy to 33.3%.

Refund of income taxes for prior periods of 6,938 million yen recorded for the previous fiscal year (a reimbursement of income taxes due to an agreement upon transfer pricing regulation-related mutual consultations concerning transactions with a South Korean subsidiary) were non-existent for the fiscal year under review, and profit attributable to owners of parent was 136,869 million yen (21.0% increase).

Average foreign exchange rates for the fiscal year under review were 110.85 yen to the U.S. dollar, 129.63 yen to the euro and 16.73 yen to the Chinese yuan. Exchange rates as of the end of the fiscal year under review were 106.27 yen to the U.S. dollar, 130.58 yen to the euro and 16.92 yen to the Chinese yuan.

(2) Analysis of financial position

Total assets as of the end of the fiscal year under review increased 168,438 million yen (14.1%) yoy to 1,360,883 million yen.

(a) Status of assets

Current assets as of the end of the fiscal year under review increased 128,156 million yen (15.3%) yoy to 964,085 million yen.

This was mainly due to the fact that, as a result of higher net sales, cash and deposits increased 46,561 million yen (10.1%) yoy, notes and accounts receivable-trade were up 21,579 million yen (15.3%) yoy and inventories increased 26,474 million yen (14.8%) and that securities grew 14,673 million yen (65.5%) as a result of purchases of foreign currency-denominated bonds.

Non-current assets increased 40,282 million yen (11.3%) yoy to 396,798 million yen.

This was mainly due to the fact that property, plant and equipment grew 7,673 million yen (5.1%) yoy as a result of capital expenditures, intangible non-current assets increased 696 million yen (6.3%) and investment securities were up 41,871 million yen (77.3%) yoy as a result of purchases of foreign currency-denominated bonds.

(b) Status of liabilities

Total liabilities as of the end of the fiscal year under review increased 48,390 million yen (29.9%) yoy to 210,466 million yen.

This was mainly due to the fact that notes and accounts payable-trade increased 27,763 million yen (45.8%) yoy as a result of higher net sales, income taxes payable were up 13,868 million yen (69.1%) yoy as a result of higher taxable income and short-term loans payable decreased 10,095 million yen (86.0%).

(c) Status of net assets

Total net assets as of the end of the fiscal year under review increased 120,047 million yen (11.7%) yoy to 1,150,416 million yen. This was mainly due to the fact that retained earnings carried forward rose 109,986 million yen (12.6%).

Equity ratio as of the end of the fiscal year under review was 84.3% compared to 86.2% as of the end of the previous fiscal year. Net assets per share as of the end of the fiscal year under review were 17,067.08 yen compared to 15,292.53 yen as of the end of the previous fiscal year.

(3) Capital sources and cash liquidity**(a) Analysis of the status of cash flow**

The balance of cash and cash equivalents as of the end of the fiscal year under review (hereinafter “cash”) was 322,690 million yen, which was an increase of 45,241 million yen yoy.

(i) Cash flow from operating activities

Net cash provided by operating activities was 154,315 million yen (revenue increase of 33,365 million yen yoy).

This was mainly due to profit before income taxes of 196,067 million yen (145,671 million yen for the previous fiscal year), depreciation of 15,252 million yen (14,246 million yen for the previous fiscal year), an increase of 19,819 million yen in notes and accounts receivable-trade (24,750 million yen for the previous fiscal year), an increase of 25,951 million yen in inventories (206 million yen for the previous fiscal year), an increase of 26,882 million yen in notes and accounts payable-trade (6,483 million yen for the previous fiscal year) and income taxes paid of 44,540 million yen (28,676 million yen for the previous fiscal year).

(ii) Cash flow from investing activities

Net cash used in investing activities was 70,658 million yen (decrease of 19,707 million yen yoy).

This was mainly due to payments of 118,580 million yen into time deposits (114,485 million yen for the previous fiscal year), proceeds of 110,455 million yen from withdrawal of time deposits (73,585 million yen for the previous fiscal year), purchase of property, plant and equipment of 24,152 million yen (19,273 million yen for the previous fiscal year), purchase of short-term and long-term investment securities of 45,400 million yen (24,738 million yen for the previous fiscal year), and proceeds of 11,327 million yen from sales and redemption of short-term and long-term investment securities (2,657 million yen for the previous fiscal year).

(iii) Cash flow from financing activities

Net cash used in financing activities was 36,785 million yen (decrease of 8,721 million yen yoy).

