

Last update: July 14, 2023
Harmonic Drive Systems Inc.

Akira Nagai, President and Representative Director
Contact: Corporate Planning and Investor Relations,
Corporate Planning Division
TEL: +81-3-5471-7810
Securities Code: 6324
<https://www.hds.co.jp/english/#1>

The corporate governance of Harmonic Drive Systems Inc. (the “Company”) is described below

I Basic views on corporate governance, capital structure, corporate profile and other basic information

1. Basic views

The Company’s fundamental policy for corporate governance is based upon ensuring sound and transparent corporate management and achieving swift and effective decision-making, with the aims to meet the expectations of our stakeholders, achieve sustainable growth, and enhance our corporate value over the long term. We do so through the implementation of our Management Principles, which consist of four pillars: Respect for the Individual, Creating a Meaningful Company, Coexistence and Co-prosperity, and Contribution to Society.

The Company has adopted a Corporate Auditors system, with a corporate governance structure based on that of a Company with a Board of Corporate Auditors. The Board of Corporate Auditors consists of four Corporate Auditors, of whom three are Outside Corporate Auditors. They actively attend not only meetings of the Board of Directors but also other important meetings concerning business execution, as part of a structure the Company considers effective for continuously auditing the status of business execution.

Reasons for non-compliance with the principles of the corporate governance code

[Supplementary Principle 4.1.3: CEO Succession Planning]

The Board of Directors of the Company recognizes that succession planning for the CEO position is an important matter, and the Representative Director assumes the main responsibility for the planning and training of successors.

In addition to supervising the execution of business at the Board of Directors meetings, outside directors attend other important meetings to understand and oversee the competencies of the succession candidates and provide necessary advice as appropriate to the Representative Director regarding the development of the candidates.

[Supplementary Principle 4.3.3: Procedures for Dismissal of the CEO]

Currently, the Company does not have evaluation criteria or procedures for the dismissal of the CEO. Should a member of the Company’s senior management commits an act that violates or may violate laws and regulations or the Articles of Incorporation, or if any other event occurs that makes it difficult for a member of the Company’s senior management to fulfill his or her duties properly, the matter will be submitted for deliberation at the Board of Directors after the reasons for the dismissal are discussed and recognized in a timely manner, including for cases where the dismissal is proposed by an outside director. In addition, the Company will continue to review the procedures from various angles to establish more objective, timely, and transparent procedures.

[Supplementary Principle 4.10.1: Establishment of Committees in Cases Where Independent Outside Directors Do Not Constitute a Majority of the Board of Directors]

In view of the number of directors at the Company, their composition, the status of communication, etc., the Company believes that it already enjoys the appropriate involvement and advice from independent outside directors without voluntarily establishing new independent organizations such as a Nomination Committee or a Remuneration Committee. When determining the amount of remuneration for directors, the Company strives to ensure transparency by consulting with outside directors (Independent Directors) and incorporating processes for reporting on these matters.

[Supplementary Principle 4.11.3: Analysis and Evaluation of the Effectiveness of the Board of Directors]

The Company conducts a questionnaire survey of all directors and Corporate Auditors regarding the effectiveness of the Board of Directors. Also, after aggregating and analyzing the results, the Board of Directors shares the results of its self-evaluation on effectiveness and holds discussions to ensure further improvement. We do not currently disclose the results of these evaluations, but we will consider doing so in the future.

Disclosure based on the principles of the corporate governance code

[Principle 1.4: Cross-shareholdings]

(1) Policy on cross-shareholdings

Regarding cross-shareholdings, it is the Company’s policy to hold shares deemed to help raise the corporate value of the Group in the medium- to long-term, in overall consideration of business strategy and relationships, based on the policy of carefully selecting the minimum cross-shareholdings necessary. The policy on exercising voting rights related to strategically held shares is to decide whether to use such rights based on the criteria of whether this will help raise the medium- to long-term corporate value of the Company and the entity whose shares are held.

(2) Cross-shareholding verification details

The Company also verifies the appropriateness of continuing to hold any particular shares once a year in a Board of Directors meeting based on the above policy. The shares to be held, the number of the shares, the purpose and effect of shareholdings, etc. are disclosed in the Company’s securities report.

(3) Criteria for exercising cross-shareholding voting rights

The policy on exercising voting rights related to strategically held shares is based on the decision of whether exercising such rights will enhance the medium- to long-term corporate value of the Company and the entity whose shares are held.

[Principle 1.7: Related Party Transactions]

In case transactions are to be carried out with related parties, deliberation and decision by the Board of Directors are required, and directors having a conflict of interest are prohibited from exercising voting rights on the matter. Moreover, all directors, Corporate Auditors, and Executive Officers are periodically required to confirm in writing whether or not they have transactions with related parties.

[Supplementary Principle 2.4.1: Ensuring diversity in the promotion of key personnel]

The Company positions "Respect for the Individual" at the forefront of its management principles, and has established an environment, including policies and systems related to human capital, that respects the rights of each employee with an aim to be a Company where individuals can pursue a meaningful and cultural life; a Company that believes in the ambition of each individual and supports their independent activities; a Company that creates an environment where employees can maximize their capabilities through work; and a company that rewards abilities and performance.

<Approach to ensuring diversity, measurable goals, and status of progress>

The Company aims to create a work environment in which all employees, regardless of gender, nationality, and age, whether new graduates, mid-career hires, or people with disabilities, can demonstrate their abilities and play active roles. We set targets for the number of female managers, female directors, and non-Japanese employees, and are working to ensure a diverse workforce.

(1) Promotion of women to management positions

With regard to hiring women, the Company promotes the hiring of new female graduates, and in mid-career hiring, we are proactively hiring women and promoting them to management positions. The target for the number of female managers is five on a non-consolidated basis, and as of March 31, 2023, there were two female managers. As for the promotion of women to management positions, the percentage of potential candidates among all employees is small at this time, and we will continue to expand the candidate pool by strengthening support for career development and recruitment. At the Ordinary General Meeting of Shareholders held on June 21, 2023, a resolution was approved to appoint one female outside director, who assumed her position on July 1, 2023. Two female Executive Officers were also appointed on July 14, 2023. Further, one female director has been appointed at a subsidiary of the Company.

(2) Promotion of foreign nationals to management positions

To retain human resources who share our management principles and possess abilities required by the Group, the Company makes no distinction between Japanese and foreign national employees when recruiting new graduates and mid-career hires with an aim to create a diverse organization. The Company has long promoted foreign nationals to management positions based on their abilities without regard for nationality or other factors. As of March 31, 2023, foreign nationals accounted for only 1.2% (six people) of our workforce on a non-consolidated basis, most of whom are new graduates. We have not set targets for the ratio of foreign national employees in management positions or the number of management positions. We will first give priority to retaining foreign national, then consider targets for the number of managers at a later stage.

(3) Promotion of mid-career hires to management positions

To retain human resources who share our management principles and have the abilities required by the Group, we proactively recruit mid-career hires with various experiences, skills, and qualifications who are expected to achieve immediate results, in addition to the regular hiring of new graduates with an aim to create a diverse organization. The Company has long promoted new graduates and mid-career hires without distinction to management positions, and based on their abilities. Since the ratio of mid-career hires and the number of management positions is sufficient, no specific targets have been set.

As of March 31, 2023, mid-career hires in management positions or higher were as follows.

- Percentage of mid-career hires in management positions: 61.8%
- Percentage of mid-career hires in Executive Officer positions (excluding those concurrently serving as directors): 87.5%

< Summary and status of human resource development and internal environment improvement policies in order to ensure diversity >

(1) Human resource development policy

The basic policy is to develop human resources capable of realizing Company management principles, and the Company strategically develops human resources based on human resource development policy, which is divided into the following three phases.

Phase I Education and training: Through adherence to the basics of the type of employee the Company seeks.

