



# SUSTAINABILITY REPORT 2021



# We contribute to the sustainable growth and expansion of technological innovations through the manufacturing and sales of automatic control equipment.

## As a Comprehensive Manufacturer of Automatic Control Equipment

Pneumatic instruments, the mainstay products of SMC Corporation (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, semi-conductors, 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.

SMC has established a local presence in more than 80 countries and regions around the world 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 its 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

Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automatic control equipment that delivers improved energy conservation performance with reduced size and weight. By responding to customer requests from around the world, SMC will contribute to the sustainable growth of industries and the expansion of technological innovations.

In addition, throughout our business activities, we are promoting initiatives 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, as well as incorporating such initiatives in proposals to our customers.

SMC’s automatic control equipment can contribute not only to the reduction of CO<sub>2</sub> emissions but also to the solution of social issues such as the decrease in the labor force due to the declining birthrate and aging population, freedom from working in harsh environments, and even ensuring social distancing under COVID-19. SMC, as a leading manufacturer of automatic control equipment, will make every effort to fulfill its responsibility to supply products in any emergency situation, including natural disasters, the spread of infectious diseases, cyberattacks, and intensifying conflicts between nations.

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### Editorial Policy

SMC publishes a “Sustainability Report” aiming to communicate widely to all of our stakeholders the overview of our philosophy and initiatives towards solving social issues and achieving sustainable growth.

We look forward to receiving feedback and comments on SMC’s initiatives and disclosure method.

### Applicable Period

In principle, this report covers the period from April 2020 to March 2021, but also includes some information on activities before and after this period.

### Scope of the Report

This report primarily focuses on SMC Corporation and covers some of its group companies.

### Guidelines Used as Reference

In publishing this report, we referenced ISO 26000, the international standards concerning social responsibility.

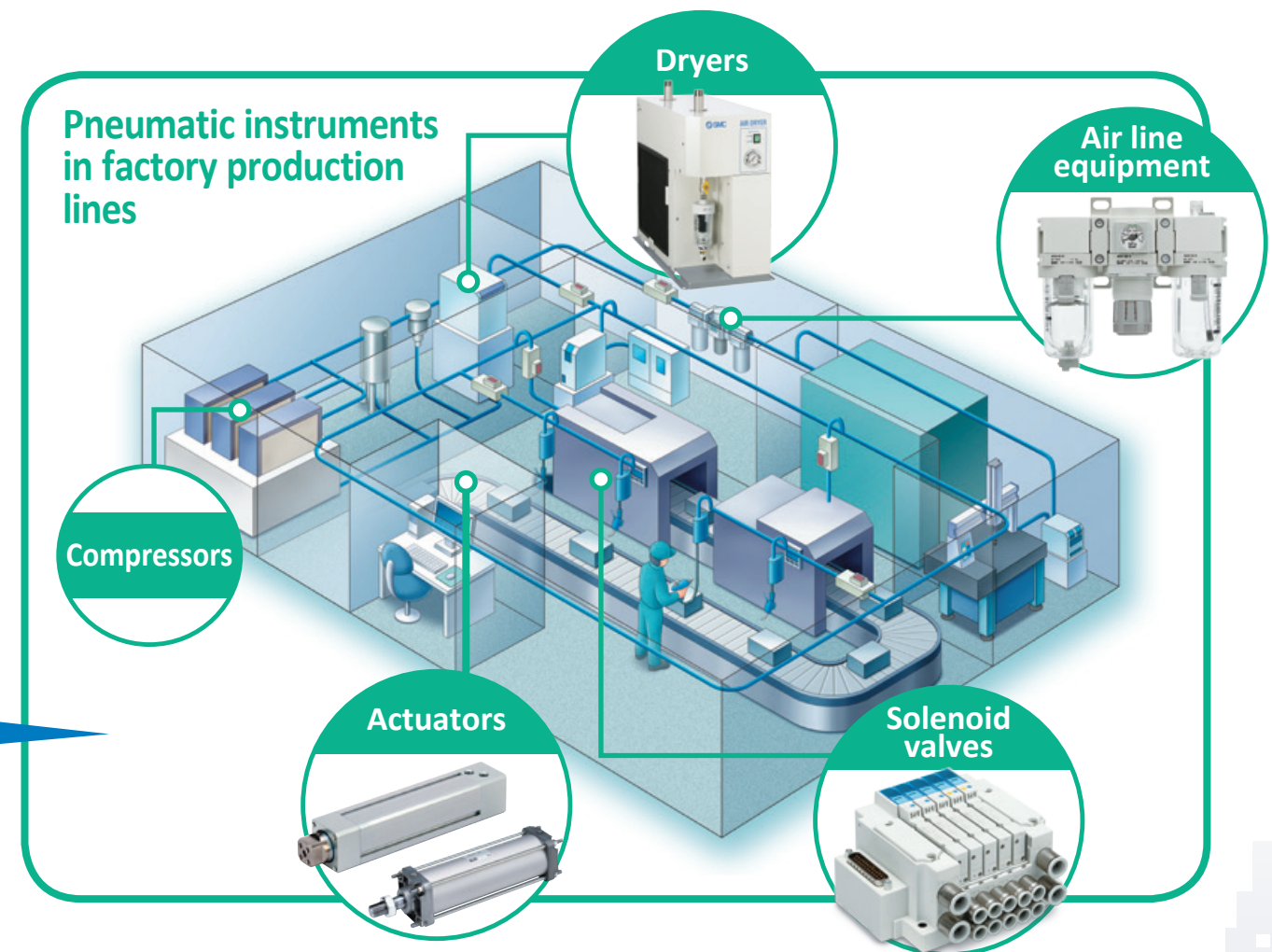
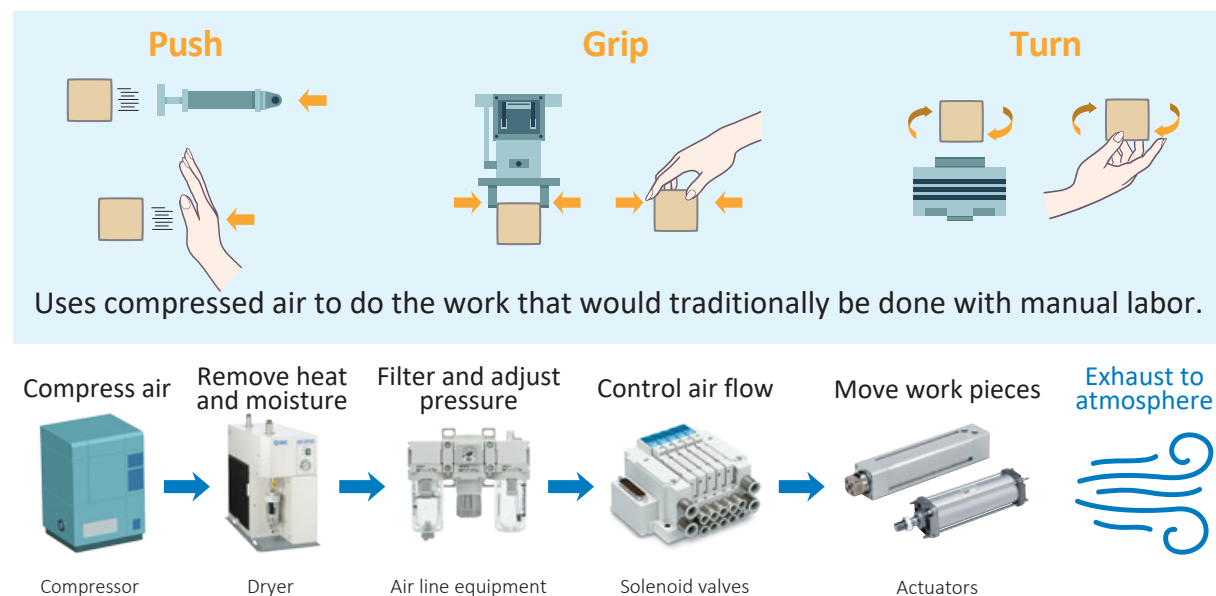
**Yoshiki Takada**  
President



## Pneumatic Control Systems

Through the manufacture and sales of automatic control equipment including pneumatic instruments, SMC contributes to automated and 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 work pieces in place of manual labor. SMC is a comprehensive manufacturer covering the entire pneumatic system consisting of various components. SMC's products are utilized in all industry sectors around the world.

