



Integrated Report 2023



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Editorial Policy

The SMC Integrated Report has been prepared as a tool to communicate SMC’s philosophy and business model to our stakeholders. In addition to information on our products, business strategy, financial strategy, and ESG information, the report also includes our history and recent topics to help stakeholders better understand value creation and sustainable growth at SMC.

Reporting Period

In general, this report covers the period from April 2022 to March 2023, but activities prior to or after this period are also included.

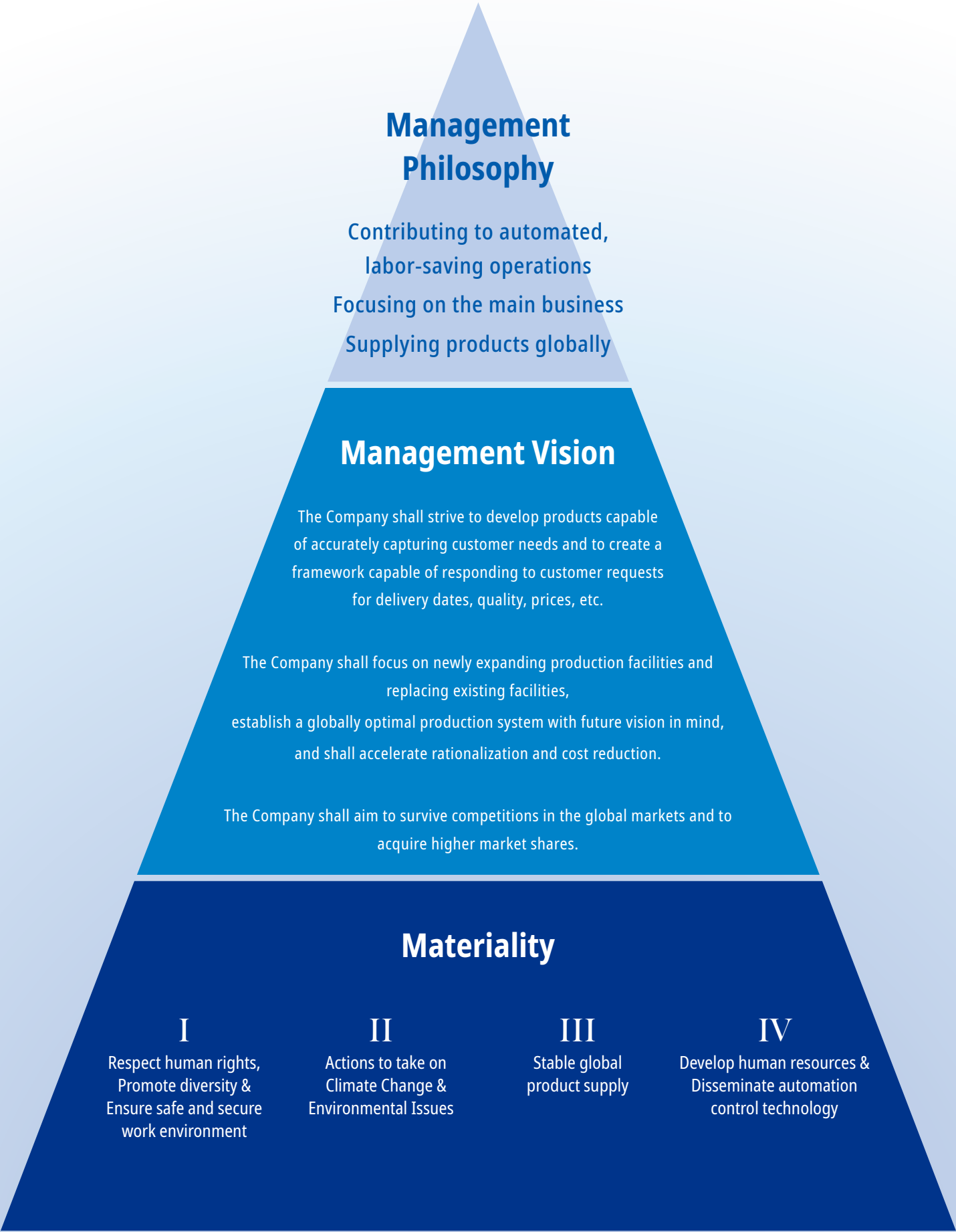
Scope of Report

This report focuses on SMC Corporation and includes content about some other Group companies.

Guidelines Referenced

During the editorial process, we referred to the International Integrated Reporting Framework recommended by organizations such as the IIRC and WICI, as well as the Guidance for Collaborative Value Creation published by Japan’s Ministry of Economy, Trade and Industry.

Philosophy

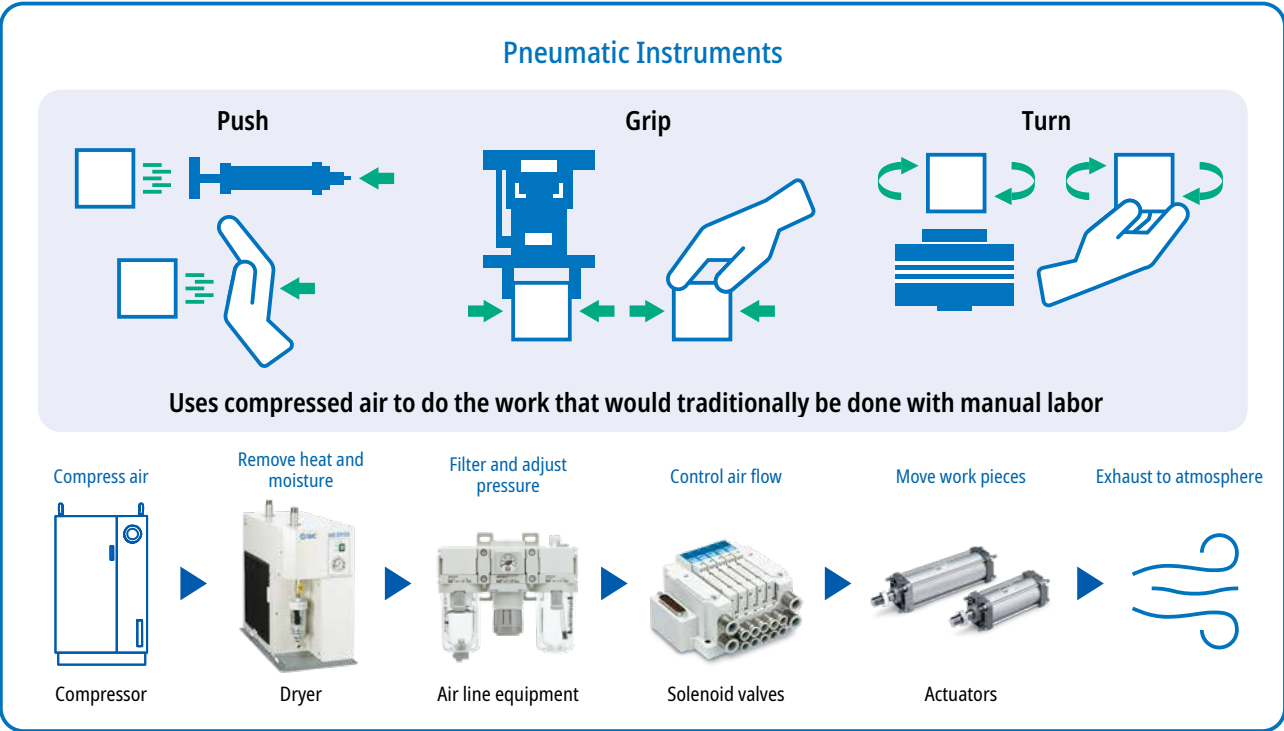


Our Products

SMC—A Comprehensive Manufacturer of Automatic Control Equipment

SMC's pneumatic instruments and other automatic control equipment perform tasks such as pushing, gripping, and turning, in place of manual labor. These machine components are essential for automated, labor-saving operations in virtually every industry, including the semiconductor, automotive, machine tool, food machinery, and medical equipment industries.

Pneumatic Instruments



Other Automatic Control Equipment

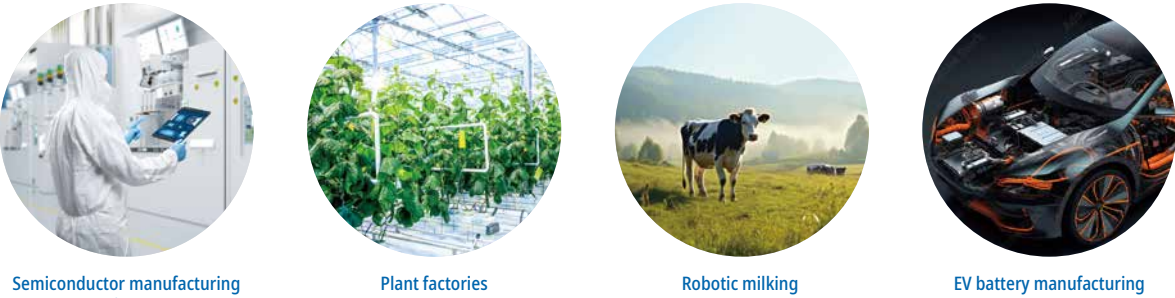


Temperature Control Equipment

Since 1978, SMC has been developing chemical solution temperature control equipment to meet the demand for these products in the semiconductor manufacturing process. For more than 40 years, it has been refining its technological capabilities by pursuing superior quality and energy-saving performance. Today, SMC's temperature control equipment is used not only in semiconductors, but also in a wide range of industries that require precise temperature control, including machine tools, food machinery, measuring instruments, physical and chemical analysis equipment, medical and pharmaceutical products, as well as breweries, plant factories, robotic milking, and even EV battery manufacturing.

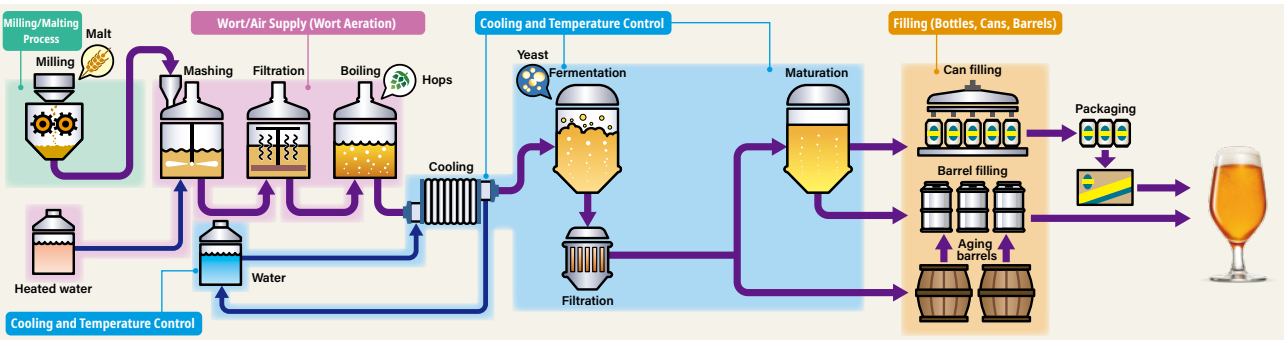


Where it is used



Possibilities of Automatic Control Equipment

SMC's automatic control equipment is used for labor-saving and automation in a wide range of industries because of its simple design, ease of handling, and versatility. As a leading manufacturer of automatic control equipment, SMC is working to further expand its product applications. SMC's products are also used in craft beer brewing. A wide range of ingredients are used in craft beer to express various flavors, and the fermentation temperature must be fine-tuned according to the type of yeast used. SMC's temperature control equipment plays an important role in this process.



Milling/Malting Process Can be used for opening and closing hatch doors in dusty environments Cylinder with Stable Lubrication Function (Lube-retainer) Used for loosening stuck grains Air Shocker For transfer of grain material Pulse Valve Valve for Dust Collector 	Wort/Air Supply (Wort Aeration) Can be used to purify compressed air supplied to the wort prior to fermentation Membrane Air Dryer Line Filter Mist Separator Micro Mist Separator Activated Carbon Filter Bacteria Removal Filter 	Cooling and Temperature Control For temperature control of maturation tanks, fermentation tanks, and for use with heat exchangers Thermo-chiller Circulating Fluid Line Equipment S Couplers Stainless Steel Type 3-Color Display Digital Flow Switch for Water 	Filling (Bottles, Cans, Barrels) These products are made with stainless steel for improved corrosion resistance, have a hygienic design, use grease for food machinery, or use compatible materials, etc. Hygienic Design Cylinder Stainless Steel Cylinder Clean Design Manifold Valve Stainless Steel Speed Controller (Elbow Type) EHEDG Compliant/Clean Design/FDA Compliant Fittings
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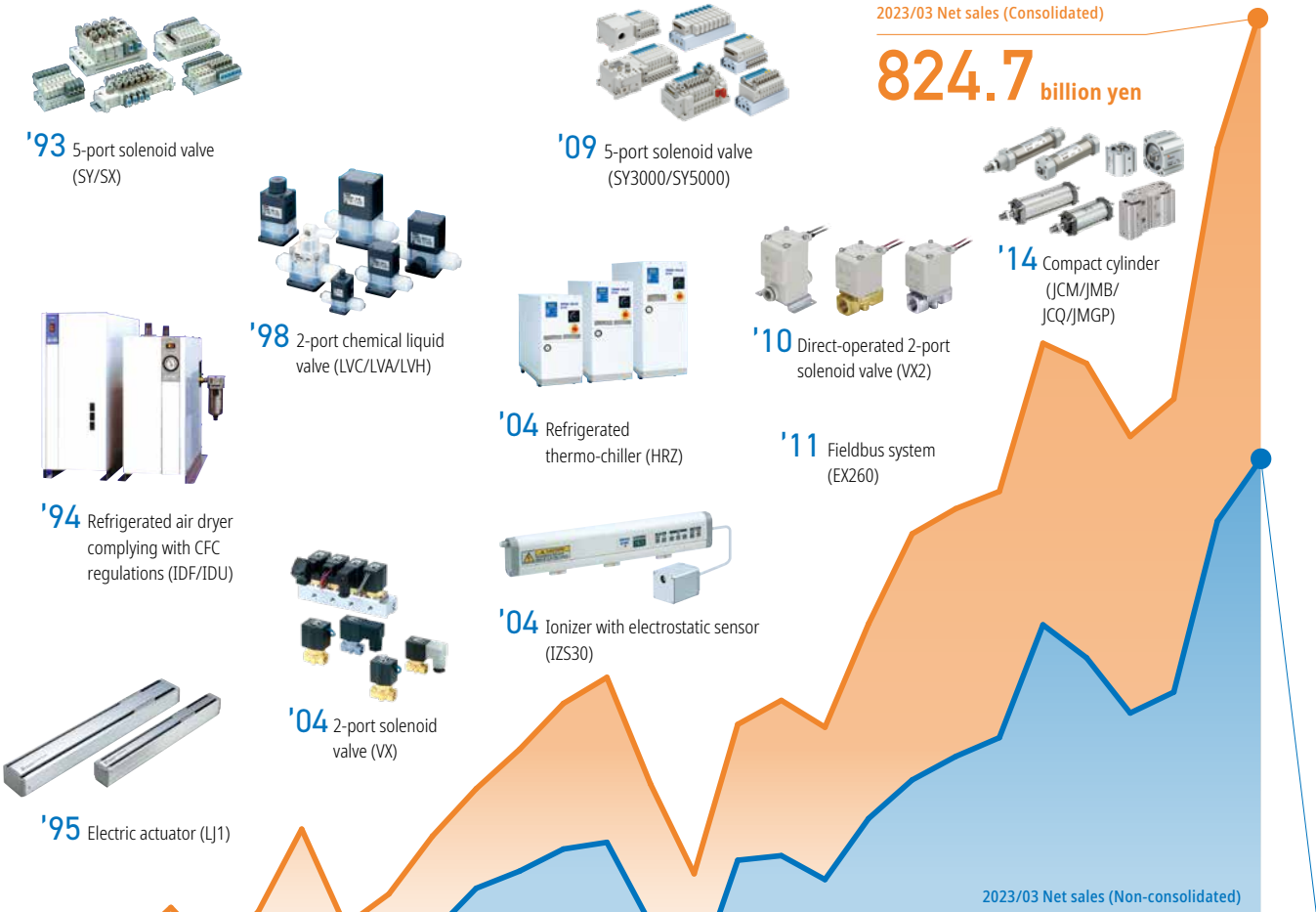
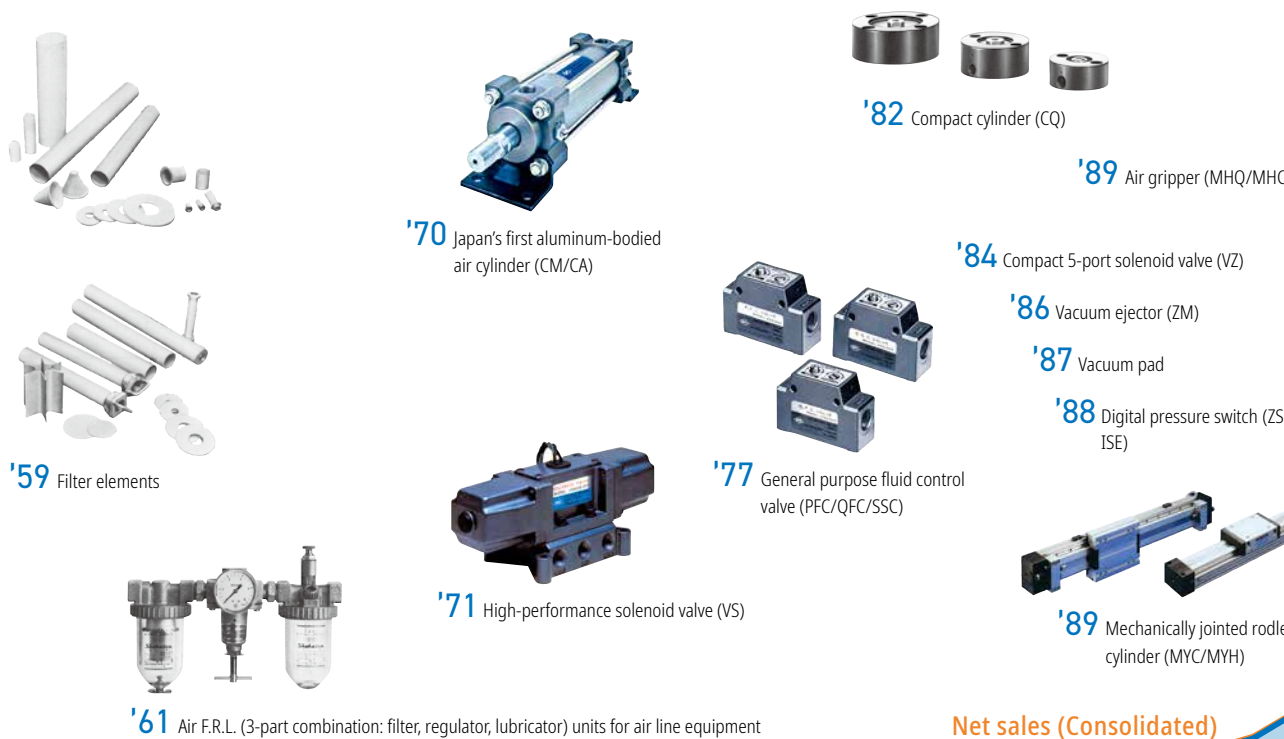
Note: Please use within the scope of specifications listed in the catalog/operation manual, etc. It is the customer's responsibility to determine the suitability of each piece of equipment for their facility.

History

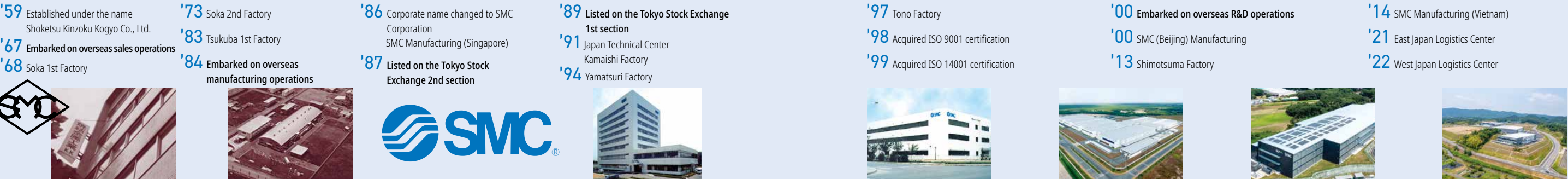
SMC History

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 comprehensive manufacturer of pneumatic instruments with the top global market share.

Products



Major Events/Facilities



Top Message

We aim to be the world's No. 1 provider of automatic control equipment that contributes to the global challenges of automation and decarbonization.

Despite record-high sales and profit, significant supply chain disruptions remain a challenge

In the fiscal year ended March 31, 2023, SMC was able to achieve a record high in both net sales and operating profit, thanks to continued investment in automation by the manufacturing industry in general, as well as positive effects of the foreign exchange rate. Our ongoing efforts to diversify our customer base and supply products to businesses in a wide range of fields, including the semiconductor, automotive, machine

tool, food, and healthcare industries, have paid off with these favorable results. On the other hand, we faced more difficulties in procuring parts and materials than expected, resulting in delivery delays and other issues for some of our products. If we had been quicker to bolster our supply chain, such as by establishing multiple procurement chains, we would have been able to further boost our sales and profit, so I feel that we still have some work to do in this area.

Numerous risks have emerged in recent years, including natural disasters such as torrential rains and major earthquakes, the spread of infectious diseases, political and military conflicts, and price hikes and supply shortages in product components. As a company that supports the businesses of customers around the world, SMC must continue to operate and fulfill our responsibility to supply products under any circumstances.

In order to establish an even more robust system for supplying products, SMC has been working to enhance its business continuity plan (BCP) since 2021, and has invested more than 80 billion yen in relation to this in the fiscal year ended March 31, 2023.

SMC has long adhered to a strategy of investing in facilities in low-cost countries and cutting costs through centralized production. However, in light of the various growing risks and unpredictable social condition we face today, we believe it is necessary to establish systems that enable us to produce a single product at multiple locations. In addition, procurement of key components is concentrated in Japan, particularly in the northern Kanto region. As SMC's sales grow, our suppliers must also increase their supply capacity, something that may be difficult to do depending on the circumstances at each company. Therefore, SMC is also working to develop new suppliers and establish a system for in-house production. We are also working to optimize production activities overall by visualizing the utilization of all-purpose machine tools located in our factories across Japan and improving operational efficiency, such as by using available machines to perform certain processes at other factories.

Providing a stable supply in any environment to meet customer demand for full line automation and decarbonization

In order to respond quickly and flexibly to the diverse needs of our customers around the world, SMC has established production factories tailored to local markets, in addition to mass-production factories in six countries: Japan (Soka, Tsukuba, Shimotsuma, Yamatsuri, Kamaishi, and Tono), China (Beijing and Tianjin), Vietnam, Singapore, India, and the Czech Republic.

SMC also has sales offices in more than 80 countries and regions around the world and employs over 7,000 sales staff to meet customers' needs. Our intimate familiarity and thorough knowledge with production lines in diverse industries and our dedication to consistently supplying products with minimal downtime have earned us a solid reputation



President Yoshiki Takada

Top Message

among our customers as a reliable partner.

