

# CSR 2019

CSR Report 2019



# We contribute to the sustainable growth and expansion of technological innovations through the manufacturing and sales of automatic control equipment.

## 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, semi-conductors, 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.

## Contents

Top Message	1
SMC at a Glance	3
SMC in the World	5
SMC's Approach	7
<b>Environment</b>	
Eco-Management	9
Eco-Factory	11
Eco-Products	13
<b>Social</b>	
Our Employees	15
Our Customers/Suppliers	17
Local Communities	18
<b>Governance</b>	
Corporate Governance	19
Corporate Summary	22

**Editorial Policy**  
SMC publishes a “CSR Report” aiming to communicate widely to all of our stakeholders the overview of our philosophy and initiatives towards fulfilling our corporate social responsibility (CSR). We look forward to receiving feedback and comments on SMC’s CSR initiatives and disclosure method.

**Applicable Period**  
In principle, this report covers the period from April 2018 to March 2019, but also includes some information on activities before and after this period.

**Scope of the Report**  
This report primarily focuses on SMC Corporation and covers some of its group companies.

**Guidelines Used as Reference**  
In publishing this report, we referenced ISO 26000, the international standards concerning social responsibility.



Left | Katsunori Maruyama,  
President  
Right | Yoshiki Takada,  
Executive Vice  
President

## 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



'70 | Japan's first aluminum-bodied air cylinder (CM/CA)



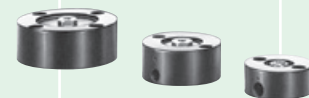
'61 | Air F.R.L. (3-part combination: filter, regulator, lubricator) units for air line equipment



'71 | High-performance solenoid valve (VS)



'77 | General purpose fluid control valve (PFC/QFC/SSC)



'82 | Compact cylinder (CQ)

'84 | Compact 5-port solenoid valve (VZ)

'86 | Vacuum ejector (ZM)

'87 | Vacuum pad

'88 | Digital pressure switch (ZSE/ISE)



'89 | Mechanically jointed rodless cylinder (MYC/MYH)

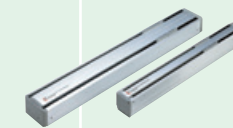
'89 | Air gripper (MHQ/MHC)



'93 | 5-port solenoid valve (SY/SX)



'94 | Refrigerated air dryer complying with CFC regulations (IDF/IDU)



'95 | Electric actuator (LJ1)



'98 | 2-port chemical liquid valve (LVC/LVA/LVH)

'04 | Refrigerated thermo-chiller (HRZ)

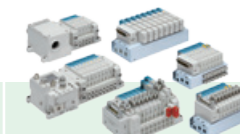


'04 | Ionizer with electrostatic sensor (IZS30)



'04 | 2-port solenoid valve (VX)

Net sales (Consolidated)

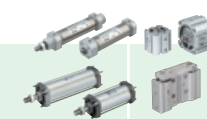


'09 | 5-port solenoid valve (SY3000/SY5000)



'10 | Direct-operated 2-port solenoid valve (VX2)

'11 | Fieldbus system (EX260)



'14 | Compact cylinder (JCM/JMB/JCQ/JMGP)

FY2018 (Consolidated)

576.9 billion yen

FY2018 (Non-consolidated)

371.5 billion yen

Net sales (Non-consolidated)

1960

1970

1980

1990

2000

2010

2020

Established From 1962: Start-up

From 1974: Take-off

From 1989: Ascent

### Major Events/Facilities



'59 | Established under the name Shoketsu Kinzoku Kogyo Co., Ltd.



'67 | Embarked on overseas sales operations



'68 | Soka 1st Factory



'73 | Soka 2nd Factory



'83 | Tsukuba 1st Factory

'84 | Embarked on overseas manufacturing operations



'86 | Corporate name changed to SMC Corporation SMC Manufacturing (Singapore)



'87 | Listed on the Tokyo Stock Exchange 2nd section

'89 | Listed on the Tokyo Stock Exchange 1st section



'91 | Japan Technical Center Kamaishi Factory



'94 | Yamatsuri Factory

'97 | Tono Factory



'00 | SMC (Beijing) Manufacturing

'98 | Acquired ISO 9001 certification

'99 | Acquired ISO 14001 certification

'00 | Embarked on overseas R&D operations



'13 | Shimotsuma Factory



'14 | SMC Manufacturing (Vietnam)



