

Sodick Co., Ltd.

# **Integrated Report 2023**

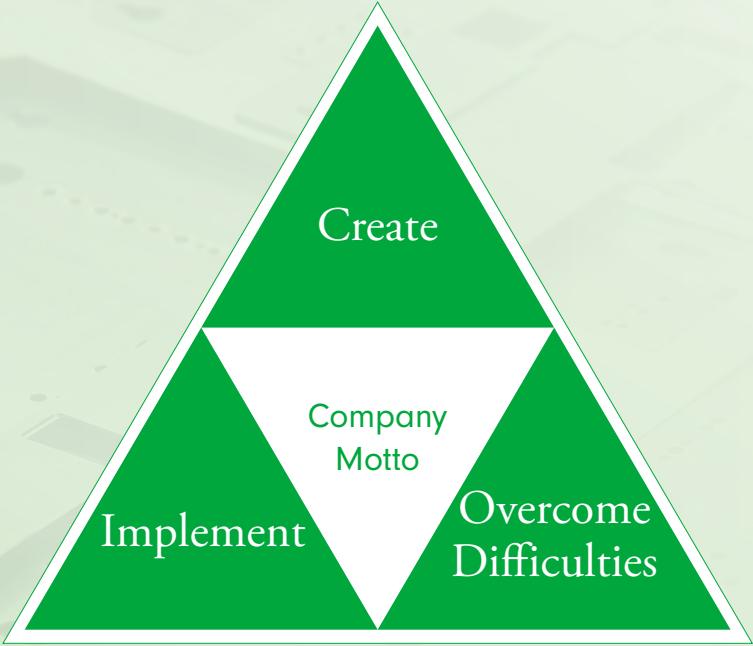


Origins/Development Philosophy

To contribute to our customers’ manufacturing operations,  
“We create it if it does not exist.”

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 FY2023. Some of the content included herein dates from immediately before or after the period in question.

**Information Disclosure Framework**  
This report features carefully selected, highly important information related to the enhancement of Sodick’s corporate value.

**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.

**Media positioning**

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**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, Greater China, Asia, 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.



# Continuing to Create the Future

## 1976-

### Starting Point

#### Toshihiko Furukawa established Sodick

**1976** In August, Sodick Co., Ltd. was established in Midori-ku (currently, Aoba-ku), Yokohama, with 24 employees  
In December, the Company delivered the first NC die-sinker EDM with a microcomputer

**1977** "GPC" power supply series for NC die-sinker EDM completed

**1978** Head Office relocated to Nippa-cho, Kohoku-ku, Yokohama

### Technical Development & Remarkable Growth

#### Development of world's first NC EDM

**1980** Fukuji Office completed in Sakai-cho, Sakai-gun (currently, Sakai City), Fukuji Prefecture as a main production center  
Started sales of NC die-sinker EDM in the United States

**1981** Started sales of the "330W" NC wire-cut EDM equipped with five-axis control

**1982** New Head Office completed in Shin Yokohama, Kohoku-ku, Yokohama

**1986** Company's shares listed on the Second Section of the Tokyo Stock Exchange

**1987** Kaga Factory completed as second production center (automated EDM production system introduced)

## 1988-

### Overseas Development

#### Sodick Thailand became first overseas production center

**1988** Expanded overseas  
Established Sodick (Thailand) Co., Ltd. in Thailand

**1989** Started the injection molding machine business  
Developed and sold injection molding machine with our proprietary V-LINE<sup>®</sup> technology

**1989** Completed construction of Research and Technology Center in Kohoku-ku, Yokohama

### Period of Accelerated Growth

#### Full-scale entry into China

**1991** Acquired shares of Japax, Inc.  
Established a software company in Shanghai, China  
Total sales of the "A series" NC wire-cut EDMs reached 2,000 units

**1993** Established Sodick Singapore Pte., Ltd. in Singapore

**1994** Began setting up production and sales structure in China, established Suzhou Sodick Special Equipment Co., Ltd. in Suzhou, China

**1997** Head Office relocated to Nakamachidai, Tsuzuki-ku, Yokohama

Established Sodick (Taiwan) Co., Ltd. in Taiwan

Established Sodick Electromechanical (Shanghai) Co., Ltd. in Shanghai, China

Released the "MC series" machining center

## 1998-

### Technical Innovation

#### World's first high-speed NC die-sinker EDM equipped with linear servo motor

**1998** Released the "TR80EH" hybrid injection molding machine

Released the "AM series," the world's first high-speed NC die-sinker EDM equipped with linear servo motor

**1999** Released the "AQ series" NC die-sinker EDM equipped with linear servo motor on three axes

## 2000-

### Taking on Challenge of Nano-Level Accuracy

#### Ultra-precision linear nano-machining center

**2000** Established Sodick America Corporation (R&D center) in Silicon Valley, United States  
Established Sodick Europe Ltd. in the United Kingdom as first European sales center

**2001** Sodick Plustech Co., Ltd. listed on JASDAQ stock market

Developed the "NANO-100," the world's highest-class nano-level precision processor

**2002** Released the "LQ series" NC power supply equipped with 3D solid model

Released the "MC430L" ultra-precision linear nano-machining center

Sodick began when our founder, Toshihiko Furukawa, developed the world's first technology that held the key to the practical application of electrical discharge machines (EDMs). Since then, we have supported technological innovation in Japan and around the world with a number of "world firsts." We will continue to contribute to society going forward through future-oriented manufacturing.

