



Corporate Section For the year ended March 31, 2019

Annual Report 2019

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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 automatic control equipment, including pneumatic instruments.

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 2018, ended March 31, 2019, the global economy stayed firm as a whole for the first half of the year. The US economy showed ongoing expansion mainly led by personal consumption, the economy in Europe remained solid, and the Chinese economy continued high growth despite some slowdown. With continued stable employment conditions in Japan, corporate performance improved as well. However, as a result of intensified US-China trade friction and confusion over the UK's exit from the European Union, the economy rapidly slowed down during the second half.

Demand for automatic control equipment significantly decreased, partly owing to a pullback from a sharp increase in the previous term in semi-conductor related industries in Japan, Asia and North America. There was steady growth in the automobile industry mainly in Europe, and industries such as machine tools and food machinery remained at the levels on par with the previous fiscal year.

Under these circumstances, the SMC Group strengthened its production supply systems and drove forward in rationalizing and cost reduction both in Japan and abroad, while developing products that meet needs such as those for energy and space saving, actively promoting sales activities, and expanding production capabilities toward the future.

As a result, consolidated net sales for the current fiscal year were 576,948 million yen (2.4% decrease

year on year). Operating profit was 180,203 million yen (6.4% decrease) mainly due to reduced revenue and increased selling and administrative expenses, and ordinary profit was 198,201 million yen (0.7% increase) due to foreign exchange gains arising from the cancellation of foreign exchange losses associated with the stabilization in foreign exchange markets. Profit attributable to owners of parent was 130,631 million yen (4.6% decrease) due to increased burden of income tax related to transfer pricing taxation.

ROE became 10.9%, a decrease of 1.7 points from the previous fiscal year.



Air line equipment



Air cylinders



Solenoid valves

► **Status of domestic sales**

Although sales steadily increased supported by strong demand for capital investment in the semiconductor and automobile-related industries in the first half of the year, orders were continuously small in the industries such as semiconductor, electronics and machine tools due to a downturn in the Japanese markets as well as significant decrease in export demand mainly for US and Korea in the second half. As a result, domestic net sales for the fiscal year ended March 31, 2019 increased by 0.4% year on year to 188,895 million yen.

► **Status of overseas sales**

① **North America**

In the United States, demand in the semiconductor-related industry significantly declined, partly owing to a pullback from an increase in the previous fiscal year, and the decelerating trend continued toward the latter half. Demand in other industries including automobile-related was also weak. As a result, net sales decreased 5.0% year on year to 82,681 million yen.

② **Europe**

Sales were favorable in a wide range of industries such as food and medical equipment as well as semiconductors and automobiles mostly in the first half of the year. As a result, net sales increased 6.3% to 95,897 million yen.

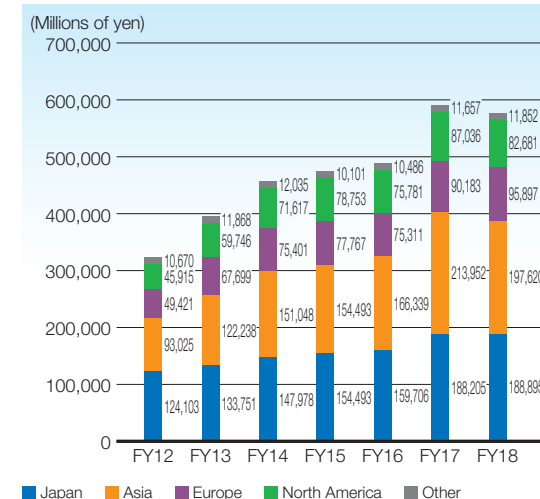
③ **Asia**

Demand dropped sharply for semiconductor and electronic components in regions such as China, Korea, Taiwan, and Singapore, and the impact also spread to related machine tools, causing harsh conditions. As a result, net sales decreased 7.6% to 197,620 million yen.

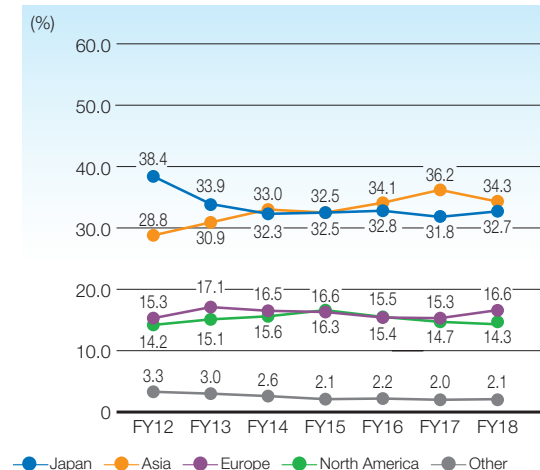
④ **Other regions**

In other regions such as South America and Oceania, net sales increased 1.7% to 11,852 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 current fiscal year stood at 21,367 million yen (5.6% 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 current fiscal year amounted to 31,936 million yen, an increase of 34.8% year on year.

Listed below are the main capital investments during the fiscal year 2018.



SMC Manufacturing (Vietnam) Factory No.2 (Second phase construction)



SMC (Tianjin) Manufacturing (First phase construction)

Financial Highlights

SMC Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 (FY2011), 2013 (FY2012), 2014 (FY2013), 2015 (FY2014), 2016 (FY2015), 2017 (FY2016), 2018 (FY2017), 2019 (FY2018)

								Millions of yen	Changes in %	Thousands of US dollars
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2017-2018	FY2018
For the year:										
Net sales	¥341,864	¥323,135	¥395,304	¥458,081	¥475,608	¥487,625	¥591,035	¥576,948	(2.4)%	\$5,201,478
Operating profit	88,069	78,027	105,153	127,686	134,233	141,107	192,428	180,203	(6.4)	1,624,621
Profit attributable to owners of parent	59,279	64,270	86,311	109,583	92,138	113,095	136,869	130,631	(4.6)	1,177,707
Depreciation	12,236	10,952	12,618	13,620	14,863	14,246	15,252	16,255	6.6	146,553
Capital expenditures	13,371	18,349	22,563	28,669	24,756	21,663	23,683	31,936	34.8	287,925
R&D expense	13,480	13,729	15,544	17,607	18,452	19,115	20,239	21,367	5.6	192,635
Free cash flow	4,234	9,463	23,392	66,412	67,724	30,584	83,656	16,827	(79.9)	151,707
At year end:										
Total assets	737,957	844,010	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	3.5	12,515,165
Shareholders' equity	585,356	687,532	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	8.1	11,170,339
Interest-bearing debts	33,076	32,738	61,295	70,581	49,243	17,073	6,438	7,238	12.4	65,201
Cash and cash equivalents	159,224	173,501	208,577	281,716	295,270	277,449	322,690	312,366	(3.2)	2,813,857
Per share data (yen):										
Net income per share (EPS)	864.29	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	1,943.35	(4.6)	17,520
Net assets per share	8,534.57	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	18,447.39	8.1	166,177
Dividend per share	130.00	150.00	170.00	190.00	200.00	300.00	400.00	400.00	0.0	3,606
Reference indices:										
Operating income ratio (%)	25.8	24.1	26.6	27.9	28.2	28.9	32.6	31.2	(4.3)	
Return on equity (%)	10.6	10.1	11.7	12.9	9.9	11.5	12.6	10.9	(13.5)	
Equity ratio (%)	79.3	81.5	81.0	81.4	83.9	86.2	85.4	89.3	4.6	
Debt equity ratio (%)	5.7	4.8	7.8	7.7	5.2	1.7	0.6	0.6	4.0	
Dividend ratio (%)	15.0	16.0	13.3	11.7	14.6	17.8	19.6	20.6	5.1	
Other data:										
Market capitalization	945,800	1,306,584	1,956,643	2,468,622	1,761,035	2,217,799	2,901,598	2,797,849	(3.6)	\$25,224,030
Number of engineers	1,667	1,656	1,648	1,638	1,711	1,777	1,817	1,910	5.1	
Number of employees	15,384	15,596	16,010	17,389	18,382	19,191	19,680	19,746	0.3	

Notes:

1. U.S. dollar figures are converted from yen, at the rate of ¥110.92 (average) and ¥111.01 (at end) to U.S.\$1, the approximate rate of exchange on March 31, 2019.

2. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.

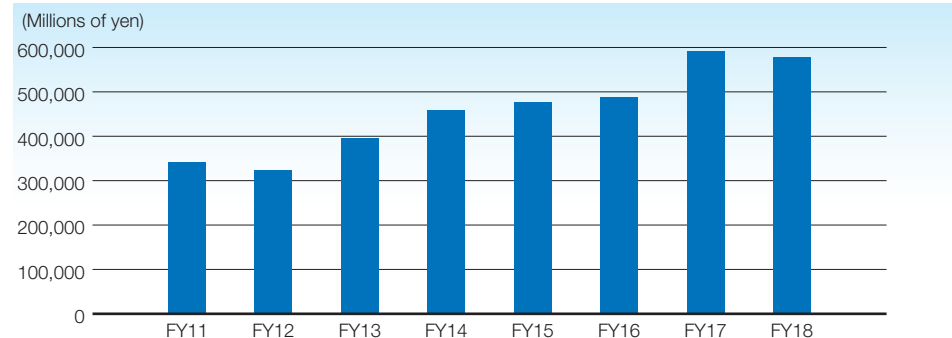
3. Net income per share are computed based on the average number of common shares for the respective fiscal years.

4. Dividend per share are computed on the dividend paid in respective fiscal years.

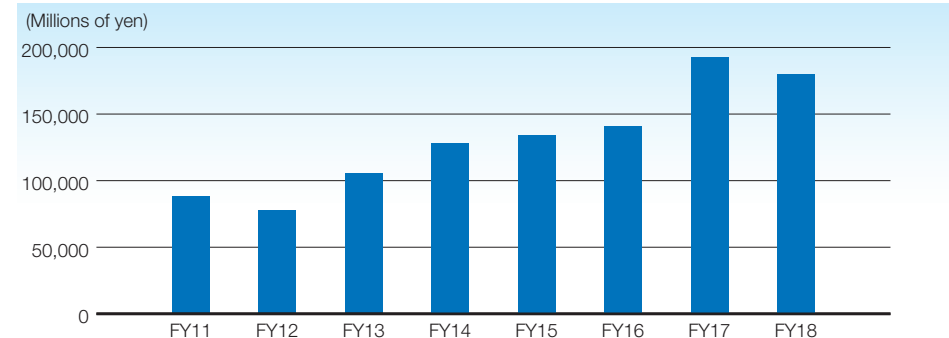
Financial Data

Operating Results

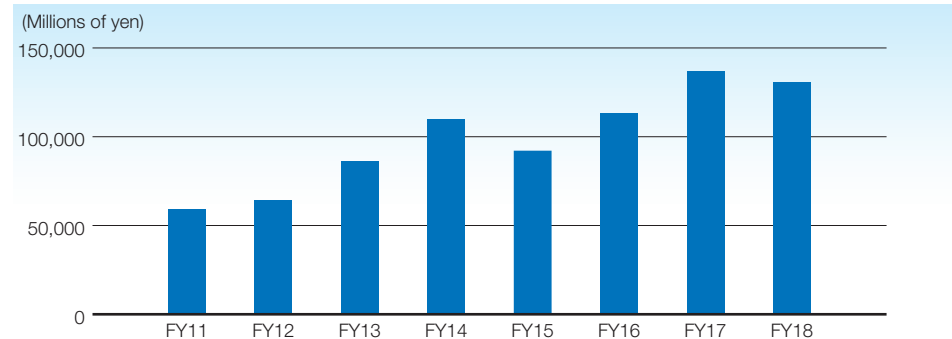
Net Sales



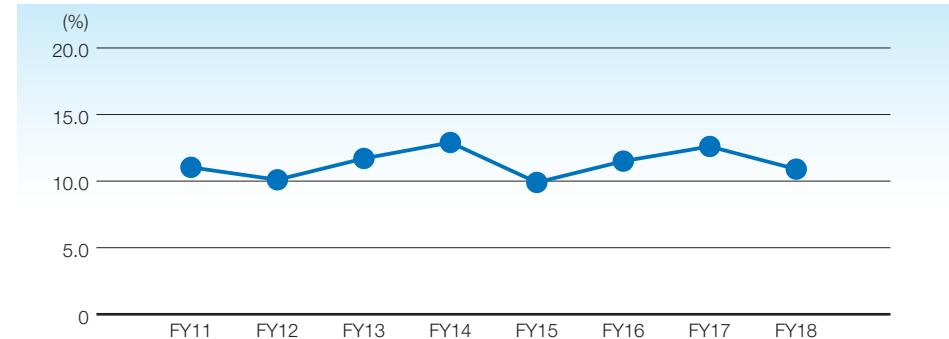
Operating Profit



Profit Attributable to Owners of Parent



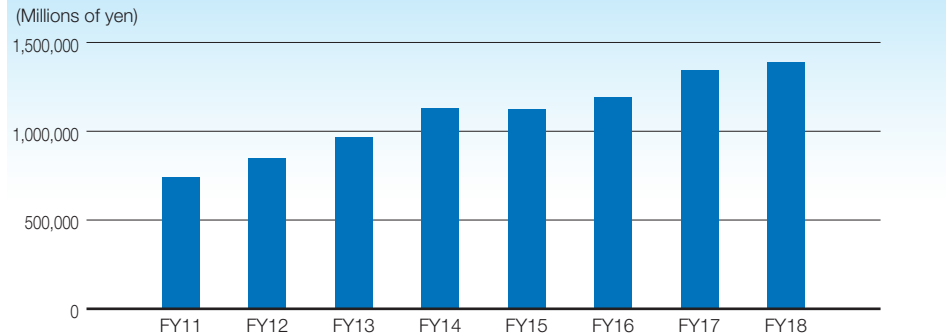
Return on Equity



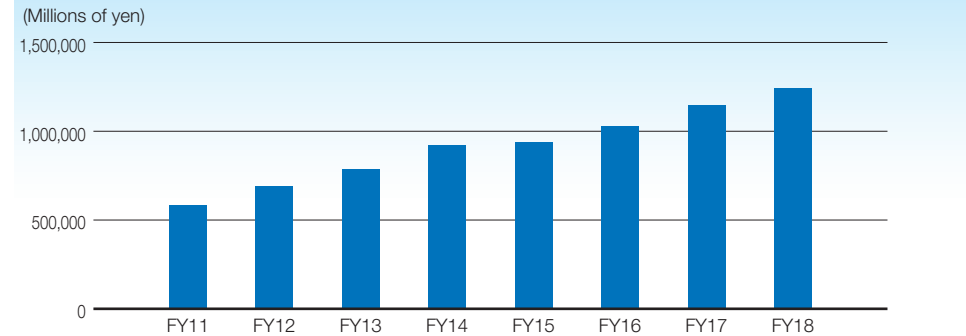
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
								(Millions of yen)
Net Sales	341,864	323,135	395,304	458,081	475,608	487,625	591,035	576,948
Operating Profit	88,069	78,027	105,153	127,686	134,233	141,107	192,428	180,203
Profit Attributable to Owners of Parent	59,279	64,270	86,311	109,583	92,138	113,095	136,869	130,631
Return on Equity (%)	10.6	10.1	11.7	12.9	9.9	11.5	12.6	10.9

