

To our shareholders

We will fulfill our responsibility to supply products as a company that will sustainably support factory automation and aim to be a company even more trusted by our customers.

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

We extend our deepest sympathies to all those who have suffered due to the novel coronavirus disease (COVID-19) and we pray for the souls of those who have passed away.

We would also like to express our heartfelt gratitude to all medical professionals and those that are doing all they can to maintain the function of society.

Even now, many of the customers of SMC are involved in development and production for medical equipment and supplies. They are continuing to work tirelessly to restore the economic activity and daily lifestyle of us all.

SMC Group as a whole will overcome 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.

As of April 1, 2021, I was appointed as President of SMC.

Utilizing our global network of nearly 20,000 employees in over 80 countries, an extensive product lineup with plentiful inventory, and solid financial base, we will aim to proactively promote capital expenditures and personnel development from a new perspective, construct a structure that can fulfill our responsibility to supply products anywhere in the world at any time, and become a company that is even more trusted by our customers.

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

June 2021

Yoshiki Takada, President



Yoshiki Takada
President
SMC Corporation
4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

Notice of the 62nd Annual General Meeting of Shareholders

We would like to inform you that we will hold the 62nd 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 28, 2021 (Monday) after studying the attached “Reference Documents for the General Meeting of Shareholders”.

Sincerely,

Notes

- | | | |
|---|----------------------|--|
| 1 | Date and Time | June 29, 2021 (Tuesday) 10:00 a.m. (Reception starts at 9:00 a.m.) |
| 2 | Venue | Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo
Conference Room, SMC Corporation
There are no souvenirs available for shareholders attending the shareholders' meeting. |
| 3 | Agenda | Matters to be reported
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 62nd fiscal year (April 1, 2020 to March 31, 2021)
Matters to be resolved
Proposal 1. Dividend of Surplus
Proposal 2. Election of 10 Directors |

Regarding Reference Documents for the General Meeting of Shareholders and Appendix Attached to this Notice

- 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 above-mentioned 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

300 yen per share on the Company's common shares

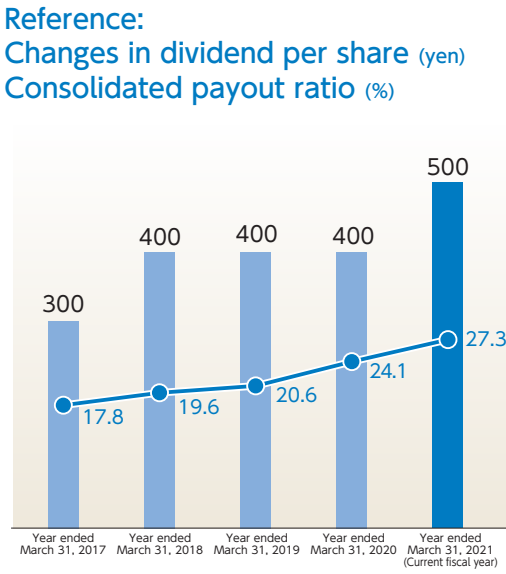
Total amount: 19,823,403,300 yen

2

Effective date of the dividends from surplus

June 30, 2021

Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 500 yen, a 100 yen increase compared to the same period as the previous year.



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 proposed that the number of Outside Directors be increased by 2 in order to strengthen its supervisory function and that 10 Directors (including 4 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	Yoshiki Takada Reappointed	President/Senior General Manager of Sales Headquarters/ Member of the Nomination and Compensation Committee/ Chairman, SMC US	27 years	8/9
2	Toshio Isoe Reappointed	Director and Executive Officer/General Manager of Administration Division	2 years	9/9
3	Masahiro Ota Reappointed	Director and Executive Officer/General Manager of Finance & Accounting Division	2 years	9/9
4	Susumu Maruyama Reappointed	Director and Executive Officer/In charge of Business Management/General Manager of Presidential Office	1 year	6/6
5	Samuel Neff Reappointed	Director and Executive Officer/In charge of Supply Chain Management	1 year	6/6
6	Yoshitada Doi Newly-appointed	Executive Officer/Vice Senior General Manager of Engineering Headquarters	—	—
7	Masanobu Kaizu Reappointed Outside Independent	Outside Director/Chairman of the Nomination and Compensation Committee	7 years	9/9
8	Toshiharu Kagawa Reappointed Outside Independent	Outside Director/Member of the Nomination and Compensation Committee	6 years	9/9
9	Yoshiko Iwata Newly-appointed Outside Independent	—	—	—
10	Kyoichi Miyazaki Newly-appointed Outside Independent	—	—	—



Candidate
No.

1

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
December 2019	Chairman, SMC US (Incumbent)
April 2020	Member of the Nomination and Compensation Committee of the Company (Incumbent)
April 2021	President of the Company (Incumbent)

Number of years served as Director	27 years
Attendance at the Board of Directors meetings	8/9
Number of the Company's shares held	0 shares (*)

[Reason for selection as a candidate for Director]

Mr. Yoshiki Takada served as President of SMC US for many years, and as Senior General Manager of Sales Headquarters since 2018. He has presided over global business operations for the entire Group. He was appointed Executive Vice-president in 2019 and President in April 2021. He is leading the overall management of the entire Group and proceeding with drastic structural reforms. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

(*) Mr. Yoshiki Takada holds SMC's shares through a share holding company.



Candidate
No.

2

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, General Manager of Administration Division (Incumbent)

[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.

Number of years served as Director	2 years
Attendance at the Board of Directors meetings	9/9
Number of the Company's shares held	100 shares



Number of years served as Director	2 years
Attendance at the Board of Directors meetings	9/9
Number of the Company's shares held	100 shares

Candidate
No.

3

Masahiro Ota

(December 24, 1963)

Reappointed

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

April 2015
May 2015
May 2019
June 2019

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

[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.



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

Candidate
No.

4

Susumu Maruyama

(February 14, 1963)

Reappointed

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

April 1986
June 2014
July 2015

Joined Ministry of International Trade and Industry
Director-General, Business Support Department, The Small and Medium Enterprise Agency
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

July 2018

Joined the Company, Corporate Advisor

November 2019

Executive Officer, In charge of Management Reform Project

June 2020

Director and Executive Officer, In charge of Business Management,
General Manager of Presidential Office (Incumbent)

[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 the officer in charge of Management Reform Project from 2019 and the officer supervising quality management, information systems, and internal auditing divisions from 2020.

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

Samuel Neff

(March 30, 1982)

Reappointed

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
June 2020	Director and Executive Officer, In charge of Supply Chain Management (Incumbent)

[Reason for selection as a candidate for Director]

After devoting himself to learning at various companies in the Group, Mr. Samuel Neff has fulfilled his responsibilities as General Manager of Management Planning Office from 2016 and the officer in charge of Supply Chain Management from 2020. 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	1 year
Attendance at the Board of Directors meetings	6/6
Number of the Company's shares held	0 shares



Candidate
No.

6

Yoshitada Doi

(February 21, 1962)

Newly-appointed

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

April 1984	Joined the Company
July 2018	Executive Officer (Incumbent)
July 2018	General Manager of Product Development Division 8
April 2020	Vice Senior General Manager of Engineering Headquarters (Incumbent)

[Reason for selection as a candidate for Director]

After joining the company in 1984, Mr. Yoshitada Doi has worked in R&D for company products and has fulfilled his responsibilities as Vice Senior General Manager of Engineering Headquarters supervising the entire R&D Division since 2020. 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	—
Attendance at the Board of Directors meetings	—
Number of the Company's shares held	0 shares



Candidate
No.

7

Masanobu Kaizu

(December 27, 1951)

Reappointed

Outside

Independent

Number of years served
as Outside Director

7 years

Attendance at the Board
of Directors meetings

9/9

Number of the Company's
shares held

0 shares

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 and summary of expected roles]

- 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 Nomination and Compensation Committee since 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.



Number of years served as Outside Director	6 years
Attendance at the Board of Directors meetings	9/9
Number of the Company's shares held	0 shares

Candidate No.

