

A large, soft-focus rainbow arc spans across the middle of the page, curving from the left side towards the right. It features a spectrum of colors including red, orange, yellow, green, and blue, set against a solid blue background.

# Annual Report 2021

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For the year ended March 31, 2021

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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.

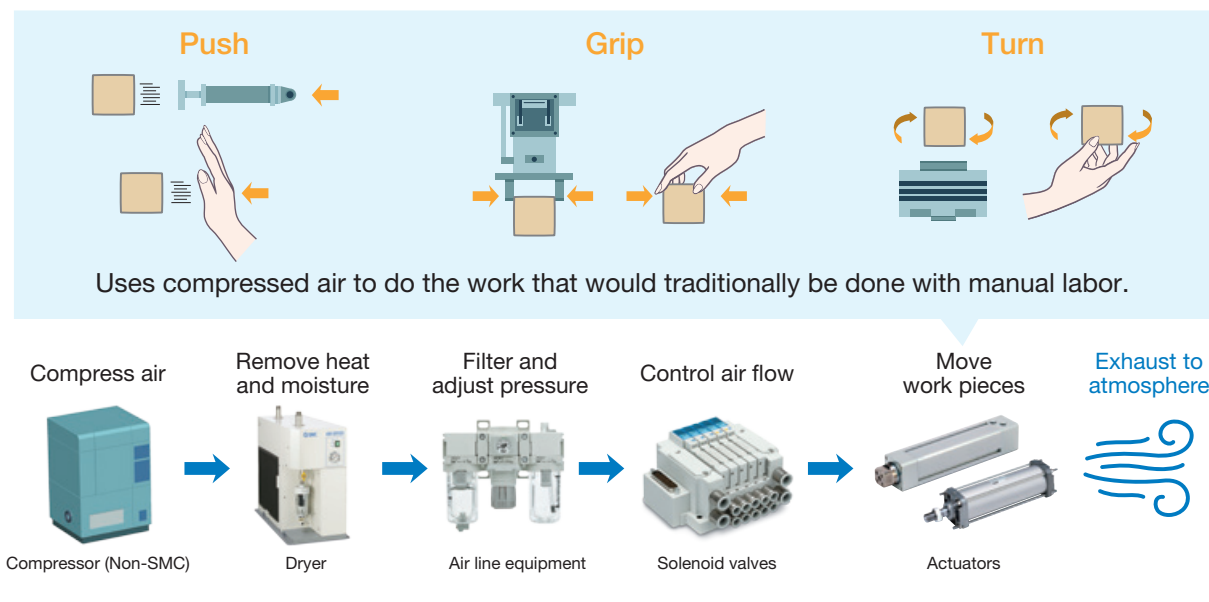
SMC is a comprehensive manufacturer covering the entire pneumatic system consisting of various equipment.

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

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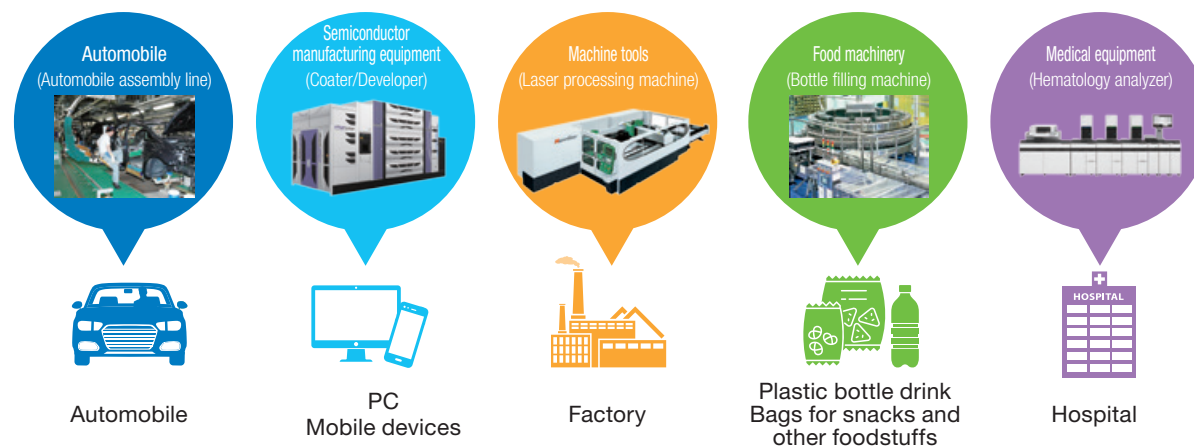
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## Overview of Pneumatic Control Instruments System



