

Dear Shareholders,

(Security Code: 6273)

June 5, 2019

Notice of the 60th Annual General Meeting of Shareholders

Notice is hereby given to cordially invite you to attend the 60th Annual General Meeting of Shareholders of SMC Corporation ("Company") to be held as described below.

If you are unable to attend the meeting in person, you are entitled to cast your vote in writing or via the Internet. In this regard, we cordially request that you study the attached "Reference Documents for the General Meeting of Shareholders" and exercise your voting right by 5:00 p.m., on June 26, 2019 (Wednesday).

Sincerely,

Katsunori Maruyama
President

SMC Corporation

4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

- 1. **Date and Time** June 27, 2019 (Thursday) 10:00 a.m.
- 2. **Venue** Conference Room, SMC Corporation
Akihabara UDX Building (15F),
4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo

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 60th fiscal year (April 1, 2018 to March 31, 2019)

Matters to be resolved

- Proposal 1.** Dividend of Surplus
- Proposal 2.** Election of 10 Directors
- Proposal 3.** Election of 3 Corporate Auditors
- Proposal 4.** Award of Retirement Benefits to Retiring Directors

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

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

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 increase net assets, aiming to build a solid financial base that is not affected by financial and economic turmoil and rapid changes in foreign exchange rates like those occurred in connection with the collapse of Lehman Brothers in 2008.

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

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

[Matters related to year-end dividend]

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

(1) Allocation of divisible assets payable to shareholders and total amount

200 yen per share on the Company's common shares (Ordinary dividend: 100 yen, Special dividend: 100 yen)

Total amount: 13,443,844,000 yen

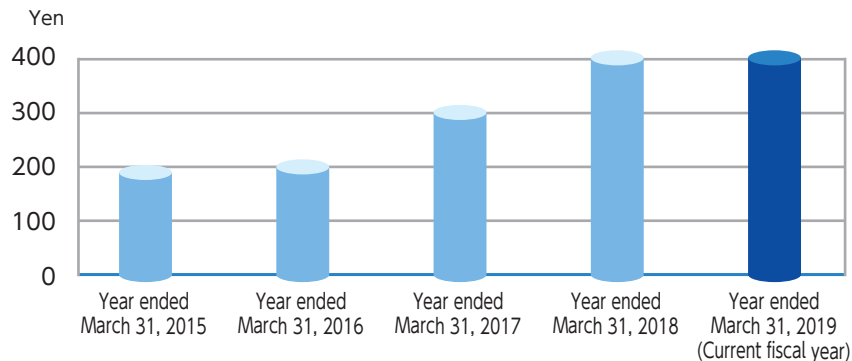
(2) Effective date of the dividends from surplus

June 28, 2019

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

Reference:

Changes in dividend per share



Proposal 2 Election of 10 Directors

The term of office of all current 9 Directors will expire at the conclusion of this Annual General Meeting of Shareholders. It is proposed that the number of Directors be increased by 1 for strengthening the capability of the management team of the Company, and therefore, 10 Directors (including 2 Outside Directors) be elected.

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

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
1	[Reappointed]	April 1959	Established the Company, Director
	Yoshiyuki Takada (August 20, 1926)	May 1964	Executive Managing Director
		December 1988	Senior General Manager of Sales Headquarters
		May 1989	President
		August 2002	Chairman, SMC US (Incumbent)
	Number of the Company's shares held 10,017 shares	July 2004	Chairman, the Company (Incumbent)
	[Reason for selection as a candidate for Director] Since the foundation of the Company in 1959, Mr. Yoshiyuki Takada has led overall business activities in R&D, production and sales with strong leadership and high entrepreneurial spirit. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		
2	[Reappointed]	June 1970	Joined the Company
	Katsunori Maruyama (March 25, 1947)	June 1993	Director and Manager of Sales Administration Division
		June 1999	General Manager of Planning & Intelligence Service Division
		June 2001	Managing Director
		July 2002	Executive Managing Director
		July 2003	Executive Vice-president
		July 2004	President (Incumbent)
	Number of the Company's shares held 2,100 shares		
	[Reason for selection as a candidate for Director] Mr. Katsunori Maruyama had been in charge of the analysis of market trends for many years and has fulfilled his responsibilities by serving as President and Representative Director, the chief executive for business execution since 2004. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
3	[Reappointed]	June 1993	Joined the Company, Director and General Manager of Administration Division
	Ikuji Usui (August 20, 1943)	June 1999	Vice Senior General Manager of Administration Headquarters
		June 2001	Managing Director
		June 2001	Senior General Manager of Administration Headquarters (Incumbent)
		July 2003	Executive Managing Director
	Number of the Company's shares held 1,800 shares	June 2017	Director and Senior Managing Executive Officer (Incumbent)
	[Reason for selection as a candidate for Director] Mr. Ikuji Usui has served as Manager in the Administration Division since joining the Company in 1993, and has fulfilled his responsibilities as Senior General Manager supervising the entire Administration Division including Personnel, Finance and Accounting, and IR Divisions since 2001. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		
4	[Reappointed]	April 1967	Joined the Company
		June 1999	General Manager of Product Development Division 1
		June 2002	Director
		June 2007	Executive Advisory Engineer
		June 2008	Director
		July 2009	Vice Senior General Manager of Engineering Headquarters
		February 2010	Managing Director
		June 2013	Executive Managing Director
		June 2013	Senior General Manager of Engineering Headquarters (Incumbent)
	Number of the Company's shares held 8,500 shares	June 2017	Director and Senior Managing Executive Officer (Incumbent)
	[Reason for selection as a candidate for Director] Mr. Seiji Kosugi has been engaged in the development and design of the Company's core products since joining the Company, and has fulfilled his responsibilities as Senior General Manager supervising the entire R&D Division since 2013. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.		

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization
5	[Reappointed] Masahiko Satake (January 19, 1947)	April 1969 Joined the Company November 2001 General Manager of Production Division 3 June 2007 Director July 2012 Managing Director and Vice Senior General Manager of Production Headquarters June 2013 Executive Managing Director June 2013 Senior General Manager of Production Headquarters (Incumbent) June 2017 Director and Senior Managing Executive Officer (Incumbent)
	<hr/> Number of the Company's shares held 1,000 shares	
	[Reason for selection as a candidate for Director] Mr. Masahiko Satake has been engaged in the management of production cost and projects to streamline operations for many years and has fulfilled his responsibilities as Manager of Kamaishi Factory since 2001 and Senior General Manager of the Production Headquarters supervising the entire Production Division since 2013. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.	
6	[Reappointed] Yoshiki Takada (June 6, 1958)	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 (Incumbent) 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 (Incumbent) July 2018 Senior General Manager of Sales Headquarters (Incumbent)
	<hr/> 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 has engaged in global business operations for the entire Group as Senior General Manager supervising the entire Sales Division since 2018. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.	

	Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
7	[Newly-appointed]	July 2014	Retired from Resona Bank, Limited.
	Toshio Isoe	August 2014	Joined the Company
	(May 26, 1961)	May 2019	Deputy General Manager of Administration Division (Incumbent)
	Number of the Company's shares held 100 shares		
	[Reason for selection as a candidate for Director] Mr. Toshio Isoe has been engaged in the operations of the administration for the Company, the management of subsidiaries, the administration for sales, etc. since joining the Company in 2014. With the expectation that he can contribute to the management of the Company, he has been selected as a candidate for Director.		
8	[Newly-appointed]	April 2015	Retired from Resona Bank, Limited.
	Masahiro Ota	May 2015	Joined the Company
	(December 24, 1963)	May 2019	Deputy General Manager of Finance & Accounting Division (Incumbent)
	Number of the Company's shares held 0 shares		
	[Reason for selection as a candidate for Director] Mr. Masahiro Ota has been mainly engaged in the management of subsidiaries since joining the Company in 2015. With the expectation that he can contribute to the management of the Company, he has been selected as a candidate for Director.		