8

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)

[Reason for selection as a candidate for Outside Director and summary of expected roles]

- 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 member of the Nomination and Compensation Committee since 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.



Candidate
No.

9

Yoshiko Iwata

(July 15, 1956)

Newly-appointed

Outside

Independent

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

April 1979	Joined Bank of America, Tokyo Branch
June 1989	Joined Visa International
January 1992	Joined Dewe Rogerson Japan
November 1994	Joined Technimetrics (currently Thomson Financial), Tokyo Branch
	Senior Director in charge of Japan/Korea
February 2001	Joined J-Eurus IR Co., Ltd.
May 2001	President of J-Eurus IR Co., Ltd. (Incumbent)
November 2014	Outside Director, Yamato International Inc. (Incumbent)

[Important concurrent duties]

President of J-Eurus IR Co., Ltd.

Outside Director, Yamato International Inc.

(Note) Ms. Yoshiko Iwata will be appointed as Outside Director for the Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc. (June 2021)

Number of years served as Outside Director	—
Attendance at the Board of Directors meetings	—
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Outside Director and summary of expected roles]

- Ms. Yoshiko Iwata possesses expertise and a wealth of experience related to corporate governance as well as dialogues between investors and companies. She is a pioneer of the IR Consulting Business field in Japan who has a wealth of international experience as well as a superb personality, insights, and managerial experience. She can be expected to make proposals on management policies, primarily on policies related to information disclosure and dialogues with investors, based on her own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitor the Company's management activities from a neutral and objective point of view, further enhance management transparency, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.



Candidate
No.

10

Kyoichi Miyazaki

(October 11, 1962)

Newly-appointed

Outside

Independent

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

April 1986	Joined Morgan Stanley, Tokyo Branch
July 1987	Joined Wood Gundy Inc., Tokyo Branch
January 1993	Joined Salomon Brothers Asia, Tokyo Branch
August 1995	Joined Morgan Stanley, Tokyo Branch
February 1997	Joined Deutsche Securities Inc., Tokyo Branch
September 2004	Joined Deutsche Bank AG, New York Branch
April 2006	Established Zen Asset Management Co., Ltd., Representative Director (Incumbent)

[Important concurrent duties]

Representative Director of Zen Asset Management Co., Ltd.

Number of years served as Outside Director	—
Attendance at the Board of Directors meetings	—
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Outside Director and summary of expected roles]

- Mr. Kyoichi Miyazaki has amassed a wealth of knowledge and experience related to market risk management and investment portfolio management utilizing cutting-edge financial engineering in international financial institutions. He possesses superb insights and personality as he established and manages his own asset management company. He can be expected to make proposals on management policies, primarily policies related to international business, risk management, and corporate governance, based on his own professional knowledge, monitor the Company's management activities from a neutral and objective point of view, further enhance management transparency, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.

(Notes)

1. No special interests exist between the candidates and the Company.
2. The Company has made a contract with Outside Directors Mr. Masanobu Kaizu and Mr. Toshiharu 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 the election of both candidates is approved, the Company plans to renew this contract. If the elections of newly-appointed Outside Directors Ms. Yoshiko Iwata and Mr. Kyoichi Miyazaki are approved, the Company plans to conclude this same contract with both of them.
3. The Company has entered into a liability insurance agreement for directors, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act. All reappointed candidates for Director and newly-appointed candidate for Director Mr. Yoshitada Doi are insured under this contract. If the elections of newly-appointed Outside Directors Ms. Yoshiko Iwata and Mr. Kyoichi Miyazaki are approved, they will also be insured under this contract. An outline of the details of this contract is included on page 26 of the Business Report. At the Board of Directors meeting after the conclusion of this Annual General Meeting of Shareholders, the Company plans to approve the renewal of the same contract under the same terms.
4. The Company has also designated Outside Directors Mr. Masanobu Kaizu and Mr. Toshiharu Kagawa as independent directors as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered them as such with the TSE. Furthermore, the Company has designated newly-appointed Outside Directors Ms. Yoshiko Iwata and Mr. Kyoichi Miyazaki as independent directors, based on the condition that their elections are approved, and has registered them as such with the TSE.

[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 consolidated 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's group (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).

END

1 Matters pertaining to the present status of the Group



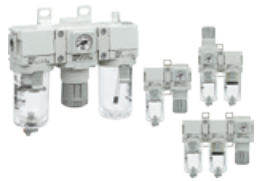

1 Main business activities

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


Solenoid valves

Air cylinders

Air line equipment


Air dryer

2 Electric instruments




Key products Electric actuators

3 Sensor



Key products Pressure switch
Flow switch

4 Temperature control equipment

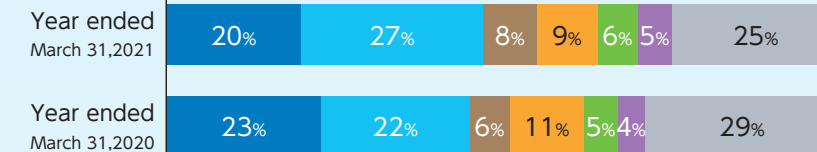


Key products Thermo-chiller
Thermo-controller

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

Sales composition by industry (non-consolidated)

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



Machine tools
(Laser processing machine)

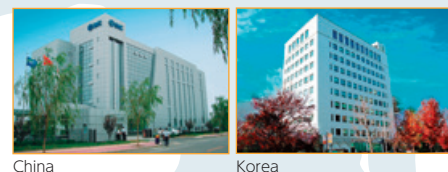
Medical equipment
(Hematology analyzer)

Food machinery
(Bottle filling machine)

Automobile industry
(Automobile assembly line)

Semiconductor manufacturing equipment
(Coater/Developer)

Global Network (for reference purpose)



Europe 16.5%

Net sales **90,984**million yen

YoY change **+0.3%**

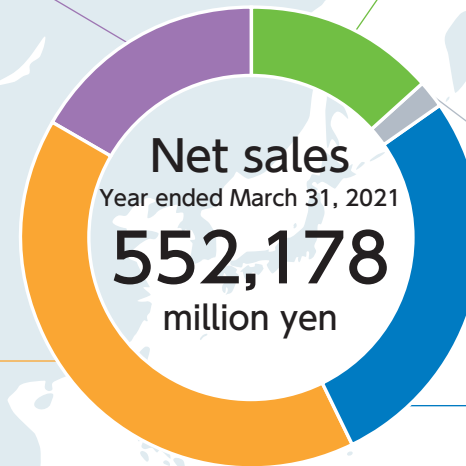
The impact of COVID-19 continued to be felt as the sales activities of the SMC Group continued to be restricted. However, demand trended toward recovery, primarily for industries related to semiconductors, electronics and machine tools, as overall sales were even year on year.

Asia 40.7%

Net sales **224,711**million yen

YoY change **+21.7%**

In China, sales performed well in all industries. In other Asian regions, sales were strong in Taiwan, Korea, Singapore, and Malaysia, where demand is largely constituted in the industries related to semiconductors. However, sales were weak in India and Thailand, where demand is largely constituted in the industries related to automobiles.



North America 13.5%

Net sales **74,826**million yen

YoY change **-2.4%**

In the US, sales continued to perform well for industries related to semiconductors. Corresponding to the recovery of capital investments for automobile-related industries, a core industry, there was a clear increase in demand from the latter half of the fiscal year in a wide range of industries, including machine tools, on the other hand, concerns about the semiconductor shortage and delays in distribution continued to remain.



Other 1.8%

Net sales **9,975**million yen

YoY change **-8.2%**

Sales were down year on year in other regions, such as South America and Oceania, which were severely impacted by COVID-19.



Japan 27.5%

Net sales **151,680**million yen

YoY change **-7.0%**

Demand, which had rapidly fell due to the impact of COVID-19, recovered from the bottom in August 2020. However, the speed of this recovery lacked strength. Sales to semiconductor-related industries were solid. However, they were unable to absorb decreases in sales for the industries related to automobiles and machine tools, leading to a decline in overall sales year on year.



