

Message from the President & CEO

Take on the Challenge of Value Creation and Transformation

We will contribute to technological innovation in society through motion control by further mobilizing and unleashing the brain power of individuals as we seek to realize our long-term vision

President and CEO

Akira Maruyama

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Introduction : We will rebuild a corporate culture that encourages employees to embrace challenges

I joined Harmonic Drive Systems Inc. (HDSI) in 1985 as a new-graduate recruit. After gaining experience in various business operations such as production, design, development, and sales, I became involved in determining business strategy for the Company as a whole in the corporate planning division. When I joined, the average employee age was in the 20s and I had the strong impression that young employees were driving the Company. We visited customers that manufactured industrial robots and we young employees gained experience in proving ourselves by making a large number of technical proposals. The Company had a deeply rooted culture of swift decision-making and immediate action that allowed good ideas to be put into practice promptly. I myself was able to grow within this culture, and the colleagues I worked with at that time are also still active today.

■ Rebuilding a corporate culture that encourages employees to embrace challenges

However, as the Company developed and expanded in scale, then became a listed company that was expected to fulfill its responsibilities to society, the entire organization started to change. The roles of individuals increasingly standardized, and in some ways it became difficult to think freely or take on challenges. Having had this experience myself, when I talk to the younger generation of employees now, I sense that to some extent they relate to my own perspective and thought processes when I was young, which I find reassuring. That is why I want to rebuild a corporate culture that encourages

employees to once more embrace challenges. So, how can we build such an environment again? First, it is essential to improve communication and transparency within our organization. We need to create an environment in which, rather than hanging onto a “ball” (i.e., an issue), individuals can proactively share information both internally and with the customer to make rapid decisions that resolve the issue and enable the ball to be returned. This is a challenge to be addressed by all our employees throughout every aspect of day-to-day operations, regardless of whether they work in direct or indirect sections, or what their job title might be.

I believe it is everyday communication that brings out the strengths of an organization and leads to problem-solving. If we only ever share information in groups or communicate through meetings, we will never be able to see the whole picture; instead, it is day-to-day communication that is essential to deal with the concerns and problems of individual employees. Particularly when we need to overcome disparities in thinking based on age and job position, I believe it is important to understand the generational gap and communicate frankly. During the COVID-19 pandemic, opportunities for communication declined, but since Japan downgraded COVID-19 to a “Class 5” infectious disease in May 2023, we have restarted social gatherings and other events, and are actively organizing occasions for employees to exchange opinions and understand each other better. I sincerely hope that we can make use of opportunities such as these to bridge the generational gap so that all our employees can grow in unison.

My task as chief executive and the strengths of our business model

My task as chief executive is to steadily grow the business the Company has built over more than 50 years and pass it on to the next generation in a sustainable form. In order to do so, it is crucial that we, the management team, create a comfortable working environment for employees. Looking back over HDSI's history, we see that for the first 10 years after its establishment, during the 1970s, strain wave gearing struggled to gain recognition and times were hard for the Company. It was later, when the electrification of industrial robots started, that our products began to be in demand. This demand subsequently continued as technological innovation advanced from one decade to the next in fields such as semiconductor manufacturing equipment and flat panel display manufacturing equipment, followed in more recent years by innovation in advanced medical equipment, co-bots, and aerospace. The HDS Group grew as these developments generated demand for its products. Thus, we have been able to predict the emergence of new products and applications as technology has progressed

and bring to market products that are ahead of the curve, thereby establishing a cycle of growth. Looking ahead, we will continue to target sustainable growth by providing products that customers find appealing.

I have built my career thus far in an environment where business operations come first. Having taken on the responsibility of the President role, however, I intend to make a point of devoting time to connecting with people outside the Company in order to broaden my perspective. I think it will be important in terms of the Group's growth for me to leverage the abundant personal connections of our Chairperson, Akira Nagai, as well as to interact with a greater number of external parties. This will shorten the amount of time I can spend being in our factories, but given that I am responsible for developing and expanding the Group's business, I must also allow time for creating personal connections that give me a big-picture overview of the world in which we operate. On a separate

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note, another of my key responsibilities from now on will be to place even greater value on management that prioritizes individual employees and focus on creating a comfortable working environment where all men and women can demonstrate their abilities to the full.