# 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 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.

## International standards that SMC products conform to

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

## Europe 16.6%

Net sales 95,897 million yen YoY growth +6.3%



UK Germany Austria



Spain France Italy

## Asia 34.3%

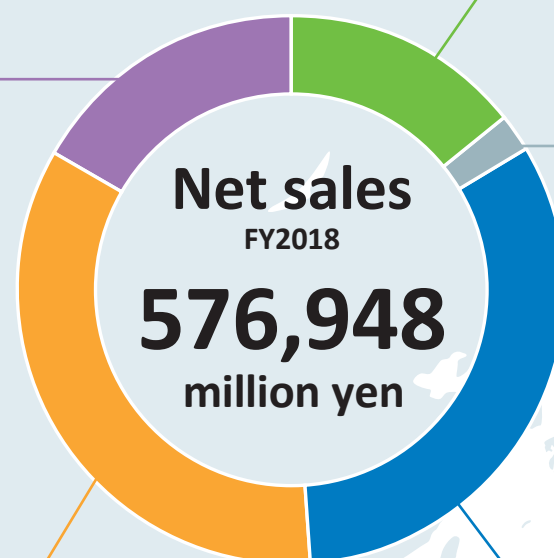
Net sales 197,620 million yen YoY growth -7.6%



Taiwan Hong Kong Beijing Manufacturing



China South Korea India Manufacturing Singapore



83 countries/regions worldwide

Local services in 560 locations

Production facilities: 31 countries/regions

## North America 14.3%

Net sales 82,681 million yen YoY growth -5.0%



US Mexico

## Other 2.1%

Net sales 11,852 million yen YoY growth +1.7%

## Japan 32.7%

Net sales 188,895 million yen YoY growth +0.4%



Tsukuba Technical Center Soka Factory Tsukuba Factory Shimotsuma Factory



Kamaishi Factory Tono Factory Yamatsuri Factory



## 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.

### 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 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.

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

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 complied 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.

[https://www.smcworld.com/assets/about/en-jp/pdf/smc\\_group\\_code\\_of\\_conduct\\_en.pdf](https://www.smcworld.com/assets/about/en-jp/pdf/smc_group_code_of_conduct_en.pdf)



## Eco-Management

### 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.
  - (1) We will promote the development of environment-friendly products.
  - (2) We will use energy efficiently to prevent global warming.
  - (3) 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.



This is a logo of SMC's environmental preservation activities. It is a heart-shaped design with a blue earth and a young leaf. The mark appears on our Environmental Policy as well as on documents and bulletins to enhance awareness among our employees.

#### 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.

#### 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

### Environmental Objectives, FY2018 Results and Evaluation

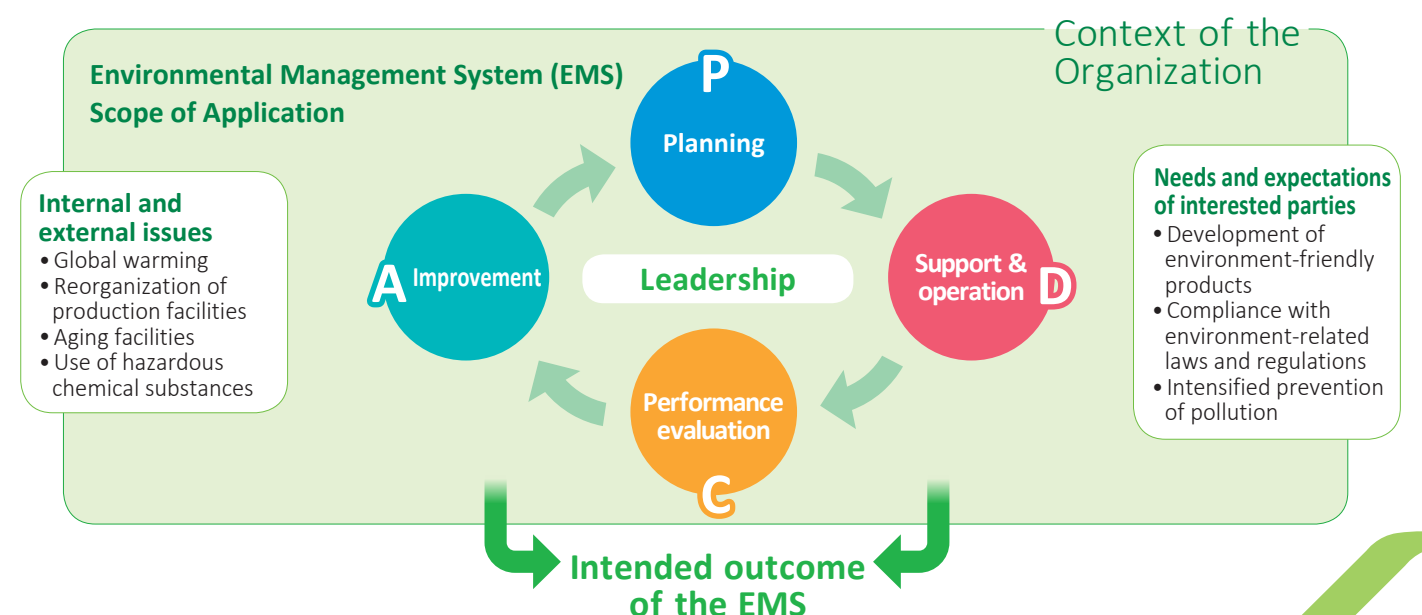
As part of our initiatives under the Environmental Management System (EMS) which adheres to ISO 14001, SMC defines "Environmental Objectives" to be achieved over a period of three years and "Environmental Targets" for each fiscal year, and manages and evaluates the progress.

