Corporate Governance Report

Last Update: December, 25, 2015

SMC Corporation

Katsunori Maruyama, President

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Securities Code: 6273

http://www.smcworld.com

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

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

1. Basic Views

The Company considers establishing a corporate governance framework ensuring both quick decision-making and management transparency to be extremely important for the purposes of realizing continuous growth, increasing corporate value and protecting 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. 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 the monitoring and supervision are conducted by Outside Directors and Outside Corporate Auditors from an independent and objective viewpoint.
The Company has not established a nominating committee or compensation committee at its discretion. However, Outside Directors' opinions are obtained and considered before the compensation of Directors and the appointment of Directors, President, Executive Directors and Executive Officers are determined so that the fairness and transparency in the process of appointment and determination of compensation, etc. can be enhanced.
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.
http://www.smcworld.com/ir.htm

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Principle 1-4: So-called cross-held shares]
Decisions regarding whether to approve cross-shareholdings are not currently made by the Board of Directors. However, with regard to main cross-held shares (i.e., cases where the relevant balance sheet amount exceeds 1% of the amount of capital), it has been determined that the Company's Board of Directors considers and resolves whether to approve cross-shareholdings at least once a year.

[Principle 3-1(v): Reasons for selecting and designating each candidate for Director or Corporate Auditor]
As for candidates for Outside Directors and Outside Corporate Auditors, the Company currently discloses the reasons for designating them using reference materials for shareholder meetings and independent Director registration documents to comply with the laws and the rules of the Tokyo Stock Exchange. However, with regard to candidates for other Directors and Corporate Auditors, the Company does not disclose these reasons.

At the next ordinary general meeting of shareholders and beyond, all candidates for Directors and Corporate Auditors are subject to disclosure of reasons for being designated by the Company's Board of Directors.

[Supplementary principle 4-2-1: Implementation of incentive compensation plans]
The Company has not currently implemented any incentive compensation plans such as a performance-based plan and share-based compensation plan.
The government is currently promoting the implementation of various types of incentive compensation plans. The Company continues to pay attention to such trend and consider designing appropriate compensation plans carefully from various aspects (i.e. taxation, accounting, legal affairs, and personnel affairs) so that such plans can contribute to the med- to long-term improvement of corporate value.

[Principle 4-11: Prerequisites for ensuring the effectiveness of the Board of Directors and the Board of Corporate Auditors]
Outside Corporate Auditors (2 persons) are experienced attorneys at law who are familiar with corporate legal affairs. They also have professional knowledge on financial accounting, corporate laws including disclosure rules, Financial Instruments and Exchange Act, and other relevant laws.
As the Company's Corporate Auditors are not certified public accountants or registered tax accountants, or have no long-term practical experiences in corporate accounting, they do not have a "considerable level of knowledge about finance and accounting." However, the Company's full-time Corporate Auditors have striven to acquire knowledge about finance and accounting through outside seminars and work experience as such, and have also received support from the accounting division, etc. and advice from accounting auditors whenever necessary.
Considering that Corporate Auditors' main job duty is the formation of audit opinions on the reasonableness of accounting auditors' audit results and methods, at least one candidate for Corporate Auditor with a "considerable level of knowledge about finance and accounting" will be selected in future.

[Supplementary principle 4-11-3: Analysis and assessment of the effectiveness of the Board of Directors as a whole]
In and after March 2016, the Company will conduct self-assessment of the effectiveness of the Board of Directors as a whole and disclose the outline of the assessment results.

[Disclosure Based on the Principles of the Corporate Governance Code]

[Principle 1-4: So-called 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.
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, the Company will oppose them.
In addition, the Company's finance division confirms the statuses of transactions with cross-held shares' issuers, as well as the financial conditions, operating results, stock prices, dividends, etc. of these issuers, and then regularly considers whether to continue the cross-shareholdings. If the Company considers that the cross-holding of certain shares is almost meaningless, it will sell them with the approval of the President.

