

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

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

1. Basic views Updated

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, A Meaningful Company, Coexistence and Co-prosperity, and Contribution to Society.

The Company has adopted a Board of Corporate Auditors system, which is based on the institutional system under the Company with an Audit and Supervisory Board format. The Board of Corporate Auditors consists of four corporate auditors, of whom two 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 Updated

[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 president and 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 successor candidates and provide necessary advice as appropriate to the president and representative director regarding the development of those candidates. In addition, at the Board of Directors meeting held on March 25, 2024, the Company established a voluntary Nomination and Remuneration Advisory Committee to serve as an advisory body to the Board of Directors. The committee will consider succession planning as part of its activities.

[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 commit 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 by the Board of Directors after the reasons for 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 4.11.3: 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. After aggregating and analyzing the results, the Board of Directors also 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 will consider doing so in the future.

Disclosure based on the principles of the corporate governance code Updated

[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 criteria as to 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 verifies the appropriateness of continuing to hold certain shares once a year in a Board of Directors meeting based on the above policy. The shares to be held, the number of shares, the purpose and effect of shareholdings, and other factors are disclosed in the Company’s Annual 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 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 the aim of being 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, or 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

Regarding hiring women, the Company promotes the hiring of new female graduates, and in mid-career hiring, we are actively 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, 2024, 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, but we will continue to expand the candidate pool by strengthening support for career development and recruitment. As of March 31, 2024, we have appointed one female outside director and two female executive officers. Furthermore, 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 the aim of creating 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, 2024, foreign nationals accounted for only 1.3% (seven people) of our workforce on a nonconsolidated 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 nationals, 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 abilities required by the Group, we actively recruit mid-career hires with various experience, skills, and qualifications who can be expected to achieve immediate results, in addition to the regular hiring of new graduates, with the aim of creating a diverse organization. The Company has long promoted new graduates and mid-career hires without distinction to management positions, 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, 2024, mid-career hires in management positions or higher were as follows.

- Percentage of mid-career hires in management positions: 55.4%
- Percentage of mid-career hires in executive officer positions (excluding those concurrently serving as directors): 80.0%

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

(1) Human resource development policy

Our basic policy is to develop human resources capable of realizing the Company's Management Principles. We strategically develop human resources based on our human resource development policy, which is divided into the following three phases.

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

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

Phase III Demonstration of expertise: Leveraging abilities and experience in management and specialized skills and techniques accumulated up to now, and contributing to division operations and younger employee development (nurturing role).

(2) Internal environment improvement policy

To create an organization in which individuals are 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, and 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. As part of its promotion of the active participation of women and reforms in the way employees work, the Company also actively promotes the use of the childcare leave system for male employees. In the fiscal year ended March 31, 2024, the utilization rate of the male employee childcare leave system was 81.8% on a non-consolidated basis.

Skill development system

Regarding skill development, the Company formulates systematic, medium- to long-term human resource development plans and has 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 enables 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 system

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

- Provision of periodic physical exams, stress checks, and other efforts aimed at preventing employee physical and mental health issues
- Establishment of the Health Promotion Center, which specializes in promoting employee health, and provision of detailed health consultation and guidance using in-house nurses
- Establishment of contact points both inside and outside the Company for reporting and consultation pertaining to harassment and other issues
- Provision of telework environments, etc.

Human capital initiative details are also published in the Integrated Report and Annual Securities Report and on the Company website

- Integrated Report: <https://www.hds.co.jp/english/csr/hdsreport/>
- Annual Securities Report: <https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf> (In Japanese)
- Sustainability section of the Company website: <https://www.hds.co.jp/english/csr/>

[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 investees, 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.

Regarding 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, business strategies, and mid-term business plans and discloses them on its website.

Management Principles (<https://www.hds.co.jp/english/company/ideal/>)

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

(2) Basic views on corporate governance

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

(4) Policies and procedures for nominating candidates for director and corporate auditor positions

When appointing or reappointing directors, the Board of Directors consults with and receives reports from its advisory body, the Nomination and Remuneration Advisory Committee. After considering the content of such reports, the Board of Directors resolves an agenda for the General Meeting of Shareholders, and a final decision is reached by resolution at the General Meeting of Shareholders.

The appointment of corporate auditor candidates is recommended by the Board of Directors and submitted to the General Meeting of Shareholders after obtaining the consent of the Board of Corporate Auditors.

In appointing outside directors and outside corporate auditors, we comprehensively consider the personal, capital, and business relationships between the Group and the potential candidates and companies to which they belong, and only those individuals deemed able to fulfill the required functions and roles from an independent standpoint are nominated as candidates.

(5) Explanation of nomination and appointment of director and corporate auditor candidates

When candidates for director and corporate auditor positions are submitted for discussion at the General Meeting of Shareholders, the Company provides a summary of their career history and assessment 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 and at the end of this report.

(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 or her duties properly, the matter will be decided by the Board of Directors after the reasons for the dismissal are discussed and recognized in a timely manner through consultation with and reporting from the Nomination and Remuneration Advisory Committee, 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 sustainability initiatives, the Company established the Sustainability Committee on April 1, 2023, as an organization to promote, oversee, and manage overall sustainability 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.

In addition, we regularly review materiality in preparation for formulating new mid-term business plans and promote initiatives in our mid-term business plans and annual plans.

Response to climate change

We recognize that addressing climate change is an important management issue, so we have set a long-term goal of “Net Zero by 2050” and are working to achieve it. Specifically, we have identified climate change-related risks and opportunities that may affect the Group's operations, conducted scenario analyses as recommended by the TCFD under the 1.5°C and 4.0°C scenarios, and analyzed the impact of individual risks and opportunities on our operations and their likelihood under the various suppositions of their manifestation in the short, medium, or long term. Based on the results of these scenario analyses, we promote initiatives to create opportunities and minimize risks, mainly via the Sustainability Committee. We include details of risk management and greenhouse gas emissions performance in our Integrated Report and Annual Securities Report.

Please refer to our Integrated Report, Annual Securities Report, and Company website for information on sustainability initiatives.

- Integrated Report: <https://www.hds.co.jp/english/csr/hdsreport/>
- Annual Securities Report: <https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf> (In Japanese)
- Sustainability section of the Company website: <https://www.hds.co.jp/english/csr/>

<Investments in human capital and intellectual property>

We have identified investment in human capital and intellectual property in our materiality as “maximizing the value of human capital” and “creating and using new technologies and skills adapted to changes in the environment.”

