



Semiannual Report

For the six months ended September 30, 2003

SMC CORPORATION

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President's Message

I am pleased to report on SMC Group's business activities and financial results for the six months ended September 30, 2003.

Operating Environment and Business Results

The world economy was uncertain as the whole in this interim term. The U.S. economy lacks the continuous strength and the European economy was generally in the situation lacking in the strength of recovery. On the other hand, the Asian economy was rather favorable as the influence of SARS was relatively limited and the flow of direct investment into China continued steadily. The Japanese economy was still in very severe conditions because of sluggish personal consumption as the results of the serious employment rate, the unstable income and the ongoing yen appreciation at the end of this interim term, although exports supported by overseas demands were steady and a sign of improvement was seen in capital investment.

Under these conditions, the SMC Group worked hard to steadily increase orders. We developed new products that led to the opening of new semiconductor- and food-related demands, consolidated overseas research and development centers, and improved production efficiency and production technologies of the Chinese subsidiary and other overseas plants in this interim term. We also implemented quality measures, cut down costs, rebuilt sales projects by occupation, engaged in property, plant and equipment investment in response to the increasing flat panel displays (FPD)-related demand, improved services for customers through the stepped-up sales and distribution network, and strengthened the sales network for districts.

As the results, SMC Group's consolidated net sales of this interim term was ¥115,499 million, an increase of 14.3% from the previous interim term, operating income was ¥23,842 million, an increase of 63.9%, and net income was ¥12,361 million, an increase of 52.5%.

This interim term's cash flows conditions were as follow:

• Cash Flows from Operating Activities

Net cash provided by operating activities was ¥26,748 million compared with ¥24,782 million provided during the previous interim term.

This was mainly due to a decrease in inventories as the results of properly adjusting inventories and cutting down cash outflow accompanied by an increase of purchase liabilities, despite a rise in receivables from the increase of net sales.

• Cash Flows from Investing Activities

Net cash used for investing activities was ¥11,963 million comparing with the ¥15,447 million used during the previous interim term.

This was mainly due to the outlay for depositing of fixed deposits, the acquisition of property, plant and equipment and an accumulated increase in payment for refundable insurance payments despite proceeds from withdrawal of fixed deposits and sale of investment securities.

• Cash Flows from Financing Activities

Net cash used for financing activities was ¥12,544 million compared with ¥346 million used during the previous interim term.

This was mainly due to the partial redemption of commercial papers and the repayment of short-term borrowings.

The SMC Group's cash and cash equivalents at the end of this interim term were ¥61,499 million, an increase of ¥807 million or 1.3% from the end of the previous term-end after computing cash flows of each activity and decreases of ¥1,219 million from the effect of exchange rate change of ¥215 million from the decrease of the consolidated subsidiaries.

Outlook for the Entire March 2004 Term

As for the outlook for the entire year, the U.S. will continue slow economic recovery, China and NIEs countries are expected to enjoy prosperous economy, the European countries are expected to undergo slow recovery and Japan will remain unclear due to the continued deflationary environment and increasing worries for a decrease in exports from yen appreciation against other major currencies.

Under such conditions, our group continues to push ahead with reconstruction of general businesses from the global standpoint.

On the assumption of the above conditions, this term's consolidated and single entity's business results are expected to be as follow :

	March 31, 2004	Change from the previous year
Net sales	¥228,000 million	+10%
Net income	¥23,000 million	+50%

Estimated exchange rate is 1U.S.\$ to ¥114.

SMC Group will pay an annual dividend of ¥38 per share, including ¥19 term-end dividend.

December 2003



Yoshiyuki Takada
President

Notes Regarding Future Plans and Estimates

This semiannual report contains projections concerning the future plans, strategies and estimated performance of SMC. These statements do not include historical data but rather are based on management's projections given the information currently available. Accordingly, these projections involve risks and uncertainties relative to the status of the economy and demand, intensifying competition, exchange rates, taxation and other regulations.