## 2003-

### Market Expansion

#### Top market share in high-end market

**2003** Developed and released the "LQ33W," the world's fastest high-speed NC power supply for wire-cut EDM

**2005** Achieved the world's fastest total shipments of 10,000 linear motor drive machines

**2005** Sodick Hightech Co., Ltd. listed on the Hercules stock market of the Osaka Securities Exchange

**2006** Established Sodick Amoy Co., Ltd. in Xiamen, China

## 2007-

### Progression of Linear Technology

#### Ultra-precision with linear motor drive

**2007** Started the food machinery business, began developing, manufacturing, and selling noodle-making machines

**2008** Total shipments of linear motor drive machines reached 20,000 units  
Released the "AG40L" and "AG60L" linear motor drive high-speed die-sinker EDMs

Released the "AG400L" and "AG600L" linear motor drive high-speed/high-performance wire-cut EDMs

Released the "AZ250" nano-machining center

**2009** Sodick merged with its subsidiary Sodick Hightech Co., Ltd.

**2010** Announced new business expansion for LED-lighting segment  
Established Sodick LED Co., Ltd.

## 2012-

### Expanding Business Fields

#### Full-scale entry into the food machinery segment

**2012** Sodick merged with its subsidiary Sodick Plustech Co., Ltd.  
Established Sodick Vietnam Co., Ltd. in Vietnam

**2013** Completed construction of the Second Factory in Thailand

**2014** Released the "OPM250L" linear motor drive precision metal 3D printer  
The "OPM250L" later won the Nikkan Kogyo Shimbun "Main Award of the 57th (2014) Best 10 New Product Awards"

**2015** Company's shares listed on the First Section of the Tokyo Stock Exchange

**2016** Completed construction of food machinery plant at Kaga Factory

**2017** Began developing, manufacturing, and selling aseptically-packed cooked rice production systems

**2018** Completed construction of Multi-factory at Kaga Factory

**2018** Opened new technical center at Sodick, Inc. in the United States  
Completed construction of second building at Sodick Head Office/Research and Technology Center

## 2019-

### A New Age

#### Corporate transformation aiming for rapid, new growth

**2019** Established Sodick Singapore Techno Centre Pte., Ltd. in Singapore

Developed world first "SRT method" for stable molding of large-scale metal mold parts using a metal 3D printer

Opened new technical center at Sodick Europe Ltd. in the United Kingdom

**2020** Selected as one of "The 100 Global Niche Top Companies" for 2020 by the Ministry of Economy, Trade and Industry (METI)

Released the "INFILT-V<sup>®</sup>" injection molding system for biodegradable plastics

**2021** The "K4HL" linear motor drive ultra-high-speed small-hole drilling EDM won the "Main Award of the 63rd (2020) Best 10 New Product Awards"

The "INFILT-V<sup>®</sup>" inert gas dissolution injection molding system received the "environment, resource, and energy-related parts award of the 18th (2021) Ultra Monozukuri Parts Awards"

**2022** The "LPM325S" high-speed building metal 3D printer won the "Main Award of the 64th (2021) Best 10 New Product Awards"

Stock listing transferred to Prime Market of the Tokyo Stock Exchange

Rapid cooling equipment for granule powder (food machinery) won Judging Committee Prize at the 1st FOOMA Award 2022

**2023** Expanded new food machinery plants (at Kaga Factory and China Amoy Factory) to strengthen production structure

Launched the "LSP5070" femtosecond laser processing machine

Embarked on structural reforms

**2024** Formulated a new medium-term management plan

1977

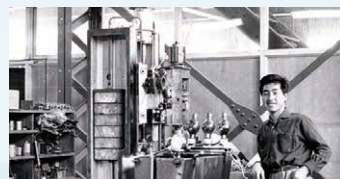
1980

1990

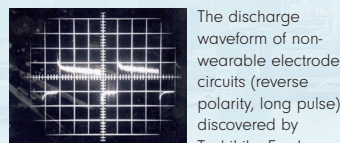
2000

2010

2020



Toshihiko Furukawa at the time of Sodick's establishment in 1976



The discharge waveform of non-wearable electrode circuits (reverse polarity, long pulse) discovered by Toshihiko Furukawa around 1963



Sodick (Thailand) Co., Ltd.



China Suzhou Factory



AM35L  
World's first EDM  
equipped with linear  
servo motor



TR50S2  
Injection molding machine with our  
proprietary V-LINE<sup>®</sup> technology



China Amoy Factory



NANO-100  
Ultra-high-precision  
nano-level  
processor



Vacuum mixer for noodle making



Cooked rice production systems  
(part of aseptically-packed cooked rice  
production systems)



OPM250L  
Linear motor drive  
precision metal 3D  
printer



Kaga Multi-factory



## Sodick's Businesses

## Machine Tools

Electrical Discharge Machines (EDMs),  
Machining Centers, Metal 3D PrintersCreating ultra-high-precision  
molds and parts

AL600G iG+E wire-cut EDM

Equipped with our proprietary wire rotation mechanism (i Groove), reduces wire consumption while energy-saving pump system reduces energy consumption

AL100G+ die-sinker EDM

Equipped with high-output linear motor developed and manufactured in-house. Upgraded discharge controls and discharge circuits achieve higher processing precision, speed, and quality



UX450L machining center

High-speed, high-precision linear motor drive with ultra-lightweight head for high-speed, high-precision processing



LPM450 metal 3D printer

Our proprietary powder materials and new laser mechanism for larger-sized and faster processing

Sodick products addressing increasingly  
sophisticated manufacturing

In order to support customers' manufacturing, we are devoted to resolving customers' issues, even developing new products and technology not yet in existence. We provide customers with optimal solutions to solve their issues through leveraging our proprietary technologies and developing applications for new products.

