SMC Corporate Governance Guidelines

The item number on the right side of each item corresponds to the relevant corporate governance code.
★ indicates a currently pending item.

I. Management philosophy/Long-term management vision

1. Management philosophy — Principle 3-1 (i)

(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 — Principle 3-1 (i)

Issues that the Company needs to deal with toward the future are clarified as the “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 — Principle 3-1 (i) Supplementary principle 4-1 (2)

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 to 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 company-wide, divisional and group-wide business plans on an annual basis so that it can achieve such vision.

4. Preparation and announcement of management strategies and plans	Principle 5-2

As part of the Company's policy, specific management indexes, capital efficiency indexes, etc. are not set as target figures. However, from the standpoint of demonstrating strong commitment to corporate growth and ensuring adequate profitability to cover capital costs, the Company's management activities are conducted with "ROE at the 10% level" in mind during the ordinary course of business.
The contents of specific measures for each fiscal year and the relevant progress statuses based on the above-mentioned "long-term management vision" are explained to shareholders and investors at Meetings of Shareholders and financial results conferences or using disclosure materials, etc.

II. Basic policy on corporate governance	Principles 3-1 (ii) & 4-10 Supplementary principle 4-10 (1)

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.

III. Capital policy

1. Basic capital policy — Principle 1-3

The Company considers that its highest priority issue is to maximize shareholder value through corporate value improvement accompanied by mid- to long-term profit growth.
The Company will also strive to increase net assets and create an environment enabling smooth capital procurement by maintaining high ratings so that it can build a solid financial base that is not affected by financial and economic turmoil and rapid changes in foreign exchange rates like those occurred in connection with the collapse of Lehman Brothers in 2008.
In addition, the Company will continue to maintain its competitive advantage, positively make necessary investments in production facilities, research and development activities, human resources, etc. for sustained operations, and keep adequate cash on hand to meet relevant capital requirements.
To increase shareholder returns, the Company basically continues to pay stable dividends and also flexibly acquire treasury shares depending on situations.

2. Anti-takeover measures — Principle 1-5

The Company does not and will not implement so-called “anti-takeover measures.”
In case the Company implements any scheme having an effect equivalent to an anti-takeover measure, it will give adequate explanations to shareholders and then follow procedures for confirming their intention.

3. Action taken when the Company becomes the target of a tender offer — Supplementary principle 1-5 (1)

Assuming that the Company’s shareholders may become the target of a tender offer, the relevant basic policy has been implemented. Under this policy, the Company adheres to legal requirements, rules of the stock exchange, etc., makes a request to the bidder for appropriate information disclosure, obtains advice from outside professionals in the fields of accounting and law if necessary, and gives careful consideration by paying attention to the protection of interests of stakeholders other than shareholders. Then the Board of Directors expresses its opinion on the tender offer. Shareholders’ decisions are respected with regard to whether to accept it.
During the course of expressing the said opinion, the Board of Directors makes a request to Outside Directors for positive involvement so that the fairness and transparency can be ensured.

4. Capital policy that may damage the interests of shareholders — Principle 1-6

The Company does not adopt any capital policy that may cause the changes in control or significant dilution of stock value.
In case the Company faces a situation where it has no choice but to consider adopting such capital policy due to strained financial conditions, etc., the Board of Directors will make its best efforts to follow the relevant procedures in an appropriate manner, obtain advice from outside professionals in the fields of accounting and law, makes a request to Outside Directors for positive involvement, and ensure the validity of the capital policy itself as well as the fairness and transparency of the Board of Directors’ decision-making process so that the interests of existing shareholders are not unfairly damaged.

IV. Ensuring the rights and equality of shareholders

Basic principle 1, Principle 1-1
Supplementary principle 1-1 (3)

As the Company considers ensuring the rights and substantial equality of shareholders to be a consequent prerequisite for companies, it has taken appropriate measures by establishing an environment for the exercise of shareholders' rights including voting rights exercised at Meetings of Shareholders.
To ensure the rights of minority and foreign shareholders in particular, the Company pays adequate attention.
The articles of incorporation and the share handling regulations that stipulate the exercise of shareholders' rights including minority shareholders' rights are available via the Company's website.
http://www.smcworld.com/ir/en/ir_library.html

1. Establishment of a framework for the delegation of authority of Shareholders Meeting to the Board of Directors

Supplementary principle 1-1 (2)

To flexibly adopt capital policies and provide returns to shareholders, authority over the acquisition of treasury shares and the payment of interim dividends is delegated to the Board of Directors in accordance with the articles of incorporation.
Multiple independent Outside Directors have been appointed to improve the fairness and transparency of the Board of Directors' decision-making process.