### Overview of Pneumatic Control System





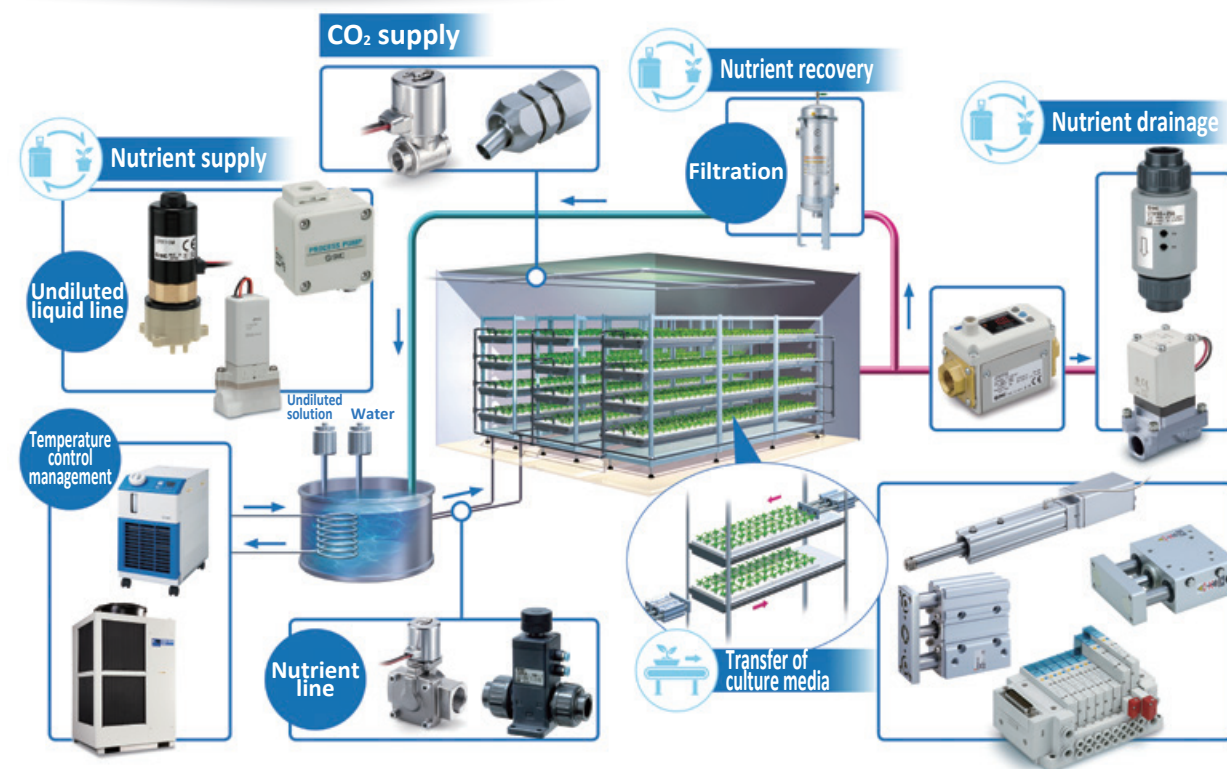
## Possibilities of Automatic Control Equipment

### Agriculture

SMC's automatic control equipment is used for labor-saving and automation in a wide range of industries because of its simple design, ease of handling, and versatility.

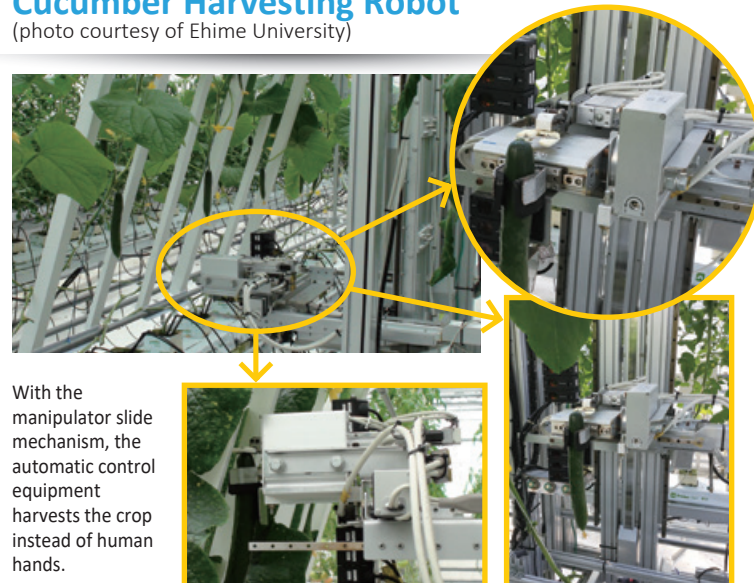
As a leading manufacturer of automatic control equipment, SMC is working to further expand its applications, and in recent years has been focusing on the agricultural field. By utilizing the characteristics of these products, which are compact, lightweight, and suitable for replacing manual work in the agricultural field, SMC hopes to contribute to solving social issues such as the declining birthrate and aging population, the decrease in the working population, climate change, and also supporting the increase in production and stable supply of food.

### Application Examples of Automatic Control Equipment in Plant Factories



### Cucumber Harvesting Robot

(photo courtesy of Ehime University)



### 8th Next Generation Agriculture Expo Tokyo

We participated in the 8th Next Generation Agriculture Expo Tokyo (AGRINEXT TOKYO) during October 13–15, 2021.



### Temperature Control Equipment

Since 1978, SMC has been developing chemical solution temperature control equipment to meet the demand for these products in the semiconductor manufacturing process. For more than 40 years, it has been refining its technological capabilities by pursuing superior quality and energy-saving performance. Today, SMC's temperature control equipment is used not only in semiconductors, but also in a wide range of industries that require precise temperature control, including machine tools, food machinery, measuring instruments, physical and chemical analysis equipment, medical and pharmaceutical products, as well as breweries and plant factories.

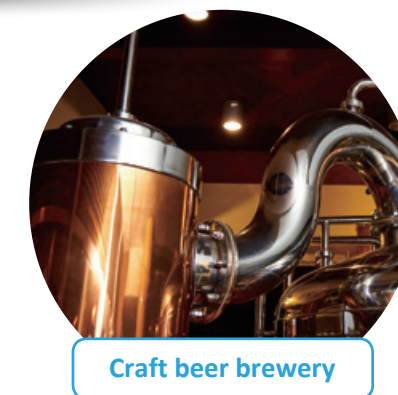
### 40 Years of History

Since 1978

Developed for the medical and semiconductor industries  
Cultivated the core technologies  
Expanded into general industry and  
Further expanding its usage



### Where it is used



### New Products

Improved environmental resistance, durability, and air-saving



Based on the technologies we have cultivated, we aim to develop products suitable for a variety of operating environments and improve their durability.

Impact Blow Gun "IBG" and Impact Blow Valve "IBV" won the "18th 'CHO' MONODZUKURI Innovative Parts and Components Award for Machine and Robot Parts".

Organized by: MONODZUKURI Nippon Conference/  
Nikkan Kogyo Shimbun, Ltd.  
Supported by: Ministry of Economy, Trade and Industry/  
Japan Chamber of Commerce and Industry/  
KEIDANREN (Japan Business Federation)





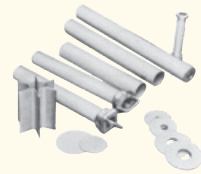
## SMC at a Glance

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 pneumatic instruments with the top global market share.

