

# SUSTAINABILITY REPORT 2022



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



Yoshiaki Takada President

### As a Comprehensive Manufacturer of Automatic Control Equipment

Pneumatic instruments, the mainstay products of SMC Corporation (SMC), are used as component parts in production lines and conveyor lines in automated factories, machine tools and industrial robots, and play an essential role in supporting factory automation (FA). Our customers conduct businesses in a wide range of industries including automobile, semi-conductors, machine tools, electrical appliances, food processing machinery, medical equipment, as well as agriculture and water treatment. The customer base is not limited to the leading countries and emerging countries, but continues to expand throughout the world along with the progress of industrialization. SMC has established a local presence in more than 80 countries and regions around the world in order to globally respond to customer requests. SMC considers “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment including pneumatic instruments, as its social mission.

### To Fulfill Our Corporate Social Responsibility

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

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

### To Achieve a Sustainable Society

Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automatic control equipment that delivers improved energy conservation performance with reduced size and weight. By responding to customer requests from around the world, SMC will contribute to the sustainable growth of industries and the expansion of technological innovations. In addition, throughout our business activities, we are promoting initiatives such as reducing greenhouse gas (GHG) emissions, avoiding the use of substances of concern, promoting energy-saving and resource-saving, reducing packaging materials, cutting down noise levels, reducing the volume and ensuring proper treatment of wastewater and waste discharge, as well as incorporating such initiatives in proposals to our customers. SMC’s automatic control equipment contributes not only to the reduction of GHG emissions. SMC has also been committed to finding solutions to social issues such as the decreasing of the labor force due to the declining birthrate and an aging population. We are also activity assuring freedom from harsh working environments and ensuring social distancing. As a leading manufacturer of automatic control equipment, SMC will make every effort to fulfill its responsibilities to supply products during any emergency situation. These include natural disasters, infectious disease epidemics, cyberattacks, trade friction and conflicts, surging component prices, and supply shortages.

### Contents

|                               |    |
|-------------------------------|----|
| Top Message                   | 1  |
| Pneumatic Control Systems     | 3  |
| SMC at a Glance               | 7  |
| SMC in the World              | 9  |
| Highlight BCP                 | 11 |
| SMC’s Approach                | 14 |
| SDGs and Materiality          | 15 |
| Environment                   |    |
| Eco-Management                | 17 |
| Eco-Factory                   | 19 |
| Eco-Products                  | 23 |
| Social                        |    |
| Our Employees                 | 25 |
| Our Customers / Suppliers     | 29 |
| Local Communities             | 30 |
| Governance                    |    |
| Corporate Governance          | 31 |
| Message from Outside Director | 33 |
| Corporate Summary             | 34 |

**Editorial Policy**  
SMC publishes a “Sustainability Report” aiming to communicate widely to all of our stakeholders the overview of our philosophy and initiatives towards solving social issues and achieving sustainable growth. We look forward to receiving feedback and comments on SMC’s initiatives and disclosure method.

**Applicable Period**  
In principle, this report covers the period between April 2021 and March 2022. However, it also includes some information regarding activities before and after this period.

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

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

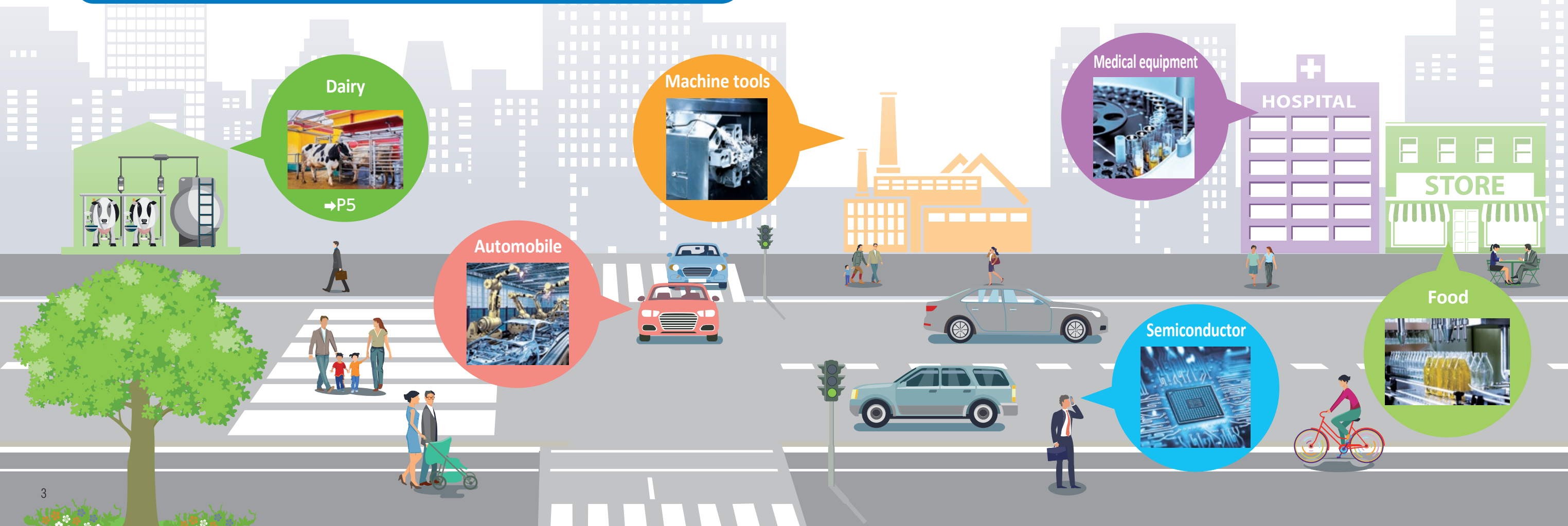
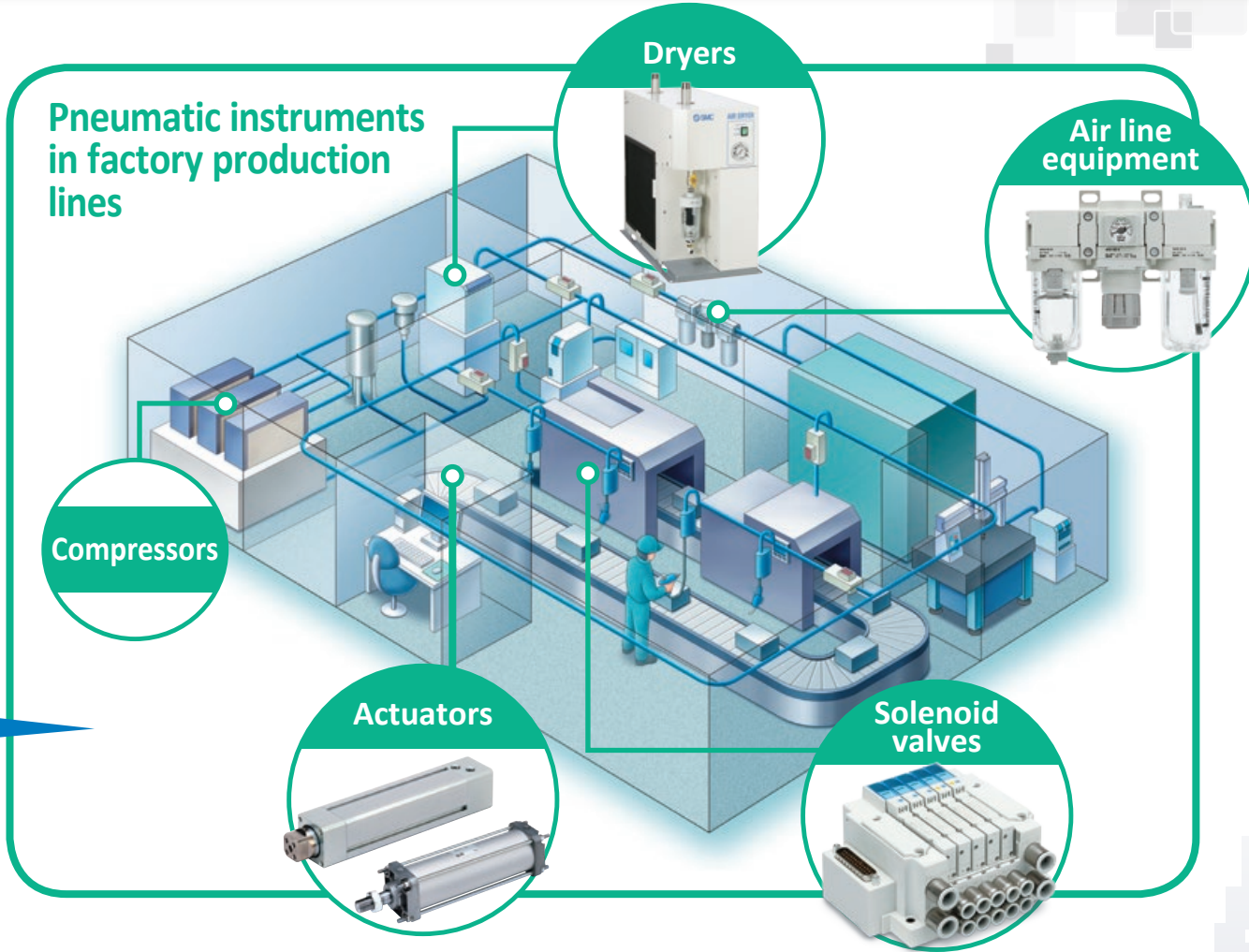
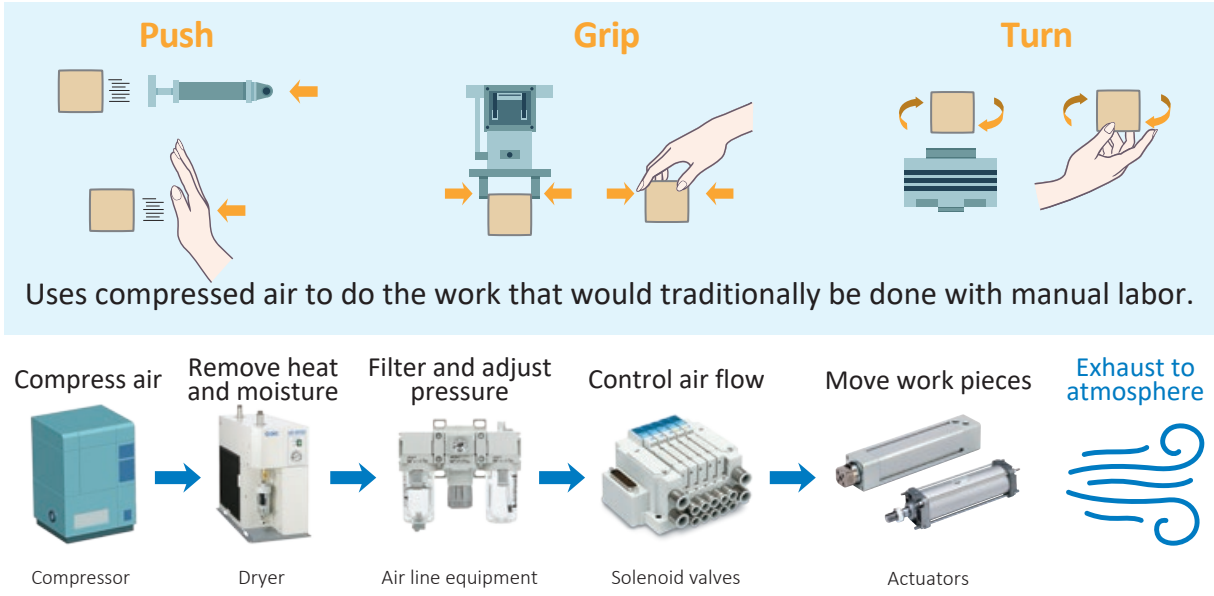




