



# Annual Report 2022

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For the year ended March 31, 2022

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## Profile

Through the manufacture and sales of automatic control equipment including pneumatic instruments, SMC contributes to automated, labor-saving operations in industries.

Using the pressure of compressed air as a core energy source, pneumatic instruments perform automatic operations such as pushing, gripping and turning the objects in place of manual labor.

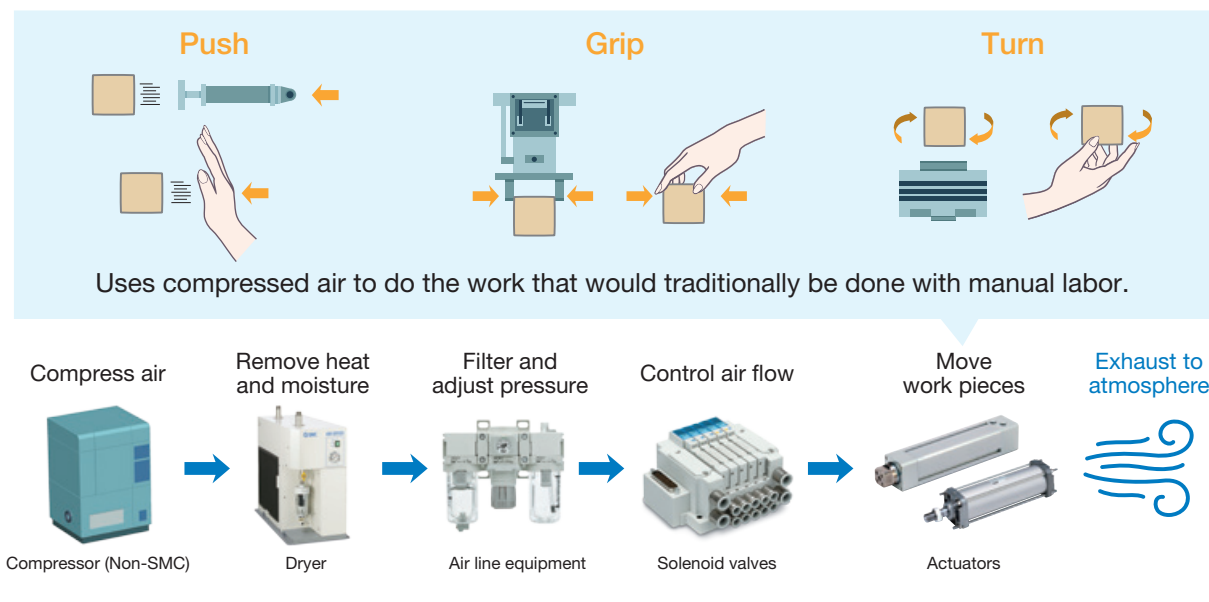
SMC is a comprehensive manufacturer covering the entire pneumatic system consisting of various equipment.

SMC's products are utilized in all industry sectors around the world.

## Contents

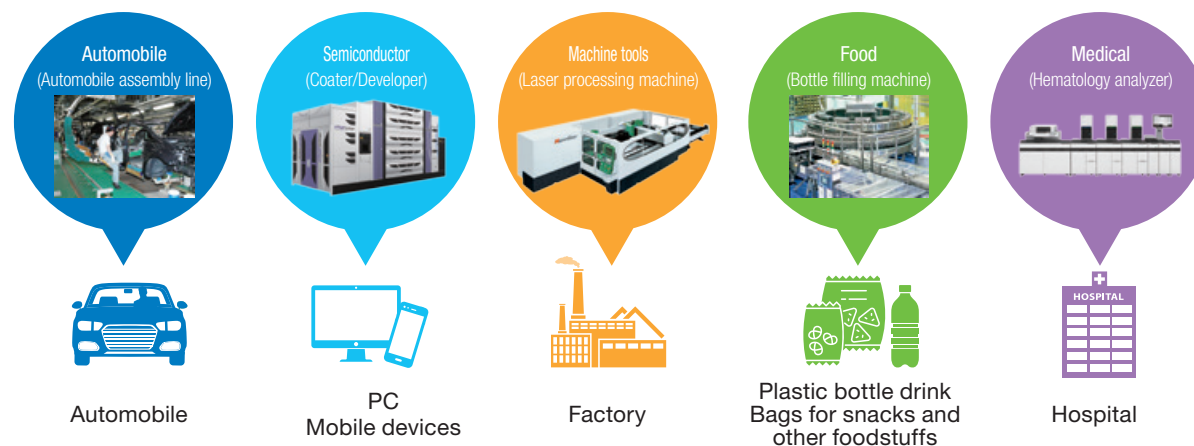
1. Profile .....	P1
2. Business Model .....	P2
3. SMC at a Glance .....	P3
4. Message from the President .....	P4
5. SMC in the World .....	P12
6. Corporate Governance .....	P13
7. Financial Data .....	P17
8. Financial Section .....	P19
9. Corporate Data .....	P35

## Overview of Pneumatic Control Instruments System



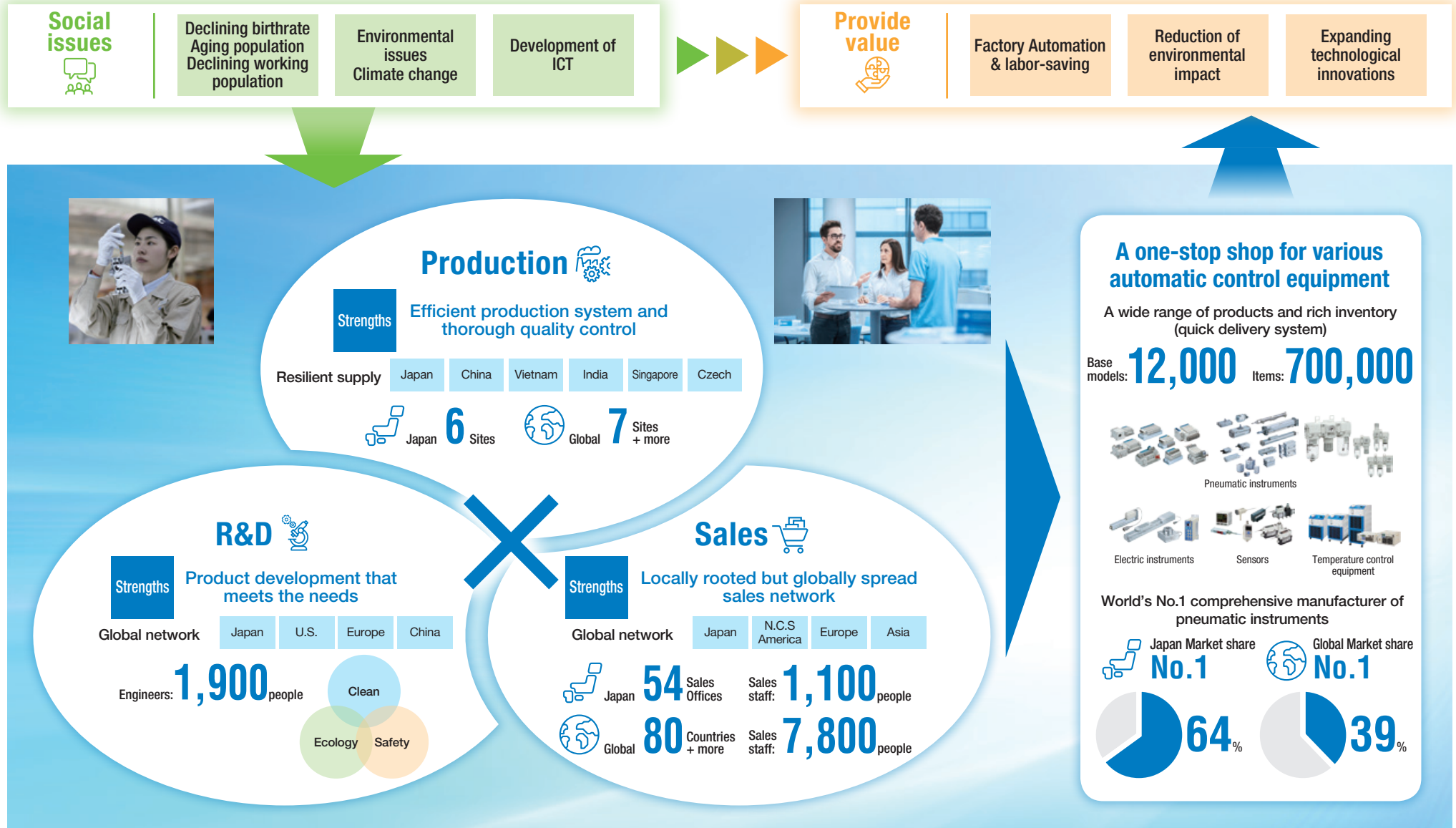
## Application and Industry

Used for all applications and industries



## Providing Advanced Technical Services and a Stable Supply of Products on a Global Scale

We manufacture and sell automatic control equipment products, including pneumatic instruments. Pneumatic instruments are environmentally friendly automatic control equipment powered by compressed air which can be emitted to the atmosphere without creating pollution. Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automatic control equipment products that deliver improved energy conservation performance with reduced size and weight.





