



Annual Report 2020

For the year ended March 31, 2020

Profile

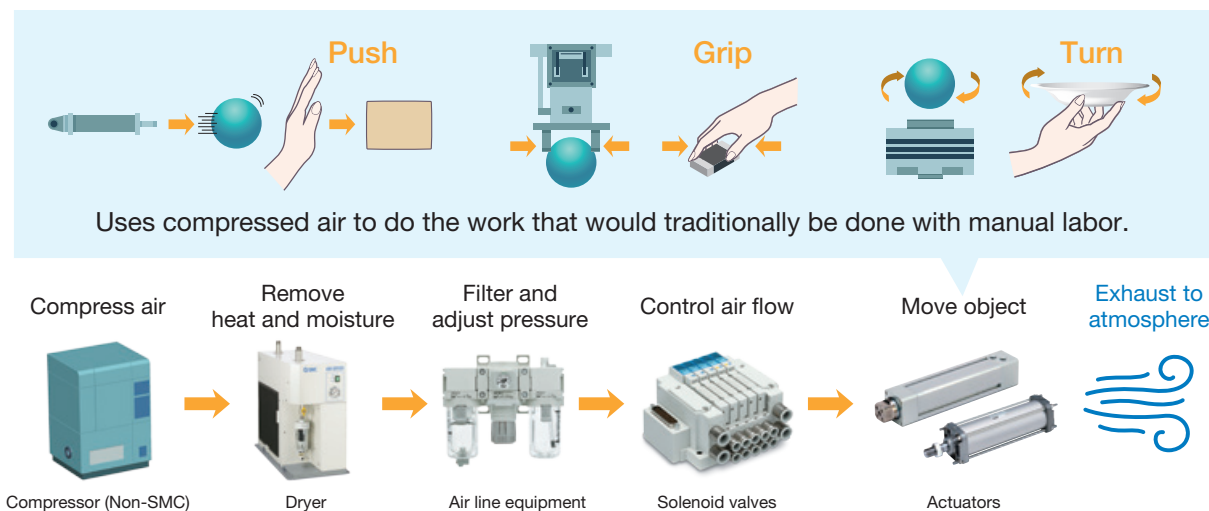
Through the manufacture and sales of automatic control equipment including pneumatic instruments, SMC contributes to automated, labor-saving operations in industries.

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

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

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

Overview of Pneumatic Control Instruments System

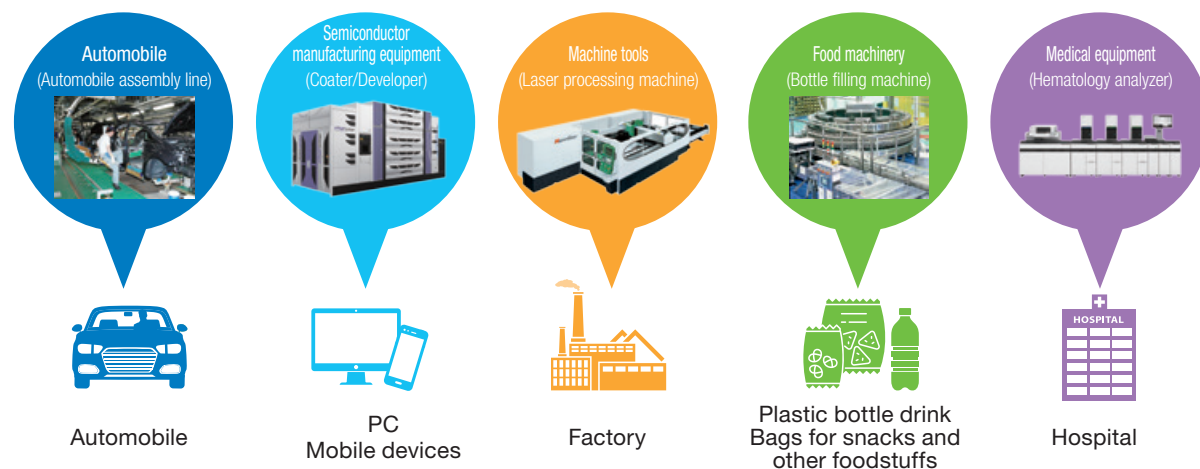


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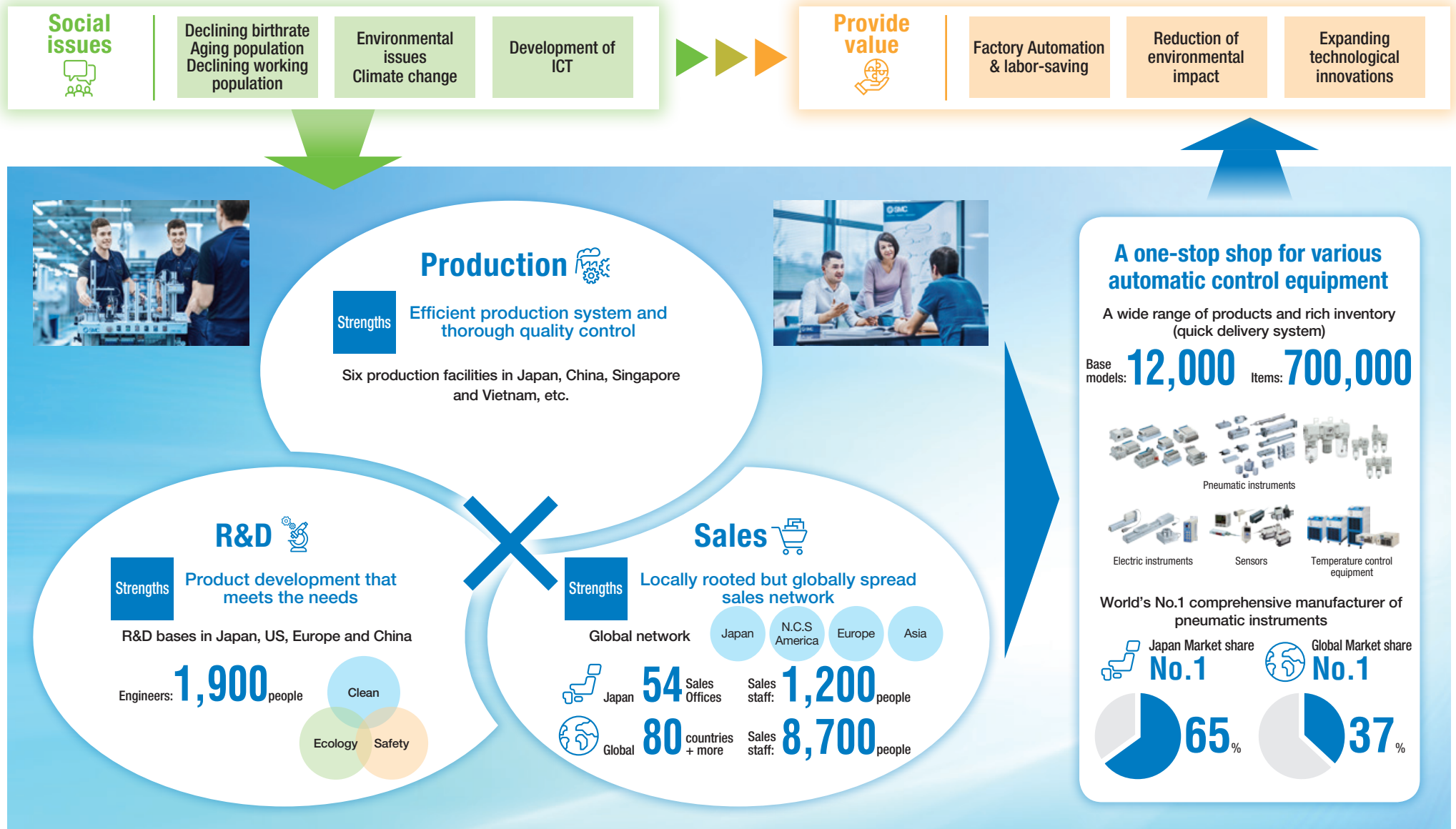
Application and Industry