Assets and Liabilities

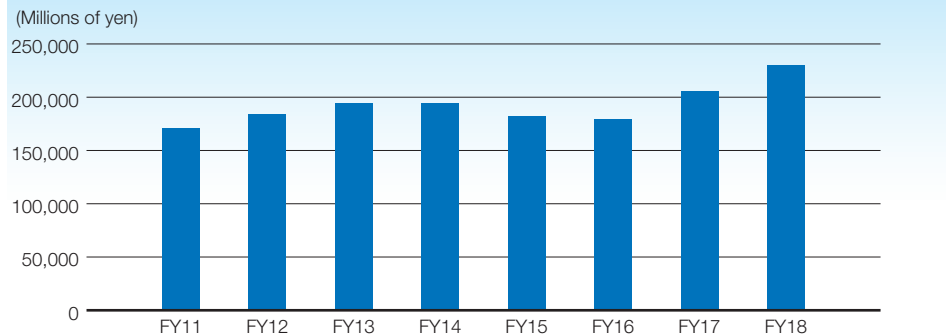
Total Assets



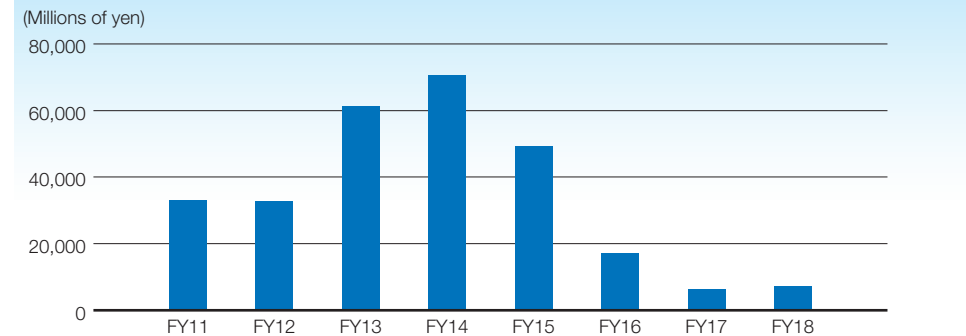
Net Assets



Inventories



Interest-bearing Debt

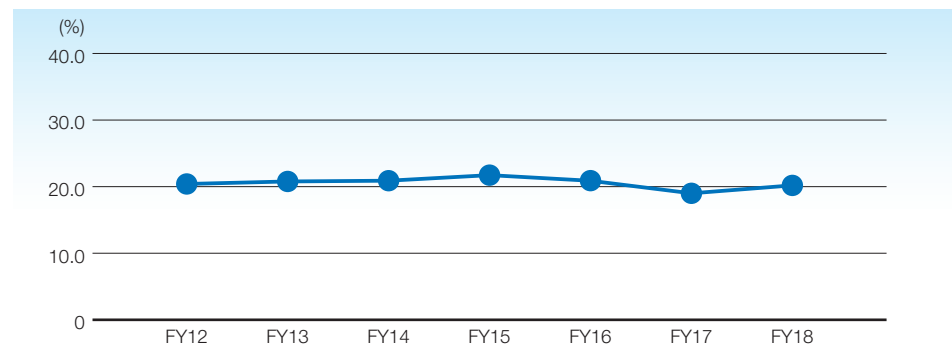


	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total Assets	737,957	844,010	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308
Net Assets	587,093	689,359	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252
Inventories	170,570	184,417	194,255	194,573	182,564	179,185	205,660	230,268
Interest-bearing Debt	33,076	32,738	61,295	70,581	49,243	17,073	6,438	7,238

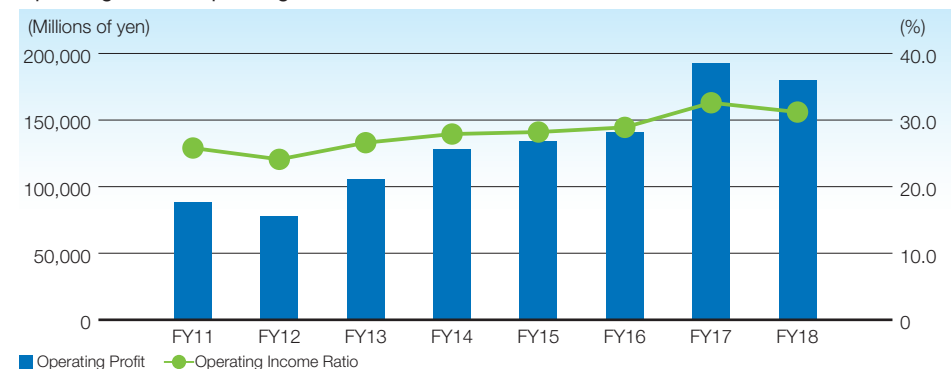
Financial Data

Profitability

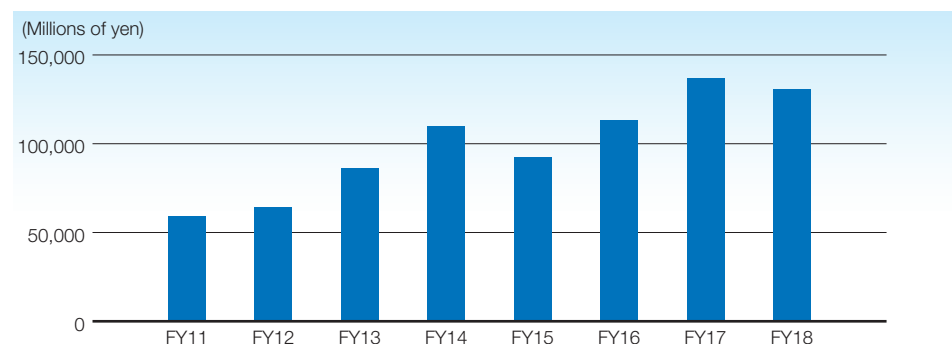
SG & A Ratio



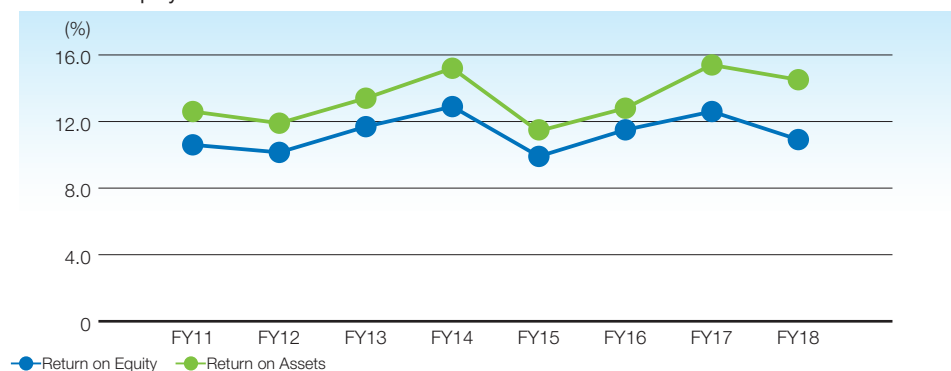
Operating Profit & Operating Income Ratio