## SMC at a Glance

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

### Products



'59 Filter elements



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



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



'71 High-performance solenoid valve (VS)



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



'82 Compact cylinder (CQ)

'84 Compact 5-port solenoid valve (VZ)

'86 Vacuum ejector (ZM)

'87 Vacuum pad

'88 Digital pressure switch (ZSE/ISE)



'89 Mechanically jointed rodless cylinder (MYC/MYH)

'89 Air gripper (MHQ/MHC)



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



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



'95 Electric actuator (LJ1)



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



'04 Refrigerated thermo-chiller (HRZ)

'04 Ionizer with electrostatic sensor (IZS30)



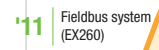
'04 2-port solenoid valve (VX)



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



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



'11 Fieldbus system (EX260)



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

2022 (Consolidated)

727,397 million yen

2022 (Non-consolidated)

466,970 million yen

Net sales  
(Non-consolidated)

1960 1970 1980 1990 2000 2010 2022

Established From 1962: Start-up From 1974: Take-off From 1989: Ascent

### Major Events/Facilities



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

'67 Embarked on overseas sales operations



'68 Soka 1st Factory



'73 Soka 2nd Factory



'83 Tsukuba 1st Factory

'84 Embarked on overseas manufacturing operations



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



'87 Listed on the Tokyo Stock Exchange 2nd section

'89 Listed on the Tokyo Stock Exchange 1st section



'91 Japan Technical Center Kamaishi Factory



'94 Yamatsuri Factory

'97 Tono Factory

'98 Acquired ISO 9001 certification

'99 Acquired ISO 14001 certification

'00 Embarked on overseas R&D operations



'00 SMC (Beijing) Manufacturing



'13 Shimotsuma Factory



'14 SMC (Vietnam) Manufacturing



'21 East Japan Logistics Center

## **As a comprehensive manufacturer of automatic control equipment to support automated, labor-saving operations in industry, we are working on BCP to fulfill our responsibility to supply products.**

In the fiscal year ended March 31, 2022, the spread of COVID-19 showed signs of slowing, and demand for capital investments across all industrial sectors increased sharply.

Due in part to the tailwind provided by the intensified conflict between the U.S. and China, which caused countries to begin onshoring their semiconductor production, semiconductor-related demand grew significantly. On the other hand, shortages of materials, particularly

semiconductors and electronic components, soaring prices for raw materials, and logistics disruption became increasingly serious.

Furthermore, the Russian invasion of Ukraine in February 2022 has left the world facing a major crisis of conflict and division.

As a comprehensive manufacturer of automatic control equipment that supports automated, labor-saving operations in industry, as well as contributing to reductions in CO<sub>2</sub> emissions, SMC intends to fulfill its responsibility to supply products under any circumstances, anywhere in the world.

To that end, SMC will further refine its strengths, which include a global network across more than 80 countries, 21,000 employees, an extensive product lineup of more than 700,000 items and abundant inventory, product development capabilities to respond to customer requests, and a solid financial base. We are also making capital investments to expand production capacity and create multi-location production centers and boosting security measures to protect customer information from the threat of cyberattacks.



**Yoshiki Takada**  
President  
SMC Corporation

**We contribute to “automated, labor-saving operations in industries”, “reducing the environmental burdens of the entire society”, “the expansion of technological innovations in industries” and “the realization of sustainable growth” through the manufacture and sales of automatic control equipment.**

## **As a Comprehensive Manufacturer of Automatic Control Equipment**

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

## **To Fulfill Our Corporate Social Responsibility**

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

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

## To Achieve a Sustainable Society

Pneumatic instruments are environmentally friendly automatic control equipment powered by compressed air which can be emitted to the atmosphere without creating pollution. SMC believes that the growth of demand and use of pneumatic instruments will, in itself, lead to reducing the environmental burdens of the entire society. Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automatic control equipment products that deliver improved energy conservation performance with reduced size

and weight. By responding to the customer requests from around the world, SMC will contribute to the sustainable growth of industries and expansion of technological innovations. We are also taking measures considering protection of environment throughout the whole process of our business activities, such as avoiding the use of substances of concern, promoting energy-saving and resource-saving, reducing packaging materials, cutting down noise levels, reducing the volume and ensuring proper treatment of wastewater and waste discharge.

### Management Philosophy

#### 1 Contributing to automated, labor-saving operations

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

#### 2 Focusing on the main business

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

#### 3 Supplying products globally

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

### Long-Term Management Vision

1 The Company shall strive to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.

2 The Company shall focus on newly expanding production facilities and replacing existing facilities, establish a globally optimal production system with future vision in mind, and shall accelerate rationalization and cost reduction.

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



## SMC's SDGs Initiatives and Materiality

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

Along with climate change, we are now facing various societal issues. In order to resolve these issues and build a society with a rich natural environment that can be handed down to the next generation, companies are expected to take aggressive initiatives on SDGs.

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

Recently, we conducted a materiality analysis and identified 4 Material issues which our corporate activities are strongly linked to the resolutions of societal issues, basing on our Management Philosophy. We will link these material issues to the activities defined in each "SMC SDGs Target", which our entire corporate group as a whole will take action for a sustainable future.

### Management Philosophy

- Contributing to automated, labor-saving operations
- Focusing on the main business
- Supplying products globally

### Long-Term Management Vision

The Company shall strive to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.

The Company shall focus on newly expanding production facilities and replacing existing facilities, establish a globally optimal production system with future vision in mind, and shall accelerate rationalization and cost reduction.

The Company shall aim to survive competitions in the global markets and to acquire higher market shares.

### Material Issues

- 1 Respect human rights, Promote diversity, Ensure safe and secure work environment
- 2 Actions to Climate Change / Environmental Issues
- 3 Stable global product supply
- 4 Develop human resources, Diffuse automatic control technology

### SMC SDGs Target



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

1. Creating a positive work environment that values human rights
2. Creating a work environment where diverse human resources can play an active role regardless of gender or disability
3. Creating a healthy, safe and secure work environment for employees

#### 3 Stable global product supply

1. Stable supply through BCP initiatives

#### 2 Actions to Climate Change / Environmental Issues

1. Developing and promoting energy-saving products
2. Reducing environmental impact from production to shipping

#### 4 Develop human resources, Diffuse automatic control technology

1. Developing human resources who can play an active role globally
2. Improving employee motivation
3. Promoting automatic control technology

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



## Results for This Fiscal Year

### Business Environment

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During the fiscal year 2021, economic activity in multiple countries began to rebound from COVID-19, and manufacturing industry in general saw a recovery in appetite for capital investment. However such factors as supply chain disruptions, including semiconductor shortages, sharp increases in raw materials and logistics costs, and the Russian invasion of Ukraine have led to a continuation of the uncertain outlook.

### Results for This Fiscal Year

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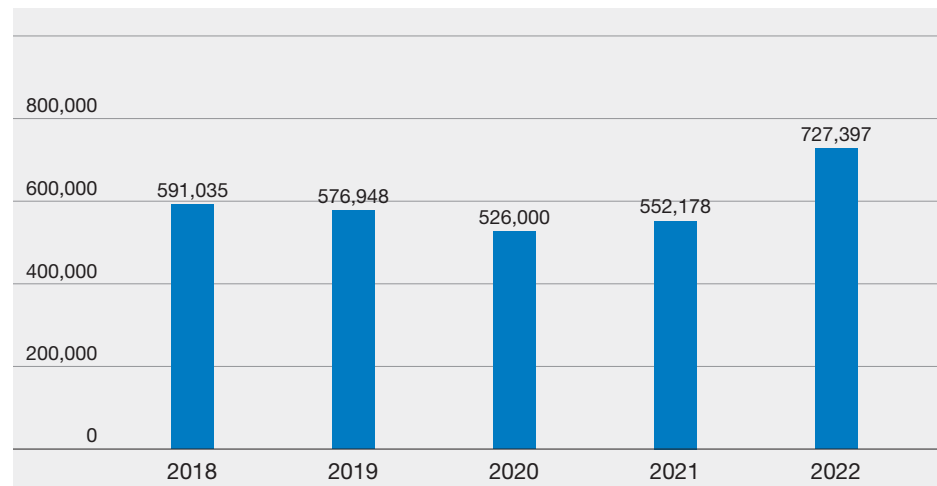
Demand for automatic control equipment in areas related to semiconductors and electronics remains at high levels across all regions, including North America, Europe, and Asia, but particularly in China and Japan. Areas related to the automobile industry continued to be affected by cuts in production caused by shortages of semiconductors and other parts, but there was growth in demand related to electric vehicles and rechargeable batteries. Machine tools were generally strong, primarily in overseas. In areas related to medical equipment, food machinery, and other industries, saw strong demand for labor-saving and automation post-COVID-19 resulted in robust performance.

In this environment, the Group implemented a variety of initiatives aimed at moving to multiple sources of supply and enhancing quality in order to avoid the impact on production of shortages in parts procurement. The Group also continued an aggressive program of capital investments, aiming to ensure adequate product supply capacity to meet growing demand, and creating manufacturing bases in multiple locations to enhance the sustainability of production. In addition, the Group continued to aggressively promote sales activities by interacting directly with global manufacturers to elicit their needs, and by offering new products that are smaller, lighter, and offer superior energy-saving performance, or

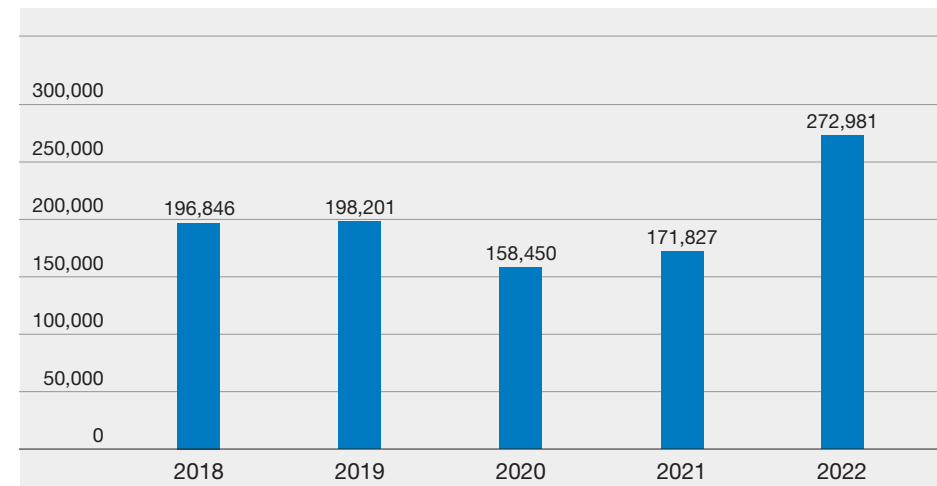
enhanced durability.