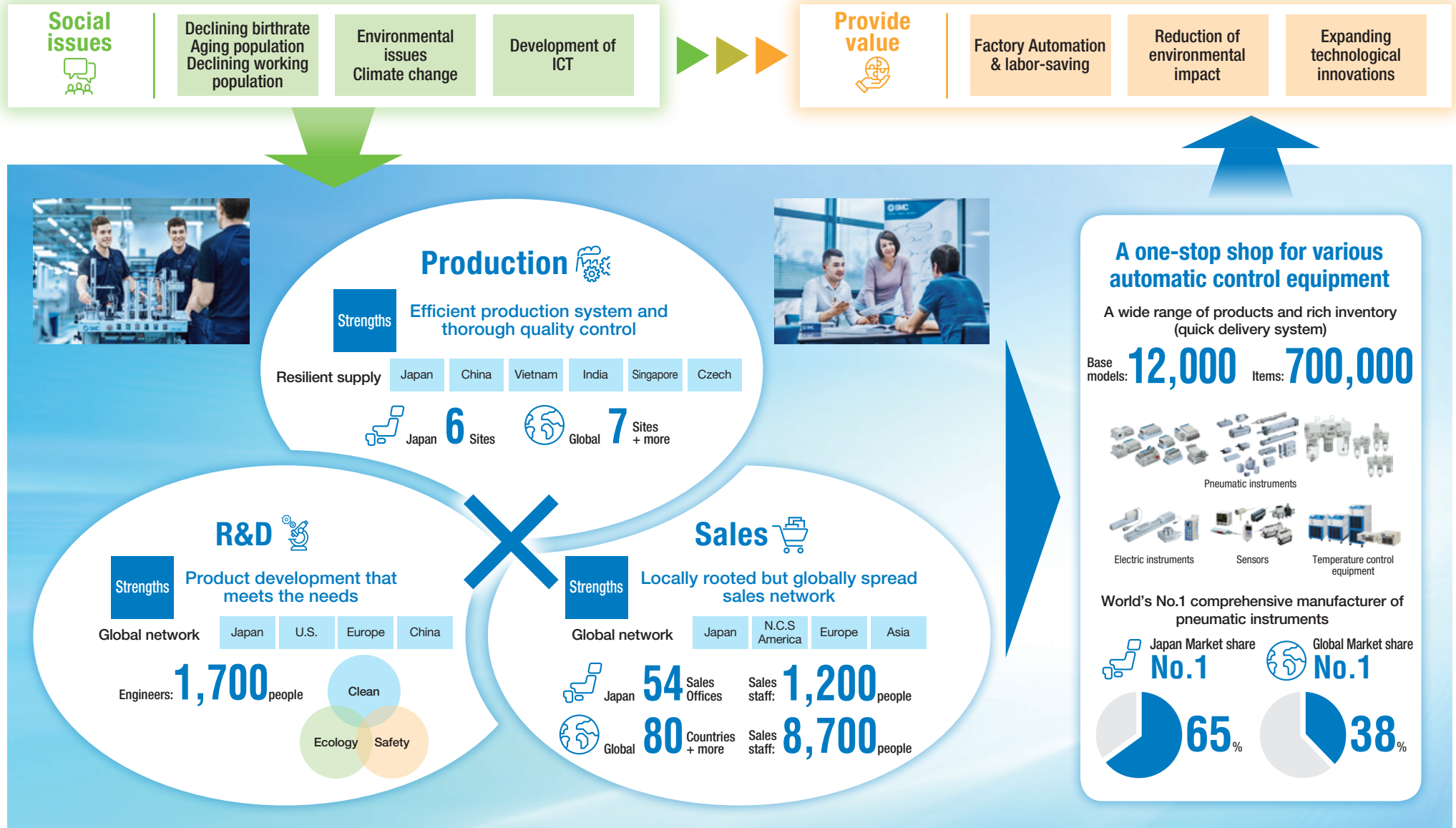
## Application and Industry

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.





# Greetings from the newly inaugurated president of SMC

I'm Yoshiki Takada. As of April 1, 2021, I was appointed as the new president of SMC.

Since our founding in 1959, SMC has grown as a comprehensive manufacturer of automatic control equipment, including pneumatic equipment, with the goal of "meeting all of our customer requests".

At this time, SMC has more than 500 offices in more than 80 countries around the world with 21,000 employees including 8,700 sales staff and 1,700 engineers with abundant know-how and 700,000 product variations. We have systems in place to provide the best products and services to our customers who work with automation in all industrial fields in every corner of the world. With this vast network, SMC is able to provide top service and products directly to our customers, with unmatched expertise anywhere they are located.

In recent years, the interest in environmental issues has been increasing worldwide. We, SMC, have been able to refine our technical prowess with the input of our customers to reduce the size and weight of our products, saving valuable resources and energy in ours and our customers' manufacturing processes. Therefore, we are confident that we can provide positive contributions in solving our customers' issues regarding the reduction of CO<sub>2</sub> emissions, energy and resource savings.

For 30 years, I have been in charge of SMC U.S.'s top management. Utilizing my experience in promoting SMC's sales activities on a global basis, I would like to make SMC evolve into a truly global company, where diverse human resources can play an active role, regardless of location, nationality or gender.

It is my sincere hope that, through such efforts, SMC will continue to be a company that is trusted and needed by all of our stakeholders, including our customers, business partners, shareholders, investors, employees and their families, and our local communities.

We look forward to your continued patronage.



**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.

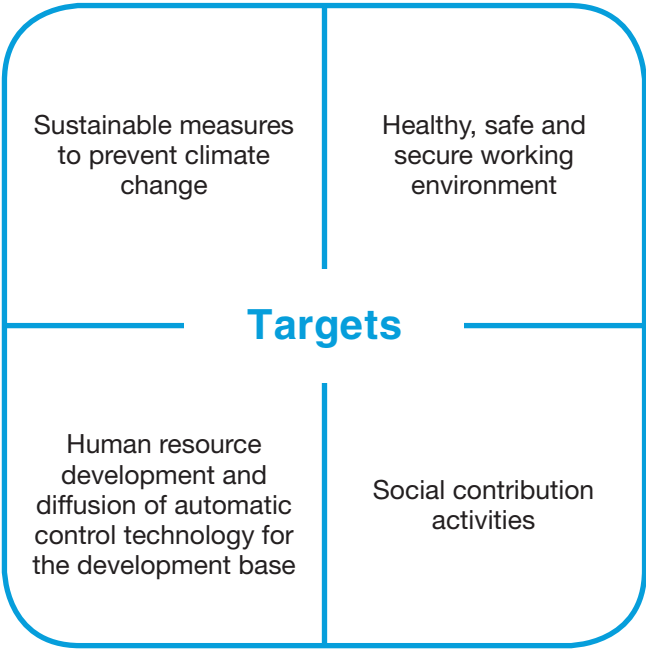
# SMC has launched initiatives for SDGs.

## SDGs

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



## SMC's Initiatives



Examples

SMC contributes to society as a whole by reducing environmental impacts through the sales of automatic control equipment. In addition, SMC is working to develop products with even greater energy-savings, air-savings, space-savings and weight reductions.

Through its network of manufacturing, sales, and research and development sites around the world, SMC provides products that address customers' needs in every region.

With consideration to the environment, SMC is working to reduce chemical substances, waste, water and energy consumption.

SMC is promoting the employment of women and people with disabilities, and is striving to create a better working environment.

SMC participates in green conservation activities in regions where its factories are located, and carries out activities to protect the natural environment.