# Pneumatic Control Systems

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

## Overview of Pneumatic Control System





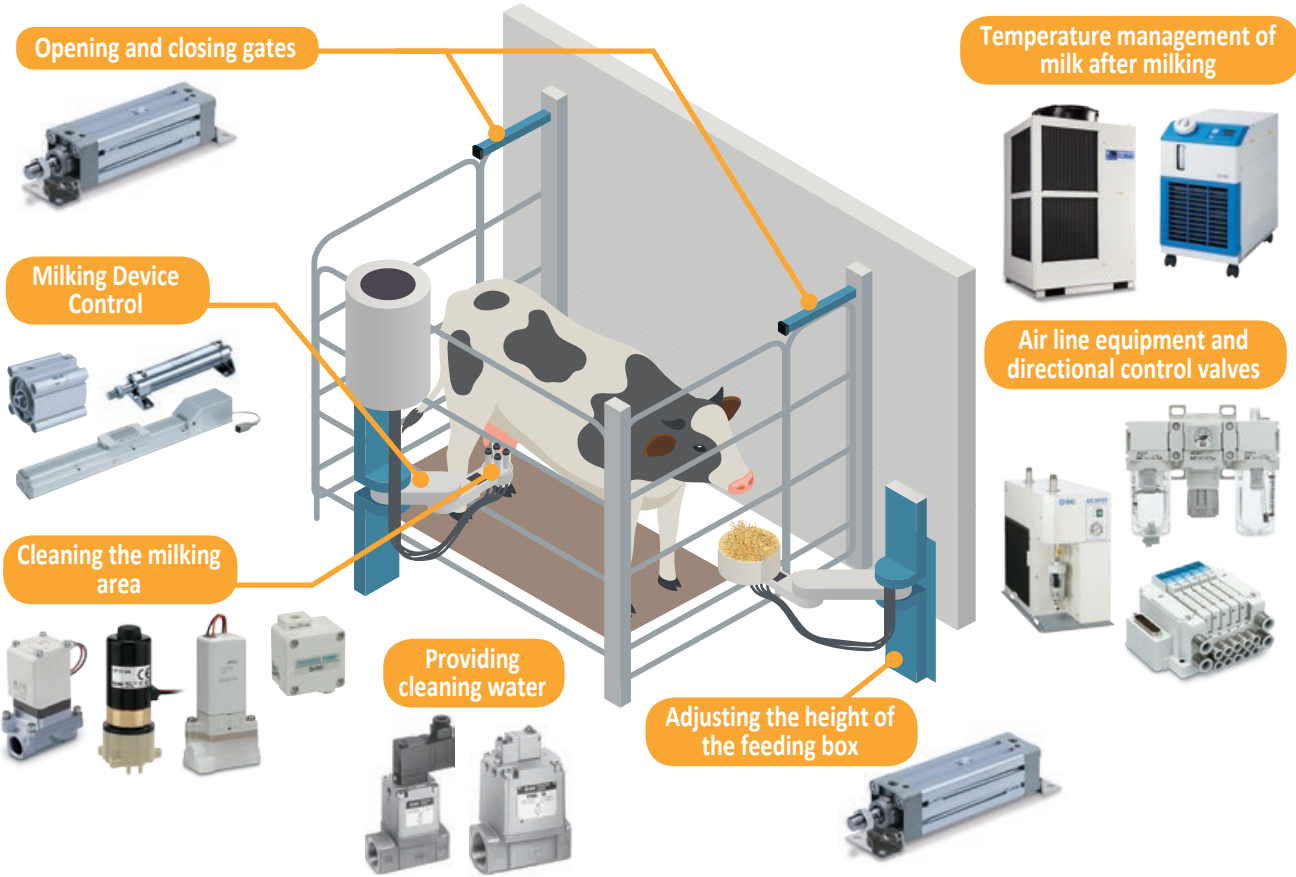
# Possibilities of Automatic Control Equipment

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.

## Dairy

In recent years, the dairy industry has experiencing a progression into more automation with the introduction of new technologies. Automated milking robots are gaining attention as a way to reduce the workload for dairy farmers and reduce the stress on the cows. This also allows for the scaling upwards and the streamlining of the dairy farm's operations.

### Application examples of automatic control equipment in milking robots



## Collaborative Robots

The use of "collaborative robots", which work side by side with people in the same workspace, is expanding to a wide range of industries with progression of technological innovations. SMC's automatic control equipments are compact, light-weight, and excel in energy efficiency. They are also highly compatible with collaborative robots and used by many collaborative robot manufacturers.

SMC exhibited at the "International Robot Exhibition 2022" and participated as a supporting company in the "High School Robot SI League".

International Robot Exhibition 2022

High School Robot SI League

SMC provides a variety of robot hands to match the type of objects being handled and the type of work.

Grasping

Adsorption

Magnetic adsorption

# 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 and plant factories.

## 40 Years of History

Since 1978

- Developed for the medical and semiconductor industries
- Cultivated the core technologies
- Expanded into general industry and
- Further expanding its usage

### Where it is used

Semiconductor manufacturing equipment

Craft beer brewery

Plant factory

## New Products

SMC's ZNC Bernoulli Gripper won one of the "64th 10 Great New Products Awards - Main Awards".

Organized by: THE NIKKAN KOGYO SHIMBUN, LTD.

The Low Air Consumption Booster Regulator VBA\*A Series won one of the "19th 'CHO' MONODZUKURI Innovative Parts and Components Award for Machine and Robot Parts".

Low Air Consumption Booster Regulator VBA-X3145  
Organized by: MONODZUKURI Nippon Conference/ Nikkan Kogyo Shimibun, Ltd.  
Supported by: Ministry of Economy, Trade and Industry/Japan Chamber of Commerce and Industry/KEIDANREN (Japan Business Federation)

Ref. → P23-24

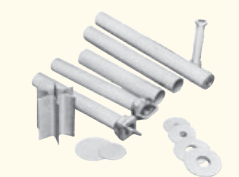




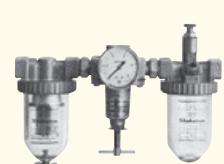
## SMC at a Glance

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

## Products



'59 | Filter elements



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



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



'71 | High-performance solenoid valve (VS)



'82 | Compact cylinder (CQ)



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

'89 | Air gripper (MHQ/MHC)

'84 | Compact 5-port solenoid valve (V2)

'86 | Vacuum ejector (ZM)

'87 | Vacuum pad

'88 | Digital pressure switch (ZSE/ISE)



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



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



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



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



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



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



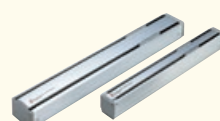
'04 | Ionizer with electrostatic sensor (IZS30)

'04 | Refrigerated thermo-chiller (HRZ)



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

'11 | Fieldbus system (EX260)



'95 | Electric actuator (LJ1)



'04 | 2-port solenoid valve (VX)

Net sales (Consolidated)

FY2021 (Consolidated)

727.3 billion yen

FY2021 (Non-consolidated)

466.9 billion yen

Net sales (Non-consolidated)

1960

1970

1980

1990

2000

2010

2022

Established From 1962: Start-up

From 1974: Take-off

From 1989: Ascent

## Major Events/Facilities

'67 | Embarked on overseas sales operations



'68 | Soka 1st Factory



'73 | Soka 2nd Factory

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



'83 | Tsukuba 1st Factory



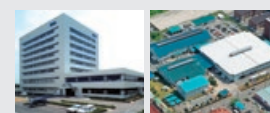
'86 | Corporate name changed to SMC Corporation SMC Manufacturing (Singapore)



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

'84 | Embarked on overseas manufacturing operations

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



'91 | Japan Technical Center Kamaishi Factory



'94 | Yamatsuri Factory

'98 | Acquired ISO 9001 certification  
'99 | Acquired ISO 14001 certification

'00 | Embarked on overseas R&D operations

'97 | Tono Factory

'00 | SMC (Beijing) Manufacturing



'13 | Shimotsuma Factory



'14 | SMC Manufacturing (Vietnam)