Used for all applications and industries



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

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



SMC at a Glance

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

Products



'59 Filter elements



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



'71 High-performance solenoid valve (VS)



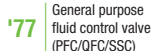
'61 Air F.R.L. (3-part combination: filter, regulator, lubricator) units for air line equipment



'82 Compact cylinder (CQ)



'84 Compact 5-port solenoid valve (VZ)



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



'89 Mechanically jointed rodless cylinder (MYC/MYH)

'87 Vacuum pad

'86 Vacuum ejector (ZM)

'89 Air gripper (MHQ/MHC)



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



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



'95 Electric actuator (LJ1)



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



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



'04 Refrigerated thermo-chiller (HRZ)

'04 Ionizer with electrostatic sensor (IZS30)

'04 2-port solenoid valve (VX)



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

'11 Fieldbus system (EX260)



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

2020 (Consolidated)

526,000
million yen

2020 (Non-consolidated)

333,045
million yen

Net sales (Non-consolidated)



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

Major Events/Facilities



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

'67 Embarked on overseas sales operations



'68 Soka 1st Factory



'73 Soka 2nd Factory



'83 Tsukuba 1st Factory

'84 Embarked on overseas manufacturing operations



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



'87 Listed on the Tokyo Stock Exchange 2nd section

'89 Listed on the Tokyo Stock Exchange 1st section



'91 Japan Technical Center Kamaishi Factory



'94 Yamatsuri Factory

'97 Tono Factory

'98 Acquired ISO 9001 certification

'99 Acquired ISO 14001 certification

'00 Embarked on overseas R&D operations

'00 SMC (Beijing) Manufacturing



'13 Shimotsuma Factory



'14 SMC Manufacturing (Vietnam)

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



As a Comprehensive Manufacturer of Pneumatic Instruments

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

Left) Katsunori Maruyama
President

Right) Yoshiki Takada
Executive Vice-president

To Fulfill Our Corporate Social Responsibility

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

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

To Achieve a Sustainable Society

Pneumatic instruments are environment-friendly automatic control equipment powered by compressed air which can be emitted to the atmosphere without creating pollution. SMC believes that the growth of demand and use of pneumatic instruments will, in itself, lead to reducing the environmental burdens of the entire society. Building upon the advanced technologies we have accumulated over the years, we will continue to develop and supply automatic control equipment products that deliver improved energy conservation performance with reduced size and weight. By responding to the customer requests from around the world, SMC will contribute to the sustainable growth of industries and expansion of technological innovations. We are also taking measures considering protection of environment throughout the whole process of our business activities, such as avoiding the use of substances of concern, promoting energy-saving and resource-saving, reducing packaging materials, cutting down noise levels, reducing the volume and ensuring proper treatment of wastewater and waste discharge.

Management Philosophy

1 Contributing to automated, labor-saving operations

The Company considers that its social mission is “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 puts its effort to improve its competitive advantages by concentrating its management resources on the automatic control equipment, its main business.

3 Supplying products globally

The Company will supply products that can meet the rules and needs of each country and region and are accepted in all the markets of the world.

Long-Term Management Vision

- 1 The Company is striving to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customers' requests 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 win competitions in the global markets and to acquire higher market shares.

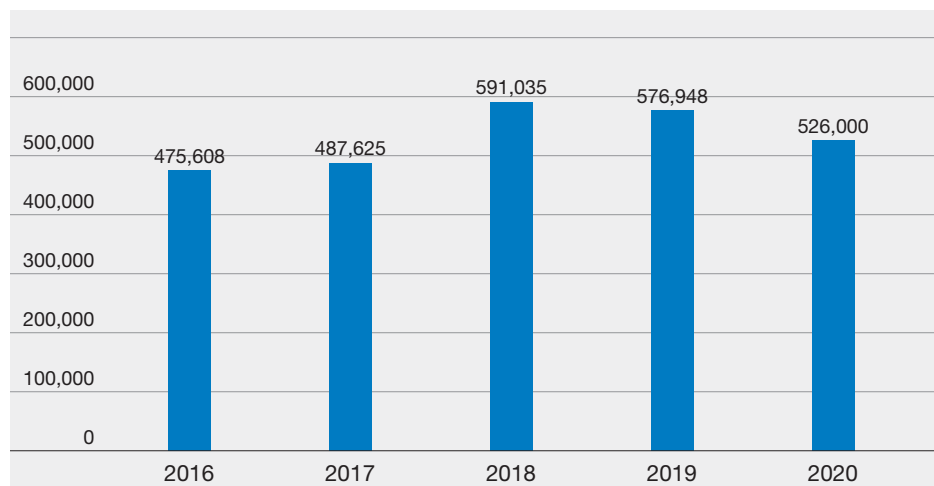
Results for This Fiscal Year

About the Business Environment

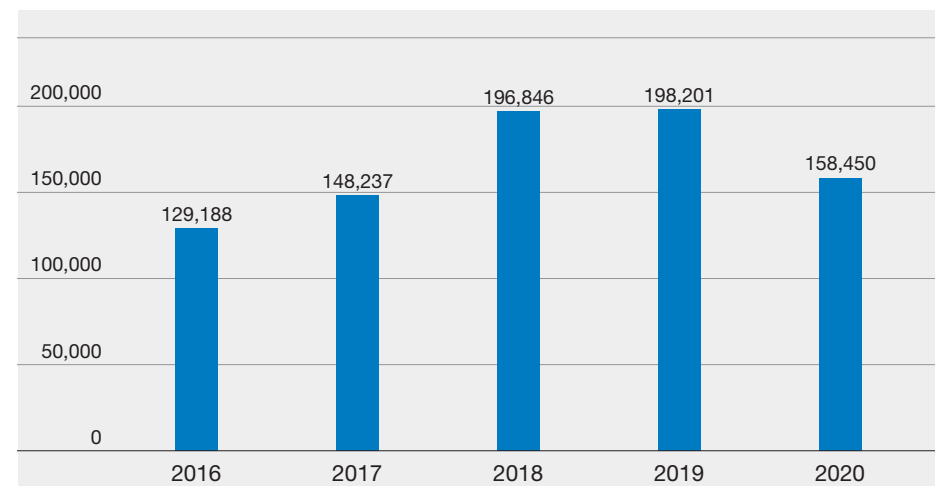
During this fiscal year, the global economy continued to face an extremely difficult situation, with a wide range of industries continuing to hold off on capital investment due to uncertainty regarding the future caused by prolonged trade friction between the US and China, and the global spread of the novel coronavirus disease (COVID-19) from the beginning of 2020, which was a hard hit to the economy. Due to the impact of COVID-19, SMC also has no choice but to estimate a decrease in revenue and profit in the short-term. As it is difficult to predict when the pandemic will be brought under control and when customers will

reactivate their capital investments, SMC expects this situation to continue at least until the end of the fiscal year ending March 31, 2021. In the long term, it is predicted that demand for automation will increase as it reduces human contact, but there could also be a significant shift toward weaker sentiment in consumer spending and capital investment. SMC will adhere to its “Management Philosophy” and “Long-Term Management Vision”, and continue to work to establish a management base that can react to rapid changes in the business environment.