In FY2018, out of the "Environmental Targets" described below, we achieved all except for "Saving of resources". "Saving of resources" was not accomplished due to the effect of increased waste from packaging material (wooden crates and wooden pallets) accompanying overseas manufactured products.

- ① SMC conducted product assessments to be utilized for the design and development of environment-friendly products.
- ② As an initiative to prevent global warming, SMC achieved a 18.4% reduction of CO<sub>2</sub> emissions per unit of production compared to the Sixth Term (FY2014-2016) average. 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.
- ③ 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.

	Environmental Objectives Goals to achieve in 3-year period of FY2017-2019	Environmental Targets for FY2018	Results	Evaluation
<b>Product assessments (Environmental compatibility)</b>	Design and development of environment-friendly products Conducted assessments using score evaluation of current status Total of 75 models or more in three years: 900 points or higher	Design and development of environment-friendly products Conducted assessments using score evaluation of current status 25 models or more: 300 points or higher	37 models: 345 points	Achieved
<b>Business activities (Environmental conservation)</b>	Promote energy-saving, resource-saving and reduction of environmental burden through beneficial environmental activities in our business activities			
	Prevention of global warming Reduction of CO <sub>2</sub> emission Sixth Term (FY2014-2016): Average of 10% or more reduction per unit of production	Reduction of CO <sub>2</sub> emission Reduce 8% or more compared to the Sixth Term (FY2014-2016) average per unit of production	18.4% reduction	Achieved
<b>Communication (Coexistence with society)</b>	Saving of resources Reduction of waste discharge Sixth Term (FY2014-2016): Average of 10% or more reduction per unit of production	Reduction of waste discharge Reduce 8% or more compared to the Sixth Term (FY2014-2016) average per unit of production	1.8% reduction	Not achieved
	Social contribution activities Community beautification activities	Social contribution activities Community beautification activities	All regional groups conducted as planned	Achieved
	Promotion of climate change actions	Promotion of climate change actions Participation in initiatives organized by local governments and industry groups Conduction of education and awareness building programs	All regional groups conducted as planned	Achieved

#### Framework of ISO 14001:2015





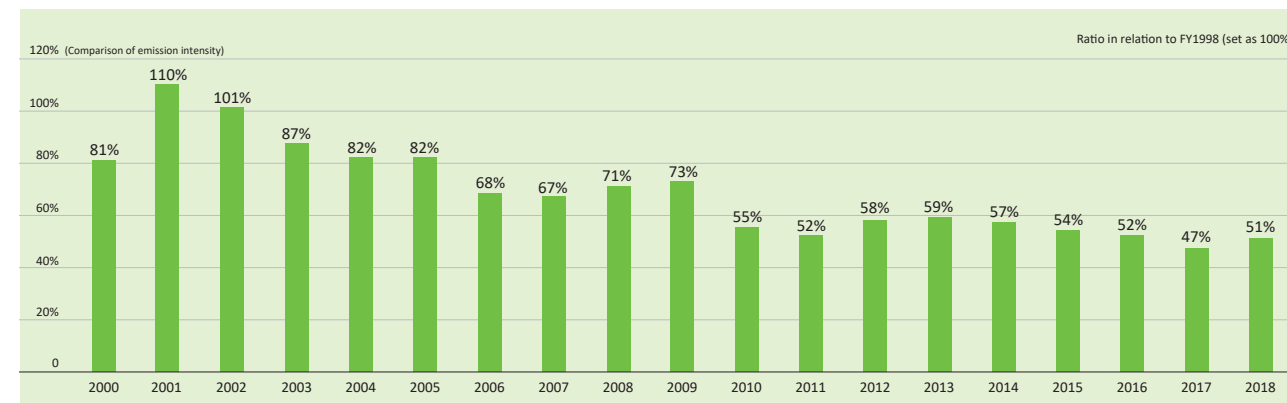
## Eco-Factory

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 & CO<sub>2</sub> Emission

The largest source of CO<sub>2</sub> emissions in SMC's business activities is from the use of electricity. SMC aims to reduce the emission of CO<sub>2</sub> by adding up steady energy-saving efforts.

