As a General Supplier of Pneumatic Instruments

Pneumatic instruments, the mainstay products of SMC Corporation (SMC), are used as component parts in production lines and conveyor lines in automated factories, machine tools and industrial robots, and play an essential role in supporting factory automation (FA). Our customers conduct businesses in a wide range of industries (e.g., automobile, semiconductors, machine tools, electrical appliances, food processing machinery and medical equipment). The customer base is not limited to the leading countries and emerging countries, but continues to expand throughout the world along with the progress of industrialization. Accordingly, SMC has established a local presence in more than 80 countries in order to globally respond to customer requests.

SMC considers “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment including pneumatic instruments, as its social mission.

To Fulfill Our Corporate Social Responsibility

SMC acknowledges corporate social responsibility (CSR) and aims to become a company trusted and needed by all of our stakeholders including customers, suppliers, shareholders, investors, employees and local communities. To this end, SMC has established and communicated the “SMC Group Code of Conduct” to be complied with by all officers and employees of our group, and also requested our suppliers to respect the intent of this Code of Conduct.

The “SMC Group Code of Conduct” prohibits the use of conflict minerals, offering of improper gifts to public officers, unfair competition, any act that disrespects the personality or dignity of employees, unreasonable discrimination, child labor and forced labor. It declares that we will comply with all relevant laws and regulations as well as international rules, including rules on the management of workplace safety and sanitation, in addition to environment-related regulations.

To Achieve a Sustainable Society

Pneumatic instruments are environment-friendly automatic control equipment powered by compressed air which can be emitted to the atmosphere without creating pollution. SMC believes that the growth of demand and use of pneumatic instruments will, in itself, lead to reducing the environmental burdens of the entire society. Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automated control equipment products that deliver improved energy conservation performance with reduced size and weight. By responding to the customer requests from around the world, SMC will contribute to the sustainable growth of industries and expansion of technological innovations.

We are also taking measures considering protection of environment throughout the whole process of our business activities, such as avoiding the use of substances of concern, promoting energy-saving and resource-saving, reducing packaging materials, cutting down noise levels, reducing the volume and ensuring proper treatment of wastewater and waste discharge.
SMC at a Glance

SMC was established in 1959 under the name Shoketsu Kinzoku Kogyo Co., Ltd. Its current name “SMC” stands for Sintered Metal (Shoketsu Kinzoku in Japanese) Company. Under the “customer-first policy” maintained since its establishment, responding to customer requests, SMC began the manufacture and sales of automatic control equipment including pneumatic instruments. Globally expanding its manufacturing, sales, and research and development activities, SMC continues to grow as a general supplier of pneumatic instruments with the top global market share.

Products

- '59 | Filter elements
- '61 | Air F.R.L. (3-part combination: filter, regulator, lubricator) units for air-line equipment
- '70 | Japan’s first aluminum-bodied air cylinder (CM/CA)
- '71 | High-performance solenoid valve (VS)
- '77 | General purpose fluid control valve (PFC/QFC/SSC)
- '82 | Compact cylinder (CC)
- '89 | Air gripper (MHQ/MHC)
- '84 | Compact 5-port solenoid valve (VZ)
- '86 | Vacuum ejector (ZM)
- '87 | Vacuum pad
- '88 | Digital pressure switch (ZS5/S6)
- '89 | Mechanically jointed rodless cylinder (MYC/MYH)
- '93 | 5-port solenoid valve (SY/3X)
- '98 | 2-port chemical liquid valve (LV/LVA/LVH)
- '99 | Refrigerated air dryer complying with CFC regulations (LIF/LDI)
- '04 | Ionizer with electrostatic sensor (IZS30)
- '04 | Electric actuator (LJ1)
- '09 | 5-port solenoid valve (SY3000/SY5000)
- '10 | Direct-operated 2-port solenoid valve (VT2)
- '11 | Fieldbus system (EX260)
- '14 | Compact cylinder (JC/DM/EC/AC/AM)
Since SMC made its first foray into overseas markets in 1967, it has been working to build an industry-leading global network. In order to speedily deliver high-quality products and services to customers around the world, SMC has established its sales locations on the frontlines of the market; R&D centers in Japan, the United States, Europe and China; and manufacturing bases in six locations in Japan, as well as in China, Singapore and Vietnam. SMC has approximately 21,000 employees (of which, approximately 15,000 are non-Japanese employees). SMC will continue to meet the needs of customers around the world using its overall capability comprising the manufacturing, sales and technological knowhow.

