

# CSR Report 2020

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# We contribute to the sustainable growth and expansion through the manufacturing and sales of automatic

## As a Comprehensive Manufacturer of Automatic Control Equipment

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 its 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.

Left | Katsunori Maruyama,  
President

Right | Yoshiki Takada,  
Executive Vice  
President

# of technological innovations control equipment.

## To Achieve a Sustainable Society

Pneumatic instruments are environmentally 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 customer requests from around the world, SMC will contribute to the sustainable growth of industries and the 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.

We would like to extend our deepest sympathies to all those affected by novel coronavirus disease (COVID-19), their families and all those concerned, and we pray for the souls of those who have passed away. We would also like to express our heartfelt gratitude to all those who are facing this difficult enemy day in and day out, such as medical professionals, business operators related to social infrastructure and distribution, and government personnel. The SMC Group places the highest priority on ensuring the safety of our customers, suppliers, employees and their families, and all other concerned parties, by taking thorough measures to prevent infection. In addition, we will fulfill our mission as a manufacturer of factory automation products while striving for business continuity through group-wide efforts.

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## 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

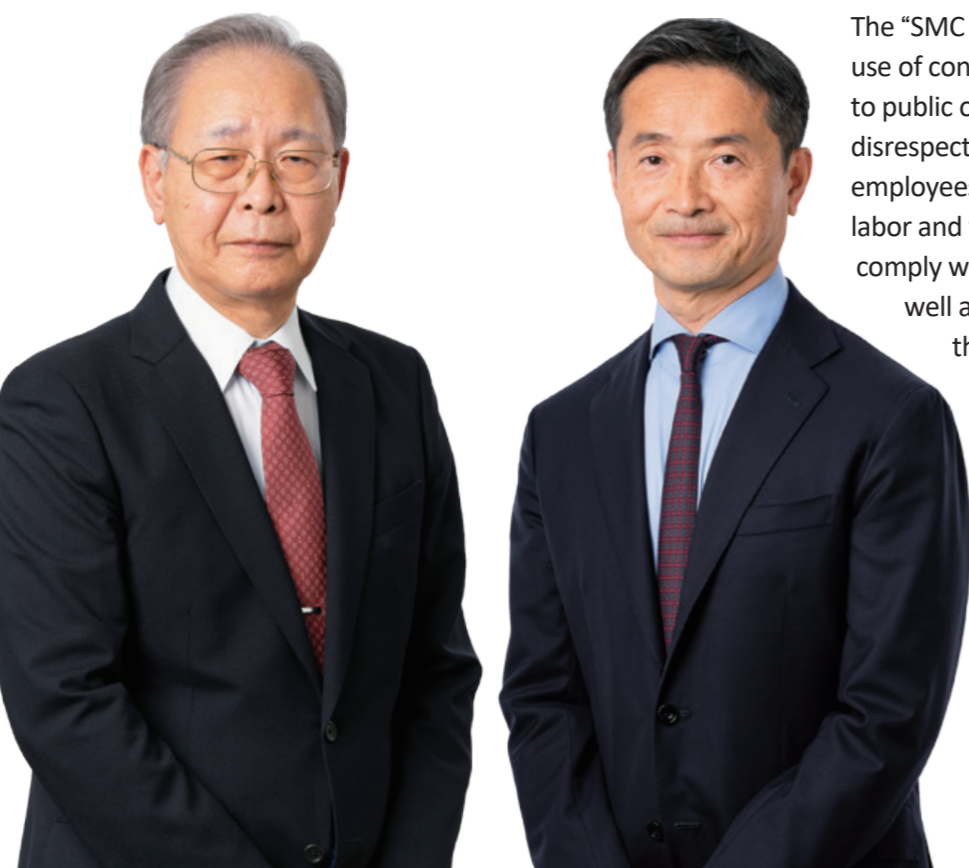
In principle, this report covers the period from April 2019 to March 2020, but also includes some information on activities before and after this period.

## Scope of the Report

This report primarily focuses on SMC Corporation and covers some of its group companies.