■ Moving toward providing more highly customized actuators

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 comprise our core competencies. The added value the Group provides is, I believe, our ability to customize a product to the specifications that our customers' engineers want to use. To achieve this, we must constantly accumulate technical expertise exceeding what our customers demand from us and have a system enabling such expertise to be perpetuated. There are times when we deviate from customers' stated needs and make our own new proposals to pique their interest, offering the best possible specifications to satisfy their engineers' requirements.

In terms of R&D, we are exploring how far we can improve the strength, lifespan, and accuracy of HarmonicDrive®, and the experience and knowledge thus accumulated forms the basis of our business. Although we already have excellent products, we will continue researching methodically to further improve our technologies, working to make these products even lighter and thinner. In addition, we are developing and providing actuators, which motor manufacturers are unable to make for themselves. To provide actuators that customers actually want to use, we need to produce a large number of outstanding proposals. Of course, making proposals is not so easy that they all end up being adopted.

However, once we succeed in having a proposal adopted, the product in question has a relatively long lifecycle and contributes significantly to keeping our revenue stable.



Emergence of competitors and realization of our long-term vision

Over the past five years, the emergence of competitors has become more pronounced. The biggest difference between the HDS Group and our competitors is that our HarmonicDrive® has been created from the lessons learned through mistakes made over more than 50 years. And this experience is reflected in our day-to-day efforts to reduce the size of products and improve their design, materials, and production. To ensure that we are not overtaken by competitors and continue to maintain our presence, we must constantly work on technological innovation and deliver new value to the market. A few years ago, we entered into partnership with a research institution in the U.S., SRI, with which we are now researching the Abacus® speed reducer, a device which, theoretically, promises to be highly efficient. Through investments such as this, we are actively taking on new challenges.

Meanwhile, the recently accelerating progress of generative AI is likely to make industrial robots more "intelligent." One example is the potential for humanoid robots to further penetrate the logistics and factory automation markets. A major challenge with speed reducers used in such robots is

reducing their size and weight; working out how to make robot arms lighter is key. Although making our products lighter is not easy, we are continuing to work on this challenge while still meeting customers' specifications.

As competitors become more of a threat, the HDS Group needs to further reinforce its efforts to provide the value that our customers demand. This requires us to create new value by means of measures including bold cost-cutting. As we do so, it will be important to mobilize the knowledge and ingenuity—in other words, the brain power—of individual employees and maintain our commitment to continually taking on new challenges. But even if a new initiative fails to go as planned, nothing is lost; in fact, such failures are extremely beneficial as they offer opportunities to learn from our mistakes. I believe that the path to eventual success lies in making use of every lesson learned for the next challenge and not giving up.

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■ Realizing our long-term vision for 2030

As we work toward realizing our long-term vision for 2030, “The best provider of total motion control in harmony with the future,” my key concern is whether the Group will be able to maintain its position as the supplier that leading robot manufacturers can rely on. Remaining “the best provider,” requires us not only to continue providing products of value that solve customers’ issues, but also to ensure robust supply capacity that will never cause customers any worry. At our Ariake Factory, we are currently installing automated production lines, which we invite customers to observe directly to reassure them in this regard.

Meanwhile, our Hotaka Factory, which handles high-mix low-volume production, has in the past employed manufacturing methods characterized by highly skilled craftsmanship, but it is now adopting methods aimed at eliminating reliance on individual expertise. We have succeeded in maintaining high product quality and dramatically improving productivity by employing advanced measurement technology on processing and assembly lines, which have traditionally been considered difficult to automate.

Business environment outlook and the HDS Group’s strategy

In seeking to understand our business environment, we refer to the long-term forecasts of the International Federation of Robotics (IFR) to identify long-term trends in the market for industrial robot-related products. The critical decline in developed nations’ working populations has made it difficult to secure personnel to work in logistics or in factories, making labor-saving measures at manufacturing sites unavoidable. Accordingly, we expect the industrial robot field—particularly co-bots and humanoid robots—to continue evolving and growing in future.