Pneumatic instruments, SMC's core products, are environmentally-friendly automatic control equipment powered by compressed air that is safe to be discharged into the atmosphere. Expanding demand and applications for SMC products will itself help to resolve social issues, such as reducing CO₂ emissions. We will leverage the technological capabilities we have accumulated at SMC over the years to develop and supply automatic control equipment products with even greater energy-saving performance.

Until now, SMC has focused primarily on proposing products to those in charge of production facilities and design. However, in recent years, our customers' issues and interests have shifted to the automation and decarbonization of the entire production facilities and as a result, we are receiving more requests from top management (or those in positions close to management) to evaluate their entire facilities and propose improvements from the perspective of an expert in pneumatics.

Pneumatic instruments run on compressed air generated by a compressor. It is said that these compressors are responsible for about 20% of the electric power consumed by an average manufacturing plant. For example, when compressed air is used to move an object, if the air blow nozzle is placed close to the object, lower pressure is required to move the object. On the other hand, if the nozzle is placed farther away, higher pressure is required. Air pressure is often wasted on the factory floor in this manner. If equipment is designed to eliminate this waste, it will reduce compressed air consumption, and in turn, reduce the power consumption of the entire factory. Our customers are highly interested in optimizing their facilities to save air and power, for the sake of reducing both CO₂ emissions and electricity costs.

SMC will be a one-stop shop for these customer needs, providing total solutions that are a step above what we have offered in the past.

We aim to be “the best supplier” to our customers, as well as “a company that makes employees feel a sense of well-being”

I worked in the United States for about 30 years starting in the 1990s and served as president of SMC Corporation of America for 16 years, where I promoted a management style centered on localization. Considering the recent rise in interstate tensions, we can expect rapid changes in the environment of each country and region to require each location to respond to the market in an autonomous manner. SMC has appointed local personnel to fill the top positions at most of our overseas subsidiaries, and has further committed to delegating authority and responsibility to local management. Unlike most Japanese companies, which tend to hire local personnel on short-term contracts, SMC's foreign employees have long tenure on average, and many local



personnel are appointed to senior management positions. I believe that having so many locals in top management positions has had a major impact on our ability to utilize local talent in each of the countries in which we operate. Employees are much more motivated when they are in an environment where they can be evaluated and promoted by top executives of the same nationality. In marketing, as well, it is best for locals themselves to conduct business negotiations with the customers. While we are clearly at a disadvantage in away markets, I believe that the localization of management is essential to overcoming this disadvantage, and that without such localization, we will not be able to achieve globalization in the true sense of the word.

I was appointed executive vice-president in 2019 and president in 2021, and had experienced a reverse culture shock of how unique the environment and values are in Japan. The differences are too vast to be described in a few words, but there are, for example, significant differences in terms of how people value age. In Japan, people are required to provide their age for all kinds of procedures, and their age is even stated in news articles. Career-wise, there are invisible, age-dependent barriers, such as not being considered for a promotion until one has reached an “appropriate age” for the position. These are values that do not exist in Western countries. Also, in the United States, marketing majors are equipped with the knowledge and skills they need to be an immediate asset to a company when they graduate. In contrast, in Japan, few people study marketing in university, so they have to learn it from scratch after they joined the company. Furthermore, U.S. companies will fire an employee who fails to deliver results on the job, whereas at a Japanese company, people can still remain employed at a company even if they fail to deliver results. In Japan, firing an employee is considered to be cruel, but Americans believe that it is more cruel

and miserable to keep an employee who is not suited for the job while demanding that they work harder or relegating them to an unimportant position. I myself have seen many people in the U.S. who left a company and went on to become successful and happy elsewhere.

These differences between the values of Japan and of the West are beginning to manifest as a gap in competitiveness. In terms of labor productivity per person, Japan ranks quite low compared to the rest of the world. Low talent mobility and the fact that companies retain nearly all of their employees are factors that contribute to lower productivity. And while employee compensation is essentially an investment in the company's growth, in Japan, labor has become a fixed cost, making even large companies have low profitability and poor competitiveness. Furthermore, many Japanese people do not feel particularly alarmed by this situation, and are reluctant to change. In my view, it is no wonder that our society as a whole has become stagnant.

As a member of senior management, I want to build a company that is not only the best supplier to our customers, but also makes all of our employees feel a sense of well-being. When it comes down to it, the most straightforward way to achieve a sense of well-being is to increase employees' salaries. To achieve this, we must increase productivity rather than being satisfied with the status quo. Compared to a life of long commutes to work, returning home exhausted from being at a workplace where overtime and long hours are the norm, it is clearly a happier life to use one's head fully to increase productivity at work, return home on time, and still earn a higher salary. I believe that unless we become a company like this, we will lose our competitiveness and have no future.

Pneumatic instruments that replace manual labor are products that offers high value across borders and ethnic groups

Since its establishment in 1959, SMC has developed a unique



management strategy with the goal of “capturing all customer needs,” and has accumulated a wealth of expertise by opening more than 500 offices in over 80 countries and regions around the world. Today, with 23,000 employees and a lineup of 700,000 products, we provide the best products and services to approximately 700,000 customers who are introducing automation in virtually every industry around the world. I am immensely proud of these footprints, and I intend to build on these accomplishments to make our company the de facto standard in automatic control equipment. As a milestone, we have set the medium-term goal of reaching “one trillion yen in net sales in FY2026.” In the world of business, the notion of maintaining the status quo means going extinct, so we set this goal because we believe that by breaking out of the status quo and taking an aggressive stance toward growth, we will reach the one trillion yen level at some point.

To achieve this goal, we are currently implementing a growth strategy that targets an average annual growth rate of 8%. The growth of the company is created by the motivation of each and every employee. This past August, we held a general meeting with about 500 sales staff in Japan. No Olympic athlete can afford to lose in Japan when they are aiming to win on the world stage. We must win at home in Japan, too, so we organized an opportunity for all employees involved in domestic sales to meet under one roof and exchange information directly with each other. Since business is a game of who has better information, we encourage our sales staff to travel abroad whenever they can to gather information and broaden their perspectives. Also, at SMC, we do not have this patronizing attitude of, “our parent company in Japan is more advanced.” We are always looking to obtain best practices from overseas and bring them to the Japanese market as well. For example, regulations on carbon neutrality are progressing in Europe, and we feel that the time has come to approach the governments of various countries about the need to also regulate production systems and equipment. We are exploring the possibility of lobbying these governments, which exercise strong leadership at the top of their countries, to mobilize society as a whole by mandating the introduction of air management systems, products that can significantly reduce the amount of compressed air used. We would also like to challenge ourselves to expand the reach of these movements to the rest of the world, including Japan.

Our core products, pneumatic instruments, replace actions performed with manual labor, such as pushing, carrying, gripping, and turning objects. The value of our technology transcends national borders and race, giving us unlimited growth potential. At SMC, we strive to be a company that can provide a stable supply of products to an ever-greater number of customers around the world, and we are working together as a group to achieve this goal. We look forward to the continued understanding and support of all of our stakeholders.

Value Creation Process

Management Philosophy

Contributing to automated,
labor-saving operations

Focusing on the main business

Supplying products globally

SMC's Strengths

- Collective capabilities to provide a One-Stop Shop for various automatic control equipment
- Highly versatile with excellent environmental performance product lineup
- Product development tailored to customer needs and a supply system enabling short delivery
- Global manufacturing, sales, and R&D network

Capital Enhancement

● Human capital

SMC is actively investing in human capital in order to adapt to changes in the business environment, create innovation, and achieve higher productivity. We aim to be a company that attracts diverse talent regardless of nationality, gender, or age, and provides a structure and environment that enables employees to demonstrate their full potential and feel pride, loyalty, and fulfillment at work.

● Global production and sales system

As a leading manufacturer of automatic control equipment, we are striving to establish a BCP framework that will allow us to continue supplying products under any emergency situation.

SMC has built a global production and distribution system and sales network with the aim of becoming a company that is recognized by our customers as a trusted partner.

● R&D

SMC has established technical centers in five countries (Japan, the U.S., Germany, China, and the U.K.), where we employ 1,700 engineers to provide technical support to customers worldwide and deliver new products tailored to their needs.

We will expand technical centers in each country, including the "Kashiwanoha Campus New Technical Center" (provisional name), in order to strengthen our R&D function and secure outstanding technical personnel.

Materiality → See p. 20

Based on our Management Philosophy, SMC has identified four items of Materiality that will strengthen the link between our business activities and the resolution of social issues.

We have linked this Materiality to specific activities outlined in the SMC SDGs TARGET in order for the entire Group to work together toward a more sustainable future.

Governance → See p. 64

Value Created by SMC

Contributing to solving various social issues, such as aging population, shrinking workforce, and climate change



Achieving carbon neutrality



Technology that drives the automatic control equipment sector, developed by global R&D structure



Supporting a wide range of industries with over 700,000 product variations



Workplaces where diverse talent can feel a sense of pride, loyalty, and fulfillment at work



Achieving a sustainable society

Contributing to the SDGs



Risks and Opportunities → See p. 36

The risks of climate change are getting closer to us than ever before.

At SMC, we believe that we can turn the risks of climate change into profit opportunities by proving products and services that help reduce CO₂ emissions.

SMC's Strengths (Competitive Advantages)

We consider the following points to be SMC's strengths (competitive advantages). By further refining these strengths, we aim to further enhance customer satisfaction and increase our corporate value.

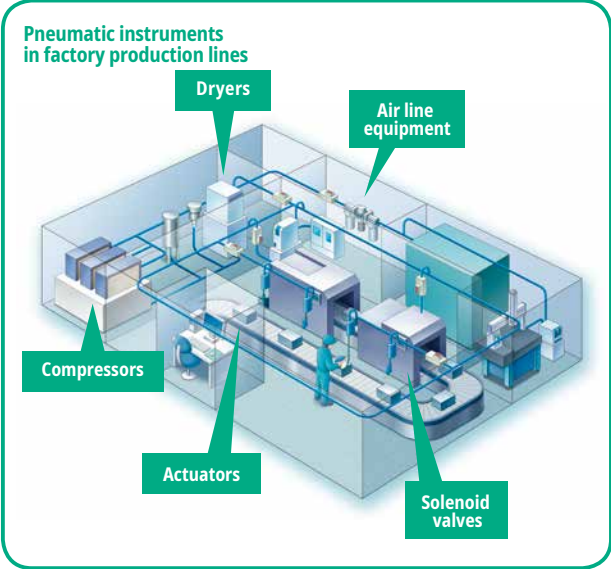
One-Stop Shop

Comprehensive manufacturer of pneumatic instruments

Pneumatic instruments, SMC's core products, comprise a system of equipment that process, adjust, control, and operate compressed air generated by a compressor. As a comprehensive manufacturer that produces and sells all of these instruments, SMC offers customers a one-stop shop for a full range of pneumatic instruments.

Automatic control equipment other than pneumatic instruments

SMC offers an extensive lineup of pneumatic instruments and other automatic control equipment, including temperature control equipment, switches and sensors, electric actuators, high vacuum equipment, chemical liquid valves, process valves, and ionizers, in order to propose the best equipment selection for our customers.



Development of Products with Excellent Environmental Performance

At SMC, we develop products that reduce CO₂ emissions and environmental impact throughout the product lifecycle, from raw material procurement and production to customer use and disposal.

We are also specialized in downsizing and reducing the weight of our products, leveraging the technical expertise we have gained through meeting the needs of our customers. Downsizing and reducing the weight of automatic control equipment leads to weight reduction and load capacity improvements in equipment and robots, contributing to energy consumption reduction throughout the customer's factory.

Furthermore, in recent years, we have developed energy-saving products that offer significant reductions in CO₂ emissions, and we strive to promote these products to our customers.



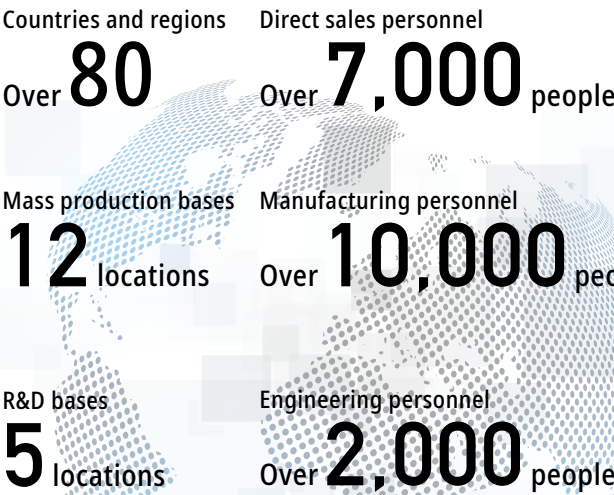
Extensive Product Lineup and Ample Inventory

As a result of SMC's efforts to develop products tailored to customer needs and increase product variation, we have achieved an extensive product lineup of 12,000 basic models and 700,000 variations.



Global Network

Based in more than 80 countries and regions and having over 7,000 direct sales personnel, SMC has established a system to supply products that meet customer needs anywhere in the world with short lead times. We have established mass-production bases for worldwide customers in China (Beijing and Tianjin), Vietnam, Singapore, India, and the Czech Republic, in addition to six factories in Japan (Soka, Tsukuba, Shimotsuma, Yamatsuri, Kamaishi, and Tono). We also have R&D centers in Japan, the U.S., Germany, China and the U.K. to provide advanced technical services and a stable supply of products on a global scale.



Long-term Management Vision

The automatic control equipment manufactured and sold by SMC are industrial products mostly used in factory production lines, that annual net sales are affected by capital investment demand. On the other hand, the demand for automation and labor-saving is expected to grow in future, as a result of the shrinking working population and global warming. At SMC, we are making ongoing and systematic efforts to expand our production capacity, strengthen R&D capabilities, and invest in human capital to ensure that we are well positioned to meet this future growth in demand. Based on the above, SMC has set “net sales of one trillion yen by FY2026” as a medium-term goal. However, instead of formulating a medium-term management plan, we are clearly stating our long-term management issues in our “Management Philosophy” and “Long-term Management Vision.”

Creating a System to Meet Customer Needs

SMC has offices in more than 80 countries and regions around the world that employ more than 7,000 sales staff, and technical centers in five countries (Japan, the U.S., Germany, China, and the U.K.) that employ 1,700 engineers.

We will continue to strengthen our global network in order to accurately and fast respond to customer needs with respect to products, delivery dates, quality, and prices.



Focusing on the Main Business

At SMC, we are dedicated to our mission as a machine component manufacturer, devoting our management resources to our core business of automatic control equipment, and we abide by a policy of not engaging in the manufacture and sale of equipment that competes with our customers.

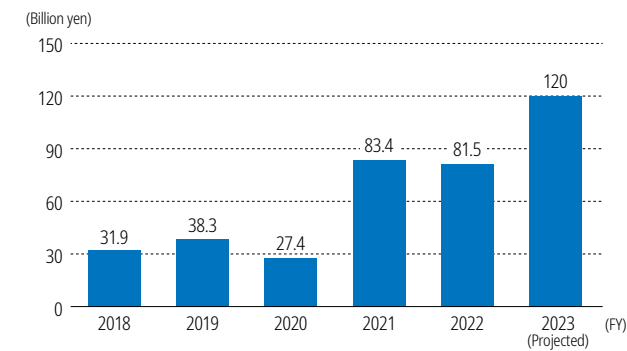
SMC aims to be a trustworthy business partner with whom customers can feel comfortable consulting their products and production lines.



Supplying Products Globally

Expanding our production capacity is essential in order to achieve “net sales of one trillion yen in FY2026.” SMC is expanding and upgrading its production facilities, focusing on the six factories in Japan and the factories in Vietnam and China.

Changes in Capital Investment



Capturing a Higher Market Share

SMC has captured the top market share in pneumatic instruments, its core product category.

We are pursuing various strategies to maintain our high market share in Japan, China, and other parts of Asia, while increasing our market share in Europe and the United States, where our market share is relatively low.



Message from the Director (Finance and Accounting)

In the face of global supply chain disruptions, we aim to achieve significant growth by transforming risks into opportunities through proactive investments.



Masahiro Ota
Director and Executive Officer

Business results and major initiatives during the fiscal year ended March 31, 2023

In the fiscal year ended March 31, 2023, SMC achieved its record high net sales and profit since the company's establishment. SMC largely benefited from foreign exchange rates, as overseas sales account for about 80% of our total sales. In addition, strong capital investment by semiconductor manufacturers, which grew significantly compared

to the previous fiscal year, and booming battery production fueled by the shift to electric vehicles, were also growth drivers. On the other hand, we continued to experience significant disruptions in the supply chain, including soaring prices and shortages of parts and materials, making it a particularly challenging year in terms of parts and materials procurement. In addition, while the theory in the manufacturing industry is that profit margins usually rise at an accelerated pace in line with sales growth, in this case, both raw material and labor costs also rose, resulting in less profit growth than what was expected.

Since the 1990s, SMC has expanded its business driven by long-standing free trade progress. However, the structure of the global economy is now undergoing major changes; this was never more evident than last year. The location savings approach—mass producing items in places with low labor costs—will no longer be enough for us to get by as in the past. SMC has major mass-production factories in six countries around the world. We intend to minimize the impact of changes in China's business environment on our business performance by implementing Business Continuity Plan (BCP) measures such as establishing multiple bases of production, and by moving closer to a system of "local production for local consumption," in which the products sold in China are produced in China as much as possible.

We are also working to address rising energy and labor costs by improving production efficiency. Since automating and streamlining production sites is very much our core business, we are accelerating these efforts while simultaneously taking the approach of increasing productivity by consolidating operations in our administrative departments through IT investments aimed at increasing the transparency of administrative procedures. Rising labor costs have become a worldwide trend, especially in Western countries, so we will need to make a global effort to visualize and integrate our operations.

In light of these challenges, in the fiscal year ended March 31, 2023, we have been aggressively investing in facilities to enhance our product supply capability. We have been expanding capital investments in Vietnam as a production base that can complement and replace what has until now been China's role in supplying mass-produced products and parts worldwide. Our factory in Vietnam is already in operation, but we have secured enough land for future expansions. We will establish a system capable of supplying mass-produced products worldwide from Vietnam, with this factory serving as an important base for production in SMC's BCP.

Meanwhile, we are also expanding capital investments in Japan, our main base for product development and production, in order to expand our product supply capability. The Tono Supplier Park, currently under construction at a site adjacent to the Tono Factory, will be occupied by

SMC's major supplier companies, enabling them to supply parts in sync with production at SMC. By supporting our suppliers in establishing dual production sites, we aim to make SMC's BCP for production more resilient. Several companies are already in the process of starting production in SMC's Tono Factory, while several dozen more companies are expected to move in and begin production in the spring of 2025, when the Tono Supplier Park is scheduled for completion. Since SMC still procures the majority of its components in Japan, we are working to strengthen our domestic procurement system in this manner. However, from the perspective of global components procurement, we are looking to establish a diversified procurement system by broadening the regions from which we source and our currency options for procurement.

SMC's strengths and financial strategy

SMC's products constitute a series of automatic control equipments, including pneumatic instruments, which are component parts used in the production lines of our customers—primarily manufacturers. Failure to supply just one piece of SMC equipment is enough to stop a customer's entire production line. Customers are aware of this and will not procure products from a company that "does not know when it will be able to supply the equipment," "cannot supply the equipment because it has been discontinued," or "may shut down because of its poor performance." From this perspective, companies such as SMC that supply industrial goods must be able to maintain a stable supply of products that reliably perform as required within a reasonable lead time, otherwise customers will lose confidence in doing business with them. Since its establishment, SMC has consistently placed the highest priority on this aspect of its business activities. Although we entered overseas markets at a relatively early stage of our business, we made steady efforts to meet customer expectations in each of those countries, such as making appropriate local investments, holding sufficient inventories, and delivering products to customers with short lead times, to assure customers that we would not withdraw from the market anytime soon despite being a foreign company. Today, SMC maintains business relationships with many customers in a great number of countries. This is one of our greatest strengths, not only in terms of product sales but also for product development.

These relationships of trust between SMC and its customers around the world have been cultivated over many years, and continuing to honor that trust is the most important factor in increasing the value of SMC's business. Recently, natural disasters have become more frequent in many parts of the world due to the effects of global warming. Additionally, with the spread of information technology around the world, there is a greater risk of business activities being disrupted due to cyber attacks and other factors. Besides enhancing our production capacity and the operational infrastructure necessary to expand our core

business in automatic control equipment, SMC is making investments to address these types of risks and ensure business continuity.

From an investor's point of view, it is better to make a large return with minimal funds, in other words, the higher the ROE, the better. However, at SMC, we believe that priority should be placed on making sufficient investments at the right time, in order to develop our core business and to stay ahead of various emerging risks. For this reason, SMC invested more than 80 billion yen annually for two years beginning in the fiscal year ended March 31, 2022, and plans to invest another 120 billion yen in the fiscal year ending March 31, 2024. In addition to dual sourcing in production and implementing IT solutions to improve production efficiency, SMC also makes investments to ensure cyber security and data redundancy. We are also allocating funds to ensure inventory levels are sufficient for the components used in our products, while replacing them with materials that are easier to procure and establishing multiple sources of procurement.

Very few finance and accounting directors would ever mention spending money in this way, but I believe that there are only a few players who are willing to make this level of investment to address the global supply chain challenges. In these fast-moving times of change, it is critical that we continue to earn our customers' trust as a supplier they can rely on. We intend to turn emerging risks into opportunities to further increase our market share, and SMC's most important management indicator is the expansion of sales that will enable us to bring in excess profit above our break-even point as a manufacturer.

Message to our shareholders and investors

In a business environment that has changed in recent years, SMC is aiming to expand its business while making sufficient investments for growth. We believe that the market for automatic control equipment will expand over the medium to long term. While we are also identifying markets with room for development, we will first allocate profits earned from business activities to investments for growth, in order to further solidate our strong business model and allow us to win against the competition.

At the same time, we are also committed to returning profits to the shareholders who support SMC. Since FY2019, we have been returning profits to shareholders with targets of dividend payout ratio of approximately 25% and a total payout ratio of 50%. For the time being, we intend to climb the growth ladder by investing half of profits earned back into the business, while returning the other half to shareholders. In focusing on our own growth at SMC, we place priority on being a company our customers can confidently do business with. Also, we will further make proposals that lead to improved productivity and reduced CO₂ for our customers, which actively contribute to addressing the issue of carbon neutrality beyond our own company.