Information on human capital is also disclosed in the sustainability section of the Company website (<https://www.hds.co.jp/csr/>) as employee, customer, and social initiatives, and in this report under “I. Basic views on corporate governance, capital structure, corporate profile, and other basic information, 1. Basic views, Disclosure based on the principles of the corporate governance code, [Supplementary Principle 2.4.1: Ensuring diversity in the promotion of key personnel]” and in our Annual Securities Report.

Regarding investments in intellectual property, the Company is proactively working on the rights and protection of intellectual property created through research, development, and manufacturing, the details of which are disclosed on the Company website.

https://www.hds.co.jp/english/deveakajima lopment/intellectual_property/

[Supplementary Principle 4.1.1: Scope of delegation to management]

The Company stipulates 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 executive directors. In addition, the Company has adopted an executive officer system. Executive officers, under the direction of the president and representative director, 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 determination of the applicability of each item of the independence standards set by the Tokyo Stock Exchange. The details are disclosed in the Independent Officers Notifications submitted to the Tokyo Stock Exchange and in this report in “//. Management organization and other corporate governance systems regarding decision-making, execution, and management oversight, 1. Matters concerning organizational structure and operation, Directors.”

In selecting independent outside director candidates, we consider various perspectives, such as each candidate’s background, knowledge, personality, gender, international experience, ability of required expertise, and other factors, and select people who we expect will help bring new perspectives to the Board of Directors.

[Supplementary Principle 4.10.1: Use of voluntary committees when independent outside directors do not constitute a majority of the Board of Directors]

At the Board of Directors meeting held on March 25, 2024, the Company established a voluntary Nomination and Remuneration Advisory Committee to serve as an advisory body to the Board of Directors. Rules stipulate that a majority of the committee’s members shall be independent outside directors and that the chair shall be selected from among the independent outside directors, so we believe the committee’s fairness, transparency, and objectivity are ensured.

Please refer to “//. Management organization and other corporate governance systems regarding decision-making, execution, and management oversight, 1. Matters concerning organizational structure and operation, Voluntary establishment of committee(s) equivalent to Nomination Committee or Remuneration Committee, Supplementary explanation” for detail pertaining to the committee.

[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, accounting, etc., and outside directors with abundant management experience in other companies and industries as well as in international fields. We began disclosing a skills matrix starting with the Notice of the Ordinary General Meeting of Shareholders in June 2022. The information is also posted on the Company website (https://www.hds.co.jp/english/ir/management_policy/governance/) and at the end of this report. The Company’s five independent outside directors all 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 business report accompanying the Notice of the Ordinary General Meeting of Shareholders and in the Annual Securities Report. The number of concurrent positions held at other companies by directors and corporate auditors is limited to the extent that they remain capable of fulfilling their roles and responsibilities as officers of the Company.

Notice of the Ordinary General Meeting of Shareholders: <https://www.hds.co.jp/english/ir/event/stockholder/>

Annual Securities Report: <https://www.hds.co.jp/ir/data/securities/> (In Japanese)

[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 details on the Company website. (https://www.hds.co.jp/english/ir/management_policy/governance/)

[Principle 5.1: Policy for constructive dialogue with shareholders]

We consider our shareholders and investors to be important stakeholders and believe it is our responsibility as a listed company to establish and develop systems for promoting constructive dialogue. To that end, 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, corporate briefing sessions for individual investors, plant tours for shareholders, holding of small-group or individual meetings with institutional investors, issuance of an Integrated Report, and enhanced content on 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]

Regarding cost of capital, the Company’s cost of shareholder’s 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. We recognize that our WACC, calculated using the Capital Asset Pricing Model (CAPM), is approximately 8%. On the other hand, we use the DCF method when making decisions on capital investments, etc., and set the discount rate used in the calculation at a hurdle rate of 10%, which is higher than our WACC and which we verify and deem rational.

Furthermore, we are working to achieve the policies and management targets of our medium-term business plan covering fiscal 2024 through 2026 with the mission of “To contribute to innovation in the society by our motion control technology.” Profitability targets for the final year of the plan, fiscal 2026, are an operating profit margin of 15–20% and an EBITDA margin of 25–30%; efficiency targets are ROE and ROIC each above cost of shareholders’ equity, at least 10%; the stability target is an equity ratio of at least 70%; and the shareholder return target is a dividend payout ratio of at least 30%. The mid-term business plan is discussed and approved by the Board of Directors, and progress is reported at the Board of Directors meeting at the end of each fiscal year, with the management team taking the initiative in examining, analyzing, and evaluating the plan to ensure appropriate allocation of management resources.

The representative director and director/CFO explain these initiatives and their progress at financial results briefings for analysts, and the materials and scripts for the briefings are published on the Company 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/data/briefings/>

[Status of dialogue with shareholders]

The Company positions shareholders and investors as important stakeholders and maintains a policy of actively responding to inquiries and meeting requests from shareholders and institutional investors. Response is led by the representative director/general manager of Corporate Planning, director/CFO, and the executive officer in charge of Corporate Planning and Investor Relations.

Dialogues with shareholders and investors in fiscal 2023 were as follows.

- For institutional investors: 195 IR meetings for single institutional investors; 10 small meetings (attended by 293 investors); participation in five IR conferences (attended by 54 investors)
- For individual investors: One Company briefing (attended by 376 individual investors)

2. Capital structure

Foreign Shareholding Ratio	30% or higher
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Status of major shareholders Updated

Name or corporate entity	Shares held	Ratio (%)
KODEN Holdings Co., Ltd.	33,490,700	35.26
SSBTC CLIENT OMNIBUS ACCOUNT	7,058,264	7.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,752,900	3.95
Custody Bank of Japan, Ltd. (Trust Account)	3,345,900	3.52
Norimitsu Ito	3,041,600	3.20
Control trust (A030) trustee SMBC Trust Bank Ltd.	2,176,800	2.29
JP MORGAN CHASE BANK 385632	1,986,230	2.09
STATE STREET BANK WEST CLIENT-TREATY 505234	1,681,500	1.77
JP MORGAN BANK LUXEMBOURG S.A. 381572	1,571,000	1.65
NORTHERN TRUST Co. (AVFC) RE IEDU UCITS CLIENTS NON-LENDING 15 PCT TREATY ACCOUNT	1,448,550	1.52

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

Supplementary explanation Updated

*The "Status of major shareholders" section and this supplementary explanation are as of March 31, 2024.