This was mainly due to a net decrease of 10,070 million yen in short-term loans payable (30,200 million yen for the previous fiscal year) and cash dividends paid of 26,880 million yen (13,438 million yen for the previous fiscal year).

(b) Cash demand

The Group's main working capital needs are for the purchase costs of raw materials and components, manufacturing expenses, selling, general and administrative expenses and research and development expenses. Cash needs for investing are for capital expenditures consisting mainly of purchases of land and buildings as well as machines and equipment.

(c) Financial policy

The basic policy of the Group is to steadily secure cash sources able to meet cash needs for the organization to flexibly implement capital expenditures while securing liquidity required for routine business activities.

The Group essentially funds long-term working capital and capital expenditures with its own cash and short-term working capital with its own cash as well as loans obtained from financial institutions as required.

As of the end of the fiscal year under review, the balance of interest-bearing debt was 6,438 million yen and the balance of cash and cash equivalents was 322,690 million yen.

■ Business and Other Risk Factors

1. Country risk associated with overseas business development

To expand sales through improving customer satisfaction, we, the SMC Group, are developing a wide range of business activities that include R&D, material procurement development, production and sales in various parts all over the world. Especially in China, we are enhancing and strengthening the production base in order to supply our products globally. In each country, there is a risk that hard to forecast circumstances such as the following may occur, including in China:

- 1) Upheaval of the political system and the economic environment
- 2) Rapid changes of regulations such as legislation, taxation, foreign exchange policy, or rules on importation and exportation
- 3) Drastic changes in the working environment such as labor shortages, rising labor costs, and the occurrence of labor disputes on a large-scale
- 4) Destabilization of energy supply due to the underdeveloped social infrastructure
- 5) Social disruption caused by rampant terrorism, war, riots, natural disasters and infectious diseases

Although the Group has been taking measures to avoid country risk by promoting the development of a domestic production base to balance overseas production, if unforeseen circumstances occur, there is a possibility that not only local assets such as production equipment but also the overall business may be adversely affected.

2. Risks related to product defects

The SMC Group is engaged in strict quality control; however it is not possible to completely avoid the risk of defects that would occur in the product. There is a risk for SMC Group to be held responsible if any damages to customers are caused by our product defects. In preparation for this risk, we subscribe to product liability insurance, but depending on the amount, there is no guarantee that we can cover all compensation by insurance. Pneumatic equipment, which is the main product of the Group, is utilized in broad areas such as medical equipment. There is a litigation risk if there are product defects in these devices. If litigation is filed, the Group's operating results and financial condition may be adversely affected, including a possible decrease in sales due to the negative impact on our image.

3. Risk of changes in foreign exchange rates

The Group is engaged in a wide range of business activities including material procurement, research and development, production, and sales in regions around the world. As foreign currency assets and foreign currency trading of the Group are translated into yen when preparing consolidated financial statements, there is a possibility that the financial position and operating results may be adversely affected due to changes in foreign exchange rates.

■ Consolidated Financial Statements

1. Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
[ASSETS]		
Current assets		
Cash and deposits	459,874	506,436
Notes and accounts receivable-trade	141,057	162,637
Securities	22,401	37,074
Merchandise and finished goods	79,909	89,731
Work in process	15,001	18,210
Raw materials and supplies	84,274	97,717
Deferred tax assets	19,806	24,144
Other	14,421	28,829
Allowance for doubtful accounts	(818)	(697)
Total current assets	835,928	964,085
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	74,603	73,203
Machinery, equipment and vehicles, net	28,332	28,444
Tools, furniture and fixtures, net	6,278	6,804
Land	32,705	35,391
Construction in progress	7,332	13,081
Total property, plant and equipment	149,252	156,925
Intangible assets		
Leasehold right	8,349	9,348
Other	2,710	2,408
Total intangible assets	11,060	11,756
Investments and other assets		
Investment securities	54,187	96,058
Net defined benefit asset	73	60
Insurance funds	122,966	126,861
Other	20,784	6,675
Allowance for doubtful accounts	(1,808)	(1,541)
Total investments and other assets	196,203	228,115
Total non-current assets	356,516	396,798
Total assets	1,192,444	1,360,883