**SMC in the World**

Since SMC made its first foray into overseas markets in 1967, it has been working to build an industry-leading global network. In order to speedily deliver high-quality products and services to customers around the world, SMC has established its sales locations on the frontlines of the market; R&D centers in Japan, the United States, Europe and China; and manufacturing bases in six locations in Japan, as well as in China, Singapore and Vietnam. SMC has approximately 21,000 employees (of which, approximately 15,000 are non-Japanese employees). SMC will continue to meet the needs of customers around the world using its overall capability comprising the manufacturing, sales and technological knowhow.

**Network**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Net Sales FY2018</th>
<th>YoY Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>14.3%</td>
<td>18.6%</td>
</tr>
<tr>
<td>Other</td>
<td>2.1%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Asia</td>
<td>34.3%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>32.7%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

**International standards that SMC products conform to**

- CE Marking
- EU F-Gas Regulation
- ATEX Directive
- UL/cUL Standards
- CSA Standards
- CRN
- CRN (Canadian Registration Number)
- Safety Standard ISO13849-1
- China Compulsory Certification System (CCC)
- TR-CU Certificate (EAC Marking)
SMC’s Approach

SMC Group has declared the following Management philosophy and identified the issues it needs to deal with for the future in its “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 different 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 survive competitions in the global markets and to acquire higher market shares.

SMC Group Ethical and Corporate Principles

SMC Group is, as an integrated member of society, alongside the pursuit of corporate profit, SMC Group recognizes a “Social Responsibility” to stabilize people’s lives and to contribute to societies’ healthy economic development. SMC Group will endeavor to become broadly useful to society by acting ethically according to principles stated below.

<table>
<thead>
<tr>
<th>SMC Group Ethical and Corporate Principles</th>
<th>Relevant Stakeholders</th>
<th>Pages in this Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To comply with laws and rules</td>
<td>All</td>
<td>19-21</td>
</tr>
<tr>
<td>2. To earn trust from customers and suppliers</td>
<td>Customers/Suppliers</td>
<td>17</td>
</tr>
<tr>
<td>3. To win the support and understanding of shareholders and investors</td>
<td>Shareholders and Investors</td>
<td>20</td>
</tr>
<tr>
<td>4. To respect the personality of the Company’s employees, to prohibit discrimination and to create pleasant environment at workplace</td>
<td>Employees</td>
<td>15-16</td>
</tr>
<tr>
<td>5. To communicate with society</td>
<td>Society</td>
<td>18</td>
</tr>
<tr>
<td>6. To maintain good relationship with governmental and administrative agencies</td>
<td>Society</td>
<td>18</td>
</tr>
<tr>
<td>7. To adequately deal with anti-social forces, groups and any other relevant party</td>
<td>Suppliers</td>
<td>17</td>
</tr>
<tr>
<td>8. To work on environmental issues</td>
<td>Suppliers</td>
<td>9-14</td>
</tr>
<tr>
<td>9. To set corporate ethical structure proactively</td>
<td>All</td>
<td>19-21</td>
</tr>
</tbody>
</table>

SMC has established the “SMC Group Code of Conduct” based on “SMC Group Ethical and Corporate Principles” in order to set forth more detailed standards to be compiled with by all officers and employees (including temporary workers, temporary employees dispatched from human resource companies and other relevant employees) of SMC Group companies. SMC also requests SMC Group companies’ suppliers (including service providers) to respect the purpose of this Code of Conduct.

For details, please visit our website.

Our Approach towards ESG (Environmental, Social and Governance) Sustainability

SMC’s mainstay pneumatic instruments are environment-friendly automatic control equipment powered by compressed air which can be emitted to the atmosphere without creating pollution. Our equipment can contribute to the promotion of energy conservation in all industrial fields. SMC will respond to the customer requests in developing and providing products with better energy performance. SMC’s Environmental Policy and the status of ISO certification are made available via the Company’s website.

https://www.smcworld.com/qc/ja/
SMC Group Code of Conduct – Initiatives on Environmental Issues

We recognize that preservation of global environment is an essential condition for our company’s existence and activities as well as a common issue for all humanity. We will work on preserving and improving the environment where people can live safely with rich nature.

1. We will strive to develop and supply environment-friendly products.
2. We will consider protection of environment throughout the whole process of business operation.
   - We will comply with regulations on banned substances.
   - We will ensure proper treatment of wastewater and air exhaustion, and disposal of waste, and will work on reducing waste.
   - We will be thorough in our effort to save natural resources and energy.

Environmental Policy

1. We will identify the environmental impacts of our business activities, products and services and strive to reduce environmental burden and prevent pollution, and to make continual improvement of our environmental management system.
2. We will comply with all environment-related laws, regulations and agreements, and enhance collaboration with our customers, neighbors and local communities.
3. We will minimize the environmental impacts from our design, development and production activities.
   - We will promote the development of environment-friendly products.
   - We will use energy efficiently to prevent global warming.
   - We will promote the reduction and recycling of waste.
4. We will ensure that the action plans are implemented properly to achieve the environmental objectives and goals.
5. We will make this policy known to all as well as release it to the general public.

