

INTEGRATED REPORT 2024



SMC—A Comprehensive Manufacturer of Automatic Control Equipment

Origin

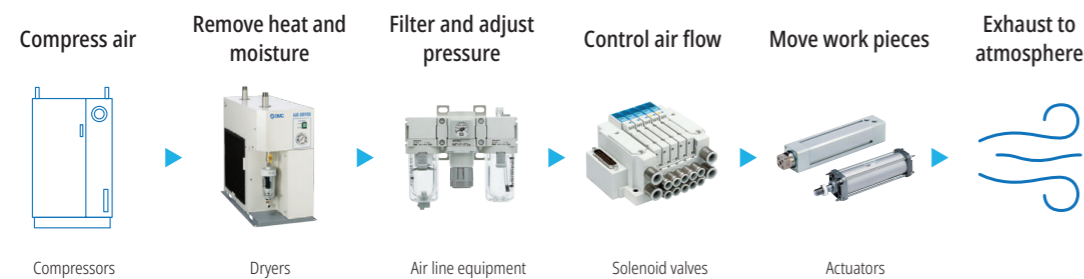
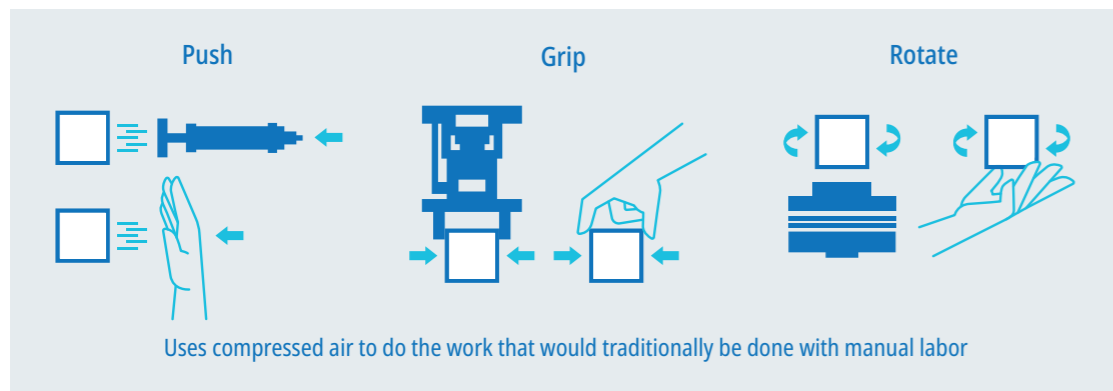
Automating factories around the world with pneumatic instruments

Contributing to the industrial world as a leading company in pneumatic technology

SMC's pneumatic instruments use compressed air generated by compressors as a power source to perform tasks such as pushing, gripping, and rotating objects, serving as a substitute for manual labor.

With the advancement of industrialization, demands for easy-to-handle pneumatic instruments increased in factories around the world, contributing to the mass production of industrial goods.

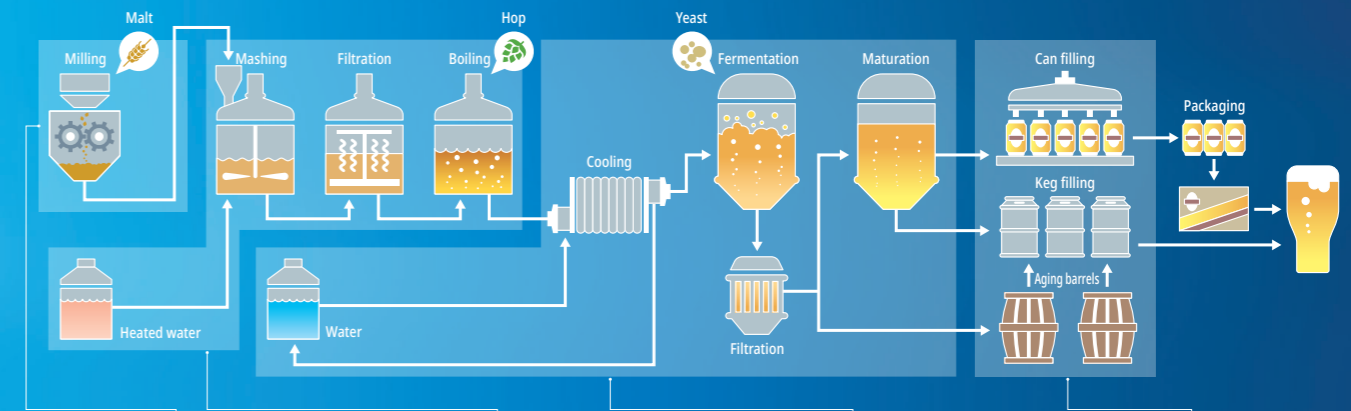
Pneumatic Instruments



Future

Advancing automatic control equipment to become indispensable in the industrial world

SMC products in craft beer production



<h4>Milling/Malting Process</h4> <p>Can be used for opening and closing hatch doors in dusty environments</p> <p>Cylinder with Stable Lubrication Function (Lube-retainer)</p> <p>Used for loosening up stuck grains in milling equipment</p> <p>Air Shocker</p> <p>For transfer of grain material</p> <p>Pulse Valve Valve for Dust Collector</p>	<h4>Wort/Air Supply (Wort Aeration)</h4> <p>Can be used to purify compressed air supplied to the wort prior to fermentation</p> <p>Membrane Air Dryer</p> <p>Line Filter Mist Separator Micro Mist Separator Activated Carbon Filter</p> <p>Bacteria Removal Filter</p>	<h4>Cooling and Temperature Control</h4> <p>For temperature control of maturation tanks, fermentation tanks, and for use with heat exchangers</p> <p>Thermo-chiller</p> <p>Circulating Fluid Line Equipment</p> <p>S Couplers Stainless Steel Type 3-Color Display Digital Flow Switch for Water</p>	<h4>Filling (Bottles, Cans, Barrels)</h4> <p>Hygienic Design Cylinder Stainless Steel Cylinder</p> <p>Clean Design Manifold Valve Stainless Steel Speed Controller (Elbow Type)</p> <p>EHEDG Compliant/Clean Design/FDA Compliant Fittings</p>
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* Please use within the scope of specifications listed in the catalog/operation manual, etc. It is the customer's responsibility to determine the suitability of each piece of equipment for their facility.

Potential of automatic control equipment: Paving the way for a sustainable future across all industries

With the technical expertise we have gained through meeting the needs of our customers, SMC's automatic control equipment has attained compactness, lightness, and energy efficiency. Today, they are indispensable for the automation of industries worldwide, from semiconductor manufacturing to robotics and dairy farming, with further applications expected in the future. SMC works alongside customers to address various societal challenges, such as aging populations, declining labor forces, and climate change, contributing to the realization of a sustainable future.



Cover
Story

Serious Environmental Problems, Shrinking Labor Forces, and Soaring Personnel Expenses — Production sites are now under pressure to change

At SMC, we develop products that reduce CO₂ emissions and environmental impact throughout the product lifecycle, from raw material procurement and production to usage and disposal.

Solutions That Help Reduce CO₂ Emissions

Pneumatic instruments, which are powered by compressed air that is safe to be discharged into the atmosphere, inherently possess environmentally friendly features. And SMC is specialized in downsizing and reducing the weight of our products, using the technical expertise we have cultivated in meeting the needs of our customers. The downsizing and weight reduction of automatic control equipment, including pneumatic instruments, reduce weights of equipment and robot themselves and increase carrying capacity, which contribute in reducing energy consumption across customer factories. Customers' growing environmental awareness and efforts to promote sustainability present great opportunities for SMC. SMC is committed to expanding its lineup of even smaller and lighter products and developing energy-saving, air-saving, and long-life products to provide better solutions to our customers.

Promoting Factory Automation Around the World with Pneumatic Instruments

SMC's flagship products, pneumatic instruments, are automatic control equipment well-suited to replacing manual tasks such as pushing, gripping, and rotating. They are essential mechanical components for automation and labor-saving in industries such as semiconductors, automobiles, machine tools, food processing machinery, and medical devices. Moreover, with the global progression of declining birthrates and aging populations, labor force reductions are accelerating in many developed countries. In emerging economies that have traditionally relied on labor-intensive production, economic growth is driving personnel expenses upward. Pneumatic instruments align perfectly with the automation and labor-saving demands arising from the shrinking labor force and soaring personnel expenses.

Cover
Story **2**

The Global Challenge of Semiconductor Shortages — A system which the manufacturing industry must establish now

To establish a further refined rock solid product supply system, as a company supporting our customers' businesses around the world.



A Full Product Lineup and A System to Meet Customer Demands

Since its establishment in 1959, SMC has pursued the Company goal of “responding to all customer needs.” Through continuous efforts to develop products tailored to customer needs, SMC has achieved an extensive product lineup of 12,000 basic models and 700,000 product variations. SMC’s automatic control equipment is essential components integrated in every production lines; therefore, to ensure there are no line stoppages or delays due to product malfunctions or shortages, SMC has established a system that meet customer needs with short lead times. We aim to be a reliable business partner with whom customers can feel comfortable consulting their products and production lines.

Flexible Engineering System Offering One-stop Solutions

SMC’s pneumatic instruments build systems with various devices used on air piping. As a comprehensive manufacturer producing and selling all these devices, SMC provides one-stop supply solutions to our customers. In addition to pneumatic instruments, SMC offers a wide range of automatic control equipment, proposing the optimal equipment selection for each customer. Furthermore, to swiftly and accurately reflect customer needs in product development, SMC has established R&D centers worldwide, ensuring advanced technical services and a stable global supply of products. Anticipating the recovery of the semiconductor cycle, SMC also develops and sells products that comply with tightened greenhouse gas (GHG) regulations, continuing to meet the demands of the semiconductor and other industries.

Cover
Story

3

Shorter Lead Time Requirements, Mitigation of Geopolitical Risks, and Supply Chain Resilience — To ensure stable product delivery

Natural disasters, infectious diseases, trade friction and conflicts, material price hikes and supply shortages - risks keep changing their form and appearing before us. However, SMC will continue to make every effort to ensure that we can continue to supply our products anywhere in the world, no matter what the situation.

Improving Product Supply Capabilities While Accelerating Cost Reductions

SMC has built a system to supply products that meet customer needs with short lead times, no matter where customers are located. In addition to our 6 factories in Japan (Soka, Tsukuba, Shimotsuma, Yamatsuri, Kamaishi, and Tono), we have mass production bases in China (Beijing and Tianjin), Vietnam, Singapore, India, and the Czech Republic to provide our products globally. By establishing a globally optimized production system and fostering close coordination among our R&D, manufacturing, and sales divisions, SMC continues to streamline operations and accelerate cost reductions.

Realizing Short Lead Time with Ample Inventory and Production Capacity Through Capital Investment

To meet the increasing demand and to establish an uninterrupted product supply system globally even in the event of emergency, SMC is aggressively promoting the expansion of its production and logistics capabilities. In response to geopolitical risks, SMC is implementing local production for local consumption in the Chinese market while shifting its core mass production base to lower risk countries such as Vietnam. At the same time, SMC is allocating management resources to support large-scale local users in Europe, Taiwan, and South Korea. In addition, by regularly and strategically holding ample inventory, SMC has a system to promptly respond to customer orders and realize short lead time deliveries.

Cover Story **4**

To Win In the Global Competition

— How to build a robust network and secure talented human resources

To address the challenges of business environment posed by globalization, declining birthrate and aging population, shrinking workforce, and severe talent shortages, SMC promotes diversity and maximizes the utilization of human capital.

Over 7,000 Direct Sales Force and 700,000 Customer Accounts

SMC has over 7,000 direct sales force in more than 80 countries and regions worldwide. The daily production and business site visits by each personnel have built trust that now connects us to 700,000 customers globally. The presence of SMC products in the blueprints of these 700,000 customers is a testament to SMC's unwavering strength. SMC's customers are also geographically and industrially diverse, which mitigates the impact of geopolitical risks or fluctuations in specific industries on its overall business, ensuring a stable business foundation.

Maximizing Global Human Capital

For SMC to achieve further growth, we believe it is necessary to establish a system with speed, where talented employees working at Group companies around the world play an active role globally beyond the company boundaries and borders. SMC has instituted opportunities for personnel exchanges between overseas Group employees and Japanese staff to foster mutual inspiration through collaboration and cultivate a spirit of challenge as they seek wider opportunities for their careers. SMC promotes human resource policies based on sustainability and diversity, invests generously in talent, and continuously evaluates and improves the outcomes of these initiatives.

Cover
Story

5

Creating Value for the Future — A solid financial base and proactive investments are required

Machinery industry is highly susceptible to economic fluctuations that a resilient financial base is vital to absorb impacts in the event of an emergency. SMC ensures it has the capability to make the necessary investments at the right time to mitigate risks and to support business expansion.

Cultivating New Demand

Pneumatic instruments are highly versatile, and their applications can be infinitely expanded by our customers' creativity and innovation. SMC strives to develop products that meet customer needs, and through these efforts, we are also working to cultivate new demand.

As a comprehensive manufacturer of pneumatic instruments, we provide industries with 12,000 basic models and 700,000 variations. In recent years, pneumatic control systems have become faster, more complex, and more sophisticated, and so has the electronic control of production equipment. Leveraging the technology and expertise we have acquired in automatic control equipment including pneumatic instruments, combined with our electrical, electronic, software, and other technologies, we also supply products that go beyond the framework of pneumatic instruments, such as temperature control equipment, electric actuators, high vacuum valves, process valves, and other general production-related equipment.

Solid Financial Base and Business Continuity Plan (BCP) System

SMC holds an appropriate level of liquid financial assets such as cash and deposits. This provides a solid financial base that enables appropriate investments to secure production capacity in preparation for medium- to long-term sales growth and to establish a system that can maintain global product supply even in emergencies. Its solid financial base enables strategic investments, which generate new revenue streams, creating a virtuous cycle that strengthens financial stability and enables steady management unaffected by economic fluctuations. Additionally, to ensure business continuity in emergencies, SMC has decentralized its production and logistics bases, enhanced cybersecurity measures, and reinforced backup systems for core operations through 11 data centers worldwide.

At a Glance

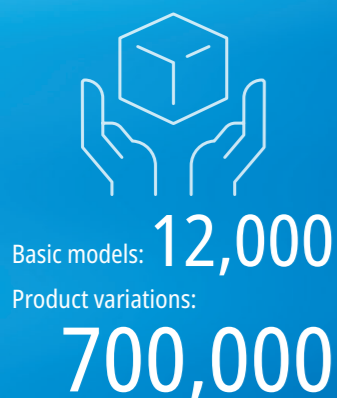
Net sales (Consolidated)



Employees (Consolidated)



Products



Pneumatic instruments global market share



Customer accounts



Sales offices



Development bases



Mass production bases



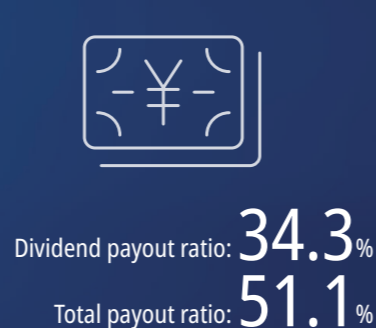
Capital investment



Equity ratio



Shareholder return



Contents

Introduction

- 01 SMC—A Comprehensive Manufacturer of Automatic Control Equipment
- 03 Cover Story
- 13 At a Glance/Contents/Initiatives

Value Creation at SMC

- 15 History
- 17 Message from the President
- 21 Value Creation Process
- 23 Risks and Opportunities
- 25 Management Capital

Business Strategy

- 27 Achieving Our Long-term Management Vision
- 29 Financial Strategy: Message from the Director
- 31 Sales Activities
- 33 Research & Development

Sustainability

- 35 Sustainability: Message from the Director
- 37 Sustainability Management
- 38 Materiality
- 39 SDG Initiatives
- 41 TARGET 1-1 Respect Human Rights
- 42 TARGET 1-2 Promote Diversity
- 44 TARGET 1-3 Ensure Safe and Secure Work Environment
- 45 TARGET 2 Actions to Take On Climate Change & Environmental Issues
- 53 TARGET 3 Stable Global Product Supply
- 57 TARGET 4 Develop Human Resources & Disseminate Automation Control Technology
- 61 Relationship with Stakeholders

Governance

- 63 Board Members
- 65 Roundtable Discussion by Outside Directors
- 69 Corporate Governance
- 73 Compliance

Data

- 77 Financial Data (11 Years)
- 79 Non-financial Data
- 80 About SMC



Message from the President

As a comprehensive manufacturer of automatic control equipment, we see the transformation of the manufacturing industry as an opportunity for growth, aiming to achieve world's No. 1 market share and solving social issues.



Financial Strategy: Message from the Director

Even in an uncertain business environment, we will leverage our strong financial base and aim for growth by turning risks into opportunities.



Sustainability: Message from the Director

Supporting our customers reduce CO₂ emissions —We will achieve solutions to both social issues and sustainable growth.



Roundtable Discussion by Outside Directors

We enhance board effectiveness and corporate value through strategic recommendations, leveraging our professional expertise.

Initiatives

United Nations Global Compact



In April 2024, SMC signed the United Nations Global Compact proposed by the UN. Please refer to page 41 for more details.

SBTi Validation



In May 2023, SMC committed to the SBTi, and in June 2024, its reduction targets for Scope 1, 2, and 3 were validated. Please refer to page 50 for more details.

History

SMC was established in 1959 under the name Shoketsu Kinzoku Kogyo Co., Ltd. The current name “SMC” stands for Sintered Metal (Shoketsu Kinzoku in Japanese) Company.

Under the “customer-first policy” maintained since its establishment, through product developments tailored to customer needs, SMC began manufacturing and selling automatic control equipment including pneumatic instruments. Globally expanding its manufacturing, sales, and R&D activities, SMC continues to grow as a comprehensive manufacturer of pneumatic instruments with the top global market share.

Establishment of Shoketsu Kinzoku Kogyo Co., Ltd. (currently SMC Corporation) in 1959

The late Honorary Chairman Yoshiyuki Takada, who passed away in 2024, laid the foundation for the company's growth by spearheading all aspects of product development, manufacturing, and sales over 60 years since SMC's founding.



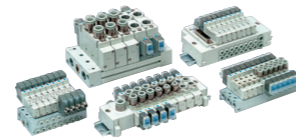
1959 Filter elements
Using powder metallurgy, developed bronze elements, and released filter materials and air filters. Two years later, stainless steel elements developed.



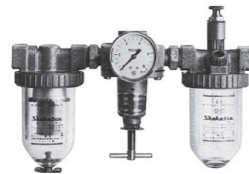
1970 Japan's first aluminum-bodied air cylinder (CM/CA)
Adopted aluminum for tube covers, achieving weight reduction and extended durability compared to traditional steel cylinders.



1982 Compact cylinder (CQ)
Developed compact cylinder contributed to downsizing customer's machines.



1993 5-port solenoid valve (SY/SX)
Developed a compact, low-power, easy-to-maintain solenoid valve that is 10 times more durable than conventional products.



1961 Air F.R.L. (3-part combination: filter, regulator, lubricator) units for air line equipment
Developed FRL (air filters, regulators, and lubricators) equipment for purifying and controlling compressed air.



1971 High-performance solenoid valve (VS)
Developed solenoid valves with 10 times longer switching life compared to conventional models.



1994 Refrigerated air dryer complying with CFC regulations (IDF/IDU)
Researched and developed products that comply with stricter environmental regulations.



2004 Temperature control equipment
Since 1978, started developing temperature control equipment to meet the needs of chemical temperature management in semiconductor manufacturing processes. Released in the market in 2004.



1995 Electric actuator (LJ1)
Developed electric actuators meet long stroke and precise positioning demands.



2022 Air Management System (AMS)
Developed a product that visualizes air pressure, flow rate, and temperature to reduce air leakage and excess pressure, contributing to CO₂ reduction.



2023 Visualization of air leakage
Developed a method of spraying fluorescent liquid to easily detect air leaks in air piping.

[Medium-term Sales Target]
JPY 1 Trillion
by FY2026



Major Events/Facilities

- 1959 Established under the name Shoketsu Kinzoku Kogyo Co., Ltd.
- 1967 Embarked on overseas sales operations
- 1968 Soka 1st Factory



- 1973 Soka 2nd Factory
- 1983 Tsukuba 1st Factory
- 1984 Embarked on overseas manufacturing operations



- 1986 Corporate name changed to SMC Corporation SMC Manufacturing (Singapore)
- 1987 Listed on the Tokyo Stock Exchange 2nd section
- 1989 Listed on the Tokyo Stock Exchange 1st section



- 1991 Japan Technical Center Kamaishi Factory
- 1994 Yamatsuri Factory SMC (Beijing) Manufacturing



- 1997 Tono Factory
- 1998 Acquired ISO 9001 certification
- 1999 Acquired ISO 14001 certification



- 2000 Embarked on overseas R&D operations
- 2013 Shimotsuma Factory
- 2014 SMC Manufacturing (Vietnam)



- 2021 East Japan Logistics Center



- 2022 West Japan Logistics Center



Message from the President



As a comprehensive manufacturer of automatic control equipment, we see the transformation of the manufacturing industry as an opportunity for growth, aiming to achieve world's No. 1 market share and solving social issues.

Yoshiki Takada

President of SMC Corporation

Despite revenue and profit decline under challenging market conditions, we focused on building a foundation for growth by leveraging our strength

In the fiscal year ended March 2024, SMC faced tough results, both revenue and profit have been decreased from record-high net sales and operating profits in the previous fiscal year. The main reason was the decline in sales volume which was caused by the acceleration of the global capital investment curbing, due to the unsettled global situation and the economic slowdown in China. In particular, unexpected fluctuations occurred in the automotive sector, such as a decrease in demand after a sharp increase for the EV batteries in China. Also, delays in the semiconductor demand recovery impacted machine-tools sector that protracted inventory adjustment.

On the other hand, signs of recovery were seen in the semiconductor sector, driven by the advances

of generative AI. Capturing this trend, SMC is pursuing the following two main strategies. The first strategy is new product development. The fluorocarbon-free chiller (temperature control equipment) for semiconductors released in September 2024 uses CO₂ as a refrigerant, contributes to GHG emission reduction while achieving high energy-saving performance with less than half the power of competitors' products. The second strategy is sales diversification. Historically, our primary customers have been the equipment manufacturers that our direct approach to large Taiwanese and South Korean account semiconductor manufacturers were insufficient. To address this, SMC is implementing diversified sales strategies, trying to expand its customer base. Looking by region, orders in China remains challenging. Since the Chinese market accounts for approximately one-fourth of SMC's total sales, the economic slowdown has impacted significantly. On the other hand, SMC has established a system which can quickly respond to customer needs by maintaining operations in over

80 countries and regions worldwide with 7,000 direct sales personnel. In particular, in Asian region such as Korea and Singapore where the markets are rapidly growing, we work closely with local teams to strengthen competitiveness and improve order levels through flexible strategies tailored to regional market characteristics.

Furthermore, SMC will continue to approach growing industries such as medical and food equipment, where precise temperature control is critical and demands for automation and labor-savings are increasing. Although these sectors are new for SMC, their growing potential is significant and even under challenging business conditions, orders in these fields remained strong. We will continue to steadily expand our market share while carefully addressing challenges.

Throughout SMC's history, the timing of the exit from the recession has been an opportunity for the company's growth. If we can secure supply capacity during the economic recovery phase, we can expect order concentration and an increase in

Message from the President



market share. Conversely, if supply capacity is insufficient and we cannot supply products, the risk of losing customer confidence increases. In this regard, our track record of overcoming COVID-19 and the Great East Japan Earthquake in 2011 has laid a foundation of trust particularly in overseas market, which account for approximately 80% of our sales. Furthermore, SMC belongs to the niche market where only a few competitors exist, so securing supply capacity has become one of our strengths.

With this background, to prepare for a rapid demand recovery, we aggressively pursued capital investment and invested more than initially planned, despite the difficult conditions in the fiscal year ended March 2024. For the fiscal year ending March 2025, we plan to invest 120 billion yen for the full year.

Establish cutting edge R&D bases to strengthen its function and secure talents

Since our founding in 1959, SMC has consistently focused on R&D. Based on founder's philosophy of "responding to all customer requests," we promote our development of compact, lightweight, environmentally friendly, and energy-saving products by placing the highest priority on meeting the diverse needs of our customers.

Currently, SMC has technical centers in 5 countries (Japan, the U.K., the U.S., China and Germany) and approximately 2,000 engineers are dedicated to developing products that support automated, labor-saving operations in industries. In addition to region-specific research, each technical center has strengthened its preparation for risks such as disasters and infectious diseases

from a BCP perspective and has established a system that can mutually back up operations. In normal times, information is shared, and roles are divided among technical centers to promote efficient R&D. One example of this is a 24-hour global coordination system that uses time differences, which is already being implemented on a trial basis in some locations. For example, research started in Japan will be passed on within the same day to China, then Europe and then to the U.S., and will be returned to Japan with some progress in the next morning. By doing so, it enables us to shorten R&D time. However, in consideration of engineers' preferences, some of the processes such as life testing are conducted only in regions with optimal efficiency.