- 1) The above percentages are calculated by deducting 1,339,057 shares of treasury stock from the total number of shares outstanding.
- 2) The following two companies jointly submitted a change report on 6,486,950 shares on October 20, 2023. However, since it was not possible to confirm the actual number of shares held in the name of those companies as of March 31, 2024, they are not included in the "Status of major shareholders."
 - Capital Research and Management Company
 - Capital International K.K.
- 3) The following two companies jointly submitted a change report on 7,955,200 shares on January 11, 2024. However, since it was not possible to confirm the actual number of shares held in the name of those companies as of March 31, 2024, they are not included in the "Status of major shareholders."
 - 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 Updated

KODEN Holdings Co., Ltd., a major shareholder of the Company, falls under the category of other affiliated companies. KODEN Holdings held 35.26% of voting rights in the Company as of March 31, 2024.

KODEN Holdings is a holding company that formulates group strategies and manages group companies including Kodan Electronics Co., Ltd. KODEN Holdings' key subsidiaries, Kodan Electronics and Tokyo Aircraft Instrument Co., Ltd., are engaged in the manufacture and sale of electronic devices and various instruments, so their business domain differs from that of our Group, which manufactures and sells various actuators and reducers for precision motion control. As a result, there is a minimal business relationship between the two groups, so we can conduct our business activities freely and are not subject to any business restrictions from the KODEN group.

In addition, as of the submission date of this report (June 28, 2024), there are no dispatches of executives or other personnel between the groups, so we have sufficient independence when making management decisions.

// 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 an 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 officers	5

Relationship with the Company (1)

Name	Attributes	Relationship with the 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"

* "○" indicates the director presently falls or has recently fallen under the category; and "△" indicates the director fell under the category in the past

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

- Executive officer of a listed company or its subsidiary
- Executive or non-executive officer of the parent company of a listed company
- Executive officer of the Company's sister companies
- Person whose main business partner is a listed company or a person who executes the business
- Major business partner of a listed company or a person who executes the business
- Consultant, accounting professional, or legal professional who receives large amounts of money or other assets from a listed company other than compensation for their services as director or officer
- Major shareholder of a listed company (if such major shareholder is a corporation, an executive of such corporation)
- Executive of business partners of a listed company (not falling under any of d, e and f; only for the individual).
- Executive (only for the individual) of the party with whom the external officers have a relationship of mutual appointment (only for the individual)
- Executive of the party to which a listed company has made a donation (only for the individual)
- Other

Name	Designation as independent officer	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 regarding corporate management, in addition to extensive international experience. Based on the above, the Company has judged that he has been helping further strengthen the Company's management system by making recommendations and supervising the overall management of the Company utilizing his ability and experience.</p> <p>(Designation as an independent officer)</p> <p>Mr. Yoshida is designated and filed as an independent officer 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 has 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 as representative director and executive operating officer from May 2004 to June 2005. However, approximately 19 years have elapsed since his retirement. The Company's borrowings from MUFG Bank, Ltd., totaled 6,982 million yen as of March 31, 2024, accounting for 7.7% 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 regarding corporate management, in addition to extensive international experience. Based on the above, the Company has judged that he has been helping further strengthen the Company's management system by making recommendations and supervising the overall management of the Company utilizing his ability and experience.</p> <p>(Designation as an independent officer)</p> <p>Mr. Nakamura was previously an executive officer of the Company's main bank, but approximately 19 years have elapsed since his retirement. The Company did not invite him at the request of a financial institution, but rather at its own discretion, to utilize his extensive management experience and broad insight into management of the Company. Furthermore, the Company has transactions with multiple financial institutions and is not influenced by any one financial institution in its management decision-making. Based on 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 officer.</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 regarding 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&A, etc. Based on the above, the Company has judged that he has been helping 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, or Toyo Construction Co., Ltd., where he served as an outside director until June 27, 2023.</p> <p>(Designation as an independent officer)</p> <p>Mr. Fukuda is designated and filed as an independent officer 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 has determined that there is no risk of a conflict of interest between him and ordinary shareholders.</p>

Kazuhiko Hayashi	○	-----	<p>Mr. Kazuhiko Hayashi has leadership experience as the person in charge of development and design at the Toyota Group and possesses abundant experience and a high degree of insight into corporate management gained during his tenure in prominent positions at the Sumitomo Electric Industries Group. The Company assesses that he has been helping further strengthen the Company's management system by making recommendations and supervising the overall management of the Company from a 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., or AutoNetworks Technologies, Ltd., where he was an executive officer until 2017.</p> <p>(Designation as an independent officer)</p> <p>Mr. Hayashi is designated and filed as an independent officer 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 has 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 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 currently also a member of the Electricity and Gas Market Surveillance Commission of the 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 has been helping 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 Ernst & Young ShinNihon, where she served as an auditor. Although she currently serves as a member of the Electricity and Gas Market Surveillance Commission of the Ministry of Economy, Trade and Industry, and as an outside corporate auditor at Daikin Industries, Ltd., there are no material transactions between the Company and the Electricity and Gas Market Surveillance Commission or Daikin Industries.</p> <p>(Designation as an independent officer)</p> <p>Ms. Kitamoto is designated and filed as an independent officer 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 has determined that there is no risk of a conflict of interest between her and ordinary shareholders.</p>

Voluntary establishment of committee(s) equivalent to Nomination Committee or Remuneration Committee	In place
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Status of establishment of voluntary committees, member composition, attributes of chair

Updated

	Committee name	Total members	Full-time members	Inside directors	Outside directors	Outside experts	Others	Chair
Committee equivalent to a nominating committee	Nomination and Remuneration Advisory Committee	3	0	1	2	0	0	Outside director
Committee equivalent to a remuneration committee	Nomination and Remuneration Advisory Committee	3	0	1	2	0	0	Outside director

Supplementary explanation

Updated

At the Board of Directors meeting held on March 25, 2024, the Company established a voluntary Nomination and Remuneration Advisory Committee. The regulations stipulate that the committee will have at least three members, a majority of whom are to be independent outside directors, and that the chair shall be selected from among the independent outside directors. Currently, the members are independent outside directors Haruhiko Yoshida and Masanobu Nakamura and President and Representative Director Akira Maruyama, with Mr. Yoshida serving as chair.

