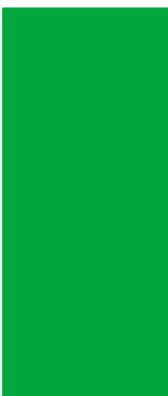
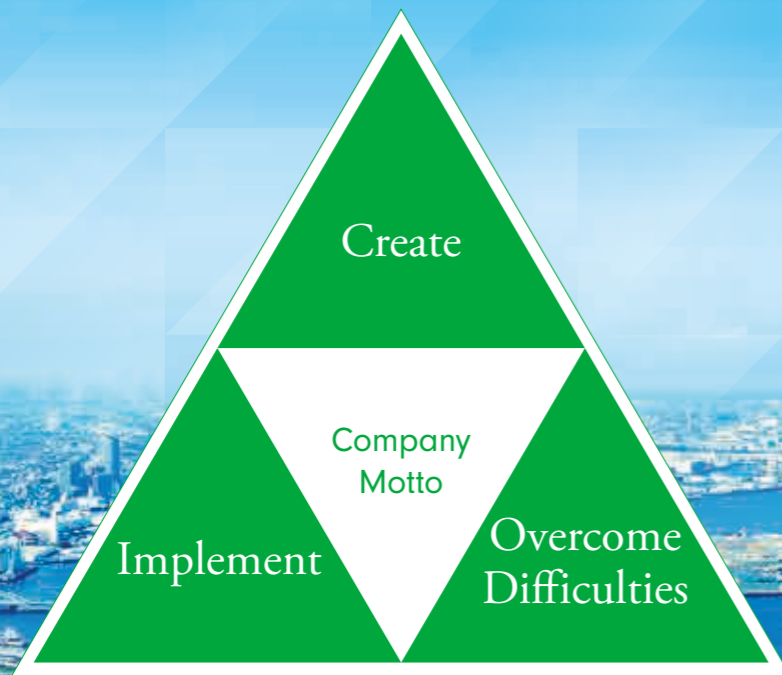


Sodick Co., Ltd.

Integrated Report 2022





Sodick is a pioneer in the field of numerical control (NC) electrical discharge machines (EDMs). Since our founding, we have dramatically enhanced processing precision through research into electrical discharge control and the development of NC units, thereby contributing to manufacturing worldwide.

Our company motto is “Create, Implement, and Overcome Difficulties,” and our company name Sodick also derives from combining the phonetics of the Japanese words for “Create” (*sozo*), “Implement” (*jikko*) and “Overcome Difficulties” (*kuro kokufuku*). It encapsulates our deeply held philosophy of “creating” new things, turning these into reality through “implementation,” and through a process of “overcoming difficulties,” contributing to our customers’ manufacturing operations. Our mission is to create machinery that our customers love to use. By consistently putting our motto into practice, we further enhance our own technologies and develop them for application in new product groups, thereby contributing to society via manufacturing.

Report Scope

Sodick Co., Ltd. and its consolidated subsidiaries

Report Period

This report covers performance for the fiscal year ended December 2022. Some of the content included herein dates from immediately before or after the period in question.

Reference Guideline

This report was prepared with reference to the Guidance for Collaborative Value Creation, which serves as a common language with investors.

The Guidance for Collaborative Value Creation is “a common language” linking companies with investors. For companies (corporate executives), it lays out in a systematic and comprehensive manner the information (such as management philosophy, business models, strategies, and governance) that should be communicated to investors. It is a guide for improving the quality of information disclosure and dialogue with investors.



Changes to Our Accounting Period

From FY2017, we changed our accounting period so that instead of ending on March 31, it now ends on December 31. Consequently, the fiscal year ended December 2017 was a transitional period of changeover to the new accounting period, making it an irregular settlement period: the applicable period for consolidation was nine months (April 1 – December 31, 2017) in the case of Sodick, its consolidated subsidiaries and equity-method affiliates whose accounts are settled in March; and 12 months (January 1 – December 31, 2017) for consolidated subsidiaries whose accounts are settled in December. The consolidated subsidiaries that settle their accounts in December comprise seven consolidated subsidiaries in China.

Precautions concerning Forecasts

The current plans, strategies, etc., of Sodick and the Sodick Group described in this report that are not based on historical fact are merely future forecasts, and contain elements of risk and uncertainty. Please be aware that actual performance may differ significantly from these forecasts for a variety of reasons. There are a number of important factors that could potentially affect our performance. These include the economic climate surrounding the business fields of Sodick and the Sodick Group in Japan, the Americas, Europe, Asia, Greater China, and other regions; downward pressure on prices due to changes in demand for Sodick’s products and services and intensifying competition; our ability to continue to provide products and services that are well-received by customers in markets where competition is intense; fluctuating exchange rates; and an increase in global pandemics. Factors that could potentially affect our performance are not limited to those mentioned here.

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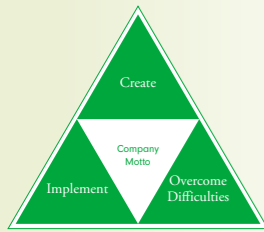
Sodick's Value Creation Process

Market Needs and Social Issues (Opportunities and Risks)

- More sophisticated manufacturing
- Digitalization, automation, labor savings
- Business portfolio reform
- Increasingly uncertain global situation
- Supply chain disruptions
- Changing trends in capital investments

With a unique spirit of development, Sodick has developed its strengths in R&D, global reach, and a Total Manufacturing Solution by carefully listening to customers. We are promoting innovation at customers and in society in the value chains that support the world's manufacturing, with the aim of contributing to the realization of a sustainable society through manufacturing.

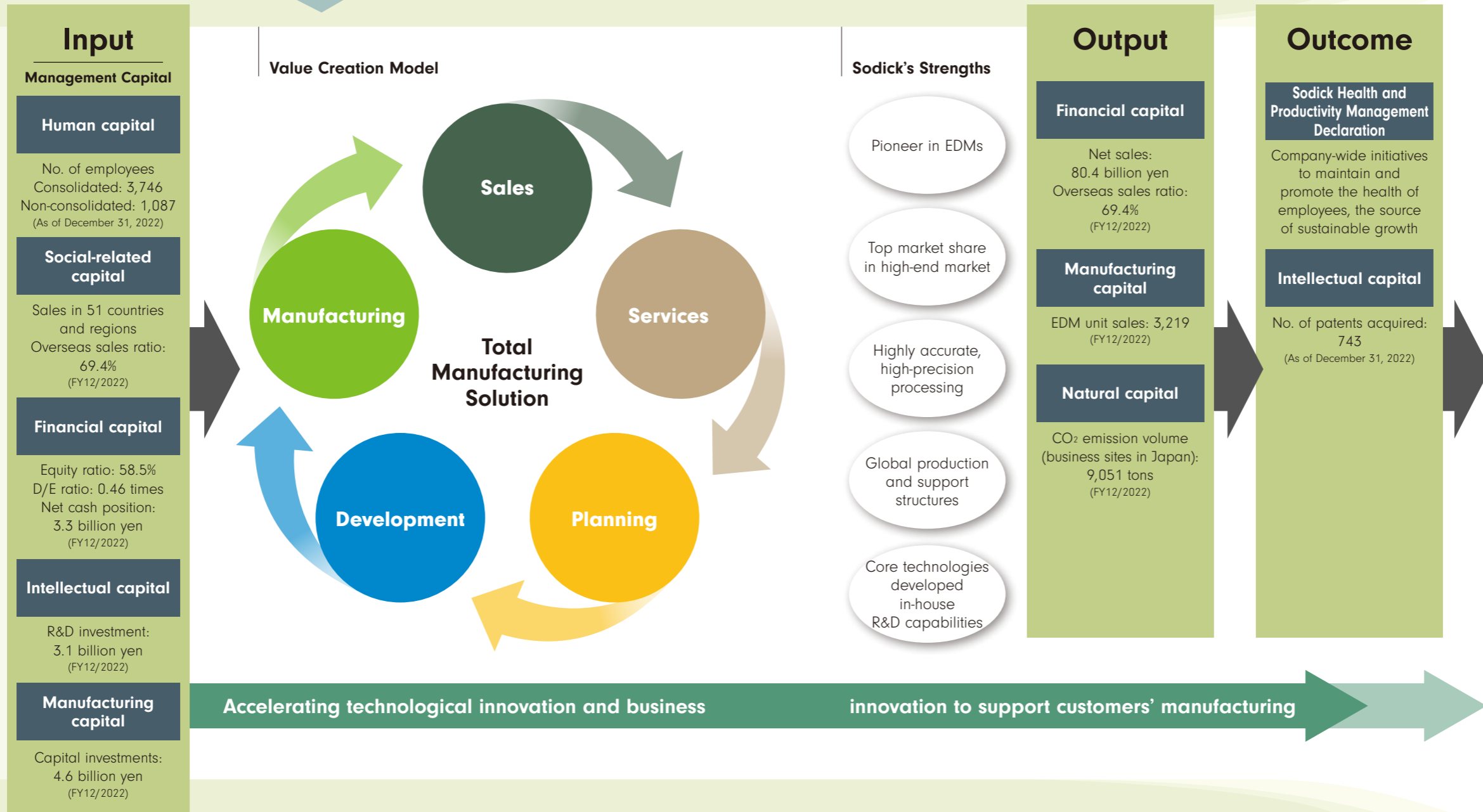
Company Motto



Our company name Sodick derives from our spirit of "Create (So)," "Implement (di)," and "Overcome Difficulties (ck)"

Origins/ Development Philosophy

To contribute to our customers' manufacturing operations, "We create it if it does not exist."



Goals

Contributing to the realization of a sustainable society through manufacturing

Contribution toward Achievement of SDGs



Examples of Creating Value

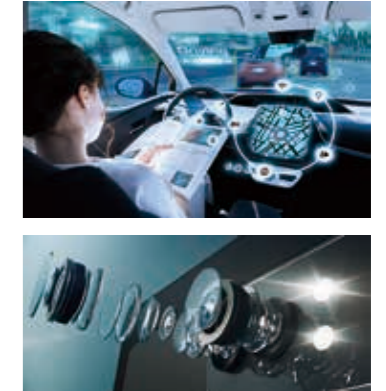


Highly accurate, high-precision processing made possible by Sodick's machines

As manufacturing advances globally, we believe it will become more precise, finer, smaller, lighter, and stronger. Mold manufacturing is a key element of the manufacturing industry, and seeks the highest level of precision technologically possible. The mold processing machines require even higher precision, and Sodick has resolved this issue in response to customers' increasingly sophisticated needs.

Going forward, we expect the effect of EVs in particular to increase demand for integrated molds and larger molds for electrification and lighter weights as well as for advanced processing capabilities and production technologies through technological innovation. In addition, in recent years, the trend in the lenses themselves in the lens units in cameras and smartphones has been toward thinner lenses with more complicated shapes, drastically raising the degree of difficulty sought in injection molding, the leading manufacturing method.

Sodick will continuously pursue technological innovation to provide solutions to issues in evolving manufacturing, to be able to respond quickly to customers' needs.



Materiality 1

Contributing to evolving manufacturing

Sodick's first materiality (important issue) is "contributing to evolving manufacturing." As a machinery manufacturer and a company involved in manufacturing, we believe we should contribute to building a foundation for economic development through technological innovation and more sophisticated manufacturing with our own strengths. We are continuously pursuing challenges in new technological fields to provide our customers with manufacturing innovation.

Taking two approaches while closely following the direction of evolving manufacturing

To realize affluent lifestyles for all people, the world continues to evolve with amazing speed. As technological innovation advances, manufacturing is becoming more sophisticated at an accelerating pace. In particular, demand for integrated molds and larger molds to meet needs in the areas of EVs and energy savings, as well as for advanced processing capabilities and production technologies through technological innovation, are expected to increase. We will see a growing shift going forward from the low-end market to the high-end market. We believe Sodick's fields of specialization—precision molds and precision molding—will make a major contribution to increasingly sophisticated manufacturing.

In addition, along with energy savings in machines themselves, it is important to raise productivity by increasing the utilization rates of customers' machines. The metal mold industry and component machining industry, which are the users of machine tools, are also facing the serious issues of a declining birthrate and aging population and a decrease in highly skilled engineers. Thus, our customers need to raise productivity and maintain competitiveness against a backdrop of worker shortage. Sodick is working to increase machine utilization rates by increasing machines' performance and introducing Digital Transformation (DX).

Using remote services to raise customers' machine utilization rates

Utilizing data through DX is important for resolving various issues at a factory. The Sodick DX Site provides customers with functions needed to utilize data in a module format, allowing for centralized collection, aggregation, and management of machine-related data that make it possible for customers to use applications to assign management indicators to production processes and analyze them. Machine and factory utilization data can also be used to provide a range of solutions including monitoring, notification, and remote machine support. We are also looking toward using the data collected for production process visualization and factory automation.

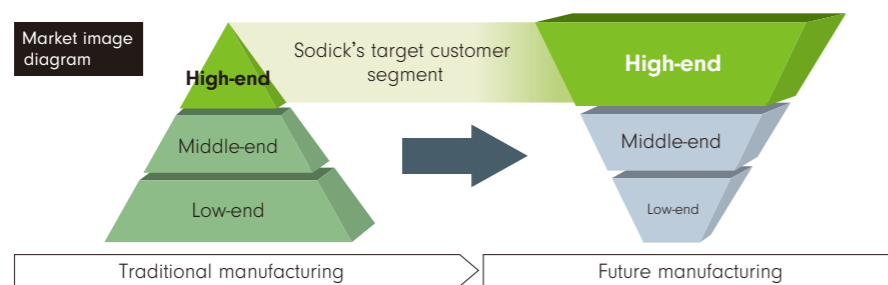
For injection molding machines and food machinery, customers are using the Sodick IoT internet service to confirm the most recent status of their machines regardless of time or place. By collecting machine information on their local server, customers can confirm a machine's status anytime with their mobile devices. In addition to raising productivity by improving factory utilization rates, this can achieve preventive maintenance through regular inspections and an audit trail when problems occur. We will further expand our lineup of the remote services going forward.



S-Viewer software that patrols each NC unit at fixed intervals to collect data

More sophisticated manufacturing

Precision molds and precision molding, which are Sodick's fields of specialization, will be increasingly needed in the future.



The scale of the high-end market has increased due to the sophistication of manufacturing.

Message for Stakeholders

Continuously moving forward with what needs to be done now for manufacturing in the future

There is no doubt that labor shortages resulting from a declining birthrate and aging population will be even more severe 10 and 20 years in the future. Factory worksites will move forward with the use of digital technologies for labor-savings and unmanned operations, while engineers will use their intellectual creativity for further advances in manufacturing.

People's quest for a better society knows no limits, and to achieve this, manufacturing will progress in the same way. As long as customers seek things, matters, and solutions that are better than those currently available, Sodick will also provide new solutions by continuously responding with certainty to those changes. Constantly aware of our significance of existence and our value, we will devote ourselves to the technological innovation needed to create a new next stage.



The Kaga Factory's energy consumption has increased as the facility's capacity has expanded. A solar power generation system (output of 499.5 kW) was installed in February 2021, and the annual amount of electricity generated is equivalent to a 10% reduction of the facility's CO₂ emissions (FY2022).

We have launched various initiatives to achieve our long-term environmental target for FY2030.

< Greenhouse gas reduction activities toward achievement of FY2030 target >

- Considering expansion (to maximum) of solar power generation systems
- Upgrading and installing energy-saving machinery and equipment, switching to LED lighting
- Proposal, implementation, and verification of effective energy-saving measures based on verification of correlation between corporate activities and energy consumption (i.e., setting optimal consumption rates)
- Response to Carbon Disclosure Project (CDP)
- Endorsement of Task Force on Climate-related Financial Disclosures (TCFD) recommendations and initiatives (Scope 1, Scope 2, and Scope 3 initiatives, examination of risks and opportunities based on scenario analysis on a global level)
- Launch of environmental information site on internal intranet to visualize and disseminate internally the amount of energy used and results of energy-saving measures
 - ・ Strengthen activities to promote awareness of initiatives to reduce environmental impact using DX
 - ・ Share examples of successful reduction measures and roll out across the Group
 - ・ Call for cooperation in reducing electricity consumption by sending emails announcing periods of reduced electricity consumption and use of a demand (peak electricity demand value) alert system



Materiality 2

Addressing environmental management

With the increase in greenhouse gas emissions having a major impact on the global environment, decarbonization initiatives are an important issue for the continuation of our corporate activities. To accelerate our activities to date and achieve more effective results, we have identified “addressing environmental management” as a materiality issue.

Launch of EFM* Department for further strengthening of environmental management

In recent years, we have seen a significant increase in requests from stakeholders for information on our current situation and future direction including our initiatives to reduce greenhouse gas emissions and how our products can contribute to the environment. Sodick has continuously pursued environmental conservation activities to date, but recognized the importance of further strengthening our environmental management in order to implement concrete measures to reduce environmental impact.

As part of the reorganization of our structure for promoting sustainability, we established a new EFM Department in January 2022. This is a dedicated department responsible for setting new long-term environmental targets and formulating concrete plans, promoting the dissemination and sharing information internally and externally, and strengthening management. Based on these new targets, the department is continuously strengthening the management structure, with a team comprising primarily members with relevant credentials and on-site management experience working as one to implement measures that will swiftly and irreversibly reduce the environmental impact of our production sites.

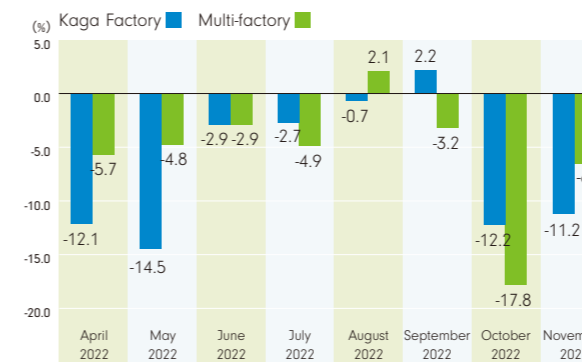
* EFM: E = Energy & Environment; F = Facility; M = Management

Setting aggressive, long-term environmental targets based on the Sodick Group's growth strategy

Sodick has been working to reduce greenhouse gas emissions with a target of reducing emissions by 26% from the 2013 level by 2030, but considering where we want to be under our Group mid-to-long term growth strategy, we recognized that we needed to set a more aggressive target. We have therefore set a new long-term environmental target of reducing emissions by 46% from the 2013 level by 2030. This target was set based on various considerations including the amount of energy currently deemed necessary for our corporate activities, our forecast for future energy needs based on long-term plans, and legally mandated reduction amounts, as well as considering the further expansion of our solar power generation systems, energy savings, and other comprehensive measures for reducing our environmental impact.

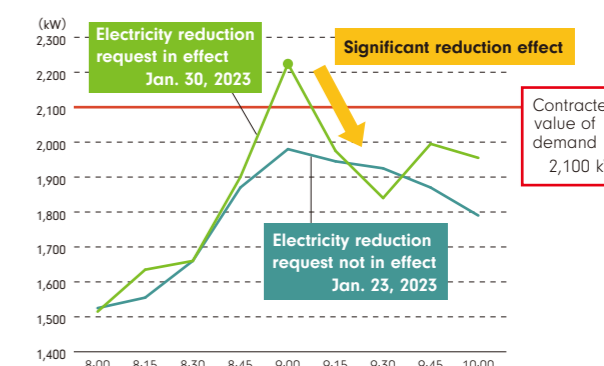


Reductions in electricity consumption at Kaga Factory and multi-factory (April–November 2022 vs. 2021)



The Kaga Factory has begun to use the demand alert system to implement and verify energy-saving measures based on the new target. This has succeeded in reducing electricity consumption over the course of the year, but the issue of peak electricity use in summer remains and further measures are being considered.

Visualization and reduction in electricity consumption at Kaga Factory (Reduction effect from Jan. 30 demand alert (kW))



A warning alert is sent to all departments to encourage cooperation in reducing electricity use when concerns arise that the contracted value of demand will be exceeded. Significant reductions were achieved when an alert was issued saying that contracted value of demand was exceeded on January 30. We plan to verify fully the effect of this activity, which we intend to roll out to other business sites as well.

Message for Stakeholders

Contributing to society's sustainable development, as a company that "Create Your Future"

Going forward, climate change caused by global warming is seen bringing about various natural disasters of a global scale and having a major impact on society as a whole including ecosystems, people's daily lives, the economy, and security. To realize a sustainable society, it is important to implement comprehensive measures to achieve a recycling-based society, low-carbon society, and society that coexists with nature.

Looking toward this world and society of the future, the Sodick Group will offer solutions as a company that contributes to the creation of new value and accelerate the creation of opportunities for co-creation and empathy with other companies and suppliers. Based on our spirit of "Create," "Implement," and "Overcome Difficulties," we intend to strengthen our environmental management, achieve carbon neutrality as a way of enhancing corporate value, and engage in initiatives with various themes to prevent global warming over the medium to long term. In addition to business activities that use resources and energy efficiently and rationally, we will provide the highest value to our customers and contribute to a sustainable society as a company that "Create Your Future."



Takashi Sawazaki
EFM Department, Corporate Division



Materiality 3

Promoting diversification of human resources

Creating new value with diverse human resources is essential for contributing to the realization of a sustainable society. Sodick embraces diverse values, hires people regardless of nationality or race, and promotes a flexible employment environment, all of which will lead to innovation.

Promoting diversity in human resources to spur innovation

Sodick considers human resources to be the Company's most important asset and the source for creating new value in the future. By promoting the creation of workplace environments and a corporate culture that allow each employee to grow together with the Company, mutually recognize diversity, and play an active role, we aim to spur innovation for sustainable growth. Therefore, we have reformed our personnel system and are pursuing other initiatives such as work style reforms, hiring of non-Japanese employees, and promoting women's active participation and advancement. Also, we established a new working group to discuss diversity in 2022 and accelerate these initiatives.

We consider the active participation by women to be particularly important. The percentage of female employees at companies in the manufacturing industry tends to be low, and there are few women in management positions at Sodick as well. To reverse this situation, we emphasize the active participation of women in the workforce in recruiting and promote the creation of a framework that encourages the growth of each employee and an environment in which they can use their skills regardless of their gender.

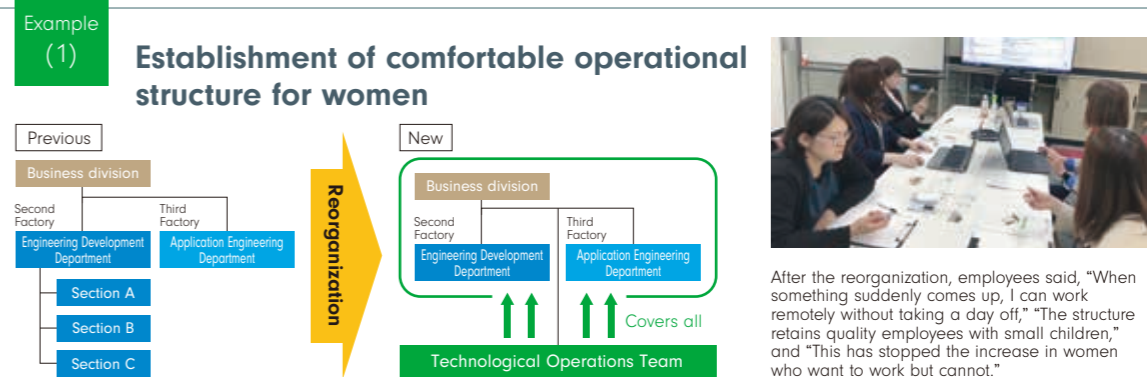
Looking ahead, we will strive to create work environments and systems that allow female employees to work actively throughout their life events and career stages. We also aim to achieve a corporate culture in which all employees can continue to grow while mutually respecting individual personality and lifestyles in a way that transcends gender.

Three main areas of focus for promoting diversity in human resources



Creating comfortable work environments for women

Creating environments that make for good places to work is extremely important for promoting women's active participation and advancement. We are reviewing our existing operational structure and implementing other reforms to create better places to work.



The Injection Molding Machinery Division experienced the retirement of female employees who were concerned about balancing work with family responsibilities including childcare and nursing care. In response, a Technological Operations Team was launched in October 2021 at the suggestion to the division manager and the Human Resources Department, based on the idea that it is necessary to establish a comfortable workplace to keep working. This consolidated into one team operations for which individual members of various departments and sections had been responsible, allowing flexible coverage at all departments.

The first step was to make a list and visualize the tasks of the team in order to identify all of the operations previously carried out at each department. We considered who could perform the task and whether the task could be performed remotely. And, we established the structure that operations could be addressed by multiple people regardless of location and would not be concentrated with a single person. This enabled employees to switch to remote work and take vacation without any hesitation.

At the same time, we used electronic tools and robotic process automation (RPA) to improve operational efficiency. We could reduce the number of operations by the equivalent of seven hours per day for the team as a whole. As a result of digitizing user manuals, the cost of printed materials was reduced by 7.63 million yen annually, and the amount of paper purchased by 76%.

Changing society through women's active participation, and promoting use of parental leave by men

As women have taken a more prominent role in society in recent years, the role of men in their families has been changing as well. Recognizing that social change is an issue for all employees, in addition to promoting women's active participation, we are also implementing reforms such as encouraging men to take parental leave. With a target of having 80% of male employees take parental leave by 2025, we will create a structure that reduces the daily tasks performed by one single individual and allows team members to support each other, with the aim of having employees feel comfortable at work while also increasing the productivity of the organization.

Example (2) Creating workplaces where both men and women do not hesitate to take parental leave

At Sodick, division managers and the Human Resources Department maintain close contact with all employees who are eligible for parental leave, to promote the taking of parental leave at all workplaces and organizations.

In the case of a female employee working in the Sales Promotion Department, her husband, who also works for Sodick, took two-month "Father's Leave" after their child was born and another two-month "Father and Mother Child Care Leave Plus" around the time she returned to work, for a total of four month's leave.

Her supervisor and coworkers all supported her while she was on leave and when she returned to work. Coworkers in her department and in the engineering division cooperated to adjust schedules. For example, six months before she took leave, operations like catalog production and external nameplate design for machine tools and industrial machinery, which were done primarily by the female employee, were brought forward or postponed so that they would not overlap with her leave. Tasks were scrutinized so that operations could be carried out as scheduled and without putting an excessive burden on other department members. We are working to create environments in which both male and female employees are able to take parental leave without hesitation.

View from the female employee

"Last year, I took maternity leave and parental leave for the birth of my third child. My husband also took leave, not only immediately after I gave birth, but also for two months around the time I returned to work to support my smooth return. He has always been helpful with household chores and raising our children, and having a clean house and dinner prepared when I would return home gave me peace of mind in my daily life. My husband was also happy to be able to play with our older children during this time."





Materiality 4

Strengthening governance

Sodick has positioned the strengthening of its corporate governance as a materiality issue for management. In addition to complying with Japan's Corporate Governance Code, we are working to further strengthen corporate governance to increase management transparency, impartiality, and speed. We are also engaging in dialogue with shareholders, investors, customers, and all other stakeholders as we strive for the sustainable enhancement of corporate value.

As the Company grows, strengthening both offensive and defensive governance to support management

In today's drastically changing management environment, a highly transparent, effective governance structure is essential for sustainable growth and enhancement of corporate value. At Sodick, we are working to support management by strengthening both offensive and defensive governance. Defensive governance is indispensable for business operation, and we are maintaining a robust structure through thorough legal and regulatory compliance, prevention of misconduct, and risk management.

At the same time, in recent years, calls have been growing for offensive governance in which management clearly presents its future growth strategies and a framework is in place for swift and resolute decision-making to achieve sustainable growth and enhancement of corporate value. We are therefore also strengthening our structure by ensuring diversity and increasing the effectiveness of the Board of Directors, accelerating management decision-making, and addressing issues related to sustainability.