To further enhance R&D capabilities, SMC is constructing a new core technical center in the Kashiwa-no-ha Smart City in Kashiwa City, Chiba Prefecture. Completion is scheduled for September 2025, equipped with state-of-the-art R&D facilities and the ability to interact with researchers and companies. We aim to secure talented engineers from Japan and abroad while fostering innovation.

Collaborating with overseas universities to secure future technical talent at an early stage

We expect that the demand for SMC's flagship pneumatic equipment that can realize automation and labor-saving will further rise globally with the shrinking labor forces and soaring labor costs. However, the shortage of human resources is the most critical management issue. SMC has traditionally focused on recruiting and nurturing top technical talent and in recent years, we have been focusing on securing technical human

resources such as through internships for foreign university students. For example, we have recently visited the Mongolian University of Science and Technology to propose internship programs. Although Mongolia's manufacturing industry is still developing, students trained at SMC may eventually establish manufacturing businesses in their home country, potentially becoming SMC customers. Additionally, Mongolia is a Buddhist country with minimal cultural friction is an attractive advantage. While immediate productivity gains are difficult to achieve, ongoing internship programs are essential for securing talented human resources to serve overseas markets, which accounts for approximately 80% of our sales. Moreover, familiarizing Japanese employees communicating with international talents is one of the important factors in global business expansion.

From a talent acquisition perspective, SMC's new head office will also play a vital role. In March 2025, the company plans to relocate its head office from Akihabara to Kyobashi, aiming to create a hub that attracts exceptional talent from around the world. Although some people argue against the need for a company-owned building, in Europe and the U.S., the quality and location of the building is an important factor in selecting a workplace for highly skilled personnel such as PhD holders. Based on my personal overseas experience, I believe in the importance of creating an environment that makes international talent want to work in Japan. Additionally, we will make use of the proximity to Tokyo Station, as a base for our sales activities and welcoming many customers.

Creating a truly global management company where pride and happiness flourish

Since the 1980s, I have spent 33 years working overseas, including being president of SMC Corporation of America from 2004 for 16 years where I focused on local-driven management. After returning to Japan, I became executive vice-president of SMC Corporation in 2019 and was appointed as president in 2021, and during that time, I realized that Japanese corporate management is facing unique challenges.

For instance, in the U.S., it is common that bonuses are not paid when business performance is poor. In Japan, however, bonuses are often paid regardless of performance, which can create a sense of unfairness between employees who achieved results and those who did not. Additionally, in the U.S., people who fail to meet performance standards are dismissed, whereas in Japan, there is a strong negative impression of dismissal. In the U.S., some believe that it is more unfortunate to stay in a job for which you are not suited and open to dismissal considering as a form of liberation. I have personally seen many people succeed after changing jobs.

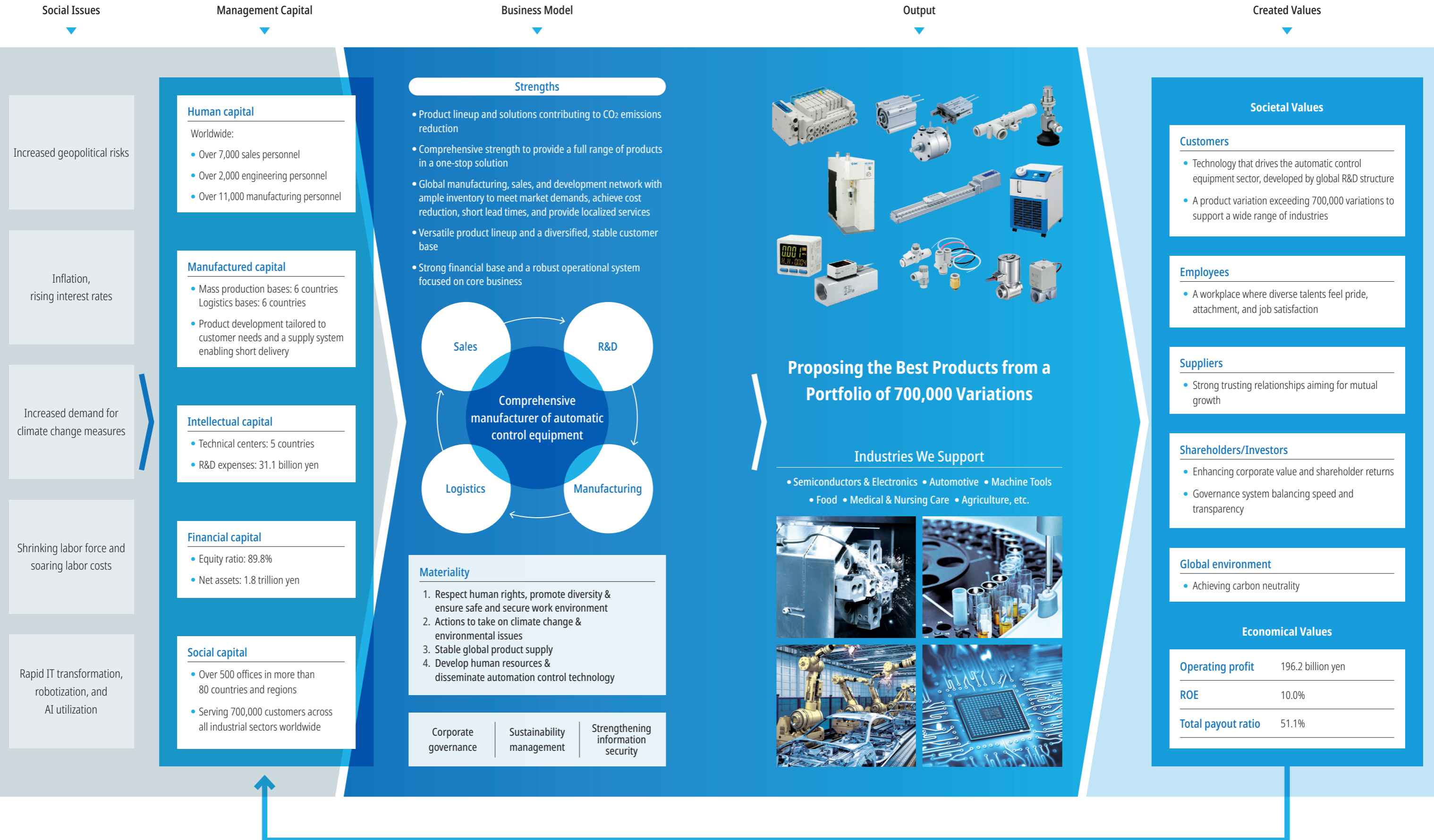
These differences in values between Japan and the U.S. are manifest as disparities in competitiveness. Since the mobility of human resources is low and job retention are prioritized, Japan's labor productivity per capita is below the global average. Furthermore, employee compensation is often seen as a cost rather than an investment for the company's growth hindering competitiveness. A societal aversion to change is another contributing factor to economic stagnation.

Given these challenges, my goal is to transform SMC into the industry's best supplier and a company where employees take pride and feel happiness. To achieve this, I believe it is essential to improve salaries through productivity improvements. As part of this, at the time of becoming president, I have set a mid-term target of achieving "JPY 1 trillion by FY2026" and have been aggressively pursuing growth. As a result, net sales reached approximately 800 billion yen, and reaching our 1 trillion target is in sight. We are also exploring global management practices, including decentralizing head office functions to appropriate countries, with plans to handle HR and IT operations at overseas sites.



I would like to mention to all our employees that I want you all to recognize the important role SMC plays in society. Many industries including semiconductors and automotives would not be possible without us. We should take pride in this and work toward improving productivity and increasing our salaries.

As for shareholders and investors, I would like to ask you to invest in our company from a long-term perspective, believing in our future potential. Even in an uncertain environment, we are committed to establishing the No.1 position in the world by flexibly responding to changes in the manufacturing industry and achieving sustainable growth by leveraging cutting-edge technologies. We look forward to your continued support as SMC reaches new heights.


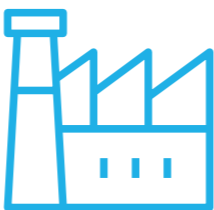



Value Creation Process



Risks and Opportunities

External environment	Risks	Opportunities	Materiality
<p>Shrinking labor force and soaring labor costs</p>	<p>With birthrates declining and populations aging worldwide, many developed countries have begun to see a decline in their working populations. At the same time, in emerging countries which have been engaged in labor-intensive production activities, labor costs are rising as their economies continue to develop.</p> <ul style="list-style-type: none"> ▶ SMC may face challenges in recruitment and rising labor costs. 	<p>SMC's pneumatic instruments, as automatic control equipment suited to replacing manual labor, align with the growing demand for automation and labor-saving solutions in response to declining workforce populations and soaring labor costs. This positions the company for continued sales growth.</p>	<p>TARGET 1 Respect human rights, promote diversity & ensure safe and secure work environment</p>  <p>TARGET 4 Develop human resources & disseminate automation control technology</p> 
<p>Growing demand for environmental protection</p>	<p>Environmental protection is a critical, shared challenge for humanity. This is causing rising demands for environmental initiatives from customers and stricter regulations across regions.</p> <ul style="list-style-type: none"> ▶ If unable to meet these demands, SMC risks losing access to markets, facing fines, and damaging its reputation, which could result in significant sales declines. 	<p>SMC actively develops environmentally friendly products from the design stage, leveraging its accumulated technical expertise to create compact and lightweight products. By reducing the overall energy consumption of customers' factories, SMC's products and solutions significantly contribute to customer goals. Further sales expansion is expected through product development to meet customer needs and to comply with laws and regulations.</p>	<p>TARGET 2 Actions to take on climate change & environmental issues</p> 
<p>Information security</p>	<p>Cyberattacks are becoming increasingly sophisticated and large-scale. With the expansion of information networks, incidents such as virus infections at a distant location can pose severe risks to the entire Group's information systems.</p> <ul style="list-style-type: none"> ▶ Cyberattacks can cause system failures and stop operations. Customer and technical information leakage can damage competitiveness and lead to a huge loss due to loss of trust from customers and business partners. 	<p>As a comprehensive manufacturer of automatic control equipment, SMC considers its social mission is to fulfill its responsibility to ensure global product supply even in emergencies. To this end, the company is advancing its BCP, including robust information security measures. This not only builds customer trust but also provides a significant competitive edge.</p>	<p>TARGET 3 Stable global product supply</p> 
<p>Country risk</p>	<p>SMC faces potential risks such as: (1) Dramatic changes in the political system and economic environment, (2) Sudden shifts in legal, tax, or foreign exchange policies and trade regulations, (3) Labor shortages, soaring labor costs, large-scale labor disputes, and other dramatic changes in the labor environment, (4) Unstable energy supplies due to underdeveloped social infrastructure, (5) Social disruption caused by terrorism, war, riots, natural disasters, or pandemics.</p> <ul style="list-style-type: none"> ▶ These risks could threaten the safety of local employees, production facilities, and other assets, disrupt the global supply system, and severely impact SMC's business activities. 	<p>SMC is addressing these risks by establishing multiple production sites comparable to its key mass production bases and maintaining domestic supply capacity to ensure rapid recovery during emergencies. Additionally, the company strategically holds ample inventory to mitigate logistical disruptions and capture market opportunities, ultimately strengthening its market share.</p>	

Management Capital

	Financial capital	Manufactured capital	Human capital	Intellectual capital	Social capital
					
	<p>Net sales 776.8 billion yen</p> <hr/> <p>Operating income ratio 25.3%</p> <hr/> <p>Net assets 1,885.8 billion yen</p> <hr/> <p>ROE 10.0% P/B ratio 2.9</p> <hr/> <p>Total payout ratio 51.1%</p>	<p>Mass production bases 6 countries</p> <hr/> <p>Acquired ISO 9001 certification</p> <hr/> <p>Manufacturing personnel 11,000</p> <hr/> <p>Capital investment 105.5 billion yen</p>	<p>Number of employees (Consolidated) 23,127</p> <hr/> <p>(Non-consolidated) 6,286</p> <hr/> <p>Turnover rate 2.0%</p> <hr/> <p>Percentage of paid leave used 84.3%</p>	<p>Technical centers 5 countries</p> <hr/> <p>Engineering personnel 2,000</p> <hr/> <p>R&D expenses 31.1 billion yen</p>	<p>Reducing GHG emissions</p> <hr/> <p>Procurement policy</p> <hr/> <p>Coordination with factory located regions</p>
	<p>Maintaining a solid financial base</p> <p>SMC has gained the world's top market share through strategic inventory, which enables immediate delivery, and aggressive capital investment during recessionary periods, backed by the equity capital we have accumulated through our business activities. We will maintain our solid financial base while balancing investments for future growth and enhancing shareholder returns.</p>	<p>Delivering high-quality products to customers worldwide</p> <p>SMC delivers high-quality products to customers worldwide through its mass production bases in six countries and regional factories in key countries. SMC is making proactive capital investments in production capacity to meet growing demand, as well as in production diversification to ensure product supply responsibilities are fulfilled even in emergencies.</p>	<p>SMC's talent for creating innovation and improving productivity</p> <p>In response to changes in the business environment, SMC is focusing on securing and developing talented human resources to foster innovation and improve productivity. SMC aims to maintain a safe and secure work environment while ensuring a diverse talent from around the world to fully demonstrate their abilities and can feel pride and attachment to the company.</p>	<p>The technology that supports SMC</p> <p>Through responding to customer needs, SMC has cultivated its technical expertise and developed many high-performance products. With a network of technical centers in 5 countries around the world, 2,000 engineers deliver products and services to our customers. SMC engineers are involved not only in new product development, but also in mass production start-up and rationalization.</p>	<p>Balancing business growth and realizing a sustainable society</p> <p>SMC is advancing initiatives to achieve both business growth and the realization of a sustainable society, including reducing GHG emissions across the supply chain, minimizing the ecological impact, and ensuring the protection of human rights and adherence to ethical standards. Also, as good corporate citizens, we also deepen our ties with the local communities.</p>

Achieving Our Long-term Management Vision

Through our continuous efforts to meet the needs of our customers, SMC has become a comprehensive manufacturer of automatic control equipment including pneumatic instruments. Today, we locate in more than 80 countries and regions, with 23,000 employees providing the best products and services worldwide.

In preparation for medium to long-term demand expansion, SMC has aggressively invested to strengthen its product supply system. Specifically, SMC made significant investments in its factories in the Czech Republic, Taiwan, and South Korea to expand local service systems for chillers and slit valves for semiconductors. Additionally, to contribute to lower pressure throughout customer factories, SMC has introduced the 4-bar factory proposals as well as providing products that reduce CO₂ emissions.

In April 2021, Yoshiki Takada became the President of SMC. Under his leadership, with over 30 years of overseas professional experience, SMC aims to evolve into a truly global company where diverse talent can thrive, regardless of nationality or gender.

- Promoting a sustainability management
- Strengthening governance
- Developing talent for the next generation
- Building a robust global network
- Collaborating with stakeholders

1959 Establishment

SMC was established on April 27, 1959, as a manufacturer of sintered metal filters.

FY2021

FY2023 measures

Expanding global market share through SMC's comprehensive strength
Aiming for the world's No. 1 provider of automatic control equipment and sales of 1 trillion yen by FY2026

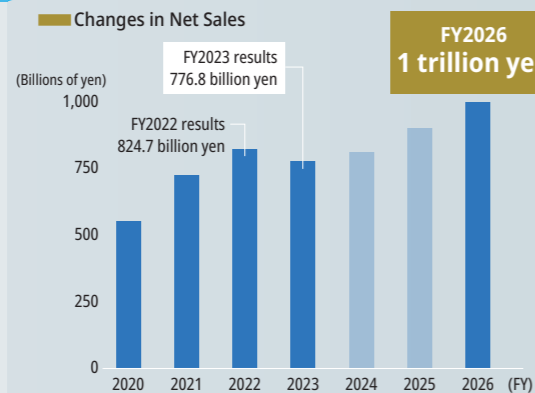
Resolving Materiality (SDGs TARGET)

Aiming to be the World's No. 1 Automatic Control Equipment

As a comprehensive manufacturer of automatic control equipment including pneumatic instruments, SMC has a system to provide the best quality products and services anywhere in the world. We also have an environmentally friendly product lineup of compact, lightweight, energy-efficient products with a solid production and supply system, unrivaled amongst other companies in our industry. SMC is establishing a system that enables us to fulfill product supply responsibilities in any emergencies, gaining trust from our customers and aiming to become the de facto standard in the industry.

Key Strategies for Expanding Sales

- Increasing sales to existing customers**
 - Product mix analysis
 - Strengthening linkages through global contracts
- Expanding sales of products for semiconductor manufacturing**
 - Chillers, gate valves, high-vacuum products, Teflon products
- Expanding sales in secondary battery-related products**
 - Shifting focus from China and South Korea to capturing demand in North America and Europe
- Expanding sales in environmental and energy-saving products**
 - AMS, booster regulators, etc.
- Diversification**
 - Non-pneumatic instruments
 - Diversifying industries and user bases (e.g., food, pharmaceuticals, agriculture, logistics, water treatment, etc.)



<p>TARGET 1</p> <p>Respect human rights, promote diversity & ensure safe and secure work environment</p> <p>Making the most of diverse human resources, changing society from the workplace</p>	<p>TARGET 2</p> <p>Actions to take on climate change & environmental issues</p> <p>Contributing to the creation of a sustainable society through automation control technology</p>	<p>TARGET 3</p> <p>Stable global product supply</p> <p>Create a supply system that constantly prepares and protects against the worst, and never stops under any circumstances</p>	<p>TARGET 4</p> <p>Develop human resources & disseminate automation control technology</p> <p>Supporting the growth of each individual to support a sustainable future</p>
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Be a Part of Innovation

Our small products play a big role in shaping the future

Refer to pages 39-40 for more details about materiality

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

Financial Strategy: Message from the Director



Even in an uncertain business environment, we will leverage our strong financial base and aim for growth by turning risks into opportunities.

Masahiro Ota
Director and Executive Officer

Business results and major initiatives during the fiscal year ended March 31, 2024

The fiscal year ended March 2024 resulted in a decrease in revenue and profit compared to the fiscal year, due to the decrease in sales volume despite the positive impact of the yen depreciation. The 3 major factors of this decrease were: - First was the significant drop in demand for EV battery-related products in China. As we have approximately 80% of our sales from overseas, and within, one-fourth is from China, the economic slowdown in China had a substantial impact. Second was due to the slump in semiconductor-related markets. Although a semiconductor demand recovery was anticipated in the mid- to latter half of the fiscal year, the recovery was delayed. Third was the increase in depreciation costs due to the

expansion in production capacity. We have invested more than 80 billion yen for the 2 consecutive years in FY2021 and FY2022, and a record amount of over 1,000 billion yen in FY2023. We believe this is an essential upfront investment to achieve the mid-term sales target of “JPY 1 Trillion by FY2026,” and the increase in costs can be fully absorbed when sales eventually rise.

To reduce costs, SMC has traditionally utilized location-savings, focusing on mass production of commodity items and components in low labor cost regions as our cost reduction strategy. However, in recent years, we are facing risks including material price hikes and supply shortages caused by frequent natural disasters, pandemics, and political and military conflicts. Under this increasingly uncertain environment, we are working to build a system which major products can be manufactured at multiple sites

and can be securely delivered even unforeseen circumstances arise at one site, so that we can promptly and flexibly respond to the diverse needs of our customers around the world. As an alternative to our Chinese factories that have been supplying mass-produced commodity items globally, we are increasing capital investments especially in Vietnam, and if all goes well, we expect it to surpass the production volume in China in the next fiscal year. For the Chinese factories, we will promote “local production for local consumption” by manufacturing products in China for the Chinese market as much as possible and expand business by meeting the demands of the Chinese market. For the 6 Japanese factories which are the center of product development and production, we will expand capital investments to enhance supply capability. For example, the Tono Supplier Park located next to the Tono Factory, will house key suppliers that provide key parts to

SMC, enabling synchronized manufacturing and supply of components with SMC production, as well as supporting our key suppliers to expand the multi-location of production which also work as BCP.

SMC’s strengths and financial strategy

Founded in 1959 as Shoketsu Kinzoku Kogyo Co., Ltd., SMC now holds the largest global market share as a comprehensive manufacturer of pneumatic instruments. The company’s greatest strength lies in the strong trust it has built with customers over many years. Initially manufacturing only sintered metal filters, SMC has expanded its product lineup to over 700,000 variations by developing products that meet customer needs with acceptable prices and delivery times. By adhering to the founder’s policy of “Never refuse customer’s requests,” the company has honed its competitiveness in performance, price, and delivery time. This approach has allowed SMC to establish medium- to long-term relationships with numerous customers worldwide. Customers regard SMC as a partner, not merely a supplier, for its efforts to overcome challenges together. Going forward, we believe that continuing to earn customer trust is the most critical factor in enhancing our business value.

From an investor’s perspective, SMC recognizes

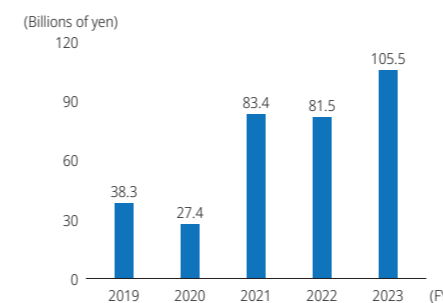
the need to pursue maximum returns with minimal capital. However, as the machinery industry is susceptible to economic fluctuations, a strong financial base is essential for medium- to long-term growth. To this end, SMC maintains a suitable amount of liquid financial assets including cash and deposits to ensure the ability to make necessary investments for business expansion and risk mitigation at the right time. In addition to double-sourcing production of key products and improving production efficiency with IT, SMC also invests in cybersecurity and data redundancy to ensure that we can continue operations even in an emergency. Specifically, we are working to build a system that minimizes down time and enables rapid recovery even if system disruptions occur by developing a unified data infrastructure across all regions worldwide and strengthening information security. Furthermore, for the components used in our products, we are focusing on using readily available materials from the design phase, purchasing from multiple sources, and securing appropriate inventory levels. In this way, we believe that we can turn risks into opportunities based on the strong trust of our customers.

Going forward, we will focus on expanding our business and market share to pursue excess profits above the break-even point as a manufacturing company.

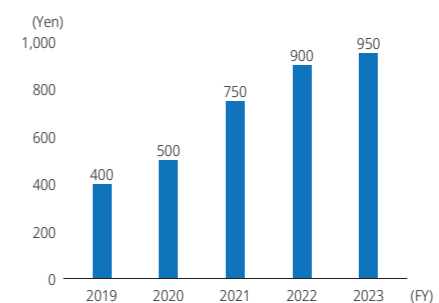
Message to our shareholders and investors

SMC’s core products—pneumatic instruments—are automatic control equipment that can replace manual labor. With global trends of shrinking working populations and soaring labor costs, the demand for automation and labor-saving solutions, as well as the market itself, is expected to grow significantly worldwide. Under these circumstances, SMC will proactively reinvest the profits earned through its business activities into future growth, aiming to further enhance our corporate value. Over the past four fiscal years, from the perspective of balancing the company’s growth and shareholder return, we have been returning profits to shareholders with targets of dividend payout ratio of approximately 25% and a total payout ratio of 50%. We will continue to expand our business further while being fully conscious of returning profits to our shareholders, so that we can continue to receive your support. Additionally, we are committed to contributing to society through our business activities. This includes enhancing our customers’ productivity, providing environmentally friendly products with superior performance compared to competitors, and offering applications that reduce CO₂ emissions on factory production lines. In order to achieve that, we ask for your continued support.

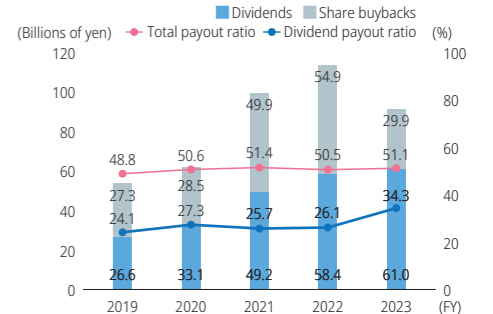
Changes in Capital Investment



Changes in Dividend per Share



Changes in Shareholder Return



Sales Activities

SMC entered the overseas markets in 1967. Currently, we have built a large-scale global sales network with over 500 sales offices and more than 7,000 direct sales personnel in over 80 countries and regions around the world.

Sales offices

Over **500** in more than **80** countries and regions

Direct sales personnel

Over **7,000** people

Customer accounts

700,000 companies

North America



U.S.

Other



Brazil

Europe



U.K.