As an advisory body to the Board of Directors, the committee studies and deliberates on the appointment and dismissal of directors, the selection of representative directors, the selection and dismissal of directors with titles, director remuneration, the succession plan for and training of the president, and other matters, and decides on matters to be reported to the Board of Directors.

The secretariat of the committee is the department serving as secretariat for the Board of Directors.

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

Updated

The Corporate Auditors exchange opinions with the accounting auditor regarding audit plans, receive reports on audit results, discuss and evaluate the content of audits, and ensure cooperation. Furthermore, regarding key audit matters (KAM), the corporate auditors hold discussions with PricewaterhouseCoopers Japan 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, matters identified by internal audits are reported as audit results to the president and the Board of Corporate Auditors through a dual reporting line system. The results are also reported to the Board of Directors. In the audit process, the Internal Control and Audit 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 and Audit Office and the corporate and accounting auditors.

Appointment of outside corporate auditors	Appointed
Number of outside corporate auditors Updated	2
Number of outside corporate auditors designated as independent officers Updated	2

Relationship with the Company (1)

Updated

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

*Categories for "Relationship with the Company"

* "○" indicates the director presently falls or has recently fallen under the category; and "△" indicates the director fell under the category in the past

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

- Executive officer of a listed company or its subsidiary
- Non-executive officer or accounting advisor of a listed company or its subsidiaries
- Executive or non-executive officer of the parent company of a listed company
- Corporate auditor of the parent company of a listed company
- Executive officer of the listed company's sister companies
- Person whose main business partner is a listed company or a person who executes the business
- Major business partner of a listed company or a person who executes the business
- Consultant, accounting professional, or legal professional who receives large amounts of money or other assets from a listed company other than the director's remuneration
- Major shareholder of a listed company (if such major shareholder is a corporation, an executive person of such corporation)
- Executive of a business partner of a listed company (not falling under any of f, g and h; only for the individual)
- Executive of the party with whom the external officers have a relationship of mutual appointment (only for the individual)
- Executive of the party to which a listed company has made a donation (only for the individual)
- Other

Name	Designation as independent officer	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 15 years have elapsed since his retirement. The Company's borrowings from MUFG Bank, Ltd., totaled 6,982 million yen as of March 31, 2024, accounting for 7.7% 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. Since his appointment as a full-time corporate auditor of the Company in June 2020, he has provided recommendations from a neutral and objective perspective as a member of the Board of Directors and Board of Corporate Auditors, contributing to the improvement of auditing functions. Based on the above, the Company has judged that he can further strengthen the corporate governance structure of the Group from an independent standpoint, and therefore appointed him as an outside corporate auditor. (Designation as an independent officer)</p> <p>Mr. Yokogoshi was previously an executive officer of the Company's main bank, but approximately 15 years have elapsed since his retirement. The Company did not invite him at the request of a financial institution, but rather at its own discretion, 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 multiple financial institutions and is not influenced by any one 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 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 officer.</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, 10 years have elapsed since his retirement. The Company's borrowings from MUFG Bank, Ltd., totaled 6,982 million yen as of March 31, 2024, accounting for 7.7% of total assets. Mr. Imazato also served as principal executive officer at Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., until June 2014, but 10 years have elapsed since his retirement. The amount of business transactions between the Company and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., in fiscal 2023 was small.</p>	<p>Mr. Eisaku Imazato possesses abundant management experience and broad insight gained at major securities companies. Since his appointment as a corporate auditor of the Company in June 2020, he has provided recommendations from a neutral and objective perspective as a member of the Board of Directors and Board of Corporate Auditors, contributing to the improvement of auditing functions. Based on the above, the Company has judged that he can further strengthen the corporate governance structure of the Group from an independent standpoint, and therefore appointed him as an outside corporate auditor. (Designation as an independent officer)</p> <p>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., 10 years have elapsed 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 10 years. The Company did not invite him at the request of a financial institution, but rather at its own discretion, to utilize his extensive management experience and broad insight in auditing the Company. Furthermore, the Company has transactions with several financial institutions and securities companies and is not influenced by any one financial institution or securities company 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>

Matters concerning independent officers

Number of independent officers Updated 7

Other matters concerning independent officers

The Company has appointed five outside directors and two outside corporate auditors who meet the qualifications of independent officers.

■Criteria for judging the independence of outside directors and corporate auditors

The company appoints as independent officers those who are outside directors as defined in Article 2 (xv) of the Companies Act or outside company auditors as defined in Article 2 (xvi) of the Companies Act and who fall under the category of outside officers as defined in Article 2 (3) (v) of the Regulations for Enforcement of the Companies Act (Ministry of Justice Order No. 12 of February 7, 2006), but do not fall under any of the following items and have a high degree of independence preventing conflicts of interest with general shareholders.

- (1) A major business partner of the Group or an executive thereof
- (2) A major shareholder who directly or indirectly holds 10% or more of the total voting rights of the Company or an executive thereof
- (3) An executive of a Group company
- (4) An accounting auditor of the Group or an employee thereof
- (5) A consultant, accounting professional, or legal professional who receives large amounts of money or other assets from the Group other than officer remuneration (if the recipient of the money or assets is a corporation or association, this refers to a person who belongs to said body)
- (6) An executive of a Group company at any time within the 10 years prior to assuming his/her position, or a director, corporate auditor, or executive officer who is an executive of the Group or any relative within the second degree of kinship or who cohabits with them

However, even if an individual falls under any of the above (1) to (6), if it is determined that the individual in question is substantially independent, the underlying reasons are explained and disclosed at the time of appointment.

■Activities of independent outside directors in fiscal 2023

Outside Director Haruhiko Yoshida

In terms of his main activities during fiscal 2023, Mr. Yoshida attended all 18 meetings of the Board of Directors held during the year and made necessary remarks as appropriate. He also attended other important meetings, such as executive officer meetings and Business Process Innovation meetings, and, based on his international business experience and broad knowledge of corporate management cultivated at a general trading company, made useful remarks from an independent, objective, and multifaceted perspective that differs from that of the management team that executes the Company's business. He has therefore appropriately fulfilled the role expected of him as an outside director.