② Business progress and results

During the fiscal year 2020 ended March 31, 2021, the global economy remained in extremely difficult conditions, greatly affected by the spread of COVID-19 infections, amid uncertainty over the future outlook of easing tensions between the US and China.

Demand for automatic control equipment increased significantly in all industries in China, performed well in the semiconductor-related

industry mainly in other Asian counties, North America, Europe, and Japan, and began to recover in the latter half of the fiscal year in industries related to automobiles in North America and machine tools in Europe.

Under these circumstances, the SMC Group implemented COVID-19 countermeasures and strove to maintain production supply capabilities while continuing to work on issues including the

development of new products with superior energy-saving performance and the promotion of active sales activities through global cooperation. As a result, consolidated net sales for the current fiscal year was 552,178 million yen (5.0% increase year on year). Operating profit was 153,355 million yen (4.9% increase) mainly due to increased revenue and decreased SG&A expenses. Ordinary profit was 171,827 million

yen (8.4% increase) mainly due to foreign exchange gains, despite decreased interest income. Profit attributable to owners of parent was 121,790 million yen (10.2% increase). ROE became 9.3%, increased by 0.4 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 to “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment, including pneumatic instruments.
2) Focusing on the main business	As a manufacturer of component parts “contributing to automated, labor-saving operations in industries”, the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on 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 different 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 new construction and expansion of production facilities, and acquisition of land for production facilities in order to establish production capabilities with the future in mind and create a system capable of maintaining global production supply even during emergencies. The Company also introduced new equipment and updated molds, etc., in order to achieve further rationalization and cost reduction.

Progress was delayed due to the impact of COVID-19 as overseas trips by personnel required to install such equipment were restricted. As a result, the total amount of capital investments in the current fiscal year amounted to 27,439 million yen, a decrease of 28.5% year on year.

Listed below are the main capital investments during the fiscal year 2020.



① SMC (Vietnam) Manufacturing
(Factory No.3)



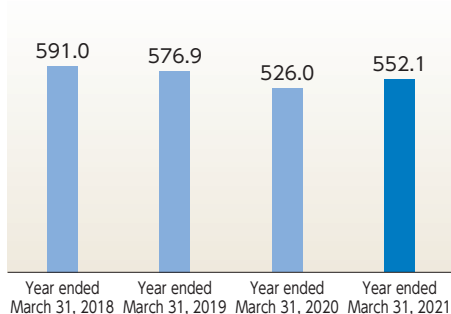
② SMC (Tianjin) Manufacturing
(First phase construction)

⑤ Changes in assets and financial results

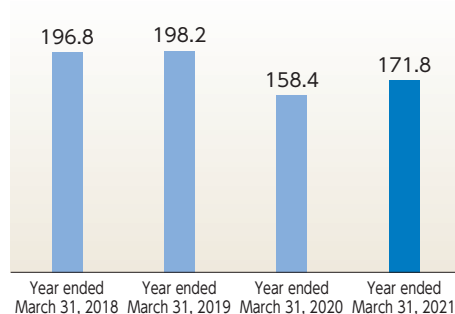
(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021 (Current fiscal year)
Net sales	591,035	576,948	526,000	552,178
Ordinary profit	196,846	198,201	158,450	171,827
Profit attributable to owners of parent	136,869	130,631	110,500	121,790
Net income per share (yen)	2,036.33	1,943.35	1,656.44	1,831.98
Total assets	1,342,890	1,389,308	1,390,539	1,539,871
Net assets	1,150,416	1,243,252	1,253,266	1,379,987
Net assets per share (yen)	17,067.08	18,447.39	18,794.58	20,835.47
Return on equity	12.6%	10.9%	8.9%	9.3%

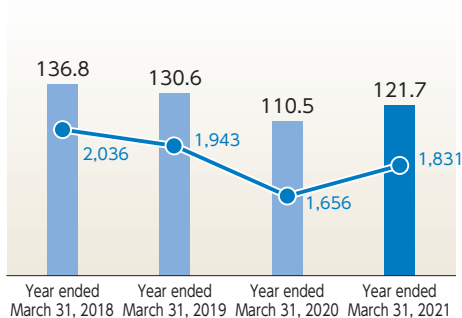
Net Sales (billion yen)



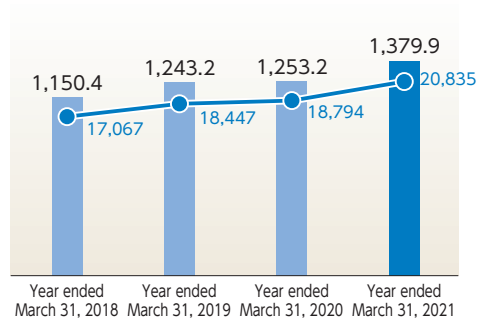
Ordinary Profit (billion yen)



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



Net Assets (billion yen) Net Assets per share (yen)



⑥ Status of principal subsidiaries

Company name	Share capital	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥ 304 million	47.3	Sales of automatic control equipment
Seigyō Kizai Corporation	¥ 100 million	100.0	Sales of automatic control equipment
SMC Corporation of America (SMC US)	US\$ 172,700 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Deutschland GmbH (SMC Germany)	EUR 84,101 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Pneumatics (U.K.) Ltd. (SMC U.K.)	£ 14,500 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Italia S.p.A. (SMC Italy)	EUR 18,145 thousand	99.9	Manufacturing and sales of automatic control equipment
SMC Espana S.A. (SMC Spain)	EUR 3,305 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Corporation (Singapore) Pte. Ltd. (SMC Singapore)	S\$ 5,600 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Automation (Taiwan) Co., Ltd. (SMC Taiwan)	NT\$ 420,840 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Korea Co., Ltd. (SMC Korea)	KRW 46,500 million	100.0	Manufacturing and sales of automatic control equipment
SMC Investment Management China Co., Ltd. (SMC Investment Management)	CNY 5,685 million	100.0	Management of subsidiaries in China
SMC Automation China Co., Ltd. (SMC China)	CNY 100 million	(Note) 100.0	Sales of automatic control equipment
SMC (China) Co., Ltd. (SMC (China) Manufacturing)	CNY 1,504 million	(Note) 100.0	Manufacturing and sales of automatic control equipment
SMC (Beijing) Manufacturing Co., Ltd. (SMC (Beijing) Manufacturing)	CNY 1,716 million	(Note) 100.0	Manufacturing of automatic control equipment
SMC (Tianjin) Manufacturing Co., Ltd. (SMC (Tianjin) Manufacturing)	CNY 2,000 million	(Note) 100.0	Manufacturing of automatic control equipment
SMC Manufacturing (Singapore) Pte. Ltd. (SMC (Singapore) Manufacturing)	S\$ 10,000 thousand	100.0	Manufacturing of automatic control equipment
SMC Manufacturing (Vietnam) Co., Ltd. (SMC (Vietnam) Manufacturing)	VND 8,038,304 million	100.0	Manufacturing of automatic control equipment
SMC Automacao do Brasil Ltda. (SMC Brazil)	BRL 332,525 thousand	(Note) 100.0	Manufacturing and sales of automatic control equipment

(Note) The Company's percentages of voting rights in SMC China, SMC (China) Manufacturing, SMC (Beijing) Manufacturing, SMC (Tianjin) Manufacturing, and SMC Brazil include those indirectly held by the Company's wholly-owned subsidiaries.

The Company conducted a reorganization of its subsidiaries in China during this fiscal year. In December 2020, the Company newly established “SMC Investment Management”, a holding company to manage subsidiaries in China, and “SMC China”, an integrated sales company, and included both of these new companies in the scope of consolidation. SMC China and the four existing subsidiaries located in China (SMC (China) Manufacturing, SMC (Beijing) Manufacturing, SMC (Tianjin) Manufacturing and SMC (Guangzhou) Manufacturing) became wholly-owned subsidiaries of SMC Investment Management.

Further, in January 2021, the Company sold all shares of Toyo Warehouse & Transportation Co., Ltd. which had been a consolidated subsidiary, to SBS Holdings, Inc., and liquidated SMC Manufacturing (Australia) Pty. Ltd., which was also a consolidated subsidiary.