## Industrial Machinery

Horizontal Injection Molding Machines, Vertical Injection Molding Machines,  
Light Metal Alloy Injection Molding Machines, Automation SystemsResolving molding issues  
with excellent stability and productivityVT50 vertical single-acting-type  
injection molding machine

Contributing to even higher productivity with both molding stability with V-LINE® technology and molding cycle reduction with our proprietary hybrid toggle mechanism

GL30G2 horizontal injection  
molding machine

Global standard V-LINE® model contributes to high-value-added molding in various fields including those for precision equipment, electronic equipment, optical devices, and medical devices



MR30 injection molding machine for OPM mold

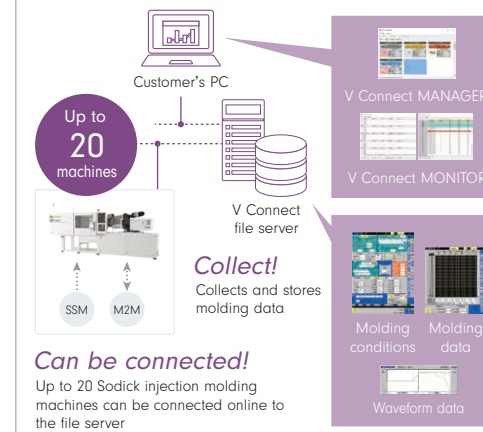
All-in-one structure for peripheral devices needed for injection molding with a V-LINE® injection molding unit as a base features a compact design and saves energy

Quality and Production Management Systems,  
Machine Utilization Management Monitors

## Sodick IoT

## Clearly displayed!

Monitor displays real-time operating state, production conditions, operating record, and molding results

Visualizing manufacturing  
sites, sophisticated controls

## S-Viewer machine status monitor

Software that inspects every NC unit at fixed intervals to collect data and permit integrated management of operating states of registered NC units. Allows to detect problems such as temporary stoppage rapidly even from a remote location, and improve machine operating rates

V Connect total management  
system for quality and production

Various molding data can be collected by connecting the "V Connect" file server and multiple injection molding machines online. Enables customers to easily monitor molding status on their PCs and improve productivity and quality

Aseptically-Packed Cooked Rice Production Systems, Noodle-Making Machines,  
Confectionery and Precooked Side Dishes Equipment

## Food Machinery

Creating even more safe, secure,  
and delicious food

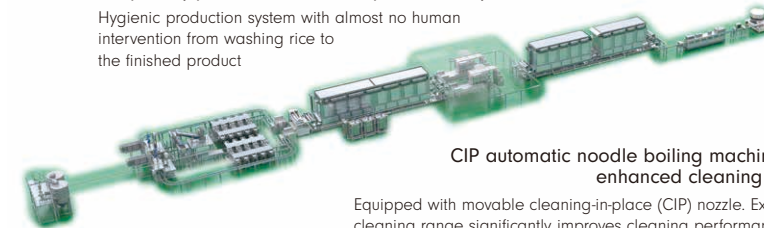
## Continuous steam sterilizer

Gondola system for space-saving design. High thermal efficiency enables uniform and consistent sterilization. Automatic load-and-discharge device makes possible totally unmanned operation

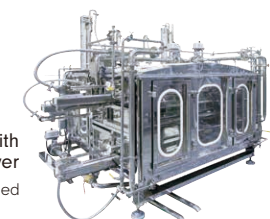


## Aseptically-packed cooked rice production system

Hygienic production system with almost no human intervention from washing rice to the finished product

CIP automatic noodle boiling machine with  
enhanced cleaning power

Equipped with movable cleaning-in-place (CIP) nozzle. Expanded cleaning range significantly improves cleaning performance

DDM continuous noodle-  
sheet press roller

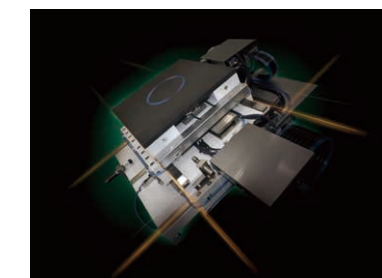
Equipped with direct drive motor (DDM) with motor and roll directly connected. Waved rolls create a handmade-like noodle texture

Precision Dies and Molds, Ceramics,  
Linear Motors, LED Lighting

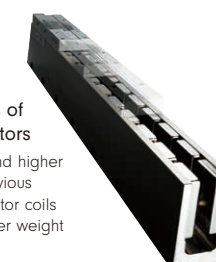
## Others

Ultra-precision ceramics  
XY θ Stage

Proprietary mechanism uses low center-of-gravity structure and low thermal-expansion metals

Our proprietary in-house technology  
for superior productsNew CA\_V3 series of  
coreless linear motors

More compact size and higher driving force than previous models. Low-mass motor coils and magnets for lighter weight and compact size