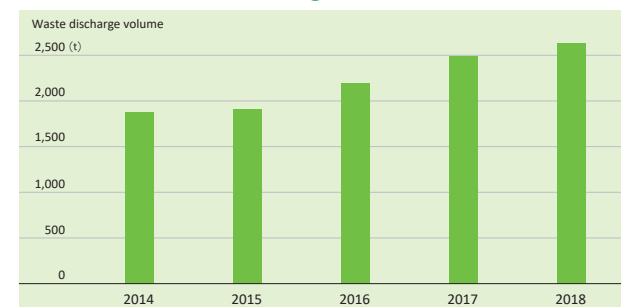
#### Status of reduction of CO<sub>2</sub> emissions (intensity)



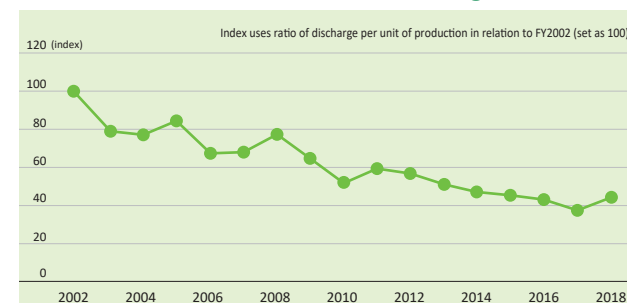
### Proper Management of Chemical Substances

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).

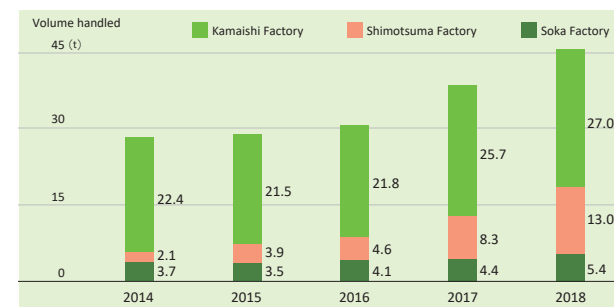
#### Status of waste discharge



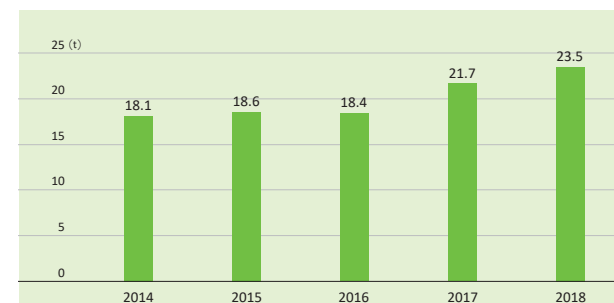
#### Status of reduction of waste discharge



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



#### Trends in annual emissions into the environment



### About Specified Businesses

- 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, Kamaishi Factory, Kamaishi 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.
- 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

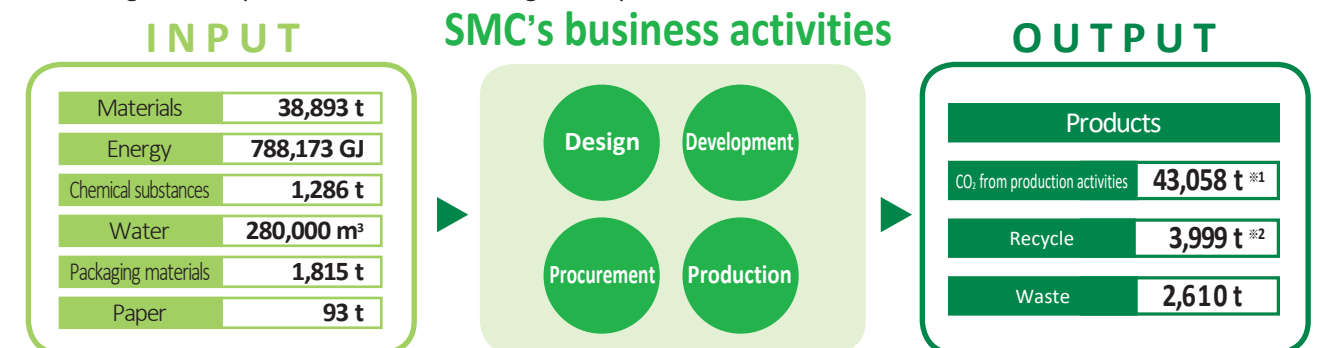
SMC practices strict waste sorting and promotes the 3Rs - Reduce, Reuse and Recycle. We sell computers and printers out of use as material of value to recycle operators. We aim to reduce our waste disposal costs by transforming waste into valuable resources.

Example of sorting: plastic waste, paper, vinyl chloride, rubber, noncombustible items, corrugated boards



### 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.



\*1: CO<sub>2</sub> from production activities is the amount of CO<sub>2</sub> emitted from use of energy.

\*2: Recycle refers to the amount that is discharged as material of value and reused and/or recycled as materials and thermal energy.

### 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).

\*The air used to discharge the remaining air from air pipes when a plant starts operation.

