

# We will fulfill our mission of sustainably supporting factory automation and face challenges together with our customers and business partners.

We would like to express our sincere gratitude to all our shareholders for your exceptional support.

We extend our deepest sympathies to all those affected by novel coronavirus disease (COVID-19), their families and all those concerned, and we pray for the souls of those who died.

We would also like to express our heartfelt gratitude to all those who are facing this difficult enemy day in and day out, such as medical professionals, business operators related to social infrastructure and distribution, and government personnel.

Currently, many of our SMC customers, not only medical equipment manufacturers but also firms in various industries, are engaged in the development and manufacture of essential medical equipment and supplies such as respirators and masks.

We have received many requests for support from our customers as well as those for cooperation to manufacture medical equipment and supplies from governments of different countries.

In order to meet these demands, SMC Group as a whole will tackle this difficulty together with our customers and business partners by working hard on business continuity with utmost attention and fulfilling our mission of sustainably supporting factory automation.

Fortunately, we have a global network of nearly 20,000 employees in over 80 countries, extensive inventory with wide selection, and solid financial base.

We make the best use of these assets to meet customer expectations. In addition, we continue to take measures to prevent the spread of infection, placing the highest priority on ensuring the safety of our customers, business partners, employees and local communities.

We would like to ask our shareholders for your continued support and guidance.

June 2020



Left | Katsunori Maruyama,  
President

Right | Yoshiki Takada,  
Executive Vice-president

Katsunori Maruyama  
President  
**SMC Corporation**  
4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

## Notice of the 61st Annual General Meeting of Shareholders

We would like to inform you that we will hold the 61st Annual General Meeting of Shareholders as follows.

To avoid the risk of infection with the COVID-19, all the shareholders are kindly requested to refrain from attending the meeting in person. Instead, we would encourage you to exercise your voting right in writing or via the Internet by 5:00 p.m., on June 25, 2020 (Thursday) after studying the attached "Reference Documents for the General Meeting of Shareholders."

Sincerely,

1	Date and Time	June 26, 2020 (Friday) 10:00 a.m. (Reception starts at 9:00 a.m.)
2	Venue	Conference Room, SMC Corporation Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo There are no souvenirs available for shareholders attending the shareholders' meeting.
3	Agenda	<b>Matters to be reported</b> Business Report, Consolidated and Non-consolidated Financial Statements, and Audit Report for Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors, for the 61st fiscal year (April 1, 2019 to March 31, 2020) <b>Matters to be resolved</b> Proposal 1. Dividend of Surplus Proposal 2. Election of 10 Directors Proposal 3. Award of Retirement Benefits to Retiring Directors Proposal 4. Termination Payment due to Abolition of Retirement Benefit Plan for Directors Proposal 5. Determination of Amount and Details of a Stock Compensation Plan for Directors

Should it become necessary to revise the Appendix or Reference Documents for the General Meeting of Shareholders attached to this Notice, those revisions will be shown on the Company's website\*

\*The Company's website address: <https://www.smcworld.com/ir/en/>

# Reference Documents for the General Meeting of Shareholders

## Proposals and References

### Proposal 1 Dividend of Surplus

#### [Basic capital policy]

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

The Company will also strive to further increase shareholders' equity, aiming to maintain a solid financial base that will not be affected by financial and economic turmoil and rapid fluctuations in foreign exchange rates.

In addition, the Company will continue to maintain its competitive advantage, positively make necessary investments in production facilities, research and development systems, IT infrastructure, sales force resources, etc., for sustained operations, and keep adequate cash on hand to meet relevant capital requirements.

Concerning the return of profit to our shareholders, we are adopting a basic policy of maintaining stable dividend payment. At the same time, we will strive to further enhance the profit return even further by considering a flexible acquisition of treasury shares depending on the situation.

#### [Matters related to year-end dividend]

This is to propose that the dividend of surplus for the fiscal year to be made as described below, based on the abovementioned basic capital policy and in consideration of the latest operating results and financial positions.

1

Allocation of divisible assets payable to shareholders and total amount

200 yen per share on the Company's common shares

Total amount: 13,303,702,600 yen

2

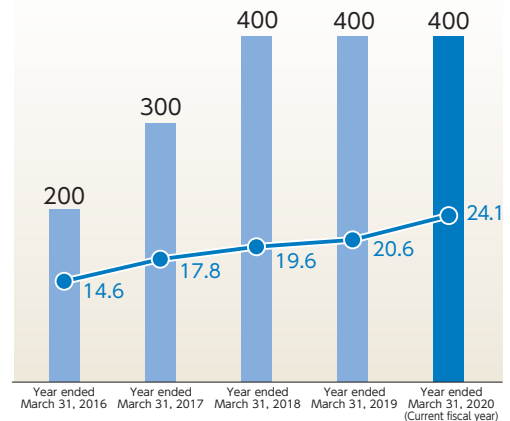
Effective date of the dividends from surplus

June 29, 2020

Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 400 yen, the same amount as the previous year.

#### Reference:

Changes in dividend per share (yen)  
Consolidated payout ratio (%)



## Proposal 2 Election of 10 Directors

The term of office of all current 10 Directors will expire at the conclusion of this Annual General Meeting of Shareholders. It is, therefore, proposed that 10 Directors (including 2 Outside Directors) be elected.

The names and profiles of the candidates for Directors are as follows.

Candidate No.	Candidate Name		Current Position and Assignment of Work in the Company	Number of years in office	Attendance at the Board of Directors meetings
1	Katsunori Maruyama	Reappointed	President	27 years	8/8
2	Yoshiki Takada	Reappointed	Executive Vice-president/Senior General Manager of Sales Headquarters/Chairman, SMC US	26 years	8/8
3	Seiji Kosugi	Reappointed	Director and Senior Managing Executive Officer/Senior General Manager of Engineering Headquarters	12 years	7/8
4	Masahiko Satake	Reappointed	Director and Senior Managing Executive Officer/Senior General Manager of Production Headquarters	13 years	8/8
5	Toshio Isoe	Reappointed	Director and Executive Officer/General Manager of Administration Division	1 year	6/6
6	Masahiro Ota	Reappointed	Director and Executive Officer/General Manager of Finance & Accounting Division	1 year	6/6
7	Susumu Maruyama	Newly-appointed	Executive Officer (In charge of Management Reform Project)	—	—
8	Samuel Neff	Newly-appointed	General Manager of Management Planning Office	—	—
9	Masanobu Kaizu	Reappointed Outside Independent	Outside Director	6 years	8/8
10	Toshiharu Kagawa	Reappointed Outside Independent	Outside Director	5 years	8/8



Number of years served as Director

**27 years**

Attendance at the Board of Directors meetings

**8/8**

Number of the Company's shares held

**2,100 shares**

Candidate No.

**1**

**Katsunori Maruyama** (March 25, 1947)

**Reappointed**

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

June 1970	Joined the Company
June 1993	Director and Manager of Sales Administration Division
June 1999	General Manager of Planning & Intelligence Service Division
June 2001	Managing Director
July 2002	Executive Managing Director
July 2003	Executive Vice-president
July 2004	President (Incumbent)
April 2020	Member of the Nomination and Compensation Committee (Incumbent)

**[Reason for selection as a candidate for Director]**

Mr. Katsunori Maruyama had been in charge of the analysis of market trends for many years and has fulfilled his responsibilities by serving as President, the chief executive for business execution since 2004.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Number of years served as Director

**26 years**

Attendance at the Board of Directors meetings

**8/8**

Number of the Company's shares held

**0 shares (\*)**

Candidate No.

**2**

**Yoshiki Takada** (June 6, 1958)

**Reappointed**

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

April 1987	Joined the Company
June 1991	On loan to SMC US
June 1994	Director of the Company
June 2002	Managing Director
July 2003	In charge of Overseas Operations
April 2004	President, SMC US
June 2014	In charge of Management for North America, Central and South America Zone of the Company
June 2017	Director and Managing Executive Officer
July 2018	Director and Senior Managing Executive Officer
July 2018	Senior General Manager of Sales Headquarters (Incumbent)
September 2019	Executive Vice-president (Incumbent)
December 2019	Chairman, SMC US (Incumbent)
April 2020	Member of the Nomination and Compensation Committee of the Company (Incumbent)

**[Reason for selection as a candidate for Director]**

Mr. Yoshiki Takada served as President of SMC US for many years, and has presided over global business operations for the entire Group as Senior General Manager supervising the entire Sales Division since 2018 and Executive Vice-president since 2019.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

## 3 Seiji Kosugi (March 9, 1945)

Reappointed

### Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1967	Joined the Company
June 1999	General Manager of Product Development Division 1
June 2002	Director
June 2007	Executive Advisory Engineer
June 2008	Director
July 2009	Vice Senior General Manager of Engineering Headquarters
February 2010	Managing Director
June 2013	Executive Managing Director
June 2013	Senior General Manager of Engineering Headquarters (Incumbent)
June 2017	Director and Senior Managing Executive Officer (Incumbent)

Number of years served as Director

12 years

Attendance at the Board of Directors meetings

7/8

Number of the Company's shares held

8,500 shares

### [Reason for selection as a candidate for Director]

Mr. Seiji Kosugi has been engaged in the development and design of the Company's core products since joining the Company, and has fulfilled his responsibilities as Senior General Manager supervising the entire R&D Division since 2013.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

## 4 Masahiko Satake (January 19, 1947)

Reappointed

### Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1969	Joined the Company
November 2001	General Manager of Production Division 3
June 2007	Director
July 2012	Managing Director and Vice Senior General Manager of Production Headquarters
June 2013	Executive Managing Director
June 2013	Senior General Manager of Production Headquarters (Incumbent)
June 2017	Director and Senior Managing Executive Officer (Incumbent)

Number of years served as Director

13 years

Attendance at the Board of Directors meetings

8/8

Number of the Company's shares held

1,000 shares

### [Reason for selection as a candidate for Director]

Mr. Masahiko Satake has been engaged in the management of production cost and projects to streamline operations for many years and has fulfilled his responsibilities as Manager of Kamaishi Factory since 2001 and Senior General Manager of the Production Headquarters supervising the entire Production Division since 2013.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

**5 Toshio Isoe** (May 26, 1961)

Reappointed

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

July 2014	Retired from Resona Bank, Limited
August 2014	Joined the Company
May 2019	Deputy General Manager of Administration Division
June 2019	Director and Executive Officer (Incumbent)
June 2019	General Manager of Administration Division (Incumbent)

Number of years served as Director

**1 year**

Attendance at the Board of Directors meetings

**6/6**

Number of the Company's shares held

**100 shares**

**[Reason for selection as a candidate for Director]**

Mr. Toshio Isoe has been engaged in the operations of the administration for the Company, the management of subsidiaries, the administration for sales, etc. since joining the Company in 2014, and has fulfilled his responsibilities as General Manager of Personnel and Administration Division since 2019.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

**6 Masahiro Ota** (December 24, 1963)

Reappointed

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

April 2015	Retired from Resona Bank, Limited
May 2015	Joined the Company
May 2019	Deputy General Manager of Finance & Accounting Division
June 2019	Director and Executive Officer (Incumbent)
June 2019	General Manager of Finance & Accounting Division (Incumbent)

Number of years served as Director

**1 year**

Attendance at the Board of Directors meetings

**6/6**

Number of the Company's shares held

**0 shares**

**[Reason for selection as a candidate for Director]**

Mr. Masahiro Ota has been mainly engaged in the management of subsidiaries since joining the Company in 2015 and has fulfilled his responsibilities as General Manager of Finance & Accounting Division since 2019.

With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

7

**Susumu Maruyama** (February 14, 1963)

Newly-appointed

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

April 1986	Joined Ministry of International Trade and Industry
June 2014	Director-General, Business Support Department, The Small and Medium Enterprise Agency
July 2015	Deputy Director-General for Policy Evaluation of Minister's Secretariat, Ministry of Economy, Trade and Industry
June 2016	Retired from Ministry of Economy, Trade and Industry
October 2016	Special Chief Researcher of Institute for International Socio-Economic Studies
June 2018	Retired from Institute for International Socio-Economic Studies
July 2018	Joined the Company, Corporate Advisor
November 2019	Executive Officer (In charge of Management Reform Project) (Incumbent)

Number of years served as Director

—

Attendance at the Board of Directors meetings

—

Number of the Company's shares held

0 shares

**[Reason for selection as a candidate for Director]**

Mr. Susumu Maruyama has held important positions at central government agencies, and has a high level of knowledge related to economic conditions in Japan and overseas, and organizational management.

He has fulfilled his responsibilities as Executive Officer in charge of Management Reform Project from 2019.

With the expectation that he can contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

8

**Samuel Neff** (March 30, 1982)

Newly-appointed

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

May 2006	Joined the Company
August 2008	Attended Georgetown University Law Center
July 2011	Joined New York Bar Association
January 2012	Joined SMC US
January 2013	Project Manager of SMC Singapore
May 2016	Joined the Company, General Manager of Management Planning Office (Incumbent)

Number of years served as Director

—

Attendance at the Board of Directors meetings

—

Number of the Company's shares held

0 shares

**[Reason for selection as a candidate for Director]**

Mr. Samuel Neff has worked for cooperation between the R&D, Production and Sales Divisions, and has fulfilled his responsibilities as General Manager of Management Planning Office from 2016, after devoting himself to learning at various companies in the Group.

With the expectation that he can contribute to the management of the Company, he has been selected as a candidate for Director.



Number of years served as Director

**6 years**

Attendance at the Board of Directors meetings

**8/8**

Number of the Company's shares held

**0 shares**

Candidate No.

**9**

**Masanobu Kaizu** (December 27, 1951)

**Reappointed**

**Outside**

**Independent**

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

April 1975	Joined Nomura Research Institute, Ltd.
June 1994	General Manager of Investment Research Division
April 1997	General Manager of Investment Research Division, Nomura Securities, Co., Ltd. Financial Research Center
June 2000	Vice President and General Manager of Corporate Research Division, Nomura Securities, Co., Ltd. Financial Research Center
April 2002	Executive Officer, Nomura Securities, Co. Ltd. and President of Financial Research Center
July 2007	Executive Officer, Nomura Securities, Co. Ltd. and Chief Research Officer of Financial and Economic Research Center
January 2012	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center (Incumbent)
June 2013	Director, Financial Accounting Standards Foundation
August 2013	Vice Chairman, The Securities Analysts Association of Japan
June 2014	Outside Director of the Company (Incumbent)
April 2020	Chairman of the Nomination and Compensation Committee (Incumbent)

**Important concurrent duties**

Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center

**[Reason for selection as a candidate for Outside Director]**

- Mr. Masanobu Kaizu is a distinguished economist and securities analyst having a superb personality, insights, and abundant knowledge of economic situations, financial market conditions, corporate management and financial accounting, with broad experience in relevant business activities. He has made proposals on management policies based on his own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitoring the Company's management activities from a neutral and objective point of view, further enhancing management transparency, and improving corporate value in the medium- and long-run by promoting continuous corporate growth.

He also has strived to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as Chairman of newly established Nomination and Compensation Committee since April 2020.

With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.