There are 44 consolidated subsidiaries including the abovementioned 18 principal subsidiaries.

⑦ Status of employees

Number of employees	20,619	Decrease against the previous year	234
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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 5,061 temporary staff (average during the year; decreased by 65 persons from the previous year).

⑧ Status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited	¥ 8,919 million

⑨ Major bases

(1) SMC Corporation

Company name and location	
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)

(2) Subsidiaries

As described in “⑥ Status of principal subsidiaries”.

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 1,291,348 shares of treasury share)

② **Number of shareholders:** 4,244

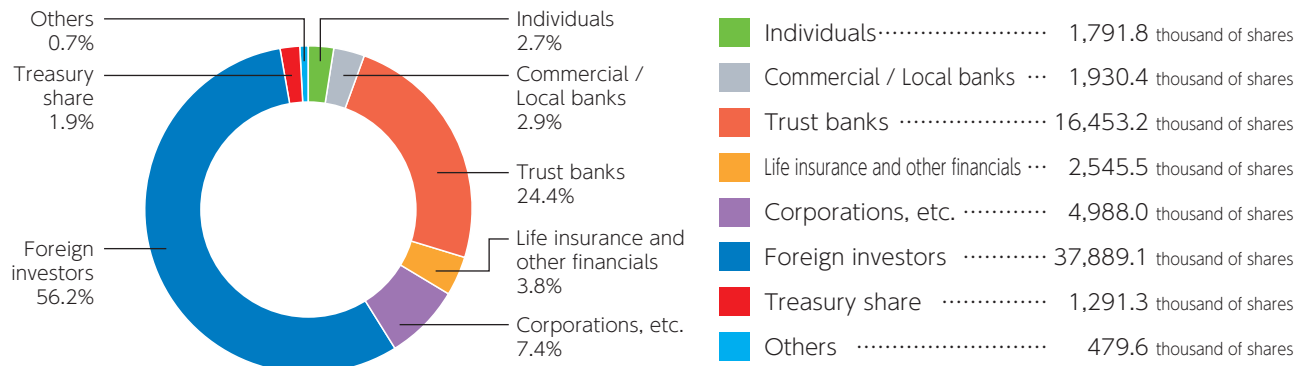
③ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Master Trust Bank of Japan (Trust account)	5,161.1	7.81
Custody Bank of Japan, Ltd. (Trust account)	3,876.5	5.86
Takada International LLC	3,793.0	5.74
TON Finance B.V.	3,443.5	5.21
JP Morgan Chase Bank 385632	2,498.6	3.78
The Bank of New York Mellon 140042	1,810.7	2.74
Resona Bank, Limited	1,665.8	2.52
The Dai-ichi Life Insurance Company, Limited	1,319.1	1.99
State Street Bank and Trust Company 505223	1,304.6	1.97
The Nomura Trust and Banking Co., Ltd. (Trust account 2052208)	1,239.4	1.87

(Notes) 1. The Company holds 1,291,348 shares as treasury share. However, this is excluded from the above list of major shareholders.

2. Percentages of voting rights are calculated based on the number of shares outstanding of 66,078,011 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

Distribution of share by shareholders



④ Status of shares granted to the Company's Directors and Corporate Auditors as remuneration for executing duties during the fiscal year

	Number of shares	Number of persons granted shares
Directors (excluding Outside Directors)	1,000 shares	8 persons
Outside Director	—	—
Corporate Auditors	—	—

(Note) The above number is the number of shares equivalent to the points to be granted to Directors (excluding Outside Directors and Directors who do not execute business) through a stock benefit trust as stock compensation.

⑤ 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 February 12, 2021, as follows.

(1) Purpose of the repurchase

To enhance returns to shareholders and improve capital efficiency

(2) Total number of shares repurchased

Common shares of the Company 440,000

(3) Total amount of repurchase

28,502 million yen

(4) Period of repurchase

From February 24, 2021 to March 4, 2021

(5) Method of repurchase

Market purchase

Highlight

Eco-Products

Sustainable Management of CO₂

SMC works to reduce the environmental burdens created by its products from the design and development phases through to the entire life-cycle (manufacturing, packaging, transporting, use and disposal) and strives to produce environmentally friendly products. By conducting product assessments, SMC also evaluates the environmental impact of its products in terms of attributes such as resource-saving, longevity, energy-saving, safety, types and amount of packaging materials and waste disposal in order to promote the development of environmentally friendly products.

During manufacturing

Weight : Up to **54%** savings

Volume : Up to **79%** savings




Resource-saving: Space-saving / Reduced weight

During usage


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

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



Long life : Up to **2million** drive cycles

Power consumption : Up to **34%** savings



Air-saving / Energy-saving / Long-life

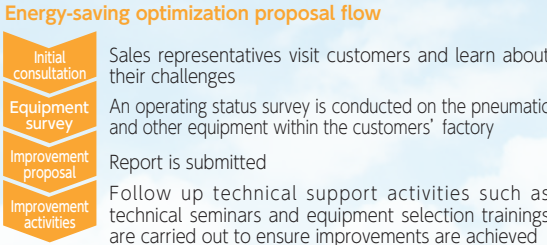
(Note) According to SMC's measurement conditions

Social

Social

Initiatives to Propose Energy-Saving Optimization Measures

SMC has created a dedicated team to utilize its accumulated energy saving experience and knowledge in order to make energy-saving solution proposals that will help reduce CO₂ emissions at its customers' facilities. SMC conducts customer factory visits and submits reports to the customers. Based on this on-site survey and follow up with a variety of technical support personnel, SMC gives customers the means to solve their problems. These visits also give customers an opportunity to actually try out SMC products in order to experience the energy-savings performance they can provide.



Supplying Products for Respirators and Mask Manufacturing Equipment

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



SDGs

SMC has launched initiatives for SDGs.

SDGs

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



SMC's Initiatives



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

① Directors and Corporate Auditors (As of March 31, 2021)

Name	Position, assignment of work and significant concurrent position	
Katsunori Maruyama	President	(Member of the Nomination and Compensation Committee)
Yoshiki Takada	Executive Vice-president	Senior General Manager of Sales Headquarters Chairman, SMC US (Member of the Nomination and Compensation Committee)
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
Susumu Maruyama	Director and Executive Officer	In charge of Business Management and General Manager of Presidential Office
Samuel Neff	Director and Executive Officer	In charge of Supply Chain Management
Masanobu Kaizu	Outside Director	(Chairman of the Nomination and Compensation Committee) Nomura Securities, Co., Ltd. Financial and Economic Research Center Senior Research Fellow and Adviser
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)

- (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. Outside Corporate Auditor Arata Toyoshi is a certified public accountant and certified public tax accountant and has abundant knowledge in finance and accounting.
3. The Company voluntarily established the Nomination and Compensation Committee as an advisory body of the Board of Directors on April 16, 2020 and Outside Director Masanobu Kaizu assumed the position of Chairman of this committee.
4. Upon the conclusion of the 61st Annual General Meeting of Shareholders held on June 26, 2020, Mr. Yoshiyuki Takada and Mr. Ikuji Usui retired upon expiration of their terms of office. At that Annual General Meeting of Shareholders, Mr. Susumu Maruyama and Mr. Samuel Neff were newly appointed and assumed the position of Director.
5. Outside Corporate Auditor Haruya Uchikawa retired as Outside Director at APLUS FINANCIAL Co., Ltd. as of March 31, 2021.
6. The Company made the following changes in titles of Directors as of April 1, 2021.

Name	New title		Previous title	
Katsunori Maruyama	Director and Senior Advisor		President	
Yoshiki Takada	President	Senior General Manager of Sales Headquarters	Executive Vice-president	Senior General Manager of Sales Headquarters

② Outline of a liability insurance agreement for executive officers, etc.

The Company has entered into a liability insurance agreement for executive officers, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act and will renew this agreement each year. An outline of this liability insurance agreement is as follows. The Company plans to renew this agreement under the same conditions at the next renewal period in July 2021.