Profit Attributable to Owners of Parent



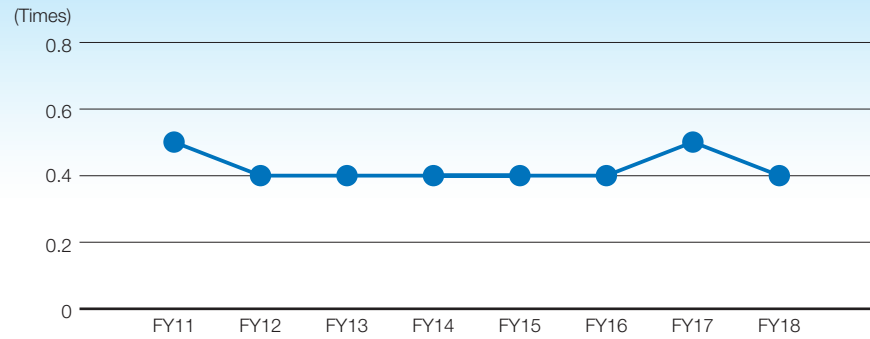
Return on Equity & Return on Assets



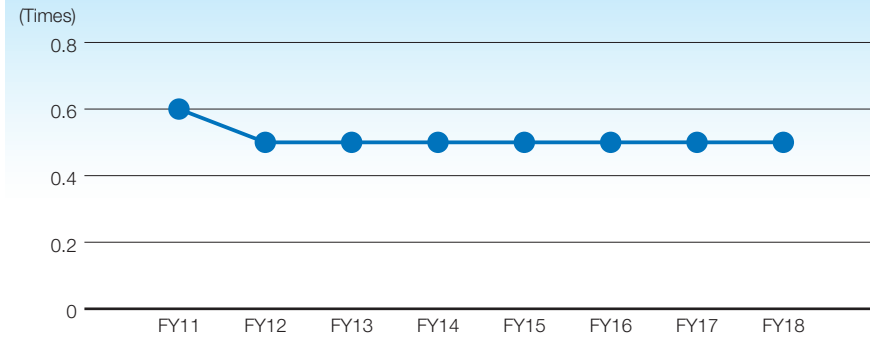
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
SG & A Ratio (%)		20.3	20.8	20.9	21.7	20.9	19.0	20.2
Operating Profit	88,069	78,027	105,153	127,686	134,233	141,107	192,428	180,203
Operating Income Ratio (%)	25.8	24.1	26.6	27.9	28.2	28.9	32.6	31.2
Profit Attributable to Owners of Parent	59,279	64,270	86,311	109,583	92,138	113,095	136,869	130,631
Return on Equity (%)	10.6	10.1	11.7	12.9	9.9	11.5	12.6	10.9
Return on Assets (%)	12.6	11.9	13.4	15.2	11.5	12.8	15.4	14.5

Efficiency

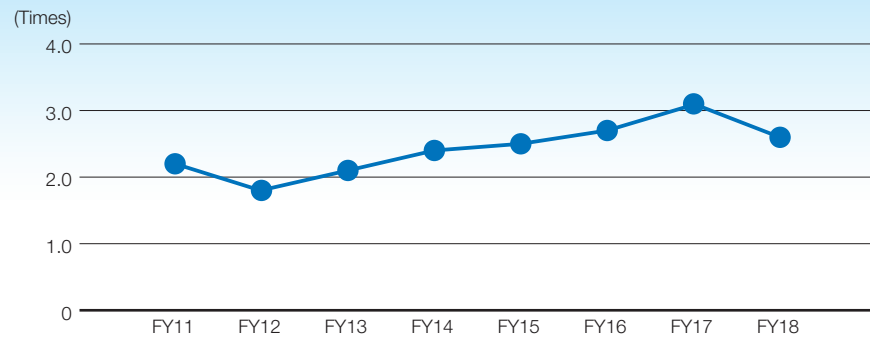
Total Assets Turnover



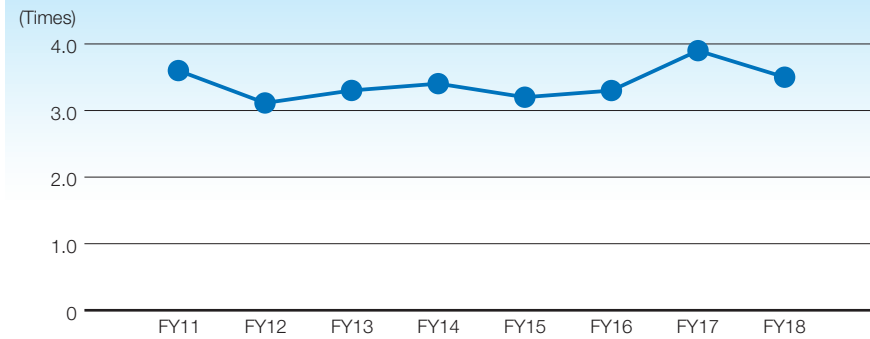
Equity Turnover



Inventories Turnover



Fixed Assets Turnover

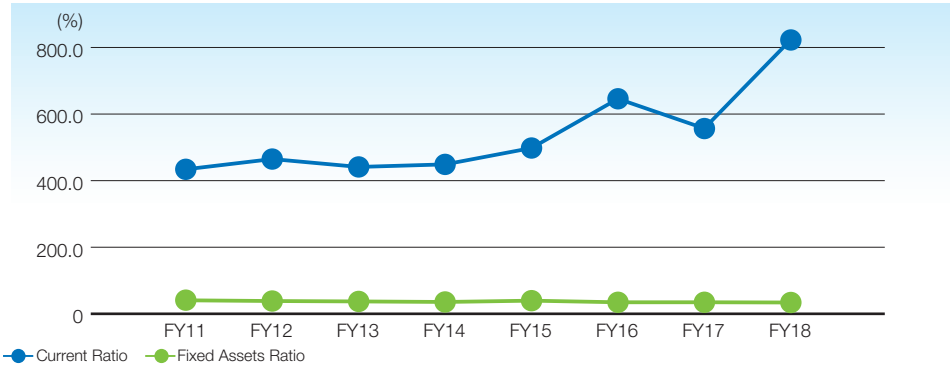


	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total Assets Turnover	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Equity Turnover	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Inventories Turnover	2.2	1.8	2.1	2.4	2.5	2.7	3.1	2.6
Fixed Assets Turnover	3.6	3.1	3.3	3.4	3.2	3.3	3.9	3.5