- According to the Company's judgment, Mr. Kaizu is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

**[Other special notes concerning the candidate for Outside Director]**

- The Company has made a contract with Mr. Kaizu for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law). If Mr. Kaizu is re-elected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kaizu as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered him as such with the TSE.
- 6 years will pass at the conclusion of this Annual General Meeting of Shareholders after he is elected the Company's Outside Director.



Candidate No.

10

**Toshiharu Kagawa** (November 12, 1950)

Reappointed

Outside

Independent

**Brief personal profile, position, assignment of work and important concurrent position at other organization**

May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology
May 2012	President, The Japan Fluid Power System Society
January 2014	Professor, Interdisciplinary Graduate School of Science and Engineering, Tokyo Institute of Technology
June 2015	Outside Director of the Company (Incumbent)
April 2016	Institute Professor, Tokyo Institute of Technology
April 2018	Professor Emeritus at Tokyo Institute of Technology
April 2020	Member of the Nomination and Compensation Committee of the Company (Incumbent)

Number of years served as Director

**5 years**

Attendance at the Board of Directors meetings

**8/8**

Number of the Company's shares held

**0 shares**

**[Reason for selection as a candidate for Outside Director]**

- Mr. Toshiharu Kagawa is a Doctor of Engineering specializing in flow measurement and control and has a superb personality and insights. His specialization and the Company's business areas are very closely related. He has made proposals on management policies mainly in relation to research and development activities and measures for the training of engineers based on his own specialized knowledge and wide experience as a researcher and educator. He also monitored the Company's management activities from a neutral and objective point of view, further enhanced management transparency, and improved corporate value in the medium- and long-run by promoting continuous corporate growth. He also has strived to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as a committee member of newly established Nomination and Compensation Committee since April 2020. With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director.
- According to the Company's judgment, Mr. Kagawa is capable of carrying out his duties as Outside Director for the above-mentioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.

**[Other special notes concerning the candidate for Outside Director]**

- The Company has made a contract with Mr. Kagawa for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law). If Mr. Kagawa is re-elected, the Company plans to continuously make the said contract with him.
- The Company has also designated Mr. Kagawa as an independent director as stipulated by the TSE, and registered him as such with the TSE.
- 5 years will pass at the conclusion of this Annual General Meeting of Shareholders after he is elected the Company's Outside Director.

(Note) No special interests exist between the candidates and the Company

### [Reference] Criteria on Independence of Outside Directors and Outside Corporate Auditors

Described below are the criteria for judging independence of Outside Directors and Outside Corporate Auditors. The Company has set these criteria by adding the Company's unique essence on to those issued by the Tokyo Stock Exchange and other relevant legal requirements.

◆ Any of the following items must not be applicable in the most recent fiscal year (year-end).

- (1) A person conducting business operations of the Company's group (e.g. Executive Director, Executive Officer or employee; hereinafter the same applies)
- (2) A main account (\*) of the Company's group, or a person conducting business operations for the account  
(\*) A main account means any of the following persons or organizations.
  - A customer to which the Company's group makes 2% or more of its consolidated net sales
  - A supplier or a service provider that makes 2% or more of its consolidated net sales to the Company's group
  - A lender from which the Company's group has gotten a loan amounting to 2% or more of its consolidated total assets
- (3) A major shareholder of the Company (who holds 10% or more of the total voting rights) or a person conducting business operations of the shareholder
- (4) A certified public accountant or a person who belongs to an audit corporation that undertakes statutory audit work for the Company's group
- (5) A person who conducts business operations of a company that has interlocking Executives or Executive Officers with the Company's group
- (6) A professional (e.g. lawyer, certified public accountant, registered tax accountant, or consultant) who receives compensation, etc., amounting to 10 million yen or more, in addition to Director compensation, from the Company's group (If such professional is a corporation or another organization, a person who belongs to such corporation or organization is applicable.)
- (7) An individual, organization or a person who conducts business operations for such individual or organization and receives a contribution of 100 million yen or more from the Company's group
- (8) A person who used to be applicable to (1) above in the past 10 years or a person who used to be applicable to any of (2) through (7) above in the past 3 years
- (9) The spouse or a relative within the second degree of a person described in (1) through (8) above. However, a "person conducting business operations" is limited to an important person conducting such operations (i.e. Executive Director, Executive Officer, or high-ranking employee receiving the same treatment as Executive Officer)

## Proposal 3

## Award of Retirement Benefits to Retiring Directors

This is to propose that Directors' retirement benefits be awarded to Mr. Yoshiyuki Takada and Mr. Ikuji Usui, who will retire upon expiration of their term of office as Director at the conclusion of this Annual General Meeting of Shareholders, in recognition of their services. The amount shall be in the range of the originally designated standards prescribed by the "Regulations for Directors' Retirement Benefits." We propose that the amount, timing and method of payment be deliberated by the Nomination and Compensation Committee and be determined by the Board of Directors.

The maximum total amount of retirement benefits in accordance with the above shall be 658 million yen for retiring Directors. Names and profiles of the above two persons are as follows.

Name		Brief personal profile
Yoshiyuki Takada	April 1959	Established the Company, Director
	May 1964	Executive Managing Director
	May 1989	President
	July 2004	Chairman of the Board of Directors
	September 2019	Director and Honorary Chairman of the Board of Directors (Incumbent)
Ikuji Usui	June 1993	Joined the Company, Director
	June 2001	Managing Director
	July 2003	Executive Managing Director
	June 2017	Director and Senior Managing Executive Officer
	July 2019	Director and Senior Advisor (Incumbent)

## Proposal 4 Termination Payment due to Abolition of Retirement Benefit Plan for Directors

The Company resolved at the Board of Directors' meeting held on May 21, 2020 to abolish the retirement benefit plan for Directors upon the conclusion of this Annual General Meeting of Shareholders, following the deliberations at the Nomination and Compensation Committee.

Accordingly, it is proposed that a termination payment of retirement benefits be paid to the Directors who will be reappointed, on the condition that Proposal 2 is approved and adopted as originally proposed, for the period of service up until the conclusion of this Annual General Meeting of Shareholders in the range of the originally designated standards prescribed by the "Regulations for Directors' Retirement Benefits." The total amount of the termination payment shall be 261 million yen.

The payment shall be made at the time of retirement of each Director. We propose that the amount and method of payment be deliberated by the Nomination and Compensation Committee and be determined by the Board of Directors.

Names and profiles of Directors who are eligible for the termination payment are as follows.

Name		Brief personal profile
Katsunori Maruyama	June 1993	Director
	June 2001	Managing Director
	July 2002	Executive Managing Director
	July 2003	Executive Vice-president
	July 2004	President (Incumbent)
Yoshiki Takada	June 1994	Director
	June 2002	Managing Director
	June 2017	Director and Managing Executive Officer
	July 2018	Director and Senior Managing Executive Officer
	September 2019	Executive Vice-president (Incumbent)
Seiji Kosugi	June 2008	Director
	February 2010	Managing Director
	June 2013	Executive Managing Director
	June 2017	Director and Senior Managing Executive Officer (Incumbent)
Masahiko Satake	June 2007	Director
	July 2012	Managing Director
	June 2013	Executive Managing Director
	June 2017	Director and Senior Managing Executive Officer (Incumbent)
Toshio Isoe	June 2019	Director and Executive Officer (Incumbent)
Masahiro Ota	June 2019	Director and Executive Officer (Incumbent)

## Proposal 5

## Determination of Amount and Details of a Stock Compensation Plan for Directors

### 1. Reasons for the proposal and reasons for justifying such compensation

This proposal is to seek approval for introducing a new stock compensation plan (hereinafter the “Plan”) under which the Company’s shares and an amount of money equivalent to the market value of the Company’s shares (hereinafter the “Company’s Shares, etc.”) are provided to the Company’s Directors (excluding Outside Directors and Directors who do not execute business) according to the achievement of a performance target. We propose that the details of the Plan be deliberated by the Nomination and Compensation Committee and be determined by the Board of Directors within the framework of 2. below.

The purpose of the Plan is to clarify the linkage of the compensation for Directors and the Company’s share value, and enhance Directors’ motivation to contribute to the improvement of the Company’s corporate value in the medium and long term by their sharing the benefit of a rise in share prices and the risks of a decline in share prices with the Company’s shareholders. The Nomination and Compensation Committee and the Board of Directors believe that the introduction of the Plan is appropriate.

This proposal is to provide a stock compensation to Directors separately from the total amount of basic compensation for Directors for each fiscal year (no more than 900 million yen per annum) approved at the 48th Annual General Meeting of Shareholders held on June 28, 2007.

The compensation for Directors currently consists of “basic compensation” and “retirement benefits”. If this proposal is approved and adopted as originally proposed, the compensation shall consist of “basic compensation” and “stock compensation.”

The number of Directors eligible for the Plan shall be eight excluding two Outside Directors provided that Proposal 2 “Election of 10 Directors” is approved and adopted as originally proposed.

### 2. Amount and other details of compensation under the Plan

#### (1) Outline of the Plan

The Plan is a stock compensation plan under which a trust established by the Company contributing funds as a compensation for Directors (hereinafter the “Trust”) acquires shares of the Company, and Directors are provided with the Company’s Shares, etc. equivalent to the number of points to be granted to them through the Trust in accordance with the stock benefit rules established by the Board of Directors after deliberations at the Nomination and Compensation Committee.

Directors shall receive the Company’s Shares, etc. upon their retirement, in principle (the details are as stated in (8) below).

#### (2) Persons eligible for the Plan

Directors (excluding Outside Directors and Directors who do not execute business)

#### (3) Applicable period of the Plan

Three fiscal years from the year ending March 31, 2021 to the year ending March 31, 2023 (hereinafter the “Initial Period”) and each three consecutive fiscal years following the Initial Period (or periods exceeding three fiscal years if the Board of Directors resolves to separately designate such additional periods) (hereinafter, together with the Initial Period, such periods are respectively referred to as the “Applicable Period”).

### (4) Trust period

The trust period shall be from August 2020 (planned) until the termination of the Trust (the date of termination of the Trust shall not be specified and the Trust will continue as long as the Plan is not terminated). The Plan shall terminate upon the delisting of the Company's shares, abolition of the stock benefit rules, or in certain other cases.

### (5) Maximum amount of trust money contributed to the Trust as funds to acquire shares

If this proposal is approved and adopted as originally proposed, the Company will contribute money of up to 300 million yen (\*) to the Trust as funds to acquire the Company's shares required to provide Directors with the Company's Shares, etc. corresponding to the Initial Period based on the Plan.

The Company may entrust additional funds to acquire shares of the Company during the Initial Period within the limit where the total amount of contributions, including the initial contribution, does not exceed the above maximum amount of trust money.

Furthermore, after the expiration of the Initial Period, the Company will make additional contributions to the Trust of up to 300 million yen for each Applicable Period until the termination of the Plan. However, if the Company's shares (excluding a number of the Company's shares that have not yet been provided to Directors equivalent to points granted to them for each Applicable Period prior to the Applicable Period in which such additional contributions are made) and money remain in the Trust (such shares and money are hereinafter collectively referred to as the "Remaining Shares, etc.") immediately preceding the commencement date of such Applicable Period, the total amount of the Remaining Shares, etc. (the amount of remaining shares shall be the market value on the day prior to the commencement date of the Applicable Period) and additionally contributed trust money shall be within the limit of the above maximum amount.

(\*) The funds to acquire the Company's shares include the estimated amount of necessary costs, such as trust fees.

### (6) Acquisition method of the Company's shares and maximum number of shares to be acquired by the Trust

The Trust shall acquire the Company's shares by purchasing from the stock market within the limit of the maximum amount in (5) above, using the funds to acquire shares contributed by the Company in accordance with (5) above as the financial funds. The details of the acquisition method shall be determined and disclosed after this Annual General Meeting of Shareholders.

In the Initial Period, up to 3,000 shares shall be acquired without delay after the establishment of the Trust. The maximum number of shares to be acquired has been set in light of the maximum amount of trust money in (5) above.

### (7) Calculation method and maximum number of the Company's shares to be provided to Directors

For each fiscal year, Directors shall be granted the number of points calculated according to the title and achievement of a performance target in accordance with the stock benefit rules (\*). The upper limit of total points granted to Directors for each fiscal year during the Applicable Period shall be 1,000 points.

Each point granted shall be converted into one share of the Company at the time of the provision of shares to Directors (any fractions less than one point are rounded down). Provided, however, in case where the Company's shares become the subject of a share split, allotment of shares without contribution, or consolidation of shares, etc., the conversion rate of the Company's share per one point shall be adjusted in a reasonable manner in proportion to the relevant ratio, etc.

(\*) A performance target used during the Applicable Period shall be consolidated-based operating income ratio for each fiscal year. If the target is not achieved, points shall not be granted.

(8) Provision of the Company's Shares, etc. to Directors

If a Director fulfills the beneficiary requirements stipulated in the stock benefit rules, such as by retiring, the number of the Company's shares corresponding to points granted shall be provided to the Director after taking the prescribed procedures to become a beneficiary. However, in respect of a certain portion of such shares, an amount of money equivalent to the market value of the Company's shares shall be paid in lieu of providing the Company shares in order to secure funds to pay taxes. The Company's shares in the Trust may be sold in order to make monetary provisions.

(9) Voting rights of the Company's shares in the Trust

The voting rights of the Company's shares in the Trust shall not be exercised across the board throughout the trust period so as to ensure the neutrality in management.

(10) Handling of dividends of the Company's shares in the Trust

The dividends of the Company's shares in the Trust shall be received by the Trust and mainly appropriated to funds to acquire the Company's shares or trust fees pertaining to the Trust.

(11) Handling at the termination of trust period

The Company's shares in the residual assets of the Trust at the time of the termination of the Trust shall be cancelled by resolution of the Board of Directors of the Company after being wholly acquired by the Company without contribution. The remaining money shall be provided to persons eligible for the Plan then in office in proportion to the number of points granted to each of them.

(12) Malus and Clawback provisions

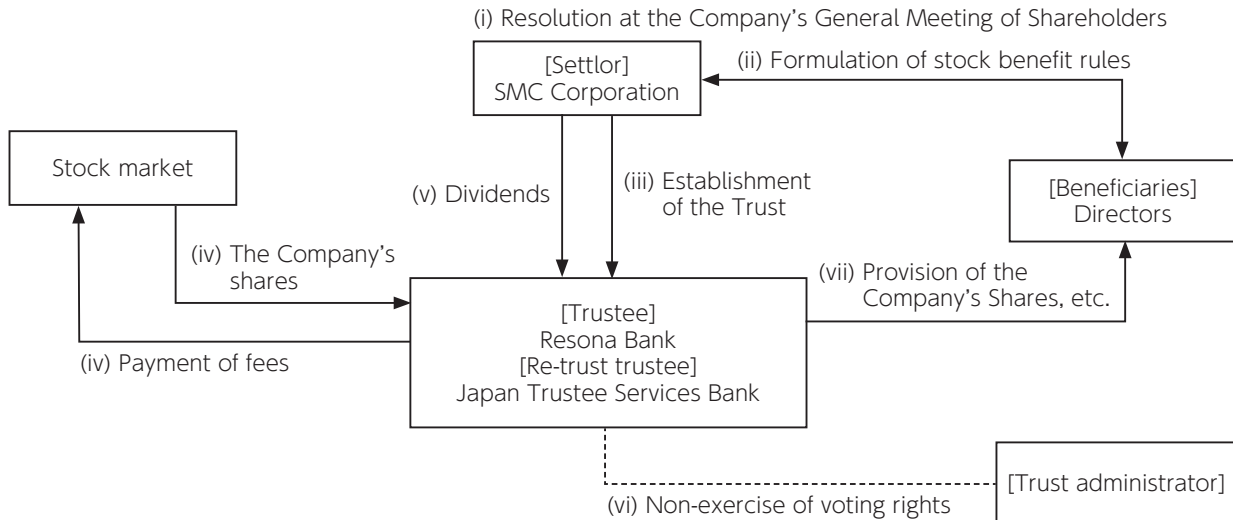
If a person eligible for the Plan is deemed by the Company to have committed a certain illegal act in the event of dismissal or during his/her service, such person shall not obtain the right to receive the Company's Shares, etc.