## Results for This Fiscal Year

### Business Environment

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

### Results for This Fiscal Year

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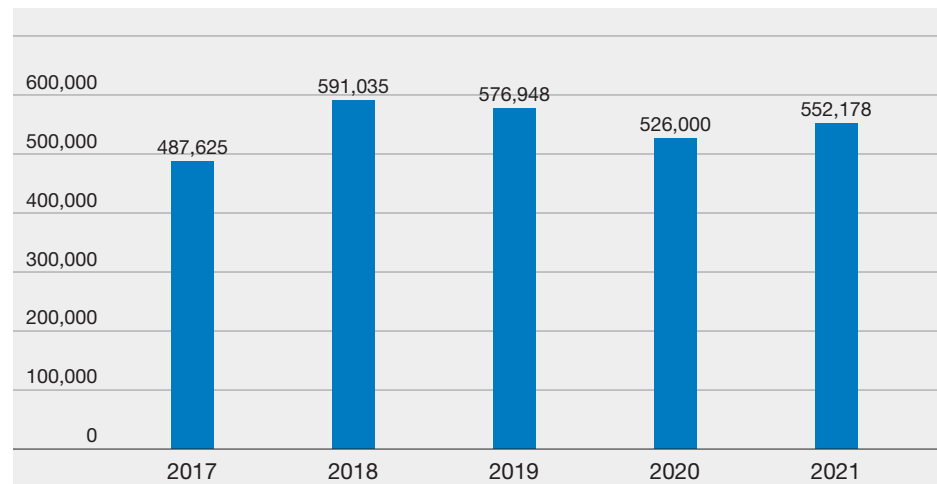
Demand for automatic control equipment increased significantly in all industries in China, performed well in the semiconductor-related industry mainly in other Asian countries, North America, Europe, and Japan, and began to recover in the latter half of the fiscal year in industries related to automobiles in North America and machine tools in Europe.

Under these circumstances, the SMC Group implemented COVID-19 countermeasures and strove to maintain production supply capabilities while continuing to develop products with huge energy saving features and driving forward with cross-border coordinated sales activities.

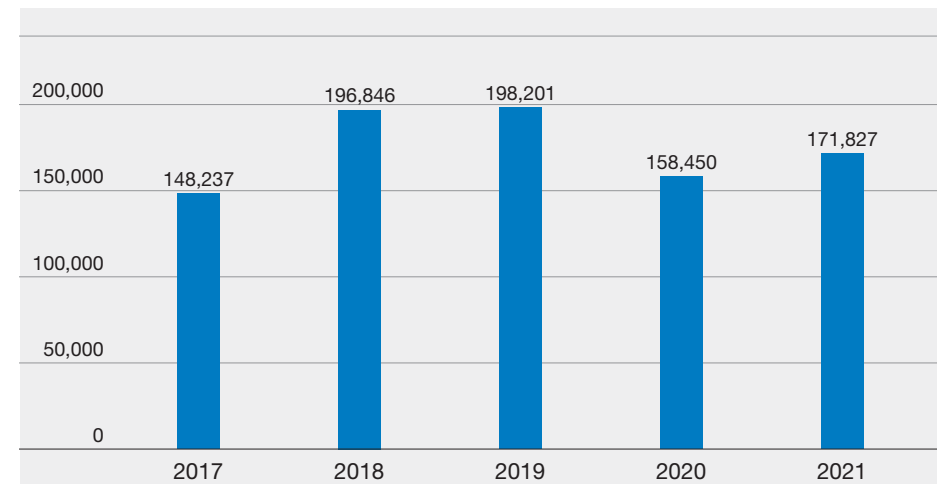
As a result, consolidated net sales for this fiscal year were 552,178 million yen (5.0% increase year on year). Operating profit was 153,355 million yen (4.9% increase) mainly due to increased revenue and decreased SG&A expenses. Ordinary profit was 171,827 million yen (8.4% increase) due to foreign exchange gains, despite decreased interest income. Profit attributable to owners of parent was 121,790 million yen (10.2% increase).

ROE became 9.3%, increased by 0.4 points from the previous fiscal year.

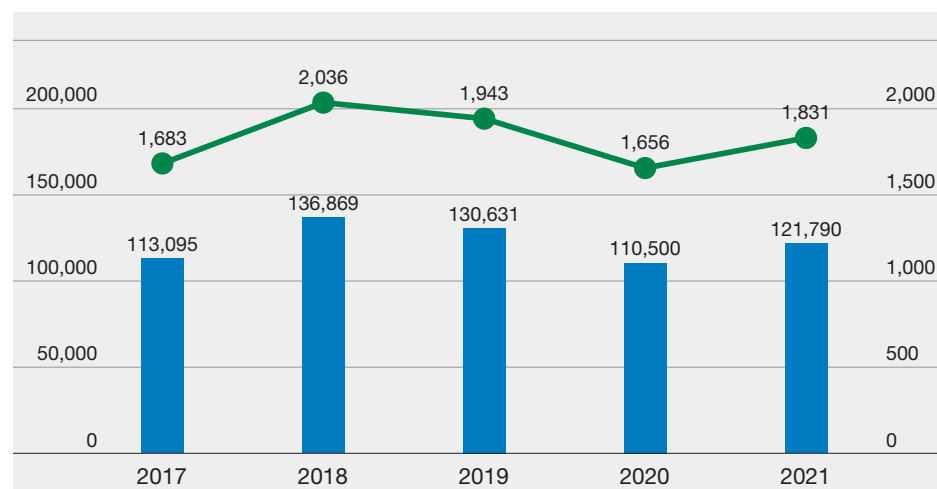
### Net sales (Million yen)



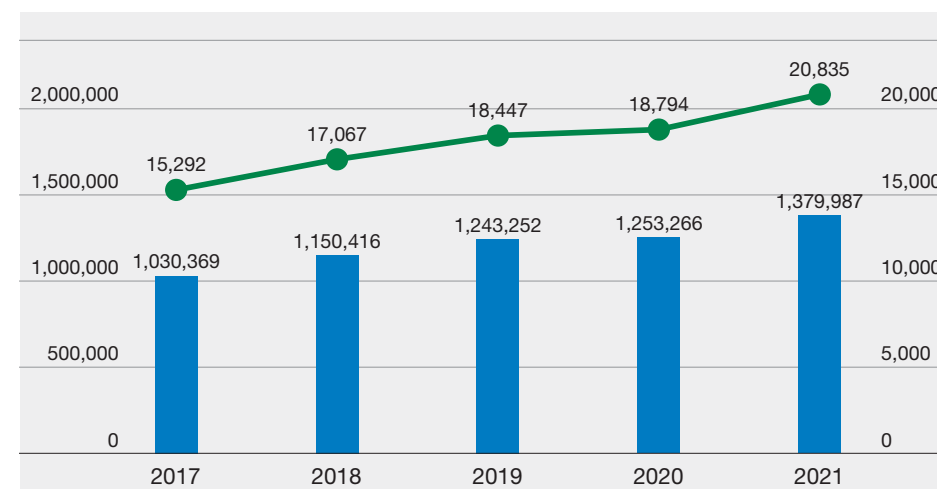
### Ordinary profit (Million yen)



