

Message from the President & CEO



Harmonic Drive Systems Inc.

株式会社 ハーモニック・ドライブ・システムズ

Harmonic Ito Foundation

公益財団法人 ハーモニック伊藤財团

President and Representative Director
CEO

Akira Maruyama

As society continues to change dramatically,
I keep asking myself “What is it that we can deliver?”
and “What is the raison d'être of the HDS Group?”
to maintain our leading position.

Key Points

- The initiatives implemented to address pressing issues have made steady progress in the first year of the HDS presidency.
- A collaborative business model with local manufacturers has been set in motion in the Chinese market.
- Strategically developing core technologies to foster growth in the physical AI market.
- Developing multifaceted, forward-looking initiatives will lead to sustained improvement in corporate value.

A corporate culture that encourages employees to embrace challenges and strategic moves aimed at renewed growth

Fiscal 2024 orders in review and outlook for fiscal 2025

After hitting a peak in fiscal 2022, our order numbers remained pressured as customers built up the inventory. Now that their inventories have been optimized over the past year, however, the HDS Group's order volume has been showing a moderate recovery trend. Yet end demand itself has not been as strong as we had expected, resulting in a somewhat mild recovery overall. By region, the order volume in Japan remains subdued but is showing signs of recovery. In China, by contrast, we achieved a notable gain in market penetration, driven by proactive engagement with robot manufacturers. In Europe, despite the sluggish market in Germany, we performed relatively well. We are establishing a structure to reduce dependence on robots and semiconductors by strengthening the Aviation and Space segment. We are targeting ¥3.0 billion in consolidated net sales for the

aerospace field in fiscal 2026. In the U.S., the robot industry is relatively small, and our primary markets are medical equipment and semiconductors. A quality issue at one of our key customers there created a temporary setback, which required some time to resolve.

By market, the market for industrial robot-related products is on a recovery track, but we expect that it will take additional time before demand for physical AI-related products, including AI-enabled robots, begins to expand in full swing. In the market for semiconductor manufacturing equipment, products for generative AI and data centers are in strong demand, but we expect the overall recovery to remain mild. The signs of recovery in applications for automobiles and automotive components are also limited, and we remain cautious in our outlook for fiscal 2025. In other words, it is not realistic to assume a quick turnaround in order volume in the latter half of fiscal 2025. Simultaneously, we do not believe that this mild recovery trend will be remarkably derailed.

Message from the President & CEO

Initiatives to foster a challenge-embracing culture

One of the management agenda items I have focused on since assuming the presidency is rebuilding a corporate culture that encourages employees to once again embrace challenges. Over the past year, I have taken every opportunity to tell our employees repeatedly to take on challenges without being afraid of failure. Alongside this attitude of embracing challenges, I have consistently emphasized our Management Philosophy and the targets of the current

Medium-term Management Plan in the context of our corporate vision. By continually reinforcing this message, it has begun to take hold subconsciously, gradually reshaping employee behavior. Some employees have already begun acting accordingly and delivering results, and I can say that something new, distinct from what we previously knew, is spreading across the Company.

All this has led me to say that fiscal 2024 was a year of action. What were once mere words and slogans have now taken the form of tangible actions on the ground. Of course, some actions produced results, whereas others did not. Even so, the action-oriented mindset has begun taking root in our workplace. I am delighted to say that the mindset of taking action without fear of failure is gaining strong momentum within the Group.

One of the symbolic initiatives in this regard is the company-wide cost innovation project. It is not a mere extension of traditional approaches that aim to reduce cost by 1-2% per year but challenges the very idea of manufacturing. This company-wide project has triggered a move toward pursuing improvements through open, creative thinking. For instance, we start by asking ourselves whether continuing to use the same tools is truly appropriate or whether we may be using them inefficiently, prompting ourselves to explore improvement plans in a new light. By taking action first, we search for new possibilities and put the feasible ones into action. These attempts have become commonplace in the Company, producing concrete outcomes attributable to the challenge-embracing culture. They did not originate from top-down directives but are the result of a challenge-embracing mindset that has grown from the ground up. This clearly indicates that the challenge-embracing culture has begun to take hold, and I feel this will give us tremendous strength going forward.

Leveraging external knowledge and encountering a start-up business

In fiscal 2024, I deliberately spent considerable time building networks and holding information exchanges with those outside the Company. I spoke with many people, including those I met through Chairperson Nagai's networks, to hear "What is happening now and where?" and shared their insights with employees. I am not doing this just to gather information; it prompts me to consider how we can leverage ideas from other industries for the benefit of our Company, updating my thinking. In particular, an encounter with a start-up business in the physical AI field has brought fresh, unconventional ideas and the possibility of collaboration. Technological fusion between AI and robotics is never easy, and it has yet to gain the traction that the capital market had hoped for. Nevertheless, the HDS Group has seen a steady increase in inquiries and offers for joint development. We are in the process of "sowing seeds" and are advancing these future-oriented initiatives as I speak. I make it a habit to bring takeaways from dialogues with corporate managers and engineers from other

industries back to the Company to stimulate discussions. Such input from outside helps us reaffirm where the Company stands today and broaden our horizons. I have also been mindful of the need to encourage employees to engage with people outside the Company to sharpen the attentiveness of every member of the Group. Moving forward, actively pursuing alliances with external partners and integrating knowledge with them will be positioned as one of the pillars of our growth strategy aimed at realizing our long-term vision.