In addition, if any error is found in the calculation of the performance target on which the granting of points is based, or the person eligible for the Plan is found to have committed a certain illegal act after the Company's Shares, etc. are provided under the Plan, such person shall be obligated to return to the Company the Company's Shares, etc. provided in excess of the limit within which they should be provided.

(13) Other details of the Plan

Other details of the Plan, including those concerning the establishment of the Trust, changes to the trust agreement and additional contributions to the Trust, shall be determined by the Board of Directors after deliberations at the Nomination and Compensation Committee.

### <Reference: structure of the Plan>



- (i) The Company shall obtain approval for the amount and other details of stock compensation pertaining to the introduction of the Plan at this Annual General Meeting of Shareholders.
- (ii) The Company shall formulate the stock benefit rules based on the Plan at the Board of Directors after deliberations at the Nomination and Compensation Committee.
- (iii) The Company shall contribute money within the range of the resolution for the approval as described in (i) above and establish a trust (the Trust) with the persons eligible for the Plan as the candidates for beneficiaries. The Company may make additional contributions within the range of the resolution for the approval in (i) above.
- (iv) The Trust shall acquire the Company's shares from the stock market using the money in (3) above as the financial funds.
- (v) Dividends shall also be paid for the Company's shares in the Trust in the same manner as for the Company's other shares.
- (vi) The voting rights of the Company's shares in the Trust shall not be exercised across the board throughout the trust period.
- (vii) During the trust period, points shall be granted to Directors according to the title and achievement of the performance target for each fiscal year in accordance with the stock benefit rules, and the number of the Company's Shares, etc. corresponding to the points granted shall be provided to Directors who have met certain beneficiary requirements, such as retirement, stipulated in the stock benefit rules.

# MEMO

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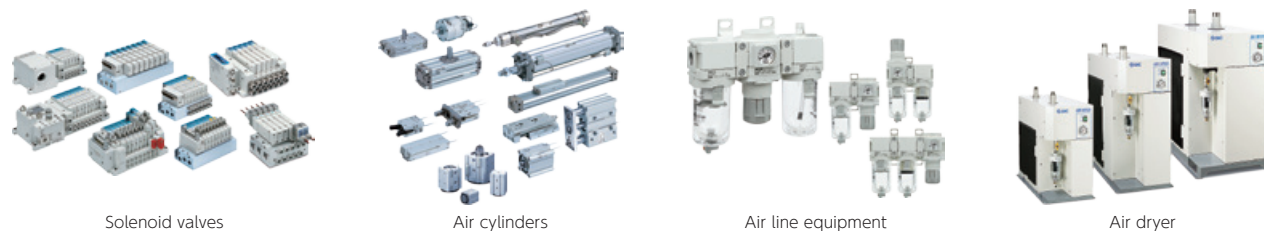
# 1 Matters pertaining to the present status of the Group

## 1 Main business activities

Manufacturing and sales of automatic control equipment, including pneumatic instruments

**1 Pneumatic instruments** Instruments that utilize the pressure of compressed air as core energy source and perform automatic operations such as pressing, gripping and turning the objects in place of the manual work by human hands

**Key products** Air cylinders, Air grippers, Rotary actuators, Solenoid valves, Air line equipment, One-touch fittings, Vacuum units



## 2 Electric instruments



## 3 Sensor



## 4 Temperature control equipment



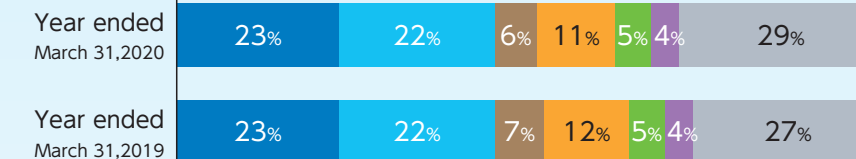
**Automobile industry**  
(automobile assembly line)



SMC Group's products are making contributions to automation and labor-saving in a variety of industry sectors.

Sales composition by industry (non-consolidated)

■ Automobile ■ Semiconductor ■ Electronics ■ Machine tools ■ Food ■ Medical equipment ■ Others



**Machine tools**  
(laser processing machine)

**Medical equipment**  
(hematology analyzer)

**Food machinery**  
(bottle filling machine)



**HOSPITAL**

**STORE**

**Semiconductor manufacturing equipment**  
(coater/developer)



## Global Network (for reference purpose)



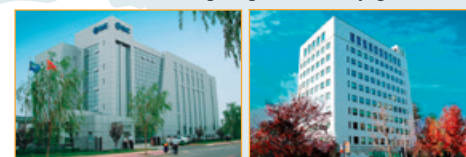
U. K. Italy



Spain Germany



Taiwan Hong Kong Beijing Manufacturing



China Korea

### Europe 17.2%

Net sales 90,672 million yen

YoY change -5.4%

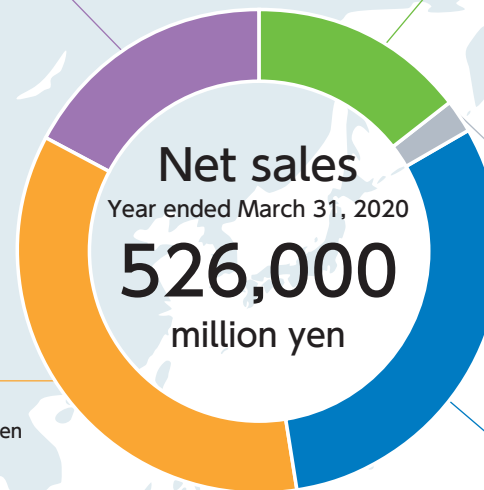
Demand dropped mainly in the automobile and machine tools-related industries due to the impact of the spread of COVID-19, in addition to sluggish investments in China affected by US-China trade friction and confusion over the UK's exit from the European Union.

### Asia 35.1%

Net sales 184,709 million yen

YoY change -6.5%

Demand for capital investment dropped due to the effects of US-China trade friction, a slowdown of the Chinese economy and other factors, and the market conditions were harsh. Although the impact of the spread of COVID-19 deepened, there were signs of recovery in sales in the semiconductor-related industry, mainly in Korea, Taiwan and Singapore, and there was an overall trend of recovery in China.



### North America 14.6%

Net sales 76,684 million yen

YoY change -7.3%

In the United States, while sales were stagnant in the automobile and machine tools-related industries, sales in the semiconductor-related industry showed a gradual recovery toward the latter half of the fiscal year. However, overall, the economy weakened following the spread of COVID-19. In Mexico, postponed capital investments related to automobiles affected the business.



U. S. Mexico

### Other 2.1%

Net sales 10,865 million yen

YoY change -8.3%

In other regions such as South America and Oceania, net sales decreased 8.3% to 10,865 million yen.



Australia Brazil

### Japan 31.0%

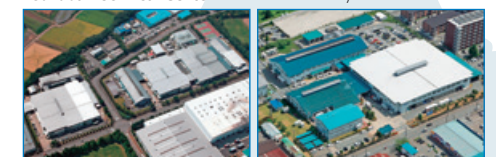
Net sales 163,069 million yen

YoY change -13.7%

In addition to moves to defer capital investments, mainly caused by the prolonged US-China trade friction and decreased sales of automobiles, we have seen a growing impact of the spread of COVID-19 infections since the beginning of the year. This resulted in lower sales in all industries, including automobiles, semiconductor and machine tools, than the previous fiscal year.



Tsukuba Technical Center Soka Factory



Tsukuba Factory Kamaishi Factory

## ② Business progress and results

During the fiscal year 2019 ended March 31, 2020, the global economy remained in extremely difficult conditions, greatly affected by the global spread of COVID-19 infections since the beginning of 2020, amid ongoing moves to refrain from making capital investments in a wide range of industries due to uncertainty over future outlook mainly stemmed from the prolonged US-China trade friction.

Demand for automatic control equipment remained stagnant worldwide in industries related to automobiles and machine tools, despite returning to an upward trend in the semiconductor-related industry mainly in North America and Asia from the latter half of the fiscal year.

Under these circumstances, the SMC Group continued to work on issues including the

strengthening, rationalization and cost reduction of its production supply systems both in Japan and abroad, development of new products with superior energy-saving performance, promotion of active sales activities through global cooperation.

As a result, consolidated net sales for the current fiscal year were 526,000 million yen (8.8% decrease year on year). Operating profit was

146,254 million yen (18.8% decrease) mainly due to reduced revenue. Ordinary profit was 158,450 million yen (20.1% decrease) mainly due to increased interest income and foreign exchange losses, and profit attributable to owners of parent was 110,500 million yen (15.4% decrease).

ROE became 8.9%, a decrease of 2.0 points from the previous fiscal year.

### ③ Issues to be addressed

SMC group declared its “Management Philosophy” as follows. And issues that SMC group needs to deal with toward the future are clarified as the “Long-term management vision.”

#### (1) Management philosophy

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

#### (2) Long-term management vision

1) The Company strives to develop products required by customer and to create a framework which can respond to customer requiring for delivery dates, quality, prices, etc.
2) The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.
3) The Company aims to survive competitions in the global markets and to acquire higher market shares.

### ④ Status of capital investments

The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.

In addition, capital investments were made for rationalization of production and cost reduction through purchasing equipment and renewing dies. Total capital investments in the current fiscal year amounted to 38,370 million yen, an increase of 20.1% year on year.

Listed below are the main capital investments during the fiscal year 2019.



SMC Manufacturing (Vietnam) Factory No.3  
(First phase construction)



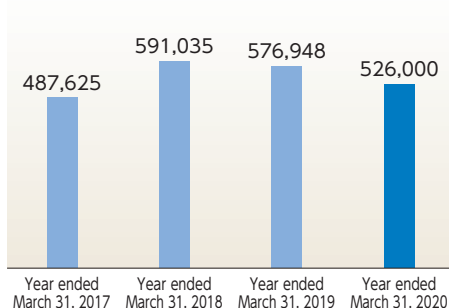
SMC (Tianjin) Manufacturing  
(First phase construction)

## ⑤ Changes in assets and financial results

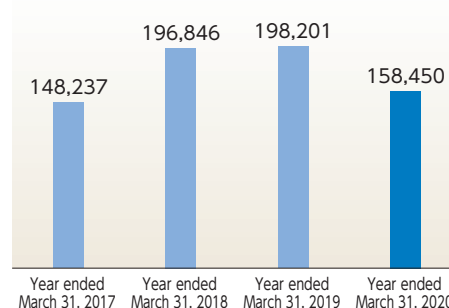
(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020 (Current fiscal year)
Net sales	487,625	591,035	576,948	<b>526,000</b>
Ordinary profit	148,237	196,846	198,201	<b>158,450</b>
Profit attributable to owners of parent	113,095	136,869	130,631	<b>110,500</b>
Net income per share (yen)	1,683.12	2,036.33	1,943.35	<b>1,656.44</b>
Total assets	1,192,444	1,342,890	1,389,308	<b>1,390,539</b>
Net assets	1,030,369	1,150,416	1,243,252	<b>1,253,266</b>
Net assets per share (yen)	15,292.53	17,067.08	18,447.39	<b>18,794.58</b>
Return on equity	11.5%	12.6%	10.9%	<b>8.9%</b>

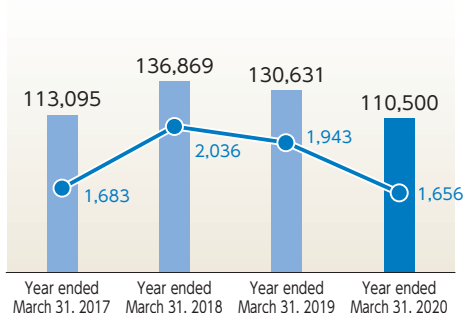
Net Sales (million yen)



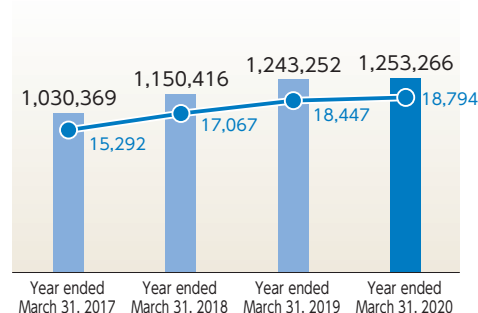
Ordinary Profit (million yen)



Profit attributable to owners of parent (million yen) Net Income per share (yen)



Net Assets (million yen) Net Assets per share (yen)



## ⑥ Status of principal subsidiaries

Company name	Share capital	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥ 304 million	47.3	Sale of pneumatic instruments etc.
Seigyo Kizai Corporation	¥ 100 million	100.0	Sale of pneumatic instruments etc.
SMC US	US\$ 172,700 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Germany	EUR 84,101 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC U.K.	£ 14,500 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Italy	EUR 18,145 thousand	99.9	Manufacturing and sale of pneumatic instruments etc.
SMC Spain	EUR 3,305 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Singapore	S\$ 5,600 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Hong Kong	HK\$ 100 thousand	(Note) 100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Taiwan	NT\$ 420,840 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Korea	KRW 46,500 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Guangzhou	CNY 144 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC China	CNY 1,504 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC (Beijing) Manufacturing	CNY 1,716 million	100.0	Manufacturing of pneumatic instruments etc.
SMC Manufacturing (Singapore)	S\$ 10,000 thousand	100.0	Manufacturing of pneumatic instruments etc.
SMC Australia	A\$ 20,000 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Brazil	BRL 332,525 thousand	(Note) 100.0	Manufacturing and sale of pneumatic instruments etc.

(Note) The Company's percentages of voting rights in SMC Hong Kong and SMC Brazil include those indirectly held by the Company's wholly-owned subsidiaries.

The Company has included 9 non-consolidated subsidiaries with increased materiality in the scope of consolidation from the current fiscal year. There are 44 consolidated subsidiaries including the abovementioned 17 principal subsidiaries.

SMC Germany increased the share capital to allocate it to funds for facilities and other necessities. The Company also purchased SMC Italy's and SMC Spain's shares from minority shareholders.

## ⑦ Status of employees

Number of employees	20,853	Increase against the previous year	1,107
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- (Notes) 1. The number of employees represents the number of the actual workforce (i.e., excludes staff seconded to non-Group companies from Group companies and includes staff seconded to Group companies from non-Group companies).
2. In addition to the above, we employ 5,126 temporary staff (average during the year; decreased by 387 persons from the previous year).