Net sales (Million yen)



Ordinary profit (Million yen)

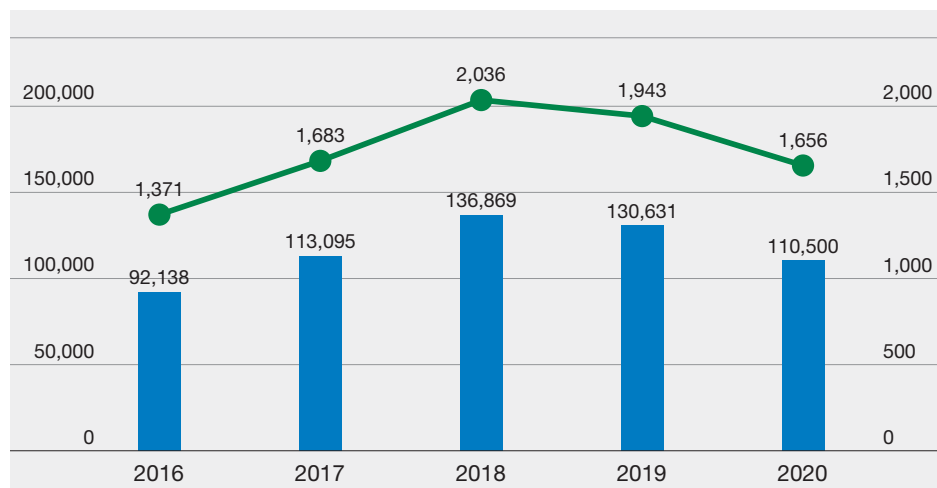


Results for This Fiscal Year

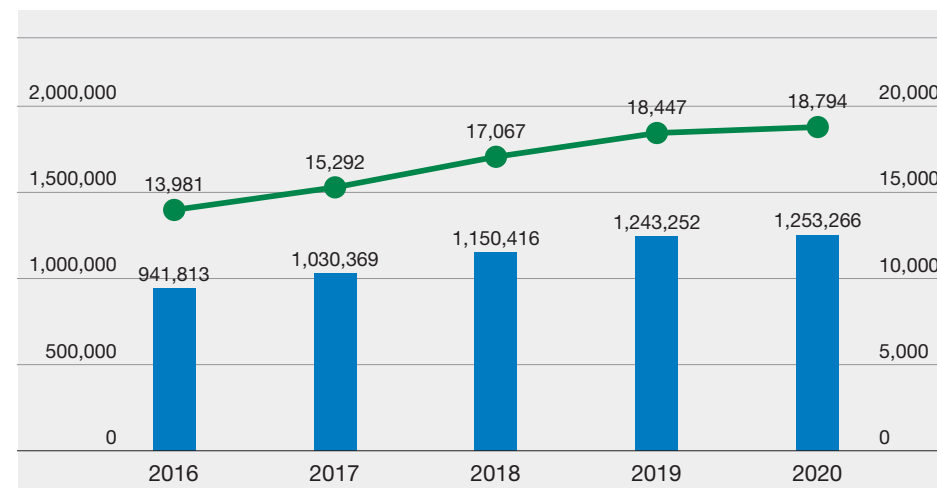
Demand for automatic control equipment began to recover in the second half of the fiscal year, mainly in North America and Asia for applications related to semiconductors, while demand for applications related to automobile and machine tools remained sluggish worldwide. Under these circumstances, SMC continued to strengthen and rationalize its product supply systems, reduce costs, develop new products with superior energy-saving performance both in Japan and abroad, while working on issues such as actively promoting sales activities through global collaboration. As a result, consolidated net sales for this fiscal year were 526,000 million yen (8.8% decrease year on year) and operating profit was 146,254 million yen (18.8% decrease yoy), mainly due to reduced revenue. Ordinary profit was 158,450 million yen (20.1% decrease yoy), mainly due to an increase in interest income and the incurrence of foreign exchange losses, and profit attributable to owners of parent was 110,500 million yen (15.4% decrease yoy).

ROE was 8.9%, a decrease of 2.0 points from the previous fiscal year.

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



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



Status of Sales by Region

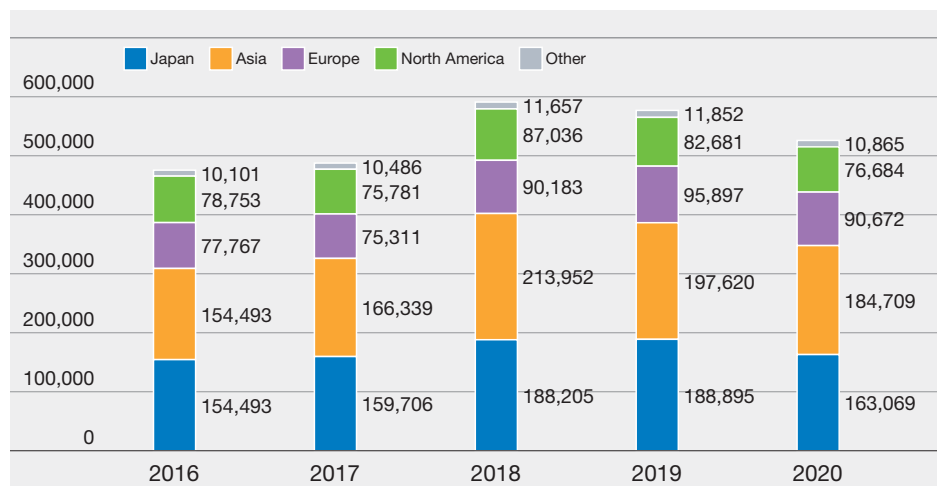
Japan

In addition to the postponement of capital investment due to the prolonged trade friction between the US and China and the decline in automobile sales, the spread of COVID-19 had a widespread impact since the beginning of the year. Sales to all industries, including the automobile, semiconductor and machine tool industries, decreased yoy. As a result, net sales were 163,069 million yen (13.7% decrease yoy).

North America

In the US, even though sales to the automobile and machine tool industries were sluggish, and sales to the semiconductor industry increased in the second half of the fiscal year, the overall economy weakened due to the spread of COVID-19. In Mexico, there was impact due to the postponement of capital investment in the automobile sector. As a result, net sales were 76,684 million yen (7.3% decrease yoy).

Net sales by region (Million yen)



Europe

Demand fell mainly in the automobile and machine tool industries due to sluggish investment in China due to trade friction between the US and China, the turmoil over the UK's withdrawal from the EU, as well as the spread of COVID-19. As a result, net sales were 90,672 million yen (5.4% decrease yoy).

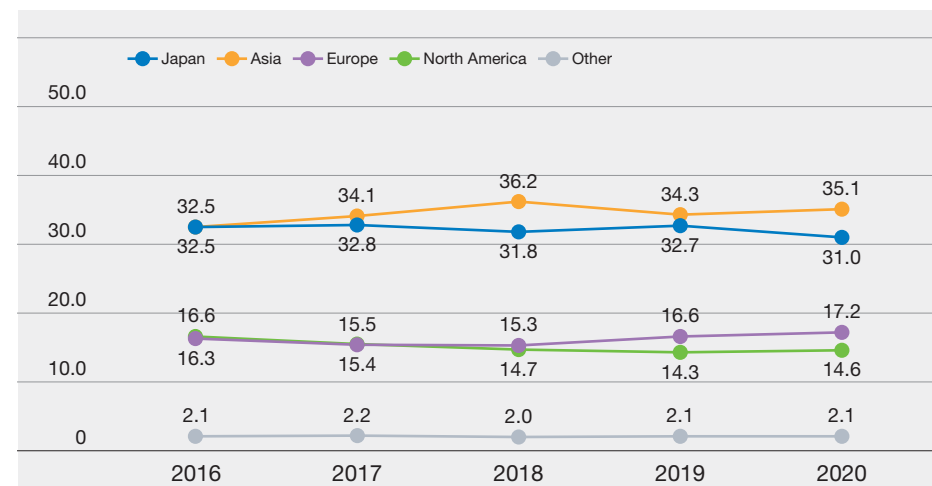
Asia

Market conditions remained difficult, with capital investment demand cooling due to such factors as the impact of trade friction between the US and China and the slowdown in the Chinese economy. Although the impact of the spread of COVID-19 was severe, sales to the semiconductor industry showed signs of recovery toward the end of the fiscal year, particularly in South Korea, Taiwan and Singapore, and there was a general trend of recovery in China. As a result, net sales were 184,709 million yen (6.5% decrease yoy).

