

Corporate Governance

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SMC Corporation

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<https://www.smcworld.com>

The corporate governance of SMC Corporation (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profiles and Other Basic Information

1. Basic Views Updated

The Company 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.

The Company 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 without compromising the speed of those processes. Under this system, mutual monitoring and checking among divisions are conducted by Executive Directors who are acquainted with the Company’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.

The Company has voluntarily established the Nomination and Compensation Committee as an advisory body of the Board of Directors and is working to enhance the fairness, transparency and objectivity of the decision-making process for the nomination and compensation of Directors.

The Company’s basic stance on corporate governance and the status of activities are summarized in the “SMC Corporate Governance Guidelines” and disclosed on the Company’s website.

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

[Reasons for Non-compliance with the Principles of Japan’s Corporate Governance Code] Updated

[Principle 1-4: Cross-held shares]

The Company’s cross-shareholdings are limited to the case where its corporate value can be enhanced by maintaining and strengthening transaction-based relationships with issuers of cross-held shares.

The Company’s finance division validates the merits and the risks of cross-held shares, based on the status of transactions with the cross-held shares’ issuers, their financial condition and operating results, as well as the valuation gains or losses on those holdings, dividend yields, and share price trends. Taking a comprehensive perspective that includes a comparison with the Company’s cost of equity, finance division regularly reviews the suitability of maintaining cross-shareholdings. Shares that are deemed to have lost their significance as cross-shareholdings are sold with the approval of President.

With regard to all cross-held shares, the Company’s Board of Directors annually reviews the suitability of maintaining cross-shareholdings with reference to the above-mentioned review by the finance division.

When exercising voting rights on cross-held shares, the Company will basically support the proposals made by the issuers of these shares. In case especially important items (e.g. management integration with other companies, organizational restructuring, and capital policies involving a change in control) are put on the agenda, the Company carefully considers them in particular by directly obtaining explanations from cross-held shares’ issuers if necessary.

If it is considered that agenda items proposed by the issuers or shareholders of cross-held shares may clearly damage the corporate value of these issuers or may clearly be contrary to the interest of the Company, the Company will oppose them.

[Principle 4-11: Prerequisites for ensuring the effectiveness of the Board of Directors and the Board of Corporate Auditors]

It is the Company's policy to select exceptionally talented people as candidates for Directors without regard to their age, gender or nationality. However, there are currently no female Directors on the Board of Directors. The Nomination and Compensation Committee and the Board of Directors will continue to consider the appointment of female Directors in the future.

[Disclosure Based on the Principles of Japan's Corporate Governance Code] **Updated**

[Principle 1-4: Cross-held shares]

Please see "Reasons for Non-compliance with the Principles of Japan's Corporate Governance Code" of this report.

[Principle 1-7: Transactions with related parties]

Before transactions involving conflict of interest are made between the Company and its Directors (including Directors' spouses, relatives within the second degree, and corporations, etc. controlled by spouses and relatives), the Board of Directors must approve the transactions after a detailed examination of their terms and conditions, in accordance with the laws and regulations. Procedures are in place for the Board of Directors to receive periodic reports on the results of such transactions.

There are currently no major shareholders (i.e. shareholders holding 10% or more of the total number of voting rights). However, transactions involving conflict of interest between the Company and major shareholders, are treated in the same manner.

The outline of these transaction results and conditions and the determination policies are appropriately disclosed in a timely manner in accordance with the laws and regulations.

[Principle 2-6: Roles of corporate pension funds as asset owners]

The Company's corporate pension fund has established a "Basic Policy on Pension Asset Management" to ensure that pension benefits are provided in future and is striving to manage assets safely and efficiently. The Company receives regular reports from its investment managers on its stewardship activities as well as its investment performance and management system. All of its investment managers have accepted the Japanese version of the Stewardship Code.

In addition to installing an Executive with practical experience in financial institutions as the fund's Executive Director, the Company continues to appoint personnel from the accounting, finance and human resources divisions as members of the Asset Management Committee, the Board of Directors and the Board of Delegates as part of the Company's system to ensure proper oversight of the investment and management of the fund.

[Principle 3-1: Adequate information disclosure]

[3-1(i): Management philosophy and strategies]

1) 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 business, 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.

2) 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.

3) Reasons for not preparing medium-term management plans

The Group's automatic control equipment including pneumatic instruments, its main products, are used in all industries as components supporting automation in automated factory production and conveyor lines, semiconductor manufacturing equipment, machine tools and industrial robots. If a customer's production line is interrupted due to pneumatic equipment being defective or out of stock, the customer will incur substantial losses. For this reason, the Group takes all possible measures to control the quality of its products and strategically maintains a high inventory level and a system enabling quick delivery to ensure that it can respond to customer orders in a prompt and timely manner.