Challenges for deepening the relationship of trust

We still have a way to go before we can say we have successfully addressed the other challenge: achieving speed and flexibility in customer service. The distinguishing characteristic of the Group's business model is that we have evolved by keeping HarmonicDrive® strain wave gears as our core offering while providing products customized for each individual customer. It is this customization and the R&D it entails that constitute our core competencies. The added value that the Group provides is our ability to customize products to the specifications that our customers' engineers want to use. If there is anything we need to reflect on, it is that we may have rested on our laurels, with HarmonicDrive® having been a one-of-a-kind product. That said, we have begun to sense signs of change. We are currently teaming up with a customer on a project that is technically demanding. We have yet to see any tangible results from this project, but we have already demonstrated our firm commitment to getting things done. The customer was impressed by the depth and breadth of the services HDSI delivers. Over our relationship spanning 30 or even 40 years, this was the first time they had commended us in such a way. Such recognition truly helps deepen a relationship of mutual trust that goes beyond products and technology. We will continue integrating production, sales, and supply chain functions without letting our guard down, enabling ourselves to make swift decisions on local-spec customization and pricing to enhance the speed and flexibility of our service.

By demonstrating our firm commitment to getting things done, we can deepen a relationship of mutual trust that goes beyond products and technology.



Deepening the strategy for the Chinese market and extending our reach

According to the International Federation of Robotics, the number of industrial robots installed worldwide in 2024 increased by 0.2% from the previous year to 542,000 units. By country, while installation numbers declined across major countries, China achieved 6.9% growth to 295,000 units, earning a 54% share of the global market. Because China continues to lead global demand for industrial robots, how we address the Chinese market is extremely important.

Meanwhile, the number of robots produced by local Chinese manufacturers keeps increasing, and their robot density (the number of industrial robots in service per 10,000 manufacturing workers) now ranks third in the world, surpassing those of Japan and Germany for the first time. We believe the next stage will be China's increasingly sophisticated use of robots, which in turn will drive a surge in demand for high-end industrial robots. For the HDS Group, this means that Chinese local manufacturers now account for a growing share of our customer base and that our exports to China are increasing.

Transitioning from preparation to harvesting: New developments in the Chinese market

In the latter half of fiscal 2024, we ventured into a segment of the Chinese market that had been challenging to enter and launched new initiatives, including the combined use of local components and local assembly. This is our bold attempt in the Chinese market, and it is highly important as a strategic move in anticipation of our global business going forward. This effort has already paid off, and we now collaborate closely with local manufacturers in the midtier segment. By combining locally produced components with our products, we are now able to offer competitive products, which in turn is helping to establish a sales model that did not exist before. This initiative has given our employees the opportunity to design a new business model, fostering a workplace atmosphere that encourages them to take on challenges without being bound by conventional wisdom.

Furthermore, our relationship with Chinese customers has advanced from merely providing products to engaging in a cocreation business—a framework for joint development and improvement that is about to be launched. We now have a connection with local manufacturers, with whom we had little contact previously, giving us greater flexibility in marketing our offerings there. Meanwhile, HarmonicDrive® has begun to be used in co-bots, a market in which local Chinese manufacturers have an overwhelming share. I consider this a testament to our brand's growing recognition in China, as well as to the steady trust that we have earned in our technology, beyond merely expanding sales and market share. In the Chinese market, customers value speed and flexibility in addition to price and specifications. These developments provide an important learning opportunity as the Group advances its business model for the future.

Future outlook and a path to achieving sustainable growth

Chinese local manufacturers are likely to gain a greater presence in the industrial robot market, but the HDS Group will maintain a policy of offering high-value-added products without engaging in price competition. Accordingly, we are expanding our product line to better cater to local demand. One potential future initiative is the launch of a second brand exclusive to the Chinese market.

A growing number of local robot manufacturers are aiming to expand overseas, and quality requirements for our speed reducers and other products will only become more advanced. But it is precisely here that the Group's business opportunity emerges. The Group's ability to deliver quality and reliability that meet global standards is one of its key strengths. We will aim to become a preferred partner built on long-term trust, rather than competing solely on price or delivery performance. We see this initiative in the Chinese market as a symbolic step in the Group's evolution, and we will extend its outcomes to other regions.

