

To our shareholders

As a comprehensive manufacturer of automatic control equipment that supports automation and labor-saving operations in industry, we contribute to the resolution of social issues, such as climate change, low birth rate, and aging population.

We would like to express our sincere gratitude to all our shareholders for your exceptional support.

In the fiscal year ended March 31, 2023, each country across the globe is returning to normal after the COVID-19 pandemic as demand for capital expenditures is headed toward recovery in each industrial area. However, it is unclear when various issues will be resolved, including intensifying conflict between the U.S. and China, supply difficulties for components and raw materials, primarily semiconductors, and the military invasion of Ukraine by Russia. Concerns about an economic recession have also risen due to inflation and monetary tightening. As such, the outlook for the future continues to be uncertain.

Also, natural disasters have intensified, including heavy rains, flooding, and wild fires, and the total population in China is on the decline. Measures to resolve these social issues of climate change, low birth rate, and aging population have been in strong demand.

As a comprehensive manufacturer of automatic control equipment that contributes to the reduction of greenhouse gas emissions, including CO₂, and promotion of automation and labor-saving operations, SMC strives to establish an internal structure to fulfill our responsibility to supply products under emergency circumstances, anywhere in the world.

SMC will further refine its strengths, which include a global network across more than 80 countries, 23,000 employees, an extensive product lineup of more than 700,000 items and abundant inventory, product development capabilities to respond to customer requests, and a solid financial base. We are also making capital investments to expand production capacity and create multi-location production centers and continuing initiatives for global cooperation of sales activities utilizing IT.

We would like to ask our shareholders for your continued support and guidance.

June 2023

Yoshiki Takada, President



Notice of the 64th Annual General Meeting of Shareholders

We would like to inform you that we will hold the 64th Annual General Meeting of Shareholders as follows. In holding this General Meeting of Shareholders we have taken measures for electronic provision of information that constitutes the content of reference documents for the general meetings of shareholders (matters subject to measures for electronic provision), which are posted on our website under "Notice of Convocation Annual General Meeting 2023".

The Company's website address

<https://www.smcworld.com/ir/en/>

Tokyo Stock Exchange website address

<https://www2.jpx.co.jp/tseHpFront/JJK020010Action.do?Show=Show>

* On the Company's website, please navigate through "Investor Relations", "IR Library", and "General Meeting of Shareholders", to "Notice of Convocation Annual General Meeting 2023".

In the Tokyo Stock Exchange website "Listed Company Search", enter "SMC" into "Issue name (company name)" or "6273" into "Code" and click "Search". Then, click "Basic Information", "Documents for public inspection/PR information", and "[Notice of General Shareholders Meeting / Informational Materials for a General Shareholders Meeting]".

For those unable to attend, we would encourage you to exercise your voting right in writing or via the Internet by 5:00 p.m., on June 28, 2023 (Wednesday) after studying the attached "Reference Documents for the General Meeting of Shareholders".

Sincerely,

Notes

1	Date and Time	June 29, 2023 (Thursday) 10:00 a.m. (Reception starts at 9:00 a.m.)
2	Venue	Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo Conference Room, SMC Corporation There are no souvenirs available for shareholders attending the shareholders' meeting.
3	Agenda	Matters to be reported Business Report, Consolidated and Non-consolidated Financial Statements, and Audit Report for Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors, for the 64th fiscal year (April 1, 2022 to March 31, 2023) Matters to be resolved Proposal 1 Dividend of Surplus Proposal 2 Election of 12 Directors Proposal 3 Election of 3 Corporate Auditors Proposal 4 Election of Accounting Auditor Proposal 5 Amendments to and Continuation of Stock Compensation Plan for Directors

4 Matters decided upon convening

(1) Providing informational materials for the general meeting of shareholders in electronic format

- In accordance with the revised Companies Act, for all general meetings of shareholders of listed companies held from March 2023 onward, in principle companies will take “measures for electronic provision” of informational materials for general meetings of shareholders (reference documents for the general meeting of shareholders, business reports, consolidated financial statements, non-consolidated financial statements, etc.) by posting them in a browsable format for shareholders on websites, and will not deliver them on paper-based documents.
- In accordance with laws and regulations, and the Articles of Incorporation of the Company, among the matters subject to measures for electronic provision, the Consolidated Statement of Changes in Equity, Notes to Consolidated Financial Statements, Non-Consolidated Statement of Changes in Equity and Notes to Non-consolidated Financial Statements are not included in the written documents sent to shareholders who request written copies. The above-mentioned documents have been audited by the Accounting Auditor and the Corporate Auditors.
- If there is a revision to the matters subject to measures for electronic provision, a notification to that effect, and the corrected and pre-corrected versions of these matters shall be posted on the Company’s website and Tokyo Stock Exchange website listed before.

(2) Exercising voting rights in writing or via the Internet

- If you do not indicate approval or disapproval of each proposal in the sent voting form, it will be considered a vote for approval.
- If voting rights are exercised both in writing and via the Internet, the vote via the Internet shall be considered effective.
- If voting rights are exercised via the Internet multiple times, the last vote shall be considered effective.

[Attendance at meeting venue]

- ◎ If attending the meeting in person, please present the voting form sent out with this Notice at the reception desk.
- ◎ If attending as a proxy for another shareholder, please submit along with proxy authorization letter.

[COVID-19 countermeasures]

- ◎ Please refrain from attendance in person if you have symptoms such as fever or cough.
- ◎ Masks are not required inside the headquarters building. Directors, Corporate Auditors, and employees may not wear masks as well.
- ◎ Inside the venue for the general meeting of shareholders, please consider the surrounding shareholders and maintain etiquette for coughing, etc.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal 1 Dividend of Surplus

[Basic capital policy]

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

The Company will also strive to further increase shareholders' equity, aiming to maintain a solid financial base that will not be affected by financial and economic turmoil and rapid fluctuations in foreign exchange rates.

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

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

[Matters related to year-end dividend]

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

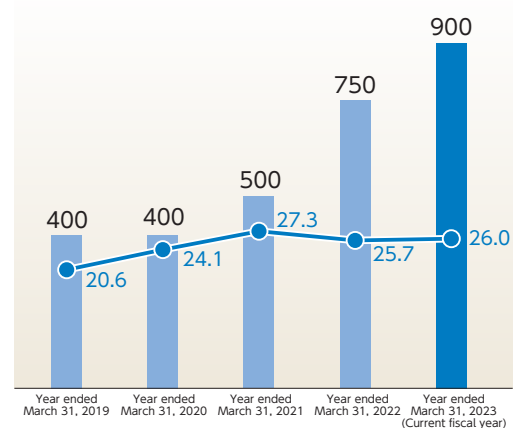
1 Allocation of divisible assets payable to shareholders and total amount
450 yen per share on the Company's common shares

Total amount: 29,026,452,150 yen

2 Effective date of the dividends from surplus
June 30, 2023

Should the aforementioned proposal for the year-end dividend be approved, the annual dividend per share including the interim dividend will be 900 yen, a 150 yen increase compared to the same period as the previous year.

[Reference] Changes in dividend per share (yen) Consolidated payout ratio (%)



Proposal 2 Election of 12 Directors

The term of office of all current 12 Directors will expire at the conclusion of this Annual General Meeting of Shareholders. It is, therefore, proposed that 12 Directors (including 4 Outside Directors) be elected (all Directors being reappointed).

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

Candidate No.	Candidate Name	Current Position and Assignment of Work in the Company	Number of years served as Director	Attendance at the Board of Directors meetings
1	Yoshiki Takada Reappointed	President/Senior General Manager of Sales Headquarters	29 years	7/7
2	Yoshitada Doi Reappointed	Director and Managing Executive Officer/Senior General Manager of Engineering Headquarters	2 years	7/7
3	Toshio Isoe Reappointed	Director and Executive Officer/General Manager of Administration Division	4 years	7/7
4	Masahiro Ota Reappointed	Director and Executive Officer/General Manager of Finance & Accounting Division	4 years	7/7
5	Susumu Maruyama Reappointed	Director and Executive Officer/In charge of Business Management/General Manager of Presidential Office	3 years	7/7
6	Samuel Neff Reappointed U.S. citizen	Director and Executive Officer/In charge of Supply Chain Management	3 years	7/7
7	Koji Ogura Reappointed	Director and Executive Officer/Vice Senior General Manager of Sales Headquarters	1 year	5/5
8	Kelley Stacy Reappointed Female U.S. citizen	Director and Executive Officer (President of SMC US)	1 year	3/5
9	Masanobu Kaizu Reappointed Independent Outside	Outside Director	9 years	7/7
10	Toshiharu Kagawa Reappointed Independent Outside	Outside Director	8 years	7/7
11	Yoshiko Iwata Reappointed Independent Female Outside	Outside Director	2 years	7/7
12	Kyoichi Miyazaki Reappointed Independent Outside	Outside Director	2 years	7/7



Candidate No.

1 Yoshiki Takada

(June 6, 1958)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1987	Joined the Company
June 1991	On loan to SMC US
June 1994	Director of the Company
June 2002	Managing Director
July 2003	In charge of Overseas Operations
April 2004	President, SMC US
June 2014	In charge of Management for North America, Central and South America Zone of the Company
June 2017	Director and Managing Executive Officer
July 2018	Director and Senior Managing Executive Officer
July 2018	Senior General Manager of Sales Headquarters (Incumbent)
September 2019	Executive Vice-president
December 2019	Chairman, SMC US (Incumbent)
April 2020	Member of the Nomination and Compensation Committee of the Company (Incumbent)
April 2021	President (Incumbent)
January 2022	Member of the Sustainability Committee (Incumbent)

[Reason for selection as a candidate for Director]

Mr. Yoshiki Takada served as President of SMC US for many years, and as Senior General Manager of Sales Headquarters since 2018. He has led global business operations for the entire Group. He was appointed Executive Vice-president in 2019 and President in April 2021. He is leading the overall management of the entire Group and proceeding with drastic structural reforms. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Number of years served as Director	29 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares (*)

(*) Mr. Yoshiki Takada holds SMC's shares through a share holding company.



Candidate No.

2 Yoshitada Doi

(February 21, 1962)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1984	Joined the Company
July 2018	Executive Officer, General Manager of Product Development Division 8
April 2020	Vice Senior General Manager of Engineering Headquarters
June 2021	Director (Incumbent)
June 2021	Executive Officer
June 2021	Senior General Manager of Engineering Headquarters (Incumbent)
May 2023	Managing Executive Officer (Incumbent)

[Reason for selection as a candidate for Director]

After joining the company in 1984, Mr. Yoshitada Doi has worked in R&D for company products and has fulfilled his responsibilities for supervising the entire R&D Division as Vice Senior General Manager of Engineering Headquarters since 2020, and as Senior General Manager of Engineering Headquarters since 2021. From 2022, he has been located in Germany, where he has taken efforts to strengthen the structure of the German Technical Centre and technology centers from different countries, as well as reinforce the cooperation between technology centers. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Number of years served as Director	2 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares



Candidate No.

3 Toshio Isoe
(May 26, 1961)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

July 2014	Retired from Resona Bank, Limited
August 2014	Joined the Company
May 2019	Deputy General Manager of Administration Division
June 2019	Director and Executive Officer, General Manager of Administration Division (Incumbent)
November 2021	In charge of HR

Number of years served as Director	4 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	100 shares

[Reason for selection as a candidate for Director]

Mr. Toshio Isoe has been engaged in the operations of the administration for the Company, the management of subsidiaries, the administration for sales, etc. since joining the Company in 2014, and has fulfilled his responsibilities as General Manager of HR and Administration Division since 2019. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

4 Masahiro Ota
(December 24, 1963)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 2015	Retired from Resona Bank, Limited
May 2015	Joined the Company
May 2019	Deputy General Manager of Finance & Accounting Division
June 2019	Director and Executive Officer, General Manager of Finance & Accounting Division (Incumbent)

Number of years served as Director	4 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	100 shares

[Reason for selection as a candidate for Director]

Mr. Masahiro Ota has been mainly engaged in the management of subsidiaries since joining the Company in 2015 and has fulfilled his responsibilities as General Manager of Finance & Accounting Division since 2019. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

5

Susumu Maruyama

(February 14, 1963)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1986	Joined Ministry of International Trade and Industry
June 2014	Director-General, Business Support Department, The Small and Medium Enterprise Agency
July 2015	Deputy Director-General for Policy Evaluation of Minister's Secretariat, Ministry of Economy, Trade and Industry
June 2016	Retired from Ministry of Economy, Trade and Industry
October 2016	Special Chief Researcher of Institute for International Socio-Economic Studies
July 2018	Joined the Company, Corporate Advisor
November 2019	Executive Officer, In charge of Management Reform Project
June 2020	Director and Executive Officer, In charge of Business Management, General Manager of Presidential Office (Incumbent)

Number of years served as Director	3 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Director]

Mr. Susumu Maruyama has held important positions at central government agencies, and has a high level of knowledge related to economic conditions in Japan and overseas, and organizational management. He has fulfilled his responsibilities as the officer in charge of Management Reform Project from 2019 and the officer supervising quality management, information systems, and internal auditing divisions from 2020. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.



Candidate No.

6

Samuel Neff

(March 30, 1982)

Reappointed

U.S. citizen

Brief personal profile, position, assignment of work and important concurrent position at other organization

May 2006	Joined the Company
August 2008	Attended Georgetown University Law Center
July 2011	Joined New York Bar Association
January 2012	Joined SMC US
January 2013	Project Manager of SMC Singapore
May 2016	Joined the Company, General Manager of Management Planning Office
June 2020	Director and Executive Officer, In charge of Supply Chain Management (Incumbent)
May 2021	General Manager in charge of SCM

Number of years served as Director	3 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Director]

After devoting himself to learning at various companies in the Group, Mr. Samuel Neff has fulfilled his responsibilities as General Manager of Management Planning Office from 2016 and the officer in charge of Supply Chain Management from 2020. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Reference Documents for the General Meeting of Shareholders



Candidate
No.

7 **Koji Ogura**

(January 8, 1954)

Reappointed

Brief personal profile, position, assignment of work and important concurrent position at other organization

February 1980	Joined the Company
September 2007	Head of Hamamatsu Sales Office
June 2010	Director
July 2010	Deputy General Manager of Sales Headquarters
June 2017	Resigned as Director
June 2017	Executive Officer
June 2019	Resigned as Executive Officer
April 2020	Vice Senior General Manager of Sales Headquarters (Incumbent)
May 2020	Executive Officer (Incumbent)
July 2020	General Manager of Marketing Division
June 2022	Director (Incumbent)

[Reason for selection as a candidate for Director]

After joining the Company in 1980, Mr. Koji Ogura has been engaged with the front line of sales activities, and from 2010 he has planned and developed sales strategies in the Sales Headquarters as a Director, while also being in charge of support for sales activities. With the full-scale implementation of the executive officer system in 2017 he temporarily resigned his position, subsequently becoming Vice Senior General Manager of Sales Headquarters in 2020, in charge of the Sales Division as a whole, while also fulfilling his duties as assistant to the President, who is also the Senior General Manager of Sales Headquarters. With the expectation that he can continuously contribute to the management of the Company, he has been selected as a candidate for Director.

Number of years served as Director	1 year
Attendance at the Board of Directors meetings	5/5
Number of the Company's shares held	27 shares



Candidate
No.