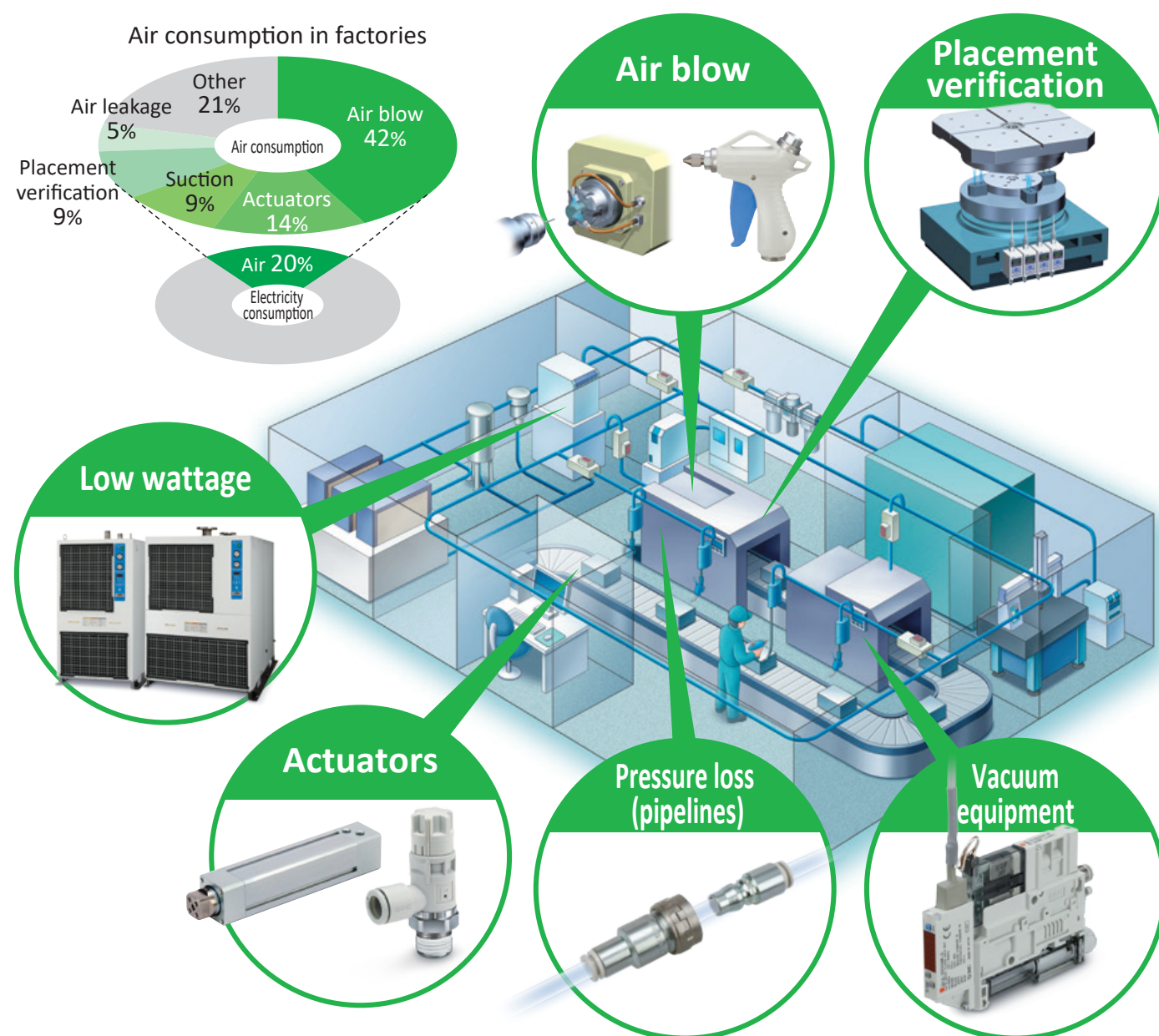
### Green Procurement

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.

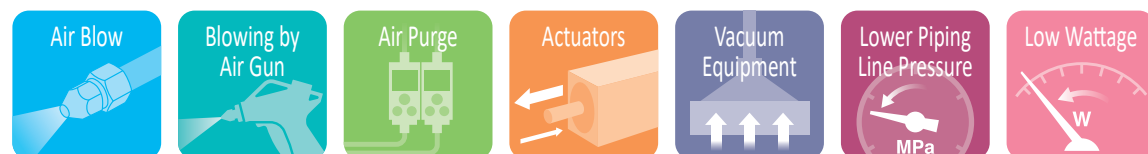
## Eco-Products

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.