[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 companies, etc. controlled by these spouses and relatives), important facts such as transaction conditions are presented to the Board of Directors and discussed together with Outside Directors and Corporate Auditors in accordance with the laws. After these transactions are approved, they can be executed. However, transaction results must be regularly reported to the Board of Directors thereafter under the prescribed procedures.

There are currently no major shareholders (i.e. shareholders holding 10% or more of the total number of shares). However, even in case transactions with major shareholders are made, relevant transaction conditions, etc. are carefully examined in the same manner, and they are subject to the Board of Directors' approval. Transaction results must also be regularly reported.

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

[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 maker of component parts "contributing to automated, labor-saving operations in industries," the Company fulfills its objectives and strives to improve its competitive advantages by concentrating its management resources on the automatic control equipment business, its main business.
   (3) Supplying products globally
   The Company will supply products that can meet the rules and needs of foreign countries and regions and are accepted in all the markets of the world.
2) Long-term management vision
   (1) The Company strives to develop products capable of accurately capturing customer needs and to create a framework capable of responding to customer requests for delivery dates, quality, prices, etc.
   (2) The Company focuses on newly expanding production facilities and replacing existing facilities, establishes a globally optimal production system with future vision in mind, and accelerates rationalization and cost reduction.
   (3) The Company aims to survive competitions in the global markets and to acquire higher market shares.
3) Reasons for not preparing mid-term management plans
   The Company's customers conduct businesses in a wide range of industries (e.g. automobile, semi-conductors, machine tools, electrical appliances, food processing machinery and medical equipment). These customers are also located in various countries and regions in Asia, North America, Europe, etc., as well as in Japan. Accordingly, the Company has striven to establish a framework that can globally respond to customer requests made in connection with business activities in general ranging from product development to production, sales and after-sales service.
   As customers are drastically changing their ways of production due to growing globalization and diversification of demand structure, progress of IT technology, etc., unless the Company flexibly takes necessary measures by accurately capturing these changes and continues to transform itself, it will not be able to survive fierce competitions, let alone achieve continuous growth and improve corporate value in the medium and long run.

On the other hand, as the Company's products are industrial goods used on automated production lines, etc., it is necessary to ensure the ability to supply products in a stable manner and the establishment of a system enabling sales personnel to provide services for the purpose of maintaining and improving market shares by building customer trust. Then the Company also needs to make long-term investments in research and development, production facilities, personnel recruitment, and development of human resources.
Due to the above-mentioned business characteristics, the Company does not set its goals based on so-called "mid-term management plans," but has clarified the future issues that it must deal with as part of its "long-term management vision" and has also established a framework to prepare and promote group-wide, divisional and company-wide business plans on an annual basis so that it can achieve such vision.

[3-1(ii) Basic policy on corporate governance]
Please see "Basic views on corporate governance, capital structure, corporate profile and other basic information, 1. Basic views" contained in this report.

[3-1(iii): Policy and procedures on determination of Director compensation, etc.]
The Board of Directors determines the amount of Director compensation within the range approved at the relevant meeting of shareholders.
The specific amount of basic compensation to each Director is calculated by Director in charge of Administration, comprehensively considering business performance forecasts, employee pay levels, each Director's contribution to corporate performance, position, job duties, years of service, etc., and if the amount is approved by chairman and President, it is finalized by the Board of Directors after the end of the relevant annual ordinary meeting of shareholders.
As the basic compensation to each Executive Director is not linked to specific financial indexes, it is not disclosed or processed as performance-linked pay for accounting and taxation purposes. However, the ratio of the fixed portion of compensation is about 35% and the remaining portion (65%) represents the compensation reflecting performance for the year and each Director's job contribution level in each year.
As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is calculated using the basic payment amount that is automatically obtained in accordance with the "rules for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits. When a Director actually retires, the specific amount of retirement benefits is determined by the Board of Directors after the agenda for payment of such benefits is approved at the relevant meeting of shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said rules so that the Director's distinguished services performed while in office can be reflected.
When the agenda for payment of retirement benefits is proposed at the relevant meeting of shareholders, the upper limit of the total payment amount is also indicated so that shareholders can make their decisions.
Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