2. Exercise of rights at Meetings of Shareholders

Principle 1-2

The Meeting of Shareholders is the Company's highest decision-making body and provides valuable opportunities to have constructive dialogues with shareholders. Based on this recognition, the Company will provide shareholders with adequate information and strive to establish an environment in which voting rights become exercisable more conveniently.

(1) Provision of information helpful to shareholders in making decisions

Supplementary principle 1-2 (1)

To make convocation notices of Meetings of Shareholders easier to read, the Company has used various means (e.g. notices printed in color, addition of indexes, and use of universal design fonts).
Descriptions of business reports contained in the documents attached to convocation notices are not limited to legally stipulated matters but include diagrams, graphs and pictures so that easy-to-understand explanations can be provided. Balance sheet and income statement figures (consolidated and non-consolidated figures) are shown together with previous year figures so that comparisons can be made, and consolidated cash flow statements (summary) are also disclosed for reference purposes.

(2) Early delivery and pre-delivery disclosure of convocation notices

Supplementary principle 1-2 (2)

To help shareholders have enough time to consider the contents of agendas, the Company has delivered a convocation notice to them at least 3 weeks before the date of each Meeting of Shareholders.
Convocation notices are also disclosed via TDnet (timely disclosure system of the Tokyo Stock Exchange) and the Company's website. The convocation notice of the ordinary general

Meeting of Shareholders held in June 2015 was disclosed via the Internet before it was delivered. This procedure continues.

(3) Avoiding holding a Meeting of Shareholders on the day when many companies hold their meetings	Supplementary principle 1-2 (3)

To raise a possibility even just a little that shareholders could attend Meetings of Shareholders, the Company held each of the meetings by avoiding the day when many companies held their meetings. The Company continues to adopt this policy.

(4) English translation of notices related to electronic voting, electronic voting platform, and convocation	Supplementary principle 1-2 (4)

The Company's shareholder composition shows a high percentage of foreign shareholders. Accordingly, the Company has adopted the electronic voting system and the electronic voting platform (electronic voting service provided by ICJ for institutional investors) and disclosed the English versions of convocation notices via TDnet and the Company's website.
Since the establishment of a sponsored ADR (American Depositary Receipt) program in 2014, the Company has striven to create an easier-to-use environment for the exercise of voting rights and delivered the English versions of convocation notices and voting forms (proxy cards) through the depositary bank to substantial ADR holders living in the U.S.

(5) Measures for substantial shareholders' attendance at Meetings of Shareholders	Supplementary principle 1-2 (5)

In case global institutional investors holding shares in the names of trust banks, etc. express their intentions to attend a Meeting of Shareholders in a manner that can ensure a practically feasible time frame for relevant preparation, the Company receives documents certifying the status of substantial shareholdings and other appropriate documents such as a power of attorney in advance from global custodians, trust banks, etc. (i.e. nominal shareholders) and also from domestic standing proxies in accordance with "Guideline on Attendance at the General Shareholders Meetings of Japanese Listed Companies by Global Institutional Investors" issued by National Kabukon Association. Then after the completion of necessary coordination with relevant parties, the Company will make arrangements for their attendance and exercise of voting rights at the Meeting of Shareholders.

(6) Analysis of reasons for objections, and relevant discussions on measures	Supplementary principle 1-1 (1)

At the Board of Directors meeting held after the conclusion of each Meeting of Shareholders, an extraordinary report (quick report) on the results of exercise of voting rights is submitted, and the internal analysis results on the latest tendency of exercise of voting rights revealed based on the correspondence, etc. received from institutional investors is reported.
Then after various types of disclosure data are made available, the Company also makes a request to a specialized service provider for the analysis of the said tendency related to domestic and overseas institutional investors and other shareholders. In addition, the analysis results are reported to President and Director in charge of Administration.
An analysis report on such trend prepared by the above-mentioned service provider is also reported at the Board of Directors meeting. In case the ratio of votes against a certain agenda item that the Company proposes exceeds 20%, necessary measures are considered, including whether to place a similar item on the agenda at a Meeting of Shareholders held thereafter.