### 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

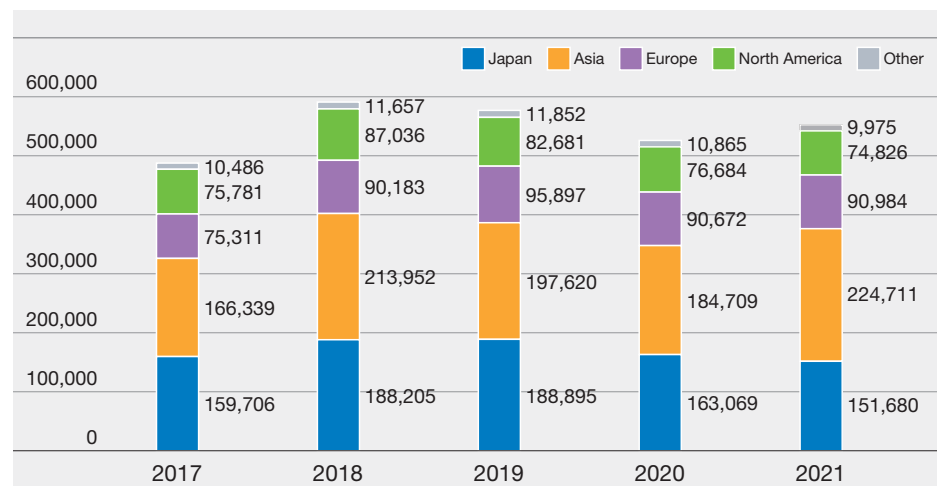
### Japan

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

### North America

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

Net sales by region (Million yen)



### Europe

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

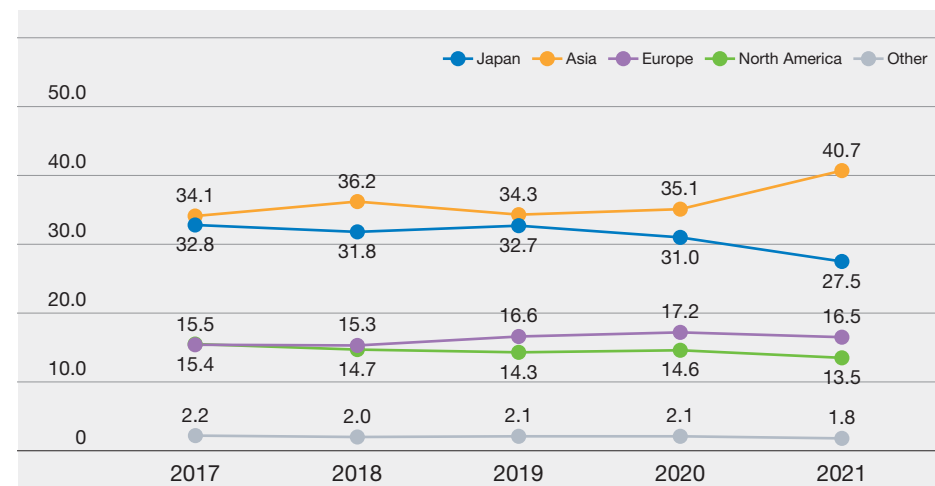
### Asia

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

### Other Regions

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

Composition ratio of net sales by region (%)



## R&D Activities

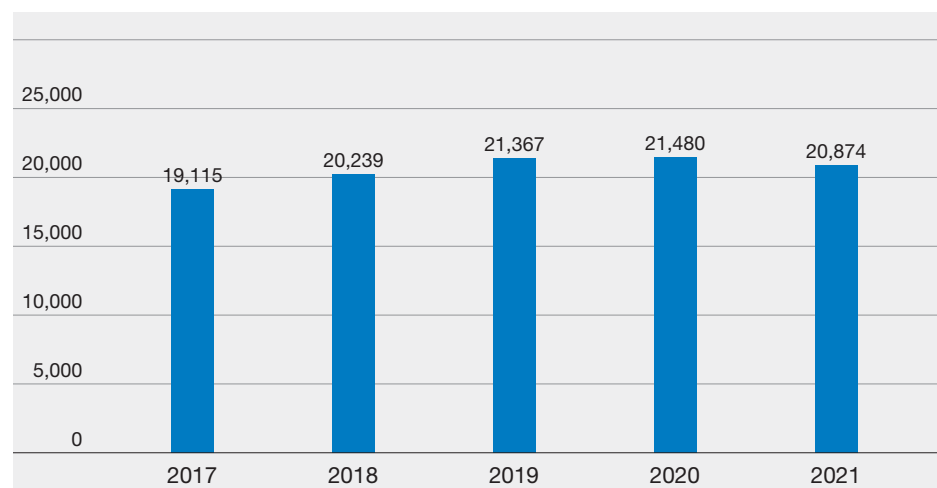
The Group develops products in line with the rules and needs of each country and region around the world, and conducts research and development of automatic control technology and peripheral technologies thereof to respond to changes in the market environment, such as the development of IoT and smart 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 20,874 million yen (2.8% decrease yoy).

**R&D** (Million yen)



## Status of Capital Investments

The Company focuses on new construction and expansion of production facilities, and acquisition of land for production facilities in order to establish production capabilities with the future in mind and create a system capable of maintaining global production supply even during emergencies. The Company also introduced new equipment and updated molds, etc., in order to achieve further rationalization and cost reduction. Progress was delayed due to the impact of COVID-19 as overseas trips by personnel required to install such equipment were restricted. As a result, the total amount of capital investments in this fiscal year amounted to 27,439 million yen, a decrease of 28.5% yoy.