[3-1(iv): Policy and procedures on designation of candidates for Directors and Corporate Auditors]
The term of office of the Company's Directors is one year. Every year, chairman, President, Director in charge of Administration, and other Directors select candidates for Directors by assessing their ability from the standpoint of whether they can contribute to the improvement of future corporate performance based on their previous work performance and also by assessing their personality in terms of whether they have a suitable character and insights as Directors of a listed company. Then at the relevant meeting of the Board of Directors, chairman and President give adequate explanations about the reasons for selecting them and also obtain the opinions of Outside Directors. After careful consideration, a decision is made regarding whether they can be proposed as official candidates for Directors at the relevant meeting of shareholders.

The selection of President and Directors with specific titles is discussed and resolved at the Board of Directors meetings from the standpoint of whether they can contribute to the improvement of future corporate performance, as described above.
Candidates for Outside Directors and Corporate Auditors are selected based on assessments made in a similar manner as above. Opinions of Outside Directors and Corporate Auditors currently in office are obtained. Candidates for Corporate Auditors are selected with the consent of the Board of Corporate Auditors. Then the Board of Directors considers and decides whether to propose them as official candidates for Outside Directors and Corporate Auditors at the relevant meeting of shareholders.

[3-1(v): Reasons for selecting and designating each candidate for Director or Corporate Auditor]
Please see "Reasons for Non-compliance with the principles of the Corporate Governance Code" in this report.

[Supplementary principle 4-1-1: 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 determination of other matters and the authority to approve specific business execution relating to matters that it resolves to President so that the scope of authority delegated from the Board of Directors to President can be clarified.
Described below is the outline of matters that the Board of Directors discusses with regard to business execution.
(1) Establishment, change or abolition of divisions or higher-level organizations
(2) Appointment or dismissal of general managers or higher-level executives
(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 4-8: Effective use of independent Outside Directors]
The Board of Directors elects multiple independent Outside Directors so that its management supervision functions can be adequately fulfilled from an independent and objective perspective.
Independent Outside Directors are expected to supervise the Company's management activities focusing on protecting the interests of ordinary shareholders and investors and to give advice on management policies based on their professional knowledge.

[Principle 4-9: Criteria for judging independence and quality of independent Outside Directors]
Described below are the criteria for judging independence of Outside Directors. To set these criteria, the Company has modified 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 officer such as an Executive Director, Executive Officer, or another executive)

[Supplementary principle 4-11-1: 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. Technology, 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 4-11-2: 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 3 other listed companies are allowed so that they can strive to fulfill their duties as the 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 are properly disclosed in accordance with the laws.

[Supplementary principle 4-11-3: Analysis and assessment of the effectiveness of the Board of Directors as a whole]
Please see "Reasons for Non-compliance with the principles of the Corporate Governance Code" in this report.

[Supplementary principle 4-14-2: 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 regularly offers Director training programs lectured by legal advisers, makes all Directors and Corporate Auditors take e-learning courses recommended by the Tokyo Stock Exchange, and encourages them to acquire more knowledge by participating in outside seminars, etc. if necessary.
The Company also provides newly appointed Outside Directors and Outside Corporate Auditors with opportunities to understand its business characteristics and current conditions (e.g., observation of offices and employees' explanations) 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.
As for communication with shareholders and investors, President and Director in charge of IR will actively take the initiative. 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 individual interviews with shareholders and investors upon request. The Company will also accept requests for interviews with Outside Directors to the extent possible although it takes time to make schedule adjustments, etc.