CSR Promotion System

SMC has established a CSR Committee chaired by the President and has been taking initiatives in responding to customer requests and inquiries on CSR-related issues.

Main Tasks of the CSR Committee
1. To plan, develop and manage policies related to CSR and other matters.
2. To respond to questionnaires on CSR, etc., from users and corresponding to audits (site visits).
3. To conduct audits on the progress of implementation of policies related to CSR, etc.
4. To take necessary measures based on the progress of implementation of policies and audit results related to CSR, etc.

Environmental Training

SMC offers educational seminars and practical training on environmental issues for its employees, and also provides environmental training for environment-related partner companies.

In addition, employees who hold their country’s qualifications continuously attend follow-up training to enhance the quality of their knowledge and technical abilities.

Environmental Objectives, FY2018 Results and Evaluation

As part of our initiatives under the Environmental Management System (EMS) which adheres to ISO 14001, SMC defines “Environmental Objectives” to be achieved over a period of three years and “Environmental Targets” for each fiscal year, and manages and evaluates the progress. In FY2018, out of the “Environmental Targets” described below, we achieved all except for “Saving of resources”, “Saving of CO2 emission” and “Reduction of waste discharge”. As an initiative to save resources, SMC achieved a 1.8% reduction of waste discharged per unit of production compared to the Sixth Term (FY2014-2016) average. As an initiative to save resources, SMC achieved a 18.4% reduction of CO2 emissions per unit of production compared to the Sixth Term (FY2014-2016) average.

All regional groups consisting of our major production facilities participated in climate change actions organized by local governments and industry groups and community beautification activities, as well as conducted awareness building programs for employees.

Framework of ISO 14001:2015

Environmental Management System (EMS) Scope of Application

- Needs and expectations of interested parties
  - Development of environment-friendly products
  - Compliance with environment-related laws and regulations
  - Intensified prevention of pollution

Intended outcome of the EMS

- Environmental Objectives for FY2018
- Environmental Targets for FY2018
- Results
- Evaluation

<table>
<thead>
<tr>
<th>Environmental Objectives</th>
<th>Environmental Targets</th>
<th>Results</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product assessments (Environmental compatibility)</td>
<td>Conducted assessments using score evaluation of current status Total of 75 models or more in three years: 900 points or higher</td>
<td>37 models: 345 points</td>
<td>Achieved</td>
</tr>
<tr>
<td>Business activities (Environmental conservation)</td>
<td>Reduction of CO2 emission per unit of production</td>
<td>18.4% reduction</td>
<td>Achieved</td>
</tr>
<tr>
<td>Social contribution activities</td>
<td>Community beautification activities</td>
<td>All regional groups conducted as planned</td>
<td>Achieved</td>
</tr>
<tr>
<td>Promotion of climate change actions</td>
<td>Conducting education and awareness building programs</td>
<td>All regional groups conducted as planned</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

Training conducted in FY2018

- Environmental training for employees: 7,219 attendees
- Emergency response training: 99 attendees
- Training for front-line workers: 458 attendees
- Participation in external environment-related training sessions: 19 attendees
- Environmental training for environment-related partner companies: 138 companies
**Eco-Factory**

SMC implements ISO 14001, the international standards related to environmental management, and began to make organizational efforts in implementing environment-friendly and energy-saving measures at our factories since 1998 (acquired certification in December 1999).

**Energy Consumption & CO2 Emission**

The largest source of CO₂ emissions in SMC's business activities is from the use of electricity. SMC aims to reduce the emission of CO₂ by adding up steady energy-saving efforts.

**Status of reduction of CO₂ emissions (intensity)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>81%</td>
<td>91%</td>
<td>89%</td>
<td>84%</td>
<td>77%</td>
<td>80%</td>
<td>77%</td>
<td>74%</td>
<td>74%</td>
<td>76%</td>
<td>78%</td>
<td>79%</td>
<td>75%</td>
<td>71%</td>
<td>65%</td>
</tr>
</tbody>
</table>

**Proper Management of Chemical Substances**

SMC strives to eliminate the use of CFCs by switching to alternatives with lower GWP values, and to reduce the overall use of chemical substances (through prevention of evaporation, prevention of removal, and reuse).