Greater China



China

Other Asia



Singapore

Japan



Japan

As a Trusted Partner of Our Customers

SMC received the “Supplier Excellence Award 2024” from Applied Materials, Inc., one of the largest semiconductor and display equipment company, which is given to suppliers who have demonstrated outstanding performance in quality, service, lead time, delivery, cost, and responsiveness.

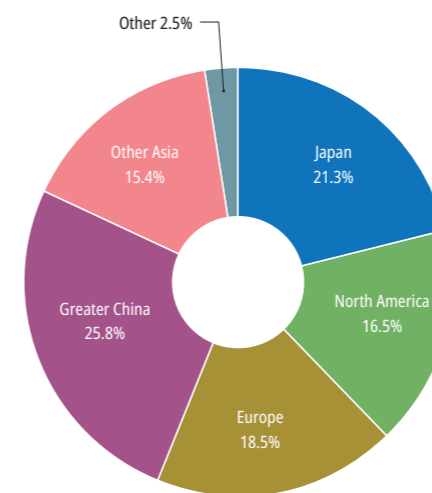


International Meeting

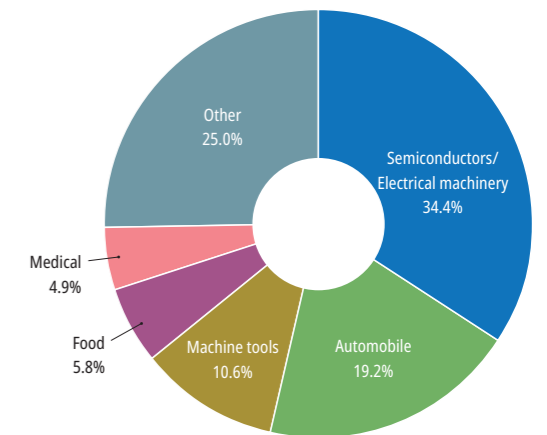
SMC holds an International Meeting every year, attended by presidents of our Group companies from around the world, with the aim of aligning the vectors of the entire Group and strengthening unity. In 2024, it was held in Tokyo in October.



Sales by Region (FY2023)



Sales by Industry (FY2023)



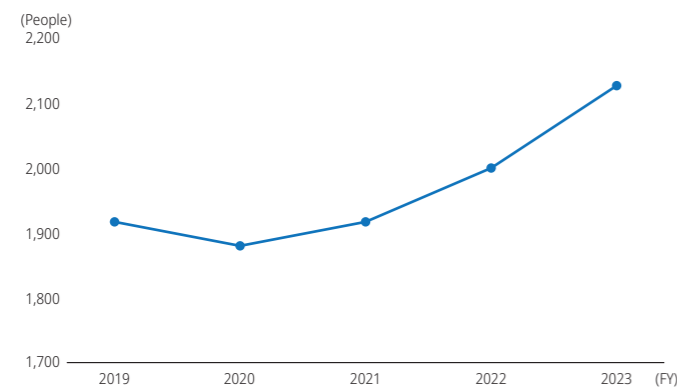
Research & Development

SMC conducts research and development activities on automatic control equipment and related technologies, aiming to develop products tailored to the rules and needs of countries and regions around the world, as well as to adapt to changes in market environments, such as advances in IoT and smart factories.

R&D System

To reflect customer needs accurately and promptly in product development, SMC employs over 2,000 engineers at technical centers around the world, which serve as R&D bases. Based on close communication and information sharing, we are establishing a Global Engineering Network to develop products and provide technical support.

Number of Engineers (Consolidated)



Japan Technical Center (JTC)

Established in April 1991 in Tsukubamirai City, Ibaraki Prefecture, to serve as a central hub for SMC's R&D activities.

Main facilities

- Temperature Control Laboratory
- Precision Measurement Laboratory
- Environmental Test Chamber
- Life Testing Laboratory
- Laboratory
- Prototype Room, etc.



European Technical Centre (ETC)

Established in October 2000 in Milton Keynes, a city in the U.K. situated halfway between London and Birmingham.



U.S. Technical Center (UTC)

Established in April 2002 in Indianapolis, Indiana. It was later relocated to the nearby city of Noblesville, together with the SMC Corporation of America headquarters.



China Technical Center (CTC)

Established in Beijing in July 2007.



German Technical Centre (GTC)

Established in October 2008 in Egelsbach, a German municipality near Frankfurt.

Promotion of Global Technology Development

SMC holds global Technical Center (TC) meetings to promote global technology development. Most recently, in May 2024, representatives from each TC gathered at the U.S. Technical Center (UTC). It was a good opportunity to strengthen cooperation between each TC and deepen trust relationships.



R&D Topics

10 Great New Products Awards

SMC's elastic finger (MH) won one of the "66th 10 Great New Products Awards (2023)," a prestigious award that recognizes outstanding new products that contribute to the improvement of industrial technology. This product, developed based on requests from customers around the world who wanted to gently grasp differently-shaped workpieces such as fragile, uneven, and spherical objects, can grasp them continuously without setup changes, contributing to improved productivity. Organized by: The Nikkan Kogyo Shimbun, Ltd.



'CHO' MONODZUKURI

Innovative Parts and Components Awards

SMC's manifold controller and corresponding electric actuator received the "2024 'CHO' MONODZUKURI Innovative Parts and Components Awards - Encouragement Award," which recognizes outstanding components and materials that improve the competitiveness of Japanese manufacturing and contribute to the industrial and societal development.

Organized by: MONODZUKURI Nippon Conference / The Nikkan Kogyo Shimbun, Ltd.

Supported by: Ministry of Economy, Trade and Industry / The Japan Chamber of Commerce and Industry / Keidanren (Japan Business Federation)



Toward Improving Development Capabilities

SMC is preparing to relocate and expand its current Japan Technical Center to Kashiwa City, Chiba Prefecture, due to business expansion. The new technology center, scheduled for completion in September 2025, will provide a healthy and comfortable working environment and state-of-the-art equipment to improve R&D productivity, as well as facilitate exchanges between SMC's engineering staffs, our customers, and research institutions around the world, aiming to create new innovations.



Kashiwanoha Campus New Technical Center (provisional name) conceptual drawing

Sustainability: Message from the Director



**Supporting our customers
reduce CO₂ emissions
—We will achieve
solutions to both social
issues and sustainable
growth.**

Toshio Isoe

Director and Executive Officer

Promoting sustainability across the Group to address global social issues

The impacts of climate change and global warming have caused unprecedented natural disasters, leading to widespread devastation worldwide. To address these challenges, companies are expected to take more proactive measures than ever before. Since sustainability initiatives are closely tied to a company's business activities, it is crucial for these activities to be sustainable. We believe our corporate social responsibility should be fulfilled through our business activities. As companies worldwide consider measures to reduce CO₂ emissions, it is clear that SMC, with its technologies, expertise, products and services, can contribute to solving the global social issue of climate change for its customers.

Based on this belief, under the leadership of President Yoshiki Takada, who assumed office in 2021, SMC has clarified its commitment to sustainability across the Group and newly established Sustainability Committee, among other initiatives, to enhance its sustainability promotion framework. This committee, chaired by Outside Director Kyoichi Miyazaki, serves as an advisory body to the Board of Directors, overseeing SMC's Sustainability Policy and their progress from an independent, third-party perspective. My role as a director in charge of sustainability is to serve as the head of the Sustainability Committee Secretariat and to promote and lead a series of initiatives such as the SMC SDGs Project and the Scope 3 CO₂ Reduction Project, in a cross-sectional manner throughout the company.

Additionally, we have begun analyzing SMC's dependencies and impacts on nature, as well as related risks and opportunities, based on the Taskforce on Nature-related Financial Disclosures (TNFD).

Aiming to reduce Scope 3 emissions through collaboration with suppliers

At SMC, we are confident that we can turn the risks of climate change into profit opportunities by providing products and services that help reduce CO₂ emissions. To measure climate change risks and opportunities, we aggregate Scope 1, Scope 2, and Scope 3 emissions across the Group based on the international GHG Protocol standard and implement specific measures with a view to future sales and production growth. We have also set medium and long-term GHG emission reduction targets and continue working toward achieving them. In particular, close collaboration with suppliers is essential for reducing Scope 3 emissions. Scope 3 refers to GHG emissions across the entire supply chain; however, since collecting data and comparing figures from each company is challenging, we prioritize ongoing efforts by companies to reduce Scope 3 over numerical results. Accordingly, SMC is exploring internally how to innovate business activities across the upstream and downstream supply chain and how to reflect suppliers' reduction achievements in our operations.

For example, the aluminum (primary alloy) that SMC uses as a raw material is made by refining bauxite extracted from the earth, a process that consumes significant electricity. Using recycled

aluminum (secondary alloy) instead can reduce CO₂ emissions by over 90%. Similarly, we have begun research into recycling brass rods and urethane resin. Moreover, we are working on reducing express shipments by shortening distances and improving inventory forecasting accuracy, as well as researching modal shifts from trucks and aircrafts to railways and ships. In June 2024, we disclosed our Scope 3 GHG emissions and reduction targets through FY2030.

Strengthening global talent acquisition and development for sustainable growth

SMC has long aimed to be a corporate group where diverse talent can thrive, regardless of nationality, gender, or age. For example, we have a policy of appointing talented local personnel as heads of overseas Group companies, entrusting them with management responsibilities. As a result, we operate in over 80 countries and regions, with nearly 80% of our net sales coming from overseas markets; non-Japanese nationals comprise approximately three-quarters of our employees, demonstrating significant globalization and diversity.

However, we face the challenge of fully utilizing talented personnel from overseas Group companies across the entire SMC Group. As part of the solution to this challenge, we introduced the SMC Group Internal Transfer Program in September 2023. This system enables talented personnel from overseas Group companies to work at the Japan headquarters for a set period, enhancing their contributions upon returning to their home countries. At the same time, it aims

to inspire Japanese employees through collaboration with overseas talent, fostering a spirit of challenge to seek opportunities on the global stage.

We are also planning and implementing various measures to globally attract and retain talented employees for sustainable growth. For example, we introduced a phantom stock plan for the presidents of our overseas Group companies. This plan provides retirement benefits in the form of cash compensation linked to our share price, based on certain criteria. The purpose of this initiative is to ensure that local management personnel participate in management with a stronger sense of unity, as well as to attract and retain top management talent.

Furthermore, to promote self-improvement and skill development, we hold Skill Competitions for experienced technicians in manufacturing. In FY2024, 143 employees from Japan, China, Vietnam, Singapore, South Korea, and Taiwan participated. By providing opportunities for friendly competition and to engage with exceptional skills beyond national and corporate boundaries, we ensure a stable product supply, quality improvement, and promote human development through manufacturing.

Achieving the medium-term sales target of "JPY 1 Trillion by FY2026" requires both productivity improvement and a change in mindset among individual employees. We would like to continue to be a company that all our stakeholders, including shareholders and investors, can be proud of and attached to, by aligning our vectors across the entire Group and pushing forward our transformation.

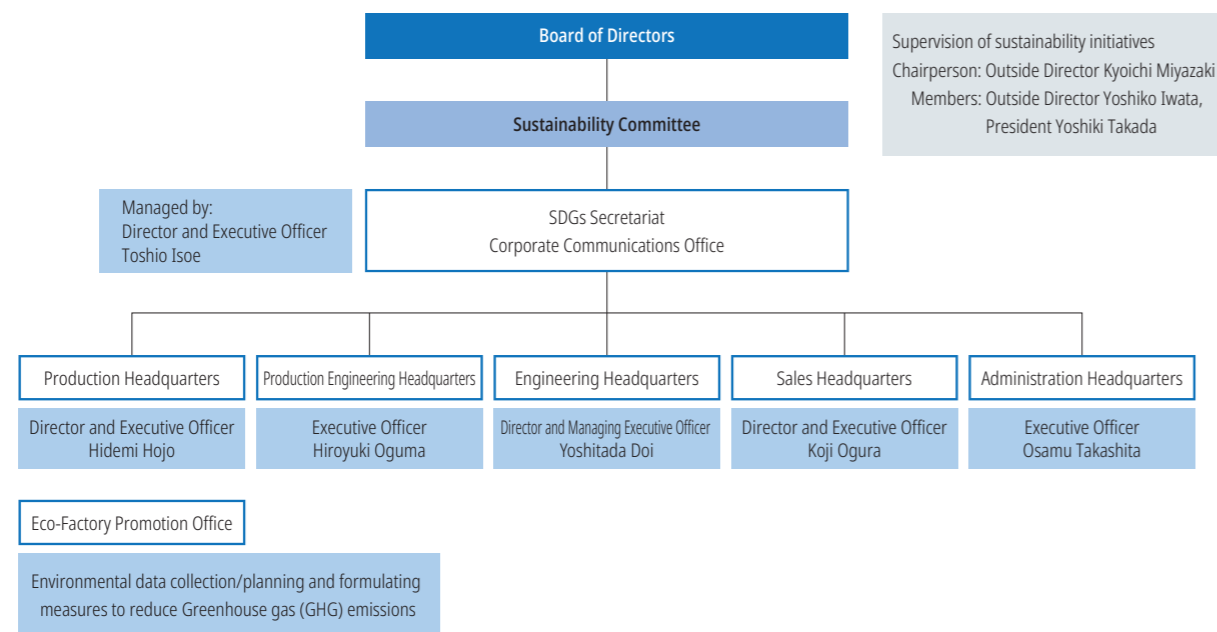
Sustainability Management

Sustainability Policy

SMC's mission is "contributing to automated, labor-saving operations in industries," focusing on its core business and delivering high-quality, high-performance automation control technologies to customers in various industries worldwide as its management philosophy. To address climate change and other societal challenges and pass down a rich natural and social environment to future generations, SMC will continue providing environmentally friendly products, promoting "automated, labor-saving" operations in industries and contributing to society's "sustainable growth and technological innovation," as the entire Group works toward a sustainable future.

Sustainability Promotion Framework

While the Board of Directors supervises the state of progress in sustainability initiatives, we have established the Sustainability Committee as an advisory body to the Board of Directors to strengthen its supervisory function. Internal rules stipulate that the majority of the members of the Sustainability Committee shall be Independent Outside Directors, and the Chairperson shall be elected from among the members who are Independent Outside Directors. On the executive side, we have clearly established a system in which a supervising director supports the committee, while the SDGs Secretariat and Corporate Communications Office serve as secretariat functions, with department heads taking the lead in advancing initiatives. Additionally, the Eco-Factory Promotion Office has been established as a division responsible for collecting environmental data and planning and implementing specific measures for climate change countermeasures, such as promoting the use of renewable energy.



Key Agenda Items of the Recent Sustainability Committee Meeting

- Disclosure of various policies and guidelines
- Scope 3 reduction plans
- Signing the United Nations Global Compact
- Policy for preparing the integrated report
- Disclosure of Scope 1, 2, and 3 reduction targets
- Progress on SDG initiatives
- Application for SBTi certification
- Progress in sustainability information disclosure
- Measures related to human capital
- Disclosure of environmentally friendly products



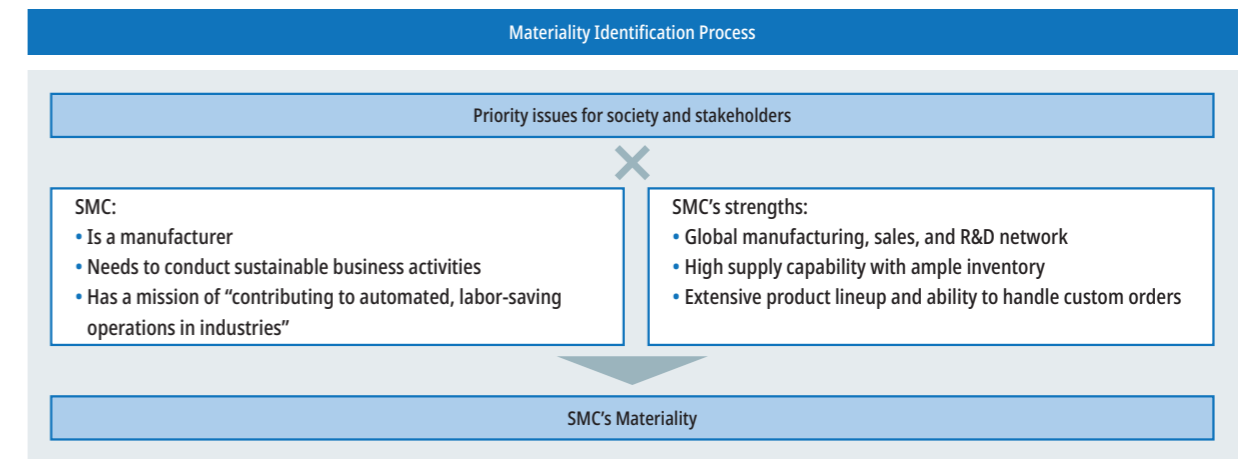
Materiality

Identification of Materiality

SMC has been contributing to "sustainable growth and technological innovation" within the society at large by continuing to supply environmentally friendly products and supporting "automated, labor-saving" operations in industries. Furthermore, based on our management philosophy, we have identified four items of Materiality that more strongly align our business activities with the resolution of social issues. We have linked this Materiality to specific activities outlined in the SMC SDGs TARGET, and the entire Group will work on them together in order to create a more sustainable future.

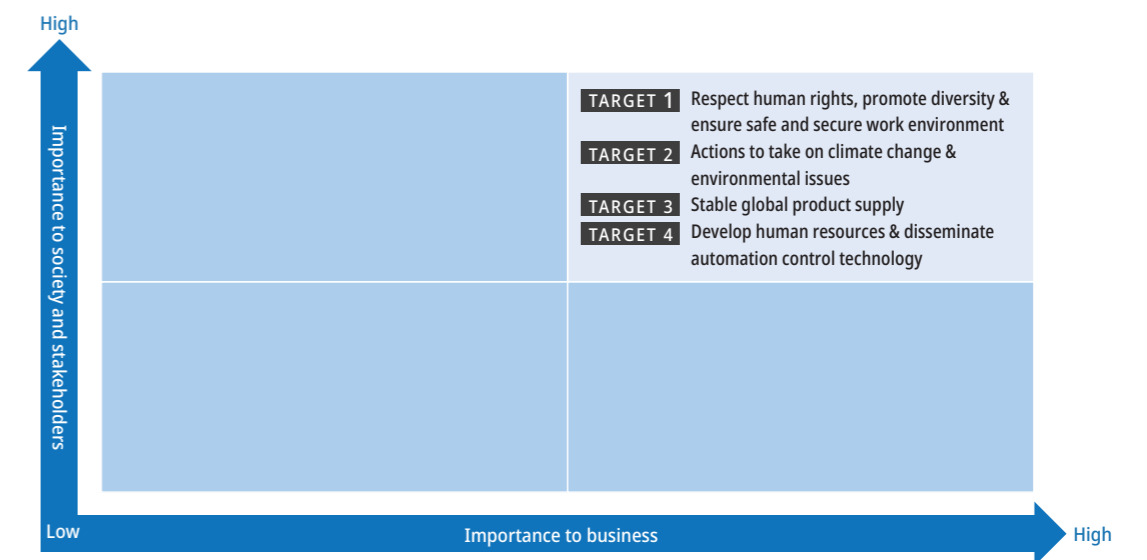
Identification Process

At SMC, we picked out social issues which we consider to be addressed to (candidate Materiality items) based on the international codes including SDGs, frameworks, guidelines, assessment items used by sustainability evaluation organizations, and risks and opportunities which we have recognized. After a series of internal discussions on the candidate Materiality items, as well as input from outside experts, we organized the importance of each candidate and identified their Materiality following a resolution by the Board of Directors.


















Our Particular Materiality


















At SMC, we have identified the following four items as Materiality for SMC by weighing their importance to the business against their importance to society and stakeholders.



SDG Initiatives

SMC SDGs TARGET

Materiality	Initiatives	KPIs	Progress in FY2023	Related SDGs
Create a positive work environment that values human rights	Theme: Create a work environment free from all forms of unfair discrimination <ul style="list-style-type: none"> Ensure that all employees are familiar with the Group Code of Conduct, which stipulates prohibition of unfair discrimination We will not engage in unfair discrimination based on nationality, race, color, ancestry, ethnicity, creed, religion, marital status, gender, disability, sexual orientation, place of birth, social status, etc., in hiring, promotion, personnel evaluation, etc. Conduct education for all employees Utilize whistleblowing system 	Conduct education for all employees: 100%	<ul style="list-style-type: none"> Conducted personnel evaluation training for newly appointed managers Informed sales office heads, newly appointed chiefs, and assistant managers about the whistleblowing system 	    
	Theme: Prohibit child, forced, and excessive labors <ul style="list-style-type: none"> Ensure that all employees are familiar with the Group Code of Conduct, which stipulates prohibition of unfair labor practices We will not enter into an employment contract with minors under the age at which they are legally permitted to work. We will strive to maintain a work environment free from labor which unjustifiably puts restraints on the employees' mental and physical freedom, which is under extremely poor environment, and which is excessively burdensome. We will strive to prevent the occurrence of the employees' health damage due to excessive overtime work. Conduct education for all employees Utilize whistleblowing system 	Conduct education for all employees: 100%	<ul style="list-style-type: none"> Began preparations for LMS training on preventing excessive labor Continued health condition monitoring using checklists for employees exceeding 45 hours of overtime work 	
	Theme: Create a work environment free from harassment <ul style="list-style-type: none"> Ensure that all employees are familiar with the Group Code of Conduct, which stipulates respect for personalities We will strive to maintain a work environment free from any human rights violations, such as acts of abuse including sexual harassment, power harassment, or excessive punishments. Conduct education for all employees Utilize whistleblowing system 	Conduct education for all employees: 100%	<ul style="list-style-type: none"> Attendance rate: 98% 	
Respect human rights, promote diversity & ensure safe and secure work environment	Theme: Increase female employment rate <ul style="list-style-type: none"> Increase the number of female recruiters Introduce the activities and careers of female employees through recruitment brochures Participate in recruitment events for female students majoring in science 	Using the recent 5-year average: <ul style="list-style-type: none"> Increase the newly-graduated female engineer employment ratio to 10% Increase the newly-graduated female sales and administration employment ratio to 35% 	<ul style="list-style-type: none"> Engineering positions: 2.8% Sales and administration positions: 27.2% 	    
	Theme: Support work-life balance <ul style="list-style-type: none"> Supporting flexible work styles that adapt to life events Promote using related systems and programs (utilization of training, LMS, company magazine, etc.) 	—	<ul style="list-style-type: none"> Created and published LMS content on childcare-related systems 	
	Theme: Create a work environment where people with disabilities can work comfortably <ul style="list-style-type: none"> Create work practices to accommodate and utilize outside support services in order to promote the employment of persons with disabilities Hold information exchange meetings and social gatherings with persons with disabilities, their families, special-needs schools, and advocacy groups Conduct a fact-finding survey regarding the work contents and work environment for persons with disabilities 	Comply with the statutory employment rate for persons with disabilities (within each country)	<ul style="list-style-type: none"> Achieved the legally mandated employment rate of 2.3% for persons with disabilities 	
Create a healthy, safe and secure work environment for employees	Theme: Create a work environment where employees can work safely and securely <ul style="list-style-type: none"> Strengthen Health and Safety Committee activities 1. Horizontal expansion of these activities Horizontally expand the activities performed in individual factories 2. Strengthen safety patrols Expand the education system for a safe and secure work environment 1. Implement labor management training within each factory and position 2. Conduct factory manager training 	Monitor indicators related to occupational accidents (rate per thousand workers*, severity rate, frequency rate) and continuously strive for rates below the manufacturing industry average (for Japan) <ul style="list-style-type: none"> * Rate per thousand workers: Ratio of deaths and injuries occurring per 1,000 workers per year 	<ul style="list-style-type: none"> See page 44 for information on workplace accidents Achieved 96% across all factories 	    
	Theme: Create a work environment where employees can work in good health <ul style="list-style-type: none"> Aim to eliminate health injuries by establishing an Occupational Health and Safety System Implement health promotion programs Installation of AEDs and lifesaving training Preventative counseling by mental health specialists and occupational physicians Promote brain scan check-ups for employees aged 40 and over 	—	<ul style="list-style-type: none"> Implemented AED training Conducted LMS training on line care by occupational physicians 	
	Theme: Create a work environment where employees can work safely and securely <ul style="list-style-type: none"> Strengthen Health and Safety Committee activities 1. Horizontal expansion of these activities Horizontally expand the activities performed in individual factories 2. Strengthen safety patrols Expand the education system for a safe and secure work environment 1. Implement labor management training within each factory and position 2. Conduct factory manager training 	Safety and secure work environment training <ol style="list-style-type: none"> Assistant Manager / Chief / Group Leader: Greater than 90% attendance Factory manager / Deputy factory manager: 100% attendance 	—	