Scope of those covered under insurance agreement	Executives, management, and all employees who become co-defendants of executives of the Company and Company's subsidiaries
Burden of insurance premiums	Those covered under this agreement will not bear the cost of insurance premiums (Company will bear all costs)
Outline of insured incidents eligible for compensation	Damages bore by the insured for liability of damages related to the execution of one's duties. Damages that occur due to claims received from pursuing such responsibility (compensation for damages and litigation expenses, etc.)
Mechanism to prevent interference with the proper execution of duties by executives, etc. of the Company, who are insured under this insurance agreement	This agreement includes a disclaimer stating that it will not cover any intentional damages and claims for compensation resulting from criminal behavior, violations of laws and regulations, and personal interests gained through illegal means by the insured

③ Compensation amounts payable to Directors and Corporate Auditors

	Total amount of compensation	Total amount of compensation by type of remuneration			Number of Directors apply
		Basic compensation	Retirement benefits	Stock compensation	
Directors (Outside Directors)	¥731 million (¥26 million)	¥370 million (¥26 million)	¥303 million (—)	¥57 million (—)	12 (2)
Corporate Auditors (Outside Corporate Auditors)	¥30 million (¥12 million)	¥30 million (¥12 million)	—	—	3 (2)

- (Notes)
- The above amounts include compensation for two Directors who retired during the current fiscal year.
 - Retirement benefits are a total of the following monetary amounts.
 - Provision for retirement benefits for Directors during the current fiscal year (from April to June 2020)
 - The difference between the amount actually paid to the two Directors who retired during the fiscal year 2020 and the recognized balance of the provision
 - The difference between the amount of the termination payment paid to the six reelected Directors approved at the 61st Annual General Meeting of Shareholders held on June 26, 2020 and the recognized balance of the provision
 - Details of non-monetary compensation, etc.
 The Company established "Board Benefit Trust" as a stock compensation plan for Directors (excluding Outside Directors and Directors who do not execute business).
 For three business years from the fiscal year ended March 31, 2021, points will be granted to persons eligible for this "Board Benefit Trust" for achieving a set level of performance each fiscal year (consolidated-based operating income ratio) after being confirmed by the Nomination and Compensation Committee and the Board of Directors.
 At the time of retirement, the Company will provide each eligible person with shares of the Company equivalent to the points granted and cash equivalent to the market value of the Company's shares. The status of points awarded in the current fiscal year is equivalent to 1,000 shares for the eight eligible persons, as described in [2] "Matters pertaining to the Company's shares ④ Status of shares granted to the Company's Directors and Corporate Auditors as remuneration for executing duties during the fiscal year".

In addition, 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, the right to receive the Company's shares and monetary benefits under the plan will not arise. Furthermore, if circumstances such as an error was found in the calculation of the performance target on which the granting of points is based and granting of the company's shares, etc. are unjustifiable, the person eligible for the plan shall be obligated to return to the Company the Company's shares, etc. received in the past (Malus and Clawback provisions).

4. Matters pertaining to resolutions at the General Meeting of Shareholders related to compensation for Directors and Corporate Auditors

- ① 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 number of Directors and Corporate Auditors in office after the conclusion of the Annual General Meeting of Shareholders was 19 and 5, respectively.
- ② The retirement benefit plan for Directors was abolished at the 61st Annual General Meeting of Shareholders held on June 26, 2020. The termination payment of retirement benefits based on the old system was approved for Directors who were reelected at this same General Meeting of Shareholders.
- ③ The introduction of the stock compensation plan described in (Notes) 3. above was approved at the 61st Annual General Meeting of Shareholders held on June 26, 2020. The number of shares corresponding to the points to be granted to the eight eligible persons within the said "Board Benefit Trust" and the acquisition price thereof are limited to 1,000 shares and 100 million yen per year, which is separate from the annual maximum limit of 900 million yen of the total amount of basic compensation described in ① above.

5. Matters pertaining to the policies for determination of compensation, etc. for individual Directors

① Method of determining such policies

The Company voluntarily established the Nomination and Compensation Committee as an advisory body of the Board of Directors on April 16, 2020. The decision-making policy on compensation, etc. for individual Directors is determined by the Board of Directors after deliberation by the Nomination and Compensation Committee. The Board of Directors and the President respect the report of the Nomination and Compensation Committee.

② Overview of these policies

a. Basic policy

- The Company's basic policy is to ensure that the compensation of Directors functions appropriately as an incentive to achieve sustainable growth of the Company and medium- to long-term enhancement of the Company's corporate value, and that the level of compensation is appropriate to the responsibilities of each Director.
- Compensation for Executive Directors shall consist of basic compensation and stock compensation, and the Company continues to consider the introduction of performance-based compensation. Non-executive Directors shall be paid only basic compensation.

b. Decision-making policy on basic compensation

- The basic compensation for Directors shall be determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director to earnings, position, assignment to work and term of office and the like.

c. Decision-making policy on non-monetary compensation

- Non-monetary compensation for Directors (excluding Outside Directors and Non-executive Directors) shall be stock compensation ("Board Benefit Trust").
- The details, calculation method of the number, and timing of the granting of compensation shall be in accordance with the "stock benefit rules" established by the Board of Directors after deliberations at the Nomination and Compensation Committee.

d. Decision-making policy on the ratio of monetary and non-monetary compensation to total individual compensation, etc.

- The Board of Directors shall decide the ratio of monetary and non-monetary compensation to total individual compensation, etc. after deliberation by the Nomination and Compensation Committee.

e. Matters pertaining to the determination of the details of compensation, etc. for individual Directors

- The Board of Directors shall determine the specific amount, timing and method of payment of compensation, etc. for individual Directors. However, by resolution of the Board of Directors, such determination may be delegated to the President.

6. Matters pertaining to the delegation of responsibility for determining the details of compensation, etc. for individual Directors

The specific amount, timing and method of payment of compensation, etc. for individual Directors are left to Katsunori Maruyama, (then) President, by resolution of the Board of Directors, and there are no restrictions on the scope of his discretion.

The authority to make these decisions is delegated to the President because the President has the greatest amount of information on the earnings forecast, employees' salary levels, and contribution of each Director to earnings, factors which form the basis of determining the details of compensation, etc. for individual Directors. Thus, the President is in the position to make the fairest evaluation based on the management policy.

Furthermore, the President shall report to the Chairman of the Nomination and Compensation Committee on the specific amount of compensation, etc. for individual Directors determined by himself based on the above discretionary resolution. With this, the Board of Directors has determined that the decision has been made in accordance with the decision-making policy described in Note 5 above.

④ Matters pertaining to Outside Directors and Outside Corporate Auditors

(1) Main activities during the current fiscal year

Name and position	Board of Directors' Meetings or Board of Corporate Auditors' Meetings attended/held (Attendance rate)		Main activities and overview of performed duties in expected roles
	Board of Directors	Board of Corporate Auditors	
Masanobu Kaizu Outside Director	9/9 (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. He also has provided the latest information related to economics and financial market conditions to the Board of Directors. He led deliberations related to the revision of the structure of the Board of Directors as the Chairman of the Nomination and Compensation Committee, which was newly established during the current fiscal year. He also strove to enhance the fairness, transparency, and objectivity to the nomination and compensation process of Directors by fulfilling a central role in selecting candidates for Outside Directors. Furthermore, he engaged in dialogue with shareholders and investors as the top independent Outside Director. Based on these dialogues, he deepened debate within the Nomination and Compensation Committee and the Board of Directors.

Name and position	Board of Directors' Meetings or Board of Corporate Auditors' Meetings attended/held (Attendance rate)		Main activities and overview of performed duties in expected roles
	Board of Directors	Board of Corporate Auditors	
Toshiharu Kagawa Outside Director	9/9 (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. He also strove to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as a member of the newly established Nomination and Compensation Committee during the current fiscal year.
Arata Toyoshi Outside Corporate Auditor	9/9 (100.0%)	13/13 (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. He also fulfilled a central role in deliberation and coordination among the Accounting Auditors, Board of Corporate Auditors, and Finance & Accounting Division related to the consideration and selection of KAM (Key Audit Matters) newly adopted in the current fiscal year.
Haruya Uchikawa Outside Corporate Auditor	9/9 (100.0%)	13/13 (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. In addition to identifying risks and points of caution as a legal expert in deliberations of the Board of Directors, he played an important role in ensuring the appropriateness and legality of business execution of Directors during the current fiscal year.