**Status of waste discharge**

<table>
<thead>
<tr>
<th>Volume (t)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste</td>
<td>2,610 t</td>
<td>3,999 t</td>
<td>2,610 t</td>
<td>3,999 t</td>
<td>2,610 t</td>
</tr>
</tbody>
</table>

**Use of chemical substances and emissions into the environment**

<table>
<thead>
<tr>
<th>Chemical Substance</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical substances</td>
<td>21.6</td>
<td>21.5</td>
<td>25.8</td>
<td>21.7</td>
<td>27.6</td>
</tr>
<tr>
<td>Paper</td>
<td>93 t</td>
<td>93 t</td>
<td>93 t</td>
<td>93 t</td>
<td>93 t</td>
</tr>
</tbody>
</table>

**Material Balance**

SMC keeps track of the environmental burdens generated through consumption of resources and energy during the design, development and manufacturing of our products.

**About Specified Businesses**

1. SMC is designated as a Specified Business under the Act on Rationalizing Energy Use. Furthermore, our Soka 1st Factory, Tsukuba 1st Factory, Tsukuba Technical Center, Kamishi Factory, Kamishi 4th Factory, Tono Factory and Yamatsuri Factory are designated as Designated Energy Management Factories as the energy consumption at each factory for a given business year is 1,500kL (crude oil equivalent) or more.
2. Specified Businesses and Designated Energy Management Factories are obliged to establish targets to reduce their energy consumption by 1% or greater per year, as well as to manage energy consumption on an organizational basis and submit periodic reports.

**Reduction of Industrial Wastes**

SMC practices strict waste sorting and promotes the 3Rs - Reduce, Reuse and Recycle. We sell computers and printers out of use as material of value to recycle operators. We aim to reduce our waste disposal costs by transforming waste into valuable resources.

**Reduction of Industrial Wastes**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Balance</td>
<td>1,315 t</td>
<td>1,315 t</td>
<td>1,315 t</td>
<td>1,315 t</td>
<td>1,315 t</td>
</tr>
</tbody>
</table>

**Material Balance**

SMC's business activities

**INPUT**

- **Mats**
  - 30,803 t

- **Energy**
  - 788,373 GJ

- **Water**
  - 280,000 m³

- **Packaging materials**
  - 1,315 t

- **Paper**
  - 93 t

**OUTPUT**

- **CO₂ from production activities**
  - 43,058 t

- **Recycle**
  - 3,999 t

- **Waste**
  - 2,610 t

**Compliance with Environmental Regulations**

The operators who take custody of electrical equipment containing polychlorinated biphenyl (PCB) must properly dispose of it by March 31, 2027. SMC held five items of equipment containing low levels of PCB and seven items of equipment containing high levels of PCB. However, in FY2018, SMC correctly disposed of all items of equipment containing PCB.

**Initiatives at Each Factory**

SMC uses flow switches, its own products, to monitor the air flow rates at each factory to enable early detection of air leaks due to equipment failure. We are also working on improving energy efficiency. Our efforts include the use of mechanisms that automatically shut off the air source during plant downtime, which reduced the use of purge air* by 30% (compared to our conventional operation).

**Green Procurement**

SMC recognizes that conservation of the global environment is a common issue for all humanity and a matter that demands the consideration of management. SMC will develop and supply environmentally friendly products in order to continually reduce the environmental burdens in accordance with its basic philosophy: “SMC strives to undertake environmental conservation activities through pneumatic technology that contributes to automation in all fields of industry in order to pass down a sustainable global environment to future generations”.

As part of its initiatives, SMC conducts green procurement of products, materials, components, semi-finished goods, secondary materials, and packaging materials used in the design, development and production process.
SMC works to reduce environmental burdens created by its products from the design and development phases through to the entire life-cycle (manufacturing, packaging, transporting, use and disposal), and strives to produce environment-friendly products. By conducting product assessments, we also evaluate the environmental impacts of our products in terms of attributes such as resource-saving, long-life, energy-saving, safety, types and amount of packaging materials and waste disposal in order to develop environmentally sound products.

Examples of Environment-Friendly Products

1. **Energy-saving**
   - Generating higher peak pressure contributes to reduction in air consumption and labor time.
   - Air consumption: 85% reduction
   - Impact blow gun

2. **Air-saving, long-life**
   - Contribute to efficient air blow by achieving repeated peak pressure with a simple air supply.
   - Air consumption: 50% reduction
   - Pulse blowing valve

3. **Energy-saving, air-saving, noise reduction**
   - Reduced air consumption by adjusting with SMC’s digital pressure switch equipped with energy-saving function, achieving significant increase in suction flow.
   - Improved noise reduction with SMC’s silencer.
   - Air consumption: 93% reduction
   - Operation noise: 80% reduction