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization	
[Reappointed] [Independent]	April 1975	Joined Nomura Research Institute, Ltd.
Candidate for Outside Director	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
Masanobu Kaizu (December 27, 1951)	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
Number of the Company's shares held 0 shares	June 2014	Outside Director of the Company (Incumbent)
	Important concurrent duties	
	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center	

[Reason for selection as a candidate for Outside Director]

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

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

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

[Other special notes concerning the candidate for Outside Director]

- The Company has made a contract with Mr. Kaizu for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law).

If Mr. Kaizu is reelected, the Company plans to continuously make the said contract with him.

- The Company has also designated Mr. Kaizu as an independent director as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered him as such with the TSE.
- 5 years will pass at the conclusion of this Annual General Meeting of Shareholders after he is elected the Company's Outside Director.

Name (Date of birth)	Brief personal profile, position, assignment of work and important concurrent position at other organization												
[Reappointed] [Independent] Candidate for Outside Director	<table> <tr> <td data-bbox="704 246 873 291">May 1996</td><td data-bbox="889 246 1427 291">Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology</td></tr> <tr> <td data-bbox="704 291 873 325">May 2012</td><td data-bbox="889 291 1427 325">President, Japan Fluid Power System Society</td></tr> <tr> <td data-bbox="704 325 873 403">January 2014</td><td data-bbox="889 325 1427 403">Professor, Interdisciplinary Graduate School of Science and Engineering, Tokyo Institute of Technology</td></tr> <tr> <td data-bbox="704 403 873 438">June 2015</td><td data-bbox="889 403 1427 438">Outside Director of the Company (Incumbent)</td></tr> <tr> <td data-bbox="704 438 873 471">April 2016</td><td data-bbox="889 438 1427 471">Institute Professor, Tokyo Institute of Technology</td></tr> <tr> <td data-bbox="704 471 873 495">April 2018</td><td data-bbox="889 471 1427 495">Professor Emeritus at Tokyo Institute of Technology</td></tr> </table>	May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology	May 2012	President, 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
May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology												
May 2012	President, 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												
Toshiharu Kagawa (November 12, 1950) <hr/> Number of the Company's shares held 0 shares													

[Reason for selection as a candidate for Outside Director]

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

[Other special notes concerning the candidate for Outside Director]

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

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

Proposal 3 Election of 3 Corporate Auditors

Of the 3 current Corporate Auditors, 2 Outside Corporate Auditors will retire due to expiration of their terms of office, and Full-Time Corporate Auditor Mr. Eizo Fujino will resign, at the conclusion of this Annual General Meeting of Shareholders.

Accordingly, it is proposed that 3 Corporate Auditors (of which 2 are Outside Corporate Auditor candidates) be elected.

This Proposal has been approved by the Board of Corporate Auditors.

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

	Name (Date of birth)	Brief personal profile, position and important concurrent position at other organization	
1	[Newly-appointed]	April 1981	Joined the Company
	Naoto Moriyama (November 14, 1957)	November 2002	General Manager of Public Relations Office (Incumbent)
		October 2014	General Manager of Administration Division (Incumbent)
	Number of the Company's shares held 100 shares		
	[Reason for selection as a candidate for Corporate Auditor]		
	• Mr. Naoto Moriyama has been diligently serving duties in managing Administration and IR Division for many years. He has a deep knowledge of the overall company operation and has a very good talent in collecting information and making adjustments and arrangements within the Company. With the expectation that he can contribute to the management of the Company, he has been selected as a candidate for Corporate Auditor.		

Name (Date of birth)

[Newly-appointed] [Independent]

Candidate for Outside Corporate Auditor

Arata Toyoshi

(October 31, 1965)

Number of the Company's shares held 0 shares

Brief personal profile, position and important concurrent position at other organization

April 1998 Registered as Certified Public Accountant (Incumbent)
 August 2007 Partner, Deloitte Touche Tohmatsu
 July 2014 Director, Tohmatsu Challenged Co.,Ltd.
 December 2016 Retired from Deloitte Touche Tohmatsu LLC
 January 2017 Established CPA Toyoshi Arata Office as its representative (Incumbent)
 November 2017 Registered as Certified Public Tax Accountant (Incumbent)

Important concurrent duties

Certified Public Accountant (Representative, CPA Toyoshi Arata Office)

(Note) Mr. Toyoshi will be appointed as an outside director (audit and supervisory committee member) of NIHON CHOZAI Co., Ltd. on June 26, 2019

[Reason for selection as a candidate for Outside Corporate Auditor]

- Mr. Arata Toyoshi has an extensive experienced as a certified public accountant, and working under a major auditing firm, he has been engaged in listed company auditing, advisories on IPO, management and operations in auditing firms and its group company. He has a superb personality, insight and abundant knowledge in financial and accountings.
- Based on his own professional knowledge and broad experience in business accounting and auditing, we have appointed Mr. Toyoshi as a candidate for Outside Corporate Auditor, expecting him to monitor company's management activities from a neutral and objective point of view based on his abundant knowledge, to make any proposals on management policies especially prioritizing in financial accounting and capability of timely disclosure standpoints in particular.

[Other special notes concerning the Candidate for Outside Corporate Auditor]

- The Company will be making a contract between Mr. Toyoshi for the limitation of liability in accordance with the Article 427, Paragraph 1 of the Companies Act and Article 37 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 the Law).
- The Company will designate Mr. Toyoshi as an independent corporate auditor as stipulated by the TSE, and registered him as such with the TSE.

Name (Date of birth)	Brief personal profile, position and important concurrent position at other organization
[Newly-appointed] [Independent] Candidate for Outside Corporate Auditor	April 1998 Registered as Lawyer (Incumbent) April 1998 Joined Midosuji Law Firm January 2005 Partner, Midosuji Legal Profession Corporation (Incumbent) June 2006 Outside Corporate Auditor of HASEKO Corporation June 2014 Outside Director of APLUS FINANCIAL Co., Ltd. (Incumbent)
Haruya Uchikawa (October 31, 1970) <hr/> Number of the Company's shares held 0 shares	Important concurrent duties Lawyer (Partner, Midosuji Legal Profession Corporation) Outside Director of APLUS FINANCIAL Co., Ltd.
[Reason for selection as a candidate for Outside Corporate Auditor] • Mr. Haruya Uchikawa is an experienced lawyer having a superb insights and a deep knowledge in corporate legal affairs who has also experienced being an Outside Director and Outside Corporate Auditor of other listed companies. • Based on his own professional knowledge and broad experience on Companies Act, Financial Instruments and Exchange Law, other statutes regulatory, and compliance which is requested by to listed companies, we have appointed Mr. Uchikawa as a candidate for Outside Corporate Auditor, expecting him to monitor company's management activities from a neutral and objective point of view based on his abundant knowledge, to make any proposals on management policies especially prioritizing in legislative risk managements and regulatory compliance standpoints in particular. [Other special notes concerning the Candidate for Outside Corporate Auditor] • The Company will be making a contract between Mr. Uchikawa for the limitation of liability in accordance with the Article 427, Paragraph 1 of the Companies Act and Article 37 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 the Law). • The Company has also designated Mr. Uchikawa as an independent corporate auditor as stipulated by the TSE, and registered him as such with the TSE.	

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

[Reference] Criteria on independence of Outside Directors and Outside Corporate Auditors

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

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

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

Proposal 4 Award of Retirement Benefits to Retiring Directors

This is to propose that Directors' retirement benefits be awarded to Mr. Osamu Kuwahara, who resigned as Director during his term of office, and Mr. Eiji Ohashi, who will retire upon expiration of his term of office as Director at the conclusion of this Annual General Meeting of Shareholders, in recognition of their services. The amount shall be in the range of the standards prescribed by the Company's designated "Regulations for Directors' Retirement Benefits." We propose that the amount, timing and method of payment be determined by the Board of Directors.

The maximum total amount of retirement benefits payable in accordance with the above shall be 51 million yen for retiring Directors.

Name and profile of the above two persons are as follows.