## PIKA series of LED floodlights

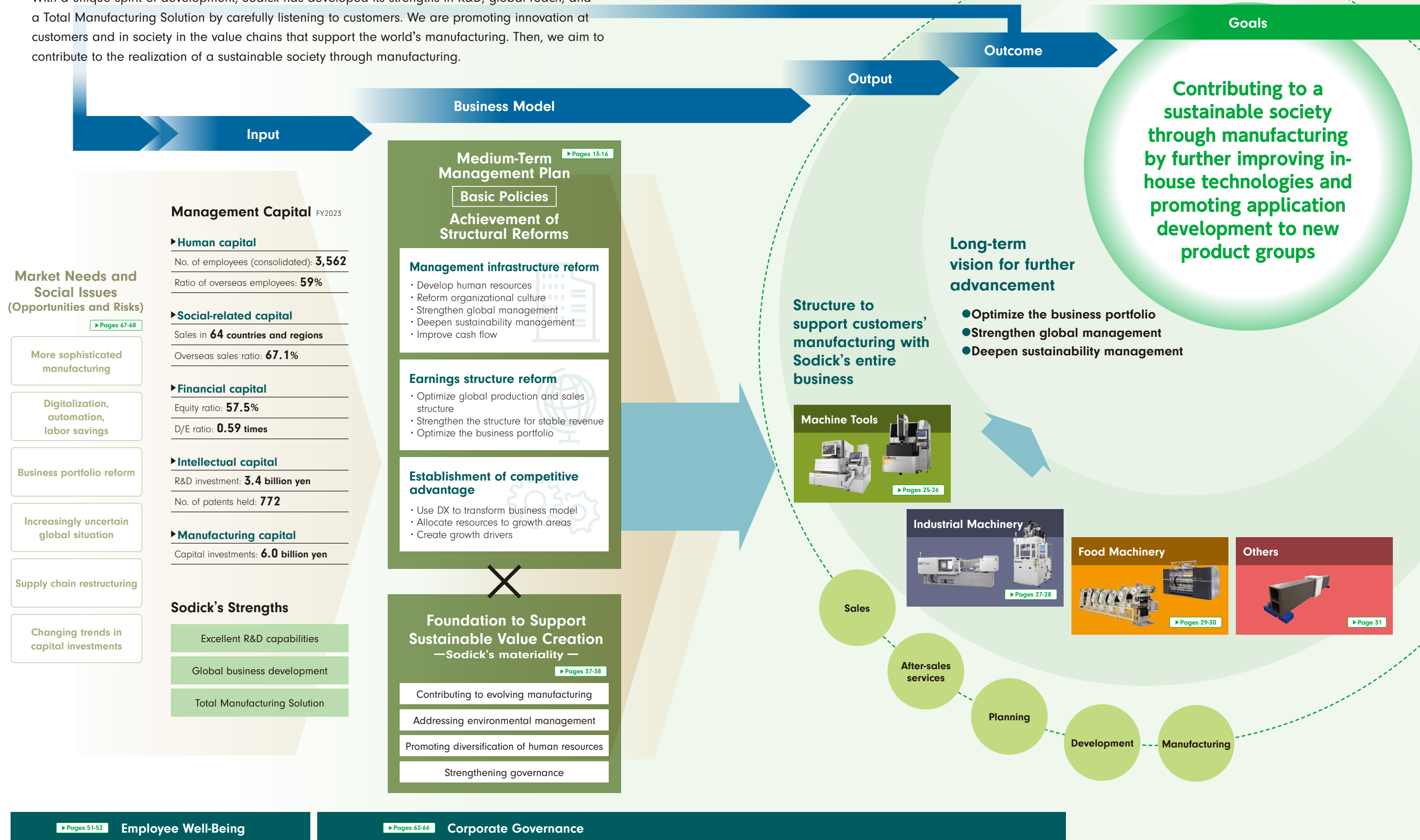
Bright but without glare, to address light pollution





## Sodick's Value Creation Process

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. Then, we aim to contribute to the realization of a sustainable society through manufacturing.



# A three-year medium-term management plan that looks beyond the short term to the future. The Sodick Group as a whole will focus on laying the foundation to return Sodick to a growth trajectory during this plan.

Kenichi Furukawa

CEO  
President and Representative Director

## Looking back on FY2023

Business conditions in Greater China started to shrink after the government issued its zero-COVID policy in 2022 and showed no signs of recovery in 2023. The operating environment of FY2023 was extremely challenging for Sodick due to the price hike of raw materials and energy, fears of a recession and prolonged depreciation of the

yen as central banks worldwide tightened monetary policy, and the geopolitical risks fueled by events such as the war in Ukraine, etc. Sales of machine tools in Greater China decreased about 30%, and sales of industrial machinery in Greater China also dropped about 20%. Therefore, we adjusted production volume, and the operating rates and the profitability in the factories declined. In addition, we incurred an inventory write-down because of the expansion of components previously arranged during supply chain disruptions.

We initiated structural reforms in the third quarter to improve profitability. However, net sales for FY2023 nonetheless decreased 16.5% year on year, to 67,174 million yen. In terms of profit, we recorded an operating loss of 2,819 million yen, compared with operating profit of 5,813 million yen year on year, largely owing to a heavier burden of labor costs, manufacturing costs, and deteriorating profitability at overseas factories from production adjustments.

We foresee that the future will definitely come when the way of producing automobile-related molds will change and then new molding methods can be properly developed and applied. However, it will take more time for the industry to examine and make a decision on next-generation vehicles, whether electric vehicles, plug-in hybrids, or hydrogen fuel-powered vehicles. In addition, we saw that the production of electronic devices and electronic parts has entered an adjustment phase amid the falling demand that followed the spike in demand during the COVID-19 pandemic and recovery from the semiconductor shortage, except for a few items. The aerospace industry is booming, but this situation has not yet increased demand for producing new molds in this industry. Given these factors, we should not be particularly optimistic about our prospects in the future. In fact, we expect the current severe business environment to continue for the time being.

Consequently, we decided to restructure our organization and implement structural reforms to keep growing and gain enough profit even if market conditions remain severe.

## Structural reforms for a completely different structure after the destruction of existing internal system and organization

Companies that manufacture primarily in Japan are more susceptible to a decrease in profits from the appreciation of the yen. On the other hand, Sodick manufactured more than 90% of products overseas and earned profit even if the exchange rate of the yen rose to the rate of under 100 yen to the U.S. dollar. We began the overseas production around 1988, and this business model proved extremely successful as the trend of the appreciation of the yen continued for more than 30 years. However, in early 2022, the depreciation of the yen suddenly began, and the yen dropped to the rate of over 150 yen to the U.S. dollar. Then, we lost the advantage of overseas production and it became difficult for us to secure profit with our business model.

We formulated the long-term management plan "Next Stage 2026" in 2018, when both net sales and profits of Sodick reached record highs. From 2019, the economic situation changed significantly, largely due to U.S.-China trade friction, the COVID-19 pandemic, and Russia's invasion of Ukraine. Those issues caused wide gaps between targets of our long-term management plan and actual business results. In 2022, we concluded that we needed the reform of our business and a long-term vision. We got our next-generation leader candidates to examine the new long-term vision of Sodick. We, firstly, envisioned the ideal representation of Sodick in and after 2030 and made concrete business plans to achieve the long-term target. However, our business results deteriorated noticeably from the second half of 2022 due to sluggish demand in the Chinese market and rapid depreciation of the yen. We recognized that we had to change our business structure to a completely different one after destruction of the existing internal system, otherwise we could not earn profit and present a truly realistic growth strategy. In November 2023, we announced that we would draw back the long-term management plan and embark on structural reforms.