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	60,648	88,411
Short-term loans payable	11,735	1,640
Income taxes payable	20,066	33,935
Provision for bonuses	2,812	3,062
Other	34,177	46,101
Total current liabilities	129,439	173,151
Non-current liabilities		
Long-term loans payable	5,338	4,798
Deferred tax liabilities	11,374	17,877
Provision for directors' retirement benefits	869	890
Net defined benefit liability	8,427	7,022
Other	6,627	6,726
Total non-current liabilities	32,635	37,315
Total liabilities	162,075	210,466
[NET ASSETS]		
Shareholders' equity		
Capital stock	61,005	61,005
Capital surplus	72,871	73,372
Retained earnings	875,230	985,216
Treasury shares	(3,348)	(3,066)
Total shareholders' equity	1,005,758	1,116,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,864	10,864
Foreign currency translation adjustment	14,459	20,594
Remeasurements of defined benefit plans	(1,475)	(742)
Total accumulated other comprehensive income	21,848	30,716
Non-controlling interests	2,761	3,171
Total net assets	1,030,369	1,150,416
Total liabilities and net assets	1,192,444	1,360,883

2. Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(1) Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net sales	487,625	591,035
Cost of sales	244,476	286,381
Gross profit	243,148	304,654
Selling, general and administrative expenses	102,041	112,226
Operating profit	141,107	192,428
Non-operating income		
Interest income	5,946	7,885
Gain on investments in insurance funds	716	927
Other	3,044	2,971
Total non-operating income	9,707	11,784
Non-operating expenses		
Loss on sales of securities	—	876
Foreign exchange losses	2,054	6,025
Other	523	465
Total non-operating expenses	2,577	7,366
Ordinary profit	148,237	196,846
Extraordinary income		
Gain on sales of non-current assets	337	197
Gain on sales of investment securities	276	43
Other	28	17
Total extraordinary income	642	259
Extraordinary losses		
Loss on retirement of non-current assets	81	94
Impairment loss	2,708	923
Loss on sales of investment securities	392	—
Other	25	20
Total extraordinary losses	3,208	1,038
Profit before income taxes	145,671	196,067
Income taxes - current	35,466	57,592
Income taxes for prior periods	(6,938)	—
Income taxes - deferred	3,726	1,305
Total income taxes	32,254	58,897
Profit	113,417	137,169
Profit attributable to non-controlling interests	321	300
Profit attributable to owners of parent	113,095	136,869

(2) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Profit	113,417	137,169
Other comprehensive income		
Valuation difference on available-for-sale securities	6,053	2,101
Foreign currency translation adjustment	(17,892)	6,158
Remeasurements of defined benefit plans, net of tax	357	733
Total other comprehensive income	(11,480)	8,993
Comprehensive income	101,936	146,163
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	101,562	145,737
Comprehensive income attributable to non-controlling interests	373	425

3. Consolidated Statement of Changes in Equity

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of the period	61,005	72,778	775,655	(3,411)	906,027
Changes of items during period					
Dividends of surplus			(13,438)		(13,438)
Profit attributable to owners of parent			113,095		113,095
Purchase of treasury shares				(20)	(20)
Disposal of treasury shares		92		83	175
Change of scope of consolidation			(81)		(81)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	92	99,575	63	99,730
Net assets at end of the period	61,005	72,871	875,230	(3,348)	1,005,758

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of the period	2,879	32,336	(1,833)	33,381	2,403	941,813
Changes of items during period						
Dividends of surplus						(13,438)
Profit attributable to owners of parent						113,095
Purchase of treasury shares						(20)
Disposal of treasury shares						175
Change of scope of consolidation						(81)
Net changes of items other than shareholders' equity	5,985	(17,876)	357	(11,533)	357	(11,175)
Total changes of items during period	5,985	(17,876)	357	(11,533)	357	88,555
Net assets at end of the period	8,864	14,459	(1,475)	21,848	2,761	1,030,369

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of the period	61,005	72,871	875,230	(3,348)	1,005,758
Changes of items during period					
Dividends of surplus			(26,883)		(26,883)
Profit attributable to owners of parent			136,869		136,869
Purchase of treasury shares				(30)	(30)
Disposal of treasury shares		501		312	814
Change of scope of consolidation					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	501	109,986	282	110,769
Net assets at end of the period	61,005	73,372	985,216	(3,066)	1,116,528

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of the period	8,864	14,459	(1,475)	21,848	2,761	1,030,369
Changes of items during period						
Dividends of surplus						(26,883)
Profit attributable to owners of parent						136,869
Purchase of treasury shares						(30)
Disposal of treasury shares						814
Change of scope of consolidation						—
Net changes of items other than shareholders' equity	1,999	6,134	733	8,868	409	9,277
Total changes of items during period	1,999	6,134	733	8,868	409	120,047
Net assets at end of the period	10,864	20,594	(742)	30,716	3,171	1,150,416

4. Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	145,671	196,067
Depreciation	14,246	15,252
Impairment loss	2,708	923
Increase (decrease) in allowance for doubtful accounts	(87)	(432)
Increase (decrease) in provision for directors' retirement benefits	59	20
Increase (decrease) in net defined benefit liability	(439)	(392)
Interest and dividend income	(6,513)	(8,379)
Interest expenses	153	110
Foreign exchange losses (gains)	(155)	5,094
Loss (gain) on sales of investment securities	115	(43)
Decrease (increase) in notes and accounts receivable-trade	(24,750)	(19,819)
Decrease (increase) in inventories	(206)	(25,951)
Increase (decrease) in notes and accounts payable-trade	6,483	26,882
Decrease (increase) in other current assets	(315)	(3,501)
Increase (decrease) in other current liabilities	3,782	3,840
Other, net	(920)	262
Subtotal	139,833	189,934
Interest and dividend income received	5,739	9,047
Interest expenses paid	(178)	(126)
Income taxes (paid) refund	(28,676)	(44,540)
Refund of income taxes for prior periods	4,232	—
Net cash provided by operating activities	120,949	154,315

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from investing activities		
Payments into time deposits	(114,485)	(118,580)
Proceeds from withdrawal of time deposits	73,585	110,455
Purchase of property, plant and equipment	(19,273)	(24,152)
Purchase of intangible assets	(4,953)	(1,364)
Purchase of short-term and long-term investment securities	(24,738)	(45,400)
Proceeds from sales and redemption of short-term and long-term investment securities	2,657	11,327
Payments of loans receivable	(235)	(779)
Collection of loans receivable	233	268
Purchase of insurance funds	(7,533)	(8,233)
Proceeds from maturity of insurance funds	3,995	4,099
Other, net	380	1,701
Net cash used in investing activities	(90,365)	(70,658)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(30,200)	(10,070)
Proceeds from long-term loans payable	3,668	1,000
Repayments of long-term loans payable	(5,638)	(1,565)
Purchase of treasury shares	(20)	(30)
Cash dividends paid	(13,438)	(26,880)
Other, net	122	760
Net cash used in financing activities	(45,507)	(36,785)
Effect of exchange rate change on cash and cash equivalents	(4,837)	(1,630)
Net increase (decrease) in cash and cash equivalents	(19,760)	45,241
Cash and cash equivalents at beginning of period	295,270	277,449
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	1,939	—
Cash and cash equivalents at the end of period	277,449	322,690

■ 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: 35

Names of major consolidated subsidiaries

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

(2) Names of major non-consolidated subsidiaries: Nihon Kizai (Shanghai), SMC Poland

(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 (Nihon Kizai (Shanghai) and 38 other subsidiaries) and 1 affiliate 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, 2018 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil and SMC (Tianjin) Manufacturing 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 leased assets)

Depreciation of Property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are amortized based on the straight-line method.

And that of foreign consolidated subsidiaries is determined in accordance with the straight line method pursuant to the accounting standards 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 leased assets)

Depreciation of intangible assets of the Company and its domestic consolidated subsidiaries is computed in accordance with the straight line method and that of foreign consolidated subsidiaries is determined in accordance with the straight line method pursuant to the accounting standards 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 recognized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition of each fiscal year, starting 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.

[Additional Information]

(Transactions of delivering the Company's own shares to employees, etc. through trusts)

(1) Overview of transactions

The Company adopted the Employee Stock Ownership Plan ("ESOP") trust aimed at enhancing employees' morale and motivation by giving them an incentive to improve the Company's medium- to long-term corporate value. At the same time, the ESOP trust is for the purpose of increasing employees' awareness of the Company's share value and promoting their asset formation by encouraging them to purchase and hold the Company's shares through the ESOP.

Provision of the above-mentioned ESOP trust has finished due to expiration of the trust period initially established.

[Overview of the ESOP trust]

a) Type: Specified money in trust (third-party benefit trust)

b) Settlor: SMC Corporation

c) Trustee: Resona Bank, Limited

d) Beneficiaries: Of the members of the Company's employee stock ownership association (including former members), those who fulfill the conditions of beneficiaries.

e) Term of the trust: From May 17, 2012 to June 30, 2017

f) Exercise of voting rights: The voting right of the Company's share owned by the ESOP trust shall be exercised in accordance with the instructions given by the Trust Caretaker.