Brief personal profile		
Osamu Kuwahara	April 1972	Joined the Company
	August 2005	Manager of Sales Engineering Division
	June 2009	Director
	July 2009	General Manager of Corporate Business Planning Division
	June 2011	General Manager of Sales Engineering Division
	June 2013	Managing Director
	September 2013	Senior General Manager of Marketing Headquarters
	June 2015	Executive Managing Director
	June 2015	Senior General Manager of Sales Headquarters
	June 2017	Director and Senior Managing Executive Officer
	July 2018	Resigned as Director and Senior Managing Executive Officer, and served as Corporate Advisor
Eiji Ohashi	April 2004	Joined the Company
	February 2005	General Manager of Finance & Accounting Division (Incumbent)
	June 2006	Director
	July 2012	Managing Director
	June 2017	Director and Managing Executive Officer (Incumbent)

(Note) Profiles of retiring Directors are shown for reference purposes, and the amount of Directors' retirement benefits is calculated solely based on the term of office as Director.

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



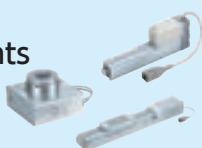
Air line equipment



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

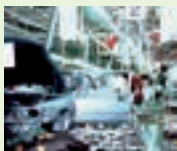


(For reference) Case example of product introduction

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

Automobile industry

(automobile assembly line)



Semiconductor manufacturing equipment

(coater/developer)



Machine tools

(laser processing machine)



Food machinery

(bottle filling machine)



Medical equipment

(hematology analyzer)



② Business progress and results

During the fiscal year 2018, ended March 31, 2019, the global economy stayed firm as a whole for the first half of the year. The US economy showed ongoing expansion mainly led by personal consumption, the economy in Europe remained solid, and the Chinese economy continued high growth despite some slowdown. With continued stable employment conditions in Japan, corporate performance improved as well. However, as a result of intensified US-China trade friction and confusion over the UK's exit from the European Union, the economy rapidly slowed down during the second half.

Demand for automatic control equipment significantly decreased, partly owing to a pullback from a sharp increase in the previous term in semiconductor related industries in Japan, Asia and North America. There was steady growth in the automobile industry mainly in Europe, and industries such as machine tools and food machinery remained at the levels on par with the previous fiscal year.

Under these circumstances, the SMC Group strengthened its production supply systems and drove forward in rationalizing and cost reduction both in Japan and abroad, while developing products that meet needs such as those for energy and space saving, actively promoting sales activities, and expanding production capabilities toward the future.

As a result, consolidated net sales for the current fiscal year were 576,948 million yen (2.4% decrease year on year). Operating profit was 180,203 million yen (6.4% decrease) mainly due to reduced revenue and increased selling and administrative expenses, and ordinary profit was 198,201 million yen (0.7% increase) due to foreign exchange gains arising from the cancellation of foreign exchange losses associated with the stabilization in foreign exchange markets. Profit attributable to owners of parent was 130,631 million yen (4.6% decrease) due to increased burden of income tax related to transfer pricing taxation.

ROE became 10.9%, a decrease of 1.7 points from the previous fiscal year.



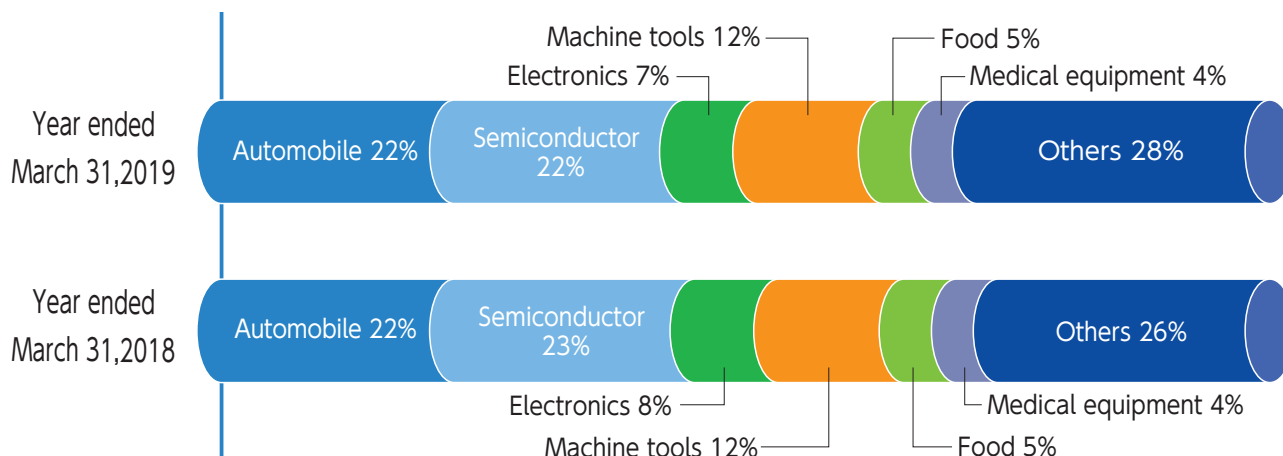
Yoshiyuki Takada Katsunori Maruyama
Chairman President

[Status of domestic sales]

Although sales steadily increased supported by strong demand for capital investment in the semiconductor and automobile-related industries in the first half of the year, orders were continuously small in the industries such as semiconductor, electronics and machine tools due to a downturn in the Japanese markets as well as significant decrease in export demand mainly for US and Korea in the second half. As a result, domestic net sales for the fiscal year ended March 31, 2019 increased by 0.4% year on year to 188,895 million yen.

Changes in the sales composition by industry on a non-consolidated basis are as shown in the graph below.

■ Sales composition by industry (non-consolidated)



[Status of overseas sales]

North America

In the United States, demand in the semiconductor-related industry significantly declined, partly owing to a pullback from an increase in the previous fiscal year, and the decelerating trend continued toward the latter half. Demand in other industries including automobile-related was also weak. As a result, net sales decreased 5.0% year on year to 82,681 million yen.

Europe

Sales were favorable in a wide range of industries such as food and medical equipment as well as semiconductors and automobiles mostly in the first half of the year. As a result, net sales increased 6.3% to 95,897 million yen.

Asia

Demand dropped sharply for semiconductor and electronic components in regions such as China, Korea, Taiwan, and Singapore, and the impact also spread to related machine tools, causing harsh conditions. As a result, net sales decreased 7.6% to 197,620 million yen.

Other regions

In other regions such as South America and Oceania, net sales increased 1.7% to 11,852 million yen.

■ Consolidated overseas sales

(Millions of yen)

	Domestic sales	Overseas sales				Consolidated (Total)
		North America	Europe	Asia	Other	
	188,895	82,681	95,897	197,620	11,852	576,948
YoY change	+0.4%	-5.0%	+6.3%	-7.6%	+1.7%	-2.4%
Sales composition	32.7%	14.3%	16.6%	34.3%	2.1%	100.0%

③ Status of capital investments

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

In addition, capital investments were made for rationalization of production and cost reduction through purchasing equipment and renewing dies. Total capital investments in the current fiscal year amounted to 31,936 million yen, an increase of 34.8% year on year.

Listed below are the main capital investments during the fiscal year 2018.



SMC Manufacturing (Vietnam) Factory No.2 (Second phase construction)



SMC (Tianjin) Manufacturing (First phase construction)

④ Issues to be addressed

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

(1) Management philosophy

1) Contributing to automated, labor-saving operations

The Company considers that its social mission is “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment including pneumatic instruments.

2) Focusing on the main business

As a manufacturer of composing parts “contributing to automated, labor-saving operations in industries,” the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on the automatic control equipment business, its main business.

3) Supplying products globally

The Company will supply products that can meet the rules and needs of foreign countries and regions and are accepted in all the markets of the world.

(2) Long-term management vision

1) The Company strives to develop products required by customer and to create a framework which can respond to customer requiring for delivery dates, quality, prices, etc.