Materiality and SDGs

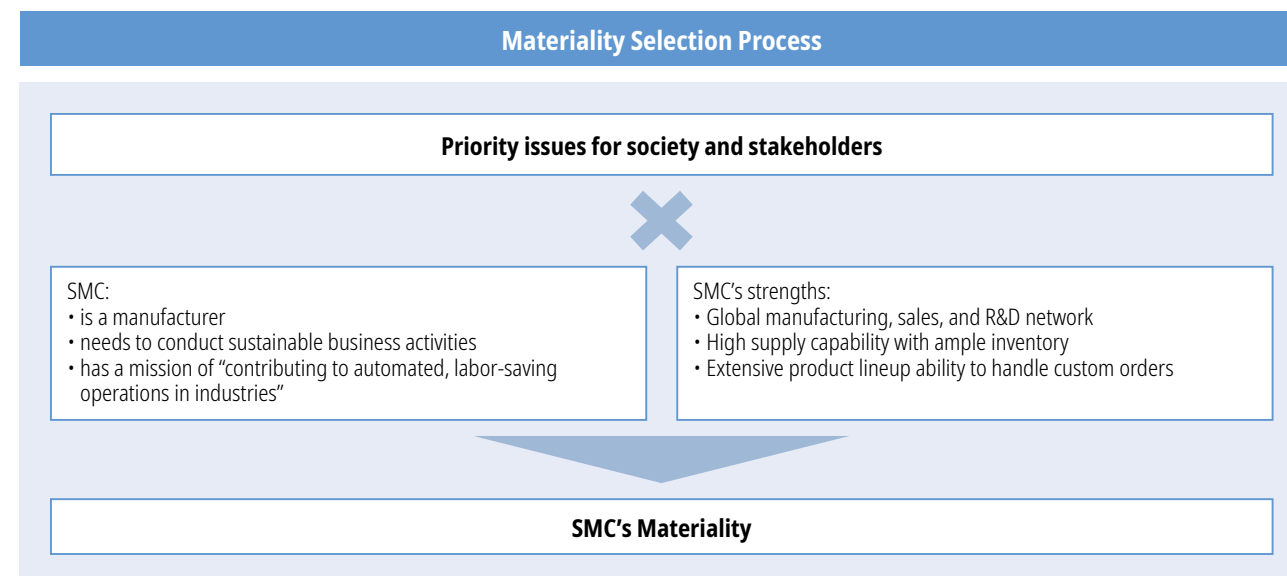
Pioneering a sustainable future with “automated, labor-saving” operations within a variety of industries

Along with climate change, we now face a variety of societal issues in the world. In order to resolve these issues and build a society with a rich natural environment that can be handed down to the next generation, commercial enterprises are expected to actively take on the Sustainable Development Goals (SDGs).

SMC has contributed to “sustainable growth and technological innovation” within the society at large by continuing to supply environmentally friendly products and promoting “automated, labor-saving” operations in industries. Furthermore, based on our management philosophy, we have identified four items of “Materiality” that more strongly align our business activities with the resolution of social issues. We have linked this Materiality to specific activities outlined in the “SMC SDGs TARGET,” and the entire Group will work on them together in order to create a more sustainable future.

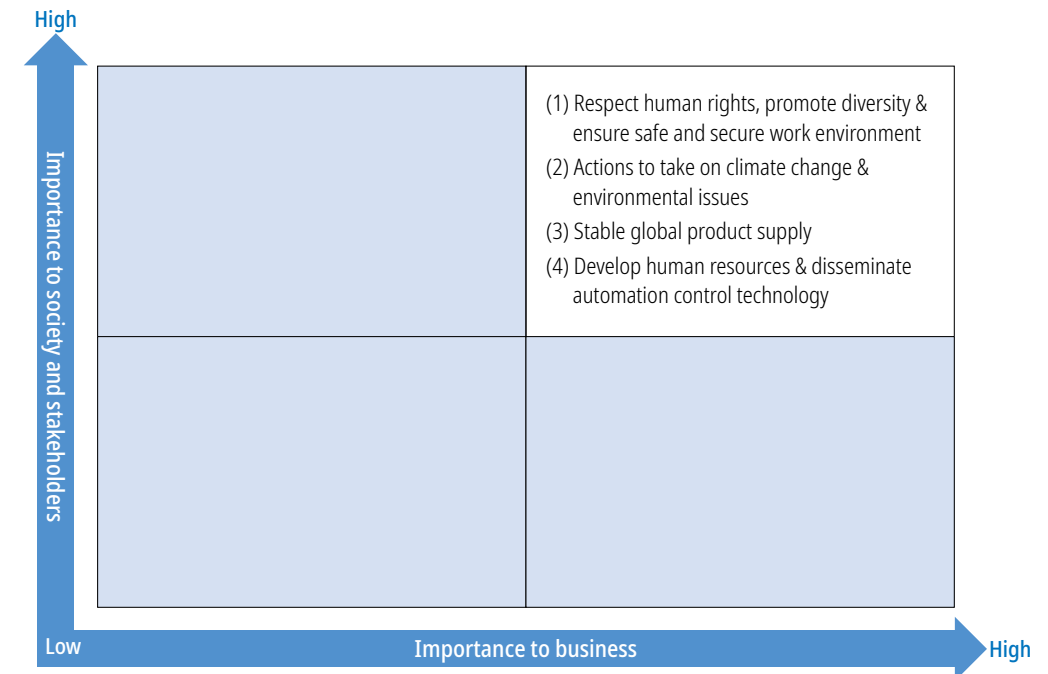
Materiality Selection Process

At SMC, we picked out social issues which we consider to be addressed to (candidate Materiality items) based on the SDGs and other international codes of conduct, frameworks, guidelines, assessment items used by sustainability evaluation organizations, and risks and opportunities which we have recognized. After a series of internal discussions on the candidate Materiality items, as well as input from outside experts, we organized each candidate by level of importance. By the resolution of the Board of Directors, SMC’s Materiality has been selected.



Our Approach to Materiality

At SMC, we have identified the following four items as Materiality for SMC by weighing their importance to the business against their importance to society and stakeholders.








Sustainability Promotion Framework

SMC endeavors to address social issues through its business activities. While the Board of Directors supervises the state of progress in sustainability initiatives, SMC has established the “Sustainability Committee” as an advisory body to the Board of Directors to strengthen its supervisory function. To facilitate actions, SMC has appointed an officer in charge of the secretariat and has clarified a system by which persons responsible within each company division promote initiatives. In addition, SMC has established an “Eco-Factory Promotion Office” division to collect environmental data to plan and formulate specific measures such as the use of renewable energy.



Materiality and SDGs

SMC SDGs TARGET				
Materiality	Initiatives		KPIs	Related SDGs
TARGET 1 Respect human rights, promote diversity & ensure safe and secure work environment	Create a positive work environment that values human rights	Theme: Create a work environment free from all forms of unfair discrimination •Ensure that all employees are familiar with the Group Code of Conduct, which stipulates prohibition of unfair discrimination - We will not engage in unfair discrimination based on nationality, race, color, ancestry, ethnicity, creed, religion, marital status, gender, disability, sexual orientation, place of birth, social status, etc., in hiring, promotion, personnel evaluation, etc. •Conduct education for all employees •Utilize whistleblowing system	Conduct education for all employees: 100%	    
		Theme: Prohibit child, forced, and excessive labors •Ensure that all employees are familiar with the Group Code of Conduct, which stipulates prohibition of unfair labor practices - We will not enter into an employment contract with minors under the age at which they are legally permitted to work. - We will strive to maintain a work environment free from labor which unjustifiably puts restraints on the employees' mental and physical freedom, which is under extremely poor environment, and which is excessively burdensome - We will strive to prevent the occurrence of the employees' health damage due to excessive overtime work •Conduct education for all employees •Utilize whistleblowing system	Conduct education for all employees: 100%	
		Theme: Create a work environment free of all harassment •Ensure that all employees are familiar with the Group Code of Conduct, which stipulates respect for human rights - We will strive to maintain a work environment free from any human rights violations, such as acts of abuse including sexual harassment, power harassment, or excessive punishments. •Conduct education for all employees •Utilize whistleblowing system	Conduct education for all employees: 100%	
		Theme: Increase female employment rate •Increase the number of female recruiters •Introduce the activities and careers of female employees through recruitment brochures •Participate in recruitment events for female students majoring in science	Using the recent 5-year average: •Increase the newly-graduated female engineer employment ratio to 10% •Increase the newly-graduated female sales and marketing staff member employment ratio to 35%	
	Create a work environment where diverse human resources can play an active role regardless of gender or disability	Theme: Support work-life balance •Support flexible work styles that adapt to life events •Promote using related systems and programs (utilization of training, LMS, company magazine, etc.)	—	
		Theme: Create a work environment where people with disabilities can work comfortably •Create work practices to accommodate and utilize outside support services in order to promote the employment of persons with disabilities •Hold information exchange meetings and social gatherings with persons with disabilities, their families, special-needs schools, and advocacy groups •Conduct a fact-finding survey regarding the work contents and work environment for persons with disabilities	Comply with the statutory employment rate for persons with disabilities (within each country)	
	Create a healthy, safe and secure work environment for employees	Theme: Create a work environment where employees can work safely and securely •Strengthen Health and Safety Committee activities 1. Horizontal expansion of these activities Horizontally expand the activities performed in individual factories 2. Strengthen safety patrols •Expand the education system for a safe and secure work environment 1. Implement labor management training within each factory and position 2. Conduct factory manager training	Monitor indicators related to occupational accidents (rate per thousand workers', severity rate, frequency rate) and continuously strive for rates below the manufacturing industry average (for Japan) * Rate per thousand workers: Ratio of deaths and injuries occurring per 1,000 workers per year Safety and secure work environment training 1. Assistant Manager / Chief / Group Leader: Greater than 90% attendance 2. Factory manager / Deputy factory manager: 100% attendance	
		Theme: Create a work environment where employees can work in good health •Aim to eliminate health injuries by establishing an Occupational Health and Safety System •Implement health promotion programs •Installation of AEDs and lifesaving training •Preventive counseling by mental health specialists and public health nurses •Promote brain scan check-ups for employees aged 40 and over	—	

Materiality	Initiatives		KPIs	Related SDGs
TARGET 2 Actions to take on climate change & environmental issues	Develop and promote energy-saving products	Theme: Promote the planning and development of environmentally friendly products •Conduct product assessments according to ISO 14001 •Build a monitoring system for CO ₂ emissions (from product development to disposal) through product life cycle assessment	•Product assessments' target score: Achieve 90% or more •Improve the accuracy of assessment management (review checklist items by business area) •Define and disclose eco-products	     
		Theme: Support activities for customers' CO₂ reduction by proposing energy-saving products and energy-saving systems •Provide education regarding energy conservation with our sales activities •Implement energy conservation workshops and seminars •Provide support with energy efficiency and conservation advice within their factories	—	
	Reduce environmental impacts from production to shipping	Theme: Promote the use of renewable energy •Promote the use of electricity derived from renewable energy •Promote the installation of solar panels in our business sites	Renewable energy utilization rate: Achieve 95% or more	
		Theme: Reduce emissions of waste and environmentally hazardous substances •Thoroughly manage chemical substances and wastewater and comply with environmental laws and regulations •Promote the recycling of waste •Switch to CFC substitutes with lower global warming coefficients •Thoroughly manage this program by establishing management standards that are stricter than the existing wastewater management laws and regulations •Thoroughly manage this program by utilizing the ISO 14001 Environmental Management System	•Waste recycling rate: Achieve 95% or more •Switching to CFC substitutes: Achieve 95% or more •Continue to never violate the laws and regulations regarding wastewater drainage •Continue to have zero findings related to environmental issues	
		Theme: Reduce environmental impacts caused by the use of packaging materials • Use packaging materials that use less environmentally impactful substances	—	
		Theme: Reduce emissions and the use of environmentally hazardous substances by promoting green procurement •Reduce the amount of environmentally hazardous substances used and emitted with each and every product (Continue activities to reduce environmentally hazardous substances mentioned in ISO 14001 and consistently achieve our annual reduction targets)	Switch to RoHS Directive designated hazardous substance-free products: Achieve 90% (product inventory)	
		Theme: Reduce CO₂ emissions from business use of vehicles •Switch all company-owned vehicles to environmentally friendly vehicles	Switch to environmentally friendly vehicles: 100%	
		Theme: Participate in environmental conservation activities in the factories' surrounding areas •Conduct tree planting, flowerbed replacement, green conservation activities, beautification activities	—	
	Stable supply through BCP initiatives	Theme: BCP initiatives in production and logistics •Risk diversification of production bases and distribution warehouses	—	
		Theme: BCP initiatives in information systems •Strengthen security by developing a globally unified IT infrastructure •Build a disaster recovery system by creating a data center and respond to cyber attacks	—	
		Theme: Strengthen cooperation with local governments for disaster preparation •Conclude cooperative agreements with local governments to prepare for disasters •Donate solar panels, storage batteries, and emergency equipment to local governments	—	
TARGET 3 Stable global product supply	Create a supply system that constantly prepares and protects against the worst, and never stops under any circumstances	Theme: Responsible procurement to build relationships of trust with our business partners •Disseminate procurement guidelines •Implement supply chain risk management	—	  
	Develop human resources who can play a globally active role	Theme: Develop global human resources •Global talent management •Create a mechanism to develop experts in each field	—	
		Theme: Provide skill acquisition opportunities •Create a system to pass on skills 1. Install safety and skill training equipment at each factory 2. Systematically train staff members to be skill certified 3. Implement skill competitions and awards	—	
	Improve employee motivation	Theme: Global award system •Implement an awards system for employees who have shown excellent performance and skills in each department	—	
	Supporting the growth of each individual to support a sustainable future	Theme: Provide opportunities to learn about automation control technology •Workshops for children - Provide opportunities for children to experience "what pneumatic instruments and automatic control equipment are" •Seminars for students	—	
		Theme: Support higher education institutions •Donate to universities and research institutes •Provide cut samples, training kits, and products	—	

Message from the Director (Sustainability)

Aiming to be a company that our stakeholders can be proud of and attached to, we will support our customers' CO₂ reduction and realize a sustainable society.



Toshio Isoe
Director and Executive Officer

What SMC can do to help solve the major social issue of climate change

In response to growing interest in the issue of climate change, SMC has clarified its Group-wide commitment to sustainability and developed a system to promote sustainability initiatives, which includes the "Sustainability Committee." My role as a director is to serve as the head of the Sustainability Committee Secretariat and to promote a series of initiatives and projects, such as the "SMC SDGs Project" and the "Scope 3 CO₂ Reduction Project," in a cross-sectional manner throughout the company. First, in order to set medium- and long-term goals for achieving carbon neutrality, we began by assessing climate change-related risks and opportunities for SMC. For example, we analyzed the impacts of the introduction of a carbon tax and the expansion of renewable energy (transition risk) under the 1.5°C scenario, and the impact of disaster-related losses affecting inventories and fixed assets (physical risk) due to climate disasters (flooding) under the 4°C scenario.

Initially, the task of collecting and analyzing this vast amount of information was quite demanding, and some people within the company perceived it as a "defensive move" that imposed new obligations on us. However, upon reassessing our business model and discussing the scenario analysis, risk response, and specific measures to reduce CO₂ emissions, we now believe that addressing the issue of climate change is in fact a great opportunity for SMC.

SMC has long been developing environmentally-friendly products that are compact, lightweight, and use less electricity (= less CO₂ emissions). Furthermore, to meet the growing needs of our customers in recent years, we have developed and begun proposing systems (AMS) and solutions (e.g., reducing the entire factory pressure) aimed at reducing electricity consumption (= CO₂ emissions) in our customers' production processes (manufacturing lines). Right now, companies around the world are considering measures to reduce CO₂ emissions at their factories and other facilities. SMC has a wide variety of products and solutions designed specifically to support and promote such efforts. We believe it is clear what SMC can offer to customers to support them solve the major social issue of climate change.

Further leveraging our characteristics as a global company to enhance corporate value

Facilitating better communication on sustainability is an important part of my role. To this end, we first identified and announced the Materiality in 2021, believing that we should state what SMC considers to be its priorities for sustainable growth.

[I. Respect human rights, promote diversity & ensure safe and secure work environment]

SMC has always aimed to be a company where diverse human resources can play an active role. We have also made it our policy to leave the management of overseas Group companies to local management personnel. As a result, the company has become increasingly globalized, with offices in more than 80 countries and regions around the world, nearly 80% of our 820 billion yen in net sales coming from overseas markets, non-Japanese nationals comprising approximately three-quarters of our 23,000 employees, and overseas institutional investors comprising more than 50% of our shareholders.

In order to leverage these characteristics to further enhance our corporate value, we have begun operating the "SMC Group Internal Transfer Program." This program is designed to encourage talented employees from overseas Group companies to work in Japan for a certain period of time so that they can play a more active role upon returning to their home countries. At the same time, this program provides SMC Japan employees with opportunities to challenge themselves to become more active on the global stage through friendly

competition with talented employees from other countries.

As for women's participation in the workplace, many of our overseas Group companies have female executives, and Kelley Stacy, the president of SMC Corporation of America, has been appointed as a director in Japan. However, looking at the situation in Japan, the promotion of women's active engagement in professional life has become a major issue. We intend to actively promote SMC as a global company where women can and do play an active role, increase the percentage of female employees, and create an environment where women can feel comfortable working.

[II. Actions to take on climate change & environmental issues]

SMC has set and announced its medium- to long-term targets of reducing Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 48% by FY2030 (with FY2021 as the base year), and achieving carbon neutrality by FY2050.

These emission reduction targets are backed by concrete measures such as switching to electricity derived from renewable energy sources, switching to cleaning fluids with lower global warming potential, and reviewing our production processes. The targets are also based on the assumption that SMC will achieve its medium-term goal of "one trillion yen in net sales by FY2026," with subsequent sales growth at the same level. We take pride in the fact that these are ambitious targets aligned with the Science Based Targets (SBT) initiative of limiting global warming to 1.5°C.

Furthermore, we have finished compiling our Scope 3 GHG emissions data, and are currently preparing to set and announce medium- to long-term reduction targets for Scope 3.

[III. Stable global product supply]

SMC has long focused on establishing a system capable of supplying products anywhere in the world in response to customer demand with short lead times, and we have strategically maintained a wide variety of products and large inventories while pursuing a model of production centralized in countries and regions with low production costs. Today, however, we need a system that is capable of dealing with enormous and widespread supply chain issues. As a leading manufacturer of automatic control equipment, SMC considers it our company's social responsibility to continuously fulfill our duty to supply products to our customers under any circumstances. Therefore, we are continuing to refine our Business Continuity Plan (BCP) by establishing multiple lines of production, expanding the functions of our R&D bases in five countries around the world, promoting global collaboration in sales activities, and upgrading our data centers to reinforce our information security infrastructure, among other measures.

[IV. Develop human resources & disseminate automation control technology]

We recognize that securing and developing talent is an extremely important issue for sustainable growth. SMC has established a "Safety

Dojo" at each of its factories in Japan in order to rebuild its safety education, which should be valued most as a manufacturer. We also held an in-house skill competition to encourage the improvement of production-related skills and the transfer of skills from experienced workers. In addition, we provided support to various research institutes to promote the spread of automation control technology, held workshops for elementary school students, and most recently, sponsored the "ABU Asia-Pacific Robot Contest."

Looking ahead, we consider some of our main tasks to be making steady progress in addressing climate change issues, responding appropriately to the Carbon Border Adjustment Mechanism (CBAM) to be introduced by the EU, and analyzing nature-related impacts on our corporate performance based on guidance by the Taskforce on Nature-related Financial Disclosures (TNFD).

Aiming to increase employee motivation with the goal of achieving "one trillion yen in net sales by FY2026"

In addition to these initiatives, the most important issue we are addressing right now is that of human capital.

Prices are rising rapidly in each country, and there is growing societal demand to provide employees with higher wages. SMC has been working to raise wage levels and optimize the wage curve from the standpoint of improving the distribution of wages for younger workers. Furthermore, in order to motivate our employees to achieve our medium-term goal of "one trillion yen in net sales by FY2026," we have increased the "incentive" pay rate in our employee stock ownership plan from 5% to 15%, in FY2023. This plan aligns the economic interests of employees with those of our shareholders, based on the idea that "we are all in the same boat." In order to continuously motivate employees, we aim to not only provide temporary bonuses and other benefits, but also to contribute to employees' wealth-building through the enhancement of our corporate value and increase in stock prices. In the future, we would like to grant "stock-based compensation" as a form of "special incentive" to employees in general through the Employee Stock Ownership Association.

We also introduced a phantom stock plan for the presidents of our overseas Group companies. This plan provides retirement benefits in the form of cash compensation linked to our share price, based on certain criteria. The purpose of this initiative is to ensure that overseas Group companies participate in management with a stronger sense of unity, as well as to attract and retain top management talent. SMC is currently undergoing a major transformation. For SMC to continue to grow and evolve in the midst of drastically changing socioeconomic conditions and severe competition, it is essential that we reform the awareness and improve the productivity of each and every employee. Our primary goal in management is to become a company that all our stakeholders, including shareholders and investors can be proud of and attached to, by aligning the vector across the entire group and pushing forward with the transformation.

Market Environment

In recent years, advances in digital technology and changes in the global environment have caused customer needs and business conditions to evolve rapidly. We aim to continue expanding globally by correctly identifying these changes and understanding the risks and opportunities SMC faces.

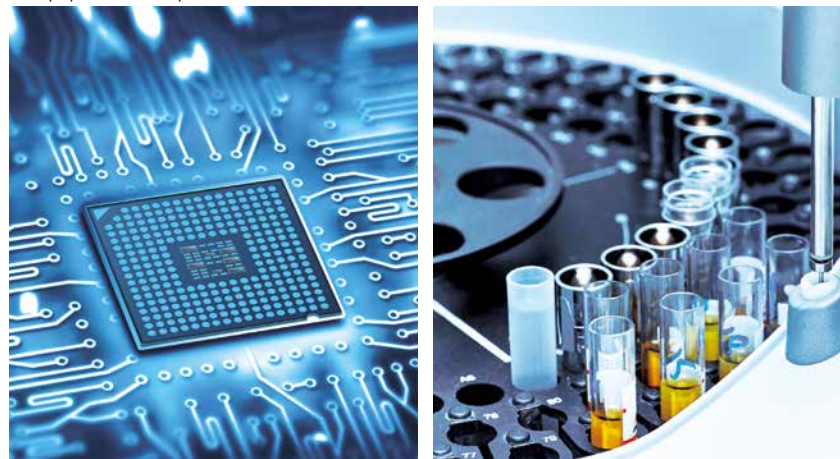
Customer Diversity

SMC's automatic control equipment including pneumatic instruments, its core products, are component parts used in all kinds of industries to support automation in automated production and transport lines in factories, semiconductor manufacturing equipment, machine tools, industrial robots, and medical equipment. More recently, our products have also begun to be used in fields such as agriculture and dairy farming. At SMC, when customers in various industries make requests or consult with us about producing high-quality products more efficiently, we earnestly consider what we can do to meet their requests before proposing solutions. In addition, since SMC is less dependent on specific industries or specific customers, the company is regarded as being relatively more tolerant of changes in industrial structures and sudden shifts in demand conditions.



High Product Versatility

Pneumatic instruments are highly versatile, and their applications can be unlimitedly extended by our customer's inventivity and creativity. SMC strives to develop products that meet customer needs, and through these efforts, we are also working to cultivate new demand. As a comprehensive manufacturer of pneumatic control equipment, SMC provides industries with 12,000 basic models and 700,000 variations. In recent years, pneumatic control systems have become faster, more complex, and more sophisticated, and so has the electronic control of production equipment. Leveraging the technology and expertise we have acquired in pneumatic control equipment, combined with our electrical, electronic, software, and other technologies, we also supply products that go beyond the framework of pneumatic control equipment, such as temperature control equipment, electric actuators, high vacuum valves, process valves, and other production-related equipment in general.