Phase II Practical application: Support individual efforts as employees improve their competencies and establish their expertise, primarily through practical work. Also, nurture future Executive candidates.

Phase III Demonstrate expertise: Leverage abilities and experience in management and specialized skills and techniques accumulated up to now and contribute to division operations and younger employee development (nurturing role).

(2) Internal environment improvement policy

To create an organization in which each individual is motivated to play an active role, the Company strives to create a workplace environment in which a diverse range of employees can play an active role. Main initiatives are as follows.

Human resource system

The Company's human resource system is based on the idea that improving employee abilities and motivation to work will enable it to achieve its management vision and goals.

A variety of other systems are also in place, including job rotation for the purpose of developing skills, a self-reporting system enabling employees to report directly to the director in charge of human resources regarding their future career path and desired skills development, as well as a childcare and nursing care leave systems that can be used regardless of employment status. Specifically, to strengthen support aimed at balancing work and childcare, we strive to create a comfortable work environment through various systems offering employees engaged in childbirth and childcare paid days off, leaves of absence, a system supporting the return to work, shorter working hours, and telework options. Further, the Company proactively promotes the use of the childcare leave system for male employees. In the fiscal year ended March 31, 2023, utilization rate of male employee childcare leave system was 56.3% on a non-consolidated basis.

Skill development system

Regarding skill development, the Company formulates systematic, medium- to long-term human resource development plans and have established a system that enables employees to effectively and continuously improve and develop the skills required of them.

Skill development training includes the following: mandatory level-based training for employees in all positions that enable them to demonstrate the capabilities required for their position; basic training necessary for job performance and career development; area of expertise training aimed at increasing specialization in work activities and the acquisition of specialized skills necessary for career development; and, in light of more sophisticated economic environments, technological standards, and the advance of globalization, the Company provides special training programs supporting employee acquisition of MBA, MOT, and other degrees from universities and other institutions of higher learning in Japan and overseas, as well as training at overseas affiliates and language study through AEI programs at overseas universities to further enhance skills through self-development.

Health management promotion

The company regards employee health as an important management resource and promotes health and safety and health management initiatives. Specific initiatives are as follows.

- Conduct periodic physical exams, stress checks and other efforts aimed at preventing employee physical and mental health issues
- Established division specializing in health promotion and provide detailed health consultation and guidance using in-house nurses
- Established contact points within and outside the Company for reporting and consultations pertaining to harassment and other issues
- Provision of telework environments, etc.

Human capital initiative details are also published on the company website and in the securities report.

- Sustainability section of the company website: <https://www.hds.co.jp/english/csr/>
- Securities report (Japanese only): <https://contents.xj-storage.jp/xcontents/AS06879/7b73abe7/3414/4ca4/a640/f939f573ea4d/S100QZUN.pdf>

[Principle 2.6: Roles of Corporate Pension Funds as Asset Owners]

The Company has both defined-benefit and defined-contribution pension plans. With respect to asset management (including selection of investee, exercise of voting rights, etc.) for the covenant-type defined-benefit pension plan, the Company formulates the basic investment policy, selects asset management institutions that are expected to appropriately fulfill their fiduciary responsibilities, including stewardship activities, and entrusts the management of the assets to these institutions. In addition, the department in charge of the asset management of the Company requests regular reports from the relevant asset management institutions and verifies their investment performance and systems.

With respect to the defined-contribution pension plan, the Company provides eligible officers and employees with educational opportunities related to asset management institutions and investment products as appropriate.

[Principle 3.1: Full disclosure]

(1) Management principles, business strategies, and business plans

The Company defines management principles, strategies, and mid-term business plans and discloses these on the company website.

Management principles (<https://www.hds.co.jp/english/company/idea/>)

Business strategies and mid-term business plan (https://www.hds.co.jp/english/ir/management_policy/strategy/)

(2) Basic views on corporate governance

These are described in “Basic views on corporate governance, capital structure, corporate profile and other basic information 1. Basic views” of this report.

(3) Policies and procedures for determining remuneration of directors

These are described in “Disclosure of policy on determining remuneration amounts and the calculation methods thereof” under “Director remuneration” in “Management organization and other corporate governance systems regarding decision-making, execution and management oversight 1. Matters concerning the organizational structure and operation” of this report.

(4) Policies and procedures for nominating directors and Corporate Auditors

When newly appointing or reappointing directors, the Representative Director nominates candidates based on an overall assessment of their knowledge, experience, skills, and expertise, following discussions with outside directors. Thereafter, the Board of Directors resolves the proposal referred to the General Meeting of Shareholders.

In appointing Corporate Auditors, recommendations are made by the Board of Directors, then their appointment is discussed and agreed to by the Board of Corporate Auditors, and the appointment is referred to the General Meeting of Shareholders for approval.

In appointing outside directors and outside Corporate Auditors, an overall assessment is made of the personal, equity, and business relationships of the Company with the candidates themselves and with their affiliated company or organization, and candidates are nominated when it is considered that they can fulfill their required functions and roles from an independent standpoint.

(5) Explanation of nomination and appointment of candidates for director and Board of Corporate Auditors

When candidates for directors and Board of Corporate Auditors are submitted for discussion at the General Meeting of Shareholders, the Company provides a summary of their career history and decision-making materials that include achievements and experience. The Company also discloses the reasons for appointment and the expertise required by the Company in the form of a skills matrix included in the reference documents.

(6) Policies and procedures for the dismissal of senior management

In the event that a member of the Company's senior management commits an act that violates or may violate laws and regulations or the Articles of Incorporation, or if any other event occurs that makes it difficult for a member of the Company's senior management to perform his/her duties properly, the matter will be decided at the Board of Directors after the reasons for the dismissal are discussed and recognized in a timely manner, including for cases where the dismissal is proposed by an outside director.

[Supplementary Principle 3.1.3: Sustainability Initiatives]

<Sustainability initiatives>

Recognizing the importance of the sustainability initiatives, the Company established the Sustainability Committee on April 1, 2023, as an organization to promote, oversee, and manage overall sustainability in order to strengthen and promote the Group's overall sustainability in a strategic manner. The Sustainability Committee consists of Executive Directors and is chaired by the President and Representative Director. The Committee is scheduled to meet quarterly, approximately four times a year.

In addition, in March 2022, the Company formulated a basic sustainability policy based on our management philosophy, and identified materiality and began promoting initiatives in current medium-term and annual management plans from May.

Sustainability initiative details are also published on the company website and in the securities report.

• Sustainability website: <https://www.hds.co.jp/english/csr/>

• Securities Report (Japanese only): [https://contents.xj-](https://contents.xj-storage.jp/xcontents/AS06879/7b73abe7/3414/4ca4/a640/f939f573ea4d/S100QZUN.pdf)

[storage.jp/xcontents/AS06879/7b73abe7/3414/4ca4/a640/f939f573ea4d/S100QZUN.pdf](https://contents.xj-storage.jp/xcontents/AS06879/7b73abe7/3414/4ca4/a640/f939f573ea4d/S100QZUN.pdf)

<Investments in human capital and intellectual property>

Details regarding investment in human capital and intellectual property are disclosed on the Company's website (https://www.hds.co.jp/Portals/0/files/english/ir/management_policy/pdf/Presentation%20material.pdf) (Japanese only) as “promotion of sustainable management,” “human resource development,” and “research and development investment” in the formulation of the current mid-term business plan.

Information on human capital is also disclosed in the Sustainability section of the Company's website (<https://www.hds.co.jp/english/csr/>) as employee, customer, and social initiatives, and in this report under Supplementary Principle 2.4.1: Ensuring Diversity in the Promotion of Key Personnel” in “Disclosure based on the principles of the corporate governance code” in 1. Basic views, and in the Company's securities report.

Regarding investments in intellectual property, the Company is proactively working on the rights and protection of intellectual property created through research and development and manufacturing, the details of which are disclosed on the Company's website (https://www.hds.co.jp/english/development/intellectual_property/).