## Guidelines Used as Reference

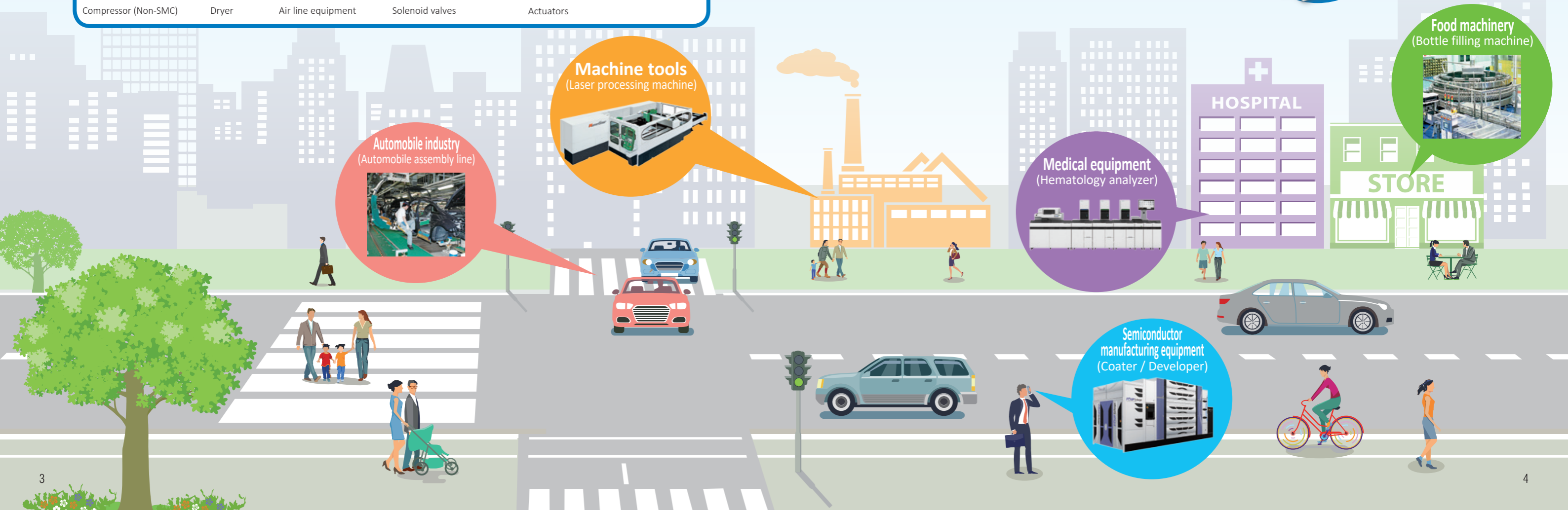
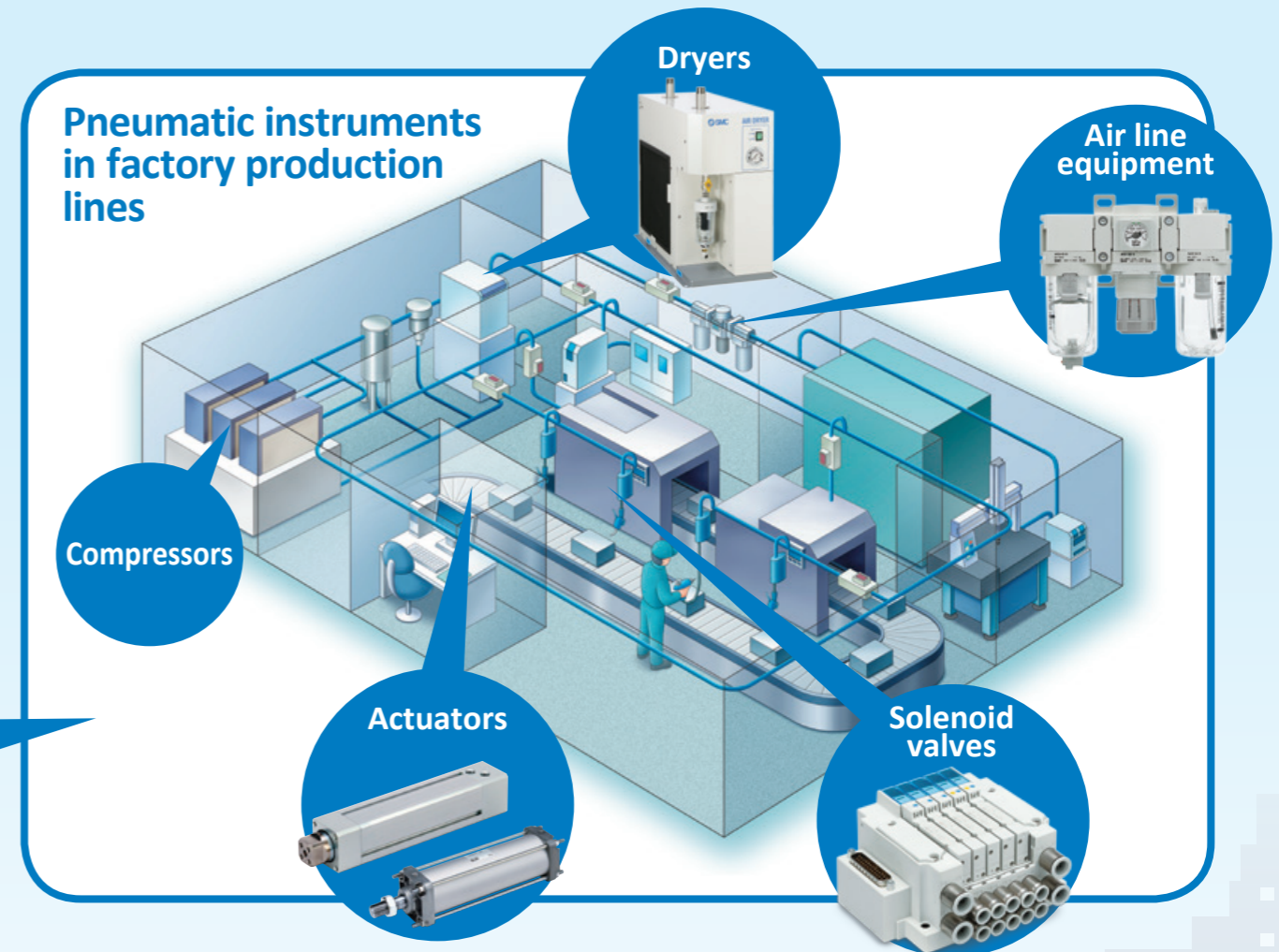
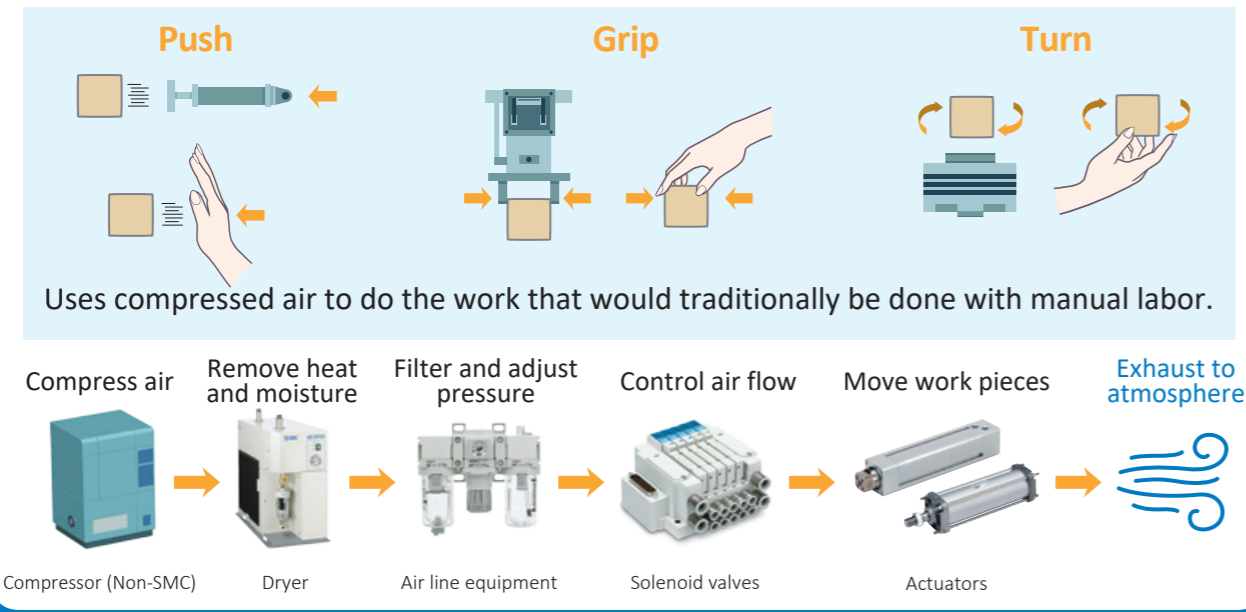
In publishing this report, we referenced ISO 26000, the international standards concerning social responsibility.



# Pneumatic Control Instruments Systems

Through the manufacture and sales of automatic control equipment including pneumatic instruments, SMC contributes to automated and labor-saving operations in industries. Using the pressure of compressed air as a core energy source, pneumatic instruments perform automatic operations such as pushing, gripping and turning work pieces in place of manual labor. SMC is a comprehensive manufacturer covering the entire pneumatic system consisting of various components. SMC's products are utilized in all industry sectors around the world.

## Overview of Pneumatic Control Instruments System



## SMC's Approach

The SMC Group has made the following management philosophy declaration and has identified the issues that must be dealt with in order to assure its "Long-term management vision".

### Management Philosophy

#### 1 Contributing to automated, labor-saving operations

The Company considers that its social mission is to "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 manufacturer of components "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, 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 shall strive 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 shall focus on newly expanding production facilities and replacing existing facilities, establish a globally optimal production system with future vision in mind, and shall accelerate rationalization and cost reduction.
- 3 The Company shall aim 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 environmentally 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 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 its "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	23 - 25
2. To earn trust from customers and suppliers	Customers/ Suppliers	21
3. To win the support and understanding of shareholders and investors	Shareholders and Investors	24
4. To respect the personality of the Company's employees, to prohibit discrimination and to create pleasant environment at workplace	Employees	19 - 20
5. To communicate with society	Society	22
6. To maintain good relationship with governmental and administrative agencies	Society	22
7. To adequately deal with anti-social forces, groups and any other relevant party	Suppliers	21
8. To work on environmental issues	Suppliers	15 - 18
9. To set corporate ethical structure proactively	All	23 - 25

SMC has established the "SMC Group Code of Conduct" based on the "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)