3. Cross-held shares — Principle 1-4

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 or may clearly be contrary to the interest of the Company, 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.
With regard to main cross-held shares (i.e., cases where the relevant balance sheet amount exceeds 1% of the amount of capital), the Company's Board of Directors considers and resolves whether to approve cross-shareholdings once a year.

4. Related party transactions with Directors and major shareholders — Principle 1-7

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.

V. Roles and responsibilities of the Board of Directors, etc. — Basic principle 4, Principles 4-1 & 4-5

To achieve sustainable growth and enhance corporate value over medium/long term, the Board of Directors and the Board of Corporate Auditors will fulfill the below-mentioned roles and responsibilities by paying attention to the interests of stakeholders other than shareholders and with fiduciary responsibility and accountability to shareholders and investors in mind.

(1) Indicating a major management direction such as management strategies, and implement specific measures for achieving relevant goals by having constructive discussions at the Board of Directors meetings
(2) President and Executive Directors strive to create an environment that can support

appropriate risk-taking.
(3) Supervising Executive Directors in a highly effective manner from an independent and objective standpoint

1. Policy on separation of authority between representative Director and the Board of Directors	Supplementary principle 4-1 (1)

The “Board of Directors Regulations” 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 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

2. Policy and procedures on designation of candidates for Directors, etc.	Principle 3－1 (iv) Supplementary principle 4-3 (1)

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. Explanation of reasons for selecting each candidate for Director, etc.	Principle 3-1 (v)

As for each candidate for Director or Corporate Auditor, the Company discloses the Board of Directors’ reasons for designating them on the reference materials for shareholder meetings.

4. Supervision of succession planning by the Board of Directors	Supplementary principle 4-1 (3)

As a resolution of the Board of Directors, the head of each business execution division is appointed from among Directors with specific titles. After they have various experiences as

division heads, they can become the candidates for next President by demonstrating the capability to oversee the entire group, bearing management responsibility.
As for Executive Officers (executive employees in charge of divisional business execution), they can become the candidates for next Directors after having various experiences as division managers and by demonstrating the capability to participate in the entire Company's management activities.
Based on the job performance of these division heads and division managers, as well as the contents of reports submitted to the Board of Directors, their job attitudes, etc. the Board of Directors including Outside Directors makes personnel assessments and determines whether appropriate successor training has been conducted and they can become the candidates for above-mentioned positions.

5. Preparation of appropriate assessment criteria for executive compensation	Principle 3-1 (iii), 4-2 ★Supplementary principle 4-2 (1)

By having adequate discussions on investments and other transactions, the Board of Directors conducts appropriate supervision and gives necessary support so that President and Executive Directors do not tend to exhibit excessively risk-averse behavior.
The Company has not currently implemented any incentive compensation plans such as a performance-based plan and share-based compensation plan.
At the same time as paying attention to the government's moves in relation to its measures for promoting the implementation of various types of incentive compensation plans, the Company continues to 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.

6. Policy and procedures on determination of Director compensation, etc.	Principle 3-1 (iii)

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.

7. Supervisory functions of the Board of Directors	Principle 4-3 Supplementary principle 4-3 (2)

With fiduciary responsibility and accountability to shareholders and investors in mind, the Board of Directors fulfills the following functions for supervising Executive Directors and Executive Officers.

(1) Appropriately assessing the Company's performance and reflecting it in the treatment of Executive Directors and Executive Officers.
(2) Establishing a framework for disclosing accurate information in a timely manner in accordance with the laws, rules of the stock exchange, etc.
(3) Regularly receiving reports on the status of establishing and implementing an internal control system including a risk management system, and appropriately supervising whether information is adequately disclosed to shareholders and investors in the form of business reports, etc.
(4) Appropriately managing transactions involving conflict of interest that are made between the Company and its relevant parties (e.g. executives and major shareholders)

VI. Roles and responsibilities of independent Outside Directors	Principles 4-6, 4-7 & 4-8

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.

1. Criteria on independence of independent Outside Directors	Principle 4-9

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).

2. Disclosure of the statuses of interlocking Directors and Corporate Auditors	Supplementary principle 4-11 (2)

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.