As a result, consolidated net sales for this fiscal year were 727,397 million yen (31.7% increase year on year), and although selling, general and administrative expenses increased mainly in personnel expenses, the effect of revenue increase resulted in operating profit of 227,857 million yen (48.6% increase yoy). Interest income declined, but foreign exchange gains increased due to the weaker yen, and ordinary profit ended up 272,981 million yen (58.9% increase yoy) while profit before income taxes was 272,851 million yen (58.2% increase yoy), and profit attributable to owners of parent was 192,991 million yen (58.5% increase yoy). ROE became 13.2%, increased by 3.9 points from the previous fiscal year.

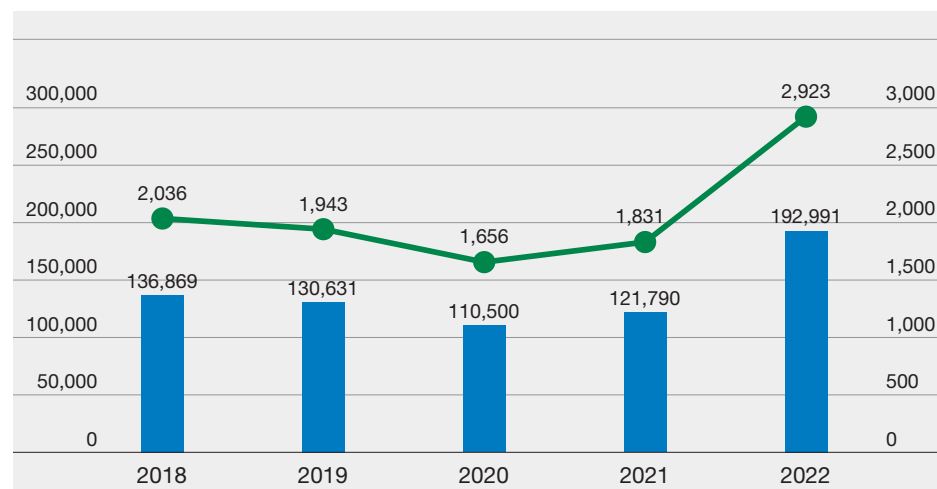
### Net sales (Million yen)



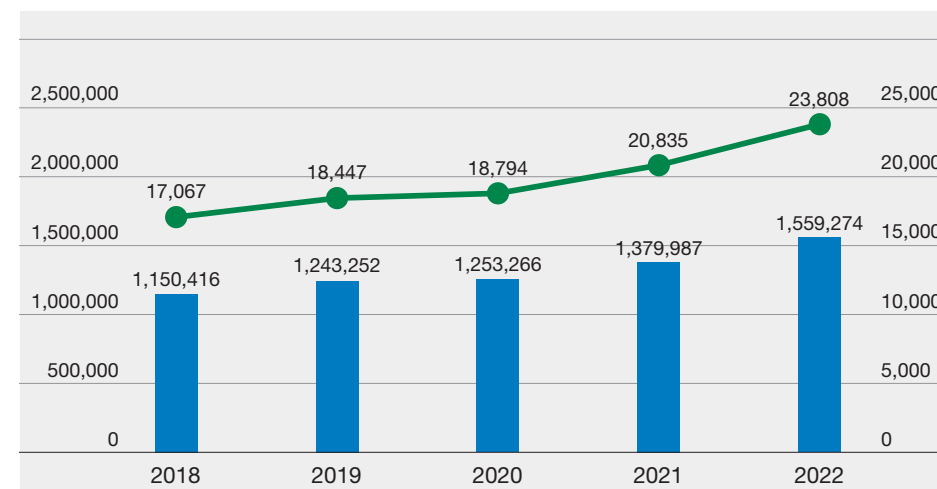
### Ordinary profit (Million yen)



### Profit attributable to owners of parent (Million yen) Net income per share (Yen)



### Net assets (Million yen) Net assets per share (Yen)



## Status of Sales by Region

### Japan

With capital investments that were postponed due to the impact of COVID-19 resuming, sales of semiconductors and machine tools recorded a significant increase. Automobile-related industry was affected by cuts in production, but net sales rose yoy. Industries related to medical equipment, food machinery, and other performed well, boosted by new demand for labor-saving and automation post-COVID-19.

### Greater China

In China, due to the impact of both U.S.-China trade friction and policy support, there was a sharp increase in demand in areas related to semiconductors and rechargeable batteries. Investments related to EV were brisk, and automobiles and machine tools also performed well. In Taiwan, capital investments for semiconductors remained strong. On the other hand, there are some remaining concerns about the impact of lockdowns caused by the spread of COVID-19, and other factors.

### Other Asia

In the first half of the fiscal year there was an impact from the spread of COVID-19, but this switched to recovery in the second half. Demand recovered in South Korea, Singapore, and Malaysia, primarily in semiconductor-related areas. In Thailand and India, automobile-related industry was affected by the shortage of semiconductors, but sales were

higher yoy.

### Europe

After falling in response to the impact of COVID-19, demand recovered sharply in the second half of the fiscal year, primarily in areas related to semiconductors, electronics, and machine tools. Automobile-related demand was affected by the semiconductor shortage, but due in part to EV-related investments it exceeded the level of the previous fiscal year. The Russian invasion of Ukraine had only a limited impact.

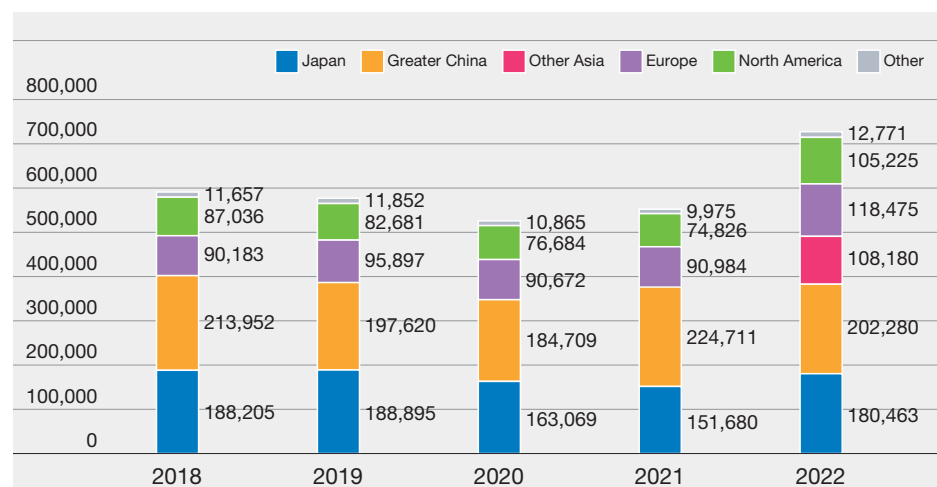
### North America

Due in part to the trade friction between the U.S. and China, customers in the U.S. took a proactive approach to capital investments, and sales to the semiconductor-related industry were particularly strong. In an automobile-related industry, which is a key industry, there were some impact from the shortage of semiconductors, but EV-related investments were brisk, and demand recovered across a broad range of industries, including the related area of machine tools.

### Other

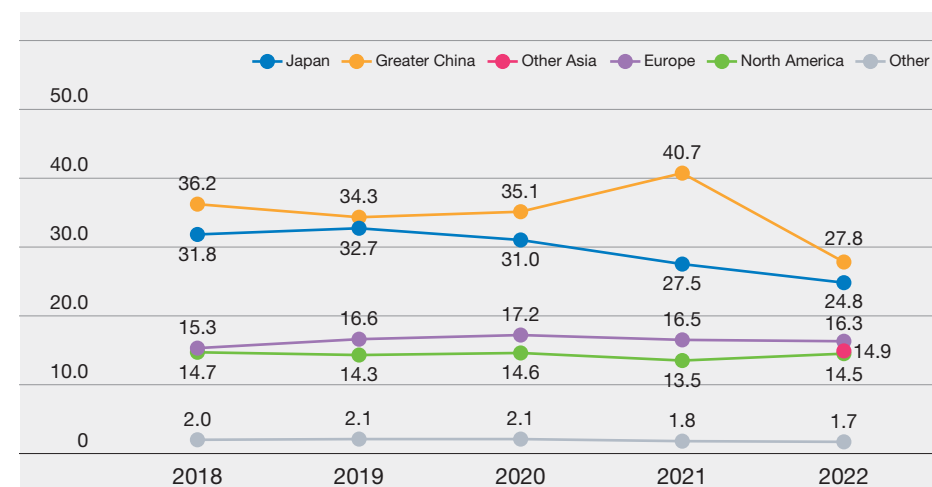
With the recovery from COVID-19 progressing, South America, Oceania and other regions posted yoy increases in sales.

Net sales by region (Million yen)



\* From 2022, we have segregated Asia into Greater China and Other Asia

Composition ratio of net sales by region (%)



\* From 2022, we have segregated Asia into Greater China and Other Asia



## R&D Activities

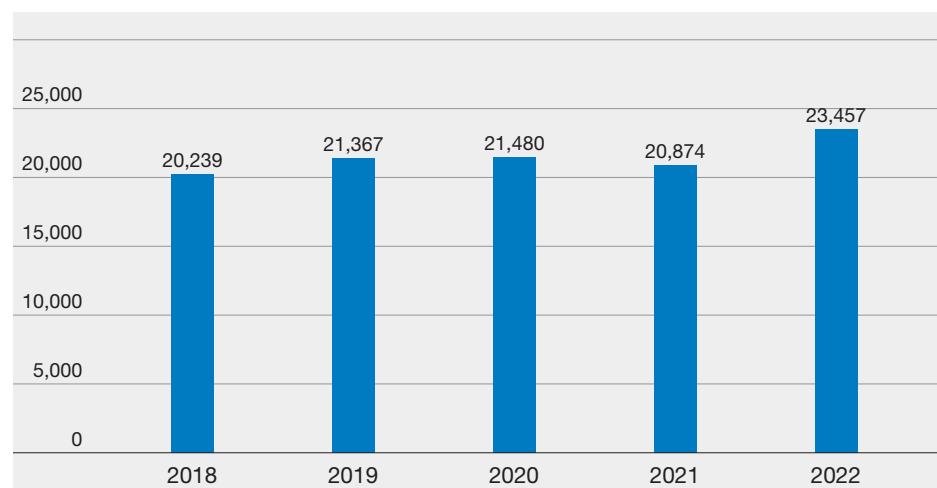
The Group develops products in line with the rules and needs of each country and region around the world, and conducts research and development of automatic control technology and peripheral technologies thereof to respond to changes in the market environment, such as the development of IoT and smart factories.