# SDGs

## SMC has launched initiatives for SDGs.

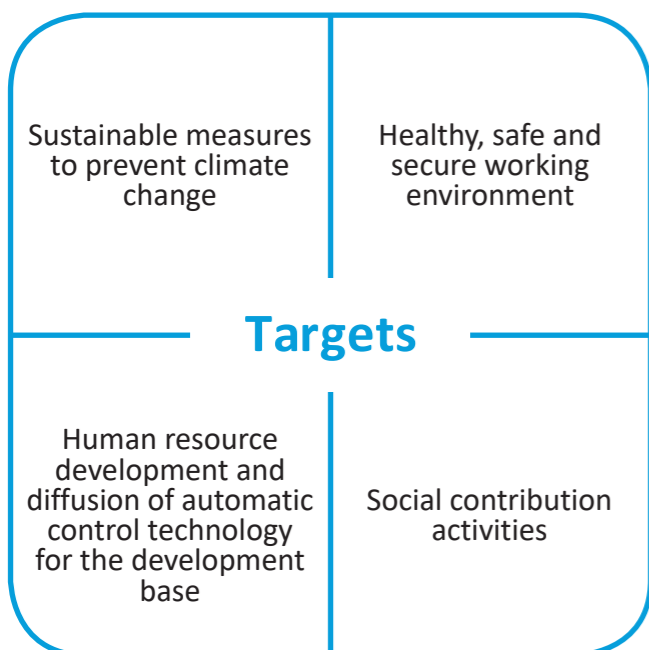
### SDGs

"SDGs (Sustainable Development Goals)" are set as international development goals to be achieved by 2030, which were adopted at the "United Nations Sustainable Development Summit". SDGs consist of 17 goals including the environment, human rights and development of industry and 169 targets to achieve those goals.

## SUSTAINABLE DEVELOPMENT GOALS



### SMC's Initiatives



SMC contributes to society as a whole by reducing environmental impacts through the sales of automatic control equipment. In addition, SMC is working to develop products with even greater energy-savings, air-savings, space-savings and weight reductions.

▶ P8 - 10

Through its network of manufacturing, sales, and research and development sites around the world, SMC provides products that address customers' needs in every region.

▶ P13 - 14

With consideration to the environment, SMC is working to reduce chemical substances, waste, water and energy consumption.

▶ P15 - 18

SMC is promoting the employment of women and people with disabilities, and is striving to create a better working environment.

▶ P19 - 20

SMC participates in green conservation activities in regions where its factories are located, and carries out activities to protect the natural environment.

▶ P22

## Highlight Eco-Products

SMC works to reduce the 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 environmentally friendly products. By conducting product assessments, SMC also evaluates the environmental impact of its products in terms of attributes such as resource-saving, longevity, energy-saving, safety, types and amount of packaging materials and waste disposal in order to promote the development of environmentally friendly products.

**During manufacturing**

Weight: Up to **54%** savings      Volume: Up to **79%** savings

**Resource-saving: Space-saving / Reduced weight**

**During usage**

Air consumption: Up to **93%** savings      Air consumption: Up to **87%** savings

Long life: Up to **200 million** drive cycles      Power consumption: Up to **34%** savings

**Air-saving / Energy-saving / Long-life**

Note: According to SMC's measurement conditions

## CO<sub>2</sub> Reduction during manufacturing

Achieving lower CO<sub>2</sub> emissions during manufacturing through space-savings and component reductions.

**Downsizing** and **Weight Reduction**

for existing products are realized with a topology optimized design process.

**Significant reduction of CO<sub>2</sub> emissions during manufacturing**

### Air cylinder

Length: Up to **38%** savings

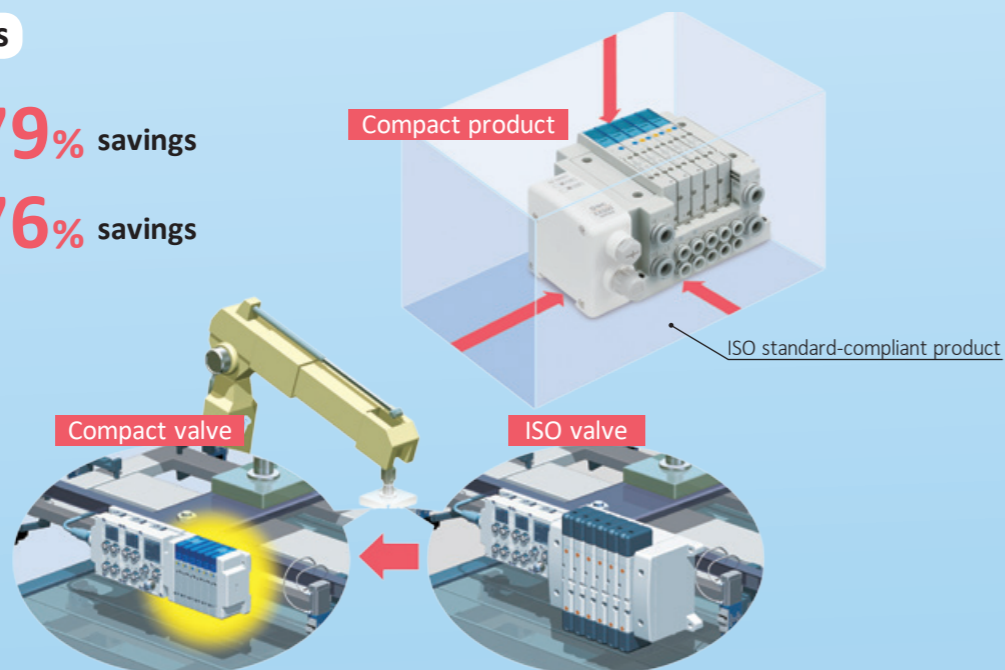
Weight: Up to **54%** savings  
0.69kg ▶ 0.32kg