## Products



'59 | Filter elements



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



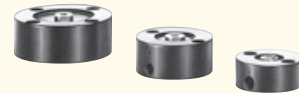
'71 | High-performance solenoid valve (VS)



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



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



'82 | Compact cylinder (CQ)

'89 | Air gripper (MHQ/MHC)

'84 | Compact 5-port solenoid valve (V2)

'86 | Vacuum ejector (ZM)

'87 | Vacuum pad

'88 | Digital pressure switch (ZSE/ISE)



'89 | Mechanically jointed rodless cylinder (MYC/MYH)



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



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



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



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



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



'04 | Ionizer with electrostatic sensor (IZS30)



'04 | Refrigerated thermo-chiller (HRZ)



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

'11 | Fieldbus system (EX260)



'95 | Electric actuator (LJ1)



'04 | 2-port solenoid valve (VX)

Net sales (Consolidated)

FY2020 (Consolidated)  
552.1 billion yen

FY2020 (Non-consolidated)  
347.6 billion yen

Net sales (Non-consolidated)

1960

1970

1980

1990

2000

2010

2021

Established From 1962: Start-up

From 1974: Take-off

From 1989: Ascent

## Major Events/Facilities

'67 | Embarked on overseas sales operations



'68 | Soka 1st Factory



'73 | Soka 2nd Factory

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



'83 | Tsukuba 1st Factory



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



'87 | Listed on the Tokyo Stock Exchange 2nd section

'89 | Listed on the Tokyo Stock Exchange 1st section

'84 | Embarked on overseas manufacturing operations



'91 | Japan Technical Center Kamaishi Factory



'94 | Yamatsuri Factory

'98 | Acquired ISO 9001 certification

'99 | Acquired ISO 14001 certification

'00 | Embarked on overseas R&D operations

'97 | Tono Factory

'00 | SMC (Beijing) Manufacturing



'13 | Shimotsuma Factory



'21 | East Japan Logistics Center



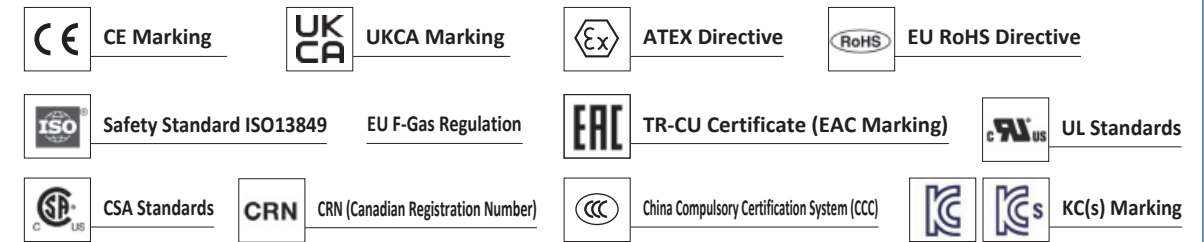
'14 | SMC Manufacturing (Vietnam)



## 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 six 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.

### International standards that SMC products conform to



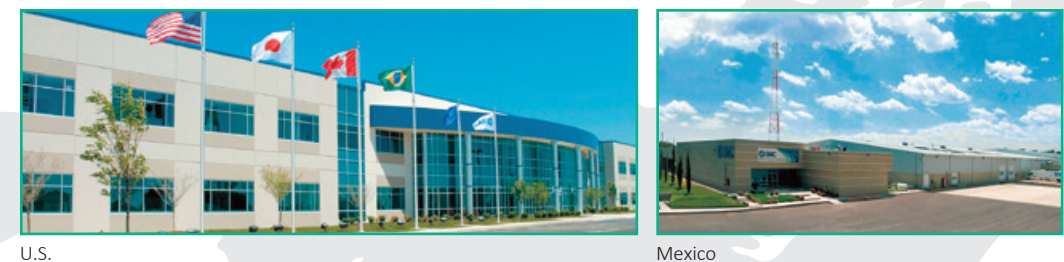
### Europe 16.5%

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



### North America 13.5%

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



### Other 1.8%

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

### Japan 27.5%

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



Net sales  
FY2020  
**552,178**  
million yen

### 〈 Worldwide 〉

Approx. **80** countries/regions

Local services: approx. **500** locations

Production facilities: **29** countries/regions

### Asia 40.7%

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





As a comprehensive manufacturer of automatic control equipment, we aim to fulfill our responsibility to supply products and maintain the trust of our customers by contributing to both sustainable growth and the expansion of technological innovation.

In recent years, natural disasters such as torrential rains and major earthquakes, as well as the spread of infectious diseases, have threatened people's lives and property. In the midst of this crisis, many of our customers are engaged in the development and manufacture of essential medical equipment and medical products, or making efforts in taking actions for the recoveries of the economy and the day-to-day lives of people. As a comprehensive manufacturer of automatic control equipment that supports automation, we have established a system that can promptly supply products that meet customer needs anywhere in the world. We are making our every effort to ensure that we are prepared and have a resilient structure to continue our business activities in any emergency, and in case of an unavoidable termination, to quickly resume operation and fully protect our customers' information by introducing the latest security technology. SMC is further refining its rock solid BCP, which is unrivaled amongst other companies in our industry. We promise to do our utmost to fulfill our main responsibility to provide our customers the products needed.



1

Manufacturing Risk diversification for mass production and distribution bases

In order to prepare for emergencies such as large-scale disasters or outbreaks of conflict, SMC is promoting the duplication of production, and has established a system in which major mass production facilities in six countries around the world can complement each other. In addition, SMC maintains an ample inventory level at its distribution bases in five countries around the world, and are highly resistant to transportation disruptions.

Backup production system in case of disaster

Secure supply capability through a worldwide distribution and inventory network

Mass Production Factories

	Dryer/Temperature control equipment	Air line equipment	Fittings/Tubing	Solenoid valves	Flow Controls	Actuators	Auto switches	Other
Soka Factory		●		●				
Tsukuba Factory		●	●	●		●	●	
Shimotsuma Factory						●	●	
Yamatsuri Factory	●	●	●			●		
Kamaishi Factory		●	●	●				
Tono Factory					●		●	●
China Factory	●	●	●			●		
Vietnam Factory			●	●		●		
Singapore Factory	●		●					
India Factory					●	●		
Czech Factory	●	●				●		

Distribution Centers





## » 2 R&D Global engineering network

SMC has established technical centers in five countries around the world in order to respond accurately and promptly to requests from customers globally. While strengthening the system to mutually back up operations in case of a disaster or other emergency, SMC is also building a system that enables the technical centers to provide the same quality of technical services anywhere in the world at any time during normal times by making full use of the inter-center network.



European Technical Center (U.K.)



German Technical Center



Tsukuba Technical Center



China Technical Center



U.S. Technical Center

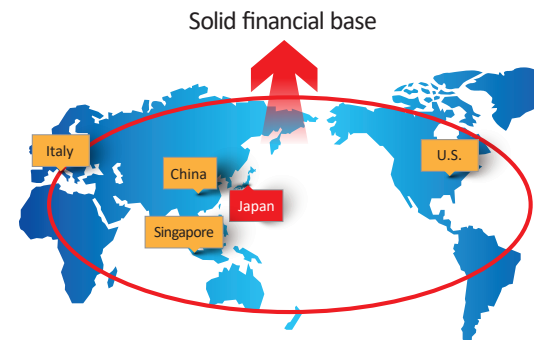
## » 3 Sales Global sales network

SMC has offices in more than 80 countries and regions around the world and employs approximately 8,700 sales staff to meet the needs of customers globally. SMC is working to further improve customer satisfaction through global collaboration using CRM (Customer Relationship Management) systems.



## » 4 Management Solid financial base and management continuity system in case of emergency

In case of an emergency, SMC is working to build a solid financial base (with cash, deposits, and equity capital) that will sufficiently cover the working capital and funds needed to rebuild buildings and equipment required for business continuity. In addition, SMC has 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. SMC is working to build a system that can replace the decision-making functions related to the execution of Group business in case of an emergency.



## » 5 Database Strengthening information security

SMC is working to strengthen information security by developing a unified data infrastructure in each region of the world.

In addition to preventing damage from disasters, cyberattacks, and virus infections, SMC has established a state-of-the-art disaster recovery system to minimize downtime and ensure early recovery in case of catastrophic system damage.



## Philosophy

### SMC's Approach

The SMC Group has made the following management philosophy declaration and has identified the issues that must be dealt with in order to assure its "Long-term management vision".

#### 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.

#### Basic Philosophy on Quality and Environment

SMC's basic philosophy regarding quality and the environment as well as the status of its ISO certification are posted on its website.

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

#### SMC Group Ethical and Corporate Principles

SMC Group is, as an integrated member of society, alongside the pursuit of corporate profit, recognizes its "Social Responsibility" to stabilize people's lives and to contribute to societies' healthy economic development. SMC Group will endeavor to become broadly useful to society by acting ethically according to principles stated below.