8 **Kelley Stacy**

(April 27, 1962)

Reappointed

Female

U.S. citizen

Brief personal profile, position, assignment of work and important concurrent position at other organization

August 1994	Joined SMC US
September 2007	Director of SMC US
July 2012	Executive Vice-president of SMC US
December 2019	President of SMC US (Incumbent)
June 2022	Director and Executive Officer of the Company (Incumbent)

[Reason for selection as a candidate for Director]

After joining SMC US in 1994, Ms. Kelley Stacy engaged in a variety of duties including sales strategy development, HR, and becoming a Director of SMC US in 2007 and Executive Vice-president of that company in 2012. In 2019 she became President of SMC US, and has not only managed the U.S. subsidiary but also been involved in driving sales strategy at the global level for the SMC Group. With the expectation that she can continuously contribute to the management of the Company, she has been selected as a candidate for Director.

Number of years served as Director	1 year
Attendance at the Board of Directors meetings	3/5
Number of the Company's shares held	0 shares



Candidate No.

9

Masanobu Kaizu

(December 27, 1951)

Reappointed

Outside

Independent

Number of years served as Director	9 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1975	Joined Nomura Research Institute, Ltd.
June 1994	General Manager of Investment Research Division
April 1997	General Manager of Investment Research Division, Nomura Securities, Co., Ltd. Financial Research Center
June 2000	Vice President and General Manager of Corporate Research Division, Nomura Securities, Co., Ltd. Financial Research Center
April 2002	Executive Officer, Nomura Securities, Co. Ltd. and President of Financial Research Center
July 2007	Executive Officer, Nomura Securities, Co. Ltd. and Chief Research Officer of Financial and Economic Research Center
January 2012	Senior Research Fellow and Adviser, Nomura Securities Co., Ltd. Financial and Economic Research Center
June 2013	Director, Financial Accounting Standards Foundation
August 2013	Vice Chairman, The Securities Analysts Association of Japan
June 2014	Outside Director of the Company (Incumbent)
April 2020	Chairman of the Nomination and Compensation Committee (Incumbent)
December 2022	Retires from Nomura Securities Co., Ltd.

[Reason for selection as a candidate for Outside Director and summary of expected roles]

Mr. Masanobu Kaizu is a distinguished economist and securities analyst having a superb personality, insights, and abundant knowledge of economic situations, financial market conditions, corporate management and financial accounting, with broad experience in relevant business activities. He has made proposals on management policies based on his own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitoring the Company's management activities from a neutral and objective point of view, further enhancing management transparency, and improving corporate value in the medium- and long-run by promoting continuous corporate growth. He also has strived to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as Chairman of Nomination and Compensation Committee since 2020. With the expectation that he can continuously fulfill these roles, he has been appointed as a candidate for Outside Director. According to the Company's judgment, Mr. Kaizu is capable of carrying out his duties as Outside Director for the abovementioned reasons and considering his experience as the Company's Outside Director although he has not directly been involved in corporate management before, except the said experience.



Candidate No.

10

Toshiharu Kagawa

(November 12, 1950)

Reappointed

Outside

Independent

Brief personal profile, position, assignment of work and important concurrent position at other organization

May 1996	Professor, Precision and Intelligence Laboratory, Tokyo Institute of Technology
May 2012	President, The Japan Fluid Power System Society
January 2014	Professor, Interdisciplinary Graduate School of Science and Engineering, Tokyo Institute of Technology
June 2015	Outside Director of the Company (Incumbent)
April 2016	Institute Professor, Tokyo Institute of Technology
April 2018	Professor Emeritus at Tokyo Institute of Technology
April 2020	Member of the Nomination and Compensation Committee of the Company (Incumbent)

Number of years served as Director	8 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Outside Director and summary of expected roles]

Mr. Toshiharu Kagawa is a Doctor of Engineering specializing in flow measurement and control and has a superb personality and insights. His specialization and the Company's business areas are very closely related.

He has made proposals on management policies mainly in relation to research and development activities and measures for the training of engineers based on his own specialized knowledge and wide experience as a researcher and educator. He also monitored the Company's management activities from a neutral and objective point of view, further enhanced management transparency, and improved corporate value in the medium- and long-run by promoting continuous corporate growth.

He also has strived to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as a member of the Nomination and Compensation Committee since 2020.

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

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



Candidate
No.

11

Yoshiko Iwata

(July 15, 1956)

Reappointed

Outside

Independent

Female

Number of years served as Director	2 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1979	Joined Bank of America, Tokyo Branch
June 1989	Joined Visa International
January 1992	Joined Dewe Rogerson Japan
November 1994	Joined Technometrics (currently Thomson Financial), Tokyo Branch, Senior Director in charge of Japan/Korea
February 2001	Joined J-Eurus IR Co., Ltd.
May 2001	President of J-Eurus IR Co., Ltd.
November 2014	Outside Director, Yamato International Inc.
June 2021	Outside Director of the Company (Incumbent)
June 2021	Outside Director, Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.
January 2022	Member of the Sustainability Committee of the Company (Incumbent)
September 2022	Outside Director, Lasertec Corporation (Incumbent)
April 2023	Chairperson, Member of the Board, J-Eurus IR Co., Ltd. (Incumbent)

[Important concurrent duties]

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

[Reason for selection as a candidate for Outside Director and summary of expected roles]

Ms. Yoshiko Iwata possesses expertise and a wealth of experience related to corporate governance as well as dialogues between investors and companies. She is a pioneer of the IR Consulting Business field in Japan who has a wealth of international experience as well as a superb personality, insights, and managerial experience.

She has made proposals on management policies, primarily on policies related to information disclosure and dialogues with investors, based on her own professional knowledge from the standpoint of protecting the interests of general shareholders and investors in particular, monitor the Company's management activities from a neutral and objective point of view, further enhance management transparency, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.

Moreover, since becoming a member of the Sustainability Committee in 2022, she has done her utmost to supervise the Company's sustainability initiatives for appropriateness and monitor their progress.

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



Candidate No.

12

Kyoichi Miyazaki

(October 11, 1962)

Reappointed

Outside

Independent

Number of years served as Director	2 years
Attendance at the Board of Directors meetings	7/7
Number of the Company's shares held	0 shares

Brief personal profile, position, assignment of work and important concurrent position at other organization

April 1986	Joined Morgan Stanley, Tokyo Branch
July 1987	Joined Wood Gundy Inc., Tokyo Branch
January 1993	Joined Salomon Brothers Asia, Tokyo Branch
August 1995	Joined Morgan Stanley, Tokyo Branch
February 1997	Joined Deutsche Securities Inc., Tokyo Branch
September 2004	Joined Deutsche Bank AG, New York Branch
April 2006	Established Zen Asset Management Co., Ltd., Representative Director (Incumbent)
June 2021	Outside Director of the Company (Incumbent)
January 2022	Chairman of the Sustainability Committee of the Company (Incumbent)

[Important concurrent duties]

Representative Director, Zen Asset Management Co., Ltd.

[Reason for selection as a candidate for Outside Director and summary of expected roles]

Mr. Kyoichi Miyazaki has amassed a wealth of knowledge and experience related to market risk management and investment portfolio management utilizing cutting-edge financial engineering in international financial institutions. He possesses superb insights and personality as he established and manages his own asset management company.

He has made proposals on management policies, primarily policies related to international business, risk management, and corporate governance, based on his own professional knowledge, monitor the Company's management activities from a neutral and objective point of view, further enhance management transparency, and improve corporate value in the medium- and long-run by promoting continuous corporate growth.

Moreover, since becoming Chairman of the Sustainability Committee in 2022, he has done his utmost to supervise the Company's sustainability initiatives for appropriateness and monitor their progress.

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

(Notes)

1. No special interests exist between the candidates and the Company.
2. Mr. Masanobu Kaizu, Mr. Toshiharu Kagawa, Ms. Yoshiko Iwata and Mr. Kyoichi Miyazaki are candidates for Outside Director.
3. The Company has made a contract with Outside Directors Mr. Masanobu Kaizu, Mr. Toshiharu Kagawa, Ms. Yoshiko Iwata, and Mr. Kyoichi Miyazaki for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Article 27 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law). If the reelection of the candidates is approved, the Company plans to renew this contract.
4. The Company has entered into a liability insurance agreement for Directors, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act. All candidates for Director are insured under this agreement. An outline of the details of this contract is included in the chart below.
At the Board of Directors meeting after the conclusion of this Annual General Meeting of Shareholders, the Company plans to approve the renewal of the same contract under the same terms.

[Outline of a liability insurance agreement for Directors, etc.]

Scope of those covered under insurance agreement	Directors, management, and all employees who become co-defendants of Directors of the Company and Company's subsidiaries
Burden of insurance premiums	Those covered under this agreement will not bear the cost of insurance premiums (the Company will bear all costs)
Outline of insured incidents eligible for compensation	Damages bore by the insured for liability of damages related to the execution of one's duties. Damages that occur due to claims received from pursuing such responsibility (litigation expenses, etc.)
Mechanism to prevent interference with the proper execution of duties by Directors, etc. of the Company, who are insured under this insurance agreement	This agreement includes a disclaimer stating that it will not cover any intentional damages and claims for compensation resulting from criminal behavior, violations of laws and regulations, and personal interests gained through illegal means by the insured.

5. The Company has also designated Outside Directors Mr. Masanobu Kaizu, Mr. Toshiharu Kagawa, Ms. Yoshiko Iwata and Mr. Kyoichi Miyazaki as Independent Directors as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered them as such with the TSE.

Proposal 3 Election of 3 Corporate Auditors

The term of office of all current 3 Corporate Auditors will expire at the conclusion of this Annual General Meeting of Shareholders. It is, therefore, proposed that 3 Corporate Auditors (including two reappointed Outside Corporate Auditors and one newly-appointed Corporate Auditor) be elected. The Board of Corporate Auditors has approved this proposal.

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



Candidate No.

1

Takemasa Chiba

(June 1, 1954)

Newly-appointed

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

October 1981	Joined the Company
September 2013	Senior General Manager of Production Headquarters
July 2015	General Manager of Production Planning Division
September 2020	Executive Officer (Incumbent)
February 2021	Vice Senior General Manager of Production Headquarters
June 2021	Senior General Manager of Production Headquarters (Incumbent)

Number of years served as Corporate Auditor	—
Attendance at the Board of Directors meetings	—
Attendance at the Board of Corporate Auditors meetings	—
Number of the Company's shares held	0 shares

[Reason for selection as a candidate for Corporate Auditor]

Since joining the company in 1981, Mr. Takemasa Chiba has been engaged in production management and cost management, and have fulfilled his responsibilities as Executive Officer since 2020 and as the person in charge of the Production Headquarters since 2021.

Utilizing his on-the-ground experience developed over many years and personal network built inside the company, he is expected to contribute to the improvement of corporate value of the Company through the establishment of effective and efficient audit activities and audit environment. Therefore, he has been selected as a candidate for Corporate Auditor.



Candidate No.

2 Arata Toyoshi

(October 31, 1965)

Reappointed

Outside

Independent

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

April 1998	Registered as Certified Public Accountant (Incumbent)
August 2007	Partner, Deloitte Touche Tohmatsu LLC
July 2014	Director, Tohmatsu Challenged Co., Ltd.
December 2016	Retired from Deloitte Touche Tohmatsu LLC
January 2017	Established CPA Toyoshi Arata Office as its representative (Incumbent)
November 2017	Registered as Certified Public Tax Accountant (Incumbent)
June 2019	Outside Director (Audit & Supervisory Committee Member), NIHON CHOZAI Co., Ltd. (Incumbent)
June 2019	Outside Corporate Auditor of the Company (Incumbent)

[Important concurrent duties]

Representative, CPA Toyoshi Arata Office
 Outside Director (Audit & Supervisory Committee Member), NIHON CHOZAI Co., Ltd.

Number of years served as Corporate Auditor	4 years
Attendance at the Board of Directors meetings	7/7
Attendance at the Board of Corporate Auditors meetings	13/13
Number of the Company's shares held	0 shares

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

Mr. Arata Toyoshi is a certified public accountant working under a major auditing firm. He has been engaged in listed company auditing, advisories on IPO, management and operations in auditing firms and its group company. He has a superb personality, insight and abundant knowledge in financial and accountings.

Mr. Toyoshi has monitored the Company's management activities based on his professional knowledge and broad experience on business accounting and auditing from a neutral and objective point of view, focusing, in particular, on ensuring the fairness of financial accounting and timely disclosure. He has also made proposals on the overall management of the Company.

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



Candidate
No.

3

Haruya Uchikawa

(October 31, 1970)

Reappointed

Outside

Independent

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

April 1998	Registered as Lawyer (Incumbent)
April 1998	Joined Midosuji Law Firm
January 2005	Partner, Midosuji Legal Profession Corporation (Incumbent)
June 2006	Outside Corporate Auditor of HASEKO Corporation
June 2014	Outside Director of APLUS FINANCIAL Co., Ltd.
June 2019	Outside Corporate Auditor of the Company (Incumbent)

[Important concurrent duties]

Partner, Midosuji Legal Profession Corporation

Number of years served as Corporate Auditor	4 years
Attendance at the Board of Directors meetings	7/7
Attendance at the Board of Corporate Auditors meetings	13/13
Number of the Company's shares held	0 shares

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

Mr. Haruya Uchikawa is an experienced lawyer having a superb insight and a deep knowledge in corporate legal affairs who has also experienced being an Outside Director and Outside Corporate Auditor of other listed companies.

Mr. Uchikawa has monitored the Company's management activities based on his professional knowledge and broad experience on the Companies Act, the Financial Instruments and Exchange Act, other laws and regulations as well as compliance required for listed companies from a neutral and objective point of view, focusing, in particular on legal risk management and compliance. He has also made proposals on the overall management of the Company.

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

According to the Company's judgment, Mr. Uchikawa is capable of carrying out his duties as Outside Corporate Auditor for the abovementioned reasons although he has not directly been involved in corporate management before, except for his experience as Outside Director and Outside Corporate Auditor.

(Notes)

1. No special interests exist between the candidates and the Company.
2. Mr. Arata Toyoshi and Mr. Haruya Uchikawa are candidates for Outside Corporate Auditor.
3. The Company has made a contract with Outside Corporate Auditors Mr. Arata Toyoshi and Mr. Haruya Uchikawa for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Article 37 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law). If the election of both candidates is approved, the Company plans to renew this contract.
4. The Company has entered into a liability insurance agreement for Directors, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act. All candidates for Corporate Auditor are insured under this agreement. An overview of the details of this agreement are included in page 17 of the Reference Documents for the General Meeting of Shareholders "Outline of a liability insurance agreement for Directors, etc".
At the Board of Directors meeting after the conclusion of this Annual General Meeting of Shareholders, the Company plans to approve the renewal of the same contract under the same terms.
5. The Company has also designated Outside Corporate Auditors Mr. Arata Toyoshi and Mr. Haruya Uchikawa as Independent Corporate Auditors as stipulated by the Tokyo Stock Exchange, Inc. ("TSE"), and registered them as such with the TSE.

[Reference 1] Criteria on independence of Outside Directors and Outside Corporate Auditors

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

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

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

[Reference 2] Skills matrix for Directors and Corporate Auditors

A list of experience and expertise possessed by the Directors and Corporate Auditors (skills matrix) as of the (scheduled) conclusion of this Annual General Meeting of Shareholders is as follows.