(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 2020

	Amount payable
Remuneration as Accounting Auditor in the fiscal year	¥73 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥73 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 Seigyo Kizai Corporation, audits for the 17 subsidiaries of the 18 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. The Company pays 31 million yen as compensation based on statutory audit work and 5 million yen as compensation based on non-auditing tasks to these auditing firms.

The total amount of compensation consolidated subsidiaries pay to auditing firms for statutory audit work is 100 million yen.

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 established the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” and 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 has voluntarily established the Nomination and Compensation Committee to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors. The majority of the Nomination and Compensation Committee consists Independent Outside Directors. The Chairman of the Committee is appointed from among the members who are Independent Outside 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 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.
 - The Company has prepared and registered for the “Declaration of Partnership Building” promoted by the Cabinet Office and the Small and Medium Enterprise Agency, etc., and has clarified its stance on maintaining appropriate business practices with suppliers in its supply chain.
- (2) Framework for information storage and management with regards to the execution of duties by Directors
 - The Company has implemented a file sharing system with high levels of security in order to safely and efficiently share materials used in the Board of Directors and Nomination and Compensation Committee.
- (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 properness 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 2020, 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
 - The Company strove to foster shared understanding by conducting multiple discussions between the Accounting Auditors, the Board of Corporate Auditors, and the Finance & Accounting Division aimed at selecting the KAM (Key Audit Matters).
 - Continued to take efforts to strengthen collaboration among the Board of Corporate Auditors, the Accounting Auditor and the internal audit department.

(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, 2021)

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
(Assets)		
Current assets	964,549	1,096,953
Cash and deposits	548,311	629,291
Notes and accounts receivable-trade	143,136	174,934
Securities	12,454	11,256
Merchandise and finished goods	103,456	112,131
Work in process	18,913	21,314
Raw materials and supplies	110,190	115,306
Other	28,603	33,470
Allowance for doubtful accounts	(517)	(751)
Non-current assets	425,989	442,917
Property, plant and equipment	188,477	198,540
Buildings and structures	82,169	81,450
Machinery, equipment and vehicles	34,857	38,515
Tools, furniture and fixtures	7,789	9,024
Land	38,611	38,812
Construction in progress	25,049	30,737
Intangible assets	10,771	11,389
Leasehold interests in land	8,649	8,931
Other	2,122	2,457
Investments and other assets	226,740	232,987
Investment securities	74,791	72,383
Retirement benefit asset	35	4,828
Insurance funds	139,226	145,373
Deferred tax assets	5,859	5,108
Other	8,276	6,782
Allowance for doubtful accounts	(1,448)	(1,488)
Total assets	1,390,539	1,539,871

	As of March 31, 2020	As of March 31, 2021
(Liabilities)		
Current liabilities	94,364	118,043
Notes and accounts payable-trade	38,379	44,091
Short-term borrowings	3,726	1,465
Income taxes payable	14,669	30,029
Provision for bonuses	2,434	3,055
Other	35,155	39,402
Non-current liabilities	42,908	41,839
Long-term borrowings	7,790	9,323
Deferred tax liabilities	18,682	17,385
Provision for retirement benefits for directors	964	286
Provision for share awards for directors	—	57
Retirement benefit liability	8,296	6,674
Other	7,175	8,112
Total liabilities	137,272	159,883
(Net assets)		
Shareholders' equity	1,285,922	1,352,399
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,182,014	1,277,198
Treasury shares	(30,432)	(59,139)
Accumulated other comprehensive income	(35,734)	24,304
Valuation difference on available-for-sale securities	6,334	11,404
Foreign currency translation adjustment	(40,084)	12,056
Remeasurements of defined benefit plans	(1,994)	842
Non-controlling interests	3,078	3,283
Total net assets	1,253,266	1,379,987
Total liabilities and net assets	1,390,539	1,539,871

Consolidated Statements of Income (April 1, 2020 to March 31, 2021)

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net sales	526,000	552,178
Cost of sales	266,148	286,326
Gross profit	259,852	265,852
Selling, general and administrative expenses	113,597	112,496
Operating profit	146,254	153,355
Non-operating income	16,788	19,709
Interest income	10,710	6,959
Foreign exchange gains	—	8,570
Gain on investments in insurance funds	2,385	569
Other	3,692	3,609
Non-operating expenses	4,592	1,236
Interest expenses	124	174
Sales discounts	390	358
Loss on sale of securities	474	180
Foreign exchange losses	3,335	—
Other	266	523
Ordinary profit	158,450	171,827
Extraordinary income	538	1,667
Gain on sale of non-current assets	173	650
Gain on sale of investment securities	225	69
Gain on liquidation of subsidiaries	117	—
Gain on sale of shares of subsidiaries and associates	—	929
Other	22	17
Extraordinary losses	855	1,012
Loss on retirement of non-current assets	225	685
Loss on sale of investment securities	311	5
Loss on valuation of shares of subsidiaries	199	—
Loss on valuation of shares of subsidiaries and associates	—	104
Other	118	217
Profit before income taxes	158,133	172,482
Income taxes-current	39,063	53,565
Income taxes-deferred	8,475	(2,909)
Profit	110,594	121,826
Profit attributable to non-controlling interests	93	35
Profit attributable to owners of parent	110,500	121,790

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2020 to March 31, 2021) (Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Cash flows from operating activities	124,610	120,473
Profit before income taxes	158,133	172,482
Depreciation	16,669	18,585
Interest and dividend income	(12,230)	(7,371)
Foreign exchange losses (gains)	(252)	(4,236)
Decrease (increase) in trade receivables	7,859	(20,605)
Decrease (increase) in inventories	(9,328)	(4,457)
Increase (decrease) in trade payables	4,319	(891)
Other, net	(5,103)	168
Subtotal	160,067	153,675
Interest and dividends received	12,024	4,786
Interest paid	(110)	(197)
Income taxes (paid) refund	(47,370)	(37,790)
Cash flows from investing activities	24,923	73,440
Payments into time deposits	(216,171)	(172,628)
Proceeds from withdrawal of time deposits	280,556	261,998
Purchase of property, plant and equipment	(38,498)	(28,281)
Purchase of intangible assets	(481)	(1,016)
Purchase of short-term and long-term investment securities	(12,018)	(2,483)
Proceeds from sales and redemption of short-term and long-term investment securities	14,369	13,583
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	—	6,280
Purchase of insurance funds	(8,675)	(9,848)
Proceeds from maturity of insurance funds	4,106	4,693
Other, net	1,737	1,141
Cash flows from financing activities	(49,925)	(56,009)
Net increase (decrease) in short-term borrowings	2,100	(2,286)
Proceeds from long-term borrowings	6,500	3,200
Repayments of long-term borrowings	(4,413)	(1,645)
Purchase of treasury shares	(27,346)	(28,706)
Dividends paid	(26,745)	(26,607)
Other, net	(19)	35
Effect of exchange rate change on cash and cash equivalents	(17,054)	24,507
Net increase (decrease) in cash and cash equivalents	82,555	162,411
Cash and cash equivalents at beginning of period	312,366	399,128
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	4,206	—
Cash and cash equivalents at end of period	399,128	561,540

(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, 2021)