We have frequently discussed our dependence on the Chinese market as one of the key management issues. For machine tools, our core product category, Greater China accounted for 40% of net sales and close to 60%

of number of sales. We had a local-production-for-local-use system in our business. When the demand exceeded production capacity in mainland China at its peak, we also manufactured machines in Thailand for sale in China. Over the past 30 years, mold technology in China has steadily advanced, and China became the largest market of the mold industry in the world. We consider it natural that the dependency of our machine business on the Chinese market significantly increased and the machine market leaned toward China during the period. However, the situation gradually changed, and mold manufacturing has shifted to countries other than China.

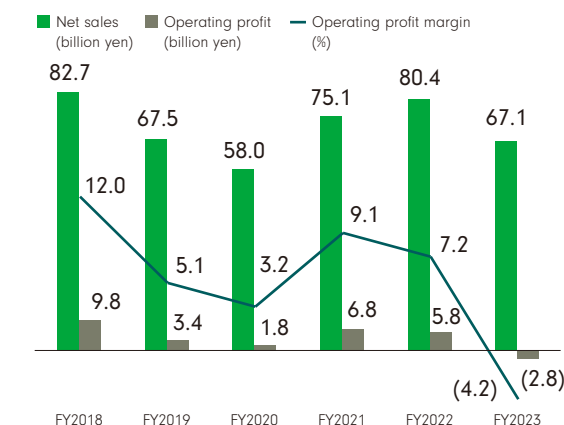
We have two factories in China (in Xiamen and Suzhou). However, we will consolidate the two manufacturing operations into the Amy Factory in Xiamen in order to raise productivity and reduce production costs. Meanwhile, since many customers still use our machines in the Suzhou area, we will establish a new technical center and services center to reinforce our after-sales service business there.

At the same time, we will strengthen production in Japan. To date, the multi-factory lines have produced at the Kaga Factory, but its profitability has been low due to low production volume and low facility operating rates. From 2024, we will increase the output at the Kaga Factory, promote automation and Digital Transformation (DX) through new investment, and establish a highly profitable production system. We had discussed many times in the past strengthening domestic production, but we could not find the merits of increasing production in Japan under the appreciation of the yen. Now, however, as the yen has kept depreciating, we decided to establish an excellent production system in Japan. Through the current series of structural reforms, we will create the tripolar production system based in Thailand, China, and Japan.

Initially, we planned to produce injection molding machines for the Chinese market at a new factory line in the Amy Factory. However, the advantage of local production has decreased because of sluggish demand in China, so we decided to discontinue production in the Amy Factory and shift those operations to Japan, again. As some injection molding machines have been produced in the Thailand Factory as well, we aim to boost the operation rate of the factory and increase profitability through the bipolar production system based in Thailand and Japan.

We are also pushing through major reforms in R&D activities. Previously, we focused on developing new models fine-tuned to a variety of customer requirements, leading to a wider product lineup. From now on, we will screen and streamline the development themes, review the product lineup, and increase the higher value-added products to enhance our competitive edge. We will decrease the low-profit models in our product lineup and streamline the product portfolio, aiming to improve profitability of our whole product portfolio.

### Performance trends over past six years





## Next growth story of Sodick after current structural reforms

The important strategies in our structural reforms are to reduce our dependence on China and to rebuild our earnings base through executing selection and concentration of our product portfolio. Completing structural reforms was set as our ultimate goal in the newly announced medium-term management plan. However, just implementing structural reforms is not enough for our further future growth. We have to take other measures for business growth without a drop in the loop of the reductive balance of the Sodick Group. I would like to explain several ideas of our next growth story as follows. First, in the machine tool segment, we will strengthen sales outside China, focusing on emerging markets, especially India and Mexico. We are seeing a trend among manufacturers in Japan, Europe, and the U.S. to produce the molds required for advanced processing technology, internally by themselves. Also, in Japan in particular, orders from the automotive industry are still at a standstill, but new budgets have been allocated in the aerospace and defense industries. In the semiconductor industry, large-scale production bases will be completed in Kumamoto and Hokkaido, Japan, and we will extend our reach in this market from the second half of 2024. We expect the business trend of production in each region of the global scope as follows. In China, production of components and precision parts will continue. On the other hand, production of finished goods will gradually shift to India, Vietnam, Mexico, and other regions. Looking ahead, Sodick established a local sales company, SODICK TECHNOLOGIA MEXICO, in July 2023, and began full-scale support to boost its sales activities in Mexico.

In the industrial machinery segment, we are strong in the medical device sector in the U.S. and will extend our sales reach to Europe from the current focus in the U.S. In the food machinery segment as well, we will reinforce our overseas sales organization by emphasizing the noodle-making machines and the cooked rice production systems for Asian countries, where strong needs and huge market potential are prospected in.

Even though the way of making molds changes, Sodick will remain the indispensable company for customers and continue to support customers' manufacturing activities. We will adhere to our corporate philosophy and stress "contributing to a sustainable society through manufacturing by further improving in-house technologies and promoting application development to new product groups."

One of the next and potential mainstream technologies of manufacturing is the metal additive manufacturing with metal 3D printers. One 3D printer was limited to deal with



only one material in the past, but the LPM325S, our 3D printer launched in autumn 2021, can deal with multiple metal molding materials in one machine. As Europe and the United States are key markets of metal 3D printers right now, we invested our capital in and made a business alliance with an Italian metal 3D printer company to promote full-fledged overseas expansion. In addition, Japanese companies seem to gradually have interests in additive manufacturing, and we are promoting development of machines able to accommodate gigacasting and larger molds in the Japanese automotive industry.