Although demand for pneumatic instruments will depend on customers' capital investment trends in the short term, it is expected to grow steadily over the medium to long term against the backdrop of factors such as increasing demands for environmental protection, shrinking labor force and rising labor costs. In light of these market conditions and product characteristics, the Group does not formulate "medium-term management plans", but rather establishes issues to be addressed on an ongoing basis from a longer-term perspective in the form of a "long-term management vision".

[3-1(ii): Basic policy on corporate governance]

Please see "Basic Views on Corporate Governance, Capital Structure, Corporate Profiles and Other Basic Information, 1. Basic Views" of this report.

[3-1(iii): Policy and procedures on determination of Director compensation, etc.]

At the 48th annual general meeting of shareholders held on June 28, 2007, basic compensation amounts were determined (i.e., 900 million yen or less in total per fiscal year for Directors).

The specific amount of basic compensation to each Director is determined by the Board of Directors after the deliberation by the Nomination and Compensation Committee, comprehensively considering factors such as business performance forecasts, employee pay levels, each Director's contribution to corporate performance, position, job duties, and years of service.

At the 61st annual general meeting of shareholders held on June 26, 2020, the Company obtained approval for the introduction of a stock compensation plan for Directors as well as the abolition of the existing retirement benefit plan for Directors. The total amount of stock-based compensation has been set at a maximum of 300 million yen over the three-year trust period, in addition to basic compensation.

[3-1(iv): Policy and procedures on appointment and dismissal of senior management personnel as well as designation of candidates for Directors and Corporate Auditors]

The term of office of the Company's Directors is one year. Every year, the Nomination and Compensation Committee evaluates and selects candidates for Directors and Corporate Auditors by assessing their ability from the standpoint of whether they can contribute to the improvement of future corporate value based on their previous work performance without regard to their age, gender or nationality, and reports to President.

At the Board of Directors meeting, President and the Chairman of the Nomination and Compensation Committee provide explanations on the selections of candidates and, having obtained prior consent regarding the candidates for Corporate Auditors from the Board of Corporate Auditors, the Company finalizes the candidates for Directors and Corporate Auditors to be recommended to the general meeting of shareholders.

The selection of Representative Directors is resolved at the Board of Directors meetings after being discussed by the Nomination and Compensation Committee from the same standpoint as described above.

In the event that there are circumstances that make it difficult for a Director or Representative Director to fulfill his or her responsibilities as a Director, such as significant incompetence, serious violation of laws and regulations or the Articles of Incorporation, or misconduct, the Board of Directors, after deliberation by the Nomination and Compensation Committee, decides whether to dismiss the Director or Representative Director.

[3-1(v): Explanation regarding appointment, dismissal and designation of individual candidates for Directors, Corporate Auditors and senior management personnel]

As for the designation of each candidate for Director or Corporate Auditor, the Company discloses the reasons given by the Board of Directors in the reference materials for shareholders meetings.

In the event of the dismissal of Director or Corporate Auditor, the reason also, shall be appropriately disclosed in the reference materials for shareholders meetings and in other documents.

[Supplementary principle 4-1-(i): Policy on separation of authority between Representative Director and the Board of Directors]

The “Board of Directors’ regulation” stipulates the matters to be discussed by the Board of Directors. According to these regulations, the Board of Directors delegates the authority to President for approving its specific business execution and the determination of other matters so that the scope of authority delegated from the Board of Directors to President can be clarified.

Described below is the outline of matters discussed by the Board of Directors with regard to business execution.

- (1) Establishment, change or abolition of divisions or higher-level organizations
- (2) Appointment or dismissal of Executive Officers
- (3) Acquisition or disposal of an asset amounting to 1 billion yen or more per transaction
- (4) Long-term borrowing, lending or loan guarantee amounting to 1 billion yen or more per transaction

[Principle 4-9: Criteria for judging independence and quality of Independent Outside Directors]

Described below are the criteria for judging independence of Outside Directors. The Company has set the criteria by adding its corporate policy 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. an 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.
 - A customer to which the Company’s group makes 2% or more of its consolidated net sales
 - A supplier or 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 (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. an attorney-at-law, 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. a high-ranking employee receiving the same treatment as an Executive such as an Executive Director, Executive Officer, or another Executive)

[Supplementary principle 4-11-(i): Policy on the balance, etc. between knowledge, experience and ability of Board of Directors’ members as a whole]

The Company basically selects its Directors in a well-balanced manner from among personnel of main divisions (i.e. engineering, production, sales, and administration) and has established a framework in which

the legitimacy and appropriateness of each Director's business execution can be monitored and supervised through mutual monitoring and inter-divisional checks conducted by managers of business execution divisions.

In addition, the Company ensures the fairness and transparency of the Board of Directors' decision-making process as a whole by appointing multiple Outside Directors who are independent of management and can objectively supervise management activities without conducting business execution.