## ⑧ Status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited	¥ 9,285 million

## ⑨ Major bases

Company name and location		
SMC Corporation	Head office	Akihabara UDX Building, 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo
	Sales offices	Sendai, Omiya (Saitama), Kofu, Tokyo, Atsugi, Hamamatsu, Toyota, Nagoya, Kanazawa, Kyoto, Osaka, Okayama, Hiroshima, Fukuoka
	Production facilities	Soka, Tsukuba (Ibaraki), Yamatsuri, Kamaishi, Tono, Shimotsuma
	R&D centers	Tsukuba Technical Center (Ibaraki)
Domestic sales companies		Nihon Kizai Co., Ltd. (Osaka), Seigyo Kizai Corporation (Tokyo)
Overseas manufacture and sales companies		SMC US, SMC Germany, SMC U.K., SMC Italy, SMC Spain, SMC Singapore, SMC Hong Kong, SMC Taiwan, SMC Korea, SMC Guangzhou, SMC China, SMC Australia, SMC Brazil
Overseas manufacture		SMC (Beijing) Manufacturing, SMC Manufacturing (Singapore)
Overseas R&D bases		US Technical Center, European Technical Centre (U.K.), German Technical Centre, China Technical Center

## ⑩ Other significant matters pertaining to the present status of the Group

None

## 2 Matters pertaining to the Company's shares

① **Total number of shares outstanding:** 67,369,359 (including 850,846 shares of treasury share)

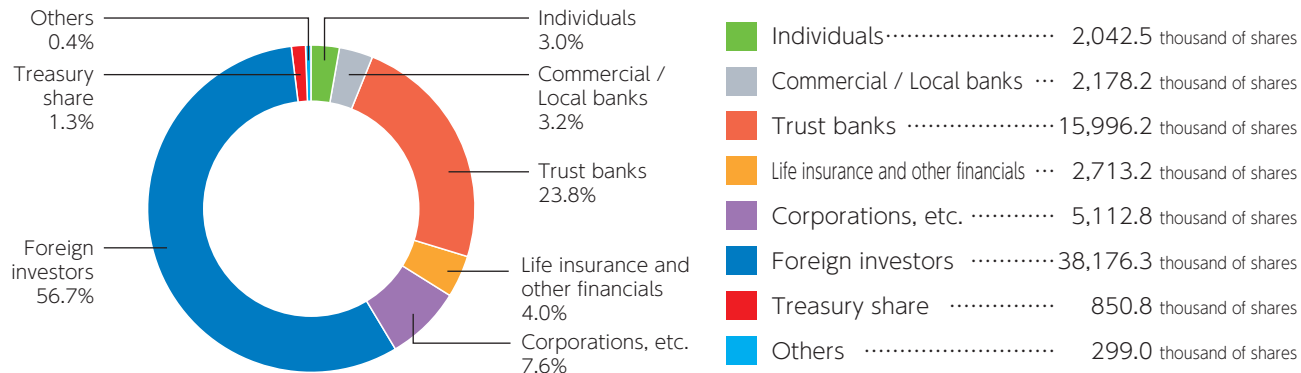
② **Number of shareholders:** 4,489

③ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Master Trust Bank of Japan (Trust account)	4,589.7	6.89
Japan Trustee Services Bank, Ltd. (Trust account)	3,979.7	5.98
Takada International LLC	3,793.0	5.70
TON Finance B.V.	3,443.5	5.17
JP Morgan Chase Bank 385632	2,995.5	4.50
The Bank of New York Mellon 140042	2,041.7	3.06
Resona Bank, Limited	1,861.8	2.79
The Dai-ichi Life Insurance Company, Limited	1,516.0	2.27
The Bank of New York Mellon 140044	1,280.3	1.92
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,278.0	1.92

(Note) Percentages of voting rights are calculated based on the number of shares outstanding of 66,518,513 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

### Distribution of share by shareholders



#### ④ Other significant matters pertaining to the Company's shares

The Company repurchased its treasury shares pursuant to the resolution at the Board of Directors' Meeting held on May 15, 2019, as follows.

(1) Purpose of the repurchase

To implement flexible capital policies, enhance returns to shareholders, and improve capital efficiency

(2) Total number of shares repurchased

Common shares of the Company 700,000

(3) Total amount of repurchase

27,314 million yen

(4) Period of repurchase

From June 3, 2019 to August 15, 2019

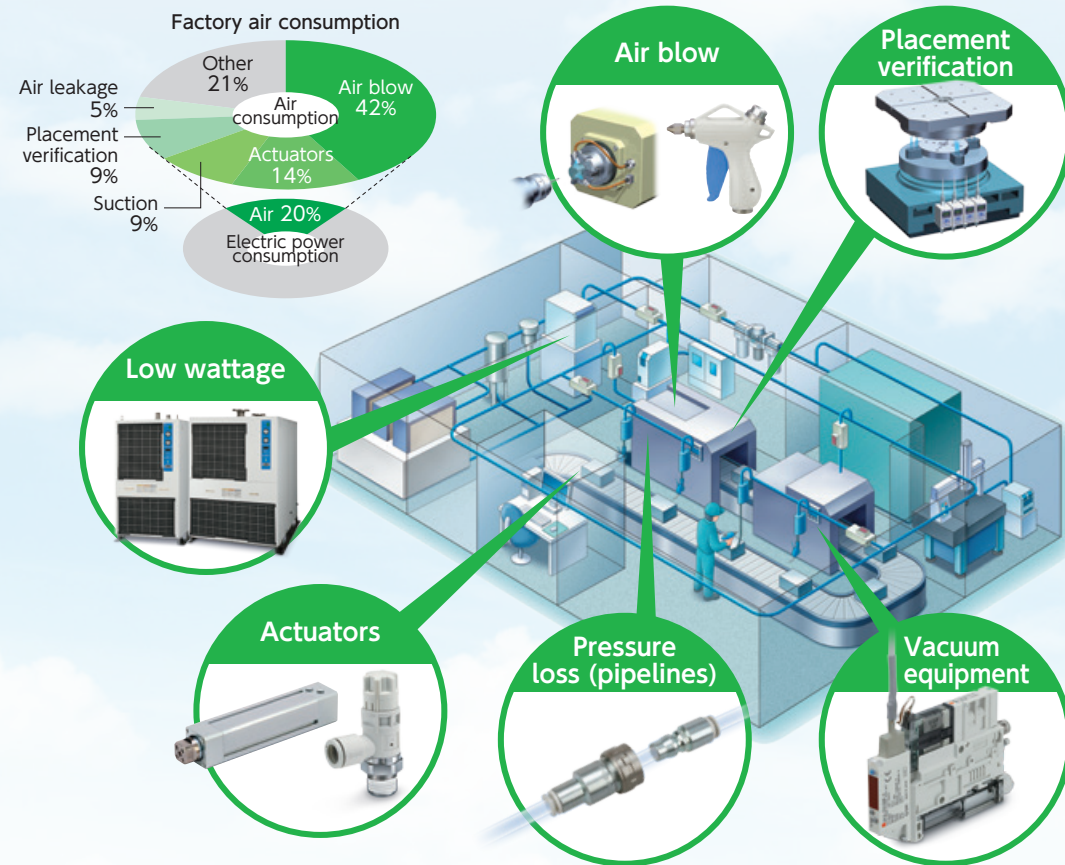
(5) Method of repurchase

Market purchase

## Environment

The Company strives to create environmentally friendly products by reducing the environmental load from product design and development down to the life cycle (manufacturing, packing and transportation, use and disposal).

To develop environmentally friendly products, we evaluate the environmental impact of products from the viewpoints of resource saving, long life, energy saving, safety, type and volume of packing materials and disposal methods through product assessment.



## Society

### Activity case 1 Green space conservation activities by Greenery Trust Association

Green space conservation activities by Greenery Trust Association

We participate in green space conservation activities promoted by Saitama Greenery Trust Association, a public interest incorporated foundation. To protect the area's greenery, our employees are engaged in tasks such as weeding, pruning, and cleaning fallen leaves.



### Activity case 2 Community promotion support in factory location area

We donated to the Kamaishi City Rugby Children's Future Fund and the Kamaishi City Sports Promotion Fund as part of cooperation for the earthquake disaster recovery support and regional promotion in Kamaishi City, Iwate Prefecture, where our factory is located.

Part of the donations was used to host the Rugby World Cup 2019 Japan Games held in Kamaishi and also to build the Kamaishi Unosumai Memorial Stadium.



(Photo courtesy of Kamaishi City)

## Governance

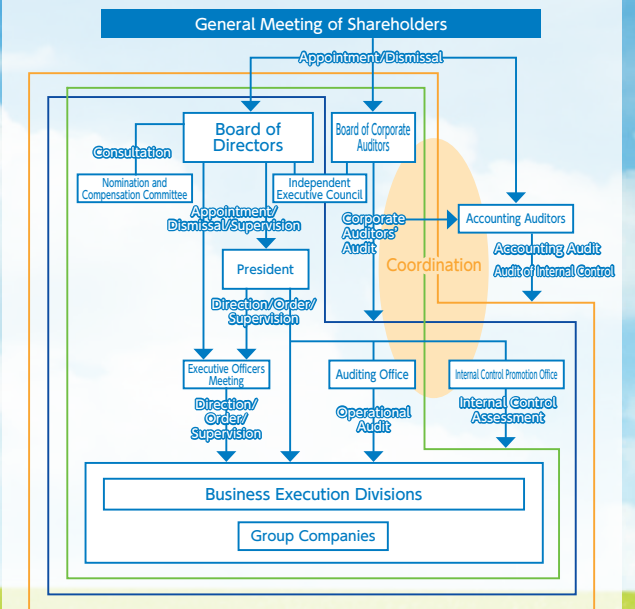
### Basic views

We consider 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 corporate value and protecting the interests of shareholders.

### Corporate governance framework

The Company established the Nomination and Compensation Committee as an advisory body of the Board of Directors in April 2020.

The Committee consists of all the Representative Directors and Independent Outside Directors. The Chairman of the Committee is appointed by mutual election of Independent Outside Directors.



### 3 Matters pertaining to the Company's Directors and Corporate Auditors

#### ① Directors and Corporate Auditors

Name	Position, assignment of work and significant concurrent position	
Yoshiyuki Takada	Director and Honorary Chairman of the Board of Directors	
Katsunori Maruyama	President	(Member of the Nomination and Compensation Committee)
Yoshiki Takada	Executive Vice-president	Senior General Manager of Sales Headquarters (Member of the Nomination and Compensation Committee) Chairman, SMC US
Seiji Kosugi	Director and Senior Managing Executive Officer	Senior General Manager of Engineering Headquarters
Masahiko Satake	Director and Senior Managing Executive Officer	Senior General Manager of Production Headquarters
Toshio Isoe	Director and Executive Officer	General Manager of Administration Division
Masahiro Ota	Director and Executive Officer	General Manager of Finance & Accounting Division
Ikuji Usui	Director and Senior Advisor	
Masanobu Kaizu	Outside Director	(Chairman of the Nomination and Compensation Committee) Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
Toshiharu Kagawa	Outside Director	(Member of the Nomination and Compensation Committee)
Naoto Moriyama	Full-Time Corporate Auditor	
Arata Toyoshi	Outside Corporate Auditor	Certified Public Accountant (Representative, CPA Toyoshi Arata Office) Outside Director (Audit Committee Member), NIHON CHOZAI Co., Ltd.
Haruya Uchikawa	Outside Corporate Auditor	Lawyer (Partner, Midosuji Legal Profession Corporation) Outside Director, APLUS FINANCIAL Co., Ltd.

- (Notes) 1. Messrs. Masanobu Kaizu, Toshiharu Kagawa, Arata Toyoshi and Haruya Uchikawa are Independent Directors/Corporate Auditors, which TSE has required listed companies to have in order to protect the interests of general shareholders.
2. Corporate Auditor Arata Toyoshi is a certified public accountant and certified public tax accountant and has abundant knowledge in finance and accounting.
3. Resigned Corporate Auditor during the fiscal year 2019 (as of June 27, 2019)

Name	Position and assignment of work as of resignation
Eizo Fujino	Full-Time Corporate Auditor

4. Upon the conclusion of the 60th Annual General Meeting of Shareholders held on June 27, 2019, Mr. Eiji Ohashi retired upon expiration of his term of office as Director, and Mr. Eizo Fujino resigned as Corporate Auditor. Meanwhile, Mr. Yoshiaki Ogawa and Mr. Tatsuo Suzue retired as Outside Corporate Auditor upon expiration of their term of office. At that Annual General Meeting of Shareholders, Mr. Toshio Isoe and Mr. Masahiro Ota were newly appointed and assumed the position of Director while Messrs. Naoto Moriyama, Arata Toyoshi and Haruya Uchikawa were appointed and assumed the position of Corporate Auditor.

5. Changes in titles of Directors during the fiscal year 2019  
(as of July 1, 2019)

Name	New title	Previous title	
Ikuji Usui	Director and Senior Advisor	Director and Senior Managing Executive Officer	Senior General Manager of Administration Headquarters

(as of September 26, 2019)

Name	New title	Previous title	
Yoshiyuki Takada	Director and Honorary Chairman of the Board of Directors	Chairman of the Board of Directors	
Yoshiki Takada	Executive Vice-president	Director and Senior Managing Executive Officer	Senior General Manager of Sales Headquarters

## ② Compensation amounts payable to Directors and Corporate Auditors

	Total amount of compensation	Total amount of compensation by type of remuneration		Number of target Directors
		Basic compensation	Retirement benefits	
Directors (Outside Directors)	¥418 million (¥18 million)	¥382 million (¥18 million)	¥35 million (—)	11 (2)
Corporate Auditors (Outside Corporate Auditors)	¥29 million (¥12 million)	¥29 million (¥12 million)	— (—)	6 (4)

(Notes) 1. The above amounts include compensation for one Director and three Corporate Auditors (of which two are Outside Corporate Auditors) who retired during fiscal year 2019.

2. The amount of retirement benefits is the sum of provision for retirement benefits for Directors recognized for the current fiscal year and the difference between the amount actually paid to the one Director who retired during the fiscal year 2019 and the recognized balance of the provision.

3. Policy regarding the determination of compensation amounts payable to Directors

Total amounts of basic compensation for Directors and Corporate Auditors were determined to be no more than 900 million yen and 100 million yen per annum, respectively, at the 48th Annual General Meeting of Shareholders held on June 28, 2007.

The specific amount of basic compensation for individual Directors and Corporate Auditors is determined after the Annual General Meeting of Shareholders each year by the resolution of the Board of Directors' Meeting for Directors and by consensus of all Corporate Auditors for Corporate Auditors. It is determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director and Corporate Auditor to earnings, position, assignment to work and term of office and the like.

As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is calculated using the basic payment amount that is automatically obtained in accordance with the "regulations for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits. When a Director actually retires, the specific amount of retirement benefits is determined by the Board of Directors after the agenda for payment of such benefits is approved at the relevant Meeting of Shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said regulations which the Director's distinguished services performed while in office may be reflected.