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

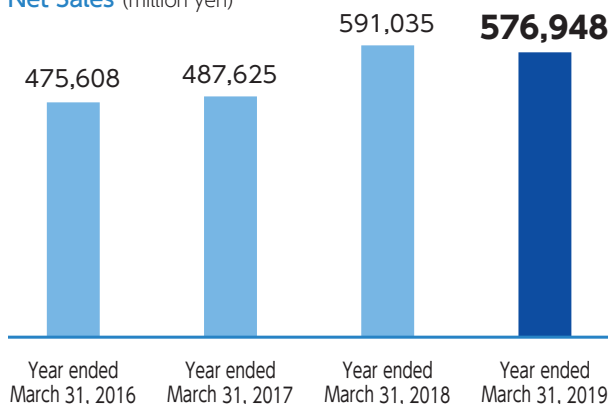
3) The Company aims to survive competitions in the global markets and to acquire higher market shares.

⑤ Changes in assets and financial results

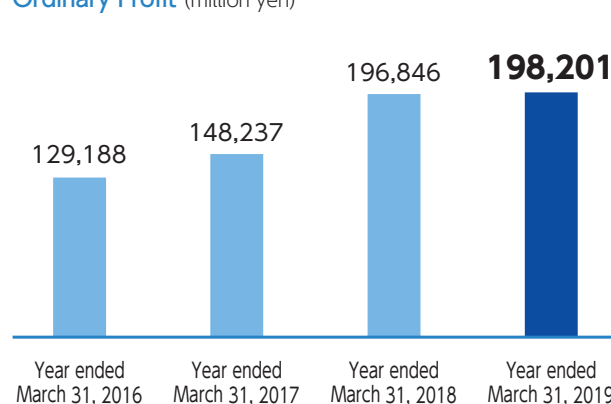
(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019 (Current fiscal year)
Net sales	475,608	487,625	591,035	576,948
Ordinary profit	129,188	148,237	196,846	198,201
Profit attributable to owners of parent	92,138	113,095	136,869	130,631
Net income per share (yen)	1,371.34	1,683.12	2,036.33	1,943.35
Total assets	1,120,171	1,192,444	1,342,890	1,389,308
Net assets	941,813	1,030,369	1,150,416	1,243,252
Net assets per share (yen)	13,981.17	15,292.53	17,067.08	18,447.39
Return on Equity	9.9%	11.5%	12.6%	10.9%

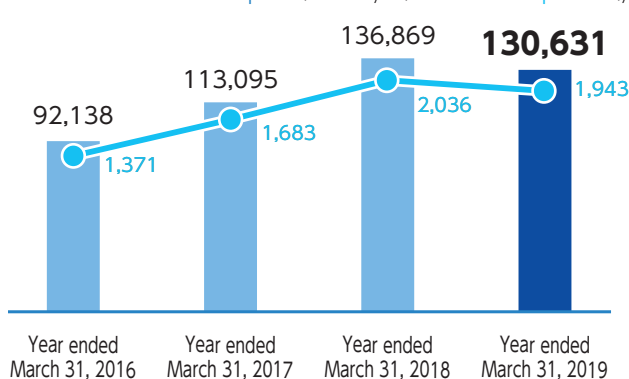
Net Sales (million yen)



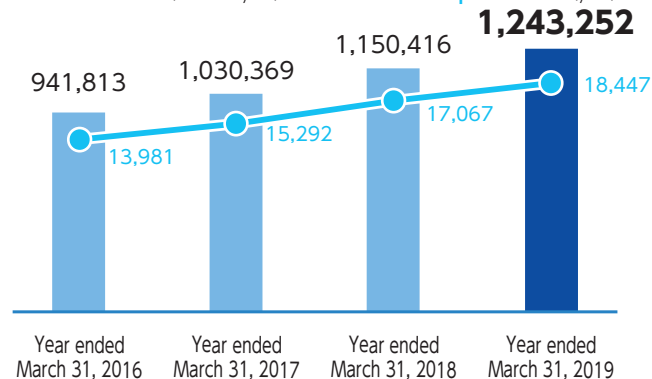
Ordinary Profit (million yen)



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



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



⑥ Status of principal subsidiaries

Company name	Share capital	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥304 million	47.3	Sale of pneumatic instruments etc.
Seigyo Kizai Corporation	¥100 million	100.0	Sale of pneumatic instruments etc.
SMC US	US\$ 172,700 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Germany	EUR 40,501 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC U.K.	£14,500 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Italy	EUR 18,145 thousand	98.5	Manufacturing and sale of pneumatic instruments etc.
SMC Spain	EUR 3,305 thousand	99.8	Manufacturing and sale of pneumatic instruments etc.
SMC Singapore	S\$5,600 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Hong Kong	HK\$ 100 thousand	(Note) 100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Taiwan	NT\$ 420,840 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Korea	KRW 46,500 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Guangzhou	CNY 144 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC China	CNY 1,504 million	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC (Beijing) Manufacturing	CNY 1,716 million	100.0	Manufacturing of pneumatic instruments etc.
SMC Manufacturing (Singapore)	S\$ 10,000 thousand	100.0	Manufacturing of pneumatic instruments etc.
SMC Australia	A\$ 20,000 thousand	100.0	Manufacturing and sale of pneumatic instruments etc.
SMC Brazil	BRL 332,525 thousand	(Note) 100.0	Manufacturing and sale of pneumatic instruments etc.

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

There are 35 consolidated subsidiaries including the abovementioned 17 principal subsidiaries.

Global Network (for reference purpose)



U. K.



Germany



Austria



U. S.



Mexico

Europe



Spain



France



Italy



Australia



Brazil

North America / Other



Taiwan



Hong Kong



Beijing Manufacturing



China

Asia



Tsukuba Technical Center



Soka Factory



Tsukuba Factory



Shimotsuma Factory



Kamaishi Factory



Tono Factory



Yamatsuri Factory

Japan



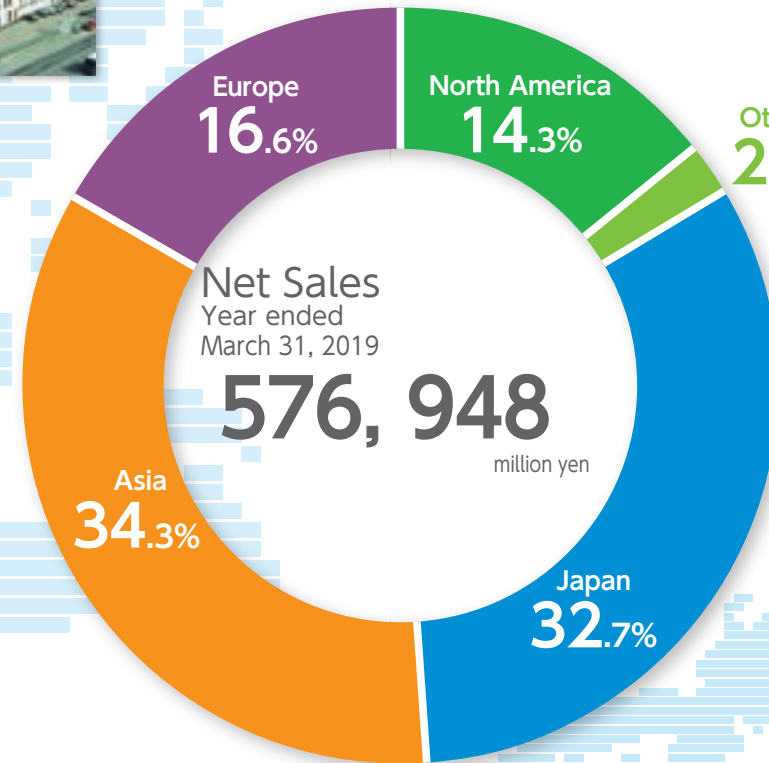
Korea



India



Mfg Singapore



⑦ Status of employees

Number of employees	19,746	Increase against the previous year	66
---------------------	--------	------------------------------------	----

(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 5,513 temporary staff (average during the year; decreased by 274 persons from the previous year).