Identifying issues through annual evaluations of Board's effectiveness and aiming for improvement through a Plan-Do-Check-Act (PDCA) cycle

Each fiscal year, Directors evaluate their performance of their own duties and operations in terms of whether they are carried out in conformity with the Board of Directors' guidelines for the execution of duties. Audit & Supervisory Board Members also analyze and evaluate the Board's effectiveness based in part on the Directors' self-evaluations, and the issues identified in that process form the basis for more in-depth deliberation and improvement of operations.

< Major issues for FY2022 >

- Review of meeting bodies
- Enhancing discussions concerning capital cost
- Enhancing discussions concerning sustainability
- Domestic and overseas factory tours for External Officers
- Earlier distribution of materials prior to Board meetings
- Increasing frequency of opinion exchange between External Directors and the Audit & Supervisory Board

Initiatives to address issues for FY2022

Various initiatives were carried out to address the major issues identified in the evaluation of the Board's effectiveness. A review of meeting bodies led to the transition to new meeting bodies from January 2022, which was evaluated with a questionnaire survey in December, and further improvements have been made. With regard to the enhancement of discussions, initiatives for improvement were introduced related primarily to the capital cost, sustainability, and Board diversity, while all issues related to External Officers, including factory tours, were addressed.

Example (1)

Company-wide review of meeting bodies

We have transitioned to new meeting bodies from the perspective of the Board of Directors' issues identified in the 2021 effectiveness evaluations and the review of the important management meetings associated with the corporate transformation from January 2022.

We have made improvements through the establishment of new management meetings to deepen discussions regarding business execution, and the positioning of the Board of Directors as a venue purely for discussion on the supervision of business execution.

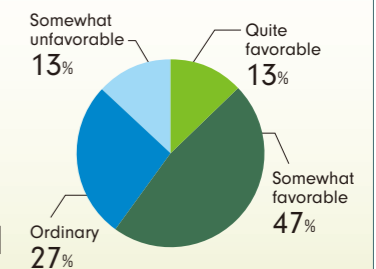
Main policies of new meeting bodies			
	Previous	From 2022	
Morning	Executive meeting	Top management meeting	<ul style="list-style-type: none"> ● Venue for discussion and reporting on important matters of execution ● Venue for persons responsible for execution to understand the Company situation ● Venue for sharing important information with Directors, etc.
	Board of Directors		
Afternoon		Each division's management meeting	<ul style="list-style-type: none"> ● Venue for discussion and reporting on matters of execution ● Venue where Directors, etc., obtain information on status of execution by persons responsible for execution
Separate		Each division's meeting	

Questionnaire for Directors and Audit & Supervisory Board Members (carried out in December 2022; excerpt)

One year after transition to new meeting bodies, the questionnaire survey was carried out to evaluate their effectiveness.

How would you evaluate the operation of the new meeting bodies introduced from 2022 (compared with the previous meeting bodies)?

- The structure allowing External Directors to attend the management meetings and participate in frank discussions is wonderful.
- Long meetings are not necessarily good; they should be managed more tightly, focusing on key points.
- Management meetings have given me a better understanding of the agenda discussed at Board meetings.
- I have gained a more detailed understanding of the Company's products and services.
- I would like to see less time spent on reports and more on discussions.



Free answers from Directors and Audit & Supervisory Board Members (anonymous, excerpts)

Example (2)

External Directors factory tour at Kaga Factory

Factory tours are an important way for External Directors to gain a deeper understanding of Sodick's businesses. The tours had been postponed during the COVID-19 pandemic, but resumed in July 2022. Four External Directors spent two days touring the Kaga Factory, after which they had meetings with the Factory Manager and division managers.

The External Directors made valuable comments, including, "Because of the pandemic, this was my first factory tour since becoming an External Director, and I now have a good understanding of Sodick's position as a top Japanese machine tool manufacturer. I expect intelligent technology to give machines increasingly greater added value," and "I found the factory became more active with the number of employees increased 1.5 times, the increased capacity for the food machinery plant, and the new land that has been acquired over the past two and a half years. I hope that greater attention will be paid to safety management going forward, and that this facility will have a great appeal overseas as Sodick's mother factory."



Four External Directors on a factory tour

Message from Our President

Creating a new Sodick through corporate transformation



Kenichi Furukawa
President and Representative Director

Corporate transformation underway

Restructuring to return to Sodick's origins

Sodick is committed to a corporate transformation by returning to our founding philosophy of resolving customers' manufacturing issues. As part of this effort, in January 2022, we carried out a major organizational restructuring, from a function-aligned organization to a business-aligned organization. Roughly one year has passed since the launch of this new organization. While some results that we were unable to achieve under the previous organization have begun to emerge, we are also discovering a number of challenges. One is that we are facing some resistance both internally and externally to changes in previous ways of doing things. Even if it is easy to "introduce" a new system, it is not so easy for it to "take root." Nevertheless, while a certain level of results can be achieved with the conventional method, we need to review the methods and take on new challenges from the perspective of how to improve customer satisfaction.

This transformation is essential for the major future growth we aim to achieve. As is apparent in current social trends, people's values are changing and the world continues to evolve. In this age, companies that do not pursue the challenge of evolution will be left behind, and Sodick is now at a crossroads that will determine whether it can create a new culture.

Problems are not the only thing emerging from this transformation; we are also seeing new types of business growth potential in new directions. We will pursue the challenge posed by difficult issues without fearing mistakes, to achieve major breakthroughs by maximizing newly discovered growth potential as we look toward a bright future together with our stakeholders.

Further enhancing shareholder returns

Change in policy for shareholder returns to a total return ratio of 40% or higher

We also reviewed our long-term financial targets during the fiscal year ended December 2022. While managing our business with a focus on capital

efficiency, we have also introduced an ROE indicator with the aim of a five-year average ROE of 8% or more, based on the idea of investing in sustainable growth. We have been working to strengthen our financial position to maintain ample cash on hand in the event changes in economic conditions affect our business. Since our financial base has been stable, we have revised our targets to improve our net cash position further and an equity ratio of 50% or more.

We also intend to further enhance returns to our shareholders. In addition to a stable dividend currently being paid out in recent years, we introduced a new total return ratio* target of 30% or more, and then in November 2022, we raised this further to 40% or more. Going forward, we intend to enhance shareholder returns by comprehensively taking into account factors including demand for funds, financial situation, the share price, and market conditions, without necessarily being bound by this target.

* The total return ratio is the total amount of dividend payments and treasury share purchases, divided by profit attributable to owners of parent.



Looking back on FY2022

The fiscal year ended December 2022 saw many changes in the global political and economic situation, and these had a major effect on the Sodick Group. A series of unforeseen events began with severe shortages in supplies of semiconductors, electronic parts, and other parts and materials at the start of the fiscal year, followed by sharply higher energy prices caused by Russia's invasion of Ukraine, and drastic fluctuations in the foreign exchange market that experienced the yen temporarily traded at the 150-yen level against the U.S. dollar. In addition, the Chinese market, which accounts for 40% of the Sodick Group's consolidated net sales, slowed significantly from the third quarter as a result of the government's "Zero-COVID" policy. As a result, while machine sales units decreased, we achieved an increase in consolidated net sales from the previous fiscal year with strong efforts in markets other than China and a positive effect from the weaker yen. However, operating profit declined slightly due to higher purchase costs.

With a limited recovery prospect for the Chinese market, we expect our business environment to remain challenging in 2023. However, we will proactively

invest in R&D for the future growth as well as in human resources and in improving work environments.

Consolidated results for FY2022		YoY change
Net sales	80.4 billion yen	+7.1%
Operating profit	5.8 billion yen	-14.7%
Operating profit margin	7.2%	-1.8pt
Ordinary profit	8.2 billion yen	-3.6%
Profit attributable to owners of parent	6.0 billion yen	-8.6%
ROE	7.8%	-2.2pt

Business innovation

Feedback from “Things” to “Matters,” and from “Matters” to “Things”

The issues of worker shortages and technology inheritance at manufacturing sites are becoming increasingly severe, and this is further accelerating needs for automation and labor savings. Nevertheless, simply providing a machine by itself, no matter how superior the machine is, will not meet these needs. To bring solutions to customers, we need to link machines and robots that meet the different standards of various countries, prepare interfaces to operate them, and provide digital twin production management systems that utilize sensors and Internet of Things (IoT). To date, we have been proficient in manufacturing “Things,” and combining them with “Matters” creates new feedback for these “Things.” This in turn leads to the creation of new “Matters” and this is the challenge we are currently pursuing. Furthermore, we do not provide solutions with only our own products; we will provide the total solutions that customers seek from operations to maintenance, and further expand our connection with customers.

Sodick, Inc. was one of the first companies in the North American market to use Digital Transformation (DX) to develop a solutions business and an after-sales service business, and is already achieving solid results. Sodick, Inc. President Yuji Akutsu has been appointed as the Sodick Group’s COO to accelerate our business innovation by developing these areas in the important markets such as Japan and China. We will also pursue the three business innovative projects of strengthening the after-sales service business, creating a solutions business, and promoting DX with a sense of speed.

Going forward, as the value we provide evolves through the pursuit of these strategies, we see increased possibilities for feedback to “Things” again. Sodick’s strength is in the high-end products of precision molds and precision molding, however, as we increasingly provide customers with total solutions, in addition to providing high-end products as in the past, possibilities will emerge for providing value in new areas that are critical for customers’ evolving manufacturing.

Sustainability management

Further strengthening human capital management along with environmental responses and corporate governance

The increase of social issues on a global scale in recent years—including political and economic changes, natural disasters, infectious disease, and supply chain disruptions—has given greater importance to sustainability, while also once again raising the question of what a company’s value to society is. The Sodick Group’s relationships with its stakeholders are changing significantly, including how we connect with customers and employees, how we address environmental issues, and our relationships with local communities and markets. We feel that this requires changes in our own values toward management and business structures.

In 2021, Sodick began examining its important issues (“Materiality”), and identified four issues: “contributing to evolving manufacturing,” “addressing environmental management,” “promoting diversification of human resources,” and “strengthening governance.” We have also designated “for a sustainable society” as a basic management policy and been implementing measures

to address environmental management including endorsement of the TCFD (Task Force on Climate-related Financial Disclosures) recommendations and information disclosure and strengthen our corporate governance including enhancing the effectiveness of the Board of Directors and strengthening compliance.

In particular, we believe it is necessary to focus on enhancing the value of human capital, our most important management resource. One of our basic management policies is “to be a company that everyone can keep growing.” We are pursuing health management and diversity and inclusion, and have also carried out an employee satisfaction survey to improve workplace environments and create growth opportunities from an employee perspective going forward. We intend to increase our investment in human capital based on the survey results, with the goal of establishing a more effective personnel appraisal system and human resource development.

Toward further transformation

Long-term management plan and Sodick’s next generation of leaders

The “Next Stage 2026 ~Toward Further Growth~” long-term management plan was formulated in early 2018, primarily by our executive officers. The business environment has changed dramatically over the past five years since then, and we recognize that we cannot consider growth to be sustainable if we simply follow the same path of our business to date. Looking at the industry as a whole, some companies have transformed successfully and converted to other industries. As the industry composition of our main customer base changes significantly including automobiles, smartphones and other IT equipment, aerospace, and medical devices, the machine tool industry, which has not had a drastic industry realignment to date, is entering a new phase. I believe that if we are to overcome these drastic changes in the challenging environment and continue to grow, we need to be a company that is ready to use the core technologies we have developed to date to enter new industries.

Looking further into the future—at Sodick from 2030 onward—we have begun formulating a new long-term management plan primarily by potential leaders

for the next generation. These discussions have been focused on where the Company should be 10 to 20 years in the future. Looking at factories in the future, for example, machines and equipment could be operated and controlled remotely from cockpit-style operational control centers, with no people at the production site and seamless, continuous operations. This could mean that the NCs (Numerical Control units) that currently are attached to each machine will no longer be needed. The displays on robots, production management systems, and other equipment would also become unnecessary, and lighting may not even be needed.

We have designated “contributing to evolving manufacturing” as one of our materiality issues. As manufacturing sites change, Sodick’s management and organizational structure are bound to change as well. We have been transforming the organization since last year, but new restructuring could be needed to realize a vision that is not merely an extension of our current business.

Our transformation has just begun. I hope that you are looking forward to Sodick’s future.



Medium-Term Management Plan 2023–2025

Business environment and Sodick's vision

Although manufacturing continues to evolve further, we recognize that the future of the Sodick Group's business environment will remain uncertain because of factors including parts shortages, inflation, sharply higher prices for raw materials and energy, and geopolitical risk.

Against this backdrop and with a spirit of "Create," "Implement," and "Overcome Difficulties," we will further improve our in-house technologies to promote

application development to new product groups, with the aim of contributing to a sustainable society through manufacturing. We are currently strengthening our management base through organizational reform, work style reform, and improved governance. We also will grow by seizing opportunities including the transformation of the automotive industry and the acceleration of DX.

Philosophy Sodick Group, under the founding spirit of "Create," "Implement," and "Overcome Difficulties," aims to provide the highest value to customers, and strives to contribute to a sustainable society as a company that "Create Your Future."



Risk and opportunity

Opportunity	Risk
<ul style="list-style-type: none"> Rise of Made in China 2025 Interest in sustainability (ESG, SDGs, carbon neutrality, etc.) DX Full-scale development of EVs 5G diffusion 	<ul style="list-style-type: none"> Geopolitical risk Financial risk Supply chain disruptions and restructuring Risk of new disasters and spread of infectious diseases
<ul style="list-style-type: none"> Progress in manufacturing continues Interest in sustainability Accelerating the adoption of DX Widespread use of EVs and FCVs Increase in communications traffic 	<ul style="list-style-type: none"> U.S.-China trade friction COVID-19 pandemic Supply chain disruption Russian invasion of Ukraine Inflation

Basic management policy

We are executing the medium-term management plan with three basic policies. We will provide "the highest value to our customers" by achieving absolute superiority in product performance and quality, enhancing relationships with customers using DX, and strengthening our solutions business and after-sales service business. We also aim to "be a company that

everyone can keep growing" by promoting health and productivity management and increasing our investment in human capital. In addition, we will strengthen environmentally conscious management and pursue initiatives to resolve our materiality issues "for a sustainable society."

Provide the highest value to our customers	<ul style="list-style-type: none"> Aim to achieve absolute superiority in product performance and quality Enhance relationship with customers by using DX Bring inspiring manufacturing innovations through adoption of new technological fields 	<ul style="list-style-type: none"> Enhance after-sales service business Create and promote solutions business
To be a company that everyone can keep growing	<ul style="list-style-type: none"> Improve work environment under the Health and Productivity Management Declaration and create opportunities for growth to each and every single employee with strategic transfer and placement of personnel Build knowledge database of our company and strive to pass along to younger generations Develop next-generation executives and managers, and nurture young employees who can contribute domestically and globally Increase investment in human capital (improvement of working conditions, recruitment, training system) 	
For a sustainable society	<ul style="list-style-type: none"> Strengthen environmentally conscious management (initiatives to achieve carbon-neutral society and TCFD recommendations, providing environmentally friendly products and services) Strengthen risk management and compliance Accelerate our efforts to resolve the global materiality challenges (important issues) Contribute toward achievement of SDGs 	

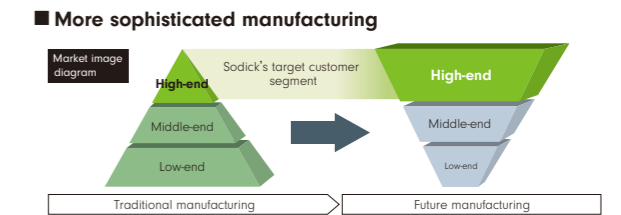
Growth in the high-end market as manufacturing becomes more sophisticated

As customer environments see manufacturing become increasingly sophisticated, we expect growth in the scale of the high-end market that is our target.

For example, looking at the impact on the Company from the shift in automobiles to EVs, the move away from gasoline vehicles as part of the CASE*¹ and GX*² trend is increasing further, and we see this creating growing needs for automotive parts and materials that are lighter and quieter, and for more precise electrical components. We anticipate demand for various parts and materials like motors and inverters, batteries, connectors, and ECUs, which require the precision molds and precision molding that are our specialty. At

the same time, it is clear that demand for engines and other machine parts will decline, but we expect the effect on EDMs to be limited.

*1 CASE: Connected, Autonomous, Shared/Service, Electric
*2 GX: Green Transformation



Example: EV conversion

	Engine car	EV (electric vehicle)	Impact on Sodick
Number of parts	Approx. 30,000 items	Approx. 20,000 items	
Power unit	Gasoline engine Transmission	Motor Inverter	Positive Precision molds and precision molding, which are our specialty, are necessary <ul style="list-style-type: none"> Increase in demand for motor core materials (EDMs for motor cores: AP350L) Increase in demand for separator molds for battery manufacturing Increase in demand for semiconductor equipment for inverters Increase in demand due to weight reduction and quietness needs Increase in demand due to the precision of electrical components
Power source	Gasoline Cylinder	Battery	
Electrical component	Connector	Connector Detection sensor ECU	Negative No need for machine parts such as engine <ul style="list-style-type: none"> Limited impact on EDMs
Others	Heat dissipating components	Heat dissipating components ECU case	

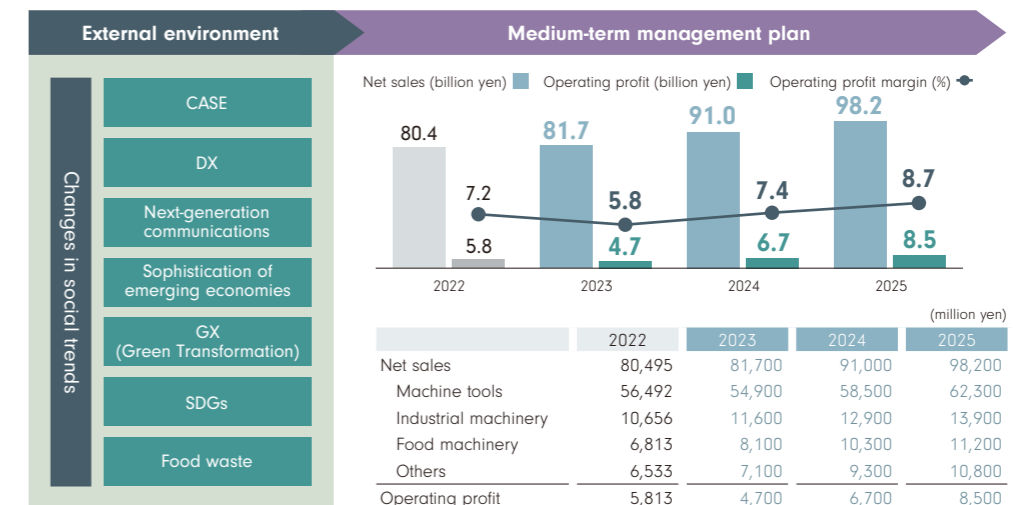
* ECU: Electronic Control Unit

Management targets (three-year)

We have set the following targets for the fiscal year ending December 2025, the final year under the medium-term management plan. Our group companies in Japan and overseas are working as one toward their achievement.

Medium-term management plan targets for FY2025

Net sales: 98.2 billion yen
Operating profit: 8.5 billion yen



Message from Our COO

Yuji Akutsu

Chief Operating Officer (COO)



Becoming a company that provides true innovation

My mission is to transform the business model.

I took office as the Sodick Group's COO in November 2022. Transformation of the business model, which is part of our ongoing corporate transformation, is a key part of our strategy. I consider one of my greatest responsibilities to be vigorously pursuing this with the major themes of creating a solutions business, strengthening the after-sales service business, and promoting DX.

Four years after joining Sodick, I relocated to the United States and spent 29 years—more than half of my entire life—living and working there. Many companies in the United States and other developed countries take a bottom-up approach when purchasing machinery. Manufacturing sites choose the machine based on ease of use, and this makes changing manufacturers less likely. At Sodick, Inc. in the United States, however, our strategy was to “strengthen the after-sales service business,” to enhance Sodick's reputation in the industry by providing added value in the form of customer support (CS). In the North American market, which covers a vast land area,

many users desire support that is closely tied to their location, so we have many home-based support staff scattered across North America. This makes our Customer Relationship Management (CRM) system an essential communications tool. We have been vigorously strengthening the CS business through the use of remote communications. Using IoT and the CRM system, we are developing CS that has greater productivity and higher quality, with the aim of providing customers with the highest value and support.

For example, Sodick, Inc. has a Consumable Support Remote Service (conducted by in-house sales staff through phone and internet) that uses historical sales data from the CRM system to identify when a customer's wires and filters will need replacement. This enables Sodick to contact the customer at the appropriate time. As many of our customers face employee shortages, Sodick's approach assists them with the burdensome task of inventory management operations.

Conversion to a turnkey business

The Sodick Group also offers a solutions business in order to provide the highest value to customers. We have a full product lineup of technologically superior equipment including EDMs, high-speed machining centers, metal 3D printers, and injection molding machines, but in recent years there has been a steady increase in customers asking for a solutions business that sells these products with added value including software, solutions, remote services, extended warranties, and maintenance programs, also known as “turnkey solutions” in the United States. Put simply, a turnkey solution means offering a solution that incorporates various equipment needed by the customer to manufacture a final product that they have presented to us. I believe it is Sodick's mission to support evolving manufacturing globally through

collaboration between manufacturer and user.

Promoting DX is another essential element for providing value. Sodick has already begun to strengthen its ability to disseminate information within Japan, by regularly communicating to manufacturers things like Sodick product information to increase recognition and the value of the Sodick brand. Marketing automation and marketing DX through social media are also essential for market development. Right now, it is very difficult to predict the future of markets in light of developments including heightened geopolitical risk and high inflation, making it extremely important to understand and closely follow global market and user trends in real time. We will proactively invest in digital marketing to use data effectively and accelerate business development.

Strengthening human resources is the important issue.

As we work toward this major goal of transforming the business, we need to work together as one. The most important issue for achieving this is to secure and develop superior human resources.

Over the years, I have hired many people in the United States, and job-based employment has always been the main approach in the United States. When someone is newly hired, they are given a written job description, individual objectives are set, the person does their job, and a year later they are evaluated. Based on the results of that evaluation, the person meets with their supervisor, and they decide on the person's compensation and next objectives.

Since employees appeal directly to their supervisor based on the results they produced, it appears very beneficial to employees at first glance. However, it is actually a win-win relationship because employees are strongly urged to improve productivity. In addition to managers, employees are constantly exposed to the external business environment and must grow as individuals.

There has recently been a trend in Japan toward job-based employment for specialist positions, and I believe this in itself is a good thing. Nevertheless, the presence of strong leaders is needed for individual employees to grow. In Japan, there are few leaders with this kind of experience. That means the introduction of job-based employment first requires the cultivation of people in management positions. I recognize this as one of my very important objectives.

In recent years, advances in technology and unforeseen global events have caused conventional wisdom around the world to change much faster than in the past, and I look forward to these changes. I am confident that the Sodick Group will not fall behind, but instead will evolve with even greater speed.



Message from Our Director in Charge of Corporate Division

Hirofumi Maejima
Executive Managing Director,
Corporate Division



Aiming for sustainable enhancement of corporate value through management with a focus on capital efficiency and desirable balance between growth investments and shareholder returns

Review of investing and financing activities during FY2022

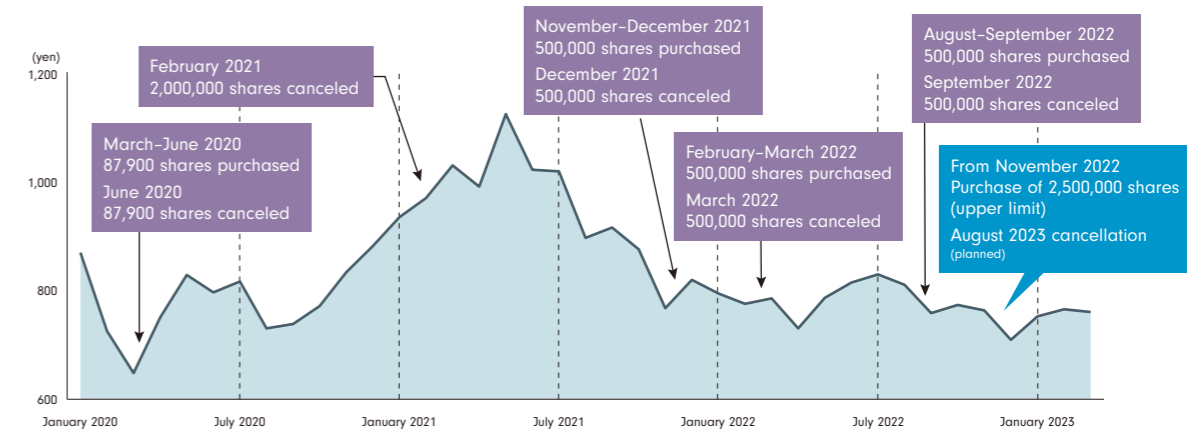
Capital investments during the fiscal year ended December 2022 included the expansion of the Second Factory in Thailand, the construction of a new plant in Xiamen, China, the expansion to increase production capacity at the Kaga Factory in Japan, and the construction of a technical center in South China. The initial plan was for 4.1 billion yen of capital investments, but the actual amount ended up being higher at 4.6 billion yen. We also made proactive investments in DX and strove to increase operational efficiency. Investment in R&D was at roughly the previous fiscal year's level, with major investments going toward new product development and R&D for

metal 3D printers.

In terms of financing activities, we bought back and retired 500,000 shares from February through March 2022 and an additional 500,000 shares from August through September 2022. In addition, we began buying back up to 2.5 million shares from November 2022, and intend to retire all shares bought back.

We will flexibly pursue capital policies going forward to continue to improve the share value.

Sodick's share price and buybacks and retirements of shares over the past three years



Going forward, we will continue to invest in R&D for mainline EDMs and other areas where growth is anticipated, including metal 3D printers, high-precision machining centers, injection molding machines, and food machinery (new product groups other than noodle-making machines and cooked rice production systems). We will also step up our development of environmentally friendly products that reduce

greenhouse gas emissions and waste materials.

With regard to investments for production capacity expansion and streamlining of operations, we are investing in DX implementation at each plant and to increase production capacity at the food machinery plant at the Kaga Factory, and we expect construction of a new plant to be completed in 2023.

Long-term financial targets

The machine tool and industrial machinery segments are significantly affected by trends in demand for capital investments. Given this risk, since the 2008 global financial crisis, we have implemented initiatives to strengthen our financial position, including maintaining ample cash on hand to be prepared for fluctuations in the economy. As a result, we have been able to stabilize our financial base with an equity ratio above 55%, at the level consistent with major companies in the industry.

Our policy going forward is to improve our net cash position further and maintain an equity ratio of 50% or more. To do this, we intend to manage our business

focusing on capital efficiency while at the same time investing in sustainable growth, with a target of ROE being steadily maintained at 8% or more.

In terms of shareholder returns, our basic policy is to pay out a stable and continuous dividend while securing necessary internal reserves for future business development and the strengthening of our management structure, with a DOE target of at least 2%. In November 2022, we raised our total return ratio^{*1} target to 40% or more from 30% or more, and we will strive to increase share value further by further strengthening shareholder returns.

Long-term financial targets (target for shareholder returns revised in November 2022)

Items	Capital efficiency	Financial soundness	Shareholder returns
Target value	ROE of 8% or more (5-year average)	Net cash plus Equity ratio of 50% or more	DOE of 2% or more, and total return ratio ^{*1} of 40% or more
2022 Actual	7.0% (5-year average)	Net cash of 3,381 million yen Equity ratio of 58.5%	DOE of 2.1% Total return ratio of 40% ^{*2}

^{*1} The total return ratio is the total amount of dividend payments and treasury share purchases, divided by profit attributable to owners of parent.