The Chinese market accounts for around half of worldwide demand for industrial robots. Current demand in the Chinese market is weak, but local robot manufacturers have been advancing. Year by year, foreign manufacturers’ market share is further eroded by local Chinese companies and now four of the top ten robot manufacturers in the Chinese market are local companies. Several local Chinese companies are targeting the same level of quality as Japanese companies, and some small-robot manufacturers that claim to have achieved the same level of quality as Japanese manufacturers have already emerged. The increasingly competitive Chinese robot market is of key importance for the HDS Group, so we must continue to keep a close watch on this market.

In fact, the Company has already received an order from a local Chinese manufacturer for a product to be used in high-end robots. This local manufacturer is currently targeting the Chinese domestic market, but it is also considering the possibility of exporting in future. Consequently, the imperative to ensure that their robots meet global standards of quality may well give rise to a desire to further improve their robots’ reliability by switching to HDSI’s precision speed reducers. From HDSI’s point of view, if we do not focus on participating in the Chinese market as a partner, we risk losing market share. In order to meet this type of need, therefore, we must think about how to set our prices at a level satisfactory to local manufacturers. The situation is similar with regard to co-bots; we have already received an inquiry about HDSI’s products from a local Chinese company that is considering international expansion of its co-bot business, and we intend to use this as an opportunity to grow our market share. Under these circumstances, the Company plans to keep production of its

core HarmonicDrive® product within Japan, but we will also look into the possibility of assembling peripheral components locally in China. We will move cautiously, however, as we need to address not only pricing and cost competition, but also the risk that production technologies could be leaked.

■ Aims of our company-wide cost innovation project

Achieving the targets of the current Medium-Term Management Plan will necessitate pricing strategies founded on a sound cost structure to maintain and grow the Company’s share of sales. That is why we are implementing our cost innovation project throughout the Company. We have strengthened our plan-do-check-act (PDCA) cycles for all operations throughout the Company and started efforts to thoroughly explore how we can cut costs. In specific terms, we are challenging ourselves to cut the cost of producing products, including the cost of procured items, to 50% of the previous level. To that end, we are currently working to improve materials and processing methods. It will not be possible to cut all our costs by 50%, but we intend to keep costs down as far as possible without compromising quality and reflect those savings in product prices promptly. We are reviewing our cost structure throughout the Company and deploying measures that represent a break from the past, not only for individual factories and procurement operations, but also for indirect sections. Such measures will be particularly important for products to be used in robots.

I told our employees that this project is a “challenge.” That is to say, even if a particular measure fails to go to plan, nothing is lost. The intention behind this is that I want employees to avoid placing constraints upon themselves and instead generate knowledge and ingenuity by thinking freely. The various measures will be implemented for differing lengths of time depending on what they involve, but we are allowing two years for the longer measures. The key is to set goals in terms of action to be taken and corresponding outcomes to be achieved. Even our indirect sections are making efforts to

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cut their meeting times in half, primarily by improving operational efficiency through proactive use of IT and challenging themselves to get through more of the same work in less time.

■ “Things that should not be changed” and “things that should be changed”

To achieve our targets, we must not simply continue along the same path as hitherto, although we must also avoid rejecting the past in its entirety. Instead, the best approach would be to respect the valuable foundation we have built over the past 50 years while making changes flexibly where necessary in response to changes in our operating environment. I firmly believe that if we stay aware of problems and targets in our day-to-day work, improvements and elimination of inefficiencies will occur naturally and accumulate, leading to transformation several years later. A company gives its employees their own individual roles, but how employees perform their roles is something that they themselves can change for the better; indeed, that is what it means to be a professional. I would like all our employees to take pride in their own work, to set their sights higher, and to aim to experience a sense of accomplishment on a daily basis.

In terms of “things that should not be changed,” one example is keeping quality stable at a high level. This is reflected in our Management Philosophy, which was devised immediately after HDSI’s establishment and remains the cornerstone of our business activities today. It stipulates a constant emphasis on quality as one element comprising the foundation upon which the Company’s management is based. When I read our Management Philosophy again now as the President, I find that it still makes very good sense. The process of putting the management philosophy into my own words to draw up policies makes me realize that, whichever way you look at it, the fundamental

philosophy remains the same.