Number of shares held: 22,011 (as of March 31, 2024)

Outside Director Masanobu Nakamura

In terms of his main activities during fiscal 2023, Mr. Nakamura attended all 18 meetings of the Board of Directors held during the year and made necessary remarks as appropriate. He also attended other important meetings, such as executive officer meetings and Business Process Innovation meetings, and, based on his international business experience and broad knowledge of corporate management cultivated at a major financial institution, made useful remarks from an independent, objective, and multifaceted perspective that differs from that of the management team that executes the Company's business. He has therefore appropriately fulfilled the role expected of him as an outside director.

Number of shares held: 13,205 (as of March 31, 2024)

Outside Director Yoshio Fukuda

In terms of his main activities during fiscal 2023, Mr. Fukuda attended all 18 meetings of the Board of Directors held during the year and made necessary remarks as appropriate. He also attended other important meetings, including executive officer meetings, Business Process Improvement meetings, and Development Promotion meetings, and, based on his knowledge cultivated in a major manufacturing company engaged in a wide variety of businesses, made useful remarks from an independent, objective, and multifaceted perspective that differs from that of the management team that executes the Company's business. He has therefore appropriately fulfilled the role expected of him as an outside director.

Main concurrent positions: Auditor at Japan Indonesia Association, Inc.; auditor at Japan-Sri Lanka Association

Number of shares held: 1,265 (as of March 31, 2024)

Outside Director Kazuhiko Hayashi

In terms of his main activities during fiscal 2023, Mr. Hayashi attended all 18 meetings of the Board of Directors held during the year and made necessary remarks as appropriate. He also attended other important meetings, including executive officer meetings, Business Process Improvement meetings, and Development Promotion meetings, and, based on his specialized knowledge of design and development and his deep insight into corporate management cultivated especially at a major automaker, made useful remarks from an independent, objective, and multifaceted perspective that differs from that of the management team that executes the Company's business. He has therefore appropriately fulfilled the role expected of him as an outside director.

Number of shares held: 234 (as of March 31, 2024)

Outside Director Kaeko Kitamoto

In terms of her main activities during fiscal 2023, Ms. Kitamoto attended 12 of 13 meetings of the Board of Directors held during the remainder of the year after her appointment as an outside director and made necessary remarks as appropriate. She also attended other important meetings, including executive officer meetings, Business Process Improvement meetings, and Development Promotion meetings, and, based on her wealth of experience and deep insight into financial accounting cultivated at a major accounting firm and expertise in CO₂ reduction and the introduction of renewable energy as a member of the Electricity and Gas Market Surveillance Commission of the Ministry of Economy, Trade and Industry, made useful remarks from an independent, objective, and multifaceted perspective that differs from that of the management team that executes the Company's business. She has therefore appropriately fulfilled the role expected of her as an outside director.

Main concurrent positions: Certified public accountant; outside corporate auditor at Daikin Industries, Ltd.; member of the Electricity and Gas Market Surveillance Commission of the Ministry of Economy, Trade and Industry

Outside Corporate Auditor Yoshitsugu Yokogoshi

In terms of his main activities during fiscal 2023, Mr. Yokogoshi attended all 18 meetings of the Board of Directors held during the year and all 17 meetings of the Board of Corporate Auditors and made necessary remarks as appropriate. He also attended other important meetings, including executive officer meetings, Business Process Improvement meetings, and Development Promotion meetings, and, drawing on his business experience cultivated at major financial institutions and extensive experience in corporate management, appropriately audited and advised directors on the execution of their duties.

Outside Corporate Auditor Eisaku Imazato

In terms of his main activities during fiscal 2023, Mr. Imazato attended all 18 meetings of the Board of Directors held during the year and all 17 meetings of the Board of Corporate Auditors and made necessary remarks as appropriate. He also attended other important meetings, including executive officer meetings, Business Process Improvement meetings, and Development Promotion meetings, and, drawing on his business experience cultivated at major financial institutions and extensive experience in corporate management, appropriately audited and advised directors on the execution of their duties.

Main concurrent position: Outside director at Marusan Securities Co., Ltd.

Incentives

Implementation status of measures related to incentives granted to directors

Other

Supplementary explanation for applicable items

Updated

Directors' bonuses are decided at the General Meeting of Shareholders based on a proposal from the Board of Directors after consultation with and reporting from the Nomination and Remuneration Advisory Committee and comprehensive consideration of business results for each fiscal year (approximately 4% of non-consolidated profit) and the degree of achievement of the annual business plan.

Persons eligible for stock options

Supplementary explanation for applicable items

Director remuneration

Status of disclosure of individual directors' remuneration

Updated

Individual remuneration is not disclosed.

Supplementary explanation for applicable items

Updated

Individual remuneration is not disclosed because there was no director whose total amount of remuneration, etc., was 100 million yen or more in fiscal 2023.

[Detail of director remuneration]

The details of director remuneration for fiscal 2023 (April 1, 2023 to March 31, 2024) are as follows.

- Annual remuneration for directors: 265,987,000 yen (including 66,600,000 yen for outside directors)
- Annual remuneration for corporate auditors: 81,600,000 yen (including 52,800,000 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 detail is disclosed in the Company's Annual Securities Report (<https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf>). (In Japanese)

Policy on determining remuneration amount and the calculation methods thereof

Updated

In place

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 individuals

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 salaries, 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

To raise awareness for improving business performance in each fiscal year, performance-linked remuneration for directors shall be decided at the General Meeting of Shareholders following a resolution by the Board of Directors after consultation with and reporting from the Nomination and Remuneration Advisory Committee and comprehensive consideration of business results for each fiscal year (approximately 4% of non-consolidated profit) and the degree of achievement of the annual business plan. The payment is made once 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) and variable remuneration (performance-linked bonuses). Since non-consolidated profit, which becomes the source of bonuses, fluctuates along with 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 not exceed the 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 based on the amount calculated in accordance with the standards set forth in the Officer Regulations resolved by the Board of Directors.

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

Determination of the amount of remuneration for individual directors shall be entrusted to the president and representative director, based on a resolution by the Board of Directors after consultation with and reporting from the Nomination and Remuneration Advisory Committee, which was established on March 25, 2024, by resolution of the Board of Directors and a majority of whose members are independent outside directors.

Support system for outside directors and/or outside corporate auditors Updated

The Corporate Planning and Investor Relations Office of the Corporate Planning Division, which serves as secretariat for the Board of Directors, provides support to outside directors, while the Internal Control and Audit Office and Corporate Auditor Office provide support to outside auditors as necessary and appropriate.