	Name	Position and Assignment of Work in the Company	Skill									
			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/General Manager of Administration Division						●	●		●	●
4	Masahiro Ota	Director and Executive Officer/General Manager of Finance & Accounting Division						●		●		●
5	Susumu Maruyama	Director and Executive Officer/In charge of Business Management/General Manager of Presidential Office		●					●			
6	Samuel Neff	Director and Executive Officer/In charge of Supply Chain Management					●		●			●
7	Koji Ogura	Director and Executive Officer/Vice Senior General Manager of Sales Headquarters				●						
8	Kelley Stacy	Director and Executive Officer	●			●						●
9	Independent Outside Masanobu Kaizu	Outside Director/Lead Independent Outside Director/Chairman of the Nomination and Compensation Committee		●				●		●	●	
10	Independent Outside Toshiharu Kagawa	Outside Director/Member of the Nomination and Compensation Committee			●							
11	Independent Outside Yoshiko Iwata	Outside Director/Member of the Sustainability Committee	●							●	●	●
12	Independent Outside Kyoichi Miyazaki	Outside Director/Chairman of the Sustainability Committee							●		●	●
13	Takemasa Chiba	Full-time Corporate Auditor					●	●				
14	Independent Outside Arata Toyoshi	Outside Corporate Auditor						●				
15	Independent Outside Haruya Uchikawa	Outside Corporate Auditor							●			

Proposal 4 Election of Accounting Auditor

At the conclusion of this Annual General Meeting of Shareholders, the current Accounting Auditor Seiyo Audit Corporation shall resign from this position due to fulfillment of term. As such, the Company proposes the new election of Ernst & Young ShinNihon LLC as Accounting Auditor.

This proposal is made based on the decision of the Board of Corporate Auditors.

[Reason that the Board of Corporate Auditors nominates Ernst & Young ShinNihon LLC as Accounting Auditor]

Considering the number of continuous years of auditing by the current Accounting Auditor, the Board determined that it would be possible to achieve an audit from a new perspective by electing Ernst & Young ShinNihon LLC, an auditor deemed appropriate for this position after considering the evaluation standards set by the Board of Corporate Auditors, such as expertise of this corporation, independence, quality management system, and global auditing systems.

[Name of candidate for Accounting Auditor]

(As of March 31, 2023)

Name	Ernst & Young ShinNihon LLC		
Locations of major offices	Tokyo Midtown Hibiya, Hibiya Mitsui Tower, 1-1-2 Yurakucho, Chiyoda-ku, Tokyo		
History	April 2000	Showa Ota & Co. (established in October 1985 after the merger of Tetsuzo Ota & Co. (established in January 1967) and Showa Audit Corporation (established in December 1969)) and Century Audit Corporation (established in January 1986) merged to establish Century Ota Showa & Co.	
	July 2001	Changed name to Shin Nihon & Co.	
	July 2008	Transitioned to an LLC and changed name to Ernst & Young ShinNihon LLC	
	July 2018	Changed name to Ernst & Young ShinNihon LLC	
Overview	Share capital	¥1,121 million	
	Employees	Certified Public Accountant	3,034
		Persons having passed the Certified Public Accountant exam, etc.	1,148
		Other	1,523
		Total	5,705
	Companies audited	3,762	

Proposal 5 Amendments to and Continuation of Stock Compensation Plan for Directors

1. Reasons for the proposal and reasons for justifying such compensation

This proposal is to seek approval for partial amendments to the details (such as amount of remuneration and limit of number of shares, etc.) of the stock compensation plan approved at the 61st Annual General Meeting of Shareholders held on June 26, 2020 (hereinafter the “Plan”) under which the Company’s shares and an amount of money equivalent to the market value of the Company’s shares (hereinafter the “Company’s Shares, etc.”) are provided to the Company’s Directors (excluding Outside Directors and Directors who do not execute business; same hereinafter unless otherwise indicated) according to the achievement of a performance target. We propose that the details of the Plan be deliberated by the Nomination and Compensation Committee and be determined by the Board of Directors meeting within the framework of 2. below. The purpose of the Plan is to clarify the linkage of the compensation for Directors and the Company’s share value, and enhance Directors’ motivation to contribute to the improvement of the Company’s corporate value in the medium and long term by their sharing the benefit of a rise in share prices and the risks of a decline in share prices with the Company’s shareholders. This proposal will further strengthen the long-term incentives of the Plan and the Nomination and Compensation Committee and Board of Directors meeting consider these partial amendments of the Plan to be appropriate. The number of Directors eligible for the Plan is eight, excluding four Outside Directors, and if Proposal 2 “Election of 12 Directors” is approved and adopted as originally proposed, the number will be the same.

For information about the policy regarding the determination of details of compensation payable to Directors and Corporate Auditors, please see “④ Compensation amounts payable to Directors and Corporate Auditors” under “[3] Matters pertaining to the Company’s Directors and Corporate Auditors” in the Business Report.

2. Amount and other details of compensation under the Plan

(1) Outline of the Plan

The Plan is a stock compensation plan under which a trust established by the Company contributing funds as a compensation for Directors (hereinafter the “Trust”) acquires shares of the Company, and Directors are provided with the Company’s Shares, etc. equivalent to the number of points to be granted to them through the Trust in accordance with the stock benefit rules established by the Board of Directors meeting after deliberations at the Nomination and Compensation Committee.

Directors shall receive the Company’s Shares, etc. upon their retirement, in principle (the details are as stated in (8) below).

(2) Persons eligible for the Plan

Directors (excluding Outside Directors and Directors who do not execute business)

(3) Applicable period of the Plan

The period of every three fiscal years (or the period determined by the Board of Directors meeting separately) beginning from the three year period from March 31, 2024 to March 31, 2026 and following every three year period following this.

(4) Trust period

The trust period shall be from August 11, 2020 until the termination of the Trust (the date of termination of the Trust shall not be specified and the Trust will continue as long as the Plan is not terminated). The Plan shall terminate upon the delisting of the Company's shares, abolition of the stock benefit rules, or in certain other cases.

(5) Maximum amount of trust money contributed to the Trust as funds to acquire shares

The maximum amount of trust money contributed to the Trust as funds to acquire the Company's Shares that will be granted to Directors based on this Plan shall be 300 million yen for each fiscal year multiplied by the number of years in each applicable period (900 million yen for the three year period in the Applicable period) (*).

The Company may entrust additional funds to acquire shares of the Company during the Applicable Period within the limit where the total amount of contributions, including the initial contribution, does not exceed the above maximum amount of trust money.

However, if the Company's shares (excluding a number of the Company's shares that have not yet been provided to Directors equivalent to points granted to them for each Applicable Period prior to the Applicable Period in which such additional contributions are made) and money remain in the Trust (such shares and money are hereinafter collectively referred to as the "Remaining Shares, etc.") immediately preceding the commencement date of such Applicable Period, the total amount of the Remaining Shares, etc. (the amount of remaining shares shall be the market value on the day prior to the commencement date of the Applicable Period) and additionally contributed trust money shall be within the limit of the above maximum amount.

(*) The money contributed to the Trust by the Company shall be the capital to acquire shares as noted above and the expected amount for Trust remuneration and necessary expenses for remuneration to Trust administrator, etc.

(6) Calculation method and maximum number of the Company's shares to be provided to Directors

For each fiscal year, Directors shall be granted the number of points calculated according to the title and achievement of a performance target in accordance with the stock benefit rules (*). Points granted in each Applicable period shall be 3,000 points for each fiscal year multiplied by the number of years in each applicable period (9,000 points for the three year period in the Applicable period).

Each point granted shall be converted into one share of the Company at the time of the provision of shares to Directors (any fractions less than one point are rounded down). Provided, however, in case where the Company's shares become the subject of a share split, allotment of shares without contribution, or consolidation of shares, etc., the conversion rate of the Company's share per one point shall be adjusted in a reasonable manner in proportion to the relevant ratio, etc.

(*) A performance target used during the Applicable Period shall be consolidated-based operating profit ratio for each fiscal year. If the target is not achieved, points shall not be granted.

(7) Acquisition method of the Company's shares and maximum number of shares to be acquired by the Trust

The Trust shall acquire the Company's shares by purchasing from the stock market within the limit of the maximum amount in (5) above or by way of subscribing to the disposal of the Company's treasury shares, using the funds to acquire shares contributed by the Company in accordance with (5) above as the financial funds. The Company may acquire up to 9,000 shares for each Applicable Period. The maximum number of

shares to be acquired has been set in light of the maximum amount of trust money in (5) above.

The details of the acquisition method shall be determined and disclosed after this Annual General Meeting of Shareholders.

(8) Provision of the Company's Shares, etc. to Directors

If a Director fulfills the beneficiary requirements stipulated in the stock benefit rules, such as by retiring, the number of the Company's shares corresponding to points granted shall be provided to the Director after taking the prescribed procedures to become a beneficiary. However, in respect of a certain portion of such shares, an amount of money equivalent to the market value of the Company's shares shall be paid in lieu of providing the Company shares in order to secure funds to pay taxes. Also, if a Director passes away, all points shall be turned into shares of Company stock and paid as a monetary amount equivalent to fair value of the shares. The Company's shares in the Trust may be sold in order to make monetary provisions.

(9) Voting rights of the Company's shares in the Trust

The voting rights of the Company's shares in the Trust shall not be exercised across the board throughout the trust period so as to ensure the neutrality in management.

(10) Handling of dividends of the Company's shares in the Trust

The dividends of the Company's shares in the Trust shall be received by the Trust and mainly appropriated to funds to acquire the Company's shares or trust fees pertaining to the Trust.

(11) Handling at the termination of trust period

The Company's shares in the residual assets of the Trust at the time of the termination of the Trust shall be cancelled by resolution of the Board of Directors meeting of the Company after being wholly acquired by the Company without contribution. The remaining money shall be provided to persons eligible for the Plan then in office in proportion to the number of points granted to each of them.

(12) Malus and Clawback provisions

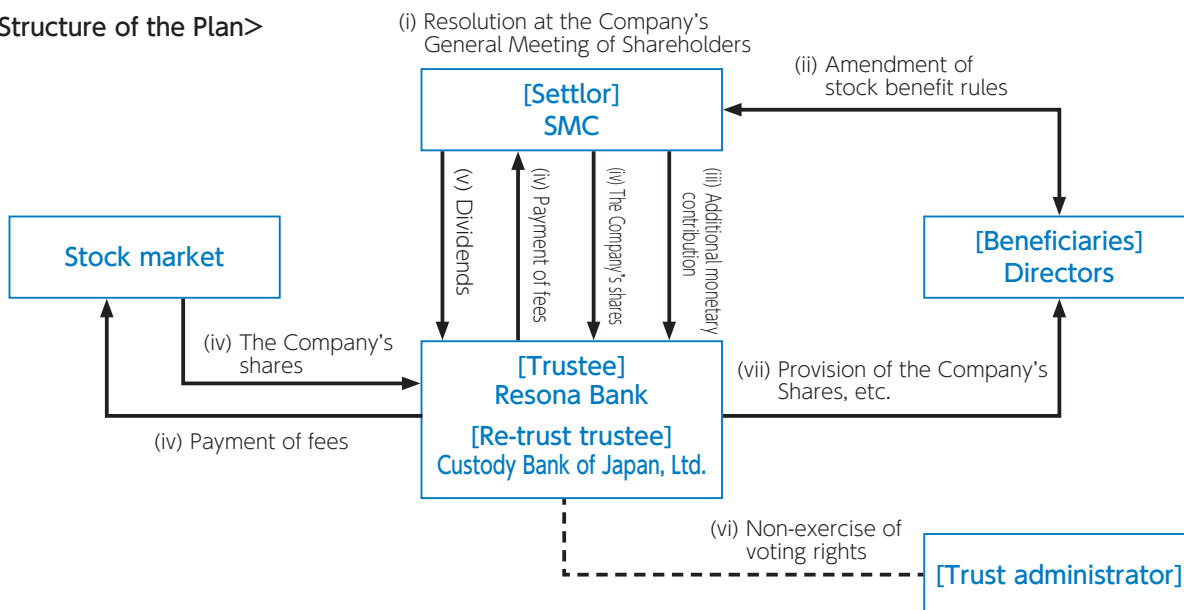
If a person eligible for the Plan is deemed by the Company to have committed a certain illegal act in the event of dismissal or during his/her service, such person shall not obtain the right to receive the Company's Shares, etc.

In addition, if any error is found in the calculation of the performance target on which the granting of points is based, or the person eligible for the Plan is found to have committed a certain illegal act after the Company's Shares, etc. are provided under the Plan, such person shall be obligated to return to the Company the Company's Shares, etc. provided in excess of the limit within which they should be provided.

(13) Other details of the Plan

Other details of the Plan, including those concerning the establishment of the Trust, changes to the trust agreement and additional contributions to the Trust, shall be determined by the Board of Directors meeting after deliberations at the Nomination and Compensation Committee.

<Structure of the Plan>



- (i) The Company shall obtain approval for the Director remuneration in the amendment of the Plan at this Annual General Meeting of Shareholders.
- (ii) The Company shall amend the stock benefit rules related to the Company's share benefits based on the Plan at the Board of Directors meeting after deliberations at the Nomination and Compensation Committee.
- (iii) The Company shall make additional monetary contribution within the scope of the approval of (i) above.
- (iv) The Trust acquires the Company's shares from the stock market or the Company (disposal of treasury shares) as the source of capital placed in the Trust in (iii) above.
- (v) Dividends shall also be paid for the Company's shares in the Trust in the same manner as for the Company's other shares.
- (vi) The voting rights of the Company's shares in the Trust shall not be exercised across the board throughout the trust period in order to maintain neutrality of management.
- (vii) During the trust period, points shall be granted to Directors according to the title and achievement of the performance target for each fiscal year in accordance with the stock benefit rules in (ii) above, and the number of the Company's Shares, etc. corresponding to the points grated shall be provided to Directors who have met certain beneficiary requirements, such as retirement, stipulated in the stock benefit rules.

END

1 Matters pertaining to the present status of the Group

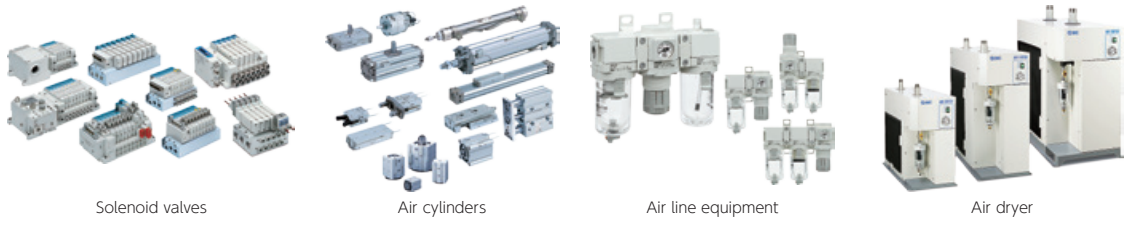
1 Main business activities

Manufacturing and sales of automatic control equipment, including pneumatic instruments

1 Pneumatic instruments

Instruments that utilize the pressure of compressed air as core energy source and perform automatic operations such as pressing, gripping and turning the objects in place of the manual work by human hands

Key products Air cylinders, Air grippers, Rotary actuators, Solenoid valves, Air line equipment, One-touch fittings, Vacuum units



2 Electric instruments



Key products Electric actuators

3 Sensor



Key products Pressure switch, Flow switch

4 Temperature control equipment



Key products Thermo-chiller, Thermo-controller

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

Machine tools



Agriculture



Medical



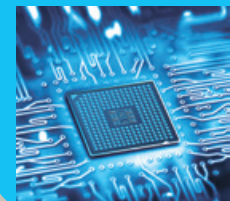
HOSPITAL

STORE

Food



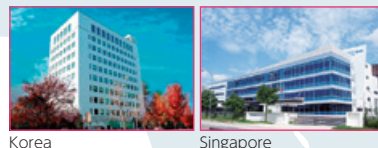
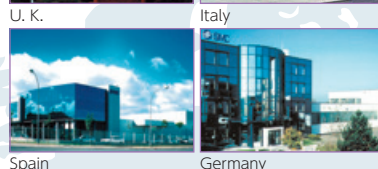
Semiconductor



Automobile



Global Network (for reference purpose)



Europe **16.8%**

Net sales **138,574** Million yen YoY change **+17.0%**

In Semiconductor, there was a trend of enhancing production facilities to meet expanded production in Europe. In Automobile, while there was impact from the semiconductor shortage, capital expenditures for EV-related, primarily automotive rechargeable batteries, was strong. Advantages in product supply capabilities and environmentally-friendly feature had a positive impact on sales results.