'21 | East Japan Logistics Center



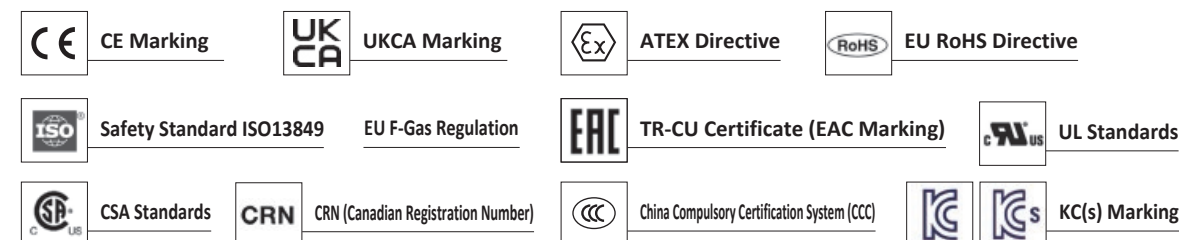
'22 | West Japan Logistics Center



## SMC in the World

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

### International standards that SMC products conform to



### Europe 16.3%

Net sales **118,475** million yen YoY growth **+30.2%**



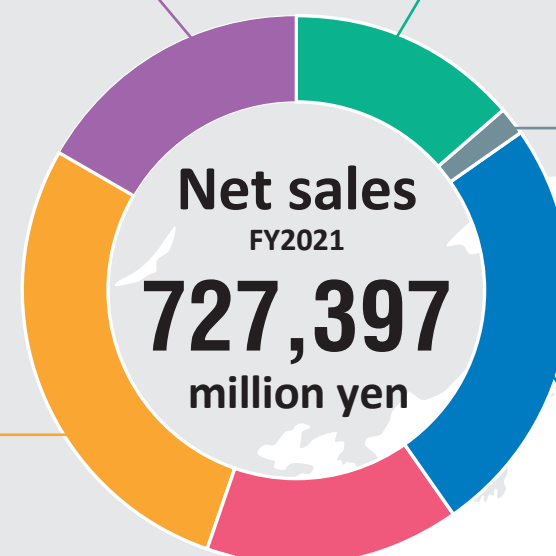
### Greater China 27.8%

Net sales **202,280** million yen YoY change **+41.3%**



### Other Asia 14.9%

Net sales **108,180** million yen YoY change **+32.7%**



〈 Worldwide 〉  
Approx. **80** countries/regions  
Local services: approx. **500** locations  
Production facilities: **30** countries/regions

### North America 14.5%

Net sales **105,225** million yen YoY growth **+40.6%**



### Other 1.7%

Net sales **12,771** million yen YoY growth **+28.0%**

### Japan 24.8%

Net sales **180,463** million yen YoY growth **+19.0%**





Highlight

BCP — Business Continuity Plan —

As a comprehensive manufacturer of automatic control equipment, we aim to fulfill our responsibility to supply products and maintain the trust of our customers by contributing to both sustainable growth and the expansion of technological innovation.

In recent years, natural disasters such as torrential rains and major earthquakes, as well as the spread of infectious diseases, have threatened people's lives and property. In the midst of this crisis, many of our customers are engaged in the development and manufacture of essential medical equipment and medical products, or making efforts in taking actions for the recoveries of the economy and the day-to-day lives of people. As a comprehensive manufacturer of automatic control equipment that supports automation, we have established a system that can promptly supply products that meet customer needs anywhere in the world. We are making our every effort to ensure that we are prepared and have a resilient structure to continue our business activities in any emergency, and in case of an unavoidable termination, to quickly resume operation and fully protect our customers' information by introducing the latest security technology. SMC is further refining its rock solid BCP, which is unrivaled amongst other companies in our industry. We promise to do our utmost to fulfill our main responsibility to provide our customers the products needed.



NEWS

We have expanded our factory.



Kamaishi Factory No. 5



Tono Factory No. 2



1

Manufacturing

Risk diversification for mass production and distribution bases

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

- Backup production system in case of disaster
- Secure supply capability through a worldwide distribution and inventory network

Mass Production Factories

|                    | Dryer/Temperature control equipment | Air line equipment | Fittings/Tubing | Solenoid valves | Flow Controls | Actuators | Auto switches | Other |
|--------------------|-------------------------------------|--------------------|-----------------|-----------------|---------------|-----------|---------------|-------|
|                    |                                     |                    |                 |                 |               |           |               |       |
| Soka Factory       |                                     | ●                  |                 | ●               |               |           |               |       |
| Tsukuba Factory    |                                     | ●                  | ●               | ●               |               | ●         | ●             |       |
| Shimotsuma Factory |                                     |                    |                 |                 |               | ●         | ●             |       |
| Yamatsuri Factory  | ●                                   | ●                  | ●               |                 |               | ●         |               |       |
| Kamaishi Factory   |                                     | ●                  | ●               | ●               |               |           |               |       |
| Tono Factory       |                                     |                    |                 |                 | ●             |           | ●             | ●     |
| China Factory      | ●                                   | ●                  | ●               |                 |               | ●         |               |       |
| Vietnam Factory    |                                     |                    | ●               | ●               |               | ●         |               |       |
| Singapore Factory  | ●                                   |                    | ●               |                 |               |           |               |       |
| India Factory      |                                     |                    |                 |                 | ●             | ●         |               |       |
| Czech Factory      | ●                                   | ●                  |                 |                 |               | ●         |               |       |

Distribution Centers





2 R&D Global engineering network

SMC has established technical centers in five countries around the world 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 system that enables the technical centers to provide the same quality of technical services anywhere in the world at any time during normal times by making full use of the inter-center network.



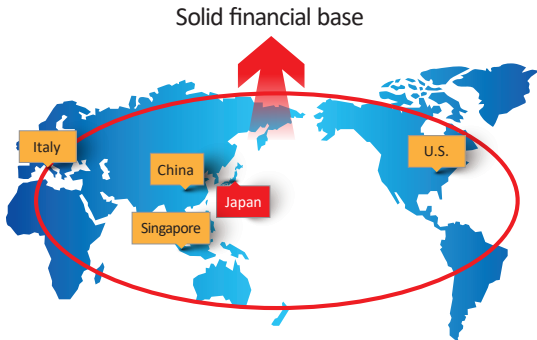
3 Sales Global sales network

SMC has offices in more than 80 countries and regions around the world and employs approximately 8,200 sales staff 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 Solid financial base and management continuity system in case of emergency

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 (China, Singapore, U.S., and Italy) 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 business in case of an emergency.



5 Database Strengthening information security

SMC is working to strengthen information security by developing a 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.



Philosophy

SMC's Approach

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

Management Philosophy

- 1 Contributing to automated, labor-saving operations  
The Company considers that its social mission is to “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment, including pneumatic instruments.
- 2 Focusing on the main business  
As a manufacturer of components “contributing to automated, labor-saving operations in industries”, the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on its main business, automatic control equipment.
- 3 Supplying products globally  
The Company will supply products that can meet the rules and needs of different countries and regions, and are accepted in all the markets of the world.

Long-Term Management Vision

- 1 The Company shall strive to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.
- 2 The Company shall focus on newly expanding production facilities and replacing existing facilities, establish a globally optimal production system with future vision in mind, and shall accelerate rationalization and cost reduction.
- 3 The Company shall aim to survive competitions in the global markets and to acquire higher market shares.

Basic Philosophy on Quality and Environment

SMC's basic philosophy regarding quality and the environment as well as the status of its ISO certification are posted on its website.

<https://www.smcworld.com/about/en-jp/quality.html>

SMC Group Ethical and Corporate Principles

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

| SMC Group Ethical and Corporate Principles   | Relevant Stakeholders      | Pages in this Report |
|--|----------------------------|----------------------|
| 1. To comply with laws and rules   | All                        | 31 - 33              |
| 2. To earn trust from customers and suppliers  | Customers / Suppliers      | 29                   |
| 3. To win the support and understanding of shareholders and investors  | Shareholders and Investors | 32                   |
| 4. To respect the personality of the Company's employees, to prohibit discrimination and to create pleasant environment at workplace | Employees                  | 25 - 28              |
| 5. To communicate with society   | Society                    | 30                   |
| 6. To maintain good relationship with governmental and administrative agencies   | Society                    | 30                   |
| 7. To adequately deal with anti-social forces, groups and any other relevant party   | Suppliers                  | 29                   |
| 8. To work on environmental issues   | All                        | 17 - 24              |
| 9. To set corporate ethical structure proactively  | All                        | 31 - 33              |

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

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





## SMC's SDGs Initiatives and Materiality

### Pioneering a sustainable future with automated, labor-saving operations in industries

Along with climate change, we are now facing various societal issues. In order to resolve these issues, SMC is committed to passing on a rich natural landscape and society to the future as is expected of companies like us taking aggressive SDG initiatives.

SMC takes pride in having contributed to sustainable growth and technological innovation within the society at large by promoting automated, labor-saving operations in industries through supplying its environmentally friendly products.

We conducted a materiality analysis and identified 4 Material issues which our corporate activities are strongly linked to the resolutions of societal issues, basing on our Management Philosophy.

We will link these material issues to the activities defined in each "SMC SDGs Target", which our entire corporate group as a whole will take action for a sustainable future.

#### TARGET 1

Respect human rights, Promote diversity & Ensure safe and secure work environment

Making the most of diverse human resources, changing society from the workplace



#### TARGET 2

Actions to take on Climate Change & Environmental Issues

Contributing to the creation of a sustainable society through automation control technology



#### TARGET 3

Stable global product supply

Create a supply system that constantly prepares and protects against the worst, and never stops under any circumstances



#### TARGET 4

Develop human resources & Disseminate automation control technology

Supporting the growth of each individual to support a sustainable future



#### TARGET 1

SMC works to provide healthy, safe, and secure work environments to its employees.



The Shimotsuma Factory No.2, completed in April 2022

- 1 : An open cafeteria in which employees can relax
- 2 : Wellness signs that encourage employees to stretch or exercise when travelling or taking breaks
- 3 : Workspaces
- 4 : To encourage good health, we built a dedicated running lane (365 meter lap) around the regulating reservoir on the factory grounds

#### TARGET 2

SMC is carrying out initiatives to reduce CO<sub>2</sub> and environmental preservation activities in the areas surrounding its factories.



- 1 : Replanting flowerbeds (Tono area)
- 2 : Gates and walls built with concrete using recycled calcium carbonate with absorbed CO<sub>2</sub> (Shimotsuma Factory No. 2)

#### TARGET 3

→ P11 Please ref. "Highlight: Business Continuity Plan"

#### TARGET 4

SMC is globally pursuing activities to develop human resources and disseminate automation control technology.