### Energy-saving theme



## 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.

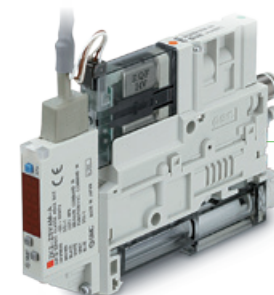


**Air consumption**  
**50% reduction**

Pulse blowing valve

### ③ Energy-saving, air-saving, noise reduction

- ① Reduced air consumption by adjusting with SMC's digital pressure switch equipped with energy-saving function, achieving significant increase in suction flow.
- ② Improved noise reduction with SMC's silencer.



**Air consumption**  
**93% reduction**

Vacuum units

### ④ Air-saving, supports preventive and predictive maintenance

- ① The product itself does not exhaust air, making the flow consumption 0 L/min when a workpiece is seated.
- ② Contribute to preventative and predictable maintenance by retrieving process data of the displayed value, the supply value and the exhaust pressure value.

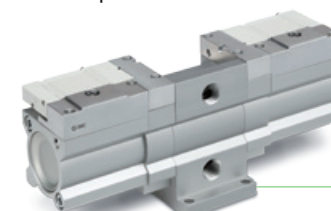


**Air consumption**  
**60% reduction**

IO-Link compatible 3-screen display digital gap checker

### 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**

Booster regulator

### ⑥ Energy-saving, space-saving

- ① Adopted an inverter control and a heaterless heating function for energy-savings.
- ② Temperatures for 2 fluid channel systems can be controlled individually by one chiller, contributing to space-saving.



**Power consumption**  
**30% reduction**

Thermo-chiller (dual channel refrigerated thermo-chiller for lasers)

- 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.

#### ● Status of annual paid leave taken

The percentages of paid leave taken approximates 70% of entitled annual paid leave, every fiscal year.

#### ● Status of new hire retention

The turnover rate of employees leaving within three years remains under 10%.

### 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.

	FY2015	FY2016	FY2017	FY2018
No. of employees with disabilities	128	139	152	162
Employment rates of people with disabilities	2.1%	2.2%	2.4%	2.4%
Percentage of annual paid leave taken	71.2%	74.7%	73.2%	69.4%
Turnover rate of employees leaving within 3 years	8.0%	3.1%	5.3%	4.0%

### Voice

#### 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 homes 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.



At the west region junior sales training seminar

### 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.



At the head office walking event

### 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. At 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.



Soka area health and safety committee



Work site tour by the industrial doctor



## 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.

- 1 We will keep the customer-first policy and strive to provide excellent products and services.
- 2 We will pay attention to the safety of products and endeavor to take appropriate safety-related measures.
- 3 We will not engage in any unfair trade practice, such as that in violation of the relevant antitrust laws.
- 4 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.
- 5 We will conduct strict management of not only trade secrets and personal information of customers and business partners, but also those of our company.

### 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 2019.

#### 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.

### Briefing 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.

### 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

#### Seminar Topics

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



Tokyo Showroom



- |                                |                                                       |
|--------------------------------|-------------------------------------------------------|
| Security export control        | Responsible mineral procurement (conflict minerals)   |
| Respect for human rights       | Abolish child labor, forced labor and excessive labor |
| Ensure safety of the workplace | Zero tolerance of bribery                             |
| Eliminate anti-social forces   | Environmental measures                                |

## 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.



Tsukuba Technical Center



Kamaishi area

#### 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."



Kamaishi Unosumai Memorial Stadium, which was built to World Cup specifications (photo courtesy of Kamaishi City)