Growing Demand for Environmental Protection

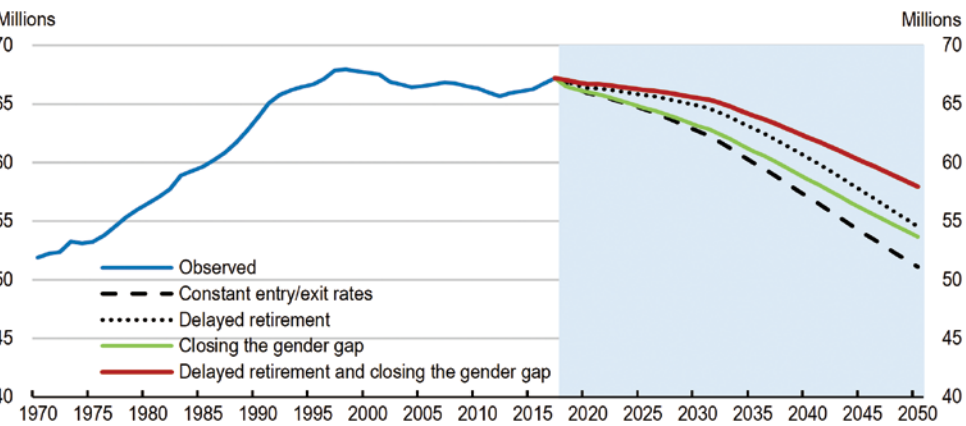
Conservation of the environment is the most crucial issue facing all humanity, and our customers' demands for environmental protection are growing year by year. We recognize that climate change and decarbonization are particularly relevant issues for all countries and regions that every company must urgently address, and we are therefore making steady efforts to implement measures and monitor their progress. In anticipation of future requests from customers to utilize low-carbon energy sources, we are also introducing solar power generation, shifting our main power source to renewable energy-derived electricity, switching to cleaning fluids with lower global warming potential, and introducing high-efficiency equipment and upgrading our facilities. Pneumatic instruments, which are powered by compressed air that is safe to be discharged into the atmosphere, inherently possess environmentally-friendly features. We believe that our customers' growing environmental awareness and the drive for more environmentally-friendliness represent great opportunities for SMC, and we are working to enhance our lineup with more compact and lightweight product variations, as well as to develop energy-saving, air-saving, and long-life products.



Shrinking Labor Force and Soaring Labor Costs

With birthrates declining and populations aging worldwide, many developed countries have begun to see a decline in their working populations. At the same time, labor costs are rising in emerging countries, many of which have been engaged in labor-intensive production activities, as their economies continue to develop. Pneumatic instruments are automatic control equipment ideal for replacing manual labor, which aligns with customer needs for automation and labor-saving to cope with the shrinking labor force and rising labor costs. On the other hand, in order for SMC to achieve further growth and advance to the next stage, it is essential to develop excellent human resources and fully utilize their abilities. To this end, we are promoting diversity, building a system that enables the Group to work as one unit in its business activities, and creating an environment in which all employees can fully perform their talent.

● Labor Force Projection for Japan



Note: The baseline assumes constant labor market entry and exit rates by gender and five-year age groups. In the "delayed retirement scenario," exit rates are reduced for both men and women by 10% for each five-year age group between the ages 55 and 74. In the "closing the gender gap scenario," the participation rates for women converge to those for men in each five-year age group by 2050.

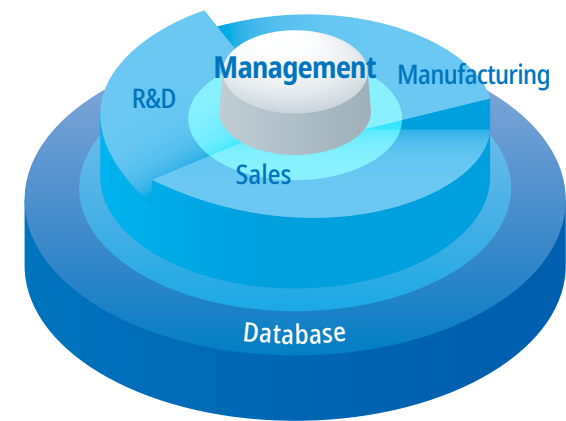
Source: OECD projections based on data from the OECD Population and Labour Force Projections database.

Ensuring Our Product Supply Capability

To prepare for the expected growth in demand over the medium to long term, and the movement towards bloc economies such as U.S.-China trade friction, SMC is reinforcing its production and logistics systems in Japan and overseas to ensure its product supply capability.

Quickly Identify and Respond to Changes in the External Environment

Risks are constantly changing and appearing before us in the form of natural disasters, infectious diseases, trade friction and conflicts, and material price hikes and supply shortages. However, in order to be prepared for any situation that may arise, SMC is taking steps to diversify risks across its R&D, production, and logistics bases, increase security of its information systems, and build a backup system for management to ensure that business activities will not be disrupted even in the event of an emergency—or, if they are disrupted, to ensure that operations resume quickly and that our supply system continues to operate.



Reinforcing Our Production and Logistics Systems

SMC is making proactive capital investments in Japan and overseas to upgrade our production and logistics bases in order to expand production capacity to meet increasing demand, as well as to establish multiple lines of production as part of our BCP initiatives.



Kamaishi Factory No. 5



Germany factory and warehouse



Tono Factory No. 2



Vietnam Manufacturing



Shimotsuma Factory No. 2



West Japan Logistics Center



Tianjin Manufacturing

Developing a Business Continuity Plan (BCP)

In recent years, a number of risks have emerged one after another, including increasingly severe natural disasters, infectious diseases, and escalating inter-state conflicts. SMC is working to create a mechanism (BCP) to minimize damages and accelerate recovery so that we can continue delivering products to customers as quickly as possible under any circumstances.

1 Manufacturing

In order to prepare for emergencies such as large-scale disasters or outbreaks of conflict, SMC is working to establish multiple lines of production and a system in which major mass-production factories in six countries around the world can complement each other. In addition, SMC maintains an ample inventory level mainly at its distribution bases in five countries around the world, and are highly resistant to transportation disruptions.

2 R&D

SMC has established technical centers in five countries around the world (Japan, U.S., Germany, China, and U.K.) in order to respond accurately and promptly to requests from customers globally. While strengthening the system to mutually back up operations in case of a disaster or other emergency, SMC is also building a Global Engineering Network that enables the technical centers to provide the same quality of technical services anywhere in the world during normal times by making full use of the network.

3 Sales

SMC has offices in more than 80 countries and regions around the world and employs direct sales staff in each location to meet the needs of customers globally. SMC is working to further improve customer satisfaction through global collaboration using CRM (Customer Relationship Management) systems.



4 Management

In case of an emergency, SMC is working to build a solid financial base (with cash, deposits, and equity capital) that will sufficiently cover the working capital and funds needed to rebuild buildings and equipment required for business continuity. In addition, SMC has established an “Advisory Committee” with the presidents of the Company and its four major subsidiaries (U.S., Italy, Singapore, and China) as an advisory body to the President. SMC is working to build a system that can replace the decision-making functions related to the execution of Group operations in case of an emergency.

5 Database

SMC is working to strengthen information security by developing unified data infrastructure in each region of the world. In addition to preventing damage from disasters, cyberattacks, and virus infections, SMC has established a state-of-the-art disaster recovery system to minimize downtime and ensure early recovery in case of catastrophic system damage.

Strengthening Our Sales Force

As our clients' businesses continue to expand globally, we are working to further strengthen our sales force by leveraging IT to organically link SMC's global network and by improving our education and training programs for sales personnel.

National Sales Meeting

In August 2023, a National Sales Meeting was held in Tokyo with the participation of over 500 members of sales staff from across Japan. At the meeting, each and every sales staff member reaffirmed their commitment to further improve productivity and strengthen global collaboration even in the domestic market, where we already gaining a high market share, in order to achieve the medium-term goal of "one trillion yen in net sales by FY2026."



International Meeting

Every year, SMC holds an International Meeting attended by the presidents and sales leaders of our Group companies around the world. The most recent event was held in Vietnam in October 2023. Participants affirmed their commitment to improving customer service and productivity by working to align the entire SMC Group's efforts toward achieving the medium-term goal of "one trillion yen in net sales by FY2026," and strengthened the Group's solidarity.



Research & Development

SMC conducts research and development activities on automatic control equipment and related technologies, aiming to develop products tailored to the rules and needs of countries and regions around the world, as well as to adapt to changes in market environments, such as advances in IoT and smart factories.

R&D System

To reflect customer needs accurately and promptly in product development, SMC employs approximately 1,700 engineers at technical centers around the world, which serve as R&D bases. These technical centers keep in close contact, sharing information with each other through a Global Engineering Network to develop products and provide technical support.



Japan Technical Center (JTC)

The Japan Technical Center was established in April 1991 in Tsukubamirai City, Ibaraki Prefecture, to serve as a central hub for SMC's R&D activities.



China Technical Center (CTC)

The China Technical Center was established in Beijing in July 2007.



US Technical Center (UTC)

The US Technical Center was established in April 2002 in Indianapolis, Indiana. It was later relocated to the nearby city of Noblesville, together with the SMC Corporation of America headquarters.



European Technical Centre (ETC)

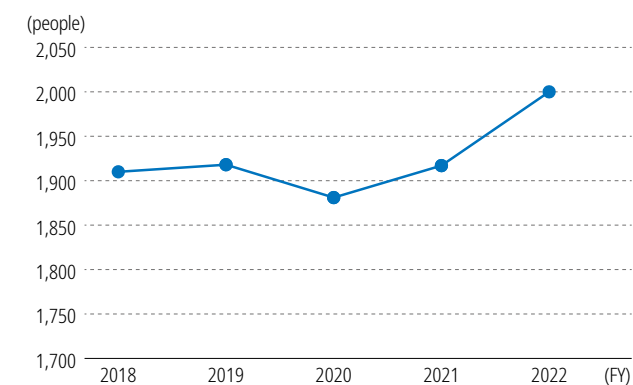
The European Technical Centre was established in October 2000 in Milton Keynes, a city in the U.K. situated halfway between London and Birmingham.



German Technical Centre (GTC)

The German Technical Centre was established in October 2008 in Egelsbach, a German municipality near Frankfurt.

Number of Engineers (Consolidated)



*The above figures represent the total number of engineers by year, including those belonging to bases other than our technical centers.

R&D Topics

10 Great New Products Awards

SMC's Air Management System (AMS) won one of the "65th 10 Great New Products Awards - Main Awards (2022)," a prestigious award for outstanding new products that help improve industrial technology. AMS is a revolutionary product that uses wireless technology and sensors capable of measuring electric power, pressure, and temperature to detect idling conditions in production equipment and automatically control the air system of the entire factory to save air, thereby achieving significant reductions in CO₂ emissions.

Organized by: The Nikkan Kogyo Shimbun, Ltd.



'CHO' MONODZUKURI Innovative Parts and Components Awards

SMC's Valve Manifold Integrated with Ejector System won the "2023 'CHO' MONODZUKURI Innovative Parts and Components Awards - Environment, Resources and Energy Related Component Award," which recognizes outstanding components and materials that improve the competitiveness of Japanese manufacturing and contribute to the industrial and societal development.

The Valve Manifold Integrated with Ejector System is a compact, lightweight, and safety-compliant composite product that reduces wiring and piping. It is also an environmentally-friendly product with an energy-saving function that reduces CO₂ and air consumption by 90%, while at the same time being 42% lighter than the previous model, reducing material costs.

Organized by: MONODZUKURI Nippon Conference / The Nikkan Kogyo Shimbun, Ltd.

Supported by: Ministry of Economy, Trade and Industry / The Japan Chamber of Commerce and Industry / Keidanren (Japan Business Federation)



New Products

SMC has developed a technique for visualizing air leaks in pneumatic piping to pinpoint and reduce air leaks, contributing to the reduction of CO₂ emissions. Its method is by using an aerosolized fluorescent solution, which is harmless to people and machinery to fill up pneumatic piping, and by shining black light onto the piping, the leaks can be detected. In addition, based on requests from customers around the world, SMC has developed a new type of gripper with a rubber membrane-like gripping area that allows for continuous gripping of differently-shaped workpieces without setup changes, which contributes to improved productivity.



Topics

Human Capital Initiatives

Employee Stock Ownership Incentive and Phantom Stock Plan

SMC has increased the Employee Stock Ownership Plan incentive pay rate from 5% to 15% in order to increase employees' motivation and encourage them to enhance productivity, as well as to better distribute the results of increased corporate value and assist employees in building assets.

In addition, we introduced the Phantom Stock Plan, an incentive compensation program that grants phantom shares of the company to presidents of our overseas Group companies for performance achieved above a certain level.

SMC Group Internal Transfer Program

SMC launched the SMC Group Internal Transfer Program based on the belief that in order to achieve further growth, it was necessary to promptly establish a system to enable talented employees working at Group companies around the world to play an active role globally beyond the boundaries of the companies.

The purpose of this program is to allow talented and highly motivated employees recruited at overseas Group companies to broaden their perspectives by working at our head office in Japan, thereby strengthening their foundations for further success after returning to their home countries. At the same time, it is hoped that employees in Japan will benefit from interactions and friendly competition with employees from other countries, and will develop the desire to challenge themselves to work on a global scale.

VOICE Message from Foreign National Employees

Reasons for applying for the transfer program

We expected to face many difficulties in moving to another country to start a new job, but we also saw this program as an opportunity to gain new perspectives and learn things we had not known before.

A workplace where you can grow with a diverse group of colleagues

The transfer was a wonderful opportunity to work, learn, and communicate with talented colleagues from all over the world who had a wide range of work experiences. On the other hand, there were some issues in terms of convenience, such as the company website and announcements were only available in Japanese, and in some situations where we encountered Japan's unique conservatism. We hope to see even greater diversity and inclusion in the future.



First group members of the SMC Group Internal Transfer Program

Aiming to utilize the transfer experience to improve operations

Working at the head office in Japan provided us with experiences that we can leverage in our home countries' sales strategy and business operations. We also gained skills in areas such as language ability, cross-cultural communication, and project management. We hope to use these skills to improve future business while sharing them with colleagues in our home countries.

R&D Initiatives

Kashiwanoha Campus New Technical Center (Provisional Name)

SMC has decided to relocate its current Japan Technical Center to Kashiwa City, Chiba Prefecture, and expand its facilities to accommodate growing business operations.

This ideal location offers a rich natural environment, a high concentration of leading research institutions, and convenient transportation access. By creating a healthy and comfortable working environment with cutting-edge equipment, we aim to improve R&D productivity and facilitate exchanges between SMC's research staff, our customers, and research institutions around the world to generate new innovations.

Overview

Location: Wakashiba, Kashiwa City, Chiba Prefecture (three lots)

Total investment amount: 120 billion yen

Outline: Three five-story buildings

Number of employees: 1,300 people

Site area: 42,794 m² Building area: 29,407 m²

Construction: December 2023 to August 2025

Total floor area: 85,320 m²

Design and construction: KAJIMA CORPORATION



VOICE Collaboration with External Parties

We are grateful for the generous support and cooperation this project has received from Chiba Prefecture and Kashiwa City, the municipalities in which the Kashiwanoha Campus New Technical Center (provisional name) will be built. Chiba Prefectural Governor Toshihito Kumagai said, "We are extremely pleased to have attracted SMC, who has the highest global market share as a pneumatic instruments manufacturer, to locate its R&D center in Chiba prefecture, as it aligns with what we have envisioned and created in the Kashiwanoha area."

Chiba Prefectural Governor Kumagai and President Takada (at the Chiba Prefectural Government Office, November 2023)



Climate Change Initiatives

We will promote manufacturing in harmony with nature that prevents climate change by through our contributions to automation and labor-saving in all industries.

Strategy

In June 2022, SMC expressed our commitment to the Task Force on Climate-related Financial Disclosures (TCFD). Based on this commitment—and with reference to reports from the IEA, IPCC, and other organizations, as well as international trends including the Paris Agreement—we conducted a scenario analysis, selecting the 1.5°C scenario in which we transition to a low-carbon society, and a 4°C scenario in which global warming continues to progress.

The results of the scenario analysis are reflected in SMC’s policy decisions.

In both the 1.5°C and 4°C scenarios, we believe that SMC’s business strategy will remain resilient in terms of the financial impact and countermeasures associated with each risk/opportunity.

We will continue to regularly conduct scenario analyses, review the risks and opportunities, and steadily implement countermeasures while monitoring progress.

Scenario Overview

	Overview	Main sources referenced
1.5°C scenario	In order to achieve net-zero greenhouse gas (GHG) emissions by 2050, policies aimed at decarbonization will be enhanced, including carbon taxes, emissions trading, recycling regulations, and global warming prevention regulations. This is expected to lead to increased demand for GHG emission reductions, advancements in low-carbon technologies, and increased demand for low-carbon products. Since the rise in temperature will be kept to a minimum, the physical impact is assumed to be relatively small.	• IEA's <i>World Energy Outlook (WEO)</i> Net Zero Emissions by 2050 (NZE) scenario, Sustainable Development Scenario (SDS) • IPCC's RCP 1.9 scenario • Japan Electronics and Information Technology Industries Association (JEITA), "Survey of Trends in Emerging Fields" • World Economic Forum, "Winning in Green Markets: Scaling Products for a Net Zero World"
4°C scenario	As fossil fuel-dependent economies continue to develop, climate change policies are not adequately implemented, and few advances are made in decarbonization-related technologies. Meanwhile, as temperatures rise, floods and other climate-related disasters are expected to intensify, causing more physical damage. Therefore, it is assumed that BCP measures will be promoted, as well as labor-saving and automation in factory facilities to cope with heat stroke, infectious diseases, and other risks.	• IEA's <i>WEO</i> Stated Policies Scenario (STEPS) • IPCC's RCP 8.5 scenario • WRI's Aqueduct Floods tool • WRI's Aqueduct Water Risk Atlas tool • Hazard Map portal of Ministry of Land, Infrastructure, Transport and Tourism

[Definitions] **1. Timeline** Short term: 0–3 years; Medium term: 4–10 years; Long term: 11–30 years. **2. Financial impact** Low: Less than 1 billion yen; Medium: 1 billion–less than 50 billion yen; High: 50 billion yen or more

1.5°C scenario

Area	Climate change driver	Assumption	Risk or opportunity	Business impact	Manifestation period	Financial impact in FY2030	Countermeasures
Policies and regulations	Introduction of a carbon tax and emissions trading scheme	A carbon emissions burden will be imposed	Risk	Increase in procurement costs due to suppliers passing on the carbon emissions burden	Medium – long term	Medium	• Develop compact and lightweight products (reduce material usage) • Recycle swarf and scrap • Optimize global procurement
			Risk	Increase in manufacturing and operating costs due to the imposition of a burden on Scope 1 and 2 carbon emissions	Medium – long term	Medium	• Introduce solar power generation • Shift to renewable energy-derived electricity as the main source of power • Switch from HFCs to cleaning fluids with low global warming potential • Introduce highly efficient equipment and upgrade facilities • Research energy-saving production methods and implement them in mass production • Use refrigerants with low global warming potential in temperature control equipment
			Opportunity	Decrease in manufacturing and operating costs due to a lower carbon emissions burden resulting from Scope 1 and 2 emissions reductions	Medium – long term	Medium	
Market	Increased low-carbon awareness among customers	Customers will request the use of low-carbon energy	Risk	Increase in manufacturing and operating costs due to the implementation of Scope 1 and 2 emissions reduction measures	Medium – long term	Low	• Calculate CO ₂ emissions during production of representative models • Perform product assessments • Reduce CO ₂ emissions during production with lightweight and compact designs • Switch factory power sources to renewable energy • Expand the scope of products subject to calculation of CO ₂ emissions during production • Expand development of energy-saving, air-saving, and long service life products
		Customers will request detailed disclosure of information such as the carbon footprint of products (CFP)	Opportunity	Increase in net sales of SMC products due to mandatory CFP labeling and the selection of products with a smaller CFP	Medium – long term	High	

Area	Climate change driver	Assumption	Risk or opportunity	Business impact	Manifestation period	Financial impact in FY2030	Countermeasures
Market	Increased low-carbon awareness among customers	More customers will orient toward low-carbon products	Opportunity	Increase in net sales due to higher demand for sensors for visualization	Medium – long term	Medium	<ul style="list-style-type: none">• Develop energy-saving products• Strengthen our production/sales structure• Enhance product variation• Expand and enhance wireless technologies
			Opportunity	Increase in net sales due to higher demand for compact and lightweight pneumatic instruments	Medium – long term	High	<ul style="list-style-type: none">• Enhance product variation• Expand and enhance compact and lightweight products• Strengthen our production/sales structure• Develop new technologies for energy-saving and air-saving products• Build a recycling chain for used products
		Power shifting to electrification	Opportunity	A certain increase in net sales despite slowing market growth for pneumatic actuators	Medium – long term	Medium	<ul style="list-style-type: none">• Develop energy-saving and air-saving products• Offer a program that helps customers select optimal products• Engage in activities to spread the use of energy-saving and air-saving products in the market
			Risk	Loss of net sales due to slowing market growth in the pneumatic actuator	Medium – long term	Medium	<ul style="list-style-type: none">• Offer technical support for energy-saving systems• Strengthen support for custom products
			Opportunity	Increase in net sales due to expansion of the electric actuator market	Medium – long term	Medium	<ul style="list-style-type: none">• Enhance variation of electric actuators• Develop energy-saving products• Strengthen our production/sales structure• Build a repair and recycling system
	Rising material prices	The price of aluminum will rise as a result of the transition to a low-carbon society	Risk	Increase in procurement costs due to higher prices for aluminum, a key raw material	Medium – long term	Medium	<ul style="list-style-type: none">• Reduce aluminum usage by developing compact and lightweight products• Switch to using resin materials• Build a recycling chain• Optimize global procurement
		Copper alloy and steel prices will rise as a result of the transition to a low-carbon society	Risk	Increase in procurement costs due to higher prices for copper alloy and steel, key raw materials	Medium – long term	Medium	<ul style="list-style-type: none">• Reduce copper alloy and steel usage by developing compact and lightweight products• Switch to using resin materials• Build a recycling chain• Optimize global procurement
		Recycled resin and rubber material prices will rise	Risk	Increase in procurement costs due to higher prices for resin and rubber materials, key raw materials	Medium – long term	Medium	<ul style="list-style-type: none">• Reduce the amount of materials used by developing compact products• Research runnerless mold structures• Consider using recycled materials• Optimize global procurement
	Rising retail electricity prices	Retail electricity prices will rise as power companies transition to generating electricity based on decarbonized energy sources	Risk	Increase in procurement costs due to suppliers passing on electricity costs	Medium – long term	Medium	<ul style="list-style-type: none">• Calculate consolidated Scope 3 emissions• Research energy-saving production methods (switch to pressing, using resin, etc.)• Design and adopt energy-saving production methods• Consider optimal global production sites
			Risk	Increase in manufacturing costs due to our own rising electricity bill	Medium – long term	Medium	<ul style="list-style-type: none">• Introduce solar power generation• Introduce energy-saving equipment• Upgrade to high-efficiency production facilities
			Opportunity	Increase in net sales due to higher demand for energy-saving and air-saving products	Medium – long term	High	<ul style="list-style-type: none">• Develop energy-saving and air-saving products• Develop and offer a program that helps customers select optimal products• Expand / enhance variation and expand sales of energy-saving and air-saving products• Strengthen the production and sales structure for energy-saving and air-saving products• Offer technical support for energy-saving systems

Human Capital Initiatives

We are committed to fully utilizing our human capital by promoting diversity, which is expected to add new value to the business by generating innovation and improving productivity, while addressing changes in the business environment, such as the globalization of business, diversification of customer needs, and the escalating shortage of human resources due to declining birthrates, aging populations, and shrinking labor forces.