- 1 : Manufacturing experience stadium MONOZUKURI TAIKAN STADIUM [Japan: for 4th to 6th grade elementary school students]
- 2 : Robot contest ROBOCON [Hong Kong: for university students]
- 3 : Building a higher elementary school [India: Noida]





## Eco-Management

### 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.

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

### Environmental Policy

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 its business activities.

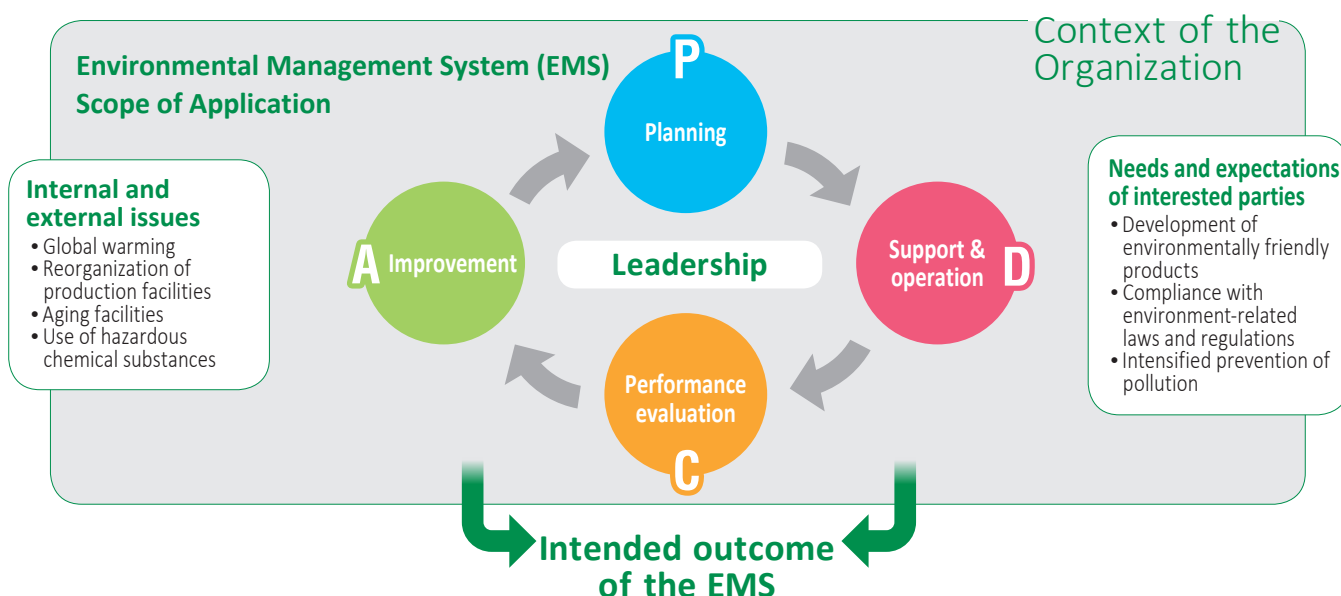
As a comprehensive manufacturer of automatic control equipment, SMC will contribute to the creation of a sustainable society.

- 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.
- 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.
- 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.



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

### ISO 14001 Framework



## Environmental Objectives, FY2021 Results and Evaluation

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

In FY2021, we achieved all of our Environmental Targets as described below:

- ① Product assessments were conducted for designing and developing environmentally friendly products.
- ② CO<sub>2</sub> emissions per unit of production decreased 11.9% compared to the 7th Term (FY2017–2019) average. Waste discharged per unit of production decreased 2.2% compared to the 7th Term (FY2017–2019) average.
- ③ All regional groups consisting of SMC's major production facilities participated in climate change countermeasures organized by local governments and industry groups. They also were involved in community beautification activities and programs to build employee awareness.

|  | Environmental Targets  |   | Results                                  | Evaluation |
|--|--|---|--|------------|
|  | Medium-Term<br>(To achieve in 3-year<br>period of FY2020-2022)   | FY2021                                    |  |            |
| <b>Product assessments<br/>(Environmental compatibility)</b> | Design and develop environmentally friendly products - conduct assessments using score evaluation of current status<br>75 models or more<br>900 points or higher                 | 25 models or more<br>300 points or higher | 31 models<br>475 points                  | Achieved   |
| <b>Business activities<br/>(Environmental conservation)</b>  | Promote energy-saving, resource-saving and reduction of environmental burden through beneficial environmental activities in business activities (per unit of production)         |   |  |            |
|  | Prevention of global warming - Reduction of CO <sub>2</sub> emission vs previous term's average<br>Reduce 3% or more   | Reduce 1% or more                         | 11.9%                                    | Achieved   |
|  | Saving of resource - Reduction of waste discharge<br>Reduce 3% or more   | Reduce 1% or more                         | 2.2%                                     | Achieved   |
| <b>Communication<br/>(Coexistence with society)</b>          | Social contribution activities - Community beautification activities   |   | All regional groups conducted as planned | Achieved   |
|  | Promotion of climate change actions<br>Participation in initiatives organized by local governments and industry groups. Conduction of education and awareness building programs. |   | All regional groups conducted as planned | Achieved   |

## Environmental Training

SMC offers educational seminars and practical training on environmental issues for its employees, and also provides environmental training for environment-related partner companies. In addition, employees who hold their country's qualifications continuously attend follow-up training to enhance the quality of their knowledge and technical abilities.

### Training conducted in FY2021

|  |                 |
|--|-----------------|
| Environmental training for employees                             | 7,454 attendees |
| Emergency response training                                      | 97 attendees    |
| Training for front-line workers                                  | 610 attendees   |
| Participation in external environment-related training sessions  | 7 attendees     |
| Environmental training for environment-related partner companies | 145 companies   |

## Green Procurement

To continuously reduce our environmental burden, SMC is developing and providing environmentally friendly products. As part of these initiatives, SMC conducts green procurement compliance with various regulations for products, materials, components, semi-finished goods, secondary materials, and packaging materials used in the design, development and production process.





## Eco-Factory

### GHG emission reduction targets

SMC is promoting various initiatives to reduce greenhouse gas (GHG) emissions produced by our own production activities.

We recently completed the compilation of data covering the entire Group<sup>\*2</sup> on Scope 1 and Scope 2<sup>\*1</sup> emissions based on the "GHG Protocol" international standard.

As we expect the scale of our sales and production to increase, we have built many specific policies and formulated medium- to long-term targets<sup>\*3</sup> to reduce our overall levels of GHG emissions.

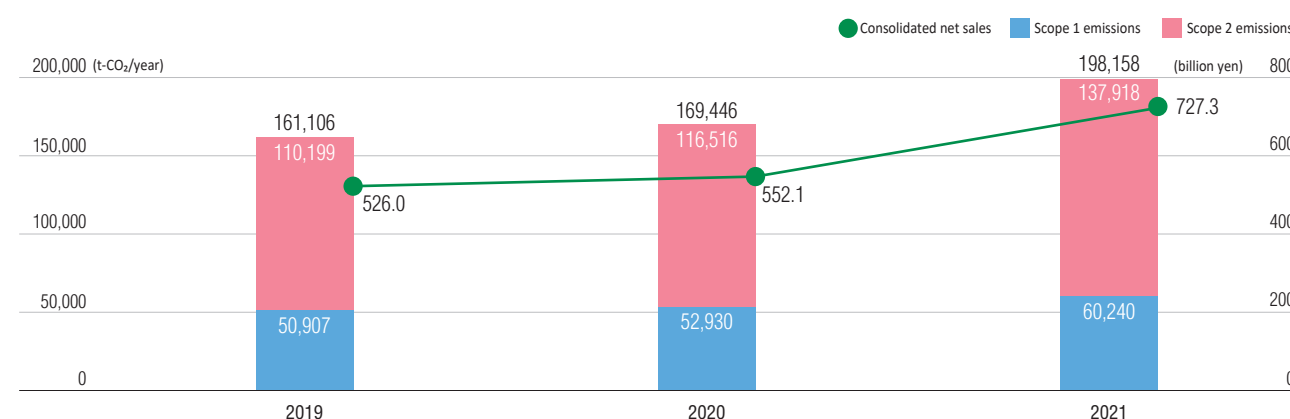
\*1 Scope 1: CO<sub>2</sub> emissions produced by the Company's own fuel consumption.

Scope 2: CO<sub>2</sub> emissions produced through the consumption of energy supplied by other companies.

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

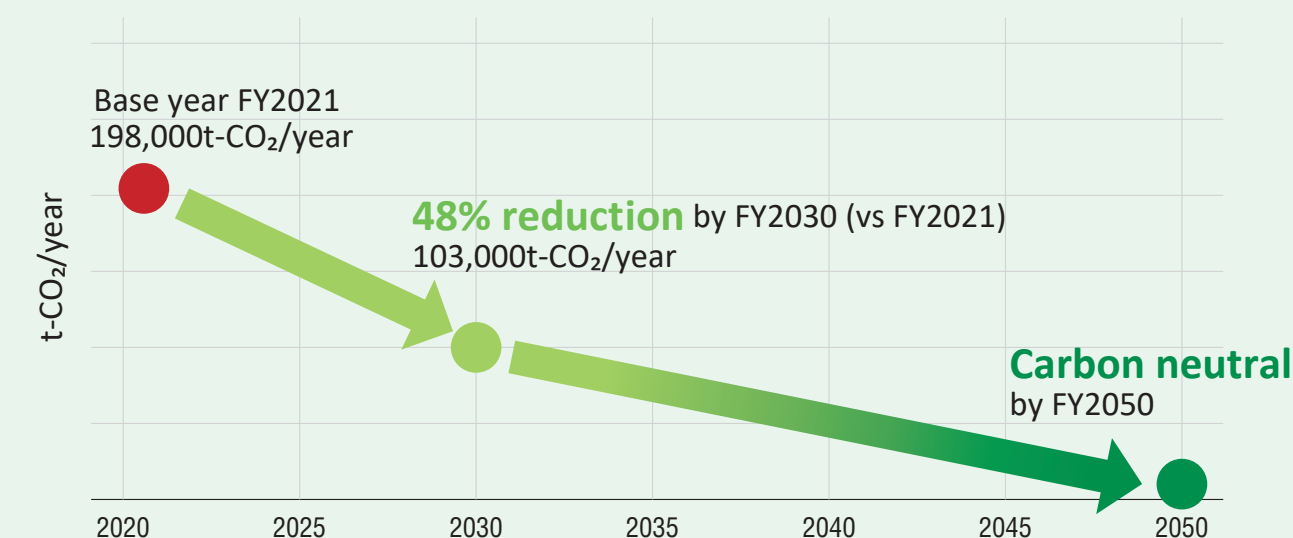
\*3 Reduction targets to meet the demands of SBT's 1.5°C scenario with FY2021 as the base year.