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 designates "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 conduct coordination whenever necessary. Upon receipt of an interview request regarding corporate governance in particular, the submission of main question items is requested in advance. Then the IR Division urges relevant divisions to prepare answers to the questions and attend the interview depending on necessity.
(3) Adequate ways of having dialogues other than individual interviews
Every year, the Company holds a financial results conference twice for analysts and institutional investors. Conference materials are immediately disclosed via TDnet and the Company's website.
(4) Opinions, etc. of shareholders and investors, and feedback
At the financial results conference mentioned above, President and Director in charge of IR give explanations, answer questions, and directly receives opinions of shareholders and investors. Under the current framework, the IR and other divisions need 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 will 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 silent 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).
The Company can hardly 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.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
TON Finance B.V.	3,443,535	5.11
State Street Bank and Trust Company	3,313,860	4.91
Japan Trustee Services Bank, Ltd. (Trust account)	3,144,000	4.66
Takada International Co., Ltd.	3,050,000	4.52
State Street Bank and Trust Company 505001	2,384,886	3.54
Master Trust Bank of Japan (Trust account)	2,285,100	3.39
Resona Bank, Limited	1,959,800	2.90
Allied Material Co., Ltd.	1,744,200	2.58
The Dai-ichi Life Insurance Company, Limited	1,713,000	2.54
JP Morgan Chase Bank 380055	1,522,310	2.25

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

1. The “Status of Major Shareholders” described above is based on the shareholder register as of September 30, 2015.

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.

   Submitted by: Baillie Gifford Overseas Limited and another company
   Address: Edinburgh, UK
   Reporting became mandatory on: June 28, 2013
   Number of shares held: 4,990,700 (7.40%)

   Submitted by: First Eagle Investment Management, LLC
   Address: New York, U.S.A.
   Reporting became mandatory on: December 31, 2014
   Number of shares held: 3,681,071 (5.46%)

   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: Capital Research and Management Company and other four companies
   Address: Los Angeles, U.S.A. and other cities,
   Reporting became mandatory on: October 15, 2015
   Number of shares held: 3,156,194 (4.68%)

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

Not applicable

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

1. Organizational Composition and Operation

Organization Form	Company with Corporate Auditors

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	21
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	14
Election of Outside Directors	Elected
Number of Outside Directors	2
Number of Independent 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;
"▲"when a close relative of the Director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-Executive Director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/Corporate Auditor
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)
i. Executive of a company, between which and the Company Outside Directors/Corporate Auditors are mutually appointed (the Director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Masanobu Kaizu	○	—	Mr. Masanobu Kaizu is a distinguished economist and securities analyst having a superb personality, insights, and abundant knowledge of economic situations, financial market conditions, corporate management and financial accounting, with broad experience in relevant business activities. The Company has appointed him Outside Director with the expectation that he can make proposals on management policies based on his own professional knowledge as an economist and securities analyst from the standpoint of protecting the interests of general shareholders and investors in particular, monitoring the Company's management activities from a neutral and objective point of view, enhancing promoting continuous corporate growth. The Company has designated Mr. Kaizu as an independent Director also 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.
Toshiharu Kagawa	○	—	Mr. Toshiharu Kagawa is a Doctor of Engineering specializing in flow measurement and control and has a superb personality and insights. His specialization and the Company's business areas are very closely related. The Company has appointed him Outside Director with the expectation that he can give the Company advice on management policies mainly in relation to research and development activities and measures for the training of engineers based on his own specialized knowledge and wide experience as a researcher and educator. He is also expected to monitor the Company's management activities from a neutral and objective point of view, enhance management transparency further, and improve corporate value in the medium- and long-run by promoting continuous corporate growth. The Company has designated Mr. Kagawa as an independent Director also 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.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Not Established

[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 Auditors and Internal Audit Departments

Audit plans prepared by Corporate Auditors, accounting auditors and Internal Audit Department are exchanged for each other so that audits can be conducted effectively and efficiently. In addition, reports are mutually made available and liaison meetings are held so that information about the audit execution statuses can be shared.
Corporate auditors receive reports on the audit execution statuses from accounting auditors 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 Corporate Auditors	2

Outside Corporate Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yoshiaki Ogawa	Lawyer													
Tatsuo Suzue	Lawyer													

* 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; "▲"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 subsidiaries
c. Non-Executive Director or executive of a parent company of the Company
d. Corporate Auditor of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A 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, accountant 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 legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Corporate Auditor himself/herself only)
k. Executive of a company, between which and the Company Outside Directors/Corporate Auditors are mutually appointed (the Corporate Auditor himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the Corporate Auditor himself/herself only)
m. Others