The Company's total return ratio formula:
Total return ratio = (Dividends for FY(n)) + (Treasury share purchases for FY(n+1)) / Profit for FY(n)

^{*2} In 2022, the dividend amount for FY2022 + the estimated amount of on-going treasury share purchases for FY2023 (share price at the end of December × the estimated number of shares to be purchased)

For a sustainable society

In recent years, there has been growing interest in sustainability in the stock market and “ESG (Environmental, Social, and Governance) investment” which emphasizes companies considering ESG factors.

The Sodick Group recognizes that management with a focus on sustainability is essential to maintain sustainable growth, and in 2021, we implemented a Basic Policy for Sustainability to accelerate our sustainability management. We also designated four areas as Sodick’s materiality (important issues) and set KPIs for each initiative.

As a structure to promote this, we established a Sustainability Committee, chaired by the President and Representative Director. The Committee sets policies and targets for addressing mid-to-long term themes including climate change, carbon neutrality, human rights, and health and productivity management, and engages in deeper discussion on the progress and

issues related to sustainability activities carried out by each working group and business division. Using a repeating PDCA (Plan-Do-Check-Act) cycle with the Sustainability Committee at the center, we promote Company-wide activities with the progress of those activities reported to the Board of Directors at least four times per year, and internal deliberations and responses are carried out as necessary.

Sodick’s initiatives for a sustainable society

- Strengthen environmentally conscious management (initiatives to achieve carbon-neutral society and TCFD recommendations, providing environmentally friendly products and services)
- Strengthen risk management and compliance
- Accelerate our efforts to resolve the global materiality challenges (important issues)
- Contribute toward achievement of SDGs



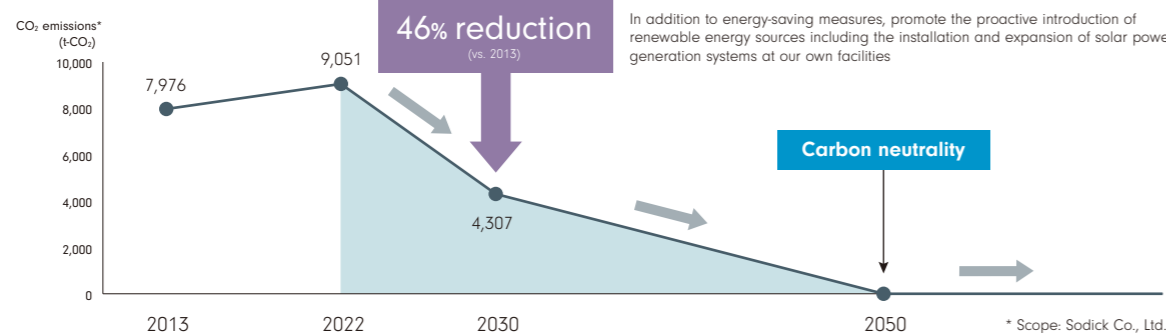
Toward carbon neutrality

With the increase in greenhouse gas emissions having a significant impact on the global environment, we recognize that initiatives toward carbon neutrality are an important issue for the continuation of our corporate activities.

In December 2022, we announced our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We have also set greenhouse gas emissions (Scope 1 and 2) as metrics to evaluate and manage the risks from climate change and the progress of our environmental management, targeting a 46% reduction by 2030 compared with the 2013 level.

Going forward, we will work to reduce the amount of our total greenhouse gas emissions including Scope 3, with the aim of achieving carbon neutrality by 2050. To achieve our targets, we are promoting the proactive introduction of renewable energy sources including the installation and expansion of solar power generation systems at our own facilities. We will also work toward the decarbonization of society as a whole through technological development to enhance the environmental performance of our products.

Reductions toward net zero CO₂ emissions



To be a company that everyone can keep growing

Sodick believes that human resources are the Company’s most important asset and the source of new value creation for the future. We are proactively investing in the development and recruiting of human resources to create work environments and a corporate culture in which each employee can grow with the Company, embrace diversity, and play an active role.

In January 2022, we announced the Health and Productivity Management Declaration, and we are proactively working to improve work environments and promote health so that all employees can continue to grow with good mental and physical health.

As part of our human resource strategy, we are promoting diversity and inclusion to respond flexibly to ongoing changes in society and diverse values, while strengthening our frameworks and environments to

cultivate human resources that can take up challenges without fearing changes.

We have also established a new working group to discuss diversity and promote initiatives. Specifically, we had individual meetings with male employees who were becoming fathers to encourage them to take parental leave, and shared the experiences of their leaves in internal newsletters. From the perspective of women’s active participation, we have extended the period during which employees returning from parental leave can have reduced working hours (to the sixth grade of elementary school, from three years old). We intend to expand further our systems to support employees who need to balance work with childcare and nursing care going forward.

To maintain and enhance our growth potential as a company, we believe it important for employees to act independently with a sense of daily job satisfaction and by sharing the social significance and value of our business activities, with greater motivation to address change. In 2022, we increased investment and expanded measures for human resources, improved working conditions including salary increases, expanded training programs, and improved workplace environments, but we are not yet where we want to be.

Communication is one of our challenges to overcome. An employee satisfaction survey highlighted specific issues including a Company-wide feeling of solidarity, reciprocal communication across positions, and coordination with other departments. Going forward, we will focus on more active communication and strive to implement various types of measures to cultivate a corporate culture that leads to value creation.

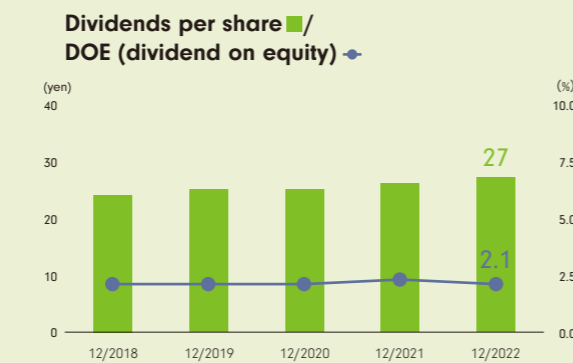
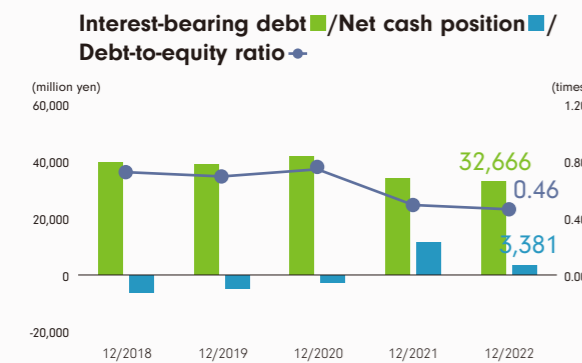
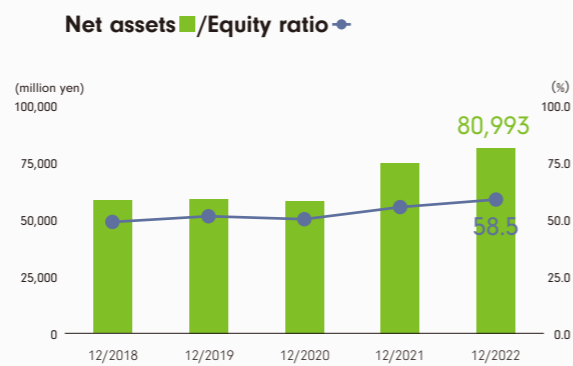
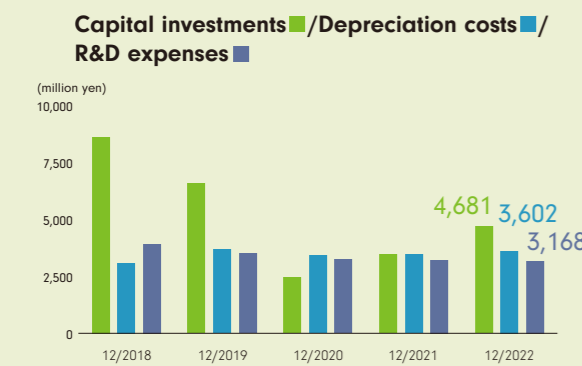
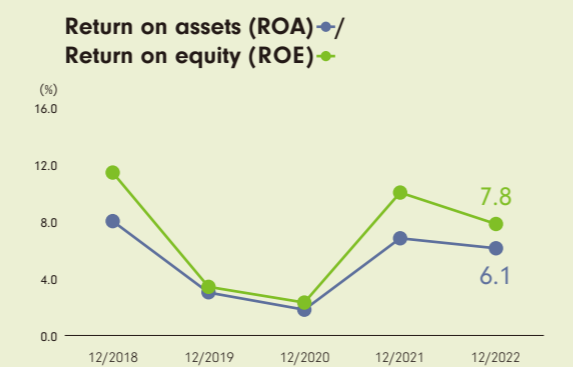
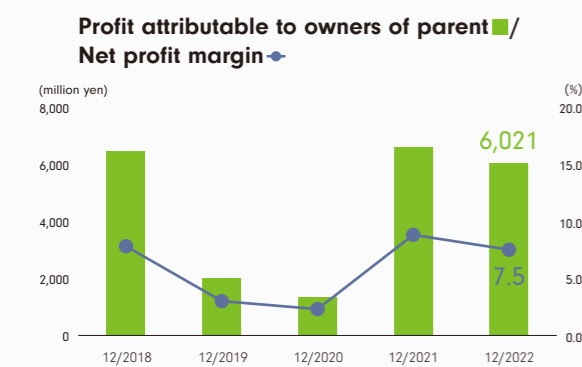
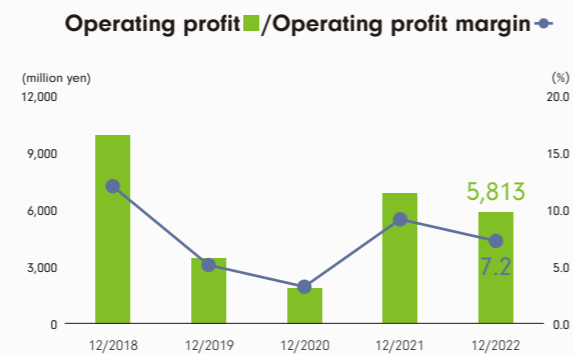
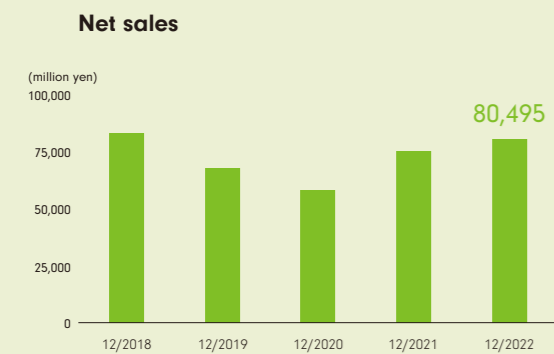


In conclusion

We believe that having capital markets understand the attractiveness and growth potential of Sodick’s businesses is important for the sustainable enhancement of corporate value. To achieve this, dialogue with customers, shareholders, investors, and

all other stakeholders is essential. We will engage in proactive investor relations activities going forward, and strive to build on our corporate strengths and enhance corporate value through dialogue with all stakeholders.

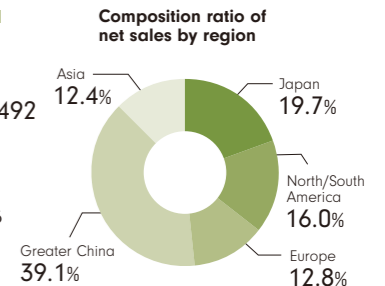
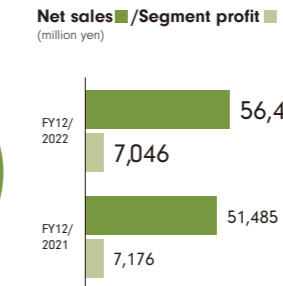
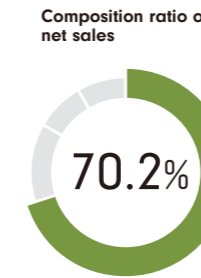
Financial Highlights



At a Glance

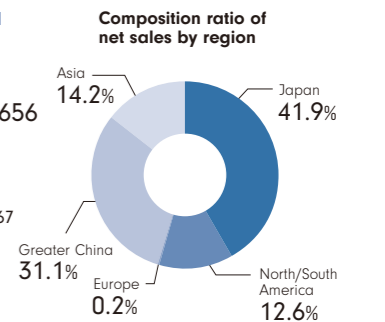
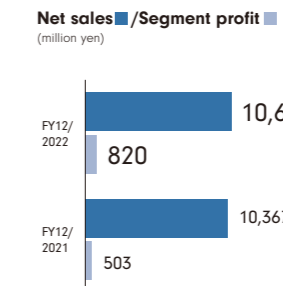
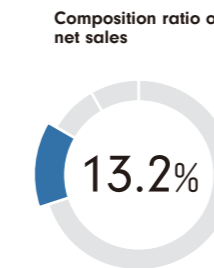
Machine Tool Segment

Despite factors including a weaker stance on capital investments related to automobiles and semiconductors in Greater China, soaring prices caused by the situation in Ukraine and supply chain disruptions, the segment recorded solid results in Japan, Europe, the United States, and Asia, primarily related to electronic parts, semiconductors, and EVs. With an additional boost from a weaker yen, net sales rose from the previous fiscal year.



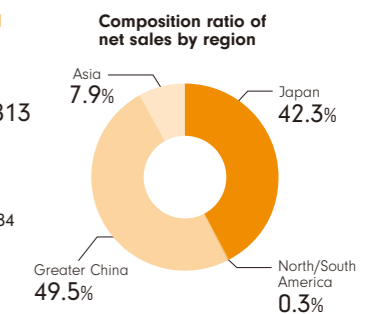
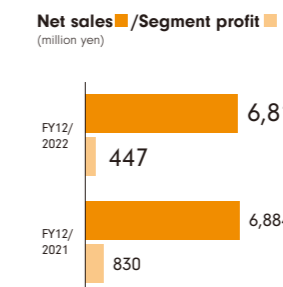
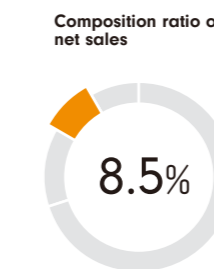
Industrial Machinery Segment

In Japan, although EV-related demand was solid, a decline in smartphone demand led to weakness in electronic parts-related products. Lower demand related to electronic parts in all regions also resulted in a decline in capital investments. However, with the effect of a weaker yen, net sales rose from the previous fiscal year.



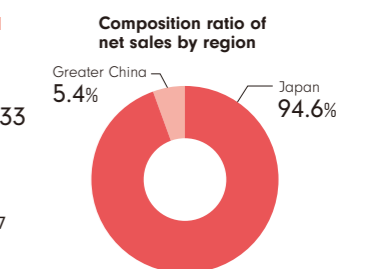
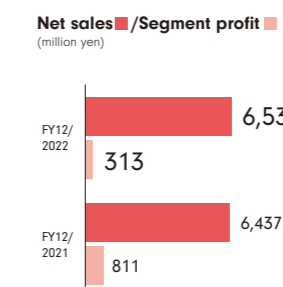
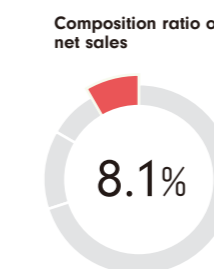
Food Machinery Segment

Although customers showed a weaker stance on capital investments from restrictions of COVID-19 policies in Greater China and from global inflation, there was solid demand for noodle-making machines in Japan and aseptically-packed cooked rice production systems overseas. In addition, progress was made on projects for aseptically-packed cooked rice production systems in Greater China. As a result, net sales remained slightly lower than the previous fiscal year.



Other Segments

Although net sales for precision dies and mold operations declined marginally from the previous fiscal year due to weaker automotive-related demand, net sales rose at the elemental technology business. In addition, higher costs from supply chain disruptions and a sharp increase in material costs resulted in a lower profit margin.



Strategy of Each Segment

Machine Tool Segment

Sodick offers a wide lineup of products including EDMs, which have a leading share of the global market, precision machining centers, and metal 3D printers. Our products are highly regarded in a variety of fields, including auto-related industries and electronics-related industries such as smartphones.

Main applications	Mold manufacturing, component machining
Main customers	Automobiles, IT, smartphones, electrical and electronic parts, aerospace, medical equipment, etc.
Core products	Die-sinker EDMs, Wire-cut EDMs, Small-hole drilling EDMs, Metal 3D printers, Precision machining centers, CAD-CAM, Electron beam

Opportunities	Risks
<ul style="list-style-type: none"> Changes in the automotive industry (NEV, synthetic fuels, CASE, MaaS) Recovery of the aviation industry Growth in demand for high-precision processing equipment as manufacturing becomes more sophisticated Increased needs for labor savings and automation Increased interest in energy savings 	<ul style="list-style-type: none"> Monetary tightening policies and rising global inflation Drastic foreign exchange rate fluctuations, fears of a recession or economic slowdown Global turmoil at financial institutions Heightened geopolitical risk Sharply higher raw material costs and parts shortages, supply chain disruptions Sharply higher prices for resources, energy, and electricity



Business strategies

Aiming to offer a solutions business with machinery + added value

Machine tools are Sodick's main business, accounting for roughly 70% of sales, but the business is facing the issues of results being easily affected by economic fluctuations and the maturation of the EDM market. We are therefore working to transform our business model to overcome these issues and set a new course for growth. To achieve this, we will not only sell machinery, but also provide comprehensive solutions that support customers' manufacturing and expand our after-sales service business. We are developing to create turnkey solutions, a proposal that covers a diverse range of solutions including semi-automation and full automation systems using DX. We are also using marketing and sales support systems to develop a remote maintenance and after-sales service business, and plan to develop a subscription-based machine service in the future.

Working to have new organization take root and accelerate business innovation

To accelerate the transformation of our business model, we have shifted from a function-aligned organization to a business-aligned organization in 2022. By integrating planning, development, manufacturing, sales, and services, we are strengthening our development for manufacturing and value creation from customers' perspectives. We have already produced some results, such as pursuing DX to introduce and begin operating the CRM system and promoting manufacturing that realizes both "fast" and "ecological," with products like i Groove+ Edition. Going forward, we will further strengthen our human resource development as well as carry out development and acquire processing condition data with AI.

Started operations in July 2022



Sodick South China Tech Center Lead the development of cutting-edge technology in the rapidly developing South China region, providing the fastest technical support and after-sales service

Strengthening after-sales service

Review of the fiscal year ended December 2022 and measures going forward

Solid sales growth related to electronic parts, semiconductors, and EVs in Japan, Europe, the United States, and Asia

Despite weaker demand for automotive-related and semiconductor-related capital investments in Greater China and the effect of higher prices and supply chain disruptions resulting from the situation in Russia and Ukraine, solid results were recorded in Japan, Europe, the United States, and Asia, primarily related to electronic parts, semiconductors, and EVs. With an additional boost from a weaker yen, the segment net sales rose from the previous fiscal year. We see manufacturing continuing to become more sophisticated going forward, and we recognize that the growing needs for high-speed and high-precision processing, enhanced operability, energy savings, stable processing over long periods, and larger and more complex workpieces represent important opportunities. We believe metal 3D printers and precision machining centers have significant medium- to long-term growth potential, and will strengthen our technological development and sales structure for these products to capture demand for high-value-added processing.

Enhancing after-sales service and strengthening the structure to expand the scale of the business

Construction of the Sodick Group's largest technical center in South China was completed and the center began operating in July 2022. With this technical center, we will work to increase our market share in the high-end market in addition to general-use machinery and strengthen our after-sales service business. To meet customers' increasingly diverse and complex processing needs, we will systematically carry out internal education and training programs, proactively develop highly skilled service staff, and enhance the quality of our processing technology and after-sales service. We will also strengthen various support systems to ensure continuous and stable operation of our products. In Japan, we integrated the EWS Division (Miyazaki) of subsidiary Sodick F.T into the machine tool segment in July 2022. This enables us to create an integrated structure for the after-sales service business, and to increase efficiency in the production of and strengthen sales of wires, guides, and other EDM consumables. Operations also began at an in-house production site for spindles, which are important equipment for high-speed machining centers. We aim to increase our sales competitiveness and market share by improving our spindle productivity and performance.

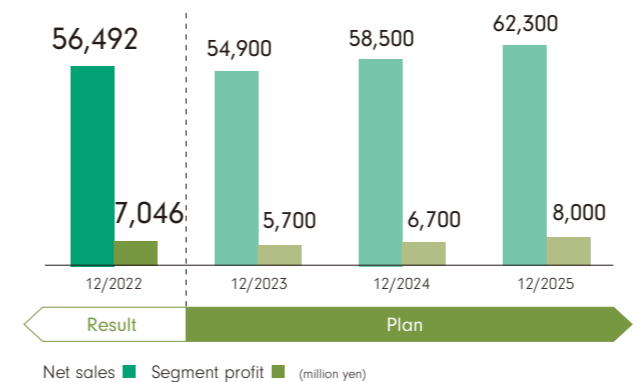


New LPM450 metal 3D printer achieves "larger molding sizes," "compatibility with multiple types of powder materials," and "increased operational efficiency"



Combining the new AL40G small size EDM with the SR12 electrode/workpiece change equipment with a stocker and robot in the compact chassis is an easy way to start automating

FY12/2022 results and three-year targets under medium-term management plan



Industrial Machinery Segment

In the industrial machinery segment, Sodick develops, manufactures, and sells injection molding machines that are environmentally sound and make effective use of plastics and other resources. Plastic components are found in many everyday consumer products due to their light weight and multi-functionality, including home appliances, electrical and electronic parts, automobiles, and medical equipment.

Main applications	Manufacturing of plastic components and other difficult-to-machine materials, special materials, light metal components, etc.
Main customers	Automobiles, IT, smartphones, electrical and electronic parts, medical equipment, etc.
Core products	Horizontal injection molding machines, Vertical injection molding machines, Light metal alloy injection molding machines, Injection molding production automation systems, Quality and production management software

Opportunities	Risks
<ul style="list-style-type: none"> Changes in the automotive and aerospace industries (autonomous driving/EV/electrification, lighter-weight components, employment of new materials, etc.) Expansion of communications network (5G, big data, highly functional devices, etc.) Growth in demand for high-precision processing equipment as manufacturing becomes more sophisticated Increased needs for labor savings, automation, and environmental considerations Growing demand for highly functional plastics and bioplastics 	<ul style="list-style-type: none"> Global economic stagnation from conflicts and export prohibition measures Intensified price competition in injection molding machine market Fluctuations in demand from changes in economic environment Large fluctuations in foreign exchange markets High raw material costs and parts shortages

Business strategies

Strengthening the sales structure from a global perspective under an overall policy of “added depth and expansion” and “new development”

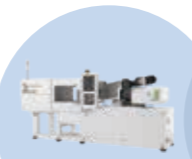
With the shift to a new business-aligned organization from 2022, customer feedback goes directly to technology-related departments via services and sales, making it possible to respond quickly.

As a challenger in the molding market, we are pursuing an overall policy of “added depth and expansion” and “new development” in markets where we have an advantageous position based on our proprietary V-LINE® technology. We propose sales strategies that focus on differences among countries, regions, and markets and expand our presence in markets with growth potential. We need to strengthen our sales structure from a global perspective in areas including vertical molding machines for the automotive sector, an area in which Sodick excels, and medical-related markets in North America and Greater China. We will not simply address regions as a block, but instead will build an organization that can target individual customers and markets.


In addition to the high-end market, increasing sales of environmentally friendly products in the largest customer segment

In addition to the high-precision, ultra-stable molding segment of the high-end market where Sodick has a strong position, we are increasing sales in the largest customer segment of the molding industry and strengthening sales of electric molding machines in response to the need for energy savings. We have developed proprietary technologies for molding biomass-derived plastics in response to needs shifting to biodegradable plastics and other plastic resins that are difficult to mold. Based on the plastic molding technologies that we have developed, we will respond to molding various types of materials.

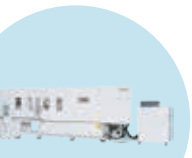
Increasing sales in the high-precision, high-accuracy molding segment of the high-end market



Horizontal injection molding machines



Vertical injection molding machines



Light metal alloy injection molding machines

Review of the fiscal year ended December 2022 and measures going forward

Despite weak demand in domestic and overseas markets, sales increased due to impact of weaker yen

In Japan, although demand related to EVs was solid, a decline in smartphone demand led to weakness in demand related to electronic parts. In addition, all regions saw a weaker stance toward capital investments due to shortages of materials and inflation, however, the effect of a weaker yen led to an increase in segment net sales as a whole. With manufacturing in Greater China and Asia becoming more sophisticated going forward, we expect demand for our specialty area of highly precise injection molding machines to grow. We also recognize needs for reductions in energy consumption and molding waste materials as an important opportunity, and will develop the business.

Further developing value in Sodick’s molding machines in Greater China and Europe

Initiatives during the fiscal year ended December 2022 include the restructuring of the service organization and the release of machines that meet ISO safety standards. In addition, the new Amoy Factory in Xiamen, China commenced operations, and we will work to achieve overall optimization of the manufacturing site by utilizing IoT and DX and realize a “smart factory” with the aim of strengthening our market competitiveness. By establishing a production site in China, the world’s biggest market, we expect rapid growth of this business. First, we began manufacturing two types of horizontal injection molding machines, and steadily expand our production lineup.

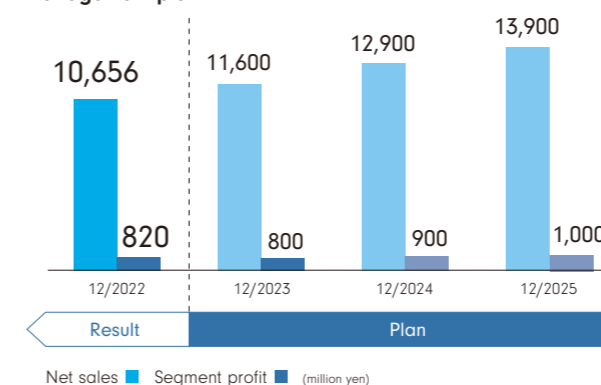
During 2023, we will begin setting up sales channels in Europe, a new market for Sodick. With the market features being similar to those of North and South America, we expect to be able to use our experience from those markets to get off to a swift start.

Manufacturing in the future will increasingly require multifaceted value. Sodick’s molding machines have been well-received to date, and we will further develop the value at a global level.



VR G Series VR75G
A new hybrid vertical rotary injection molding machine that reduces electricity consumption by 22% with enhanced control capabilities and high cycle molding

FY12/2022 results and three-year targets under medium-term management plan



MS G2 Series MS100G2
A revamped model of an electric injection molding machine that uses a servo motor drive system for highly accurate, stable molding, combined with a new controller and a more precise temperature control system for greater control accuracy and temperature control

Food Machinery Segment

The food machinery segment supplies customers with the optimal food processing equipment from among its lineup of over 600 models, including noodle-making machines, noodle boiling plants, and aseptically-packed cooked rice production systems, for the production of noodles, precooked side dishes, and boxed meals sold at convenience stores and supermarkets. We also contribute to the creation of a safe and secure, healthy and delicious food culture.