The Corporate Planning and Investor Relations Office of the Corporate Planning Division also provides advance explanations and all necessary information to outside directors and outside auditors regarding agenda items to be discussed at Board of Directors meetings.

[Status of retired president and representative director]

Name, etc., of former president and representative director, etc. who serve as advisors, consultants, etc. Updated

Name	Position	Responsibilities	Work style/ conditions (full-time/ part-time/ compensated, etc.)	Date of retirement as president	Length of term
Mitsumasa Ito	Honorary Advisor	Advice upon request of management	Full-time Compensation provided	June 21, 2024	Not specified

Number of advisors, consultants, etc., who are former CEOs, etc. Updated 1

Other matters

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

The Company has adopted a Board of Corporate Auditors system, which is based on the institutional system under the Company with an Audit and Supervisory Board format 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

1) Board of Directors

In addition to formulating basic policies and strategies for the Group, the Board of Directors makes decisions on important matters, including matters stipulated by law and regulations and the Articles of Incorporation, and supervises business execution.

The Board of Directors consists of 10 members, five of whom are outside directors. Outside directors provide a 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.

The status of activities of the Board of Directors in fiscal 2023 is described on page 55 of the Company's Annual Securities Report (<https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf>) (In Japanese).

2) Corporate Auditors (Board of Corporate Auditors)

Based on audit policies and plans established by the Board of Corporate Auditors, corporate auditors audit the execution of duties by directors, attend meetings of the Board of Directors and other important meetings, review important approval documents, and conduct onsite audits of business offices and subsidiaries, allowing for the regular auditing of the status of management execution.

The Board of Corporate Auditors consists of four members, two of whom are full-time auditors and two of whom are outside auditors. The status of activities of the Board of Corporate Auditors in fiscal 2023 is described on page 66 of the Annual Securities Report (<https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf>) (In Japanese).

3) Advisory Members to the Board of Directors

Advisory Members to the Board of Directors, including experts from Japan and overseas, are appointed to advise the Board of Directors on management issues on a regular basis.

4) Executive officer meetings

In June 2003, the Company introduced an executive officer system to strengthen business execution supervisory functions and accelerate management decision-making. This clearly separated the policy and strategy formation, decision-making, and supervisory functions of the Board of Directors from the business execution functions of executive officers. In addition, monthly executive officer meetings are held to deliberate important matters and issues related to business execution.

Executive officer meetings have 15 members and are chaired by the president and representative director. In addition to the executive officers, directors and corporate auditors attend the meetings to supervise and audit the status of business execution by the executive officers.

5) Nomination and Remuneration Advisory Committee (voluntary committee)

At the Board of Directors meeting held on March 25, 2024, the Company established a voluntary Nomination and Remuneration Advisory Committee. The committee stipulates in its regulations that a majority of the committee's members shall be independent outside directors and that the chair shall be selected from among the independent outside directors. Currently, the committee has three members, including two independent outside directors.

As an advisory body to the Board of Directors, the committee studies and deliberates on director candidates, candidates for directors with titles, director remuneration proposals, and other matters, and decides on matters to be reported to the Board of Directors.

6) Sustainability Committee

To strengthen the Group's overall sustainability promotion framework, the Company established the Sustainability Committee on April 1, 2023, as an organization to promote, oversee, and manage the Group's overall sustainability initiatives. The committee is chaired by the president and representative director, and its members are executive directors.

Main roles of the committee are to formulate and revise sustainability-related policies and strategies, identify materiality, formulate long-term targets and KPIs and manage their progress, identify and manage risks and opportunities, plan and disseminate information on promotional activities, regularly report and make recommendations to the Board of Directors, and submit basic policies for consideration.

The status of activities of the Sustainability Committee in fiscal 2023 is described on page 18 of the Annual Securities Report (<https://contents.xj-storage.jp/xcontents/AS06879/f4bb57e7/4d05/4d18/9aa2/c5ca4bb97608/S100TR1D.pdf>) (In Japanese).

2. Status of audits

The Board of Corporate Auditors comprises four corporate auditors, two of whom are full-time and two part-time (including two outside corporate auditors). After the Ordinary 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. Furthermore, 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 and Audit Office is responsible for 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 Investor Relations Office of the Corporate Planning Division serves as 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 business plan and the status of risk management, etc. The certified public accountants performing the accounting audit of the Company in fiscal 2023 were Mr. Tatsuya Chiba and Mr. Yoshitaka Sakurai, both of whom are designated limited liability partners at the Tokyo office of PricewaterhouseCoopers Japan LLC. They were assisted by two certified public accountants, one associate member of the Japanese Institute of Certified Public Accountants, and eight other staff members.

3. Status of audits by the accounting auditor

In terms of accounting audits, PricewaterhouseCoopers Japan 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 officers 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 Updated

	Supplementary explanation
Early dispatch of Convocation Notice for the General Meeting of Shareholders	The Notice of the Ordinary General Meeting of Shareholders is sent out two weeks prior to the meeting, but electronic provision measures (posting on the Tokyo Stock Exchange's website, ICJ's Electronic Voting Platform, and the Company website) begin approximately two weeks before mailing begins (four weeks before the meeting) to improve convenience for shareholders and ensure sufficient time for them to consider agenda items. The Notice of the Ordinary General Meeting of Shareholders for fiscal 2023 was posted on the Tokyo Stock Exchange's website, ICJ's Electronic Voting Platform, and the Company website (https://www.hds.co.jp/ir/event/stockholder/) 30 days prior to the meeting.
Scheduling of the General Meeting 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 2022 was held on June 21, 2023 (Wednesday), and for fiscal 2023 on June 21, 2024 (Friday).
Electronic exercise of voting rights	<p>Beginning with the Ordinary General Meeting of Shareholders for fiscal 2016, the Company 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.</p> <p>Regarding advance resolutions (based on the number of resolutions) for the Ordinary General Meeting of Shareholders for fiscal 2023, 38% of voting rights were executed in writing, 2% by computer, 55% by smartphone, and 5% by ICJ's Electronic Voting Platform.</p>
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"> • To provide an appropriate voting environment for institutional investors both in Japan and overseas, we started using ICJ's Electronic Voting Platform from the Ordinary General Meeting of Shareholders for fiscal 2017. • Prior to mailing, the Notice of the Ordinary General Meeting of Shareholders is posted in both Japanese and English (reference documents and summary only) on the Tokyo Stock Exchange's website, Electronic Voting Platform (ICJ), and the Company website. Japanese is posted about 30 days before the meeting and English 24 or 25 days before the meeting.
Provision of notice (or summary of notice) of the General Meeting of Shareholders in English	We started submitting for disclosure an abridged version of our reference documents in English from the Ordinary General Meeting of Shareholders for fiscal 2017 and English versions of the reference documents together with a summary starting with the Ordinary General Meeting of Shareholders for fiscal 2022 to the Tokyo Stock Exchange's website and ICJ's Electronic Voting Platform. We also display these documents on our 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 content of items to be reported and resolved, we strive to make the content visually easy to understand by displaying materials with graphs and charts using a projector. • We post convocation notices, resolution notices, voting results, and presentation materials on matters to be reported, etc., on the Company website. <p>Japanese: https://www.hds.co.jp/ir/event/stockholder/ English: https://www.hds.co.jp/english/ir/event/stockholder/</p>