### SMC Group's GHG emissions (Scope 1 and Scope 2)



### SMC Group's GHG emission reduction targets (Scope 1 and Scope 2)

SMC aims to **reduce GHG emissions by 48%** by FY2030. (SMC Group Scope 1 + 2 vs FY2021)



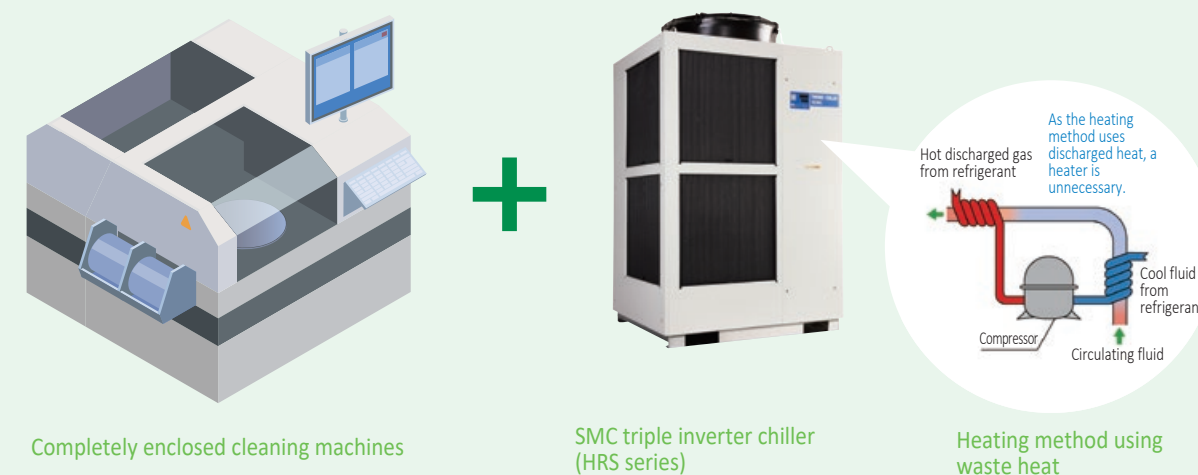
### Future measures to reduce GHG emissions

- 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

### Switching to cleaning fluids with lower global warming potential

#### Cleaning Parts

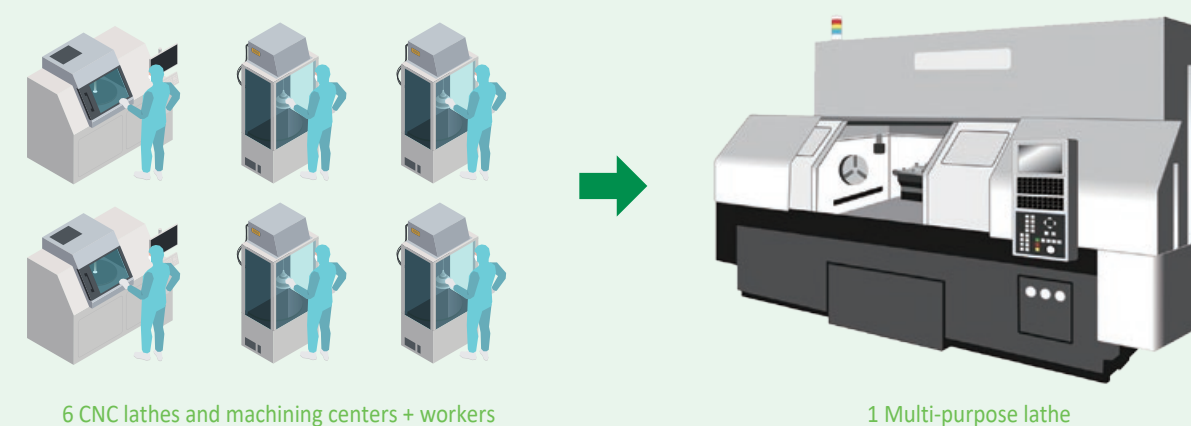
- Using environmentally friendly cleaning fluids ➤ Switching to cleaning fluids with lower global warming potential (GWP)
- Reducing the amount of cleaning fluids used ➤ Switching to completely enclosed cleaning machines to reduce the evaporation of cleaning fluids
- Reducing CO<sub>2</sub> with the Company's own products ➤ Realizing energy conservation through exhaust heat by using SMC chillers in cleaning machines



### Reviewing production processes

#### Machining Process

- Energy-saving, space-saving, streamlining ➤ Consolidating processing facilities from 6 to 1 piece of equipment
- Reduction of worker man-hours ➤ Facilities design that allows for unmanned operations







## Eco-Factory

SMC aims to reduce the emission of CO<sub>2</sub> through the combined effect of its steady efforts.

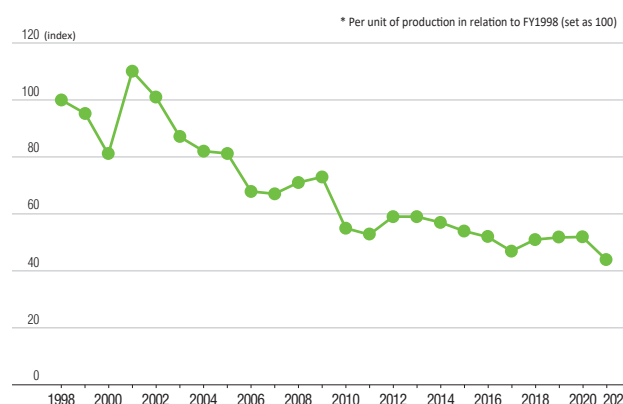
### Introducing solar power generation



SMC has implemented ISO 14001, the international standard related to environmental management, and has been promoting organizational initiatives for environmental and energy-saving measures at its factories since 1998.

From this point forward, we will tabulate figures from our production locations in Japan and China, which account for 85% of the Group's overall production.

### CO<sub>2</sub> emission reduction (Japan)

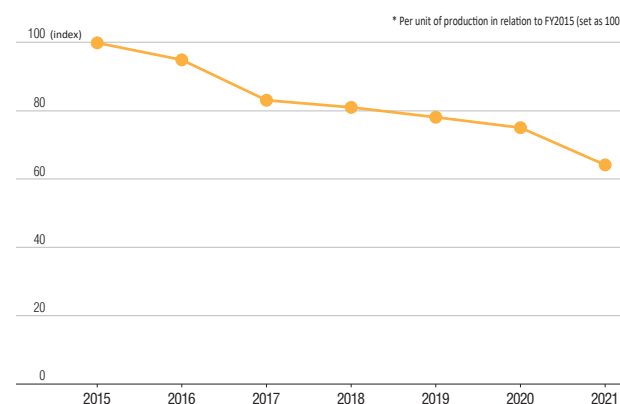


### TCFD commitment

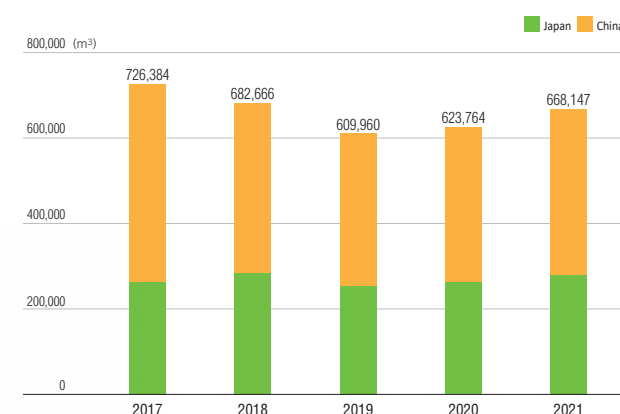
In June 2022, SMC expressed our commitment to the TCFD. For details regarding the TCFD's governance, please see our "Sustainability Promotion Framework" on page 32.



### CO<sub>2</sub> emission reduction (China)

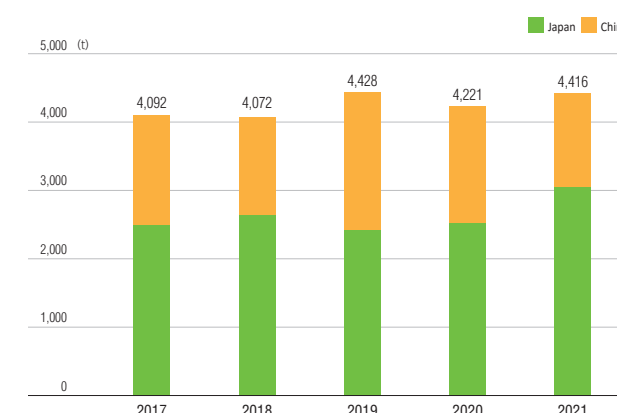


### Water usage

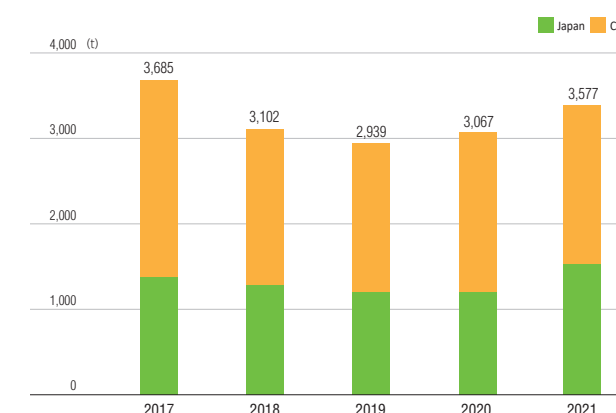


SMC is working to reduce waste discharge (by converting waste to valuable resources and recycling) and the amount of chemical substance usage (by preventing evaporation, removal, and recycling).