Taking a crack at the physical AI market and technological innovation

Current market conditions and key challenges perceived

In the capital market and elsewhere, expectations that the physical AI market would see a rapid pickup in demand around 2024 were building. In reality, the physical AI market has not expanded at the pace initially anticipated due to multiple technical hurdles. Although AI and sensing technologies continue to advance rapidly, major issues remain regarding how to embed these technologies into physical AI systems to achieve a precise, coordinated motion control of robot forearms. Our current

perception is that we are in a phase where we are determining "what is required," rather than exploring "how it should be used." At present, the development and assessment of relevant technologies and system components are outpacing the establishment of clear use cases.

Nevertheless, global attention to the physical AI field has grown remarkably over the past year—enough to suggest that future demand is positioned for substantial acceleration. While monitoring this emerging trend with composure, the HDS Group will steadily implement measures to strengthen its core technologies and respond to changes in the market.

Message from the President & CEO

Development of customized integrated actuators

In the physical AI market, the HDS Group is focusing on the development of actuators that integrate drivers, as well as speed reducers, motors and sensors. The conventional approach of connecting an external driver via a long wire is not suited for mobile physical AI systems, which require far more compact and sophisticated configurations. Integrated actuators have the potential to be applied across a wide range of motion control solutions, extending well beyond just physical AI systems. In the European and North American markets, in particular, actuators appear more promising than stand-alone speed reducers, offering the potential for strong future returns. We have already received exceptionally positive feedback from several customers, and with technological integrity approaching completion, we are preparing for a full-scale launch in 2026 at the earliest.

That said, several issues remain, including the development of mass production systems and the optimization of manufacturing costs. Integrated actuators offer substantial expandability for next-generation robots, including physical AI systems, but we must elevate our initiatives further before they can secure a strong foothold in the market. Our policy is to prioritize establishing a reputation for integrated actuators as high-performance, affordable, and reliable solutions that address customers' real-world challenges, rather than simply introducing novel technologies.

Our Group's medium- to long-term goal is to establish integrated actuators as a core of the next growth areas and as a *de facto* standard for physical AI system control. We intend

to build enduring competitiveness by delivering products backed by reliable technology, rather than pursuing quick results. Simultaneously, we will pursue opportunities to maximize profitability by refining the functions and specifications of existing models, consistent with our company-wide cost innovation project. By reviewing procurement, production, and design functions from a cross-functional perspective, we will build a system that achieves total optimization for the Group, strengthening competitiveness while protecting the value added, rather than merely focusing on cost reduction.



Assessing the growth potential of physical AI demand to deepen core technologies and address market changes.

Management that enhances corporate value in a sustainable manner

Pursuing future business opportunities and taking steps toward sustainable operations

Looking back on the first year of the current Medium-term Management Plan, I must acknowledge that our business plan projections were more optimistic than conditions warranted. Even so, the forward-looking initiatives we undertook have established a solid foundation for sustained future growth. Among these strategic moves are fostering a challenge-embracing culture, deepening the strategy for the Chinese market, advancing technological innovation for the physical AI market, and strengthening our profitability profile through the company-wide cost innovation project. Our management policy for fiscal 2025 is to solidify the foundation that supports future growth by further strengthening profitability and broadening partnerships and joint development opportunities.

In an operating environment where the pace of change continues accelerating, we will remain open to new ideas and continue moving forward, guided by the strength that comes from the frontline. As we proceed toward the future, what matters is not only achieving short-term results but also building corporate value through

continuous innovation. To secure an indispensable position in society and continue developing technologies and a corporate culture that we can proudly share with the world, we will keep advancing without hesitation.

In any era, it is human resources that underpin sustainable corporate value. The employee engagement survey we conducted in fiscal 2024 made one thing clear: despite a strong appetite to take on challenges, some employees feel their efforts are not sufficiently recognized. With this in mind, beginning in fiscal 2025, we introduced new personnel systems designed to properly evaluate challenge-driven behavior and unlock the individual "brain power" that fuels our growth. To honor the manufacturing craftsmanship that forms the source of the Group's strengths, we will also introduce a system akin to a meister-style program for highly skilled professionals. This framework will formally recognize those who push their expertise to the highest level and ensure that they are rewarded accordingly. Through these efforts, we intend to spark greater initiative, elevate engagement, and channel that energy into the collective strength of the Company.

Over the past several years, we placed priority on growth investments, but the results have been limited, causing operating profit to stagnate. Although it is difficult

Message from the President & CEO

to estimate exactly when the investments we have made will bear fruit, we recognize the need to build a solid foundation for generating profits on our own. The company-wide cost innovation project is a key step in returning to this foundation. This project encourages us to question the conventional idea of manufacturing to improve profitability while preserving the value added. I consider fiscal 2025 and beyond as years of “harvesting,” when we begin to reap the benefits of the forward-looking initiatives and translate them into tangible results, establishing stronger corporate fundamentals that support ongoing earnings.