4. **Air-saving, supports preventive and predictive maintenance**
   - The product itself does not exhaust air, making the flow consumption 0 L/min when a workpiece is seated.
   - Contribute to preventative and predictable maintenance by retrieving process data of the displayed value, the supply value and the exhaust pressure value.
   - Air consumption: 60% reduction
   - Pulse blowing valve

5. **Air-saving, noise reduction**
   - Compressed air used to operate a drive chamber can be reused via the exhaust return circuit, resulting in lower air consumption and reduced noise.
   - Air consumption: 40% reduction
   - Operation noise: 80% reduction

6. **Energy-saving, space-saving**
   - Adopted an inverter control and a heaterless heating function for energy-savings.
   - Temperatures for 2 fluid channel systems can be controlled individually by one chiller, contributing to space-saving.
   - Power consumption: 30% reduction

- SMC promotes the reduction of packaging materials, repeated use and review of materials (selection of materials containing less amount of substances that generate toxic gas upon disposal).
- SMC gives consideration to the disposal of its products by improving decomposability and reducing the variation of materials used.
- SMC discloses to its customers information on the content and use of substances of concern in its products.
Together with Our Employees

Respect for Human Rights

SMC Group Code of Conduct

We will strive to maintain a safe and pleasant work environment where the employees respect the personality and individuality of each other, have their own motivation and can demonstrate their abilities without experiencing unreasonable discrimination based on nationality, race, ethnicity, faith, religion, sex or any other personal attribution.

Initiatives for the employment of people with disabilities

The number of people with disabilities employed by SMC, and the ratio of employees with disabilities, have increased every year during FY2015 - 2018. The status of annual paid leave taken The percentages of paid leave taken approximates 70% of entitled annual paid leave, every fiscal year. The status of new hire retention The turnover rate of employees leaving within three years remains under 10%.

<table>
<thead>
<tr>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees with disabilities</td>
<td>128</td>
<td>139</td>
<td>152</td>
</tr>
<tr>
<td>Employment rates of people with disabilities</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Percentage of annual paid leave taken</td>
<td>71.2%</td>
<td>74.7%</td>
<td>73.2%</td>
</tr>
<tr>
<td>Turnover rate of employees leaving within 3 years</td>
<td>8.0%</td>
<td>3.1%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Diversity, Including Active Participation of Women

We offer various schemes to provide a better working environment for women including childcare leave, maternity leave and reduced work hours. We also promote exchange of personnel and business integration with our overseas subsidiaries. Approximately 70% of the SMC Group’s total employees are non-Japanese. Approximately 75% of the top management of our Group companies are non-Japanese.

Message from female employees

We are managing the challenging task of juggling work and raising children in a worker-friendly environment

Getting the most from childcare leave

The four of us are all employees who have benefited from childcare leave, although the times we have taken off respectively differ. While we were on leave, we didn’t feel completely shut off from work because we received internal company newsletters at home, and our supervisors and colleagues to whom we sometimes went to office to show off our children, helped us return work smoothly. After returning to work, we try to work more efficiently to finish our assigned tasks within the prescribed number of hours, knowing that we must be ready for unexpected situations, such as sudden calls from the childcare center or the children getting sick. Our supervisors and colleagues at work have also made things easier for us by not only understanding that sometimes we have to suddenly take time off from work but also supporting us in various ways, such as doing work in our place at closing time. We all made a smooth return to the original departments in which we were working before taking the leave, which is the general rule in SMC for employees who take childcare leave. We all belong to the administration department, but the mothers working in sales departments and factories all can similarly use childcare leave. Concerning the work system, which allows shorter hours per day, there are still issues that we are continuing to discuss, such as increasing our choice in which hours we work, deadline extensions, and the like, but thanks to the various systems in place for raising children, we are able to continue working, for which we are grateful.

Free and open working environment

Because our Company’s administration department is concentrated on the same floor in the head office building, we see each other on a daily basis. Our working environment makes us feel comfortable to communicate open and freely to exchange information about raising children in the spare moments from our work. In the past, there were many female employees who left when they got married or had children, but nowadays, most female employees are choosing to continue working for the Company. While juggling work with homemaking and raising children, we will continue to take on the challenge of improving our skills at work and gaining extra certification to further support our work activities.

Human Resource Development

SMC is making efforts to facilitate the development of its human resources by holding group training seminars periodically in which lecturers from outside the Company are invited, and other means. Various kinds of curricula are adopted, including not only lessons on product knowledge and skills, but also refresher courses on SMC’s philosophy and Code of Conduct, and courses designed to strengthen the overall capability of individuals and improving their motivation.