### Solenoid valves

Volume: Up to **79%** savings

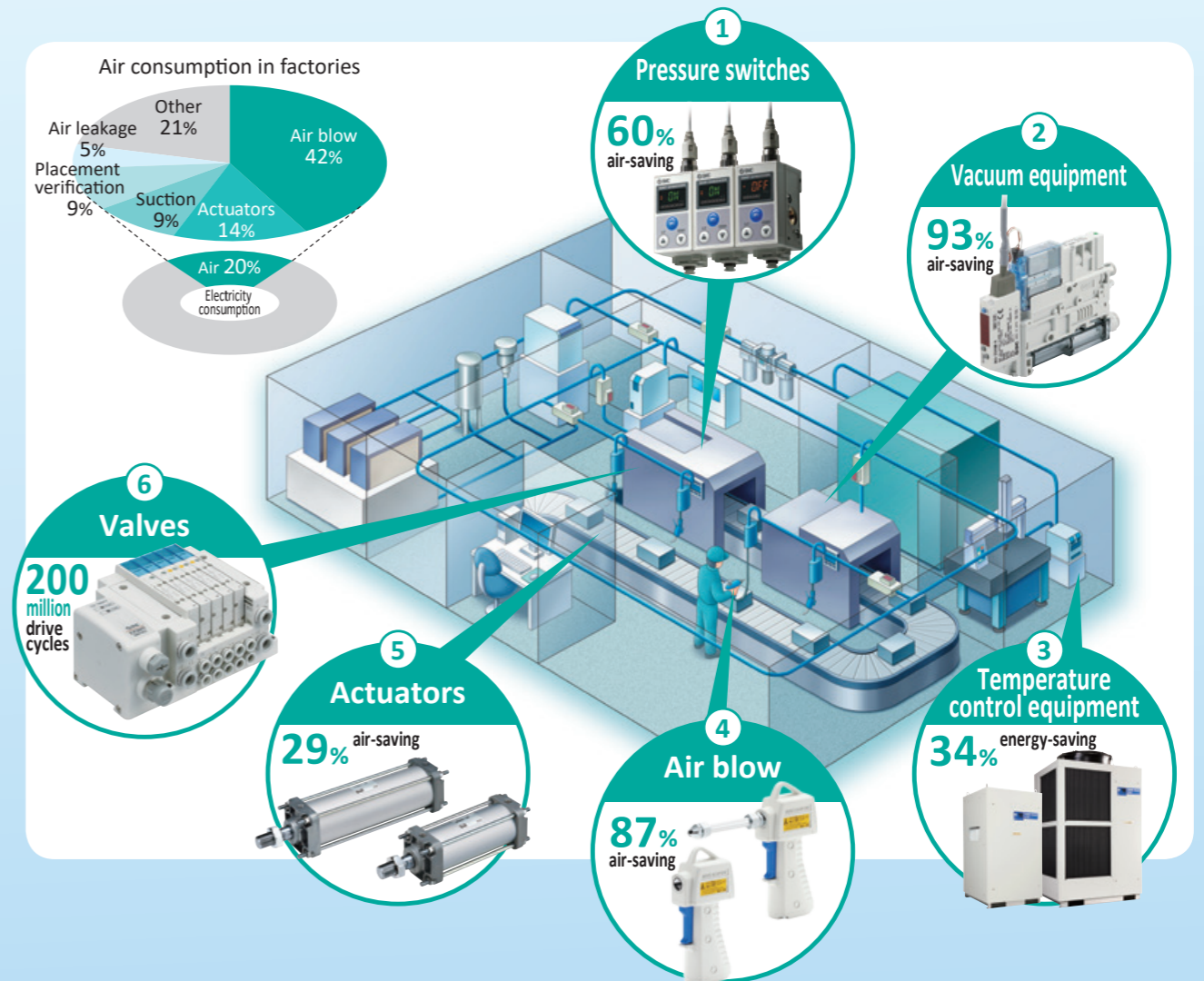
Weight: Up to **76%** savings



Note: According to SMC's measurement conditions

## CO<sub>2</sub> reduction during usage

Achieving lower CO<sub>2</sub> emissions during usage through energy-saving, air-saving, space-saving and long-life products.



<b>1</b>	<b>IO-Link compatible 3-screen display digital gap checker</b>	<ul style="list-style-type: none"> <li>Utilizing a new detection principle, air consumption is reduced to zero when the work piece is seated.</li> <li>Contributes to the detection of abnormal temperatures and internal product malfunctions. It also contributes to predictive maintenance by retrieving data from the process displayed values and the supply and exhaust pressure values.</li> </ul>
<b>2</b>	<b>Vacuum unit</b>	<ul style="list-style-type: none"> <li>Achieves air-savings with a built-in digital pressure switch with an energy-saving function.</li> <li>Improves noise reduction performance with an SMC silencer.</li> </ul>
<b>3</b>	<b>Thermo-chiller</b>	<ul style="list-style-type: none"> <li>Achieves energy-savings by adopting a triple inverter control and a heaterless heating function.</li> <li>Achieves space-savings with an integrated tank and pump.</li> </ul>
<b>4</b>	<b>Impact blow gun</b>	Contributes to air-saving and reduction in labor time by generating higher peak pressure.
<b>5</b>	<b>Air cylinder</b>	Achieves air-saving and space-savings through the selection of optimized sizes.
<b>6</b>	<b>Solenoid valve</b>	<ul style="list-style-type: none"> <li>Achieves a significant increases in the number of drive cycles, resulting in a longer life, by using a metal sealing.</li> <li>Reduces power consumption with energy-saving circuitry.</li> </ul>

Note: According to SMC's measurement conditions

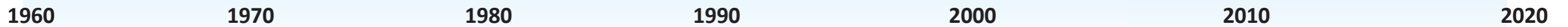
# SMC at a Glance

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



## Net sales (Non-consolidated)



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
- '98 | Acquired ISO 9001 certification
- '99 | Acquired ISO 14001 certification
- '00 | Embarked on overseas R&D operations
- '00 | SMC (Beijing) Manufacturing
- '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	ATEX Directive	EU RoHS Directive	Safety Standard ISO13849
EU F-Gas Regulation	TR-CU Certificate (EAC Marking)	UL Standards	CSA Standards
CRN (Canadian Registration Number)	China Compulsory Certification System (CCC)	KC(s) Marking	

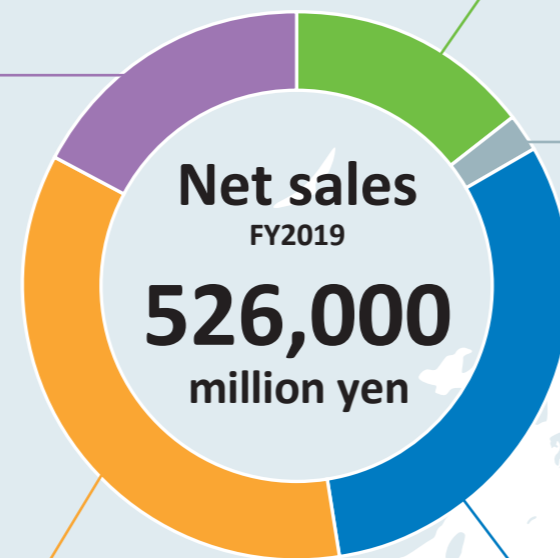
## Europe 17.2%

Net sales 90,672 million yen YoY growth -5.4%



## Asia 35.1%

Net sales 184,709 million yen YoY growth -6.5%



83 countries/regions worldwide

Local services in approx. 500 locations

Production facilities: 29 countries/regions

## North America 14.6%

Net sales 76,684 million yen YoY growth -7.3%

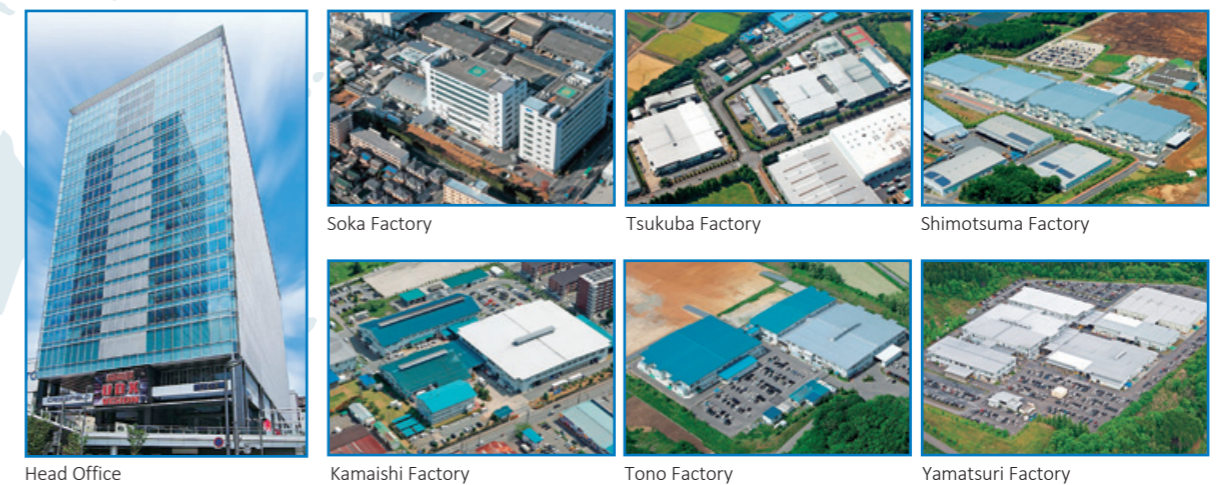


## Other 2.1%

Net sales 10,865 million yen YoY growth -8.3%

## Japan 31.0%

Net sales 163,069 million yen YoY growth -13.7%





## Eco-Management

### SMC Group Code of Conduct – Initiatives on Environmental Issues

We recognize that the 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 FY2019