[Supplementary principle 4-11-(ii): Disclosure of the statuses of interlocking Directors and Corporate Auditors]

As for interlocking Directors and Corporate Auditors including Outside Directors and Outside Corporate Auditors, relevant relationships with up to three other listed companies are allowed so that they can strive to fulfill their duties as Company's Directors and Corporate Auditors.

In addition, activities for corporations or organizations other than the Company, including the assumption of office as Director of an industrial association, etc., are limited to those that do not hinder job execution as the Company's Directors and Corporate Auditors.

The statuses of important concurrent positions of Directors and Corporate Auditors shall be properly disclosed in accordance with laws.

[Supplementary principle 4-11-(iii): Analysis and assessment of the effectiveness of the Board of Directors as a whole]

The Company once a year conducts self-assessment of the effectiveness of the Board of Directors as a whole and discloses the outline of the assessment results on its website at:

<https://www.smcworld.com/ir/en/> (Japanese only)

[Supplementary principle 4-14-(ii): Training of Directors and Corporate Auditors]

As it is considered important for Directors and Corporate Auditors to understand their roles and responsibilities as well as business characteristics and current conditions, the Company has set up a basic policy for continuously providing training opportunities and giving necessary support (e.g., bearing of costs). More specifically, the Company encourages them to take e-learning courses recommended by the Tokyo Stock Exchange and participate in outside seminars, etc.

The Company also provides Outside Directors and Outside Corporate Auditors with opportunities to understand its business characteristics and current conditions (e.g., observation of offices and interviewing employees) if necessary.

[Principle 5-1: Policy on constructive dialogues with shareholders]

The Company receives shareholders' opinions and explains its policies and views at places other than shareholders meetings.

President and Director in charge of IR will actively take the initiative in communicating with shareholders and investors. The status of such communication will be properly monitored by the Board of Directors including Outside Directors.

If the situation allows, President and Director in charge of IR are pleased to have interviews with shareholders and investors upon request. Requests to meet with Outside Directors are accommodated to the extent possible.

Described below are the framework and policy for having dialogues with shareholders and investors.

(1) Designation of a Director who oversees dialogues with shareholders and investors

The Company is to designate Director in charge of IR who oversees overall dialogues with shareholders and investors.

(2) Collaboration with relevant divisions that support dialogues

IR, management planning, accounting, finance, general affairs and other divisions that support dialogues are to conduct coordination whenever necessary. Upon receipt of an interview request regarding ESG in particular, the submission of main question items is requested in advance. Then the IR Division requests relevant divisions to prepare answers to the questions and to attend the interview depending on necessity.

(3) Adequate ways of having dialogues other than individual interviews

Twice a year, the Company is to hold a financial results briefing for analysts and institutional investors. Briefing materials (including English translations) are to be disclosed via TDnet and the Company's website.

(4) Opinions, etc. of shareholders and investors, and feedback

At the financial results briefing mentioned above, President and Director in charge of IR are to give explanations, answer questions, and directly receive opinions of shareholders and investors. Under the current framework, the IR and other divisions are required to report necessary matters to President and Director in charge of IR. In case an extraordinarily important matter of concern is notified, President and Director in charge of IR are to report it to the Board of Directors.

(5) Management of insider information disclosed during dialogues

The period from the end of each fiscal year or quarter to the announcement of relevant financial results is the quiet period (i.e., the period during which no individual interviews are held with shareholders and investors, excluding the interviews on basic matters such as the Company's business operations).

It is not possible for the Company to assume that there are cases where insider information needs to be disclosed during dialogues with shareholders and investors; however, in case it needs to be disclosed, the Company will take appropriate measures such as the conclusion of a non-disclosure agreement.

In addition, the Company will manage material information under the Fair Disclosure Rules in an appropriate manner, similar to that for insider information. In the unlikely event that the Company unintentionally communicate material information to its shareholders and investors during dialogues, the Company will immediately take the necessary measures required such as making a public announcement.

2. Capital Structure

Foreign Shareholding Ratio	30% or more
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[Status of Major Shareholders] Updated

Name	Number of Shares Owned (Shares)	Shareholding Ratio (%)
Master Trust Bank of Japan (Trust account)	4,589,700	6.89
Japan Trustee Services Bank, Ltd. (Trust account)	3,979,700	5.98
Takada International LLC	3,793,062	5.70
TON Finance B.V.	3,443,500	5.17
JP Morgan Chase Bank 385632	2,995,522	4.50
The Bank of New York Mellon 140042	2,041,751	3.06
Resona Bank, Limited	1,861,800	2.79
The Dai-ichi Life Insurance Company, Limited	1,516,000	2.27
The Bank of New York Mellon 140044	1,280,395	1.92
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,278,000	1.92

Controlling Shareholder (except for Parent)	-----
Parent	N/A

1. The “Status of Major Shareholders” described above is based on the shareholder register as of March 31, 2020.
2. The following substantial shareholding reports (change reports) are available for public inspection but are not included in the above-mentioned “Status of Major Shareholders” because the Company is unable to confirm the substantial number of shares held as of March 31, 2020.