⑧ Status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited	¥ 4,950 million

⑨ Major bases

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

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

None

2 Matters pertaining to the Company's shares

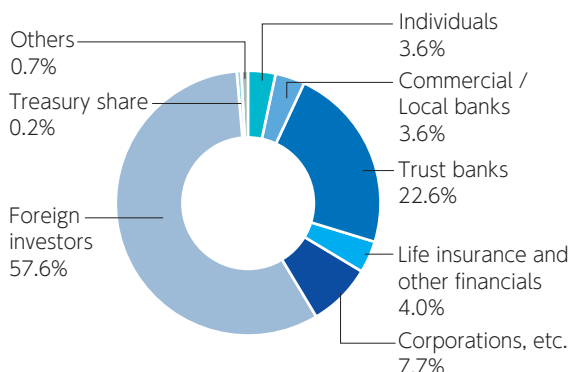
- ① **Total number of shares outstanding:** 67,369,359 (including 150,139 shares of treasury share)
- ② **Number of shareholders:** 5,173
- ③ **Major shareholders (Top 10)**

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
JP Morgan Chase Bank 380055	4,565.6	6.79
Japan Trustee Services Bank, Ltd. (Trust account)	4,013.7	5.97
Master Trust Bank of Japan (Trust account)	3,554.1	5.28
TON Finance B.V.	3,443.5	5.12
Takada International LLC	3,050.0	4.53
The Bank of New York Mellon 140042	2,340.1	3.48
Resona Bank, Limited	1,959.8	2.91
The Dai-ichi Life Insurance Company, Limited	1,516.0	2.25
The Bank of New York Mellon 140044	1,423.8	2.11
SSBTC CLIENT OMNIBUS ACCOUNT	1,258.3	1.87

(Notes)

Percentages of voting rights are calculated based on the number of shares outstanding of 67,219,220 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

Distribution of share by shareholders



Individuals.....	2,417.9 thousand of shares
Commercial / Local banks...	2,406.0 thousand of shares
Trust banks.....	15,208.7 thousand of shares
Life insurance and other financials...	2,660.2 thousand of shares
Corporations, etc.....	5,204.1 thousand of shares
Foreign investors.....	38,832.5 thousand of shares
Treasury share.....	150.1 thousand of shares
Others.....	489.5 thousand of shares

④ Other significant matters pertaining to the Company's shares

Repurchase of own shares

The Company resolved at the board of directors' meeting held on May 15, 2019, to repurchase its own shares, pursuant to Article 156 and Article 165, Paragraph 3 of Companies Act of Japan, as follows.

(i) Reason for the repurchase

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

(ii) Details of repurchase

a) Type of shares to be repurchased	Common shares of the Company
b) Total number of shares to be repurchased	Up to 700,000 shares
c) Total amount of repurchase	Up to 30,000 million yen
d) Period of repurchase	From June 3, 2019 to September 30, 2019
e) Method of repurchase	Market purchase on the TSE

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

1 Directors and Corporate Auditors

Name	Position, assignment of work and significant concurrent position	
Yoshiyuki Takada	Chairman	(Representative Director) / Chairman, SMC US
Katsunori Maruyama	President	(Representative Director)
Ikuji Usui	Director and Senior Managing Executive Officer	Senior General Manager of Administration Headquarters
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
Yoshiki Takada	Director and Senior Managing Executive Officer	Senior General Manager of Sales Headquarters / President, SMC US
Eiji Ohashi	Director and Managing Executive Officer	General Manager of Finance and Accounting Division
Masanobu Kaizu	Director (Outside Director)	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
Toshiharu Kagawa	Director (Outside Director)	
Eizo Fujino	Full-Time Corporate Auditor	
Yoshiaki Ogawa	Corporate Auditor (Outside Corporate Auditor) / Lawyer	
Tatsuo Suzue	Corporate Auditor (Outside Corporate Auditor) / Lawyer	

(Notes)

1. Messrs. Masanobu Kaizu, Toshiharu Kagawa, Yoshiaki Ogawa and Tatsuo Suzue are Independent Directors / Corporate Auditors, which TSE has required listed companies to have in order to protect the interests of general shareholders.

2. Resigned Director during the fiscal year 2018
(as of July 23, 2018)

Name	Position, assignment of work and significant concurrent position as of resignation	
Osamu Kuwahara	Director and Senior Managing Executive Officer Senior General Manager of Sales Headquarters and Marketing Headquarters / General Manager of Sales Engineering Division	

3. Changes in titles of Directors during the fiscal year 2018
(as of July 23, 2018)

(Changed parts are underlined.)

Name	New title		Previous title	
Yoshiki Takada	Director and Senior Managing Executive Officer	Senior General Manager of Sales Headquarters	Director and Managing Executive Officer	In charge of Management for North America, Central and South America Zone

② Compensation amounts payable to Directors and Corporate Auditors

	Total amount of compensation	Total amount of compensation by type of remuneration		Number of target Directors
		Base compensation	Retirement benefits	
Directors	¥ 454 million	¥ 399 million	¥ 55 million	10
(Outside Directors)	(¥ 19 million)	(¥ 19 million)	(—)	(2)
Corporate Auditors	¥ 29 million	¥ 29 million	—	3
(Outside Corporate Auditors)	(¥ 13 million)	(¥ 13 million)	(—)	(2)

(Notes)

1. The total amount of compensation as detailed above includes compensation (base compensation for the period from April to July 2018) for a Director who resigned on July 23, 2018.

2. The amount of retirement benefits is the amount of provision for Directors' retirement benefits during the fiscal year 2018.

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

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

The specific amount of base compensation for individual Directors and Corporate Auditors is determined after the Annual General Meeting of Shareholders each year by the resolution of the Board of Directors' Meeting for Directors and by consensus of all Corporate Auditors for Corporate Auditors. It is determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director and Corporate Auditor to earnings, position, assignment to work and term of office and the like. Since the basic compensation to each Executive Director is not linked to specific financial indexes, it is not disclosed nor processed as performance-linked pay for accounting and taxation purposes. However, the ratio of the fixed portion of compensation is about 40% and the remaining portion (60%) is reflecting the fiscal year performance and each directors' annual work contribution levels. As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is calculated using the basic payment amount that is automatically obtained in accordance with the "regulations for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits. When a Director actually retires, the specific amount of retirement benefits is determined by the Board of Directors after the agenda for payment of such benefits is approved at the relevant Meeting of Shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said regulations which the Director's distinguished services performed while in office may be reflected.

When the agenda for payment of retirement benefits is proposed at the relevant Meeting of Shareholders, the upper limit of the total payment amount is also indicated so that shareholders can make their decisions.

Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

③ Matters pertaining to Outside Directors and Outside Corporate Auditors

(1) Main activities during the current fiscal year

Name	Position	Number of the Board of Directors' Meetings attended/held (Attendance rate)	Number of the Board of Corporate Auditors' Meetings attended/held (Attendance rate)	Main activities
Masanobu Kaizu	Outside Director	8 out of 8 meetings (100.0%)	—	As an economist and securities analyst, he has supervised the management of the Company and worked for further improving the transparency of management based on his professional knowledge of economic situations, financial market conditions, corporate management and financial accounting with neutral and objective viewpoints, in particular, focusing on protecting the interests of general shareholders and investors. He has also made proposals on management policies in light of urging the Company's sustainable growth and improving corporate value in the medium and long term. In addition, he has provided the Board of Directors with the latest information about economic situations and financial market conditions. In the current fiscal year, we received many opinions on the Company's long-term management issues.
Toshiharu Kagawa	Outside Director	8 out of 8 meetings (100.0%)	—	As a researcher and educator specialized in flow measurement and control, an area quite closely related to the Company's business domain, he has supervised the management of the Company and worked for improving the transparency of management based on his professional knowledge and broad experience with neutral and objective viewpoints. He has also made proposals on management policies, in particular, measures centered on R&D activities and the development of engineers in light of urging the Company's sustainable growth and enhancing corporate value in the medium and long term. In the current fiscal year, we received many opinions on the Company's long-term management issues.
Yoshiaki Ogawa	Outside Corporate Auditor	8 out of 8 meetings (100.0%)	12 out of 12 meetings (100.0%)	As a lawyer, he has audited the management of the Company based on his professional knowledge and broad experience of Companies Act and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.
Tatsuo Suzue	Outside Corporate Auditor	8 out of 8 meetings (100.0%)	12 out of 12 meetings (100.0%)	As a lawyer, he has audited the management of the Company based on his professional knowledge and broad experience of Companies Act and compliance, with neutral and objective viewpoints, in particular, focusing on legal risk management, and also provided proposals on the overall management of the Company.