Environmental training for employees	7,336 attendees
Emergency response training	85 attendees
Training for front-line workers	544 attendees
Participation in external environment-related training sessions	13 attendees
Environmental training for environment-related partner companies	147 companies

### Environmental Objectives, FY2019 Results and Evaluation

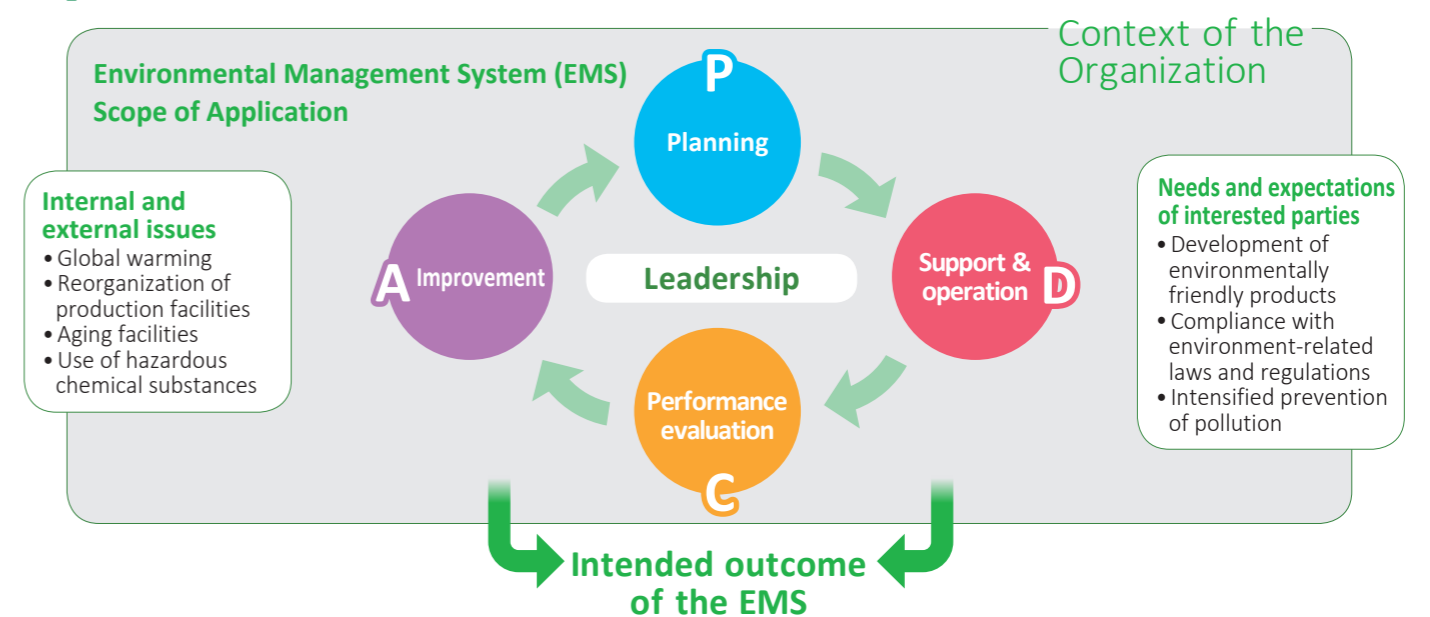
As part of its initiatives under the Environmental Management System (EMS) which adheres to ISO 14001, SMC defines a set of "Medium-Term Environmental Targets" to be achieved over a period of three years and "Environmental Targets" for each fiscal year, and manages and evaluates the progress.

In FY2019, out of the "Environmental Targets" described below, SMC did not achieve "Prevention of global warming" and "Saving of resources". Although "Prevention of global warming" was not achieved due to a decrease in production output in FY2019, the target would have been achieved with a reduction of 11.7%, if the production output was the same as the 7th Term (FY2017–2019) average. In addition, "Saving of resources" was not achieved due to the impact of sludge (grease trap cleaning), disposal of large equipment, and an increase in wood and oil waste.

- 1 SMC conducted product assessments to be utilized for the design and development of environmentally friendly products.
- 2 As an initiative to prevent global warming, SMC achieved a 4.1% reduction of CO<sub>2</sub> emissions per unit of production compared to the 6th Term (FY2014–2016) average. Regarding the initiative to save resources, waste discharged per unit of production increased 2.1% compared to the 6th Term (FY2014–2016) average.
- 3 All regional groups consisting of SMC's 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.

	Medium-Term Environmental Targets Targets to achieve in 3-year period of FY2017–2019	Environmental Targets for FY2019	Results	Evaluation
<b>Product assessments (Environmental compatibility)</b>	Design and development of environmentally 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 environmentally friendly products Conducted assessments using score evaluation of current status 25 models or more: 300 points or higher	33 models: 384 points	Achieved
<b>Business activities (Environmental conservation)</b>	Promote energy-saving, resource-saving and reduction of environmental burden through beneficial environmental activities in business activities			
	Prevention of global warming Reduction of CO <sub>2</sub> emission 6th Term (FY2014-2016): Average of 10% or more reduction per unit of production	Reduction of CO <sub>2</sub> emission Reduce 10% or more compared to the 6th Term (FY2014-2016) average per unit of production	4.1% reduction	Not achieved
<b>Communication (Coexistence with society)</b>	Saving of resources Reduction of waste discharge 6th Term (FY2014-2016): Average of 8% or more reduction per unit of production	Reduction of waste discharge Reduce 8% or more compared to the 6th Term (FY2014-2016) average per unit of production	2.1% increase	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 has implemented ISO 14001, the international standards related to environmental management, and began to make organizational efforts in implementing environmentally friendly and energy-saving measures at our factories since 1998 (acquired certification in December 1999).

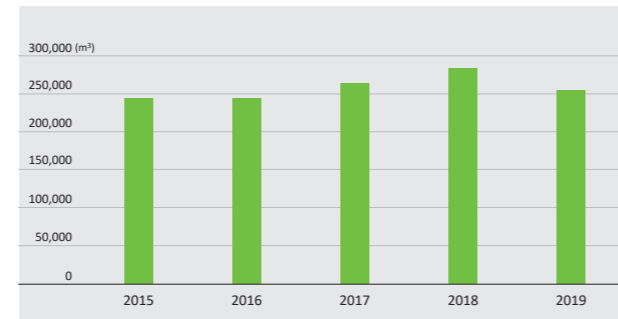
### Energy Consumption, CO<sub>2</sub> Emissions and Water Usage

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> through the combined effect of its steady energy-saving efforts.

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



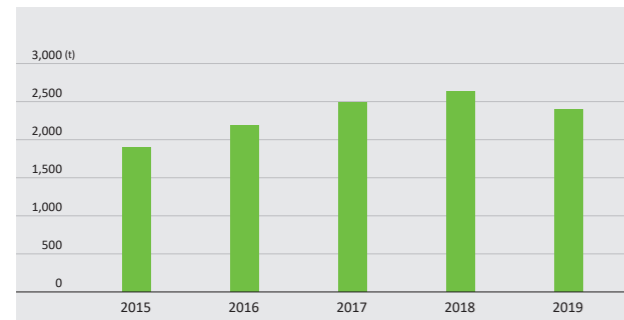
#### Water usage



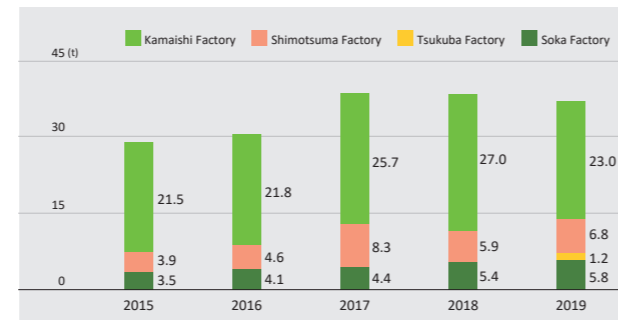
### Proper Management of Chemical Substances

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).