The core of these R&D activities is the Company's Tsukuba Technical Center, and our technical centers in the U.S., U.K., Germany, and China work closely with each other to collect and promptly share information on customer needs and technical information in each region.

In the automatic control equipment business, we are expanding our product lineup to meet a wide variety of applications, including semiconductor manufacturing equipment, automobiles, machine tools, medical equipment, food machinery, plants, fluid and powder conveyors, and general industrial machinery. We are also developing new products to improve performance such as through energy-saving, space-saving and weight-saving; to cut production costs and reduce environmentally hazardous substances.

R&D expenses for this fiscal year were 23,457 million yen (12.4% increase yoy).

**R&D** (Million yen)



## Status of Capital Investments

The Group focuses on new construction and expansion of production facilities, and acquisition of land for production facilities in order to establish production capabilities with the future in mind and create a system capable of maintaining global production supply even during emergencies. The Group also introduced new equipment and updated molds, etc., in order to achieve further rationalization and cost reduction. With the delays in progress caused by COVID-19 beginning to be recaptured, total capital investments during this fiscal year came to 83,499 million yen (204.3% increase yoy), which included the acquisition of land for the construction of a new head office.

Listed below are the main capital investments during the fiscal year 2021.

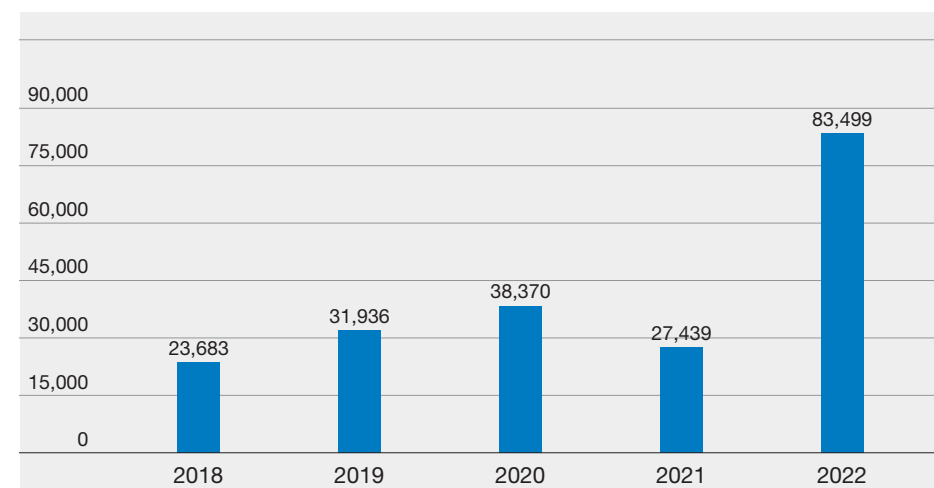


① SMC (Tianjin) Manufacturing



② Shimotsuma Factory No.2

**Capital investment** (Million yen)



## SMC in the World

Since SMC made its first foray into overseas markets in 1967, it has been working to build an industry-leading global network. In order to speedily deliver high-quality products and services to customers around the world, SMC established its sales locations on the frontlines of the market; R&D centers in Japan, U.S., Europe and China; and manufacturing bases in 6 locations in Japan, as well as in China, Singapore and Vietnam. SMC has approximately 21,000 employees (of which, approximately 15,000 are non-Japanese employees). SMC will continue to meet the needs of customers around the world using its overall capability comprising the manufacturing, sales and technological knowhow.

### Europe 16.3%

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



U. K. Italy Spain Germany

### Greater China 27.8%

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



China Taiwan



Beijing Manufacturing Hong Kong

### Other Asia 14.9%

Net sales **108,180** million yen

YoY change **+32.7%**



Korea Singapore

### North America 14.5%

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



U. S. Mexico

### Other 1.7%

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



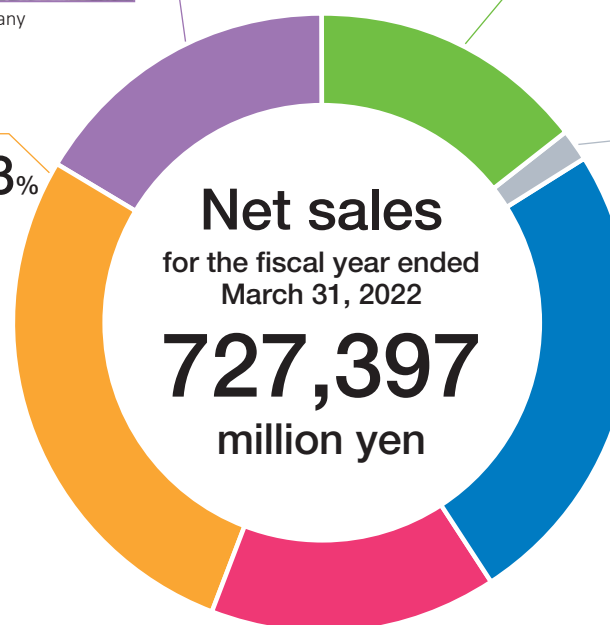
Australia Brazil

### Japan 24.8%

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



Tsukuba Technical Center Soka Factory Tsukuba Factory Kamaishi Factory



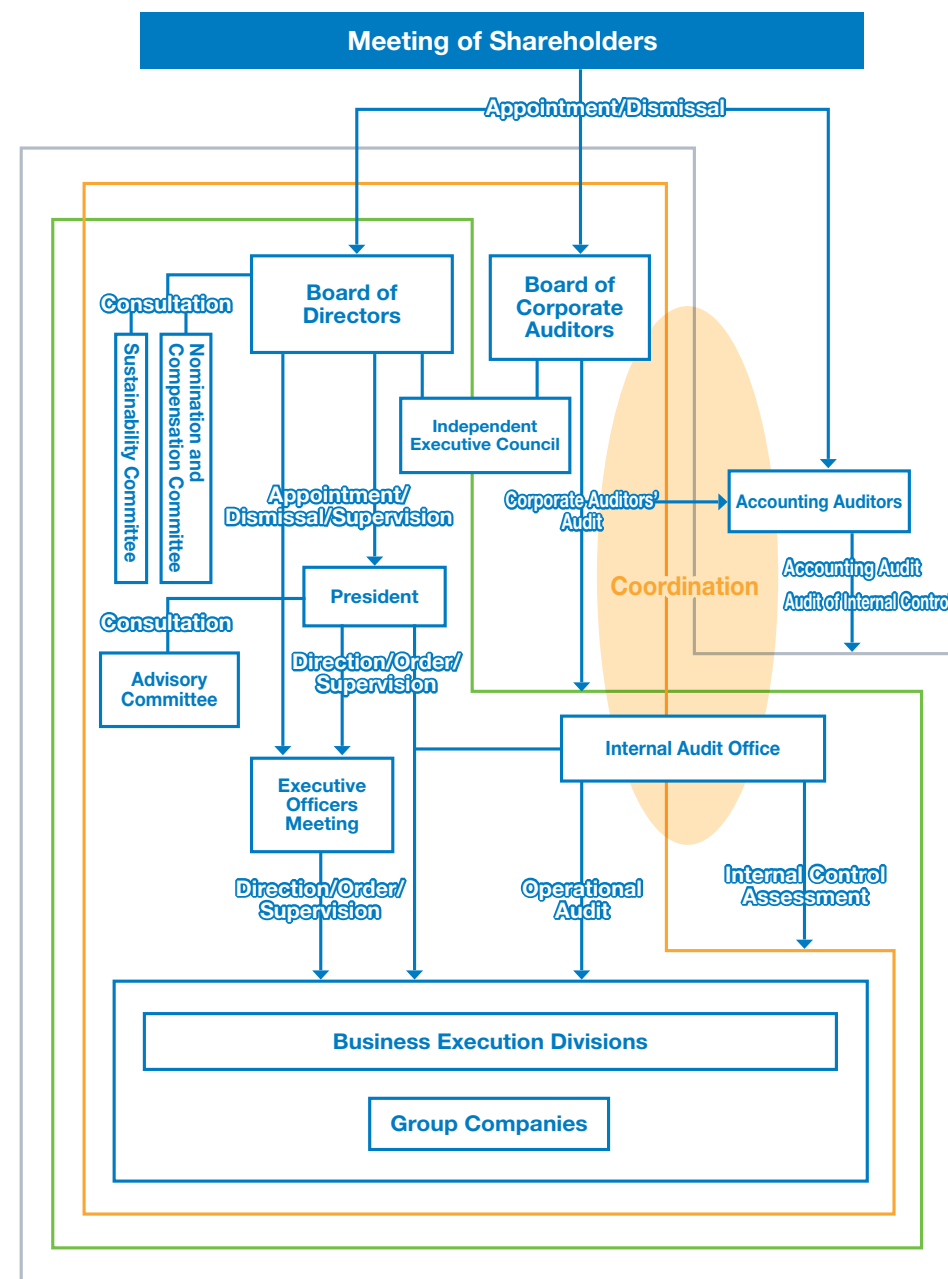
\* From 2022, we have segregated Asia into Greater China and Other Asia

## Basic Views on Corporate Governance

SMC considers that it is extremely important to establish a corporate governance framework which ensures both quick decision-making and transparency in the management for realizing a continuous growth, an increase in the medium- to long-term corporate value and most of all, to protect the interests of shareholders.

SMC has set up a Board of Corporate Auditors to implement a system for ensuring the legitimacy and appropriateness of each Director's business execution and the fairness and transparency of the Board of Directors' decision-making processes. Under this system, mutual monitoring and checking among divisions are conducted by Executive Directors who are acquainted with SMC's business characteristics, unique corporate situations and other internal information, and monitoring and supervision are conducted by Outside Directors and Outside Corporate Auditors from an independent and objective viewpoint.