Global Human Resources Policy

Basic Concept

At SMC, we believe that in order to achieve further growth and advance to the next stage, we must promote diversity and build a system in which the Group engages in business activities as one. Specifically, we will work to establish initiatives and an environment that deepens interaction and collaboration within the Group and in which our talented personnel can perform at their best, as well as establish initiatives to develop personnel. With this in mind, the SMC Group outlines the following Human Resources Policy:

- We will create an environment in which employees can feel a sense of pride, loyalty, and fulfillment in their work, and thereby fully demonstrate their abilities.
- We will promote human resource measures grounded in sustainability and diversity to unite employees with diverse personalities together and foster a sense of unity as a Group.

Global Human Resource Development Policy

Basic Concept

Since its establishment, SMC has conducted HR management with an emphasis on “job satisfaction.” Fostering a free and open minded corporate culture and nurturing personnel through on-the-job experience, we also encourage young employees to grow by entrusting them with tasks that require more responsibility. We will strive to create an environment in which everyone can show what they can do by acting with initiative and always possess a passion for their work and pride in the company.

The SMC Group will promote HR measures focused on sustainability and diversity, will spare no effort in investing in human resources, and continue to verify and improve the effects of these measures.



Sales Academy (U.S.)



Training for nurturing managerial positions

Area	Climate change driver	Assumption	Risk or opportunity	Business impact	Manifestation period	Financial impact in FY2030	Countermeasures
Market	Falling retail electricity prices	Retail electricity prices will fall as renewable energy becomes more widely available	Opportunity	Decrease in manufacturing costs due to our own falling electricity bill	Medium – long term	Low	• Shift to renewable energy-derived electricity as the main source of power • Switch to electricity for combustion and air conditioning equipment
			Opportunity	Increase in net sales of products that use electricity as an energy source	Medium – long term	Low	• Join a Life Cycle Assessment-related group (Life Cycle Assessment Society of Japan) • Strengthen our production/sales structure • Expand and enhance product series and variation • Strengthen support for custom products

4°C scenario

Area	Climate change driver	Assumption	Risk or opportunity	Business impact	Manifestation period	Financial impact in FY2030	Countermeasures
Physical (acute)	Intensification of climate-related disasters (floods, heavy rain, typhoons, etc.)	We will be affected by climate-related disasters	Risk	Losses due to delivery delays as a result of climate-related disasters affecting our suppliers	Short – long term	Low	• Promote multi-sourcing • Conduct periodic checks of inventory days on hand • Periodically assess flood and storm surge risks • Assess flood risks when selecting new suppliers
			Risk	Loss of inventory and fixed assets due to climate-related disasters affecting our own company	Short – long term	High	• Diversify production and logistics bases • Formulate a BCP for measures to be taken in advance and during disasters • Expand and enhance budget for BCP measures • Enroll in property and casualty insurance • Review inventory storage locations
			Risk	Losses due to the shutdown of operations as a result of climate-related disasters affecting our own company	Short – long term	Medium	• Assess the risk of climate-related disasters when establishing or relocating production bases • Consider flood provisions at flood-prone sites
Physical (chronic)	Changes in rainfall patterns	Seasonal changes in rainfall will cause water shortages	Risk	Losses due to the shutdown of operations as a result of water shortages caused by drought	Short – long term	Low	• Diversify production and logistics bases • Formulate a BCP for measures to be taken in advance and during disasters • Expand and enhance budget for BCP measures • Implement countermeasures at sites with a particularly high risk of water shortages and consider provisions in case of water shortages • Reduce water consumption • Consider water reuse and recycling

Indicators and Targets

SMC uses Scope 1 and Scope 2^{*1} emissions based on the “GHG Protocol” international standard as indicators for measuring and managing climate-related risks and opportunities, and compiles data covering the entire Group.^{*2}

As we expect the scale of our sales and production to increase in the future, we have built many concrete policies, formulated medium- and long-term targets^{*3} to reduce our overall levels of GHG emissions, and are working on the reduction measures.

^{*1} Scope 1: CO₂ emissions produced by our own fuel consumption. Scope 2: CO₂ emissions produced through the consumption of energy supplied by other companies.

^{*2} The 34 locations, which include sales locations, production locations, and major distribution centers, make up more than 95% of consolidated external net sales.

^{*3} Reduction targets to meet the demands of SBT's 1.5°C scenario with FY2021 as the base year.

Efforts to Obtain SBT Certification

SMC is taking climate change action to achieve the 1.5°C scenario and has submitted a commitment letter to the Science Based Targets initiative (SBTi). Going forward, we will continue our efforts to obtain SBT certification for our GHG emissions reduction targets, which are scientifically aligned with the goal of the Paris Agreement.

Internal Environment Improvement Policy

Basic Concept

SMC Group stipulates in its 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.”

Creating a Safe, Secure, and Healthy Work Environment

SMC prioritizes safety and security in all of our business activities. We have established a “Safety Dojo” at each of our production sites and thoroughly conduct training and other measures to ensure total safety management. In particular, sexual harassment, power harassment, and other forms of harassment violate human rights and harm the work environment. We strictly prohibit such acts and does not overlook the behavior of others. When an issue arises, we will promptly investigate the situation and take decisive action to help the victims and prevent recurrence. We continue to conduct harassment prevention training for all employees and are working as an organization to create a harassment-free work environment.

Fair, Impartial, and Transparent Personnel Evaluation and Compensation

SMC strives to cultivate a free and vibrant corporate culture while maintaining a positive and rewarding work environment. We conduct fair, impartial, and transparent personnel evaluations and compensate employees based on their roles, abilities, and achievements. We are working to create a workplace environment that inspires a sense of pride and loyalty to the company and fulfillment in one’s work, where each employee is self-motivated and able to demonstrate his or her abilities, thereby improving productivity.



Promoting Women’s Active Participation

At SMC, we believe it is important to create an environment where women can actively participate in professional life without giving up on their careers, and have equal opportunities for advancement into managerial roles. In addition to increasing the percentage of female employees through proactive recruitment activities, we are also working to ensure that it is possible for employees to smoothly return to work after taking maternity or childcare leave, and that they are reinstated in the same workplace as prior to the leave. Furthermore, to support the balancing of work and family/childcare responsibilities, we are working to develop a comfortable work environment by establishing various programs such as introducing shorter working hours and flexible working hours.

In order to increase the number of female employees involved in organizational management and managerial decision-making in the future, it is necessary to foster career awareness from a medium- to long-term perspective. We are working on measures such as creating a workplace environment that fully harnesses the characteristics and abilities of each employee and providing training to develop managerial talent.

Encouraging Childcare Leave for Male Employees

To encourage male employees to participate in childcare, SMC has set up a new financial incentive for taking childcare leave upon the birth of a child to coincide with the establishment of a new parental leave program. We included a special feature on male employees who have taken childcare leave in the company newsletter, aiming to deepen understanding of childcare throughout the workplace, cultivate a workplace culture that supports childcare, and create an environment that encourages the use of childcare leave. These efforts have furthered the use of the Childcare Leave Program by male employees. In addition, to encourage employees to take leave for childcare purposes, we increased the number of days of special paid leave granted to employees upon the birth of a child by their spouse.



Gender Pay Gap

SMC’s pay system follows the principle of “equal pay for equal work” and applies the same pay table to each job group (position or job level category), with no disparity in pay based on gender.

Our analysis shows that the pay gap is caused by the following:

- Difference between male and female in the average number of years employed

One factor contributing to women being employed for fewer years on average compared to men is that a greater percentage of women are being hired as fresh graduates in recent years. While women who joined the company as fresh university graduates make up only 2.9% of employees 40 years old and older, this percentage is 18.5% among employees 25 years and younger.

- Difference in the percentage of male and female occupying management positions

The percentage of women occupying positions with relatively high pay levels (especially management, engineering, sales, and planning positions) is relatively low.

Securing Diverse Human Resources

SMC is actively promoting the use of non-japanese (foreign national) employees and mid-career hires to meet the challenges of globalization and acquire human resources with specialized knowledge and expertise. We expect to see benefits such as a shift in overall employee awareness and greater organizational vitality.

Employee Engagement

SMC is working to create an environment in which employees can feel a sense of pride, loyalty, and fulfillment in their work, and thereby fully demonstrate their abilities. We conduct an employee engagement survey with the aim of increasing each employee’s motivation and fostering a sense of unity as an organization. In FY2022, we began conducting a survey on employees’ level of satisfaction with personnel evaluations, and in FY2023, we began a survey on employee engagement under the categories of “job/responsibilities,” “support/supervisors,” “environment/colleagues,” “culture/vision,” and “benefits/compensation.” We plan to measure two aspects of engagement: employees’ “vitality and enthusiasm for work (work engagement)” and “sense of loyalty and belonging to the organization (organizational commitment).” The results will be used to create a better work environment and evaluate our human resource policies.

Raising Pay Levels

SMC strives to improve pay levels with the goal of raising employee job satisfaction and motivating them to work harder to improve productivity. The average rate of pay increases over the last five periods has been 3.9% per year.

In addition, beginning in April 2023, we have increased the company’s incentive pay rate for contributions to the employee stock ownership plan from 5% to 15%, with the aim of assisting employees in building assets.

Data on Human Resources

		FY2018	FY2019	FY2020	FY2021	FY2022
No. of employees	Consolidated	19,746	20,853	20,619	21,620	22,988
	Non-consolidated	5,788	5,821	5,907	5,937	6,035
Average age (years)	Non-consolidated	40.2	40.5	41.6	41.8	41.9
Average no. of years employed	Non-consolidated	18.9	19.4	20.4	20.6	20.5
Percentage of employees with disabilities	Non-consolidated	2.4%	2.5%	2.5%	2.4%	2.4%
Three-year turnover rate	Non-consolidated	5.8%	3.1%	4.2%	3.1%	2.2%
Full-time worker turnover rate	Non-consolidated	2.0%	1.8%	2.0%	2.0%	3.5%
Percentage of women, non-japanese, and mid-career hires among full-time workers	Women	28.3%	28.5%	28.1%	28.3%	28.2%
	Non-japanese	0.4%	0.5%	0.4%	0.4%	0.5%
	Mid-career hires	16.6%	15.6%	16.2%	15.7%	13.8%
Percentage of women, non-japanese, and mid-career hires in management positions	Women	0.7%	0.9%	1.5%	1.8%	1.7%
	Non-japanese	0.2%	0.2%	0.0%	0.2%	0.4%
	Mid-career hires	29.2%	26.9%	25.9%	24.0%	23.1%
Percentage of women, non-japanese, and mid-career employees among new hires	Women	32.8%	30.4%	20.7%	28.7%	18.7%
	Non-japanese	5.6%	0.6%	0.0%	0.6%	2.2%
	Mid-career hires	2.1%	1.8%	22.4%	16.9%	43.5%
Percentage of childcare leave users who return to work	Non-consolidated	98.9%	99.0%	96.7%	100.0%	99.0%
Percentage of male employees who use childcare leave	Non-consolidated	1.3%	0.7%	3.6%	11.0%	21.9%
Percentage of paid leave used	Non-consolidated	69.4%	74.7%	68.6%	78.5%	83.7%

FY2022 Gender Pay Gap
(Value of women's pay as a percentage of the value for men set to 100) (Non-consolidated)

	Pay gap index
All employees	48.5
Full-time workers	60.6
Part-time/fixed-term workers	89.0

FY2022 Pay gap between male and female in management positions, average no. of years employed, and percentage of employees
(Non-consolidated)

	Men	Women
Pay gap	100.0	97.8
Average no. of years employed	31.0	27.4
Employees (%)	98.3	1.7

Environment

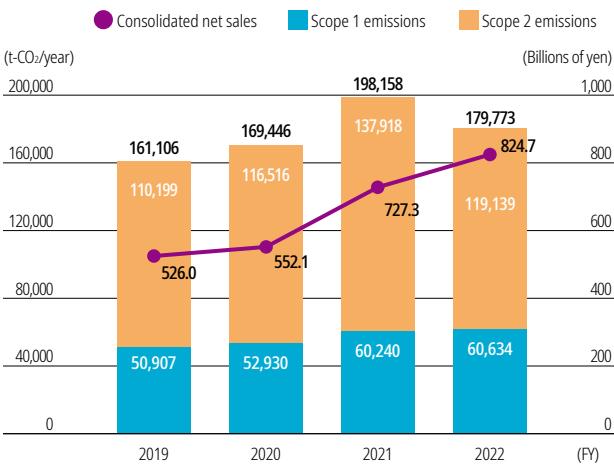
Actions to take on climate change & environmental issues

We aim to contribute to the creation of a sustainable society through the spread and improvement of automation control technology. It is with this desire that we strive to spread and improve automatic control technology, which is our core business. We will continue to promote manufacturing in harmony with nature by thoroughly reducing environmental impact through our contributions to automation and labor-saving in all industries.

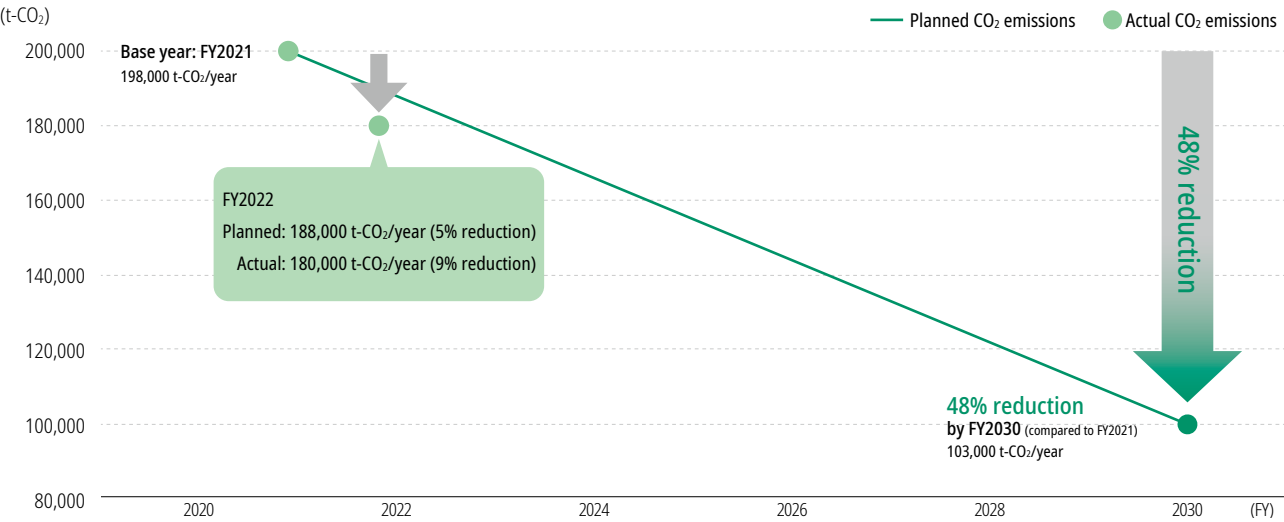
Reducing GHG Emissions

SMC is promoting various initiatives to reduce greenhouse gases (GHG) emitted through our own activities. In 2022, we completed the compilation of data on Scope 1 and Scope 2¹ emissions covering the entire Group² based on the “GHG Protocol” international standard. In order to continue achieving steady results in reducing our overall levels of GHG emissions, we have built many concrete policies and formulated medium- and long-term targets³ based on the assumption that the scale of our sales and production will increase in the future.

¹ Scope 1: CO₂ emissions produced by our own fuel consumption.
Scope 2: CO₂ emissions produced through the consumption of energy supplied by other companies.
² The 34 locations, which include sales locations, mass production factories, and major distribution centers, make up more than 95% of consolidated external net sales.
³ Reduction targets to meet the demands of SBT's 1.5°C scenario with FY2021 as the base year.



SMC's GHG Emissions Reduction Target vs. Actual (Scope 1 + Scope 2)



Commitment to the TCFD

Recognizing that taking action on climate change is a key management issue, SMC expressed our commitment to the TCFD in June 2022 and began disclosing information in accordance with the TCFD framework in our Annual Securities Report in June 2023. We will continue to actively contribute to the resolution of climate change-related social issues through our business activities.

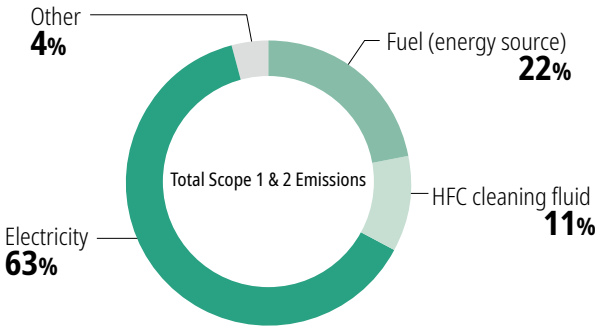


Specific Initiatives

SMC is taking the following six measures to achieve our GHG emissions reduction targets.

Switching to green energy	Introducing solar power generation	Switching to cleaning fluids with lower global warming potential
Reviewing production processes	Switching to LED lighting	Switching to environmentally friendly vehicles

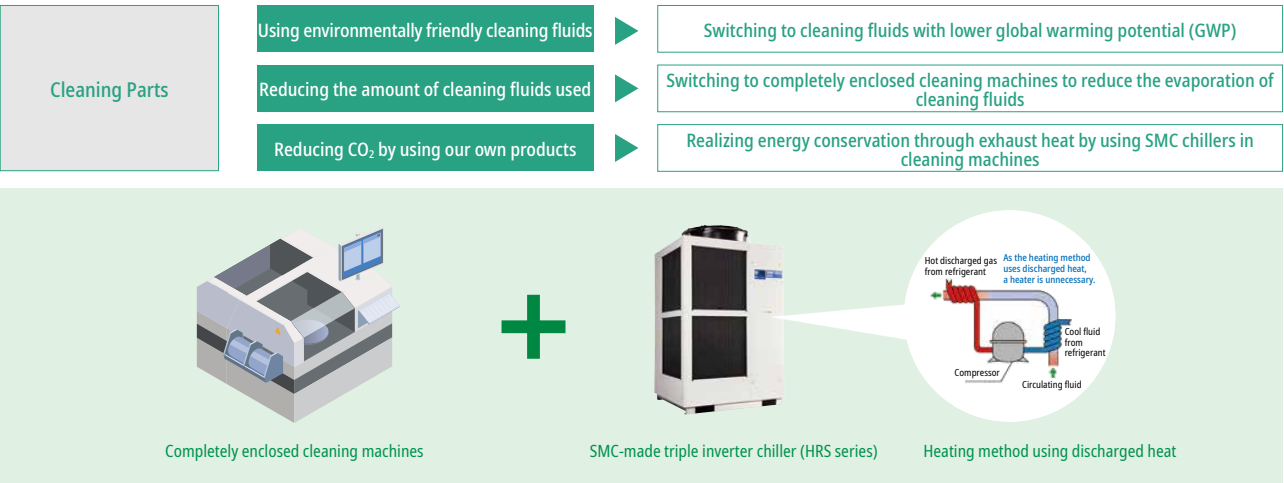
GHG Emissions Factor Analysis (FY2022)



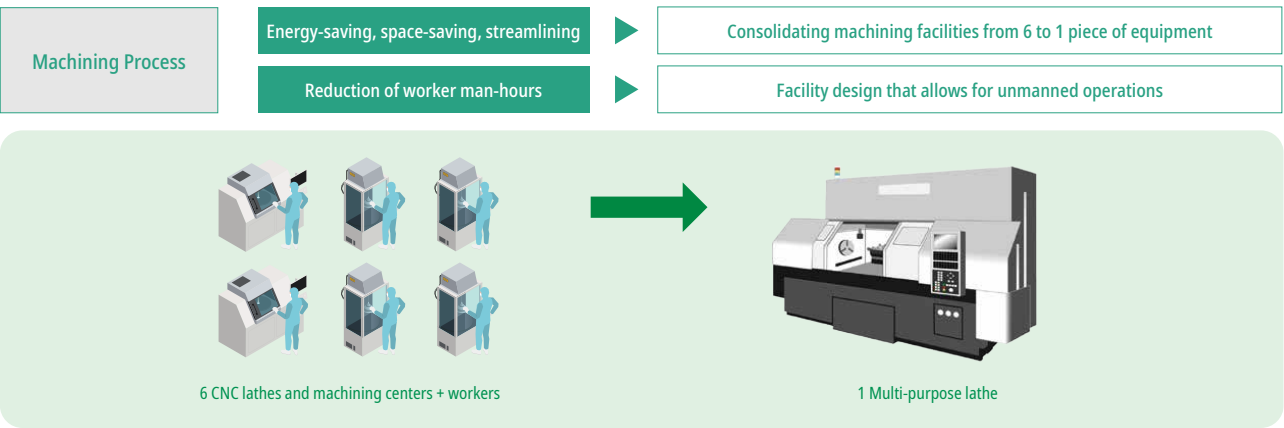
Introducing Solar Power Generation



Switching to Cleaning Fluids with Lower Global Warming Potential



Reviewing Production Processes



Environmental Considerations

Basic Concept

SMC Group Code of Conduct

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.

- ❶ We will strive to develop and supply environment-friendly products.
- ❷ 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

[Basic Philosophy]

At SMC, we recognize that the conservation of the global environment is the most crucial issue facing all humanity. Therefore, we strive to realize a comfortable global environment through all of our business activities. As a comprehensive manufacturer of automatic control equipment, SMC will contribute to the creation of a sustainable society.

Basic Policy

1. We will work to understand the environmental impact of our production activities, products, and services and to protect the environment and prevent pollution.

2. We will minimize the environmental impacts from our design, development and production activities.

(1) We will work to develop environmentally friendly products and work towards environmentally friendly procurement.

(2) By using energy efficiently and using renewable energy, we will work to prevent global warming.

(3) We will promote the reduction and recycling of waste.

(4) We will strive to conserve environmental resources by using water efficiently.

3. We will comply with the various items required by environmental laws and regulations and work to deepen our relationship with our customers, neighbors, and local communities. We will also promote the preservation of biodiversity.

4. We will continuously improve our environmental management systems to improve our environmentally friendly performance.

5. We will communicate our environmental policy to all workers and disclose it publicly.

Environmental Training

SMC provides environment-related education and practical training to our employees, as well as environmental training to our environment-related partner companies. In addition, employees with national qualifications attend follow-up training on an ongoing basis to enhance the quality of their knowledge and skills.

Training Conducted in FY2022	
Environmental training for employees	10,312 attendees
Emergency response training	285 attendees
Training for frontline workers	818 attendees
Participation in external environment-related training sessions	72 attendees
Environmental training for environment-related partner companies	314 companies

Green Procurement

SMC develops and provides environmentally-friendly products to continuously reduce our burden on the environment. As part of these efforts, we practice green procurement in compliance with various regulations for products, raw materials, components, semi-finished goods, secondary materials, and packaging materials used in design, development, and production processes.