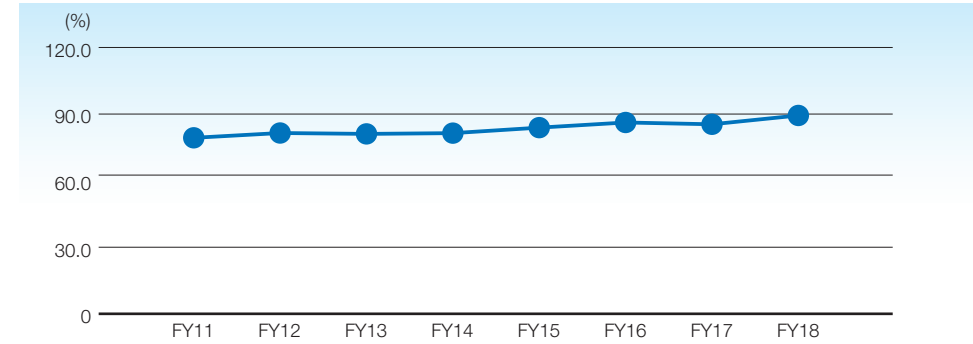
Financial Data

Stability

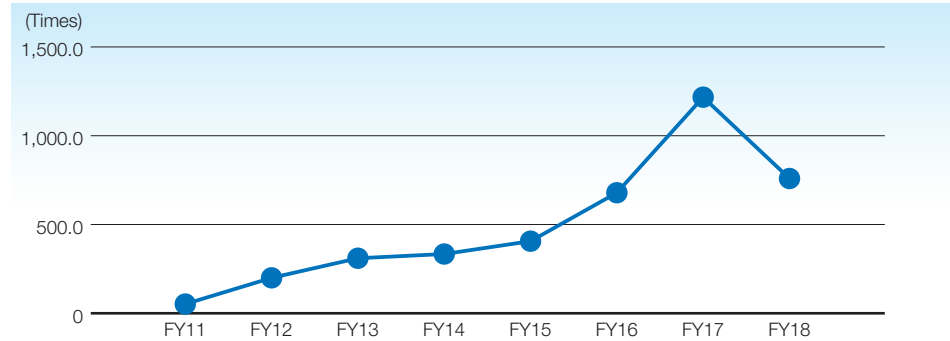
Current Ratio & Fixed Assets Ratio



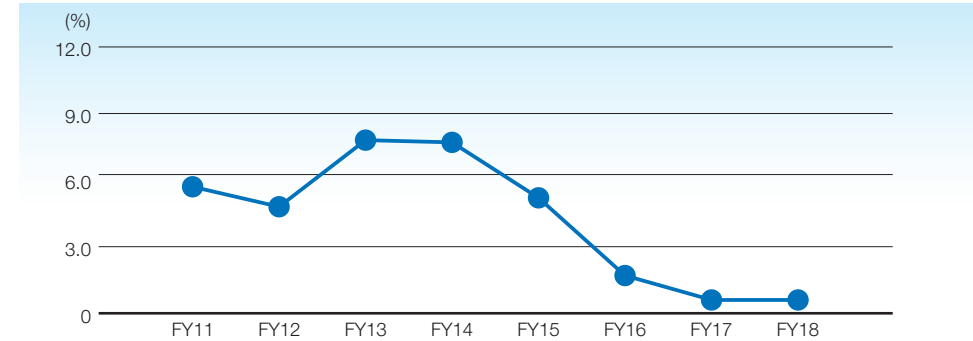
Equity Ratio



Interest Coverage Ratio



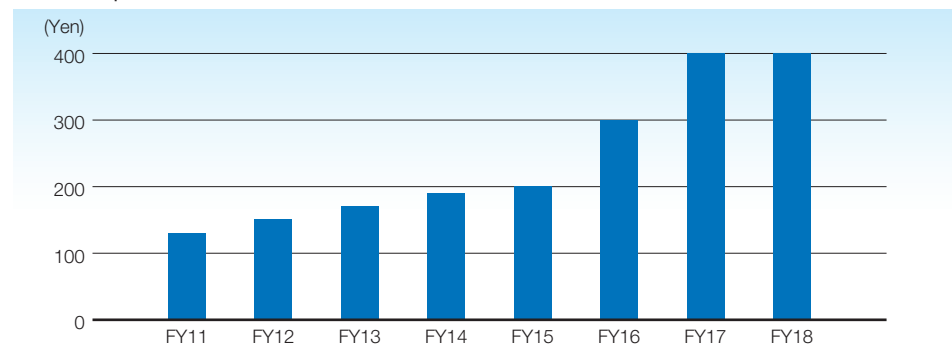
Debt Equity Ratio



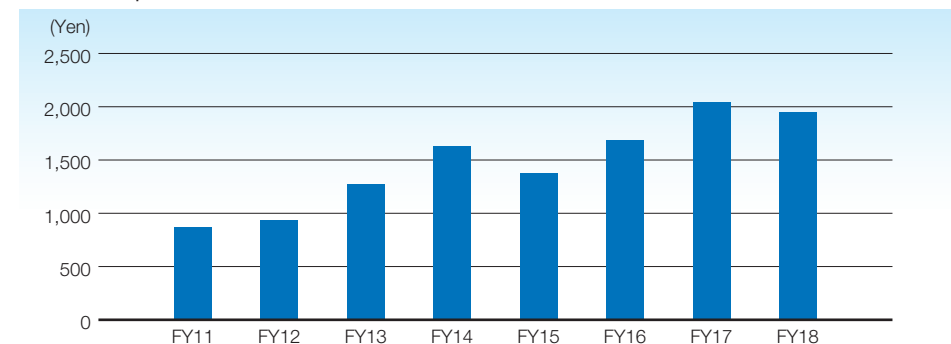
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Current Ratio (%)	432.9	464.6	441.0	448.0	497.3	645.8	543.2	822.6
Fixed Assets Ratio (%)	40.5	38.3	37.0	35.5	39.7	34.7	35.1	34.0
Equity Ratio (%)	79.3	81.5	81.0	81.4	83.9	86.2	85.4	89.3
Interest Coverage Ratio (Times)	52.0	199.8	310.0	333.8	406.3	679.0	1,216.9	758.8
Debt Equity Ratio (%)	5.7	4.8	7.8	7.7	5.2	1.7	0.6	0.6