Outside Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshiaki Ogawa	○	―	Mr. Yoshiaki Ogawa is an experienced attorney at law. He is familiar with corporate law and has a superb personality and insights. The Company has appointed him Outside Corporate Auditor with the expectation that he can conduct the Company's management audit from a neutral and objective point of view focusing on legal risk management in particular based on his professional knowledge and broad experience in corporate laws and compliance issues and can make proposals on management in general. The Company has designated Mr. Ogawa as an independent Director also 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.
Tatsuo Suzue	○	―	Mr. Tatsuo Suzue is an experienced attorney at law. He is familiar with corporate law and has a superb personality and insights. The Company has appointed him Outside Corporate Auditor with the expectation that he can conduct the Company's management audit from a neutral and objective point of view focusing on legal risk management in particular based on his professional knowledge and broad experience in corporate laws and compliance issues and can make proposals on management in general. The Company has designated Mr. Suzue as an independent Director also 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 Directors/Corporate Auditors]

Number of Independent Directors/Corporate Auditors	4

Matters relating to Independent Directors/Corporate Auditors

1. The Company designates all Outside Directors and Outside Corporate Auditors as independent Directors as long as they can satisfy the relevant requirements.

2. The Company has set the following criteria for judging independence of Outside Directors and Outside Corporate Auditors based on such criteria stipulated by the Tokyo Stock Exchange.

◆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 officer such as an Executive Director, Executive Officer, or another executive)

[Incentives]

Incentive Policies for Directors	None

Supplementary Explanation

The Company is seriously considering the implementation of a compensation framework that can fairly assess the contribution made to mid- to long-term corporate value as well as short-term business performance.

Recipients of Stock Options	

Supplementary Explanation

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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation

The law requires that securities reports and business reports disclose Director compensation.
Individual compensation amounts are not disclosed because 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 2015 is as follows.

522 million yen (basic compensation (489 million yen) and retirement benefits (33 million yen)) paid to 18 Directors excluding Outside Directors
9 million yen paid to one Outside Director, 15 million yen to one Corporate Auditor excluding Outside Corporate Auditor, and 13 million yen to three Outside Corporate Auditors (basic compensation in all cases)
In the case of a Director who concurrently acts as an employee, the above-mentioned Director compensation does not include any employee salary portion.
The amount of retirement benefits is calculated by adding together the provision for Directors' retirement benefits for the fiscal year ended March 2015 and a difference between the actual amount paid and the relevant provision already posted for one Director who retired at the conclusion of the 55th ordinary general meeting of shareholders held on June 26, 2014.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

At the 48th ordinary 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 and 100 million yen in total per fiscal year for Corporate Auditors).
The specific amounts of basic compensation for each Director and for each Corporate Auditor are determined after the conclusion of the ordinary general meeting of shareholders held each year by comprehensively considering business performance forecasts, levels of employee salaries, each employee's contribution to corporate performance, job positions, job duties, years of service, etc. More specifically, such amount for each Director is resolved by the Board of Directors, and such amount for each Corporate Auditor is determined through discussions held by Corporate Auditors.
As for retirement benefits to Directors, the amount payable as of the end of each fiscal year is obtained using the basic payment amount that is automatically calculated in accordance with the "rules for Directors' retirement benefits" determined by the Board of Directors and is posted as the provision for Directors' retirement benefits.
When a Director actually retires, the specific amount is determined by the Board of Directors after the agenda for payment of retirement benefits is approved at the relevant meeting of shareholders. In this case, a decision is also made regarding whether to add a certain amount to the above-mentioned base amount within the range stipulated in the said rules so that distinguished services performed by the Director while in office can be reflected.
Outside Directors and Corporate Auditors are excluded from the retirement benefit plan.