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
(Assets)		
Current assets	363,505	576,302
Cash and deposits	107,848	310,082
Notes receivable-trade	21,944	21,067
Accounts receivable-trade	67,381	84,461
Securities	12,454	11,256
Merchandise and finished goods	37,370	33,092
Work in process	9,968	10,411
Raw materials and supplies	75,028	72,206
Accounts receivable-other	28,397	32,271
Other	3,217	1,607
Allowance for doubtful accounts	(105)	(152)
Non-current assets	492,702	505,628
Property, plant and equipment	62,477	64,146
Buildings and structures	27,342	26,230
Machinery, equipment and vehicles	12,508	13,806
Tools, furniture and fixtures	1,931	2,363
Land	17,330	19,510
Construction in progress	3,364	2,235
Intangible assets	400	758
Software	321	678
Other	79	79
Investments and other assets	429,823	440,724
Investment securities	58,516	54,517
Shares of subsidiaries and associates	108,171	104,797
Investments in capital of subsidiaries and associates	110,587	123,449
Prepaid pension cost	2,526	3,460
Deferred tax assets	8,730	7,072
Insurance funds	139,181	145,326
Other	2,188	2,145
Allowance for doubtful accounts	(79)	(44)
Total assets	856,207	1,081,931

	As of March 31, 2020	As of March 31, 2021
(Liabilities)		
Current liabilities	75,252	89,368
Accounts payable-trade	41,473	47,009
Short-term borrowings	5,767	—
Accounts payable-other	5,077	2,692
Income taxes payable	8,996	24,094
Accrued expenses	9,401	12,839
Other	4,535	2,733
Non-current liabilities	16,554	15,915
Long-term borrowings	5,000	5,000
Provision for retirement benefits	4,672	4,239
Provision for retirement benefits for directors	614	—
Provision for share awards for directors	—	57
Other	6,267	6,617
Total liabilities	91,807	105,283
(Net assets)		
Shareholders' equity	758,099	965,670
Share capital	61,005	61,005
Capital surplus	73,271	73,271
Legal capital surplus	72,576	72,576
Other capital surplus	694	694
Retained earnings	654,255	890,533
Legal retained earnings	15,251	15,251
Other retained earnings	639,004	875,282
Reserve for special depreciation	104	159
Reserve for tax purpose reduction entry of assets	275	263
General reserve	150,250	150,250
Retained earnings brought forward	488,373	724,608
Treasury shares	(30,432)	(59,139)
Valuation and translation adjustments	6,301	10,976
Valuation difference on available-for-sale securities	6,301	10,976
Total net assets	764,400	976,647
Total liabilities and net assets	856,207	1,081,931

Non-consolidated Statements of Income (April 1, 2020 to March 31, 2021) (Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net sales	333,045	347,611
Cost of sales	208,665	226,993
Gross profit	124,379	120,617
Selling, general and administrative expenses	31,505	33,074
Operating profit	92,874	87,542
Non-operating income	8,467	213,376
Interest and dividend income	3,630	199,295
Gain on investments in insurance funds	2,385	569
Gain on sale of securities	123	198
Foreign exchange gains	—	10,554
Dividend income of insurance	460	485
Royalty income	990	1,509
Other	876	763
Non-operating expenses	8,586	376
Interest expenses	240	93
Sales discounts	103	91
Loss on sale of securities	474	180
Foreign exchange losses	7,690	—
Other	76	10
Ordinary profit	92,755	300,543
Extraordinary income	345	3,510
Gain on sale of investment securities	225	69
Gain on sale of shares of subsidiaries and associates	—	3,440
Gain on liquidation of subsidiaries	117	—
Other	2	0
Extraordinary losses	562	357
Loss on retirement of non-current assets	25	245
Loss on sale of investment securities	311	5
Loss on valuation of shares of subsidiaries	197	—
Loss on valuation of shares of subsidiaries and associates	—	104
Impairment loss	19	—
Other	8	1
Profit before income taxes	92,538	303,696
Income taxes-current	26,097	41,216
Income taxes-deferred	393	(405)
Profit	66,048	262,885

(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 21, 2021

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, 2020 to March 31, 2021.

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, 2021, 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 Responsibility 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 21, 2021

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 62nd fiscal year from April 1, 2020 to March 31, 2021.

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 Responsibility 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 62nd fiscal year, which lasted from April 1, 2020 to March 31, 2021 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 24, 2021

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 62nd Annual General Meeting of Shareholders

June 2021

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, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,335	1,182,014	(30,432)	1,285,922
Changes during period					
Dividends of surplus			(26,607)		(26,607)
Profit attributable to owners of parent			121,790		121,790
Purchase of treasury shares				(28,706)	(28,706)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	95,183	(28,706)	66,477
Net assets at end of period	61,005	73,335	1,277,198	(59,139)	1,352,399

	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	6,344	(40,084)	(1,994)	(35,734)	3,078	1,253,266
Changes during period						
Dividends of surplus						(26,607)
Profit attributable to owners of parent						121,790
Purchase of treasury shares						(28,706)
Net changes in items other than shareholders' equity	5,060	52,141	2,837	60,039	205	60,244
Total changes during period	5,060	52,141	2,837	60,039	205	126,721
Net assets at end of period	11,404	12,056	842	24,304	3,283	1,379,987

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 Korea Co., Ltd.

SMC Corporation of America

SMC (China) Co., Ltd.

SMC Deutschland GmbH

SMC (Beijing) Manufacturing Co., Ltd.

From the current consolidated fiscal year, two newly established companies, SMC Investment Management China Co., Ltd. (specified subsidiary) and SMC Automation China Co., Ltd. were included in the scope of consolidation. In addition, two companies, Toyo Warehouse & Transportation Co., Ltd. and SMC Manufacturing (Australia) Pty. Ltd. were excluded from the scope of consolidation after the sale of all shares and liquidation, respectively.

(2) Names of major non-consolidated subsidiaries: SC SMC Romania S.r.l., SMC Corporation (Chile) S.A.

(Reasons for exclusion from the scope of consolidation)

The 30 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 (SC SMC Romania S.r.l. and 29 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, 2021 for the following 10 subsidiaries whose fiscal year-end date is December 31.

SMC Investment Management China Co., Ltd.	SMC Automation China Co., Ltd.
SMC (China) Co., Ltd.	SMC (Beijing) Manufacturing Co., Ltd.
SMC (Tianjin) Manufacturing Co., Ltd.	SMC Automation (Guangzhou) Ltd.
Nihon Kizai (Shanghai) Co., Ltd.	SMC Corporation (Mexico), S.A. de C.V.
SMC Pneumatik LLC	SMC Automação do Brasil Ltda.

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

Some of the Company's 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.

(iv) Provision for share awards for directors

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current fiscal year is recorded.

(Additional Information)

Until the previous fiscal year, the Company had recorded a provision for retirement benefits for Directors. However, based on the resolution of the Annual General Meeting of Shareholders held on June 26, 2020, the Company abolished the retirement benefit plan and made a termination payment of retirement benefits to Directors who were reappointed at the said Annual General Meeting of Shareholders. The total amount of the termination payments of ¥259 million has been included in "Other" under "Non-current liabilities" of the consolidated balance sheet.

In addition, at the same General Meeting of Shareholders, the Company resolved to introduce a stock compensation plan "Board Benefit Trust" under which the Company's shares and an amount of money equivalent to the market value of the Company's shares are provided to the Company's Directors, and recorded the projected amount of share benefits as of the end of the current consolidated fiscal year as a provision for share awards for Directors.

(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 based on the projected amount of the retirement benefit obligations and pension assets at the end of the current fiscal year.

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 accounting estimates]

Of the accounting estimates made in preparing the consolidated financial statements for the current fiscal year, those with a risk of having a material impact on the consolidated financial statements for the following fiscal year have not been identified, and are therefore omitted from this report.

[Notes on Consolidated Balance Sheet]

	(Millions of yen)
1. Accumulated depreciation of property, plant and equipment	232,783
2. For non-consolidated subsidiaries and affiliates	
Investment securities (stocks)	14,881

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses

Salaries and allowances	41,519
Bonuses	8,041
Retirement benefit expenses	1,882
Provision of allowance for doubtful accounts	316

2. Research and development expenses included under general and administrative expenses as well as manufacturing costs 20,874

[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	850,846	443,502	–	1,294,348

Note: Of the 443,502 share increase in the number of treasury shares, 440,000 shares were due to purchase of treasury shares based on the resolution of the Board of Directors, 3,000 shares were due to the stock compensation plan “Board Benefit Trust” for Directors, while 502 shares were due to purchase of shares of less than one full unit.