When the agenda for payment of retirement benefits is proposed at the relevant Meeting of Shareholders, the upper limit of the total payment amount is also indicated so that shareholders can make their decisions. Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

The Company voluntarily established the Nomination and Compensation Committee as an advisory body of the Board of Directors on April 16, 2020.

### ③ Matters pertaining to Outside Directors and Outside Corporate Auditors

#### (1) Main activities during the current fiscal year

Name	Position	Number of the Board of Directors' Meetings attended/held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Masanobu Kaizu	Outside Director	8 out of 8 meetings (100.0%)	—	As an economist and securities analyst, he has supervised the management of the Company and worked for further improving the transparency of management based on his professional knowledge of economic situations, financial market conditions, corporate management and financial accounting with neutral and objective viewpoints, in particular, focusing on protecting the interests of general shareholders and investors. He has also made proposals on management policies in light of urging the Company's sustainable growth and improving corporate value in the medium and long term. In addition, he has provided the Board of Directors with the latest information about economic situations and financial market conditions. In the current fiscal year, we received many opinions on the Company's long-term management issues.
Toshiharu Kagawa	Outside Director	8 out of 8 meetings (100.0%)	—	As a researcher and educator specialized in flow measurement and control, an area quite closely related to the Company's business domain, he has supervised the management of the Company and worked for improving the transparency of management based on his professional knowledge and broad experience with neutral and objective viewpoints. He has also made proposals on management policies, in particular, measures centered on R&D activities and the development of engineers in light of urging the Company's sustainable growth and enhancing corporate value in the medium and long term. In the current fiscal year, we received many opinions on the Company's long-term management issues.
Arata Toyoshi	Outside Corporate Auditor	6 out of 6 meetings (100.0%)	9 out of 9 meetings (100.0%)	As a certified public accountant, he has monitored the Company's management activities based on his professional knowledge and broad experience on business accounting and auditing from a neutral and objective point of view, focusing, in particular, on ensuring the fairness of financial accounting and timely disclosure. He has also made proposals on the overall management of the Company.
Haruya Uchikawa	Outside Corporate Auditor	5 out of 6 meetings (83.3%)	9 out of 9 meetings (100.0%)	As a lawyer, he has monitored the Company's management activities based on his professional knowledge and broad experience on the Companies Act, the Financial Instruments and Exchange Act, other laws and regulations as well as compliance required for listed companies from a neutral and objective point of view, focusing, in particular on legal risk management and compliance. He has also made proposals on the overall management of the Company.

#### (2) Relationships between the Company and organizations to which Outside Directors and Outside Corporate Auditors concurrently belong

There is no special relationship to report.

#### (3) Outline of contracts for the limitation of liability

The Company has made a contract with each of Outside Directors and Outside Corporate Auditors for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Articles 27 and 37 of the Company's articles of incorporation.

As a result, Outside Director or Outside Corporate Auditor act in good faith and are not grossly negligent in performing their duties, they will be held liable under Article 423, Paragraph 1 of the Companies Act, the amount of such liability is limited to the minimum amount stipulated in Article 425, Paragraph 1 of the Companies Act.

## 4 Status of Accounting Auditor

### ① Name of Accounting Auditor

Seiyo Audit Corporation

### ② Remuneration amount payable to Accounting Auditor in the fiscal year 2019

	Amount payable
Remuneration as Accounting Auditor in the fiscal year	¥71 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥71 million

(Notes) 1. Since the auditing agreement between the Company and its Accounting Auditor does not segregate the amount of remuneration to Auditors pursuant to the Companies Act and that pursuant to the Financial Instruments and Exchange Law (including internal control audit) as it is substantially difficult to do so, the amount recorded above is the total of these two types of remuneration.

2. Reasons for the consent on remuneration for the Accounting Auditor by the Board of Corporate Auditors  
The Board of Corporate Auditors examined the performance of duties of the Accounting Auditor, details of the auditing plans and the basis of calculation of the estimated remuneration based on submitted materials and reports received from Directors, relevant internal parties, and the Accounting Auditor. As a result, the Board of Corporate Auditors concluded that the remuneration paid to the Accounting Auditor was appropriate and provided consent thereto.

### ③ Matters pertaining to audits for subsidiaries

Excluding Seiyo Kizai Corporation, audits for the 16 subsidiaries of the 17 principal subsidiaries listed in “1. Matters pertaining to the present status of the Group (6) Status of principal subsidiaries” are performed by auditing firms other than the Company’s Accounting Auditor.

The audits for some foreign subsidiaries are performed by auditing firms which belong to the global network (Baker Tilly International) same as Company’s Accounting Auditor.

### ④ Policies on the dismissal or non-reappointment of Accounting Auditor

If any of the dismissal causes stipulated in Article 340 of the Companies Act, such as the breach of the aforementioned obligations, neglect of duties, or misconduct as an Accounting Auditor, is applicable to the Accounting Auditor, the Board of Corporate Auditors shall dismiss the Accounting Auditor by obtaining consent from all Corporate Auditors.

Moreover, the Board of Corporate Auditors shall propose an agenda item concerning the dismissal or non-reappointment of the Accounting Auditor to Shareholders’ Meeting if it is deemed difficult for the Accounting Auditor to execute its duties adequately.

## 5 Framework to ensure the properness of operations

### ① Framework to ensure that execution of duties by Directors complies with applicable laws and regulations as well as the Articles of Incorporation, other framework to ensure the properness of operations

#### (1) Framework to ensure that execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation

- The Company has disclosed the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
- The Company have voluntarily established the Nomination and Compensation Committee to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors.
- Develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest throughout the Group to help prevent and correct improper conduct. Our internal rules protect whistleblowers and prohibit any detrimental treatment or harassment of those who made a legitimate report.
- Do not become involved with antisocial forces and organizationally take a resolute attitude toward undue claims in close collaboration with lawyers, police, and others.

#### (2) Framework for information storage and management with regards to the execution of duties by Directors

- Formulate information management rules to develop a system to prevent leakage of important information.  
Under the direction of the person in charge of information handling, we strive to promote timely and appropriate information disclosure.

#### (3) Framework and rules relating to risk of loss management

- Establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, disaster prevention, etc.
- Information regarding complaints against quality will be reported to the President, and actions as well as recurrence prevention measures will be verified.

#### (4) Framework to ensure that duties of the Directors are efficiently executed

- Establish the Executive Officers Meeting to facilitate information-sharing among department heads.
- Establish long term management plans as well as annual policies and budgets for each Group company and department, thereby implement adequate business management.

#### (5) Framework to ensure the properness of operations of the corporate group consisting of the Company and its subsidiaries

- Contracts made with subsidiaries obligates them to report to the Company when there is any advance discussion regarding significant matters, any regular reports and discussions on business plans, financial

closing, etc., any operational losses, losses caused by disaster, etc., and any occurrence of important events such as the violation of law.

- Organize and operate a framework to conduct risk management (internal control related to financial reporting) necessary for ensuring the reliability of financial reporting, and improve its effectiveness through regular assessment.
- Properly manage subsidiaries and promote integrated and efficient group strategies throughout organizing management rules for subsidiaries, dispatching directors, exercising shareholder rights, and having regular discussions with subsidiaries.

**(6) Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed**

- Assign full-time audit staff persons who assist Corporate Auditors in executing their duties, and have knowledge of internal audit, financial accounting and other areas.
- These audit staff persons are authorized to conduct necessary examinations to support Corporate Auditors' audit, under the direction of Corporate Auditors.
- Personnel changes announcement or disciplinary actions are taken upon consulting Corporate Auditors.

**(7) Framework in which Directors and employees give reports to Corporate Auditors/Framework to give other reports to Corporate Auditors**

- Directors and employees report the status of business execution to Corporate Auditors regularly and at the request of Corporate Auditors.
- In the case that a Director or employee discovers a fact that may cause significant damage to the Company, he or she shall report it immediately to Corporate Auditors.
- In the case that a Director or employee receives a report on a subsidiary's significant matters from the subsidiary's Director, employee, or other persons, he or she shall report it to Corporate Auditors in a timely and appropriate manner.
- It is prohibited to unfairly treat Directors and employees of the Company and its subsidiaries on the grounds that relevant matters have been reported to Corporate Auditors.

**(8) Matters pertaining to the processing of costs incurred in connection with the execution of duties by Corporate Auditors**

- Costs necessary for the execution of duties by Corporate Auditors are immediately processed whenever requested, including prepayments.

**(9) Framework to ensure that other audit work by Corporate Auditors is effectively performed**

- Corporate Auditors hold meetings periodically with the President, the Accounting Auditor and the internal audit department in order to improve the auditing environment and strengthen the liaison among Auditors.

## ② Overview of the operation status of the said frameworks

- (1) Framework to ensure that the execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation
  - The Company has disclosed the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
  - Under the “SMC Group Ethical and Corporate Principles,” the Company has established the “SMC Group Code of Conduct” which specifically describes what the Group’s Directors and employees should comply with, and distributed an English translation of the Japanese version to the Group companies.  
As part of the procedures for evaluating the internal control system pertaining to financial reports, the Company confirms every year that the SMC Group Code of Conduct is well acknowledged among the consolidated subsidiaries.
  - In addition to the internal reporting system, the Company has established a contact point outside the Company as a reporting system which can respond to illegal or inappropriate acts engaged in by Directors or Corporate Auditors. An external law firm versed in practical operations for whistle-blowing processes serves as the contact point.
- (2) Framework for information storage and management with regards to the execution of duties by Directors
  - Concerning management of the My Number system (national personal identification number system in Japan), take necessary measures such as assigning employees who are responsible for handling My Number and establishment of a special workroom that has security equipment installed in it.
- (3) Framework to ensure that duties of the Directors are efficiently executed
  - With the introduction of an executive officer system, detailed matters related to operation execution are examined in the Executive Officers Meeting, and deliberation of the management strategy and investment project of high importance is performed at the Board of Directors.
- (4) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries
  - The Board of Directors Regulations clearly provide to the effect that all matters of particular importance including the investment projects, etc., conducted by a subsidiary alone need to be approved by the Board of Directors. During the fiscal year 2019, the Board of Directors deliberated several numbers of projects in detail and had lively discussions together with Outside Directors.
- (5) Framework to ensure that other audit work by Corporate Auditors is effectively performed
  - Further strengthen collaboration among the Board of Corporate Auditors, the Accounting Auditor and internal audit department.

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(Note) In the Business Report, amounts are rounded down to match the unit in which they are presented.

# Consolidated Financial Statements

## Consolidated Balance Sheets (As of March 31, 2020)

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
<b>(Assets)</b>		
<b>Current assets</b>	<b>967,924</b>	<b>964,549</b>
Cash and deposits	519,609	548,311
Notes and accounts receivable-trade	158,079	143,136
Securities	31,977	12,454
Merchandise and finished goods	102,936	103,456
Work in process	19,753	18,913
Raw materials and supplies	107,578	110,190
Other	28,449	28,603
Allowance for doubtful accounts	(460)	(517)
<b>Non-current assets</b>	<b>421,384</b>	<b>425,989</b>
<b>Property, plant and equipment</b>	<b>170,342</b>	<b>188,477</b>
Buildings and structures	73,752	82,169
Machinery, equipment and vehicles	27,928	34,857
Tools, furniture and fixtures	7,453	7,789
Land	38,194	38,611
Construction in progress	23,012	25,049
<b>Intangible assets</b>	<b>11,456</b>	<b>10,771</b>
Leasehold interests in land	9,046	8,649
Other	2,409	2,122
<b>Investments and other assets</b>	<b>239,585</b>	<b>226,740</b>
Investment securities	96,320	74,791
Retirement benefit asset	48	35
Insurance funds	132,936	139,226
Deferred tax assets	6,021	5,859
Other	5,736	8,276
Allowance for doubtful accounts	(1,479)	(1,448)
<b>Total assets</b>	<b>1,389,308</b>	<b>1,390,539</b>

	As of March 31, 2019	As of March 31, 2020
<b>(Liabilities)</b>		
<b>Current liabilities</b>	<b>117,670</b>	<b>94,364</b>
Notes and accounts payable-trade	38,513	38,379
Short-term borrowings	4,503	3,726
Income taxes payable	23,800	14,669
Provision for bonuses	2,894	2,434
Other	47,959	35,155
<b>Non-current liabilities</b>	<b>28,385</b>	<b>42,908</b>
Long-term borrowings	2,735	7,790
Deferred tax liabilities	11,287	18,682
Provision for retirement benefits for directors	956	964
Retirement benefit liability	6,398	8,296
Other	7,007	7,175
<b>Total liabilities</b>	<b>146,056</b>	<b>137,272</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>1,220,251</b>	<b>1,285,922</b>
Share capital	61,005	61,005
Capital surplus	73,372	73,335
Retained earnings	1,088,960	1,182,014
Treasury shares	(3,086)	(30,432)
<b>Accumulated other comprehensive income</b>	<b>19,767</b>	<b>(35,734)</b>
Valuation difference on available-for-sale securities	7,667	6,344
Foreign currency translation adjustment	12,824	(40,084)
Remeasurements of defined benefit plans	(724)	(1,994)
<b>Non-controlling interests</b>	<b>3,232</b>	<b>3,078</b>
<b>Total net assets</b>	<b>1,243,252</b>	<b>1,253,266</b>
<b>Total liabilities and net assets</b>	<b>1,389,308</b>	<b>1,390,539</b>

## Consolidated Statements of Income (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net sales	576,948	526,000
Cost of sales	280,104	266,148
Gross profit	296,843	259,852
Selling, general and administrative expenses	116,640	113,597
Operating profit	180,203	146,254
Non-operating income	18,781	16,788
Interest income	9,301	10,710
Foreign exchange gains	2,827	—
Gain on investments in insurance funds	1,749	2,385
Other	4,902	3,692
Non-operating expenses	783	4,592
Interest expenses	116	124
Sales discounts	261	390
Loss on sales of securities	281	474
Foreign exchange losses	—	3,335
Other	124	266
Ordinary profit	198,201	158,450
Extraordinary income	341	538
Gain on sales of non-current assets	111	173
Gain on sales of investment securities	214	225
Gain on liquidation of subsidiaries	—	117
Other	15	22
Extraordinary losses	1,460	855
Loss on retirement of non-current assets	208	225
Impairment loss	—	311
Loss on valuation of shares of subsidiaries	1,202	199
Other	50	118
Profit before income taxes	197,081	158,133
Income taxes-current	52,465	39,063
Income taxes-deferred	13,801	8,475
Profit	130,814	110,594
Profit attributable to non-controlling interests	183	93
Profit attributable to owners of parent	130,631	110,500