Greater China **28.5%**

Net sales **235,316** Million yen YoY change **+16.3%**

In China, Semiconductor was sluggish due to the impact of trade friction between the US and China. However, Automobile, primarily EV, saw significant growth. Medical equipment continued to perform well as there was policy support for the industry. In Taiwan, capital expenditures in Semiconductor fell significantly.

Other Asia **14.8%**

Net sales **121,702** Million yen YoY change **+12.5%**

Due to lower demand for Semiconductor in the second half of the year, the order environment was severe in Korea, Singapore, and Malaysia, which had made up a large percentage of sales in this field. In India, there were large-scale investments for Automobile.

North America **15.6%**

Net sales **128,649** Million yen YoY change **+22.3%**

In the US, orders for semiconductors fell dramatically in the second half due to the impact of export restrictions to China for semiconductor manufacturing equipment. In Automobile, capital expenditures for EV-related have been active with ripple effects seen in related industries such as Machine Tools.

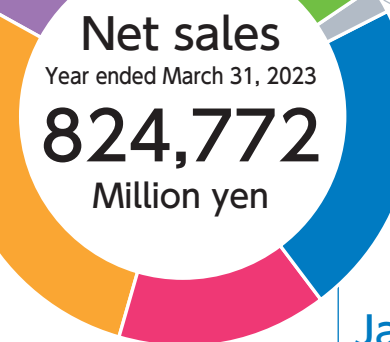
Other **2.0%**

Net sales **16,513** Million yen YoY change **+29.3%**

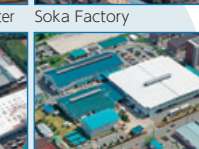
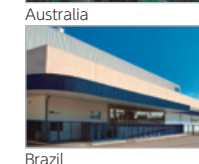
South America, Oceania and other regions posted year-on-year increases in sales due to the recovery in capital expenditures which has been postponed from the impact of COVID-19.

Japan **22.3%**

Net sales **184,016** Million yen YoY change **+2.0%**



Semiconductor/Electronics was impacted by production adjustments for semiconductor memory for smartphones and computers. Automobile continued to experience a semiconductor shortage. Machine Tools saw a slowdown in the second half. For major demand industries, orders were weak. Demand in Medical equipment and Food machinery was steady.



2 Business progress and results

In this fiscal year, each country continued to normalize after the COVID-19 pandemic as capital expenditure in manufacturing fields overall recovered. However, the future outlook remains uncertain due to ongoing supply difficulties for components and raw materials, the prolonged military invasion of Russia in Ukraine, rising tensions between the US and China, and concerns about an economic recession due to monetary tightening in Europe and the US. Demand for automatic control equipment was high in the first half for Semiconductor/Electronic industries. However, in the second half, there were some postponements of capital expenditures, primarily in Europe and the US, due to the impact of global inflation and economic recessions. In

Automobile, the impact of insufficient semiconductor components continued as the industry did not reach a full recovery. However, demand for EV batteries, primarily in China, grew. In Machine tools, Medical equipment, Food machinery, and other industries, there was new demand for automation and labor-saving after COVID-19, but a slight pause due to the economic slowdown. In this environment, the Company Group made proactive capital expenditures with the goal of expanding product supply capabilities that can respond to the growth in automation demand and creating manufacturing bases in multiple locations based on a BCP (Business Continuity Plan). Also, the Company continued to focus on new product

development that could greatly contribute to reduction of CO₂ emissions and strengthening of global coordination that utilized IT in sales activities. Further, toward realization of a decarbonized society, the Company began specific measures after establishing medium- to long-term goals to reduce Scope 1 and Scope 2 greenhouse gas emissions based on the GHG Protocol by 48% by the year 2030 and achieve carbon neutrality by the year 2050.

As a result, consolidated net sales for the fiscal year ended March 31, 2023 was 824,772 million yen, up 13.4% YoY, due to higher sales volume and increased sales on overseas sales

corresponding with foreign currency exchange rates. Selling, general and administrative expenses rose due to increased transportation expenses, personnel expenses, and IT-related expenses. However, operating profit was 258,200 million yen, up 13.3% YoY due to increase in profit on higher sales. Foreign exchange gains declined, but ordinary profit was 305,980 million yen, up 12.1% YoY due to the increase in interest income from the rise in market interest rates. Profit before income taxes was 308,777 million yen, up 13.2% YoY due to booking a gain on sale of investment securities. Profit attributable to owners of parent was 224,609 million yen, up 16.4% YoY. ROE became 13.8%, increased by 0.6 points from the previous fiscal year.

③ Issues to be addressed

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

(1) Management Philosophy

1) Contributing to automated, labor-saving operations	The Company considers that its social mission is to “contributing to automated, labor-saving operations in industries” through the manufacturing and sales of automatic control equipment, including pneumatic instruments.
2) Focusing on the main business	As a manufacturer of component parts “contributing to automated, labor-saving operations in industries”, the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on the automatic control equipment business, its main business.
3) Supplying products globally	The Company will supply products that can meet the rules and needs of different countries and regions and are accepted in all the markets of the world.

(2) Long-term management vision

1) The Company strives to develop products required by customer and to create a framework which can respond to customer requiring for delivery dates, quality, prices, etc.
2) The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.
3) The Company aims to survive competitions in the global markets and to acquire higher market shares.

④ Status of capital investments

The Company focuses on new construction and expansion of production and logistics facilities in order to establish production capabilities for increased medium-to-long-term sales and create a system capable of maintaining global production supply even during emergencies. In addition to acquiring land used for the transfer of the R&D hub, the Company also introduced new equipment and updated molds, etc., in order to reduce the environmental burden and further rationalization and cost reduction.

The total amount of capital investments during the fiscal year 2022 was 81,592 million yen (2.3% decrease year on year).

Listed below are the main capital investments during the fiscal year 2022.



Kamaishi Factory No.5 (Kamaishi-shi, Iwate prefecture)



Tono Factory No.2 (Tono-shi, Iwate prefecture)



West Japan Logistics Center (Ryuo-cho, Shiga prefecture)



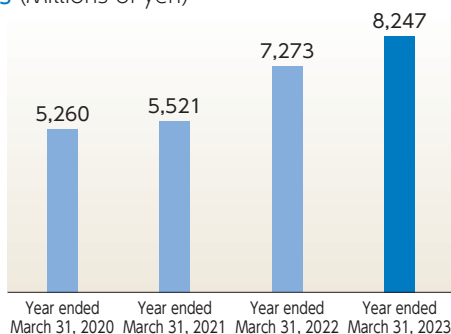
SMC Germany Production facilities/warehouse (Hessen, Germany)

5 Changes in assets and financial results

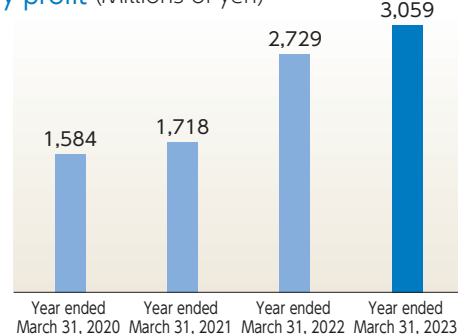
(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023
Net sales	526,000	552,178	727,397	824,772
Ordinary profit	158,450	171,827	272,981	305,980
Profit attributable to owners of parent	110,500	121,790	192,991	224,609
Net income per share (yen)	1,656.44	1,831.98	2,923.76	3,444.55
Total assets	1,390,539	1,539,871	1,769,951	1,927,940
Net assets	1,253,266	1,379,987	1,559,274	1,702,325
Net assets per share (yen)	18,794.58	20,835.47	23,808.08	26,331.72
Return on equity	8.9%	9.3%	13.2%	13.8%

Net sales (Millions of yen)

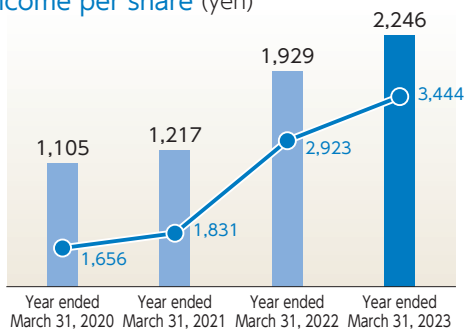


Ordinary profit (Millions of yen)



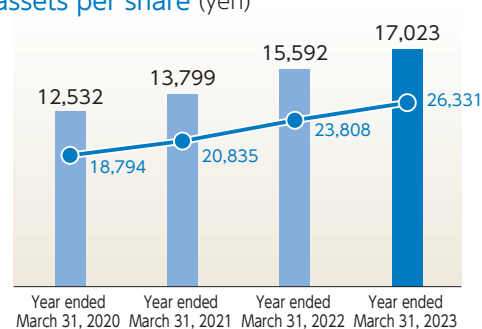
Profit attributable to owners of parent (Millions of yen)

Net income per share (yen)



Net assets (Millions of yen)

Net assets per share (yen)



6 Status of principal subsidiaries

Company name	Share capital	Percentage of voting rights (%)	Major business
Nihon Kizai Co., Ltd.	¥ 304 million	47.7	Sales of automatic control equipment
Seigyo Kizai Corporation	¥ 100 million	100.0	Sales of automatic control equipment
SMC Corporation of America (SMC US)	US\$ 172,700 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Deutschland GmbH (SMC Germany)	EUR 84,101 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Pneumatics (U.K.) Ltd. (SMC U.K.)	£ 14,500 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Italia S.p.A. (SMC Italy)	EUR 18,145 thousand	99.9	Manufacturing and sales of automatic control equipment
SMC Espana S.A. (SMC Spain)	EUR 3,305 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Corporation (Singapore) Pte. Ltd. (SMC Singapore)	S\$ 5,600 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Automation (Taiwan) Co., Ltd. (SMC Taiwan)	NT\$ 420,840 thousand	100.0	Manufacturing and sales of automatic control equipment
SMC Korea Co., Ltd. (SMC Korea)	KRW 46,500 million	100.0	Manufacturing and sales of automatic control equipment
SMC Investment Management China Co., Ltd. (SMC Investment Management)	CNY 5,685 million	100.0	Management of subsidiaries in China
SMC Automation China Co., Ltd. (SMC China)	CNY 100 million	(Note) 100.0	Sales of automatic control equipment
SMC (China) Co., Ltd. (SMC (China) Manufacturing)	CNY 1,504 million	(Note) 100.0	Manufacturing and sales of automatic control equipment
SMC (Beijing) Manufacturing Co., Ltd. (SMC (Beijing) Manufacturing)	CNY 1,716 million	(Note) 100.0	Manufacturing of automatic control equipment
SMC (Tianjin) Manufacturing Co., Ltd. (SMC (Tianjin) Manufacturing)	CNY 2,000 million	(Note) 100.0	Manufacturing of automatic control equipment
SMC Manufacturing (Singapore) Pte. Ltd. (SMC (Singapore) Manufacturing)	S\$ 10,000 thousand	100.0	Manufacturing of automatic control equipment
SMC Manufacturing (Vietnam) Co., Ltd. (SMC (Vietnam) Manufacturing)	VND 10,263,329 million	100.0	Manufacturing of automatic control equipment
SMC Automacao do Brasil Ltda. (SMC Brazil)	BRL 332,525 thousand	(Note) 100.0	Manufacturing and sales of automatic control equipment

(Note) The Company's percentages of voting rights in SMC China, SMC (China) Manufacturing, SMC (Beijing) Manufacturing, SMC (Tianjin) Manufacturing, and SMC Brazil include those indirectly held by the Company's wholly-owned subsidiaries.

There are 44 consolidated subsidiaries including the abovementioned 18 principal subsidiaries. SMC (Vietnam) Manufacturing increased the share capital to be allocated to capital expenditures.

7 Status of employees

Number of employees	22,988	Increase from the previous year	1,368
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(Notes) 1. The number of employees represents the number of the actual workforce (i.e., excludes staff seconded to non-Group companies from Group companies and includes staff seconded to Group companies from non-Group companies).

2. In addition to the above, we employ 6,243 temporary staff (average during the year; increased by 613 persons from the previous year).

8 Status of main lending banks

Names of lending banks	Outstanding balance of borrowings
Resona Bank, Limited	¥ 8,921 million

9 Major bases

(1) SMC Corporation

Head office	Akihabara UDX Building, 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo
Sales offices	Sendai, Omiya (Saitama), Kofu, Tokyo, Atsugi, Hamamatsu, Toyota, Nagoya, Kanazawa Kyoto, Osaka, Okayama, Hiroshima, Fukuoka
Production facilities	Soka, Tsukuba (Ibaraki), Yamatsuri, Kamaishi, Tono, Shimotsuma
R&D centers	Tsukuba Technical Center (Ibaraki)
Logistics Centers	East Japan Logistics Center (Joso-shi, Ibaraki prefecture), West Japan Logistics Center (Ryuo-cho, Shiga prefecture)

(2) Subsidiaries

As described in “⑥ Status of principal subsidiaries”.