3. Meetings held by independent personnel/Appointment of an independent Outside Director shown at the top of the list	Supplementary principle 4-8 (1) (2)

The Company has set up the "Independent Executive Council" that consists only of independent Outside Directors and independent Outside Corporate Auditors so that they can exchange opinions and information freely, share the same recognition, and make proposals to the Board of Directors after integrating their opinions if necessary.
In addition, a Director shown at the top of the list is selected through mutual election by independent Outside Directors so that they can smoothly coordinate with the Board of Directors, Board of Corporate Auditors, business execution divisions, etc.

VII. Ensuring the effectiveness of Board of Directors as a whole

1. Policy on the balance, etc. between knowledge, experience and ability of Board of Directors as a whole	Supplementary principle 4-11 (1)

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.

2. Analysis, assessment and disclosure of the effectiveness of the Board of Directors as a whole	Supplementary principle 4-11 (3)

The Company conducts self-assessment of the effectiveness of the Board of Directors as a whole and discloses the outline of the assessment results on our website at: http://www.smcworld.com/ir/ja/corporate_governance.html once a year. (* only Japanese)

3. Active discussions at the Board of Directors meetings	Principle 4-12 Supplementary principle 4-12 (1)

The Board of Directors conducts the following matters as part of its duties so that all the board members including Outside Directors can have discussions freely at the meetings.

(1) At the request of Outside Directors, meeting materials of the Board of Directors are provided in advance, and President and Director in charge give supplementary explanations.
(2) At the request of Outside Directors, materials necessary to deepen the understanding of meeting agendas, including those handed out at the relevant meetings of the Board of Directors, are provided when the said supplementary explanations are given.
(3) In July every year, the secretariat of the Board of Directors informs Directors and Corporate Auditors about the Board of Directors meeting schedule until next June and the main agenda items assumed.
(4) The requirements for placing matters on the agenda at the Board of Directors meetings are reviewed whenever necessary so that the Board of Directors can properly function as a conference body.
(5) Ample discussion time is secured so that discussions can be properly held at meetings although no specific time has been set in particular.

4. Information acquisition and support system	Principle 4-13 Supplementary principle 4-13 (1)

Directors and Corporate Auditors positively acquire information necessary for their job execution. President and Executive Directors provide information to the Board of Directors in a timely and appropriate manner.

In case Outside Directors and Outside Corporate Auditors consider that the Company's support system is inadequate, including the support for information acquisition, they make a request to President and Director in charge for relevant improvement. After receiving the request, President, Director in charge or the Board of Directors strive for the improvement.

5. Use of outside professionals	Supplementary principle 4-13 (2)

Directors and Corporate Auditors obtain the opinions of accounting and legal professionals if necessary during the course of their job execution. Costs incurred to acquire these opinions are basically borne by the Company.

6. Ensuring collaboration with the internal audit division	Supplementary principle 4-13 (3)

Director in charge of Administration, the secretariat of the Board of Directors, and other personnel strive to strengthen collaboration between Outside Directors, Directors, internal audit division and business execution divisions.

The audit staff person who supports Corporate Auditors takes the initiative in strengthening collaboration between Corporate Auditors, Directors, internal audit division and business execution divisions.

7. Training of Directors and Corporate Auditors	Principle 4-14, Supplementary principle 4-14 (1) Supplementary principle 4-14 (2)

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.

VIII. Roles and responsibilities of Corporate Auditors and the Board of Corporate Auditors — Principle 4-4

When Corporate Auditors and the Board of Corporate Auditors fulfill their roles and responsibilities (e.g. auditing of Directors' job execution, determination of appointment, dismissal, reappointment and non-reappointment of accounting auditors, and exercising the right to consent regarding audit fees), they make decisions in an appropriate manner from an independent and objective standpoint, with fiduciary responsibility to shareholders in mind.
Corporate auditors also actively express their opinions and participate in discussions at the Board of Directors meetings. The chair of the Board of Directors urges Corporate Auditors to express their opinions and also uses them for reference purposes.

1. Ensuring collaboration between Corporate Auditors and Outside Directors	Supplementary principle 4-4 (1)

Full-time Corporate Auditors familiar with internal situations and the audit staff person who supports Corporate Auditors strive to report the status of audit execution whenever necessary to Outside Corporate Auditors, sharing information and the awareness of problems.
Based on such information, Outside Corporate Auditors verify the legitimacy and appropriateness of Directors' job execution including the discussion processes at the Board of Directors meetings, and express relevant opinions if necessary at the meetings.
The Company has also set up the "Independent Executive Council" that consists only of independent Outside Directors and independent Outside Corporate Auditors. If requested, full-time Corporate Auditors and Executive Directors attend the council meetings and make necessary reports.