Eco-Factory

Environmental Management Systems

As part of our efforts to comply with the ISO 14001 standard for environmental management systems (EMS), SMC has established “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 of these targets.

Environmental Targets, FY2022 Results and Evaluation

In FY2022, we achieved all of the following Environmental Targets.

- ❶ Product assessments were conducted for designing and developing environmentally-friendly products.
- ❷ CO₂ emissions per unit of production decreased 11.3% compared to the 7th Term (FY2017–2019) average. Waste discharged per unit of production decreased 3.7% compared to the 7th Term (FY2017–2019) average.
- ❸ All major production districts participated in climate change initiatives organized by local governments and industry groups. They also were involved in community beautification activities and programs to raise employee awareness.

	Medium-term Environmental Target		FY2022 Environmental Targets		
	3-Year Milestone (FY2020–FY2022)	3-Year Total	Target	Results	Evaluation
Product assessments (Environmental compatibility)	Design and develop environmentally-friendly products, and conduct assessments by evaluating the current score	75 models or more 900 points or higher	25 models 300 points or higher	33 models 395 points	Achieved
Business activities (Environmental conservation)	Promote energy-saving, resource-saving, and reduction of the environmental burden through beneficial environmental activities in our primary business operations				
	Prevention of global warming—Reduction of CO ₂ emissions per unit of production compared to the previous three-year term average	Reduction of 3% or more	Reduction of 3% or more	11.3%	Achieved
	Resource-saving—Reduction of waste discharge per unit of production compared to the previous three-year term average	Reduction of 3% or more	Reduction of 3% or more	3.7%	Achieved
Communication (Coexistence with society)	Social contribution activities—Community beautification activities		Community beautification activities	Implemented in all districts as planned	Achieved
	Promotion of climate change actions		Participation in initiatives organized by local governments and industry groups; education and awareness raising programs	Implemented in all districts as planned	Achieved

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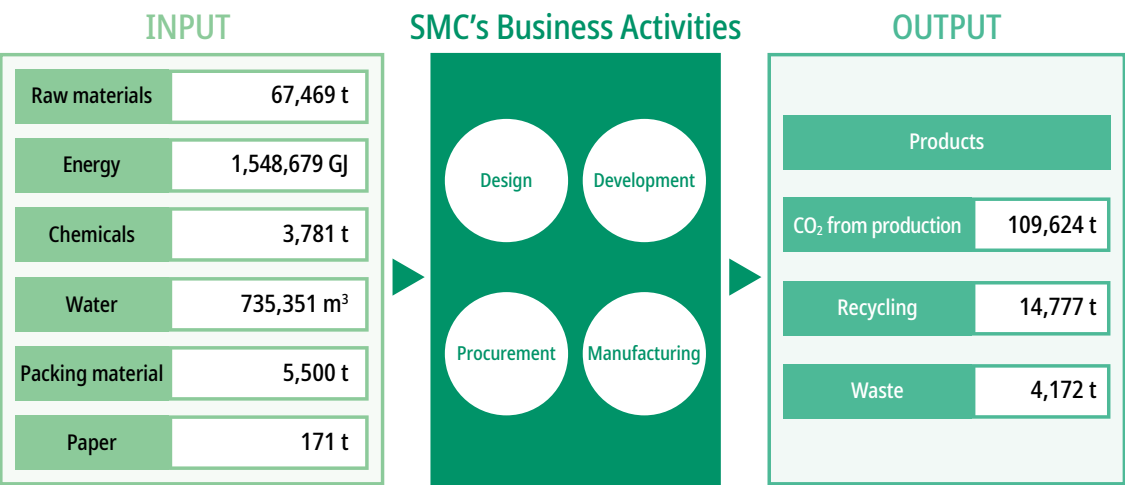
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Eco-Management

SMC introduced ISO 14001, the international standard for environmental management, in 1998. Since then, we have been systematically promoting environmentally-friendly and energy-saving measures in our factories. This section summarizes the figures for our production bases in Japan and China, which account for 85% of the Group's total production.

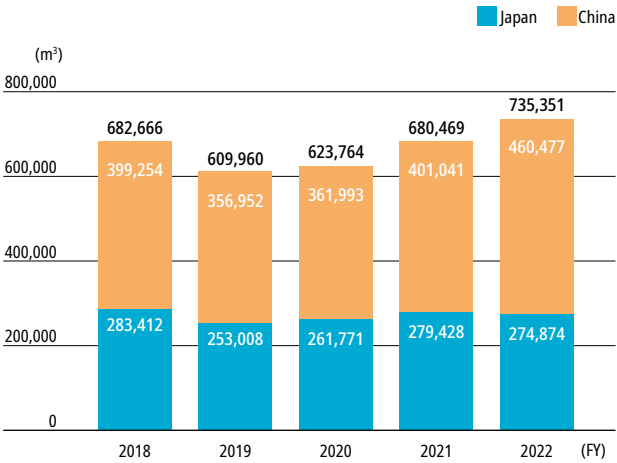
Material Balance

SMC monitors the resources and energy consumed and emissions generated during processes such as product design, development, and manufacturing. We use this information to reduce our burden on the environment.



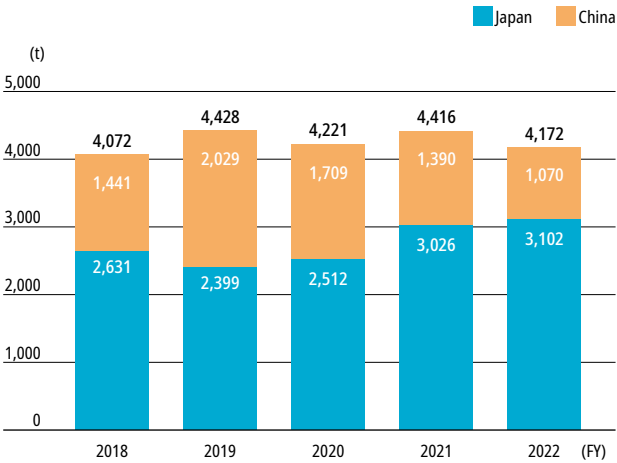
*CO₂ emissions from production activities are calculated based on standards in the Energy Conservation Act (Japan and China).

Water Usage

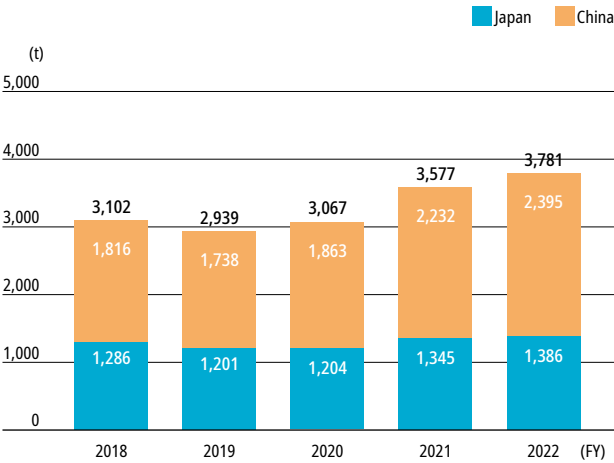


SMC is working to reduce waste discharge (by converting waste to valuable resources and recycling) and chemical substance usage (by preventing evaporation and removal, and recycling).

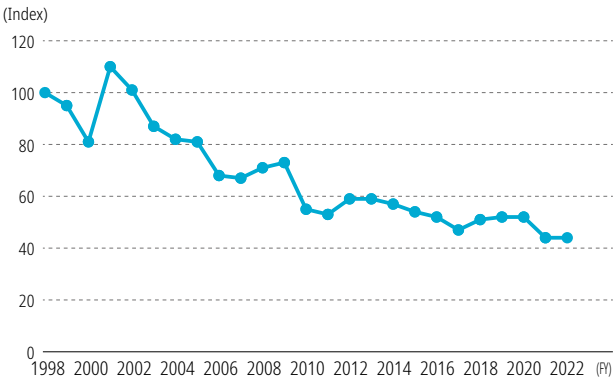
Waste Discharge



Chemical Substance Usage

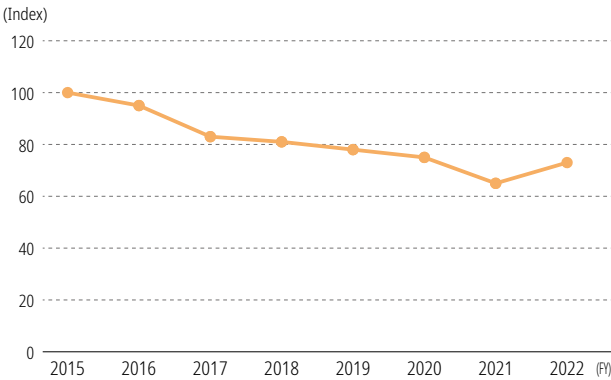


CO₂ Emissions Reduction (Japan)



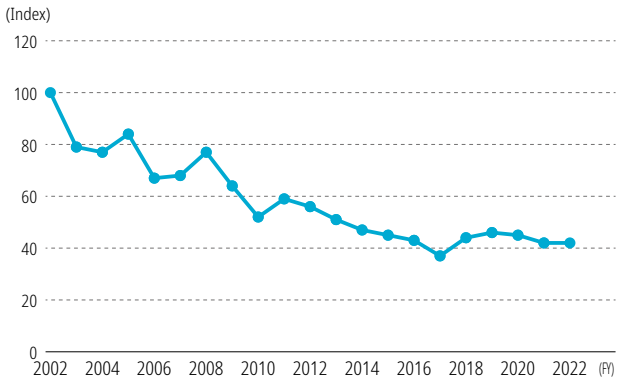
*Per unit of production in relation to FY1998 values (set as 100)

CO₂ Emissions Reduction (China)



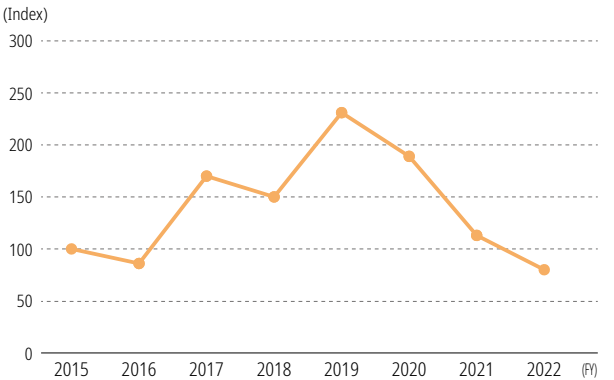
*Per unit of production in relation to FY2015 values (set as 100)

Waste Reduction (Japan)



*Per unit of production in relation to FY2002 values (set as 100)

Waste Reduction (China)



*Per unit of production in relation to FY2015 values (set as 100)



Eco-Products

Evolution of SMC's Products

Since its establishment, SMC has been developing automatic control equipment, including pneumatic instruments, and has increased product variations to meet customer needs. In addition, through the use of topology optimization* in the design process, we have made our products more compact and lightweight, as well as more air- and energy-efficient, significantly reducing CO₂ emissions during manufacturing and use.

Solenoid Valves (Directional Control Valves)

Year	1971	1983	1984	1993
Series	VS4000	VF	VZ	SY
Valve width	36 mm	26.4 mm	15 mm	10 mm
Power consumption	5.5 W	2 W	2 W	0.55 W
	 Valve width Mass: 375 g ^{*1}			

^{*1} Without sub-plate
^{*2} With power-saving circuit

***Topology optimization:**
Topology optimization is the methodology of finding the most efficient shape and form of a structure based on mathematics and mechanics.

Making eco-products with eco-products
We use our own products which are highly effective in reducing CO₂ emissions in our production lines.

1998	2005	2009	2019	2020
SZ	SJ2000	New-SY	JSY	SJ1000
10 mm	7.5 mm	10 mm	6.4 mm	6.5 mm
0.6 W	0.23 W ^{*2}	0.4 W	0.2 W ^{*2}	0.23 W ^{*2}



Actuators (Motive Equipment)

1970

Steel cylinder

Japan's first aluminum cylinder

1974

Cylinder with auto switch

1976

Non-lube cylinder

Now

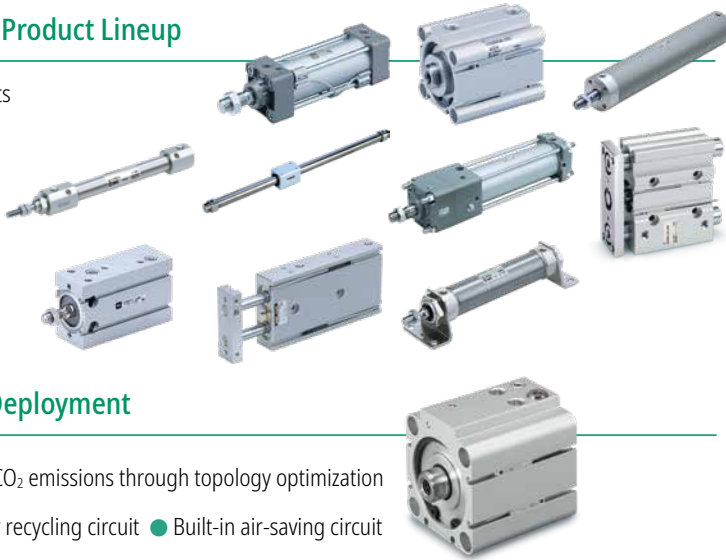
Optimizing Basic Products / Expanding Product Lineup

- Developing products to meet customer requirements
- Improving products and expanding our lineup
- Enhancing product quality and reducing costs

Basic products: 50 models
Total no. of items: 700,000 types

CO₂ Reduction Initiatives and Product Deployment

- More compact and lightweight..... ● Reducing CO₂ emissions through topology optimization
- Air-saving..... ● Exhaust air recycling circuit ● Built-in air-saving circuit



Pneumatic instruments use pressurized air produced by compressors as their power source. By maintaining low air pressure and flow, it is possible to reduce the energy consumed by the air compressors. As a specialist in automatic control equipment including pneumatic instruments, SMC provides total solutions that reduce the overall amount of energy consumption at our customers' factories.

- Our pressure booster valves can be used to boost pressure only where necessary in order to keep the main supply air pressure low
- Compact, lightweight, air-saving, and energy-saving products based on know-how cultivated over many years
- Visualization of air pressure, air flow, and temperature reduces air leakage
- Automatically controls air pressure and air flow in line with the operating conditions of the facility

Reducing pneumatic line pressure

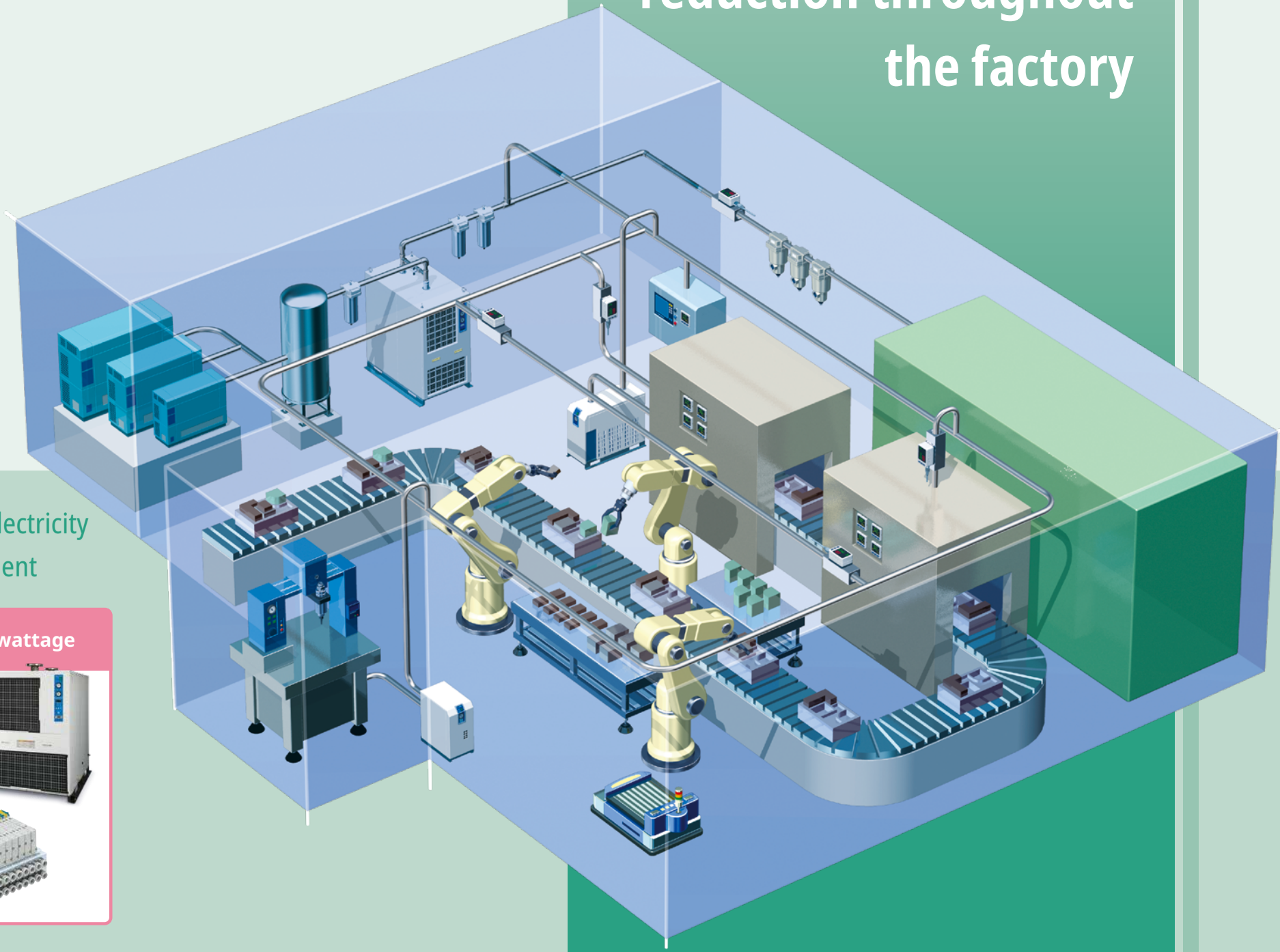
Reducing pressure in factory pneumatic lines using local pressure increase



Air Management System



Visualizing the status of production equipment to reduce air consumption when on standby/production stops



SMC contributes to CO₂ reduction throughout the factory

Environmentally-friendly product lineup that helps to reduce air and electricity consumption by minimizing the size and weight of production equipment

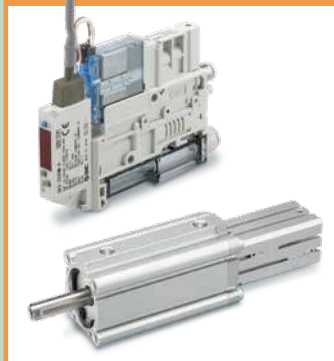
Compact and lightweight



Improved blowing efficiency



Energy-saving equipment



Low wattage



Social

Respect Human Rights, Promote Diversity & Ensure a Safe and Secure Work Environment

A sustainable society will be realized when people can work with their individuality and vigor.
With this in mind, we strive to create an environment where employees can continue to work safely, securely, and with good health.
By listening to and forming the voice of each individual, we aim to create an SMC where everyone can play an active role, regardless of gender, nationality, age, or disability.

Promoting Diversity

Promoting Women’s Active Participation

SMC believes it is important to create an environment in which women can play an active role without giving up on their career development and have equal opportunities to be promoted to management positions. Through active recruitment activities, SMC is aiming to increase the proportion of female in its workforce, and striving to establish an environment which female employees can return to work smoothly by ensuring to return to the same workplace after their maternity or childcare leave. In addition, as a measure to support a good life balance between work and family/ childcare, SMC has created a various worker-friendly working environment, such as introducing shorter working hours and flexible working hours. Going forward, we will work to foster career awareness from a medium- to long-term perspective, create a workplace environment that maximizes the characteristics and abilities of each individual, and provide training on the development of managerial talent with the aim of increasing the number of female employees involved in organizational management and managerial decision-making.

Unconscious Bias Training

SMC believes that promoting diversity and inclusion (accepting diverse human resources and enabling them to fully demonstrate their abilities) is necessary to grow further as a global company. As part of our efforts to reform awareness in this area, we conducted an unconscious bias training (training designed to help people become aware of hidden biases that everyone possesses). This training was jointly planned by SMC US and members of the Diversity & Inclusion Promotion Project in Japan, and was first conducted for all organizational leaders (including officers) working at the head office in Japan. In the future, we plan to expand the scope of the training to all employees.



Respect for Human Rights

Basic Concept

SMC recognizes that respect for human rights is an issue that all companies should be addressing as a matter of course. At SMC, we have established a “Human Rights Policy” (see page 70) in which we clearly state that we support the “International Bill of Human Rights” and other international norms and comply with relevant laws and regulations. In addition, in the “SMC Group Code of Conduct,” we declare that we respect the personalities of our employees and will not engage in unreasonable discrimination, and we request our suppliers to respect the purpose of this code.

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.

Educating All Employees

SMC takes various opportunities to conduct training for its employees in relation to respect for human rights. We repeatedly conduct training for all employees on the prevention of sexual harassment and power harassment, which are the most pertinent human rights violations for our employees. We also conduct training for all employees on the prevention of “maternity and paternity harassment” related to the use of maternity and childcare leave.



Supporting Work-Life Balance

Supporting flexible work styles that adapt to life events

SMC is continuously reviewing and improving its flextime and reduced working hour programs so that employees can balance their work and household responsibilities and choose flexible working styles to accommodate life events such as childcare and nursing care.

Encouraging the use of childcare leave by male employees

To encourage male employees to participate in childcare, SMC has set up a “Subsidy for Taking Parental Leave.” We also increased the number of days of special paid leave granted to male employees upon the birth of a child by their spouse from 2 to 5 days. In addition, we published a special feature introducing male employees who have taken childcare leave in the company newsletter. To deepen understanding of the various programs SMC has established to support childbirth and childcare, and to prevent “maternity and paternity harassment,” we created LMS (e-Learning system) training materials and made the course mandatory for all organizational leaders.

Creating a Healthier Workplace for Employees

SMC is taking the following measures to create a workplace where employees can work in good health.

- Installing health-promoting equipment at business sites
- Eliminating health injuries through the establishment of an Occupational Health and Safety System
- Implementing health promotion programs
- Installing AEDs and conducting lifesaving training
- Preventative counseling by mental health specialists and public health nurses
- Promoting brain scan check-ups for employees aged 40 and over

In addition, we conduct educational activities for employees, including healthcare-related seminars on topics such as Mental Health Line Care, obesity prevention, and stress checks, and regularly distribute checklists.



Ensuring a Safe and Secure Work Environment

Safety Committee Activities

In cooperation with industrial doctors, SMC is working to prevent workplace accidents and illnesses and to create a safe and secure work environment. The “Factory Health and Safety Committee”, in which all factory managers participate, shares information on safety to prevent accidents. We are also working to enhance the activities of the Health and Safety Committee, which facilitates the spread of example initiatives across the organization and conducts safety patrols. And since workplace safety also requires each employee to demonstrate awareness and knowledge, we are augmenting our training programs and conducting labor management training tailored to each business site and job level. We also regularly conduct factory manager training for factory managers.