Another key product is the laser processing machine. Over the years, we have accumulated the linear motor control technology essential for high-speed and high-precision movement, and could produce the laser processing machines that achieve higher performance than competitors' machines. We were new in this market, but we have already received inquiries from customers. We will collaborate with them on development of laser processing machines, aiming to raise the product performance to the highest level possible and quickly catch up to the competitors in this area.

We believe that Sodick can provide a variety of solutions for our customers in fine and precise processing by providing our state-of-the-art processing technology in a new era of manufacturing. We will actively allocate our budget to growth investments including capital investment, R&D investment, and M&As. At the same time, we recognize that PBR (price book-value ratio) of Sodick was 0.48 as of year-end 2023, and this figure is extremely low. To overcome this situation, we will vigorously strive to secure high profit through our business activities, and make our shareholders and investors expect our stable profitability and potential to continue to grow in the future. On the financial front, we have secured enough necessary capital to simultaneously execute structural reforms and growth strategies, and have also continued the balance sheet adjustment as an urgent issue.

### ■ Medium-term management plan quantitative targets

	FY2023 (Result)	FY2024 (Plan)	FY2026 (Plan)
Net sales	67.1 billion yen	72.2 billion yen	90.7 billion yen
Operating profit	(2.8) billion yen	1.1 billion yen	7.3 billion yen

\* Based on assumed exchange rate of U.S.\$1 = ¥140 for FY2024 through FY2026

## Enhancement of ESG management and reform of management base

Under the medium-term management plan, we will strive to reshape the management base in unprecedented ways. A cornerstone of this process is corporate governance reform. Since 2018, we have taken steps to reconfigure the Board of Directors, including an increase in the number of External Directors to four people and a review of the

management meeting format. We recognized that more active discussions were formed and the effectiveness of the meeting was improved by adding the diverse and external perspective in the Board of Directors. We have struggled to achieve structural reforms, but those reforms should lead to the change of the overall corporate structure (as "intensive

care" for corporate structure). We will consider the sudden examination for additional policies or new investment during the reform process. To encourage quick business judgment and management decision-making from a more objective and long-term perspective by Directors, we shortened the term of the office for Directors from two years to one year. Furthermore, to separate the roles of the decision-making and supervision function from the business execution function in management and transform into a more clearly management style of monitoring board, we abolished the position of executive directors with special titles, and made the number of External Directors more than half of the Board of Directors. Additionally, I handed over the post and responsibility of the chair of both the Advisory Committee on Personnel and the Committee on Compensation to an External Director, effective February 2024, to ensure objectivity and fairness in management. We will update the compensation system for executives by revising the performance-related compensation and linking to non-financial indicators such as employee satisfaction scores. We will also consider transition to a company with an Audit and Supervisory Committee in 2025.

Enhancement of sustainability management is another important issue. Since Sodick is a manufacturing company, we have to provide high-value-added products and services. At the same time, we provide customers the methods of production with low environmental impact and that contribute to carbon neutrality, as one of our corporate missions. Toward this end, we must first reduce our own greenhouse gas emissions. In 2022, we established the EFM Department, dedicated to strengthening environmental management, and continue to promote activities aimed at

achieving carbon neutrality by 2050. In 2023, we embarked on initiatives to make Scope 3 emissions the same across the entire value chain, from suppliers to the Sodick Group and further to customers' facilities.

In terms of human resources, under the medium-term management plan, we recommit to activities that encourage diversity, deepen engagement through employee satisfaction surveys, and promote health and productivity management. In addition, we are currently seeking to improve meetings, formats, document work, work methods, and other measures to improve internal communication. We are also reviewing the personnel management system and the measures used to evaluate employee growth.

For promoting the active participation and advancement of women in the workplace, as it is, originally, difficult to recruit female employees and the number of female employees tends to be low in machinery companies in general, we are trying to hire more women and increase the percentage of women in management positions to 5% by 2026. Actually, we are implementing various measures such as letting female employees work at overseas Group companies and providing support for career development. At present, the Department Manager of the Export Control Department is a woman. Export control work has the potential risk that a single mistake could significantly damage a company's credibility. So, I felt the manager of the department requires a strong sense of justice and mission, and assigned her the role based on her experience and skills. We will actively provide opportunities to upgrade personal skills and management skills for more women in Sodick, after her, to be able to take on the challenge of management positions with strong confidence.

## Sodick's value lies in the trust built with customers

We acknowledge that we have to first destruct our business foundation, which we have built over the past 40 years, under the structural reforms. And then, we will rebuild a new one. Our business model and our successful history were certainly worthy of praise. However, it is obvious that the current business model, which had huge success in the past, does not work in today's business environment. If we are to survive in the future, we have to restructure it now.

I have often asked myself what the significance of Sodick's existence is. I believe our value lies in the trust we earned from the customers who chose us and continued to use our products and services in their production. To prove we are worthy of such customers' trust, Sodick continues to progress and provide advanced products and services for customers. Our customers are better aware of the advantages of our technologies than we are. They understand that we are not just an assembly manufacturer but a manufacturer that has the proprietary technology and tries to produce the main machine components, too, which are key items for higher processing in customers' production, by in-house production, for customers. Customers are confident in asking for advice or making specific requests because they know Sodick can provide solutions for their problems. We work with our customers on-site, like a partner in manufacturing operations. We are proactive, taking pride in our ability to