On the other hand, “things that should be changed” include, first and foremost, our speed of response. When we receive an inquiry from a customer, our ability to reply to them quickly with a delivery schedule is crucial. If we fail to respond with the necessary speed, we will not even get a chance for further consideration. Moreover, the customer’s requirements should be all that matters, yet somehow we still have a tendency to set schedules based on our own convenience. And designing schedules to suit the Company’s own rules and workload is risky. This is because the ways in which we work have become more complex, so despite the greater efficiency achieved through IT, we have still not achieved overall optimization. For example, senior managers are often asked to make decisions regarding customer problems, but responding to customers quickly requires a system that enables decisions to be made onsite as much as possible. In fact, when we visited customers and suppliers, we realized that all companies face this same issue. However, just because the situation is the same at other companies does not mean we should accept it. That is why, as the centerpiece of our previous Medium-Term Management Plan, we set the target of having emergency response (ER) teams deal with urgent problems and reply to customers quickly. The issue, however, was that prioritizing ER problems sometimes resulted in other work being delayed. So, I also intend to hire more human resources with novel perspectives to deal with such problems. Going forward, I want us to cut our client response time to half of what it has been in the past.

Other “things that should be changed” are our employees’ awareness of costs and willingness to take on challenges. There is no downside to taking on a challenge, while assuming that something cannot be done impedes growth. It is of paramount importance, therefore, to ensure an environment that is tolerant of people failing when they take on a challenge.

Achieving our Medium-Term Management Plan for fiscal years 2024-2026

In fiscal 2024 we started our current Medium-Term Management Plan, but before discussing it, I would like to review our previous Medium-Term Management Plan. From a quantitative perspective, we regret that operating income during the previous plan fell short of our target. From a qualitative point of view, we took action to speed up management, implement an emergency response approach, and improve productivity. However, we made the mistake of focusing on generating the same outputs every year, and I feel that we did not produce satisfactory results as far as all employees were concerned. But, given the rapid progress in the world around us, even achieving the targets set out in our Medium-Term Management Plans would not have merited full marks. For that reason, I would rate the success of our previous Medium-Term Management Plan at only around 50%.

On the other hand, we did make some headway in automating our factories and our use of IT progressed. For some time, there had been a sense of urgency in frontline operations about the need

to make more use of IT, but previously we had been following other companies’ examples without our own strategy. Then we increased our IT personnel through mid-career hiring and put together a new ICT Team. As a result, the ICT Team was able to devise a proper strategy and employees now consult the ICT Team first of all when designing new work flows within individual organizational units. The ICT Team also takes the initiative in making its own recommendations and visualization of factory processes has advanced.

The challenge from now on will be the development of human resources. Rather than obtaining high-quality human resources through hiring, the key issue is how we can create an environment that enhances the individual abilities (i.e., brain power) of existing personnel. We will of course invest effort in education, but I hope to generate even better results through human resource development plans. Such plans would account for employees’ individual job positions and characteristics and could

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include boosting employees' experience through more delegation of authority.

■ Emphasizing profitability to increase value through the Medium-Term Management Plan for fiscal years 2024-2026

The basic policy of the current Medium-Term Management Plan is "Take on the Challenge of Value Creation and Transformation." When devising the Medium-Term Management Plan, we were conscious of links with our materiality. In terms of what we will actually do, one of the plan's policies is achieving sustainable growth of all businesses with an emphasis on profitability. Accordingly, I consider it important to provide education for the employees who will put this into practice. Linked to our materiality, this corresponds to maximizing the value of human capital.

During periods when factory utilization rates are low, it is possible to make time for education of human resources, but the challenge is how to provide such education at busy times. As we are currently in a period of low factory utilization, we are progressing with on-the-job training, preparation and updating of procedure manuals, and multi-skilling of workers. We expect the results of these

initiatives to become apparent during or after fiscal 2025. Meanwhile, we are ensuring profitability by taking appropriate action to raise product prices.