Per Share Data

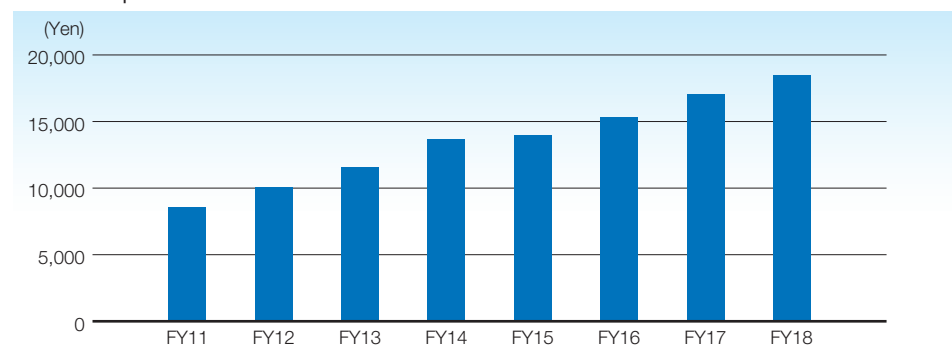
Dividends per Share



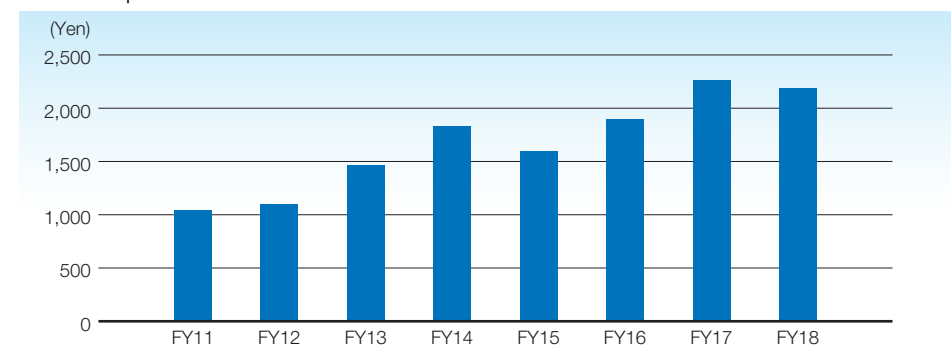
Net Income per Share



Net Assets per Share



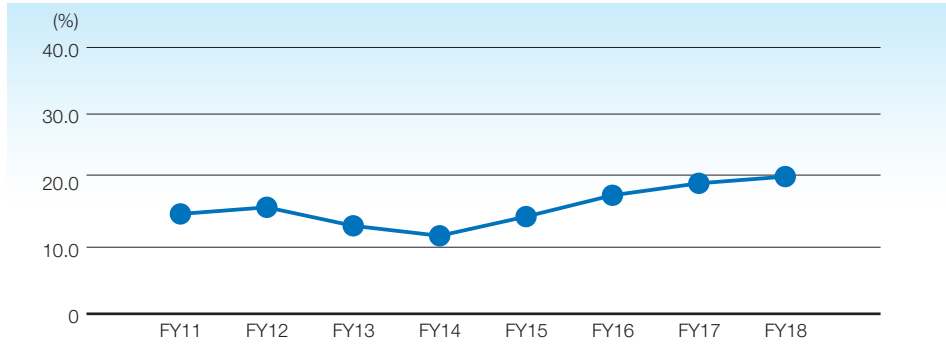
Cash Flow per Share



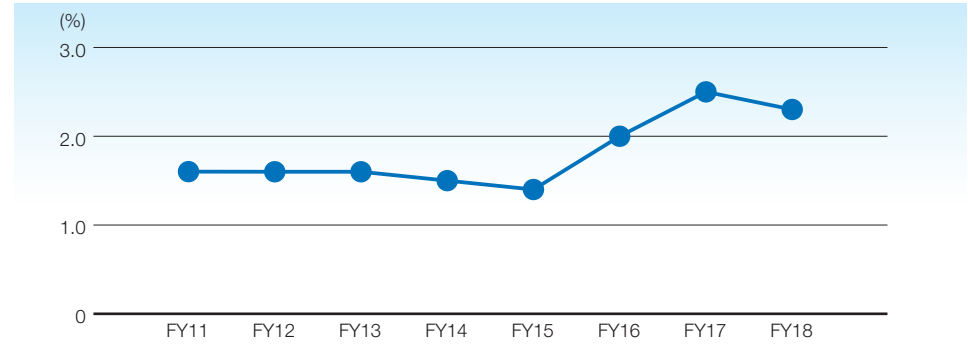
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Dividends per Share	130.00	150.00	170.00	190.00	200.00	300.00	400.00	400.00
Net Income per Share	864.29	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	1,943.35
Net Assets per Share	8,534.57	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	18,447.39
Cash Flow per Share	1,042.70	1,097.50	1,460.48	1,831.90	1,592.56	1,895.14	2,263.25	2,185.19

Investment Data

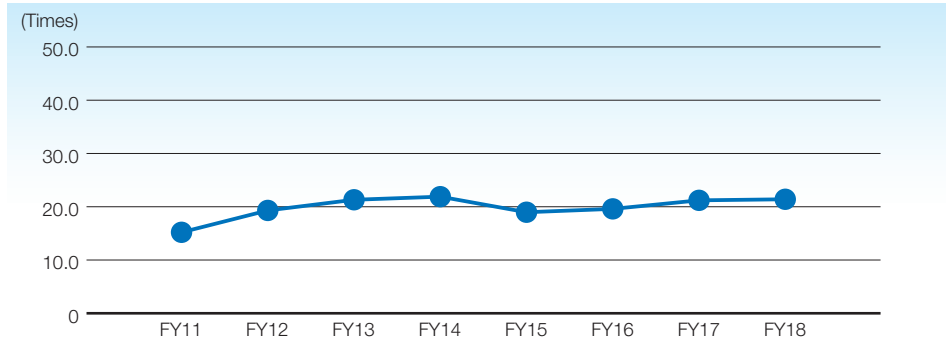
Dividend Ratio



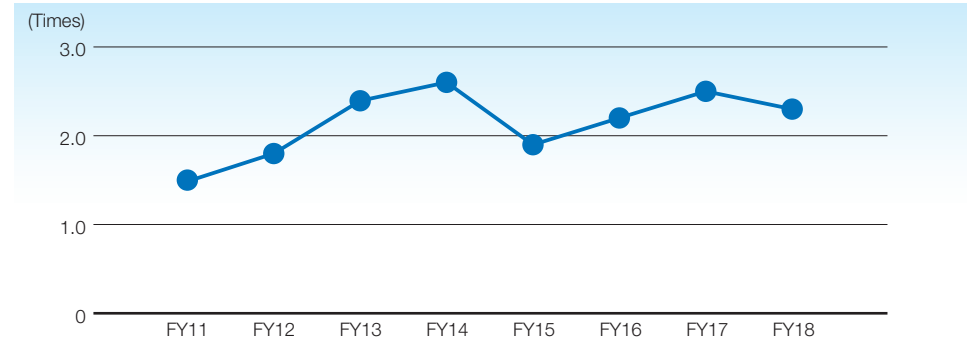
Dividends on Equity



Price Earnings Ratio



Price Book Value Ratio



	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Dividend Ratio (%)	15.0	16.0	13.3	11.7	14.6	17.8	19.6	20.6
Dividends on Equity (%)	1.6	1.6	1.6	1.5	1.4	2.0	2.5	2.3
Price Earnings Ratio (Times)	15.2	19.3	21.3	21.9	19.0	19.6	21.2	21.4
Price Book Value Ratio (Times)	1.5	1.8	2.4	2.6	1.9	2.2	2.5	2.3

Global Network



U. S.



Mexico



Soka Factory



Tsukuba Factory



Tsukuba Technical Center



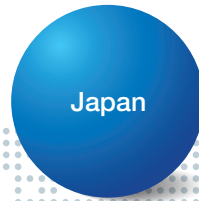
Shimotsuma Factory



Australia



Brazil



Japan



Kamaishi Factory



Tono Factory



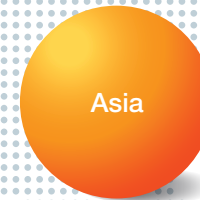
Yamatsuri Factory



North America / Other



Europe



Asia



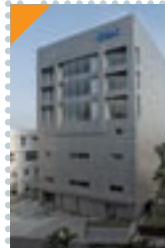
U. K.



Germany



Austria



Taiwan



Hong Kong



Beijing Manufacturing



China



Spain



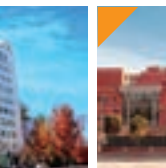
France



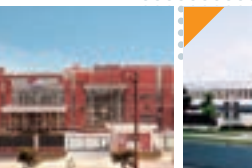
Italy



Korea



India



Manufacturing Singapore

Corporate Information / Board of Directors

SMC Corporation (as of March 31, 2019)

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
Share Capital	JPY 61,005 million
Number of Employees	Consolidated 19,746
Current Status of Stocks	Total number of shares 240,000,000 Shares outstanding 67,369,359 Number of shareholders 5,173
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 (as of September 30, 2019)

Chairman Yoshiyuki Takada	Director and Senior Managing Executive Officers Seiji Kosugi Masahiko Satake	Director and Senior Advisor Ikuji Usui	Full-Time Corporate Auditor Naoto Moriyama
President Katsunori Maruyama		Outside Directors Masanobu Kaizu Toshiharu Kagawa	Outside Corporate Auditors Arata Toyoshi Haruya Uchikawa
Executive Vice President Yoshiki Takada	Director and Executive Officers Toshio Isoe Masahiro Ota		

Annual Report 2019

Financial Section For the year ended March 31, 2019

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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 the 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 current fiscal year.

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 current fiscal year

(1) Overview of operating results

Net sales for the current fiscal year were 576,948 million yen (2.4% decrease year on year).

Gross profit was 296,843 million yen (2.6% decrease year on year), and gross profit margin was 51.5% thanks to rationalization and cost-saving effort.

Selling, general and administrative expenses were 116,640 million yen (3.9% increase) and the selling, general and administrative expenses ratio rose 1.2 percentage points yoy to 20.2%. Operating profit was 180,203 million yen (6.4% decrease) and operating profit margin declined 1.3 percentage points yoy to 31.2%.

For non-operating income and expenses, foreign exchange gains of 2,827 million yen were incurred (foreign exchange losses of 6,025 million yen for the previous fiscal year), financial income was 11,324 million yen (26.5% increase), ordinary profit was 198,201 million

yen (0.7% increase) and the ordinary profit margin rose 1.1 percentage points yoy to 34.4%, and profit attributable to owners of parent was 130,631 million yen (4.6% decrease).

Average foreign exchange rates for the current fiscal year were 110.92 yen to the U.S. dollar, 128.44 yen to the euro and 16.53 yen to the Chinese yuan. Exchange rates as of the end of the current fiscal year were 111.01 yen to the U.S. dollar, 124.56 yen to the euro and 16.48 yen to the Chinese yuan.

(2) Overview of financial positions

Total assets as of the end of the current fiscal year were 1,389,308 million yen, which was increase of 46,417 million yen (3.5%) yoy, mainly due to increases in cash and deposits, inventories and property, plant and equipment.

Total liabilities decreased 46,417 million yen (24.1%) yoy to 146,056 million yen which the decreases in notes and accounts payable-trade and income taxes payable contributed, although deferred tax liabilities increased.