## Corporate Governance System





# Overview of the Corporate Governance System

## Board of Directors

The Board of Directors, which consists of twelve Directors (of which four are Outside Directors), makes decisions on significant matters related to the execution of business such as the Group's management policies, capital investment, and executive personnel in accordance with the standards for deliberation set forth in the Board of Directors' regulation, in addition to significant matters specified by laws and regulations and the Articles of Incorporation. The Board of Directors also receives reports from Directors, Corporate Auditors, Executive Officers and others on significant matters and supervises the execution of Directors' duties. During this fiscal year, the Board of Directors held 10 meetings.

## Board of Corporate Auditors

The Board of Corporate Auditors, which consists of three Corporate Auditors (of which two are Outside Corporate Auditors), decides on plans for audits by the Corporate Auditors and the segregation of duties in accordance with the Board of Corporate Auditors regulation, in addition to matters prescribed by laws and regulations and the Articles of Incorporation. The Board of Corporate Auditors also receives reports from Corporate Auditors, Directors, employees, and the Accounting Auditor as required. During this fiscal year, the Board of Corporate Auditors held 13 meetings.

## Advisory Bodies of the Board of Directors

SMC has voluntarily established the "Nomination and Compensation Committee", consisting of one Representative Director and two Outside Directors as an advisory body to the Board of Directors, to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors. The Nomination and Compensation Committee shall be composed of a majority of Independent Outside Directors, and the chairman of the Committee shall be elected from among the members who are Independent Outside Directors. In addition,

in January 2022, we established the "Sustainability Committee" as an advisory body to the Board of Directors to supervise initiatives related to sustainability. The Committee's composition, etc. is the same as that of the "Nomination and Compensation Committee". In addition, SMC holds "Executive Officers Meeting", which is made up of the Directors who are responsible for business execution and Executive Officers, to speed up the sharing of information.

SMC has also established an "Advisory Committee" with the presidents of the Company and its four major subsidiaries (China, Singapore, U.S., and Italy) as an advisory body to the President, with a strong will to build a system that can replace the decision-making functions related to the execution of Group business in the event of an emergency.

## Independent Executive Council and Lead Independent Director

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

## Basic Policy on Dividends

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

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

## Directors and Corporate Auditors

(at the conclusion of the Annual General Meeting of Shareholders held in June 2022)

### Directors

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**Yoshiki Takada\*\***

President/  
Senior General  
Manager of Sales  
Headquarters



**Toshio Isoe**

Director and  
Executive Officer/  
General Manager  
of Administration  
Division/  
In charge of HR



**Masahiro Ota**

Director and  
Executive Officer/  
General Manager  
of Finance &  
Accounting  
Division



**Susumu Maruyama**

Director and  
Executive Officer/  
In charge of  
Business  
Management/  
General Manager of  
Presidential Office



**Samuel Neff**

Director and  
Executive Officer/  
In charge of  
Supply Chain  
Management



**Yoshitada Doi**

Director and  
Executive Officer/  
Senior General  
Manager of  
Engineering  
Headquarters



**Koji Ogura**

Director and  
Executive Officer/  
Vice Senior  
General Manager  
of Sales  
Headquarters



**Kelley Stacy**

Director and  
Executive Officer/  
President of SMC  
US

\* Member of the Nomination and Compensation Committee (Mr. Kaizu is the Chairman)

\* Member of the Sustainability Committee (Mr. Miyazaki is the Chairman)

## Directors



**Masanobu  
Kaizu\***

Lead Independent  
Outside Director



**Toshiharu  
Kagawa\***

Independent  
Outside Director



**Yoshiko  
Iwata\***

Independent  
Outside Director



**Kyoichi  
Miyazaki\***

Independent  
Outside Director

## Corporate Auditors



**Naoto  
Moriyama**

Full-Time  
Corporate Auditor



**Arata  
Toyoshi**

Independent  
Outside Corporate  
Auditor



**Haruya  
Uchikawa**

Independent  
Outside Corporate  
Auditor

\* Member of the Nomination and Compensation Committee (Mr. Kaizu is the Chairman)

\* Member of the Sustainability Committee (Mr. Miyazaki is the Chairman)



SMC Corporation and Consolidated Subsidiaries  
Years ended March 31, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022.

(Million yen, except Per share data)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>For the year</b>										
Net sales	323,135	395,304	458,081	475,608	487,625	591,035	576,948	526,000	552,178	727,397
Operating profit	78,027	105,153	127,686	134,233	141,107	192,428	180,203	146,254	153,355	227,857
Profit attributable to owners of parent	64,270	86,311	109,583	92,138	113,095	136,869	130,631	110,500	121,790	192,991
Depreciation	10,952	12,618	13,620	14,863	14,246	15,252	16,255	16,669	18,585	20,557
Capital expenditures	18,349	22,563	28,669	24,756	21,663	23,683	31,936	38,370	27,439	83,499
R&D expense	13,729	15,544	17,607	18,452	19,115	20,239	21,367	21,480	20,874	23,457
Free cash flow	9,463	23,392	66,412	67,724	30,584	83,656	16,827	149,534	193,913	39,878
<b>At year end</b>										
Total assets	844,010	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	1,390,539	1,539,871	1,769,951
Inventories	184,417	194,255	194,573	182,564	179,185	205,660	230,268	232,559	248,752	303,545
Net assets	689,359	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266	1,379,987	1,559,274
Shareholders' equity	687,532	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188	1,376,704	1,555,628
Borrowings	32,738	61,295	70,581	49,243	17,073	6,438	7,238	11,516	10,788	11,544
Cash and cash equivalents	173,501	208,577	281,716	295,270	277,449	322,690	312,366	399,128	561,540	559,296
<b>Per share data (Yen)</b>										
Net income per share (EPS)	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	1,943.35	1,656.44	1,831.98	2,923.76
Net assets per share	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	18,447.39	18,794.58	20,835.47	23,808.08
Dividend per share	150.00	170.00	190.00	200.00	300.00	400.00	400.00	400.00	500.00	750.00
Cash flow per share	1,097.50	1,460.48	1,831.90	1,592.56	1,895.14	2,263.25	2,185.19	1,906.32	2,111.55	3,235.20

Notes

1. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.
2. Net income per share are calculated based on the average number of common shares for the respective fiscal years.
3. Dividend per share are calculated on the dividend paid in respective fiscal years.

SMC Corporation and Consolidated Subsidiaries  
Years ended March 31, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Reference indices</b>										
<b>Profitability (%)</b>										
Operating income ratio	24.1	26.6	27.9	28.2	28.9	32.6	31.2	27.8	27.8	31.3
SG & A ratio	20.3	20.8	20.9	21.7	20.9	19.0	20.2	21.6	20.4	18.7
Return on equity	10.1	11.7	12.9	9.9	11.5	12.6	10.9	8.9	9.3	13.2
Return on assets	11.9	13.4	15.2	11.5	12.8	15.4	14.5	11.4	11.7	16.5
<b>Efficiency (Times)</b>										
Total assets turnover	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4
Equity turnover	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5
Inventories turnover	1.8	2.1	2.4	2.5	2.7	3.1	2.6	2.3	2.3	2.6
Fixed assets turnover	3.1	3.3	3.4	3.2	3.3	3.9	3.5	2.9	2.9	3.1
<b>Stability (%)</b>										
Equity ratio	81.5	81.0	81.4	83.9	86.2	85.4	89.3	89.9	89.4	87.9
Debt equity ratio	4.8	7.8	7.7	5.2	1.7	0.6	0.6	0.9	0.8	0.7
Current ratio	464.6	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1	929.3	742.8
Fixed assets ratio	38.3	37.0	35.5	39.7	34.7	35.1	34.0	34.1	32.3	32.9
Interest coverage ratio (Times)	199.8	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2	608.6	865.7
<b>Investment data</b>										
Dividend ratio (%)	16.0	13.3	11.7	14.6	17.8	19.6	20.6	24.1	27.3	25.7
Dividends on equity (%)	1.6	1.6	1.5	1.4	2.0	2.5	2.3	2.1	2.5	3.4
Price earnings ratio (Times)	19.3	21.3	21.9	19.0	19.6	21.2	21.4	27.6	35.1	23.5
Price book value ratio (Times)	1.8	2.4	2.6	1.9	2.2	2.5	2.3	2.4	3.1	2.9
Market capitalization (Millions of yen)	1,306,584	1,956,643	2,468,622	1,761,035	2,217,799	2,901,598	2,797,849	3,082,148	4,332,523	4,637,706
Number of engineers	1,656	1,648	1,638	1,711	1,777	1,817	1,910	1,919	1,881	1,917
Number of employees	15,596	16,010	17,389	18,382	19,191	19,680	19,746	20,853	20,619	21,620

# Financial Section

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Financial Review

Consolidated Financial Statements

Notes on Consolidated Financial Statements



# Analysis and Discussion Regarding the Status of Operating Results Based on Management's Viewpoint

## Significant Accounting Policies and Estimates

SMC's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan. Preparation of this report requires management to make estimates that affect the selection and application of accounting policies, as well as the reported amounts and disclosure of assets, liabilities, revenues and expenses. While the management has made reasonable judgments regarding these estimates based on such factors as past results, actual results could differ from those estimates due to the uncertainties inherent in such estimates.

## Operating Results

Net sales for this fiscal year were 727,397 million yen (31.7% increase yoy). Gross profit was 363,851 million yen (36.9% increase yoy). The gross profit margin increased by 1.9 points to 50.0% due to an increase in revenue, despite higher costs mainly due to an increase in temporary staff expenses to cope with robust orders as well as the soaring prices for raw materials. Selling, general and administrative expenses were 135,993 million yen (20.9% increase yoy) mainly due to an increase in personnel expenses, with the expense ratio falling 1.7 points to 18.7%, due to the increased revenue. Operating profit was 227,857 million yen (48.6% increase yoy), and the operating profit margin improved by 3.5 points to 31.3%.

For non-operating income and expenses, the yen depreciation resulted in foreign exchange gains of 33,144 million yen (286.7% increase yoy). As a result, ordinary profit amounted to 272,981 million yen (58.9% increase yoy), and ordinary profit margin increased by 6.4 points to 37.5%.