Submitted by: Northern Cross, LLC
 Address: Boston, U.S.A.
 Reporting became mandatory on: August 3, 2015
 Number of shares held: 2,805,887 (4.16%)

Submitted by: First Eagle Investment Management, LLC
 Address: New York, U.S.A.
 Reporting became mandatory on: October 13, 2017
 Number of shares held: 2,252,671 (3.34%)

Submitted by: Capital Research and Management Company and other three companies
 Address: Los Angeles, U.S.A. and other cities
 Reporting became mandatory on: July 31, 2020
 Number of shares held: 3,109,903 (4.62%)

3. Japan Trustee Services Bank, Ltd. changed its corporate name to Custody Bank of Japan, Ltd. after the merger on July 27, 2020.

3. Corporate Profiles

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (Consolidated) at Previous Fiscal Year-End	1,000 or more
Net Sales (Consolidated) for the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries at Previous Fiscal Year-End	From 10 to less than 50

4. Policy for Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

5. Special Circumstances Which May Have Material Impact on Corporate Governance

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Business Execution, and Supervision in Management

1. Organizational Structure and Operation

Form of Organization	Company with Corporate Auditors
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	10
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Officers Designated from among Outside Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Masanobu Kaizu	From another company											
Toshiharu Kagawa	Academic											

* Categories for "Relationship with the Company"

“○” when the director presently falls or has recently fallen under the category;

“△” when the director fell under the category in the past;

“●” when a close relative of the director presently falls or has recently fallen under the category; and

“▲” when a close relative of the director fell under the category in the past

a. Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary

b. Non-Executive Director or Executive of the parent of the Company

c. Executive of a fellow subsidiary of the Company

d. Party whose major client or supplier is the Company or an Executive thereof

e. Major client or supplier of the Company or an Executive thereof

f. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director

g. Major shareholder of the Company (or an Executive of the said major shareholder if the shareholder is a corporation)

h. Executive of a client or supplier of the Company (which does not correspond to any of d., e., or f.) (the Outside Director himself/herself only)

i. Executive of a corporation to which Outside Officers are mutually appointed (the Outside Director himself/herself only)

j. Executive of a corporation that receives a donation from the Company (the Outside Director himself/herself only)

k. Other

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Masanobu Kaizu	○	-----	<p>As an economist and security analyst, Mr. Kaizu 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.</p> <p>He has also strived to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors by serving as Chairman of the Nomination and Compensation Committee.</p> <p>The Company has designated Mr. Kaizu as an independent officer based on the resolution of the Board of Directors because he can satisfy the independence assessment criteria that the Company has set in accordance with the independence criteria stipulated by the Tokyo Stock Exchange and no conflict of interest is deemed to arise between him and general shareholders.</p>

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Toshiharu Kagawa	○	-----	<p>As a researcher and educator specialized in flow measurement and control studies, an area quite closely related to the Company's business domain, Mr. Kagawa has supervised the management of the Company and worked for further 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.</p> <p>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.</p> <p>The Company has designated Mr. Kagawa as an independent officer based on the resolution of the Board of Directors because he can satisfy the independence assessment criteria that the Company has set in accordance with the independence criteria stipulated by the Tokyo Stock Exchange and no conflict of interest is deemed to arise between him and general shareholders.</p>

Voluntary Establishment of Committee(s) Equivalent to Nominating Committee or Remuneration Committee Updated	Established
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Committee's Name, Structure, and Chairperson's Profile

Updated

	Committee Equivalent to Nominating Committee	Committee Equivalent to Remuneration Committee
Committee's Name	Nomination and Compensation Committee	Nomination and Compensation Committee
Total Committee Members	4	4
Full-Time Members	4	4
Inside Directors	2	2
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Outside Director	Outside Director

Supplementary Explanation

Updated

The Company voluntarily established the Nomination and Compensation Committee consisting of two Representative Directors and two Outside Directors as an advisory body to the Board of Directors to strengthen the fairness, transparency and objectivity of the procedures for the nomination and compensation of Directors. The Chairman of the Nomination and Compensation Committee is elected by the Outside Directors from among themselves.