Net assets increased 92,835 million yen (8.1%) yoy to 1,243,252 million yen, mainly due to increases in retained earnings.

(3) Overview of cash flow

The balance of cash and cash equivalents (hereinafter “cash”) as of the end of the current fiscal year was 312,366 million yen, decrease of 10,323 million yen yoy.

(Cash flow from operating activities)

Net cash provided by operating activities was 75,627 million yen (revenue decrease of 78,687 million yen yoy), resulted by increases in profit before income taxes and depreciation, decrease in trade payables, increase in inventories and in payments such as income taxes.

(Cash flow from investing activities)

Net cash used in investing activities was 58,800 million yen (decrease of 11,857 million yen yoy). This resulted from payments into time deposits (net by income of proceeds from withdrawal) and payments for purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash used in financing activities was 26,151 million yen (decrease of 10,634 million yen yoy), resulted from payments of cash dividends.

■ Business and Other Risk Factors

1. Country risk associated with overseas business development

To expand sales through improving customer satisfaction, the Group is developing a wide range of business activities that includes R&D, material procurement, 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 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 the 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, 2018	As of March 31, 2019
[ASSETS]		
Current assets		
Cash and deposits	506,436	519,609
Notes and accounts receivable-trade	162,637	158,079
Securities	37,074	31,977
Merchandise and finished goods	89,731	102,936
Work in process	18,210	19,753
Raw materials and supplies	97,717	107,578
Other	28,829	28,449
Allowance for doubtful accounts	(697)	(460)
Total current assets	939,940	967,924
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	73,203	73,752
Machinery, equipment and vehicles, net	28,444	27,928
Tools, furniture and fixtures, net	6,804	7,453
Land	35,391	38,194
Construction in progress	13,081	23,012
Total property, plant and equipment	156,925	170,342
Intangible assets		
Leasehold interests in land	9,348	9,046
Other	2,408	2,409
Total intangible assets	11,756	11,456
Investments and other assets		
Investment securities	96,058	96,320
Retirement benefit asset	60	48
Insurance funds	126,861	132,936
Deferred tax assets	8,765	6,021
Other	4,062	5,736
Allowance for doubtful accounts	(1,541)	(1,479)
Total investments and other assets	234,267	239,585
Total non-current assets	402,950	421,384
Total assets	1,342,890	1,389,308

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	88,411	38,513
Short-term borrowings	1,640	4,503
Income taxes payable	33,935	23,800
Provision for bonuses	3,062	2,894
Other	45,986	47,959
Total current liabilities	173,036	117,670
Non-current liabilities		
Long-term borrowings	4,798	2,735
Deferred tax liabilities	1,535	11,287
Provision for retirement benefits for directors	890	956
Retirement benefit liability	7,022	6,398
Other	5,190	7,007
Total non-current liabilities	19,437	28,385
Total liabilities	192,473	146,056
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	985,216	1,088,960
Treasury shares	(3,066)	(3,086)
Total shareholders' equity	1,116,528	1,220,251
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,864	7,667
Foreign currency translation adjustment	20,594	12,824
Remeasurements of defined benefit plans	(742)	(724)
Total accumulated other comprehensive income	30,716	19,767
Non-controlling interests	3,171	3,232
Total net assets	1,150,416	1,243,252
Total liabilities and net assets	1,342,890	1,389,308

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

(1) Consolidated Statement of Income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales	591,035	576,948
Cost of sales	286,381	280,104
Gross profit	304,654	296,843
Selling, general and administrative expenses	112,226	116,640
Operating profit	192,428	180,203
Non-operating income		
Interest income	7,885	9,301
Foreign exchange gains	–	2,827
Gain on investments in insurance funds	927	1,749
Other	2,971	4,902
Total non-operating income	11,784	18,781
Non-operating expenses		
Interest expenses	110	116
Sales discounts	259	261
Loss on sales of securities	876	281
Foreign exchange losses	6,025	–
Other	95	124
Total non-operating expenses	7,366	783
Ordinary profit	196,846	198,201
Extraordinary income		
Gain on sales of non-current assets	197	111
Gain on sales of investment securities	43	214
Other	17	15
Total extraordinary income	259	341
Extraordinary losses		
Loss on retirement of non-current assets	94	208
Impairment loss	923	–
Loss on valuation of shares of subsidiaries	–	1,202
Other	20	50
Total extraordinary losses	1,038	1,460
Profit before income taxes	196,067	197,081
Income taxes - current	57,592	52,465
Income taxes - deferred	1,305	13,801
Total income taxes	58,897	66,267
Profit	137,169	130,814
Profit attributable to non-controlling interests	300	183
Profit attributable to owners of parent	136,869	130,631

(2) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Profit	137,169	130,814
Other comprehensive income		
Valuation difference on available-for-sale securities	2,101	(3,287)
Foreign currency translation adjustment	6,158	(7,784)
Remeasurements of defined benefit plans, net of tax	733	17
Total other comprehensive income	8,993	(11,054)
Comprehensive income	146,163	119,759
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	145,737	119,682
Comprehensive income attributable to non-controlling interests	425	77

3. Consolidated Statement of Changes in Equity

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	72,871	875,230	(3,348)	1,005,758
Changes in 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
Net changes in items other than shareholders' equity					
Total changes in items during period	—	501	109,986	282	110,769
Net assets at end of period	61,005	73,372	985,216	(3,066)	1,116,528

Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,372	985,216	(3,066)	1,116,528
Changes in items during period					
Dividends of surplus			(26,887)		(26,887)
Profit attributable to owners of parent			130,631		130,631
Purchase of treasury shares				(20)	(20)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	—	103,743	(20)	103,723
Net assets at end of period	61,005	73,372	1,088,960	(3,086)	1,220,251

	Accumulated other 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 period	8,864	14,459	(1,475)	21,848	2,761	1,030,369
Changes in 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
Net changes in items other than shareholders' equity	1,999	6,134	733	8,868	409	9,277
Total changes in items during period	1,999	6,134	733	8,868	409	120,047
Net assets at end of period	10,864	20,594	(742)	30,716	3,171	1,150,416

	Accumulated other 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 period	10,864	20,594	(742)	30,716	3,171	1,150,416
Changes in items during period						
Dividends of surplus						(26,887)
Profit attributable to owners of parent						130,631
Purchase of treasury shares						(20)
Net changes in items other than shareholders' equity	(3,196)	(7,769)	17	(10,948)	61	(10,887)
Total changes in items during period	(3,196)	(7,769)	17	(10,948)	61	92,835
Net assets at end of period	7,667	12,824	(724)	19,767	3,232	1,243,252

4. Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	196,067	197,081
Depreciation	15,252	16,255
Impairment loss	923	–
Increase (decrease) in allowance for doubtful accounts	(432)	(243)
Increase (decrease) in provision for retirement benefits for directors	20	66
Increase (decrease) in retirement benefit liability	(392)	(599)
Interest and dividend income	(8,379)	(9,942)
Interest expenses	110	116
Foreign exchange losses (gains)	5,094	(2,863)
Loss (gain) on sales of investment securities	(43)	(214)
Loss (gain) on valuation of investment securities	–	1,202
Decrease (increase) in trade receivables	(19,819)	2,485
Decrease (increase) in inventories	(25,951)	(25,653)
Increase (decrease) in trade payables	26,882	(49,140)
Decrease (increase) in other current assets	(3,501)	1,000
Increase (decrease) in other current liabilities	3,840	873
Other, net	262	(2,229)
Subtotal	189,934	128,195
Interest and dividends received	9,047	9,925
Interest paid	(126)	(99)
Income taxes (paid) refund	(44,540)	(62,392)
Net cash provided by (used in) operating activities	154,315	75,627