# Corporate Governance

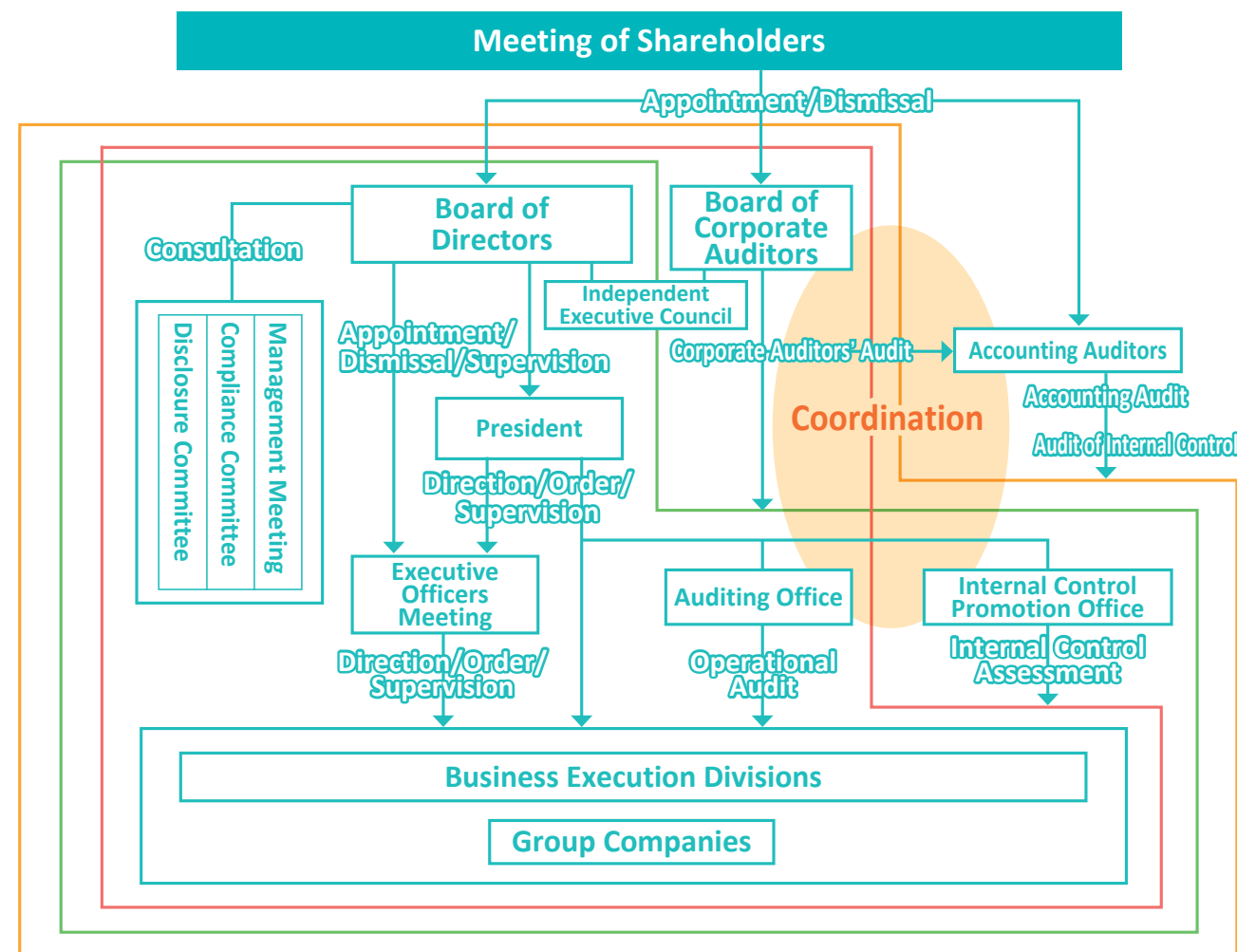
## Basic Views

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



## 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

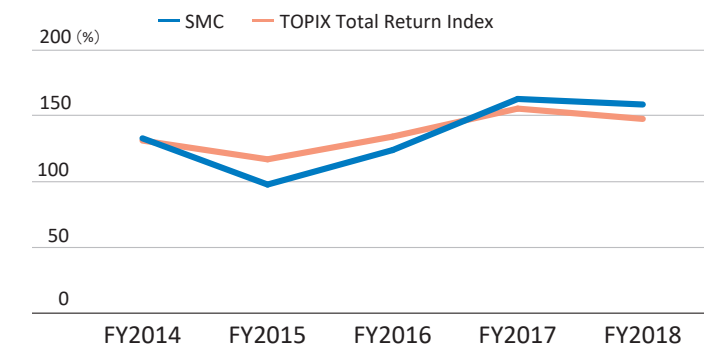
SMC has set up the "Independent Executive Council" that consists only of independent Outside Directors and independent Outside Corporate Auditors so that they can exchange opinions and information freely, share the same recognition, and make proposals to the Board of Directors after integrating their 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.

## 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.

## Changes in Total Shareholder Return (TSR)



\*The Total Shareholder Return is the rate of return calculated by dividing share investment gains (including both dividends and capital gains) by investment amount (share price). The formula for this calculation is as follows: (closing share price at the end of the fiscal year + cumulative amount of dividends per share received for the fiscal year and the preceding four fiscal years) / closing share price at the end of the fifth most recent fiscal year



Message from Outside Director

## Challenges Faced by SMC - Looking at the Technical Side

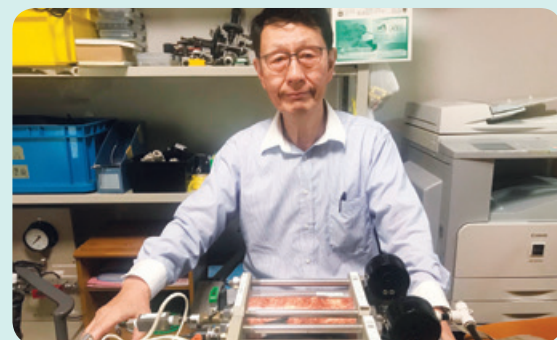
**Toshiharu Kagawa,**  
Outside Director  
Professor Emeritus,  
Tokyo Institute of Technology

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 used in the automobile industry since the 1960s, they became widely used in the semiconductor industry since the 1980s and then in the 2000s, their uses 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 easy to use". In order to address this, I have devised a learning system that allows people to learn and experience the basic principles of pneumatic technology, which can be easily understood by even novices, and this system has been adopted as part of training for users of SMC products.