2. Corporate auditors having a considerable level of knowledge about financial reporting	★Principle 4-11

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.

IX. Accounting auditors — Principle 3-2

As the Board of Directors considers establishing an audit environment enabling accounting auditors to properly conduct audits to be part of its responsibilities to shareholders and investors, it will implement necessary measures.

1. Assessment of accounting auditors by the Board of Corporate Auditors — Supplementary principle 3-2 (1)

The Board of Corporate Auditors has set up the criteria for properly appointing and assessing accounting auditors in accordance with the guidelines issued by Japan Audit & Supervisory Board Members Association (Public Interest Incorporation Association).
Using these criteria, the Board of Corporate Auditors regularly verifies whether the independence and expertise of accounting auditors are adequately ensured and also determines whether the agenda on the appointment, dismissal or non-reappointment of accounting auditors should be submitted at the ordinary general Meeting of Shareholders held every year. The determination result is notified to the Board of Directors.

2. Establishment of an audit environment by accounting auditors — Supplementary principle 3-2 (2)

The Board of Directors and the Board of Corporate Auditors have implemented necessary measures to establish an audit environment for accounting auditors.

(1) Ensuring adequate time to achieve high quality audits
To deal with new issues in auditing (e.g. internal controls over financial reporting and audits of group companies) and maintain high audit quality by ensuring adequate audit time, discussions with accounting auditors are held every year before an annual audit schedule is prepared. This audit schedule is reported to the Board of Directors and the Board of Corporate Auditors.
To check accounting auditors' audit framework and quality, the Board of Corporate Auditors examines their audit schedules.

(2) Ensuring accounting auditors have access to President, etc. (e.g. interviews)
After the completion of audit procedures for each fiscal year and quarter, President, Director in charge of Administration and the Board of Corporate Auditors have interviews directly with accounting auditors and receive information about the status of audit execution. Additional interviews with them will be held depending on necessity.

(3) Ensuring adequate collaboration among accounting auditors, Corporate Auditors (including attendance at the Board of Corporate Auditors), internal audit division and Outside Directors
Accounting auditors, Corporate Auditors and the internal audit division have regular meetings to strengthen the collaboration. Accounting auditors also have interviews with Directors including Outside Directors if necessary.

(4) Establishment of the Company's framework for taking measures when accounting auditors detect fraud, proposes that appropriate action be taken or point out deficiencies and problems
In case accounting auditors express serious concern about their audit findings, the Board of

Corporate Auditors, internal audit division, accounting division, President or Director in charge will take necessary measures to investigate facts and correct problems. Then the Board of Directors, Compliance Committee (advisory body for the Board of Directors), and Information Disclosure Committee verify the status of these measures.

X. Adequate information disclosure

Basic principle 3, Principle 3-1
Supplementary principle 3-1 (1)

Financial information and non-financial information are disclosed in a timely and appropriate manner in accordance with the laws and the rules of the stock exchange, etc.
To have constructive dialogues with shareholders and investors and ensure the fairness and transparency of the decision-making process, the Company strives to disclose adequate information to them in an easy-to-understand manner irrespective of the scope of the applicable laws, etc.
When disclosing information about corporate governance in particular, the Board of Directors will express its opinions clearly and simply and avoid using patterned sentences or abstract, superficial descriptions.

1. Information disclosure in English

Supplementary principle 3-1 (2)

As the Company's shareholder composition shows that the ratio of foreign shareholders is extremely high, the English versions of notices on Meetings of Shareholders, summaries of financial results, financial results conference materials, timely disclosure materials, etc. have been and will be disclosed via its website.
As for materials registered via TDnet, the English version is basically made available on the same date via the English-language Disclosure System provided by the Tokyo Stock Exchange. The Company started to do this in 2014.

XI. Constructive dialogues with shareholders and investors

1. Policy on constructive dialogues with shareholders and investors

Basic principle 5, Principle 5-1
Supplementary principle 5-1 (1)

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.

2. Establishment of a framework for having constructive dialogues with shareholders and investors

Supplementary principle 5-1 (2)

(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 disclosed via TDnet and the Company's website within the same day as the date of delivery of such materials.

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

At the financial results conferences mentioned above, President and Director in charge of IR give explanations, answer questions, and directly receive 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.