Other Regions

In other regions such as South America and Oceania, net sales were 10,865 million yen (8.3% decrease yoy).

Composition ratio of net sales by region (%)



R&D Activities

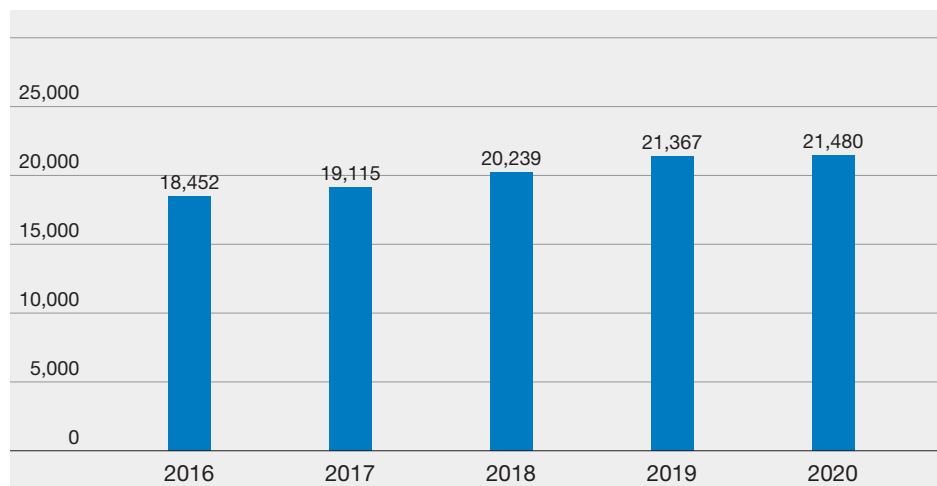
SMC develops products in line with the rules and needs of each country and region around the world, and conducts research and development of automatic control technology and peripheral technologies thereof to respond to changes in the market environment, such as the development of IoT and smart factories.

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

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

R&D expenses for this fiscal year were 21,480 million yen (0.5% increase yoy).

R&D (Million yen)



Status of Capital Investments

Aiming to establish a globally optimal production system with future vision in mind, the Company actively builds new production facilities, expands existing facilities and acquires land for such facilities in Japan and overseas.

In addition, capital investments were made for rationalization of production and cost reduction through purchasing equipment and renewing dies. Total capital investments in this fiscal year amounted to 38,370 million yen, an increase of 20.1% yoy.

Listed below are the main capital investments during this fiscal year 2019.

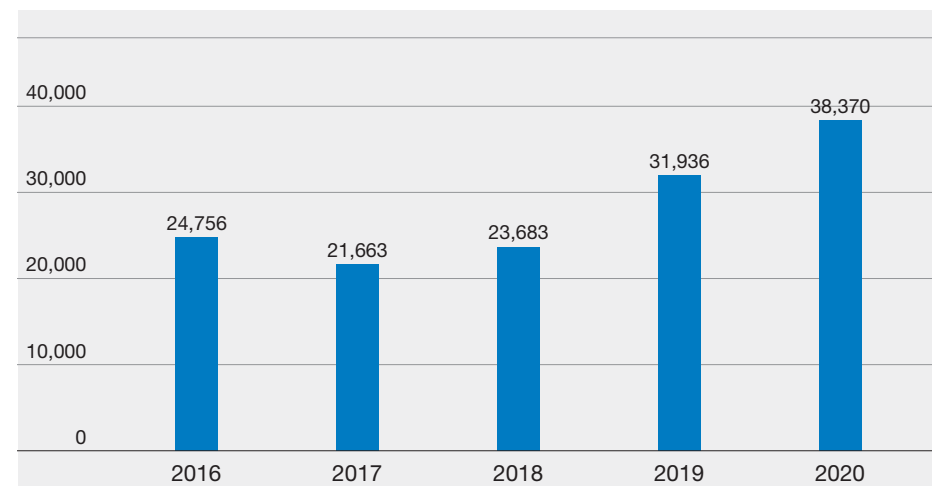


SMC Manufacturing (Vietnam) Factory No.3
(First phase construction)



SMC (Tianjin) Manufacturing
(First phase construction)

Capital investment (Million yen)



SMC in the World

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

Europe 17.2%

Net sales **90,672** million yen YoY change **-5.4%**



Germany

Austria



Italy

Spain

Asia 35.1%

Net sales **184,709** million yen YoY change **-6.5%**



China

South Korea

North America 14.6%

Net sales **76,684** million yen YoY change **-7.3%**



US

Mexico

Other 2.1%

Net sales **10,865** million yen YoY change **-8.3%**

Japan 31.0%

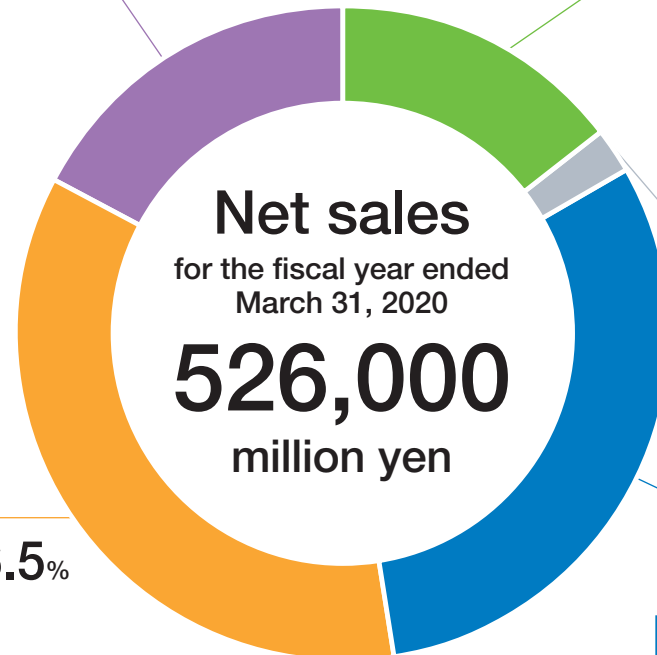
Net sales **163,069** million yen YoY change **-13.7%**