Sustainable management enhances corporate value

Corporate value cannot be measured solely by numerical indicators, such as net sales or operating income. Rather, I believe that it is defined by the *raison d'être* of our Group and the extent of trust we have built. The precision control technology that we provide is expected to play an increasingly important role as AI, robotics, and other technologies continue to advance. As these technologies become embedded in society and form the foundation of future lifestyles and industries, the responsibility we are expected to fulfill will inevitably grow.

The Group's Mission is “to contribute to innovation in society by our motion control technology,” and we aim to be “the best provider of total motion control in harmony with the future” as our long-term vision states. As society continues to change dramatically, I keep asking myself, to maintain our leading position, “What is it that we can deliver?” and “What is the *raison d'être* of the HDS Group?” I firmly believe that the persistent search for answers to these questions is what truly matters in continuously enhancing corporate value. Over the years, I have gained experience in various business operations of the Company, including production, design, development, and sales. I also spent time in the corporate planning division, where I helped shape the Company's overall business strategy. These experiences have given me a broad perspective on the Company, something I value greatly. Drawing on this background, I will continue to exercise decisive leadership.

At the HDS Group, we will continuously enhance corporate value by maintaining ongoing dialogue and engagement with shareholders, investors, and other stakeholders; addressing issues that emerge through such dialogues; and fostering strong relationships of trust. By embracing change and continuing to take on challenges, we will fulfill our mission of contributing to society. I sincerely hope that our stakeholders will continue to extend their generous support to the HDS Group.

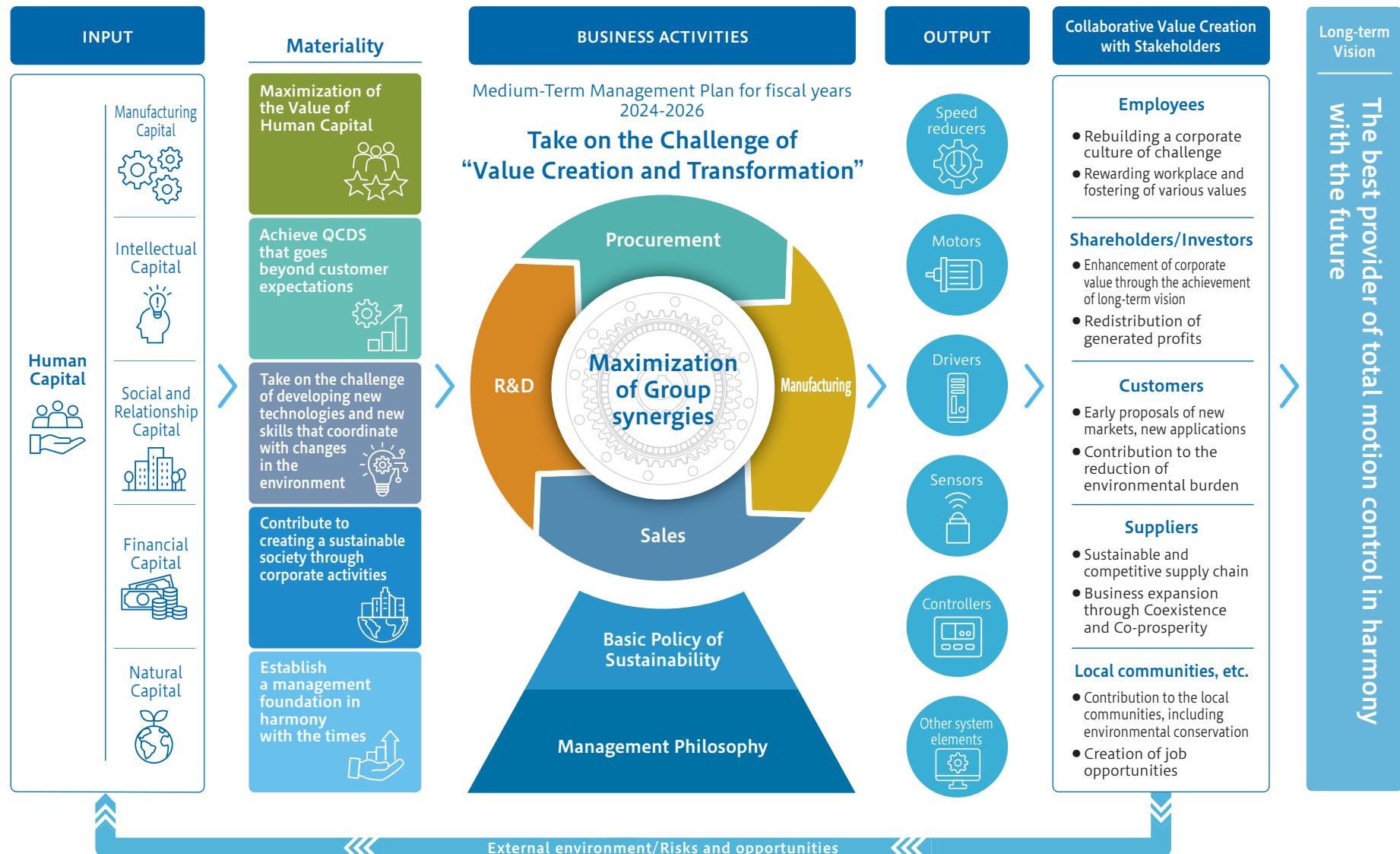


By embracing change and continuing to take on challenges, we will fulfill our mission of contributing to society.