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2019 to March 31, 2020) (Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
<b>Cash flows from operating activities</b>	<b>75,627</b>	<b>124,610</b>
Profit before income taxes	197,081	158,133
Depreciation	16,255	16,669
Interest and dividend income	(9,942)	(12,230)
Foreign exchange losses (gains)	(2,863)	(252)
Decrease (increase) in trade receivables	2,485	7,859
Decrease (increase) in inventories	(25,653)	(9,328)
Increase (decrease) in trade payables	(49,140)	4,319
Other, net	(28)	(5,103)
<b>Subtotal</b>	<b>128,195</b>	<b>160,067</b>
Interest and dividends received	9,925	12,024
Interest paid	(99)	(110)
Income taxes (paid) refund	(62,392)	(47,370)
<b>Cash flows from investing activities</b>	<b>(58,800)</b>	<b>24,923</b>
Payments into time deposits	(301,880)	(216,171)
Proceeds from withdrawal of time deposits	276,719	280,556
Purchase of property, plant and equipment	(29,647)	(38,498)
Purchase of intangible assets	(1,672)	(481)
Purchase of short-term and long-term investment securities	(18,153)	(12,018)
Proceeds from sales and redemption of short-term and long-term investment securities	18,270	14,369
Purchase of insurance funds	(8,713)	(8,675)
Proceeds from maturity of insurance funds	5,003	4,106
Other, net	1,274	1,737
<b>Cash flows from financing activities</b>	<b>(26,151)</b>	<b>(49,925)</b>
Net increase (decrease) in short-term borrowings	(30)	2,100
Proceeds from long-term borrowings	2,600	6,500
Repayments of long-term borrowings	(1,770)	(4,413)
Purchase of treasury shares	(20)	(27,346)
Dividends paid	(26,882)	(26,745)
Other, net	(48)	(19)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(999)</b>	<b>(17,054)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(10,323)</b>	<b>82,555</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>322,690</b>	<b>312,366</b>
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	4,206
<b>Cash and cash equivalents at end of period</b>	<b>312,366</b>	<b>399,128</b>

(Note) In the consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

# Non-Consolidated Financial Statements

## Non-consolidated Balance Sheets (As of March 31, 2020)

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
<b>(Assets)</b>		
<b>Current assets</b>	<b>371,574</b>	<b>363,505</b>
Cash and deposits	100,407	107,848
Notes receivable-trade	26,382	21,944
Accounts receivable-trade	64,665	67,381
Securities	31,977	12,454
Merchandise and finished goods	31,711	37,370
Work in process	11,017	9,968
Raw materials and supplies	73,184	75,028
Accounts receivable-other	29,126	28,397
Other	3,180	3,217
Allowance for doubtful accounts	(80)	(105)
<b>Non-current assets</b>	<b>491,585</b>	<b>492,702</b>
<b>Property, plant and equipment</b>	<b>59,730</b>	<b>62,477</b>
Buildings and structures	28,046	27,342
Machinery, equipment and vehicles	8,888	12,508
Tools, furniture and fixtures	1,908	1,931
Land	16,784	17,330
Construction in progress	4,103	3,364
<b>Intangible assets</b>	<b>535</b>	<b>400</b>
Software	455	321
Other	79	79
<b>Investments and other assets</b>	<b>431,319</b>	<b>429,823</b>
Investment securities	74,774	58,516
Shares of subsidiaries and associates	101,731	108,171
Investments in capital of subsidiaries and associates	110,587	110,587
Prepaid pension cost	1,560	2,526
Deferred tax assets	8,635	8,730
Insurance funds	132,893	139,181
Other	1,163	2,188
Allowance for doubtful accounts	(27)	(79)
<b>Total assets</b>	<b>863,159</b>	<b>856,207</b>

	As of March 31, 2019	As of March 31, 2020
<b>(Liabilities)</b>		
<b>Current liabilities</b>	<b>97,756</b>	<b>75,252</b>
Accounts payable-trade	38,976	41,473
Short-term borrowings	8,761	5,767
Accounts payable-other	16,292	5,077
Income taxes payable	18,178	8,996
Accrued expenses	9,756	9,401
Other	5,791	4,535
<b>Non-current liabilities</b>	<b>11,851</b>	<b>16,554</b>
Long-term borrowings	—	5,000
Provision for retirement benefits	5,042	4,672
Provision for retirement benefits for directors	629	614
Other	6,178	6,267
<b>Total liabilities</b>	<b>109,608</b>	<b>91,807</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>746,144</b>	<b>758,099</b>
<b>Share capital</b>	<b>61,005</b>	<b>61,005</b>
<b>Capital surplus</b>	<b>73,270</b>	<b>73,271</b>
Legal capital surplus	72,576	72,576
Other capital surplus	694	694
<b>Retained earnings</b>	<b>614,954</b>	<b>654,255</b>
Legal retained earnings	15,251	15,251
Other retained earnings	599,703	639,004
Reserve for special depreciation	37	104
Reserve for tax purpose reduction entry of assets	288	275
General reserve	150,250	150,250
Retained earnings brought forward	449,126	488,373
<b>Treasury shares</b>	<b>(3,086)</b>	<b>(30,432)</b>
<b>Valuation and translation adjustments</b>	<b>7,406</b>	<b>6,301</b>
Valuation difference on available-for-sale securities	7,406	6,301
<b>Total net assets</b>	<b>753,551</b>	<b>764,400</b>
<b>Total liabilities and net assets</b>	<b>863,159</b>	<b>856,207</b>

## Non-consolidated Statements of Income (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
<b>Net sales</b>	<b>371,574</b>	<b>333,045</b>
<b>Cost of sales</b>	<b>225,860</b>	<b>208,665</b>
<b>Gross profit</b>	<b>145,714</b>	<b>124,379</b>
<b>Selling, general and administrative expenses</b>	<b>34,351</b>	<b>31,505</b>
<b>Operating profit</b>	<b>111,362</b>	<b>92,874</b>
<b>Non-operating income</b>	<b>39,801</b>	<b>8,467</b>
Interest and dividend income	31,475	3,630
Gain on investments in insurance funds	1,749	2,385
Gain on sales of securities	1,472	123
Foreign exchange gains	1,721	—
Dividend income of insurance	547	460
Royalty income	917	990
Other	1,918	876
<b>Non-operating expenses</b>	<b>601</b>	<b>8,586</b>
Interest expenses	203	240
Sales discounts	115	103
Loss on sales of securities	281	474
Foreign exchange losses	—	7,690
Other	1	76
<b>Ordinary profit</b>	<b>150,562</b>	<b>92,755</b>
<b>Extraordinary income</b>	<b>217</b>	<b>345</b>
Gain on sales of investment securities	214	225
Gain on liquidation of subsidiaries	—	117
Other	3	2
<b>Extraordinary losses</b>	<b>109</b>	<b>562</b>
Loss on retirement of non-current assets	107	25
Loss on sales of investment securities	—	311
Loss on valuation of shares of subsidiaries	—	197
Impairment loss	—	19
Other	2	8
<b>Profit before income taxes</b>	<b>150,671</b>	<b>92,538</b>
Income taxes-current	37,178	26,097
Income taxes-deferred	584	393
<b>Profit</b>	<b>112,907</b>	<b>66,048</b>

(Note) In the non-consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

## Audit Report of Accounting Auditor on the Consolidated Financial Statements

### Independent Auditor's Report

May 19, 2020

To the Board of Directors SMC Corporation

Seiyo Audit Corporation  
Minato-ku, Tokyo

Designated and Engagement partner  
Certified Public Accountant

**Takashi Saito**

Designated and Engagement partner  
Certified Public Accountant

**Takahiro Otofujii**

Designated and Engagement partner  
Certified Public Accountant

**Naoto Nakayama**

#### Opinion

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheets, the consolidated statements of income, the consolidated statement of changes in net assets and notes to consolidated financial statements of SMC Corporation (the "Company" ) applicable to the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan; this includes the maintenance and operation of such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

#### **Auditor's Responsibility for the Audit of the Consolidated Financial Statements**

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

#### **Conflicts of Interest**

Our firm and engagement partners have no interest in the Company and its consolidated subsidiaries which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## Audit Report of Accounting Auditor on the Non-consolidated Financial Statements

### Independent Auditor's Report

May 19, 2020

To the Board of Directors SMC Corporation

Seiyo Audit Corporation  
Minato-ku, Tokyo

Designated and Engagement partner  
Certified Public Accountant

**Takashi Saito**

Designated and Engagement partner  
Certified Public Accountant

**Takahiro Otofujii**

Designated and Engagement partner  
Certified Public Accountant

**Naoto Nakayama**

#### Opinion

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, that is, the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statement of changes in net assets, the notes to non-consolidated financial statements and the supplementary schedules of SMC Corporation (the "Company" ) (hereinafter, the "financial statements, etc." ) applicable to the 61st fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the financial statements, etc. referred to above present fairly, in all material respects, the financial position and results of operations of SMC Corporation applicable to the fiscal year ended March 31, in conformity with accounting principles generally accepted in Japan.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements, etc. section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Financial Statements, etc.

Management is responsible for the preparation and fair presentation of the financial statements, etc. in accordance with accounting principles generally accepted in Japan; this includes the maintenance and operation of such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements, etc. that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, etc., management is responsible for assessing whether it is appropriate to prepare the financial statements, etc. with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

#### **Auditor's Responsibility for the Audit of the Financial Statements, etc.**

Our responsibilities are to obtain reasonable assurance about whether the financial statements, etc. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the financial statements, etc. based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements, etc.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the financial statements, etc. is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the financial statements, etc. and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the financial statements, etc. or, if the notes to the financial statements, etc. on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the financial statements, etc. and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the financial statements, etc., including the related notes thereto, and whether the financial statements, etc. fairly represent the underlying transactions and accounting events.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

#### **Conflicts of Interest**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## Audit Report of Board of Corporate Auditors

### Audit Report

We, the Board of Corporate Auditors, have examined and discussed the execution of Directors' duties during the 61st fiscal year, which lasted from April 1, 2019 to March 31, 2020 based on audit reports prepared by each Corporate Auditor, and prepared our audit report as described below.

#### 1. Auditing Method Employed by Corporate Auditors and Board of Corporate Auditors and Details Thereof

- (1) The Board of Corporate Auditors formulated an audit policy, apportion of their business activities, and other audit related items, received reports from each Corporate Auditor on the implementation and results of audits. The Board of Corporate Auditors also received reports from the Directors of the Company, the Accounting Auditor, and other parties on the execution of their duties, and requested explanations from them when necessary.
- (2) Based on the standards for auditing defined by the Board of Corporate Auditors, and in line with the audit policy, apportion of their business activities and other related items, each Corporate Auditor effectively communicated with Directors, the internal audit department, and other employees, gathered information, and improved the audit environment, implementing audits with the following methods.
  - a. Each Corporate Auditor attended the Board of Directors' Meetings and other important meetings, received from Directors and employees reports on the execution of their duties, requested explanations from them when necessary, reviewed significant approval documents, and investigated the status of operations and assets at the Company's head office and other principal offices. Regarding auditing of the subsidiaries, each Corporate Auditor ensured sufficient communication and information exchange with Directors and Corporate Auditors of the subsidiaries and received reports from the subsidiaries on their businesses when necessary.
  - b. The Company has a framework to ensure that Directors' duties stated in the business report comply with laws and regulations as well as the Articles of Incorporation of the Company, and other frameworks established based on the substance at the resolutions of the Board of Directors' Meetings and those resolutions concerning the establishment of the frameworks stipulated in Article 100, Paragraph 1 and 3 of the Order for Enforcement of the Companies Act that are necessary for ensuring the appropriateness of operations of a corporate group consisting of a joint-stock company and its subsidiaries (internal control system). Regarding these frameworks, each Corporate Auditor received reports about the formation and the status of their operation on a regular basis, requested explanations from Directors and employees when necessary and expressed opinions.
  - c. The Corporate Auditors monitored and examined whether the Accounting Auditor maintained its independent position and conducted its audits in an appropriate manner. The Corporate Auditors also received from the Accounting Auditor reports on the execution of its duties and requested explanations when necessary. The Corporate Auditors were notified from the Accounting Auditor that the entity has established a "System to Ensure Independent Accountants' Appropriate Execution of Duties" (Item stipulated in Article 131 of the Corporate Calculation Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005), and requested explanations when necessary.

Through these methods, we reviewed the business report and its related supplementary schedules, the non-consolidated financial statements (the balance sheets, the statements of income, the statements of changes in equity and notes to non-consolidated financial statements) and their related supplementary schedules as well as the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in equity and notes to consolidated financial statements), for the current fiscal year.

## 2. Conclusions of Audit

(1) Results of the audit of the business report, etc.

- a. We confirmed that the business report and its related supplementary schedules fairly present the status of the Company in conformity with applicable laws and regulations as well as the Articles of Incorporation of the Company.
- b. We confirmed that there were no fraudulent acts or material facts that violated the applicable laws and regulations or the Articles of Incorporation of the Company in the course of the performance of the duties of the Directors.
- c. We confirmed that the substance of the resolutions made by the Board of Directors regarding the internal control system is appropriate. We did not recognize any matters that should be pointed out with regard to the details stated in the business report and the performance of the duties of the Directors regarding the said internal control system.

(2) Results of the audit of the non-consolidated financial statements and their supporting documents

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

(3) Results of the audit of the consolidated financial statements

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

May 21, 2020

Board of Corporate Auditors SMC Corporation

Full-time Corporate Auditor **Naoto Moriyama**

Corporate Auditor (Outside Corporate Auditor)

**Arata Toyoshi**

Corporate Auditor (Outside Corporate Auditor)

**Haruya Uchikawa**

To Our Shareholders

Internet Disclosure on the Notice of Convocation  
of the 61st Annual General Meeting of Shareholders

June 2020

SMC Corporation

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The above materials are deemed to have been provided to our shareholders by publishing on the Company's website (<https://www.smcworld.com/ir/en/>) based on the Regulation on Corporate Accounting and the Articles of Incorporation of the Company.

## Consolidated Statement of Changes in Equity

(April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,372	1,088,960	(3,086)	1,220,251
Changes during period					
Dividends of surplus			(26,747)		(26,747)
Profit attributable to owners of parent			110,500		110,500
Purchase of treasury shares				(27,346)	(27,346)
Disposal of treasury shares		0		0	0
Change in scope of consolidation			9,301		9,301
Change in ownership interest of parent due to transactions with non-controlling interests		(37)			(37)
Net changes in items other than shareholders' equity					
Total changes during period	—	(37)	93,054	(27,346)	65,671
Net assets at end of period	61,005	73,335	1,182,014	(30,432)	1,285,922

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	7,667	12,824	(724)	19,767	3,232	1,243,252
Changes during period						
Dividends of surplus						(26,747)
Profit attributable to owners of parent						110,500
Purchase of treasury shares						(27,346)
Disposal of treasury shares						0
Change in scope of consolidation						9,301
Change in ownership interest of parent due to transactions with non-controlling interests						(37)
Net changes in items other than shareholders' equity	(1,323)	(52,909)	(1,269)	(55,502)	(154)	(55,656)
Total changes during period	(1,323)	(52,909)	(1,269)	(55,502)	(154)	10,014
Net assets at end of period	6,344	(40,084)	(1,994)	(35,734)	3,078	1,253,266

## Notes to Consolidated Financial Statements

### [Notes on significant matters constituting the basis for preparing the Consolidated Financial Statements]

#### 1. The scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 44

Names of major consolidated subsidiaries:

Nihon Kizai Co., Ltd.	SMC Spain	SMC China
Seigyo Kizai Corporation	SMC Singapore	SMC (Beijing) Manufacturing
SMC US	SMC Hong Kong	SMC Manufacturing (Singapore)
SMC Germany	SMC Taiwan	SMC Australia
SMC U.K.	SMC Korea	SMC Brazil
SMC Italy	SMC Guangzhou	

From the current fiscal year, 9 subsidiaries; SMC Vietnam, Nihon Kizai (Shanghai), SMC Indonesia, SMC Poland, SMC Turkey, SMC Finland, SMC Hungary, SMC Denmark and SMC Slovenia, which were excluded from the scope of consolidation in the previous fiscal years have been consolidated as they have become material.