The next challenge is that many users are under the impression that "there are no rules for using pneumatic systems". This is the flip side of there being such a diverse range of applications for pneumatic technology. To address this, I have come



up with the idea of using a pneumatic system simulator to provide an environment in which the users' engineers can discuss the use of pneumatic instruments without reluctance. The final challenge I want to mention is that "pneumatic instruments 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 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 unassuming 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.



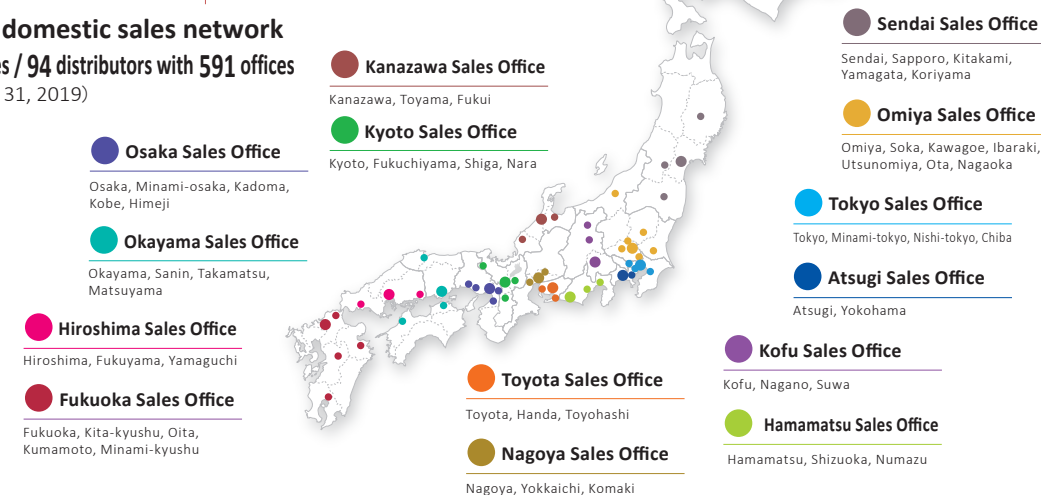
### Corporate Summary

Company name	SMC Corporation
Head office	Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan
Established	April 27, 1959
President	Katsunori Maruyama
Major businesses	Manufacture and sales of automatic control equipment including pneumatic instruments
No. of issued shares	67,369,359
Stock Listing	First Section, Tokyo Stock Exchange
Share capital	61 billion yen
Net sales	576.9 billion yen (As of March 31, 2019)
Total assets	1,389.3 billion yen (As of March 31, 2019)
No. of employees	19,746 (As of March 31, 2019)
Equity ratio	89.3% (As of March 31, 2019)



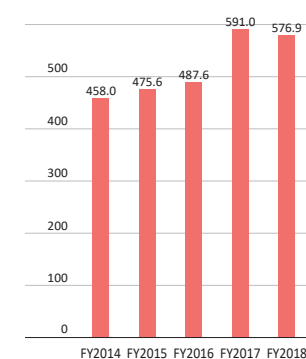
### Domestic Network

**Extensive domestic sales network**  
54 sales offices / 94 distributors with 591 offices  
(As of March 31, 2019)

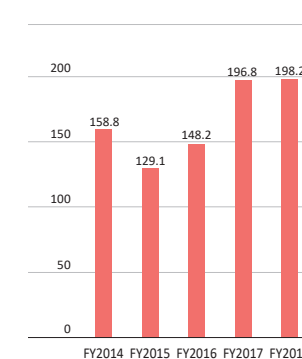
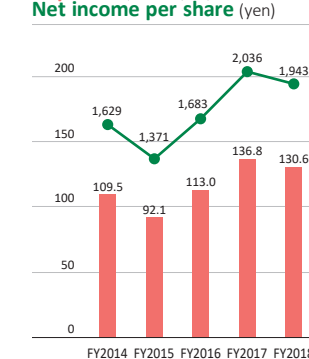
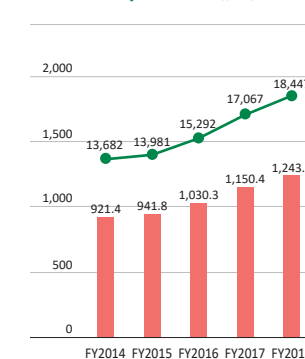


### Consolidated Financial Highlights

Net sales (billion yen)



Ordinary profit (billion yen)

Profit attributable to owners of parent (billion yen)  
Net income per share (yen)Net assets (billion yen)  
Net assets per share (yen)





## SMC Corporation

Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan  
<https://www.smcworld.com>

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