[Corporate auditors]

Establishment of Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	5
Number of Corporate Auditors	3

Cooperation among Corporate Auditors, Accounting Auditor and Internal Audit Department

Audit plans prepared by Corporate Auditors, Accounting Auditor and internal audit department are exchanged among themselves so that audits can be conducted effectively and efficiently. In addition, reports are mutually made available and liaison meetings are held to share information about audit implementation status. Corporate Auditors receive reports on the audit implementation status from Accounting Auditor and internal audit department, request the submission of necessary reports, and observe the audit work whenever needed.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	2
Number of Independent Officers Designated from Among Outside Corporate Auditors	2

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Arata Toyoshi	CPA													
Haruya Uchikawa	Attorney at law													

* Categories for "Relationship with the Company"

"○" when the Outside Corporate Auditor presently falls or has recently fallen under the category;

"△" when the Outside Corporate Auditor fell under the category in the past;

"●" when a close relative of the Outside Corporate Auditor presently falls or has recently fallen under the category; and

"▲" when a close relative of the Outside Corporate Auditor fell under the category in the past

- a. Executive of the Company or its subsidiary
- b. Non-Executive Director or accounting advisor of the Company or its subsidiary
- c. Non-Executive Director or Executive of the parent of the Company
- d. Corporate Auditor of the parent of the Company
- e. Executive of a fellow subsidiary of the Company
- f. Party whose major client or supplier is the Company or an Executive thereof
- g. Major client or supplier of the Company or an Executive thereof
- h. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Corporate Auditor
- i. Major shareholder of the Company (or an Executive of the said major shareholder if the shareholder is a corporation)
- j. Executive of a client or supplier of the Company (which does not correspond to any of f., g., or h.) (the Outside Corporate Auditor himself/herself only)
- k. Executive of a corporation to which Outside Officers are mutually appointed (the Outside Corporate Auditor himself/herself only)
- l. Executive of a corporation that receives a donation from the Company (the Outside Corporate Auditor himself/herself only)
- m. Other

Outside Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons for Appointment
Arata Toyoshi	○	———	<p>As a Certified Public Accountant, Mr. Toyoshi has been involved in auditing listed companies and advisory services such as supporting IPOs at a major auditing firm, corporate management of audit firms, and management of group companies. He has also 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 appropriateness of financial accounting and timely disclosure. He has also made proposals on the overall management of the Company.</p> <p>The Company has designated Mr. Toyoshi as an independent officer based on the resolution of the Board of Directors because he can satisfy the independence assessment criteria that the Company has set in accordance with the independence criteria stipulated by the Tokyo Stock Exchange and no conflict of interest is deemed to arise between him and general shareholders.</p>

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons for Appointment
Haruya Uchikawa	○	-----	As a lawyer who is well versed in corporate law and has served as an outside officer of a listed company, Mr. Uchikawa has a wealth of experience. He has monitored the Company's management activities based on his professional knowledge and broad experience of 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. The Company has designated Mr. Uchikawa as an independent officer based on the resolution of the Board of Directors because he can satisfy the independence assessment criteria that the Company has set in accordance with the independence criteria stipulated by the Tokyo Stock Exchange and no conflict of interest is deemed to arise between him and general shareholders.

[Independent Officers]

Number of Independent Officers	4
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Matters relating to Independent Officers

1. The Company designates all Outside Directors and Outside Corporate Auditors as Independent Officers as long as they can satisfy the relevant requirements.
2. The Company has set the criteria for judging independence of Outside Directors and Outside Corporate Auditors based on such criteria stipulated by the Tokyo Stock Exchange.
For details of the Company's own independence assessment criteria, please see "Disclosure Based on the Principles of Japan's Corporate Governance Code, Principle 4-9: Criteria for judging independence and quality of Independent Outside Directors" of this report.

[Incentives]

Implementation of Measures to Provide Incentives to Directors Updated	Measures other than performance-linked remuneration and share options
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Supplementary Explanation **Updated**

A stock-based compensation plan (stock benefit trust) was introduced as long-term incentive compensation for Executive Directors.

Directors are granted points for each fiscal year, calculated according to their position and the degree of performance achievement. However, no points are awarded for fiscal years in which the performance targets are not achieved.

Directors will receive an amount of shares in the Company, calculated at a rate of one (1) share to one (1) point for every point awarded during his or her term of office, and will be paid with an amount equivalent to the market value of the shares in the Company at the time of their retirement.

Recipients of Share Options

Supplementary Explanation

[Director Remuneration]

Disclosure of Individual Directors' Remuneration No individual disclosure

Supplementary Explanation **Updated**

Directors' compensation amount is reported in the securities reports and business reports due to the requirement by the law in Japan.

Individual compensation amounts are not disclosed as it is not mandatory to disclose if the total compensation payable to each Director does not exceed 100 million yen on a consolidated basis.

Director compensation for the fiscal year ended March 31, 2020 is as follows:

400 million yen paid to nine Directors excluding Outside Directors (including basic compensation of 364 million yen and retirement benefits of 35 million yen); 18 million yen paid to two Outside Directors, 17 million yen to one Corporate Auditor excluding Outside Corporate Auditors, and 12 million yen paid to two Outside Corporate Auditors (basic compensation only).