Headquarter

Tsukuba Technical Center

Soka Factory

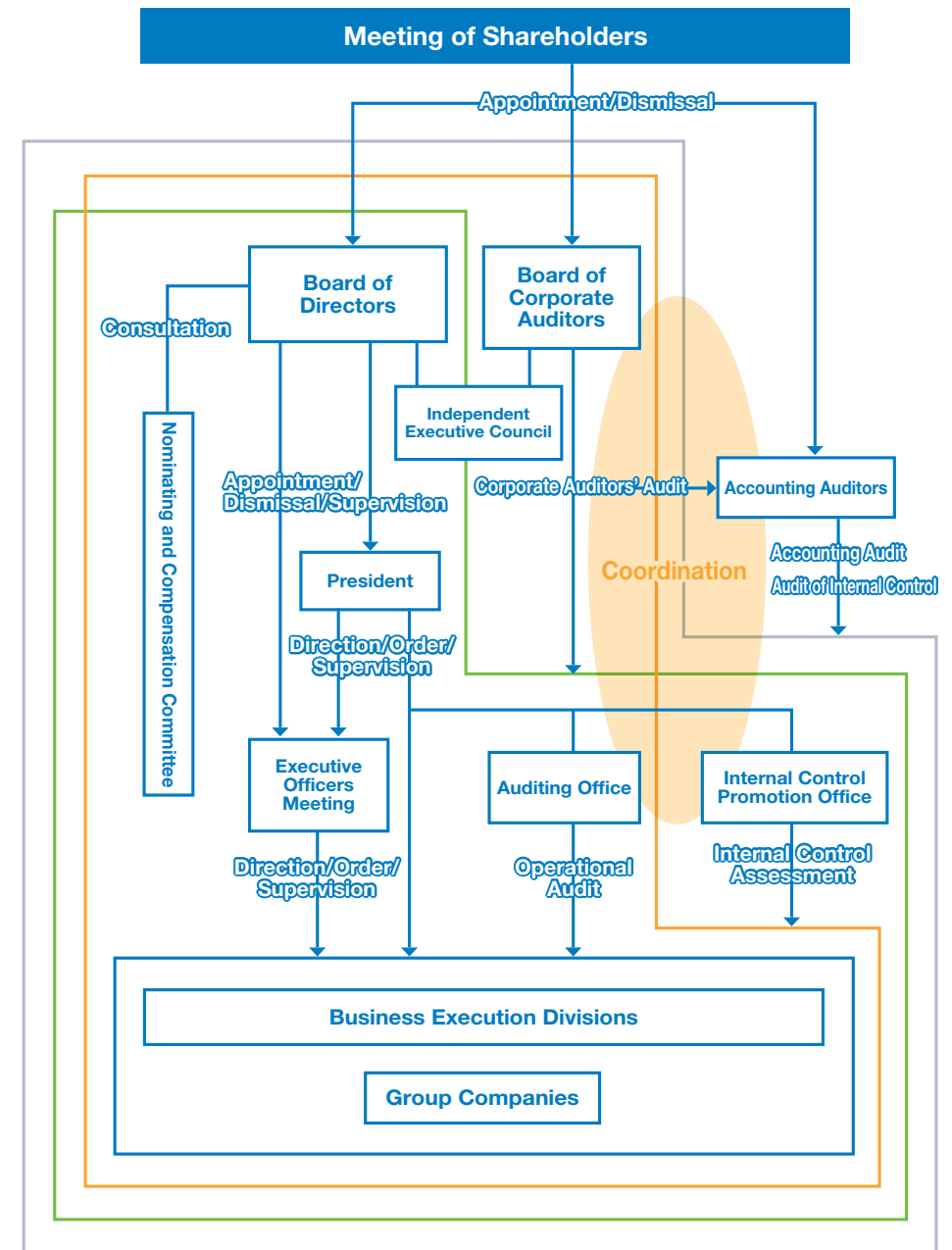


Basic Views on Corporate Governance

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

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

Corporate Governance System



Overview of the Corporate Governance System

Board of Directors

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

During the fiscal year ended March 31, 2020, the Board of Directors held eight meetings and passed one written resolution.

Board of Corporate Auditors

The Board of Corporate Auditors, which consists of three Corporate Auditors, decides on plans for audits by the Corporate Auditors and the segregation of duties in accordance with the Board of Corporate Auditors' regulation, in addition to matters prescribed by laws and regulations and the Articles of Incorporation. The Board of Corporate Auditors also receives reports from Corporate Auditors, Directors, employees, and the Accounting Auditor as required.

Advisory Bodies of the Board of Directors

SMC has voluntarily established the "Nomination and Compensation Committee" as an advisory body of the Board of Directors to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors. The "Nomination and Compensation Committee" consists of two Representative Directors and two Outside

Directors. The chairman of the "Nomination and Compensation Committee" is elected by the Outside Directors from among themselves. In addition, SMC has established the "Executive Officers Meeting", which is made up of the Directors who are responsible for business execution and Executive Officers, to speed up the sharing of information.

Independent Executive Council and Lead Independent Director

The "Independent Executive Council", consisting solely of Outside Directors and Outside Corporate Auditors, has been established to facilitate the free and vigorous exchange of opinions and sharing of views, and to make recommendations to the Board of Directors based on the opinions gathered as required.

In addition, a "Lead Independent Outside Director" is elected from among the Outside Directors to facilitate communication and coordination between the Outside Directors and the Board of Directors, the Board of Corporate Auditors, business execution divisions, etc.

Basic Policy on Dividends

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

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

Directors and Corporate Auditors

(at the conclusion of the Annual General Meeting of Shareholders held in June 2020)

Directors



**Katsunori
Maruyama**

President



**Yoshiki
Takada**

Executive Vice-
President, Senior
General Manager of
Sales Headquarters /
Chairman, SMC US



**Seiji
Kosugi**

Director and Senior
Managing
Executive Officer,
Senior General
Manager of
Engineering
Headquarters



**Masahiko
Satake**

Director and Senior
Managing
Executive Officer,
Senior General
Manager of
Production
Headquarters



**Toshio
Isoe**

Director and
Executive Officer,
General Manager
of Administration
Division



**Masahiro
Ota**

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



**Susumu
Maruyama**

Director and
Executive Officer



**Samuel
Neff**

Director and
Executive Officer

Directors



**Masanobu
Kaizu**

Independent
Outside Director



**Toshiharu
Kagawa**

Independent
Outside Director

Corporate Auditors



**Naoto
Moriyama**

Full-Time
Corporate Auditor



**Arata
Toyoshi**

Independent
Outside Corporate
Auditor



**Haruya
Uchikawa**

Independent
Outside Corporate
Auditor

SMC Corporation and Consolidated Subsidiaries
 Years ended March 31, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020.

(Million yen, except Per share data)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
For the year										
Net sales	325,116	341,864	323,135	395,304	458,081	475,608	487,625	591,035	576,948	526,000
Operating profit	81,970	88,069	78,027	105,153	127,686	134,233	141,107	192,428	180,203	146,254
Profit attributable to owners of parent	47,759	59,279	64,270	86,311	109,583	92,138	113,095	136,869	130,631	110,500
Depreciation	10,803	12,236	10,952	12,618	13,620	14,863	14,246	15,252	16,255	16,669
Capital expenditures	14,012	13,371	18,349	22,563	28,669	24,756	21,663	23,683	31,936	38,370
R&D expense	13,776	13,480	13,729	15,544	17,607	18,452	19,115	20,239	21,367	21,480
Free cash flow	46,505	4,234	9,463	23,392	66,412	67,724	30,584	83,656	16,827	149,534
At year end										
Total assets	716,174	737,957	844,010	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	1,390,539
Inventories	140,193	170,570	184,417	194,255	194,573	182,564	179,185	205,660	230,268	232,559
Net assets	537,456	587,093	689,359	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266
Shareholders' equity	535,779	585,356	687,532	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188
Interest-bearing debts	33,077	33,076	32,738	61,295	70,581	49,243	17,073	6,438	7,238	11,516
Cash and cash equivalents	165,830	159,224	173,501	208,577	281,716	295,270	277,449	322,690	312,366	399,128
Per share data (Yen)										
Net income per share (EPS)	696.32	864.29	937.70	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	1,943.35	1,656.44
Net assets per share	7,811.61	8,534.57	10,031.63	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	18,447.39	18,794.58
Dividend per share	110.00	130.00	150.00	170.00	190.00	200.00	300.00	400.00	400.00	400.00
Cash flow per share	835.84	1,042.70	1,097.50	1,460.48	1,831.90	1,592.56	1,895.14	2,263.25	2,185.19	1,906.32