Main applications	Uncooked noodles (udon, soba, Chinese noodles, etc.), frozen noodles, long shelf-life noodles, aseptically-packed cooked rice, confectionery, precooked side dishes
Main customers	Leading food manufacturers, restaurant chains, frozen food manufacturers, etc.
Core products	Noodle-making machines, Automatic noodle boiling/steaming/sterilizing systems, Aseptically-packed cooked rice production systems

<p>Opportunities</p> <ul style="list-style-type: none"> Expanding distribution network including chilled logistics infrastructure, supermarkets, and convenience stores in line with rising standards of living in Greater China and Asia Global growth of market for aseptically-packed cooked rice (growth in emerging countries and markets) Increased needs for labor savings and automation at manufacturing sites from labor shortages Even higher levels of food hygiene management and safety including stronger measures to prevent food contamination Increased needs for high-quality cooked noodles and precooked side dishes 	<p>Risks</p> <ul style="list-style-type: none"> Business weighted toward noodles and cooked rice segments of domestic food market Opportunity loss from insufficient production capacity Significant increases in prices of parts and materials due to inflation
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Business strategies

Accelerating development based on expanding market and customer issues against the backdrop of a changing social structure

The food machinery segment has experienced large sales growth over the past few years, driven by aseptically-packed cooked rice production systems. Our next target is the precooked side dishes market. Against the backdrop of a changing social structure with an increase in the number of households comprising older people, single individuals, and couples who both work full time, this market has been growing to more than 10 trillion yen. However, at the same time, reducing food waste has become an urgent issue. Sterilizing systems, one of Sodick's strengths, are making a major contribution to reducing food waste, and we are developing new systems with additional technological improvements. The current process for cooking precooked side dishes requires time from cooking with heat to cooling the sterilized food product, meaning that the product is exposed for a long time to a temperature range in which bacteria can grow. We are developing machines with a new cooling chamber that reduces the time spent in this temperature range by cooling while moving on a conveyor through three zones—depressurization, vacuum preservation, and pressure restoration.

Looking to become a comprehensive, global manufacturer of food machinery in 10–20 years

There is no doubt that the social issue of labor shortage resulting from the declining birthrate and aging population will become more severe over the next 10 to 20 years. Thus, we are working to develop equipment that contributes to the automation of food product factories.

We will increase sales by introducing equipment for the overall food market, as a comprehensive food machinery manufacturer.

Three established product lines of noodles, cooked rice, and precooked side dishes

Cooked rice Noodles Precooked side dishes, Confectionery, Bread, etc.

* Food produced with our products

Review of the fiscal year ended December 2022 and measures going forward

Continuously boosting capital investments to respond to growing demand in Japan and overseas

Markets saw a weaker stance on capital investments as a result of restrictions on movement in Greater China in response to the government's "Zero-COVID" policy and global inflation. However, the demand for noodle-making machines for the domestic market and aseptically-packed cooked rice production systems for overseas markets was solid. As a result, net sales remained slightly lower than the previous fiscal year.

Going forward, we will address needs for hygiene and labor savings in noodle making and cooked rice production in Japan, and expand the business in a wide range of fields such as the precooked side dishes, confectionery, and bread industries. We also anticipate increased demand for uncooked noodles and cooked rice in overseas markets, primarily in Greater China and Asia, in line with a trend toward higher quality foods. To maintain production capacity to address these trends, the new Amoy Factory in Xiamen, China, commenced operations in January 2023, and expansions and upgrades of a plant at the Kaga Factory are scheduled for completion at the end of 2023.

In addition, we are applying for certification of the food machinery plant at the Kaga Factory as a certified plant for manufacturing class-1 pressure vessels in order to introduce equipment for the overall food market. At the same time, we are bringing our pressure vessel manufacturing in-house, and evaluating prototype equipment. We have also installed a CO₂ laser (metal processing equipment) to be able to increase production.

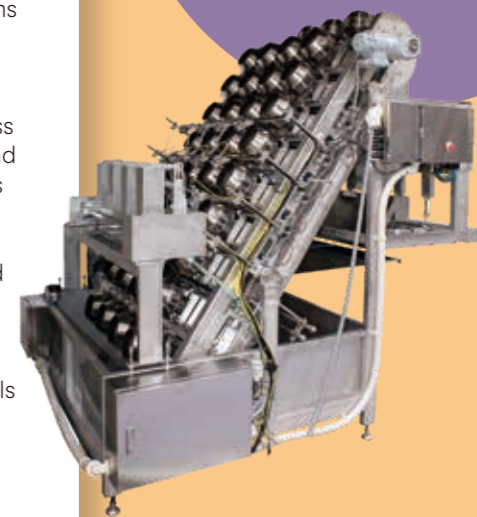
Pursuing full-scale expansion of business fields in FY2023

At the new Amoy Factory in Xiamen, China, we are able to manufacture large equipment including cooked rice production systems and boiling water cleaning systems. Going forward, we will build a solid supply structure for markets in China and Asia.

We also plan to exhibit at trade shows in China, Thailand, Vietnam, the United States, and other countries to expand our presence in the global market.

Neo Mazaru, automatic noodle loosening & seasoning machine for precooked noodles, wins the 19th Super Manufacturing Parts Prize for Machinery & Robot Parts

Using unmanned processes for adding and stirring liquid seasonings, which were previously done manually, reduces the risk of contamination by bacteria and foreign substances. This machine is being highly recognized for its contribution to reducing food waste and cost reductions through labor saving.



Neo Mazaru, automatic noodle loosening & seasoning machine for precooked noodles

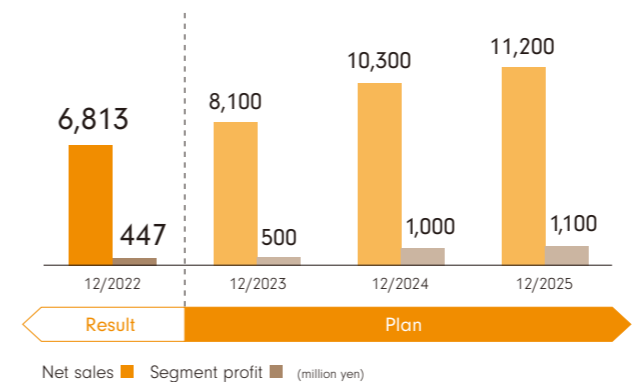


Cooked rice production systems



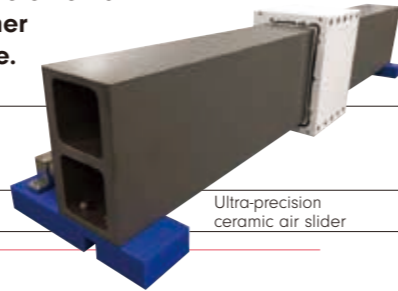
High-temperature pressure sterilizer

FY12/2022 results and three-year targets under medium-term management plan



Other Segments

In other segments, Sodick engages in precision dies and mold operations, which produce precision connectors and other built-to-order components for automobiles, and the elemental technology business, which sells linear motors, ceramic products, and other products that have emerged in the course of bringing production in-house.



Main applications Design and manufacturing of mold, production of plastic molded parts, development, manufacturing, and sale of products that use linear motors, the control devices for these, ceramic products, and LED lighting, etc.

Core products Ceramics, Linear motors, LED lighting

- Opportunities**
- Changes in the automotive industry (lighter-weight components, electrification, etc.) and continuity of demand
 - Ongoing semiconductor-related demand and demand from semiconductor manufacturing equipment manufacturers

- Risks**
- Globally rising fuel prices, shortages of raw materials
 - Production adjustments from semiconductor shortages
 - Export restrictions on semiconductor manufacturing equipment

Business strategies

In-house machine tool manufacturing and proprietary technologies give us unrivaled development excellence

Sodick has achieved production system automation from upstream to downstream by linking machine tools and industrial machinery. We have a wide range of products including ceramics, linear motors, and LED lighting that we manufacture in-house using proprietary technologies.

Using the Group's elemental technologies to raise profitability. Developing precision dies and mold for non-automotive uses

The precision dies and mold operations are aiming to expand sales channels with products for uses other than the automotive products handled. We will use cell production systems to achieve stable production, energy savings, and cost reduction, while also working to expand sales of precise machining and metal 3D printer processing technologies.

The ceramics business will expand sales of ceramic parts for semiconductor manufacturing equipment and high-value-added products. We will also strengthen our development of new materials and production methods.

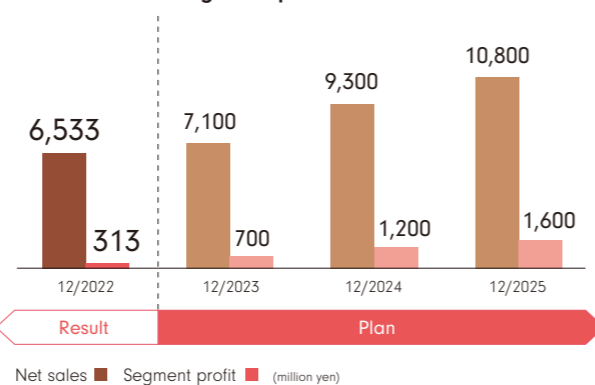
Review of the fiscal year ended December 2022 and measures going forward

With uncertain market conditions expected to continue, preparing for risks by diversifying customer base and developing new customers

Net sales for precision dies and mold operations declined marginally from the effects of supply chain disruptions and weaker automotive-related demand, while ceramics demand from semiconductor manufacturing equipment manufacturers was solid, resulting in a slight increase in the segment net sales. Nevertheless, higher material costs led to a decline in the profit margin.

For the fiscal year ending December 2023, we expect demand for ceramics to decline in the wake of special demand for semiconductor devices during the COVID-19 pandemic, but we are forecasting an increase in sales from precision dies and molds as automotive-related demand recovers and we expand our lineup of molding items. We see uncertain market conditions continuing going forward, and intend to prepare against potential risks by diversifying our customer base and developing new customers.

FY12/2022 results and three-year targets under medium-term management plan



Intellectual Property Strategy

Sodick's strategy for intellectual property

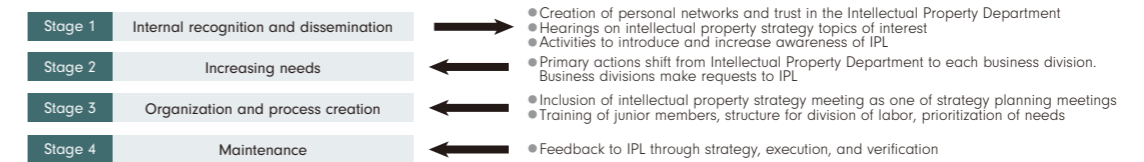
1. Approach to intellectual property rights

We consider intellectual property rights as a source to prevent the commodification of products and to maintain the competitive price point for high profitability. In particular, these have been our management assets since the Group's founding. And we place importance on the Sodick brand, which gives our stakeholders expectations of the high quality of our products and services, and protection of the rights to our development successes, which differentiate our products technologically. We believe that, given the portion of our products that are exported, our position is strengthened by obtaining trademark and patent rights globally. In addition, intellectual property rights are not only tools used in competition with other companies, but they are also tools for considering various collaborations with other companies.

2. Playing offense in intellectual property

In 2022, our Intellectual Property Department launched an "Intellectual Property Landscape" (IPL) as an "offensive" strategy. Based on a spirit of "intellectual property that takes action," information on how our core technologies are used in new product groups is displayed visually using graphs to each business division. IPL aims to enhance corporate value efficiently when determining the future direction of existing businesses and deciding on new business fields.

We have designated four stages for internal deployment of IPL. By providing feedback to the IPL through repeated business strategy, execution, and verification while monitoring market trends, we believe our intellectual property strategy will tie in to Sodick's sustainable growth.

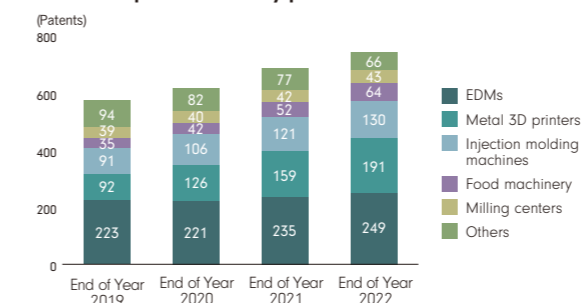


Targets and training related to intellectual property

We have set targets of holding 800 patents by the end of 2023, with 50% of them overseas. After that, we will make a further increase in the overseas portion. We consider it particularly important to apply for patents in the United States related to metal 3D printers, a market for which rapid growth is expected with an increasing number of players.

Intellectual property training is being carried out for R&D human resources using both video and in-person formats. Video learning content includes an introduction of internal procedures for applying for patents, patent acquisition in China, methods for searching for competitors' patents, and notes on non-disclosure agreements, while groups work in person to make improvements and inventions using actual inventions for which Sodick has rights. We also offer three types of bonuses—at the stages of application, registration, and evaluation of results—to increase motivation for patent acquisition.

Number of patents held by product

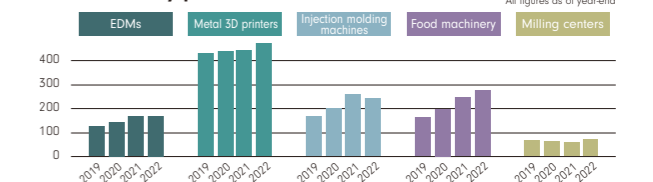


Evaluation of intellectual property

Several months after a patent application is filed, the subject of the application is evaluated based on its degree of implementation, marketability, and ease of discovering infringements, and items including the countries in which applications will be filed are decided. Next, the subject of the patent is evaluated six years after the patent is filed, considering the results it has produced and its contribution to sales promotion.

There are various ways to evaluate patents, but we evaluate the value from the following perspectives and strive to improve not only quantity but also quality. (1) the remaining period of coverage is long, (2) there are a large number of claims, (3) there are a large number of patent family applications, and (4) there is high value in using the patented invention.

Patent value by product



Tetsuo Sera
Department Manager
Intellectual Property
Department

Technology Strategy

A new age of manufacturing has arrived. Sodick will support the evolution of customers' manufacturing.

“We create it if it does not exist”
Strengths in technologies and experience from building in-house

Sodick began as a machine tool company, and as of today, machine tools, mainly EDMs, account for close to 70% of sales. Many machine tool manufacturers procure major parts externally and make products by assembling those parts, but Sodick is unique in having an extremely high ratio of in-house production. This is related to our history of technological innovation.

Sodick founder Toshihiko Furukawa invented the non-wearable electrode circuit for EDMs in the 1960s, and this brought about major advances in processing technology. Later, automated operation from processing to completion was achieved by equipping EDMs with NC units. Prior to that, electrical discharge involved rough processing using the first electrode, followed by detailed surface processing with another electrode that was replaced while gradually reducing the processing energy, a labor-intensive technology that involved an extremely large number of processes. Adding NC units greatly increased productivity and led to the explosive spread of EDMs. Subsequently, Sodick

developed a proprietary linear motor, and achieved even greater performance with the introduction of the world's first EDM with a linear motor in 1998. I was personally involved in this, and I remember very well that our competitors, who had initially rejected linear motors out right, were using them 10 years later.

In this way, as a pioneer in EDMs, when Sodick has attempted to enhance performance to meet the needs of manufacturing customers, it has repeatedly encountered situations in which externally procured parts had limitations and could not produce the performance desired. We therefore pursued in-house production, to resolve customer issues based on a development spirit of “We create it if it does not exist.” The experience and wide-ranging technologies we accumulated as a result are a major strength, and no matter how high the technological hurdle, our developers today still have deeply rooted confidence that “We can do it.”

Product development at three divisions. Pursuing the challenge of advanced and next-generation technologies at R&D centers in Japan, the United States, and China

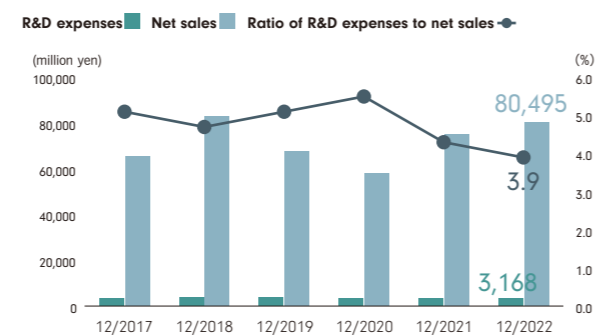
Sodick's R&D structure involves product development by R&D departments that have been established at three divisions—machine tools, injection molding machinery, and food machinery. We also have R&D functions in place at the Advanced Research Center adjacent to the Head Office, Sodick America in Silicon Valley, and Shanghai Sodick Software, which are conducting medium- to long-term research in areas including advanced software and hardware and next-generation technologies, and using the advanced technologies from that research to enhance our competitiveness.

Sodick currently employs roughly 200 R&D engineers in Japan and roughly 50 overseas. As we work toward the achievement of our mid-to-long term business vision, we are developing human resources while securing new human resources in order to develop systems like IoT and strengthen our software

development structure.

We are also maintaining a stable allocation of financial resources, with a benchmark of 4–5% of net sales being invested in R&D.

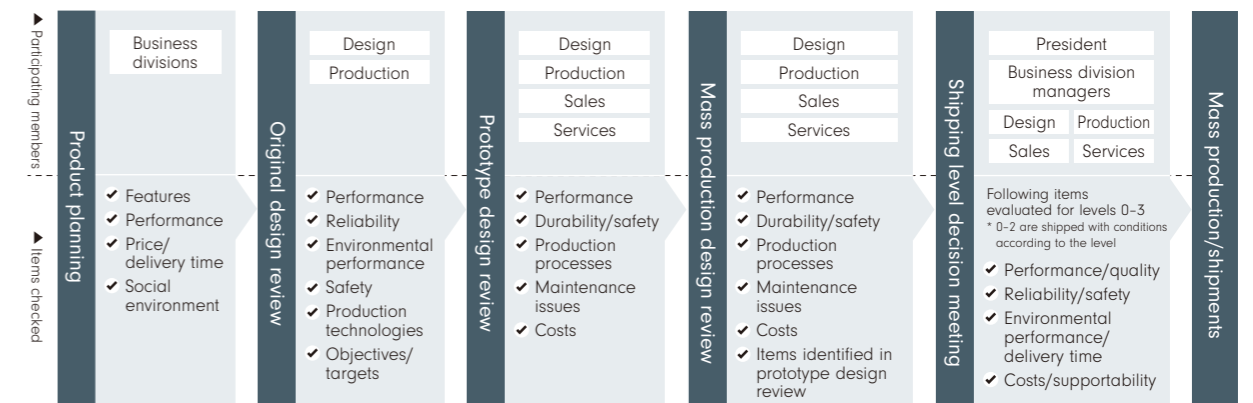
R&D expenses



Product development, which is primarily carried out by the three divisions, involves design reviews at three stages—design, prototype, and mass production. A shipping level decision meeting has also been

conducted to make the final decision on product launches, with the president and manager responsible for each stage of the value chain making a rigorous evaluation of whether the product matches with our customers' need.

Product development flow



“Contributing to evolving manufacturing”
We will achieve the future our customers seek.

Sodick's materiality includes “contributing to evolving manufacturing,” and we intend to continue to support our customers' manufacturing far into the future. Our market launch of metal 3D printers in 2014 proposed new ways of making metal molds, but manufacturing is entering an even newer age. We are pursuing R&D in our three main business segments with a view toward new processing methods and manufacturing process innovation.

Our strength in food machinery is in aseptically-packed cooked rice production systems for making packaged cooked rice, and the application of this sterilization technology has made it possible to extend the shelf life of *onigiri* rice balls sold at places like convenience stores to 36 hours, from the previous 18 hours. This is having a major effect in reducing food waste.

In addition, the AL600G i Groove+ Edition wire-cut EDM that we exhibited at JIMTOF in 2022 is a

cutting-edge machine that also achieves a high level of environmental performance. This machine uses approximately 25% less electricity for its pump, which accounts for roughly 70% of an EDM's electrical power consumption. Many customers at the exhibition were surprised when they saw this and gave the product high marks.

Looking at manufacturing going forward, we recognize that greater automation and labor savings will be needed to address customers' issues related to worker shortages and passing on technologies. We have overcome numerous technological challenges to make our machines meet the performance required by customers. But we will need to develop IoT systems and software technologies for innovative total solutions, connecting various machines. Sodick is already focusing on the development of digital technologies to fulfil customers' dreams with a spirit of “We create it if it does not exist.”



Tatsuo Toyonaga
General Manager
Advanced Research Center

Materiality (Important Issues)

Materiality Designation Process

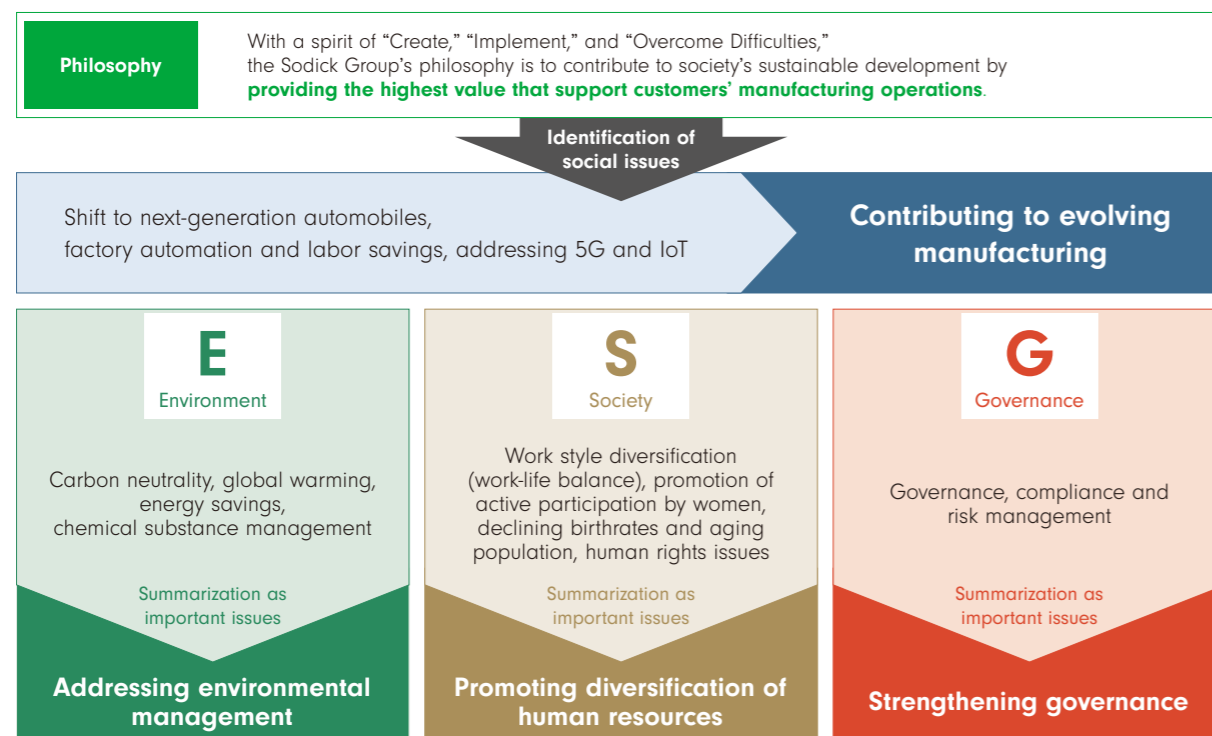
Addressing the UN's Sustainable Development Goals (SDGs) and other issues surrounding sustainability is essential to achieving the Sodick Group's sustainable growth and vision, and we recognize this as an important management issue. We have designated our materiality to accelerate the sustainability activities we have been carrying out to date, as we strive to enhance corporate value over the medium to long term.

In the materiality analysis, we analyzed the relevance and importance of global social issues and the 17 SDGs to our company from both positive and negative aspects. From that analysis, we then identified social issues in light of our corporate philosophy, and summarized them as four materiality issues (important issues).

1 Analysis of 17 SDGs in terms of their relevance and importance to Sodick



2 Designation of important issues in light of our philosophy



Designation of initiatives to address important issues

Setting Materiality KPIs

We cannot simply designate materiality; it also needs to be integrated with our business strategy as "important issues related to the sustainability of our business model." We are carrying out ESG activities as

part of our measures to strengthen our management base under the medium-term management plan, and we have set materiality KPIs for these activities.

3 Four materiality issues (important issues) and main KPIs

	KPIs	
	Targets	Definition (Definition of environmentally friendly products)
<p>Contributing to evolving manufacturing</p> <p>Setting targets for environmentally friendly products</p> <p>Contribute to building of a foundation for economic development through more sophisticated manufacturing</p> <ul style="list-style-type: none"> Higher precision, higher functional EDMs Higher precision injection molding machines and greater diversity of molding materials 	<p>Percentage of environmentally friendly models in machine tool lineup: 50% by 2024</p> <p>Percentage of net sales of environmentally friendly products to net sales of injection molding machinery business: 25% by 2024</p> <p>Percentage of net sales of environmentally friendly products to net sales of food machinery business: 20% by 2024</p> <p>Percentage of remote monitoring functions or systems orders received: 20% by 2024</p>	<p>Reduce electricity consumption vs. current (2022) products by at least 10%</p> <p>MS series of electric molding machines (that do not use hydraulic fluid, unlike hydraulic machines)</p> <p>Reduce food waste vs. current (2022) products by at least 10%</p>
<p>Addressing environmental management</p> <p>Reducing greenhouse gas emissions</p> <p>Use renewable energy and reduce CO₂ emissions to achieve carbon neutrality</p> <ul style="list-style-type: none"> CO₂ emission reduction targets Promotion of wire recycling system Use of solar power generation Environmentally friendly products (biodegradable plastic molding machines, boiling machines equipped with CIP automated cleaning, etc.) Conversion to environmentally friendly company vehicles Implementation of OVP+ activities 	<p>Greenhouse gas emissions in Scope 1 + 2 (vs. 2013): 46% reduction by 2030, carbon neutrality by 2050</p> <p>Energy consumption rate index: At least 3% improvement over three years (2023-2025)</p>	
<p>Promoting diversification of human resources</p> <p>Increasing percentage of women in management positions</p> <p>Further promote a corporate culture in which diverse employees can work comfortably with a sense of satisfaction</p> <ul style="list-style-type: none"> New personnel system (job classifications aligned with life stages, impartial evaluation of performance) Hiring of non-Japanese employees (Boston and Shanghai career forums) Addressing the Act on Promotion of Women's Participation and Advancement in the Workplace Promotion of work style reforms (reduced working hours, remote work, parental and nursing care leave, etc.) 	<p>Percentage of women in management positions: 5% by 2026</p> <p>Percentage of male employees taking parental leave: 80% by 2025</p>	
<p>Strengthening governance</p> <p>Strengthen both offensive and defensive governance to support management as the Company grows</p> <ul style="list-style-type: none"> Enhancement of governance Strengthening of risk management and compliance Thorough export controls 	<p>No numerical targets set.</p> <p>Aim to resolve issues from perspectives including evaluation of the Board of Directors' effectiveness, internal controls, risk management, and compliance.</p>	

Basic Policy and Structure for Sustainability

Basic Policy for Sustainability

With a spirit of "Create," "Implement," and "Overcome Difficulties," the Sodick Group's philosophy is to contribute to society's sustainable development by providing outstanding products that support customers' manufacturing operations.