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

There is no special relationship to report.

(3) Outline of contracts for the limitation of liability

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

As a result, Outside Director or Outside Corporate Auditor act in good faith and are not grossly negligent in performing their duties, they will 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 2018

	Amount payable
Remuneration as Accounting Auditor in the fiscal year	¥ 66 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥ 66 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 Seigy Kizai Corporation, audits for the 16 subsidiaries of the 17 principal subsidiaries listed in “1. Matters pertaining to the present status of the Group (6) Status of principal subsidiaries” are performed by auditing firms other than the Company’s Accounting Auditor.

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

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

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

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

5 Framework to ensure the properness of operations

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

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

- The Company has disclosed the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
- Establish a Compliance Committee to strengthen the legal compliance system.
- 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.
- 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.
- Establish an Information Disclosure Committee 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, compliance, disaster prevention, etc.
- All information regarding complaints against quality will be reported to the Chairman and 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 a Management Committee 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 give business execution reports to Corporate Auditors regularly and at the request of Corporate Auditors.
- In the case that a Director or employee discovers a fact that may cause significant damage to the Company, he or she shall report it immediately to Corporate Auditors.
- In the case that a Director or employee receives a report on a subsidiary's significant matters from the subsidiary's Director, employee, or other persons, he or she shall report it to Corporate Auditors in a timely and appropriate manner.
- It is prohibited to unfairly treat Directors and employees of the Company and its subsidiaries on the grounds that relevant matters have been reported to Corporate Auditors.

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

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

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

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

② Overview of the operation status of the said frameworks

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

- The Company has disclosed the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
- Under the “SMC Group Ethical and Corporate Principles,” the Company has established the “SMC Group Code of Conduct” which specifically describes what the Group’s Directors and employees should comply with, and distributed an English translation of the Japanese version to the Group companies. As part of the procedures for evaluating the internal control system pertaining to financial reports, the Company confirms every year that the SMC Group Code of Conduct is well acknowledged among the consolidated subsidiaries.
- In addition to the internal reporting system, the Company has established a contact point outside the Company as a reporting system which can respond to illegal or inappropriate acts engaged in by Directors or Corporate Auditors. An external law firm versed in practical operations for whistle-blowing processes serves as the contact point.

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

- Concerning management of the My Number system (national personal identification number system in Japan), take necessary measures such as assigning employees who are responsible for handling My Number and establishment of a special workroom that has security equipment installed in it.

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

- The Company has adopted an executive officer system on a full-fledged basis to strive in reviewing its operation. Detailed matters related to operation execution is examined in the executive committee, and deliberation of the management strategy and investment project of high importance is performed at the board of directors.

(4) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- The Board of Directors Regulations clearly provide to the effect that all matters of particular importance including the investment projects, etc., conducted by a subsidiary alone need to be approved by the Board of Directors. During the fiscal year 2018, the Board of Directors deliberated several numbers of projects in detail and had lively discussions together with Outside Directors.

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

- Further strengthen collaboration among the Board of Corporate Auditors, the Accounting Auditor and internal audit department.

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

Consolidated Balance Sheets (As of March 31, 2019)

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
(Assets)		
Current assets	939,940	967,924
Cash and deposits	506,436	519,609
Notes and accounts receivable-trade	162,637	158,079
Securities	37,074	31,977
Merchandise and finished goods	89,731	102,936
Work in process	18,210	19,753
Raw materials and supplies	97,717	107,578
Other	28,829	28,449
Allowance for doubtful accounts	(697)	(460)
Non-current assets	402,950	421,384
Property, plant and equipment	156,925	170,342
Buildings and structures	73,203	73,752
Machinery, equipment and vehicles	28,444	27,928
Tools, furniture and fixtures	6,804	7,453
Land	35,391	38,194
Construction in progress	13,081	23,012
Intangible assets	11,756	11,456
Leasehold interests in land	9,348	9,046
Other	2,408	2,409
Investments and other assets	234,267	239,585
Investment securities	96,058	96,320
Retirement benefit asset	60	48
Insurance funds	126,861	132,936
Deferred tax assets	8,765	6,021
Other	4,062	5,736
Allowance for doubtful accounts	(1,541)	(1,479)
Total assets	1,342,890	1,389,308

	As of March 31, 2018	As of March 31, 2019
(Liabilities)		
Current liabilities	173,036	117,670
Notes and accounts payable-trade	88,411	38,513
Short-term borrowings	1,640	4,503
Income taxes payable	33,935	23,800
Provision for bonuses	3,062	2,894
Other	45,986	47,959
Non-current liabilities	19,437	28,385
Long-term borrowings	4,798	2,735
Deferred tax liabilities	1,535	11,287
Provision for retirement benefits for directors	890	956
Retirement benefit liability	7,022	6,398
Other	5,190	7,007
Total liabilities	192,473	146,056
(Net assets)		
Shareholders' equity	1,116,528	1,220,251
Share capital	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	985,216	1,088,960
Treasury shares	(3,066)	(3,086)
Accumulated other comprehensive income	30,716	19,767
Valuation difference on available-for-sale securities	10,864	7,667
Foreign currency translation adjustment	20,594	12,824
Remeasurements of defined benefit plans	(742)	(724)
Non-controlling interests	3,171	3,232
Total net assets	1,150,416	1,243,252
Total liabilities and net assets	1,342,890	1,389,308

Consolidated Statements of Income (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales	591,035	576,948
Cost of sales	286,381	280,104
Gross profit	304,654	296,843
Selling, general and administrative expenses	112,226	116,640
Operating profit	192,428	180,203
Non-operating income	11,784	18,781
Interest income	7,885	9,301
Foreign exchange gains	—	2,827
Gain on investments in insurance funds	927	1,749
Other	2,971	4,902
Non-operating expenses	7,366	783
Interest expenses	110	116
Sales discounts	259	261
Loss on sales of securities	876	281
Foreign exchange losses	6,025	—
Other	95	124
Ordinary profit	196,846	198,201
Extraordinary income	259	341
Gain on sales of non-current assets	197	111
Gain on sales of investment securities	43	214
Other	17	15
Extraordinary losses	1,038	1,460
Loss on retirement of non-current assets	94	208
Impairment loss	923	—
Loss on valuation of shares of subsidiaries	—	1,202
Other	20	50
Profit before income taxes	196,067	197,081
Income taxes-current	57,592	52,465
Income taxes-deferred	1,305	13,801
Profit	137,169	130,814
Profit attributable to non-controlling interests	300	183
Profit attributable to owners of parent	136,869	130,631

(For reference purpose) Consolidated Statements of Cash Flows (April 1, 2018 to March 31, 2019)

(Millions of yen)

Items	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities	154,315	75,627
Profit before income taxes	196,067	197,081
Depreciation	15,252	16,255
Interest and dividend income	(8,379)	(9,942)
Foreign exchange losses (gains)	5,094	(2,863)
Decrease (increase) in trade receivables	(19,819)	2,485
Decrease (increase) in inventories	(25,951)	(25,653)
Increase (decrease) in trade payables	26,882	(49,140)
Other, net	787	(28)
Subtotal	189,934	128,195
Interest and dividends received	9,047	9,925
Interest paid	(126)	(99)
Income taxes (paid) refund	(44,540)	(62,392)
Cash flows from investing activities	(70,658)	(58,800)
Payments into time deposits	(118,580)	(301,880)
Proceeds from withdrawal of time deposits	110,455	276,719
Purchase of property, plant and equipment	(24,152)	(29,647)
Purchase of intangible assets	(1,364)	(1,672)
Purchase of short-term and long-term investment securities	(45,400)	(18,153)
Proceeds from sales and redemption of short-term and long-term investment securities	11,327	18,270
Purchase of insurance funds	(8,233)	(8,713)
Proceeds from maturity of insurance funds	4,099	5,003
Other, net	1,190	1,274
Cash flows from financing activities	(36,785)	(26,151)
Net increase (decrease) in short-term borrowings	(10,070)	(30)
Proceeds from long-term borrowings	1,000	2,600
Repayments of long-term borrowings	(1,565)	(1,770)
Dividends paid	(26,880)	(26,882)
Other, net	730	(69)
Effect of exchange rate change on cash and cash equivalents	(1,630)	(999)
Net increase (decrease) in cash and cash equivalents	45,241	(10,323)
Cash and cash equivalents at beginning of period	277,449	322,690
Cash and cash equivalents at end of period	322,690	312,366