SMC Group Ethical and Corporate Principles	Relevant Stakeholders	Pages in this Report
1. To comply with laws and rules	All	27 - 29
2. To earn trust from customers and suppliers	Customers / Suppliers	25
3. To win the support and understanding of shareholders and investors	Shareholders and Investors	28
4. To respect the personality of the Company's employees, to prohibit discrimination and to create pleasant environment at workplace	Employees	23 - 24
5. To communicate with society	Society	26
6. To maintain good relationship with governmental and administrative agencies	Society	26
7. To adequately deal with anti-social forces, groups and any other relevant party	Suppliers	25
8. To work on environmental issues	Suppliers	17 - 22
9. To set corporate ethical structure proactively	All	27 - 29

SMC has established the "SMC Group Code of Conduct" based on the "SMC Group Ethical and Corporate Principles" in order to set forth more detailed standards to be complied with by all officers and employees (including temporary workers, temporary employees dispatched from human resource companies, and other relevant employees) of SMC Group companies. SMC also requests SMC Group companies' suppliers (including service providers) to respect the purpose of this Code of Conduct.

[https://www.smcworld.com/assets/about/en-jp/pdf/smc\\_group\\_code\\_of\\_conduct\\_en.pdf](https://www.smcworld.com/assets/about/en-jp/pdf/smc_group_code_of_conduct_en.pdf)



## 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 safety and security at workplace
- 2 Climate change, Environmental issues
- 3 Stable global product supply
- 4 Develop human resources, Diffuse automatic control technology

#### SMC SDGs Target



### Working environment

Change society from workplace by utilizing diverse talents.

1

1. Create a healthy, safe and secure working environment for employees
2. Create a positive working environment that values human rights
3. Create a working environment where people with disabilities and the elderly can be active

### Climate change action

Participate in creating a sustainable society through the automatic control technology.

2

1. CO<sub>2</sub> reduction proposals for factories of our customers all over the world
2. SMC Eco-factory initiatives: Environmental impact reduction
3. Create factories harmonized with the natural environment

### Social contribution activities

Thoughts and support for each and every tough challenge.

4

1. Global social contribution activities
2. Disaster countermeasures and support

### Dissemination of automatic control technology

Encourage every individual development for a sustainable future.

1. Automatic control system lessons for children in the world
2. Develop a higher education scholarship system
3. Create a global talent management system
4. Create a global award system

## Eco-Management

### SMC Group Code of Conduct

We recognize that the preservation of global environment is an essential condition for our company's existence and activities as well as a common issue for all humanity. We will work on preserving and improving the environment where people can live safely with rich nature.

- ① **We will strive to develop and supply environment-friendly products.**
- ② **We will consider protection of environment throughout the whole process of business operation.**
  - We will comply with regulations on banned substances.
  - We will ensure proper treatment of wastewater and air exhaustion, and disposal of waste, and will work on reducing waste.
  - We will be thorough in our effort to save natural resources and energy.

### Environmental Policy

- ① We will identify the environmental impacts of our business activities, products and services and strive to reduce environmental burden and prevent pollution, and to make continual improvement of our environmental management system.
- ② We will comply with all environment-related laws, regulations and agreements, and enhance collaboration with our customers, neighbors and local communities.
- ③ We will minimize the environmental impacts from our design, development and production activities.
  - (1) We will promote the development of environment-friendly products.
  - (2) We will use energy efficiently to prevent global warming.
  - (3) We will promote the reduction and recycling of waste.
- ④ We will ensure that the action plans are implemented properly to achieve the environmental objectives and goals.
- ⑤ We will make this policy known to all as well as release it to the general public.



This is a logo of SMC's environmental preservation activities. It is a heart-shaped design with a blue earth and a young leaf. The mark appears on our Environmental Policy as well as on documents and bulletins to enhance awareness among our employees.

### CSR Promotion System

SMC has established a CSR Committee chaired by the President and has been taking initiatives in responding to customer requests and inquiries on CSR-related issues.

#### Main Tasks of the CSR Committee

- ① To plan, develop and manage policies related to CSR and other matters.
- ② To respond to questionnaires on CSR, etc., from users and corresponding to audits (site visits).
- ③ To conduct audits on the progress of implementation of policies related to CSR, etc.
- ④ To take necessary measures based on the progress of implementation of policies and audit results related to CSR, etc.

### Environmental Training

SMC offers educational seminars and practical training on environmental issues for its employees, and also provides environmental training for environment-related partner companies. In addition, employees who hold their country's qualifications continuously attend follow-up training to enhance the quality of their knowledge and technical abilities.

#### Training conducted in FY2020

Environmental training for employees	7,319 attendees
Emergency response training	85 attendees
Training for front-line workers	504 attendees
Participation in external environment-related training sessions	22 attendees
Environmental training for environment-related partner companies	150 companies

### Environmental Objectives, FY2020 Results and Evaluation

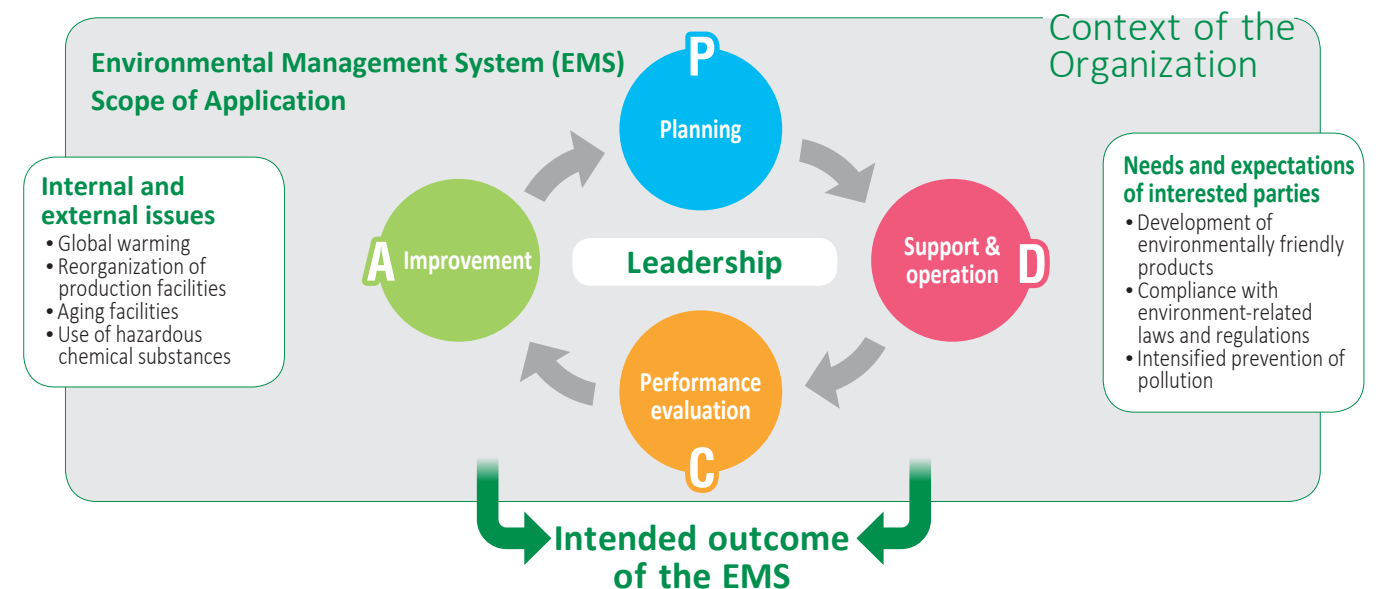
As part of its initiatives under the Environmental Management System (EMS) which adheres to ISO 14001, SMC defines a set of "Medium-Term Environmental Targets" to be achieved over a period of three years and "Environmental Targets" for each fiscal year, and manages and evaluates these progresses. In FY2020, out of the "Environmental Targets" described below, SMC did not achieve "Prevention of global warming" and "Saving of resources". The main reasons: with regard to "Prevention of global warming", the production amount decreased but the air-conditioning energy use was significantly increased due to boosted ventilation to prevent infection by COVID-19, and, with regard to "Saving of resources", a large equipment to improve productivity was disposed but the use of wooden pallets and wooden crate packaging in imports increased.

The main initiatives for FY2020 were as follows:

- ① SMC conducted product assessments for designing and developing environmentally friendly products.
- ② SMC recorded a 3.4% increase in CO<sub>2</sub> emissions per unit of production compared to the 7th Term (FY2017–2019) average. Waste discharged per unit of production increased 3.7% compared to the 7th Term (FY2017–2019) average.
- ③ All regional groups consisting of SMC's major production facilities participated in climate change countermeasures organized by local governments and industry groups. They also were involved in community beautification activities and programs to build employee awareness.