(2) Names of major non-consolidated subsidiaries: SMC Romania, SMC Chile

(Reasons for exclusion from the scope of consolidation)

The 31 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

#### 2. The scope of application of the equity method

Non-consolidated subsidiaries (SMC Romania and 30 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

### **3. Matters pertaining to the fiscal year of consolidated subsidiaries**

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2020 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil, SMC (Tianjin) Manufacturing and Nihon Kizai (Shanghai) whose fiscal year-end date is December 31.

### **4. Accounting policies**

#### **(1) Valuation standards and methods for significant assets**

##### **(i) Securities**

Available-for-sale securities

- a. With fair value: Stated at fair value based on the market value as of the balance sheet date.

(All unrealized holding gains and losses are included in net assets and cost of sales is principally calculated with the moving average method.)

- b. Without fair value: Stated at cost using the moving average method.

##### **(ii) Inventories: Principally values inventories with the gross average method (with book value written down on the balance sheet based on decreased profitability of assets).**

#### **(2) Depreciation methods for significant depreciable assets**

##### **(i) Property, plant and equipment (excluding leased assets)**

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are calculated with the straight-line method. And that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

##### **(ii) Intangible assets (excluding leased assets)**

Amortization of intangible assets of the Company and its domestic consolidated subsidiaries is calculated in accordance with the straight-line method and that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years) specified by the Company.

(3) Basis for significant allowances and provisions

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed uncollectible by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Foreign consolidated subsidiaries provide an allowance for possible loan losses in the amount deemed uncollectible based on an individual assessment of each claim.

(ii) Provision for bonuses

Some of the Company's consolidated subsidiaries provide a reserve of the estimated amount to prepare for bonus payment to employees.

(iii) Provision for retirement benefits for directors

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

(4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the balance sheet date and the difference resulting from the translation is recognized as gains or losses. Meanwhile, assets and liabilities held by foreign consolidated subsidiaries are translated into Japanese yen at exchange rates prevailing at the balance sheet date, while revenues and expenses are translated into Japanese yen at average rates of exchange during the current consolidated fiscal year and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under net assets.

(5) Other significant matters constituting the basis for preparing the Consolidated Financial Statements

(i) Basis for net defined retirement benefit liabilities and net defined retirement benefit assets

For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded with having pension assets excluded from the retirement benefit obligations, based on the end fiscal year projected amount.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition of each fiscal year, starting from the succeeding period.

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the

calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for using the tax-exclusion method.

## [Notes on Consolidated Balance Sheet]

(Millions of yen)

<b>1. Accumulated depreciation of property, plant and equipment</b>	222,291
<b>2. For non-consolidated subsidiaries and affiliates</b>	
Investment securities (stocks)	14,709

## [Notes on Consolidated Statements of Income]

(Millions of yen)

<b>1. Principal items under selling, general and administrative expenses</b>	
Salaries and allowances	42,077
Bonuses	7,683
Retirement benefit expenses	1,831
Provision of allowance for doubtful accounts	427
<b>2. Research and development expenses included under general and administrative expenses as well as manufacturing costs</b>	21,480

## [Notes on Consolidated Statement of Changes in Equity]

### 1. Type and number of outstanding shares and treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Outstanding shares	Common share	67,369,359	–	–	67,369,359
Treasury shares	Common share	150,139	700,719	12	850,846

Note: A 700,719 share increase in the number of treasury shares was due to purchase of 700,000 treasury shares based on the resolution of the Board of Directors and purchase of 719 odd-lot shares, while a 12 share decrease was due to sale of odd-lot shares.

## 2. Dividends

### (1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2019	Common share	¥13,443 million	¥200	March 31, 2019	June 28, 2019
Board of Directors' Meeting held on November 12, 2019	Common share	¥13,303 million	¥200	September 30, 2019	November 29, 2019

### (2) Dividends whose record date is within the term and effective date in the succeeding term

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 26, 2020.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥13,303 million	¥200	March 31, 2020	June 29, 2020

## [Notes on financial instruments]

### 1. Status of financial instruments

#### (1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in short-term investment securities in principle and instead, are limited to invest in short-term bank deposits, etc.

We limit the derivative transactions within the range of actual demand and do not make speculative transactions, based on internal rules.

#### (2) Contents and risk of financial instruments

Notes and accounts receivable-trade, which are trade receivables, are subject to the credit risk of customers. Foreign currency denominated notes and accounts receivable-trade are also subject to the risk of exchange rate fluctuations.

Securities and investment securities, which consist mainly of stocks of companies that have business relationships with the Company, government bonds, and securities investment trusts, are subject to market price volatility risk and other risks.

Notes and accounts payable-trade, which are trade payables, have a due date of one year or less. Foreign currency denominated notes and trade payables drawn for imports of raw materials, etc. are subject to the risk of exchange-rate fluctuations.

Short-term borrowings are mainly fund procurement for general purpose working capital. Long-term borrowings have a due date of up to five years after the current consolidated fiscal year.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to contract default by customers)

Regarding credit risk management for trade receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect customers' credit status information on a daily basis. As part of this system, we perform risk assessment regularly to ensure receivables are protected. Furthermore, the Company receives guarantee deposits from its principal distribution agents.

(ii) Market risk management (risk of fluctuations in exchange rates and interest rates)

For foreign currency denominated trade receivables and trade payables, the Company and some of its consolidated subsidiaries may engage in foreign exchange forward contract transactions when required. The balance of foreign currency denominated trade payables is constantly within the balance of foreign currency denominated trade receivables.

We regularly keep track of the fair values and financial conditions of the issuers of securities and investment securities.

(iii) Liquidity risk management relating to financing (risk of inability to repay on the due date)

We manage liquidity risk by methods such as creating a cash flow plan.

(4) Supplementary explanation on matters relating to fair value of financial instruments and others

Fair values of financial instruments include market price based values and deemed market price values that are reasonably assessed when there are no market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

## 2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences as of March 31, 2020. Items whose fair values are deemed extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	548,311	548,311	—
(2) Notes and accounts receivable-trade	143,136	143,136	—
(3) Securities and investment securities			
Available-for-sale securities	72,348	72,348	—
Total assets	763,796	763,796	—
(4) Notes and accounts payable-trade	38,379	38,379	—
(5) Short-term borrowings	3,726	3,726	—
Total liabilities	42,106	42,106	—
Derivative transactions	—	—	—

(Notes)

### 1. Calculation method of fair value of financial instruments and matters pertaining to securities and derivative transactions

#### Assets

#### (1) Cash and deposits and (2) Notes and accounts receivable-trade

Since contractual terms of these items are short and fair values of these items approximate book values, book values are adopted.

#### (3) Securities and investment securities

Within which, fair values of stocks are based on securities exchange price and fair values of government bonds and beneficiary rights of securities investment trust are based on securities exchange price or prices given by correspondent financial institutions.

#### Liabilities

#### (4) Notes and accounts payable-trade and (5) Short-term borrowings

Since contractual terms of these items are short and fair values of these items approximate book values, book values are adopted.

#### Derivative transactions

There are no relevant matters for the current consolidated fiscal year.

### 2. Financial instruments whose fair values are deemed extremely difficult to determine

Category	Consolidate balance sheet amount
Shares of subsidiaries and affiliates	¥ 14,709 million
Unlisted stocks	¥ 188 million

The above items are excluded from “(3) Securities and investment securities” since they have no market prices and we deem it extremely difficult to determine the fair values.

3. Projected redemption amounts for monetary claims and securities that have maturity dates after the consolidated balance sheet date

(Millions of yen)

	Within 1 year	More than 1 year within 5 years	More than 5 years within 10 years	More than 10 years
(1) Cash and deposits	548,271	—	—	—
(2) Notes and accounts receivable- trade	143,136	—	—	—
(3) Securities and investment securities Available-for-sale securities with maturity date (Government bonds)	10,883	38,090	—	—
(other)	1,446	—	—	—
Total	703,737	38,090	—	—

4. Projected repayment amounts for short-term borrowings after the consolidated balance sheet date

	Within 1 year
Short-term borrowings	¥ 3,726 million

**[Notes on per share information]**

1. Net assets per share: 18,749.58 yen
2. Net income per share: 1,656.44 yen

## Non-consolidated Statement of Changes in Equity

(April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for reduction entry of assets	General reserve
Net assets at beginning of period	61,005	72,576	694	73,270	15,251	37	288	150,250
Changes during period								
Provision of reserve for special depreciation						78		
Reversal of reserve for special depreciation						(11)		
Reversal of reserve for tax purpose reduction entry of assets							(13)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Disposal of treasury shares			0	0				
Net changes in items other than shareholders' equity								
Total changes during period	—	—	0	0	—	67	(13)	—
Net assets at end of period	61,005	72,576	694	73,271	15,251	104	275	150,250

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
	Retained earnings brought forward						
Net assets at beginning of period	449,126	614,954	(3,086)	746,144	7,406	7,406	753,551
Changes during period							
Provision of reserve for special depreciation	(78)	—		—			—
Reversal of reserve for special depreciation	11	—		—			—
Reversal of reserve for tax purpose reduction entry of assets	13	—		—			—
Dividends of surplus	(26,747)	(26,747)		(26,747)			(26,747)
Profit	66,048	66,048		66,048			66,048
Purchase of treasury shares			(27,346)	(27,346)			(27,346)
Disposal of treasury shares			0	0			0
Net changes in items other than shareholders' equity					(1,105)	(1,105)	(1,105)
Total changes during period	39,246	39,300	(27,346)	11,954	(1,105)	(1,105)	10,848
Net assets at end of period	488,373	654,255	(30,432)	758,099	6,301	6,301	764,400

## **Notes to Non-consolidated Financial Statements**

### **[Notes on significant matters pertaining to accounting policies]**

#### **1. Standards and methods for valuation of securities**

(1) Shares of subsidiaries and affiliates: Stated at cost using the moving average method.

(2) Available-for-sale securities

1) With fair value: Stated at fair value based on the market value as of the balance sheet date.

(All unrealized gains and losses are included in net assets and cost of sales is calculated with the moving average method.)

2) Without fair value: Stated at cost using the moving average method.

#### **2. Valuation standards and methods of inventories**

Principally values inventories with gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

#### **3. Depreciation methods of non-current assets**

(1) Property, plant and equipment (excluding leased assets)

In accordance with the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are in accordance with the straight-line method.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding leased assets)

In accordance with the straight-line method.

Internal-use software is amortized on a straight-line basis over the useful life period (5 years) specified by the Company.

#### **4. Basis for allowances and provisions**

(1) Allowance for doubtful accounts

An allowance is provided for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims.

(2) Provision for retirement benefits

A reserve is provided for employee retirement benefits based on the projected amount of retirement benefit obligations and pension plan assets in the fiscal year. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute

expected retirement benefits to the period until the current fiscal year.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition of each fiscal year, starting from the succeeding period.

(3) Provision for retirement benefits for directors

The Company provided a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

## **5. Other significant matters constituting the basis for preparing the Financial Statements**

(1) Accounting procedures for retirement benefits

The accounting procedures for unrecognized actuarial net gains or losses and unrecognized prior service costs related to retirement benefits are different from those adopted to prepare the consolidated financial statements.

(2) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by the tax-exclusion method.

## **[Notes on Balance Sheet]**

	(Millions of yen)
<b>1. Accumulated depreciation of property, plant and equipment</b>	121,101
<b>2. Receivables and payables in relation to subsidiaries and affiliates</b>	
Short-term receivables	73,229
Long-term receivables	32
Short-term payables	15,333

## **[Notes on Statements of Income]**

<b>Transactions with subsidiaries and affiliates</b>	(Millions of yen)
Net sales	216,852
Purchase amount	49,027
Selling, general and administrative expenses	1,530
Non-operating transaction amount	2,447

## [Notes on Non-consolidated Statement of Changes in Equity]

Type and number of treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	150,139	700,719	12	850,846

Note: An increase in the number of treasury shares was due to purchase of 700,000 treasury shares based on the resolution of the Board of Directors and purchase of 719 odd-lot shares, while a 12 share decrease was due to sale of odd-lot shares.

## [Notes on tax effect accounting]

### Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	The 61st fiscal year (As of March 31, 2020)
Deferred tax assets	
Loss on valuation of investment securities	580
Loss on valuation of inventories	5,523
One-time depreciable assets	31
Loss on valuation of shares of subsidiaries and affiliates	1,070
Allowance for doubtful accounts	56
Accounts payable other	108
Accrued enterprise taxes, accrued business office taxes	584
Accrued expenses	2,713
Provision for retirement benefits	1,430
Provision for retirement benefits for directors	188
Asset retirement obligations	53
Valuation difference on available-for-sale securities	398
Other	114
Total deferred tax assets	12,854
Deferred tax liabilities	
Asset retirement obligations	(2)
Prepaid pension cost	(773)
Reserve for special depreciation	(46)
Reserve for tax purpose reduction entry of assets	(121)
Valuation difference on available-for-sale securities	(3,179)
Total deferred tax liabilities	(4,124)
Net deferred tax assets	8,730

## [Notes on transactions with related parties]

(Millions of yen)

Attributes	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	42,146	Accounts receivable-trade	8,953

Transaction conditions and policies on determining such conditions

The sales price of the Company's products is determined in consideration of the prevailing market price.

## [Notes on per share information]

1. Net assets per share: 11,491.54 yen
2. Net income per share: 990.08 yen

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(Note) In Consolidated Statement of Changes in Equity, Notes to Consolidated Financial Statements, Non-consolidated Statement of Changes in Equity, and Notes to Non-consolidated Financial Statements, amounts are rounded down to the nearest unit.

To Our Shareholders

Internet Disclosure on the Notice of Convocation  
of the 61st Annual General Meeting of Shareholders

June 2020

SMC Corporation

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The above materials are deemed to have been provided to our shareholders by publishing on the Company's website (<https://www.smcworld.com/ir/en/>) based on the Regulation on Corporate Accounting and the Articles of Incorporation of the Company.