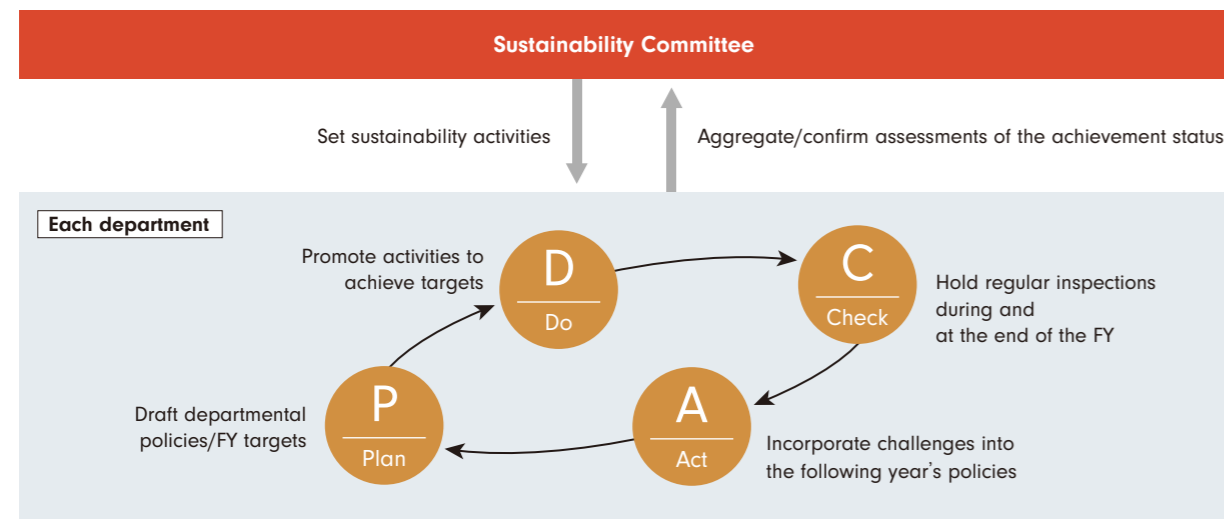
We do this in accordance with the Sodick Group Corporate Ethics Charter and Corporate Code of Conduct (Compliance Guidelines). On the basis of the practice of sincere business activities, we are aware of the important management issue of addressing the sustainability aspects of "contributing to evolving manufacturing," "addressing environmental management," "promoting diversification of human resources," and "strengthening governance." We are proactively addressing these issues from a perspective of enhancing corporate value over the medium to long term.

Structure for Promotion

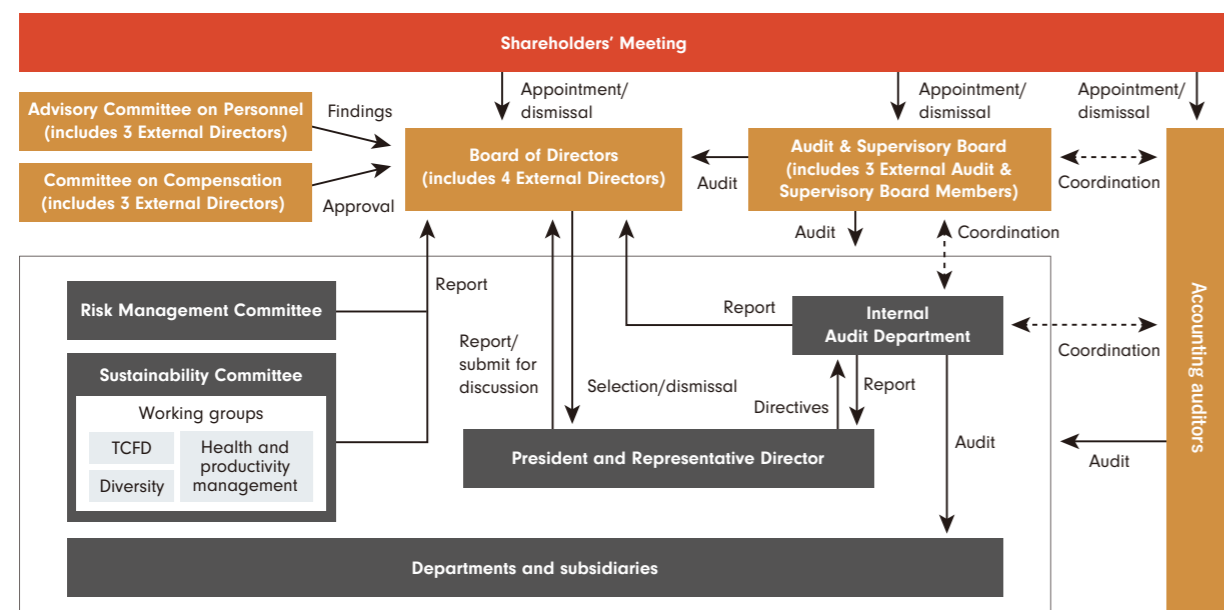
The Sustainability Committee, chaired by the President and Representative Director, sets policies and targets for mid-to-long term themes including climate change, carbon neutrality, human rights, and health and productivity management, and manages sustainability activities being carried out Company-wide.

With the Sustainability Committee at the center, we will pursue long-term, systematic sustainability activities using a repeating PDCA cycle.

Sustainability Promotion Image



Sustainability Structural Chart



List of Sustainability Initiatives

Major Activities during 2022

Stakeholder	Theme	Activity	Related SDGs
Environment	Reducing environmental impact of business activities	<ul style="list-style-type: none"> Measures to conserve and recycle resources (reduction of paper and plastic waste, reuse of packaging materials, etc.) Installed solar power generation system (Kaga Factory and Thailand factory) and visualized peak electricity demand to reduce electricity use Strengthened and improved management of harmful chemical substances 	
	Green procurement	<ul style="list-style-type: none"> Centralized information on Green Procurement Standards Activities to reduce printed materials with printing failure 	
Customers	Contributing to the environment through products	<ul style="list-style-type: none"> Promoted development of environmentally friendly products Promoted development of recyclable and green products Developed biodegradable plastic molding technologies 	
	Quality enhancement	<ul style="list-style-type: none"> Activities to reduce design-caused defects Strengthened risk assessment by model Formulated manual of welding standards for machine tools 	
	BCP	<ul style="list-style-type: none"> Business continuity plan for procurement and logistics (survey, improvement) 	
Society	Social and cultural activities	<ul style="list-style-type: none"> Supported FM Ishikawa Broadcasting's Crime Prevention Buzzer Present Campaign Participated in coastal cleanup activities "Clean Beach in Kaga" Supported RoboRAVE Kaga Japan 2022 	
Employees	Promoting diversity	<ul style="list-style-type: none"> Set KPIs to ensure diversity Hired non-Japanese employees Accepted non-Japanese technical interns Hired employees with disabilities Promoted and encouraged women in the workforce 	
	Creating comfortable workplace environments	<ul style="list-style-type: none"> Promoted health and productivity management Made remote work permanent Carried out employee satisfaction survey Activities to eliminate harassment Use of DX to improve operational efficiency Held safety training to eliminate work-related injuries Traffic safety courses and dissemination of information to employees to prevent traffic accidents with company vehicles 	
	Human resource development	<ul style="list-style-type: none"> SDGs training Expanded position-specific training Held IT security seminar Made skill and qualification information visible (talent management system) 	
Shareholders and Investors	Strengthening corporate governance	<ul style="list-style-type: none"> Adjusted corporate governance structure (established management meetings) Strengthened internal controls and risk management Strengthened management supervisory functions Increased management transparency Increased dialogue with stakeholders 	
	ESG information disclosure	<ul style="list-style-type: none"> Issued Integrated Report Disclosed information in response to TCFD recommendations Expanded disclosure of ESG information 	

Environment

Environmental Initiatives

Environmental Policy and Structure

➤ Accelerating Environmental Conservation Activities

The Sodick Group launched the EFM Department in January 2022 as a new organization to promote sustainability activities, creating a structure to carry out more effective activities in addition to our environmental conservation activities that have been ongoing to date. We have designated four materiality issues as management's most important issues, and one of them is "addressing environmental management." We will work on this issue along various themes including carbon neutrality, global warming, energy conservation, and management of chemical substances, from a perspective of increasing corporate value over the mid-to-long term.

➤ Acquisition of Environmental Management Certification

All of our business locations in Japan have acquired the certification under the ISO14001:2015 international environmental management standard. Operations are continuously reviewed and improved while their effectiveness is confirmed.

➤ Management of Chemical Substances That Affect the Environment

In addition to releasing our Green Procurement Standards and lists of hazardous chemicals, we developed systems for the creation of a proprietary ERP-linked harmful chemical substances control system (SHCSCS).

Environmental Policy—FY2023—

- 1) We will strive to develop products that contribute to a recycling-based society through reductions in greenhouse gas emissions and the 3Rs + 1R (Refuse), taking environmental factors into consideration at each stage across the entire life cycle of Sodick's products.
- 2) We will strive to understand and comply with customers' requests and the laws and regulations of Japan and other countries, with the aim of reducing and completely eliminating harmful chemical substances by centralizing our control system for harmful chemical substances.

Long-Term Environmental Targets

➤ Setting New Environmental Targets

**Greenhouse gas emissions in Scope 1 + 2:
46% reduction by 2030 (vs. 2013)**

Achieving carbon neutrality by 2050

Environmental data (January–December of each year)

CO ₂ emissions at Sodick business sites in Japan						Crude oil equivalent at Sodick business sites in Japan					
	2018	2019	2020	2021	2022		2018	2019	2020	2021	2022
CO ₂ emissions (t)	8,752	9,029	7,938	7,500	9,051*	Crude oil equivalent (kl)	3,549	3,939	3,860	3,875	4,778*

* Increase the result due to integration of plants at Sodick F.T. Miyazaki Factory

Environment-Related Materiality and KPIs

Materiality		KPIs		Activities
		Targets		
Addressing environmental management	Reducing greenhouse gas emissions	Greenhouse gas emissions in Scope 1 + 2 (vs. 2013): 46% reduction by 2030, carbon neutrality by 2050		Energy-saving measures: Expansion and installation of solar power generation systems, conversion to LED lighting, upgrading of energy-saving machinery and equipment, upgrading of air conditioning systems, optimal operation of compressors
	Improving energy consumption rate index	Energy consumption rate index: At least 3% improvement over three years (2023–2025)		Best-effort target of 1% reduction under Act on Rationalizing Energy Use Acquisition of Greenhouse Gas Protocol calculation
Contributing to evolving manufacturing	Setting targets for environmentally friendly products	Percentage of environmentally friendly models in machine tool lineup: 50% by 2024		Reducing electricity consumption with AL i Groove+ Edition
		Percentage of net sales of environmentally friendly products to net sales of injection molding machinery business: 25% by 2024		· Increasing portion of sales from MS series, electric molding machines · Sales of AI-VENT (that does not use a dryer)
		Percentage of net sales of environmentally friendly products to net sales of food machinery business: 20% by 2024		Developing equipment that reduces food waste and extends freshness

➤ Examples of initiatives

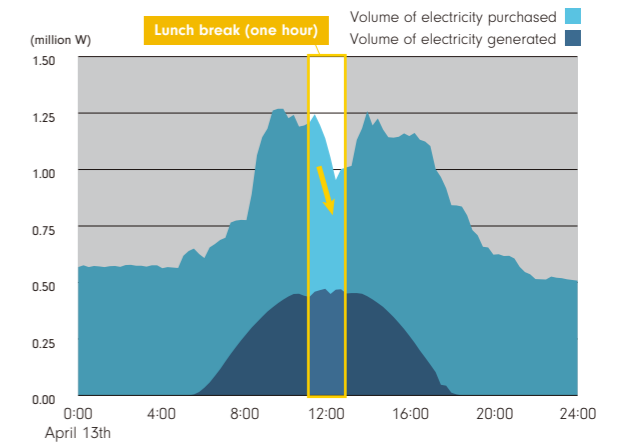
Lunch break

From 2015, Sodick began turning off lights and computer displays in plants and offices during a one-hour break at noontime. Because all lights cannot be turned off, narrowly targeted switches are used to leave the lights on only where needed, and this has thoroughly reduced unnecessary electricity consumption.

At the Kaga Factory, we are using a system that shows the amount of electricity consumption on one screen. Visualizing electricity consumption in real time enables us to confirm the effect of this initiative and to propel activities to conserve electricity consumption.

Full-year energy reduction effect **31,000 kWh/year**

Effect of turning off lights during lunch break (one hour): Kaga Factory



Energy savings and reduction of environmental impact in product development

Machine Tools



AL i Groove+ Edition series AL400 wire-cut EDM

For EDMs, we are reducing the volume of electricity used during production operations and using new wire processing controls to increase processing speeds, and for machining centers, we are reducing processing times and turning equipment off when not processing. We released the AL i Groove+ Edition series of wire-cut EDMs in 2022 and this machine uses a proprietary "i Groove" wire rotation mechanism to rotate the wire gently, making it possible to finish machining with an unused wire surface. This can ensure stable machining measurements and uniform, high-quality surfaces, and also reduce wire consumption by up to 30% compared with previous models. In addition, newly developed control technologies reduce processing time by 20% while also increasing machining precision.

Industrial Machinery



MS100G2 electric injection molding machine
Electric high-precision and stable molding using eV-LINE®

Sodick's injection molding machines are mainly hydraulic-electric hybrid machines that use our proprietary V-LINE® molding technology. With increasing environmental awareness in recent years, products are shifting toward electric machines with lower electrical energy consumption. Our newly developed MS G2 series of fully electric injection molding machines use around 40% less electricity than previous models.

In addition, as the trend toward bioplastics in response to plastic marine debris and other environmental problems gains momentum, we are improving our molding and processing technologies to handle materials like biodegradable plastics, which are difficult to mold.

Food Machinery



Continuous steam sterilizer
For heat sterilization of a variety of packaged foods such as long shelf-life noodles, chilled noodles, pickles, salads, etc.

Food machinery encompasses many essential processes that use a lot of energy, including heating, warming, and cooling. We are therefore aiming to develop innovative products that are completely different from previous production processes. The perspective of food waste is also very important. Shelf lives for precooked side dishes in particular are short, and this accounts for 3%–5% of Japan's food waste. We are therefore developing technologies that enable us to use sterilization technologies to extend shelf lives and reduce food waste. We have also set a target of reducing the stainless steel waste rate when making plates for mechanical products to less than 40%, and are working to reduce the amount of waste generated as a result of errors in designs and manufacturing. Going forward, we will explore the effective use of scrap materials to reduce the waste generated rate even further.

Climate-Related Financial Information Disclosure Based on TCFD Recommendations

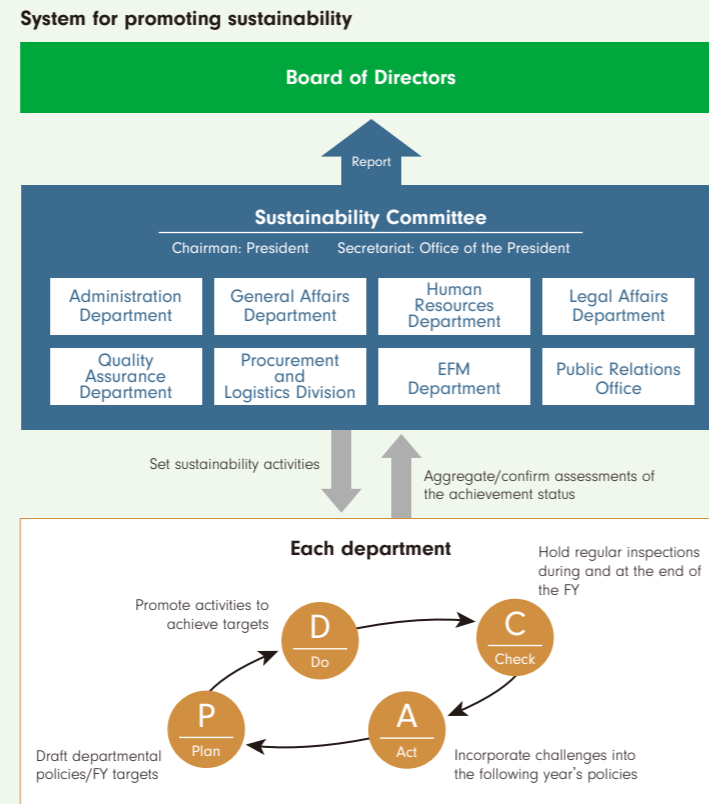
The Sodick Group discloses important information related to the issue of climate change based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).



Governance

Sodick's philosophy is to provide the highest value to its customers and contribute to a sustainable society as a company that "Create Your Future" under the founding spirit of "Create," "Implement," and "Overcome Difficulties." We established a Sustainability Committee chaired by the President and Representative Director to promote management based on the standpoint of sustainability, including "contributing to evolving manufacturing," "addressing environmental management," "promoting diversification of human resources," and "strengthening governance."

The committee meets four times per year to discuss climate change action as one of its important agenda items. It coordinates with each department to implement a PDCA cycle and promote long-term, systematic sustainability activities. Decisions are reported to the Board of Directors at least once a year. The details are then discussed as necessary and reflected in the management of the Group as a whole.



Risk Management

We have established a Risk Management Committee to manage risks related to our business. Climate change-related risks are integrated into Group-wide risk management, which is supervised by the Risk Management Committee. Subsidiaries and business divisions report risk information quarterly, and the identified risks are evaluated in terms of probability of occurrence and impact. For particularly significant risks, we consider policies and countermeasures, report them to the Board of Directors, deliberate them, and reflect them in our management strategies.

Metrics and Targets

We set greenhouse gas emissions (Scopes 1 and 2) as metrics for evaluating and managing climate change risks and promotion of our environmental management. The target is to reduce emissions by 46% compared to 2013 by 2030. Furthermore, going forward, we will promote initiatives to reduce overall greenhouse gas emissions, including Scope 3, aiming to achieve carbon neutrality by 2050. In order to achieve our targets, we will actively promote the introduction of renewable energy, such as by installing and expanding solar power generation equipment at our facilities. We also engage in technological development to improve the environmental impact reduction performance of our products for society-wide decarbonization.

Strategy

We conducted scenario analysis to understand the impact of risks and opportunities arising from climate change.

Scenario Analysis Method

We conducted an analysis using the 1.5°C and 4°C scenarios to understand the impact of climate change on the business environment in 2030. The identified risks and opportunities were qualitatively assessed on a three-point scale of high, medium and low in terms of probability of occurrence and impact.

Scenario Analysis Results

Classification	Significance		Our initiatives		
	4°C scenario	1.5°C scenario			
Risks associated with transition	Policies and regulations	Introduction of carbon taxes and emissions trading	Low	High	<ul style="list-style-type: none"> Introduction of renewable energy (installation and expansion of solar power generation equipment) Development and sale of products that can contribute to reducing CO₂ emissions and an environmentally friendly society through ISO 14001 operations
		Regulations related to use of fossil fuels	Low	Low	—
		Plastic regulations	Low	Low	—
		Recycling regulations	Low	Low	<ul style="list-style-type: none"> Recycling system of wires, resins, and filters
		Energy conservation policies	Low	Medium	<ul style="list-style-type: none"> Development and sale of products that can contribute to reducing CO₂ emissions and an environmentally friendly society through ISO 14001 operations
	Technology	Obligation for information disclosure	Low	Medium	<ul style="list-style-type: none"> Tracking and disclosure of chemical substance content in products Establishment of system for managing hazardous chemical substances
		Spread of renewable energy and energy-saving technologies	Low	Medium	<ul style="list-style-type: none"> Maintenance of reliably resilient performance of linear motor-driven machine tools Development and sale of products with excellent energy savings through ISO 14001 operations
	Market	Investment in technology	Medium	High	<ul style="list-style-type: none"> Development of carbon-free/energy-saving products <ul style="list-style-type: none"> Injection molding machines to manufacture light parts Metal 3D printers to help shorten manufacturing processes
		Changes in energy costs	Low	High	<ul style="list-style-type: none"> Installation and expansion of solar power generation equipment
		Changes in raw material costs	Low	High	<ul style="list-style-type: none"> Development of special wire technology to help reduce consumables
Opportunities associated with transition	Policies and regulations	Changes in customer behavior	Low	Medium	<ul style="list-style-type: none"> Development and sale of products that can contribute to reducing CO₂ emissions in each stage of the product life cycle and an environmentally friendly society through ISO 14001 operations
		Plastic regulations	Low	Medium	<ul style="list-style-type: none"> Development of injection molding machines for thinner/deeper biodegradable plastic products
Physical risks	Acute	Energy conservation policies	Low	High	<ul style="list-style-type: none"> Development of carbon-free/energy-saving products <ul style="list-style-type: none"> Injection molding machines to manufacture light parts Metal 3D printers to help shorten manufacturing processes Rapid cooling equipment for granule powder that efficiently manages temperature
		Spread of renewable energy and energy-saving technologies	Low	High	<ul style="list-style-type: none"> Development of carbon-free/energy-saving products <ul style="list-style-type: none"> Injection molding machines to manufacture light parts Metal 3D printers to help shorten manufacturing processes
		Reputation among customers and investors	Low	High	<ul style="list-style-type: none"> Green procurement Disclosure of information based on TCFD recommendations
Physical risks	Acute	Intensification of abnormal weather	High	High	<ul style="list-style-type: none"> Establishment of business continuity plan (BCP) Surveys on supplier BCPs

For details, search for [Sodick TCFD](#)

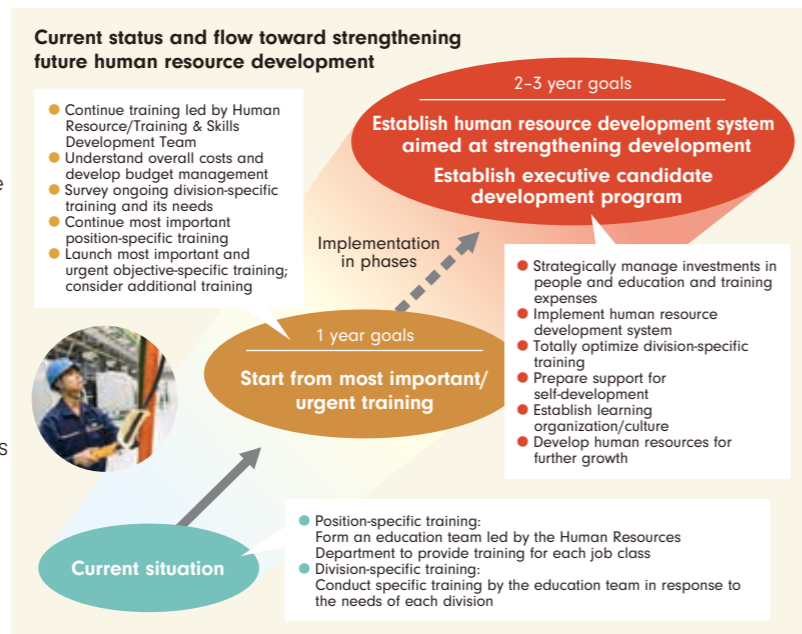
Social

Social Initiatives

Human Resource Strategy

Basic Approach to Human Resources

We strive to create a work environment and corporate culture where every employee can grow together with the Company, recognize each other's individuality, and play an active role. In addition, in order to achieve our long-term management plan in a changing market environment, it is not enough to just aim for growth and improve productivity in the domains where we have traditionally been strongest; it is also essential for our human resources today to be pioneering, and able to take on new challenges without fear of change, while responding flexibly to change. We are strengthening frameworks and environments to develop human resources.



Sodick's Personnel Appraisal System

Personnel appraisal is not merely an "evaluation" for determining monetary compensation. Its role is to encourage the growth of each employee, strengthen the organization, and lead this to the Company's growth. Based on this concept, we have introduced a personnel appraisal system that relaxes our previous policy of focusing on accumulated experience, and is aligned with the expectations and roles of each employee, enabling them to grow with their organization and company. The objectives are as follows:

1 Encourage the development of human resources

A person's abilities are not static: they are changing, and growing through things like on-the-job training (OJT), self-development, and training. The primary objective of personnel appraisal is to correctly observe and analyze the employee's strengths and weaknesses, or areas where their abilities exceed or fall below standards, in the day-to-day conduct of their job, and share information necessary to give the employee-specific guidance and development that will enable them to reach a higher level.

2 Utilization and correct assignment of human resources

By grasping and analyzing the results, abilities, and aptitude of each person's job through personnel appraisal, we achieve the most suitable placement for the organization's needs, and take maximum advantage of each person's abilities.

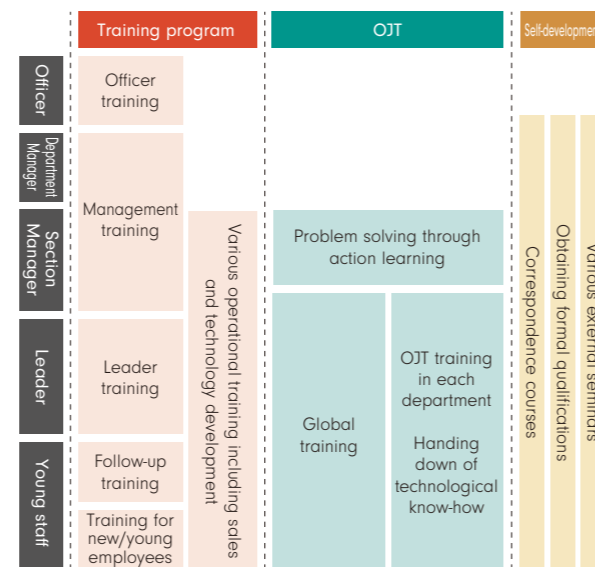
3 Achievement of fair treatment

We conduct evaluations in the most appropriate way possible, and strive to ensure fair treatment. By establishing objective evaluation criteria and conducting personnel appraisals according to fair rules, our system leads to fair treatment: in other words, the fair distribution of raises, promotions, and bonuses, according to how well each employee has contributed and harnessed their abilities.

Training and Education

We have put in place a skill development system that promotes the growth and career development of each employee. Our aim is to develop human resources with the qualities and abilities needed to contribute to Sodick's further growth.

Human resource development system (conceptual diagram)



Achievements in human resource development (FY2022)

Number of employee training programs held	8 times
Content of training	Position-specific training Harassment training Evaluator training
Number of non-Japanese technical interns accepted	6 engineers from Thailand factory

Human Resources-Related Materiality and KPIs

Materiality	KPIs		Activities
		Targets	
Promoting diversification of human resources	Increasing percentage of women in management positions	Percentage of women in management positions: 5% by 2026	Considering women's leadership training, etc., for position-specific training and objective-specific training
	Increasing percentage of male employees taking parental leave	Percentage of male employees taking parental leave: 80% by 2025	<ul style="list-style-type: none"> Raising awareness by internal newsletters, holding training for managers Meeting with male employees eligible for parental leave

Promoting Diversification of Human Resources (Diversity & Inclusion)

Introducing a Global Career Track Position

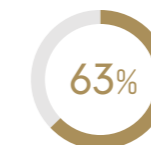
In 2020, we introduced a Global Career Track position for employees with the potential to be the next generation executive managers, who experience different kinds of work and gain a comprehensive understanding of the management environment. In addition, we have created two types of career track positions: managerial personnel who are active as managers, and expert personnel who possess a high level of expertise. We also offer an Area Career Track position and a General Clerk position. We aim to achieve a work-life balance through personnel systems that align with the diverse work styles and career goals of each employee.

Career tracks: (1) Global Career Track (2) Area Career Track	
Focus	Managerial personnel
Role	Accurate management to achieve the organization's objectives
Target employees	Management position with subordinates, capable of contributing to society using the division's resources
Positions	General Manager, Deputy General Manager, Executive Manager, Department Manager, Deputy Department Manager, Section Manager, etc.
Salary	Paid management allowance
Focus	Expert personnel
Role	Leverage high level of expertise to contribute to medium- to long-term growth and improving performance of the organization
Target employees	Has a proven record as an expert in a specified field, being capable of developing new technologies or products, and can carry out extremely difficult work duties
Positions	Specialist, senior expert, expert
Salary	Paid expert allowance

Advancement of Global Human Resources

We were quick to adopt a global perspective in developing our business, and have actively sought out foreign national hires. As of December 31, 2022, around 63% of our workforce is based overseas. The presence of foreign national employees will be indispensable as we work to further globalize our business. Understanding their perspectives will help us advance localized strategies and strengthen our marketing capabilities. We also promote the use of global human resources by hiring locally for executive positions and some locations have female presidents.