Value Creation Process

Mission

To contribute to innovation in the society by our motion control technology



Management Capital as a Driver of Value Creation

In order for the HDS Group to achieve sustainable growth, it is important for us to accurately identify the surrounding social issues and business environment, specify risks and opportunities, and produce outcomes that lead to increased corporate value. These outcomes will be created from our inputs that are our strengths and through our unique business activities based on our Management Philosophy. Through this process, we will strive to achieve our mission and long-term vision.

Aspirations stated in the Medium-Term Management Plan for Fiscal 2024–2026		1 What do we aim to achieve? Sustainable growth of all businesses with an emphasis on profitability	2 What is necessary to achieve this? Strengthen management resources (people, things, money, information) that can adapt to changes in the environment	3 Sustainability Initiatives to enhance corporate value that will continue into the future	
	Refer to:	Strengths	INPUT (FY2024)	Highly relevant materiality	OUTCOME (FY2024-FY2026 Medium-term Management Plan)
Human Capital	 P64～P66	Support for challenges and appropriate evaluation of each individual based on our Management Philosophy of "Respect for the Individual"	● Number of employees (consolidated): 1,384 (including 613 overseas)	Maximization of the Value of Human Capital	<ul style="list-style-type: none"> Individual growth and exercise of diverse skills Thorough implementation of QCDS + Speed that meets beyond customer expectations Fostering a culture that goes beyond conventional mindsets
Manufacturing Capital	 P37～P48	8 domestic and 4 overseas production bases, and a build-to-order system that creates competitiveness	● Capital investment: ¥3.76 billion; ratio of property, plant and equipment to total assets: 40.4%	Achieve QCDS that goes beyond customer expectations	<ul style="list-style-type: none"> Enhancing productivity through the promotion of automation and DX adoption Ensuring absolute superiority in product quality
Intellectual Capital	 P49～P50	Quality standards that meet customer expectations and progress in total motion control	<ul style="list-style-type: none"> R&D expenditure: ¥3.77 billion 148 R&D personnel 	Take on the challenge of developing new technologies and new skills that coordinate with changes in the environment	<ul style="list-style-type: none"> Development of new driers for growth Solutions that meet customer needs
Social and Relationship Capital	 P61～P63	Supply chain structure that supports competitiveness and an enhanced global presence	<ul style="list-style-type: none"> HDS Cooperative Association: 34 companies 32 global sites in 12 countries 	Achieve QCDS that goes beyond customer expectations	<ul style="list-style-type: none"> Maintaining No. 1 market share Coexistence and Co-prosperity with suppliers
Financial Capital	 P31～P36	High financial stability, growth investments, including use of interest-bearing liabilities	<ul style="list-style-type: none"> Total assets: ¥113.6 billion Net assets: ¥78.9 billion Interest bearing liabilities: ¥15.6 billion 	Establishment of a management foundation in harmony with the times	<ul style="list-style-type: none"> Achieving ROE that exceeds capital cost Balancing financial stability with growth investments
Natural Capital	 P58～P60	Promotion of business activities aimed at reducing environmental impact	<ul style="list-style-type: none"> Energy input: 42,263 MWh Water withdrawals: 28,041m³ 	Contribute to creating a sustainable society through corporate activities	<ul style="list-style-type: none"> Developing products that reduce environmental impact Promoting Net Zero GHG emissions
External environment/ Risks and opportunities	<ul style="list-style-type: none"> Reduction of global environmental burden and realization of a decarbonized, recycling-oriented society Decrease in workforce and skilled workers Increased interest in sustainability Establishment of robust supply chain 		<p>Our Group's customers are increasingly paying attention to global environmental issues such as decarbonization and resource recycling, and request for information disclosure on these issues. Delays in addressing these issues may lead to a decrease in business opportunities for the HDS Group. On the other hand, the decline in the working population and the number of skilled workers will lead to an increase in demand from robot manufacturers and others, who are our customers, and the Group will also need to strengthen its production system and establish a sustainable supply chain.</p>		

Reinforcing Value Chain for Value Creation

Since the sale of HarmonicDrive®, the HDS Group's flagship product, is affected by the capital investment trends of our customers, including manufacturers of industrial robots, semiconductor manufacturing equipment, and machine tools, demand is highly volatile. This trend has become increasingly pronounced in recent years. To strengthen our Group's ability to respond to demand fluctuations, we need to cooperate with suppliers including the HDS Kyoryokukai (HDS Cooperative Association), increase our production capacity, and gain insight into anticipating what will happen beyond demand. We will further reinforce our value chain and maximize the value we create, thereby achieving profit growth over the medium- to long-term.