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from investing activities		
Payments into time deposits	(118,580)	(301,880)
Proceeds from withdrawal of time deposits	110,455	276,719
Purchase of property, plant and equipment	(24,152)	(29,647)
Purchase of intangible assets	(1,364)	(1,672)
Purchase of short-term and long-term investment securities	(45,400)	(18,153)
Proceeds from sales and redemption of short-term and long-term investment securities	11,327	18,270
Loan advances	(779)	(0)
Collection of loans receivable	268	206
Purchase of insurance funds	(8,233)	(8,713)
Proceeds from maturity of insurance funds	4,099	5,003
Other, net	1,701	1,069
Net cash provided by (used in) investing activities	(70,658)	(58,800)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,070)	(30)
Proceeds from long-term borrowings	1,000	2,600
Repayments of long-term borrowings	(1,565)	(1,770)
Purchase of treasury shares	(30)	(20)
Dividends paid	(26,880)	(26,882)
Other, net	760	(48)
Net cash provided by (used in) financing activities	(36,785)	(26,151)
Effect of exchange rate change on cash and cash equivalents	(1,630)	(999)
Net increase (decrease) in cash and cash equivalents	45,241	(10,323)
Cash and cash equivalents at beginning of period	277,449	322,690
Cash and cash equivalents at end of period	322,690	312,366

■ Notes to the Consolidated Financial Statements

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

1. 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
Seigyo 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. 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 using 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 year of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2019 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. Accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Available-for-sale securities

a. With fair value: Stated at fair value based on the market value as of the balance sheet date.

(All unrealized holding gains and losses are included in net assets and cost of sales is principally calculated with the moving average method.)

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

(ii) Inventories: Principally values inventories with gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

(2) Depreciation methods for 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 calculated 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 calculated 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.

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 calculated 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) specified by the Company.

(3) Basis for significant allowances and provisions

(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 of the estimated amount to prepare for bonus payment to employees.

(iii) Provision for retirement benefits for directors

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

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

Foreign currency denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the balance sheet date and the difference resulting from the translation is recognized as gains or losses. Meanwhile, assets and liabilities held by consolidated foreign subsidiaries are translated into Japanese yen at exchange rates prevailing at the balance sheet date, while earnings and expenses are translated into Japanese yen at average rates of exchange during the current consolidated fiscal year and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under net assets.

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

(i) Basis for net defined retirement benefit liabilities and net defined retirement benefit assets

For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded with having pension assets excluded from the retirement benefit obligations, based on the end fiscal year projected amount. 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 the simplified accounting method for the calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for using the tax-exclusion method.

[Notes on change in presentation method]

(Changes associated with the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No.28; February 16, 2018) from the beginning of the current consolidated fiscal year.

As a result, deferred tax assets are presented in investments and other assets, deferred tax liabilities are presented in non-current liabilities.

[Notes on Consolidated Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	217,112
2. For non-consolidated subsidiaries and affiliates	
Investment securities (shares)	19,579
“Other” under Investments and other assets (investments in capital)	1,107

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	40,487
Bonuses	9,132
Retirement benefit expenses	1,841
Provision of allowance for doubtful accounts	(82)
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs	21,367

[Notes on Consolidated Statement of Changes in Equity]

1. Type and number of outstanding shares and treasury shares

					(Shares)
	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury shares	Common share	149,588	551	—	150,139

Note: 551 shares increase in the number of treasury shares was due to purchase of odd-lot shares.

2. Dividends

(1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2018	Common share	¥13,443million	¥ 200	March 31, 2018	June 28, 2018
Board of Directors' Meeting held on November 7, 2018	Common share	¥13,443million	¥ 200	September 30, 2018	November 30, 2018

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

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 27, 2019.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 13,443million	¥ 200	March 31, 2019	June 28, 2019

[Notes on financial instruments]

1. Status of financial instruments

(1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions 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 instead, are limited to invest in short-term bank deposits, etc.

We limit the derivative transactions within the range of actual demand and do not make speculative transactions, based on internal rules.

(2) Contents and risk of financial instruments

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

Short-term borrowings are mainly fund procurement for general purpose working capital. Long-term borrowings have a due date of up to five years after the current consolidated fiscal year.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to contract default by customers)

Regarding credit risk management for trade receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect customers' credit status information on a daily basis. As part of this system, we perform risk assessment regularly to ensure receivables are protected. Furthermore, 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 trade receivables and trade payables, the Company and some of its consolidated subsidiaries may engage in foreign exchange forward contract transactions when required. The balance of foreign currency denominated trade payables is constantly within the balance of foreign currency denominated trade 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 on matters relating to fair value of financial instruments and others

Fair values of financial instruments include market price based values and deemed market price values that are reasonably assessed when there are no market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences as of March 31, 2019. Items whose fair values are extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

	(Millions of yen)		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	519,609	519,609	—
(2) Notes and accounts receivable-trade	158,079	158,079	—
(3) Securities and investment securities			
Available-for-sale securities	108,534	108,534	—
Total assets	786,223	786,223	—
(4) Notes and accounts payable-trade	38,513	38,513	—
(5) Short-term borrowings	4,503	4,503	—
Total liabilities	43,016	43,016	—
Derivative transactions	—	—	—

(Notes)

1. Calculation method of fair value of financial instruments and matters pertaining to 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, book values are adopted.

(3) Securities and investment securities

Within which, fair values of stocks are based on securities exchange price and fair values of government bonds and beneficiary rights of securities investment trust are based on securities exchange price or prices given by correspondent financial institutions.

Liabilities

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

Since contractual terms of these items are short and fair values of these items approximate book values, book values are adopted.

Derivative transactions

There are no relevant matters for the current consolidated fiscal year.

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

Category	Consolidate balance sheet amount
Shares of subsidiaries and affiliates	¥ 19,579 million
Unlisted stocks	¥ 184 million

The above items are excluded from “(3) Securities and investment securities” since 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

	(Millions of yen)			
	Within 1 year	More than 1 year within 5 years	More than 5 years within 10 years	More than 10 years
(1) Cash and deposits	519,592	—	—	—
(2) Notes and accounts receivable-trade	158,079	—	—	—
(3) Securities and investment securities Available-for-sale securities with maturity date				
(Government bonds)	11,101	49,954	—	—
(other)	439	954	—	—
Total	689,212	50,908	—	—

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

	Within 1 year
Short-term borrowings	¥ 4,503 million

[Notes on per share information]

1. Net assets per share: 18,447.39 yen
2. Net income per share: 1,943.35 yen

[Notes on significant subsequent events]

(Repurchase of own shares)

The Company's board of directors passed a resolution at its meeting held on May 15, 2019 on matters related to the repurchase of its own shares, pursuant to the stipulations of article 156 of Companies Act applied by replacing the provisions of article 165, paragraph 3, of the same act.

1. Reason for the repurchase

To implement flexible capital policy, enhance shareholder returns, and improve capital efficiency.

2. Details of repurchase

- (1) Type of shares to be repurchased: Common shares of the Company
(2) Total number of shares to be repurchased: Up to 700,000 shares
(3) Total amount of repurchase: Up to 30,000 million yen
(4) Period of repurchase: From June 3, 2019 to September 30, 2019
(5) Method of repurchase: Market purchase on the Tokyo Stock Exchange

Independent Auditor's Report

Seiyo Audit Corporation

2ND FLOOR NISHISHIMBASHI BUILDING
1-22-10 NISHISHIMBASHI MINATO-KU
TOKYO 105-0003 JAPAN

To the Board of Directors of SMC Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SMC Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year ended March 31, 2019, and the notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SMC Corporation and its consolidated subsidiaries as of March 31, 2019, and their operating performance and cash flows for the year ended March 31, 2019, in accordance with accounting principles generally accepted in Japan.

Seiyo Audit Corporation

Seiyo Audit Corporation Tokyo, Japan

June 27, 2019



Note) This independent auditors' report is translated into English without changing the meaning of the original one.



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