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

Non-consolidated Balance Sheets (As of March 31, 2019)

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019		As of March 31, 2018	As of March 31, 2019
(Assets)			(Liabilities)		
Current assets	388,037	371,574	Current liabilities	145,786	97,756
Cash and deposits	119,764	100,407	Accounts payable-trade	88,945	38,976
Notes receivable-trade	27,234	26,382	Short-term borrowings	145	8,761
Accounts receivable-trade	75,380	64,665	Accounts payable-other	12,893	16,292
Securities	37,074	31,977	Income taxes payable	26,951	18,178
Merchandise and finished goods	24,290	31,711	Accrued expenses	11,561	9,756
Work in process	9,483	11,017	Other	5,289	5,791
Raw materials and supplies	63,968	73,184	Non-current liabilities	14,736	11,851
Accounts receivable-other	28,821	29,126	Long-term borrowings	2,878	—
Other	2,203	3,180	Provision for retirement benefits	5,427	5,042
Allowance for doubtful accounts	(183)	(80)	Provision for retirement benefits for directors	574	629
Non-current assets	443,096	491,585	Other	5,856	6,178
Property, plant and equipment	57,091	59,730	Total liabilities	160,523	109,608
Buildings and structures	29,671	28,046	(Net assets)		
Machinery, equipment and vehicles	8,809	8,888	Shareholders' equity	660,145	746,144
Tools, furniture and fixtures	1,788	1,908	Share capital	61,005	61,005
Land	13,810	16,784	Capital surplus	73,270	73,270
Construction in progress	3,011	4,103	Legal capital surplus	72,576	72,576
Intangible assets	582	535	Other capital surplus	694	694
Software	502	455	Retained earnings	528,934	614,954
Other	79	79	Legal retained earnings	15,251	15,251
Investments and other assets	385,422	431,319	Other retained earnings	513,683	599,703
Investment securities	74,981	74,774	Reserve for special depreciation	36	37
Shares of subsidiaries and associates	101,661	101,731	Reserve for tax purpose reduction entry of assets	301	288
Investments in capital of subsidiaries and associates	71,552	110,587	General reserve	150,250	150,250
Prepaid pension cost	907	1,560	Retained earnings brought forward	363,095	449,126
Deferred tax assets	7,870	8,635	Treasury shares	(3,066)	(3,086)
Insurance funds	126,819	132,893	Valuation and translation adjustments	10,465	7,406
Other	1,658	1,163	Valuation difference on available-for-sale securities	10,465	7,406
Allowance for doubtful accounts	(29)	(27)	Total net assets	670,610	753,551
Total assets	831,134	863,159	Total liabilities and net assets	831,134	863,159

Non-consolidated Statements of Income (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales	394,581	371,574
Cost of sales	233,937	225,860
Gross profit	160,644	145,714
Selling, general and administrative expenses	33,143	34,351
Operating profit	127,500	111,362
Non-operating income	5,000	39,801
Interest and dividend income	1,964	31,475
Gain on investments in insurance funds	927	1,749
Gain on sales of securities	—	1,472
Foreign exchange gains	—	1,721
Dividend income of insurance	525	547
Royalty income	994	917
Other	587	1,918
Non-operating expenses	5,716	601
Interest expenses	76	203
Sales discounts	108	115
Loss on sales of securities	876	281
Foreign exchange losses	4,651	—
Other	3	1
Ordinary profit	126,784	150,562
Extraordinary income	43	217
Gain on sales of investment securities	43	214
Other	0	3
Extraordinary losses	38	109
Loss on retirement of non-current assets	37	107
Other	1	2
Profit before income taxes	126,789	150,671
Income taxes-current	37,373	37,178
Income taxes-deferred	(947)	584
Profit	90,363	112,907

(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 20, 2019

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated and Engagement partner	Certified Public Accountant	Kazutomi Asai
Designated and Engagement partner	Certified Public Accountant	Takashi Saito
Designated and Engagement partner	Certified Public Accountant	Takahiro Otofujii

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, 2018 to March 31, 2019.

Management's Responsibility 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, and for designing and operating 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of SMC Corporation and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2019 in accordance with accounting principles generally accepted in Japan.

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 Accounting Auditor on the Non-consolidated Financial Statements

Independent Auditor’s Report

May 20, 2019

To the Board of Directors SMC Corporation

Seiyo Audit Corporation

Designated and Engagement partner	Certified Public Accountant	Kazutomi Asai
Designated and Engagement partner	Certified Public Accountant	Takashi Saito
Designated and Engagement partner	Certified Public Accountant	Takahiro Otofujii

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, non-consolidated statement of changes in net assets, the notes to non-consolidated financial statements and the supplementary schedules of SMC Corporation (the “Company”) applicable to the 60th fiscal year from April 1, 2018 to March 31, 2019.

Management’s Responsibility for the financial statements and others

Management is responsible for the preparation and fair presentation of the financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity’s internal control, but in making these risk assessments we consider internal controls relevant to the entity’s preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the related supplementary schedules 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.

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 60th fiscal year, which lasted from April 1, 2018 to March 31, 2019 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.
 - ① 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.
 - ② 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.
 - ③ 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 22, 2019

Board of Corporate Auditors SMC Corporation

Full-time Corporate Auditor Eizo Fujino

Outside Corporate Auditor Yoshiaki Ogawa

Outside Corporate Auditor Tatsuo Suzue

To Our Shareholders

Internet Disclosure on the Notice of Convocation
of the 60th Annual General Meeting of Shareholders

June 2019

SMC Corporation

Contents

1. Consolidated Statement of Changes in Equity	Page 1
2. Notes to Consolidated Financial Statements	Page 2
3. Non-consolidated Statement of Changes in Equity	Page 10
4. Notes to Non-consolidated Financial Statements	Page 12

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 Rules of Corporate Accounting and the Articles of Incorporation of the Company.

Consolidated Statement of Changes in Equity

(April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,372	985,216	(3,066)	1,116,528
Changes in items during period					
Dividends of surplus			(26,887)		(26,887)
Profit attributable to owners of parent			130,631		130,631
Purchase of treasury shares				(20)	(20)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	—	103,743	(20)	103,723
Net assets at end of period	61,005	73,372	1,088,960	(3,086)	1,220,251

	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	10,864	20,594	(742)	30,716	3,171	1,150,416
Changes in items during period						
Dividends of surplus						(26,887)
Profit attributable to owners of parent						130,631
Purchase of treasury shares						(20)
Net changes in items other than shareholders' equity	(3,196)	(7,769)	17	(10,948)	61	(10,887)
Total changes in items during period	(3,196)	(7,769)	17	(10,948)	61	92,835
Net assets at end of period	7,667	12,824	(724)	19,767	3,232	1,243,252

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: 35

Names of major consolidated subsidiaries

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

(2) Names of major non-consolidated subsidiaries: Nihon Kizai (Shanghai), SMC Poland

(Reasons for exclusion from the scope of consolidation)

The 39 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 (Nihon Kizai (Shanghai) and 38 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, 2019 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil and SMC (Tianjin) Manufacturing whose fiscal year-end date is December 31.

4. Accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Available-for-sale securities

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

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

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

(ii) Inventories: Principally values inventories with 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 / Tools, furniture and fixtures: 2-20 years

(ii) Intangible assets (excluding leased assets)

Depreciation 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 irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Consolidated foreign subsidiaries provide an allowance for possible loan losses in the amount deemed irrecoverable based on an individual assessment of each claim.