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

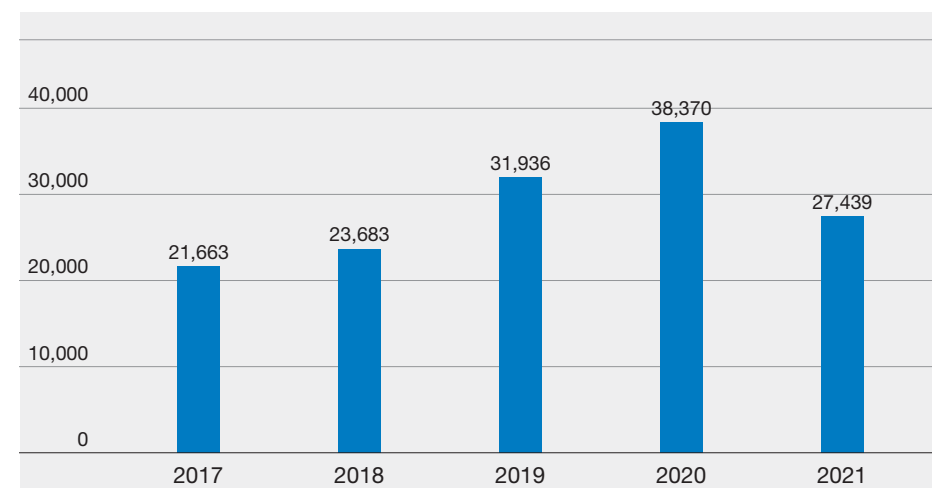


① SMC (Vietnam) Manufacturing (Factory No.3)



② SMC (Tianjin) Manufacturing (First phase construction)

**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 16.5%

Net sales **90,984** million yen YoY change **+0.3%**



Germany

Austria



Italy

Spain

### Asia 40.7%

Net sales **224,711** million yen YoY change **+21.7%**



China

South Korea

### North America 13.5%

Net sales **74,826** million yen YoY change **-2.4%**



U.S.

Mexico

### Other 1.8%

Net sales **9,975** million yen YoY change **-8.2%**

### Japan 27.5%

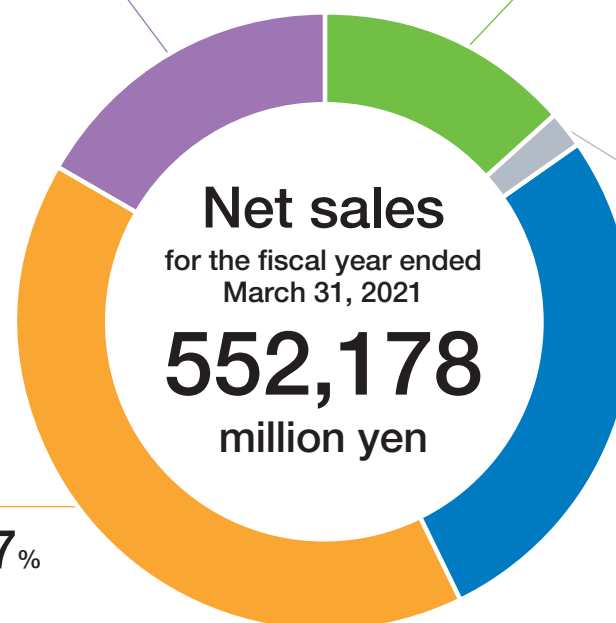
Net sales **151,680** million yen YoY change **-7.0%**



Headquarter

Tsukuba Technical Center

Soka Factory



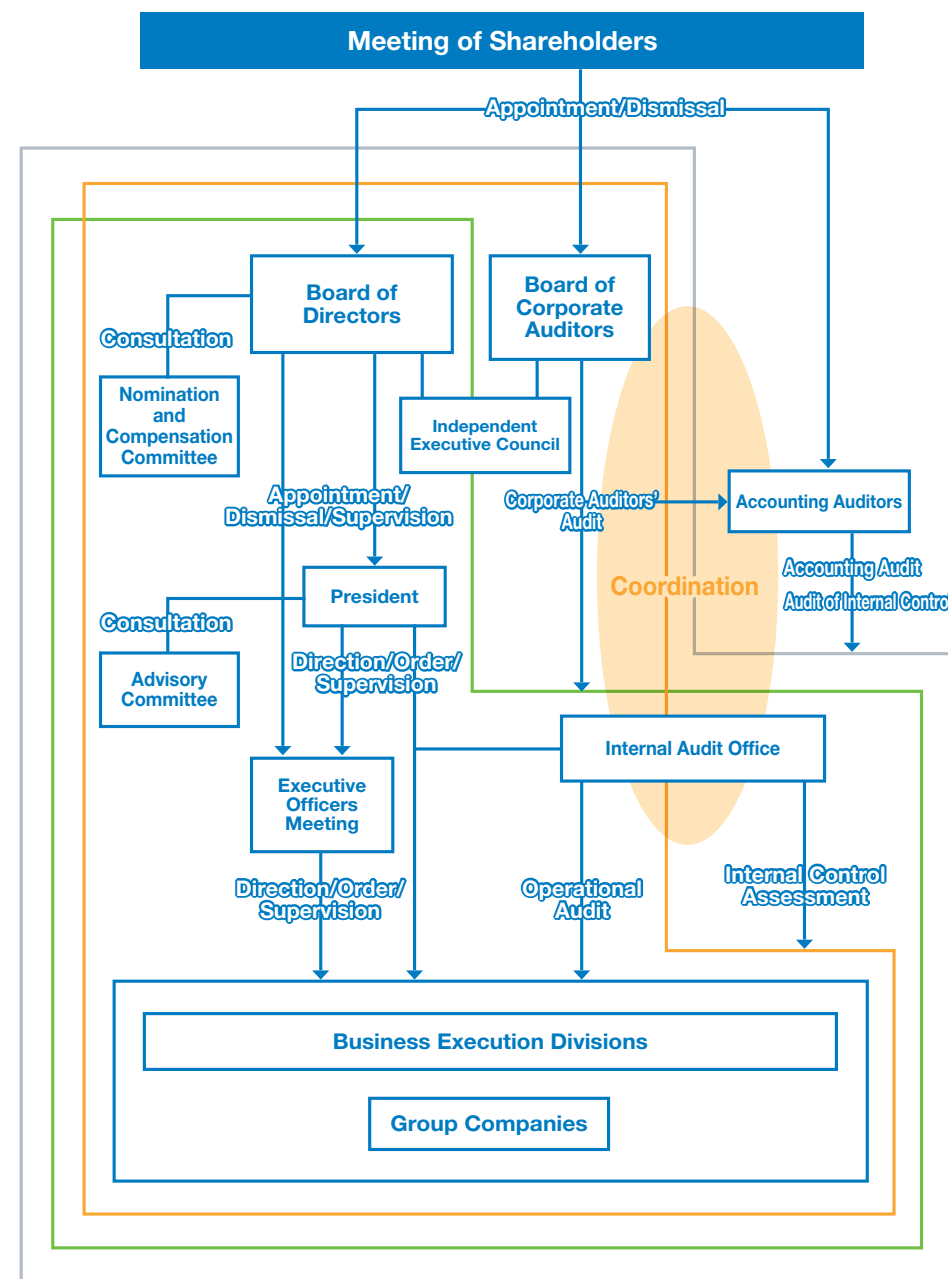


## Basic Views on Corporate Governance

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 ten 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 9 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, SMC has established the "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 2021)

### 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



**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/  
Vice Senior  
General Manager  
of Engineering  
Headquarters

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

SMC Corporation and Consolidated Subsidiaries  
Years ended March 31, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021.