2. Status of IR-related activities

Updated

	Supplementary explanation	Explanation by a representative director
Formulation and publication of disclosure policies	<p>The IR section of the Company website contains 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 once a year to outline the Group and our business strategies, business performance, etc. In fiscal 2023, this meeting was held on March 30, 2024 (Saturday).</p> <p>*The material used for individual investor briefings can be accessed from the individual investor briefing page on the Company website. https://www.hds.co.jp/ir/event/investor/ (In Japanese)</p> <p>When we announce our interim and full-year business results, we hold hybrid financial results briefings for analysts and institutional investors, combining in-person and live streaming, where the president and representative director, the representative director and general manager of Corporate Planning, and the CFO provide explanations and answer questions. The meetings for fiscal 2023 were as follows.</p> <p>■Q2 fiscal 2023 results briefing Date and time: November 17, 2023 (Friday) 10 AM Place: Bellesalle Tokyo Nihonbashi, Rooms 10 and 11, 5th floor, Tokyo Nihonbashi Tower, 2-7-1 Nihonbashi, Chuo-ku, Tokyo Speakers: Akira Nagai, President and Representative Director Akira Maruyama, Representative Director and General Manager of Corporate Planning Kazutoshi Kamijoh, Director and General Manager of Finance Accounting and Tax Participants: 25 in person, 116 via streaming</p>	Not held
Regular investor briefings held for analysts and institutional investors	<p>■Full-year fiscal 2023 results briefing (final accounting) Date and time: May 13, 2024 (Monday) 10 AM Place: Bellesalle Tokyo Nihonbashi, Rooms 10 and 11, 5th floor, Tokyo Nihonbashi Tower, 2-7-1 Nihonbashi, Chuo-ku, Tokyo Speakers: Akira Nagai, President and Representative Director Akira Maruyama, Representative Director and General Manager of Corporate Planning Kazutoshi Kamijoh, Director and General Manager of Finance Accounting and Tax Participants: 20 in person, 113 via streaming</p> <p>*We post the materials and scripts for the briefing on the financial results section of 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 2023, we held a total of 10 small meetings. • To explain our financial results and business strategies, we hold individual interviews with overseas institutional investors on a quarterly basis. 89 overseas investors attended individual meetings in fiscal 2023. • We participate in conferences organized by securities companies at least once a year. In fiscal 2023, we attended five such conferences. 	Held
Online disclosure of IR information	<p>We have set up an Investor Relations section on the Company website and seek to display all our IR information in a readily understandable format using charts and graphs and in a timely way. Timely disclosure means disclosure that is nearly simultaneous with disclosure by 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 and 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 Updated

	Supplementary explanation
<p>Establishment of internal rules stipulating respect for the position of stakeholders</p>	<p>By contributing to technological innovation in society with our motion control technology, we aim to enrich the lives of people around the world, realize a sustainable society, and increase our corporate value. To realize the Management Principles established in the early days of the company, we strive to build relationships with all stakeholders, including employees, shareholders and investors, customers, suppliers, local communities, and future generations.</p> <p>■Management Principles</p> <p>I. Respect for the Individual We aspire to be a company where the rights of every individual employee are respected, and where individuals can pursue a meaningful, cultural, and worthwhile life. We aim to be a company that believes in each employee's aspirations, supports independent activities, creates an environment where employees can maximize their abilities through work, and where abilities and performance are rewarded.</p> <p>II. A Meaningful Company We want to be recognized as a meaningful, superior company that manifests creativity, has personality and distinctive characteristics, and whose management foundation is based on ceaseless research and development activities and a constant emphasis on quality—a company where the entire organization finds meaning in doing its utmost.</p> <p>III. Coexistence and Co-prosperity We are supported by many different parties including our employees, customers, shareholders, materials and parts suppliers, affiliated companies, and trading partners. We do our best to generate attractive products, services, compensation, working environments, and business relations to satisfy all concerned parties.</p> <p>IV. Contribution to Society We broadly contribute to society and industry through our corporate activities as a good corporate citizen. The products and services we provide directly and indirectly contribute to the betterment of society. We aspire to be a company that helps to improve the environment and the quality of the communities where we are located.</p> <p>Please refer to our Integrated Report (https://www.hds.co.jp/english/csr/hdsreport/) for more information on stakeholder engagement.</p>
<p>Implementation of environmental preservation activities and CSR activities, etc.</p>	<p>■Environmental conservation activities The Group has always been deeply aware of our corporate social responsibility toward the global environment and strives to maintain and improve our environmental management system based on ISO 14001. To substantially reduce our environmental impact, we have set targets for reducing CO₂ emissions, water intake and discharge, and waste, and actively engage in efforts to achieve those targets.</p> <p>■Climate change response We recognize that addressing climate change is an important management issue, so we have set a long-term goal of "Net Zero by 2050" and are working to achieve it. Specifically, we have identified climate change-related risks and opportunities that may affect the Group's operations, conducted scenario analyses as recommended by the TCFD under the 1.5°C and 4.0°C scenarios, and analyzed the impact of individual risks and opportunities on our operations and their likelihood under the various suppositions of their manifestation in the short, medium, or long term. Based on the results of these scenario analyses, we promote initiatives to create opportunities and minimize risks, mainly via the Sustainability Committee.</p> <p>■Sustainability activities, etc. 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.</p> <p>Our environmental conservation activities and sustainability initiatives are posted in the sustainability section of the Company website and our Integrated Report. Sustainability section of the Company website</p> <ul style="list-style-type: none"> • Japanese: https://www.hds.co.jp/csr/ • English: https://www.hds.co.jp/english/csr/ <p>Integrated Report</p> <ul style="list-style-type: none"> • Japanese: https://www.hds.co.jp/csr/hdsreport/ • English: https://www.hds.co.jp/english/csr/hdsreport/

Formulation of policies regarding the provision of information to stakeholders

The Company provides information to stakeholders by posting it on our website (<https://www.hds.co.jp/english/>).