Materiality	Initiatives	KPIs	Progress in FY2023	Related SDGs
Develop and promote energy-saving products	Theme: Promote the planning and development of environmentally friendly products <ul style="list-style-type: none"> Conduct product assessments according to ISO 14001 Build a monitoring system for CO₂ emissions (from product development to disposal) through product life cycle assessment 	<ul style="list-style-type: none"> Product assessments' target score: Achieve 90% or more Improve the accuracy of assessment management (review checklist items by business area) Define and disclose eco-products 	<ul style="list-style-type: none"> Achieved 123% in product assessment (see page 46) Environmentally friendly products (see page 47) 	     
	Theme: Support activities for customers' CO₂ reduction by proposing energy-saving products and energy-saving systems <ul style="list-style-type: none"> Provide education regarding energy conservation with our sales activities Implement energy conservation workshops and seminars Provide support with energy saving diagnosis within their factories 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
TARGET 2 Actions to take on climate change & environmental issues Contributing to the creation of a sustainable society through automation control technology	Theme: Promote the use of renewable energy <ul style="list-style-type: none"> Promote the use of electricity derived from renewable energy Promote the installation of solar panels in our business sites 	Renewable energy utilization rate: Achieve 95% or more	<ul style="list-style-type: none"> Domestic utilization rate: 96% 	     
	Theme: Reduce emissions of waste and environmentally hazardous substances <ul style="list-style-type: none"> Thoroughly manage chemical substances and wastewater and comply with environmental laws and regulations Promote the recycling of waste Switch to CFC substitutes with lower global warming coefficients Thoroughly manage this program by establishing management standards that are stricter than the existing wastewater management laws and regulations Thoroughly manage this program by utilizing the ISO 14001 Environmental Management System 	<ul style="list-style-type: none"> Waste recycling rate: Achieve 95% or more Switching to CFC substitutes: Achieve 95% or more Continue to never violate the laws and regulations regarding wastewater drainage Continue to have zero findings related to environmental issues 	<ul style="list-style-type: none"> Recycling rate: 92% 	
	Theme: Reduce environmental impacts caused by the use of packaging materials <ul style="list-style-type: none"> Use packaging materials that use less environmentally impactful substances 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
	Theme: Reduce emissions and the use of environmentally hazardous substances by promoting green procurement <ul style="list-style-type: none"> Reduce the amount of environmentally hazardous substances used and emitted with each and every product (Continue activities to reduce environmentally hazardous substances mentioned in ISO 14001 and consistently achieve our annual reduction targets) 	Switch to RoHS Directive designated hazardous substance-free products: Achieve 90% (product inventory)	<ul style="list-style-type: none"> Switch rate: 89.9% 	
	Theme: Reduce CO₂ emissions from business use of vehicles <ul style="list-style-type: none"> Switch all company-owned vehicles to environmentally friendly vehicles 	Switch to environmentally friendly vehicles: 100%	<ul style="list-style-type: none"> Switch rate: 80% 	
	Theme: Participate in environmental conservation activities in the factories' surrounding areas <ul style="list-style-type: none"> Conduct tree planting, flowerbed replacement, green conservation activities, beautification activities 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
	Theme: BCP initiatives in production and logistics <ul style="list-style-type: none"> Risk diversification of production bases and distribution warehouses 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
TARGET 3 Stable global product supply Create a supply system that constantly prepares and protects against the worst, and never stops under any circumstances	Theme: BCP initiatives in information systems <ul style="list-style-type: none"> Strengthen security by developing a globally unified IT infrastructure Build a disaster recovery system by creating a data center and respond to cyber attacks 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	  
	Theme: Strengthen cooperation with local governments for disaster preparation <ul style="list-style-type: none"> Conclude cooperative agreements with local governments to prepare for disasters Donate solar panels, storage batteries, and emergency equipment to local governments 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
	Theme: Responsible procurement to build relationships of trust with our business partners <ul style="list-style-type: none"> Disseminate procurement guidelines Implement supply chain risk management 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
TARGET 4 Develop human resources & disseminate automation control technology Supporting the growth of each individual to support a sustainable future	Theme: Develop global human resources <ul style="list-style-type: none"> Global talent management Create a mechanism to develop experts in each field 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	 
	Theme: Provide skill acquisition opportunities <ul style="list-style-type: none"> Create a system to pass on skills 1. Install safety and skill training equipment at each factory 2. Systematically train staff members to be skill certified 3. Implement skill competitions and awards 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
	Theme: Global award system <ul style="list-style-type: none"> Implement an awards system for employees who have shown excellent performance and skills in each department 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
	Theme: Provide opportunities to learn about automation control technology <ul style="list-style-type: none"> Workshops for children Provide opportunities for children to experience "what pneumatic instruments and automatic control equipment are" Seminars for students 	—	<ul style="list-style-type: none"> Carried out as stated in the left 	
Theme: Support higher education institutions <ul style="list-style-type: none"> Donate to universities and research institutes Provide cut samples, training kits, and products 	—	<ul style="list-style-type: none"> Carried out as stated in the left 		

TARGET 1-1 Respect Human Rights

Participation in the United Nations Global Compact

In April 2024, SMC signed the United Nations Global Compact. We support the Ten Principles of the United Nations Global Compact on human rights, labor, and anti-corruption, and are committed to fulfilling our social responsibilities while striving for sustainable growth.



Basic Concept

SMC has signed the United Nations Global Compact and supports international norms adopted by the United Nations such as the Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. The company has declared its commitment to strict compliance with the human rights laws and regulations of each country and region as part of its Human Rights Policy. Please refer to page 73 for more details.

Scope of Application

This policy outlines our basic stance regarding respect for human rights, and applies to all officers and employees of SMC (including temporary and dispatched employees). We also request that our suppliers (including subcontractors) respect the aims of this policy.

SMC Group Code of Conduct

We will strive to maintain a safe and comfortable 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.

Educating All Employees

SMC provides various training programs to maintain a safe and comfortable work environment where employees can stay motivated and fully utilize their abilities.

- Hierarchical training on harassment prevention and mandatory e-learning for all employees
- Unconscious bias training for all officers and organizational leaders at the head office
- Maternity and paternity harassment prevention training related to childbirth and childcare leave



Supplier Surveys

To promote initiatives that respect human rights throughout the supply chain, SMC requests self-assessments from individual suppliers and conducts on-site inspections by directly visiting key suppliers. Please refer to page 62 for more details.

TARGET 1-2 Promote Diversity

Basic Concept

SMC stipulates in its 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."

Promoting Women's Active Participation

SMC believes it is important to create an environment where women can actively participate in professional life without giving up on their careers, and have equal opportunities for advancement into managerial roles. In addition to increasing the percentage of female employees through proactive recruitment activities, we are also working to ensure that it is possible for employees to smoothly return to work after taking maternity or childcare leave, and that they are reinstated in the same workplace as prior to the leave. Furthermore, as a measure to support the balancing of work and family/childcare responsibilities, we are working to develop a comfortable work environment by establishing various programs such as introducing shorter working hours and flexible working hours. In order to increase the number of female employees involved in organizational management and managerial decision-making in the future, it is necessary to foster career awareness from a medium- to long-term perspective. We are working on measures such as creating a work environment that fully harnesses the characteristics and abilities of each employee and providing training to develop managerial talent.

Supporting Work-Life Balance

Supporting Flexible Work Styles That Adapt to Life Events

SMC is continuously reviewing and improving our flexible and shorter working hour programs so that employees can balance their work and household responsibilities and choose flexible working styles to accommodate life events such as childcare and nursing care.

Encouraging Childcare Leave for Male Employees

To encourage male employees to participate in childcare, SMC has set up a "Subsidy for Taking Parental Leave." We also increased the number of days of special paid leave granted to male employees upon the birth of a child by their spouse from 2 to 5 days. To deepen understanding of the various programs established to support childbirth and childcare, and to prevent "maternity and paternity harassment," we created LMS (e-Learning system) training materials and made the course mandatory for all organizational leaders.

Gender Pay Gap

For its pay system, SMC follows the principle of "equal pay for equal work" and applies the same pay table to each job group (position or job level category), with no disparity in pay based on gender.

Our analysis shows that the pay gap between men and women is caused by the following:

Difference in the Average Length of Service Between Male and Female Employees

Traditionally in Japanese companies, women often left jobs due to marriage, childbirth, childcare, or caregiving, and at SMC, this has contributed to shorter average years of service for women compared to men. Additionally, in job categories such as engineering, sales, and skilled labor positions, the low hiring rate of women in the past and the recent increase in young female recruits have further contributed to shorter average years of service for women.

Difference in the Ratio of Male and Female Employees

The percentage of women occupying positions with relatively high pay levels (especially management, engineering, sales and administration positions) is relatively low.

Promoting Senior Generation Engagement

SMC is committed to creating an environment where senior employees can utilize their skills effectively. By leveraging the diverse expertise of senior employees for business development and passing on knowledge and skills to younger generations, SMC enhances business continuity.

TARGET 1-2 Promote Diversity

Securing Diverse Human Resources

SMC is actively promoting the participations of non-Japanese (foreign national) employees and mid-career hires to meet the challenges of globalization and acquire human resources with specialized knowledge and expertise. We also expect to see benefits such as raising awareness among all employees and having a greater revitalizing influence on the organization.

Employee Engagement

At SMC, we conduct an employee engagement survey with the aim of increasing their motivation and fostering a sense of unity as an organization. The surveys are categorized into “job/responsibilities,” “support/supervisors,” “environment/colleagues,” “culture/vision,” and “benefits/compensation,” and are used to evaluate HR measures and improve the workplace environment.

Positive Response Rate in Each Category of Engagement Surveys for Regular Employees at SMC

	FY2023	FY2024
Job/responsibilities	76.0%	75.5%
Support/supervisors	77.6%	75.5%
Environment/colleagues	78.0%	78.3%
Culture/vision	73.4%	72.4%
Benefits/compensation	66.3%	66.4%

Challenges to Address Moving Forward

While the overall results of the employee engagement survey show many positive responses, the relatively low ratio in the “benefits/compensation” category highlights an area for improvement. Low positive response rates in “fairness and equity in promotions” and “opportunities to realize desired career visions and plans” were identified as areas needing attention.

We recognize that we must conduct fair, impartial, and transparent personnel evaluations and compensate employees based on their roles, abilities, and achievements. Employees may feel vague anxiety about their careers or lack clear goals for their future work, highlighting the need to provide opportunities for career reflection. The aim is to create an environment where employees are motivated to take on challenges and can fully demonstrate their abilities.

Creating a Healthier Workplace for Employees

SMC is taking the following measures to create a workplace where employees can work in good health.

- Installing health-promoting equipment at business sites
- Eliminating health injuries through the establishment of an Occupational Health and Safety System
- Implementing health promotion programs
- Installing AEDs and conducting lifesaving training
- Preventative counseling by mental health specialists and occupational physicians
- Promoting brain scan check-ups for employees aged 40 and over



In addition, we conduct educational activities for employees, including healthcare-related seminars on topics such as Mental Health Line Care and stress checks, and regularly distribute checklists.

TARGET 1-3 Ensure Safe and Secure Work Environment

Health and Safety Committee Activities

SMC is working to ensure safety and security in the workplace, a concept that includes the prevention of workplace accidents, disaster, harassment and crime. We have also established the Safety and Disaster Management Office to support employees’ safety awareness and knowledge and ensure a safe work environment by conducting unified activities across all factories. For the safety activities, we focus on occupational health and safety, prevention of fire and disaster, and 5S initiatives (or initiatives to maintain a clean, well-arranged workplace for an efficient working environment), as well as providing training on how to handle AEDs and fire hydrants at all locations. We also conduct active training to our factory managers and supervisory leaders and carrying out safety patrols within each site to enhance safety measures.



AED training at a factory

Safety Dojo

SMC has established “Safety Dojo” facilities at factories in Japan and abroad to ensure workplace safety and improve productivity. All factory employees, including temporary and dispatch workers, use simulation equipment to experience workplace hazards firsthand, enhancing their risk prediction skills and working to prevent injuries and accidents.



Workplace Accidents (Severity and Frequency)

Excluding the high severity rate in 2019 when a major accident occurred, SMC’s workplace accident indicators continues to fall below the manufacturing industry average.

	2019		2020		2021		2022		2023	
	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC	Manufacturing industry	SMC
Rate per thousand workers	2.7	0.6	2.6	1.3	2.7	0.3	2.7	1.4	2.7	0.9
Severity	0.10	0.64	0.07	0.02	0.06	0.00	0.08	0.02	0.08	0.02
Frequency	1.20	0.39	1.21	0.82	1.31	0.32	1.25	1.15	1.29	0.89

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

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

TARGET 2 Actions to Take On Climate Change & Environmental Issues

Basic Concept

SMC Group Code of Conduct

We will recognize that 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 water drainage and air exhaustion, and disposal of waste, and will work on reducing waste.
 - We will ensure saving of natural resources and energy.

Environmental Policy

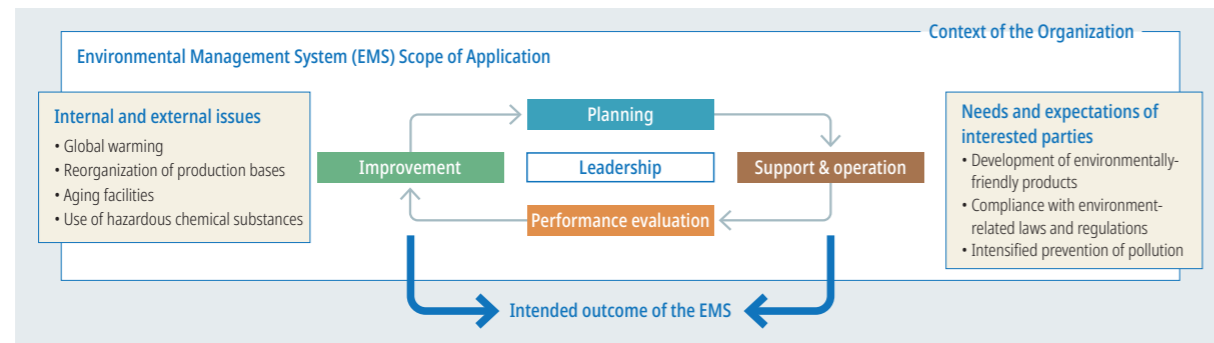
[Basic Philosophy] SMC recognizes that the conservation of the global environment is the most crucial issue facing all humanity. Therefore, we will strive to realize a comfortable global environment through all of our business activities. As a comprehensive manufacturer of automatic control equipment, we will contribute to the creation of a sustainable society.



▶ Please refer to the link below for more details on our Environmental Policy.
https://www.smcworld.com/about/sustainability/en-jp/environmental_management.html

Environmental Management Systems

As part of our efforts to comply with the ISO 14001 standard for environmental management systems (EMS), SMC has established "Medium-Term Environmental Targets" to be achieved over a period of 3 years and "Environmental Targets" for each fiscal year, and manages and evaluates the progress of these targets.



Environmental Training

SMC provides environment-related education and practical training to our employees, as well as environmental training to our environment-related partner companies. In addition, employees with national qualifications attend follow-up training on an ongoing basis to continue improving the quality of their knowledge and skills.

Training Conducted in FY2023

Environmental training for employees	8,612 attendees
Emergency response training	102 attendees
Training for frontline workers	641 attendees
Participation in external environment-related training sessions	38 attendees
Environmental training for environment-related partner companies	136 companies

Green Procurement

SMC develops and provides environmentally friendly products to continuously reduce our burden on the environment. As part of these efforts, we practice green procurement in compliance with various regulations for products, raw materials, components, semi-finished goods, secondary materials, and packaging materials used in design, development, and production processes.

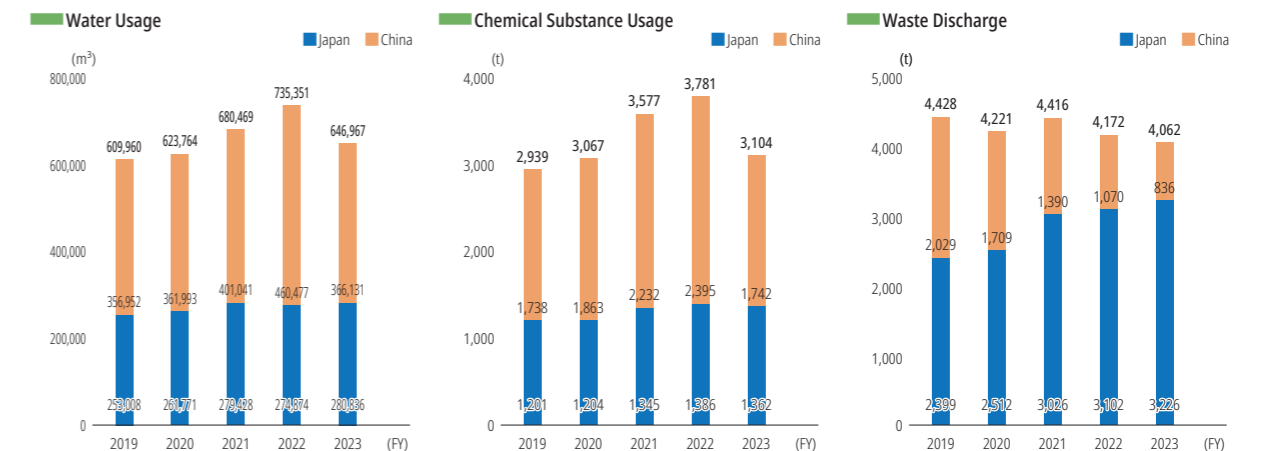
Environmental Targets, FY2023 Results and Evaluation

These are the results of our initiatives for FY2023.

- ① Product assessments were conducted for designing and developing environmentally friendly products.
- ② CO₂ emissions increased 7.2%, waste discharged increased 10.1%, and water use increased 5.1%.
All of these are per unit of production compared to the 8th Term (FY2020-2022) average.
 While the number of production bases increased as part of our BCP initiatives, a decrease in sales resulted in higher unit-based CO₂ emissions.
- ③ All major production districts participated in climate change initiatives organized by local governments and industry groups. They also were involved in community beautification activities and programs to raise employee awareness. Additionally, we switched to cleaning fluids with lower global warming potential.

Item	Medium-Term Environmental Target		FY2023 Environmental Targets		
	3-Year Milestone (FY2023-FY2025)	3-Year Total	Target	Results	Evaluation
Product assessments (Environmental compatibility)	Design and develop environmentally friendly products, and conduct assessments by evaluating the current score	75 models or more 900 points or higher	25 models 300 points or higher	40 models 370 points	Achieved
Business activities (Environmental conservation)	Promote energy-saving, resource-saving, and reduction of the environmental burden through beneficial environmental activities in our primary business operations				
	• Prevention of global warming—Reduction of CO ₂ emissions per unit of production compared to the previous 3 year term average	Reduction of 3% or more	Reduction of 1% or more	7.2% increase	Not achieved
	• Resource saving—Reduction of waste discharge per unit of production compared to the previous 3 year term average	Reduction of 3% or more	Reduction of 1% or more	10.1% increase	Not achieved
	• Water saving—Reduction of water consumption per unit of production compared to the previous 3 year term average	Reduction of 3% or more	Reduction of 1% or more	5.1% increase	Not achieved
Communication (Coexistence with society)	• Social contribution activities		Community beautification activities	Implemented in all districts as planned	Achieved
	• Promotion of biodiversity preservation		Woodland preservation activities Tree-planting	Implemented in all districts as planned	Achieved
	• Promotion of climate change actions		Participation in initiatives organized by local governments and industry groups; education and awareness raising programs	Implemented in all districts as planned	Achieved

The following graphs show the figures for our production bases in Japan and China, which account for 88% of the Group's total production.



TARGET 2 Actions to Take On Climate Change & Environmental Issues

Environmentally Friendly Products

Since its establishment, SMC has been developing automatic control equipment, including pneumatic instruments, and has increased product variations to meet customer needs. In addition, through the use of topology optimization*1 in the design process, we have made our products more compact and lightweight, as well as more air- and energy-efficient, significantly reducing CO₂ emissions during manufacturing and use. While most SMC products are environmentally friendly, the company has now established its own

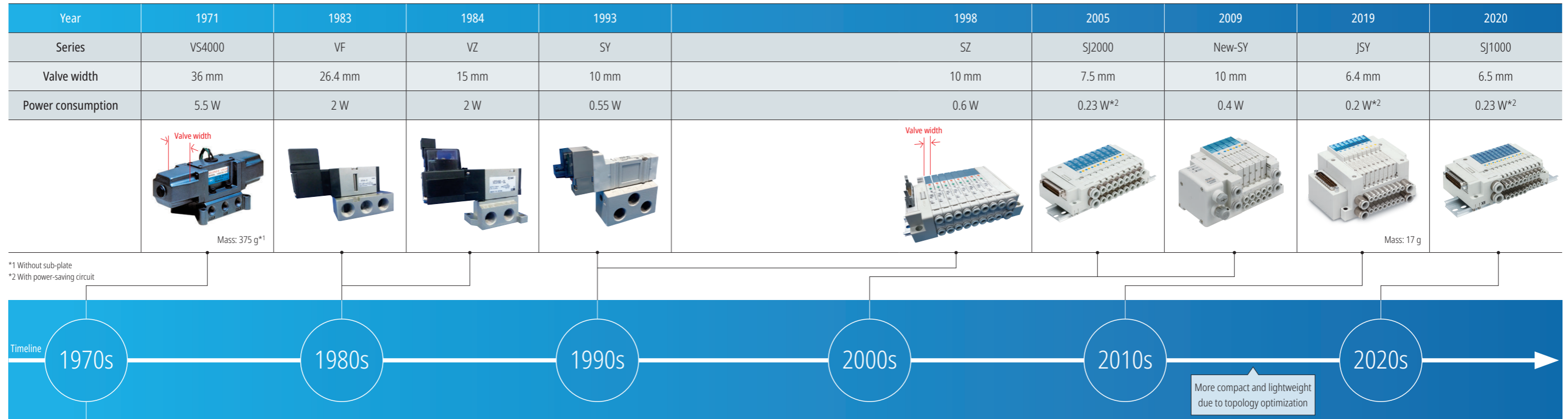
criteria to define products that particularly contribute to reducing customers' GHG emissions as environmentally friendly products.*2 These products account for 80% of SMC's sales in FY2023.

*1 Topology optimization is the methodology of finding the most efficient shape and form of a structure based on mathematics and mechanics.

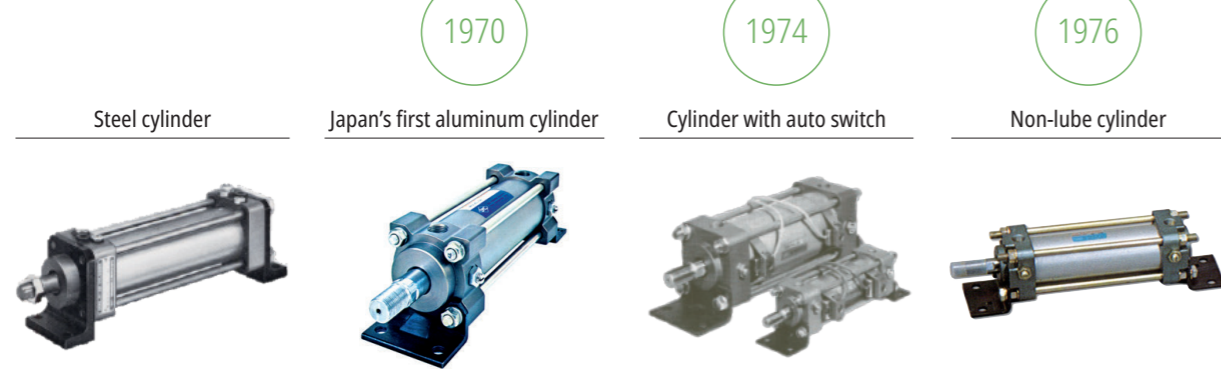
*2 Products that fall under one of four categories: 1) Energy-saving, 2) Resource-saving, or 3) Air-saving compared to previous models, or 4) Newly designed environmentally conscious products.