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

As for Outside Directors, before the relevant meeting of the Board of Directors is held, 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 full-time 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 are held 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.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

12 out of 14 Directors are Executive Directors who are in charge of the Company's business execution divisions or overseas consolidated subsidiaries and are required to conduct cross-divisional monitoring and to share information so that the legitimacy, appropriateness and efficiency in the process of daily business execution can be ensured.
Two Outside Directors are responsible for monitoring management activities from the standpoint of protecting the interests of ordinary shareholders and investors and for enhancing management transparency.

To conduct audits of the legitimacy and appropriateness of Directors' business execution, Corporate Auditors (3 persons) mainly attend the Board of Directors' and other important meetings, receive reports from Directors, employees and accounting auditors, and exchange information at a meeting of the Board of Corporate Auditors basically held once a month.
Outside Corporate Auditors (2 persons) are responsible for conducting management audit from a neutral and objective standpoint.
The Company appoints Seiyo Audit Corporation as its accounting auditors. 13 certified public accountants and 1 CISA (certified information systems auditor) who belong to this audit corporation are assigned to the audits of the Company.

The Internal Audit Section in charge of internal audits is an organization under the direct control of representative Director and President and tests the validity of business execution of Directors and employees in accordance with the internal audit regulations.
To comply with the Internal Control Reporting System under the Financial Instruments and Exchange Act., the Internal Control Promotion Section under the direct control of representative Director and President strives to establish and assess internal controls in collaboration with relevant divisions, maintain and continuously improve the group's internal control system, and ensure the reliability of financial reporting.
Results of internal audits and internal control assessments are reported to representative Director and President as well as Corporate Auditors.

3. Reasons for Adoption of Current Corporate Governance System

The Company has established a framework that can ensure the legitimacy and appropriateness of the Board of Directors' decision-making process as a whole and each Director's business execution. Under this framework, mutual monitoring and cross-divisional controls are conducted by Directors in charge of business execution who are acquainted with the Company's inherent situations and internal information, and supervision and monitoring are conducted by Outside Directors and Outside Corporate Auditors having a neutral and objective viewpoint.
By appointing multiple Outside Directors, the Company aims to strengthen management supervision functions and improve management transparency.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	Notification is sent at least three weeks before the date of an ordinary general meeting of shareholders.
Allowing Electronic Exercise of Voting Rights	Voting rights are exercisable via the Internet.
Participation in Electronic Voting Platform	The Company participates in the electronic voting platform operated by ICJ, Inc.
Providing Convocation Notice in English	The Company prepares the English versions of convocation notices (the full text, including documents that are 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 (the full text, including documents that are disclosed via the Internet) and voting forms are sent via depositary banks.
Other	Two business days before the delivery, the convocation notice is made available via the Tokyo Stock Exchange website and the Company's IR website.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Preparation and Publication of Disclosure Policy	The briefing session is 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) http://www.smcworld.com/ir.htm (English) http://www.smcworld.com/ir/en/ The following materials are made available via the Company's IR website. (Japanese and English versions) Convocation notice for ordinary general meeting of shareholders (the full text, including documents that are disclosed via the Internet) and resolution notice Summary of financial report/Summary of quarterly financial report Materials distributed at the briefing for analysts Materials subject to timely disclosure that are submitted via TDnet (Japanese version only) Shareholder report/Interim report Securities report/quarterly report Extraordinary report (results of exercise of voting rights at the shareholders' meeting) (English version only) Annual report	

Establishment of Department and/or Manager in Charge of IR	The Company has established the IR Section as a division in charge of IR activities.	
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. The English and Japanese versions are basically disclosed on the same date.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	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 striven to reduce environmental burdens created by its business activities in general ranging from the product development to the procurement of raw materials and the product shipment.

IV. Matters Related to the Internal Control System

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

(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
- Formulate "SMC Group Ethical and Corporate Principles" and "SMC Group Code of Conduct" 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.
- Establish a Compliance Committee to strengthen the legal compliance system.
- Develop an internal reporting system as well as a structure to report conduct constituting a conflict of interest throughout the Group to help prevent and correct improper conduct.
- Do not become involved with antisocial forces and organizationally take a resolute attitude toward undue claims in close collaboration with lawyers, police, and others.