[Supplementary Principle 4-1-1: Scope of delegation to management]

The Company stipulates the matters to be decided by the Board of Directors in the Board of Directors Regulations and operates the Board of Directors in accordance with laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations, while delegating specific business execution to the Executive Directors. In addition, the Company has adopted an Executive Officer system, under the direction of the President and Representative Director, who execute business operations in accordance with the decision-making authority stipulated in the Rules on Administrative Authority to enable prompt decision-making.

[Principle 4-9 Independence standards and qualifications for independent outside directors]

In appointing independent outside directors, an overall assessment is made following the determination of the applicability of each item of the independence standards set by the Tokyo Stock Exchange. The details are disclosed in the Independent Directors Notifications submitted to the TSE and in this report in “Matters concerning organizational structure and operation; Directors” under “Management

organization and other corporate governance systems regarding decision-making, execution, and management oversight". In appointing candidates for independent outside directors, we also consider various perspectives, such as each candidate's background, knowledge, personality, gender, and international experience and other factors, and select people who we expect will help bring new perspectives to the Board of Directors.

[Supplementary Principle 4.11.1: Views on the balance, diversity, and scale of the Board of Directors as a whole and disclosure of skills, etc.] The Company's Articles of Incorporation stipulate that the number of directors shall not exceed 15. Given that the Company is an internationally expanding technology and technical group, basic policy regarding the appointment of directors is to have the Board of Directors comprised of Executive Directors with specialist skills and knowledge relating to overall management, manufacturing, development, sales, finance and accounting, etc. and outside directors with abundant management experience in other companies and industries as well as in international fields. Skills matrix is disclosed in the Notice of the Annual General Meeting of Shareholders in June 2022. The information is also posted on the Company's website (https://www.hds.co.jp/ir/management_policy/governance/). All of the Company's five independent outside directors have management experience at other companies.

[Supplementary Principle 4.11.2: Status of concurrent positions held by Directors and Corporate Auditors] The status of concurrent positions held by directors and Corporate Auditors is disclosed in the Convocation Notice of the General Meeting of Shareholders, business report, securities report, etc. The Company allows a maximum of two concurrent positions, including one at the Company, which we believe is within a reasonable range.

[Supplementary Principle 4.14.2: Training policy for Directors and Corporate Auditors] To enable Directors and Corporate Auditors to obtain the knowledge and information necessary for fulfilling their roles, the Company provides opportunities to take outside training courses related to such matters as overall management and the Companies Act, to attend important conferences that will enhance their understanding of the business, to tour main facilities, and to visit subsidiaries, with the expenses in each case paid by the Company. We disclose the details on the company website(https://www.hds.co.jp/english/ir/management_policy/governance/).

[Principle 5.1: Policy for constructive dialogues with shareholders] We consider our shareholders and investors to be important stakeholders and believe that it is our responsibility as a listed company to establish and develop systems for promoting constructive dialogue. To that aim, we have appointed an Executive Officer in charge of investor relations, and the IR division works in close cooperation with other relevant departments and actively carries out activities within a reasonable scope. Specific activities include financial results briefings for institutional investors, company briefing sessions for individual investors, plant tours for shareholders, holding of small-group or individual meetings with institutional investors, and enhancing the content of the company website. Through these and other means, we seek to enhance communication with shareholders and investors. For more details, please refer to the "Status of IR-related activities" section of this report.

[Measures to achieve management style that is conscious of cost of capital and share price] With regard to the cost of capital, the Company's cost of equity and WACC are calculated based on finance theory with the assistance of outside experts, and the actual results and trends of such figures are shared with the Board of Directors. In making capital investment and other decisions, the Company verifies the reasonableness of such decisions by performing economic feasibility calculations using hurdle rates that take into account the cost of capital described above.

Further, the Company is working to achieve the policies and management targets set forth in its current mid-term business plan (fiscal 2021–fiscal 2023) with the mission of "to contribute to technological innovation in society through motion control technology," targeting an operating profit margin of 20% or higher for profitability, ROE of 10% or higher for efficiency, and a payout ratio of 30% or higher for shareholder returns. The mid-term business plan is discussed and approved by the Board of Directors, and progress is reported at a Board of Directors meeting held at the end of each fiscal year. The management team takes the initiative in reviewing, analyzing, and evaluating plans for the appropriate allocation of management resources.

The President and Representative Director and the CFO explain initiatives and progress at analyst briefings, with the materials and scripts used in these briefings posted on the Company's website.

- Mid-term business plan: https://www.hds.co.jp/english/ir/management_policy/strategy/
- Results briefing materials: <https://www.hds.co.jp/english/ir/event/accounts/>

[Status of dialogues with shareholders]

The Company positions shareholders and investors as important stakeholders and maintains a policy of proactively responding to inquiries and meeting requests from shareholders and institutional investors, which are led by the President and Representative Director, the general manager of the corporate planning division, the Director and CFO, and the Executive Officer and General Manager of corporate planning and investor relations. Dialogues with shareholders and investors in fiscal year 2022 were as follows.

- Institutional investors: One-on-one IR meetings: 231; small meetings: 14 (attended by 292 investors); and participation in IR conferences: Four times (attended by 95 investors)
- Individual investors: Company briefings: Twice (attended by 440 individual investors)

2. Capital structure

Foreign Shareholding Ratio	30% or higher
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Status of major shareholders

Name or corporate entity	Shares held	Ratio (%)
KODEN Holdings Co., Ltd.	33,490,700	35.22
SSBTC CLIENT OMNIBUS ACCOUNT	6,436,296	6.77
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,576,300	4.81
Toyota Motor Corporation	4,379,400	4.60
Norimitsu Ito	3,041,600	3.19
Custody Bank of Japan, Ltd. (Trust Account)	2,970,100	3.12
Control trust (A030) trustee SMBC Trust Bank Ltd.	2,176,800	2.28
The Nomura Trust and Banking Co., Ltd. (Trust Account)	2,000,000	2.10
JP MORGAN BANK LUXEMBOURG S.A. 381572	1,786,000	1.87
STATE STREET BANK WEST CLIENT-TREATY 505234	1,223,500	1.28

Controlling shareholders, if applicable (excluding parent company)	--
Parent company	None

Supplementary explanation

*The "Status of Major Shareholders" section and the following supplementary explanation are as of March 31, 2023.

- The above percentages are calculated by deducting 1,251,002 shares of treasury stock from the total number of shares outstanding.
- The following four companies jointly submitted a change report on 6,974,650 shares on December 22, 2022. However, since it was not possible to confirm the actual number of shares held in the name of those companies as of March 31, 2023, they are not included in the "Status of Major Shareholders" above.
 - Capital Research and Management Company
 - Capital International K.K.
 - Capital International Inc.
 - Capital International Sarl
- The following two companies submitted a change report on 7,487,900 shares on February 7, 2023. However, since it was not possible to confirm the actual number of shares held in the name of that company as of March 31, 2023, they are not included in the "Status of Major Shareholders" above.
 - T. Rowe Price Japan, Inc.
 - T. Rowe Price Associates, Inc.