Evolution of Products

Solenoid Valves (Directional Control Valves)



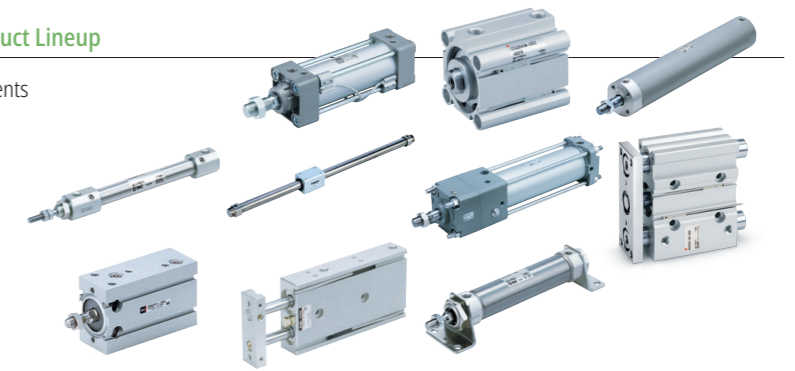
Actuators (Motive Equipment)



Optimizing Basic Products / Expanding Product Lineup

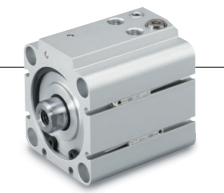
- Developing products to meet customer requirements
- Improving products and expanding our lineup
- Enhancing product quality and reducing costs

Basic products: **50** models
Total no. of items: **700,000** variations



CO₂ Reduction Initiatives and Product Deployment

- More compact and lightweight • Reducing CO₂ emissions through topology optimization
- Air-saving • Exhaust air recycling circuit • Built-in air-saving circuit

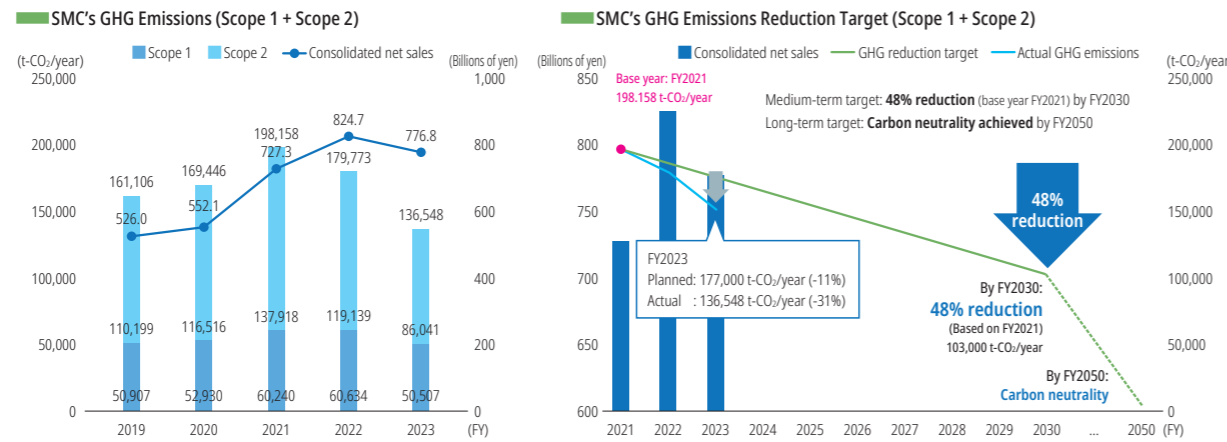


TARGET 2 Actions to Take On Climate Change & Environmental Issues

Reducing GHG Emissions

SMC is promoting various initiatives to reduce GHG emissions that arise through our own production activities. Based on the international GHG Protocol, we aggregate data on emissions for Scope 1, Scope 2, and Scope 3*1 across the entire Group.*2 Taking into account potential future sales and production scale expansion, we have developed concrete measures to achieve medium- to long-term targets*3 for reducing absolute GHG emissions. The accuracy and reliability of the aggregated Scope 1, 2, and 3 data have been verified by LRQA Limited. Additionally, our medium-term plan to reduce GHG emissions by FY2030 has been certified by the international organization SBTi. (Science Based Targets initiative)

*1 Scope 1: CO₂ emissions produced by our own fuel consumption.
 Scope 2: CO₂ emissions produced through the consumption of energy supplied by other companies.
 Scope 3: Indirect emissions related to business activities, such as the purchase of raw materials, product delivery, and energy consumption when customers use SMC products.
 *2 The 34 locations, which include sales locations, mass production factories, and major distribution centers, make up more than 95% of consolidated external net sales.
 *3 Reduction targets to meet the demands of SBTi's 1.5°C scenario with FY2021 as the base year.
 *4 SMC is expanding the aggregation scope for Scope 1, 2, and 3 while improving calculation accuracy for Scope 3.

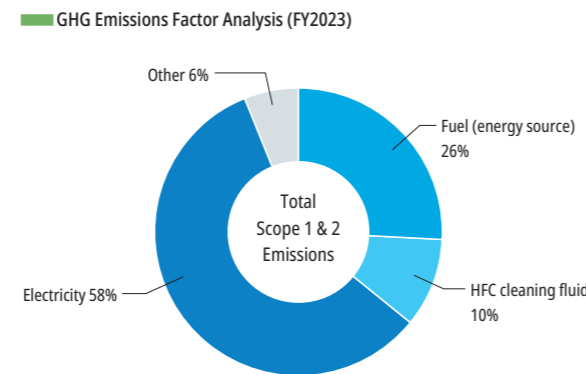


Third-party verification data for Scope 1, 2, and 3 are from FY2021 and FY2022.

Specific Initiatives

SMC is taking the following measures to achieve our GHG emissions reduction targets.

- Expand the provision of products and solutions that help reduce customers' energy consumption
- Develop low-carbon products
- Improve efficiency in transportation and delivery
- Expand the use of green power
- Introduce solar power generation
- Use recycled refrigerants
- Develop products using low-global warming potential (GWP) and CO₂ refrigerants
- Revise production processes
- Switch to LED lighting
- Switch to environmentally friendly vehicles



SBTi & LRQA (Third-Party Certification/Verification)

In June 2024, SMC obtained SBTi certification for the following GHG emission reduction targets.

- Scope 1 & 2: Reduce GHG emissions by 48% from the base year by FY2030. Achieve carbon neutrality by FY2050.
- Scope 3: Reduce GHG emissions by 33% from the base year by FY2030.

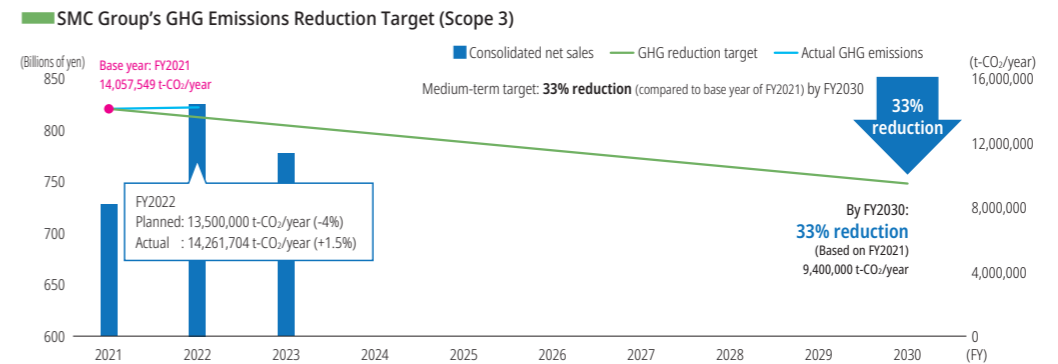


* Base year: FY2021
<https://www.smcworld.com/about/sustainability/en-jp/environment.html>
 The accuracy and reliability of the Scope 1, 2, and 3 data have been verified by LRQA Limited.

Reduction of Scope 3 Emissions

SMC has established an internal Scope 3 CO₂ Reduction Project to understand the overall GHG emissions in its supply chain. Among the 15 categories, categories 1, 4, and 11 have been identified as hotspots, and SMC is building a system to work towards decarbonization across the entire supply chain.

To achieve more accurate emission tracking, SMC is establishing a collaborative framework with its suppliers.



Third-party verification data for Scope 1, 2, and 3 are from FY2021 and FY2022.

Scope 3 Emissions by Category

Category	FY2023 emissions (thousand t-CO ₂)
1. Purchased goods and services	1,576
2. Capital goods	363
3. Fuel- and energy-related activities not included in Scope 1 or Scope 2	20
4. Upstream transportation and distribution	121
5. Waste generated in operations	5
6. Business travel	3
7. Employee commuting	10
8. Upstream leased assets	0
9. Downstream transportation and distribution	4
10. Processing of sold products	0
11. Use of sold products	20,708
12. End-of-life treatment of sold products	22
13. Downstream leased assets	0
14. Franchises	0
15. Investments	0
Total Scope 3 emissions	22,832

Scope 3 Measures by Category

Category 1
 SMC is promoting the transition of purchased raw materials to recycled materials. We are focusing primarily on improving the recycling rate of aluminum.

Category 4
 SMC aims to minimize transportation distances by expanding local procurement. Additionally, we are working on a modal shift to prioritize maritime transportation, striving to reduce reliance on air transport.

Category 11
 SMC provides customers with energy-saving and air-saving products while offering consulting services to propose energy-saving solutions, supporting GHG emission reduction across their entire factories from both hardware and software perspectives. Please refer to pages 47-48 and page 61 for more details.

TARGET 2 Actions to Take On Climate Change & Environmental Issues

[Disclosure Based on TCFD Recommendations]

Strategy

In June 2022, SMC expressed its commitment to the Task Force on Climate-related Financial Disclosures (TCFD). Based on this commitment—and with reference to reports from the IEA, IPCC, and other organizations, as well as international trends including the Paris Agreement—we conducted a scenario analysis, selecting the 1.5°C scenario in which we transition to a low-carbon society, and a 4°C scenario in which global warming continues to progress. The results of the scenario analysis are reflected in SMC’s policy decisions.

In both the 1.5°C and 4°C scenarios, we believe that SMC’s business strategy will remain resilient in terms of the financial impact and countermeasures associated with each risk/opportunity.

We will continue to regularly conduct scenario analysis, review the risks and opportunities, and steadily implement countermeasures while monitoring the progress.

Scenario Overview

	Overview	Main Sources Referenced
1.5°C scenario	In order to achieve net-zero greenhouse gas (GHG) emissions by 2050, policies aimed at decarbonization will be enhanced, including carbon taxes, emissions trading, recycling regulations, and global warming prevention regulations. This is expected to lead to increased demand for GHG emission reductions, advancements in low-carbon technologies, and increased demand for low-carbon products. Since the rise in temperature will be kept to a minimum, the physical impact is assumed to be relatively small.	<ul style="list-style-type: none"> IEA's <i>World Energy Outlook (WEO) Net Zero Emissions by 2050 (NZE) scenario, Sustainable Development Scenario (SDS)</i> IPCC's RCP 1.9 scenario Japan Electronics and Information Technology Industries Association (JEITA), "Survey of Trends in Emerging Fields" World Economic Forum, "Winning in Green Markets: Scaling Products for a Net Zero World"
4°C scenario	As fossil fuel-dependent economies continue to develop, climate change policies are not adequately implemented, and few advances are made in decarbonization-related technologies. Meanwhile, as temperatures rise, floods and other climate-related disasters are expected to intensify, causing more physical damage. Therefore, it is assumed that BCP measures will be promoted, as well as labor-saving and automation in factory facilities to cope with heat stroke, infectious diseases, and other risks.	<ul style="list-style-type: none"> IEA's <i>WEO Stated Policies Scenario (STEPS)</i> IPCC's RCP 8.5 scenario WRI's Aqueeduct Floods tool WRI's Aqueeduct Water Risk Atlas tool Hazard Map portal of Ministry of Land, Infrastructure, Transport and Tourism

[Definitions] 1. Time frame Short term: 0–3 years; Medium term: 4–10 years; Long term: 11–30 years. 2. Financial impact Small: Less than 1 billion yen; Medium: 1 billion–less than 50 billion yen; Large: 50 billion yen or more

1.5°C Scenario

Area	Climate Change Driver	Assumption	Risk or Opportunity	Business Impact	Apparent Period	Financial Impact by FY2030	Countermeasures
Policies and regulations	Introduction of a carbon tax and emissions trading scheme	A carbon emissions burden will be imposed	Risk	Increase in procurement costs due to suppliers passing on the carbon emissions burden	Medium – long term	Medium	<ul style="list-style-type: none"> Develop compact and lightweight products (reduce material usage) Recycle swarf and scrap Optimize global procurement
			Risk	Increase in manufacturing and operating costs due to the imposition of a burden on Scope 1 and 2 carbon emissions	Medium – long term	Medium	<ul style="list-style-type: none"> Introduce solar power generation Shift to renewable energy-derived electricity as the main source of power
			Opportunity	Decrease in manufacturing and operating costs due to a lower carbon emissions burden resulting from Scope 1 and 2 emissions reductions	Medium – long term	Medium	<ul style="list-style-type: none"> Switch from HFCs to cleaning fluids with low global warming potential Introduce highly efficient equipment and upgrade facilities Research energy-saving production methods and implement them in mass production Use refrigerants with low global warming potential in temperature control equipment
Market	Increase in customer awareness of low carbon	Customers will demand the use of low-carbon energy	Risk	Increase in manufacturing and operating costs due to the implementation of Scope 1 and 2 emissions reduction measures	Medium – long term	Small	
		Customers will demand detailed information disclosure on SMC product's carbon footprint (CFP)	Opportunity	Increase in revenue of SMC products due to mandatory CFP labeling and the selection of products with a smaller CFP	Medium – long term	Large	<ul style="list-style-type: none"> Calculate CO₂ emissions during production of flagship models Perform product assessments Reduce CO₂ emissions during production with lightweight and compact designs Switch factory power sources to renewable energy Expand the scope of products subject to calculation of CO₂ emissions during production Expand development of energy-saving, air-saving, and long service life products
		More customers will orient toward low-carbon products	Opportunity	Increase in revenue due to higher demand for sensors for visualization	Medium – long term	Medium	<ul style="list-style-type: none"> Develop energy-saving products Strengthen our production/sales structure Enhance product variation Expand and enhance wireless technologies
			Opportunity	Increase in revenue due to higher demand for compact and lightweight pneumatic instruments	Medium – long term	Large	<ul style="list-style-type: none"> Enhance product variation Expand and enhance compact and lightweight products Strengthen our production/sales structure Develop new technologies for energy-saving and air-saving products Establish end-of-life product recycling chains

Area	Climate Change Driver	Assumption	Risk or Opportunity	Business Impact	Apparent Period	Financial Impact by FY2030	Countermeasures
Market	Increase in customer awareness of low carbon	Power shifting to electrification	Opportunity	A certain increase in net sales despite slowing market growth for pneumatic actuators	Medium – long term	Medium	<ul style="list-style-type: none"> Develop energy-saving and air-saving products Offer a program that helps customers select optimal products Engage in activities to spread the use of energy-saving and air-saving products in the market
			Risk	Loss of revenue due to the slow down in the pneumatic actuators market growth	Medium – long term	Medium	<ul style="list-style-type: none"> Offer technical support for energy-saving systems Enhance response to demands and supports for custom-made products
			Opportunity	Increase in revenue due to the electric actuators market expansion	Medium – long term	Medium	<ul style="list-style-type: none"> Enhance electric actuator variations Develop energy-saving products Strengthen our production/sales structure Build a repair and recycling system
	Increase in material prices	The price of aluminum will rise as a result of the transition to a low-carbon society	Risk	Increase in procurement costs due to price rise in aluminum, a key raw material	Medium – long term	Medium	<ul style="list-style-type: none"> Reduce aluminum usage by developing compact and lightweight products Switch to using resin materials Establish a recycling chain Optimize global procurement
			Risk	Increase in procurement costs due to price rise in copper alloy and steel, key raw materials	Medium – long term	Medium	<ul style="list-style-type: none"> Reduce copper alloy and steel usage by developing compact and lightweight products Switch to using resin materials Establish a recycling chain Optimize global procurement
			Risk	Increase in procurement costs due to price rise in resin and rubber material will rise	Medium – long term	Medium	<ul style="list-style-type: none"> Reduce material usage by developing compact products Research runnerless mold structures Consider using recycled materials Optimize global procurement
	Increase in retail electricity prices	Retail electricity prices will rise as power companies shifting to generating electricity based on carbon-free energy sources	Risk	Increase in procurement costs due to suppliers passing on electricity costs	Medium – long term	Medium	<ul style="list-style-type: none"> Calculate consolidated Scope 3 emissions Research energy-saving production methods (switch to press manufacturing process, using resin, etc.) Design and adopt energy-saving production methods Consider optimal global production bases
			Risk	Increase in manufacturing costs due to our own rising electricity bill	Medium – long term	Medium	<ul style="list-style-type: none"> Introduce solar power generation Introduce energy-saving equipment Upgrade to high-efficiency production facilities
			Opportunity	Increase in revenue due to higher demand for energy-saving and air-saving products	Medium – long term	Large	<ul style="list-style-type: none"> Develop energy-saving and air-saving products Develop and offer a program that helps customers select optimal products Enhance variation and expand sales of energy-saving and air-saving products Strengthen our production/sales structure for energy-saving and air-saving products Offer technical support for energy-saving systems
			Opportunity	Decrease in manufacturing costs due to our own falling electricity bill	Medium – long term	Small	<ul style="list-style-type: none"> Shift to renewable energy-derived electricity as the main source of power Switch to electricity for combustion and air conditioning equipment
Falling retail electricity prices	Retail electricity prices will fall as renewable energy becomes more widely available	Opportunity	Increase in revenue of products that are powered by electricity	Medium – long term	Small	<ul style="list-style-type: none"> Join a Life Cycle Assessment-related group (Life Cycle Assessment Society of Japan) Strengthen our production/sales structure Expand and enhance product series and variation Enhance response to demands and supports for custom-made products 	

4°C Scenario

Area	Climate Change Driver	Assumption	Risk or Opportunity	Business Impact	Apparent Period	Financial Impact by FY2030	Countermeasures
Physical (acute)	Intensification of climate-related disasters (floods, heavy rain, typhoons, etc.)	We will be affected by climate-related disasters	Risk	Losses due to delivery delays as a result of climate-related disasters affecting our suppliers	Short – long term	Small	<ul style="list-style-type: none"> Promote multi-sourcing Conduct periodic checks of inventory days on hand Periodically assess flood and storm surge risks Assess flood risks when selecting new suppliers
			Risk	Damages and losses of inventory and fixed assets due to climate-related disasters affecting our own company	Short – long term	Large	<ul style="list-style-type: none"> Diversify production and logistics bases Formulate a BCP for measures to be taken in advance and during disasters Increase budget for BCP measures Enroll in property and casualty insurance Review inventory storage locations Assess the risk of climate-related disasters when establishing or relocating production bases Consider flood provisions at flood-prone sites
			Risk	Losses due to the shutdown of operations as a result of climate-related disasters affecting our own company	Short – long term	Medium	
Physical (chronic)	Changes in rainfall patterns	Suffering from water shortage caused by seasonal variations in rainfall	Risk	Losses due to the shutdown of operations as a result of water shortages caused by drought	Short – long term	Small	<ul style="list-style-type: none"> Diversify production and logistics bases Formulate a BCP for measures to be taken in advance and during disasters Increase budget for BCP measures Implement countermeasures at sites with a particularly high risk of water shortages and consider provisions in case of water shortages Reduce water consumption Consider reuse and recycling of water

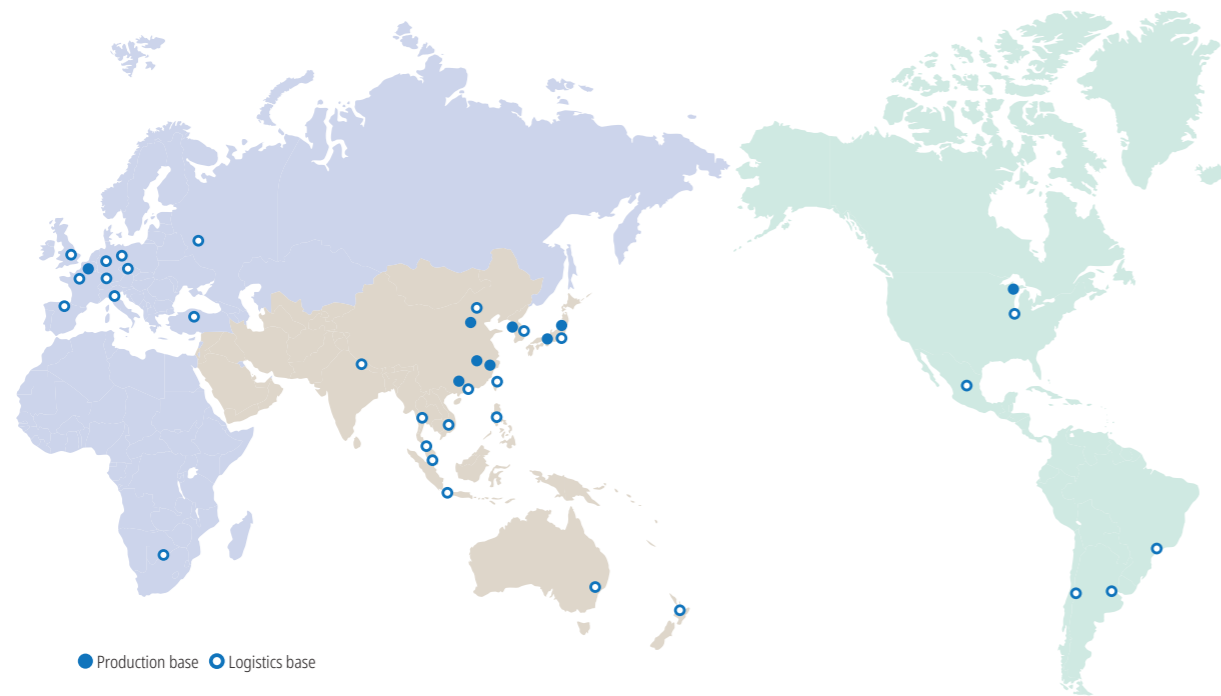
TARGET 3 Stable Global Product Supply

For Stable Supply

Risks are constantly unfolding and evolving in the form of natural disasters, infectious diseases, trade friction and conflicts, and material price hikes and supply shortages. However, in order to be prepared for any situation that may arise, SMC is taking steps to diversify risks across its R&D, production, and logistics bases, increase security of its information systems, and build a backup system for management to ensure that business activities will not be disrupted even in the event of an emergency—or, if they are disrupted, to ensure that operations resume quickly and that our supply system continues to operate.

Reinforcing Our Production and Logistics Systems

SMC is making proactive capital investments in Japan and overseas to upgrade its production and logistics bases in order to expand production capacity to meet increasing demand, as well as to establish multiple lines of production as part of our business continuity plan (BCP) initiatives. We deliver our products to global markets from six domestic production bases, including the Soka Factory (Saitama Prefecture) and Tsukuba Factory (Ibaraki Prefecture), as well as overseas production bases in China, Vietnam, Singapore, India, and the Czech Republic. Additionally, we have established localized production and logistics centers worldwide to respond quickly and flexibly to the diverse needs of local customers. With a focus on BCP, we have built a system that enables rapid recovery during emergencies and ensures stable product supply through continuous operations.



Shimotsuma Factory No. 2



Germany factory and warehouse

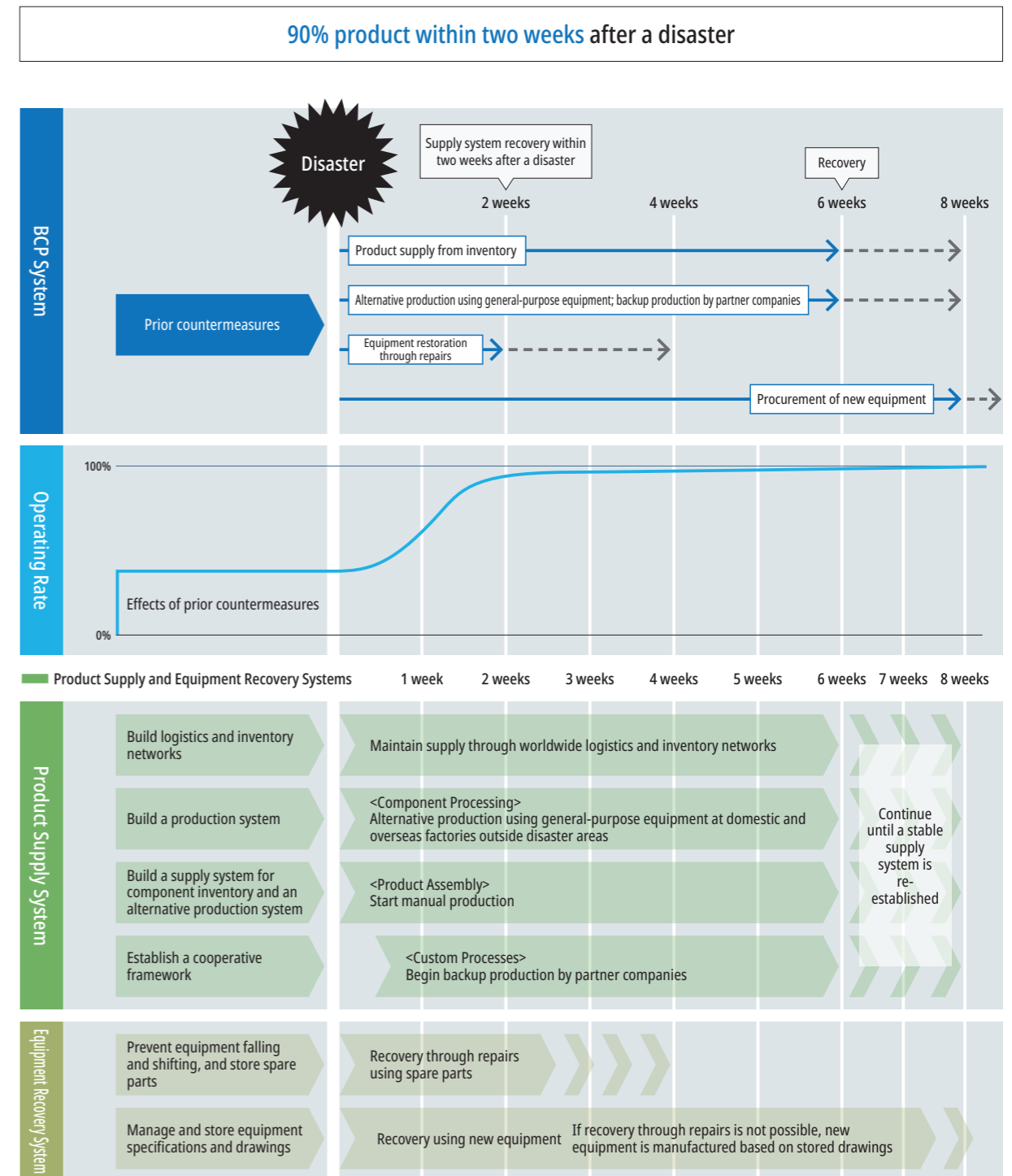


Vietnam factory

Developing a Business Continuity Plan (BCP)

In recent years, a number of risks have emerged one after another, including increasingly severe natural disasters, infectious diseases, and escalating inter-state conflicts. SMC is working to create a mechanism to minimize damages and accelerate recovery so that we can continue delivering products to customers as quickly as possible under any circumstances.