While extraordinary losses exceeded extraordinary income in the absence of gain on sale of shares of subsidiaries and associates recorded in the previous fiscal year, profit attributable to owners of parent amounted to 192,991 million yen (58.5% increase yoy).

The average exchange rates for the period were 1 US\$=112.39 yen, 1 EUR=130.55 yen, and 1 CNY=17.51 yen. The exchange rates at the end of the period were 1 US\$=122.41 yen, 1 EUR=136.77 yen, and 1 CNY=19.26 yen.

## Financial Position

### (1) Assets

Total assets as of the end of the fiscal year 2021 were 1,769,951 million yen, a 230,080 million yen increase yoy. Cash and deposits were 684,834 million yen, a 55,542 million yen increase due to increased profit, and notes and accounts receivable-trade were 211,939 million yen, a 37,004 million yen increase due to the revenue increase. Inventories were 303,545 million yen, a 54,793 million yen increase due to strategical inventory increase mainly in raw materials, in response to the high demand. With the increased retained earnings, the Company applied increased cash and deposits for aggressive capital expenditures to further acquire market demand, and land acquisition for the construction of the new head office to further enhance the Group's administration functions, resulted in an increase in property, plant and equipment which was 270,584 million yen, a 72,043 million yen increase from the previous fiscal year end.

### (2) Liabilities

Total liabilities were 210,677 million yen, a 50,794 million yen increase yoy. Notes and accounts payable-trade were 62,101 million yen, a 18,010 million yen increase from purchases associated with demand increase. Income taxes payable were 44,783 million yen, a 14,753 million yen increase associated with the taxable income increase due to the revenue increase.

### (3) Net assets

Total net assets were 1,559,274 million yen, a 179,286 million yen increase yoy, mainly due to the increases in retained earnings from profit attributable to owners of parent and in foreign currency transition adjustment by the depreciation of yen, in spite of the purchase of treasury shares. Equity ratio became 87.9%, decreased by 1.5 point from the previous fiscal year end.

## Cash Flows

The balance of cash and cash equivalents (hereinafter "cash") as of the end of the fiscal year 2021 was 559,296 million yen, a decrease of 2,243 million yen yoy.

### (1) Cash flows from operating activities

Net cash provided by operating activities was 156,093 million yen (revenue increase of 35,619 million yen yoy), mainly due to a 100,368 million yen increase in profit before income taxes, in spite of a decrease in cash due to a

24,179 million yen increase in income taxes paid associated with the taxable income increase, and a 29,319 million yen increase in inventories.

## **(2) Cash flows from investing activities**

Net cash used by investing activities was 116,215 million yen (73,440 million yen revenue was provided the prior year, resulting a 189,655 million yen difference yoy), mainly due to the decrease in cash due to a 133,797 million yen increase in payments into and proceeds from withdrawal of time deposits, and a 49,307 million yen increase in purchase of property, plant and equipment.

## **(3) Cash flows from financing activities**

Net cash used in financing activities was 88,933 million yen (a 32,923 million yen increase yoy), due to a 21,314 million yen increase in purchase of treasury shares, and a 13,023 million yen increase in dividends paid.

# **Business Risks**

The key risks that SMC recognizes as having the potential to materially affect its financial position, operating results and the status of its cash flows are as follows.

Forward-looking statements in this report are based on the judgment of SMC as of the end of this fiscal year.

## **Country Risks Associated with Overseas Business Development**

(Description of risks)

The Group is engaged in a wide range of business activities from R&D to material procurement, production, and sales in various regions around the world, with the aim of increasing orders by improving customer satisfaction. Particularly in China, we are enhancing and strengthening our production facilities to supply products globally.

In China and other countries, there is a risk that the following unforeseen events will occur.

- (i) Radical changes in the political system and the economic environment
- (ii) Rapid changes in the legal system, taxation system, foreign exchange policies, import and export regulations, etc.
- (iii) Radical changes in the work environment, such as labor shortages, soaring labor costs, and the occurrence of large-scale labor disputes
- (iv) Instability of energy supply due to underdeveloped social infrastructures
- (v) Social turmoil caused by such factors as terrorism, war, riots, natural disasters, and spread of infectious diseases

(Frequency and timing of risk event likelihood)

The Group had assumed a risk-event frequency of roughly once every 10 to 20 years. However, in addition to the occurrence of the risk events of war and the spread of infectious diseases, there is continuing conflict between the U.S. and China on both the economic and national security, which is raising the level of uncertainty.

(Description of impact if risk event occurs)

If such a risk event occurs, the safety of local employees and expatriate employees and the security of local assets such as production facilities could be at risk. Moreover, it is possible that such an event could cause disruption to the global supply chain for products, which could have a serious adverse effect on business activities for the entire Group.

(Risk countermeasures)

From the perspective of BCPs (business contingency plans), we are working on establishing a production facility in Vietnam that is comparable to the one in

China and on securing a certain amount of supply capacity in Japan in order to establish a system that will enable us to recover quickly in the event of an unforeseen event.

(Risk events that occurred during this fiscal year)

During this fiscal year, such risks manifested in the form of large-scale lockdowns implemented by the Chinese government as a countermeasure against COVID-19, and the Russian invasion of Ukraine.

The Group's production facilities in China were not subject to any lockdown and continued to operate normally with thorough measures against infection in place. Although there were some customers and suppliers that were greatly affected, the strategy of maintaining ample stocks at all times was also effective, and there were no major disruptions to the Group's product supply. In addition, regarding the Russian invasion of Ukraine, the scale of Group's business activities in the countries directly involved in the conflict was small, and the impact on the Group was limited.

## Foreign Exchange Rate Fluctuation Risks

(Description of risks)

The Group is engaged in a wide range of business activities from R&D to material procurement, production, and sales in various regions around the world.

As the Group's foreign currency transactions and assets denominated in foreign currencies are converted into yen at the time of preparation of the consolidated financial statements, operating results and financial position may be affected by fluctuations in foreign exchange rates.

(Frequency and timing of risk event likelihood)

With the expansion of the Group's overseas business, the likelihood of such risk events is increasing. Based on past experience, it is expected that the Group's operating results and financial position will be subject to a comparatively substantial impact from exchange rate fluctuations at a frequency of about once every two to three years.

As for the timing of such risk events, the impact on operating results is throughout the year, and the impact on financial position is at the end of the fiscal year.

(Description of impact if risk event occurs)

The Group's net sales and profits denominated in foreign currencies will decrease on foreign exchange fluctuations during yen appreciation. Under those conditions, purchases and expenses in foreign currencies would also decrease upon foreign exchange, but that impact is relatively small. In addition, the Group's assets denominated in foreign currencies will decrease in stated value on translation.

(Risk countermeasures)

We are working to increase purchases in foreign currency, but our ability to do so is limited by the fact that our manufacturing is based in Japan. We are currently reviewing the Group's cash distribution to reduce assets denominated in emerging market currencies, which are particularly vulnerable to currency fluctuations.

## Risks of Product Defects

(Description of risks)

The Group is at the risk of being held responsible for product liability if a product defect causes damage to the customer.

The Group's flagship pneumatic instruments are being used in new fields, such as for medical equipment, and there is a risk that a lawsuit could be filed for damages in case the products used in these equipment are defective.

(Frequency and timing of risk event likelihood)

The Group assesses that there is a very low likelihood that such risks will materialize in the form of large-scale product defects. It is not possible to specify a timing of such risk events.

(Description of impact if risk event occurs)

In the event that such a risk event occurs, the Group will incur expenses for compensation for damages, and it may also lose the trust of its customers. Damage to the image of the Group could not only lead to reduced orders from other customers, but also adversely affect business activities for the entire Group.

(Risk countermeasures)

Despite the Group's strict quality control procedures, it is impossible to reduce the risk of product defects to zero. While we have product liability insurance, there is no guarantee that the insurance would cover all of the damages.

(Changes to such risks during this fiscal year)

The Group manufactures and sells automatic control equipment used in the production facilities of factories, etc. From the perspective of risk management, as a general rule, the Group does not supply products as medical equipment parts that come into direct contact with the human body. However, amid the global spread of COVID-19, the Group made an exception to this general rule, and responded to requests from many customers and the governments of various countries to provide products for respirators by repurposing products with a proven track record in the semiconductor industry. Because there was no other manufacturer capable of supplying similar products in large quantities in a short period of time, management made an executive decision to accept certain risks from a humanitarian perspective and fulfill its corporate social responsibility.

## Consolidated Balance Sheets (As of March 31, 2022)

	As of March 31, 2021	As of March 31, 2022
<b>(Assets)</b>		
<b>Current assets</b>	<b>1,096,953</b>	<b>1,258,406</b>
Cash and deposits	629,291	684,834
Notes and accounts receivable-trade	174,934	211,939
Securities	11,256	12,219
Merchandise and finished goods	112,131	130,829
Work in process	21,314	25,574
Raw materials and supplies	115,306	147,141
Other	33,470	46,769
Allowance for doubtful accounts	(751)	(901)
<b>Non-current assets</b>	<b>442,917</b>	<b>511,545</b>
<b>Property, plant and equipment</b>	<b>198,540</b>	<b>270,584</b>
Buildings and structures	81,450	91,705
Machinery, equipment and vehicles	38,515	41,988
Tools, furniture and fixtures	9,024	10,523
Land	38,812	74,775
Construction in progress	30,737	51,591
<b>Intangible assets</b>	<b>11,389</b>	<b>15,183</b>
Leasehold interests in land	8,931	11,766
Other	2,457	3,417
<b>Investments and other assets</b>	<b>232,987</b>	<b>225,776</b>
Investment securities	72,383	58,750
Retirement benefit asset	4,828	6,441
Insurance funds	145,373	150,797
Deferred tax assets	5,108	5,715
Other	6,782	5,735
Allowance for doubtful accounts	(1,488)	(1,664)
<b>Total assets</b>	<b>1,539,871</b>	<b>1,769,951</b>