(ii) Provision for bonuses

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

(iii) Provision for retirement benefits for directors

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

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

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

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

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

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

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

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

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

(ii) Accounting procedures for consumption taxes, etc.

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

[Notes on change in presentation method]

(Changes associated with the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No.28; February 16, 2018) from the beginning of the current consolidated fiscal year.

As a result, deferred tax assets are presented in investments and other assets, deferred tax liabilities are presented in non-current liabilities.

[Notes on Consolidated Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	217,112
2. For non-consolidated subsidiaries and affiliates	
Investment securities (shares)	19,579
“Other” under Investments and other assets (investments in capital)	1,107

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	40,487
Bonuses	9,132
Retirement benefit expenses	1,841
Provision of allowance for doubtful accounts	(82)
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs	21,367

[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	149,588	551	—	150,139

Note: 551 shares increase in the number of treasury shares was due to purchase of odd-lot shares.

2. Dividends

(1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 27, 2018	Common share	¥13,443million	¥ 200	March 31, 2018	June 28, 2018
Board of Directors' Meeting held on November 7, 2018	Common share	¥13,443million	¥ 200	September 30, 2018	November 30, 2018

(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 27, 2019.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥ 13,443million	¥ 200	March 31, 2019	June 28, 2019

[Notes on financial instruments]

1. Status of financial instruments

(1) Policy on financial instruments

The SMC 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 they invest in short-term bank deposits, etc.

The Company limits 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, 2019. Items whose fair values are 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	519,609	519,609	—
(2) Notes and accounts receivable-trade	158,079	158,079	—
(3) Securities and investment securities			
Held-to-maturity securities	381	381	
Available-for-sale securities	108,153	108,153	—
Total assets	786,223	786,223	—
(4) Notes and accounts payable-trade	38,513	38,513	—
(5) Short-term borrowings	4,503	4,503	—
Total liabilities	43,016	43,016	—
Derivative transactions	—	—	—

(Notes)

1. Calculation method of fair value of financial instruments and matters pertaining to investment 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	¥ 19,579 million
Unlisted stocks	¥ 184 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	519,592	—	—	—
(2) Notes and accounts receivable- trade	158,079	—	—	—
(3) Securities and investment securities Held-to-maturity securities under the available-for-sale securities (Government bonds)	11,101	49,594	—	—
(other)	439	954	—	—
Total	689,212	50,908	—	—

4. Projected redemption amounts for Short-term borrowings after the consolidated balance sheet date

	Within 1 year
Short-term borrowings	¥ 4,503 million

[Notes on per share information]

1. Net assets per share: 18,447.39 yen
 2. Net income per share: 1,943.35 yen

[Notes on significant subsequent events]

(Repurchase of own shares)

The Company's board of directors passed a resolution at its meeting held on May 15, 2019 on matters related to the repurchase of its own shares, pursuant to the stipulations of article 156 of Companies Act applied by replacing the provisions of article 165, paragraph 3, of the same act.

1. Reason for the repurchase

To implement flexible capital policy, enhance shareholder returns, and improve capital efficiency.

2. Details of repurchase

- (1) Type of shares to be repurchased: Common shares of the Company
 (2) Total number of shares to be repurchased: Up to 700,000 shares
 (3) Total amount of repurchase: Up to 30,000 million yen
 (4) Period of repurchase: From June 3, 2019 to September 30, 2019
 (5) Method of repurchase: Market purchase on the Tokyo Stock Exchange

Non-consolidated Statement of Changes in Equity

(April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for reduction entry of assets	General reserve
Net assets at beginning of period	61,005	72,576	694	73,270	15,251	36	301	150,250
Changes in items during period								
Provision of reserve for special depreciation						16		
Reversal of reserve for special depreciation						(15)		
Reversal of reserve for reduction entry of assets							(12)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes in items during period	—	—	—	—	—	1	(12)	—
Net assets at end of period	61,005	72,576	694	73,270	15,251	37	288	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	363,095	528,934	(3,066)	660,145	10,465	10,465	670,610
Changes in items during period							
Provision of reserve for special depreciation	(16)	—		—			—
Reversal of reserve for special depreciation	15	—		—			—
Reversal of reserve for reduction entry of assets	12	—		—			—
Dividends of surplus	(26,887)	(26,887)		(26,887)			(26,887)
Profit	112,907	112,907		112,907			112,907
Purchase of treasury shares			(20)	(20)			(20)
Net changes in items other than shareholders' equity					(3,058)	(3,058)	(3,058)
Total changes in items during period	86,030	86,020	(20)	85,999	(3,058)	(3,058)	82,940
Net assets at end of period	449,126	614,954	(3,086)	746,144	7,406	7,406	753,551

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 / Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding leased assets)

In accordance with the straight-line method.

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

4. Basis for allowances and provisions

(1) Allowance for doubtful accounts

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

(2) Provision for retirement benefits

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

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

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

(3) Provision for retirement benefits for directors

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

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

(1) Accounting procedures for retirement benefits

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

(2) Accounting procedures for consumption taxes, etc.

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

[Notes on change in presentation method]

(Changes associated with the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No.28; February 16, 2018) from the beginning of the current fiscal year.

As a result, deferred tax assets are presented in investments and other assets, deferred tax liabilities are presented in non-current liabilities.

[Notes on Balance Sheet]

	(Millions of yen)
1. Accumulated depreciation of property, plant and equipment	117,859
2. Receivables and payables in relation to subsidiaries and affiliates	
Short-term receivables	72,060
Short-term payables	14,227

[Notes on Statements of Income]

Transactions with subsidiaries and affiliates

(Millions of yen)

Net sales	240,015
Purchase amount	53,025
Selling, general and administrative expenses	1,600
Non-operating transaction amount	30,936

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

Type and number of treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	149,588	551	—	150,139

Note: 551 shares increase in the number of treasury shares was due to purchase of odd-lot shares.

[Notes on tax effect accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	The 60th fiscal year (As of March 31, 2019)
Deferred tax assets	
Loss on valuation of investment securities	580
Loss on valuation of inventories	5,058
One-time depreciable assets	33
Loss on valuation of shares of subsidiaries and affiliates	1,159
Allowance for doubtful accounts	33
Accounts payable other	106
Accrued enterprise taxes, accrued business office taxes	1,026
Accrued expenses	2,603
Provision for retirement benefits	1,544
Provision for retirement benefits for directors	192
Asset retirement obligations	53
Valuation difference on available-for-sale securities	398
Other	139
Total deferred tax assets	12,928
Deferred tax liabilities	
Asset retirement obligations	(3)
Prepaid pension cost	(477)
Reserve for special depreciation	(16)
Reserve for tax purpose reduction entry of assets	(127)
Valuation difference on available-for-sale securities	(3,667)
Total deferred tax liabilities	(4,293)
Net deferred tax assets	8,635

[Notes on transactions with related parties]

(Millions of yen)

Attributes	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Term ending balance
Subsidiary	SMC China	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product	54,425	Accounts receivable-trade	16,198
				Dividends received	28,492	—	—

Transaction conditions and policies on determining such conditions

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

Dividend received from SMC China was the dividends from its retained earnings.

[Notes on per share information]

1. Net assets per share: 11,210.35 yen

2. Net income per share: 1,679.69 yen

[Notes on significant subsequent events]

(Repurchase of own shares)

The Company's board of directors passed a resolution at its meeting held on May 15, 2019 on matters related to the repurchase of its own shares, pursuant to the stipulations of article 156 of Companies Act applied by replacing the provisions of article 165, paragraph 3, of the same act.

1. Reason for the repurchase

To implement flexible capital policy, enhance shareholder returns, and improve capital efficiency.

2. Details of repurchase

(1) Type of shares to be repurchased: Common shares of the Company

(2) Total number of shares to be repurchased: Up to 700,000 shares

(3) Total amount of repurchase: Up to 30,000 million yen

(4) Period of repurchase: From June 3, 2019 to September 30, 2019

(5) Method of repurchase: Market purchase on the Tokyo Stock Exchange

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