Notes

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

SMC Corporation and Consolidated Subsidiaries
Years ended March 31, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Reference indices										
Profitability (%)										
Operating income ratio	25.2	25.8	24.1	26.6	27.9	28.2	28.9	32.6	31.2	27.8
SG & A ratio	20.8	20.4	20.3	20.8	20.9	21.7	20.9	19.0	20.2	21.6
Return on equity	9.1	10.6	10.1	11.7	12.9	9.9	11.5	12.6	10.9	8.9
Return on assets	12.2	12.6	11.9	13.4	15.2	11.5	12.8	15.4	14.5	11.4
Efficiency (Times)										
Total assets turnover	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4
Equity turnover	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Inventories turnover	2.3	2.2	1.8	2.1	2.4	2.5	2.7	3.1	2.6	2.3
Fixed assets turnover	3.4	3.6	3.1	3.3	3.4	3.2	3.3	3.9	3.5	2.9
Stability (%)										
Equity ratio	74.8	79.3	81.5	81.0	81.4	83.9	86.2	85.4	89.3	89.9
Debt equity ratio	6.2	5.7	4.8	7.8	7.7	5.2	1.7	0.6	0.6	0.9
Current ratio	358.4	432.9	464.6	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1
Fixed assets ratio	45.9	40.5	38.3	37.0	35.5	39.7	34.7	35.1	34.0	34.1
Interest coverage ratio (Times)	187.3	52.0	199.8	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2
Investment data										
Dividend ratio (%)	15.8	15.0	16.0	13.3	11.7	14.6	17.8	19.6	20.6	24.1
Dividends on equity (%)	1.4	1.6	1.6	1.6	1.5	1.4	2.0	2.5	2.3	2.1
Price earnings ratio (Times)	19.6	15.2	19.3	21.3	21.9	19.0	19.6	21.2	21.4	27.6
Price book value ratio (Times)	1.8	1.5	1.8	2.4	2.6	1.9	2.2	2.5	2.3	2.4
Market capitalization (Millions of yen)	983,891	945,800	1,306,584	1,956,643	2,468,622	1,761,035	2,217,799	2,901,598	2,797,849	3,082,148
Number of engineers	1,581	1,667	1,656	1,648	1,638	1,711	1,777	1,817	1,910	1,919
Number of employees	15,305	15,384	15,596	16,010	17,389	18,382	19,191	19,680	19,746	20,853

Financial Section

Financial Review

Consolidated Financial Statements

Notes on Consolidated Financial Statements

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

Significant Accounting Policies and Estimates

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

Operating Results

Net sales for this fiscal year were 526,000 million yen (8.8% decrease yoy).

Gross profit was 259,852 million yen (12.5% decrease yoy).

Despite positive factors such as a decrease in temporary staff expenses to cope with the temporary surge in orders that occurred in the previous fiscal year and a reduction in material costs due to the stabilization of material prices, as well as the effects of rationalization, the gross profit margin decreased by 2.0 points to 49.4% due to a decrease in revenue. Selling, general and administrative expenses were 113,597 million yen (2.6% decrease yoy), with the expense ratio rising 1.4 points to

21.6%, due to the reduced revenue. Operating profit was 146,254 million yen (18.8% decrease yoy), and the operating profit margin decreased by 3.4 points to 27.8%.

While yen appreciation resulted in foreign exchange losses of 3,335 million yen (compared with foreign exchange gains of 2,827 million yen in the previous fiscal year), factors such as an increase in interest income of 1,408 million yen resulted in an ordinary profit of 158,450 million yen (20.1% decrease yoy), and an ordinary profit margin decrease of 4.2 points to 30.1%.

Profit attributable to owners of parent was 110,500 million yen (15.4% decrease yoy), mainly due to a decrease of 1,002 million yen in loss on valuation of shares of subsidiaries and a decrease of 18,727 million yen in income taxes due to the reduced profits. The average exchange rates for the period were 1 US\$=108.71 yen, 1 euro=120.80 yen, and 1 RMB=15.59 yen. The exchange rates at the end of the period were 1 US\$=108.83 yen, 1 euro=119.65 yen, and 1 RMB=15.30 yen.

Financial Position

Total assets at the end of this fiscal year were 1,390,539 million yen, an increase of 1,230 million yen (0.1%) yoy.

Current assets were 964,549 million yen, a decrease of 3,374 million yen (0.3%) yoy. The main reasons for this were a decrease in notes and accounts receivable-trade of 14,942 million yen (9.5%) yoy due to decrease in revenue, and a decrease in securities of 19,523 million yen (61.1%) yoy due to sale thereof, despite an increase in cash and deposits of 28,702 million yen (5.5%) yoy, and an increase in inventories of 2,291 million yen (1.0%) yoy due to strategic inventory buildup.

Non-current assets were 425,989 million yen, an increase of 4,605 million yen (1.1%) yoy. The main reasons for this were an increase in property, plant and equipment of 18,135 million yen (10.6%) yoy due to capital investment, and an increase in insurance funds of 6,289 million yen (4.7%) yoy due to contractual additions, despite a decrease in investment securities of 21,529 million yen (22.4%) yoy due to sale thereof. Total liabilities at the end of this fiscal year were 137,272 million yen, a decrease of 8,783 million yen (6.0%) yoy.

The main reasons for this were a decrease in other current liabilities of 12,804 million yen (26.7%) yoy as a result of the release of accounts payable-other related to the purchase of investment securities at the end of the previous fiscal year, and a decrease in income taxes payable of 9,130 million yen (38.4%) yoy due to a decrease in taxable income, despite an increase in long-term borrowings of 5,055 million yen (184.8%) yoy due to borrowings and an increase in deferred tax liabilities related to the expected dividend from retained earnings of subsidiaries of 7,394 million yen (65.5%) yoy.

Total net assets at the end of this fiscal year were 1,253,266 million yen, an increase of 10,014 million yen (0.8%) yoy.

The main reason for this was an increase in retained earnings of 93,054 million yen (8.5%) yoy resulting from the gain in profits, despite a decrease in treasury shares of 27,346 million yen (886.0%) yoy as a result of market purchases, and a decrease in foreign currency translation adjustments of 52,909 million yen (a positive 12,824 million yen at the end of the previous fiscal year and a negative 40,084 million yen at the end of this fiscal year) due to the yen appreciation.

The equity ratio at the end of this fiscal year was 89.9%,

compared with 89.3% at the end of the previous fiscal year, and net assets per share were 18,794.58 yen at the end of this fiscal year, compared with 18,447.39 yen at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents (hereinafter referred to as “cash”) at the end of this fiscal year increased by 86,761 million yen from the previous fiscal year to 399,128 million yen.

(a) Cash flows from operating activities

Net cash provided by operating activities was 124,610 million yen (an increase in cash provided of 48,982 million yen yoy). The main factor for the cash outflow was a decrease of 38,947 million yen in profit before income taxes due to a decrease in profit. The main factors for the cash inflow were a 16,324 million yen reduction of increase in inventories, a 53,460 million yen reduction of decrease in trade payables due to the elimination of the impact of the shortened payment term implemented in the previous fiscal year as part of support for suppliers, and a decrease of 15,022 million yen in income taxes paid due to lower taxable income.

(b) Cash flows from investing activities

Net cash provided by investing activities was 24,923 million yen (compared with cash used of 58,800 million yen in the previous fiscal year).

The main factors for the cash outflow were an increase of 8,851 million yen in purchase of property, plant and equipment due to the implementation of capital investment and a decrease of

3,900 million yen in proceeds from sales and redemption of securities and investment securities. The main factors for the cash inflow were a decrease in payments into time deposits of 85,708 million yen, an increase in proceeds from withdrawal of time deposits of 3,837 million yen, and a decrease in purchases of securities and investment securities of 6,135 million yen.

(c) Cash flows from financing activities

Net cash used in financing activities was 49,925 million yen (an increase in cash used of 23,773 million yen yoy).