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
<b>(Liabilities)</b>		
<b>Current liabilities</b>	<b>118,043</b>	<b>169,403</b>
Notes and accounts payable-trade	44,091	62,101
Short-term borrowings	1,465	6,987
Income taxes payable	30,029	44,783
Provision for bonuses	3,055	5,350
Other	39,402	50,179
<b>Non-current liabilities</b>	<b>41,839</b>	<b>41,274</b>
Long-term borrowings	9,323	4,556
Deferred tax liabilities	17,385	21,463
Provision for retirement benefits for directors	286	270
Provision for share awards for directors	57	65
Retirement benefit liability	6,674	7,552
Other	8,112	7,366
<b>Total liabilities</b>	<b>159,883</b>	<b>210,677</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>1,352,399</b>	<b>1,455,489</b>
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,277,198	1,430,285
Treasury shares	(59,139)	(109,136)
<b>Accumulated other comprehensive income</b>	<b>24,304</b>	<b>100,139</b>
Valuation difference on available-for-sale securities	11,404	11,235
Foreign currency translation adjustment	12,056	87,893
Remeasurements of defined benefit plans	842	1,010
<b>Non-controlling interests</b>	<b>3,283</b>	<b>3,645</b>
<b>Total net assets</b>	<b>1,379,987</b>	<b>1,559,274</b>
<b>Total liabilities and net assets</b>	<b>1,539,871</b>	<b>1,769,951</b>



## Consolidated Statements of Income (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
<b>Net sales</b>	<b>552,178</b>	<b>727,397</b>
<b>Cost of sales</b>	<b>286,326</b>	<b>363,545</b>
<b>Gross profit</b>	<b>265,852</b>	<b>363,851</b>
<b>Selling, general and administrative expenses</b>	<b>112,496</b>	<b>135,993</b>
<b>Operating profit</b>	<b>153,355</b>	<b>227,857</b>
<b>Non-operating income</b>	<b>19,709</b>	<b>45,626</b>
Interest income	6,959	6,712
Foreign exchange gains	8,570	33,144
Gain on investments in insurance funds	569	—
Other	3,609	5,769
<b>Non-operating expenses</b>	<b>1,236</b>	<b>502</b>
Interest expenses	174	182
Sales discounts	358	—
Loss on sale of securities	180	—
Loss on investments in insurance funds	—	98
Other	523	221
<b>Ordinary profit</b>	<b>171,827</b>	<b>272,981</b>
<b>Extraordinary income</b>	<b>1,667</b>	<b>581</b>
Gain on sale of non-current assets	650	308
Gain on sale of investment securities	69	243
Gain on sale of shares of subsidiaries and associates	929	—
Other	17	30
<b>Extraordinary losses</b>	<b>1,012</b>	<b>711</b>
Loss on retirement of non-current assets	685	395
Loss on sale of investment securities	5	—
Impairment losses	—	222
Loss on valuation of shares of subsidiaries and associates	104	—
Other	217	93
<b>Profit before income taxes</b>	<b>172,482</b>	<b>272,851</b>
Income taxes-current	53,565	75,731
Income taxes-deferred	(2,909)	3,796
<b>Profit</b>	<b>121,826</b>	<b>193,323</b>
Profit attributable to non-controlling interests	35	331
<b>Profit attributable to owners of parent</b>	<b>121,790</b>	<b>192,991</b>

## Consolidated Statement of Changes in Equity (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	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	61,005	73,335	1,277,198	(59,139)	1,352,399	11,404	12,056	842	24,304	3,283	1,379,987
Cumulative effects of changes in accounting policies			(257)		(257)						(257)
Restated balance	61,005	73,335	1,276,940	(59,139)	1,352,142	11,404	12,056	842	24,304	3,283	1,379,730
Changes during period											
Dividends of surplus			(39,646)		(39,646)						(39,646)
Profit attributable to owners of parent			192,991		192,991						192,991
Purchase of treasury shares				(50,020)	(50,020)						(50,020)
Disposal of treasury shares				23	23						23
Net changes in items other than shareholders' equity						(169)	75,836	167	75,834	361	76,196
Total changes during period	—	—	153,344	(49,997)	103,347	(169)	75,836	167	75,834	361	179,543
Net assets at end of period	61,005	73,335	1,430,285	(109,136)	1,455,489	11,235	87,893	1,010	100,139	3,645	1,559,274

## Consolidated Statements of Cash Flows (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
<b>Cash flows from operating activities</b>	<b>120,473</b>	<b>156,093</b>
Profit before income taxes	172,482	272,851
Depreciation	18,585	20,557
Interest and dividend income	(7,371)	(7,350)
Foreign exchange losses (gains)	(4,236)	(25,599)
Decrease (increase) in trade receivables	(20,605)	(16,941)
Decrease (increase) in inventories	(4,457)	(33,777)
Decrease (increase) in other current assets	(1,168)	(10,845)
Increase (decrease) in other current liabilities	4,731	8,966
Other, net	(4,284)	1,951
<b>Subtotal</b>	<b>153,675</b>	<b>209,812</b>
Interest and dividends received	4,786	8,431
Interest paid	(197)	(180)
Income taxes refund (paid)	(37,790)	(61,969)
<b>Cash flows from investing activities</b>	<b>73,440</b>	<b>(116,215)</b>
Payments into time deposits	(172,628)	(151,867)
Proceeds from withdrawal of time deposits	261,998	107,440
Purchase of property, plant and equipment	(28,281)	(77,588)
Purchase of intangible assets	(1,016)	(3,343)
Purchase of short-term and long-term investment securities	(2,483)	(1,276)
Proceeds from sale and redemption of short-term and long-term investment securities	13,583	14,080
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	6,280	—
Purchase of insurance funds	(9,848)	(9,095)
Proceeds from maturity of insurance funds	4,693	5,705
Other, net	1,141	(270)
<b>Cash flows from financing activities</b>	<b>(56,009)</b>	<b>(88,933)</b>
Net increase (decrease) in short-term borrowings	(2,286)	200
Proceeds from long-term borrowings	3,200	2,100
Repayments of long-term borrowings	(1,645)	(1,566)
Purchase of treasury shares	(28,706)	(50,020)
Dividends paid	(26,607)	(39,631)
Other, net	35	(15)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>24,507</b>	<b>46,811</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>162,411</b>	<b>(2,243)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>399,128</b>	<b>561,540</b>
<b>Cash and cash equivalents at end of period</b>	<b>561,540</b>	<b>559,296</b>

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

# Notes on Consolidated Financial Statements

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

### 1. The scope of consolidation

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

Number of consolidated subsidiaries: 44

Names of major consolidated subsidiaries:

Nihon Kizai Co., Ltd.	SMC Automation China Co., Ltd.
SMC Corporation of America	SMC (China) Co., Ltd.
SMC Deutschland GmbH	SMC (Beijing) Manufacturing Co., Ltd.
SMC Korea Co., Ltd.	

- (2) Names of major non-consolidated subsidiaries:

SC SMC Romania S.r.l., SMC Corporation (Chile) S.A.

(Reasons for exclusion from the scope of consolidation)

The 30 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

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

Non-consolidated subsidiaries (SC SMC Romania S.r.l. and 29 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income or loss (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, 2022 for the following 10 subsidiaries whose fiscal year-end date is December 31.

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

### 4. Accounting policies

- (1) Valuation standards and methods for significant assets

- (i) Securities

Securities held to maturity: valued at amortized cost method.

Available-for-sale securities

- a. Stocks other than those for which a market price is not available: stated at fair value method.

(All valuation differences are included in net assets and cost of securities sold is principally calculated with the moving average method.)

- b. Stocks for which a market price is not available: stated at cost using the moving average method.

- (ii) Inventories:

principally stated at cost using the gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

- (2) Depreciation methods for significant depreciable assets

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

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated principally under the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are calculated with the straight-line method. And that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years



- (ii) Intangible assets (excluding leased assets)  
Amortization of intangible assets of the Company and its domestic consolidated subsidiaries is calculated in accordance with the straight-line method and that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.  
Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years) specified by the Company.
- (3) Basis for significant allowances and provisions
  - (i) Allowance for doubtful accounts  
The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed uncollectible by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Foreign consolidated subsidiaries provide an allowance for possible loan losses in the amount deemed uncollectible based on an individual assessment of each claim.
  - (ii) Provision for bonuses  
Some of the Company's consolidated subsidiaries provide a reserve of the estimated amount to prepare for bonus payment to employees.
  - (iii) Provision for retirement benefits for directors  
Some of the Company's consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.
  - (iv) Provision for share awards for directors  
For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current fiscal year is recorded.
- (4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen  
Foreign currency denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the balance sheet date and the difference resulting from the translation is recognized as gains or losses. Meanwhile, assets and liabilities held by foreign consolidated subsidiaries are translated into Japanese yen at exchange rates prevailing at the balance sheet date, while revenues and expenses are translated into Japanese yen at average rates of exchange during the current consolidated fiscal year and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under net assets.
- (5) Basis for significant revenues and expenses
  - (i) Contents of main performance obligations in major businesses  
The Group is engaged in the manufacturing and sale of automatic control equipment, including pneumatic instruments, that is essential for automated, labor-saving operations in various industry sectors, and is under the obligation to deliver products to customers based on the contracts with the customers.
  - (ii) The normal point in time when the Group fulfills its performance obligation (at the normal point in time when the Group recognizes revenue)  
The Group sells automatic control equipment, including pneumatic instruments, to customers. Revenue from sales of products is recognized when the products are shipped or delivered since the Group deems that the control of the products is transferred to the customers at that time.
- (6) Other significant matters constituting the basis for preparing the Consolidated Financial Statements
  - Basis for net defined retirement benefit liabilities and net defined retirement benefit assets  
For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded based on the projected amounts for pension assets and retirement benefit obligations at the end of the fiscal year at the consolidated level. For the calculation of consolidated retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits for the period until the end of the current fiscal year.  
Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service 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 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.

## [Notes on changes in accounting policy]

### 1. Application of the Accounting Standard for Revenue Recognition

The Group began applying the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “the Accounting Standard for Revenue Recognition”) at the beginning of the current fiscal year, and decided to recognize revenue at the amount expected to be received in exchange for the promised goods and services when the control of the goods and the services is transferred to the customer.