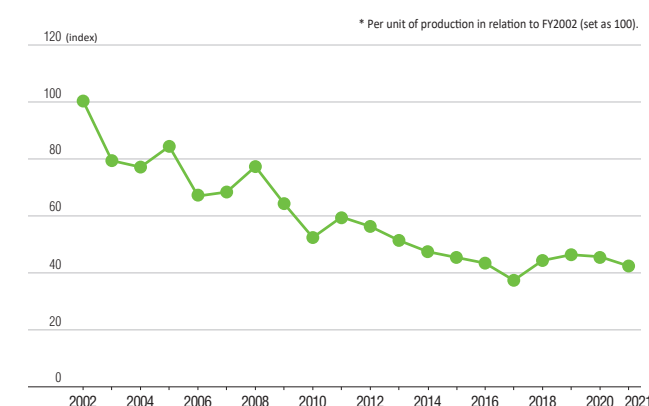
### Waste discharge



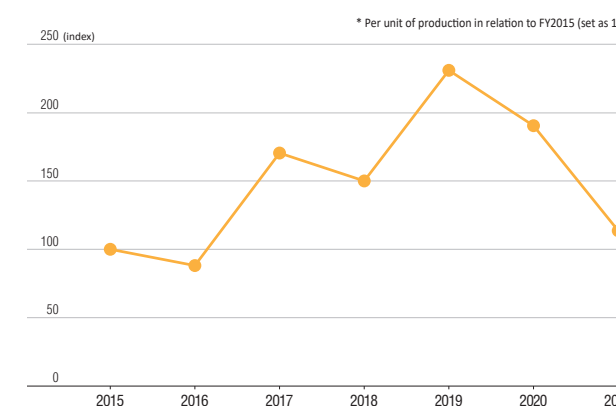
### Chemical substance usage



### Waste discharge reduction (Japan)

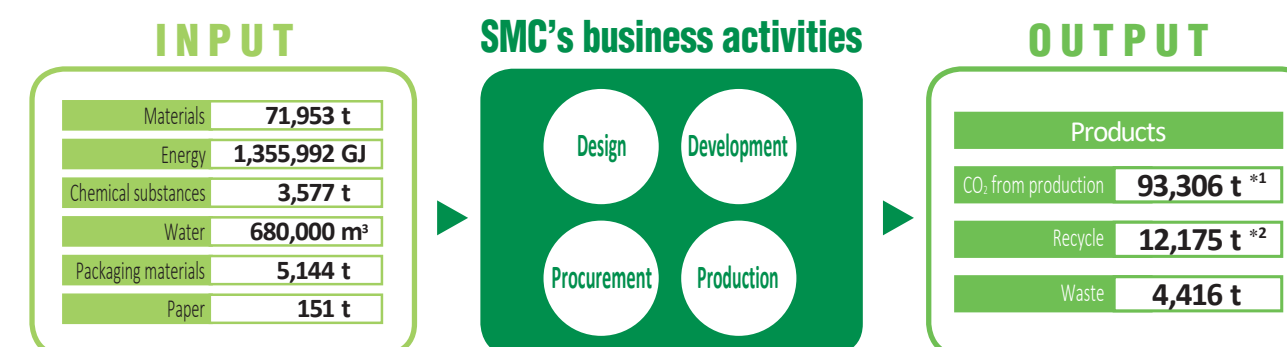


### Waste discharge reduction (China)



### Material Balance

SMC understands the amount of resources and energy consumed and emitted during the design, development, and manufacturing of its products, and uses this information to reduce its environmental impact.



\*1 Amount of CO<sub>2</sub> emitted associated with energy usage during the production activities.

\*2 Amount that is discharged as material of value and reused and/or recycled as materials and thermal energy.





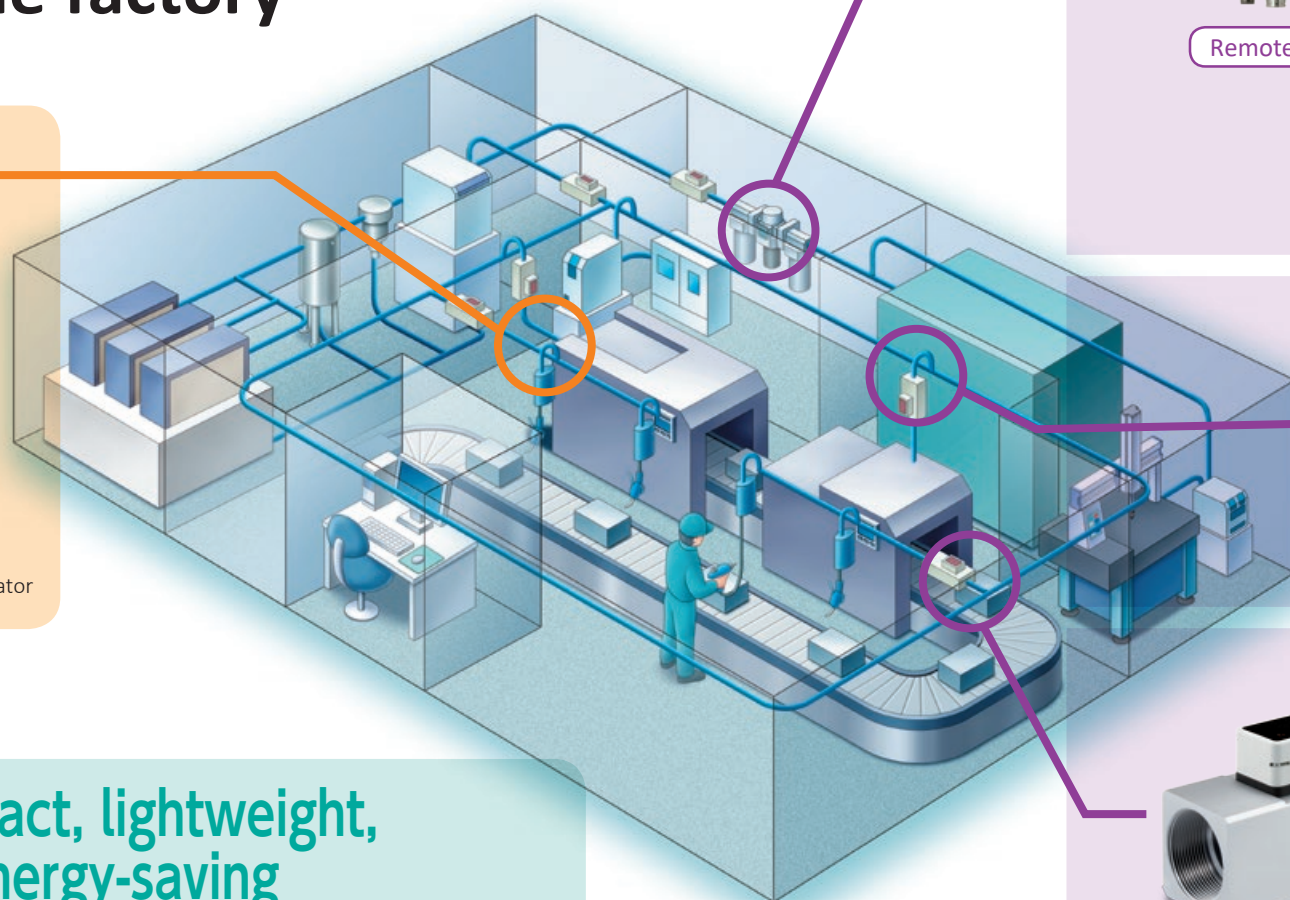
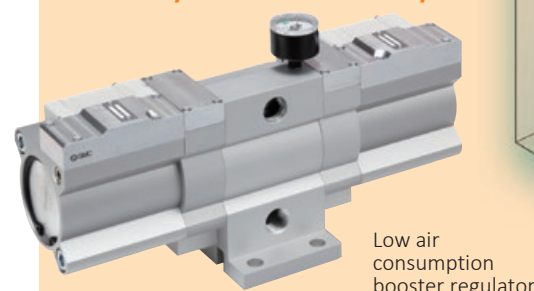
## Eco-Products

Pneumatic instruments use pressurized air produced by compressors as their power source. By maintaining a low air pressure and flow one can 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 our knowhow cultivated over many years
- Visualizing air pressure, air flow, and temperature and reducing air leaks
- Automatically controls air pressure and air flow in line with the operating conditions of the facility

## Contributes to CO<sub>2</sub> reduction throughout the factory

Increases air pressure only where necessary



Compact, lightweight, energy-saving product lineup

**Actuators**

54% compact and lightweight

**Valves**

200million drive cycles

**Vacuum equipment**

93% air-saving

**Air blow**

87% air-saving

Visualizing and controlling air pressure, air flow, and temperature

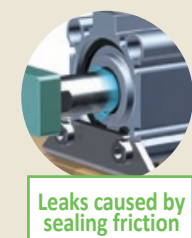


IO-Link



Idling Optimization

Reduce CO<sub>2</sub> Visual Indication Expandable



Example of use in the SMC's own production line





## Together with Our Employees

### Respect for Human Rights

#### SMC Group Code of Conduct

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

#### Initiatives for the employment of people with disabilities

We have maintained an employment rate of people with disabilities that is higher than the legally required rate.