The amount of retirement benefits is the sum of provision for retirement benefits for Directors recognized for the fiscal year ended March 31, 2020 and the differential amount of the recorded provision for one Director who retired during the fiscal year 2019 and the actual paid amount.

Policy for Determining Remuneration Amounts or its Calculation Methods Established

Disclosure of Policy for Determining Remuneration Amounts or its Calculation Methods

Please see "Disclosure Based on the Principles of Japan's Corporate Governance Code, Principle 3-1(iii): Policy and procedures on determination of Director compensation, etc." of this report.

[Supporting System for Outside Directors and/or Corporate Auditors]

As for Outside Directors, before the relevant meeting of the Board of Directors is held, Director in charge of administration or the general affairs department's personnel who act as the board secretariat distribute the meeting materials in advance and give advance explanations on agenda items.

As for Outside Corporate Auditors, one employee is assigned as an audit staff person who assists them. The announcement of personnel changes or the imposition of disciplinary action involving this audit staff person needs to be conducted after discussions with Corporate Auditors so that independence can be ensured from the standpoint of personnel affairs.

At a meeting of the Board of Corporate Auditors that is basically held once a month, Full-Time Corporate Auditors and the audit staff person report the audit execution statuses in detail to Outside Corporate Auditors. In addition, general managers in charge of administration (e.g. internal audit, accounting, general affairs and other divisions) attend such meeting whenever possible and report the activity statuses.

[Status of Persons Who Have Retired from a Position Such as Representative Director and President]

Retired Representative Director and Presidents, etc. Holding Advisory or Any Other Position in the Company
Updated

Name	Title/ Position	Responsibilities	Working Form and Conditions (Full-Time/Part-Time, Paid/Unpaid, etc.)	Date of Retirement from Position Such as President	Term of Office
Yoshiyuki Takada	Honorary Chairman	Give managerial advice upon management's request	Part-Time, with compensation	September 26, 2019	Lifetime

Total Number of Retired Representative Director and Presidents, etc. Holding Advisory or Any Other Position in the Company **Updated** 1

Other Matters **Updated**

The Company has a provision in its Articles of Incorporation that allows the Company to appoint advisors and consultants by resolution of the Board of Directors.

2. Matters on Functions of Business Execution, Audit and Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) **Updated**

Please see “Basic Views on Corporate Governance, Capital Structure, Corporate Profiles and Other Basic Information, 1. Basic Views” of this report.

1. Structure of the main organizations, functions and activities, etc.

(a) 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.

(b) 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.

During the year ended March 31, 2020, the Board of Corporate Auditors held 12 meetings.

(c) Advisory bodies of the Board of Directors

The Company 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. Masanobu Kaizu, an Outside Director, was elected as the Chairman of the Committee from among the Outside Directors.

(d) 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 the sharing of views, and to make recommendations to the Board of Directors based on the opinions gathered as required. In addition, Masanobu Kaizu, an Outside Director, was elected as the "Lead Independent Outside Director" 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.

2. Policies and procedures for nominating candidates for Directors and Corporate Auditors and determining the compensation of senior management personnel and Directors

[Principle 3-1(iii): Policy and procedures on determination of Director compensation, etc.] and [Principle 3-1(iv): Policy and procedures on appointment and dismissal of senior management personnel as well as designation of candidates for Directors and Corporate Auditors] under "Disclosure Based on the Principles of Japan's Corporate Governance Code" of this report.

3. Status of audit by Corporate Auditors

(a) Organization and personnel of the Corporate Auditors' audit

The Company has set up a Board of Corporate Auditors, and the Corporate Auditors including one Full-Time Corporate Auditor from the Company and two Part-Time Outside Corporate Auditors. The Board of Corporate Auditors is chaired by Naoto Moriyama, a Full-Time Corporate Auditor, elected from among the Corporate Auditors.

The Board of Corporate Auditors defines the roles of each Corporate Auditor. Full-Time Corporate Auditor is responsible for the day-to-day audit work and uses his or her experience and contacts within the Company to gather information and improve the audit environment. The Outside Corporate Auditors, Arata Toyoshi, a certified public accountant and certified public tax accountant, and Haruya Uchikawa, a lawyer, use their specialist expertise in conducting audits through deliberations of the Board of Directors and the Board of Corporate Auditors.

Dedicated staff members who assist Corporate Auditors are section-manager-level employees with practical experience in areas such as accounting, management of subsidiaries, and internal controls related to financial reporting.

(b) Processes of the Corporate Auditors' audit

To conduct audits of the legitimacy and appropriateness of Directors' business execution, Corporate Auditors mainly attend the Board of Directors' and other important meetings, receive reports from Directors, employees and Accounting Auditor, and exchange information at a meeting of the Board of Corporate Auditors.