Ratio of overseas employees (as of December 31, 2022)



During 2022, we resumed accepting non-Japanese technical interns, and six engineers from the Thailand factory participated as interns for one year.

Hiring and Promoting Advancement of Women

We have drawn up an action plan to enable female employees to shine in a variety of fields, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, and we are promoting the action plan through PDCA. We are also working to create comfortable work environments for women even in workplaces where there were no female employees previously.* We have been encouraging male employees to take parental leave since 2016, and the number of male employees taking such leave is growing steadily.

* Please refer to the Examples of Creating Value on page 9 for details.

Goals and measures for advancement of women for FY2023

Goal 1 Ensure that female employees comprise at least 25% of hires

- (Measures)
- Expand internal job opportunities for female employees
 - Actively promote the activities of female employees, etc.

Goal 2 Ensure that female employees comprise 15% of our workforce

- (Measures)
- Address work-life balance so that female employees can continue working
 - Establish systems for working from home and remote work
 - Consider introducing vacation and leave systems to support infertility treatment
 - Plan and implement training programs for women's career development
 - Create opportunities for exchanging opinions on the topic of being a good place to work
 - Consider increasing the number of years covered by the reduced working hours scheme, etc.

Ensure diversity among core human resources (goal)

We are encouraging the promotion of women, foreign nationals, and mid-career hires to management positions in order to create a work environment and corporate culture in which all employees can play active roles, while recognizing diversity among employees such as gender, nationality, and experience (new graduates/mid-career hires).

- Women in management positions: Target at least 5% by 2026 (2.9% at the end of December 2022)

Creating a Comfortable Workplace

> Progress in Work Style Reform

As part of our efforts to promote health and productivity management, we encourage employees to take paid leave by setting several days a year for promoting employees to take their paid leave. We aim to create a virtuous cycle in which employees rest properly and return to work feeling refreshed and motivated. Despite our ongoing efforts to reduce overtime work, overtime hours remained high due to the resumption of business activities as the COVID-19 pandemic came to an end. To address this situation, we have tightened our controls on working hours through operational streamlining and systems, and provided training for managers.

We are also working to create an environment in which employees can balance work and child rearing. We are also expanding measures to support the return to work of employees who have taken parental leave. We have maintained a 100% return-to-work rate for the past five years.

Data on work flexibility

	12/2018	12/2019	12/2020	12/2021	12/2022
Average number of days of paid leave taken	10.1	12.0	11.5	11.6	14.1
Annual average overtime hours	279	252	250	296	299
Number of employees taking parental leave					
Women	1	8	9	3	8
Men	4	2	3	11	13
Number of employees working reduced hours	7	8	7	8	11

Health and Productivity Management, and Occupational Health and Safety

> Sodick Health and Productivity Management Declaration

Under the Sodick Health and Productivity Management Declaration, we work together as one team to maintain and improve the health of our employees, enabling us to continue to support the manufacturing operations of our customers and take on the challenge of further growth, guided by the basic spirit of "Create," "Implement," and "Overcome Difficulties" as stated in our management philosophy.

> Structure for Promoting Health and Productivity Management

Sodick established a health and productivity management structure in April 2022, and the President and Representative Director is the chief executive. The Health and Productivity Management Promotion Committee holds committee meetings (twice annually), progress reporting meetings (twice annually), and subcommittee meetings (as necessary). The Committee carries out activities in cooperation with the Safety and Health Committee, the occupational health physician, and the health insurance society.

> Major Initiatives during FY2022

- Promoting opportunities for exercise
Promoting internal club activities, participating in walking events
- Improving diets
Offering healthy menus at employee cafeterias
- Preventing infectious disease
Subsidizing cost of influenza vaccinations
- Transmitting labor management news
Posting information related to the Labor Standards Act on internal intranet to promote Company-wide awareness
- Considering health investment management accounting
Considering introduction of management accounting to understand investment effect of initiatives

* Please also visit the Sodick website for more information on our initiatives in areas such as occupational health and safety, industrial accident prevention, EAP, and mental health. <https://www.sodick.co.jp/en/sustainability/society/safety.html>

Health and productivity management policy

1. With the President and Representative Director serving as the Chief Executive Officer for Health and Productivity Management Promotion, we have established a PDCA (Plan-Do-Check-Act) system within the company to promote health and productivity management.
2. We will promote regular health checkups and stress checks and propose health measures using health data.
3. In addition to improving the working environment, we will promote mental health care, measures against lifestyle-related diseases, and work-life balance.
4. We will work to improve the health literacy of our employees to maintain and promote their health.

Promotion structure



■ Publication of health and productivity management newsletter

In August 2022, we began publishing the health and productivity management newsletter as an internal publication for the Sodick Group. Each issue provides employees with helpful health-related information on themes like the importance of health checkups, countermeasures for insufficient sleep, mental health care, and the negative effect of using PC on our eyes.



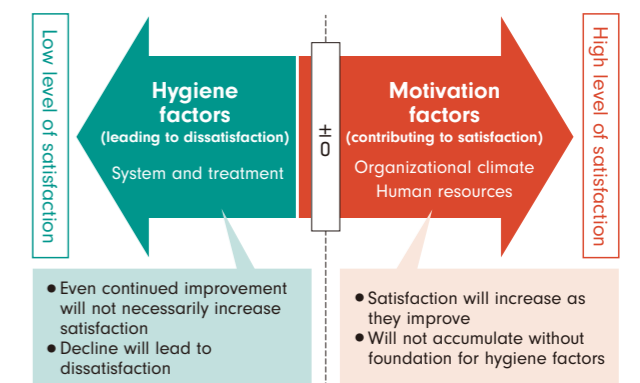
Increasing Employee Engagement

> Carrying Out Employee Satisfaction Survey

At Sodick, we aim to create a corporate culture where every employee can grow together with the Company and play an active role. In August 2022, we carried out an employee satisfaction survey for all employees, including loaned employees and expatriate employees. The questionnaire consisted of eight categories each from a Company-wide perspective and from a workplace perspective, and employees rated their own work, work style, and organizational culture on a five-point scale.

The survey can be seen as a diagnosis of the Company's health. From the results, we identify issues as an organization that will lead to improvements in the culture and systems, to increase the satisfaction of each employee and create an environment that encourages them to approach their work proactively.

Policy for use of survey results



Need to raise two factors in parallel

Source: Herzberg's two-factor (motivation-hygiene) theory

Human Rights and Compliance

> Sodick Group Corporate Ethics Charter and Code of Conduct (Compliance Guidelines)

All corporate offices and employees of the Sodick Group should be aware of the environment and social responsibilities surrounding the Group, respect human rights, comply with laws and regulations, and act in accordance with social ethics for the sound development of the Group. In order to meet the expectations of society, we have established and are implementing the Sodick Group Corporate Ethics Charter and Corporate Code of Conduct (Compliance Guidelines) as the Group's Code of Conduct.

> Reporting Rules on Human Rights and Compliance

Our compliance regulations stipulate that, in the event of observing an act or suspected act of noncompliance in a business or organization, an employee must immediately consult with his/her supervisor or manager, or if he/she is unable to consult, must report the matter (Article 4: Obligation to Consult, Article 7: Obligation to Report).

The regulations guarantee that whistleblowers will not be subject to dismissal, reduction in salary, or any other disadvantages (Article 8: Protection of Whistleblowers).

> Training and Study Sessions for Human Rights and Compliance

As per the Guidelines for the Prevention of Bribery of Foreign Public Officials, we held a compliance study session regarding countermeasures to bribery of public officials overseas for employees involved with overseas business locations in 2022. We also held harassment training sessions for supervisors and new employees. We will work to ensure thorough Company-wide awareness and create comfortable work environments that are free of harassment.

Chapter 3 Relations between the company and employees 19. Respect for human rights and prohibition of discriminatory treatment

The Sodick Group shall ensure a sound work environment in which no person is harassed or discriminated against due to their ethnicity, beliefs, race, sex, religion, nationality, language, physical features, wealth, place of birth, or other such reasons.

The Sodick Group does not use forced labor, slave labor, compulsory labor, or labor from human trafficking.

In particular, the Sodick Group views as unacceptable the kinds of harassment that are increasingly becoming social problems, including sexual harassment, power-based harassment and administering pressure to drink alcohol. If a problem occurs, the Sodick Group shall promptly investigate the matter and take firm measures to assist the victim and prevent recurrence.

■ Human rights and compliance reporting desk

1. Compliance Hotline Desk
In principle, the Compliance Hotline Desk serves as the point of contact for reporting. In addition to compliance-related issues, it also provides consultation for harassment-related issues.

2. External point of contact
In the event of circumstances that cannot be reported to the Compliance Hotline Desk, an outside attorney serves as a point of contact for reporting.



Study session

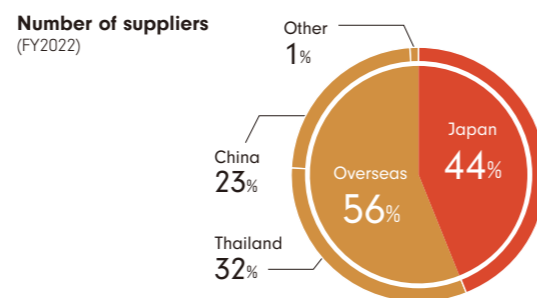
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Supply Chain Initiatives

Procurement Policies and Guidelines

➤ Suppliers of the Sodick Group

While our basic principle is local production for local use in Japan, Thailand, and China, where our production centers are located, we conduct procurement activities globally according to the characteristics of procurement items so that we can ensure stable procurement of parts and materials. We have established a Basic Procurement Policy and procure the most suitable parts based on relationships of mutual understanding and trust with our suppliers.



➤ Supplier Selection Criteria

In addition to the quality, price, and stability of procurement items, we investigate suppliers to assess their technical level, production capacity, quality control status, and response to environmental improvement. We also select suppliers by examining their operational conditions, business continuity plans (BCP), compliance with laws and regulations, and responses to social issues.

➤ Conducting Supplier Surveys and Audits

We ask our suppliers to understand the Sodick Group's procurement policy. In addition to various surveys at the beginning of the business transaction, we require them to respond to various documents to realize environmentally friendly product manufacturing even after transactions. We conduct written evaluations of each company and ask key suppliers to cooperate with on-site audits.

➤ Sustainable Procurement Guidelines

At the Sodick Group, we are committed to enhancing sustainability in our procurement with the aim of contributing to the sustainable development of society. To promote sustainability in our supply chain, we formulated the Sodick Sustainable Procurement Guidelines in 2022. These guidelines are based on the four pillars of human rights and labor, compliance, the environment, and quality and safety. We ask suppliers to cooperate with our efforts to

Basic Procurement Policy

- 1. Sincere, open, honest, and fair trade**
We procure optimal components globally, honoring the principle of free competition.
- 2. Prosperous partnerships with our suppliers**
We aim to build relationships that prosper both us and our suppliers, reflecting our commitment to mutual understanding and trust.
- 3. Respect for human rights**
We strive to build a sustainable supply chain and a society that respects human rights.
- 4. Legal compliance and environmental protection**
Our procurement initiatives comply with national and regional laws and conserve and protect the environment.
- 5. Quality, economic rationality, stable supply**
We fully evaluate each supplier for suitable quality, reliability, delivery, price, capacity to develop technology and actively propose solutions, and management stability, among other considerations, and our procurement practices are based on reasonable standards.

disseminate our sustainability policy and to submit a Confirmation of Acknowledgement. We distributed the Sustainable Procurement Guidelines to our major suppliers in Japan and received the Confirmation of Acknowledgement from suppliers accounting for more than 90% of our domestic procurement value.

Item	Details	
Human rights and labor	<ul style="list-style-type: none"> ● Prohibition of discrimination and human rights violations ● Prohibition of forced labor ● Appropriate payment of wages ● Freedom of association 	<ul style="list-style-type: none"> ● Prohibition of harassment ● Prohibition of child labor ● Working hours management ● Ensuring occupational health and safety ● Action on conflict minerals
Compliance	<ul style="list-style-type: none"> ● Compliance with laws and regulations ● Management of confidential information ● Intellectual property protection ● Whistleblower protection 	<ul style="list-style-type: none"> ● Corruption prevention ● Compliance with competition laws ● Export control ● Information disclosure
Environment	<ul style="list-style-type: none"> ● Reduction of greenhouse gas emissions ● Chemical substance management 	<ul style="list-style-type: none"> ● Contribution to a recycling-based society ● Prevention of air, water, soil pollution
Quality and safety	<ul style="list-style-type: none"> ● Ensuring quality 	<ul style="list-style-type: none"> ● Ensuring safety

Together with Suppliers

➤ Web-EDI (Electronic Data Interchange) Renewal

In 2022, we revamped the Web-EDI that we use for communicating with the suppliers through the introduction of the Sodick-EDI. Requests for quotations, orders received and placed, delivery date adjustments, and billing operations between suppliers and the Sodick Group are now consolidated on the Sodick-EDI system. This enables us to manage the status of transactions easily. Billing documents that were previously sent by mail from suppliers have been digitized using Sodick-EDI, enabling a paperless system. Both the Sodick Group and our suppliers have benefited from this digitalization of ordering and invoicing operations, which has enhanced the efficiency and sophistication of their operations.

➤ Promoting Category Management

We manage procurement items by classifying them into procurement categories. Procurement items that have a particularly large impact on our business include electrical components, functional components, machined components, and raw materials such as castings. Based on these categories, we conduct an annual analysis of our procurement status and select the best suppliers globally.

BCP (Business Continuity Plan)

➤ BCP Initiatives

We have built a system where we promptly put in place a business continuity system that would enable us to work with suppliers to understand the situation in the event of an earthquake or problems such as data falsification by a manufacturer. In our survey, we score the status of suppliers' response, providing specific support for improvement work when further improvements are found.

➤ Conducting BCP Surveys

We conducted a BCP survey in 2022 and sent a survey form to domestic and overseas suppliers. We conducted an initial survey in 2016 and formulated a report. Furthermore, we promoted activities to raise awareness of BCP measures through surveys in 2020 and 2022.

Ensuring Supply Chain Resilience

➤ Our Measures

To ensure stable procurement of parts and materials, we have diversified our procurement sources into multiple procurement routes and suppliers in Japan and overseas. In this way, we address the risks of supply shortages of parts and materials and the risks of soaring material and distribution costs. Lately, shortages in the supply of semiconductors and other components are leading to prolonged lead times, while logistic disruptions are feeding into higher transportation costs. To minimize the impact of these conditions, we are currently taking measures such as procuring distribution inventories and alternative products.

➤ Conducting Country of Origin Surveys

To strengthen the resilience of our supply chain against the risk of disasters in each region as well as against recent changes in the international situation, we conducted a survey of countries of origin for our procurement items in 2022. For procurement items for which the country of origin needed to be identified, we conducted a survey of suppliers at domestic and overseas procurement bases to identify the country of origin.

Governance

Management Team



Kenichi Furukawa
President and Representative Director

Hideki Tsukamoto
Senior Executive Managing Director
Machine tool segment and Production
Management Division

Hirofumi Maejima
Executive Managing Director
Corporate Division



Yuji Kaneko
Director (Executive Fellow)

Keisuke Takagi
Director (Executive Fellow)

Ching-Hwa Huang
Director
Sales Managing Division/South China Area



Ichiro Inasaki
External Director

Kazunao Kudo
External Director

Kenzo Nonami
External Director

Yoshikazu Goto
External Director



Akio Hosaka
Audit & Supervisory Board Member

Tomohide Kawamoto
Audit & Supervisory Board Member



Masahiro Shimojo
External Audit & Supervisory Board
Member

Mari Otaki
External Audit & Supervisory Board
Member

Haruchika Gohara
External Audit & Supervisory Board
Member

Composition of Board of Directors and Audit & Supervisory Board

Sodick strives to increase corporate value over the medium to long term in order to provide the highest value to customers based on its philosophy of “Create,” “Implement,” and “Overcome Difficulties” and to contribute to a sustainable society as a company that “Create Your Future.” In this regard, the Company considers a balance of knowledge, experience, and

abilities of the entire Board of Directors and appoints Directors and Audit & Supervisory Board Members who have these diverse backgrounds.

Based on this approach, the Directors and Audit & Supervisory Board Members as of end-March 2023 are as shown in the table.

Overview of Directors and Audit & Supervisory Board Members (as of end-March 2023)

Director	Status & Committees	Attendance (fiscal year ended Dec. 2022)		Fields of expertise that are particularly expected of Directors/Audit & Supervisory Board Members*					
		Board of Directors meetings	Audit & Supervisory Board meetings	Corporate Management	Finance and Accounting	Law and Risk Management	Manufacturing/Technology/R&D	Global	Marketing
Kenichi Furukawa	▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●	●	●		●	●
Hideki Tsukamoto		13/13 times		●			●	●	
Hirofumi Maejima		13/13 times			●	●		●	
Yuji Kaneko	▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●			●	●	
Keisuke Takagi		13/13 times		●				●	●
Ching-Hwa Huang		13/13 times		●				●	●
Ichiro Inasaki	■External ◆Independent ▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times					●	●	
Kazunao Kudo	■External ◆Independent ▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●			●	●	
Kenzo Nonami	■External ◆Independent ▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●			●	●	
Yoshikazu Goto	■External ◆Independent	9/10 times (Note 1)		●			●		
Audit & Supervisory Board Member	Status & Committees	Attendance (fiscal year ended Dec. 2022)		Fields of expertise that are particularly expected of Directors/Audit & Supervisory Board Members*					
		Board of Directors meetings	Audit & Supervisory Board meetings	Corporate Management	Finance and Accounting	Law and Risk Management	Manufacturing/Technology/R&D	Global	Marketing
Akio Hosaka		13/13 times	13/13 times	●			●	●	●
Tomohide Kawamoto		(Note 2)	(Note 2)		●	●		●	
Masahiro Shimojo	■External ◆Independent	13/13 times	13/13 times		●	●		●	
Mari Otaki	■External ◆Independent	13/13 times	13/13 times		●	●			
Haruchika Gohara	■External ◆Independent	(Note 2)	(Note 2)		●	●			

* Details of the criteria for the independence of External Officers are listed on our website. <https://www.sodick.co.jp/en/sustainability/governance.html>

* The above table does not encompass all of the expertise possessed by the Directors.

Note 1: External Director Yoshikazu Goto was elected at the Ordinary General Meeting of Shareholders held on March 30, 2022, and 10 Board meetings have been held since he assumed his post.

Note 2: Audit & Supervisory Board Member Tomohide Kawamoto and External Audit & Supervisory Board Member Haruchika Gohara were elected at the Ordinary General Meeting of Shareholders held on March 30, 2023; no activity applicable in the fiscal year ended December 2022.

Reasons for Selection of Each Skill and Details

Skill category	Reasons for selection
Corporate management	In order to respond immediately to changes in the business environment, achieve sustainable growth, and increase corporate value, it is necessary to make swift management decisions.
Finance and accounting	In order to ensure accurate financial reporting, build a resilient corporate body, and realize growth investments that contribute to sustainable development and the enhancement of corporate value, knowledge and experience in finance and accounting are required.
Law and risk management	Legal affairs and risk management are a fundamental part of appropriate legal compliance and corporate structure. Therefore, experience and knowledge in this category are necessary.
Manufacturing/technology/R&D	Knowledge and experience in cutting-edge technologies (including DX) related to the Company's business are necessary to continue providing world-class products and services.
Global	For the Company, which aims to have the world's largest market share, it is important to formulate growth strategies and supervise management of global businesses. Therefore, knowledge and experience in overseas business management are required.
Marketing	It is necessary to formulate and implement realistic and specific business and marketing strategies in order to realize corporate strategies and achieve committed management plans, etc.

Dialogue between President and External Director

Kenichi Furukawa

President and Representative Director



Yoshikazu Goto

External Director

As Sodick pursues the challenge of creating a new business model, we will pursue both human resource development and organizational transformation.

At the Board of Directors meetings, the President chairs the meetings, creating an atmosphere in which Internal and External Directors can easily express their opinions.

Furukawa Mr. Goto, we asked you to serve as an External Director since March 2022 because of your extensive experience and wide-ranging knowledge of the economic administration field related to manufacturing companies and industrial development.

Goto I consider expressing opinions that people in the Company are vaguely aware of but do not discuss, or may be considered taken for granted, to be an important role of an External Director. I believe this is more important than the expertise of External Officers or talking about a faraway world. We also have a lot to consider right in front of us.

Furukawa Yes. There are many cases where something is pointed out and has been discussed internally, and we are about to move forward with an awareness of the issues and risks. But I think it is not sound for the Board of Directors to ignore those points.

Goto People in the Company would know the strike zone, while we as External Directors try fine lines between strike and ball. That way, we are able to confirm the strike zone in those cases. It is dangerous if everyone is just throwing strikes.

Sodick's Board of Directors is chaired by President Furukawa, you are fostering a good atmosphere to speak out. When I first joined the Board, I tried to be a quiet participant, and I was going to be an observer in management meetings, so I thought it wasn't my place to speak out. But when President Furukawa caught my eye, I thought I should say something. That is why I expressed my opinions from the beginning.

Internal Officers and employees also express their opinions casually in response to President Furukawa's comments. This makes it easier for the External Officers to speak out as well. These internal and internal-external relationships are wonderful.

It is ideal for management to present general policies, for employees on-site to think by themselves, and for the organization to move accordingly.

Furukawa This is the result of the reform of the Board of Directors. We reviewed how we handle our meeting last year. Past few years, we have been giving so many reports to give External Officers a better understanding of the business. That caused discussion time and whole meeting longer. So we set up a top management meeting and each division's management meeting separated from the Board meetings. External Officers are invited to participate those meetings to understand details. They are also able to participate voluntarily in meetings on things like technology and production. Related to this, we also made various data available on a website so they can view them whenever they want to.

Goto Thanks to this, we can easily access and understand the necessary information. Governance is something that does not suddenly change overnight. This is the result of creating a culture of deliberation through continuous transformation.

Furukawa Yes, I feel that diverse opinions are now expressed and lively discussion is being facilitated at our Board meetings. I have changed execution structure since I became the President five years ago. I wanted to create a structure, in which management presents a clear, broad-based policy, and the organization moves along while employees on-site are giving their opinions regarding various matters. Then, we work to enhance the

management planning function and create a structure for proposed plans, then execute strategies. As a result, many of our employees have become able to act autonomously and express their opinions on things they want to do, and begun to make good progress. I feel that progress is being made every year.

Goto If we aim perfection in a short moment, it would be quite challenging to make changes later on. In this fast-paced world, changes need to be made every year. If the employees of each division are involved in each individual process of reform, they will learn a great deal. This is because they do not just "know how," but also "know why." I believe this creates the potential for even greater organizational transformation.



Companies that regularly promote women as officers from within the company statistically produce superior results.

Furukawa I agree. Human resource development is management's biggest challenge.

Goto Human capital is the key to a successful organization. Active participation by women is one example. You can easily bring in a female External Officer, but statistics show that their effect on business performance is limited, while performance improves significantly if a company has female Internal Officers. These women need to serve in important positions within the company before becoming an officer. We have been trying to optimize this, and it will not be easy without significant measures being put in place.

It could be a chicken-and-egg situation that female employees cannot picture themselves in management positions without their role models. I learned this myself when I tried to promote women and it did not work out well.

As an example, at some companies that require overseas assignment career for promotion, they provide a "Fast Track" path to be involved in overseas projects in several months instead of years for women who may want to bear children. This "Fast Track" is expected to let women build their career. It may take 10 to 20 years, but it will be too late if we wait to do anything until the time comes when active participation by women is taken for granted.

Furukawa We began short-term overseas postings to Thailand, the United States, and Europe about 10 years ago. There is the female expert in the administration division who worked overseas a few years ago, and she is currently working at Fukuoka Sales Office to accommodate her current family situation. There is another female employee who showed us her strong will to work in the United States and actually went to work there from the fourth year of her career. We are training employees with high levels of motivation and ability, and women who will become leaders are bound to appear soon.

Goto Yes indeed, human resources represent our future strength. Sodick has an excellent position as a high-end manufacturer of machine tools, industrial machinery, and food machinery. We are in the upper tier of Japanese manufacturing, and no other company can replace us. The important thing is to look to the future and maintain our business and competitiveness to build a position that other companies cannot attain. Can we do this through manufacturing alone, or are there other things we can do because we are in this position?

We meet customer needs both horizontally and vertically, broadly and deeply. The next step is to look beyond needs and help customers by telling them about possibilities of which they may not have been aware. This requires mobilization in software and business models in addition to hardware. Japanese manufacturing has not been good at making customer support as a core business like Sodick emphasizes, and this can be expected to lead to recurring business as well. If we do not have sufficient resources, we may need to look beyond ourselves through mergers and acquisitions or equity investments. These are the kinds of things Sodick can do because of our high-end position, and I would like to pursue this challenge.

Furukawa It may indeed be the time for us to pursue these types of challenges. Doing this, however, requires human resources. I want to develop both technological human resources and management human resources.



Yoshikazu Goto External Director

- 2003 Director of Standardization Division, Industrial Science and Technology Policy and Environment Bureau, the Ministry of Economy, Trade and Industry of Japan
- 2004 Director of Technology Affairs Division, Small and Medium Enterprise Agency, the Ministry of Economy, Trade and Industry of Japan
- 2008 Deputy Director-General of Manufacturing Industry Bureau, the Ministry of Economy, Trade and Industry of Japan
- 2010 Senior Deputy Director-General of Manufacturing Industry Bureau, the Ministry of Economy, Trade and Industry of Japan
- 2012 Specially appointed Professor, Department of Materials Engineering, Graduate School of Engineering, University of Tokyo
- 2015 External Director of Paramount Bed Holdings Co., Ltd.
- 2017 Vice Chairman of Japan Society for the Promotion of Machine Industry (current post)
- 2018 External Director (Audit and Supervisory Committee Member) of Paramount Bed Holdings, Co., Ltd. (current post)
- 2022 External Director of Sodick Co., Ltd. (current post)

Corporate Governance

Corporate Governance Structure and Features

Sodick believes that an audit system incorporating External Audit & Supervisory Board Members is an effective form of management supervision and serves to enhance the efficacy of corporate governance. Sodick therefore adopts the "Company with an Audit & Supervisory Board" system. The Board of Directors consists of six Internal Directors and four highly independent External Directors to ensure management transparency and strengthen fair decision-making, thereby ensuring effective supervision of business execution and provision of wide-ranging advice.

Sodick has adopted an executive officer system

to realize responsive and highly efficient corporate management. The Board of Directors entrusts the business execution to executive officers based on the management organization and segregation of duties.

To supplement the functions of the Board of Directors, Sodick has established the Advisory Committee on Personnel and the Committee on Compensation as voluntary committees, with members including External Directors. This has increased the transparency of decision-making and ensures that Directors' remuneration is appropriate.

Strengthening Management Supervisory Functions

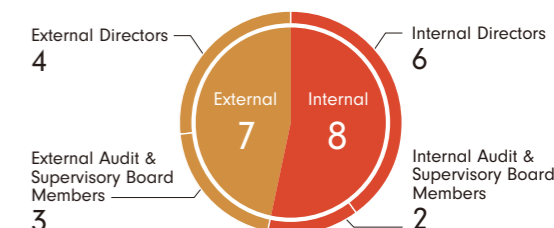
Four of Sodick's 10 Directors are External Directors. They apply their objective perspectives and wealth of knowledge and experience to management, thereby strengthening the corporate governance structure. Furthermore, three of the five Audit & Supervisory Board Members are External Audit & Supervisory Board Members, increasing the objectiveness and fairness of management supervision.