(Million yen, except Per share data)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>For the year</b>										
Net sales	341,864	323,135	395,304	458,081	475,608	487,625	591,035	576,948	526,000	552,178
Operating profit	88,069	78,027	105,153	127,686	134,233	141,107	192,428	180,203	146,254	153,355
Profit attributable to owners of parent	59,279	64,270	86,311	109,583	92,138	113,095	136,869	130,631	110,500	121,790
Depreciation	12,236	10,952	12,618	13,620	14,863	14,246	15,252	16,255	16,669	18,585
Capital expenditures	13,371	18,349	22,563	28,669	24,756	21,663	23,683	31,936	38,370	27,439
R&D expense	13,480	13,729	15,544	17,607	18,452	19,115	20,239	21,367	21,480	20,874
Free cash flow	4,234	9,463	23,392	66,412	67,724	30,584	83,656	16,827	149,534	193,913
<b>At year end</b>										
Total assets	737,957	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
Inventories	170,570	184,417	194,255	194,573	182,564	179,185	205,660	230,268	232,559	248,752
Net assets	587,093	689,359	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266	1,379,987
Shareholders' equity	585,356	687,532	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188	1,376,704
Borrowings	33,076	32,738	61,295	70,581	49,243	17,073	6,438	7,238	11,516	10,788
Cash and cash equivalents	159,224	173,501	208,577	281,716	295,270	277,449	322,690	312,366	399,128	561,540
<b>Per share data (Yen)</b>										
Net income per share (EPS)	864.29	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
Net assets per share	8,534.57	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
Dividend per share	130.00	150.00	170.00	190.00	200.00	300.00	400.00	400.00	400.00	500.00
Cash flow per share	1,042.70	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

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, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Reference indices</b>										
<b>Profitability (%)</b>										
Operating income ratio	25.8	24.1	26.6	27.9	28.2	28.9	32.6	31.2	27.8	27.8
SG & A ratio	20.4	20.3	20.8	20.9	21.7	20.9	19.0	20.2	21.6	20.4
Return on equity	10.6	10.1	11.7	12.9	9.9	11.5	12.6	10.9	8.9	9.3
Return on assets	12.6	11.9	13.4	15.2	11.5	12.8	15.4	14.5	11.4	11.7
<b>Efficiency (Times)</b>										
Total assets turnover	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4
Equity turnover	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Inventories turnover	2.2	1.8	2.1	2.4	2.5	2.7	3.1	2.6	2.3	2.3
Fixed assets turnover	3.6	3.1	3.3	3.4	3.2	3.3	3.9	3.5	2.9	2.9
<b>Stability (%)</b>										
Equity ratio	79.3	81.5	81.0	81.4	83.9	86.2	85.4	89.3	89.9	89.4
Debt equity ratio	5.7	4.8	7.8	7.7	5.2	1.7	0.6	0.6	0.9	0.8
Current ratio	432.9	464.6	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1	929.3
Fixed assets ratio	40.5	38.3	37.0	35.5	39.7	34.7	35.1	34.0	34.1	32.3
Interest coverage ratio (Times)	52.0	199.8	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2	608.6
<b>Investment data</b>										
Dividend ratio (%)	15.0	16.0	13.3	11.7	14.6	17.8	19.6	20.6	24.1	27.3
Dividends on equity (%)	1.6	1.6	1.6	1.5	1.4	2.0	2.5	2.3	2.1	2.5
Price earnings ratio (Times)	15.2	19.3	21.3	21.9	19.0	19.6	21.2	21.4	27.6	35.1
Price book value ratio (Times)	1.5	1.8	2.4	2.6	1.9	2.2	2.5	2.3	2.4	3.1
Market capitalization (Millions of yen)	945,800	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
Number of engineers	1,667	1,656	1,648	1,638	1,711	1,777	1,817	1,910	1,919	1,881
Number of employees	15,384	15,596	16,010	17,389	18,382	19,191	19,680	19,746	20,853	20,619

# 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 552,178 million yen (5.0% increase yoy). Gross profit was 265,852 million yen (2.3% increase yoy). The gross profit margin decreased by 1.3 points to 48.1% due to an increase in temporary staff expenses to cope with the surge in orders toward the end of the fiscal year and soaring material prices and logistics expenses.

Selling, general and administrative expenses were 112,496 million yen (1.0% decrease yoy), with the expense ratio falling 1.2 points to 20.4%, due to the increased revenue. Operating profit was 153,355 million yen (4.9% increase yoy), and the operating profit margin was 27.8% (flat yoy).

For non-operating income and expenses, while the yen depreciation resulted in foreign exchange gains of 8,570 million yen (compared with foreign exchange losses of 3,335 million yen in the previous fiscal year), factors such as a decrease in interest income of 3,750 million yen resulted in an ordinary profit of 171,827 million yen (8.4% increase yoy), and an ordinary profit margin increase of 1.0 points to 31.1%.

Profit attributable to owners of parent was 121,790 million yen (10.2% increase yoy), mainly due to 929 million in gain on sale of shares of subsidiaries and associates and an increase of 3,116 million yen in income taxes due to the increased profits.

The average exchange rates for the period were 1 US\$=106.12 yen, 1 EUR=123.72 yen, and 1 CNY=15.67 yen. The exchange rates at the end of the period were 1 US\$=110.72 yen, 1 EUR=129.76 yen, and 1 CNY=16.86 yen.