Our cost innovation project, which is connected to improving profitability, focuses not only on simple reduction of costs, but also on creation of new value. To cultivate novel applications for our products, we must consider what technologies are lacking and what types of products are in demand. For example, humanoid robots require ultra-lightweight, highly reliable precision speed reducers, which no other company can supply. HDSI has nearly perfected the necessary technology and we are now planning to develop it further to produce actuators. The Company already manufactures motors, sensors, and drivers in addition to precision speed reducers, and by providing these products all in one, we can generate substantial added value.

Meanwhile, in another effort to create new value, we are considering partnerships and M&A with other companies.

Closing remarks : Stock price and shareholder returns

What is important in terms of our relationship with shareholders and investors is to be open about our mission, steadily put it into practice, and proactively disclose information in order to be evaluated by the capital markets. Companies prioritize dividends and offer returns to shareholders if their business is not expected to grow. However, HDSI is currently in the process of growing, so many of our shareholders and investors think we should prioritize investment, which is a source of reassurance and encouragement for us. I myself also think we should prioritize growth investments over returns to shareholders at the moment.

Against a backdrop of worldwide labor shortages and advancements in AI, demand for automation and new robots can be expected to grow even further going forward. Guided by its unchanging mission of contributing to technological innovation in society by our motion control, the HDS Group intends to mobilize the brain power of its employees to become stronger than ever as a company.

I sincerely hope that our stakeholders will continue to support the HDS Group's growth.