#### Status of annual paid leave taken

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

#### Status of new hire retention

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

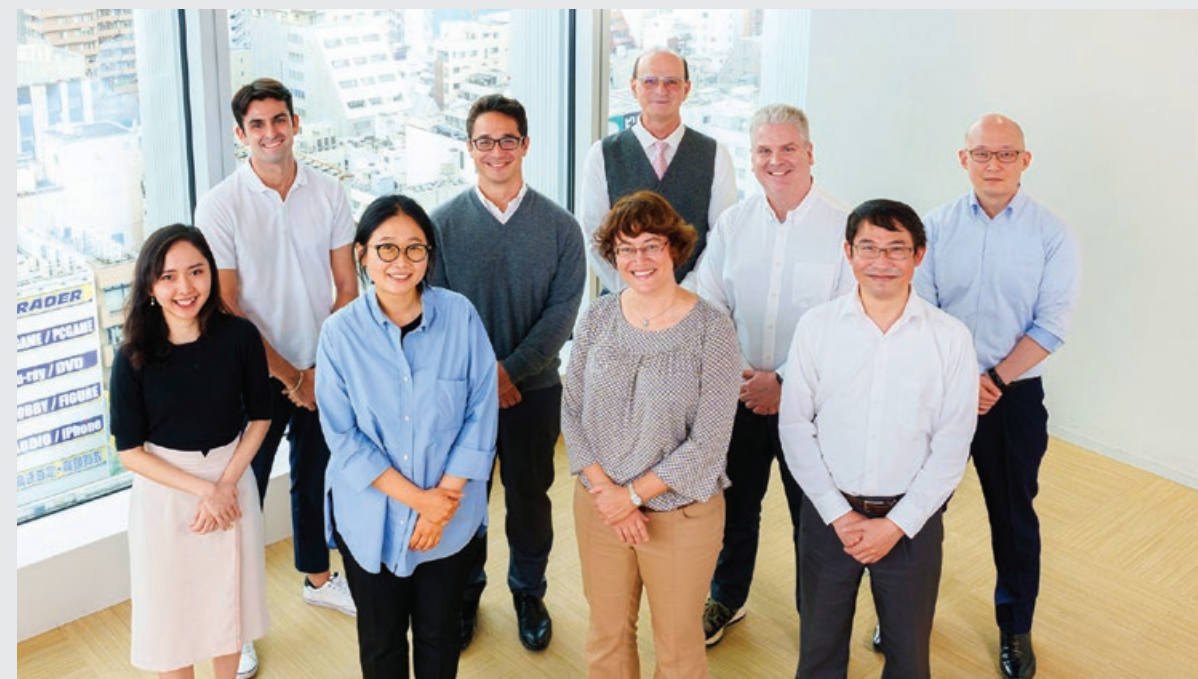
### Diversity, Including Active Participation of Women

SMC offers various schemes to provide a better working environment for women including childcare leave, maternity leave and reduced work hours.

SMC also promotes exchange of personnel and combination of operations with its overseas subsidiaries: 70% (approx.) of the SMC Group's total employees and 75% (approx.) of the top management of its Group companies are non-Japanese.

|   | FY2019 | FY2020 | FY2021 |
|---|--------|--------|--------|
| Employees with disabilities (no.)           | 163    | 161    | 165    |
| People with disabilities employment (%)     | 2.5    | 2.5    | 2.4    |
| Foreign national employees (no.)            | 128    | 124    | 125    |
| Women to total employees (%)                | 40.8   | 41.2   | 41.7   |
| Female employment (%)                       | 52.9   | 60.0   | 46.5   |
| Women in management positions (%)           | 0.9    | 1.2    | 1.7    |
| Women serving as officers (%)               |        |        | 7.7    |
| Female employees avg. service (yr)          | 17.7   | 18.7   | 19.2   |
| Childcare leave taken by male employees (%) | 0.7    | 3.4    | 5.7    |
| Annual paid leave taken (%)                 | 74.7   | 68.6   | 78.5   |
| Employees leaving within 3yrs turnover (%)  | 3.1    | 4.2    | 3.1    |

## VOICE



## Message from foreign national employees

### Working in Japan

We work in the SMC Head Office at divisions such as supply chain management, IT, industry development, overseas operations, and sales promotion. While our backgrounds before joining the Company differ, we came to Japan with an interest in the Japanese language and Japanese culture. We share the fact that we joined SMC with the strong desire to "work with the world as our stage".

We also had many opportunities to interact with Japanese people as university students prior to coming to Japan. While we have not had unpleasant experiences in our work or everyday lives, we have felt a little frustrated when people have been hesitant to interact with us due to our external appearance as "foreigners".

### Even good work environments have their challenges

The work environment is good, and we get along well with our Japanese colleagues. We work together with a sense of solidarity while supporting one another. Among our colleagues, while everyone's English is not perfect, everyone does their best to communicate during our regular online meetings with overseas Group companies. However, we struggle to read information on the Company's intranet and materials. While we can

read Japanese, the Japanese-language materials contain a lot of text, which can be difficult for many foreigners.

Furthermore, at office meetings in Japan, it can often take time before conclusions are reached. We also feel that it is strange that some meeting participants say nothing at all.

### A common mindset to become a truly global company

For SMC, net sales in the overseas market are approaching 80% of overall sales. We have locations in more than 80 countries and regions, and about 70% of employees for the entire group are of nationalities other than Japanese. Despite the fact that the globalization of business is progressing to this extent, at the Japanese Head Office, the phrases "domestic/overseas" and "Japanese and overseas markets" are still used. We believe that we must change our mindset to view Japan as one part of the world and realize that our individual jobs are connected to the world. SMC's corporate culture is certainly changing under President Takada. We would like to come together to think about what we can do for or SMC to be even more successful on the global stage.





## Together with Our Employees

### Human Resource Development

#### Award System

SMC has established an award system for those employees who have exhibited outstanding performance.

SMC also has a system in place to properly evaluate the results of global collaboration, such as “customer information obtained in U.S. led to sales in Malaysia”.



Sales Division Award Ceremony



R&D Division Award Ceremony



Global Sales Excellence Award



Thanks Point Award Ceremony

#### Training and Self-Improvement System

SMC has introduced an LMS (Learning Management System) as a tool to manage cloud-based e-learning that can be used at any time at any place to support the self-improvement of its employees.

In addition, SMC has introduced various education and training programs to continuously develop personnel who can manage with a global perspective, play an active role within the entire group, and contribute to the sustainable growth of the Company.

#### In-house Training System

**LMS**

- New employee training
- Third-year training (training for young people)
- Management training
- Training by level
- Female Outside Sales Support Training Sales Academy



New employee training



Management training

### Worker Health and Safety

#### Health and Safety Committee

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.



Workplace inspection conducted by an industrial doctor

#### Safety Dojo/ Skill Transfer Committee

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: Rate per thousand workers, severity, and frequency

Excluding the high severity rate in 2019 when a major accident occurred, each of SMC's workplace accident indicators has continuously fallen below the manufacturing industry average.

|                           | 2018                   |      | 2019                   |      | 2020                   |      | 2021                   |      |
|---------------------------|------------------------|------|------------------------|------|------------------------|------|------------------------|------|
|                           | 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  |
| Severity                  | 0.10                   | 0.08 | 0.10                   | 0.64 | 0.07                   | 0.02 | 0.06                   | 0.00 |
| Frequency                 | 1.20                   | 0.87 | 1.20                   | 0.39 | 1.21                   | 0.82 | 1.31                   | 0.32 |

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

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



Training at Safety Dojo



## Together with Our Customers / Suppliers

### To Earn Trust from Customers and Suppliers

#### SMC Group Code of Conduct

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

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

### Efforts against Conflict Mineral Issues

SMC is striving to provide information to customers based on a database using the Conflict Mineral Report Template (CMRT). Through cooperating with suppliers, SMC is working to improve the accuracy of the CMRT.

#### SMC Group Code of Conduct

#### We will strive for responsible sourcing of minerals.

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

### 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.

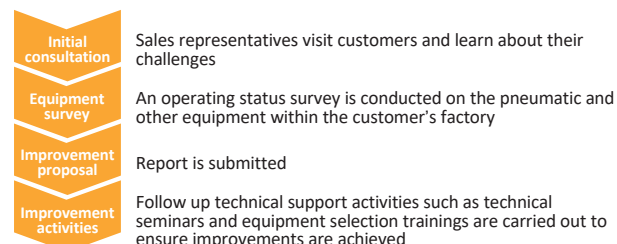


### Energy-Saving Optimization Proposals

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



#### Energy-saving optimization proposal flow



### Distributor Award Ceremony

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



## Together with Local Communities

### SMC Group Code of Conduct

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

#### Activities 1

#### Green Conservation Activities by the Greenery Trust

SMC participates in green conservation activities 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.



#### Activities 2

#### Participation in Community Beautification Activities

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



Tsukuba area

Tono area

#### Activities 3

#### Strengthening SMC Factory Relationships With Local Regions

SMC has concluded agreements with the local government in the regions where its factories are located concerning cooperative systems during disasters. Through cooperation with government, SMC aims to contribute to ensuring the safety of the residents in regions where its factories are located.





## Corporate Governance

### Basic Views

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

### Main Organizations, Etc.

#### Board of Directors

The Board of Directors, which consists of twelve Directors (of which four are Outside Directors), makes decisions on significant matters related to the execution of business such as the SMC Group's management policies, capital investment, and executive personnel in accordance with the standards for deliberation set forth in the Board of Directors' regulation, in addition to significant matters specified by laws and 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.

#### Board of Corporate Auditors

The Board of Corporate Auditors, which consists of three Corporate Auditors (of which 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 regulation, in addition to matters prescribed by laws and 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

The voluntary "Nomination and Compensation Committee"\*<sup>1</sup> works to enhance the fairness, transparency and objectivity of the nomination and compensation process of Directors.

The "Sustainability Committee"\*<sup>2</sup> supervises the Company's sustainability initiatives.

Independent Outside Directors shall compose a majority of the members of both committees, and each Chairman shall be selected from among members who are Independent Outside Directors by a vote of the members.

The "Executive Officers Meeting", composed of Executive Directors and Executive Officers, works to accelerate information sharing among the executive divisions.

In addition, SMC has established an "Advisory Committee" with the presidents of the Company and its four major subsidiaries (China, Singapore, U.S., and Italy) 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 business in case of an emergency in addition to facilitating discussion on Group-wide management issues.