The Health and Safety Committee’s AED training



Fire drill instructed by fire station personnel

Safety Dojo

SMC has established specialized facilities at each of its factories to ensure safety during work and to enhance skills. SMC provides VR devices to everyone working in their factories including part-time employees and temporary staffs to allow them to visualize risks during work and to prevent injuries and accidents.



Workplace Accidents (Severity and Frequency)

Excluding the high severity rate in 2019 when a major accident occurred, each of SMC’s workplace accident indicators continues to fall below the manufacturing industry average.

	2018		2019		2020		2021		2022	
	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC
Rate per thousand workers	2.8	1.1	2.7	0.6	2.6	1.3	2.9	0.4	2.7	1.4
Severity	0.10	0.08	0.10	0.64	0.07	0.02	0.06	0.00	0.08	0.02
Frequency	1.20	0.87	1.20	0.39	1.21	0.82	1.31	0.32	1.25	1.15

*Data on rate per thousand workers, severity, and frequency in the manufacturing industry are obtained from the “Ministry of Health, Labour and Welfare: Workplace Safety Site, Occupational Injury Statistics”.
*Covered period: One year from January 1 to December 31.

Develop Human Resources & Disseminate Automation Control Technology

To nurture professionals in automation control technology, we will build a global human resource development system, evaluation criteria, and award system, preparing for each individual employee.
We will also communicate the value of automation control technology which contributes to a sustainable future through information dissemination and learning support for children and young people around the world, who have the potential to become future leaders.

Human Resource Development

Fostering Global Talent

SMC is adapting to changes in the business environment such as the globalization of business, diversification of customer needs, and a growing shortage of human resources due to the declining birthrate, aging population, and shrinking labor force. At the same time, we are working to maximize the use of our human capital by promoting diversity, which is expected to bring new value to the business by generating innovation and improving productivity.

Approximately 75% of all employees in the SMC Group are employed by overseas Group companies. In order for SMC to achieve further growth and advance to the next stage, it is crucial to deepen collaboration and cooperation among Group companies and to develop systems and infrastructure that enable outstanding talent in the Group to fully demonstrate their abilities. With this in mind, SMC is actively investing in human capital, promoting human resource policies that maximize the capabilities of its globally-talented workforce, and creating systems for nurturing experts in each respective field.

Education & Training / Award System

Training and Self-Improvement System

SMC has introduced the Learning Management System (LMS), a tool to manage cloud-based e-learning that can be used anytime and anywhere, to support employees' self-improvement.
In addition, SMC has introduced various education and training programs to continuously develop management personnel with a global perspective, who can play an active role across the entire Group, and who can contribute to the sustainable growth of the company.

In-house Training System

LMS

New employee training
Third-year training
(for young employees)
Management training
Job level-specific training

Female Outside Sales Support Training
Sales Academy

Global Award System

SMC has established an award system for employees who have exhibited outstanding performance. This system properly evaluates the results of global collaboration, such as "customer information obtained in the U.S. that led to sales in Malaysia."



Promote Automation Control Technology

Skills Transfer / Improving Skill Levels

Skill Transfer Committee

SMC has established a "Skill Transfer Committee" to pass on the skills and knowledge of experienced employees to the next generation, which will help to maintain and improve our safe work environment, consistent product quality, and high production efficiency into the future.
The "Skill Transfer Committee", in which each factory managers themselves participate in the operation discusses various issues related to the transfer of technical skills.

Skilled Worker System

SMC has established a "Skilled Worker System" to secure the availability of experienced and skilled employees.

Skills Competition

SMC holds a "Skills Competition." During the competition held in September 2023, 86 employees from six factories in Japan and factories in China participated in seven events to demonstrate their great skills over two days.
President Takada personally awarded medals to the top performers.

[Competition events]

Pneumatic equipment assembly, tool grinder, lathe, forklift, milling machine, surface grinder, and brazing



Supporting Student Robotics Competitions

SMC's products are widely used in various types of robots. SMC sponsors student robotics competitions in order to convey the appeal of automation control technology and contribute to the development of human resources who will lead the robotics industry in the future.

ABU Robocon

SMC is a sponsor of the ABU Asia-Pacific Robot Contest, an international competition for university students from Asian countries. The contest was held in August 2023 in Phnom Penh, Cambodia, with teams representing various countries demonstrating advanced technical skills in a heated competition.



Organized by: Asia-Pacific Broadcasting Union (ABU), NHK, NHK Enterprises, Inc.
Hosted by: National Television of Cambodia (TVK)



The team representing Japan from Toyohashi University of Technology, supported by SMC Japan, won the contest.



SMC Group companies are supporting teams from other countries that competed in the final and qualifying rounds, including the team representing Hong Kong, which won second place.



SYOUGAKUSEI ROBOCON Workshop

SMC sponsors the SYOUGAKUSEI ROBOCON, a robotics competition for elementary school students across Japan. At a workshop held at the Science Museum in Tokyo in July 2023, elementary school students worked to create a pneumatically powered car.

Organized by: SYOUGAKUSEI ROBOCON Executive Committee (NHK Enterprises, Inc. / Science Museum)
Supported by: NHK, Japan Federation of KOSEN Association



Monozukuri Taikan Stadium

SMC participates in the "Monozukuri Taikan Stadium," a hands-on workshop for elementary school students designed to convey the excitement of science and making things. With the exhibition theme "Invisible but amazing, feel the power of air!", many children had the opportunity to experience the power of air through pneumatic automation control technology.

Organized by: MONODZUKURI Nippon Conference / The Nikkan Kogyo Shimbun, Ltd.



Work Experience for Children

SMC supports "Job Kids Iwate," a project aiming to make elementary school students to have dreams and aspirations of working in their hometown in the future through work experiences at local companies. From July to September 2023, participants experienced "the job of using air to put machines in motion" at the Tono Factory and Kamaishi Factory in Iwate Prefecture.

Organized by: Television Iwate Corp. (Job Kids Iwate Administration Office)
Supported by: Iwate Prefecture, Iwate Prefectural Board of Education, Federation of Iwate Prefecture Chambers of Commerce and Industry, Federation of Iwate Prefecture Groups of Commerce and Industry, Iwate Prefectural Federation of Small Business Associations
Special cooperation: Furusato Iwate Teiju Zaidan (Hometown Iwate Settlement Foundation)



Family Day

In August 2023, "Shimotsuma Family Day," an event for employee's families, was held at the Shimotsuma Factory. Although SMC's products are used in the production and distribution of a wide variety of goods around us, the products themselves are not well known to the general public and to the families of SMC employees. This event was designed by the staff of the Shimotsuma Factory as an opportunity to invite employees' family members to see firsthand what kind of company SMC is, how its products are used, and what the production site is like, and it was very successful.



Quality & Customer Service

Earning the Trust of Customers and Suppliers

In keeping with the SMC Group Code of Conduct, SMC aims to earn the trust of its customers and suppliers in all aspects of its business activities and to continue to be a sustainable corporate group.

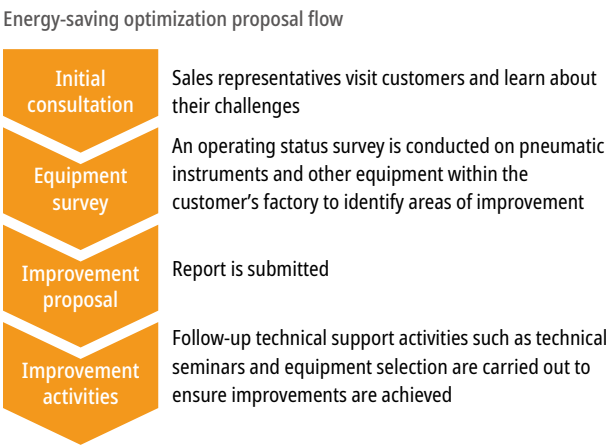
SMC Group Code of Conduct

- 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 among us, our company and its counterparties through free and fair business relations, and aim to realize mutual development of our company and the counterparties.
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 the 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 SMC Group.
 5. We will conduct strict management of not only trade secrets and personal information of customers and business counterparties, but also those of our company.

Energy-Saving Optimization Proposals

SMC has established a dedicated team to leverage our accumulated energy-saving experience and knowledge in order to make energy-saving solution proposals that will help reduce CO₂ emissions at our customers' factories.

We conduct customer factory visits and submit reports to the customers. Based on these on-site surveys and follow up with a variety of technical support personnel, we give 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.



Distributor Award Ceremony

SMC has established an award system for distributors who have achieved outstanding results.



Together with Our Suppliers

Procurement Policy

- SMC Group stipulates in its SMC Group Code of Conduct; "We will establish relationship of mutual trust among us, our company and its counterparties through free and fair business relations, and aim to realize mutual development of our company and the counterparties.", that the entire Group is committed to develop together with their business partners.
- SMC Group will also implement procurement activities on a group-wide, global basis in compliance with all applicable legal norms, both within and outside Japan, and in consideration of global environmental conservation and social impact. Furthermore, SMC Group will provide fair and transparent opportunities for competition to our suppliers to strengthen the relationship of mutual trust and build coexistence and co-prosperity.
- (1) **Comply with legal norms**
We strive to ensure that our procurement activities comply with all laws, regulations, and codes of ethics, whether national or international.
- (2) **Provide opportunities for competition**
We aim to provide free, fair and transparent competitive opportunities whether national or international.
- (3) **Building relationships of trust**
We aim to build a relationship of trust with our suppliers and establish coexistence and co-prosperity.
- (4) **Addressing environmental issues**
Based on the recognition that conserving the global environment is a material issue common to all human beings, we strive to procure environmentally friendly parts and materials in order to continuously reduce our environmental impact.
- (5) **Addressing the conflict minerals issue**
In order to prevent the encouragement of human rights abuses, violence, and other illegal activities by non-governmental armed groups and other such organizations, and with the cooperation of our suppliers, we strive to make every commercially reasonable effort to establish responsible supply chains for minerals sourced from conflict zones and high-risk areas.
- (6) **Thorough information management**
We strive to strictly manage business confidentiality and personal information of our suppliers.
- (7) **Dealing with antisocial forces, groups, etc.**
We do not engage in any form of relationship with antisocial forces, groups, or individuals that may disrupt social order or hinder sound corporate activities. In addition, we stand firm against demands from such parties and will not respond to any improper demands.

Procurement Guidelines

The SMC Group will promote sustainability within the Group as well as throughout the supply chain. We will request that our suppliers

understand the purpose of the Procurement Guidelines, respect the human rights of their employees, and promote the creation of safe and secure work environments.

Supplier Whistleblower System

- At SMC, we have set up a reporting hotline at an independent outside law firm to receive consultations and reports from our suppliers and employees of our suppliers. The system will be operated in accordance with the Revised Whistleblower Protection Act that went into effect in June 2022. Reports made to this hotline will be investigated while ensuring that the reporter remains anonymous and is protected from adverse actions.
- (1) **Persons who may make a report**
Officers and employees of our suppliers (including those who have retired or left the company within the past year)
- (2) **Acts to be reported**
Actions that are thought to be in violation of laws and regulations, Articles of Incorporation, internal rules, corporate ethics, social norms, etc.

Efforts against Conflict Mineral Issues

SMC's commitment to responsible sourcing of minerals is clearly stated in its Code of Conduct. With the cooperation of our suppliers, we strive to prevent the encouragement of human rights abuses, violence, and other wrongdoings by non-governmental armed groups and other such organizations. Specifically, we provide information to customers through a database that uses the Conflict Minerals Reporting Template (CMRT), and we are working with our suppliers to improve the accuracy of the CMRT.

Supplier Briefings

To ensure stable production and procurements, SMC holds briefings for each of its supplier companies.

At recent briefings, SMC has again asked for the cooperation of its suppliers in promoting sustainability initiatives throughout the supply chain.



Together with Local Communities

Basic Concept

SMC clearly states its commitment to coexisting with the local community in the “SMC Group Code of Conduct” and conducts a variety of activities at its bases around the world.

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.

Tree-Planting Activities

SMC’s commitment to environmental conservation extends beyond the workplace to local communities in Japan and around the world.



Flowerbed maintenance (Japan)



Tree-planting activities (Turkey)



Tree-planting activities (U.S.)



Green Conservation Activities by the Greenery Trust

SMC participates in green conservation activities of 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.



Participation in Community Beautification Activities

SMC employees regularly clean the area surrounding our business sites.



Governance

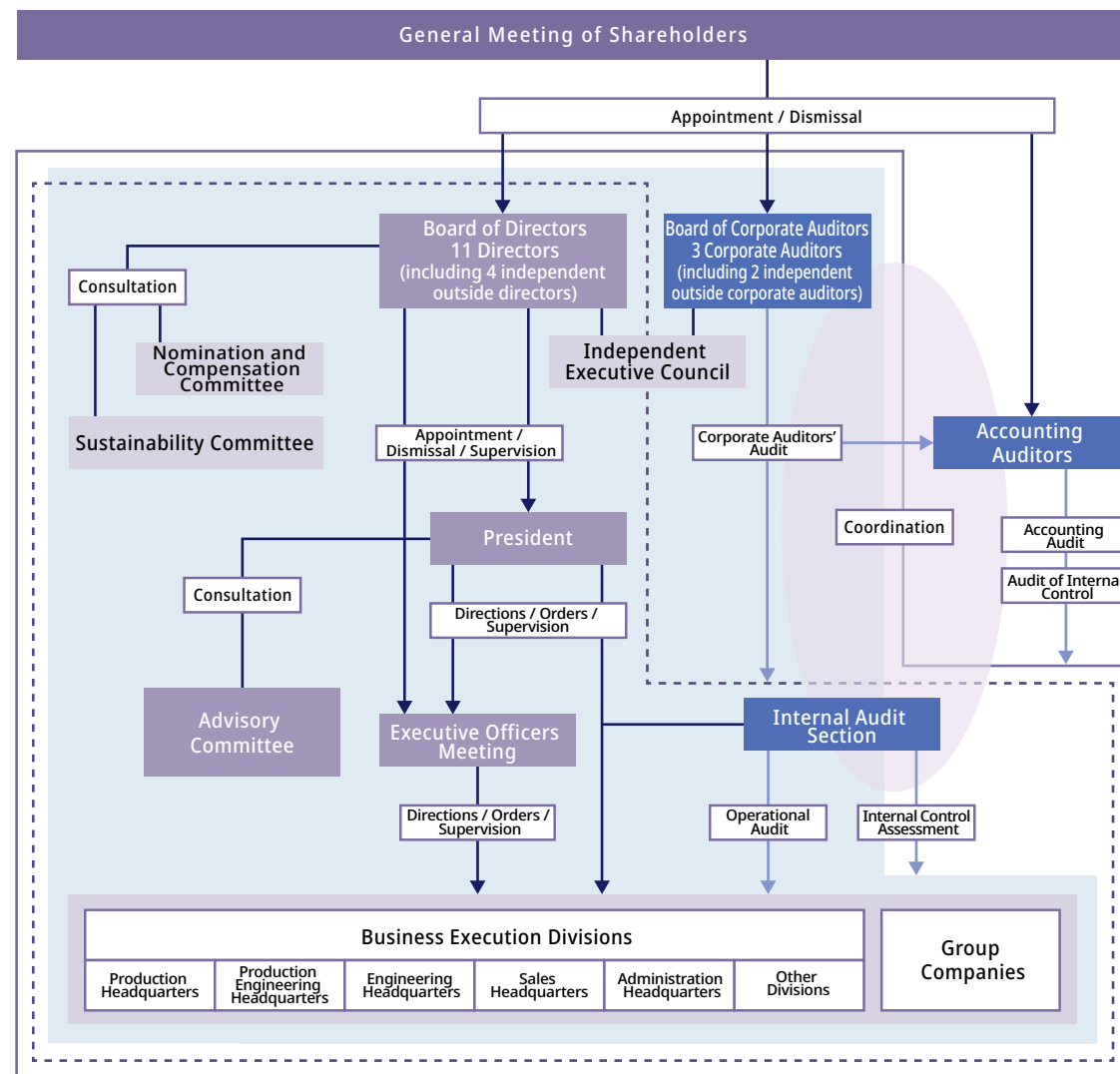
Corporate Governance

Basic Concept

SMC considers establishing a corporate governance system that ensures 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.

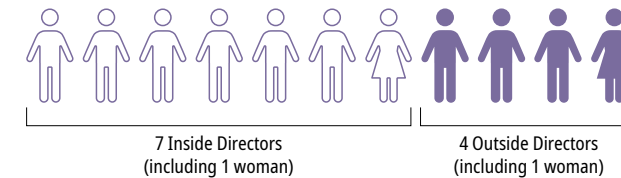
Governance System

As a company with a Board of Corporate Auditors, SMC has a system in place to ensure the legality and appropriateness of business execution by each Director, while ensuring fairness and transparency without impairing the speed of decision-making by the Board of Directors as a whole. This is achieved through a system of interdepartmental checks and balances and mutual monitoring by Directors who execute operations and who are well-versed in internal information, the characteristics of the business, and other circumstances specific to SMC, as well as through independent and objective monitoring and supervision by Outside Directors and Outside Corporate Auditors.



Board of Directors

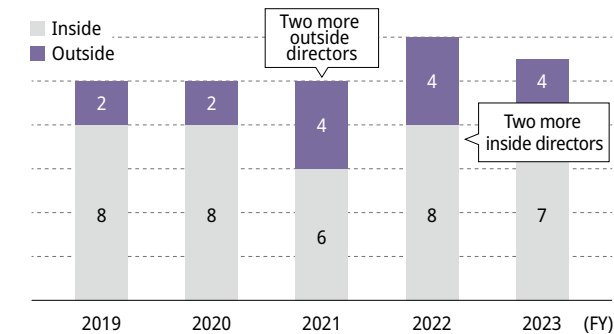
The Board of Directors, which consists of eleven Directors (of whom four are Outside Directors), makes decisions on significant matters related to the execution of business such as SMC's management policies, capital investments, and executive personnel in accordance with the standards for deliberation set forth in the Board of Directors' regulations, in addition to significant matters prescribed by laws, regulations, and the Articles of Incorporation. The Board of Directors also receives reports from Directors, Corporate Auditors, Executive Officers, and others on significant matters and supervises the execution of Directors' duties.



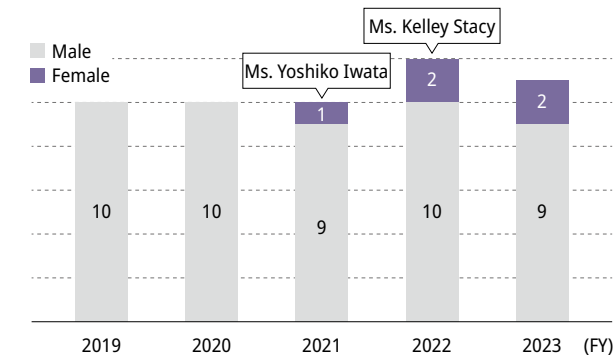
Composition of the Board of Directors

We are reviewing the composition of the Board of Directors from the perspectives of improving fairness and transparency and promoting diversity.

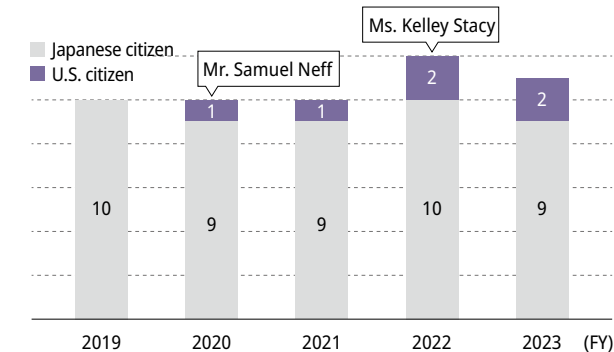
Changes in the Number of Outside Directors



Changes in the Number of Female Directors



Changes in the Number of Non-Japanese Directors



Board of Corporate Auditors

The Board of Corporate Auditors, which consists of three Corporate Auditors (of whom two are Outside Corporate Auditors), decides on plans for audits by the Corporate Auditors and the segregation of duties in accordance with the Board of Corporate Auditors' regulations, in addition to matters prescribed by laws, regulations, and the Articles of Incorporation. The Board of Corporate Auditors also receives reports from Corporate Auditors, Directors, employees, and the Accounting Auditor, as required.

Advisory Bodies of the Board of Directors

As an advisory body to the Board of Directors, SMC has voluntarily established a "Nomination and Compensation Committee" consisting of one Representative Director and two Outside Directors to enhance the fairness, transparency, and objectivity of procedures related to Director nomination and compensation. In addition, we have established the "Sustainability Committee" to supervise initiatives related to sustainability. The majority of the members of both committees shall be Independent Outside Directors, and the Chairperson shall be elected from among the members who are Independent Outside Directors. SMC also holds the "Executive Officers Meeting," which is attended by Executive Officers and Directors who are responsible for business execution, to speed up the sharing of information. Furthermore, we have established an "Advisory Committee" consisting of the presidents of SMC Corporation and its four major subsidiaries (U.S., Italy, Singapore, and China) to serve as an advisory body to the President, with the intention of building a system that can substitute for decision-making functions related to the execution of Group operations in case of an emergency.

Independent Executive Council and Lead Independent Outside Director

The "Independent Executive Council," consisting solely of Outside Directors and Outside Corporate Auditors, has been established to facilitate the free and vigorous exchange of opinions and sharing of views, and makes recommendations to the Board of Directors based on the opinions gathered as required. In addition, a "Lead Independent Outside Director" is elected from among the Outside Directors to facilitate communication and coordination between the Outside Directors, Board of Corporate Auditors, and business execution divisions, etc., and be available for dialogue with investors.

Director Compensation

- ① Basic Policy

- SMC's basic policy is to ensure that the compensation of Directors functions appropriately as an incentive to achieve sustainable growth for the company and the enhancement of corporate value over the medium to long term, and that the level of compensation is appropriate for the responsibilities of each Director.
 - Compensation for Executive Directors consists of basic compensation, performance-linked compensation, and stock compensation. Non-executive Directors are paid only basic compensation.
- ② Basic Compensation

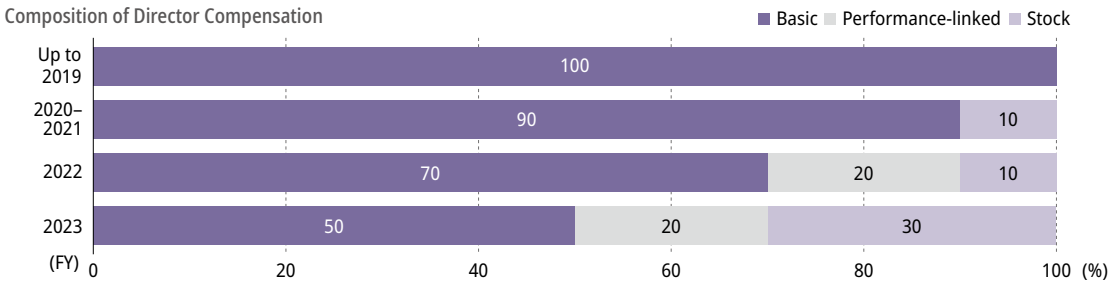
- Basic compensation for Directors is determined by comprehensively considering factors such as the business outlook, employees' salary levels, the contribution of each Director to the company's performance, their position, responsibilities, and tenure.
- ③ Performance-linked Compensation

- The amount of performance-linked compensation to be paid for each position is determined each fiscal year based on the achievement of performance indicators decided by resolution of the Board of Directors, after deliberation by the Nomination and Compensation Committee.
 - The above performance-linked compensation is paid as a fixed amount of monetary compensation within the annual limit for Directors' monetary compensation decided by resolution of the General Meeting of Shareholders.
- ④ Non-monetary Compensation

- Non-monetary compensation for Directors consists of stock compensation. The details, method of calculating the number of shares, and the timing of granting such compensation, etc., follow the "Share Benefit Regulations."