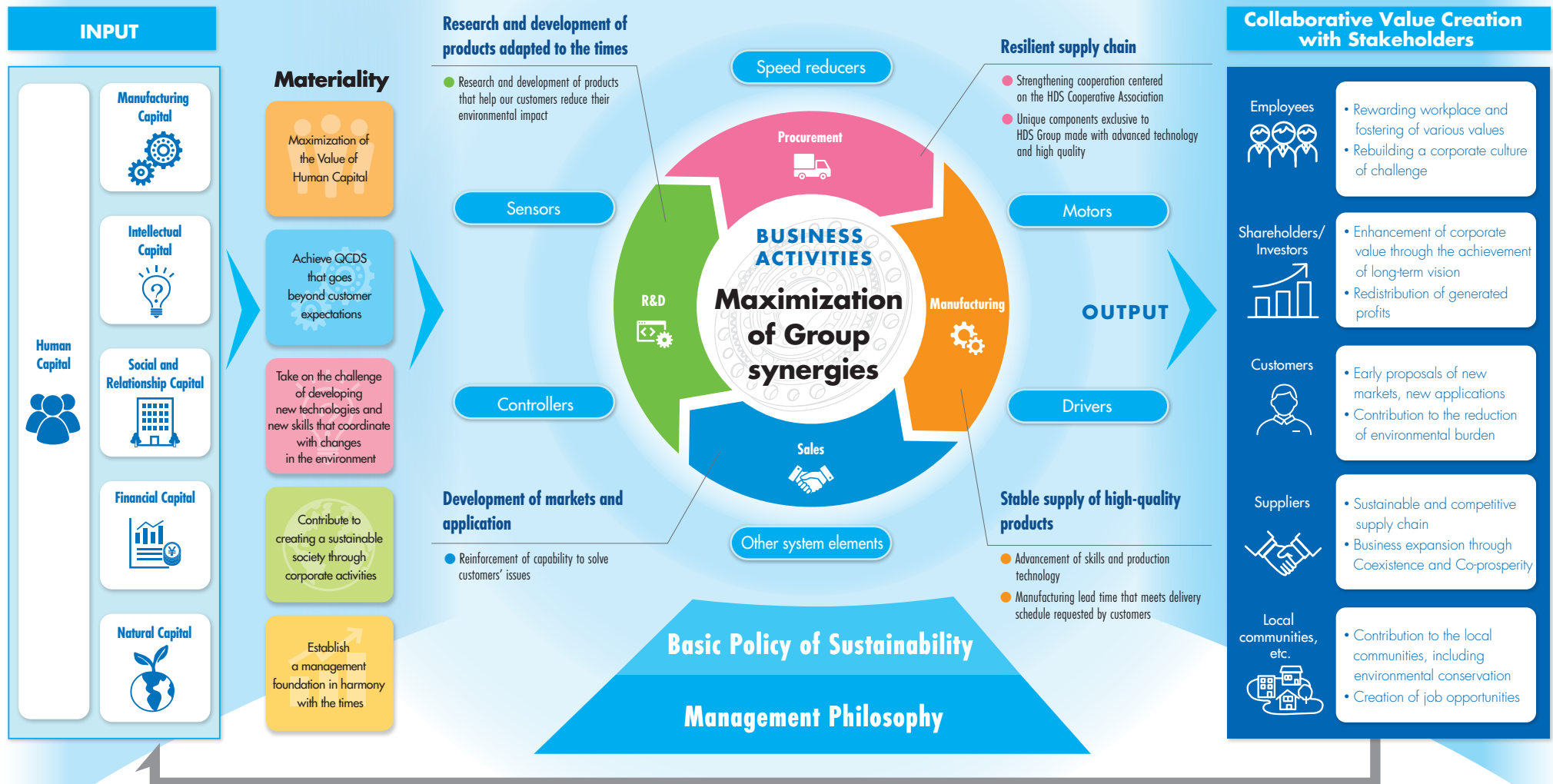


I Value Creation Process

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

Long-term Vision The best provider of total motion control in harmony with the future

Medium-Term Management Plan for fiscal years 2024-2026 **Take on the Challenge of “Value Creation and Transformation”**









I 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.

External environment/Risks and opportunities

- 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

Our Group's suppliers 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.

	Strengths	INPUT (FY2023)	Highly relevant materiality	OUTCOME (Medium-Term Management Plan)	Refer to:
 Human Capital	Development of an appropriate evaluation of each individual and work environment based on the Management Philosophy, "Respect for the Individual"	<ul style="list-style-type: none"> ● Number of employees (consolidated): 1,349 (including 567 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 	P.53 P.54 P.56
 Manufacturing Capital	8 domestic and 4 overseas production bases, and a build-to-order system that creates competitiveness	<ul style="list-style-type: none"> ● Capital investment: ¥4.9 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 IT adoption ● Ensuring absolute superiority in product quality 	P.33 P.34
 Intellectual Capital	Quality standards that meet customer expectations and realization of total motion control	<ul style="list-style-type: none"> ● R&D expenditure: ¥3.6 billion ● 141 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"> ● Developing new drivers for growth ● Solutions that meet customer needs 	P.41 P.44
 Social and Relationship Capital	Supply chain structure that supports competitiveness and an enhanced global presence	<ul style="list-style-type: none"> ● HDS Cooperative Association: 38 companies ● 31 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 	P.51 P.73 P.74
 Financial Capital	High financial stability, growth investments, including use of interest-bearing liabilities	<ul style="list-style-type: none"> ● Total assets: ¥119.1 billion ● Net assets: ¥79.4 billion ● Interest bearing liabilities: ¥18.4 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 	P.29 P.60 P.69
 Natural Capital	Promotion of environmentally friendly business activities	<ul style="list-style-type: none"> ● Energy input: 37,815 MWh ● Water withdrawals: 29,909m³ 	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 	P.45 P.47 P.49 P.77

I 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 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, one of our strengths, and maximize the value we create, thereby achieving profit growth over the medium- to long-term.



Sales

- Reinforcement of capability to solve customers' issues
- Maintain position as top manufacturer

Themes of medium- to long-term importance

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

Initiatives and values expected to be created

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 trying to refine 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 DX began full-scale operations. This allows us to collect and analyze data such as demand forecasts, inventory status, examples of successes and failures, and we will build a structure under which we can develop our sales activities more strategically.

While the sales team sets achieving QCDS that meets customer expectations as the most important materiality, 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. The value created as a result includes (1) new-value-creating products, (2) realization of total motion control, and (3) increasing our capabilities to respond to our customers.