▶ Please refer to the link below for more details on BCP.
<https://www.smcworld.com/about/bcp/en-jp/index.html>



TARGET 3 Stable Global Product Supply

Manufacturing

In order to prepare for emergencies such as large-scale disasters or conflict, SMC is working to establish multiple lines of production and a system in which major mass-production factories in six countries around the world can complement each other. In addition, we maintain an ample inventory level mainly at our distribution bases in five countries around the world, and are highly resistant to transportation disruptions.

Risk Diversification in Mass-Production Factories

	Dryers/Temperature control equipment	Air line equipment	Fittings/Tubing	Solenoid valves	Speed controllers	Actuators	Automatic switches	Other
Soka Factory		●		●				
Tsukuba Factory		●	●	●		●	●	
Shimotsuma Factory						●	●	
Yamatsuri Factory	●	●	●			●		
Kamaishi Factory		●	●	●				
Tono Factory					●		●	●
China Factory	●	●	●	●		●		
Vietnam Factory			●	●		●		
Singapore Factory	●		●					
India Factory					●	●		
Czech Factory	●	●				●		

Technology

Building a Global Engineering Network

To respond promptly and accurately to customer needs worldwide, SMC has established technical centers in Japan, the U.K., the U.S., China, and Germany. We have built a robust global engineering network connecting our technical centers to deliver consistent technical services worldwide.

Global Backup System for Technical Department

We will strengthen backup system to enable continued operations through remote work, satellite offices, and overseas technical centers during disasters or pandemics.

Backup for Operational Systems

We will enhance data backup for operational systems (e.g., CAD, drawings, technical data) by upgrading data centers.

Functional Backup for Japan Technical Center (JTC)

Product design, development, and technical support functions at the JTC are equally supported by overseas technical centers.

Sales

SMC has a sales network of approximately 500 locations in over 80 countries and regions, supported by 7,000 sales staff to provide robust customer support.

Management

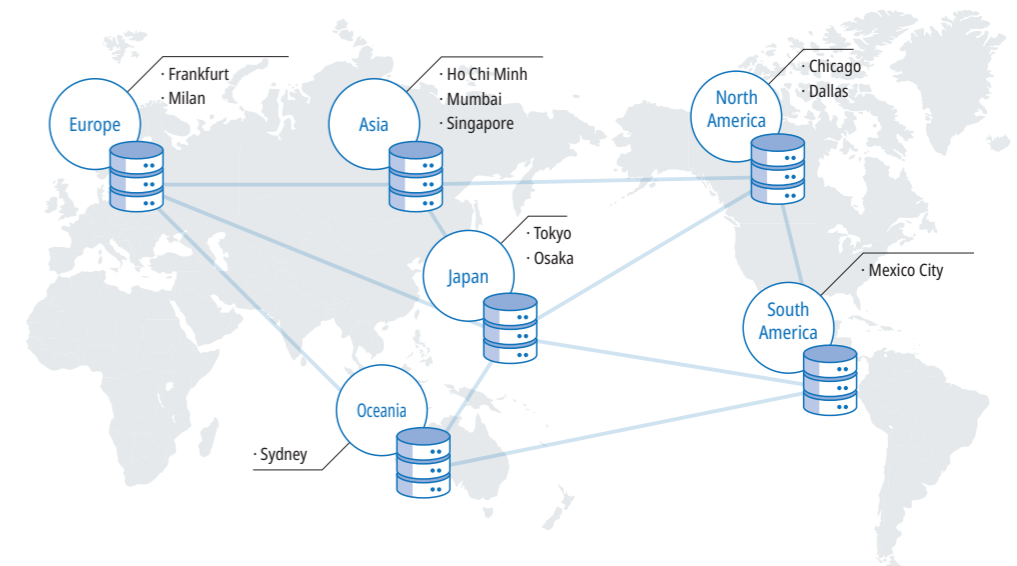
In case of an emergency, SMC maintains solid financial base that will sufficiently cover the working capital and funds needed to rebuild buildings and equipment required for business continuity. In addition, we have established an Advisory Committee with the presidents of the Company and its four major subsidiaries (U.S., Italy, Singapore, and China) as an advisory body to the President. We are working to build a system that can replace the decision-making functions of Group operations in case of an emergency.

Information Security

SMC is working to strengthen information security by developing unified data infrastructure in each region of the world. In addition to preventing damage from disasters, cyberattacks, and virus infections, we have established a state-of-the-art disaster recovery system to minimize downtime and ensure early recovery in case of catastrophic system damage.

- Eliminate security vulnerabilities through unified infrastructure development.
- Detect potential damages from cyberattacks or virus infections, monitor malware and intrusions continuously, and recover systems promptly through redundancy during infections.
- Synchronize order and delivery data between data centers to maintain business continuity.
- Conduct disaster preparedness drills twice a year to ensure smooth business continuity during emergencies.

SMC Data Centers



About GIT

SMC has established the specialized organization GIT within SMC Corporation of America, which has a strong track record in IT utilization and a wealth of IT experts, to advance unified IT strategies, including information security measures, across the Group. The Chief Officer of GIT is Kelley Stacy, President of SMC Corporation of America and a Director and Executive Officer of SMC Corporation Japan.



Message from Kelley Stacy, IT Strategy Officer

As the Chief Officer of GIT, my role is to work with team members worldwide to continuously enhance SMC's global information security capabilities. SMC operates globally unified policies and programs to monitor and measure information security and privacy. SMC continues various initiatives, including system and network monitoring, perimeter security, identity and access privilege management, and training, to mitigate risks and enhance productivity in response to evolving cyber threats.

TARGET 4 **Develop Human Resources & Disseminate Automation Control Technology**

Development of Human Resources

While addressing changes in the business environment, such as globalization of business, diversification of customer needs, escalating shortage of human resources due to the falling birthrate, aging population, and shrinking labor force, SMC is committed to promoting diversity and maximizing the use of its human capital, which is expected to have the effect of bringing new value to its business of creating innovation and increasing productivity.

Approximately 70% of all employees in the SMC Group are employed by overseas Group companies. In order for us to achieve further growth and advance to the next stage, it is crucial to deepen collaboration and cooperation among our Group companies and to develop systems and infrastructure that enable our outstanding talent in the Group to fully demonstrate their abilities. It is equally important to maintain these human resource development structures. With this in mind, we are actively investing in human capital, promoting human resource policies that maximize the capabilities of our globally-talented workforce, and creating systems for nurturing experts in each respective field.

Global Human Resources Policy

SMC believes that in order to achieve further growth and advance to the next stage, we must promote diversity and build a system in which the Group engages in business activities as one. Specifically, we will work to establish initiatives and an environment that deepens interaction and collaboration within the Group and in which our talented personnel can perform at their best, as well as establish initiatives to develop personnel.

With this in mind, we outline the following Human Resources Policy:

- We will create an environment in which employees can feel a sense of pride, loyalty, and fulfillment in their work, and thereby fully demonstrate their abilities.
- We will promote human resource measures grounded in sustainability and diversity to unite employees with diverse personalities together and foster a sense of unity as a Group.

Global Human Resource Development Policy

Since its establishment, SMC has conducted HR management with an emphasis on “job satisfaction.” Fostering a free and open minded corporate culture and nurturing personnel through on-the-job experience, we also encourage young employees to grow by entrusting them with tasks that require more responsibility. We will strive to create an environment in which everyone can show what they can do by acting with initiative and always possess a passion for their work and pride in the company.

We will promote HR measures focused on sustainability and diversity, will spare no effort in investing in human resources, and continue to verify and improve the effect of these measures.

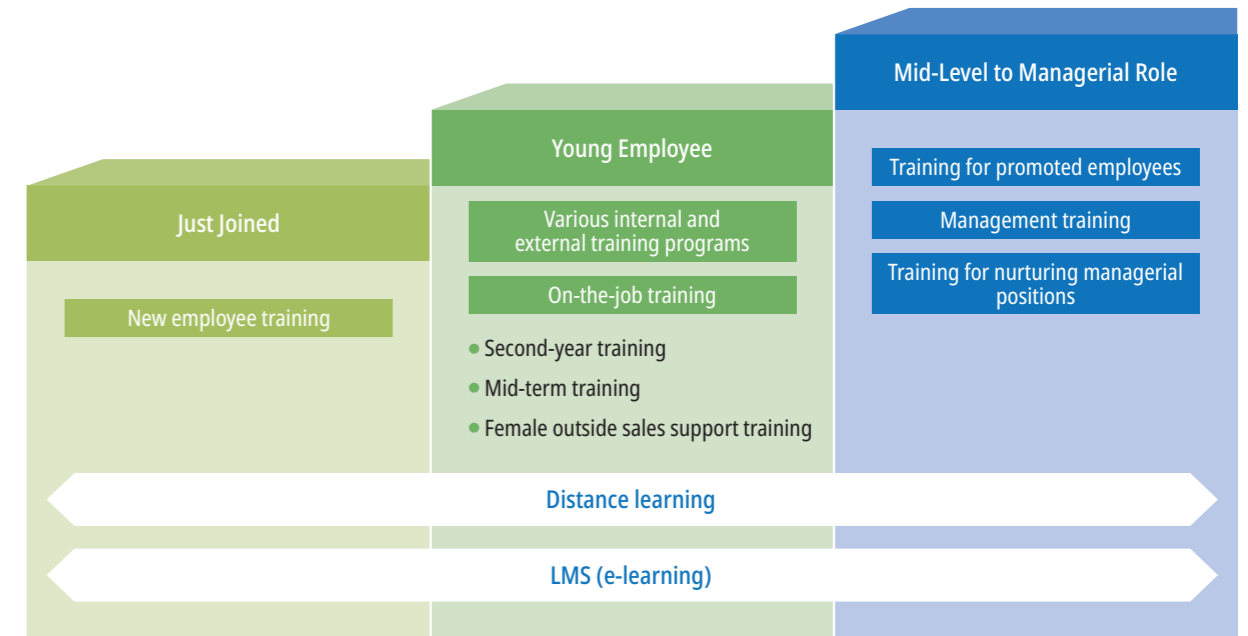
Talent We Seek to Secure and Foster

SMC will secure and foster the following types of people.

- People who proactively take on challenges without fearing failure
- People who can play an active role from a global perspective
- People who are self-directed and take initiative to think and act on their own
- People who aspire to develop their expertise and become specialists

Training and Self-Improvement System

At SMC, we have introduced various education and training programs to continuously develop management personnel with a global perspective, who can play an active role across the entire Group, and who can contribute to the sustainable growth of the company. We introduced the Learning Management System (LMS), a tool to manage cloud-based e-learning that can be used anytime and anywhere, to support employees’ self-improvement.



Global Personal Evaluation System

SMC defines the basic principles of its evaluation system in the SMC Group HR Basic Policy and shares them within the Group. We conduct fair, impartial, and transparent personnel evaluations and compensates our employees on global initiatives based on roles, abilities, and achievements. We foster talent by creating an environment where employees feel motivated and find purpose in their work.

Global Award System

SMC has established an award system for employees who have achieved outstanding performance. This system properly evaluates the results of global collaboration, such as “customer information obtained in the U.S. that led to sales in Malaysia”.

Job Posting System

As part of its efforts to place the right people in the right positions and support employee career development, SMC established a job posting system. By enabling employees with specific skills and experience to actively choose their own careers, we strive to create an environment where they feel fulfilled and can maximize their potential.

SMC Group Internal Transfer Program

SMC launched the SMC Group Internal Transfer Program in FY2023 based on the belief that in order to achieve further growth, it is necessary to promptly establish a system to enable talented employees working at Group companies around the world to play an active role globally beyond the boundaries of the companies. The purpose of this program is to allow our talented and highly motivated employees recruited at overseas Group companies to broaden their perspectives by working at our head office in Japan, thereby strengthening their foundations for further success after returning to their home countries. At the same time, it is hoped that employees in Japan will benefit from interactions and friendly competition with employees from other countries, and will develop the desire to challenge themselves to work on a global scale.

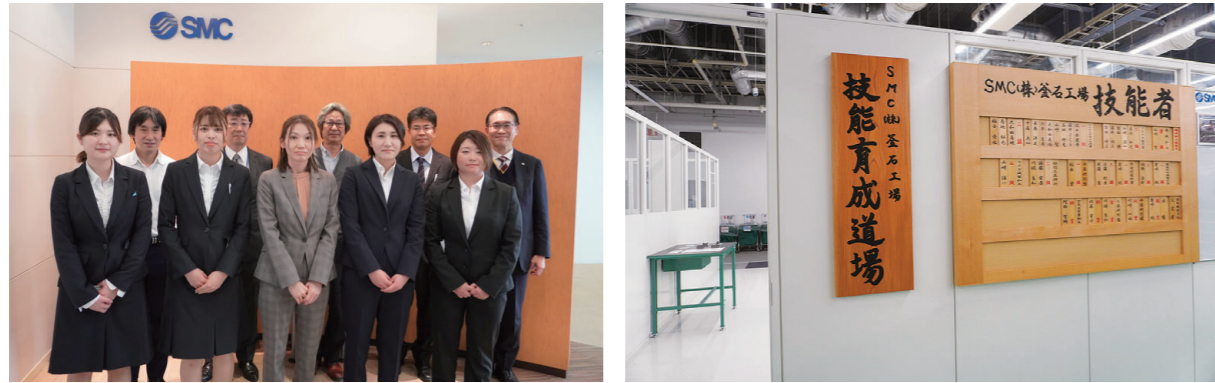
TARGET 4 Develop Human Resources & Disseminate Automation Control Technology

Promoting Automation Control Technology

Skill Transfer Committee / Skilled Worker System / Skill Development Dojo

To maintain and enhance a safe work environment, stable product quality, and high production efficiency over the long term, it is essential to secure skilled employees.

SMC has established a Skill Transfer Committee to pass on the skills and wisdom of experienced workers to the next generation, expanded opportunities for skilled workers through the Skilled Worker System, and set up a Skill Development Dojo at each factory. Various skilled workers are taking on the challenge of deepening their skills and becoming more versatile.



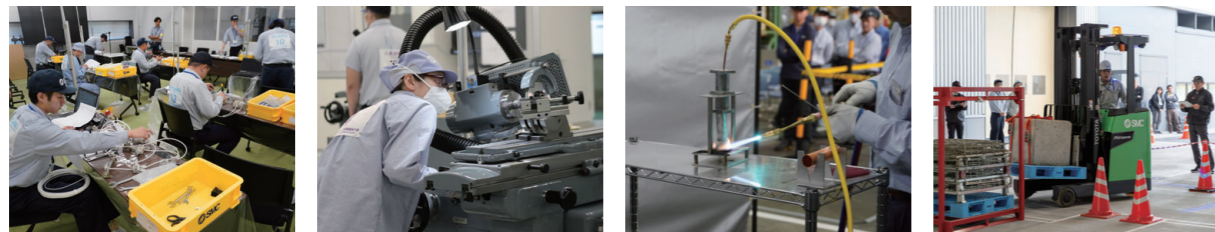
Women manufacturing employees who went into skilled positions traditionally held only by men

Skills Competition

SMC organizes the SMC Group Skills Competition, where participants compete in various events showcasing skills honed through training and self-study.

In October 2024, representatives from six domestic factories and SMC Group factories in China, Vietnam, Singapore, South Korea, and Taiwan participated in the competition, fostering skill improvement and unity through skill exchanges. President Takada personally awarded medals to the top performers.

[Competition events] Pneumatic equipment assembly, tool grinder, lathe, milling machine, surface grinder, brazing, TIG welding, and forklift



Participation in Nara Women's University Women Engineers Program

Nara Women's University, the first women's university in Japan to establish an engineering faculty, promotes women's advancement in STEM. SMC supports this initiative and joined the program in FY2024. 20 female high school students interested in manufacturing were invited to the head office to participate in a workshop where they assembled and tested crane games using SMC products, under the guidance of women engineers. At the workshop's final presentations, several students announced their intention to pursue engineering studies, making it an opportunity to look forward to the future.



Supporting Student Robotics Competitions

SMC's products are widely used in various types of robots. We sponsor student robotics competitions to disseminate automation control technology and contribute to the development of human resources who will lead the robotics industry in the future.

ABU Robocon

SMC is a sponsor of the ABU Asia-Pacific Robot Contest, an international competition for university students from Asian countries. The contest was held in August 2024 in Ha Long Bay, Vietnam, with 13 teams representing 12 countries demonstrating advanced technical skills in a heated competition.

Organized by: Asia-Pacific Broadcasting Union (ABU)
Hosted by: Vietnam Television, Quang Ninh Province, NHK, NHK Enterprises, Inc.



Kamaishi Rugby Event

To contribute to the local community where its factories are located, SMC sponsors the Nippon Steel Kamaishi Seawaves rugby team. In March 2024, SMC hosted the SMC Presents Match, featuring safe interactive booths at the stadium with games and work experiences using SMC products. Unfortunately, due to an unexpected heavy snowfall, the match had to be postponed, however, over 900 visitors attended the booths.



Family Day

In July 2024, Tono Family Day, an event for employee's families, was held at the Tono Factory. Although SMC's products are used in the production and distribution of a wide variety of goods around us, the products themselves are not well known to the general public and to the families of SMC employees. The event provided an opportunity for employees' families to see firsthand what SMC does, the products we make, and where they are manufactured, while reaffirming employees' pride in their work environment.

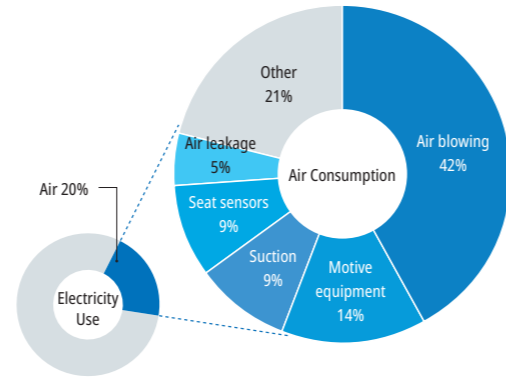


Relationship with Stakeholders

Customer Service

Efforts to Reduce Air Consumption in Factories

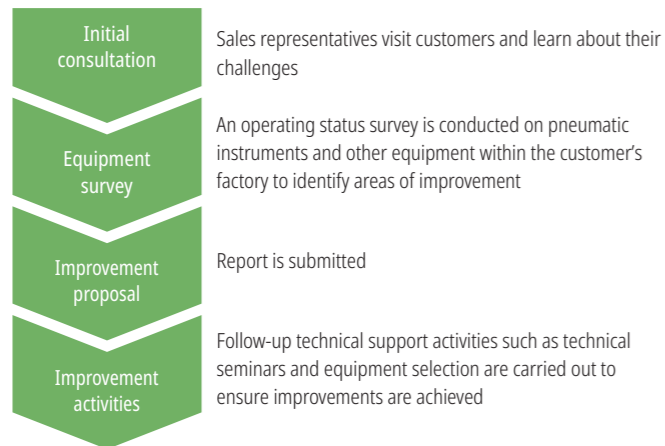
Pneumatic instruments, which are SMC's main products, use pressurized air produced by compressors as their power source. Compressed air is invisible and harmless when released into the atmosphere, so its usage tends to go unnoticed. Approximately 20% of the electricity used in a typical factory is consumed to generate compressed air, and reducing air consumption or pressure can help lower power usage at customers' factories. SMC leverages its products and expertise to support customers in reducing their CO₂ emissions. Please refer to pages 47-48 for more details.



Energy-Saving Optimization Proposals

SMC has established a dedicated team to leverage its accumulated energy-saving experience and knowledge in order to make energy-saving solution proposals that will help reduce CO₂ emissions at our customers' factories. We conduct customer factory visits and submit reports to the customers. Based on these on-site surveys and follow up with a variety of technical support personnel, we advise our customers 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.

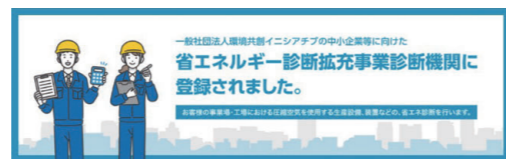
Energy-saving optimization proposal flow



SMC has deployed 196 staff members with energy-saving expertise across 53 countries. In FY2023, we conducted 355 energy-saving assessments.

Energy-Saving Assessment Subsidy

SMC is registered as an energy-saving assessment agency under the Energy-Saving Assessment Expansion Project for Small to Medium-Sized Enterprises operated by the Sustainable open Innovation Initiative, as part of policies of the Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry. We offer energy-saving assessments for our customers' production facilities and equipment.



Together with Our Suppliers

Procurement Policy

SMC stipulates in its SMC Group Code of Conduct; "We will establish relationship of mutual trust among us, our company and its counterparties through free and fair business relations, and aim to realize mutual development of our company and the counterparties.", that the entire Group is committed to develop together with our business partners.

We will also implement procurement activities on a group-wide, global basis in compliance with all applicable legal norms, both within and outside Japan, and in consideration of global environmental conservation and social impact. Furthermore, we will provide fair and transparent opportunities for competition to our suppliers to strengthen the relationship of mutual trust and build coexistence and co-prosperity.

Procurement Guidelines

SMC will promote sustainability within the Group as well as throughout the supply chain. We will request that our suppliers understand the purpose of the Procurement Guidelines, respect the human rights of their employees, and promote the creation of safe and secure work environments.

▶ Please refer to the link below for more details on our procurement policy and guidelines.
<https://www.smcworld.com/about/sustainability/en-jp/society.html>

Supplier Whistleblowing System

SMC has set up a hotline at an independent outside law firm to receive consultations and reports from our suppliers and employees of our suppliers. Reports received at the contact point are handled by lawyers experienced in whistleblower processes, in accordance with the Whistleblower Protection Act. We conduct investigations while protecting the anonymity of whistleblowers and preventing unfair treatment, taking corrective actions as necessary.

(1) Persons who may make a report

Officers and employees of our suppliers (including those who have retired or left the company within the past year)

(2) Acts to be reported

Actions that are thought to be in violation of laws and regulations, Articles of Incorporation, company rules, corporate ethics, social norms, etc.

Supplier Briefings

To ensure stable production and procurements, SMC holds briefings for our suppliers. At recent briefings, we have again asked for the cooperation of our suppliers in promoting sustainability initiatives throughout the supply chain.



Supplier Surveys

To address issues such as human rights, labor, environment, conflict minerals, and anti-bribery, SMC requests cooperation from its suppliers. In FY2024, we conducted a CSR self-assessment survey with 757 domestic and international suppliers. Additionally, on-site interviews were conducted with 28 key suppliers.

Addressing the Conflict Mineral Issues

SMC stipulates the commitment to responsible sourcing of minerals in its SMC Group Code of Conduct. With the cooperation of our suppliers, we will strive to prevent the encouragement of human rights abuses, violence, and other wrongdoings by non-governmental armed groups and other such organizations. We will provide information to customers through a database that uses the Conflict Minerals Reporting Template (CMRT), and we are working with our suppliers to improve the accuracy of the CMRT.