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

None

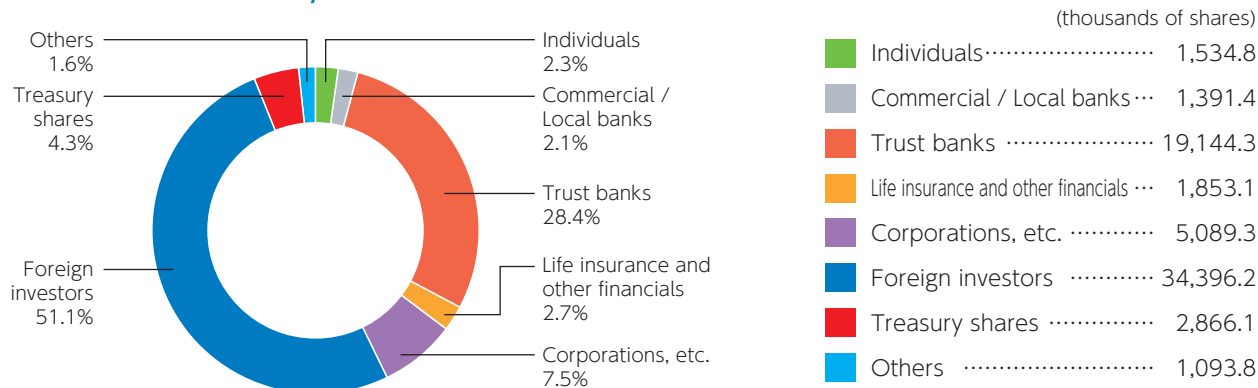
2 Matters pertaining to the Company's shares

- ① Total number of shares outstanding: 67,369,359 (including 2,866,132 shares of treasury shares)
 ② Number of shareholders: 4,853
 ③ Major shareholders (Top 10)

Shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Master Trust Bank of Japan (Trust account)	11,495.9	17.82
Custody Bank of Japan, Ltd. (Trust account)	5,097.0	7.90
Takada International LLC	3,793.0	5.88
TON Finance B.V.	3,443.5	5.33
JP Morgan Chase Bank 385632	2,212.1	3.42
State Street Bank and Trust Company 505223	1,522.5	2.36
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	1,502.9	2.32
The Bank of New York Mellon 140042	1,483.3	2.29
The Nomura Trust and Banking Co., Ltd. (Trust account 2052208)	1,239.4	1.92
SSBTC CLIENT OMNIBUS ACCOUNT	1,206.9	1.87

- (Notes) 1. The Company holds 2,866,132 shares as treasury shares. However, this is excluded from the above list of major shareholders.
 2. Percentages of voting rights are calculated based on the number of shares outstanding of 64,503,227 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

Distribution of share by shareholders



④ Other significant matters pertaining to the Company's shares

The Company repurchased its treasury shares pursuant to the resolution at the Board of Directors meeting held on November 14, 2022, as follows.

(1) Purpose of the repurchase

To enhance returns to shareholders and improve capital efficiency

(2) Total number of shares repurchased

Common shares of the Company 839,200

(3) Total amount of repurchase

54,995 million yen

(4) Period of repurchase

From November 21, 2022 to March 24, 2023

(5) Method of repurchase

Market purchase (Trust method)

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

① Directors and Corporate Auditors (As of March 31, 2023)

Name	Position, assignment of work and significant concurrent position	
Yoshiki Takada	President	Senior General Manager of Sales Headquarters (Member of the Nomination and Compensation Committee) (Member of the Sustainability Committee) Chairman, SMC US
Toshio Isoe	Director and Executive Officer	General Manager of Administration Division and in charge of HR
Masahiro Ota	Director and Executive Officer	General Manager of Finance & Accounting Division
Susumu Maruyama	Director and Executive Officer	In charge of Business Management and General Manager of Presidential Office
Samuel Neff	Director and Executive Officer	In charge of Supply Chain Management
Yoshitada Doi	Director and Executive Officer	Senior General Manager of Engineering Headquarters
Koji Ogura	Director and Executive Officer	Vice Senior General Manager of Sales Headquarters
Kelley Stacy	Director and Executive Officer	President of SMC US
Masanobu Kaizu	Outside Director	(Lead Independent Director) (Chairman of the Nomination and Compensation Committee)
Toshiharu Kagawa	Outside Director	(Member of the Nomination and Compensation Committee)
Yoshiko Iwata	Outside Director	(Member of the Sustainability Committee) Chairperson, Member of the Board, J-Eurus IR Co., Ltd. Outside Director, Lasertec Corporation
Kyoichi Miyazaki	Outside Director	(Chairman of the Sustainability Committee) Representative Director, Zen Asset Management Co., Ltd.
Naoto Moriyama	Full-time Corporate Auditor	
Arata Toyoshi	Outside Corporate Auditor	Certified Public Accountant (Representative, CPA Toyoshi Arata Office) Outside Director (Audit Committee Member), NIHON CHOZAI Co., Ltd.
Haruya Uchikawa	Outside Corporate Auditor	Lawyer (Partner, Midosuji Legal Profession Corporation)

(Notes) 1. Mr. Masanobu Kaizu, Mr. Toshiharu Kagawa, Ms. Yoshiko Iwata, Mr. Kyoichi Miyazaki, Mr. Arata Toyoshi and Mr. Haruya Uchikawa are Independent Directors / Corporate Auditors, which TSE has required listed companies to have in order to protect the interests of general shareholders.
2. Outside Corporate Auditor, Mr. Arata Toyoshi is a certified public accountant and certified public tax accountant and has abundant knowledge in finance and accounting.
3. Mr. Koji Ogura and Ms. Kelley Stacy were newly nominated and elected as Directors at the 63rd Annual General Meeting of Shareholders held on June 29, 2022.

② Outline of a limitation of liability contract, etc.

The Company has made a contract with each of the Outside Directors and Outside Corporate Auditors for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and Articles 27 and 37 of the Company's articles of incorporation (a contract limiting the amount of liability under Article 423, Paragraph 1 of the Companies Act to the maximum amount stipulated by law).

③ Outline of a liability insurance agreement for Directors, etc.

The Company has entered into a liability insurance agreement for directors, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act and will renew this agreement each year. An outline of this liability insurance agreement is as follows. The Company plans to renew this agreement under the same conditions at the next renewal period in June 2023.

Scope of those covered under insurance agreement	Executives, management, and all employees who become co-defendants of executives of the Company and Company's subsidiaries
Burden of insurance premiums	Those covered under this agreement will not bear the cost of insurance premiums (the Company will bear all costs)
Outline of insured incidents eligible for compensation	Damages bore by the insured for liability of damages related to the execution of one's duties. Damages that occur due to claims received from pursuing such responsibility (litigation expenses, etc.)
Mechanism to prevent interference with the proper execution of duties by directors, etc. of the Company, who are insured under this insurance agreement	This agreement includes a disclaimer stating that it will not cover any intentional damages and claims for compensation resulting from criminal behavior, violations of laws and regulations, and personal interests gained through illegal means by the insured

④ Compensation amounts payable to Directors and Corporate Auditors

(1) Total amount of compensation, etc. for the fiscal year 2022

	Total amount of compensation	Total amount of compensation by type of remuneration			Eligible Directors / Corporate Auditors
		Basic compensation	Performance-linked remuneration, etc.	Non-monetary compensation, etc.	
Directors (Outside Directors)	¥533 million (¥51 million)	¥373 million (¥51 million)	¥111 million (—)	¥49 million (—)	12 (4)
Corporate Auditors (Outside Corporate Auditors)	¥38 million (¥18 million)	¥38 million (¥18 million)	—	—	3 (2)
Total (Outside Directors / Corporate Auditors)	¥572 million (¥69 million)	¥411 million (¥69 million)	¥111 million (—)	¥49 million (—)	15 (6)

(2) Matters related to performance-linked remuneration, etc.

The performance indicator for performance-linked remuneration, etc. is the net sales growth rate of the current year vs the previous fiscal year. Net sales growth rate for the current fiscal year was 31.7%. Bonuses are not granted for fiscal years when the net sales growth rate is negative.

The reason that net sales growth rate was selected as a performance indicator was that the Group set “net sales of one trillion yen by fiscal year 2026” as the current target and has aimed to achieve sales growth of around 8% annualized in the medium-term.

(3) Details of non-monetary compensation, etc.

The Company established “Board Benefit Trust for Directors” as a stock compensation plan for Directors (excluding Outside Directors and Non-executive Directors).

For three business years from the fiscal year ended March 31, 2021, points will be granted to persons eligible for this Board Benefit Trust for achieving a set level of performance each fiscal year (consolidated operating profit ratio) after being confirmed by the Nomination and Compensation Committee and the Board of Directors meeting. At the time of retirement, the Company will provide each eligible person with shares of the Company equivalent to the accumulated points granted and cash equivalent to the market value of the Company's shares.

The status of points granted for the fiscal year 2022 is equivalent to 900 shares for eight eligible persons.

In addition, if a person eligible for the plan is deemed by the Company to have committed a certain illegal act in the event of dismissal or during his/her service, the right to receive the Company's shares and monetary benefits under the plan will not arise. Furthermore, if circumstances such as an error was found in the calculation of the performance target on which the granting of points is based and granting of the company's shares, etc. are unjustifiable, the person eligible for the plan shall be obligated to return to the Company the Company's shares, etc. received in the past (Malus and Clawback provisions).

(4) Matters pertaining to resolutions at the General Meeting of Shareholders related to compensation for Directors and Corporate Auditors

- ① Total amounts of monetary compensation for Directors and Corporate Auditors were determined to be no more than 900 million yen and 100 million yen per annum, respectively, at the 48th Annual General Meeting of Shareholders held on June 28, 2007. The number of incumbent directors / corporate auditors at the conclusion of the 48th Annual General Meeting of Shareholders was nineteen Directors and five Corporate Auditors.
- ② The retirement benefit plan for Directors was abolished at the 61st Annual General Meeting of Shareholders held on June 26, 2020. The termination payment of retirement benefits based on the old system was approved for Directors who were reelected at this same General Meeting of Shareholders. The Directors eligible for the termination payment at the conclusion of the 61st Annual General Meeting of Shareholders were the six Directors (excluding Outside Directors) who were reelected at the 61st Annual General Meeting of Shareholders.
- ③ The introduction of the stock compensation plan described in (3) above was approved at the 61st Annual General Meeting of Shareholders held on June 26, 2020. The number of shares corresponding to the points to be granted within the said "Board Benefit Trust" and the acquisition price thereof are limited to 1,000 shares and 100 million yen per year, which is separate from the annual maximum limit of 900 million yen of the total amount of basic compensation described in ① above. Note that the Directors eligible for the plan at the conclusion of the 61st Annual General Meeting of Shareholders were eight Directors (excluding Outside Directors).

(5) Policy regarding the determination of details of compensation payable to Directors

At the Board of Directors meeting held on February 12, 2021, the decision-making policy on compensation, etc. for individual Directors was determined by the Board of Directors after deliberation by the Nomination and Compensation Committee. The Board of Directors and the President respect the report of the Nomination and Compensation Committee.

An overview of this policy is stated below.

a. Basic policy

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

b. Decision-making policy on basic compensation

- The basic compensation for Directors shall be determined by thoroughly considering the earnings forecast, employees' salary levels, contribution of each Director to earnings, position, assignment to work and term of office and the like.

c. Decision-making policy on performance-linked remuneration

- For performance-linked remuneration for Directors (excluding Outside Directors and Non-Executive Directors), the payment amount is decided by role based on the achievement of performance indicators decided by the Board of Directors meeting for each fiscal year after deliberation of the Nomination and Compensation Committee.
- The above performance-linked remuneration is paid as a defined monetary remuneration within a range of an annual limit for monetary compensation to Directors decided by decision of the General Meeting of Shareholders.

d. Decision-making policy on non-monetary compensation

- Non-monetary compensation for Directors (excluding Outside Directors and Non-executive Directors) shall be stock compensation (“Board Benefit Trust”). The details, calculation method of the number, and timing of the granting of compensation shall be in accordance with the “stock benefit rules” established by the Board of Directors meeting after deliberations at the Nomination and Compensation Committee.

e. Decision-making policy on the ratio of monetary and non-monetary compensation to total individual compensation, etc.

- The Board of Directors meeting shall decide the ratio of monetary and non-monetary compensation to total individual compensation, etc. after deliberation by the Nomination and Compensation Committee.

f. Matters pertaining to the determination of the details of compensation, etc. for individual Directors

- The Board of Directors meeting shall determine the specific amount, timing and method of payment of compensation, etc. for individual Directors. However, by resolution of the Board of Directors meeting, such determination may be delegated to the President.

(6) Matters pertaining to the delegation of responsibility for determining the details of compensation, etc. for individual Directors

The specific amount, timing and method of payment of compensation, etc. for individual Directors are left to Yoshiaki Takada, President, by resolution of the Board of Directors meeting, and there are no restrictions on the scope of his discretion.

The authority to make these decisions is delegated to the President because the President has the greatest amount of information on the earnings forecast, employees’ salary levels, and contribution of each Director to earnings, factors which form the basis of determining the details of compensation, etc. for individual Directors. Thus, the President is in the position to make the fairest evaluation based on the management policy.

Furthermore, the President shall report to the Chairman of the Nomination and Compensation Committee on the specific amount of compensation, etc. for individual Directors determined by himself based on the above discretionary resolution. With this, the Board of Directors meeting has determined that the decision has been made in accordance with the decision-making policy described in (5) above.

5 Matters pertaining to Outside Directors and Outside Corporate Auditors

(1) Main activities during this fiscal year

Name and position	Meeting attendance		Main activities and overview of performed duties in expected roles
	Board of Directors meeting	Board of Corporate Auditors	
Masanobu Kaizu Outside Director	7/7 (100.0%)	—	As an economist and securities analyst, he has supervised the management of the Company and worked for further improving the transparency of management based on his professional knowledge of economic situations, financial market conditions, corporate management and financial accounting with neutral and objective viewpoints, in particular, focusing on protecting the interests of general shareholders and investors. He has also made proposals on management policies in light of urging the Company’s sustainable growth and improving corporate value in the medium-and long-term. He also has provided the latest information related to economics and financial market conditions to the Board of Directors meeting. He led deliberations related to the revision of the structure of the Board of Directors meeting and the system of remuneration for directors as the Chairman of the Nomination and Compensation Committee. He also strove to enhance the fairness, transparency, and objectivity to the nomination and compensation process of Directors by fulfilling a central role in selecting candidates for Outside Directors. Furthermore, he engaged in dialogue with shareholders and investors as the top independent Outside Director. He relayed these dialogues to the Nomination and Compensation Committee and the Board of Directors meeting and deepened debate.

Name and position	Meeting attendance		Main activities and overview of performed duties in expected roles
	Board of Directors meeting	Board of Corporate Auditors	
Toshiharu Kagawa Outside Director	7/7 (100.0%)	—	As a researcher and educator specialized in flow measurement and control, an area quite closely related to the Company's business domain, he has supervised the management of the Company and worked for improving the transparency of management based on his professional knowledge and broad experience with neutral and objective viewpoints. He has also made proposals on management policies, in particular, measures centered on R&D activities and the development of engineers in light of urging the Company's sustainable growth and enhancing corporate value in the medium-and long-term. He also strove to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as a member of the Nomination and Compensation Committee.
Yoshiko Iwata Outside Director	7/7 (100.0%)	—	She has made proposals based on her expertise and a wealth of experience related to corporate governance and to dialogue between investors and companies, as well business corporate and management experience accumulated in international finance institutions, from the standpoint of protecting the interests of general shareholders and investors in particular, and of further enhancing management transparency. In addition, from the perspective of encouraging the Company's sustainable growth and enhancing corporate value in the medium and long term, she has provided advice on the Company's management policies, especially in relation to corporate governance, information disclosure, and measures for dialogue with investors. In addition to participation in dialogues with shareholders and investors, as a member of the Sustainability Committee, she supervised initiatives to address the sustainability issues faced by the Company, and deepened debate within the Sustainability Committee and the Board of Directors meeting.
Kyoichi Miyazaki Outside Director	7/7 (100.0%)	—	He has made proposals based on his expertise and a wealth of experience related to market risk management and investment portfolio management utilizing cutting-edge financial engineering, from the standpoint of further enhancing management transparency. In addition, from the perspective of encouraging the Company's sustainable growth and enhancing corporate value in the medium- and long-term, he has provided advice on the Company's management policies, especially in relation to measures for international business, risk management, and corporate governance. Furthermore, as the Chairman of the Sustainability Committee, he supervised initiatives to address the sustainability issues faced by the Company, proactively provided recommendations for human capital management, and led debate within the Sustainability Committee and the Board of Directors meeting.
Arata Toyoshi Outside Corporate Auditor	7/7 (100.0%)	13/13 (100.0%)	As a certified public accountant, he has monitored the Company's management activities based on his professional knowledge and broad experience on business accounting and auditing from a neutral and objective point of view, focusing, in particular, on ensuring the fairness of financial accounting and timely disclosure. He has also made proposals on the overall management of the Company. He also fulfilled a central role in deliberation and coordination among the Accounting Auditors, Board of Corporate Auditors, and Finance & Accounting Division. Further, utilizing his experience as a partner at major auditing firms, he fulfilled a leadership role in the deliberation of changes to the Accounting Auditor and the selection of a new candidate for Accounting Auditor.
Haruya Uchikawa Outside Corporate Auditor	7/7 (100.0%)	13/13 (100.0%)	As a lawyer, he has monitored the Company's management activities based on his professional knowledge and broad experience on the Companies Act, the Financial Instruments and Exchange Act, other laws and regulations as well as compliance required for listed companies from a neutral and objective point of view, focusing, in particular on legal risk management and compliance. He has also made proposals on the overall management of the Company. In addition to identifying risks and points of caution as a legal expert in deliberations of the Board of Directors, he played an important role in ensuring the appropriateness and legality of business execution of Directors by offering recommendations on the management of the Board of Directors meetings and deliberating changes to the Accounting Auditor.