Board of Directors meeting materials are provided in advance to ensure enough time for review. Particularly important matters that require a resolution by the Board of Directors are discussed in advance at the top management meeting.

External Directors and External Audit & Supervisory Board Members receive advance briefings from the Board of Directors Secretariat as necessary. This enables them to compensate any lack of internal

information about the Board of Directors agenda, and exercise their management supervision functions.

To improve the quality of management supervision, the External Audit & Supervisory Board Members convene regular monthly meetings of the Audit & Supervisory Board, where they exchange a wide range of information and opinions.



History of Initiatives to Strengthen Corporate Governance

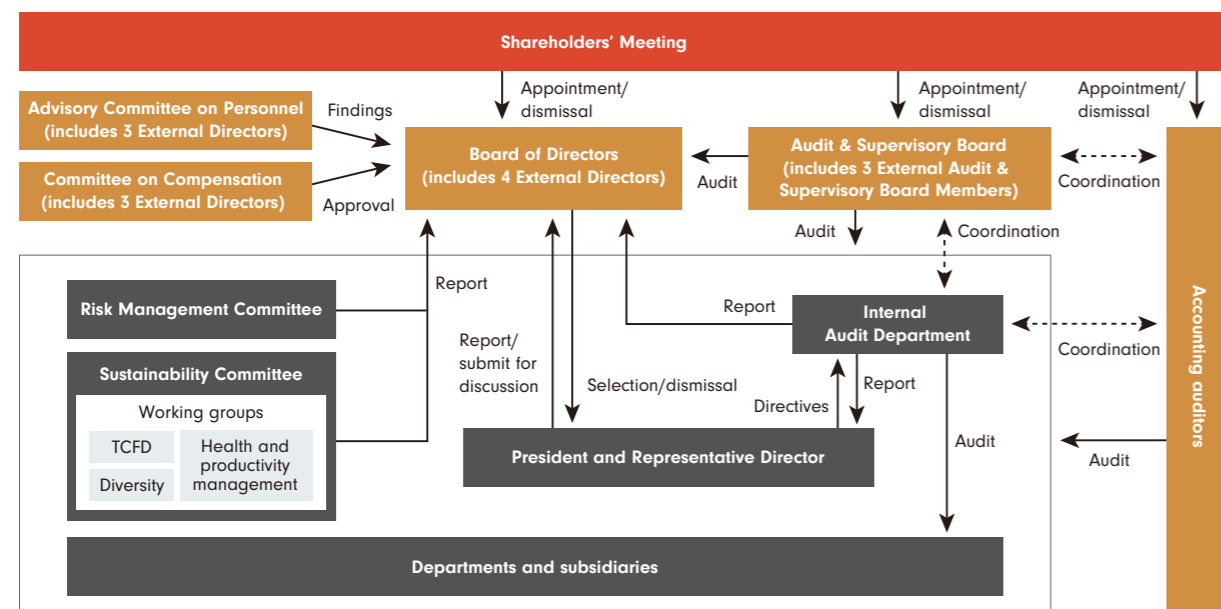
2012	● Introduction of executive officer system
2014	● Election of one External Director
2015	● Compliance with the Corporate Governance Code ● Addition of one External Director (total of two persons) ● Establishment of Advisory Committee on Personnel and Committee on Compensation
2016	● Evaluation of the effectiveness of the Board of Directors carried out ● Addition of one External Director (total of three persons)
2018	● Compliance with the revised Corporate Governance Code ● Addition of one External Director (total of four persons)
2019	● Election of a female Director
2020	● Reviewed number of members in Advisory Committee on Personnel and Committee on Compensation (two Internal Directors and three External Directors)
2021	● Election of a female Audit & Supervisory Board Member
2022	● Reviewed meeting bodies (Establishment of a top management meeting and each division's management meeting)

Corporate Governance Structure (as of end-March 2023)

Organizational Structure	Company with an Audit & Supervisory Board
Directors	10 Directors ¹ (of which 4 are External Directors) Chair of Board of Directors: President
Audit & Supervisory Board Members	5 Audit & Supervisory Board Members ² (of which 3 are External Audit & Supervisory Board Members)
Term of Appointment for Directors and Audit & Supervisory Board Members	Directors: 2 years Audit & Supervisory Board Members: 4 years
Company with Executive Officer System	Yes
Optional Advisory Committees of Board of Directors	Advisory Committee on Personnel Committee on Compensation
Accounting Auditors	Grant Thornton Taiyo LLC
Corporate Governance Report ³	https://www.sodick.co.jp/sustainability/governance.html (only available in Japanese)

¹ The Articles of Incorporation state that the number of Directors shall be not more than 15.
² The Articles of Incorporation state that the number of Audit & Supervisory Board Members shall be not more than five.
³ For information about compliance with the Corporate Governance Code, please refer to our website.

► Diagram of Sodick Corporate Governance Structure (as of end-March 2023)



► Board of Directors

- Performs a supervisory function over decision-making on important issues and management in general as stipulated in the Board of Directors Regulations, including setting basic policy on management and appointing executive officers.
- Regular meetings of the Board of Directors take place once per month, and when necessary the Board also convenes extraordinary meetings.
- The Board is comprised of 10 Directors (six Internal Directors and four External Directors) who supervise management and make important management decisions.
- The provision of opinions, advice, and cross-checking by External Directors serves to improve and revitalize the transparency and credibility of the Board of Directors while also strengthening its management supervision functions.
- Business meetings, joint technical meetings, quality control meetings, and management meetings may be held to gain broader and deeper understanding of the Company and to ensure effective management. Directors attend these meetings in order to ensure that decisions on basic and important items related to the execution of business are taken flexibly.

► Audit & Supervisory Board

- The function of the Audit & Supervisory Board is to supervise management from an external perspective. It determines policies on auditing and the assignment of duties, and receives reports on the implementation and results of audit from Audit & Supervisory Board Members. In addition, it receives reports from Directors and accounting auditors on the state of execution of their duties, and requests explanations thereof as necessary.
- The Audit & Supervisory Board is comprised of five Audit & Supervisory Board Members, three of whom are External Audit & Supervisory Board Members.

► Advisory Committee on Personnel

The Advisory Committee on Personnel formulates appointment criteria and policies regarding personnel matters involving Directors, Audit & Supervisory Board Members, and executive officers, selects candidates for those positions, and determines the standards for dismissal. This committee is comprised of five Directors, three of whom are External Directors.

Members	President and Representative Director	Kenichi Furukawa (Chair)*
	Director	Yuji Kaneko
	External Director	Ichiro Inasaki
	External Director	Kazunao Kudo
	External Director	Kenzo Nonami

► Committee on Compensation

The Committee on Compensation formulates policy on compensation for Directors and executive officers, and deliberates and decides over compensation standards, appraisals, and the monetary amounts of compensation. This committee is comprised of five Directors, three of whom are External Directors.

Members	President and Representative Director	Kenichi Furukawa (Chair)*
	Director	Yuji Kaneko
	External Director	Ichiro Inasaki
	External Director	Kazunao Kudo
	External Director	Kenzo Nonami

* President Furukawa is the Chair of both committees, but objectivity and fairness are ensured by the fact that the majority of Directors are External Directors.

Evaluating the Effectiveness of the Board of Directors

In order to enhance the effectiveness of corporate governance, Sodick conducts an annual self-evaluation regarding the execution of duties by all Directors to confirm that Sodick's Board of Directors is performing its professional duties in accordance with our guidelines.

The Audit & Supervisory Board Members analyze and evaluate the overall effectiveness of the Board of Directors based on each Director's self-evaluation, and disclose the result.

► Method of Analysis and Evaluation

Self-Evaluation & Evaluation Discussion on Enhancing Effectiveness	A self-evaluation questionnaire is completed by all Directors.
	<p>Main Content of Questionnaire</p> <ul style="list-style-type: none"> • Composition, diversity, and skill balance of the Board of Directors • Content and frequency of the resolutions and reports of the Board of Directors • Active discussion on the agenda, sufficient allocation of time • Functioning as a supervisory body for management, high-quality discussions • Adequate discussion of mid-to-long term challenges • Providing sufficient information to External Directors • Deeper understanding of the business by External Directors, implementation of factory tours • External Directors exchange opinions on the management of the Company with the Audit & Supervisory Board • Evaluation of new meeting bodies operation (top management meeting and each division's management meeting) • Evaluation of Advisory Committee on Personnel and Committee on Compensation • Roles and duties of External Directors, etc.
	Effectiveness of Board of Directors is analyzed and deliberated at Audit & Supervisory Board meetings based on each Director's self-evaluation.
	<p>Fiscal Year ended December 2022 Evaluation Results</p> <p>The evaluation found that the Board of Directors was functioning properly in regard to its overall effectiveness, including the status of operation, status of deliberation, and management and supervisory functions, which have been improved since the previous fiscal year.</p> <p>Initiatives to further improve deliberations and enhance Board's supervisory functions</p> <p>Fiscal Year ending December 2023 Management Policy</p> <p>We will work to further enhance discussions at Board of Directors meetings, improve communication between External Directors and External Audit & Supervisory Board Members, and work to address each issue for further effectiveness in the mid-to-long term.</p>

	Results for FY2022	Future challenges
Overall effectiveness	<ul style="list-style-type: none"> ● Holding of new meeting bodies (top management meeting and each division's management meeting) ● Enhancement of topics 	<ul style="list-style-type: none"> ● Further enhancing discussions at Board of Directors meetings ● Improving the Board of Directors to accelerate management decision-making ● Further enhancing discussion on mid-to-long term management issues ● Strengthening risk management amid growing uncertainty in the business environment ● Further improving operation of the new meeting bodies
External Officer	<ul style="list-style-type: none"> ● Training for External Directors at external training organizations ● Establishment of a forum for discussions between External Directors and External Audit & Supervisory Board Members ● Factory tours for External Directors and External Audit & Supervisory Board Members 	<ul style="list-style-type: none"> ● Enhancing communication between External Directors and Audit & Supervisory Board Members ● Improving diversity and skill balance of Directors and Audit & Supervisory Board Members

Addressing Topics

In addition to conducting training for Directors and Audit & Supervisory Board Members, the following items are taken up as topics to enhance in-depth

- February 2022: Our business risks and issues to be addressed
- March 2022: Key points of the 46th Annual Securities Report
- April 2022: Current status of our environmental initiatives and measures
- June 2022: Status of cyberattacks and our approach
- July 2022: The Sodick Group dividend policy
- August 2022: Status of our substantial shareholders
- September 2022: Capital efficiency (analysis of ROIC of each business)

discussion and understanding of the latest measures to be implemented and issues to be considered.

- October 2022: CEO succession plan
- November 2022: Status and issues of our shareholder returns
- December 2022: Medium-term management plan
- January 2023: Status and issues of our capital policy
- February 2023: Our business risks and issues to be addressed
- March 2023: Trends in the corporate governance structure

Training for the Board of Directors and Audit & Supervisory Board

Sodick implements the following measures in order to ensure that Directors and Audit & Supervisory Board Members are able to perform their functions and roles appropriately.

- (1) Newly appointed Directors and Audit & Supervisory Board Members take part in training provided by the Japan Audit & Supervisory Board Members Association.
- (2) We give External Directors and External Audit & Supervisory Board Members opportunities to participate in each division's management meeting. We also arrange factory tours in the Kaga Factory, which is our key business site, to deepen their understanding of our business.

- (3) Other Directors, Audit & Supervisory Board Members, and executive officers acquire the knowledge needed to enhance corporate value, and learn about the approaches taken to this, through methods such as e-learning provided by the Tokyo Stock Exchange.

Executive offices are allowed to attend management meetings in order to cultivate successor personnel. In addition, we implement initiatives to develop management personnel through training for executive managers and drawing up long-term business strategies.

Succession Plan

► Developing the Next-Generation Management Human Resources

Since 2021, the Advisory Committee on Personnel has been formulating and continuously discussing a succession plan.

As a policy for developing the next-generation management human resources, we choose candidates from each division based on past evaluation results, and develop executive managers through management experience at overseas subsidiaries and appropriate training to supplement their knowledge and skills, in order to enhance their management experience and management factors outside their specialty fields, thereby developing people who meet the standards for each position.

The requirements for the next-generation management human resources are:

- Qualities and judgment capabilities that contribute to increasing corporate value
- Global perspective and ethics
- Extensive work experience and knowledge as a business manager
- Impartiality, communication skills, and leadership
- Sensitivity to and understanding of risk

Based on these plans, we will select and develop candidates with diverse skills and abilities so that they can play a key role in the future of the Sodick Group.

► CEO Requirements

The CEO selection requirements define the following criteria in addition to the requirements for next-generation management human resources listed on the left.

1. Dignity, character, and strong leadership as top management
2. Strong attitude and decision-making capabilities to boldly tackle difficult challenges
3. Skills to implement growth strategies without being bound by past norms or practices, with a vision for transforming the organization for the ideal state
4. Skills to respond to changes in the management environment and to envision mid-to-long term global growth strategies
5. Enthusiasm and passion for manufacturing with a sense of mission
6. Commitment to fostering and promoting Sodick's culture based on our company motto of "Create, Implement, and Overcome Difficulties"
7. Skills to overcome risk and criticism, make bold, rational decisions, and take responsibility for decisions
8. Commitment to proactively developing and promoting personnel
9. Extensive management experience, achievements, and management skills (if selected from an external group of qualified individuals)
10. Commitment to enhancing corporate value through social contributions

Policy for Determining Compensation for Directors, etc.

► Basic Approach

Compensation for the Company's Directors is based on a compensation system that is linked to shareholder profits, taking into consideration the management issues of sustainable growth and mid-to-long term corporate value enhancement. Each Director's compensation is determined based on a compensation system that reflects appropriate results while taking company performance and his/her job responsibility into consideration.

The Committee on Compensation, which consists of a majority of External Directors, deliberates on the nature of the compensation system and the need for it to be reviewed from objective perspectives. The Board of Directors then makes decisions based on the recommendations of the Committee.

► Compensation System

- 1) Regarding the Company's officer compensation, compensation for Executive Directors consists of basic compensation (fixed compensation) based on the compensation grade for their position and job responsibilities, short-term performance-related compensation consisting of a single year's performance reflection, and mid-to-long term incentive compensation based on stock compensation aimed at sharing interests in enhancing corporate value with shareholders. In principle, Non-Executive Directors receive basic compensation and short-term performance-related compensation, while External Directors and Audit & Supervisory Board Members receive only basic compensation.
- 2) Regarding the compensation ratio by type of Executive Director, the higher the grade, the higher the amount of performance-related compensation. This is determined by using as benchmarks the compensation levels of companies that are similar to the Company in terms of business size, industry and business types.
- 3) The compensation for Directors is determined by the Committee on Compensation, and the compensation for Audit & Supervisory Board Members is reviewed and determined by the Audit & Supervisory Board.

► System for Short-Term Performance-Related Compensation

- 1) Short-term performance-related compensation is used to raise awareness of performance improvement for

each business year. If profit attributable to owners of parent in the consolidated profit and loss plan for the current fiscal year exceeds a certain amount, the total amount of performance-related compensation is calculated by multiplying the profit by a factor, and compensation to each Director will be allocated according to their position.

- 2) The short-term performance-related compensation is provided each month as a monetary payment in addition to the basic compensation.
- 3) The reason for selecting profit attributable to owners of parent as a performance indicator is because we recognize that an increase in profit attributable to owners of parent will result in an increase in shareholders' equity, which will be a source of future dividends, and that this aligns with the intentions of shareholders.
- 4) We set targets for the medium-term management plan and increase profit attributable to owners of parent by achieving them.
- 5) Changes in profit attributable to owners of parent including the current fiscal year are shown on pages 63 and 64 of this report.

► System for Mid-to-Long Term Incentive Compensation

- 1) As an incentive for Directors to contribute to the enhancement of corporate value over the medium to long term, we provide Executive Directors with monetary compensation receivables according to their positions, and provide restricted stock compensation allocated from treasury shares according to the amount of the receivables.
- 2) If three-year average EBITDA including the current fiscal year exceeds a certain amount, the total amount of monetary compensation receivables is calculated by multiplying the average amount by a factor.
- 3) The reason for selecting EBITDA as the total amount indicator of monetary compensation receivables is that it is not affected by decreases in profits due to an increase in depreciation associated with capital investments or an increase in interest rates. In this way, it is intended to encourage management that contributes to increasing mid-to-long term shareholder value.
- 4) Regarding restricted stock compensation, the number of shares allocated to each Director is determined by the Board of Directors based on the report from the Committee on Compensation.

► Details for Officer Compensation (Fiscal Year ended December 2022)

Officer category	Total compensation (million yen)	Total compensation by type (million yen)			Number of eligible officers
		Basic compensation	Short-term performance-related compensation	Mid-to-long term incentives	
Director (excluding External Director)	248	200	24	22	6
Audit & Supervisory Board Member (excluding External Audit & Supervisory Board Member)	32	32	—	—	2
External Officer	48	48	—	—	8
Total	328	280	24	22	16

Risk Management

Basic Approach

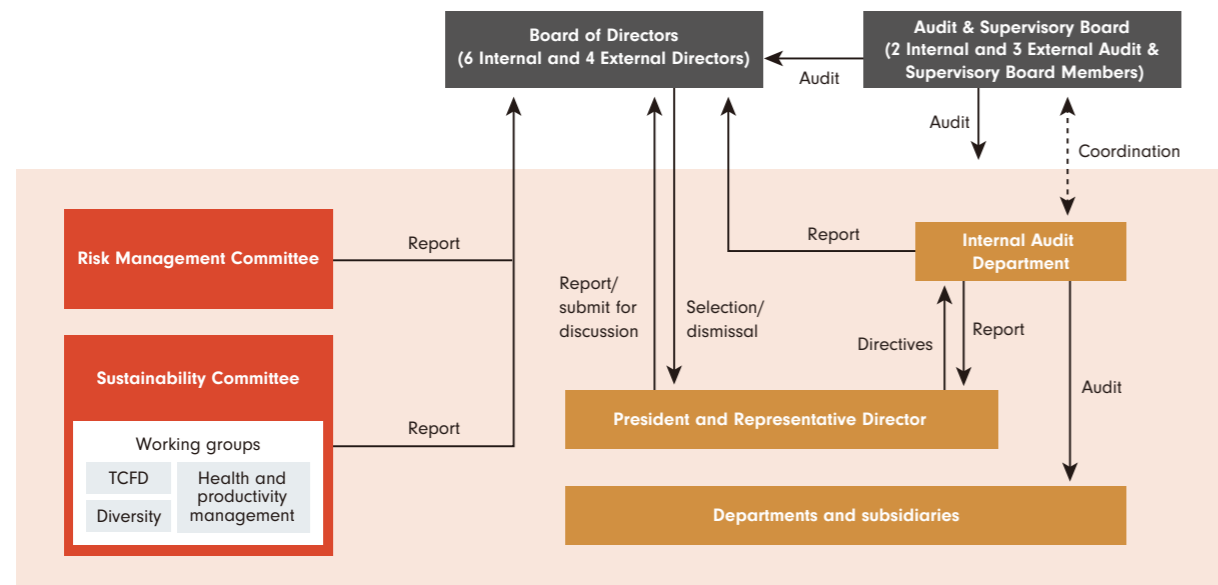
The Sodick Group has established basic rules for risk management, and works to determine, analyze, evaluate, and take appropriate measures to avoid the risks that exist at each division. At the same time, a Risk Management Committee has been established to formulate necessary preemptive response policies to prepare for the occurrence or potential occurrence of unforeseen situations that would have a major impact

on management. And the Committee also responds appropriately and as needed in the event a situation were to occur.

Sodick recognizes the following as the primary risks with the potential to have a major impact on the Company's business performance and/or financial position.

- Risks related to economic fluctuations
- Risks related to new businesses
- Risks related to securing and developing human resources
- Risks from major fluctuations in foreign exchange rates
- Risks at overseas businesses
- Legal and regulatory risks
- Risks related to corporate social responsibility
- Risks related to the competitive environment
- Risks related to procurement of raw materials and parts
- Risks related to interest-bearing debt
- Impairment risks related to non-current assets
- Construction cost estimation risks
- Information security risks
- Risks related to natural and other disasters
- Risks associated with the spread of COVID-19

➤ Risk Management Structure (as of end-March 2023)



➤ Risk Evaluation and Analysis

Once a quarter at the Risk Management Committee, we collect risk investigation sheets (which evaluate degree of impact and likelihood of occurrence in two axes and three stages) from each division of Sodick and subsidiaries. And we conduct a detailed evaluation and analysis of risks judged to be particularly significant. Then, we think about measures against these risks and report to and discuss at the

Board meetings, and finally reflect into our business strategies.

In 2022, with the identification of the materiality issue "addressing environmental management," we considered "climate change risks" as one of our primary risks. After the evaluation and analysis, we considered countermeasures and reported the details to the Board of Directors.

➤ Cybersecurity

We strive to strictly manage confidential business and technological information through appropriate IT technology measures, establishment of internal systems, and employee training. In 2022, we

conducted a third-party vulnerability diagnosis to strengthen security measures and prepared to launch a Security Operation Center (SOC).

Risks Related to Economic Fluctuations

Likelihood of occurrence: Medium Degree of impact: Major

The Sodick Group is working to reduce risks related to economic fluctuations by expanding the food machinery segment and other businesses that are relatively less affected by economic fluctuations, and by acquiring new customers in elemental technology area. We also work to disperse risks by building up new businesses through R&D and strive to build a more stable business portfolio.

In addition, we continue to pursue steady cost reductions, review suppliers, and implement other measures, while also proactively developing production technologies like automation and labor savings, and introducing the latest technologies such as 5G, IoT, and AI. We are also seeking to build a production structure that can respond flexibly and efficiently to market changes.

Risks from Major Fluctuations in Foreign Exchange Rates

Likelihood of occurrence: High Degree of impact: Major

The Sodick Group has continued to promote overseas production of its major products. This enables us to limit the impact of exchange rate fluctuations on profit due to the offsetting effect of revenue and expenses.

We are also promoting measures to reduce the impact of exchange rate fluctuations, such as exchange hedging by forward exchange contracts for major currencies like the US dollar and the euro. We also carefully examine the situation of foreign currency-denominated commercial distribution and expand the scope of forward exchange contracts as necessary.

Risks at Overseas Businesses

Likelihood of occurrence: Medium Degree of impact: Major

We have established a local production for local use system where machines sold in Chinese market are manufactured locally in China in order to reduce the impact of trade policies in China and other countries.

In other regions, we are using technical centers to strengthen our sales structures and customer support in Europe and the United States, where we expect to gain a market share going forward. We will also promote sales in Southeast Asia and emerging countries like India and Mexico with growth potential and aim to reduce our reliance on the Chinese market by optimizing our breakdown of sales by region.

Risks Related to Corporate Social Responsibility

Likelihood of occurrence: Medium Degree of impact: Medium

In light of changing social demands, the Sodick Group has established a specialized committee, which is chaired by the President and Representative Director, to systematically continue its efforts on important themes such as compliance, social contribution, human resource development, quality control, and the environment. In addition, we are actively involved in manufacturing next-generation automobiles, vehicle weight reduction, and other measures to reduce environmental impact, thereby promoting business development that contributes to a sustainable society through environmentally friendly manufacturing. Moreover, a newly established specialized department leads the initiatives to strengthen our efforts on climate change in our business operation, including areas such as carbon neutrality, energy savings, and CO₂ emission reductions.

Risks Related to Procurement of Raw Materials and Parts

Likelihood of occurrence: High Degree of impact: Major

We have established a basic procurement policy and globally procure the most suitable parts based on appropriate standards of quality, price, and stability with trusting relationship and mutual understandings. In order to ensure stable procurement of parts and materials, we have secured multiple procurement routes and suppliers in Japan and overseas to diversify our procurement sources and address risks such as shortages of parts and materials and soaring costs of materials and logistics.

Furthermore, in order to identify risks throughout the supply chain, we investigate suppliers' business continuity plans (BCPs). Based on the results of these surveys, we diagnose, maintain, and update our BCP.

Risks Related to Natural and Other Disasters

Likelihood of occurrence: Medium Degree of impact: Major

To minimize damage and ensure business continuity, the Sodick Group has formulated and is implementing a Business Continuity Plan (BCP). We have built a disaster-resistant production system by decentralizing production centers, and introduced a safety confirmation system to help speed up post-disaster recovery activities. We also have various types of insurance to cover financial losses caused by natural disasters.

Information Security Risks

Likelihood of occurrence: Medium Degree of impact: Major

The Sodick Group strives to strictly manage confidential business and technological information through appropriate IT technology measures, establishment of internal systems, and employee training. In addition to thorough use of thin client as internal standard terminals, we have introduced comprehensive security management tools as a countermeasure against IT asset management, internal information leakage, cyberattacks, etc. To further strengthen our security system, we will also periodically carry out a vulnerability diagnosis, etc., using a third-party organization.

Risks Related to Securing and Developing Human Resources

Likelihood of occurrence: Low Degree of impact: Major

We proactively engage in recruiting superior human resources in order to secure and develop engineers with highly specialized technical skills and human resources with excellent management skills such as management strategy and global organizational management. We also emphasize human resources development through systematic post-employment training, executive training, and position-specific training. In April 2020, we introduced a new personnel system that represents an extensive reform of the previous system, with the aim of career development for each employee's career goals and individual characteristics. Furthermore, we believe that the physical and mental health of each employee is vital for the sustainable growth of the Company. And, we established the "Sodick Health and Productivity Management Declaration" in January 2022. We will actively promote the improvement of the workplace environment and health promotion in order to secure and retain excellent human resources.