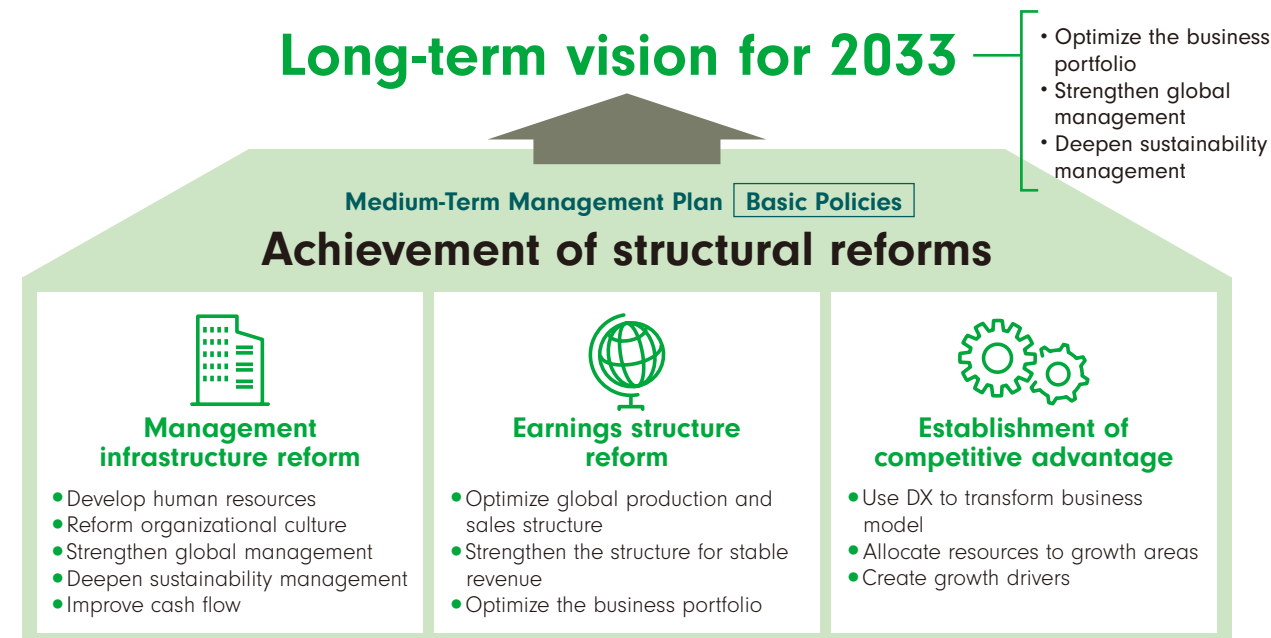
offer constructive suggestions for customers—"You could use this" or "That probably will work out well"—regarding applications and solutions. By promoting open innovation and collaborating with outside associates boasting excellent technology, the Sodick Group will work as a cohesive team and enhance capabilities to provide customers access to a wide range of options. The purpose of corporate culture reform, currently being coordinated mainly by young employees, is to realize the level up of both the organization and the individual employee of Sodick, take everyone under the corporate umbrella in the Sodick Group to new heights, and create an atmosphere conducive to growth and motivation through close communication each other.

We will strive to build a solid foundation for Sodick getting into a growth trajectory again during this three-year medium-term management plan from 2024. The medium-term management plan is based not only targeting better business results on a short-term perspective but also a bright future, as we can achieve our objectives, on a long-term view. We believe that if we achieve those goals, we will steadily go forward to a further brighter future.

I am asking both our shareholders and other stakeholders to look forward to the progress of structural reforms and the future growth of Sodick.

## Medium-Term Management Plan 2024–2026

### Basic Policy of the Medium-Term Management Plan (2024–2026)



In light of the drastic changes in market conditions since 2022, we found that it will be difficult to improve earnings with the current management infrastructure and business model. Therefore, we have embarked on structural reforms across the entire Sodick Group.

Under our medium-term management plan covering

three years from 2024, we have set three basic policies to achieve structural reforms—management infrastructure reform, earnings structure reform, and the establishment of a competitive advantage—as we build a foundation to realize our long-term vision for 2033.

### Objective and Four Basic Policies for Structural Reforms

Objective	The business environment surrounding the Sodick Group has changed drastically and its profitability has declined significantly. The Company plans to fundamentally reform its profit structure and management structure by changing its business models.	
Basic policy	1 Reducing dependence on China	Reorganize manufacturing operations and expand production items in Japan by consolidating manufacturing at two factories in China into one factory
	2 Selection and concentration	Improve profitability by reorganizing business segments and products based on market trends and competitive environment
	3 Restructuring of production and sales systems	Rebuild production and sales systems globally in response to yen depreciation and changes in demand
	4 Balance sheet improvement	Enhance the cash conversion cycle and reduce long-term inventory Improve cash flows by reducing inefficient non-current assets, etc.

We are implementing reforms of the overall existing businesses, which have experienced significant declines in profitability. The first reform is to reduce our dependence on China in terms of both manufacturing and sales; the second is selection and concentration in businesses and products based on market trends

and the competitive environment; and the third is to restructure our production and sales systems in response to depreciation of the yen and changes in demand. Along with the better profitability resulting from these first three reforms, our fourth reform is to improve the balance sheet by reducing inventories and non-current assets.

### Business Strategy of Each Segment

#### Machine Tool Segment

Improve profitability while strengthening the competitiveness of EDMs

##### Optimize production structure

- Move production from Suzhou Factory to Amoy Factory to consolidate and optimize the production scale in China
- Fundamentally increase domestic production to create a global three-region production system (Thailand, China, Japan) compatible with the exchange rate fluctuation
- Reduce fixed costs, focusing on personnel expenses, and restore profitability by increasing productivity through the introduction of automation facilities

##### Strengthen stock businesses

- Strengthen the stable and profitable after-sales service business (consumables sales and maintenance) and meet customer needs with full lineup of services from machine sales to after-sales services

##### Reduce dependence on China

- Strengthen sales in emerging markets (India, Mexico, etc.)
- Respond flexibly to the return of production related to advanced technologies to Japan and the West

#### Industrial Machinery Segment

Review production structure and product lineup to improve profit structure/  
Increase sales volume and market share

##### Reduce dependence on China and consolidate production structure

- Discontinue production at Amoy Factory and reduce costs by increasing production in Japan

##### Shift to sales of profitable models

- Shift to the lineup of models with added value by analyzing market needs

##### Provide automation solutions

- Work with our subsidiary Sodick F.T to sell a complete line of manufacturing automation, from molds to molded products

##### Enter the European market

- Leverage sales in the United States to expand into the European market with our highly competitive electronic components and industrial machinery for medical devices

#### Food Machinery Segment

Expand sales and business areas in Southeast Asia/  
To be a global general food machinery manufacturer

##### Expand overseas sales

- Increase overseas sales by strengthening the sales structure of noodle-making machines and cooked rice production systems in Southeast Asia

##### Improve existing products

- Improve existing products from the perspective of saving energy, enhancing their productivity, making them smaller and more functional

##### Develop new products and take on consigned production

- Expand business scale through developing new food machinery and taking on consigned production



ESG Strategy

We will strengthen our sustainability management under the new medium-term management plan.