Sales

— Market and Application Development —

- Reinforcement of capability to solve customers' issues
- Maintain our position as a top manufacturer in the precision control market

Message from the officer in charge P51



R&D

— Provision of Products Suited to the Times —

- Research and development of products that help our customers reduce their environmental impact
- Pursuit of development efficiency and development talent enhancement

Message from the officer in charge P49, P50

Themes of medium- to long-term importance

- Increase our capabilities to respond to our customers (speed, in particular) and customer satisfaction
- Maintain and expand the HDS Group's position with key customers

Themes of medium- to long-term importance

- R&D on various motion mechanisms to realize total motion control
- Pursuit of development efficiency and strengthening the development of human resources in R&D

Initiatives

The unique feature of HarmonicDrive®, the HDS Group's core product, is that it is customized according to the individual needs of our customers. The sales section aims to improve customer satisfaction by refining its unique solution sales style that goes beyond what our customers demand from us and strengthen its capabilities to support our customers through system reforms and other measures. Specifically, it works with the Motion Control (MC) Development Group to conduct the solution-based selling that will meet our customers' demand. Our basic policy is to make sales through our direct sales and sales agents domestically and directly overseas. In October 2024, the latest data-driven Sales Digital Transformation (DX) began full-scale operations. This allows us to collect and analyze data such as demand forecasts, inventory status, orders, and we will build a structure under which we can develop our sales activities more strategically. We will make the most of this framework and continue to build a structure that enables even more strategic sales activities.

Values expected to be created

- Products that create new value
- Strengthening of total motion control
- Improvement in abilities to meet customer needs

The sales team sets achieving QCDS that meets customer expectations as the most important materiality, while maximizing the value of human capital and taking on the challenge of developing new technologies and skills that coordinate with changes in the environment are also important.

Initiatives

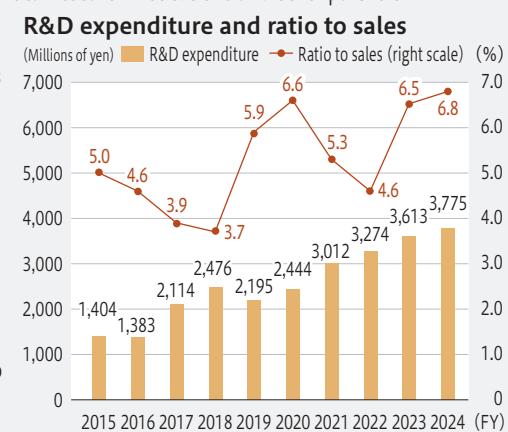
Our Group's R&D structure consists of three divisions: the Development and Engineering Division that develops and designs standard catalogue products and develops and designs products based on customer requests mainly in Japan; the New Mechanism Principle Laboratory that freely explores new principles and mechanisms beyond the boundaries of existing products; and the Harmonic Drive Laboratory that investigates deeply the basic technology supporting HarmonicDrive® to find possibilities for enhancing its performance. We have also established an office in Silicon Valley in the United States, where world-leading technologies such as AI and robotics are concentrated, and we conduct research and studies on next-generation products such as physical AI in collaboration with local research institutions and other partners.

Values expected to be created

- Innovative proprietary technologies
- Reduction of customers' environmental burden

The R&D team identifies market and technology trends and customer needs at an early stage to support proposals that go beyond their expectations. Its most important materiality is to take on the challenge of developing new technologies and skills that coordinate with changes in the environment, and to achieve that, it is essential to maximize the value of human capital.

R&D expenditure and ratio to sales
(Millions of yen) ■ R&D expenditure ● Ratio to sales (right scale) (%)



Year	R&D expenditure (Millions of yen)	Ratio to sales (%)
2015	1,404	5.0
2016	1,383	4.6
2017	2,114	3.9
2018	2,476	3.7
2019	2,195	5.9
2020	2,444	6.6
2021	3,012	5.3
2022	3,274	4.6
2023	3,613	6.5
2024	3,775	6.8

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To this end, it is essential to make full use of our management capital centered on human capital, which is one of the HDS Group's strengths, to demonstrate the strength of our superior value chain by taking into account our materiality and maximization of group synergies in our business activities. We will be committed to solving social issues and improving corporate value through the provision of total motion control, by accurately capturing market and technological trends and customer needs at an early stage and by continuing to develop products and make proposals with an eye to the future.