Full-Time Corporate Auditor is stationed at the head office and is responsible for the day-to-day audit work. At a meeting of the Board of Corporate Auditors that is typically held once a month, Full-Time Corporate Auditor and the Corporate Auditor's staff report on the results of the audit and share information with Outside Corporate Auditors.

(c) Corporate Auditors who have knowledge of finance, accounting, and legal affairs

Outside Corporate Auditor Arata Toyoshi is a certified public accountant and certified public tax accountant with experience in auditing listed companies and advisory services such as supporting IPOs at a major auditing firm, and considerable knowledge of finance and accounting.

Outside Corporate Auditor Haruya Uchikawa is an experienced lawyer with many years of experience in corporate law and considerable knowledge of legal affairs.

4. Status of internal audit

Internal audit section in charge of internal audits tests the validity of business execution of Directors and employees in accordance with the internal audit regulations.

Internal control promotion section, which is in charge of assessing internal control under the Financial Instruments and Exchange Act, assesses the maintenance and operational status of the internal control system, provides guidance and verifies necessary improvements, and strives to improve the effectiveness and efficiency of internal control over financial reporting.

Results of internal audits and internal control audits are reported to President as well as Corporate Auditors.

5. Status of accounting audit

(a) Name of audit corporation: Seiyo Audit Corporation

(b) Names of the certified public accountants who executed audit duties:

Designated and Engagement Partners: Takashi Saito, Takahiro Otofujii, and Naoto Nakayama

(c) Composition of the assistants providing auditing services:

13 certified public accountants and one CISA (Certified Information Systems Auditor)

6. Contracts for the limitation of liability

The Company has made a contract with each and every Outside Director and Outside Corporate Auditor for the limitation of liability in accordance with Article 427, Paragraph 1 of the Companies Act and the Company's Articles of Incorporation (an agreement limiting the liability for damages under Article 423, Paragraph 1 of the Companies Act to the limits prescribed by law).

3. Reasons for Adoption of Current Corporate Governance System

Please see "Basic Views on Corporate Governance, Capital Structure, Corporate Profiles and Other Basic Information, 1. Basic views" of this report for reasons for adoption of current corporate governance system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Energize General Shareholders Meetings and Smooth Exercise of Voting Rights Updated

	Supplementary Explanations
Early Notification of General Shareholders Meeting	Notification is sent at least three weeks before the date of an annual general meeting of shareholders.
Electronic or Magnetic Exercise of Voting Rights	Voting rights are exercisable via the Internet.

	Supplementary Explanations
Participation in Electronic Voting Platform and Other Efforts to Enhance the Voting Environment for Institutional Investors	The Company participates in the electronic voting platform operated by ICJ, Inc.
Providing Convocation Notice in English (Translated Fully or Partially)	The Company prepares the English versions of convocation notices (full text, including documents disclosed via the Internet). These notices are made available on the Tokyo Stock Exchange website, electronic voting platform, and the Company's IR website. In the case of beneficiary owners of ADRs (American Depositary Receipts), the English versions of convocation notices (full text, including documents disclosed via the Internet) and voting forms are sent via depositary banks.
Other	Six days before the dispatch, the convocation notice is disclosed via the Tokyo Stock Exchange website and the Company's IR website.

2. IR Activities Updated

	Supplementary Explanations	Explanation by Representative
Regular Investor Briefings for Analysts and Institutional Investors	Briefing sessions are held for analysts twice a year (when the 2nd quarter and year-end financial results are announced).	Yes
Posting of IR Materials on Website	The Company's IR website URL (Japanese) https://www.smcworld.com/ir.htm (English) https://www.smcworld.com/ir/en/ The following materials are disclosed via the Company's IR website. (Japanese/English) Convocation notice for annual general meeting of shareholders (full text) and resolution notice Financial report / Quarterly financial report Materials for briefing for analysts Materials subject to timely disclosure that are submitted via TDnet Corporate Governance Report SMC Corporate Governance Guidelines CSR Report (Japanese only) Securities report / quarterly report Extraordinary report (results of exercise of voting rights at the shareholders' meeting) Result of the self-assessment survey of the effectiveness of the Board of Directors (English only) Annual report	
Establishment of Department and/or Manager in Charge of IR	The Company has established the Corporate Communications Office as a division in charge of IR activities.	