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

There is no special relationship to report.

4 Status of Accounting Auditor

① Name of Accounting Auditor

Seiyo Audit Corporation

② Remuneration amount payable to Accounting Auditor in the fiscal year 2022

	Amount payable
Remuneration as Accounting Auditor in the fiscal year	¥80 million
Total amount of remuneration (monies and other assets) the Company and its subsidiaries are liable to pay	¥80 million

(Notes) 1. Since the auditing agreement between the Company and its Accounting Auditor does not segregate the amount of remuneration to Auditors pursuant to the Companies Act and that pursuant to the Financial Instruments and Exchange Law (including internal control audit) as it is substantially difficult to do so, the amount recorded above is the total of these two types of remuneration.

2. Reasons for the consent on remuneration for the Accounting Auditor by the Board of Corporate Auditors
The Board of Corporate Auditors examined the performance of duties of the Accounting Auditor, details of the auditing plans and the basis of calculation of the estimated remuneration based on submitted materials and reports received from Directors, relevant internal parties, and the Accounting Auditor. As a result, the Board of Corporate Auditors concluded that the remuneration paid to the Accounting Auditor was appropriate and provided consent thereto.

③ Matters pertaining to audits for subsidiaries

Excluding Seigyo Kizai Corporation, audits for the 17 subsidiaries of the 18 principal subsidiaries listed in “[1]. Matters pertaining to the present status of the Group ⑥ Status of principal subsidiaries” are performed by auditing firms other than the Company’s Accounting Auditor.

The audits for some foreign consolidated subsidiaries are performed by auditing firms which belong to the global network (Baker Tilly International) same as Company’s Accounting Auditor. The Company pays 42 million yen as compensation based on statutory audit work and 20 million yen as compensation based on non-auditing tasks to these auditing firms.

The total amount of compensation consolidated subsidiaries pay to auditing firms for statutory audit work is 176 million yen.

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

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

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

5 Framework to ensure the properness of operations

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

- (1) Framework to ensure that execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation
 - The Company has established the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” and clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
 - The Company has voluntarily established the Nomination and Compensation Committee to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors. The majority of the Nomination and Compensation Committee consists Independent Outside Directors. The Chairman of the Committee is appointed from among the members who are Independent Outside Directors.
 - Develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest throughout the Group to help prevent and correct improper conduct. Our internal rules protect whistleblowers and prohibit any detrimental treatment or harassment of those who made a legitimate report.
 - Do not become involved with antisocial forces and organizationally take a resolute attitude toward undue claims in close collaboration with lawyers, police, and others.
- (2) Framework for information storage and management with regards to the execution of duties by Directors
 - Formulate information management rules to develop a system to prevent leakage of important information.
 - Under the direction of the person in charge of information handling, we strive to promote timely and appropriate information disclosure.
- (3) Framework and rules relating to risk of loss management
 - Establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, disaster prevention, etc.
 - Information regarding complaints against quality will be reported to the President, and actions as well as recurrence prevention measures will be verified.
- (4) Framework to ensure that duties of the Directors are efficiently executed
 - Establish the Executive Officers Meeting to facilitate information-sharing among department heads.
 - Establish long-term management plans as well as annual policies and budgets for each Group company and department, thereby implement adequate business management.

- (5) **Framework to ensure the properness of operations of the corporate group consisting of the Company and its subsidiaries**
- Contracts made with subsidiaries obligates them to report to the Company when there is any advance discussion regarding significant matters, any regular reports and discussions on business plans, financial closing, etc., any operational losses, losses caused by disaster, etc., and any occurrence of important events such as the violation of law.
 - Organize and operate a framework to conduct risk management (internal control related to financial reporting) necessary for ensuring the reliability of financial reporting, and improve its effectiveness through regular assessment.
 - Properly manage subsidiaries and promote integrated and efficient group strategies throughout organizing management rules for subsidiaries, dispatching directors, exercising shareholder rights, and having regular discussions with subsidiaries.
- (6) **Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed**
- Assign full-time audit staff persons who assist Corporate Auditors in executing their duties, and have knowledge of internal audit, financial accounting and other areas.
 - These audit staff persons are authorized to conduct necessary examinations to support Corporate Auditors' audit, under the direction of Corporate Auditors.
 - Personnel changes announcement or disciplinary actions are taken upon consulting Corporate Auditors.
- (7) **Framework in which Directors and employees give reports to Corporate Auditors/Framework to give other reports to Corporate Auditors**
- Directors and employees report the status of business execution to Corporate Auditors regularly and at the request of Corporate Auditors.
 - In the case that a Director or employee discovers a fact that may cause significant damage to the Company, he or she shall report it immediately to Corporate Auditors.
 - In the case that a Director or employee receives a report on a subsidiary's significant matters from the subsidiary's Director, employee, or other persons, he or she shall report it to Corporate Auditors in a timely and appropriate manner.
 - It is prohibited to unfairly treat Directors and employees of the Company and its subsidiaries on the grounds that relevant matters have been reported to Corporate Auditors.
- (8) **Matters pertaining to the processing of costs incurred in connection with the execution of duties by Corporate Auditors**
- Costs necessary for the execution of duties by Corporate Auditors are immediately processed whenever requested, including prepayments.
- (9) **Framework to ensure that other audit work by Corporate Auditors is effectively performed**
- Corporate Auditors hold meetings periodically with the President, the Accounting Auditor and the internal audit department in order to improve the auditing environment and strengthen the liaison among Auditors.

② Overview of the operation status of the said frameworks

- (1) Framework to ensure that execution of duties by Directors and employees complies with applicable laws and regulations as well as the Articles of Incorporation
 - The Company has disclosed the “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” on its website and further clarified its stance of striving to become a company that is trusted not only by customers and business partners but also by society at large by performing fair corporate activities in compliance with applicable laws and regulations and ethical standards.
 - Under the “SMC Group Ethical and Corporate Principles”, the Company has established the “SMC Group Code of Conduct” which specifically describes what the Group’s officers and employees should comply with, and distributed an English translation of the Japanese version to the Group companies. As part of the procedures for evaluating the internal control system pertaining to financial reports, the Company confirms every year that the SMC Group Code of Conduct is well acknowledged among the consolidated subsidiaries.
 - In addition to the internal reporting system, the Company has established a contact point outside the Company as a reporting system which can respond to illegal or inappropriate acts engaged in by Directors or Corporate Auditors. An external law firm versed in practical operations for whistle-blowing processes serves as the contact point.
- (2) Framework for information storage and management with regards to the execution of duties by Directors
 - The Company has implemented a file sharing system with high levels of security in order to safely and efficiently share materials used in the Board of Directors meeting and Nomination and Compensation Committee.
- (3) Framework to ensure that duties of the Directors are efficiently executed
 - With the introduction of an executive officer system, detailed matters related to operation execution are examined in the Executive Officers Meeting, and deliberation of the management strategy and investment project of high importance is performed at the Board of Directors meeting.
- (4) Framework to ensure the properness of operations of the corporate group consisting of the Company and its subsidiaries
 - The Board of Directors Regulations clearly provide to the effect that all matters of particular importance including capital investments, etc., conducted by a subsidiary alone need to be approved by the Board of Directors. During the fiscal year 2022, the Board of Directors meeting deliberated several numbers of projects in detail and had lively discussions together with Outside Directors.
- (5) Framework to ensure that other audit work by Corporate Auditors is effectively performed
 - Continued to take efforts to strengthen collaboration among the Board of Corporate Auditors, the Accounting Auditor and the internal audit department.

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

Consolidated Financial Statements

Consolidated Balance Sheets (As of March 31, 2023)

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023		As of March 31, 2022	As of March 31, 2023
(Assets)			(Liabilities)		
Current assets	1,258,406	1,323,848	Current liabilities	169,403	188,847
Cash and deposits	684,834	603,570	Notes and accounts payable - trade	62,101	73,636
Notes and accounts receivable-trade	211,939	228,848	Short-term borrowings	6,987	7,137
Securities	12,219	19,926	Income taxes payable	44,783	42,435
Merchandise and finished goods	130,829	165,288	Provision for bonuses	5,350	5,143
Work in process	25,574	31,388	Other	50,179	60,494
Raw materials and supplies	147,141	221,925	Non-current liabilities	41,274	36,767
Other	46,769	53,641	Long-term borrowings	4,556	5,049
Allowance for doubtful accounts	(901)	(740)	Deferred tax liabilities	21,463	16,094
Non-current assets	511,545	604,092	Provision for retirement benefits for directors (and other officers)	270	458
Property, plant and equipment	270,584	326,995	Provision for share awards for directors (and other officers)	65	114
Buildings and structures	91,705	123,752	Retirement benefit liability	7,552	7,577
Machinery, equipment and vehicles	41,988	52,097	Other	7,366	7,472
Tools, furniture and fixtures	10,523	13,897	Total liabilities	210,677	225,615
Land	74,775	87,746	(Net assets)		
Construction in progress	51,591	49,501	Shareholders' equity	1,455,489	1,566,266
Intangible assets	15,183	16,591	Share capital	61,005	61,005
Leasehold interests in land	11,766	11,759	Capital surplus	73,335	73,342
Other	3,417	4,832	Retained earnings	1,430,285	1,596,086
Investments and other assets	225,776	260,505	Treasury shares	(109,136)	(164,167)
Investment securities	58,750	92,420	Accumulated other comprehensive income	100,139	132,146
Retirement benefit asset	6,441	11,639	Valuation difference on available-for-sale securities	11,235	7,573
Insurance funds	150,797	143,902	Foreign currency translation adjustment	87,893	120,275
Deferred tax assets	5,715	7,456	Remeasurements of defined benefit plans	1,010	4,298
Other	5,735	6,540	Non-controlling interests	3,645	3,912
Allowance for doubtful accounts	(1,664)	(1,454)	Total net assets	1,559,274	1,702,325
Total assets	1,769,951	1,927,940	Total liabilities and net assets	1,769,951	1,927,940

Consolidated Statements of Income (April 1, 2022 to March 31, 2023) (Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net sales	727,397	824,772
Cost of sales	363,545	403,613
Gross profit	363,851	421,159
Selling, general and administrative expenses	135,993	162,958
Operating profit	227,857	258,200
Non-operating income	45,626	48,016
Interest income	6,712	11,722
Foreign exchange gains	33,144	28,203
Other	5,769	8,090
Non-operating expenses	502	236
Interest expenses	182	105
Loss on investments in insurance funds	98	—
Other	221	130
Ordinary profit	272,981	305,980
Extraordinary income	581	3,663
Gain on sale of non-current assets	308	447
Gain on sale of investment securities	243	3,208
Other	30	7
Extraordinary losses	711	867
Loss on retirement of non-current assets	395	352
Impairment losses	222	35
Extra retirement payments	—	370
Other	93	109
Profit before income taxes	272,851	308,777
Income taxes-current	75,731	90,677
Income taxes-deferred	3,796	(6,806)
Profit	193,323	224,905
Profit attributable to non-controlling interests	331	296
Profit attributable to owners of parent	192,991	224,609

(For reference purpose)

Consolidated Statements of Cash Flows (April 1, 2022 to March 31, 2023) (Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities	156,093	101,617
Profit before income taxes	272,851	308,777
Depreciation	20,557	25,767
Interest and dividend income	(7,350)	(12,985)
Foreign exchange losses (gains)	(25,599)	(21,874)
Loss (gain) on sale of investment securities	(243)	(3,203)
Decrease (increase) in trade receivables	(16,941)	(10,014)
Decrease (increase) in inventories	(33,777)	(106,728)
Increase (decrease) in trade payables	3,209	6,332
Decrease (increase) in other current assets	(10,845)	(6,023)
Increase (decrease) in other current liabilities	8,966	3,690
Other	(1,015)	(5,105)
Total	209,812	178,632
Interest and dividends received	8,431	14,692
Interest paid	(180)	(125)
Income taxes refund (paid)	(61,969)	(91,581)
Cash flows from investing activities	(116,215)	(87,086)
Payments into time deposits	(151,867)	(190,302)
Proceeds from withdrawal of time deposits	107,440	207,357
Purchase of property, plant and equipment	(77,588)	(72,180)
Purchase of intangible assets	(3,343)	(2,197)
Purchase of short-term and long-term investment securities	(1,276)	(60,795)
Proceeds from sale and redemption of short-term and long-term investment securities	14,080	18,731
Purchase of insurance funds	(9,095)	(9,553)
Proceeds from maturity of insurance funds	5,705	19,588
Other	(270)	2,265
Cash flows from financing activities	(88,933)	(113,299)
Net increase (decrease) in short-term borrowings	200	5,276
Proceeds from long-term borrowings	2,100	2,307
Repayments of long-term borrowings	(1,566)	(6,936)
Purchase of treasury shares	(50,020)	(55,030)
Purchase of treasury shares of subsidiaries	—	(44)
Dividends paid	(39,631)	(58,776)
Other	(15)	(95)
Effect of exchange rate change on cash and cash equivalents	46,811	30,796
Net increase (decrease) in cash and cash equivalents	(2,243)	(67,972)
Cash and cash equivalents at beginning of period	561,540	559,296
Cash and cash equivalents at end of period	559,296	491,324

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

Non-Consolidated Financial Statements

Non-consolidated Balance sheets (As of March 31, 2023)