## Financial Position

### (1) Assets

Total assets at the end of this fiscal year were 1,539,871 million yen, an increase of 149,331 million yen (10.7%) yoy.

Current assets were 1,096,953 million yen, an increase of 132,403 million yen (13.7%) yoy. The main reasons for this were an increase in cash and deposits of 80,979 million yen (14.8%) yoy, an increase in notes and accounts receivable-trade of 31,797 million yen (22.2%) yoy due to an increase in revenue and profits, and an increase in inventories of 16,192 million yen (7.0%) yoy due to a strategic inventory buildup.

Non-current assets were 442,917 million yen, an increase of 16,927 million yen (4.0%) yoy. The main reasons for this were an increase in property, plant and equipment of 10,063 million yen (5.3%) yoy due to capital investment, an increase in insurance funds of 6,146 million yen (4.4%) yoy due to contractual additions, and an increase of 4,792 million yen (13,411.1%) in retirement benefit asset, despite a decrease in investment securities of 2,408 million yen (3.2%) yoy due to sale thereof.

### (2) Liabilities

Total liabilities at the end of this fiscal year were 159,883 million yen, an increase of 22,610 million yen (16.5%) yoy.

The main reasons for this were an increase in notes and accounts payable-trade of 5,711 million yen (14.9%) yoy due to an increase in revenue and profits, and an increase in income taxes payable of 15,359 million yen (104.7%) yoy.

### (3) Net assets

Net assets at the end of this fiscal year were 1,379,987 million yen, an increase of 126,721 million yen (10.1%) yoy.

The main reasons for this were an increase in foreign currency translation adjustment of 52,141 million yen (a negative 40,084 million yen at the end of the previous fiscal year and a positive 12,056 million yen at the end of this fiscal year) due to the yen depreciation, and an increase in retained earnings of 95,183 million yen (8.1%) yoy resulting from the gain in profits, despite a decrease in treasury shares of 28,706 million yen (94.3%) yoy as a result of market purchases (an increase in negative items).

The equity ratio at the end of this fiscal year was 89.4%, compared with 89.9% at the end of the previous fiscal year, and net assets per share were 20,835.47 yen at the end of this fiscal year, compared with 18,794.58 yen at the end of the previous fiscal year.

## Cash Flows

The balance of cash and cash equivalents (hereinafter referred to as “cash”) at the end of this fiscal year increased by 162,411 million yen from the end of the previous fiscal year to 561,540 million yen.

### (1) Cash flows from operating activities

Net cash provided by operating activities was 120,473 million yen (a decrease in cash provided of 4,137 million yen yoy).

The main factors for the cash inflow were an increase of 14,348 million yen in profit before income taxes due to an increase in profit and a decrease of 9,580 million yen in income taxes paid. The main factors for the cash outflow were 28,464 million yen from the shift from a decrease to an increase in trade receivables and a decrease of 7,237 million yen in interest and dividends received.

### (2) Cash flows from investing activities

Net cash provided by investing activities was 73,440 million yen (an increase in cash provided of 48,516 million yen yoy).

The main factors for the cash inflows were a decrease of payments into time deposits of 43,543 million yen, a decrease of 10,216 million yen in purchase of property, plant and equipment due to delays in capital investment, a decrease in purchase of short-term and long-term investment securities of 9,535 million yen. The main factor for the cash outflow was a decrease in proceeds from withdrawal of time deposits of 18,558 million yen.

### (3) Cash flows from financing activities

Net cash used in financing activities was 56,009 million yen (an increase in cash used of 6,084 million yen yoy).

The main factors for the cash outflow were a shift to net decrease in short-term borrowings of 4,386 million yen and an increase in purchase of treasury shares of 1,359 million yen.

## 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

SMC 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

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.

### Risks of Product Defects

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

SMC'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.

Despite SMC'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.

## Foreign Exchange Rate Fluctuation Risks

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SMC 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 SMC'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.

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.

## Impact of COVID-19

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Although sales declined in the first half of this fiscal year, the impact of the spread of COVID-19 on the Group's operating results and financial position was limited, as we were able to maintain production activities and our strategy of maintaining a rich inventory on a normal basis was successful.



## Consolidated Balance Sheets (As of March 31, 2021)

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
<b>(Liabilities)</b>		
<b>Current liabilities</b>	<b>94,364</b>	<b>118,043</b>
Notes and accounts payable-trade	38,379	44,091
Short-term borrowings	3,726	1,465
Income taxes payable	14,669	30,029
Provision for bonuses	2,434	3,055
Other	35,155	39,402
<b>Non-current liabilities</b>	<b>42,908</b>	<b>41,839</b>
Long-term borrowings	7,790	9,323
Deferred tax liabilities	18,682	17,385
Provision for retirement benefits for directors	964	286
Provision for share awards for directors	—	57
Retirement benefit liability	8,296	6,674
Other	7,175	8,112
<b>Total liabilities</b>	<b>137,272</b>	<b>159,883</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>1,285,922</b>	<b>1,352,399</b>
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,182,014	1,277,198
Treasury shares	(30,432)	(59,139)
<b>Accumulated other comprehensive income</b>	<b>(35,734)</b>	<b>24,304</b>
Valuation difference on available-for-sale securities	6,344	11,404
Foreign currency translation adjustment	(40,084)	12,056
Remeasurements of defined benefit plans	(1,994)	842
<b>Non-controlling interests</b>	<b>3,078</b>	<b>3,283</b>
<b>Total net assets</b>	<b>1,253,266</b>	<b>1,379,987</b>
<b>Total liabilities and net assets</b>	<b>1,390,539</b>	<b>1,539,871</b>

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

(Millions of yen)

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

## Consolidated Statement of Changes in Equity (April 1, 2020 to March 31, 2021)

(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	1,182,014	(30,432)	1,285,922	6,344	(40,084)	(1,994)	(35,734)	3,078	1,253,266
Changes during period											
Dividends of surplus			(26,607)		(26,607)						(26,607)
Profit attributable to owners of parent			121,790		121,790						121,790
Purchase of treasury shares				(28,706)	(28,706)						(28,706)
Net changes in items other than shareholders' equity						5,060	52,141	2,837	60,039	205	60,244
Total changes during period	—	—	95,183	(28,706)	66,477	5,060	52,141	2,837	60,039	205	126,721
Net assets at end 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

## Consolidated Statements of Cash Flows (April 1, 2020 to March 31, 2021)

(Millions of yen)

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

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

- (2) Names of major non-consolidated subsidiaries:  
SC SMC Romania S.r.l., SMC Corporation (Chile) S.A.  
(Reasons for exclusion from the scope of consolidation)

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

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

Non-consolidated subsidiaries (SC SMC Romania S.r.l. and 29 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

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

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2021 for the following 10 subsidiaries whose fiscal year-end date is December 31.