Initiatives to Promote Better Health

SMC encourages various optional employee activities, such as sports, cultural and artistic pursuits, and the like in order to promote better health among employees and foster solidarity in the workplace.

Worker Health and Safety

SMC delegates responsibilities to the health and safety committees, organizations based on laws, regulations, and internal company rules, to lead activities aimed at preventing workplace disasters and outbreaks of diseases. As each business site, the health and safety committee discusses and implements health and safety measures based on collected mishap/accident reports, instruction on safety providing to employees, and inspections of the work site performed by an industrial doctor and the organization’s chief manager. Also, each committee cooperates with committees of other business sites to develop the system laterally.

Voice

Message from female employees

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The number of people with disabilities employed by SMC, and the ratio of employees with disabilities, have increased every year during FY2015 - 2018. The status of annual paid leave taken The percentages of paid leave taken approximates 70% of entitled annual paid leave, every fiscal year. The status of new hire retention The turnover rate of employees leaving within three years remains under 10%.

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<td>2.1%</td>
<td>2.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Percentage of annual paid leave taken</td>
<td>71.2%</td>
<td>74.7%</td>
<td>73.2%</td>
</tr>
<tr>
<td>Turnover rate of employees leaving within 3 years</td>
<td>8.0%</td>
<td>3.1%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Diversity, Including Active Participation of Women

We offer various schemes to provide a better working environment for women including childcare leave, maternity leave and reduced work hours. We also promote exchange of personnel and business integration with our overseas subsidiaries. Approximately 70% of the SMC Group’s total employees are non-Japanese. Approximately 75% of the top management of our Group companies are non-Japanese.

Message from female employees

We are managing the challenging task of juggling work and raising children in a worker-friendly environment

Getting the most from childcare leave

The four of us are all employees who have benefited from childcare leave, although the times we have taken off respectively differ. While we were on leave, we didn’t feel completely shut off from work because we received internal company newsletters at home, and our supervisors and colleagues to whom we sometimes went to office to show off our children, helped us return work smoothly. After returning to work, we try to work more efficiently to finish our assigned tasks within the prescribed number of hours, knowing that we must be ready for unexpected situations, such as sudden calls from the childcare center or the children getting sick. Our supervisors and colleagues at work have also made things easier for us by not only understanding that sometimes we have to suddenly take time off from work but also supporting us in various ways, such as doing work in our place at closing time. We all made a smooth return to the original departments in which we were working before taking the leave, which is the general rule in SMC for employees who take childcare leave. We all belong to the administration department, but the mothers working in sales departments and factories all can similarly use childcare leave. Concerning the work system, which allows shorter hours per day, there are still issues that we are continuing to discuss, such as increasing our choice in which hours we work, deadline extensions, and the like, but thanks to the various systems in place for raising children, we are able to continue working, for which we are grateful.

Free and open working environment

Because our Company’s administration department is concentrated on the same floor in the head office building, we see each other on a daily basis. Our working environment makes us feel comfortable to communicate open and freely to exchange information about raising children in the spare moments from our work. In the past, there were many female employees who left when they got married or had children, but nowadays, most female employees are choosing to continue working for the Company. While juggling work with homemaking and raising children, we will continue to take on the challenge of improving our skills at work and gaining extra certification to further support our work activities.

Human Resource Development

SMC is making efforts to facilitate the development of its human resources by holding group training seminars periodically in which lecturers from outside the Company are invited, and other means. Various kinds of curricula are adopted, including not only lessons on product knowledge and skills, but also refresher courses on SMC’s philosophy and Code of Conduct, and courses designed to strengthen the overall capability of individuals and improving their motivation.

Initiatives to Promote Better Health

SMC encourages various optional employee activities, such as sports, cultural and artistic pursuits, and the like in order to promote better health among employees and foster solidarity in the workplace.

Worker Health and Safety

SMC delegates responsibilities to the health and safety committees, organizations based on laws, regulations, and internal company rules, to lead activities aimed at preventing workplace disasters and outbreaks of diseases. As each business site, the health and safety committee discusses and implements health and safety measures based on collected mishap/accident reports, instruction on safety providing to employees, and inspections of the work site performed by an industrial doctor and the organization’s chief manager. Also, each committee cooperates with committees of other business sites to develop the system laterally.
Together with Our Customers/Suppliers

To Earn Trust from Customers and Suppliers

SMC Group Code of Conduct

We will compete in a free and fair manner. In addition, we will strive to earn trust from customers by adequately providing products, services and correct product information that address customers’ needs. We will establish relationship of mutual trust with our clients and suppliers through free and fair business relations, and aim for mutual development.