	Supplementary Explanations	Explanation by Representative
Other	The Company uses the Tokyo Stock Exchange's "Company Announcements Distribution Service In English" to disclose the English versions of materials subject to timely disclosure that are submitted via TDnet, which basically will be disclosed on the same date as the Japanese versions.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Provisions to Ensure Due Respect for Stakeholders in Internal Rules, etc.	According to the "SMC Group Ethical and Corporate Principles", the Company's goal is to become a company trusted by customers, suppliers, shareholders, investors, employees and regional societies.
Implementation of Environmental Activities, CSR Activities, etc.	The Company has acquired the ISO14001 certification and is striving to reduce environmental burdens created by its business activities in general, from the product development to the procurement of raw materials and the product shipment.

IV. Matters Related to Internal Control System

1. Basic Views on Internal Control System and Progress of System Development Updated

- (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
- To disclose "SMC Group Ethical and Corporate Principles" and "SMC Group Code of Conduct" on the Company's website to clarify its stance of striving for becoming a company to be trusted, not only by customers and business partners but also by the broader society, through conducting fair corporate activities complying with applicable laws and regulations as well as the code of ethics.
 - To voluntarily establish the Nomination and Compensation Committee to enhance the fairness, transparency and objectivity to the nomination and compensation process of Directors.
 - To develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest to help prevent and correct improper conduct. Our internal rules protect whistleblowers and prohibit any detrimental treatment or harassment of those who make a legitimate report.
 - In addition to the internal reporting system, a contact point is to be established 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.
 - To not get 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
- To formulate information management rules to develop a system to prevent leakage of important information.
 - To promote timely and appropriate information disclosure under the direction of the information management manager.
- (3) Framework and rules relating to risk of loss management
- To establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, disaster prevention, etc.

- To report information regarding complaints against quality to President, and actions and recurrence prevention measures are to be verified.
- (4) Framework to ensure that duties of the Directors are efficiently executed
- To hold Executive Officers Meeting to facilitate information-sharing among department heads.
 - To establish “long-term management vision” as well as annual policies and budgets for each Group company and department, thereby implementing adequate business management.
- (5) Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed
- To assign appropriate employees who have knowledge of internal audit, financial accounting and other areas as the audit staff to assist Corporate Auditors in executing their duties.
 - To provide these audit staff members with authority to conduct necessary examinations as directed by Corporate Auditors so that audits can be completed.
 - Consultation with Corporate Auditors is required before any personnel changes are announced or disciplinary actions are to be taken.
- (6) Framework in which Directors and employees give reports to Corporate Auditors/ Framework to give other reports to Corporate Auditors
- Directors and employees are to give business execution reports 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.
- (7) 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 to be immediately processed whenever requested, including prepayments.
- (8) Framework to ensure that other audit work by Corporate Auditors is effectively performed
- Corporate Auditors are to hold meetings periodically with the President, Accounting Auditor and the internal auditing office in order to improve the auditing environment and strengthen the liaison among Auditors.
- (9) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries
- A framework is to be developed and operated to conduct risk management (internal control related to financial reporting) for ensuring the reliability of financial reporting, and its effectiveness are to be improved through regular assessment.
 - The SMC Group Code of Conduct (in English translation for overseas subsidiaries) is to be distributed 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.
 - Contracts are to be made with subsidiaries in which advance discussions are to be held with the Company regarding significant matters, regular reports on business plans, financial closing, etc., and regular discussions held with the Company regarding business plans, financial closing, etc., are obligatory for subsidiaries. In addition, operational losses, losses caused by a disaster, etc., occurrence of important events such as the violation of law, and others must be reported to the Company.
 - The Board of Directors’ regulation clearly provides to the effect that all matters of particular importance including the investment projects, etc., conducted by a subsidiary alone need to be approved by the Board of Directors of the Company.

- Subsidiaries are to be properly managed and group strategies are to be promoted in an integrated and efficient manner by implementing the affiliate management rules, dispatching Directors, exercising shareholder rights, and having discussions with subsidiaries.
- An internal reporting system and a structure to report conduct constituting a conflict of interest throughout the Group are to be developed to help prevent and correct improper conduct.

2. Basic Views on Eliminating Anti-Social Forces and Progress of Related Efforts

- “SMC Group Ethical and Corporate Principles” and “SMC Group Code of Conduct” clearly stipulate that the group’s basic policy is to organizationally take a resolute attitude against antisocial forces’ unreasonable demands and to prevent any transactional and other relationships with them by closely collaborating with the police, lawyers, etc.
- The Company has implemented a framework for close collaboration with the police, lawyers and other outside professional organizations.
- By giving notice or offering in-house seminars, the Company informs all employees about its basic stance and specific measures toward the elimination of antisocial forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not adopted
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Supplementary Explanation

2. Other Matters Concerning Corporate Governance System

[Outline of timely disclosure system]
 Information management manager gives directions on the required information management and on timely and appropriate disclosure of important decisions and facts of occurrence.
 For particularly important information disclosure, the timing and method of disclosure are determined by President or the Board of Directors.
 The Company’s timely disclosure system is outlined in the attached diagram.