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

### 4. Accounting policies

- (1) Valuation standards and methods for significant assets

- (i) Securities

Available-for-sale securities

- a. With fair value:

Stated at fair value based on the market value as of the balance sheet date.

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

- b. Without fair value:

Stated at cost using the moving average method.

- (ii) Inventories:

Principally 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 (basically five 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 this 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 this fiscal year is recorded.

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

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

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

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

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

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

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

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

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

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

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

(ii) Accounting procedures for consumption taxes, etc.

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

### [Notes on accounting estimates]

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

### [Notes on Consolidated Balance Sheet]

(Millions of yen)

**1. Accumulated depreciation of property, plant and equipment** 232,783

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

Investment securities (stocks) 14,881

### [Notes on Consolidated Statements of Income]

(Millions of yen)

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

Salaries and allowances 41,519

Bonuses 8,041

Retirement benefit expenses 1,882

Provision of allowance for doubtful accounts 316

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

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

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

(Shares)

	Type	At the beginning of this fiscal year	Increase	Decrease	At the end of this fiscal year
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury shares	Common share	850,846	443,502	—	1,294,348

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

#### **2. Dividends**

##### **(1) Dividend amount**

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 26, 2020	Common share	¥13,303 million	¥200	Mar. 31, 2020	Jun. 29, 2020
Board of Directors' Meeting held on Nov. 13, 2020	Common share	¥13,303 million	¥200	Sep. 30, 2020	Dec. 1, 2020

(Note) The "Total dividend amount" resolved at the meeting of the Board of Directors held on November 13, 2020 includes a dividend of ¥0 million for the Company's shares held by the "Board Benefit Trust".

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

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 29, 2021.

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

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

## [Notes on financial instruments]

### 1. Status of financial instruments

#### (1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks. The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in short-term investment securities in principle and instead, are limited to invest in short-term bank deposits, etc.

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

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

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

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

Notes and accounts payable-trade, which are trade payables, have a due date of one year or less. Foreign currency denominated notes and trade payables drawn for imports of raw materials, etc. are subject to the risk of exchange-rate fluctuations. Short-term borrowings are mainly fund procurement for general purpose working capital.

Long-term borrowings are mainly fund procurement for capital expenditures.

#### (3) Risk management system for financial instruments

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

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

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

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

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

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

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

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

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

## 2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences as of March 31, 2021. Items whose fair values are deemed extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	629,291	629,291	—
(2) Notes and accounts receivable-trade	174,934	174,934	—
(3) Securities and investment securities Available-for-sale securities	68,606	68,606	—
Total assets	872,832	872,832	—
(4) Notes and accounts payable-trade	44,091	44,091	—
(5) Short-term borrowings	1,465	1,465	—
Total liabilities	45,556	45,556	—
Derivative transactions	—	—	—

(Notes)

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

### Assets

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

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

- (3) Securities and investment securities

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

### Liabilities

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

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

### Derivative transactions

There are no relevant matters for this consolidated fiscal year.

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

Category	Consolidate balance sheet amount
Shares of subsidiaries and affiliates	¥14,881 million
Unlisted stocks	¥151 million

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

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

(Millions of yen)

	Within 1 year	More than 1 year within 5 years	More than 5 years within 10 years	More than 10 years
(1) Cash and deposits	629,267	—	—	—
(2) Notes and accounts receivable-trade	174,934	—	—	—
(3) Securities and investment securities Available-for-sale securities with maturity date (Government bonds) (other)	11,072 —	27,680 —	— —	— —
Total	815,273	27,680	—	—

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

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

## [Notes on per share information]

**1. Net assets per share:** 20,835.47 yen

**2. Net income per share:** 1,831.98 yen

(Note) In the Notes to the Consolidated Financial 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, 2021, 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, 2021, 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 21, 2021

Takashi Saito

Designated Engagement Partner

Certified Public Accountant

Takahiro Otofujii

Designated Engagement Partner

Certified Public Accountant

Naoto Nakayama

Designated Engagement Partner

Certified Public Accountant

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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, 2021)

<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>	20,619

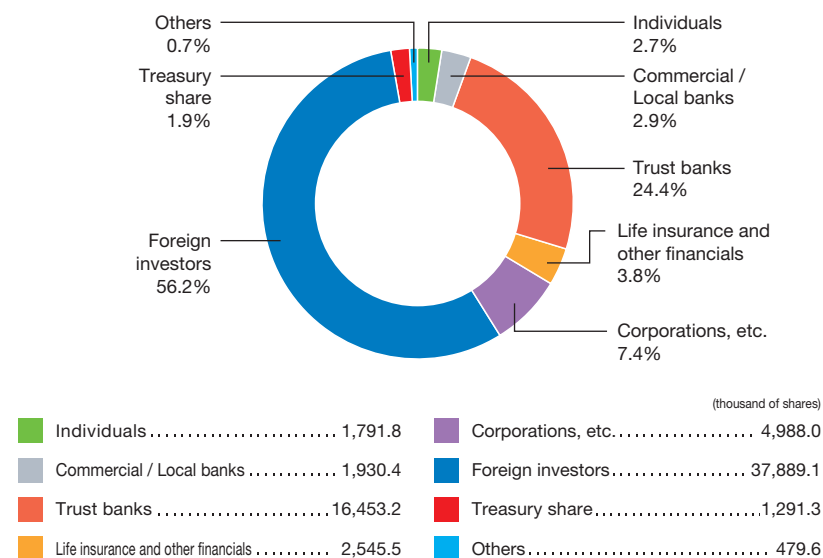
<b>Current Stock Status</b>	Total number of shares	240,000,000
	Shares outstanding	67,369,359
	Number of shareholders	4,244
<b>Stock Listing</b>	First Section, Tokyo Stock Exchange	
<b>Administrator of Register of Shareholders</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan	

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

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

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

### Distribution of share by shareholders



## **SMC Corporation**

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