(2) Accounting treatment

The Company applies the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015) and continues to apply the same method as the existing method.

(3) Matters related to the Company's own share possessed by the trust

a) Book values of the Company's own shares possessed by the trust are 312 million yen in the previous fiscal year and they are registered as Treasury shares under Shareholders' equity. This matter is not applicable at the end of the fiscal year under review.

b) Number of shares at the end of period of the said stocks was 23,800 in the previous fiscal year and this matter is not applicable in the fiscal year under review.

The average number of shares is 26,898 in the previous fiscal year and 6,446 in the fiscal year under review, and they are included in treasury shares that are deducted for the calculation of per share information.

[Notes on Consolidated Balance Sheets]

	(Million yen)
1. Accumulated depreciation of property, plant and equipment	209,082
2. For non-consolidated subsidiaries and affiliates	
Investment securities (shares)	19,217
“Other” under Investments and other assets (investments)	1,095

[Notes on Consolidated Statements of Income]

	(Million yen)
1. Principal items under selling, general and administrative expenses	
Salaries and allowances	38,873
Bonuses	9,633
Retirement benefit expenses	1,757
Provision of allowance for doubtful accounts	444
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs for the term	20,239

[Notes on Consolidated Statement of Changes in Equity]

1. Matters pertaining to outstanding shares and treasury share

					(Shares)
	Type	At the beginning of Fiscal 2017	Increase	Decrease	At the end of Fiscal 2017
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury share	Common share	172,660	728	23,800	149,588

Note: 728 shares increase in the number of treasury share was due to purchase of odd-lot shares.

Of the 23,800 shares that were reduced from the treasury shares, 700 shares were due to sale of the shares from ESOP trust to the employees' share ownership program, and 23,100 shares were due to sale of the shares to the market following the expiration of trust period of the ESOP trust.

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 (June 28, 2017)	Common share	¥13,439million	¥ 200	March 31, 2017	June 29, 2017
Board of Directors' Meeting (November 8, 2017)	Common share	¥13,444million	¥ 200	September 30, 2017	December 1, 2017

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 4 million yen resolved at the Ordinary General Meeting of Shareholders held on June 28, 2017).

(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 27, 2018.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 13,443million	¥ 200	March 31, 2018	June 28, 2018

[Notes relating to financial instruments]

1. Matters relating to the status of financial instruments

(1) Policy on financial instruments

The SMC Group procures fund through self-financing and external sources centering on loans from financial instructions including 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 short-term bank deposits, etc.

Regarding the derivative transactions, we limit derivative transactions within the range of actual demand and through internal regulations and do not 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 also subject to the risk of exchange-rate fluctuations.

Securities and investment securities, which consist mainly of stocks of companies that have business relationships with the Company, government bonds, 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.

Short-term loans payable are mainly fund procurement for general purpose working capital. Long-term loans payable have a due date of up to five years after the fiscal year under review.

(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.

(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 securities and 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, 2018. 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	506,436	506,436	—
(2) Notes and accounts receivable-trade	162,637	162,637	—
(3) Securities and investment securities			
Available-for-sale securities	113,734	113,734	—
Total assets	782,808	782,808	—
(4) Notes and accounts payable-trade	88,411	88,411	—
(5) Short-term loans payable	1,640	1,640	—
Total liabilities	90,051	90,051	—
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) Securities and investment securities

Of the investment securities, fair values of stocks are based on market prices on securities exchanges and fair values of government 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	¥ 19,217 million
Unlisted stocks	¥ 182 million

The above items are excluded from “(3) Securities and 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	506,413	—	—	—
(2) Notes and accounts receivable-trade	162,637	—	—	—
(3) Securities and investment securities				
Held-to-maturity bonds				
(Government bonds)	15,940	42,508	—	—
(other)	—	2,105	—	—
Total	684,991	44,613	—	—

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

	1 year or less
Short-term loans payable	¥ 1,640 million

[Notes on per share information]

1. Shareholders' equity per share: 17,067.08 yen
2. Net income per share: 2,036.33 yen

[Notes on significant subsequent events] None

Independent Auditor's Report

May 18, 2018

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated partner
Executive member CPA Kazutomi Asai

Designated partner
Executive member CPA Kazuhito Ishii

Designated partner
Executive member CPA Takahiro Otofujii

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, 2017 to March 31, 2018 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 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 services 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.



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