- We will keep the customer-first policy and strive to provide excellent products and services.
- We will pay attention to the safety of products and endeavor to take appropriate safety-related measures.
- We will not engage in any unfair trade practice, such as that in violation of the relevant antitrust laws.
- We will respect intellectual properties of customers, other companies and individuals, and at the same time maintain the intellectual properties and brand of the SMC Group.
- We will conduct strict management of not only trade secrets and personal information of customers and business partners, but also those of our company.

Energy-Saving Initiatives

As part of its energy-saving initiatives, SMC invites customers to its training rooms and showrooms in the sales offices in Tokyo, Toyota and Kyoto, to let them operate actual products and experience the energy conservation performance.

Seminar on pneumatic technologies

Tokyo Showroom

Seminar Topics

- Compressed air: energy-saving themes and targets
- How to deal with air leakage
- How to increase efficiency of air blow
- How to improve pressure loss

Efforts against Conflict Mineral Issues

SMC is striving to provide information to customers based on a database using the Conflict Mineral Report Template (CMRT). Through cooperating with suppliers, SMC is working to improve the accuracy of the CMRT. In addition, SMC revised its definition of conflict minerals in a revision that was made to the “SMC Group Code of Conduct” in August 2013.

SMC Group Code of Conduct

We will strive for responsible sourcing of minerals. With regard to minerals from conflict-affected and high-risk areas, in order to prevent furtherance of human rights abuses, violence and other wrongdoings by non-government armed groups, we exert our commercially reasonable efforts to the maximum extent towards the establishment of responsible supply chains, with the assistance of the suppliers.

Striving Session for Our Suppliers

Striving to maintain a close cooperative relationship with suppliers, SMC aims to work together to resolve various business issues and achieve mutual growth. As part of these initiatives, SMC periodically holds briefing sessions for suppliers to inform them of SMC guidelines and issues.

At the briefing held in August 2019, SMC explained the necessity of carrying out initiatives on the supply chain as a whole, including suppliers, citing the CSR-related challenges presented on the right, in particular, and asked participants for their cooperation.

Together with Local Communities

SMC Group Code of Conduct

We will consider the needs of society and disclose necessary corporate information in a timely manner in order to widely communicate with society as a good corporate citizen. Moreover, we will aim to coexist with the local community by cooperating in activities which contribute to the development of the region and the comfortable and safe lives of people living there.

Activities 1

Green Conservation Activities by the Greenery Trust

SMC participates in green conservation activities organized by the Saitama Greenery Trust Association. SMC employees take part in weeding, pruning and cleaning activities such as raking of leaves, and other activities to preserve the local greenery.

Activities 2

Participation in community beautification activities

Employees of SMC factories and technical centers regularly clean the surrounding area of their facilities.

Activities 3

Regional Support for the Promotion of SMC Factories

SMC gave donations to the “Kamaishi City Rugby Children’s Future Fund” and the “Kamaishi City Sports Promotion Fund” in 2019 as part of cooperation for supporting recovery from the earthquake disaster and promotion of the local region, in Kamaishi City, Iwate Prefecture, where an SMC factory is located. Part of the money donated was allocated for expenses from Kamaishi City being one of the hosts of the Rugby World Cup 2019 held across Japan and for a building fund for the “Kamaishi Unosumai Memorial Stadium.”

Activities 4

Participation in community activities

Employees of SMC factories and technical centers participate in activities in the Kamaishi area.
### Overview of the Corporate Governance System

**Board of Directors**
The Board of Directors, which is made up of ten Directors, decides on important matters provided for by laws and regulations or the Articles of Incorporation, and important matters related to the execution of duties, such as management policies and capital expenditure of the SMC Group, and personnel affairs relating to Directors and Corporate Auditors, in line with the agenda item criteria set forth by the Board of Directors' regulations. The Board of Directors also receives reports relating to important matters from Directors, Corporate Auditors and Executive Officers, and it oversees the execution of Directors' duties. In the fiscal year ended March 31, 2019, eight meetings of the Board of Directors were convened and one written resolution was made. Although SMC has not established an optional nomination and remuneration committee, the matters relating to personnel affairs and remuneration of Directors will be determined at a meeting of the Board of Directors after obtaining the opinions of the Outside Directors beforehand, and SMC is working to improve the fairness and transparency of the process for determining such personnel affairs and remuneration.

**Board of Corporate Auditors**
The Board of Corporate Auditors, which is made up of three Corporate Auditors, decides on matters provided for by laws and regulations or the Articles of Incorporation, and on the audit plan and the division of roles of the Corporate Auditors pursuant to the Board of Corporate Auditors’ regulations. The Board of Corporate Auditors also receives reports as necessary from Corporate Auditors, Directors, employees and the Accounting Auditors.