(2) Framework for information storage and management with regards to the execution of duties by Directors
- Formulate information management rules to develop a system to prevent leakage of important information.
- Establish an Information Disclosure Committee to promote prompt and adequate information disclosure.

(3) Framework and rules relating to risk of loss management
- Establish a department or committee specializing in the management of important risks including those relating to quality, environmental measures, compliance, disaster prevention, etc.
- All information regarding complaints against quality will be reported to the Chairman and President, and actions as well as recurrence prevention measures will be verified.

(4) Framework to ensure that duties of the Directors are efficiently executed
- Establish a Management Committee to facilitate information-sharing among department heads.
- Establish medium to long term management plans as well as annual policies and budgets for each Group company and department, thereby implementing adequate business management.

(5) Framework to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries
- Contracts made with subsidiaries in which advance discussions 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.
- Develop and operate a framework to conduct risk management (internal control related to financial reporting) necessary for ensuring the reliability of financial reporting, and improve its effectiveness through regular assessment.
- Properly manage subsidiaries and promote group strategies in an integrated and efficient manner by implementing the affiliate management rules, dispatching Directors, exercising shareholder rights, and having regular discussions with subsidiaries.

(6) Framework to ensure that auditing activities conducted by employees to assist Corporate Auditors are efficiently executed/Framework to ensure that the execution of duties by Directors is efficiently performed
- As full-time audit staff persons who assist Corporate Auditors in executing their duties, employees having knowledge of internal audit, financial accounting and other areas have been properly assigned.
- These audit staff persons are authorized to conduct necessary examinations under the direction of Corporate Auditors so that audits can be completed.
- Before personnel changes are announced or disciplinary actions are taken, consultation with Corporate Auditors is required.

(7) Framework in which Directors and employees give reports to Corporate Auditors/Framework to give other reports to Corporate Auditors
- Directors and employees 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.

(8) Matters pertaining to the processing of costs incurred in connection with the execution of duties by Corporate Auditors/Framework to ensure that the execution of duties by Directors is efficiently performed
- Costs necessary for the execution of duties by Corporate Auditors are immediately processed whenever requested, including prepayments.

(9) Framework to ensure that other audit work by Corporate Auditors is effectively performed/Framework to ensure that the execution of duties by Directors is efficiently performed
- Corporate Auditors hold meetings periodically with the President, the Accounting Auditor and the internal auditing office in order to improve the auditing environment and strengthen the liaison among Auditors.

2. Basic Views on Eliminating Anti-Social Forces

"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 anti-social forces' unreasonable demands by closely collaborating with the police, lawyers, etc. without having any transactional and other relationships with them.

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 anti-social forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