Procurement

— Robust Supply Chain —

Message from the officer in charge P61～P63

- Strengthening cooperation with suppliers centered on the HDS Kyoryokukai (HDS Cooperative Association)
- Unique components exclusive to the HDS Group made with advanced technology

Themes of medium-
to long-term
importance

- Building and strengthening a system for stable supply (collaboration with the HDS Cooperative Association)
- Comprehensive capability of the entire supply chain and high quality

Initiatives

Stable procurement of materials and parts is essential to definitively capture new business opportunities. In FY2022, our Group formulated the Sustainable Procurement Policy, and the Supply Chain Division has been working to strengthen our supply chain by focusing on three key measures, namely, (1) strengthening a system for stable supply, (2) strengthen comprehensive capability of the entire supply chain, and (3) human resource development as priority measures. In order to embody our Management Philosophy of Coexistence and Co-prosperity, it is important to maintain a close relationship with our primary suppliers, including the HDS Cooperative Association and this will lead to the enhancement of our ability to address issues related to quality and delivery deadlines. To achieve the targets of the Medium-Term Management Plan, the Supply Chain Division is promoting (1) improving the quality of purchased components, (2) establishing a procurement framework for the mechatronics business, and (3) optimizing costs.

Values expected to be created

- Appropriate response to delivery deadlines
- Global environmental protection and response to business and human rights

In procurement, the most important materiality is to achieve QCDS that meets customer expectations; however, suppliers' awareness of sustainability (e.g., reduction of environmental impact, response to human rights, etc.), contributing to a sustainable society through corporate activities and maximizing human capital value are also important.



Manufacturing

— Stable supply of high-quality products —

Message from the officer in charge /
round table
P37～P48

- Advancement of skills and production technology
- Manufacturing lead time that meets delivery schedule requested by customers

Themes of medium-
to long-term
importance

- Human resource development at the Hotaka Factory and distributing workloads evenly by promoting multi-skilling of workers
- Improving profitability by rolling out automation technology developed at the Ariake Factory

Initiatives

The HDS Group generates added value through manufacturing, as indicated by its balance sheet, where property, plant and equipment account for 40% of total assets, and continues to innovate production for high quality and high reliability. At the Hotaka Factory, we engage in high-mix low-volume production with advanced expert skills and at the Ariake Factory, we work to maintain high quality and further increase productivity through mass production of same type by promoting automation and DX. In this way, we meet customer requests. To add more value and manufacture higher-quality products, our production subsidiaries have established production systems in the Komagane Factory (HWB), which manufactures mechatronics products; the Toyoshina Factory (HAD), which manufactures precision planetary speed reducers; and the Matsumoto Factory (HPI), which manufactures cross-roller bearings.

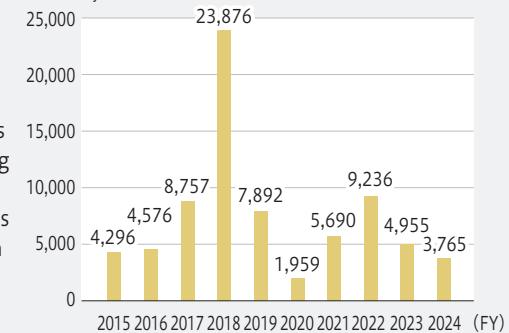
Values expected to be created

- Provision of high-quality, highly reliable products
- Reduction in manufacturing lead time

In manufacturing, the most important materiality is to achieve QCDS that meets customer expectations; while, maximizing the value of human capital, taking on the challenge of developing new technologies and skills that coordinate with changes in the environment, and contributing to a sustainable society through corporate activities are also important.

Capital investment

(Millions of yen)



Materiality to Achieve Aspirations

We place our Management Philosophy at the core of our business activities and uphold the mission, “to contribute to innovation in the society by our motion control technology,” aiming to realize a sustainable society, increase corporate value, and grow our business.

In modern society where things are changing rapidly and all kinds of social issues have been brought to the fore, it is increasingly critical to build a management foundation that can flexibly respond to short-, medium-, and long-term opportunities and risks in the future and to contribute to the solution of social issues. We have identified priority challenges for the sustainable growth of the HDS Group as material issues (materiality) and incorporated them into our

business strategy, addressing them with a medium- to long-term view.

In identifying materiality, we focused on ensuring consistency with social requirement as well as Management Philosophy and business strategies. For impact assessment, we look at it from the perspective of social sustainability and sustainable growth of the HDS Group.

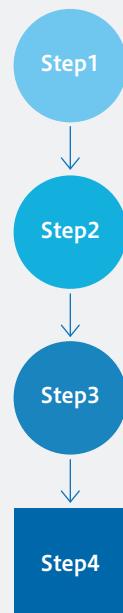
With the formulation of the Medium-term Management Plan for fiscal 2024–2026, the Sustainability Committee reviewed materiality, and identified five new materiality following the discussion at the Board of Directors meeting held on November 20, 2023.

The newly identified five material issues (materiality) are positioned as priority issues to be addressed to realize our long-term vision of becoming the best provider of total motion control in harmony with the future, and form the basis for formulating the Medium-term Management Plan for fiscal 2024–2026.

We have linked these material issues to annual management programs of all sections (concrete action plans and objectives for each department) with the aim of embedding them into our business activities for implementation. Progress is reviewed semiannually during the President's management reviews.