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023		As of March 31, 2022	As of March 31, 2023
(Assets)			(Liabilities)		
Current assets	609,295	624,250	Current liabilities	131,644	139,882
Cash and deposits	301,772	237,832	Accounts payable - trade	67,316	75,435
Notes receivable - trade	25,329	25,021	Short-term borrowings	5,000	5,000
Accounts receivable - trade	89,387	95,795	Accounts payable - other	8,422	7,127
Securities	12,219	19,556	Income taxes payable	34,100	30,796
Merchandise and finished goods	27,022	34,035	Accrued expenses	13,036	13,535
Work in process	11,184	14,082	Other	3,767	7,988
Raw materials and supplies	91,564	136,488	Non-current liabilities	10,764	10,863
Accounts receivable - other	45,849	56,227	Provision for retirement benefits	4,222	4,282
Other	5,156	5,345	Provision for share awards for directors (and other officers)	65	114
Allowance for doubtful accounts	(191)	(134)	Other	6,476	6,466
Non-current assets	550,465	629,625	Total liabilities	142,408	150,745
Property, plant and equipment	114,585	150,616	(Net assets)		
Buildings and structures	25,618	50,955	Shareholders' equity	1,006,634	1,095,975
Machinery, equipment and vehicles	13,267	17,897	Share capital	61,005	61,005
Tools, furniture and fixtures	2,512	4,956	Capital surplus	73,271	73,271
Land	54,099	66,740	Legal capital surplus	72,576	72,576
Construction in progress	19,087	10,065	Other capital surplus	694	694
Intangible assets	1,545	2,509	Retained earnings	981,494	1,125,866
Software	1,465	2,430	Legal retained earnings	15,251	15,251
Other	79	79	Other retained earnings	966,243	1,110,614
Investments and other assets	434,335	476,498	Reserve for special depreciation	162	138
Investment securities	40,531	72,892	Reserve for tax purpose reduction entry of assets	251	239
Shares of subsidiaries and associates	104,719	105,925	General reserve	150,250	150,250
Investments in capital of subsidiaries and associates	123,449	136,454	Retained earnings brought forward	815,578	959,986
Prepaid pension costs	4,724	5,544	Treasury shares	(109,136)	(164,167)
Deferred tax assets	7,433	8,489	Valuation and translation adjustments	10,717	7,154
Insurance funds	150,749	143,853	Valuation difference on available-for-sale securities	10,717	7,154
Other	2,768	3,378	Total net assets	1,017,351	1,103,130
Allowance for doubtful accounts	(41)	(39)	Total liabilities and net assets	1,159,760	1,253,875
Total assets	1,159,760	1,253,875			

Non-consolidated Statements of Income (April 1, 2022 to March 31, 2023) (Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net sales	466,970	510,431
Cost of sales	295,245	314,709
Gross profit	171,725	195,721
Selling, general and administrative expenses	43,006	52,962
Operating profit	128,718	142,759
Non-operating income	52,029	114,275
Interest and dividend income	15,329	80,844
Gain on investments in insurance funds	—	250
Gain on sale of securities	1,272	2,368
Foreign exchange gains	32,114	27,368
Dividend income of insurance	528	539
Royalty income	1,742	1,828
Other	1,042	1,075
Non-operating expenses	168	32
Interest expenses	50	11
Loss on investments in insurance funds	98	—
Commission for purchase of treasury shares	—	20
Other	19	0
Ordinary profit	180,580	257,002
Extraordinary income	265	6,072
Gain on sale of investment securities	243	3,208
Adjustment for transfer pricing taxation	—	2,608
Other	21	255
Extraordinary losses	366	509
Loss on retirement of non-current assets	148	138
Impairment losses	214	—
Extra retirement payments	—	370
Other	4	0
Profit before income taxes	180,478	262,565
Income taxes-current	50,043	58,867
Income taxes-deferred	(224)	516
Profit	130,658	203,180

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

Audit Report of Accounting Auditor on the Consolidated Financial Statements

Independent Auditor's Report

May 17, 2023

To the Board of Directors SMC Corporation

Seiyo Audit Corporation
Minato-ku, Tokyo

Designated and Engagement partner
Certified Public Accountant

Takashi Saito

Designated and Engagement partner
Certified Public Accountant

Takahiro Otofujii

Designated and Engagement partner
Certified Public Accountant

Naoto Nakayama

Opinion

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheets, the Consolidated Financial Statements of income, the consolidated statement of changes in net assets and notes to consolidated financial statements of SMC Corporation (the "Company") applicable to the fiscal year from April 1, 2022 to March 31, 2023.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2022, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other information

Other information consists of the Business Report and the supporting documents. Management is responsible for the preparation and presentation of other information. Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for other information.

This other information is not included in our opinion on the Consolidated Financial Statements, and we do not express an opinion on this other information.

Our responsibility for the Consolidated Financial Statements consists of reading the other information and considering during the course of reading whether there are material differences between the other information and the consolidated financial statements or the information we have obtained during the course of the audit, and paying attention to whether there are other significant inaccuracies in the other information other than such material differences.

In the event that we deem there to be material inaccuracies in the other information based on the work we have performed, we are required to report this fact.

We found no matters that should be reported in relation to the other information.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with

accounting principles generally accepted in Japan. This includes the maintenance and operation of such internal controls as management determines is necessary to enable the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the Consolidated Financial Statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Consolidated Financial Statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the Consolidated Financial Statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the Consolidated Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the Consolidated Financial Statements or, if the notes to the Consolidated Financial Statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the Consolidated Financial Statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the Consolidated Financial Statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its subsidiaries to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the audit of the Consolidated Financial Statements. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Conflicts of Interest

Our firm and engagement partners have no interest in the Company and its consolidated subsidiaries which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Audit Report of Accounting Auditor on the Non-consolidated Financial Statements

Independent Auditor's Report

May 17, 2023

To the Board of Directors SMC Corporation

Seiyo Audit Corporation
Minato-ku, Tokyo

Designated and Engagement partner
Certified Public Accountant

Takashi Saito

Designated and Engagement partner
Certified Public Accountant

Takahiro Otofujii

Designated and Engagement partner
Certified Public Accountant

Naoto Nakayama

Opinion

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, that is, the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statement of changes in net assets, the notes to non-consolidated financial statements and the supplementary schedules of SMC Corporation (the "Company") (hereinafter, the "financial statements, etc.") applicable to the 64th fiscal year from April 1, 2022 to March 31, 2023.

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

Basis for Opinion

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

Other information

Other information consists of the Business Report and the supporting documents. Management is responsible for the preparation and presentation of other information. Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for other information.

This other information is not included in our opinion on the financial statements, etc. and we do not express an opinion on this other information.

Our responsibility for the financial statements, etc. consists of reading the other information and considering during the course of reading whether there are material differences between the other information and the financial statements, etc. or the information we have obtained during the course of the audit, and paying attention to whether there are other significant inaccuracies in the other information other than such material differences.

In the event that we deem there to be material inaccuracies in the other information based on the work we have performed, we are required to report this fact.

We found no matters that should be reported in relation to the other information.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Financial Statements, etc.

Management is responsible for the preparation and fair presentation of the financial statements, etc. in accordance with accounting principles generally accepted in Japan. This includes the maintenance and operation of such internal controls as management determines is necessary to enable the preparation and fair presentation of the financial statements, etc. that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, etc., management is responsible for assessing whether it is appropriate to prepare the financial statements, etc. with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements, etc.

Our responsibilities are to obtain reasonable assurance about whether the financial statements, etc. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the financial statements, etc. based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements, etc.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the financial statements, etc. is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the financial statements, etc. and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the financial statements, etc. or, if the notes to the financial statements, etc. on material uncertainty are inadequate, to express a qualified opinion with exceptions on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the financial statements, etc. and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the financial statements, etc., including the related notes thereto, and whether the financial statements, etc. fairly represent the underlying transactions and accounting events.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Conflicts of Interest

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Audit Report of Board of Corporate Auditors

Audit Report

We, the Board of Corporate Auditors, have examined and discussed the execution of Directors' duties during the 64th fiscal year, which lasted from April 1, 2022 to March 31, 2023 based on audit reports prepared by each Corporate Auditor, and prepared our audit report as described below.

1. Auditing Method Employed by Corporate Auditors and Board of Corporate Auditors and Details Thereof

- (1) The Board of Corporate Auditors formulated an audit policy, apportion of their business activities, and other audit related items, received reports from each Corporate Auditor on the implementation and results of audits. The Board of Corporate Auditors also received reports from the Directors of the Company, the Accounting Auditor, and other parties on the execution of their duties, and requested explanations from them when necessary.
- (2) Based on the standards for auditing defined by the Board of Corporate Auditors, and in line with the audit policy, apportion of their business activities and other related items, each Corporate Auditor effectively communicated with Directors, the internal audit department, and other employees, gathered information, and improved the audit environment, implementing audits with the following methods.
 - a. Each Corporate Auditor attended the Board of Directors meeting and other important meetings, received from Directors and employees reports on the execution of their duties, requested explanations from them when necessary, reviewed significant approval documents, and investigated the status of operations and assets at the Company's head office and other principal offices. Regarding auditing of the subsidiaries, each Corporate Auditor ensured sufficient communication and information exchange with Directors and Corporate Auditors of the subsidiaries and received reports from the subsidiaries on their businesses when necessary.
 - b. The Company has a framework to ensure that Directors' duties stated in the Business Report comply with laws and regulations as well as the Articles of Incorporation of the Company, and other frameworks established based on the substance at the resolutions of the Board of Directors meetings and those resolutions concerning the establishment of the frameworks stipulated in Article 100, Paragraph 1 and 3 of the Order for Enforcement of the Companies Act that are necessary for ensuring the appropriateness of operations of a corporate group consisting of a joint-stock company and its subsidiaries (internal control system). Regarding these frameworks, each Corporate Auditor received reports about the formation and the status of their operation on a regular basis, requested explanations from Directors and employees when necessary and expressed opinions.
 - c. The Corporate Auditors monitored and examined whether the Accounting Auditor maintained its independent position and conducted its audits in an appropriate manner. The Corporate Auditors also received from the Accounting Auditor reports on the execution of its duties and requested explanations when necessary. The Corporate Auditors were notified from the Accounting Auditor that the entity has established a "System to Ensure Independent Accountants' Appropriate Execution of Duties" (Item stipulated in Article 131 of the Corporate Calculation Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005), and requested explanations when necessary.

Through these methods, we reviewed the Business Report and its related supplementary schedules, the non-consolidated financial statements (the balance sheets, the statements of income, the statements of changes in equity and notes to non-consolidated financial statements) and their related supplementary schedules as well as the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in equity and notes to consolidated financial statements), for the current fiscal year.

2. Conclusions of Audit

(1) Results of the audit of the Business Report, etc.

- a. We confirmed that the Business Report and its related supplementary schedules fairly present the status of the Company in conformity with applicable laws and regulations as well as the Articles of Incorporation of the Company.
- b. We confirmed that there were no fraudulent acts or material facts that violated the applicable laws and regulations or the Articles of Incorporation of the Company in the course of the performance of the duties of the Directors.
- c. We confirmed that the substance of the resolutions made by the Board of Directors meeting regarding the internal control system is appropriate. We did not recognize any matters that should be pointed out with regard to the details stated in the Business Report and the performance of the duties of the Directors regarding the said internal control system.

(2) Results of the audit of the non-consolidated financial statements and their supporting documents

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

(3) Results of the audit of the consolidated financial statements

We confirmed that the method and the results of the audit conducted by Seiyo Audit Corporation, the Accounting Auditor are appropriate.

May 23, 2023

Board of Corporate Auditors SMC Corporation
Full-time Corporate Auditor **Naoto Moriyama**
Corporate Auditor (Outside Corporate Auditor)
Arata Toyoshi
Corporate Auditor (Outside Corporate Auditor)
Haruya Uchikawa

END

To Our Shareholders

64th Annual General Meeting of Shareholders

Other matters subject to measures for electronic provision

(Matters omitted from written materials)

Consolidated Statement of Changes in Equity

Notes to Consolidated Financial Statements

Non-Consolidated Statement of Changes in Equity

Notes to Non-consolidated Financial Statements

<p>Based on laws and regulations and the Articles of Incorporation of the Company, the above matters are not included in written materials sent to shareholders who request written copies.</p>

SMC Corporation

Consolidated Statement of Changes in Equity

(April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,335	1,430,285	(109,136)	1,455,489
Changes during period					
Dividends of surplus			(58,808)		(58,808)
Profit attributable to owners of parent			224,609		224,609
Purchase of treasury shares				(55,030)	(55,030)
Change in ownership interest of parent due to transactions with non-controlling interests		6			6
Net changes in items other than shareholders' equity					-
Total changes during period	-	6	165,801	(55,030)	110,777
Net assets at end of period	61,005	73,342	1,596,086	(164,167)	1,566,266

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	11,235	87,893	1,010	100,139	3,645	1,559,274
Changes during period						
Dividends of surplus				-		(58,808)
Profit attributable to owners of parent				-		224,609
Purchase of treasury shares				-		(55,030)
Change in ownership interest of parent due to transactions with non-controlling interests				-		6
Net changes in items other than shareholders' equity	(3,662)	32,381	3,288	32,007	266	32,273
Total changes during period	(3,662)	32,381	3,288	32,007	266	143,051
Net assets at end of period	7,573	120,275	4,298	132,146	3,912	1,702,325

Notes to Consolidated Financial Statements

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

1. The scope of consolidation

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

(i) Number of consolidated subsidiaries: 44

(ii) Names of major consolidated subsidiaries:

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

(2) Names of major non-consolidated subsidiaries, etc.

(i) Names of major non-consolidated subsidiaries

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

(ii) Reasons for exclusion from the scope of consolidation

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

2. The scope of application of the equity method

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

3. Matters pertaining to the fiscal year of consolidated subsidiaries

The Consolidated Financial Statements were prepared based on the preliminary financial statements as of March 31, 2023 for the following 10 subsidiaries whose fiscal year-end date is December 31.

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

4. Accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Securities held to maturity: valued at amortized cost method.

Available-for-sale securities

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

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

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

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

(2) Depreciation methods for significant depreciable assets

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

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are calculated with the straight-line method. And that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

(ii) Intangible assets (excluding leased assets)

Amortization of intangible assets of the Company and its domestic consolidated subsidiaries is calculated in accordance with the straight-line method and that of foreign consolidated subsidiaries is determined in accordance with the straight-line method

pursuant to the accounting standards of the corresponding nation.

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

(3) Basis for significant allowances and provisions

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed uncollectible by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Foreign consolidated subsidiaries provide an allowance for possible loan losses in the amount deemed uncollectible based on an individual assessment of each claim.

(ii) Provision for bonuses

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

(iii) Provision for retirement benefits for directors (and other officers)

Some of the Company's consolidated subsidiaries provide a reserve for retirement benefits for officers to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

(iv) Provision for share awards for directors (and other officers)

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current fiscal year is recorded.

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

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

(5) Basis for significant revenues and expenses

(i) Contents of main performance obligations in major businesses

The Group is engaged in the manufacturing and sale of automatic control equipment, including pneumatic instruments, that is essential for automated, labor-saving operations in various industry sectors, and is under the obligation to deliver products to customers in accordance with sales agreements, etc.

(ii) At the usual point at which the Company fulfills its performance obligation (at the usual point at which it recognizes revenue)

The Group sells automatic control equipment, including pneumatic instruments, to

customers. We deem control over these products to be transferred to the customer at the point at which the product is shipped or delivered, at which point we recognize the revenue.

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

Basis for net defined retirement benefit liabilities and net defined retirement benefit assets

For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded based on the projected amounts for pension assets and retirement benefit obligations at the end of the fiscal year at the consolidated level. For the calculation of consolidated retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits for the period until the end of the current fiscal year.

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

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

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the remeasurements of defined benefit plans under accumulated other comprehensive income in the net asset section.

Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within this calculation, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

[Notes on changes in accounting policy]

Application of the Implementation Guidance on the Accounting Standard for Fair Value Measurement, etc.

The Group began applying the "Implementation Guidance on the Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Implementation Guidance on the Accounting Standard for Fair Value Measurement") at the consolidated level at the beginning of the current fiscal year. Furthermore, in accordance with the transitional treatment set forth in paragraph 27-2 of the Implementation Guidance on the Accounting Standard for Fair Value Measurement, the Group decided to prospectively apply the new accounting policy prescribed by the Implementation Guidance on the Accounting Standard for Fair Value Measurement. This had no impact on the Consolidated Financial Statements.

[Notes on revenue recognition]

1. Information on disaggregated revenue arising from contracts with customers

(Millions of yen)

Net sales by region	Fiscal year 2022
Japan	176,302
United States	100,135
China	223,612
Asia (excluding China)	144,562
Europe	143,362
Other	36,796
Total net sales	824,772

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

2. Basic information for understanding revenue

(1) Information on calculating transaction prices

The amount of revenue recorded consists of the consideration promised in the agreement with the customer, from which returns, discounts, rebates and other items have been deducted. For returns and discounts, predictions of the amounts that could occur are based on past experience, and rebates are calculated by assuming a fixed percentage will be rebated, based on the contract.

(2) Information on the point at which performance obligations are fulfilled

The Group sells automatic control equipment, including pneumatic instruments, to customers. Since these products do not require time for delivery inspection by the customer, control of the products is deemed to be transferred to the customer at the point at which the product is shipped or delivered, at which point revenue is recognized.

[Notes on accounting estimates]

The inventories of the Group are calculated by writing down book value based on decline in profitability. In this consolidated fiscal year, the Group booked a total of 418,602 million yen in inventories on the consolidated balance sheet. This sum is the amount after writing down book value corresponding with the decline in profitability. The Group booked 4,907 million yen in loss on valuation of inventories for cost of sales in this fiscal year.

The Group, in principle, applies a method of discounting the book value of inventories in response to inventory turnover rate based on sales of past finished goods, etc. and the use of raw materials, etc. Further, it is possible for this estimation to be impacted by changes in the finished goods lifecycle and changes in the sales or use environment. If a revision to the estimate using a valuation of inventories is required, it may impact cost of sales or the balance of inventories at the end of the following consolidated fiscal year.

[Notes on Consolidated Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	278,182
2. For non-consolidated subsidiaries	
Investment securities	16,143
3. Collateral assets and collateral liabilities	
Collateral assets	
Buildings and structures	1,221
Land	645
Total	1,866
Collateral liabilities	
Long-term borrowings	1,796

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	52,953
Bonuses	11,537
Retirement benefit expenses	2,771
Provision of allowance for doubtful accounts	6
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs	27,361
3. Loss on valuation of inventories	4,907

[Notes on Consolidated Statement of Changes in Equity]**1. Type and number of outstanding shares and treasury shares**

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Outstanding shares	Common share	67,369,359	–	–	67,369,359
Treasury shares	Common share	2,029,013	839,719	–	2,868,732

Notes:

- Treasury shares include shares of the Company held by the “Board Benefit Trust for Directors” (2,600 shares at both the beginning and the end of the current fiscal year).
- Of the increase in treasury shares of 839,719 shares, 839,200 shares were purchased

following a resolution by the Board of Directors for the purchase of treasury shares, and 519 shares were the result of purchasing shares from trading lots of less than one unit. There was no decrease in the number of treasury shares.

2. Dividends

(1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 29, 2022	Common share	¥29,404 million	¥450	March 31, 2022	June 30, 2022
Board of Directors meeting held on November 14, 2022	Common share	¥29,404 million	¥450	September 30, 2022	December 1, 2022

Note: Each of the “Total dividend amount” includes a dividend of ¥1 million for the Company’s shares held by the “Board Benefit Trust for Directors”.

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

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 29, 2023.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥29,026 million	¥450	March 31, 2023	June 30, 2023

Note: The “Total dividend amount” includes a dividend of ¥1 million for the Company’s shares held by the “Board Benefit Trust for Directors”.

[Notes on financial instruments]

1. Status of financial instruments

(1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in securities in principle and instead, are limited to invest in short-term bank deposits, etc.

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

(2) Contents and risk of financial instruments

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

Securities and investment securities, which consist mainly of stocks of companies that

have business relationships with the Company, government bonds, and securities investment trusts, are subject to market price volatility risk and other risks.

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

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

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

(3) Risk management system for financial instruments

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

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

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

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

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

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

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

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

Since certain assumptions and others are adopted for calculating the fair value of financial instruments, they may differ when adopting different assumptions and others.

2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
Securities and investment securities			
(i) Securities held to maturity	1,077	972	(104)
(ii) Available-for-sale securities	95,082	95,082	–
Total assets	96,159	96,055	(104)

Notes:

- Notes on cash are omitted. Presentation of deposits, notes and accounts receivable-trade, notes and accounts payable-trade, and short-term borrowings has been omitted because they are settled in a short period of time and their fair value approximates their book value.
- Stocks, etc. for which a market prices not available are not included in “Securities and investment securities” above. The following are the consolidated balance sheet amounts for these financial instruments.

(Millions of yen)

Category	Consolidated balance sheet amount
Shares of subsidiaries	16,143
Unlisted stocks	43

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

Fair value for financial instruments is categorized into one of the following three levels, depending on the observability and significance of inputs used in the calculation of fair value.

Level 1 fair value: Fair value calculations with observable inputs, in which fair value is calculated using quoted prices formed in an active market for the assets or liabilities that are the subject of the fair value calculation.

Level 2 fair value: Fair value calculations with observable inputs, in which fair value is calculated using inputs other than those used as inputs in Level 1.

Level 3 fair value: Fair values calculated using unobservable inputs.

In cases where multiple inputs with a significant impact on the calculation of fair value are used, the fair value is categorized to the level, among those to which the various inputs belong, that has the lowest priority in the fair value calculation.

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

(Millions of yen)

Category	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Stocks	15,677	–	–	15,677
Bonds	75,636	–	–	75,636
Other	3,369	–	399	3,769
Total assets	94,682	–	399	95,082

Notes:

1. Explanation of valuation techniques and inputs used for fair value calculations.

Available-for-sale securities

Listed stocks and government bonds are valued using quoted market prices. Since listed stocks and government bonds are traded in active markets, their fair values are classified as at Level 1.

399 million yen in Other is share acquisition rights in unlisted stocks. Said share acquisition rights are classified into Level 3 based on fair value of their book value as the investment period and the end of the fiscal year is close and the fair value and book value are thought to be similar.

2. The 3,369 million yen categorized into Level 1 of Other is booked in the consolidated balance sheet as Investment Trust.

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

(Millions of yen)

Category	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Securities held to maturity				
Government bonds	26	–	–	26
Bonds payable	–	945	–	945
Total assets	26	945	–	972

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

Securities held to maturity

Government bonds and bonds payable are valued using quoted market prices. Since government bonds are traded in active markets, their fair values are classified as at Level 1. Bonds payable are classified at Level 2 because their trade frequency in the market is low and their fair value is not considered to be their quoted market price in an active market.

[Notes on per share information]

1. Net assets per share:	26,331.72 yen
2. Net income per share:	3,444.55 yen

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

Non-consolidated Statement of Changes in Equity

(April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for tax purpose reduction entry of assets	General reserve
Net assets at beginning of period	61,005	72,576	694	73,271	15,251	162	251	150,250
Changes during period								
Provision of reserve for special depreciation				-		5		
Reversal of reserve for special depreciation				-		(30)		
Reversal of reserve for tax purpose reduction entry of assets				-			(11)	
Dividends of surplus				-				
Profit				-				
Purchase of treasury shares				-				
Net changes in items other than shareholders' equity				-				
Total changes during period	-	-	-	-	-	(24)	(11)	-
Net assets at end of period	61,005	72,576	694	73,271	15,251	138	239	150,250

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
	Retained earnings brought forward						
Net assets at beginning of period	815,578	981,494	(109,136)	1,006,634	10,717	10,717	1,017,351
Changes during period							
Provision of reserve for special depreciation	(5)	–		–			–
Reversal of reserve for special depreciation	30	–		–			–
Reversal of reserve for tax purpose reduction entry of assets	11	–		–			–
Dividends of surplus	(58,808)	(58,808)		(58,808)			(58,808)
Profit	203,180	203,180		203,180			203,180
Purchase of treasury shares		–	(55,030)	(55,030)			(55,030)
Net changes in items other than shareholders' equity		–		–	(3,563)	(3,563)	(3,563)
Total changes during period	144,408	144,371	(55,030)	89,341	(3,563)	(3,563)	85,778
Net assets at end of period	959,986	1,125,866	(164,167)	1,095,975	7,154	7,154	1,103,130

Notes to Non-consolidated Financial Statements

[Notes on significant matters pertaining to accounting policies]

1. Standards and methods for valuation of securities

(1) Shares of subsidiaries and affiliates

Stated at cost using the moving average method.

(2) Available-for-sale securities

(i) Stocks other than those for which a market price is not available

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

(ii) Stocks for which a market price is not available

Stated at cost using the moving average method.

2. Valuation standards and methods for inventories

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

3. Depreciation methods of non-current assets

(1) Property, plant and equipment (excluding leased assets)

In accordance with the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are in accordance with the straight-line method.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding leased assets)

In accordance with the straight-line method.

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

4. Basis for allowances and provisions

(1) Allowance for doubtful accounts

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

(2) Provision for retirement benefits

A reserve is provided for employee retirement benefits based on the projected amount of

retirement benefit obligations and pension plan assets in the fiscal year. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits to the period until the current fiscal year.

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

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

(3) Provision for share awards for directors (and other officers)

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current business year is recorded.

5. Accounting policy for recognition of significant revenues and expenses

(1) Contents of main performance obligations in major businesses

The Company is engaged in the manufacturing and sale of automatic control equipment, including pneumatic instruments, that is essential for automated, labor-saving operations in various industry sectors, and is under the obligation to deliver products to customers in accordance with sales agreements, etc.

(2) At the usual point at which the Company fulfills its performance obligation (at the usual point at which it recognizes revenue)

The Company sells automatic control equipment, including pneumatic instruments, to customers. We deem control over these products to be transferred to the customer at the point at which the product is shipped or delivered, at which point we recognize the revenue.

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

Accounting procedures for retirement benefits

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

[Notes on changes in accounting policy]

Application of the Implementation Guidance on the Accounting Standard for Fair Value Measurement, etc.

The Company began applying the “Implementation Guidance on the Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter “Implementation Guidance on the Accounting Standard for Fair Value Measurement”) at the consolidated level at the beginning of the current fiscal year. Furthermore, in accordance with the transitional treatment set forth in paragraph 27-2 of the Implementation Guidance on the Accounting

Standard for Fair Value Measurement, the Company decided to prospectively apply the new accounting policy prescribed by the Implementation Guidance on the Accounting Standard for Fair Value Measurement. Further, this had no impact on the Non-consolidated Financial Statements.

[Notes on revenue recognition]

Basic information for understanding revenue

Notes on revenue recognition have been omitted because the same information is presented in “Notes on revenue recognition” for the Consolidated Financial Statements.

[Notes on accounting estimates]

Inventories of the Company are calculated by writing down the book value based on decline in profitability. In this fiscal year, the Company booked a total of 184,606 million yen in inventories on the balance sheet. This sum is the amount after writing down book value corresponding with the decline in profitability. The Company booked 1,026 million yen in loss on valuation of inventories for cost of sales in this fiscal year.

The Company, in principle, applies a method of discounting the carrying amount of inventories in response to inventory turnover rate based on sales of past products, etc. and the use of raw materials, etc. Further, it is possible for this estimation to be impacted by changes in the product lifecycle and changes in the sales or use environment. If a revision to the estimate using a valuation of inventories is required, it may impact cost of sales or the balance of inventories at the end of the following fiscal year.

[Notes on Non-consolidated Balance Sheets]

	(Millions of yen)
1. Accumulated depreciation of property, plant and equipment	133,039
2. Receivables and payables in relation to subsidiaries and affiliates	
Short-term receivables	108,393
Long-term receivables	23
Short-term payables	16,150

[Notes on Non-consolidated Statements of Income]

Transactions with subsidiaries and affiliates	(Millions of yen)
Net sales	377,344
Purchase amount	95,311
Selling, general and administrative expenses	2,742
Non-operating transaction amount	81,261

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

Type and number of treasury shares (Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	2,029,013	839,719	–	2,868,732

Notes:

1. Treasury shares include shares of the Company held by the “Board Benefit Trust for Directors” (2,600 shares at both the beginning and the end of the current fiscal year).
2. Of the increase in treasury shares of 839,719 shares, 839,200 shares were purchased following a resolution by the Board of Directors for the purchase of treasury shares, and 519 shares were the result of purchasing shares from trading lots of less than one unit.

[Notes on tax effect accounting]**Significant components of deferred tax assets and deferred tax liabilities**

(Millions of yen)

	The 64th fiscal year (As of March 31, 2023)
Deferred tax assets	
Loss on valuation of investment securities	0
Loss on valuation of inventories	6,637
One-time depreciable assets	133
Loss on valuation of shares of subsidiaries and associates	189
Allowance for doubtful accounts	53
Accounts payable - other	363
Accrued enterprise taxes, accrued business office taxes	1,643
Accrued expenses	2,941
Provision for retirement benefits	1,311
Provision for share awards for directors (and other officers)	35
Asset retirement obligations	72
Valuation difference on available-for-sale securities	847
Other	134
Total deferred tax assets	14,363
Deferred tax liabilities	
Asset retirement obligations	(3)
Prepaid pension costs	(1,697)
Reserve for special depreciation	(61)
Reserve for tax purpose reduction entry of assets	(105)
Valuation difference on available-for-sale securities	(4,005)
Other	(0)
Total deferred tax liabilities	(5,874)
Net deferred tax assets	8,489

[Notes on transactions with related parties]

1. Subsidiaries and affiliates

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Balance at the end of period
Subsidiary	SMC (China) Co., Ltd.	(Indirect) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product (*1)	114,608	Accounts receivable - trade	25,844
Subsidiary	SMC Corporation of America	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product (*1)	60,870	Accounts receivable - trade	14,154

Note: Transaction conditions and policies on determining such conditions

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

2. Director and individual major shareholders, etc.

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Balance at the end of period
Companies, etc. in which the majority of voting rights are owned by a Director or his/her close relatives	SMAC Corporation (*1)	None	Supplier of raw materials	Sales of securities (*2)	67	—	—
				Settlement costs for termination of production outsourcing contract (*3)	185	—	—

Notes:

- (*1) Samuel Neff, Director and Executive Officer of the Company, and his close relatives own 99.7% of the total voting rights.
- (*2) As for the sale of securities, SMAC Corporation (hereinafter "SMAC") shares (class shares without voting rights) held by the Company were sold to SMAC. The sale price was determined through negotiations based on the Company's acquisition price.
- (*3) Procurement from SMAC ended as of March 31, 2022. As a result, there was a recovery of claims related to the termination of production outsourcing contracts and payment of contract termination settlement costs along with liabilities. The net value of these offsetting payments and costs have been booked.

[Notes on per share information]

1. Net assets per share:	17,102.62 yen
2. Net income per share:	3,115.92 yen

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