Consolidated Balance Sheets

As of September 30, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note)
	<u>30 Sept 2003</u>	<u>30 Sept 2002</u>	<u>30 Sept 2003</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 61,499	¥ 51,831	\$ 552,799
Short-term investments	17,929	16,934	161,164
Receivable - trade:			
Notes and accounts	61,197	57,155	550,083
Inventories	82,747	93,950	743,794
Deferred income taxes	6,621	6,630	59,512
Other current assets	9,285	6,520	83,463
Less: Allowance for doubtful receivables	(1,697)	(1,680)	(15,258)
	<u>237,581</u>	<u>231,340</u>	<u>2,135,557</u>
Investments and Other Assets:			
Investment securities			
Subsidiaries and affiliates	9,716	8,494	87,333
Other	23,890	17,572	214,745
Other assets			
Refundable insurance payments	71,244	65,701	640,393
Deferred income taxes	10,579	13,225	95,094
Other assets	11,027	9,922	99,118
Less: Allowance for doubtful receivables	(2,854)	(992)	(25,658)
	<u>123,602</u>	<u>113,922</u>	<u>1,111,025</u>
Property, Plant and Equipment:			
Land	17,269	17,230	155,225
Building and structures	64,553	64,405	580,252
Machinery and equipment	105,424	102,891	947,631
Construction in progress	1,825	2,139	16,410
Less: Accumulated depreciation	(109,054)	(102,482)	(980,261)
	<u>80,017</u>	<u>84,183</u>	<u>719,257</u>
	<u>¥441,200</u>	<u>¥429,445</u>	<u>\$3,965,839</u>

Note: U.S.dollar amounts are translated from Japanese yen, for convenience only, using the rate of ¥111.25 = U.S.\$1, the exchange rate prevailing on September 30, 2003.

	Millions of yen		Thousands of U.S. dollars (Note)
	30 Sept 2003	30 Sept 2002	30 Sept 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Payable - trade:			
Notes and accounts	¥ 31,155	¥ 23,985	\$ 280,041
Short-term borrowings and current portion of long-term borrowings	3,356	5,002	30,166
Commercial paper	5,000	20,000	44,944
Income taxes payable	9,872	7,989	88,733
Accrued expenses	9,701	8,936	87,204
Other current liabilities	6,466	8,566	58,121
	<u>65,550</u>	<u>74,478</u>	<u>589,209</u>
Long-term Liabilities:			
Bonds	5,550	5,450	49,887
Long-term borrowings, less current portion	7,363	6,280	66,187
Accrued severance indemnities	21,306	19,584	191,514
Deferred income taxes	3,928	4,034	35,304
Other long-term liabilities	3,659	3,599	32,892
	<u>41,806</u>	<u>38,947</u>	<u>375,784</u>
Minority Interests	<u>1,462</u>	<u>1,429</u>	<u>13,143</u>
Contingent Liabilities (Note Below)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized - 240,000 thousand shares			
Issued - 71,842 thousand shares in 2003 and - 71,850 thousand shares in 2002	61,005	61,005	548,363
Additional paid-in capital	72,576	72,576	652,370
Retained earnings	204,299	187,734	1,836,398
Unrealized gain (loss) on investments	1,529	(1,457)	13,741
Foreign currency translation adjustments	(6,819)	(5,151)	(61,297)
Treasury stocks, at cost	(208)	(116)	(1,872)
	<u>332,382</u>	<u>314,591</u>	<u>2,987,703</u>
	<u>¥441,200</u>	<u>¥429,445</u>	<u>\$3,965,839</u>

Note: At September 30, 2003 and 2002, contingent liabilities of the Company and its consolidated subsidiaries were as follows:

	Millions of yen		Thousands of U.S. dollars (Note)
	30 Sept 2003	30 Sept 2002	30 Sept 2003
Notes receivables discounted and endorsed	¥ 59	¥ 525	\$ 530
Exports draft discounted	26	29	234