#### Waste discharge



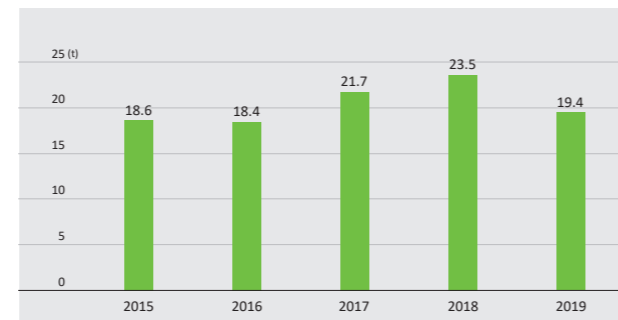
#### Chemical substance usage



#### Reduction of waste discharge



#### Chemical substance discharge



### 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. SMC sells computers and printers, which are no longer used, as material of value to recycle operators and reducing its waste disposal costs.

- 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 its products.



\*1 CO<sub>2</sub> from production activities is the amount of CO<sub>2</sub> emitted associated with energy usage.

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

### Designated as a Large-Scale Facility

A regulation regarding annual energy consumption is stipulated in a plan to prevent climate change set forth under Saitama Prefecture's ordinance. Facilities with energy consumption that exceeds the equivalent of 1,500 kL of crude oil per year for three consecutive years are designated as a large-scale facility and are required to reduce their energy consumption. SMC's Soka 1st Factory was designated as a large-scale facility in FY2019 as its energy consumption exceeded the equivalent of 1,500 kL for three consecutive years in FY2016-2018.

### 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.

### 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. SMC is also working on improving energy efficiency. Its effort 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.

# 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 FY2016 - 2019.

### 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

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

	FY2016	FY2017	FY2018	FY2019
No. of employees with disabilities	139	152	162	<b>163</b>
Employment rates of people with disabilities	2.2%	2.4%	2.4%	<b>2.5%</b>
Female employee rate	41.0%	41.0%	41.1%	<b>40.8%</b>
Female employment rate	55.0%	52.1%	49.3%	<b>52.9%</b>
Average years of continuous service by female employees	16.1	16.7	17.2	<b>17.7</b>
Percentage of annual paid leave taken	74.7%	73.2%	69.4%	<b>74.7%</b>
Turnover rate of employees leaving within 3 years	5.6%	8.9%	4.7%	<b>1.2%</b>

## Human Resource Development

### Employee Award System

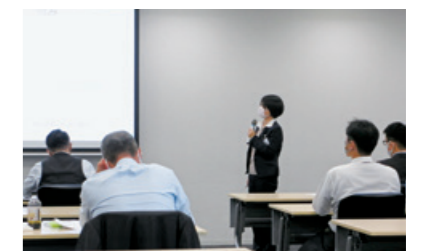
SMC has created an award system for those employees who have exhibited outstanding performance for raising employees' workplace motivation and enthusiasm.



Domestic Sales Division Award Ceremony

### Management Training

SMC has introduced a human resource development program to continuously develop personnel that can manage with a global perspective, who play an active role within the entire group, and can contribute to the sustainable growth of the Company.



### Self-Improvement System

SMC has introduced an LMS (Learning Management System), as a tool to manage cloud-based e-learning to support the self-improvement of its employees. In order to improve employee skills and motivation, its curriculum contains not only basic business skills but also a rich selection of SMC's original content, such as information on company policies, sales strategies, and products.



## Worker Health and Safety

At SMC, the health and safety committees of each of its business units work with industrial doctors to prevent workplace accidents and illnesses and create a safe and healthy work environment for its employees. In response to a serious accident in October 2019, all factory managers participated in a re-examination of their safety efforts and launched a system for sharing safety information among each of their business units. As for measures to prevent the spread of COVID-19, the supply of products to SMC's customers has been maintained without any interruptions to production activities as a result of collaborations among the divisions.



Factory health and safety committee by video conferencing

### Workplace accidents: Rate per thousand workers, severity, and frequency (%)

	2016		2017		2018		2019	
	Manufacturing Industry	SMC	Manufacturing Industry	SMC	Manufacturing Industry	SMC	Manufacturing Industry	SMC
Rate per thousand workers	2.7	0.7	2.7	0.9	2.8	1.1	2.7	0.6
Severity	0.07	0.04	0.08	0.01	0.10	0.08	0.10	0.64
Frequency	1.15	0.82	1.02	0.35	1.20	0.87	1.20	0.39

\* Data on rate per thousand workers, severity, and frequency in the manufacturing industry obtained from "Ministry of Health, Labour and Welfare: Workplace Safety Site, Occupational Injury Statistics".

\* Covered period: One year from January 1 to December 31



Report by the industrial doctor on tour inspection results

# Voice

Message from female managers

## Smoothly leading an organization by drawing out the capabilities of my team

### Managers: Promoting operations with various tactics while receiving top-down support

We have differing responsibilities, ranging from overseas sales and marketing to sales operation backup.

We felt apprehension at the start of our managerial career, but with the advice of our leaders, the Company's remote-learning curriculum, and managerial e-learning training, we were able to deepen our understanding of our profession and managerial style.

As a manager, we must align our group's vectors towards the Company's overall strategy, manage tasks, and properly handle personnel evaluations in order to provide team motivation. We are striving to improve communication between department staff members by providing advice based on personal experience and skills. We also strive to explain the intentions of upper management contained in their instructions in our own words, in an easy to understand manner. Each and every day, we repeat our duties through trial and error while understanding the weight of our responsibilities as a manager.

### New Era Working Style: Raising one's value through self-improvement

We have all experienced childbirth and child rearing. At that time, many women would retire from Japanese companies for various life events such as marriage and childbirth. Since that time, the entire country has been creating an environment where women can continue to work comfortably. So now, there are many women

around us who continue to work after giving birth, taking advantage of childcare leave and reduced working hours. In addition, the effect of the coronavirus epidemic has forced IT infrastructure innovations to allow for remote working from the perspective of "work style reform". As the selection of work styles has widened, time zone controlled international collaborations with our customers and colleagues have become the new working style and has made self-improvements possible as requested by the Company. In the midst of this changing working environment, it has become more and more important to improve ourselves, our expertise, our diversity, and increase our own value. In particular, we would like the younger generation of men and women to take advantage of the changes in the working environment to expand their fields of activity.



## 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.

### Initiatives to Propose Energy-Saving Optimization Measures

SMC has created a dedicated team to utilize its accumulated energy saving experience and knowledge in order to make energy-saving solution proposals that will help reduce CO<sub>2</sub> emissions at its customers' facilities. SMC conducts customer factory visits and submits reports to the customers. Based on this on-site survey and follow up with a variety of technical support personnel, SMC gives customers the means to solve their problems. These visits also give customers an opportunity to actually try out SMC products in order to experience the energy-savings performance they can provide.