The main factor for the cash outflow was an increase in purchase of treasury shares of 27,326 million yen.

Business Risks

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

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

Country Risks Associated with Overseas Business Development

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

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

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

From the perspective of BCPs (business contingency plans), we are working on establishing a production facility in Vietnam that is comparable to the one in China and on securing a certain amount of supply capacity in Japan in order to establish a system that will enable us to recover quickly in the event of an unforeseen event.

Risks of Product Defects

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

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

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

Foreign Exchange Rate Fluctuation Risks

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

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

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

Impact of COVID-19

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

Consolidated Balance Sheets (As of March 31, 2020)

	As of March 31, 2019	As of March 31, 2020
(Assets)		
Current assets	967,924	964,549
Cash and deposits	519,609	548,311
Notes and accounts receivable-trade	158,079	143,136
Securities	31,977	12,454
Merchandise and finished goods	102,936	103,456
Work in process	19,753	18,913
Raw materials and supplies	107,578	110,190
Other	28,449	28,603
Allowance for doubtful accounts	(460)	(517)
Non-current assets	421,384	425,989
Property, plant and equipment	170,342	188,477
Buildings and structures	73,752	82,169
Machinery, equipment and vehicles	27,928	34,857
Tools, furniture and fixtures	7,453	7,789
Land	38,194	38,611
Construction in progress	23,012	25,049
Intangible assets	11,456	10,771
Leasehold interests in land	9,046	8,649
Other	2,409	2,122
Investments and other assets	239,585	226,740
Investment securities	96,320	74,791
Retirement benefit asset	48	35
Insurance funds	132,936	139,226
Deferred tax assets	6,021	5,859
Other	5,736	8,276
Allowance for doubtful accounts	(1,479)	(1,448)
Total assets	1,389,308	1,390,539

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
(Liabilities)		
Current liabilities	117,670	94,364
Notes and accounts payable-trade	38,513	38,379
Short-term borrowings	4,503	3,726
Income taxes payable	23,800	14,669
Provision for bonuses	2,894	2,434
Other	47,959	35,155
Non-current liabilities	28,385	42,908
Long-term borrowings	2,735	7,790
Deferred tax liabilities	11,287	18,682
Provision for retirement benefits for directors	956	964
Retirement benefit liability	6,398	8,296
Other	7,007	7,175
Total liabilities	146,056	137,272
(Net assets)		
Shareholders' equity	1,220,251	1,285,922
Share capital	61,005	61,005
Capital surplus	73,372	73,335
Retained earnings	1,088,960	1,182,014
Treasury shares	(3,086)	(30,432)
Accumulated other comprehensive income	19,767	(35,734)
Valuation difference on available-for-sale securities	7,667	6,344
Foreign currency translation adjustment	12,824	(40,084)
Remeasurements of defined benefit plans	(724)	(1,994)
Non-controlling interests	3,232	3,078
Total net assets	1,243,252	1,253,266
Total liabilities and net assets	1,389,308	1,390,539

Consolidated Statements of Income (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net sales	576,948	526,000
Cost of sales	280,104	266,148
Gross profit	296,843	259,852
Selling, general and administrative expenses	116,640	113,597
Operating profit	180,203	146,254
Non-operating income	18,781	16,788
Interest income	9,301	10,710
Foreign exchange gains	2,827	—
Gain on investments in insurance funds	1,749	2,385
Other	4,902	3,692
Non-operating expenses	783	4,592
Interest expenses	116	124
Sales discounts	261	390
Loss on sales of securities	281	474
Foreign exchange losses	—	3,335
Other	124	266
Ordinary profit	198,201	158,450
Extraordinary income	341	538
Gain on sales of non-current assets	111	173
Gain on sales of investment securities	214	225
Gain on liquidation of subsidiaries	—	117
Other	15	22
Extraordinary losses	1,460	855
Loss on retirement of non-current assets	208	225
Loss on sales of investment securities	—	311
Loss on valuation of shares of subsidiaries	1,202	199
Other	50	118
Profit before income taxes	197,081	158,133
Income taxes-current	52,465	39,063
Income taxes-deferred	13,801	8,475
Profit	130,814	110,594
Profit attributable to non-controlling interests	183	93
Profit attributable to owners of parent	130,631	110,500

Consolidated Statement of Changes in Equity (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	61,005	73,372	1,088,960	(3,086)	1,220,251	7,667	12,824	(724)	19,767	3,232	1,243,252
Changes during period											
Dividends of surplus			(26,747)		(26,747)						(26,747)
Profit attributable to owners of parent			110,500		110,500						110,500
Purchase of treasury shares				(27,346)	(27,346)						(27,346)
Disposal of treasury shares		0		0	0						0
Change in scope of consolidation			9,301		9,301						9,301
Change in ownership interest of parent due to transactions with non-controlling interests		(37)			(37)						(37)
Net changes in items other than shareholders' equity						(1,323)	(52,909)	(1,269)	(55,502)	(154)	(55,656)
Total changes during period	—	(37)	93,054	(27,346)	65,671	(1,323)	(52,909)	(1,269)	(55,502)	(154)	10,014
Net assets at end of period	61,005	73,335	1,182,014	(30,432)	1,285,922	6,344	(40,084)	(1,994)	(35,734)	3,078	1,253,266

Consolidated Statements of Cash Flows (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from operating activities	75,627	124,610
Profit before income taxes	197,081	158,133
Depreciation	16,255	16,669
Interest and dividend income	(9,942)	(12,230)
Foreign exchange losses (gains)	(2,863)	(252)
Decrease (increase) in trade receivables	2,485	7,859
Decrease (increase) in inventories	(25,653)	(9,328)
Increase (decrease) in trade payables	(49,140)	4,319
Other, net	(28)	(5,103)
Subtotal	128,195	160,067
Interest and dividends received	9,925	12,024
Interest paid	(99)	(110)
Income taxes (paid) refund	(62,392)	(47,370)
Cash flows from investing activities	(58,800)	24,923
Payments into time deposits	(301,880)	(216,171)
Proceeds from withdrawal of time deposits	276,719	280,556
Purchase of property, plant and equipment	(29,647)	(38,498)
Purchase of intangible assets	(1,672)	(481)
Purchase of short-term and long-term investment securities	(18,153)	(12,018)
Proceeds from sales and redemption of short-term and long-term investment securities	18,270	14,369
Purchase of insurance funds	(8,713)	(8,675)
Proceeds from maturity of insurance funds	5,003	4,106
Other, net	1,274	1,737
Cash flows from financing activities	(26,151)	(49,925)
Net increase (decrease) in short-term borrowings	(30)	2,100
Proceeds from long-term borrowings	2,600	6,500
Repayments of long-term borrowings	(1,770)	(4,413)
Purchase of treasury shares	(20)	(27,346)
Dividends paid	(26,882)	(26,745)
Other, net	(48)	(19)
Effect of exchange rate change on cash and cash equivalents	(999)	(17,054)
Net increase (decrease) in cash and cash equivalents	(10,323)	82,555
Cash and cash equivalents at beginning of period	322,690	312,366
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	4,206
Cash and cash equivalents at end of period	312,366	399,128

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

Notes on Consolidated Financial Statements

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

1. The scope of consolidation

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

Number of consolidated subsidiaries: 44

Names of major consolidated subsidiaries:

Nihon Kizai Co., Ltd.	SMC Spain	SMC China
Seigyo Kizai Corporation	SMC Singapore	SMC (Beijing) Manufacturing
SMC US	SMC Hong Kong	SMC Manufacturing (Singapore)
SMC Germany	SMC Taiwan	SMC Australia
SMC U.K.	SMC Korea	SMC Brazil
SMC Italy	SMC Guangzhou	

From this fiscal year, 9 subsidiaries; SMC Vietnam, Nihon Kizai (Shanghai), SMC Indonesia, SMC Poland, SMC Turkey, SMC Finland, SMC Hungary, SMC Denmark and SMC Slovenia, which were excluded from the scope of consolidation in the previous fiscal years have been consolidated as they have become material.