R&D

- Research and development of products that help our customers reduce their environmental impact
- Creation of innovative proprietary technologies

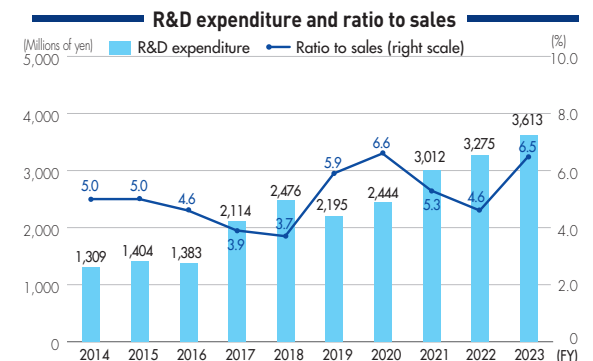
Themes of medium- to long-term importance

- 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 and values expected to be created

Our 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. In addition, we have an office in Silicon Valley in the U.S., a region where the world's most advanced IT and robot technologies are concentrated, to conduct studies and research on next-generation products such as humanoid robots.

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. The value created as a result includes (1) innovative proprietary technologies and (2) helping our customers reduce their environmental impact.



Reinforcing Value Chain for Value Creation

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 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 propose product development with an eye to the future.



Procurement

- 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 and values expected to be created

Stable procurement of materials and parts is essential to definitively capture new business opportunities. A sustainable procurement policy was formulated in fiscal 2022, and the Supply Chain Division is working on (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 the HDS Cooperative Association, which is made up of tier 1 suppliers, and other suppliers, and this will lead to the enhancement of our ability to address issues related to quality and delivery deadlines. For the realization of a sustainable society, the HDS Group will continue to communicate meticulously with our suppliers and work on building a collaborative system based on trust. In doing so, we will fulfill our social responsibility across our entire supply chain.

In procurement, the most important materiality is to achieve QCDS that meets customer expectations; however, suppliers' awareness of sustainability (e.g., Scope 3, response to human rights, etc.), contributing to a sustainable society through corporate activities and maximizing human capital value are also important. The value created as a result includes (1) accurate response to delivery deadlines, and (2) contribution to the global environmental conservation.



Manufacturing

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

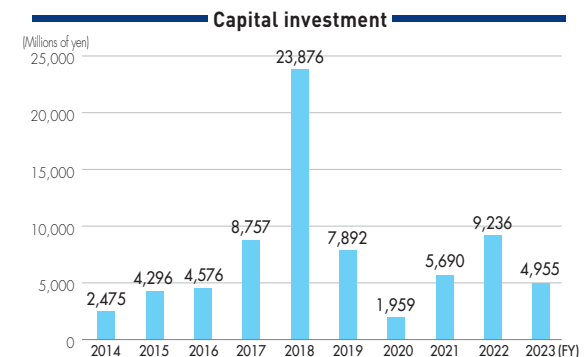
Themes of medium- to long-term importance

- 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 to the Hotaka Factory

Initiatives and values expected to be created

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.

In manufacturing, the most important materiality is to achieve QCDS that meets customer expectations; however, 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. The value created as a result includes (1) providing products with high quality and high reliability, and (2) shortening of production lead times.



I Materiality to Achieve Aspirations

Based on our Management Philosophy, we aim to bring a sustainable society into reality and grow our business by achieving our mission of “To contribute to innovation in the society by our motion control technology.”

In modern society where things are changing rapidly and all kinds of social issues have been brought to the fore, it is becoming increasingly more critical to build a sustainable 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. To achieve this, it is necessary to identify our priorities to be addressed for the sustainable growth of the HDS Group. As part of this effort, we have identified material issues (materiality) for our business. It is important to incorporate them into our business strategy and work on it 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 evaluation, 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 years 2024-2026, the Sustainability Committee repeatedly discussed to review materiality, and identified five new materiality following the discussion at the Board of Directors meeting held on November 20, 2023. The materiality is positioned as a priority issue to be addressed to realize our long-term vision of becoming the best provider of total motion control in harmony with the future.

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.

Step 1

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 value chain companies and looking at global frameworks on sustainability such as the ISSB, GRI, and SASB Standards as well as seeking opinions from experts.

Step 2

Impact assessment of each issue

Extracted issues are evaluated by the Sustainability Committee from the perspectives of “impact on social sustainability” and “impact on the sustainable growth of the HDS Group” and mapped on a materiality matrix. Issues that have particularly strong impacts are selected.