Our policy on timely disclosure is posted on the IR Disclosure Policy section of the Company website (https://www.hds.co.jp/english/ir/management_policy/ir_policy/).

It is also provided in “/1. Basic views on corporate governance, capital structure, corporate profile, and other basic information, Disclosure based on the principles of the corporate governance code, [Principle 3.1: Full Disclosure]” of this report.

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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Supplementary explanation for applicable items

2. Other matters concerning the corporate governance system Updated

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 (Director and Chief Financial Officer), who is appointed by the President and Representative Director.

The officer in charge of information handling (Director and Chief Financial Officer) 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 (Director and Chief Financial Officer) immediately following a resolution, and the implementation of timely disclosure of that information is determined.

The officer in charge of information handling (Director and Chief Financial Officer) 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/>)

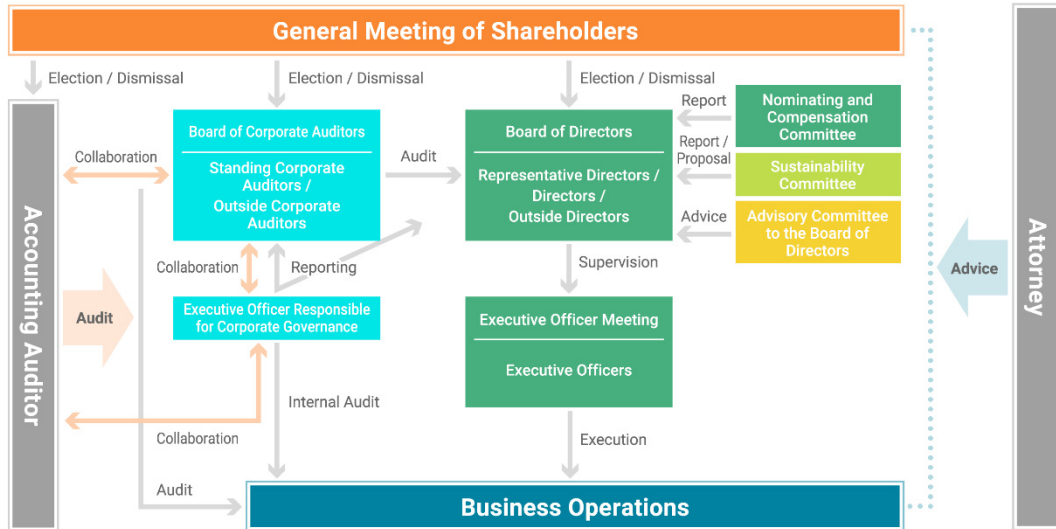
〈Skills Matrix for the Board of Directors〉

Name	Position (As proposed)	Attributes	Expected insight, experience, capability and expertise, etc.								
			Corporate management/ Management strategy	Overseas business	Sales/ Marketing	Manufacturing /Production	Technology/ R&D	Financial strategy/ Capital policy / Accounting	Information and Communication Technology (ICT)	Sustainability	
Akira Nagai	Chairperson of board of directors	—	●	●	●				●	●	
Akira Maruyama	President and Representative Director	—	●		●	●	●			●	
Kazutoshi Kamijoh	Representative Director	—	●		●				●		
Yoshihiro Tanioka	Director	—	●	●	●	●	●				
Naomi Shirasawa	Director	—	●	●	●	●	●				
Haruhiko Yoshida	Outside Director	Outside Independent	●	●	●						
Masanobu Nakamura	Outside Director	Outside Independent	●	●	●				●		
Yoshio Fukuda	Outside Director	Outside Independent	●	●	●	●			●		
Kazuhiko Hayashi	Outside Director	Outside Independent	●	●				●			
Kaeko Kitamoto	Outside Director	Outside Independent	●						●		●

〈Reasons for selecting skill areas of the Skills Matrix〉

Skill areas	Reasons for selection
Corporate management/ Management strategy	A director needs management experience and track record at various companies including a manufacturing company as well as abundant knowledge to deliver technological innovation for a better society under the Group's mission of "contributing to technological innovation in society through motion control technology," in addition to achieving a sustainable society and enhancing corporate value.
Overseas business	A director needs abundant knowledge and experience in overseas business management and local culture, etc. to promote the growth strategy of the Group which operates business overseas.
Sales/ Marketing	A director needs proven knowledge and abundant experience in sales and marketing to identify essential needs of customers, create attractive and satisfactory products, and provide customer-oriented services.
Manufacturing/ Production	A director needs proven knowledge and abundant experience in manufacturing and production which is essential to maintain and develop a production system to achieve added-value manufacturing in total motion control, the domain of the Company, and high customer satisfaction.
Technology/ R&D	A director needs experience in R&D for speed reducers and mechatronics products, in addition to expertise and experience in the industry, to ensure high product quality as a leading company of precision speed reducers, and develop high added-value products for customers.
Financial strategy/ Capital policy/ Accounting	A director needs proven knowledge and abundant experience in finance and accounting to build a solid financial base, promote growth investment and financial strategy to sustainably enhance corporate value and return profits to shareholders.
Information and Communication Technology (ICT)	A director needs proven knowledge and experience in information and communication technology to develop information infrastructure including cyber security measures and to promote ICT across the Company utilizing advanced information technologies.
Sustainability	A director needs proven knowledge and experience in sustainability promotion including the introduction of renewable energy sources to reduce greenhouse gas emissions and human capital such as the promotion of diversity, equity, and inclusion to promote the reduction of global environmental impacts, the development of a rewarding work environment, etc. based on the Basic Policy of Sustainability and material issues (materiality), which were established to realize a sustainable society and enhance corporate value.

<Corporate Governance Structure>



<Timely Disclosure Systems>