Process of extraction and identification of materiality

Toward the realization of a sustainable society and improvement of corporate value, we have identified material issues (materiality) through the following process, led by the Sustainability Committee. The Sustainability Committee is chaired by President and CEO and its members consist of Executive Directors.



Extracting sustainability-related issues

In addition to issues concerning the HDS Group's business strategy, issues that are related to sustainability are extracted comprehensively by going through case studies focusing on companies in the value chain and looking at global frameworks on sustainability such as the ISSB, GRI, and SASB Standards as well as seeking opinions from experts.

Impact assessment of each issue

Extracted issues are evaluated by the Sustainability Committee, from a short-, medium-, and long-term perspective, from the viewpoints of “impact on social sustainability” and “impact on the sustainable growth of the HDS Group,” and are mapped on a materiality matrix. Issues that have particularly strong impacts are selected.

Identification of materiality

Discussion is held based on the materiality matrix and based on the HDS Group's business strategies, issues are classified into five material issues (materiality).

Approval by the Board of Directors

At the Board of Directors meeting held on November 20, 2023, materiality classified in STEP3 is discussed and finally approved.

Materiality Matrix

Very strong

Impact on social sustainability

Impact on the sustainable growth of the HDS Group

Very strong

Very strong

Very strong

Very strong

Very strong

Materiality to Achieve Aspirations

Human capital, as stated in “maximize the value of human capital,” is the most important management capital in corporate activities, and is the source of all other management capital (manufacturing capital, intellectual capital, social capital, financial capital, and natural capital). In our Management Philosophy, we set “respect for the individual” as the first item of the priority issues. We are working to maximize the value of human capital including fostering a corporate culture that encourages employees to take on the challenge without fear of failure, creation of a rewarding workplace, and enhancement of personnel systems and capacity development.

“Achieve QCDS that goes beyond customer expectations” is a key issue to achieve sustainable growth of all businesses with an emphasis on

profitability, which is the core of our Medium-term Management Plan. In addition to Quality (Q), Costs (C), Delivery (D), and Service (S), we are making company-wide efforts to improve another Speed (S).

“Taking on the challenge of developing new technologies and skills that coordinate with changes in the environment” is an essential element to achieve our mission of “to contribute to innovation in the society by our motion control technology,” and it is becoming even more important in this era of rapid technological innovation and market change. We have also launched an environmentally conscious design project to develop products that help reduce our customers’ environmental impact.

“Contribute to a sustainable society through our corporate activities” is an essential initiative to enhance global, social, and the HDS Group’s sustainability together. We will strengthen our sustainability initiatives, aiming to reduce environmental impacts including those related to climate change and to achieve harmony with all stakeholders, including the global environment and our employees.

We are working on the “establishment of a management foundation in harmony with the times” with the aim of enhancing the sustainability of our financial base, governance and management system that are pivotal for realizing these material issues (materiality).

Materiality of the HDS Group

Materiality	Key measures	KPI			
		Indicators	Medium-term targets	Long-term targets FY2050	Results FY2024
 Maximize the value of human capital	<ul style="list-style-type: none"> Strengthen professional development Establish a personnel system that properly recognizes challenges Increase employee engagement 	Number of female managers	FY2027: 5	—	3
		Ratio of males who took childcare leave	FY2027: 90%	100%	85.7%
		Ratio of employees who took paid annual leave	FY2027: 80%	100%	81.1%
 Achieve QCDS that goes beyond customer expectations	<ul style="list-style-type: none"> Strengthen the quality management system Respond with a focus on speed Strengthen supply chain management Enhance responsiveness to order fluctuations 	Sustainable procurement agreement rate (agreements)	—	100%	60%
		Supplier SAQ response rate	—	100% (all suppliers)	100% (important suppliers)
 Take on the challenge of developing new technologies and skills that coordinate with changes in the environment	<ul style="list-style-type: none"> Develop products that promote the reduction of customers’ environmental burden Create new technologies and methods 	Market introduction of products that reduce environmental burden			
 Contribute to creating a sustainable society through corporate activities	<ul style="list-style-type: none"> Reduce environmental burden across product life cycles Address climate change Reduce waste Conduct community contribution activities 	Reduction of GHG emissions	2030: Reduce scope 1 & 2 emissions by 30% compared with FY2022	Reach net-zero emissions for scope 1, 2, and 3	10,670 t-CO ₂ (Down by 13% compared with FY2022)
		Share of renewable electricity	—	100%	28%
 Establish a management foundation in harmony with the times	<ul style="list-style-type: none"> Enhance corporate governance Respond to business and human rights Strengthen cybersecurity Establish and reinforce a risk management framework 	Principles of the Corporate Governance Code not implemented	FY2026: 0	0	1
		Implementation scope of human rights due diligence	FY2027: 85% (important suppliers)	100% (important suppliers)	—
		Percentage of female directors	FY2030: 30%	—	10%
		Number of information security incidents	FY2030: 0	0	0