(2) Names of major non-consolidated subsidiaries:

SMC Romania, SMC Chile

(Reasons for exclusion from the scope of consolidation)

The 31 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 (SMC Romania and 30 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income (amount corresponding to equity) and retained earnings (amount corresponding to equity).

3. Matters pertaining to the fiscal year of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2020 for SMC China, SMC (Beijing) Manufacturing, SMC Guangzhou, SMC Mexico, SMC Russia, SMC Brazil, SMC (Tianjin) Manufacturing and Nihon Kizai (Shanghai) whose fiscal year-end date is December 31.

4. Accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Available-for-sale securities

a. With fair value:

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

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

b. Without fair value:

Stated at cost using the moving average method.

(ii) Inventories:

Principally values inventories with 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

The Company and some of its consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

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

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

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

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

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

Unrecognized actuarial net gains or losses and

unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section. Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

- (ii) Accounting procedures for consumption taxes, etc.
Consumption taxes and local consumption taxes are accounted for using the tax-exclusion method.

[Notes on Consolidated Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	222,291
2. For non-consolidated subsidiaries and affiliates	
Investment securities (stocks)	14,709

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses	
Salaries and allowances	42,077
Bonuses	7,683
Retirement benefit expenses	1,831
Provision of allowance for doubtful accounts	427
2. Research and development expenses included under general and administrative expenses as well as manufacturing costs	21,480

[Notes on Consolidated Statement of Changes in Equity]

1. Type and number of outstanding shares and treasury shares

(Shares)

	Type	At the beginning of this fiscal year	Increase	Decrease	At the end of this fiscal year
Outstanding shares	Common share	67,369,359	—	—	67,369,359
Treasury shares	Common share	150,139	700,719	12	850,846

Note: A 700,719 share increase in the number of treasury shares was due to purchase of 700,000 treasury shares under the stock repurchase program authorized by the Board of Directors and purchase of 719 odd-lot shares, while a 12 share decrease was due to sale of odd-lot 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 27, 2019	Common share	¥13,443 million	¥200	March 31, 2019	June 28, 2019
Board of Directors' Meeting held on November 12, 2019	Common share	¥13,303 million	¥200	September 30, 2019	November 29, 2019

(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 26, 2020.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥13,303 million	¥200	March 31, 2020	June 29, 2020

[Notes on Financial Instruments]

1. Status of financial instruments

(1) Policy on financial instruments

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

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

The SMC Group limits 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 have a due date of up to five years after the current consolidated fiscal year.

(3) Risk management system for financial instruments

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

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

Furthermore, the Company receives guarantee deposits from its principal distribution agents.

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

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

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

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

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

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

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

2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences as of March 31, 2020. Items whose fair values are deemed extremely difficult to determine are excluded from the table below. (Refer to Note 2 for details.)

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	548,311	548,311	—
(2) Notes and accounts receivable-trade	143,136	143,136	—
(3) Securities and investment securities Available-for-sale securities	72,348	72,348	—
Total assets	763,796	763,796	—
(4) Notes and accounts payable-trade	38,379	38,379	—
(5) Short-term borrowings	3,726	3,726	—
Total liabilities	42,106	42,106	—
Derivative transactions	—	—	—

(Notes)

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

Assets

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

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

- (3) Securities and investment securities

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

Liabilities

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

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

Derivative transactions

There are no relevant matters for the current consolidated fiscal year.

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

Category	Consolidate balance sheet amount
Shares of subsidiaries and affiliates	¥ 14,709 million
Unlisted stocks	¥ 188 million

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

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

(Millions of yen)

	Within 1 year	More than 1 year within 5 years	More than 5 years within 10 years	More than 10 years
(1) Cash and deposits	548,271	—	—	—
(2) Notes and accounts receivable-trade	143,136	—	—	—
(3) Securities and investment securities				
Available-for-sale securities with maturity date				
(Government bonds)	10,883	38,090	—	—
(other)	1,446	—	—	—
Total	703,737	38,090	—	—

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

	Within 1 year
Short-term borrowings	¥ 3,726 million

[Notes on Per Share Information]

1. Net assets per share: 18,749.58 yen

2. Net income per share: 1,656.44 yen

Independent auditor's report

To the Board of Directors of SMC Corporation:

Opinion

We have audited the accompanying consolidated financial statements of SMC Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2020, the consolidated statements of income, the consolidated statements of equity and the consolidated statements of cash flows for the fiscal year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Corporate Auditors and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally

accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

effectiveness of the Group's internal control.

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

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

We also provide corporate auditors and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding

independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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



Seiyo Audit Corporation
Tokyo, Japan
June 26, 2020

Takashi Saito
Designated Engagement Partner
Certified Public Accountant

Takahiro Otofujii
Designated Engagement Partner
Certified Public Accountant

Naoto Nakayama
Designated Engagement Partner
Certified Public Accountant

* This document has been translated and partly modified from the Japanese original for the convenience of overseas stakeholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

SMC Corporation (as of March 31, 2020)

Head Office	Akihabara UDX Building (15F), 4-14-1, Soto-Kanda, Chiyoda-ku, Tokyo 101-0021, Japan Tel : 03-5207-8271 Fax: 03-5298-5361
Established	April 27, 1959
Share Capital	JPY 61,005 million
Number of Employees Consolidated	20,853

Current Status of Stocks

Total number of shares	240,000,000
Shares outstanding	67,369,359
Number of shareholders	4,489

Stock Listing

First Section, Tokyo Stock Exchange

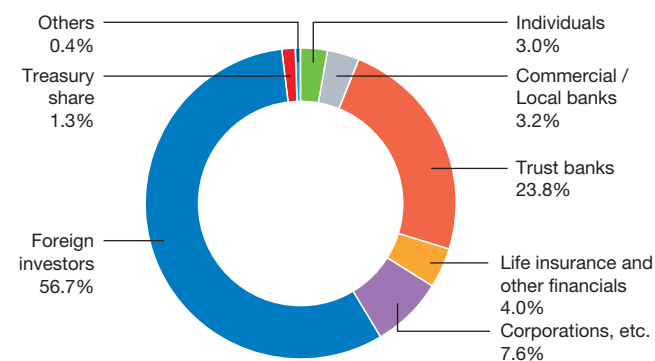
Administrator of Register of Shareholders

Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku,
Tokyo 100-8233, Japan

Major shareholder	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Master Trust Bank of Japan (Trust account)	4,589.7	6.89
Japan Trustee Services Bank, Ltd. (Trust account)	3,979.7	5.98
Takada International LLC	3,793.0	5.70
TON Finance B.V.	3,443.5	5.17
JP Morgan Chase Bank 385632	2,995.5	4.50
The Bank of New York Mellon 140042	2,041.7	3.06
Resona Bank, Limited	1,861.8	2.79
The Dai-ichi Life Insurance Company, Limited	1,516.0	2.27
The Bank of New York Mellon 140044	1,280.3	1.92
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,278.0	1.92

(Note) Percentages of voting rights are calculated based on the number of shares outstanding of 66,518,513 shares (excluding treasury shares) and are indicated by rounding down figures to two decimal places.

Distribution of share by shareholders



(thousand of shares)	
Individuals	2,042.5
Corporations, etc.	5,112.8
Commercial / Local banks	2,178.2
Foreign investors	38,176.3
Trust banks	15,996.2
Treasury share	850.8
Life insurance and other financials	2,713.2
Others	299.0

SMC Corporation

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