## Consolidated Statement of Changes in Equity

(April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,372	1,088,960	(3,086)	1,220,251
Changes during period					
Dividends of surplus			(26,747)		(26,747)
Profit attributable to owners of parent			110,500		110,500
Purchase of treasury shares				(27,346)	(27,346)
Disposal of treasury shares		0		0	0
Change in scope of consolidation			9,301		9,301
Change in ownership interest of parent due to transactions with non-controlling interests		(37)			(37)
Net changes in items other than shareholders' equity					
Total changes during period	—	(37)	93,054	(27,346)	65,671
Net assets at end of period	61,005	73,335	1,182,014	(30,432)	1,285,922

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	7,667	12,824	(724)	19,767	3,232	1,243,252
Changes during period						
Dividends of surplus						(26,747)
Profit attributable to owners of parent						110,500
Purchase of treasury shares						(27,346)
Disposal of treasury shares						0
Change in scope of consolidation						9,301
Change in ownership interest of parent due to transactions with non-controlling interests						(37)
Net changes in items other than shareholders' equity	(1,323)	(52,909)	(1,269)	(55,502)	(154)	(55,656)
Total changes during period	(1,323)	(52,909)	(1,269)	(55,502)	(154)	10,014
Net assets at end of period	6,344	(40,084)	(1,994)	(35,734)	3,078	1,253,266

## Notes to Consolidated Financial Statements

### [Notes on significant matters constituting the basis for preparing the Consolidated Financial Statements]

#### 1. The scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 44

Names of major consolidated subsidiaries:

Nihon Kizai Co., Ltd.	SMC Spain	SMC China
Seigyo Kizai Corporation	SMC Singapore	SMC (Beijing) Manufacturing
SMC US	SMC Hong Kong	SMC Manufacturing (Singapore)
SMC Germany	SMC Taiwan	SMC Australia
SMC U.K.	SMC Korea	SMC Brazil
SMC Italy	SMC Guangzhou	

From the current fiscal year, 9 subsidiaries; SMC Vietnam, Nihon Kizai (Shanghai), SMC Indonesia, SMC Poland, SMC Turkey, SMC Finland, SMC Hungary, SMC Denmark and SMC Slovenia, which were excluded from the scope of consolidation in the previous fiscal years have been consolidated as they have become material.

(2) Names of major non-consolidated subsidiaries: SMC Romania, SMC Chile

(Reasons for exclusion from the scope of consolidation)

The 31 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

#### 2. The scope of application of the equity method

Non-consolidated subsidiaries (SMC Romania and 30 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

### 3. Matters pertaining to the fiscal year of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2020 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil, SMC (Tianjin) Manufacturing and Nihon Kizai (Shanghai) whose fiscal year-end date is December 31.

### 4. Accounting policies

#### (1) Valuation standards and methods for significant assets

##### (i) Securities

Available-for-sale securities

- a. With fair value: Stated at fair value based on the market value as of the balance sheet date.

(All unrealized holding gains and losses are included in net assets and cost of sales is principally calculated with the moving average method.)

- b. Without fair value: Stated at cost using the moving average method.

##### (ii) Inventories: Principally values inventories with the gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

#### (2) Depreciation methods for significant depreciable assets

##### (i) Property, plant and equipment (excluding leased assets)

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are calculated with the straight-line method. And that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

##### (ii) Intangible assets (excluding leased assets)

Amortization of intangible assets of the Company and its domestic consolidated subsidiaries is calculated in accordance with the straight-line method and that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years) specified by the Company.

(3) Basis for significant allowances and provisions

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed uncollectible by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Foreign consolidated subsidiaries provide an allowance for possible loan losses in the amount deemed uncollectible based on an individual assessment of each claim.

(ii) Provision for bonuses

Some of the Company's consolidated subsidiaries provide a reserve of the estimated amount to prepare for bonus payment to employees.

(iii) Provision for retirement benefits for directors

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

(4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the balance sheet date and the difference resulting from the translation is recognized as gains or losses. Meanwhile, assets and liabilities held by foreign consolidated subsidiaries are translated into Japanese yen at exchange rates prevailing at the balance sheet date, while revenues and expenses are translated into Japanese yen at average rates of exchange during the current consolidated fiscal year and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under net assets.

(5) Other significant matters constituting the basis for preparing the Consolidated Financial Statements

(i) Basis for net defined retirement benefit liabilities and net defined retirement benefit assets

For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded with having pension assets excluded from the retirement benefit obligations, based on the end fiscal year projected amount.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition of each fiscal year, starting from the succeeding period.

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the

calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for using the tax-exclusion method.

## [Notes on Consolidated Balance Sheet]

(Millions of yen)

<b>1. Accumulated depreciation of property, plant and equipment</b>	222,291
<b>2. For non-consolidated subsidiaries and affiliates</b>	
Investment securities (stocks)	14,709

## [Notes on Consolidated Statements of Income]

(Millions of yen)

<b>1. Principal items under selling, general and administrative expenses</b>	
Salaries and allowances	42,077
Bonuses	7,683
Retirement benefit expenses	1,831
Provision of allowance for doubtful accounts	427
<b>2. Research and development expenses included under general and administrative expenses as well as manufacturing costs</b>	21,480

## [Notes on Consolidated Statement of Changes in Equity]

### 1. Type and number of outstanding shares and treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Outstanding shares	Common share	67,369,359	–	–	67,369,359
Treasury shares	Common share	150,139	700,719	12	850,846

Note: A 700,719 share increase in the number of treasury shares was due to purchase of 700,000 treasury shares based on the resolution of the Board of Directors and purchase of 719 odd-lot shares, while a 12 share decrease was due to sale of odd-lot shares.

## 2. Dividends

### (1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2019	Common share	¥13,443 million	¥200	March 31, 2019	June 28, 2019
Board of Directors' Meeting held on November 12, 2019	Common share	¥13,303 million	¥200	September 30, 2019	November 29, 2019

### (2) Dividends whose record date is within the term and effective date in the succeeding term

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 26, 2020.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥13,303 million	¥200	March 31, 2020	June 29, 2020

## [Notes on financial instruments]

### 1. Status of financial instruments

#### (1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in short-term investment securities in principle and instead, are limited to invest in short-term bank deposits, etc.

We limit the derivative transactions within the range of actual demand and do not make speculative transactions, based on internal rules.

#### (2) Contents and risk of financial instruments

Notes and accounts receivable-trade, which are trade receivables, are subject to the credit risk of customers. Foreign currency denominated notes and accounts receivable-trade are also subject to the risk of exchange rate fluctuations.

Securities and investment securities, which consist mainly of stocks of companies that have business relationships with the Company, government bonds, and securities investment trusts, are subject to market price volatility risk and other risks.

Notes and accounts payable-trade, which are trade payables, have a due date of one year or less. Foreign currency denominated notes and trade payables drawn for imports of raw materials, etc. are subject to the risk of exchange-rate fluctuations.

Short-term borrowings are mainly fund procurement for general purpose working capital. Long-term borrowings have a due date of up to five years after the current consolidated fiscal year.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to contract default by customers)

Regarding credit risk management for trade receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect customers' credit status information on a daily basis. As part of this system, we perform risk assessment regularly to ensure receivables are protected. Furthermore, the Company receives guarantee deposits from its principal distribution agents.

(ii) Market risk management (risk of fluctuations in exchange rates and interest rates)

For foreign currency denominated trade receivables and trade payables, the Company and some of its consolidated subsidiaries may engage in foreign exchange forward contract transactions when required. The balance of foreign currency denominated trade payables is constantly within the balance of foreign currency denominated trade receivables.

We regularly keep track of the fair values and financial conditions of the issuers of securities and investment securities.

(iii) Liquidity risk management relating to financing (risk of inability to repay on the due date)

We manage liquidity risk by methods such as creating a cash flow plan.

(4) Supplementary explanation on matters relating to fair value of financial instruments and others

Fair values of financial instruments include market price based values and deemed market price values that are reasonably assessed when there are no market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

## 2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences as of March 31, 2020. Items whose fair values are deemed extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	548,311	548,311	—
(2) Notes and accounts receivable-trade	143,136	143,136	—
(3) Securities and investment securities			
Available-for-sale securities	72,348	72,348	—
Total assets	763,796	763,796	—
(4) Notes and accounts payable-trade	38,379	38,379	—
(5) Short-term borrowings	3,726	3,726	—
Total liabilities	42,106	42,106	—
Derivative transactions	—	—	—

(Notes)

### 1. Calculation method of fair value of financial instruments and matters pertaining to securities and derivative transactions

#### Assets

#### (1) Cash and deposits and (2) Notes and accounts receivable-trade

Since contractual terms of these items are short and fair values of these items approximate book values, book values are adopted.

#### (3) Securities and investment securities

Within which, fair values of stocks are based on securities exchange price and fair values of government bonds and beneficiary rights of securities investment trust are based on securities exchange price or prices given by correspondent financial institutions.

#### Liabilities

#### (4) Notes and accounts payable-trade and (5) Short-term borrowings

Since contractual terms of these items are short and fair values of these items approximate book values, book values are adopted.

#### Derivative transactions

There are no relevant matters for the current consolidated fiscal year.

### 2. Financial instruments whose fair values are deemed extremely difficult to determine

Category	Consolidate balance sheet amount
Shares of subsidiaries and affiliates	¥ 14,709 million
Unlisted stocks	¥ 188 million

The above items are excluded from “(3) Securities and investment securities” since they have no market prices and we deem it extremely difficult to determine the fair values.

3. Projected redemption amounts for monetary claims and securities that have maturity dates after the consolidated balance sheet date

(Millions of yen)

	Within 1 year	More than 1 year within 5 years	More than 5 years within 10 years	More than 10 years
(1) Cash and deposits	548,271	—	—	—
(2) Notes and accounts receivable- trade	143,136	—	—	—
(3) Securities and investment securities				
Available-for-sale securities with maturity date				
(Government bonds)	10,883	38,090	—	—
(other)	1,446	—	—	—
Total	703,737	38,090	—	—

4. Projected repayment amounts for short-term borrowings after the consolidated balance sheet date

	Within 1 year
Short-term borrowings	¥ 3,726 million

**[Notes on per share information]**

1. Net assets per share: 18,749.58 yen
2. Net income per share: 1,656.44 yen

## Non-consolidated Statement of Changes in Equity

(April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for reduction entry of assets	General reserve
Net assets at beginning of period	61,005	72,576	694	73,270	15,251	37	288	150,250
Changes during period								
Provision of reserve for special depreciation						78		
Reversal of reserve for special depreciation						(11)		
Reversal of reserve for tax purpose reduction entry of assets							(13)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Disposal of treasury shares			0	0				
Net changes in items other than shareholders' equity								
Total changes during period	—	—	0	0	—	67	(13)	—
Net assets at end of period	61,005	72,576	694	73,271	15,251	104	275	150,250

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
	Retained earnings brought forward						
Net assets at beginning of period	449,126	614,954	(3,086)	746,144	7,406	7,406	753,551
Changes during period							
Provision of reserve for special depreciation	(78)	—		—			—
Reversal of reserve for special depreciation	11	—		—			—
Reversal of reserve for tax purpose reduction entry of assets	13	—		—			—
Dividends of surplus	(26,747)	(26,747)		(26,747)			(26,747)
Profit	66,048	66,048		66,048			66,048
Purchase of treasury shares			(27,346)	(27,346)			(27,346)
Disposal of treasury shares			0	0			0
Net changes in items other than shareholders' equity					(1,105)	(1,105)	(1,105)
Total changes during period	39,246	39,300	(27,346)	11,954	(1,105)	(1,105)	10,848
Net assets at end of period	488,373	654,255	(30,432)	758,099	6,301	6,301	764,400

## **Notes to Non-consolidated Financial Statements**

### **[Notes on significant matters pertaining to accounting policies]**

#### **1. Standards and methods for valuation of securities**

- (1) Shares of subsidiaries and affiliates: Stated at cost using the moving average method.
- (2) Available-for-sale securities
  - 1) With fair value: Stated at fair value based on the market value as of the balance sheet date.  
(All unrealized gains and losses are included in net assets and cost of sales is calculated with the moving average method.)
  - 2) Without fair value: Stated at cost using the moving average method.

#### **2. Valuation standards and methods of inventories**

Principally values inventories with gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

#### **3. Depreciation methods of non-current assets**

- (1) Property, plant and equipment (excluding leased assets)
  - In accordance with the declining balance method.
  - However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are in accordance with the straight-line method.
  - Primary useful periods are as described below.
    - Buildings and structures: 3-50 years
    - Machinery, equipment and vehicles: 2-17 years
    - Tools, furniture and fixtures: 2-20 years
- (2) Intangible assets (excluding leased assets)
  - In accordance with the straight-line method.
  - Internal-use software is amortized on a straight-line basis over the useful life period (5 years) specified by the Company.

#### **4. Basis for allowances and provisions**

- (1) Allowance for doubtful accounts
  - An allowance is provided for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims.
- (2) Provision for retirement benefits
  - A reserve is provided for employee retirement benefits based on the projected amount of retirement benefit obligations and pension plan assets in the fiscal year. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute

expected retirement benefits to the period until the current fiscal year.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition of each fiscal year, starting from the succeeding period.

(3) Provision for retirement benefits for directors

The Company provided a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

## **5. Other significant matters constituting the basis for preparing the Financial Statements**

(1) Accounting procedures for retirement benefits

The accounting procedures for unrecognized actuarial net gains or losses and unrecognized prior service costs related to retirement benefits are different from those adopted to prepare the consolidated financial statements.

(2) Accounting procedures for consumption taxes, etc.

Consumption taxes and local consumption taxes are accounted for by the tax-exclusion method.

## **[Notes on Balance Sheet]**

	(Millions of yen)
<b>1. Accumulated depreciation of property, plant and equipment</b>	121,101
<b>2. Receivables and payables in relation to subsidiaries and affiliates</b>	
Short-term receivables	73,229
Long-term receivables	32
Short-term payables	15,333

## **[Notes on Statements of Income]**

<b>Transactions with subsidiaries and affiliates</b>	(Millions of yen)
Net sales	216,852
Purchase amount	49,027
Selling, general and administrative expenses	1,530
Non-operating transaction amount	2,447

## [Notes on Non-consolidated Statement of Changes in Equity]

Type and number of treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	150,139	700,719	12	850,846

Note: An increase in the number of treasury shares was due to purchase of 700,000 treasury shares based on the resolution of the Board of Directors and purchase of 719 odd-lot shares, while a 12 share decrease was due to sale of odd-lot shares.

## [Notes on tax effect accounting]

### Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	The 61st fiscal year (As of March 31, 2020)
Deferred tax assets	
Loss on valuation of investment securities	580
Loss on valuation of inventories	5,523
One-time depreciable assets	31
Loss on valuation of shares of subsidiaries and affiliates	1,070
Allowance for doubtful accounts	56
Accounts payable other	108
Accrued enterprise taxes, accrued business office taxes	584
Accrued expenses	2,713
Provision for retirement benefits	1,430
Provision for retirement benefits for directors	188
Asset retirement obligations	53
Valuation difference on available-for-sale securities	398
Other	114
Total deferred tax assets	12,854
Deferred tax liabilities	
Asset retirement obligations	(2)
Prepaid pension cost	(773)
Reserve for special depreciation	(46)
Reserve for tax purpose reduction entry of assets	(121)
Valuation difference on available-for-sale securities	(3,179)
Total deferred tax liabilities	(4,124)
Net deferred tax assets	8,730

## [Notes on transactions with related parties]

(Millions of yen)

Attributes	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	42,146	Accounts receivable-trade	8,953

Transaction conditions and policies on determining such conditions

The sales price of the Company's products is determined in consideration of the prevailing market price.

## [Notes on per share information]

1. Net assets per share: 11,491.54 yen
2. Net income per share: 990.08 yen

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(Note) In Consolidated Statement of Changes in Equity, Notes to Consolidated Financial Statements, Non-consolidated Statement of Changes in Equity, and Notes to Non-consolidated Financial Statements, amounts are rounded down to the nearest unit.