Step 3

Identification of materiality

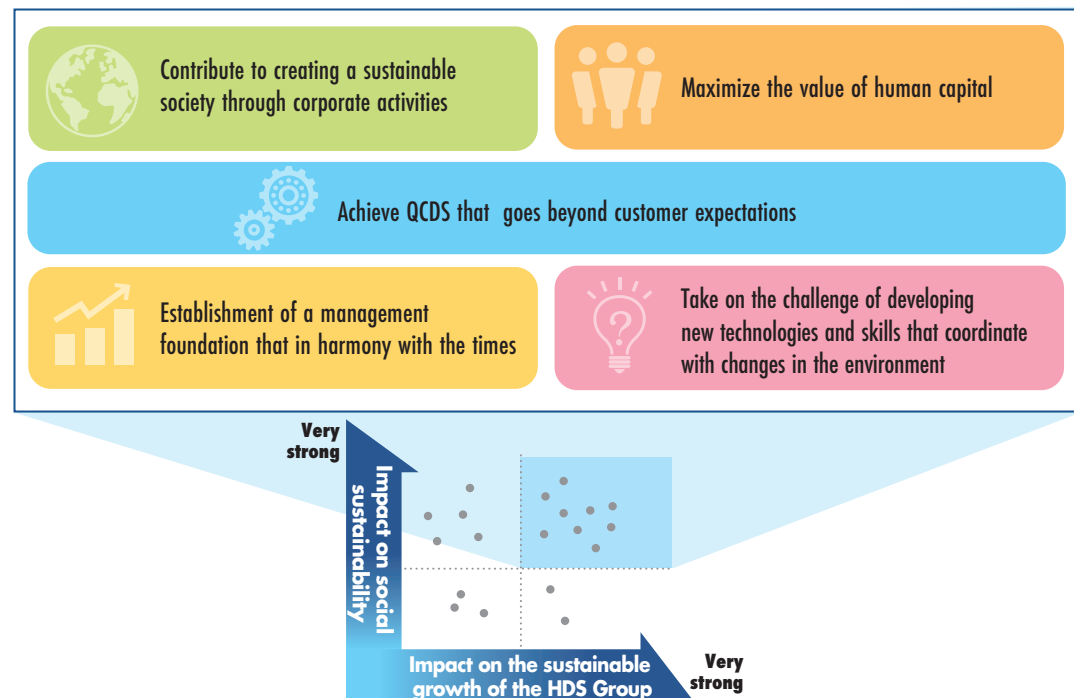
Discussion is held based on the materiality matrix created in STEP2, and based on the HDS Group's business strategies, issues are classified into five material issues (materiality) in the materiality matrix.

Step 4

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



Materiality to Achieve Aspirations

The newly identified five material issues (materiality) are 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 years 2024-2026.

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 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.

“Contribute to creating a sustainable society through 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 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	Refer to:
 Maximize the value of human capital	<ul style="list-style-type: none"> ● Provide a safe and secure work environment ● Promote professional development ● Develop personnel systems and workstyle that promote diversity ● Develop a corporate culture and environment that encourage employees to take on the challenge 	P.50,53,54,56
 Achieve QCDS that goes beyond customer expectations	<ul style="list-style-type: none"> ● Strengthen the quality management system ● Complete a company-wide cost innovation project ● Improve productivity ● Strengthen solutions (planning, proposal, technology) ● Respond with a focus on speed 	P.33,34,35,36,37,38,39,51
 Take on the challenge of developing new technologies and skills that coordinate with changes in the environment	<ul style="list-style-type: none"> ● Develop next-generation applications ● Create new technologies and methods 	P.40,41,44
 Contribute to creating a sustainable society through corporate activities	<ul style="list-style-type: none"> ● Initiatives to achieve the target of Net Zero by 2050 ● Reduce environmentally hazardous substances ● Address human rights issues ● Build robust supply chain 	P.45,47,49,52,73,77
 Establishment of a management foundation in harmony with the times	<ul style="list-style-type: none"> ● Promote sustainable management ● Align organization and management structure to market expectations ● Establish a financial base to support growth and strengthen financing ● Establish an effective sustainability system 	P.29,60,66,67,69