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 26, 2020	Common share	¥13,303 million	¥200	March 31, 2020	June 29, 2020
Board of Directors' Meeting held on November 13, 2020	Common share	¥13,303 million	¥200	September 30, 2020	December 1, 2020

Note: The “Total dividend amount” resolved at the meeting of the Board of Directors held on November 13, 2020 includes a dividend of ¥0 million for the Company’s shares held by the “Board Benefit Trust.”

(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 29, 2021.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥19,823 million	¥300	March 31, 2021	June 30, 2021

Note: The “Total dividend amount” includes a dividend of ¥0 million for the Company’s shares held by the “Board Benefit Trust.”

[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, 2021. 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	629,291	629,291	—
(2) Notes and accounts receivable-trade	174,934	174,934	—
(3) Securities and investment securities			
Available-for-sale securities	68,606	68,606	—
Total assets	872,832	872,832	—
(4) Notes and accounts payable-trade	44,091	44,091	—
(5) Short-term borrowings	1,465	1,465	—
Total liabilities	45,556	45,556	—
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	¥14,881 million
Unlisted stocks	¥151 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	629,267	—	—	—
(2) Notes and accounts receivable- trade	174,934	—	—	—
(3) Securities and investment securities				
Available-for-sale securities with maturity date				
(Government bonds)	11,072	27,680	—	—
(other)	—	—	—	—
Total	815,273	27,680	—	—

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

	Within 1 year
Short-term borrowings	¥1,465 million

[Notes on per share information]

1. Net assets per share: 20,835.47 yen
2. Net income per share: 1,831.98 yen

(Note) In the Notes to the Consolidated Financial Statement, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Statement of Changes in Equity

(April 1, 2020 to March 31, 2021)

(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	73,271	15,251	104	275	150,250
Changes during period								
Provision of reserve for special depreciation						71		
Reversal of reserve for special depreciation						(17)		
Reversal of reserve for tax purpose reduction entry of assets							(12)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	–	–	–	–	–	54	(12)	–
Net assets at end of period	61,005	72,576	694	73,271	15,251	159	263	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	488,373	654,255	(30,432)	758,099	6,301	6,301	764,400
Changes during period							
Provision of reserve for special depreciation	(71)	–		–			–
Reversal of reserve for special depreciation	17	–		–			–
Reversal of reserve for tax purpose reduction entry of assets	12	–		–			–
Dividends of surplus	(26,607)	(26,607)		(26,607)			(26,607)
Profit	262,885	262,885		262,885			262,885
Purchase of treasury shares			(28,706)	(28,706)			(28,706)
Net changes in items other than shareholders' equity					4,675	4,675	4,675
Total changes during period	236,235	236,277	(28,706)	207,571	4,675	4,675	212,247
Net assets at end of period	724,608	890,533	(59,139)	965,670	10,976	10,976	976,647

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 share awards for directors

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current business year is recorded.

(Additional Information)

Until the previous fiscal year, a provision for retirement benefits for Directors was recorded. However, based on the resolution of the Annual General Meeting of Shareholders held on June 26, 2020, the Company abolished the retirement benefit plan and made a termination payment of retirement benefits to Directors who were reappointed at the said Annual General Meeting of Shareholders. The total amount of the termination payments of ¥259 million has been included in “Other” under “Non-current liabilities” of the balance sheet.

In addition, at the same General Meeting of Shareholders, it was resolved to introduce a stock compensation plan “Board Benefit Trust” under which the Company’s shares and an amount of money equivalent to the market value of the Company’s shares are provided to the Company’s Directors, and the projected amount of share benefits as of the end of the current fiscal year is recorded as a provision for share awards for Directors.

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 accounting estimates]

Of the accounting estimates made in preparing the financial statements for the current fiscal year, those with a risk of having a material impact on the financial statements for the following fiscal year have not been identified, and are therefore omitted from this report.

[Notes on Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	123,899
2. Receivables and payables in relation to subsidiaries and affiliates	
Short-term receivables	90,710
Short-term payables	12,127

[Notes on Statements of Income]

Transactions with subsidiaries and affiliates (Millions of yen)

Net sales	241,223
Purchase amount	51,216
Selling, general and administrative expenses	1,574
Non-operating transaction amount	199,498

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

Type and number of treasury shares (Shares)

	Type	At the end of previous fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	850,846	443,502	—	1,294,348

Note: Of the 443,502 share increase in the number of treasury shares, 440,000 shares were due to purchase of treasury shares based on the resolution of the Board of Directors, 3,000 shares were due to the stock compensation plan “Board Benefit Trust” for Directors, while 502 shares were due to purchase of shares of less than one full unit.

[Notes on tax effect accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	The 62nd fiscal year (As of March 31, 2021)
Deferred tax assets	
Loss on valuation of investment securities	580
Loss on valuation of inventories	6,127
One-time depreciable assets	37
Loss on valuation of shares of subsidiaries and affiliates	390
Allowance for doubtful accounts	60
Accounts payable other	255
Accrued enterprise taxes, accrued business office taxes	1,403
Accrued expenses	2,834
Provision for retirement benefits	1,298
Provision for share awards for directors	17
Asset retirement obligations	54
Valuation difference on available-for-sale securities	19
Other	104
Total deferred tax assets	13,184
Deferred tax liabilities	
Asset retirement obligations	(2)
Prepaid pension cost	(1,059)
Reserve for special depreciation	(70)
Reserve for tax purpose reduction entry of assets	(116)
Valuation difference on available-for-sale securities	(4,863)
Total deferred tax liabilities	(6,112)
Net deferred tax assets	7,072

[Notes on transactions with related parties]

1. Subsidiaries and affiliates

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC (China) Co., Ltd.	(Indirect) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product (*1)	53,321	Accounts receivable-trade	16,458
Subsidiary	SMC Investment Management China Co., Ltd.	(Direct) 100.0%	Holding company for consolidated subsidiaries in China	Investment in kind, etc. (*2)	84,004	Investment in capital of subsidiaries	84,004
Subsidiary	SMC Manufacturing (Singapore) Pte. Ltd.	(Direct) 100.0%	Company providing raw materials to and supplier of the Company's products	Dividend income (*3)	48,157	—	—

Transaction conditions and policies on determining such conditions

- (*1) The sales price of the Company's products is determined in consideration of the prevailing market price.
- (*2) SMC Investment Management China Co., Ltd. is a holding company established for the purpose of business management and fund management of subsidiaries in China. After its establishment, the Company increased its capital through investing in kind at book value of each Chinese subsidiary's interests held by the Company.
- (*3) Dividends received are based on the retained earnings of the subsidiaries and are determined upon consultations with the subsidiaries.

2. Director and individual major shareholders, etc.

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Companies, etc. in which the majority of voting rights are owned by a Director or his/her close relatives	SMAC Corporation (Note)	None	Supplier of raw materials	Purchase of raw materials (*1)	2,979	Accounts payable-trade	273
				Loan of machinery and equipment (*1)	—	Machinery, equipment and vehicles, other	169
				Rental of warehouses (*1)	—	Investments and other asset, other (leasehold and guarantee deposits)	66
				Sales of securities (*2)	46	—	—

(Note) Samuel Neff, Director and Executive Officer of the Company, and his close relatives own 99.7% of the total voting rights.

Transaction conditions and policies on determining such conditions

(*1) The Company outsources the production of raw materials (tubes) to SMAC Corporation (“SMAC”). The purchase price of tubes is determined through negotiations, and machinery and equipment are lent to free of charge.

The rent fee for the warehouse that the Company rents from SMAC for storage of tubes is negotiated and set according to the amount of purchase, and is included in the purchase price of tubes.

(*2) As for the sale of securities, SMAC shares (class shares without voting rights) held by the Company were sold to SMAC. The sale price was determined through negotiations based on the Company’s acquisition price.

[Notes on per share information]

1. Net assets per share:	14,780.89 yen
2. Net income per share:	3,954.33 yen

(Note) In Notes to Non-consolidated Financial Statements, amounts are rounded down to the nearest unit.