3. Corporate attributes

Listed stock exchange and market segment	Tokyo (Standard Market)
Fiscal year-end	March
Business sector	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	1,000 or more
Net sales (consolidated) as of the end of the previous fiscal year	¥10 billion or more and less than ¥100 billion
Number of consolidated subsidiaries as of the end of the previous fiscal year	10 or more and less than 50

4. Policy on measures to protect minority shareholders in conducting transactions with controlling shareholder

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5. Other special circumstances which may have material impact on corporate governance

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II Management organization and other corporate governance systems regarding decision-making, execution, and management oversight

1. Matters concerning the organizational structure and operation

Corporate governance system	Company with audit and supervisory board
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Directors

Number of directors under Articles of Incorporation	15
Directors' term of office under Articles of Incorporation	1 year
Chairperson of the Board of Directors	Chairperson (excluding those concurrently serving as President)
Number of Directors	10
Election of Outside Directors	Elected
Number of Outside Directors	5
Number of Outside Directors appointed as Independent Directors	5

Relationship with the Company (1)

Name	Attributes	Relationship with company(*)										
		a	b	c	d	e	f	g	h	i	j	k
Haruhiko Yoshida	From another company											
Masanobu Nakamura	From another company					△						
Yoshio Fukuda	From another company											
Kazuhiko Hayashi	From another company											
Kaeko Kitamoto	From another company											

*Categories for "Relationship with the Company"

*Use "○" when the Director presently falls or has recently fallen under the category; and "△" when the Director fell under the category in the past

*Use "●" when a close relative of the Director presently falls or has recently fallen under the category; and "▲" when a close relative of the Director fell under the category in the past

a. An Executive Officer of a listed company or its subsidiary

b. Executive or Non-Executive Officers of the parent company of a listed company

c. Executive Officer of the Company's sister companies

d. Persons whose main business partner is a listed company or a person who executes the business

e. A major business partner of a listed company or a person who executes the business

f. Consultants, accounting professionals, and legal professionals who receive large amounts of money or other assets from a listed company other than compensation for their services as Directors or Officers

g. A major shareholder of a listed company (if such major shareholder is a corporation, an Executive of such corporation)

h. Executives of business partners of a listed company (not falling under any of d, e and f).

i. Executives (only for the individual) of the party with whom the external officers have a relationship of mutual appointment (only for the individual)

j. Executives of the party to which a listed company has made a donation (only for the individual)

k. Other

Name	Designation as Independent Director	Supplementary explanation of the applicable relationship	Reasons for appointment
Haruhiko Yoshida	○	———	<p>Mr. Haruhiko Yoshida has served in prominent positions at Mitsui & Co., Ltd. and possesses abundant experience and superior insight in regard to corporate management, in addition to extensive international experience. Based on the above, the Company has judged that he would help further strengthen the Company's management system by making recommendations and supervising the overall management of the Company by utilizing his ability and experience.</p> <p>(Designation as an Independent Director) Mr. Yoshida is designated and filed as an Independent Director because he does not fall under any of the criteria for independence set forth by the Tokyo Stock Exchange and has a high degree of independence, and the Company determined that there is no risk of a conflict of interest between him and ordinary shareholders.</p>
Masanobu Nakamura	○	<p>Mr. Masanobu Nakamura served as Executive Officer of the Company's main bank UFJ Bank Ltd. (currently MUFG Bank, Ltd.) from June 1999 to January 2002. He then served as Managing Executive Officer at the bank from January to May 2002, and Representative Director and Executive Operating Officer from May 2004 to June 2005. However, approximately 18 years have passed since his retirement. The Company's borrowings from MUFG Bank, Ltd. totaled 9,933 million yen as of March 31, 2023, accounting for 8.22% of total assets.</p>	<p>Mr. Masanobu Nakamura has served in prominent positions in major banks and securities companies, and possesses abundant experience and superior insight in regard to corporate management, in addition to extensive international experience. Based on the above, the Company has judged that he would help further strengthen the Company's management system by making recommendations and supervising the overall management of the Company by utilizing his ability and experience.</p> <p>(Designation as an Independent Director) Mr. Nakamura was previously an Executive Officer of the Company's main bank, but approximately 18 years have passed since his retirement. The Company did not invite him at the request of a financial institution, but rather at its own discretion, in order to utilize his extensive management experience and broad insight into management of the Company. Further, the Company has transactions with a number of financial institutions and is not influenced by any particular financial institution in its management decision-making. Based on a consideration of all these factors, the Company has concluded that there is no conflict of interest with ordinary shareholders and has registered him as an Independent Director.</p>
Yoshio Fukuda	○	———	<p>Mr. Yoshio Fukuda has served in prominent positions at Teijin Limited and Teijin Group and possesses abundant experience and superior insight in regard to corporate management, in addition to extensive international experience. In addition, he has a high level of knowledge of strategic planning, establishment of joint ventures, M&As, etc. Based on the above, the Company has judged that he would help further strengthen the Company's management system by making appropriate recommendations and supervising the overall management of our internationally expanding Group from an independent standpoint. There are no material transactions between the Company and Teijin Limited or the Teijin Group, where he served as an Executive Officer until 2016, and Toyo Construction Co., Ltd., where he served as an outside director until June 27, 2023.</p> <p>(Designation as an Independent Director) Mr. Fukuda is designated and filed as an</p>

			Independent Director because he does not fall under any of the criteria for independence set forth by the Tokyo Stock Exchange and has a high degree of independence, and the Company determined that there is no risk of a conflict of interest between him and ordinary shareholders.
Kazuhiko Hayashi	○	_____	<p>Mr. Kazuhiko Hayashi has experience in demonstrating leadership as the person in charge of development and design at the Toyota Group and possesses abundant experience and high degree of insight into corporate management gained during his tenure in prominent positions at the Sumitomo Electric Industries Group. Based on the above, the Company has judged that he would help further strengthen the Company's management system by making recommendations and supervising the overall management of the Company from research and development standpoint, given the nature of the Company's business as a development-type manufacturer. There are no material transactions between the Company and Sumitomo Electric Industries, Ltd., Sumitomo Wiring Systems, Ltd., and AutoNetworks Technologies, Ltd., where he was an Executive Officer until 2017.</p> <p>(Designation as an Independent Director) Mr. Hayashi is designated and filed as an Independent Director because he does not fall under any of the criteria for independence set forth by the Tokyo Stock Exchange and has a high degree of independence, and the Company determined that there is no risk of a conflict of interest between him and ordinary shareholders.</p>

Kaeko Kitamoto	○	_____	<p>As a certified public accountant at EY Ernst & Young ShinNihon LLC, Ms. Kaeko Kitamoto has been involved in the accounting audits of various listed companies and has served as a partner and managing director of that firm, giving her a wealth of experience and deep insight into financial accounting. She is also a member of the Electricity and Gas Market Surveillance Commission, Ministry of Economy, Trade and Industry, and has expertise in CO₂ reduction and the introduction of renewable energy. Based on the above, the Company concluded that she would help further strengthen the Company's management system by making recommendations and supervising the overall management of the Company and sustainability initiatives, including climate change and diversity, equity, and inclusion. There are no material transactions between the Company and EY Ernst & Young ShinNihon LLC, where she served as an auditor. There are also no material transactions between the Company and the Electricity and Gas Market Surveillance Commission, Ministry of Economy, Trade and Industry.</p> <p>(Designation as an Independent Director) Mrs. Kitamoto is designated and filed as an Independent Director because she does not fall under any of the criteria for independence set forth by the Tokyo Stock Exchange and has a high degree of independence, and the Company determined that there is no risk of a conflict of interest between her and ordinary shareholders.</p>
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Voluntary establishment of committee(s) equivalent to Nomination Committee or Remuneration Committee	Not in place
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Corporate Auditors

Establishment of Board of Corporate Auditors	In place
Number of Corporate Auditors stipulated in the Articles of Incorporation	5
Number of Corporate Auditors	4

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit departments

The Corporate Auditors exchange opinions with the accounting auditor regarding the audit plan, receive reports on audit results, discuss and evaluate the content of the audit, and ensure mutual cooperation. Furthermore, with regard to key audit matters (KAM/Key Audit Matter), the Corporate Auditors hold discussions with PwC PricewaterhouseCoopers Aarata LLC, receive reports on the status of their audits, and request explanations as necessary.