**Directors' Advisory Bodies, etc.**
SMC has established the "Compliance Committee" and the "Information Disclosure Committee", both of which are chaired by the President, and works on strengthening the legal compliance system and disclosing timely and appropriate information. In addition, SMC has established the "Management Committee", which is made up of the Directors with executive authority over operations, and the "Executive Officers Meeting", which includes both said Directors and the Executive Officers not concurrently serving as Directors, in order to expedite the sharing of information.

**Independent Executive Council and Chief Independent Director**
SMC has set up the "Independent Executive Council" that consists only of independent Outside Directors and independent Outside Corporate Auditors so that they can exchange opinions and information freely, share the same recognition, and make proposals to the Board of Directors after integrating their opinions if necessary. Furthermore, a "Chief Independent Director" is chosen from among the Outside Directors in order to achieve smoother contact and coordination between the Outside Directors, Board of Directors, Board of Corporate Auditors and all departments engaging in business execution.

### Corporate Governance System

**Basic Policy on Dividends**
SMC considers that its highest priority issue is to maximize shareholder value through corporate value improvement accompanied by medium- to long-term profit growth. Concerning the return of profit to our shareholders, we adopt a basic policy of maintaining stable dividend payment. At the same time, we will strive to enhance the profit return even further by considering a flexible acquisition of treasury shares depending on the situation.

**Basic Views**
SMC considers establishing a corporate governance framework ensuring both quick decision-making and management transparency to be extremely important for the purposes of realizing continuous growth, increasing medium- to long-term corporate value and protecting the interests of shareholders.

SMC has set up a Board of Corporate Auditors to implement a system for ensuring the legitimacy and appropriateness of each Director’s business execution and the fairness and transparency of the Board of Directors’ decision-making processes. Under this system, mutual monitoring and checking among divisions are conducted by Executive Directors who are acquainted with SMC’s business characteristics, unique corporate situations and other internal information, and the monitoring and supervision are conducted by Outside Directors and Outside Corporate Auditors from an independent and objective viewpoint. SMC’s basic stance on corporate governance and the status of activities are summarized in the “SMC Corporate Governance Guidelines” and disclosed on the corporate website.

**Corporate Governance System**

![Corporate Governance System Diagram](image-url)
Toshiharu Kagawa, Outside Director
Professor Emeritus, Tokyo Institute of Technology

Message from Outside Director

For about 50 years, I have been engaged in the research and education of fluid power technology. Fluid power technology is the technology of moving things using pressurized fluids such as air, oil and water and measuring and controlling the position of those things. Pneumatic instruments, which are SMC’s mainstay product, use fluid power technology. Pneumatic instruments, powered by compressed air which can be emitted to the atmosphere without creating pollution, have various strong points, such as being environmentally friendly, having excellent cost performance, being able to perform highly responsive operations, and not requiring return piping. This makes them essential equipment in the industrial world for automation and labor-saving systems. Pneumatic instruments have been in use in the automobile industry since the 1960s, they became widely used in the semiconductor industry since the 1980s and then in the 2000s, their users have been broadening into new industrial fields, such as medicine, foods and daily goods.

As a researcher at university, and now from my position as an Outside Director, I have been exchanging opinions with the management team and the engineers at SMC regarding the future for pneumatic instruments. Such conversations have raised various challenges.

The first of such challenges is that many users have the preconceived idea that "pneumatic systems are not well known". It would not be exaggerating to say that pneumatic instruments are involved in the production and logistics of everything around us. Yet most people have never or have not had the opportunity to see a pneumatic instrument actually working. Furthermore, at SMC, there is a mindset of "working quietly behind the scenes". In traditional corporate society in Japan, playing an unsung role is a virtue. But now, business environment is changing and becoming global rapidly. From the standards of a global corporation, I think SMC has not been sufficiently active in promoting its strengths to investors, to people with a strong interest in ESG, to students or to society at large.

Since being appointed as an Outside Director at SMC, I have suggested to top management that they actively work to expand new uses that will directly lead to solving societal problems, such as in telemedicine which is a field that uses robots. By promoting the strengths of activities using pneumatic instruments, SMC will attract excellent engineers and students, which could lead to new collaborations with new users and venture companies. It will also raise the motivation of SMC employees while further increasing SMC’s corporate value. SMC’s corporate culture and management philosophy of operating sound management as a machine element manufacturer, giving first priority to meeting the needs of users, are splendid, and I hope it will continue to uphold those values. However, looking to the future, I think it is also important that SMC also boldly takes risks. Accordingly, I am also waiting with anticipation to see further enhancements to SMC’s ESG initiatives and its disclosure of information.