	Environmental Targets		Results	Evaluation
	Medium-Term (To achieve in 3-year period of FY2020-2022)	FY2020		
<b>Product assessments (Environmental compatibility)</b>	Design and develop environmentally friendly products - conduct assessments using score evaluation of current status 75 models or more 900 points or higher	25 models or more 300 points or higher	36 models 460 points	Achieved
<b>Business activities (Environmental conservation)</b>	Promote energy-saving, resource-saving and reduction of environmental burden through beneficial environmental activities in business activities (per unit of production)		-	-
	Prevention of global warming - Reduction of CO <sub>2</sub> emission vs previous term's average Reduce 3% or more	Reduce 1% or more	3.4% increased	Not achieved
	Saving of resource - Reduction of waste discharge Reduce 3% or more	Reduce 1% or more	3.7% increased	Not achieved
<b>Communication (Coexistence with society)</b>	Social contribution activities - Community beautification activities		All regional groups conducted generally as planned	Mostly achieved
	Promotion of climate change actions	Participation in initiatives organized by local governments and industry groups. Conduction of education and awareness building programs.	All regional groups conducted generally as planned	Mostly achieved

### ISO 14001 Framework





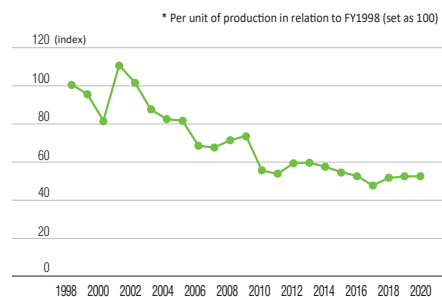
## Eco-Factory

SMC has implemented ISO 14001, the international standard related to environmental management, and has been promoting organizational initiatives for environmental and energy-saving measures at its factories since 1998. In this chapter, figures for production facilities in Japan and China are shown. These facilities account for 85% of the Group's total production amount.

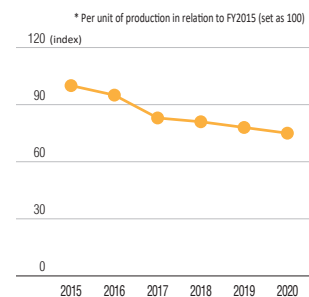
### CO<sub>2</sub> Emissions and Water Usage

SMC aims to reduce the emission of CO<sub>2</sub> through the combined effect of its steady efforts.

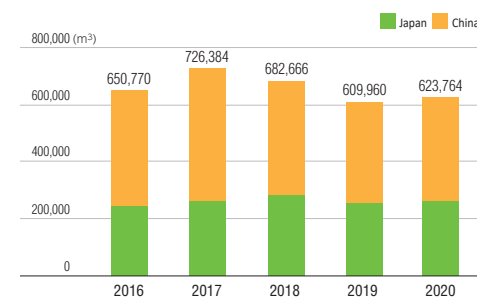
#### CO<sub>2</sub> emission reduction (Japan)



#### CO<sub>2</sub> emission reduction (China)



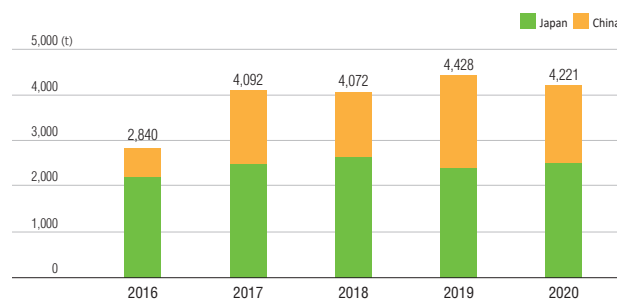
#### Water usage



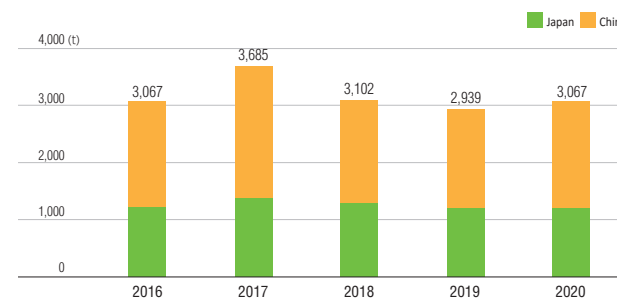
### Waste Discharge and Chemical Substance Usage

SMC is working to reduce waste discharge (by converting waste to valuable resources and recycling) and the amount of chemical substance usage (by preventing evaporation, removal, and recycling).

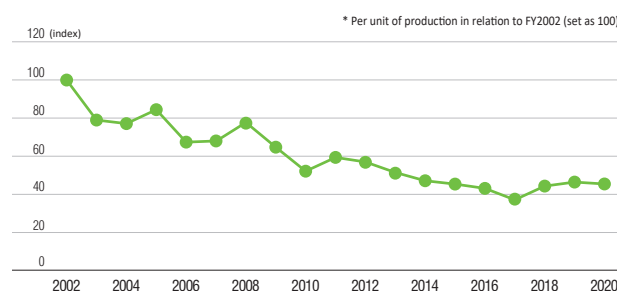
#### Waste discharge



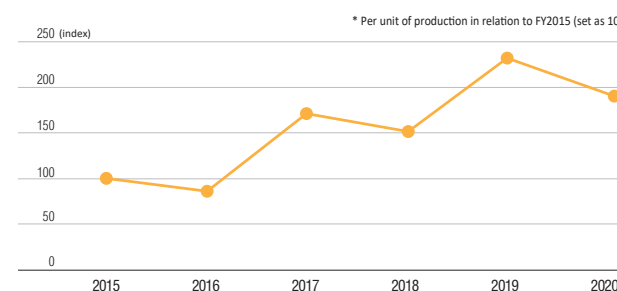
#### Chemical substance usage



#### Waste discharge reduction (Japan)

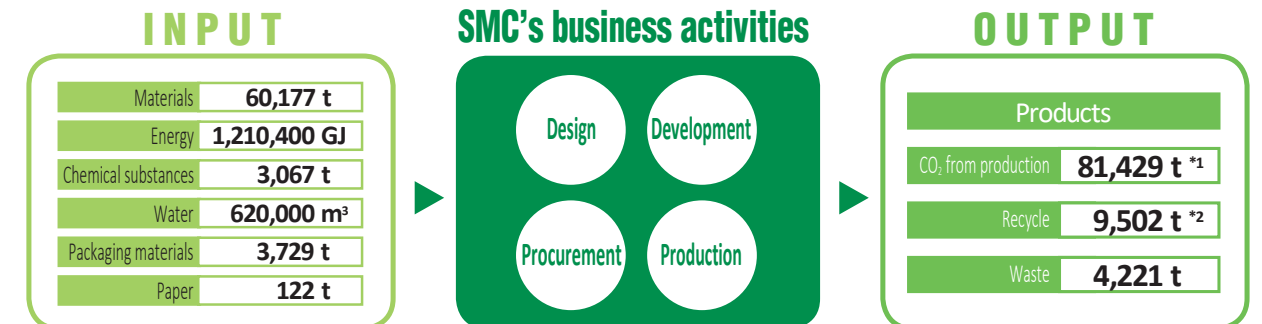


#### Waste discharge reduction (China)



### Material Balance

SMC understands the amount of resources and energy consumed and emitted during the design, development, and manufacturing of its products, and uses this information to reduce its environmental impact.



\*1 Amount of CO<sub>2</sub> emitted associated with energy usage during the production activities.

\*2 Amount that is discharged as material of value and reused and/or recycled as materials and thermal energy.

### Initiatives at Each Factory

#### Air and Energy-Saving

SMC uses its own flow switches to monitor the air flow rates at each factory to enable early detection of air leaks due to equipment failures. SMC is also working on improving air-saving and energy efficiency including through the use of mechanisms that automatically shut off the air source during plant downtime, which reduce the use of purge air\* by 30% (compared to our previous operations).

\*The air used to discharge the remaining air from air pipes when a plant starts operation.



#### Renewable Energy

SMC is working on the use of renewable energy, including the installation of solar panels on the roofs of its factories.