3. Grasping the status of substantial shareholders	Supplementary principle 5-1 (3)

Based on the list of shareholders finalized at the end of March every year, the Company makes a request to a specialized service provider for the investigation of substantial shareholders targeting foreign institutional investors.

In addition, based on such list finalized at the end of March and September every year, the Company makes a request to the trust bank for the acquisition of information about substantial shareholders targeting domestic institutional investors.

Such information is used for reference purposes when interviews with institutional investors are held.

XII. Appropriate collaboration with stakeholders other than shareholders

Basic principle2
Principle 2-1

The Company considers collaboration with various stakeholders to be indispensable for the purpose of achieving its sustainable growth and improving mid- to long-term corporate value. Accordingly, the Company confirms the status of implementing various measures to achieve such goals and strives to create a sound corporate culture through the offering of in-house training, etc. The Company also recognizes its social responsibility and has established the "SMC Group Ethical and Corporate Principles" stipulating that its goal is to become a company trusted by stakeholders such as customers, suppliers, shareholders, investors, employees, and regional societies. These principles have been disclosed via the Company's website.

http://www.smcworld.com/docs/company/ja/ (* only Japanese)

1. Code of conduct for Directors and employees	Principle 2-2 Supplementary principle 2-2 (1)

Based on “SMC Group Ethical and Corporate Principles,” the Company has set up “SMC Group Code of Conduct” that specifically describes the matters that Directors and employees of the Company’s group must comply with. The English version has also been distributed to group companies.
As part of procedures for assessing internal controls over financial reporting, the Company annually confirms whether “SMC Group Code of Conduct” is completely informed by consolidated subsidiaries.
In addition, as division head, each Executive Director oversees whether the objectives of “SMC Group Code of Conduct” are adhered during the ordinary course of business, aiming to build a sound corporate culture.
The status of compliance with “SMC Group Code of Conduct” at each division is subject audit by Corporate Auditors. In case an issue arises, causing concern, it is reported to President, Outside Directors or the Board of Directors, if necessary, as well as to Director in charge of the relevant division.

2. Managing ESG (Environment/Society/Governance) and sustainability	Principle 2-3 Supplementary principle 2-3 (1)

Pneumatic equipment, a main product of the Company, is environmentally friendly automatic control equipment that can contribute to the progress of energy conservation in every industry. The power source used for this equipment is compressed air that causes no problems even if it is emitted into the atmosphere. The Company continues to develop and supply products with higher energy-saving performance by responding to customer demands.
As for the Company’s initiatives for environmental issues, the basic environmental policy and the status of acquiring ISO certification are disclosed via its website.
http://www.smcworld.com/qc/ja/ (* only Japanese)

As for sustainability issues, the Company has established organizational frameworks such as “CSR Committee” and promoted relevant initiatives to fulfill its social responsibilities and accurately respond to customer demands. In case a serious concern arises, President or Director in charge gives directions about prompt investigations of facts and corrective measures and also gives relevant reports to the Board of Directors and auditors.

3. Promotion of women’s empowerment and diversity	Principle 2-4

The Company has set up ideal working systems for female employees (e.g. childcare leave, maternity leave, and short working hours).
The Company also promotes personnel exchanges and business integration with overseas subsidiaries. About 70% of employees and about 75% of top executives of the Company’s group are non-Japanese nationals.

4. Establishment of an appropriate whistle-blowing system	Principle 2-5 Supplementary principle 2-5 (1)

The Company has established the “Whistle-blowing Rules” and implemented measures to protect whistle-blowers (e.g. non-disclosure of whistle-blowers’ names and prohibition of disadvantageous treatment to whistle-blowers, etc.).
When a whistle-blower provides extremely important information, suggesting the existence of a serious legal violation, etc., it is reported to the “Compliance Committee,” an advisory body of the Board of Directors, or the Board of Directors. Then appropriate measures are taken, including the

investigation of facts, corrective measures and external announcement.

The status of establishing and implementing the whistle-blowing system is subject to audit by Corporate Auditors, and it is prohibited to give disadvantageous treatment to Directors, employees and other personnel of the Company or its subsidiaries on the grounds that a certain event has been reported to Corporate Auditors.
The General Affairs Division also acts as the whistle-blowing desk in principle. However, in the case of illegal acts or misconduct in which an executive is involved or information disclosure issues, an independent law firm familiar with the handling of whistle-blowing problems is designated as such desk.

Enacted: December 25, 2015
Revised: June 28, 2016