Consolidated Statements of Income and Retained Earnings

For the six months ended September 30, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note)
	30 Sept 2003	30 Sept 2002	30 Sept 2003
Net Sales	¥115,499	¥101,046	\$1,038,194
Cost of Sales	64,252	60,226	577,542
Gross profit	51,247	40,820	460,652
Selling, General and Administrative Expenses	27,405	26,276	246,338
Operating income	23,842	14,544	214,314
Other Income (Expenses):			
Interest and dividend income	732	837	6,577
Interest expenses	(374)	(325)	(3,363)
Other, net	(3,849)	(2,686)	(34,600)
	(3,491)	(2,174)	(31,386)
Income before income taxes and other adjustments to net income	20,351	12,370	182,928
Income Taxes:			
Current	9,067	6,132	81,505
Deferred	(1,160)	(1,895)	(10,427)
	7,907	4,237	71,078
Minority Interests	83	29	742
Net income	¥ 12,361	¥ 8,104	\$ 111,108
Retained Earnings:			
Balance at beginning	193,605	181,073	1,740,271
Increase of retained earnings due to merger of non-consolidated subsidiary	-	122	-
Decrease of retained earnings due to decrease of consolidated subsidiary	(91)	-	(816)
Appropriations:			
Cash dividends	(1,365)	(1,365)	(12,267)
Directors' and corporate auditors' bonuses	(211)	(200)	(1,898)
Total appropriations	(1,576)	(1,565)	(14,165)
Balance at end	¥204,299	¥187,734	\$1,836,398
Per Share:			
Net income	¥ 172.05	¥ 112.78	\$ 1.55
Cash dividends	19.00	19.00	0.17

Note: U.S.dollar amounts are translated from Japanese yen, for convenience only, using the rate of ¥111.25 = U.S.\$1, the exchange rate prevailing on September 30, 2003.

Consolidated Statements of Cash Flows

For the six months ended September 30, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note)
	30 Sept 2003	30 Sept 2002	30 Sept 2003
Cash Flows from Operating Activities:			
Income before income taxes and other adjustments to net income ...	¥20,351	¥12,370	\$182,928
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,557	4,963	40,962
Increase in accrued severance indemnities	660	1,048	5,930
Increase in allowance for doubtful receivables	947	185	8,512
Interest, net	(617)	(719)	(5,550)
Exchange loss	153	60	1,379
Write-down of investments in securities	1,003	806	9,018
Gain on sales of securities	(15)	(4)	(133)
Increase in trade receivables	(3,252)	(193)	(29,230)
Decrease in inventories	3,844	5,120	34,551
Increase (Decrease) in trade payables	5,568	(115)	50,050
(Increase) Decrease in other current assets	(1,350)	99	(12,136)
Increase in other current liabilities	143	3,764	1,284
Payment of Directors' and statutory auditors' bonuses	(121)	(95)	(1,089)
Others	(747)	401	(6,713)
	<u>31,124</u>	<u>27,690</u>	<u>279,763</u>
Interest received	723	885	6,503
Interest paid	(131)	(96)	(1,177)
Income taxes paid	(4,968)	(3,697)	(44,654)
Net cash provided by operating activities	<u>26,748</u>	<u>24,782</u>	<u>240,435</u>
Cash Flows from Investing Activities:			
Increase in short-term investments	(3,047)	(4,989)	(27,389)
Proceeds from sale of investment securities	859	225	7,720
Payment for purchase of investment securities	(1,119)	(3,841)	(10,054)
Payment for purchase of property, plant and equipment	(3,395)	(3,129)	(30,515)
Increase in refundable insurance payments	(3,402)	(1,852)	(30,581)
Other, net	(1,859)	(1,861)	(16,715)
Net cash used for investing activities	<u>(11,963)</u>	<u>(15,447)</u>	<u>(107,534)</u>
Cash Flows from Financing Activities:			
Increase (Decrease) in short-term borrowings	(3,850)	1,170	(34,604)
Increase (Decrease) in long-term borrowings	584	(432)	5,249
Decrease of commercial paper	(8,000)	-	(71,910)
Proceeds from issuance of bonds	100	300	899
Cash dividends paid and others	(1,378)	(1,384)	(12,387)
Net cash used for financing activities	<u>(12,544)</u>	<u>(346)</u>	<u>(112,753)</u>
Effect of exchange rates changes on cash and cash equivalents	(1,219)	(759)	(10,961)
Net Increase in Cash and Cash Equivalents	1,022	8,230	9,187
Cash and Cash Equivalents at Beginning of Period	60,692	43,286	545,542
Cash and Cash Equivalents of Marged Subsidiary	-	315	-
Cash and Cash Equivalents of Excluded Subsidiary	(215)	-	(1,930)
Cash and Cash Equivalents at End of Period	¥61,499	¥51,831	\$552,799

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