#### Green Procurement

"We recognize that conservation of the global environment is the most crucial issue facing all humanity, and strive to realize a comfortable global environment through all of its business activities". Based on this basic philosophy, SMC will develop and provide environmentally friendly products to continuously reduce its environmental impact.

As part of these initiatives, SMC conducts green procurement compliance with various regulations for products, materials, components, semi-finished goods, secondary materials, and packaging materials used in the design, development and production process.



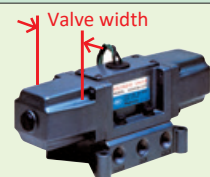
## Eco-Products

### Evolution of SMC Products

Since its establishment, SMC has been developing automatic control equipment, including pneumatic instruments, and has increased product variations to meet the needs of its customers. In addition, based on the methodology of "topology optimized design process"\*, SMC is developing products smaller and lighter, with more air and power-savings, thereby achieving a significant reduction in CO<sub>2</sub> emissions during its manufacturing and usage.

### Solenoid Valves (Directional Control Valves)

Year	1971	1983	1984	1993
Series	VS4000	VF	VZ	SY
Valve width	36mm	26.4mm	15mm	10mm
Power consumption	5.5W	2W	2W	0.55W



Weight: 375g<sup>\*1</sup>

\*1 Without sub-plate  
\*2 With energy-saving circuitry

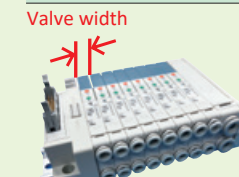
**\* Topology optimized design process**

Topology optimization is a methodology for finding the optimal shape and form of a structure based on mathematical and mechanical evidence.

**Eco-products made by eco-products**

We use our own products that have significant CO<sub>2</sub>-reducing effects in our own production lines.

1998	2005	2009	2019	2020
SZ	SJ2000	New-SY	JSY	SJ1000
10mm	7.5mm	10mm	6.4mm	6.5mm
0.6W	0.23W <sup>*2</sup>	0.4W	0.2W <sup>*2</sup>	0.23W <sup>*2</sup>



Weight: 17g



### Actuators (Motive Equipment)

1970

Steel-bodied cylinder

1970

Japan's first aluminum-bodied cylinder

1974

Cylinder with auto switch

1976

Non-lube cylinder

Today

**Pursuit of base models / product expansion**

- Product development to meet customer requirements
- Product improvement and product expansion
- Product quality improvement and cost reduction

**Base models: 50**  
**Total no. of items: 600,000**

**Initiatives to reduce CO<sub>2</sub> emissions and product development**

**Compact and lightweight**

- Reduce CO<sub>2</sub> emissions through topology optimized design process

**Air-saving**

- Exhaust air reuse circuitry
- Built-in air-saving circuitry



## Together with Our Employees

### Respect for Human Rights

#### SMC Group Code of Conduct

We will strive to maintain a safe and pleasant work environment where the employees respect the personality and individuality of each other, have their own motivation and can demonstrate their abilities without experiencing unreasonable discrimination based on nationality, race, ethnicity, faith, religion, sex or any other personal attribution.

#### Initiatives for the employment of people with disabilities

The number of people with disabilities employed by SMC, and the ratio of employees with disabilities, are stable every year during FY2017 - 2020.

#### Status of annual paid leave taken

The percentages of paid leave taken approximates 70% of entitled annual paid leave, every fiscal year.

#### Status of new hire retention

The turnover rate of employees leaving within three years remains under 10%.



### Messages from Female Executives

#### As an executive

##### A positive attitude is important

We work for SMC's overseas subsidiaries as presidents or as executives in charge of administrative departments such as accounting, IT, and internal control.

Japan has been criticized for being a country that falls behind in terms of the active participation of women in the workplace. However, we believe that the phenomenon of women being required to put in more effort and persevere more than men as they are promoted is unfortunately something that exists in companies around the world. We too have faced many challenges in our careers as female executives. Needless to say, it is difficult to balance work and family life. Even though we've worked hard to earn our positions, we have been sometimes distrusted, ostracized, or mistakenly thought of as secretaries instead of presidents because we are women. Under such environment, we have been working harder hoping to be evaluated based on our work performance and to be given appropriate respect we deserve according to our positions, on the same basis as men.

We hope that everyone at SMC will remember to keep a positive attitude and continue to work hard. Our customers, superiors, and co-workers are monitoring our efforts.

##### Aiming to be a truly global company

SMC is a company that has been promoting global expansion from early on. The relationships between the subsidiaries and the parent company are very good and, as executives of the subsidiaries, we feel that our work every day is worthwhile. Though there are some areas that we would like to see improved.

Subsidiaries receive requests for information from various departments of the parent company. Yet the subsidiaries of SMC vary in size and often have limited human resources. We would like

### Diversity, Including Active Participation of Women

SMC offers various schemes to provide a better working environment for women including childcare leave, maternity leave and reduced work hours. SMC also promotes exchange of personnel and combination of operations with its overseas subsidiaries: 70% (approx.) of the SMC Group's total employees and 75% (approx.) of the top management of its Group companies are non-Japanese.

	FY2017	FY2018	FY2019	FY2020
Employees with disabilities (no.)	152	162	163	161
People with disabilities Employment (%)	2.4	2.4	2.5	2.5
Female employees (%)	41.0	41.1	40.8	41.2
Female employment (%)	52.1	49.3	52.9	60.0
Female employees Avg. service (yr)	16.7	17.2	17.7	18.7
Annual paid leave taken (%)	73.2	69.4	74.7	68.6
Employees leaving within 3yrs turnover (%)	8.9	5.8	3.6	0.0



to see the parent company sufficiently manage the traffic so as not to create excessive burdens on the subsidiaries. We would also like to see the rules set by the parent company reviewed periodically to make sure they are not outdated. Since laws, regulations, and business practices vary from country to country, we think it is desirable for the parent company to fully analyze them and establish common rules, and for the subsidiaries to customize the rules to suit the actual situations in each country. In order for SMC to become a truly global company, it is important for executives and employees in each country to communicate more closely and deepen their understanding of each other.

#### To further develop

##### To become a renowned leading company

We will further develop as we aim to become a leading company that not only our customers and employees but anyone who hears the word "SMC" will picture as a transparent and reliable company with a globally diverse workforce and high-quality products and services.

In order to achieve this, it is important for executives and employees in each country to share a sense of purpose, align their vectors, and proactively tackle sustainability issues.

### Human Resource Development

#### Employee Award and Global Award System

SMC has established an award system for those employees who have exhibited outstanding performance.

SMC also has a system in place to properly evaluate the results of global collaboration, such as "customer information obtained in U.S. led to sales in Malaysia".



Top left: Domestic Sales Division, Bottom left: Domestic Engineering Division, Right: Global sales awards

#### Trainings and Self-Improvement Systems

SMC has introduced an LMS (Learning Management System) as a tool to manage cloud-based e-learning to support the self-improvement of its employees. In addition, SMC has introduced various programs to continuously develop personnel that can manage with a global perspective, who can play an active role within the entire group, and can contribute to the sustainable growth of the Company.

#### In-house Training System

New employee training  
Third-year training (training for young people)  
Management training  
Training by level

Female Outside Sales Support Training Sales Academy



Top: Management training  
Below: Female Outside Sales Support Training

### Worker Health and Safety

In cooperation with industrial doctors, SMC is working to prevent workplace accidents and illnesses and to create a safe and secure work environment. The factory health and safety committee, in which all factory managers participate, re-examines safety initiatives and shares information on safety to prevent accidents.

Also, all employees have worked with a strong awareness of initiatives to prevent the spread of COVID-19, and vaccinations were carried out in their workplaces.

#### Workplace accidents: Rate per thousand workers, severity, and frequency (%)

	2017		2018		2019		2020	
	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC
Rate per thousand workers	2.7	0.9	2.8	1.1	2.7	0.6	2.6	1.3
Severity	0.08	0.01	0.10	0.08	0.10	0.64	0.07	0.02
Frequency	1.02	0.35	1.20	0.87	1.20	0.39	1.21	0.82

\* Data on rate per thousand workers, severity, and frequency in the manufacturing industry are obtained from "Ministry of Health, Labour and Welfare: Workplace Safety Site, Occupational Injury Statistics".

\* Covered period: One year from January 1 to December 31.