The Internal Control and Audit Office is responsible for internal audits. The General Manager of the Internal Control and Audit Office and three Auditors conduct internal audits of the Company and its subsidiaries throughout the year based on a pre-determined audit schedule. In addition the matters identified by internal audits are reported to the president as audit results and to the Board of Corporate Auditors through a dual reporting line system. In addition, the results are reported to the Board of Directors. In the audit process, the Internal Control Auditing Office, the Board of Corporate Auditors, and the Accounting Auditors mutually share information and collaborate closely with each other, such as by meeting with the general manager of the Internal Control Auditing Office and the corporate and Accounting Auditors.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	3
Number of Outside Corporate Auditors designated as Independent Directors	2

Relationship with the Company (1)

Name	Attributes	Relationship with the Company(*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yoshitsugu Yokogoshi	From another company							△						
Shigeto Ohashi	From another company													○
Eisaku Imazato	From another company							△						

*Categories for "Relationship with the Company"

*Use "○" when the Director presently falls or has recently fallen under the category; and "△" when the Director fell under the category in the past

*Use "●" when a close relative of the Director presently falls or has recently fallen under the category; and "▲" when a close relative of the Director fell under the category in the past

a. An Executive Officer of a listed company or its subsidiary

b. Non-Executive Officers or Accounting Advisors of a listed company or its subsidiaries

c. Executive or Non-Executive Officers of the parent company of a listed company

d. Corporate Auditor of the parent company of a listed company

e. Executive Officers of the listed company's sister companies

f. Persons whose main business partner is a listed company or a person who executes the business

g. A major business partner of a listed company or a person who executes the business

h. Consultants, accounting professionals, and legal professionals who receive large amounts of money or other assets from a listed company other than the Director's remuneration.

i. A major shareholder of a listed company (if such major shareholder is a corporation, an Executive person of such corporation)

j. An Executive (only for the individual) of a business partner of a listed company (not falling under any of f, g and h)

k. Executives of the party with whom the external officers have a relationship of mutual appointment (only for the individual)

l. Executives of the party to which a listed company has made a donation (only for the individual)

m. Other

Name	Designation as Independent Director	Supplementary explanation of the applicable relationship	Reasons for appointment
Yoshitsugu Yokogoshi	○	<p>Mr. Yoshitsugu Yokogoshi served as Executive Officer of the Company's main bank UFJ Bank Ltd. (currently MUFG Bank, Ltd.) from May to December 2005. He then served as Executive Officer for the Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.) from January 2006 to April 2007 before becoming Managing Executive Officer at the bank from May 2007 to December 2008. However, approximately 14 years have passed since his retirement.</p> <p>The Company's borrowings from MUFG Bank, Ltd. totaled 9,933 million yen as of March 31, 2023, accounting for 8.22% of total assets.</p>	<p>Mr. Yoshitsugu Yokogoshi possesses abundant management experience and broad insight gained at a major banking group. In addition, he possesses a wealth of experience in auditing operations and substantial knowledge of finance and accounting since he has served as a full-time corporate auditor at a major oil company. Based on the above, the Company has judged that he can strengthen corporate governance structure of the Group from an independent standpoint, and therefore appointed him as an Outside Corporate Auditor.</p> <p>(Designation as an Independent Director)</p> <p>Mr. Yokogoshi was previously an Executive Officer of the Company's main bank, but approximately 14 years have passed since his retirement. The Company did not invite him at the request of a financial institution, but rather at its own discretion, in order to utilize his extensive management experience and broad insight into auditing the Company, as well as his considerable knowledge of audit-related finance and accounting gained through his experience as a full-time auditor of a major oil company. Further, the Company has transactions with a number of financial institutions, and is not influenced by any particular financial institution in its management decision-making. Moreover, the Company does not have any significant transactions with Cosmo Oil Co., Ltd., where Mr. Yokogoshi served as a full-time corporate auditor, or other Cosmo Energy Group companies. Based on a consideration of all these factors, the Company has concluded that there is no conflict of interest with ordinary shareholders and has registered him as an Independent Director.</p>
Shigeto Ohashi		<p>Until June 22, 2023, Mr. Ohashi served as a director of Tokyo Aircraft Instrument Co., Ltd., which is a wholly-owned subsidiary of KODEN Holdings Co., Ltd., a major shareholder in the Company. At present, he is the Senior General Manager (full-time) of Tokyo Aircraft Instrument Co., Ltd. In fiscal 2022, to increase its production capacity, the Company took on manufacturing personnel from Tokyo Aircraft Instrument, recording 140 million yen in personnel expenses. There are no other personnel relationships between the two companies. The Company has business transactions with Tokyo Aircraft Instrument Co., Ltd. but the transaction amount is small.</p>	<p>Since Mr. Shigeto Ohashi possesses abundant experience and superior insight gained at Tokyo Aircraft Instrument Co., Ltd., which is a development-type manufacturing company similar to HDS, the Company determined that he can strengthen corporate governance structure of the Group from an independent standpoint, and therefore appointed him as an Outside Corporate Auditor.</p>

Eisaku Imazato	○	<p>From May 2010 to June 2014, Mr. Eisaku Imazato served as Executive Officer of Mitsubishi UFJ Financial Group, Inc., the parent of the Company's main bank MUFG Bank, Ltd. However, nine years have passed since his retirement. The Company's borrowings from MUFG Bank, Ltd. totaled 9,933 million yen as of March 31, 2023, accounting for 8.22% of total assets.</p> <p>Mr. Imazato also served as Principal Executive Officer at Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. until June 2014, but nine years have passed since his retirement. The amount of business transactions between the Company and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in Fiscal 2022 was small.</p>	<p>Since Mr. Eisaku Imazato possesses abundant management experience and broad insight gained at major securities companies, the Company determined that he can strengthen corporate governance structure of the Group from an independent standpoint, and therefore appointed him as an Outside Corporate Auditor.</p> <p>(Designation as an Independent Director) Although Mr. Imazato is a former Executive Officer at Mitsubishi UFJ Financial Group, Inc., the parent of the Company's main bank MUFG Bank, Ltd., nine years have passed since his retirement. He was also an Executive Officer of a securities company with which the Company has a business relationship, but has already been retired for nine years. The Company did not invite him at the request of a financial institution, but rather at its own discretion, in order to utilize his extensive management experience and broad insight in auditing the Company. Further, the Company has transactions with several financial institutions and securities companies, and is not influenced by any particular financial institutions or securities companies in its management decision-making. Moreover, the Company does not have any significant transactions with Marusan Securities Co., Ltd., where Mr. Imazato currently serves as an Outside Director. As such, the Company believes that Mr. Imazato's appointment poses no risk of a conflict of interest with ordinary shareholders, and has registered him as an Independent Officer.</p>
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Matters concerning Independent Directors

Number of Independent Directors	7
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Other matters concerning Independent Directors
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Incentives

Implementation status of measures related to incentives granted to Directors	Other
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Supplementary explanation for applicable items
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With respect to Directors' bonuses, a proposal is resolved by the Board of Directors following comprehensive consideration of the business results for each fiscal year (approximately 4% of non-consolidated profit) and the degree of achievement of the annual business plan, and then submitted to the General Meeting of Shareholders for approval.

Persons eligible for stock options

Supplementary explanation for applicable items
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Director remuneration

Status of disclosure of individual Directors' remuneration	Individual disclosure is made for certain Directors only
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Supplementary explanation for applicable items
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【Details of Director remuneration】

The details of Director remuneration for fiscal 2022 (April 1, 2022–March 31, 2023) are as follows:

- Annual remuneration for Directors: 492,528,000 yen (including 77,000,000 yen for Outside Directors)
- Annual remuneration for Corporate Auditors: 76,801,000 yen (including 55,200,000 yen for Outside Corporate Auditors)

Notes: 1. The amount paid to Directors does not include employee salaries of Directors who concurrently serve as employees.