Board Members



Skills Matrix

Name	Position / Responsibilities at SMC	Skills									
		Corporate Management	Economic Analysis	Technology Development	Sales & Marketing	SCM	Finance & Accounting	Legal & Risk Management	IR	ESG / SDGs	Internationalism
1 Yoshiki Takada	President / Senior General Manager of Sales Headquarters / Member of the Nomination and Compensation Committee / Member of the Sustainability Committee	●			●		●				●
2 Yoshitada Doi	Director and Managing Executive Officer / Senior General Manager of Engineering Headquarters			●		●					●
3 Toshio Isoe	Director and Executive Officer / Assistant to President (Special Mission), In charge of ESG						●	●		●	●
4 Masahiro Ota	Director and Executive Officer / General Manager of Finance and Accounting Division						●		●		●
5 Samuel Neff	Director and Executive Officer / In charge of Supply Chain Management					●		●			●
6 Koji Ogura	Director and Executive Officer / Vice Senior General Manager of Sales Headquarters				●						
7 Kelley Stacy	Director and Executive Officer	●			●						●
8 Hidemi Houjyou	Director and Executive Officer / Senior General Manager of Production Headquarters			●		●					
9 Masanobu Kaizu <i>Independent Outside</i>	Outside Director / Lead Independent Outside Director / Chairperson of the Nomination and Compensation Committee		●				●		●	●	
10 Toshiharu Kagawa <i>Independent Outside</i>	Outside Director / Member of the Nomination and Compensation Committee			●							
11 Yoshiko Iwata <i>Independent Outside</i>	Outside Director / Member of the Sustainability Committee	●							●	●	●
12 Kyoichi Miyazaki <i>Independent Outside</i>	Outside Director / Chairperson of the Sustainability Committee							●		●	●
13 Takemasa Chiba	Full-time Corporate Auditor					●	●				
14 Arata Toyoshi <i>Independent Outside</i>	Outside Corporate Auditor						●				
15 Haruya Uchikawa <i>Independent Outside</i>	Outside Corporate Auditor							●			

1 Yoshiki Takada

President
Senior General Manager of Sales Headquarters

APR 1987 Joined SMC Corporation
JUL 2018 Senior General Manager of Sales Headquarters
DEC 2019 Chairman, SMC Corporation of America
APR 2021 President, SMC Corporation

2 Yoshitada Doi

Director and Managing Executive Officer
Senior General Manager of Engineering Headquarters

APR 1984 Joined SMC Corporation
JUN 2021 Senior General Manager of Engineering Headquarters
MAY 2023 Director and Managing Executive Officer

3 Toshio Isoe

Director and Executive Officer
Assistant to President (Special Mission),
In charge of ESG

AUG 2014 Joined SMC Corporation
JUN 2019 Director and Executive Officer
JUL 2024 Assistant to President (Special Mission),
In charge of ESG

4 Masahiro Ota

Director and Executive Officer
General Manager of Finance and Accounting Division

MAY 2015 Joined SMC Corporation
JUN 2019 Director and Executive Officer
General Manager of Finance and Accounting Division

5 Samuel Neff

Director and Executive Officer
In charge of Supply Chain Management

MAY 2006 Joined SMC Corporation
JUN 2020 Director and Executive Officer
In charge of Supply Chain Management

6 Koji Ogura

Director and Executive Officer
Vice Senior General Manager of Sales Headquarters

FEB 1980 Joined SMC Corporation
APR 2020 Vice Senior General Manager of Sales Headquarters
JUN 2022 Director and Executive Officer

7 Kelley Stacy

Director and Executive Officer
President, SMC Corporation of America

AUG 1994 Joined SMC Corporation of America
DEC 2019 President, SMC Corporation of America
JUN 2022 Director and Executive Officer, SMC Corporation

8 Hidemi Houjyou

Director and Executive Officer
Senior General Manager of Production Headquarters

JAN 2003 Joined SMC Corporation
JUN 2024 Director and Executive Officer
Senior General Manager of Production Headquarters

9 Masanobu Kaizu

Lead Independent Outside Director | Former president of Financial Research Center, Nomura Securities Co., Ltd.

JUN 2014 Outside Director
Economist and securities analyst with extensive knowledge and experience in economic and financial conditions, corporate management, and financial accounting

10 Toshiharu Kagawa

Outside Director | Professor Emeritus, Institute of Science Tokyo

JUN 2015 Outside Director
Doctor of Engineering specializing in flow measurement and control

11 Yoshiko Iwata

Outside Director | Chairperson of the Board, J-Eurus IR Co., Ltd.

JUN 2021 Outside Director
Possesses expertise and a wealth of experience related to corporate governance and corporate-investor dialogues

12 Kyoichi Miyazaki

Outside Director | Representative Director, Zen Asset Management Co., Ltd.

JUN 2021 Outside Director
Possesses a wealth of knowledge and experience related to market risk management and investment portfolio management utilizing cutting-edge financial engineering in international financial institutions

13 Takemasa Chiba

Full-time Corporate Auditor

OCT 1981 Joined SMC Corporation
JUN 2023 Full-time Corporate Auditor

14 Arata Toyoshi

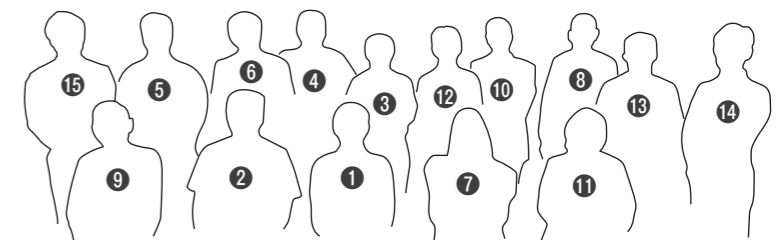
Outside Corporate Auditor | Representative, CPA Toyoshi Office

JUN 2019 Outside Corporate Auditor
Certified Public Accountant involved in audits of listed companies and the provision of advisory services including IPO support, etc., as partner at a major auditing firm

15 Haruya Uchikawa

Outside Corporate Auditor | Partner, Midosuji Legal Profession Corporation

JUN 2019 Outside Corporate Auditor
Experienced attorney with extensive knowledge of corporate legal affairs who has served as an outside director and outside corporate auditor of publicly listed companies



Roundtable Discussion by Outside Directors



Toshiharu Kagawa

Outside Director
Professor Emeritus, Institute of Science Tokyo

Masanobu Kaizu

Lead Independent Outside Director
Former president of Financial Research Center,
Nomura Securities Co., Ltd.

Kyoichi Miyazaki

Outside Director
Representative Director, Zen Asset Management Co., Ltd.

Yoshiko Iwata

Outside Director
Chairperson of the Board, J-Eurus IR Co., Ltd.

We enhance board effectiveness and corporate value through strategic recommendations, leveraging our professional expertise.

Enhancing the effectiveness of governance by leveraging external perspectives

—What do you see as the role of an Outside Director?

Kaizu: Outside Directors of publicly traded companies have a responsibility to participate in the Board of Directors on behalf of shareholders and ensure effective governance. In particular, as SMC is one of Japan's leading FA companies,* it is required to enhance shareholder returns, ensure a comfortable working environment, and give due consideration to environmental management. Furthermore, as an owner-managed company, it is also necessary to be prepared to take the lead in creating a succession plan for top management. To meet these responsibilities, I utilize my experience as a securities analyst to provide insights from the specialized perspectives of business analysis and the macro environment.

Kagawa: As a mechanical engineering expert, I

have repeatedly exchanged opinions with the R&D Division and have also been involved in proposing energy-saving products. In particular, I am supporting efforts aimed at improving the efficiency of products, especially those centered on pneumatic technology, and reducing their environmental impact. I believe that the role of an Outside Director is to provide objective and frank advice from an external perspective, shed light on issues that are difficult to see from within the Company, and contribute to the Company's sustainable growth.

Iwata: I am a manager in the IR support industry, which is completely different from SMC, and I have seen the management of many listed companies firsthand. SMC's Board of Directors has 4 Outside Directors out of 12, and it is characterized by its high level of diversity, including 2 women and 2 foreign nationals. The role of Outside Directors is to supervise and advise on the execution of Directors' duties. I believe that I am expected to leverage my IR knowledge and management experience to provide constructive suggestions. On the other hand, I am careful not to micromanage operations.

Miyazaki: The role of Outside Directors is to assess the appropriateness of management decisions, and I reflect the risk management and investor perspectives I have cultivated in the financial industry in the Board's discussions. I am cautious about the opinion that Outside Directors should make up a majority. This is because it is difficult for those in external positions to access primary information, which could lead to biased judgments. Regarding the issue of diversity, I believe that criteria tailored to SMC's characteristics are more important than formal criteria such as half of the Directors should be women.

—What are your thoughts on reviewing the governance structure in accordance with the size of the company, and on transitioning to a Company with an Audit and Supervisory Committee or Company with a Nominating Committee, etc.?

Kaizu: I believe the current system of a Company with a Board of Corporate Auditors is suitable for SMC. If the transition to a Company with a

Nominating Committee, etc., becomes mandatory, we will need to respond, but since SMC is specialized in a single business, I feel that the current system achieves sufficient governance.

Miyazaki: I agree. In Japan, Directors' compensation is a matter to be resolved at the General Meeting of Shareholders, which is different from the United States. On the other hand, a mechanism like "Say On Pay (a shareholder advisory vote on compensation)" to reflect shareholder opinions would be helpful in strengthening compensation governance. Furthermore, it is important to optimize the governance system by reviewing the setting and allocation of Director compensation while maintaining the current total payout ratio of 50%.

—SMC publishes the results of the self-assessment questionnaire on the Effectiveness of the Board of Directors, including Outside Directors, every year. What are your thoughts on this disclosure?

Kaizu: The evaluation results of the Directors are published almost word-for-word, and it is recognized by external parties as being an open

system. This transparency also contributes to improving the trust of stakeholders.

Miyazaki: The questionnaire results have advanced the discussions of the Board of Directors and are highly appreciated by investors. To further strengthen engagement, it is important to support exchanges of opinions with investors through IR activities and share the Directors' awareness of issues.

Establishing Nomination and Compensation Committee to strengthen management's self-checking function

—Please tell us about the roles of the Nomination and Compensation Committee and what they have been working on.

Kaizu: The Nomination and Compensation Committee is an advisory body to the Board of Directors, consisting of one representative Director and two Outside Directors, with an Outside Director serving as the chairperson.

Specifically, we ensure fairness, transparency, and objectivity through reviews of Director compensation systems and the selection of candidates using a skills matrix. While some companies solely have Outside Directors, SMC is characterized by a well-balanced composition that also incorporates the perspectives of Inside Directors. The compensation structure consists of approximately 53% basic compensation, approximately 15% performance-linked compensation, and approximately 32% stock compensation, playing an important role in aligning the interests of management and shareholders.

Kagawa: I have been involved in this committee for 4 years, and I feel it is meaningful that I have been able to contribute to ensuring transparency and fairness through the review of the compensation system and the introduction of performance-linked compensation.

Roundtable Discussion by Outside Directors



—How are you addressing compensation systems based on global standards?

Kaizu: We are aware of global standards needed to secure human resources, but there are still challenges in unifying them because it is necessary to design systems that are tailored to the compensation and tax systems of each country. Currently, stock compensation has already been introduced for Directors, and we believe that its introduction for managerial staff should also be considered.

Miyazaki: I believe that compensation systems should be competitive in each market. Stock compensation reflect employees' efforts and function as a means of achieving company-wide goals. In the future, I believe it will also be necessary to improve human resource competitiveness and support asset formation by introducing restricted stock compensation for employees.

Establishing a Sustainability Committee improved employee awareness and external evaluation

—Please tell us about the role of SMC's Sustainability Committee.

Miyazaki: Rather than conducting special activities, the Sustainability Committee aims to communicate existing initiatives and promote understanding among customers and investors. SMC is particularly focused on the environmental field, and contributing to CO₂ emission reduction and energy conservation through our products represents a significant business opportunity. As part of sustainability, the business continuity plan (BCP) includes developing the Vietnam Factory to reduce dependence on China, and building a system that allows business to proceed smoothly even in the absence of employees responsible for core operations. As an element of ESG's "Social," appropriate distribution to employees is an important issue. SMC's essential personnel require commensurate compensation, and this policy also applies to managerial staff and officers. Furthermore, as a measure to align the vectors of over 23,000 employees, we are considering introducing stock compensation for managerial staff and are discussing a system for using company stock as

retirement allowance.

—What changes have occurred internally and externally since the establishment of the Sustainability Committee?

Miyazaki: Since the establishment of this committee, employees have recognized the social significance of our products, which has led to increased confidence in our products and motivation in their work. The CO₂ emission reduction effect has become a powerful selling point, and there are increasing cases where customers adopt SMC products in response to the demands of shareholders and society. We have also received positive feedback from overseas investors regarding the resilience of SMC's business activities, and I feel that these voices are a manifestation of the results of our sustainability activities. In this way, the activities of this committee can be said to be contributing not only to improving employee awareness but also to external evaluation and strengthening competitiveness in the market.

Iwata: I feel that employee awareness is high because SMC's business itself contributes to

sustainability. However, I believe that more meaningful initiatives can be developed by incorporating discussions that go beyond general information and knowledge to include comparisons with other companies and global standards. In particular, strengthening measures based on international standards will be key to further enhancing our competitive advantage.

Aiming to maximize corporate value by meeting stakeholder expectations

—Finally, from the perspective of an Outside Director, please tell us about SMC's strengths and challenges.

Kaizu: SMC's strengths can be summarized in the following three points. First, we develop a single business globally and has acquired a 36% global share in pneumatic instruments. Second, we develop products that meet a wide range of needs with the concept of compactness, energy saving, and large capacity, and also contributes to CO₂ emission reduction. Third, we secure a

competitive advantage through abundant inventory and short delivery times, leveraging our strong balance sheet. On the other hand, there are challenges such as vertical organizational structures and a lack of interdepartmental coordination, but further growth can be expected by improving these areas.

Iwata: Although it is sometimes thought of as an old organization, SMC is a company with a high awareness of IR and governance, and there are many opportunities for young employees to play active roles. However, among listed companies, there are cases where the market and investors have prejudices due to misinformation, or where companies avoid dialogue with shareholders. Leveraging my experience and knowledge of such companies, I would like to support SMC in gaining a higher evaluation rating in the stock market.

Kagawa: With pneumatics at its core, SMC develops hybrid products that combine hydraulics and electric technologies, and continues sustainable growth while making future-oriented technology investments. In particular, our proactive stance toward investing in growth areas is a strength. However, we also faces challenges

such as the globalization of our education system and the sophistication of inventory management and sales forecasting, but I believe that further strengthening of competitiveness is possible by solving these challenges through AI and software.

Miyazaki: SMC's greatest strength is that we are an indispensable presence not only for consumer goods companies but also for industrial product manufacturers. Since our founding, our abundant inventory and prompt delivery have thoroughly eliminated the risk of customer production line shutdowns, which has led to unwavering trust and high corporate value. On the other hand, securing human resources is a major challenge. The key is how to secure and develop global human resources who can deepen relationships with over 80 local subsidiaries. In particular, building a sense of unity in regions where young people are active, such as Vietnam, will be key to supporting SMC's future.

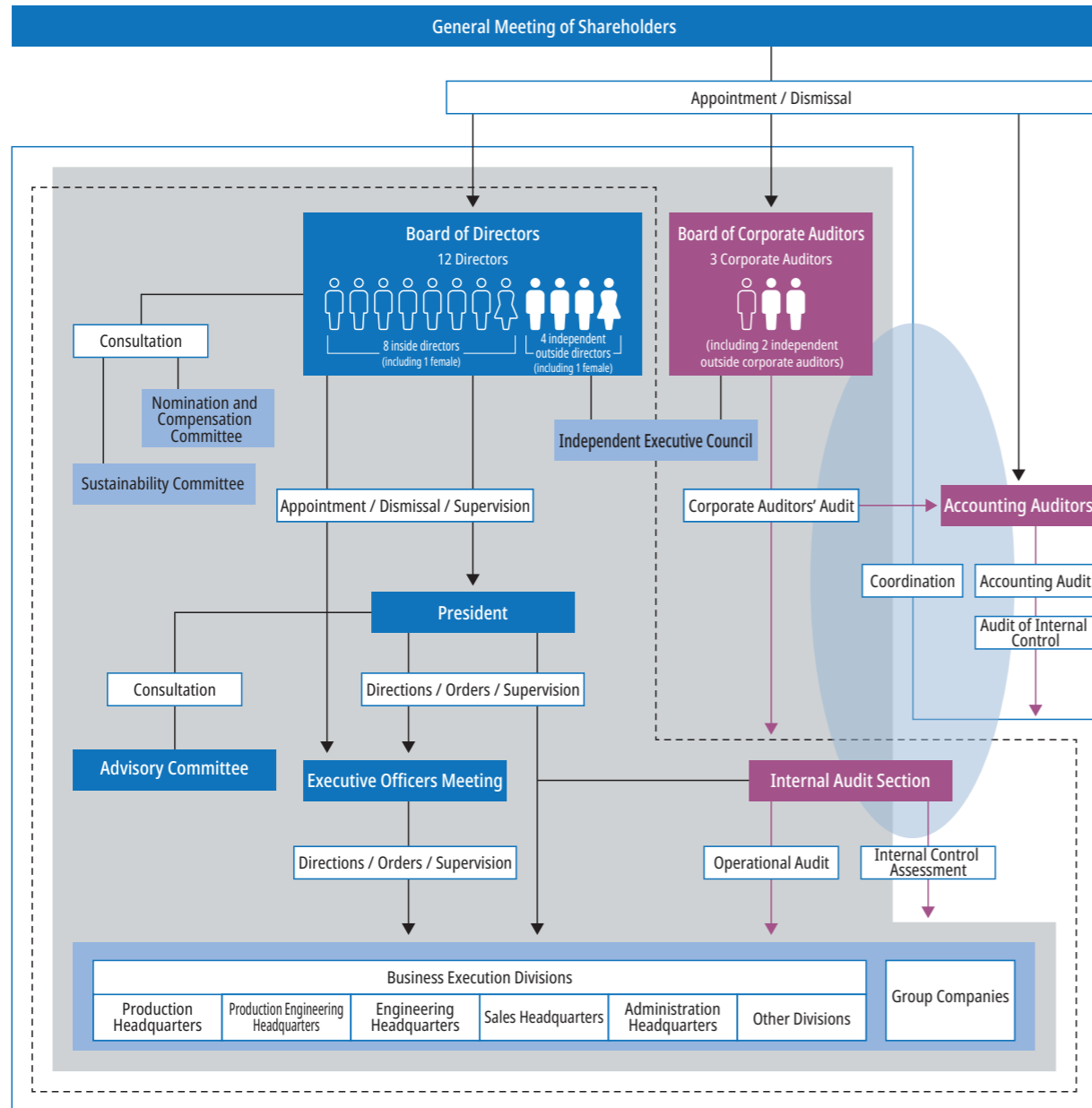
Corporate Governance

Basic Concept

SMC considers establishing a corporate governance framework that ensures 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.

Governance System

As a company with a Board of Corporate Auditors, SMC has a system in place to ensure the legality and appropriateness of business execution by each Director, while ensuring fairness and transparency without impairing the speed of decision-making by the Board of Directors as a whole. This is achieved through a system of interdepartmental checks and balances and mutual monitoring by Directors who execute operations and who are well-versed in internal information, the characteristics of the business, and other circumstances specific to SMC, as well as through independent and objective monitoring and supervision by Outside Directors and Outside Corporate Auditors.



Board of Directors

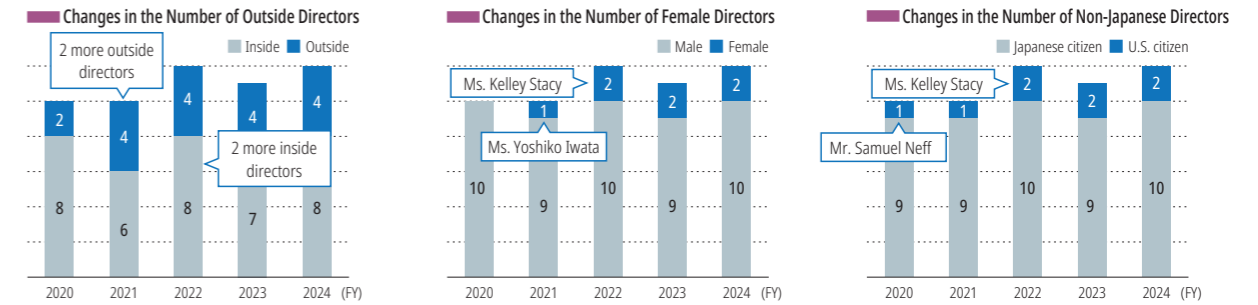
The Board of Directors, which consists of 12 Directors (of whom 4 are Outside Directors), makes decisions on significant matters related to the execution of business such as SMC's management policies, capital investments, and executive personnel in accordance with the standards for deliberation set forth in the Board of Directors' regulations, in addition to significant matters prescribed by laws, 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.

Matters for Consideration by the Board of Directors

Governance	Convocation of General Meeting of Shareholders, executive personnel
Financial and accounting	Approval of financial results, dividends and purchase of treasury shares
Important business execution	Capital investment planning
Corporate Governance Code	Evaluation of the effectiveness of the Board of Directors, analysis of voting results at the General Meeting of Shareholders, continued strategic shareholdings

Composition of the Board of Directors

We are reviewing the composition of the Board of Directors from the perspectives of improving fairness and transparency and promoting diversity.



Board of Corporate Auditors

The Board of Corporate Auditors, which consists of 3 Corporate Auditors (of whom 2 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' regulations, in addition to matters prescribed by laws, 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.

Advisory Bodies of the Board of Directors

As an advisory body to the Board of Directors, SMC has voluntarily established a Nomination and Compensation Committee consisting of 1 Representative Director and 2 Outside Directors to enhance the fairness, transparency, and objectivity of procedures related to director nomination and compensation. In addition, we have established the Sustainability Committee as an advisory body to the Board of Directors to supervise initiatives related to sustainability. The majority of the members of both committees shall be Independent Outside Directors, and the Chairperson shall be elected from among the members who are Independent Outside Directors. We also hold the Executive Officers Meeting, which is attended by Executive Officers and Directors who are responsible for business execution, to speed up the sharing of information. Furthermore, we have established an Advisory Committee consisting of the presidents of SMC Corporation and its 4 major subsidiaries (U.S., Italy, Singapore, and China) to serve as an advisory body to the President, with the intention of building a system that can substitute for decision-making functions related to the execution of Group operations in case of an emergency.

Independent Executive Council and Lead Independent Outside 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 sharing of views, and makes 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, Board of Corporate Auditors, and business execution divisions, etc., and be available for dialogue with investors.

Corporate Governance

Director Compensation

Basic Policy

- SMC's basic policy is to ensure that the compensation of Directors functions appropriately as an incentive to achieve sustainable growth for the company and the enhancement of corporate value over the medium- to long-term, and that the level of compensation is appropriate for the responsibilities of each Director.
- Compensation for Executive Directors consists of basic compensation, performance-linked compensation, and stock compensation. Non-executive Directors are paid only basic compensation.

Basic Compensation

- Basic compensation for Directors is determined by comprehensively considering factors such as the business outlook, employees' salary levels, the contribution of each Director to the company's performance, their position, responsibilities, and tenure.
- Basic compensation for Executive Officers is determined by evaluating each individual's contribution to the achievement of our important issues (materiality) for solving social issues.

Performance-linked Compensation

- As short-term incentive compensation for Executive Directors, performance-linked compensation (bonus as fixed monetary compensation) has been introduced. The bonus is paid based on the degree of achievement of the consolidated net sales growth rate for each fiscal year compared to the previous fiscal year, with the amount determined for each position by the Board of Directors and the Nomination and Compensation Committee. The reason for selecting the consolidated net sales growth rate as the performance-linked indicator is to align with SMC's immediate target of "JPY 1 Trillion by FY2026" and its medium-term target of achieving revenue growth of approximately 8% annually. This bonus will not be paid in fiscal years when the consolidated net sales growth rate is negative.
- The above performance-linked compensation is paid as a fixed amount of monetary compensation within the annual limit for Directors' monetary compensation decided by resolution of the General Meeting of Shareholders.