### Efforts against Conflict Mineral Issues

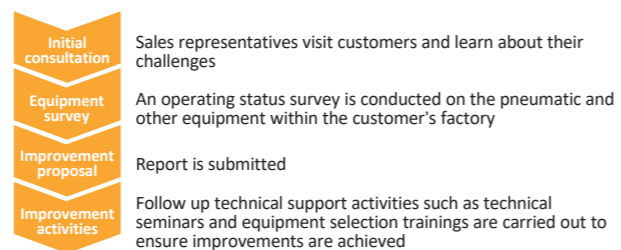
SMC is striving to provide information to customers based on a database using the Conflict Mineral Report Template (CMRT). Through cooperating with suppliers, SMC is working to improve the accuracy of the CMRT. In addition, SMC revised its definition of conflict minerals in a revision that was made to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

#### Energy-saving optimization proposal flow



### Supplying Products for Respirators and Mask Manufacturing Equipment

In response to requests from the governments and companies of various countries, SMC has been supplying products for respirators and mask manufacturing equipment to help combat COVID-19. Applying the technology of products for semiconductor manufacturing equipment, SMC is continuing its production activities under measures to prevent infection, thereby fulfilling its social mission as a manufacturer of FA.



## 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 SMC Factory Relationships with Local Regions

The SMC Kamaishi 4th Factory in Iwate Prefecture is located relatively close to a residential area. SMC has installed a soundproof wall to reduce noise and provide safety measures there.



# Corporate Governance

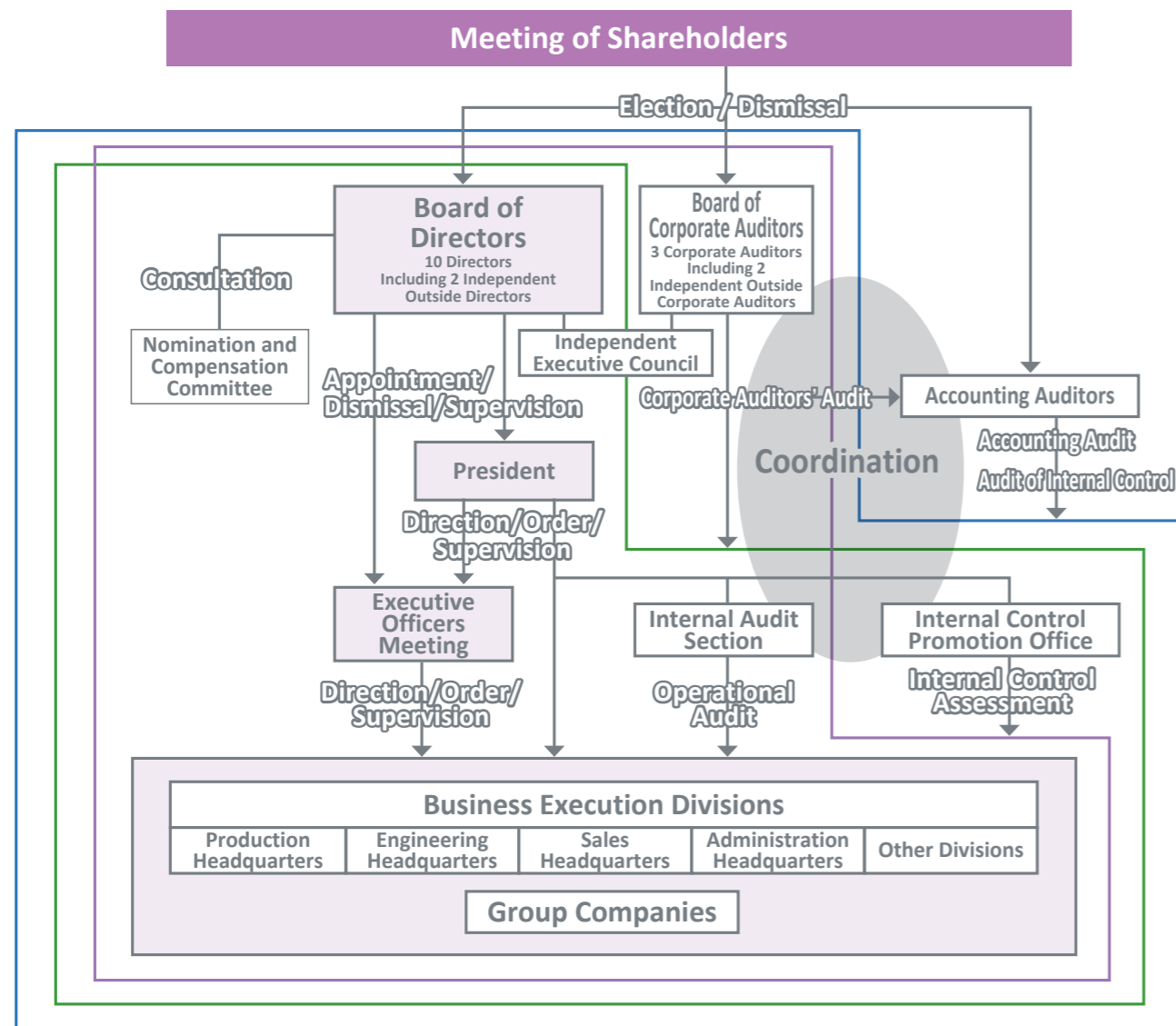
## Basic Views

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, 2020, eight meetings of the Board of Directors were convened and one written resolution was made.

### 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.

In the fiscal year ended March 31, 2020, twelve meetings of the Board of Corporate Auditors were convened.

### Directors' Advisory Bodies, etc.

SMC has voluntarily established the "Nomination and Compensation Committee" as an advisory body to the Board of Directors, and aims to strengthen the fairness, transparency and objectivity in the processes of nomination and compensation of Directors.

The Nomination and Compensation Committee consists of two Representative Directors and two Outside Directors, and by a vote among the Outside Directors, Outside Director Masanobu Kaizu, has been selected as its chairman.

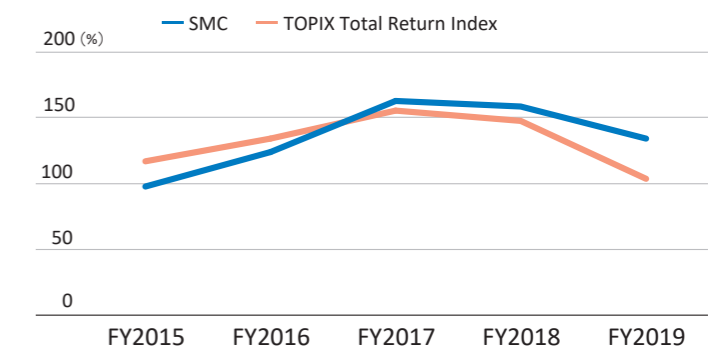
### Independent Executive Council and Chief Independent Director

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, Outside Director Masanobu Kaizu has been chosen as "Lead Independent Outside Director" by a vote among the Outside Directors, and the Independent Executive Council is working to achieve smoother contact and coordination between the Outside Directors, Board of Directors, Board of Corporate Auditors and all divisions 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 its shareholders, SMC adopts a basic policy of maintaining stable dividend payment. At the same time, SMC 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

# Voice

## SMC's Challenges as Perceived by an Outside Corporate Auditor

Outside Corporate Auditor, Certified Public Accountant/Tax Accountant **Arata Toyoshi**



SMC's automatic control equipment will play in solving social issues such as energy and resource saving initiatives. Also, the reduction of the labor force population and securing social distancing with the spread of the coronavirus epidemic have driven these expectations higher. SMC has become a company that is expected and has attracted the attention of not only the stock market, but also society as a whole, for the realization of sustainable growth and the effectiveness of its underlying governance. In that sense, I believe that SMC must also review its management style and priorities in resource allocation. I was elected as an Independent Outside Corporate Auditor of SMC at the General Meeting of Shareholders held in June 2019. In September of that year, Honorary Chairman of the Board of Directors Takada retired from management, and the composition of the Board of Directors and Corporate Auditors was significantly rejuvenated following the General Meeting of Shareholders held in June 2020.