2. Additional details are disclosed in the securities report (Japanese only): <https://contents.xj-storage.jp/xcontents/AS06879/7b73abe7/3414/4ca4/a640/f939f573ea4d/S100QZUN.pdf>

Policy on determining remuneration amount and the calculation methods thereof	In place
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Disclosure of policy on determining remuneration amount and the calculation methods thereof

1. Basic policy

Director remuneration consists of fixed cash remuneration as base remuneration, restricted share-based remuneration as stock compensation, and bonuses linked to the Company's fiscal year performance as variable remuneration. It takes into consideration the responsibility of Directors for increasing the Group's corporate value over the medium- to long-term as well as for improving performance in each fiscal year. Outside Directors do not receive share-based remuneration but are paid base remuneration and bonuses in the form of cash.

2. Policy on determining the amount of base remuneration for each individual

The base remuneration for Directors shall be paid in the form of a fixed monthly remuneration, and it shall be set within the range of remuneration that was resolved at the Fiscal 2022 General Meeting of Shareholders held on June 21, 2023 (320 million yen including 100 million yen for Outside Directors). The base remuneration shall be determined after comprehensively considering the Company's business performance and the level of employee salary, including for Executive Officers, etc., depending on whether they have representative rights or not, their position, and responsibilities.

3. Policy on determining the details and calculation method for performance-linked remuneration

In an attempt to raise awareness for improving business performance in each business year, performance-linked remuneration for Directors shall be decided at the General Meeting of Shareholders following a resolution by the Board of Directors after comprehensively considering business results for each business year (approximately 4% of non-consolidated profit) and the degree of achievement of the annual business plan. The payment is made one a year.

4. Policy on determining the ratio of base remuneration and performance-linked remuneration to the amount of Remuneration for individual Directors
The Company's Director remuneration consists of base remuneration (cash remuneration and restricted share-based remuneration) a variable remuneration (performance-linked bonuses). Since non-consolidated profit, which becomes the source of bonuses, fluctuates along with the business performance, we do not determine the ratio of the different types of remuneration in advance but instead determine the ratio subsequently depending on the determined amount of bonus for each fiscal year calculated by the method described in paragraph 3.

5. Policy on determining the amount of restricted share-based remuneration

The total amount of monetary remuneration claims to be paid as restricted share-related remuneration, etc. to directors (excluding Outside Directors) shall be within the range of 100 million yen resolved at the Fiscal 2021 General Meeting of Shareholders held on June 22, 2022, and the amount of remuneration for each director shall be determined by the Board of Directors.

6. Matters concerning decisions related to the details of remuneration, etc. for each Director

The determination of the amount of remuneration to be paid to each Executive Director shall be entrusted to the President and Representative Director, taking into consideration whether a director has representative rights or not, their position, responsibilities, level of contribution, etc. However, when making those decisions, the President and Representative Director shall consult other Representative Directors and two Outside Directors appointed by the Board of Directors based on the draft of individual Director remuneration amount prepared in advance and make the final decision after considering their reports.

The determination of the amount of remuneration to be paid to each Outside Director shall be entrusted to the President and Representative Director. The determination shall be made after considering and evaluating each Outside Director's responsibilities, attendance at Board of Directors meetings, and the comments and recommendations made at various meetings, and after consultation with each Outside Director.

Support system for Outside Directors and/or Outside Corporate Auditors

Regarding the provision of support for Outside Directors, the Corporate Planning and IR Office in the Corporate Planning Division, which manages the Secretariat for the Board of Directors, has established a framework for providing appropriate support when necessary. The Internal Control and Audit Office and the Corporate Auditors' Office have established a framework for providing appropriate support to outside Corporate Auditors when necessary.

2. Matters concerning functions of business execution, auditing and supervision, nomination, and remuneration decisions (overview of current corporate governance system)

The Company has adopted a Board of Corporate Auditors system, which is based on the institutional system under the Company with a Board of Corporate Auditors as stipulated in the Companies Act. The Company believes that its corporate governance is functioning adequately and that the current system is effective, since the Company has established the following systems.

1. Business execution and supervisory functions and their status

The Board of Directors consists of 10 members, five of whom are Outside Directors. Outside directors exert its supervisory function over the management of the Company from a standpoint independent from Executive Directors, drawing on their own experience and insight into corporate management.

In June 2003, the Company introduced an Executive Officer system in an attempt to strengthen the supervisory function over business execution and to speed up management decision-making. This system has clearly separated the formulation of business strategy, decision-making, and supervisory functions that are the responsibility of the Board of Directors from the business execution functions that are carried out by the Company's Executive Officers. In addition, important matters and issues relating to business execution are deliberated at the Executive Officer Meeting, which is held once a month.

The Company has also appointed Advisory Members to the Board of Directors that consist of experts from Japan and overseas and act as an advisory body to the Board of Directors. The Company receives advice on management-related issues from the members on a regular basis.

2. Status of audits

The Board of Corporate Auditors comprises four Corporate Auditors, two of which are full-time and two of which are part-time (including three Outside Corporate Auditors). After the Annual General Meeting of Shareholders, the Board of Corporate Auditors determines audit policies, plans, and work assignments, and each Board of Corporate Auditors member audits the execution of duties by Directors, Executive Officers, and others in accordance with the "Board of Corporate Auditors Regulations," "Board of Corporate Auditors Auditing Standards" and "Implementation Standards for Internal Control Systems." Specifically, the Board of Corporate Auditors audits the execution of duties by Directors through attendance at important meetings, including Board of Director meetings, Executive Officer meetings, Business Process Innovation meetings, Development Promotion meetings, Affiliated Company meetings, and the President's Audit. Further, the Board of Corporate Auditors meets with Representative Directors, shares information with Outside Directors, exchanges opinions with Directors, Executive Officers, division heads, office managers, divisional sales managers, and presidents of domestic and overseas subsidiaries, and inspects important documents including approval requests and credit application forms. The Board of Corporate Auditors also plans and holds Group corporate auditor liaison meetings with Auditors from affiliated companies to share information among Group companies and take the lead in improving knowledge related to auditing duties.

The Internal Control Auditing Office is in charge of internal audits, with one manager and three Auditors conducting internal audits of the Company and its subsidiaries throughout the year based on a pre-planned audit schedule.

In addition, the Corporate Planning and IR Office in the Corporate Planning Division serves as a secretariat and implements a "President's Audit" twice a year in which the Company President directly audits the status of business execution by those in charge of each division and monitors progress on the Company's management plan and the status of risk management, etc.

The certified public accountant performing the accounting audit of the Company in fiscal 2022 was Mr. Tatsuya Chiba, Designated Engagement Partner at PricewaterhouseCoopers Aarata LLC, who was assisted by two certified public accountants, one associate member of the Japanese Institute of Certified Public Accountants, and six other staff members.

3. Status of audits by the accounting auditor

In terms of accounting audits, PricewaterhouseCoopers Aarata LLC conducts strict accounting audits based on an audit contract and the Company exchanges opinions on the audit results and receives recommendations for improvements.

3. Reasons for adoption of the current corporate governance system

As stated in section 2 above, we believe that the current corporate governance system is functioning effectively and that the number of Outside Directors, Outside Corporate Auditors, and Independent Directors is already sufficient considering the size of the Company and the number of members of the Board of Directors and the Board of Corporate Auditors.