Factory health and safety committee by web conference



Workplace inspection conducted by an industrial doctor



## Together with Our Customers / Suppliers

### To Earn Trust from Customers and Suppliers

#### SMC Group Code of Conduct

We will compete in a free and fair manner. In addition, we will strive to earn trust from customers by adequately providing products, services and correct product information that address customers' needs. We will establish relationship of mutual trust with our clients and suppliers through free and fair business relations, and aim for mutual development.

- 1 We will keep the customer-first policy and strive to provide excellent products and services.
- 2 We will pay attention to the safety of products and endeavor to take appropriate safety-related measures.
- 3 We will not engage in any unfair trade practice, such as that in violation of the relevant antitrust laws.
- 4 We will respect intellectual properties of customers, other companies and individuals, and at the same time maintain the intellectual properties and brand of the SMC Group.
- 5 We will conduct strict management of not only trade secrets and personal information of customers and business partners, but also those of our company.

### Efforts against Conflict Mineral Issues

SMC is striving to provide information to customers based on a database using the Conflict Mineral Report Template (CMRT). Through cooperating with suppliers, SMC is working to improve the accuracy of the CMRT.

#### SMC Group Code of Conduct

#### We will strive for responsible sourcing of minerals.

With regard to minerals from conflict-affected and high-risk areas, in order to prevent furtherance of human rights abuses, violence and other wrongdoings by non-government armed groups, we exert our commercially reasonable efforts to the maximum extent towards the establishment of responsible supply chains, with the assistance of the suppliers.

### "Declaration of Partnership Building" with Business Partners

SMC has registered for the "Declaration of Partnership Building" promoted by the Small and Medium Enterprise Agency and other organizations with the aim of optimizing subcontracting transactions and promoting co-existence and co-prosperity throughout the supply chain.



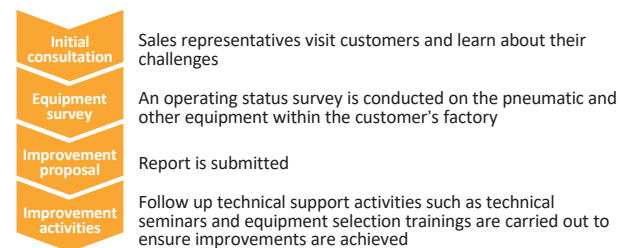
### Energy-Saving Optimization Proposals

SMC has established a dedicated team to use its accumulated energy-saving experience and knowledge in order to make energy-saving solution proposals that will help reduce CO<sub>2</sub> emissions at its customers' facilities.

SMC conducts customer factory visits and submits reports to the customers. Based on these on-site surveys and follow up with a variety of technical support personnel, SMC gives customers the means to solve their problems. These visits also give customers an opportunity to actually try out SMC products in order to experience the energy-savings performance they can provide.



#### Energy-saving optimization proposal flow



### Distributor Award Ceremony

SMC has established an award system for distributors who have achieved outstanding results.



## Together with Local Communities

#### SMC Group Code of Conduct

We will consider the needs of society and disclose necessary corporate information in a timely manner in order to widely communicate with society as a good corporate citizen. Moreover, we will aim to coexist with the local community by cooperating in activities which contribute to the development of the region and the comfortable and safe lives of people living there.

#### Activities 1

### Green Conservation Activities by the Greenery Trust

SMC participates in green conservation activities organized by the Saitama Greenery Trust Association. SMC employees take part in weeding, pruning and cleaning activities such as raking of leaves, and other activities to preserve the local greenery.



#### Activities 3

### Community Promotion Support in Factory Location Area

SMC gave donations to the "Kamaishi City Rugby Children's Future Fund" and the "Kamaishi City Sports Promotion Fund" as part of cooperation for supporting recovery from the earthquake disaster and promotion of the local region, in Kamaishi City, Iwate Prefecture, where an SMC factory is located.

A nameplate commemorating the donation has been installed at the "Kamaishi Unosumai Memorial Stadium".



Kamaishi Unosumai Memorial Stadium: photo courtesy of Kamaishi City

#### Activities 2

### Participation in Community Beautification Activities

Employees of SMC factories and technical centers regularly clean the surrounding area of their facilities.



Soka area

Tsukuba area

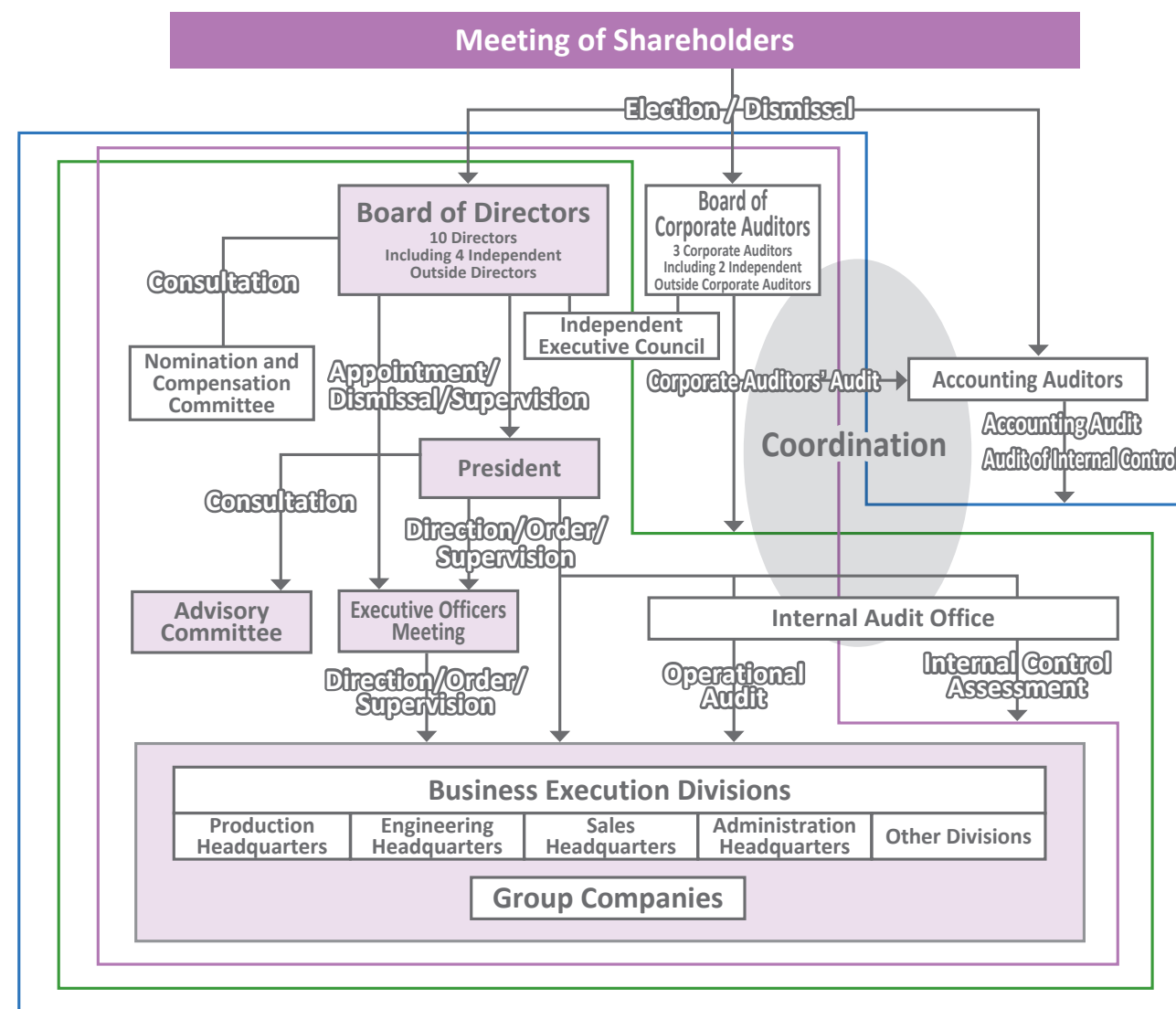


## Corporate Governance

### Basic Views

SMC considers establishing a corporate governance framework ensuring both quick decision-making and management transparency to be extremely important for the purposes of realizing continuous growth, increasing medium- to long-term corporate value and protecting 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 the 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 nine 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 thirteen 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

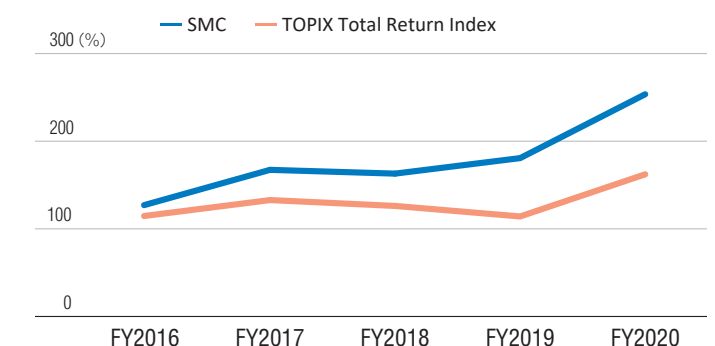
The "Independent Executive Council", consisting solely of Outside Directors and Outside Corporate Auditors, has been established to facilitate the free and vigorous exchange of opinions and information, share awareness, and make recommendations to the Board of Directors based on the opinions gathered 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 its shareholders, SMC adopts a basic policy of maintaining stable dividend payment. At the same time, SMC will strive to enhance the profit return even further by considering a flexible acquisition of treasury shares depending on the situation.