Total compensation for each director category and by type of compensation, and number of eligible Directors

Director Category	Total Compensation (Millions of yen)	Total Compensation by Type (Millions of yen)			Number of Eligible Directors
		Basic Compensation	Performance-linked Compensation	Stock Compensation	
Directors (excluding Outside Directors)	482	322	111	49	8
Corporate Auditors (excluding Outside Corporate Auditors)	19	19	—	—	1
Outside Directors and Outside Corporate Auditors	69	69	—	—	6

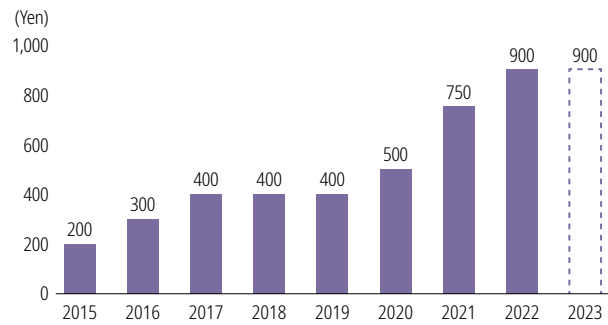


Basic Policy on Dividends

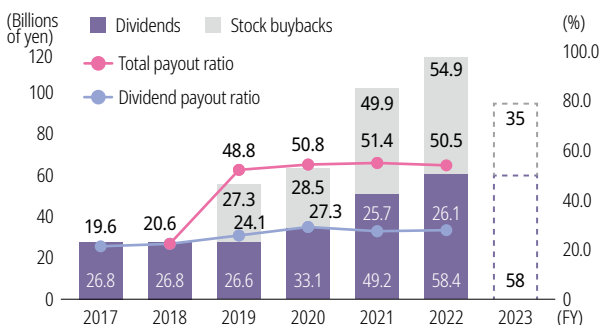
SMC considers that its highest priority issue is to maximize shareholder value through corporate value improvement accompanied by medium- to long-term profit growth.

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 combining this with the flexible acquisition of treasury shares depending on the situation.

Dividend Per Share



Shareholder Return



Message from an Outside Director

I want everyone to know SMC is an indispensable company for the global manufacturing industry.

Kyoichi Miyazaki
Non-Executive Outside Director
Chairperson of the Sustainability Committee

We should consider the optimal governance structure in an agile manner

I had worked for US and European financial institutions, where I specialized in an arbitrage trading through financial engineering. Arbitrage trading uses the concept of relative value, which allows one to acquire the skill of evaluating the risk and return of financial products from multiple perspectives. I use this skill in my role as a non-executive outside director, in which I express my opinions at the Board meeting from various perspectives, while verifying whether the executive directors properly evaluate the risk and return of the proposed agenda. As non-executive outside directors are not involved in the day-to-day operations of business and do not have access to primary information, my role is to oversee the judgement process of the proposed agenda by ensuring that there are no misconception of the given facts and no errors in the decision-making process based on the materials submitted to the Board meeting. If I have any concerns in the above process, I point them out so that the executive side can be aware of them. I believe this role is possible for a non-executive outside director who has no specific business execution responsibility and interest.

The question of whose voice the outside director represents has become difficult to answer in recent years. In the past, the answer was easy and understood to be "the shareholders," but outside directors today are required to speak for the various stakeholders of the company, and are responsible for achieving sustainability by coordinating those respective interests. The purpose of corporate governance is to stipulate how authority is distributed among stakeholders. In considering the authority of the Board of Directors in terms of management decision-making and supervisory role, we should aim for a governance structure that balances two goals: one is to ensure the appropriate process of management decision, and the other is to ensure the speed of management decision. SMC currently employs the governance structure of a "Company with a Board of Corporate Auditors," but we continuously need to consider

whether we should allocate more authority to executive board in order to speed up management decision, or whether we should change to a "Company with an Audit and Supervisory Committee" or "Company with a Nominating Committee, etc." in order to achieve above goals. The desirable governance structure changes over time in accordance with the stages of the company's growth, so we should be agile in this regard and change it proactively to accommodate the best interests of stakeholders and society at that time.

The mystery behind SMC: Indispensable role in the global manufacturing industry, and expectations for future growth

I considered SMC to be a mysterious company and wondered why the company had such a sustained growth with an operating profit margin as high as 30%. Being a member of the management board as an outside director since 2021 has given me some insights. For example, let's look at the price-book value ratio (PBR) of the share price of the company. SMC's PBR is around 3.0 these days. If we subtract the company's net asset value from its market cap, the difference in value is deemed to be its intangible asset value, which means that the stock market evaluates the value of its intangible assets at around 2 times of its net asset value. SMC's intangible assets include its technology, intellectual property, and global supply platform, but its largest part of intangible assets is the human capital (assets) that creates those things. I believe that SMC's human capital, which does not appear on financial statements, is highly valuable and is the source of the company's productivity and profitability. It is the SMC's employees around the world who organically link suppliers, customers, and products. Without their strength, the value chain would not have created.

Manufacturers have conventionally regarded three factors as essential to their business performance: Productivity, Profitability, and Growth. There arise a fourth factor : Sustainability, which has become increasingly important in recent years. Addressing sustainability issues is not only necessary for SMC but also offers a further growth opportunities for SMC as a supplier of environmentally-friendly pneumatic products. In order to successfully address sustainability issues, employees around the world must have a solid grasp of the value of these products in the context of environment and make indispensable proposals for customers. I have chaired the Sustainability Committee since 2022. Total compensation of employees has been a key theme at committee meetings. I have been telling employees that I want them to have more confidence in our products and services. SMC has been producing elemental parts in the production line of manufacturing industry around the world. Without SMC products, a semiconductor manufacturing equipment cannot be made to produce semiconductors, and as a result, automobiles and telecommunication devices cannot be made. I encourage that SMC's employees can be proud of what they have done, but must not be satisfied with it and keep challenging, which, I believe, will create the future of SMC.



Board Members

Yoshiki Takada

President
Senior General Manager of Sales Headquarters



Apr. 1987

Joined SMC Corporation

Jul. 2018

Senior General Manager of Sales Headquarters

Dec. 2019

Chairman, SMC Corporation of America

Apr. 2021

President, SMC Corporation

Toshio Isoe

Director and Executive Officer
General Manager of Administration Division



Aug. 2014

Joined SMC Corporation

Jun. 2019

Director and Executive Officer
General Manager of Administration Division

Samuel Neff

Director and Executive Officer
In charge of Supply Chain Management



May. 2006

Joined SMC Corporation

Jun. 2020

Director and Executive Officer
In charge of Supply Chain Management

Kelley Stacy

Director and Executive Officer
President, SMC Corporation of America



Aug. 1994

Joined SMC Corporation of America

Dec. 2019

President, SMC Corporation of America

Jun. 2022

Director and Executive Officer, SMC Corporation

Yoshitada Doi

Director and Managing Executive Officer
Senior General Manager of Engineering Headquarters



Apr. 1984

Joined SMC Corporation

Jun. 2021

Senior General Manager of Engineering Headquarters

May. 2023

Director and Managing Executive Officer

Masahiro Ota

Director and Executive Officer
General Manager of Finance and Accounting Division



May. 2015

Joined SMC Corporation

Jun. 2019

Director and Executive Officer
General Manager of Finance and Accounting Division

Koji Ogura

Director and Executive Officer
Vice Senior General Manager of Sales Headquarters



Feb. 1980

Joined SMC Corporation

Apr. 2020

Vice Senior General Manager of Sales Headquarters

Jun. 2022

Director and Executive Officer

Skills Matrix

Name	Position / Responsibilities at SMC	Skills									
		Corporate Management	Economic Analysis	Technology Development	Sales & Marketing	SCM	Finance & Accounting	Legal & Risk Management	IR	ESG / SDGs	Internationalism
Yoshiki Takada	President / Senior General Manager of Sales Headquarters / Member of the Nomination and Compensation Committee / Member of the Sustainability Committee	●			●		●				●
Yoshitada Doi	Director and Managing Executive Officer / Senior General Manager of Engineering Headquarters			●		●					●
Toshio Isoe	Director and Executive Officer / General Manager of Administration Division						●	●		●	●
Masahiro Ota	Director and Executive Officer / General Manager of Finance and Accounting Division						●		●		●
Samuel Neff	Director and Executive Officer / In charge of Supply Chain Management					●		●			●
Koji Ogura	Director and Executive Officer / Vice Senior General Manager of Sales Headquarters				●						
Kelley Stacy	Director and Executive Officer	●			●						●
Masanobu Kaizu <div>Independent</div> <div>Outside</div>	Outside Director / Lead Independent Outside Director / Chairperson of the Nomination and Compensation Committee		●				●		●	●	
Toshiharu Kagawa <div>Independent</div> <div>Outside</div>	Outside Director / Member of the Nomination and Compensation Committee			●							
Yoshiko Iwata <div>Independent</div> <div>Outside</div>	Outside Director / Member of the Sustainability Committee	●							●	●	●
Kyoichi Miyazaki <div>Independent</div> <div>Outside</div>	Outside Director / Chairperson of the Sustainability Committee							●		●	●
Takemasa Chiba	Full-time Corporate Auditor					●	●				
Arata Toyoshi <div>Independent</div> <div>Outside</div>	Outside Corporate Auditor						●				
Haruya Uchikawa <div>Independent</div> <div>Outside</div>	Outside Corporate Auditor							●			

Masanobu Kaizu

Former president of Financial Research Center, Nomura Securities Co., Ltd.

Outside Director



Jun. 2014

Outside Director

Economist and securities analyst with extensive knowledge and experience in economic and financial conditions, corporate management, and financial accounting

Kyoichi Miyazaki

Representative Director, Zen Asset Management Co., Ltd.

Outside Director



Jun. 2021

Outside Director

Possesses a wealth of knowledge and experience related to market risk management and investment portfolio management utilizing cutting-edge financial engineering in international financial institutions

Takemasa Chiba

Full-time Corporate Auditor



Oct. 1981

Joined SMC Corporation


Jun. 2023

Full-time Corporate Auditor

Toshiharu Kagawa

Professor Emeritus, Tokyo Institute of Technology

Outside Director



Jun. 2015

Outside Director

Doctor of Engineering specializing in flow measurement and control

Yoshiko Iwata

Chairperson of the Board, J-Eurus IR Co., Ltd.

Outside Director



Jun. 2021

Outside Director

Possesses expertise and a wealth of experience related to corporate governance and corporate-investor dialogues

Arata Toyoshi

Representative, CPA Toyoshi Office

Outside Corporate Auditor



Jun. 2019

Outside Corporate Auditor

Certified Public Accountant involved in audits of listed companies and the provision of advisory services including IPO support, etc., as partner at a major auditing firm

Haruya Uchikawa

Partner, Midosuji Legal Profession Corporation

Outside Corporate Auditor



Jun. 2019

Outside Corporate Auditor

Experienced attorney with extensive knowledge of corporate legal affairs who has served as an outside director and outside corporate auditor of publicly listed companies

Compliance

Human Rights Policy

Basic Concept

SMC Group stipulates in its SMC Group Ethical and Corporate Principles; “SMC Group will endeavor to become broadly useful to society by acting ethically.” We recognize that respecting the human rights of the people who make up society is integral to fulfilling our social responsibilities and expanding the SMC Group’s business on a global scale. The SMC Group supports international norms adopted by the United Nations such as the “Guiding Principles on Business and Human Rights,” the "International Bill of Human Rights" and the "ILO Declaration on Fundamental Principles and Rights at Work" adopted by the United Nations, and we will demonstrate our commitment to respecting human rights by ensuring compliance with international human rights obligations and relevant laws and regulations in the countries in which we do business.

Scope of Application

This policy outlines our basic stance regarding respect for human rights, and applies to all officers and employees of the SMC Group (including temporary and dispatched employees). We also request that our suppliers (including subcontractors) respect the aims of this policy.

Human Rights Due Diligence

The SMC Group will establish and operate a human rights due diligence framework to fulfill its responsibility to respect human rights.

Rectification and Remediation

The SMC Group will exercise the utmost care to prevent human rights violations in its business activities. If any negative impacts on human rights occur in our own business activities or those of our suppliers, we will fulfill our responsibility to respect human rights by taking appropriate actions to rectify the situation.

Education

The SMC Group will regularly educate and inform its employees to ensure that this policy permeates all of its business activities, so that employees can perform the business activities in accordance with high ethical standards. In particular, harassment such as sexual harassment and power harassment can result in unjust harm to an individual’s dignity and character. For this reason, the SMC Group will implement company-wide efforts to prevent harassment by providing job level-specific group training and mandatory e-learning for all employees, with the aim of maintaining a safe and comfortable work environment where all employees are motivated and can fully demonstrate their abilities.

Information Disclosure and Dialogue with Stakeholders

The SMC Group will appropriately disclose this policy and the SMC Group’s initiatives based on this policy on its website and through disclosure materials. We will work with customers, business partners, shareholders, investors, and other stakeholders to gain their understanding and support of the SMC Group’s human rights policy through information disclosures, dialogue, and other forms of communication.

Basic Anti-Corruption Policy

Basic Concept

The SMC Group has established the following Basic Anti-Corruption Policy based on the SMC Group Code of Conduct and the laws and regulations of Japan and other countries concerning the prevention of corrupt practices, with the aim of maintaining sound and transparent relationships with stakeholders.

Prohibition of Corrupt Practices

The SMC Group will not offer bribes or engage in any other corruption or corruption-related practices (including facilitation payments), whether directly or indirectly, to public officials or persons equivalent to public officials to obtain business benefits. In addition, we will not provide any benefits, such as improper entertainment or gifts, that exceed the scope of socially acceptable norms. In some countries, even for those who do not fall under the category of public officials, SMC Group will not provide entertainment, gifts, money, or other benefits for the purpose of preferential treatment or that could be perceived as such, because such benefits may fall under the prohibited items for the purpose of obtaining improper business benefits.

Reporting System

The SMC Group will establish a system to receive reports and whistleblower complaints from officers and employees regarding violations or potential violations of anti-corruption laws, regulations, and internal rules. In addition, we shall ensure that whistleblowers are protected to prevent any disadvantage to any officers or employees who makes a report or whistleblower.

Education

The SMC Group will regularly conduct education and training for officers and employees on laws, regulations, and internal rules concerning the prevention of corrupt practices.

Proper Accounting Practices

The SMC Group will practice transparent and fair accounting in accordance with accounting standards, and will fully and accurately record and retain all transactions and disposals of assets in order to ensure accountability for compliance with this policy and anti-corruption laws and regulations.

Disposition of Violators

In the event that any of its officers or employees violates anti-corruption laws, regulations, or internal rules, the SMC Group will take strict disciplinary measures in accordance with internal rules and strive to prevent recurrence of such violations.

Whistleblowing System

SMC has established whistleblower hotlines within the company and at an outside law firm to help deter and rectify misconduct. If an employee finds out that they, another employee, or an officer is committing a wrongful act in violation of laws, regulations, or internal rules, the employee must promptly report the matter to their superior. If it is not possible to report to a superior, the employee must report the matter in accordance with internal whistleblowing rules. SMC takes the necessary measures to maintain the confidentiality of the reports and reporters, and strives to prevent recurrence.

Tax Policy

Basic Concept

The SMC Group recognizes that corporations, as members of society, have a “social responsibility” to contribute to the stability of people’s lives and the sound development of the economy, alongside the pursuit of corporate profits. We will fulfill our “social responsibility” by continuing to pay taxes, especially tax payments, in compliance with the tax laws and regulations of each country and region.

Legal Compliance (Tax Compliance)

The SMC Group appropriately understand the purpose of and comply with the tax-related laws and regulations of each country and region. We strive to stay up-to-date on amendments to laws and regulations and to understand them appropriately, and when in doubt, we contact outside experts for clarification.

Governance

The governance of the SMC Group’s tax affairs is properly structured as a part of the Group’s internal controls. This ensures the objectives of effective and efficient tax-related operations, reliable reporting, and compliance with related laws and regulations are achieved.

Balancing the Enhancement of Corporate Value with Appropriate Tax Payments

The SMC Group strives to enhance its corporate value by developing greater relationships of trust with customers and other parties, among other measures. Therefore, while we strive to reduce taxes to the greatest extent possible, we do so within a reasonable scope in light of the aims of the relevant laws and regulations, and do not engage in excessive tax avoidance.

Relationship with Tax Authorities

Each company in the SMC Group will strive to build and maintain a solid relationship of trust with the tax authorities in each country and region by interacting with them honestly and in good faith, and by providing the requested information in a timely and appropriate manner.

Financial Data (10 Years)

Accounting Period	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023
Fiscal year (Millions of yen)										
Net sales	395,304	458,081	475,608	487,625	591,035	576,948	526,000	552,178	727,397	824,772
Operating profit	105,153	127,686	134,233	141,107	192,428	180,203	146,254	153,355	227,857	258,200
Profit attributable to owners of parent	86,311	109,583	92,138	113,095	136,869	130,631	110,500	121,790	192,991	224,609
Depreciation	12,618	13,620	14,863	14,246	15,252	16,255	16,669	18,585	20,557	25,767
Capital expenditures	22,563	28,669	24,756	21,663	23,683	31,936	38,370	27,439	83,499	81,592
R&D expense	15,544	17,607	18,452	19,115	20,239	21,367	21,480	20,874	23,457	27,361
Free cash flow	23,392	66,412	67,724	30,584	83,656	16,827	149,534	193,913	39,878	14,530
Fiscal year-end (Millions of yen)										
Total assets	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	1,390,539	1,539,871	1,769,951	1,927,940
Inventories	194,255	194,573	182,564	179,185	205,660	230,268	232,559	248,752	303,545	418,602
Net assets	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266	1,379,987	1,559,274	1,702,325
Shareholder's equity	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188	1,376,704	1,555,628	1,698,413
Borrowings	61,295	70,581	49,243	17,073	6,438	7,238	11,516	10,788	11,544	12,187
Cash and cash equivalents	208,577	281,716	295,270	277,449	322,690	312,366	399,128	561,540	559,296	491,324
Per share data (Yen)										
Net income per share (EPS)	1,274	1,629	1,371	1,683	2,036	1,943	1,656	1,831	2,923	3,444
Net assets per share	11,599	13,682	13,981	15,292	17,067	18,447	18,794	20,835	23,808	26,331
Dividend per share	170	190	200	300	400	400	400	500	750	900
Cash flow per share	1,460	1,831	1,592	1,895	2,263	2,185	1,906	2,111	3,235	3,839
Profitability (%)										
Operating income ratio	26.6	27.9	28.2	28.9	32.6	31.2	27.8	27.8	31.3	31.3
SG&A ratio	20.8	20.9	21.7	20.9	19.0	20.2	21.6	20.4	18.7	19.8
Return on equity	11.7	12.9	9.9	11.5	12.6	10.9	8.9	9.3	13.2	13.8
Return on assets	13.4	15.2	11.5	12.8	15.5	14.5	11.4	11.7	16.5	16.5
Efficiency (Times)										
Total assets turnover	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Equity turnover	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5
Inventories turnover	2.1	2.4	2.5	2.7	3.1	2.6	2.3	2.3	2.6	2.3
Fixed assets turnover	3.3	3.4	3.2	3.3	3.9	3.5	2.9	2.9	3.1	2.8
Stability (%)										
Equity ratio	81.0	81.4	83.9	86.2	85.4	89.3	89.9	89.4	87.9	88.1
Debt equity ratio	7.8	7.7	5.2	1.7	0.6	0.6	0.9	0.8	0.7	0.7
Current ratio	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1	929.3	742.8	701.0
Fixed assets ratio	37.0	35.5	39.7	34.7	35.1	34.0	34.1	32.2	32.9	35.6
Interest coverage ratio (Times)	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2	608.6	865.7	810.5
Investment data										
Dividend ratio (%)	13.3	11.7	14.6	17.8	19.6	20.6	24.1	27.3	25.7	26.1
Dividends on equity (%)	1.6	1.5	1.4	2.0	2.5	2.3	2.1	2.5	3.4	3.6
Price earnings ratio (Times)	21.4	22.0	19.1	19.6	21.2	21.4	27.6	35.1	23.5	20.3
Price book value ratio (Times)	2.3	2.6	1.9	2.2	2.5	2.3	2.4	3.1	2.9	2.7
Market capitalization (Millions of yen)	1,874,968	2,414,854	1,761,035	2,217,799	2,901,598	2,797,849	3,082,148	4,332,523	4,637,706	4,704,402
Number of engineers	1,648	1,638	1,711	1,777	1,817	1,910	1,919	1,881	1,917	2,000
Number of employees	16,010	17,389	18,382	19,191	19,680	19,746	20,853	20,619	21,620	22,988

1. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.
2. Net income per share is calculated based on the average number of common shares for the respective fiscal year.
3. Dividend per share is calculated based on the dividend paid in the respective fiscal year.
4. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid

Corporate and Stock Information

Corporate Summary

(Fiscal year ended March 31, 2023)

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	Yoshiki Takada
Major businesses	Manufacture and sales of automatic control equipment including pneumatic instruments
No. of issued shares	67,369,359
Stock listing	Prime Market, Tokyo Stock Exchange
Share capital	61.0 billion yen
Net sales	824.7 billion yen
Total assets	1,927.9 billion yen
Number of employees	22,988
Equity ratio	88.1%

Share Information

Shares per unit	100
Shareholder registry administrator / Special account management institution	Sumitomo Mitsui Trust Bank, Limited

Share Ownership

As of September 30, 2023

	Individuals	Commercial / Local banks	Trust banks	Life insurance and other financials	Corporations, etc.	Foreign investors	Treasury shares	Others
Number of shareholders	4,594	21	15	50	335	882	1	41
Number of shares held (thousand shares)	1,628	1,301	18,605	1,846	5,233	34,692	2,866	1,195
Shareholding ratio (%)	2.4%	1.9%	27.6%	2.7%	7.8%	51.5%	4.3%	1.8%

Major Shareholders

As of September 30, 2023

Shareholder	Number of shares held (Thousand shares)	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust account)	11,154	17.2%
Custody Bank of Japan, Ltd. (Trust account)	4,908	7.6%
Takada International LLC	3,793	5.8%
TON Finance B.V.	3,443	5.3%
JPMorgan Chase Bank 385632	2,109	3.2%
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	1,648	2.5%
State Street Bank and Trust Company 505223	1,511	2.3%
The Bank of New York Mellon 140042	1,491	2.3%
The Nomura Trust and Banking Co., Ltd. (Trust account 2052208)	1,239	1.9%
SSBTC CLIENT OMNIBUS ACCOUNT	1,137	1.7%