	03/2014 FY	03/2015 FY	03/2016 FY	03/2017 FY		12/2017 FY	12/2018 FY	12/2019 FY	12/2020 FY	12/2021 FY	Unit: million yen 12/2022 FY	Unit: US\$1,000*1 12/2022 FY
Business performance												
Net sales	56,899	63,090	65,146	61,812		65,604	82,716	67,591	58,030	75,174	80,495	606,600
Cost of sales	40,232	42,215	41,369	39,318		42,445	52,488	45,421	39,779	49,461	53,670	404,451
Gross profit	16,667	20,874	23,777	22,494		23,159	30,227	22,169	18,250	25,713	26,825	202,149
Selling, general and administrative expenses	14,014	15,984	17,424	17,257		15,669	20,338	18,747	16,397	18,899	21,011	158,342
Operating profit	2,651	4,891	6,353	5,236		7,490	9,888	3,422	1,852	6,813	5,813	43,807
Ordinary profit	3,886	5,647	5,719	4,620		7,910	9,619	3,558	2,046	8,588	8,275	62,366
Profit before income taxes	3,857	5,129	5,748	4,193		7,772	8,929	3,369	2,078	8,538	8,085	60,934
Profit attributable to owners of parent	4,194	3,550	4,167	3,644		5,736	6,462	2,002	1,346	6,591	6,021	45,381
R&D expenses	2,004	2,494	3,408	3,518		3,344	3,902	3,483	3,220	3,216	3,168	23,876
Capital investments	3,136	2,232	2,887	2,594		4,588	8,576	6,561	2,448	3,451	4,681	35,282
Depreciation	2,559	2,659	2,765	2,697		2,360	3,085	3,664	3,399	3,452	3,602	27,147
Financial status												
Total assets	98,776	104,167	99,722	109,271		121,815	119,082	114,647	116,117	134,866	138,433	1,043,203
Net assets	42,451	49,453	49,758	48,710		55,166	58,129	58,745	57,976	74,438	80,993	610,352
Interest-bearing debt	39,480	35,758	33,826	40,953		41,704	39,524	38,637	41,385	33,741	32,666	246,169
Cash flow												
Cash flows from operating activities	5,577	8,298	6,579	8,373		4,522	9,275	8,336	5,270	7,642	3,543	26,705
Cash flows from investing activities	-4,181	-144	-2,773	-2,132		-4,715	-8,188	-5,609	-1,410	-2,203	-10,957	-82,571
Free cash flow	1,395	8,153	3,806	6,240		-193	1,087	2,727	3,860	5,439	-7,413	-55,867
Cash flows from financing activities	-3,696	-5,243	-2,854	3,134		-439	-3,485	-2,228	1,665	-1,932	-6,012	-45,309
Per-share indicators												
Earnings per share (EPS) (Yen/US\$*1)	83.36	70.55	82.82	76.91		122.15	137.58	42.58	28.63	125.67	112.67	0.85
Net assets per share (BPS) (Yen/US\$*1)	842.40	981.47	987.01	1,035.19		1,172.12	1,235.46	1,247.06	1,230.53	1,376.33	1,548.28	11.67
Dividends per share (Yen/US\$*1)	14.00	20.00	18.00	19.00		22.00	24.00	25.00	25.00	26.00	27.00	0.20
Key financial indicators												
Ratio of gross profit to net sales	29.3%	33.1%	36.5%	36.4%		35.3%	36.5%	32.8%	31.4%	34.2%	33.3%	
Ratio of operating profit to net sales	4.7%	7.8%	9.8%	8.5%		11.4%	12.0%	5.1%	3.2%	9.1%	7.2%	
Ratio of ordinary profit to net sales	6.8%	9.0%	8.8%	7.5%		12.1%	11.6%	5.3%	3.5%	11.4%	10.3%	
Return on equity (ROE)*2	10.7%	7.7%	8.4%	7.4%		11.1%	11.4%	3.4%	2.3%	10.0%	7.8%	
Ratio of ordinary profit to total assets (ROA)*3	4.0%	5.6%	5.6%	4.4%		6.8%	8.0%	3.0%	1.8%	6.8%	6.1%	
Debt-to-equity ratio (D/E ratio)*4 (times)	1.02	0.86	0.75	0.92		0.84	0.72	0.69	0.74	0.49	0.46	
Equity ratio*5	42.9%	47.4%	49.8%	44.5%		45.2%	48.7%	51.2%	49.9%	55.2%	58.5%	
Dividend on equity (DOE)*6	1.8%	2.4%	2.0%	2.0%		2.1%	2.1%	2.1%	2.1%	2.3%	2.1%	
Ratio of overseas sales	60.4%	64.1%	63.8%	62.7%		69.6%	65.8%	62.0%	66.0%	70.8%	69.4%	
Average exchange rate over the period Yen/USD	100.17	109.76	120.15	108.34		111.69	110.44	109.03	106.76	109.90	131.62	
Yen/EUR	134.21	138.69	132.60	118.74		128.55	130.35	122.03	121.88	129.91	138.14	
Yen/CNY	15.87	17.14	19.21	16.32		16.62	16.71	15.77	15.48	17.01	19.45	
Yen/THB	3.19	3.38	3.44	3.08		3.33	3.42	3.52	3.42	3.44	3.75	
Other												
Number of employees (consolidated)	2,999	3,183	3,216	3,415		3,651	3,676	3,579	3,633	3,683	3,746	

*1 US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

*2 Return on equity (ROE) = Profit/(Net assets - Subscription warrants - Non-controlling interests)

*3 Ratio of ordinary profit to total assets (ROA) = Ordinary profit/Total assets (Average during the period)

*4 Debt-to-equity ratio (D/E ratio) = Interest-bearing debt/Shareholders' equity

*5 Equity ratio = (Net assets - Subscription warrants - Non-controlling interests)/Total assets

*6 Dividend on equity (DOE) = Total dividends/Shareholders' equity

* Due to the fiscal year-end change, FY12/17 consolidated financial results comprise 9 months (from April to December 2017) of results for companies whose fiscal year ends on March 31, and 12 months (from January to December 2017) of results for those whose fiscal year ends on December 31, resulting in irregular settlement of accounts.

Consolidated Balance Sheets

	Unit: million yen		Unit: US\$1,000*
	12/2021 FY	12/2022 FY	12/2022 FY
Assets			
Current assets			
Cash and deposits	¥ 45,274	¥ 36,047	\$ 271,648
Notes and accounts receivable-trade	18,363	–	–
Notes and accounts receivable-trade, and contract assets	–	15,698	118,303
Electronically recorded monetary claims-operating	2,104	2,792	21,042
Merchandise and finished goods	9,352	11,856	89,346
Work in process	8,851	10,068	75,873
Raw materials and supplies	9,427	12,390	93,373
Other	3,428	3,850	29,014
Allowance for doubtful accounts	-425	-347	-2,621
Total current assets	96,377	92,356	695,979
Non-current assets			
Property, plant and equipment			
Buildings and structures	29,049	31,075	234,181
Machinery, equipment and vehicles	22,214	23,949	180,477
Tools, furniture and fixtures	4,302	4,639	34,963
Land	7,278	7,888	59,443
Leased assets	2,882	2,918	21,990
Construction in progress	1,390	1,721	12,975
Accumulated depreciation	-36,901	-40,629	-306,178
Total property, plant and equipment	30,217	31,562	237,851
Intangible assets			
Goodwill	1,240	1,150	8,672
Other	1,032	1,471	11,088
Total intangible assets	2,273	2,622	19,759
Investments and other assets			
Investment securities	3,537	4,597	34,644
Long-term loans receivable	27	39	301
Deferred tax assets	1,199	1,353	10,202
Long-term time deposits	–	4,562	34,381
Other	1,286	1,386	10,448
Allowance for doubtful accounts	-52	-48	-363
Total investments and other assets	5,997	11,891	89,614
Total non-current assets	38,488	46,076	347,224
Total Assets	¥ 134,866	¥ 138,433	\$ 1,043,203

* US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

	Unit: million yen		Unit: US\$1,000*
	12/2021 FY	12/2022 FY	12/2022 FY
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 6,423	¥ 5,312	\$ 40,033
Electronically recorded obligations-operating	6,724	6,734	50,748
Short-term borrowings	2,242	1,840	13,868
Current portion of bonds payable	140	140	1,055
Current portion of long-term borrowings	6,527	8,157	61,473
Accounts payable-other	1,599	1,878	14,160
Income taxes payable	1,207	1,025	7,727
Contract liabilities	–	4,448	33,520
Provision for product warranties	411	427	3,219
Provision for quality guarantee	3	4	37
Provision for bonuses	802	1,211	9,131
Other	7,622	3,498	26,365
Total current liabilities	33,705	34,679	261,335
Non-current liabilities			
Bonds payable	580	440	3,316
Long-term borrowings	24,251	20,761	156,455
Provision for retirement benefits for directors (and other officers)	20	11	85
Provision for product warranties	169	67	510
Retirement benefit liability	469	673	5,074
Asset retirement obligations	65	66	503
Other	1,166	739	5,573
Total non-current liabilities	26,722	22,760	171,516
Total Liabilities	60,428	57,439	432,850
Net Assets			
Shareholders' equity			
Share capital	24,618	24,618	185,522
Capital surplus	9,739	9,717	73,232
Retained earnings	37,229	40,312	303,789
Treasury shares	-3,117	-3,739	-28,182
Total shareholders' equity	68,470	70,909	534,362
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	732	1,030	7,765
Foreign currency translation adjustment	5,402	9,114	68,686
Remeasurements of defined benefit plans	-219	-120	-909
Total accumulated other comprehensive income	5,914	10,024	75,542
Non-controlling interests	52	59	449
Total Net Assets	74,438	80,993	610,352
Total Liabilities and Net Assets	¥ 134,866	¥ 138,433	\$ 1,043,203

Consolidated Statements of Income

	Unit: million yen		Unit: US\$1,000*
	12/2021 FY	12/2022 FY	12/2022 FY
Net sales	¥ 75,174	¥ 80,495	\$ 606,600
Cost of sales	49,461	53,670	404,451
Gross profit	25,713	26,825	202,149
Selling, general and administrative expenses			
Personnel expenses	8,265	9,674	72,902
Provision of allowance for doubtful accounts	187	-95	-719
Amortization of goodwill	140	144	1,088
Research and development expenses	2,324	2,065	15,566
Other	7,981	9,223	69,504
Total selling, general and administrative expenses	18,899	21,011	158,342
Operating profit	6,813	5,813	43,807
Non-operating income			
Interest income	305	392	2,957
Dividends income	102	287	2,164
Foreign exchange gains	976	1,681	12,668
Share of profit of entities accounted for using equity method	99	86	653
Subsidy income	512	256	1,935
Gain on sale of scraps	37	41	312
Other	198	154	1,166
Total non-operating income	2,231	2,900	21,854
Non-operating expenses			
Interest expenses	327	301	2,270
Provision of allowance for doubtful accounts	1	-	-
Other	127	136	1,026
Total non-operating expenses	456	437	3,296
Ordinary profit	8,588	8,275	62,366
Extraordinary income			
Gain on sale of non-current assets	28	49	375
Subsidy income	25	-	-
Total extraordinary income	53	49	375
Extraordinary losses			
Loss on sale of non-current assets	17	2	17
Loss on retirement of non-current assets	58	39	301
Loss on tax purpose reduction entry of non-current assets	25	-	-
Extra retirement payments	-	184	1,394
Other	1	12	96
Total extraordinary losses	103	239	1,807
Profit before income taxes	8,538	8,085	60,934
Income taxes - current	2,025	2,010	15,149
Income taxes - deferred	-102	49	373
Total income taxes	1,922	2,059	15,522
Profit	6,615	6,026	45,412
Profit attributable to non-controlling interests	23	4	32
Profit attributable to owners of parent	¥ 6,591	¥ 6,021	\$ 45,381

* US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

Consolidated Statements of Comprehensive Income

	Unit: million yen		Unit: US\$1,000*
	12/2021 FY	12/2022 FY	12/2022 FY
Profit	¥ 6,615	¥ 6,026	\$ 45,412
Other comprehensive income			
Valuation difference on available-for-sale securities	135	298	2,247
Foreign currency translation adjustment	3,611	3,622	27,302
Remeasurements of defined benefit plans, net of tax	108	99	748
Share of other comprehensive income of entities accounted for using equity method	53	91	692
Total other comprehensive income	3,908	4,112	30,990
Comprehensive income	10,524	10,138	76,402
(Comprehensive income attributable to)			
owners of parent	10,491	10,131	76,351
non-controlling interests	¥ 32	¥ 6	\$ 50

* US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

Consolidated Statements of Changes in Equity

	Unit: million yen											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
12/2021 FY (from January 1, 2021 to December 31, 2021)												
Balance at beginning of period	¥20,785	¥5,877	¥33,787	¥-4,566	¥55,884	¥596	¥1,746	¥-328	¥2,014	¥77	¥57,976	
Changes during period												
Issuance of new shares-exercise of share acquisition rights	3,833	3,833			7,667						7,667	
Dividends of surplus			-1,320		-1,320						-1,320	
Reserve for the awards and welfare fund for employees of overseas subsidiaries			-14		-14						-14	
Profit attributable to owners of parent			6,591		6,591						6,591	
Purchase of treasury shares				-413	-413						-413	
Disposal of treasury shares				47	47						47	
Cancellation of treasury shares			-1,814	1,814								
Purchase of shares of consolidated subsidiaries		6			6						6	
Restricted share-based remuneration		21			21						21	
Net changes of items other than shareholders' equity during period						135	3,656	108	3,899	-24	3,874	
Total changes during period	3,833	3,861	3,441	1,449	12,586	135	3,656	108	3,899	-24	16,461	
Balance at end of period	24,618	9,739	37,229	-3,117	68,470	732	5,402	-219	5,914	52	74,438	
12/2022 FY (from January 1, 2022 to December 31, 2022)												
Balance at beginning of period	24,618	9,739	37,229	-3,117	68,470	732	5,402	-219	5,914	52	74,438	
Cumulative effects of changes in accounting policies			-795		-795						-795	
Restated balance	24,618	9,739	36,434	-3,117	67,674	732	5,402	-219	5,914	52	73,642	
Changes during period												
Dividends of surplus			-1,399		-1,399						-1,399	
Reserve for the awards and welfare fund for employees of overseas subsidiaries			-22		-22						-22	
Profit attributable to owners of parent			6,021		6,021						6,021	
Purchase of treasury shares				-1,433	-1,433						-1,433	
Disposal of treasury shares				70	70						70	
Cancellation of treasury shares		-21	-719	740								
Transfer from retained earnings to capital surplus		1	-1									
Restricted share-based remuneration		-1			-1						-1	
Net changes of items other than shareholders' equity during period						298	3,712	99	4,109	6	4,116	
Total changes during period	-	-21	3,878	-622	3,235	298	3,712	99	4,109	6	7,351	
Balance at end of period	¥24,618	¥9,717	¥40,312	¥-3,739	¥70,909	¥1,030	¥9,114	¥-120	¥10,024	¥59	¥80,993	

	Unit: US\$1,000*											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
12/2022 FY (from January 1, 2022 to December 31, 2022)												
Balance at beginning of period	\$185,522	\$73,395	\$280,557	\$-23,494	\$515,981	\$5,517	\$40,711	\$-1,657	\$44,571	\$399	\$560,950	
Cumulative effects of changes in accounting policies			-5,997		-5,997						-5,997	
Restated balance	185,522	73,395	274,560	-23,494	509,983	5,517	40,711	-1,657	44,571	399	554,953	
Changes during period												
Dividends of surplus			-10,550		-10,550						-10,550	
Reserve for the awards and welfare fund for employees of overseas subsidiaries			-172		-172						-172	
Profit attributable to owners of parent			45,381		45,381						45,381	
Purchase of treasury shares				-10,799	-10,799						-10,799	
Disposal of treasury shares				530	530						530	
Cancellation of treasury shares		-163	-5,419	5,582								
Transfer from retained earnings to capital surplus		12	-12									
Restricted share-based remuneration		-12			-12						-12	
Net changes of items other than shareholders' equity during period						2,247	27,975	748	30,971	50	31,021	
Total changes during period	-	-163	29,229	-4,688	24,378	2,247	27,975	748	30,971	50	55,399	
Balance at end of period	\$185,522	\$73,232	\$303,789	\$-28,182	\$534,362	\$7,765	\$68,686	\$-909	\$75,542	\$449	\$610,352	

* US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

Consolidated Statements of Cash Flows

	Unit: million yen		Unit: US\$1,000*
	12/2021 FY	12/2022 FY	
Cash flows from operating activities			
Profit before income taxes	¥ 8,538	¥ 8,085	\$ 60,934
Depreciation	3,452	3,602	27,147
Amortization of goodwill	140	144	1,088
Increase (decrease) in retirement benefit liability	-29	255	1,925
Increase (decrease) in provision for bonuses	311	398	3,006
Increase (decrease) in allowance for doubtful accounts	180	-103	-779
Interest and dividend income	-407	-679	-5,121
Interest expenses	327	301	2,270
Share of loss (profit) of entities accounted for using equity method	-99	-86	-653
Foreign exchange losses (gains)	-250	-283	-2,139
Extra retirement payments	-	179	1,355
Loss (gains) on sale and revaluation of investment securities	-	0	0
Loss (gains) on sale and retirement of non-current assets	47	-7	-58
Decrease (increase) in trade receivables	-4,352	2,614	19,700
Decrease (increase) in inventories	-5,471	-5,125	-38,627
Increase (decrease) in trade payables	4,801	-1,370	-10,326
Increase (decrease) in accounts payable-other	483	113	856
Increase (decrease) in advances received	2,496	-4,618	-34,804
Increase (decrease) in accrued consumption taxes	-266	-366	-2,761
Increase (decrease) in contract liabilities	-	3,230	24,341
Decrease (increase) in advance payments to suppliers	-132	-19	-148
Subsidy income	-25	-	-
Increase (decrease) in provision for loss on compensation for damage	-75	-	-
Other	-574	-1,248	-9,406
Subtotal	9,096	5,015	37,799
Interest and dividends received	280	923	6,958
Interest paid	-327	-298	-2,250
Subsidies received	25	-	-
Income taxes refund (paid)	-1,431	-2,096	-15,802
Net cash provided by (used in) operating activities	7,642	3,543	26,705
Cash flows from investing activities			
Payments into time deposits	-200	-6,840	-51,547
Proceeds from withdrawal of time deposits	96	465	3,508
Purchase of property, plant and equipment	-2,107	-3,554	-26,784
Proceeds from sale of property, plant and equipment	539	201	1,519
Purchase of intangible assets	-344	-653	-4,926
Purchase of investment securities	-0	-10	-77
Proceeds from sale of investment securities	-	0	0
Purchase of shares of subsidiaries and associates	-	-480	-3,617
Loan advances	-23	-70	-533
Proceeds from collection of loans receivable	3	1	10
Other	-165	-16	-125
Net cash provided by (used in) investing activities	-2,203	-10,957	-82,571
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	-543	-487	-3,677
Proceeds from long-term borrowings	8,544	5,000	37,679
Repayments of long-term borrowings	-7,583	-6,921	-52,155
Redemption of bonds	-454	-140	-1,055
Repayments of finance lease liabilities	-359	-630	-4,752
Proceeds from sale and leaseback transactions	254	-	-
Purchase of treasury shares	-413	-1,433	-10,799
Dividends paid	-1,320	-1,399	-10,550
Other	-56	-	-
Net cash provided by (used in) financing activities	-1,932	-6,012	-45,309
Effect of exchange rate change on cash and cash equivalents	2,466	2,355	17,752
Net increase (decrease) in cash and cash equivalents	5,973	-11,070	-83,424
Cash and cash equivalents at the beginning of period	38,255	44,229	333,302
Cash and cash equivalents at the end of period	¥ 44,229	¥ 33,158	\$ 249,878

* US\$ amounts are converted at the rate of US\$1 = 132.70 yen observed in trading in the Tokyo foreign currency market as of December 31, 2022.

Location of Head Office:

3-12-1, Nakamachidai, Tsuzuki-ku, Yokohama, Kanagawa,
224-8522 Japan
Phone: +81-45-942-3111 (main)

Established: August 3, 1976

Capital Stock: 24,618 million yen

Total number of authorized shares: 150,000,000

Total number of shares issued: 57,292,239

Total number of shareholders: 16,249

Number of employees: 1,087 (3,746 consolidated)

Fiscal year: January 1 - December 31

Annual shareholders' meeting: March

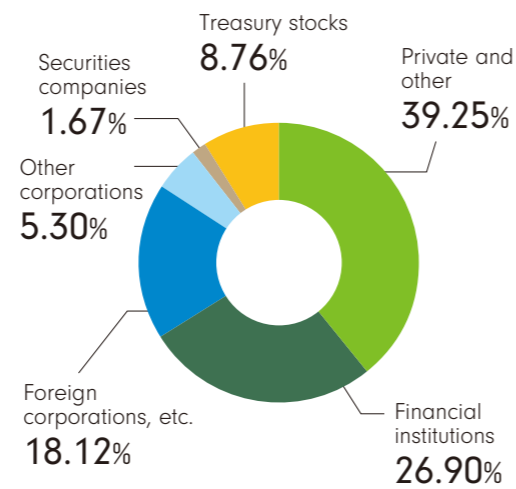
Administrator of the shareholder register:

Sumitomo Mitsui Trust Bank, Limited
2-8-4 Izumi, Suginami-ku, Tokyo, 168-0063
Phone: 0120-782-031 (toll-free within Japan only)

Major Shareholders

	No. of shares (shares)	Percent ownership (%)
The Master Trust Bank of Japan, Ltd. (trust account)	7,718,600	13.47
Sodick Co., Ltd.	5,018,691	8.76
Custody Bank of Japan, Ltd. (trust account)	3,284,600	5.73
Kiyoshi Morita	1,110,070	1.94
DFA INTL SMALL CAP VALUE PORTFOLIO	1,032,700	1.80
Sodick Business Partner Stock Ownership Association	1,008,600	1.76
TF Co., Ltd.	895,000	1.56
Sumitomo Mitsui Banking Corporation	850,000	1.48
Kenichi Furukawa	815,101	1.42
Hiroko Furukawa	800,000	1.40

Share Distribution by Holder



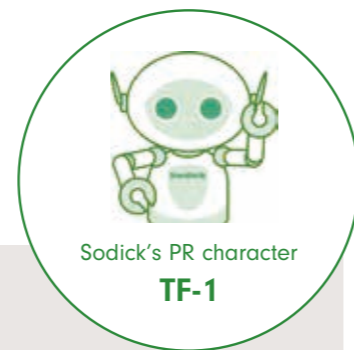
Sodick IR Site



Please feel free to use our IR site.
<https://www.sodick.co.jp/en/ir/>

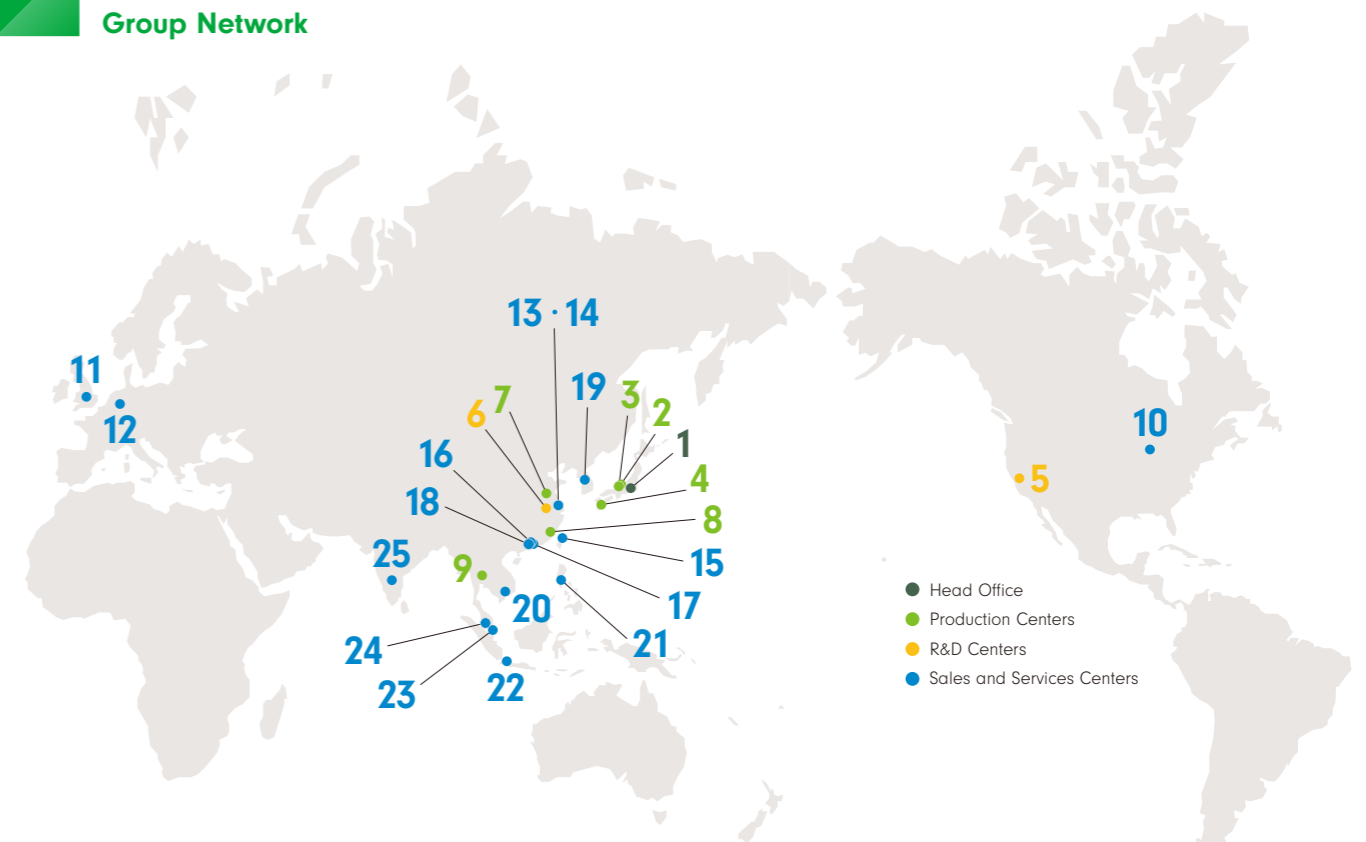


- Sodick's Strength**
Gives a concise overview of our operations, our strengths, and our growth strategy.
- Now accepting questions**
Please use our inquiry form for questions. Note that the FAQ is only available in Japanese.



Sodick News Letter
A web magazine that communicates Sodick's spirit of creativity

Sodick's PR character "TF-1" reports from various angles on the technology, people and events that together make up the Sodick spirit.



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| 1 Sodick Head Office/
Technical Training Center | 2 Sodick
Kaga Factory | 3 Sodick
Fukui Office | 4 Sodick F.T
Miyazaki Factory |
| | | | |
| 5 Sodick America
Corporation (San Jose) | 6 Shanghai Sodick
Software Co., Ltd. | 7 Suzhou Sodick Special
Equipment Co., Ltd. | 8 Sodick Amoy
Co., Ltd. |
| | | | |
| 9 Sodick (Thailand)
Co., Ltd. | 10 Sodick, Inc. (Chicago) | 11 Sodick Europe Ltd. (U.K.) | 12 Sodick Deutschland GmbH (Germany) |
| | | | |
| 13 Sodick Electromechanical
(Shanghai) Co., Ltd. | 14 Sodick Tom (Shanghai) Co., Ltd. | 15 Sodick (Taiwan) Co., Ltd. | 16 Sodick International Trading
(Shenzhen) Co., Ltd. |
| | | | |
| 17 Sodick (H.K.) Co., Ltd. | 18 Sodick Enterprise (S.Z.) Co., Ltd. | 19 Sodick Korea Co.,Ltd. | 20 Sodick Vietnam Co., Ltd. |
| | | | |
| 21 Sodick Philippines Inc. | 22 PT Sodick Technology Indonesia | 23 Sodick Singapore Pte., Ltd. | 24 Sodick Technology (M) Sdn Bhd. |
| | | | |
| 25 Sodick Technologies India Pte., Ltd. | | | |
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Responsibility for Publication

On the Publication of Sodick Integrated Report 2022

This report is intended to give shareholders, investors, and a wide range of other stakeholders a better understanding of our value-creation story that seeks to achieve the Sodick vision of “Helping to create a sustainable society through manufacturing.” The report includes excerpted information deemed particularly important to readers, including basic information, financial data, management strategies, and environmental, social, and governance (ESG) information based on major guidelines.

Production was led by an administrative structure with the Office of the President, Corporate Division, Sodick Co., Ltd., as the responsible division, and many business departments, including the machine tools, industrial machinery, and food machinery divisions, the Production Management Division, the Human Resources Department, the General Affairs Department, the EFM Department, Sodick F.T, and Sodick (Thailand) Co., Ltd. cooperated in the planning and production. To disclose accurately the actual state of our corporate activities, management was directly involved with regard to content pertaining to areas including recognized risks and opportunities in the business environment, organizational strategy, governance, business results and forecasts, and policies for materiality and sustainability. I hereby certify that the production process and the information contained in this report are legitimate.

Please refer to the Sodick corporate website (<https://www.sodick.co.jp/en/>) for detailed information in addition to that contained in this report.

As stated in this report, Sodick is now working on its medium-to long-term corporate vision, focusing on reforming its business model, organization, and policies throughout the Group, and shifting to sustainability management. Going forward, Sodick will strive to refine its corporate strengths and enhance corporate value through constructive dialogue with its stakeholders. I look forward to your candid opinions regarding Sodick’s management and corporate activities.



Hirofumi Maejima

Executive Managing Director,
Corporate Division



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Yokohama, Kanagawa, 224-8522 Japan
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<https://www.sodick.co.jp/en/>