The amount of revenue recorded consists of the consideration promised in the agreement with the customer, from which returns, discounts, rebates and other items have been deducted.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the current fiscal year was added to or subtracted from the beginning balance of retained earnings of the current fiscal year, and thus the new accounting policy was applied from the beginning balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the beginning of the current fiscal year were subject to the previous treatment, by applying the method provided for in Paragraph 86 of the Accounting Standard for Revenue Recognition.

In addition, some of the sales promotion expenses that were previously recorded in selling, general and administrative expenses, and sales discounts that were previously recorded in non-operating expenses, are now deducted from net sales.

As a result, the impact on the consolidated financial statements of the application of the Accounting Standard for Revenue Recognition was minimal.

### 2. Application of the Accounting Standard for Fair Value Measurement, etc.

The Group began applying the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019; hereafter “the Accounting Standard for Fair Value Measurement”), etc. at the beginning of the current fiscal year, and decided to adopt the new accounting policies set forth by the said Accounting Standard, etc. prospectively in accordance with the transitional treatment as stipulated in Paragraph 19 of the “Accounting Standard for Fair Value Measurement” and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10 July 4, 2019). There was no impact of this change on the financial statements.

Furthermore, in the Notes on Financial Instruments, the Group has opted to provide notes on matters related to the breakdown, etc. for each level of fair value for financial instruments.

## [Notes on revenue recognition]

### 1. Information on disaggregated revenue arising from contracts with customers

(Millions of yen)

Net sales by region	Fiscal year 2021
Japan	173,232
U.S.	82,648
China	188,522
Asia (excluding China)	130,668
Europe	122,282
Other	30,042
Total net sales	727,397

(Note) There is no revenue other than from the automatic control equipment business.

### 2. Basic information for understanding revenue

#### (1) Information on calculating transaction prices

Revenue is measured at an amount of consideration promised in a contract with a customer less estimated future returns, discounts and rebates. The amount of returns is estimated and calculated based on an expected return rate derived from the past data and the like. As for discounts and rebates, the amount of future payments is estimated

and calculated based on contracts and the like until actual result are confirmed.

- (2) Information on the point at which performance obligations are fulfilled  
The Group sells automatic control equipment, including pneumatic instruments, to customers. Since these products do not require time for delivery inspection by the customer, control of the products is deemed to be transferred to the customer when the product is shipped or delivered and revenue is recognized at that time.

### [Notes on accounting estimates]

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

### [Notes on Consolidated Balance Sheet]

(Millions of yen)

**1. Accumulated depreciation of property, plant and equipment** 258,340

#### **2. For non-consolidated subsidiaries and affiliates**

Investment securities (stocks) 14,863

### [Notes on Consolidated Statements of Income]

(Millions of yen)

#### **1. Principal items under selling, general and administrative expenses**

Salaries and allowances 47,149  
Bonuses 12,053  
Retirement benefit expenses 1,432  
Provision of allowance for doubtful accounts 384

**2. Research and development expenses included under general and administrative expenses as well as manufacturing costs** 23,457

### [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	1,294,348	735,065	400	2,029,013

(Note) Of the increase in treasury shares of 735,065 shares, 734,700 shares were purchased following a resolution by the Board of Directors for the purchase of treasury shares, and 365 shares were the result of purchasing shares from trading lots of less than one unit. The 400 share decrease in treasury shares was a result of shares being granted by the Board Benefit Trust for officers as part of the stock compensation plan for directors.

#### **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 29, 2021	Common share	¥19,823 million	¥300	March 31, 2021	June 30, 2021
Board of Directors' Meeting held on November 12, 2021	Common share	¥19,823 million	¥300	September 30, 2021	December 1, 2021

(Note) The "Total dividend amount" includes a dividend of ¥0 million for the Company's shares held by the "Board Benefit Trust".

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

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 29, 2022.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥29,404 million	¥450	March 31, 2022	June 30, 2022

(Note) The "Total dividend amount" includes a dividend of ¥1 million for the Company's shares held by the "Board Benefit Trust".

## [Notes on financial instruments]

### 1. Status of financial instruments

#### (1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks. The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in securities in principle and instead, are limited to invest in short-term bank deposits, etc. We limit the derivative transactions within the range of actual demand and do not make speculative transactions, based on internal rules.

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

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

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

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

Short-term borrowings are mainly fund procurement for general purpose working capital.

Long-term borrowings are used mainly to fund capital investments.

#### (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

Methods of calculating 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.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
Securities and investment securities			
(i) Securities held to maturity	950	898	(51)
(ii) Available-for-sale securities	55,078	55,078	—
Total assets	56,028	55,977	(51)

(\*1) Notes on cash are omitted. Presentation of deposits, notes and accounts receivable-trade, notes and accounts payable-trade, and short-term borrowings has been omitted because they are settled in a short period of time and their fair value approximates their book value.

(\*2) Stocks, etc. for which a market prices not available are not included in “Securities and investment securities”. The following are the consolidated balance sheet amounts for these financial instruments.

Category	Consolidated balance sheet amount
Shares of subsidiaries and affiliates	¥14,863 million
Unlisted stocks	¥78 million

### 3. Breakdown etc. for each level of fair value for financial instruments

The Group measures financial instrument at fair value. The inputs used in the fair value measurement are categorised into three levels based upon the observability of the inputs in markets.

Level 1: Quoted prices in active markets for identical assets that the Group can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly

Level 3: Unobservable inputs for the assets

In some cases, the inputs used to measure the fair value might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input.

(1) Financial instruments recorded on the consolidated balance sheet at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Stocks	14,565	—	—	14,565
Bonds	30,521	—	—	30,521
Other	9,991	—	—	9,991
Total assets	55,078	—	—	55,078

(2) Financial instruments other than financial instruments recorded on the consolidated balance sheet at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Securities held to maturity				
Corporate bonds	—	898	—	898
Total assets	—	898	—	898

(Note) Explanation of valuation techniques and inputs used for fair value calculations.

#### Securities and investment securities

Listed stocks, government bonds and corporate bonds are valued using quoted market prices. Since listed stocks and government bonds are traded in active markets, their fair values are classified as at Level 1. However, corporate bonds held by consolidated subsidiaries are classified at Level 2 because their trade frequency in the market is low and their fair value is not considered to be their quoted market price in an active market.

### [Notes on per share information]

1. Net assets per share: 23,808.08 yen

2. Net income per share: 2,923.76 yen

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



## Independent Auditor's Report

To the Board of Directors of SMC Corporation:

### Opinion

We have audited the accompanying consolidated financial statements of SMC Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2022, the consolidated statements of income, changes in equity and cash flows for the fiscal year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

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

### Responsibilities of Management and Corporate Auditors and the Audit & Supervisory Board 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate Auditors and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessment, while the objective of the audit of the consolidated financial statements is not to express an

opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, and whether the presentation and notes, the structure and content of the consolidated financial statements, and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting standards generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Corporate Auditors and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Corporate Auditors and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and

to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Seiyo Audit Corporation

Tokyo, Japan

May 16, 2022

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\* This document is a translation and partly modified from the Independent Auditor's Report as required by the Companies Act of Japan for the convenience of the reader. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

## SMC Corporation (as of March 31, 2022)

<b>Head Office</b>	Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan Tel : 03-5207-8271 Fax: 03-5298-5361
<b>Established</b>	April 27, 1959
<b>Share Capital</b>	JPY 61,005 million
<b>Number of Employees (Consolidated)</b>	21,620

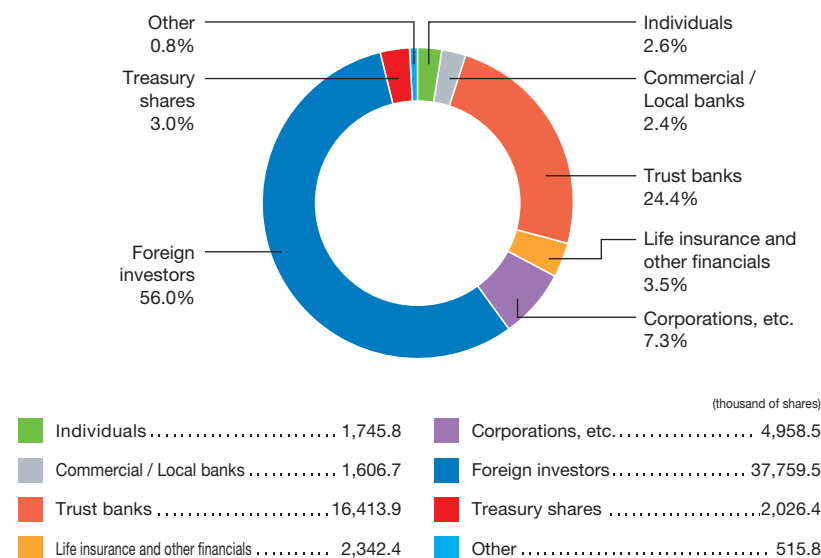
<b>Current Stock Status</b>	Total number of shares	240,000,000
	Shares outstanding	67,369,359
	Number of shareholders	4,537
<b>Stock Listing</b>	Tokyo Stock Exchange, Prime Market	
<b>Administrator of Register of Shareholders</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan	

Major shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Master Trust Bank of Japan (Trust account)	9,402.0	14.38
Custody Bank of Japan, Ltd. (Trust account)	4,009.0	6.13
Takada International LLC	3,793.0	5.80
TON Finance B.V.	3,443.5	5.26
JP Morgan Chase Bank 385632	3,165.9	4.84
The Bank of New York Mellon 140042	1,717.7	2.62
State Street Bank and Trust Company 505223	1,460.6	2.23
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	1,438.7	2.20
Resona Bank, Limited	1,322.8	2.02
SSBTC CLIENT OMNIBUS ACCOUNT	1,243.7	1.90

(Notes) 1. The Company holds 2,026,413 shares as treasury share. However, this is excluded from the above list of major shareholders.

2. Percentages of voting rights are calculated based on the number of shares outstanding of 65,342,946 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

### Distribution of share by shareholders



## **SMC Corporation**

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