\*The Total Shareholder Return is the rate of return calculated by dividing share in vestment gains (including both dividends and capital gains) by investment amount (share price). The formula for this calculation is as follows: (closing share price at the end of the fiscal year + cumulative amount of dividends per share received for the fiscal year and the preceding four fiscal years) / closing share price at the end of the fifth most recent fiscal year

#### Changes in Total Shareholder Return (TSR)





## SMC's Challenges as Perceived by an Outside Corporate Auditor

Outside Corporate Auditor, Lawyer **Haruya Uchikawa**

I am an attorney specializing in corporate legal affairs, particularly corporate and economic law. As a corporate lawyer for clients in a variety of industries, including manufacturers, I manage a variety of consultations on a daily basis. I have had the opportunity to serve as an external officer of listed companies continuously since 2006, and have been serving as an Outside Corporate Auditor of SMC since 2019.

The three pillars of SMC's management philosophy are (1) contributing to automated, labor-saving operations (contributing to automated, labor-saving operations in industries is its social mission), (2) focusing on the main business (as a manufacturer of components, the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on its main business, automatic control equipment), and (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). SMC's mainstay products are "pneumatic instruments", which have little adverse effect on the environment. Since SMC specializes in making pneumatic instruments compact and lightweight, working to develop products with less environmental impact, reducing the weight of equipment and robots that incorporate pneumatic instruments, and enabling customers to reduce the energy consumption of their entire factories, we could say its business model itself is beautiful. SMC has continued to put the above management philosophy into practice globally and steadily, and today, as a comprehensive manufacturer of automatic control equipment, it has more than 500 locations in over 80 countries around the world. In other words, the existence of SMC is directly linked to the resolution of social issues, and I believe that its current state is the result of its anticipation of ESG. Needless to say, the expectations placed on SMC by society as a whole are becoming even greater, and I imagine that the attention to SMC's actions will only continue to grow.

It is said that the world is entering an era of VUCA (Volatility, Uncertainty, Complexity, Ambiguity). Fortunately, under the strong leadership of the new leader at SMC, we have a clear direction to aim for, and I feel that our governance is well understood. The age of the members of the Board of Directors has decreased, and Outside Directors

with a high level of expertise have joined the Board, resulting in more active discussions at Board meetings. We are also steadily working on projects to further improve IT and expand our locations. All management issues are now being examined from a more global perspective. Based on my past experience, I am aware that I am required to monitor the management of SMC from a neutral and objective standpoint, from the perspective of legal risk management and compliance. Since I became an Outside Corporate Auditor, I have been frankly expressing my views from the perspective of a corporate lawyer on risk management and clarification of decision-making processes, which I felt had been rather neglected due to SMC's devotion to its main business. Together with the other Corporate Auditors, I will continue to question whether SMC is practicing "just business (conducting its business activities properly)" so that it can continue to contribute to the sustainable development of society while earning the trust of all stakeholders. As a legal professional, I would like to fulfill my responsibilities as an Outside Corporate Auditor by actively speaking out, paying particular attention to employment and labor relations, anti-bribery and corruption, human rights, information disclosure, and contracts with business partners.



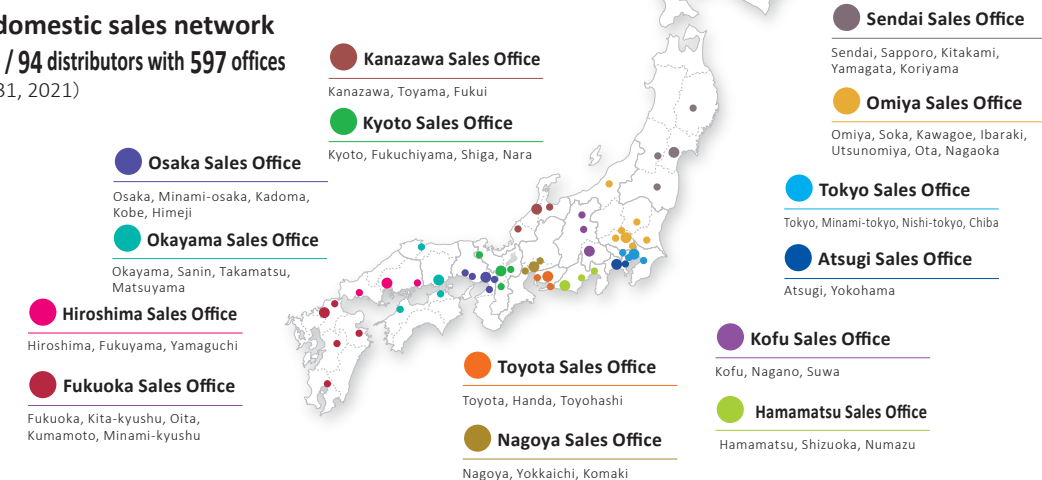
## Corporate Summary

Company name	SMC Corporation
Head office	Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan
Established	April 27, 1959
President	Yoshiki Takada
Major businesses	Manufacture and sales of automatic control equipment including pneumatic instruments
No. of issued shares	67,369,359
Stock Listing	First Section, Tokyo Stock Exchange
Share capital	61 billion yen
Net sales	552.1 billion yen (As of March 31, 2021)
Total assets	1,539.8 billion yen (As of March 31, 2021)
No. of employees	20,619 (As of March 31, 2021)
Equity ratio	89.4% (As of March 31, 2021)



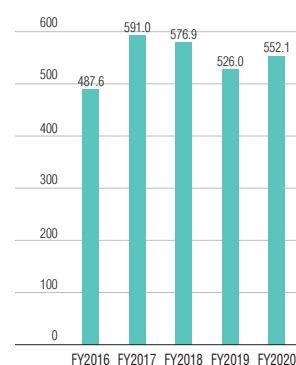
### Domestic Network

**Extensive domestic sales network**  
54 sales offices / 94 distributors with 597 offices  
(As of March 31, 2021)

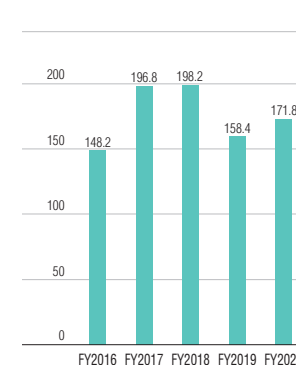


### Consolidated Financial Highlights

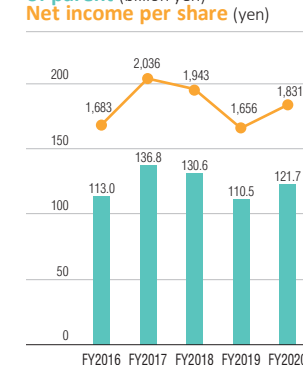
Net sales (billion yen)



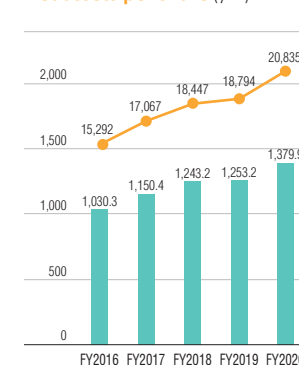
Ordinary profit (billion yen)



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



Net assets (billion yen)  
Net assets per share (yen)







## SMC Corporation

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

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