III Implementation of measures for shareholders and other stakeholders

1. Status of efforts to vitalize shareholders' meetings and facilitate the exercise of voting rights

	Supplementary explanation
Early dispatch of Convocation Notice for the General Meeting of Shareholders	The Convocation Notice is mailed to shareholders two weeks before the General Meeting of Shareholders. However, to make the process more convenient for shareholders and ensure a sufficient period of time to consider the proposals, the Convocation Notice is posted on the Tokyo Stock Exchange, the ICJ Electronic Voting Platform, and the Company website two weeks prior to the mailing date. The Convocation Notice of the Ordinary General Meeting of Shareholders for Fiscal 2022 was posted on the Tokyo Stock Exchange, ICJ, and the Company website 30 days prior to the dispatch date.
Scheduling of the General Meetings of Shareholders during non-peak days	The Company sets a date for the General Meeting of Shareholders that avoids peak days. The Ordinary General Meeting of Shareholders for Fiscal 2021 was held on June 22, 2022, and in Fiscal 2022, on June 21, 2023.
Electronic exercise of voting rights	Beginning with the Fiscal 2016 Ordinary General Meeting of Shareholders, the Company has introduced a system for exercising voting rights by electromagnetic means. Specifically, we have introduced two ways to exercise voting rights: (1) by directly entering the URL and logging in to the "Voting Website" with an ID and password, and (2) by "Smart Exercise," whereby shareholders can easily exercise their voting rights without an ID and password by reading the QR code on the Voting Form after logging in to "Convocation via Internet" from their smartphones or tablets. This way, users can exercise their voting rights not only from PCs but also from smartphones and tablets.
Participation in a platform for the electronic exercise of voting rights and other initiatives to enhance environment for institutional investors to exercise voting rights	<ul style="list-style-type: none"> • In order to provide an appropriate voting environment for institutional investors both in Japan and overseas, we started using the ICJ Electronic Voting Platform from the Ordinary General Meeting of Shareholders for Fiscal 2017. • The Convocation Notice, both in Japanese and English (reference documents and summary excerpts), is disclosed prior to dispatch and posted on the Tokyo Stock Exchange, the Electronic Proxy Voting Platform (ICJ) and the Company's website approximately three weeks prior to the General Meeting of Shareholder.
Provision of notice (or summary of notice) of the General Meeting of Shareholders in English	We have submitted and announced an English abridged version of the Reference Documents starting with the Ordinary General Meeting of Shareholders for Fiscal 2017, an English version of Summary and Reference Documents starting with the Ordinary General Meeting of Shareholders for Fiscal 2022 to the Tokyo Stock Exchange and to Electronic Voting Platform (ICJ), and displayed the documents on the Company website (https://www.hds.co.jp/english/ir/event/stockholder/).
Other	<ul style="list-style-type: none"> • To vitalize the General Meeting of Shareholders, in explaining the contents of items to be reported and resolved, we strive to make the contents visually easy to understand by projecting materials with graphs and charts using a projector. • Once the General Meeting of Shareholders is over, we hold a corporate briefing to supply business or product information, etc. and enable our shareholders to get to know the Group better. The corporate briefings were unavoidably canceled in fiscal 2019 (June 24, 2020), fiscal 2020 (June 23, 2021), fiscal 2021 (June 22, 2022), and fiscal 2022 (June 21, 2023) to prevent the spread of COVID-19. • We post convocation notices, resolution notices, voting results, and presentation materials on matters to be reported, etc. on the Company website. Japanese: https://www.hds.co.jp/ir/event/stockholder/ English: https://www.hds.co.jp/english/ir/event/stockholder/

2. Status of IR-related activities

	Supplementary explanation	Explanation by a Representative Director
Formulation and publication of disclosure policies	<p>The Company's IR website lists our information disclosure policy and framework for timely disclosure in both Japanese and English.</p> <p>Japanese: https://www.hds.co.jp/ir/management_policy/ir_policy/ English: https://www.hds.co.jp/english/ir/management_policy/ir_policy/</p>	
Regular investor briefings held for individual investors	<p>We hold corporate briefings for individual investors at least twice a year to outline the Group and our business strategies and business performance, etc. In fiscal 2022, two meetings were held, one on September 17, 2022, and the other on March 12, 2023.</p> <p>*The materials used for those individual investor briefings are displayed on the individual investor briefing page on the Company website: https://www.hds.co.jp/ir/event/investor/ (Japanese only)</p>	Not Held
Regular investor briefings held for analysts and institutional investors	<p>We conduct a business results briefing for analysts and institutional investors when we announce our interim and full-year business results at which the President and Representative Director and the CFO give presentations and answers questions.</p> <p>* The materials used for those investor briefings are displayed on the Presentation of Business Results page on the Company website. Japanese: https://www.hds.co.jp/ir/event/accounts/ English: https://www.hds.co.jp/english/ir/data/briefings/</p>	Held
Regular investor briefings held for overseas investors	<ul style="list-style-type: none"> •We hold small meetings for overseas investors arranged by securities companies each time we announce quarterly business results. In fiscal 2022, we held a total of 14 small meetings. •In order to explain our financial results and business strategies, we hold individual interviews with overseas institutional investors on a quarterly basis. 79 overseas investors attended individual meetings in fiscal 2022. •We participate in conferences organized by securities companies at least once a year. In fiscal 2022, we attended four such conferences. 	Held
Online disclosure of IR information	<p>We have set up an Investor Relations section on the Company website and we seek to display all our IR information in a readily understandable and timely way using charts and graphs. Timely disclosure includes nearly simultaneous disclosure on the Tokyo Stock Exchange.</p> <p>Japanese: https://www.hds.co.jp/ir/ English: https://www.hds.co.jp/english/ir/</p>	
Establishment of department and/or placement of a manager in charge of IR	<ul style="list-style-type: none"> •The Executive Officer in charge of corporate planning oversees all IR operations as the head of IR, and conducts IR operations in cooperation with the Executive Officers in charge of finance, accounting, and taxation.. •The Corporate Planning & Investor Relations Office of the Corporate Planning Division has been established as the department in charge of investor relations, and specific investor relations activities are being implemented. 	

3. Status of measures to ensure due respect for stakeholders

	Supplementary explanation
Establishment of internal rules stipulating respect for the position of stakeholders	<p>The Company mission is to do our utmost to ensure all of our stakeholders are satisfied based on our Management Principles.</p> <p>■ Management Principles</p> <ol style="list-style-type: none"> 1. Respect for the Individual 2. A Meaningful Company 3 Coexistence and Co-prosperity 4. Contribution to Society
Implementation of environmental preservation activities and CSR activities, etc.	<p>■ Environmental Preservation Activities</p> <p>We have always been deeply aware of our corporate social responsibility towards the global environment and strive to maintain and improve our environmental management system based on ISO 14001. To substantially reduce our environmental impact, we set targets for reducing CO₂ emissions and waste, and proactively engage in efforts toward this end.</p> <p>■ Implementing Sustainability Activities</p> <p>We recognize that sustainability initiatives are an important management issue, and in accordance with our basic sustainability policy based on our Management Principles comprising Respect for the Individual, A Meaningful Company, Coexistence and Co-prosperity, and Contribution to Society, we strategically promote sustainability activities led by the Sustainability Committee, which is chaired by the President and Representative Director, and attended by Executive Directors. Details of these initiatives are displayed on the Sustainability page of the Company website.</p> <p>Japanese: https://www.hds.co.jp/csr/ English: https://www.hds.co.jp/english/csr/</p>

IV Matters related to the internal control system

1. Basic views on the internal control system and progress of system development

■ Basic Views on the Internal Control System

The Company has established the following fundamental policies on establishment of internal control systems, which are necessary to ensure that Directors' execution of duties is in compliance with laws, regulations and the Articles of Incorporation and to ensure the appropriateness of other operations. In accordance with the fundamental policies, the Company will continue to ensure the appropriateness of operations and review and improve the internal control system with the aim of building a more effective system.

■ Status of development of internal control system

1. System for the preservation and management of information related to the execution of duties by Directors

The handling of information and documents relating to the execution of duties by Directors shall be appropriately stored and managed in accordance with the Company's internal rules on document management.

2. Regulations and other systems for managing risk of loss

(1) The Company shall stipulate risk management rules, establish a Group-wide risk management structure in accordance with the rules and implement risk management.

(2) In the event of a risk should arise, the Company shall establish a system to take appropriate measures in accordance with the "Code of Conduct," "Crisis and Risk Management Regulations," and "Crisis Management - Code of Conduct in the Event of a Crisis" established by the Company.