\*<sup>1</sup> Chairperson: Outside Director Masanobu Kaizu; Member: Outside Director Toshiharu Kagawa, President Yoshiki Takada

\*<sup>2</sup> Chairperson: Outside Director Kyoichi Miyazaki; Member: Outside Director Yoshiko Iwata, President Yoshiki Takada

#### Independent Executive Council and Lead Independent Director

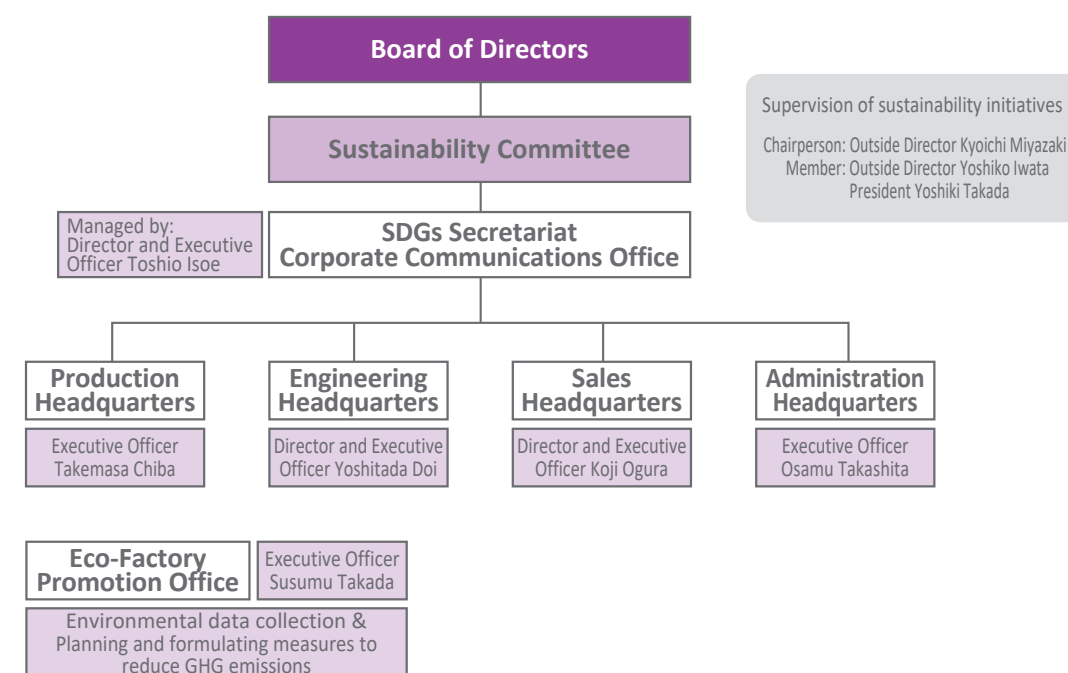
The "Independent Executive Council", composed solely of Outside Directors and Outside Corporate Auditors, facilitates the free and vigorous exchange of opinions and sharing of views, and makes recommendations to the Board of Directors based on the opinions gathered as required.

Outside Director Masanobu Kaizu has been selected as the "Lead Independent Outside Director" from among the Outside Directors by a vote of the Outside Directors to facilitate communication and coordination among the Outside Directors and the Board of Directors, the Board of Corporate Auditors, business execution divisions, etc., and to be available for dialogues with investors.

### 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 committee to the Board of Directors to strengthen its supervisory function.

To facilitate actions, the company has appointed an officer in charge of the secretariat and have a clarified system by which to promote initiatives through the persons responsible within each company division. 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.

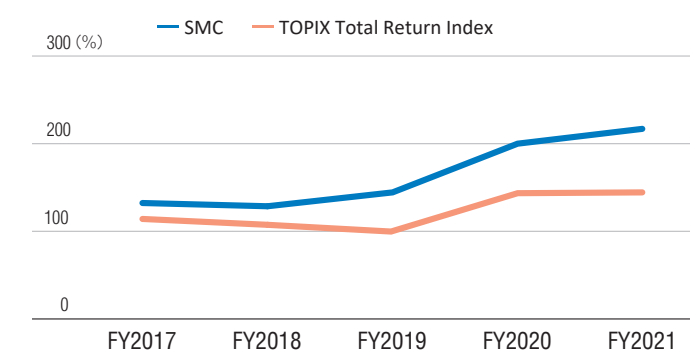


### Basic Policy on Dividends

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, SMC adopts a basic policy of maintaining stable dividend payment. At the same time, SMC will strive to enhance the profit return even further by combining this with the flexible acquisition of treasury shares depending on the situation.

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

#### Changes in Total Shareholder Return (TSR)





## VOICE

## Becoming an Even More Globally Respected Company

Outside Director, Yoshiko Iwata

For many years, I have made proposals to Japanese companies to enhance their presences in global stock markets, to introduce IR (investor relations) and Outside Directors, to reconsider the roles of the Board of Directors, and on the significance of evaluating the Board of Directors. While it is a soft law according to the Financial Services Agency's corporate governance code, Japanese companies have finally started to accept this approach. However, many Japanese companies still only show a superficial interest limited to the number of Outside Directors that they should have. When I actually took my position as an Outside Director, I experienced on a daily basis the challenging nature of the environment surrounding corporate governance and the difficulty in meeting the expectations of institutional investors and contributing to enhanced corporate value.

Looking at the skills of the Company's Outside Directors, we already have Mr. Masanobu Kaizu active as the Lead Independent Outside Director representing the capital markets, and in this sense, we are well ahead of other Japanese companies. Furthermore, many Japanese companies have problems with gender issues. Specifically, with Japanese companies being expected to appoint female Directors and to promote female Directors internally, at the Company, Ms. Kelley Stacy, President of SMC Corporation of America, has been selected as Director, becoming our first internal, female, foreign Director.

Mr. Yoshiki Takada, who was appointed as President in 2021, is an extremely bright and positive person who always considers issues from a global perspective. This is because President Takada has a rich background of business experience amid a culture of diversity from living for an extended period in the U.S. and Europe. I am convinced that President Takada's leadership will have a positive impact on both our internal organization and each of our workers. I am extremely excited about this point.

However, one of my concerns is that our employees are very much "honors students". At times, this can lead to arrogance. Looking at this attitude from an outside perspective, there

is the risk of not wanting to become friends or do business with "honors students". In wanting to continue being honors students, there is the risk of failure by doing more than what we are really capable of. Moreover, our status as honors students can be lost in a flash when a new field of study (technology) or new student (a rival company from a different field) moves in.

To use a different expression, the Board of Directors must dedicate even more time to discussing this "blind spot". I would like to encourage more frequent discussion at the Board of Directors on how we lay a strong foundation for our future.

The Company is already successful in the global market. However, I would also like for us to become an even more respected company when seen globally from the perspective of business and the stock market. I believe that my duty as an Outside Director on the Board of Directors is to make sure that my experience with conditions at global companies, issues with Japanese management, and conditions at Boards of Directors serves a purpose.



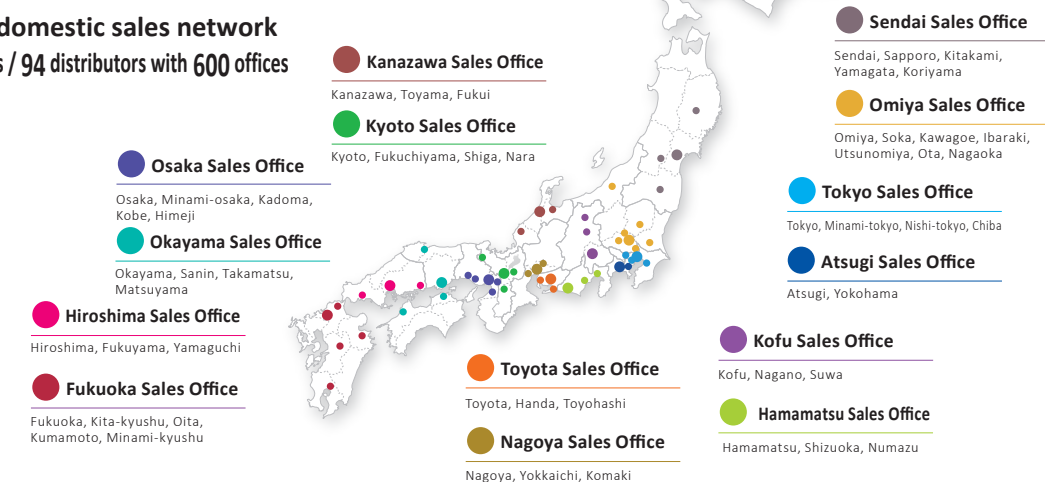
## Corporate Summary

|                      |  |
|----------------------|--|
| Company name         | SMC Corporation  |
| Head office          | Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan  |
| Established          | April 27, 1959   |
| President            | 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 billion yen   |
| Net sales            | 727.3 billion yen (Year ended March 31, 2022)  |
| Total assets         | 1,769.9 billion yen (As of March 31, 2022)   |
| No. of employees     | 21,620 (As of March 31, 2022)  |
| Equity ratio         | 87.9% (As of March 31, 2022)   |

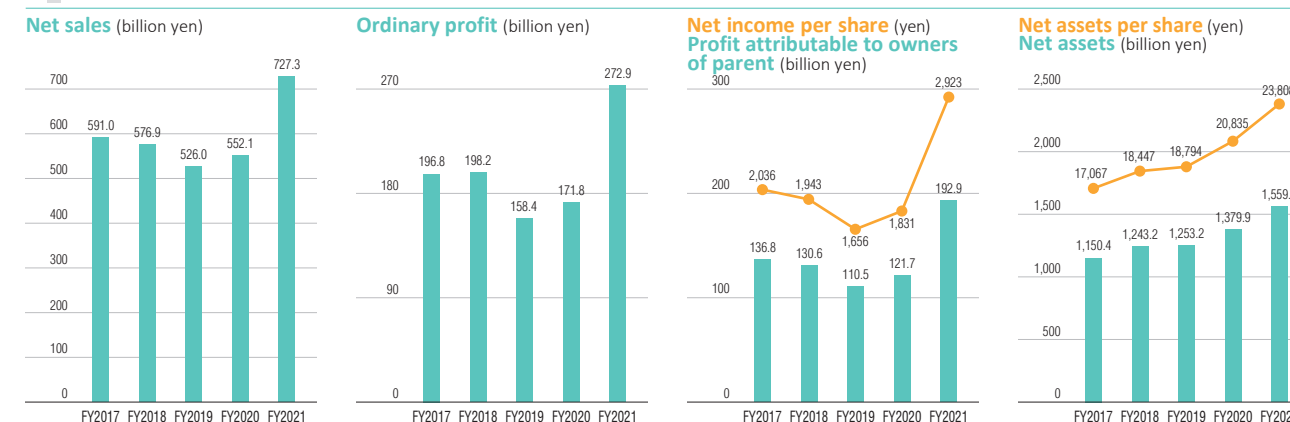


## Domestic Network (As of March 31, 2022)

**Extensive domestic sales network**  
54 sales offices / 94 distributors with 600 offices



## Consolidated Financial Highlights







## SMC Corporation

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

©SMC Corporation All Rights Reserved  
CC-E23-1A