Based on the initiatives and discussions at the Board of Directors over the past year, which can be considered a once-in-a-century major turning point for SMC and for the society, I feel that the new management team has been looking for ways to achieve sustainable growth through governance that mobilizes the expertise of the leaders of each division, rather than relying on individual leadership, while maintaining a bold and challenging stance on the future. In the past, SMC has been criticized for being insufficiently open and sometimes secretive in terms of disclosure in contrast to the aggressiveness of its business strategy. I understand that such an attitude originated from SMC's spirit of "behind-the-scenes commitment to users", but now that information disclosures, including ESG initiatives, are considered an important aspect of corporate social responsibility. So SMC is looking for changes in information disclosure as well.

As an Independent Outside Corporate Auditor, I will use my experience as a certified public accountant specializing in corporate accounting-based financial reporting for listed companies to help SMC increase management transparency and accountability. We will also discuss the expected role of the Board of Directors at each and every opportunity, in light of the recent debate over corporate governance and the changing nature of financial reporting (including non-financial information).

Carrying out disclosures that reflect the discussions and views of the Board of Directors and receiving feedback from shareholders and investors will promote constructive dialogue.

In particular, the fiscal year ending March 31, 2021 will be the start of the inclusion of Key Audit Matters (KAM) in the Independent Auditor's Report. I recognize this to be the phase in which I can best demonstrate my experience.

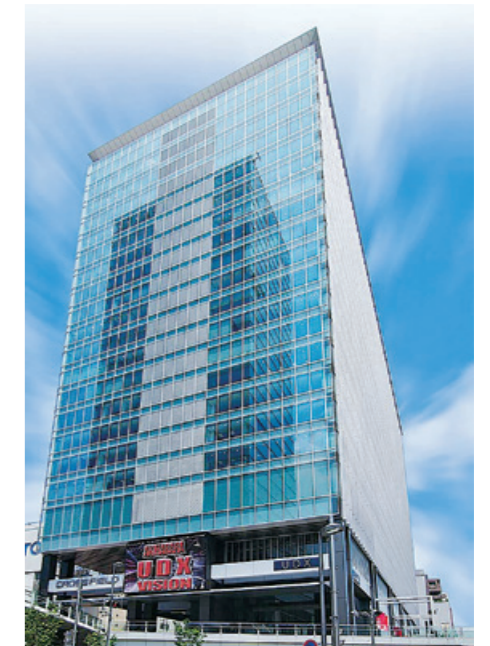
By linking this kind of disclosure with corporate governance, I want to play my role as corporate auditor in creating sustainable corporate value.

For around 30 years, including a period of working as a partner at a major audit firm, I have provided accounting audits, internal control construction support, overseas expansion support, and other services for listed companies mainly in the manufacturing industry that are expanding their businesses globally. During this time, a great wave of change has swept through the global political and economic sphere, bringing with it a rapid emergence of globalization and borderless commerce. However, recent events such as Brexit, the growing tensions between the US and China, and the spread of COVID-19, the trend towards globalization and borderless commerce has been reversed.

On the other hand, concerns regarding the risks of climate change have never been greater. Companies are confronting hard decisions on how to propose and implement strategies that will bring about sustainable growth, how to build governance structures that form the basis of these strategies, and how to communicate this effort to investors and society. Since its foundation 60 years ago, under the strong leadership of Honorary Chairman Yoshiyuki Takada, SMC has built its product supply system to deliver high quality products quickly with a detailed sales network, based on visionary technological development and creatively efficient innovations unparalleled by any other company, establishing an unshakeable position as a comprehensive manufacturer of pneumatic and other automatic control equipment. Because of its high profitability and future potential, SMC's overseas investors hold more than 50% of its shares, and the market capitalization of the stock has increased more than 30 times in the past 30 years. In addition, there are higher expectations for the role that

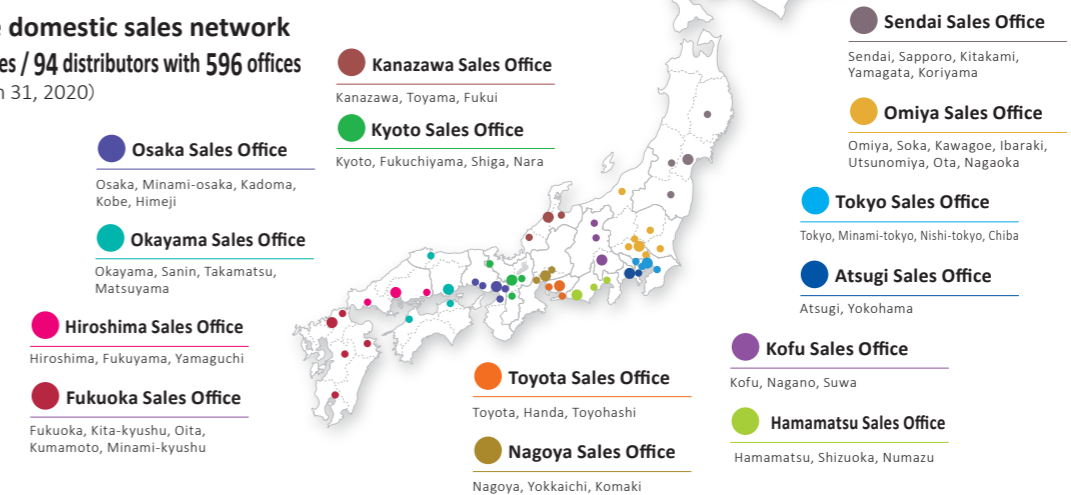
## Corporate Summary

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	526.0 billion yen (As of March 31, 2020)
Total assets	1,390.5 billion yen (As of March 31, 2020)
No. of employees	20,853 (As of March 31, 2020)
Equity ratio	89.9% (As of March 31, 2020)

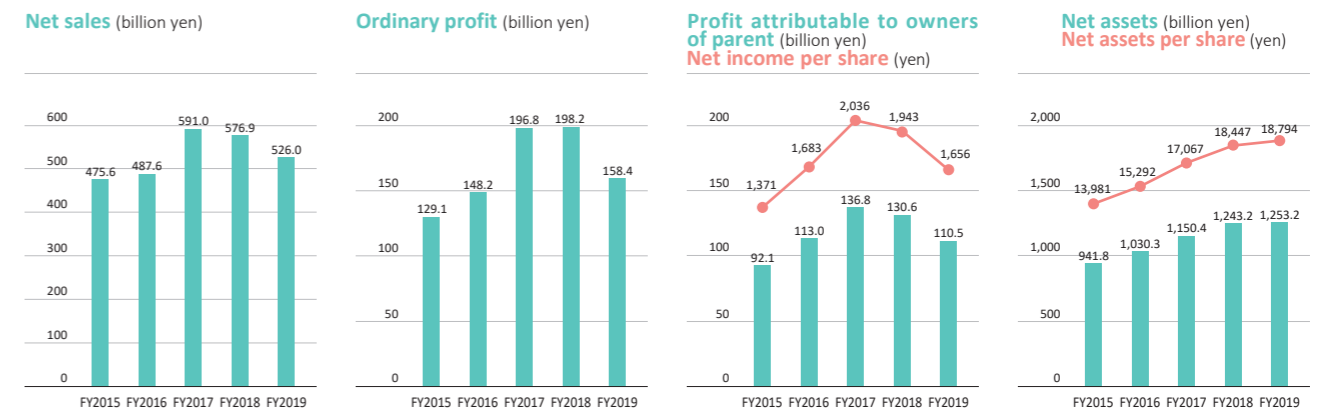


## Domestic Network

**Extensive domestic sales network**  
54 sales offices / 94 distributors with 596 offices  
(As of March 31, 2020)



## Consolidated Financial Highlights





## 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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