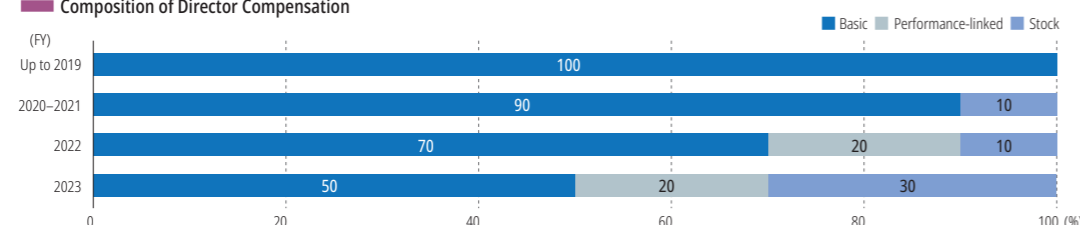
Non-monetary Compensation

SMC has introduced a stock compensation plan (Board Benefit Trust) as long-term incentive compensation for Executive Directors. Directors are awarded points calculated according to their position and performance achievement status for each fiscal year. However, no points will be awarded for fiscal years in which the performance target (consolidated operating profit ratio) is not achieved.

Total Compensation for Each Director Category and by Type of Compensation, and Number of Eligible Directors

Director Category	Total Compensation (Millions of yen)	Total Compensation by Type (Millions of yen)			Number of Eligible Directors
		Basic Compensation	Performance-linked Compensation	Stock Compensation	
Directors (excluding Outside Directors)	564	321	93	150	8
Corporate Auditors (excluding Outside Corporate Auditors)	19	19	—	—	2
Outside Directors	53	53	—	—	4
Outside Corporate Auditors	18	18	—	—	2

Composition of Director Compensation



Training Policy for Directors and Corporate Auditors

Based on the recognition that it is important for Directors and Corporate Auditors to understand their required roles and responsibilities, as well as the characteristics and SMC's current business status, SMC sets its basic policy to continuously provide them the opportunities and necessary supports, including cost coverage. Specifically, we encourage our Directors and Corporate Auditors to take e-learning courses and participate in external seminars. In addition, opportunities such as visits to business sites and explanations from employees are provided as needed for our Outside Directors and Outside Corporate Auditors, to help them understand the characteristics and our current business status.

Evaluation of the Effectiveness of the Board of Directors

Once a year, a self-assessment of the overall effectiveness of the Board of Directors is conducted. The following analysis results are shared at the Board of Directors meeting, and it was confirmed that although many points for improvement still remain, the SMC Board of Directors can be evaluated as functioning effectively at present. We will continue to improve the operation of the Board of Directors, the Executive Officers Meeting, the Nomination and Compensation Committee, and the Sustainability Committee, and continue our efforts to improve both agility and transparency of decision-making.

Evaluation Process

Target: All Directors and Corporate Auditors (11 Directors and 3 Corporate Auditors)

Method: Signed questionnaire

5-point scale from "1 (I don't think so)" to "5 (I think so)" for each question, 10-point scale from 1 to 10, and free description

Overview of the Evaluation Results

Category	FY2023 Issues	FY2024 Measures
Composition of the Board of Directors	Whether the appropriateness of the current number of directors be re-examined or not	Replacing one Inside Director who retired in the previous term (4 out of 12 members are Outside Directors)
	<ul style="list-style-type: none"> • The head of the Production Headquarters should be added to the Board of Directors. • Outside Directors with management experience at other companies should be added. • A person with a bird's-eye view of domestic and international political and economic situations is needed. 	The head of the Production Headquarters was elected as a Director at the Annual General Meeting of Shareholders.

- Regarding the diversity of the Board of Directors, there was an opinion that it should be achieved as a result, and should not be forcibly achieved by setting numerical targets.
- While there was an opinion that whether or not to make Outside Directors a majority should be considered as a future direction, concerns were also expressed about a Board of Directors primarily composed of Outside Directors not involved in daily operations making decisions regarding those operations. It was also suggested that discussions on changes to the organizational structure should be advanced at the same time.
- While the evaluation that discussions at the Board of Directors had become more active was generally shared, multiple Directors expressed opinions such as, "Isn't the discussion going too much into the details of business execution?" and "There are times when it gives the impression that the discussion has become an end in itself."

FY2024 Issues

The following opinions were raised and will continue to be considered.

1. Outside Directors with global business experience and management experience at other companies should be added.
2. Although discussions at the Board of Directors have become more active, many of the agenda items are actually matters that have already been decided, and the Board of Directors may not be a place for substantive discussion.
3. If Outside Directors are to be a majority in the future, it is necessary to discuss changes in the organizational structure as well.

Compliance

Human Rights Policy

SMC recognizes that respect for human rights is essential for fulfilling its social responsibilities and conducting business globally. SMC supports international norms adopted by the United Nations such as the Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work, and will implement its commitment to respect human rights by ensuring compliance with human rights laws and regulations in each country.

Scope of Application

This policy outlines our basic stance regarding respect for human rights, and applies to all officers and employees of SMC (including temporary and dispatched employees). We also request that our suppliers (including subcontractors) respect the aims of this policy.

Human Rights Due Diligence

SMC will establish and operate a human rights due diligence framework.

Rectification and Remediation

SMC will exercise the utmost care to prevent human rights violations in our business activities. If any negative impacts on human rights occur in our business activities or those of our suppliers, we will fulfill our responsibility to respect human rights by taking appropriate actions to rectify the situation.

Education

SMC will regularly educate and inform our employees to ensure that this policy permeates all of our business activities, so that our employees can perform the business activities in accordance with high ethical standards. In particular, harassment such as sexual harassment and power harassment can result in unjust harm to an individual's dignity and character. For this reason, we will implement company-wide efforts by providing job level-specific group training and mandatory e-learning for all employees.

Information Disclosure and Dialogue with Stakeholders

SMC will appropriately disclose this policy and our initiatives based on this policy on our website and through disclosure materials. We will work with our stakeholders including our customers, business partners, shareholders, and investors to gain their understanding and support of our Human Rights Policy through information disclosures, dialogue, and other forms of communication.



Anti-Corruption

In compliance with SMC Group Code of Conduct and the laws and regulations of each country concerning the prevention of corrupt practices, SMC has established the following Basic Anti-Corruption Policy to maintain sound and transparent relationships with our stakeholders.

Prohibition of Corrupt Practices

SMC will not offer bribes or engage in any other corruption or corruption-related practices (including facilitation payments), whether directly or indirectly, to public officials or persons equivalent to public officials to obtain business benefits. In addition, we will not provide any benefits, such as improper entertainment or gifts, that exceed the scope of socially acceptable norms. In some countries, even for those who do not fall under the category of public officials, we will not provide entertainment, gifts, money, or other benefits for the purpose of preferential treatment or that could be perceived as such, because such benefits may fall under the violation of laws for the purpose of obtaining improper business benefits.

Reporting System

SMC will establish a system to receive from officers and employees reports and whistleblower complaints regarding violations or potential violations of anti-corruption laws, regulations, and company rules for the prevention of corrupt practices. In addition, we will ensure that whistleblowers are protected to prevent any disadvantage to any officers or employees who makes a report or whistleblower.

Education

SMC will regularly conduct education and training for officers and employees on laws, regulations, and company rules for the prevention of corrupt practices.

Appropriate Accounting Practices

SMC will practice transparent and fair accounting in accordance with accounting standards, and will fully and accurately record and retain registers of all transactions and disposals of assets in order to ensure accountability for compliance with this policy and anti-corruption laws and regulations.

Disposition of Violators

In the event that any officer or employee violates laws, regulations, or company rules concerning the prevention of corrupt practices, SMC will take strict disciplinary action in accordance with company rules and will take measures to prevent recurrence of such violations.



Compliance

Whistleblowing System

SMC has established an internal reporting system that allows officers and employees (including full-time, temporary, dispatched employees, etc., and those within one year of retirement) to report directly to the Company or an external law firm if they become aware of misconduct that violates laws or internal regulations but are unable to report to their superiors. In addition, a separate Labor Consultation Desk has been established to make it easier to consult about workplace harassment and troubles.

Protection of Whistleblowers

Those who receive internal reports and those who conduct investigations regarding reported cases are obligated to maintain confidentiality regarding the fact that a report was made, information that leads to the identification of the whistleblower, including the whistleblower's name, and the content of the report. In addition, personnel disadvantages and harassment against whistleblowers are prohibited by internal regulations, and violations of these obligations are subject to penalties.

Results

In fiscal year 2023, there were 6 internal reports, and as a result of the investigation, no facts of misconduct were found. In addition, there were 68 consultations at the Labor Consultation Desk in fiscal year 2023. If facts of harassment, etc., are found as a result of the investigation, strict disciplinary action will be taken based on internal regulations, and measures will be taken to prevent recurrence.

Tax Policy

SMC recognizes that corporations, as members of society, have a social responsibility to contribute to the stability of people's lives and the sound development of the economy, alongside the pursuit of corporate profits. We will fulfill our social responsibility by continuing to pay taxes, especially tax payments, in compliance with the tax laws and regulations of each country and region.

Legal Compliance (Tax Compliance)

SMC will comply with the tax-related laws and regulations of each country and region with an appropriate understanding of the purpose of such laws and regulations. We will strive to stay up-to-date on amendments to laws and regulations and to understand them appropriately. If there is any unclear matter, we will contact outside experts for clarification.

Governance

The governance of SMC's Tax Policy is properly structured as part of our internal control. This ensures the objectives of effective and efficient tax-related operations, reliable reporting, and compliance with related laws and regulations are achieved.

Balancing the Enhancement of Corporate Value and Appropriate Tax Payments

SMC will strive to increase its corporate value by further developing relationships of trust with their customers and other parties. Therefore, while we strive to reduce taxes as much as possible, but will keep within reasonable scope in light of the aims of the relevant laws and regulations, and will not engage in excessive tax avoidance.

Relationship with Tax Authorities

SMC will strive to build and maintain a solid relationship of trust with the tax authorities in each country and region by interacting with them honestly and in good faith, and by providing the requested information in a timely and appropriate manner.

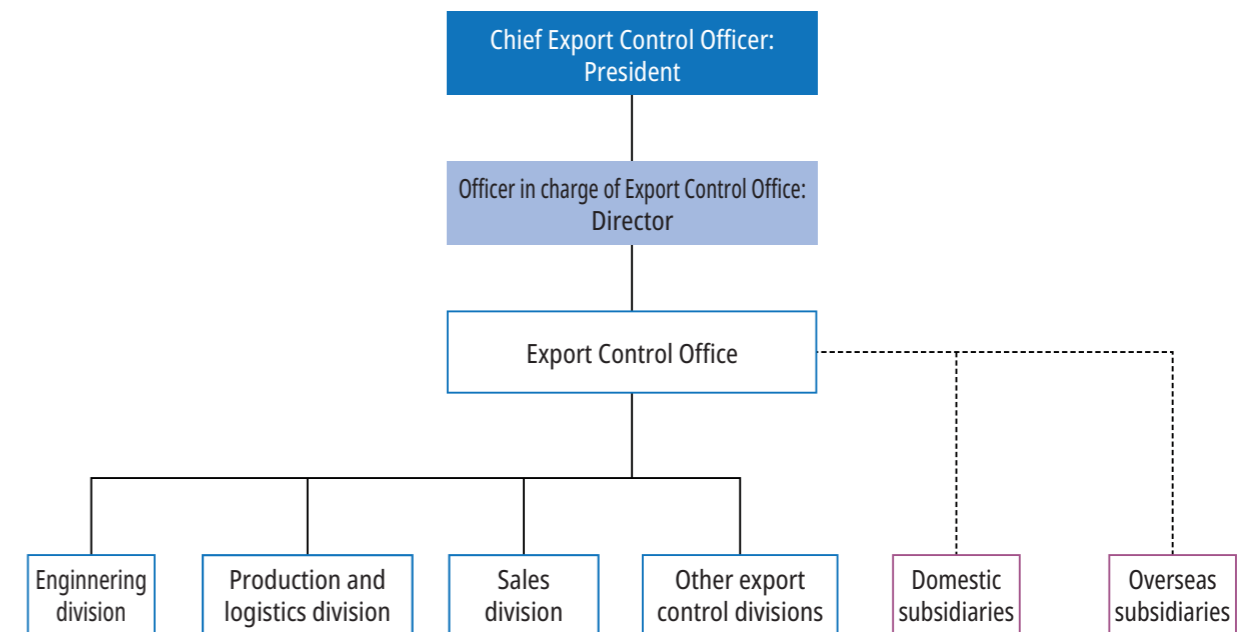
Security Export Control Policy

In December 2004, SMC established internal regulations on security export control and notified them and were accepted by the Ministry of Economy, Trade and Industry.

With the President serving as the Chief Export Control Officer, we have the Export Control Office, a specialized organization under the direct control of the President, and an officer in charge in place. We also have an Export Control Manager and an Export Control Officer assigned to each department.

We, SMC, are committed to making group-wide efforts to comply with the laws and regulations concerning security export control in each country.

Security Export Control Organization Structure



Financial Data (11 Years)

Accounting Period	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2024
Fiscal year (Millions of yen)											
Net sales	395,304	458,081	475,608	487,625	591,035	576,948	526,000	552,178	727,397	824,772	776,873
Operating profit	105,153	127,686	134,233	141,107	192,428	180,203	146,254	153,355	227,857	258,200	196,226
Profit attributable to owners of parent	86,311	109,583	92,138	113,095	136,869	130,631	110,500	121,790	192,991	224,609	178,321
Depreciation	12,618	13,620	14,863	14,246	15,252	16,255	16,669	18,585	20,557	25,767	33,355
Capital expenditures	22,563	28,669	24,756	21,663	23,683	31,936	38,370	27,439	83,499	81,592	105,522
R&D expense	15,544	17,607	18,452	19,115	20,239	21,367	21,480	20,874	23,457	27,361	31,141
Free cash flow	23,392	66,412	67,724	30,584	83,656	16,827	149,534	193,913	39,878	14,530	(33,693)
Fiscal year-end (Millions of yen)											
Total assets	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	1,390,539	1,539,871	1,769,951	1,927,940	2,094,559
Inventories	194,255	194,573	182,564	179,185	205,660	230,268	232,559	248,752	303,545	418,602	519,558
Net assets	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266	1,379,987	1,559,274	1,702,325	1,885,871
Shareholder's equity	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188	1,376,704	1,555,628	1,698,413	1,881,586
Borrowings	61,295	70,581	49,243	17,073	6,438	7,238	11,516	10,788	11,544	12,187	13,070
Cash and cash equivalents	208,577	281,716	295,270	277,449	322,690	312,366	399,128	561,540	559,296	491,324	405,586
Per share data (Yen)											
Net income per share (EPS)	1,274	1,629	1,371	1,683	2,036	1,943	1,656	1,831	2,923	3,444	2,766
Net assets per share	11,599	13,682	13,981	15,292	17,067	18,447	18,794	20,835	23,808	26,331	29,338
Dividend per share	170	190	200	300	400	400	400	500	750	900	950
Cash flow per share	1,460	1,831	1,592	1,895	2,263	2,185	1,906	2,111	3,235	3,839	3,284
Profitability (%)											
Operating income ratio	26.6	27.9	28.2	28.9	32.6	31.2	27.8	27.8	31.3	31.3	25.3
SG&A ratio	20.8	20.9	21.7	20.9	19.0	20.2	21.6	20.4	18.7	19.8	21.5
Return on equity	11.7	12.9	9.9	11.5	12.6	10.9	8.9	9.3	13.2	13.8	10.0
Return on assets	13.4	15.2	11.5	12.8	15.5	14.5	11.4	11.7	16.5	16.5	12.5
Efficiency (Times)											
Total assets turnover	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Equity turnover	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.4
Inventories turnover	2.1	2.4	2.5	2.7	3.1	2.6	2.3	2.3	2.6	2.3	1.7
Fixed assets turnover	3.3	3.4	3.2	3.3	3.9	3.5	2.9	2.9	3.1	2.8	2.1
Stability (%)											
Equity ratio	81.0	81.4	83.9	86.2	85.4	89.3	89.9	89.4	87.9	88.1	89.8
Debt equity ratio	7.8	7.7	5.2	1.7	0.6	0.6	0.9	0.8	0.7	0.7	0.7
Current ratio	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1	929.3	742.8	701.0	794.6
Fixed assets ratio	37.0	35.5	39.7	34.7	35.1	34.0	34.1	32.2	32.9	35.6	41.8
Interest coverage ratio (Times)	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2	608.6	865.7	810.5	1,189.4
Investment data											
Dividend ratio (%)	13.3	11.7	14.6	17.8	19.6	20.6	24.1	27.3	25.7	26.1	34.3
Dividends on equity (%)	1.6	1.5	1.4	2.0	2.5	2.3	2.1	2.5	3.4	3.6	3.4
Price earnings ratio (Times)	21.4	21.9	19.0	19.6	21.2	21.4	27.6	35.1	23.5	20.3	30.7
Price book value ratio (Times)	2.3	2.6	1.9	2.2	2.5	2.3	2.4	3.1	2.9	2.7	2.9
Market capitalization (Millions of yen)	1,874,968	2,414,854	1,761,035	2,217,799	2,901,598	2,797,849	3,082,148	4,332,523	4,637,706	4,704,402	5,714,942

1. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.

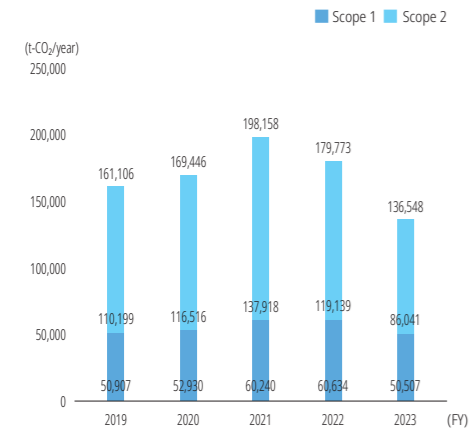
2. Net income per share is calculated based on the average number of common shares for the respective fiscal year.

3. Dividend per share is calculated based on the dividend paid in the respective fiscal year.

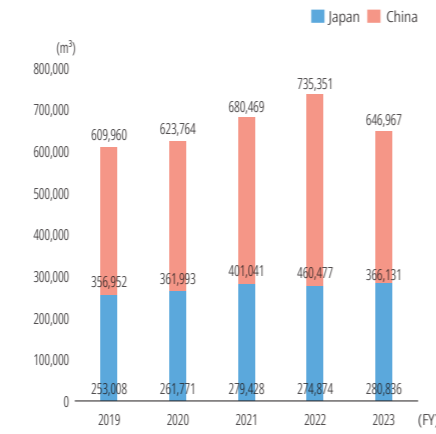
4. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid

Non-financial Data

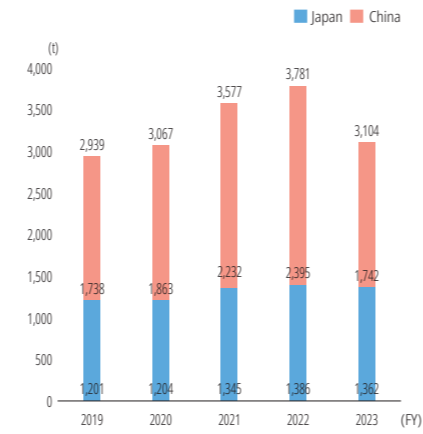
GHG Emissions*1 (Scope 1 + Scope 2)



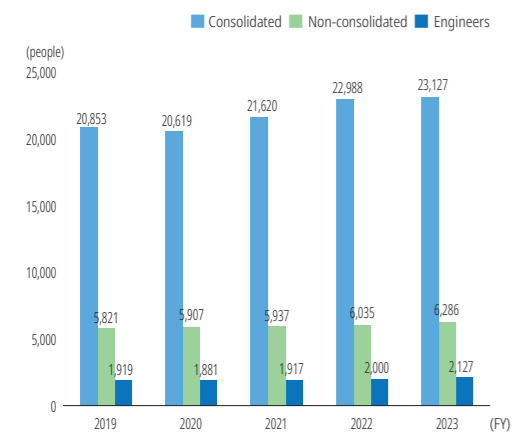
Water Usage*2



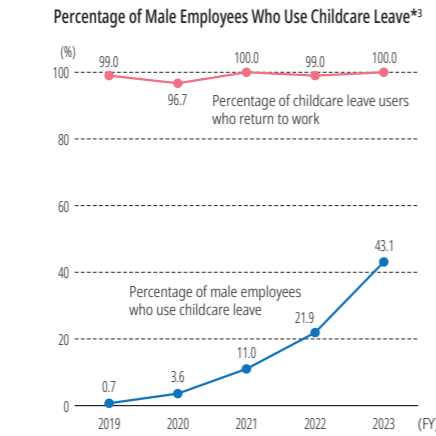
Chemical Substance Usage*2



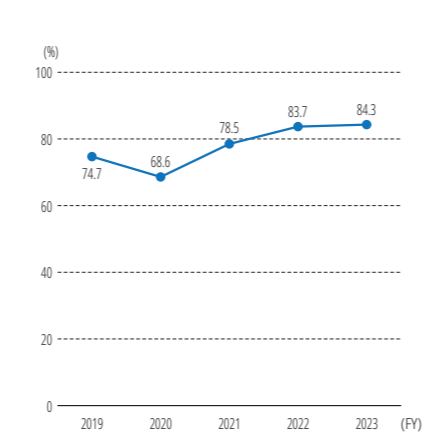
Number of Employees



Percentage of Childcare Leave Users Who Return to Work*3



Percentage of Paid Leave Used*3



Other Non-financial Data*3

		FY2019	FY2020	FY2021	FY2022	FY2023
Average age (years)		40.5	41.6	41.8	41.9	41.3
Average no. of years employed		19.4	20.4	20.6	20.5	19.9
Percentage of employees with disabilities		2.5%	2.5%	2.4%	2.4%	2.3%
Three-year turnover rate		3.1%	4.2%	3.1%	2.2%	10.1%
Full-time worker turnover rate		1.8%	2.0%	2.0%	3.5%	2.0%
Percentage of women, non-japanese, and mid-career hires among full-time workers	Women	28.5%	28.1%	28.3%	28.2%	27.7%
	Non-japanese	0.5%	0.4%	0.4%	0.5%	0.8%
	Mid-career hires	15.6%	16.2%	15.7%	13.8%	16.7%
Percentage of women, non-japanese, and mid-career hires in management positions	Women	0.9%	1.5%	1.8%	1.7%	1.8%
	Non-japanese	0.2%	0.0%	0.2%	0.4%	0.5%
	Mid-career hires	26.9%	25.9%	24.0%	23.1%	22.3%
Percentage of women, non-japanese, and mid-career employees among new hires	Women	30.4%	20.7%	28.7%	18.7%	23.9%
	Non-japanese	0.6%	0.0%	0.6%	2.2%	0.9%
	Mid-career hires	1.8%	22.4%	16.9%	43.5%	26.8%

*1 The 34 locations, which include sales locations, mass production factories, and major distribution centers, make up more than 95% of consolidated external net sales.

*2 Figures for our production bases in Japan and China, which account for 88% of the Group's total production.

*3 Non-consolidated

About SMC

Corporate Summary

As of March 31, 2024

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
Share capital	61.0 billion yen
No. of employees	23,127
Net sales	776.8 billion yen
Total assets	2,094.5 billion yen
Equity ratio	89.8%

Stock Status

As of September 30, 2024

Stock listing	Prime Market, Tokyo Stock Exchange
Shareholder registry administrator / Special account management institution	Sumitomo Mitsui Trust Bank, Limited
No. of issued shares	67,369,359
No. of shareholders	7,035

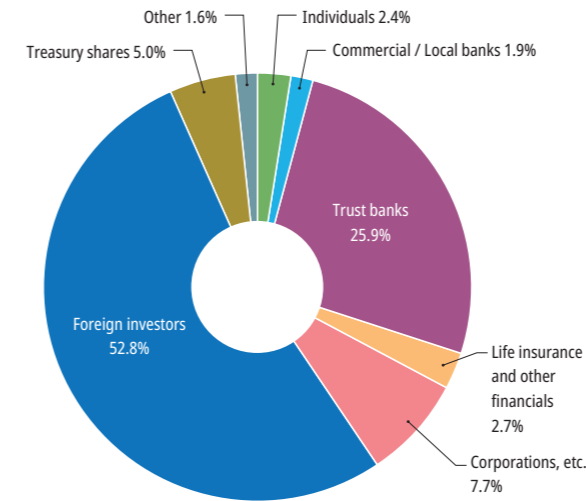
Major Shareholders

As of September 30, 2024

Shareholder	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	10,410	16.27
Custody Bank of Japan, Ltd. (Trust account)	4,542	7.09
Takada International LLC	3,793	5.92
TON Finance B.V.	3,443	5.38
JPMorgan Chase Bank 385632	2,803	4.38
The Bank of New York Mellon as Depository Bank for Depository Receipt Holders	1,855	2.89
State Street Bank and Trust Company 505001	1,819	2.84
The Bank of New York Mellon 140042	1,321	2.06
State Street Bank and Trust Company 505103	1,277	1.99
The Nomura Trust and Banking Co., Ltd. (Trust account 2052208)	1,239	1.93

Share Ownership

As of September 30, 2024



Website Information

Information about SMC's products and sustainability is posted on our website.

▶ <https://www.smcworld.com/en-jp/>