(3) Responsibility and authority relating to risk management are segregated as follows:

- The President and Representative Director shall have authority and responsibility for establishing risk management systems throughout the Group.
- The Executive Officer responsible for general affairs shall promote maintenance and improvement of risk management systems throughout the Group and manage the systems in accordance with the instructions and supervision of the President and Representative Director.
- Executive officers shall recognize the importance of identification, assessment, monitoring and management of risks with respect to the fields for which they are responsible and establish systems for clarification and management of risks.

3. System ensuring efficient execution of duties by Directors

(1) The Company shall employ the Executive Officer system and separate functions of the Board of Directors, including strategy formulation, decision-making, and supervision, from the function of Executive Officers, namely execution of operations. The Company shall define the responsibility and authority concerning execution of duties in the Authority Rules to clarify responsibility, improve efficiency of decision-making, and accelerate decision-making.

(2) The Company shall continuously monitor the situations of business operations and risks and ensure efficiency of duty execution by Directors, Executive Officers, and the Directors of subsidiaries based on the following management control systems:

- Board of Directors Meeting (decision-making of important management policies, monitoring of the progress of the mid-term business plan and the annual business plan)
- Executive Officer Meeting (reporting and deliberation of the status of Executive Officers' business execution, deliberation and decision-making on execution of important management matters)
- President's Audit (direct audit by the President on business execution policies of persons responsible for each division, targets, and status of business execution)
- Business process innovation meeting (deliberation on monthly business results, initiatives for business process innovation, etc.)
- Affiliated company meeting (reporting and deliberation of the status of management at affiliated companies)

- Internal audit (audit of appropriateness and efficiency of activities related to operations, accounting, quality, and the environment)
- 4. System ensuring execution of duties by Directors and employees in compliance with laws, regulations, and the Articles of Incorporation
 - (1) The Company shall ensure that everyone working at the Company and its subsidiaries complies with the Charter of Corporate Behavior and the Code of Conduct, and foster a high level of awareness of compliance among individual employees.
 - (2) In the event of any unfavorable compliance-related eventuality at the Company and its subsidiaries, the Company shall establish a system by which the President and Representative Director, the Chairperson and Representative Director, the Board of Directors, and the Board of Corporate Auditors receive reports on the details of the event and countermeasures via the Executive Officer responsible for general affairs.
 - (3) The Company and its subsidiaries shall establish a system for ensuring reliability and appropriateness of financial reporting and evaluate the status of development and operation of such system regularly.
 - (4) As a system for ensuring (1), (2), and (3) above, the Company shall establish a system to ensure business execution is being conducted appropriately by having Internal Auditors primarily led by the Internal Control and Audit Office, to conduct internal audits of the Company and its subsidiaries.
 - (5) The Company and its subsidiaries shall adhere to the basic policy to comply with laws and regulations and have no relationship whatsoever with anti-social forces or organizations.
- 5. System ensuring the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries
 - (1) The Company shall foster a high level of awareness of compliance by thoroughly communicating the Code of Conduct to the employees of its subsidiaries as well.
 - (2) The Company shall establish an appropriate system for managing its subsidiaries in accordance with the Rules for Management of Affiliated Companies.
 - (3) The Company shall continuously monitor the status of execution of operations at subsidiaries and risks by periodically holding Affiliated Companies Meeting.
 - (4) Internal Auditors primarily led by the Internal Control and Audit Office shall periodically conduct operational audit of Group companies.
 - (5) The Company shall promote personnel exchange between the Company and its subsidiaries in order to achieve close collaboration of the Group.
- 6. Matters concerning employees who provide assistance to Corporate Auditors upon request
 - The Company shall establish an organization to assist with the duties of Corporate Auditors and assign appropriate personnel to that organization.
- 7. Matters concerning the independence of employees mentioned in 6. above from Directors
 - Transfer of the employees who provide assistance to Corporate Auditors and their performance evaluation shall require the consent of the Board of Corporate Auditors and its members.
- 8. System for Directors and employees of the Company and its subsidiaries to report to Corporate Auditors, and other systems regarding reports to corporate auditor
 - (1) Corporate Auditors shall attend important meetings to gain important information on the execution of duties by Directors and employees.
 - (2) Directors and employees of the Company and its subsidiaries shall swiftly notify the Board of Corporate Auditors and its members of matters that may have a material impact on the Group, in addition to matters designated by law.
 - (3) Any matters discovered through internal audits of the Company and its subsidiaries shall be reported to the Board of Corporate Auditors and its members by the General Manager of the Internal Control and Audit Office.
 - (4) Directors and employees of the Company and its subsidiaries are required to provide the necessary reports and information in response to requests from the Board of Corporate Auditors and its members.
 - (5) Any whistleblowing reports from the Company and its subsidiaries shall be handled according to the whistleblowing system and reported to the Board of Directors and its members and the Board of Corporate Auditors and its members periodically or as necessary. Furthermore, the identity and personal information of any whistleblowers shall be protected to ensure they are not treated disadvantageously.
- 9. Other Systems Ensuring the Effectiveness of Audits Conducted by Corporate Auditors
 - (1) The Board of Corporate Auditors and its members shall periodically meet with the Company's Accounting Auditors to exchange opinions.
 - (2) If deemed necessary for auditing, the Board of Corporate Auditors and its members may appoint lawyers, certified public accountants, or other external experts, in addition to internal staff, at the expense of the Company.

2. Basic views on measures for eliminating anti-social forces and status of development

The Company has prescribed the following basic policy concerning the elimination of anti-social forces in the Charter of Corporate Behavior:

- The Company shall not compromise with anti-social forces and shall maintain a resolute attitude.

Regarding the above-mentioned Charter of Corporate Behavior, we regularly conduct group awareness-building training sessions to ensure all employees are thoroughly familiar with the charter's contents and distribute the content on a pocket-sized card to all employees. In addition, regarding responses to anti-social forces, we have created an internal control manual that serves as an internal regulation, and strive to implement its specific operations. We also receive information on anti-social forces and advice on appropriate ways to respond, through cooperation with the police and the Special Violence Prevention Coalition.



1. Adoption of anti-takeover defense measures

Adoption of anti-takeover measures	None
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2. Other matters concerning the corporate governance system

The status of the Company's internal system for timely disclosure of corporate information is described below.

1. Basic Stance on Timely Disclosure

The Company's basic stance is to disclose corporate information that could have a significant impact on investors' investment decisions in a timely and appropriate manner in accordance with our internal regulations such as the Insider Trading Management Rules.

2. Status of Internal System for Timely Disclosure

There is a system in place under which important corporate information relating to the Company and its subsidiaries, whether it be information on decisions, occurrences, or financial results, is consolidated to the officer in charge of information handling (the Executive Officer in Charge of Corporate Planning), who is appointed by the President and Representative Director.

The officer in charge of information handling (the Executive Officer in Charge of Corporate Planning) who receives the reports on corporate information decides, after consulting with the relevant departments, whether the information received is required to be disclosed under the Rules for Timely Disclosure, and then determines the content and timing, etc. of any disclosure after obtaining the approval of the President and Representative Director.

Regarding matters that require a resolution of the Board of Directors, any decisions are communicated to the officer in charge of information handling (the Executive Officer in Charge of Corporate Planning) immediately following a resolution, and the implementation of timely disclosure of that information is determined.

The officer in charge of information handling (the Executive Officer in Charge of Corporate Planning) who has decided to implement a timely disclosure of information then instructs the division in charge of IR on the disclosure procedures and handling of the disclosure of the relevant corporate information.

The information is disclosed by registering it on TDnet and, if necessary, sending materials to the media. The same information is disclosed on the Tokyo Stock Exchange (TDnet) and posted on the Company website (<https://www.hds.co.jp/>)