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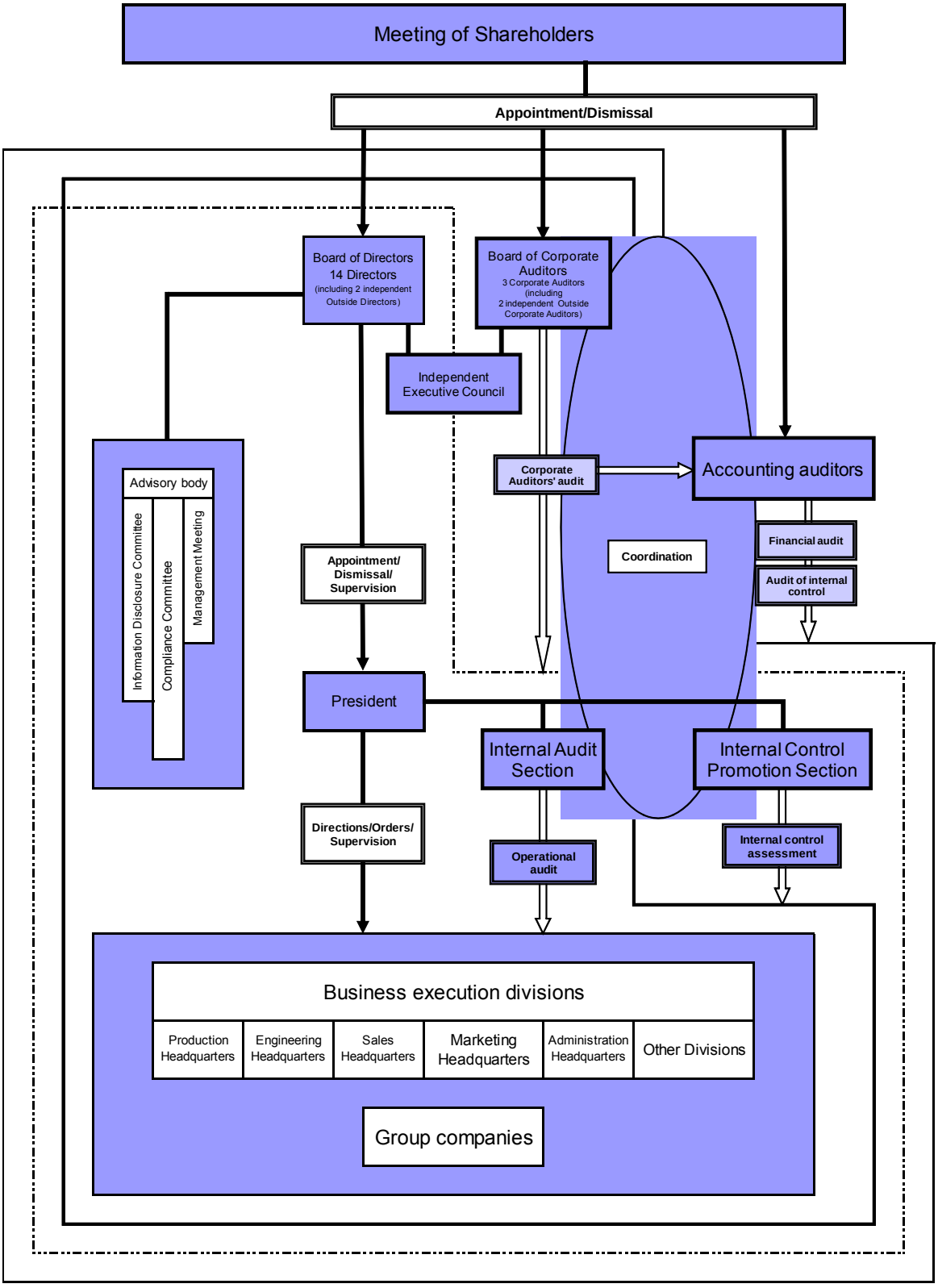
2. Other Matters Concerning to Corporate Governance System

[Outline of timely disclosure system]
Senior General Manager of Administration Headquarters who is in charge of both the decision-making line and reporting line (reporting of important matters from business execution divisions and group companies) also acts as information management manager, and gives directions regarding necessary management and timely and appropriate disclosure of important decisions and facts of occurrence.
When important information is disclosed in particular, an appropriate decision-making process is selected (e.g. approval by representative Director and President, discussions held by the Information Disclosure Committee, or approval by the Board of Directors), and the disclosure timing, methods, etc. are determined.
The Company's timely disclosure system is outlined in the attached diagram.


Meeting of Shareholders
Appointment/Dismissal
Board of Directors
14 Directors
(including 2 independent Outside Directors)
Board of Corporate Auditors
3 Corporate Auditors (including 2 independent Outside Corporate Auditors)
Independent Executive Council
Advisory body
Information Disclosure Committee
Compliance Committee
Management Meeting
Corporate Auditors' audit
Accounting auditors
Financial audit
Audit of internal control
Coordination
Appointment/ Dismissal/ Supervision
President
Internal Audit Section
Internal Control Promotion Section
Directions/Orders/ Supervision
Operational audit
Internal control assessment
Business execution divisions
Production Headquarters
Engineering Headquarters
Sales Headquarters
Marketing Headquarters
Administration Headquarters
Other Divisions
Group companies

[Outline of Timely Disclosure System]

SMC Corporation