In 2021, the Sustainability Committee identified Sodick's four materiality issues (important issues). In addition to contributing to evolving manufacturing as a company that supports customers' manufacturing, we have set and are pursuing KPIs in the areas of the environment, human resources, and governance.

Contributing to evolving manufacturing

- Contribute to building of a foundation for economic development through more sophisticated manufacturing
- Higher-precision, higher-functional EDMs
  - Higher-precision injection molding machines and greater diversity of molding materials



E | Environment-related KPIs and information disclosure (TCFD)

Required items	Content of disclosure
Governance	Report and deliberate by the Sustainability Committee and the Board of Directors (at least once a year)
Strategy	Identify risks and opportunities through scenario analysis → List of assessment of significance at 4°C/1.5°C
Risk management	Report and deliberate at the Risk Management Committee (on a Company-wide management basis)
Indicators and targets	Set targets for reducing greenhouse gas emissions (as compared to the base year of 2013) <ul style="list-style-type: none"><li>● Reduce combined Scope 1 and 2 by 46% in 2030</li><li>● Promote overall emission reductions, including Scope 3, and aim for carbon neutrality by 2050</li></ul>

We are carrying out scenario analysis in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are targeting a 46% reduction in internal (Scope 1 & 2) greenhouse gas emissions by 2030 compared with the 2013 level. We are also formulating our response for Scope 3 emissions.

S | Materiality and KPIs related to human resources

Materiality	KPIs	Results	Actions
Promoting diversification of human resources	Increase percentage of women in management positions Target 5% (by 2026)	3.1% * As of December 31, 2023	Women's leadership training, etc., for position-specific and objective-specific training
	Increase percentage of male employees taking parental leave Target 100% (2027)	60.9% * January-December 2023	• Dissemination using in-house newsletters and training for managers • Conducting personal interviews with employees eligible for parental leave

A unique feature of the machine tool industry is that it has few female employees, and the percentage of women in management positions remains low today. Nevertheless, we are working toward active participation by women and supporting their career formation through position-specific training and women's leadership training.

For parental leave by men, we are working to increase the percentage of male employees taking leave by tracking employees eligible for leave, disseminating information using in-house newsletters, promoting understanding within those employees' departments, etc.

G | Strengthening governance

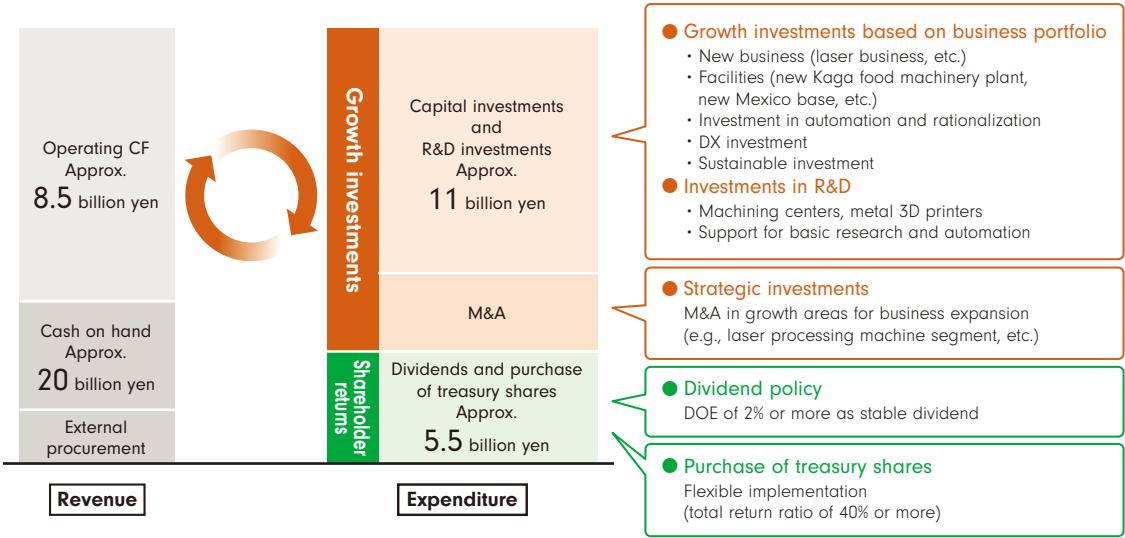
Major items of improvement
<ul style="list-style-type: none"><li>■ Shorten the term of office of Directors to one year from two years</li><li>■ Abolish system of appointing Directors with special titles, separate decision-making and supervisory function from executive function of management to clarify their roles</li><li>■ Change structure of the Board of Directors<ul style="list-style-type: none"><li>• Majority of the Board of Directors is External Directors (Percentage of independent External Directors: 55%)</li><li>• Replacement of the President and Representative Director by an External Director as the Chairperson of the Advisory Committee on Personnel and the Committee on Compensation</li></ul></li><li>■ Consider review to tie officer compensation to management plans</li><li>■ Consider shift to a company with an Audit and Supervisory Committee to strengthen governance structure further</li></ul>

Under the medium-term management plan, we have introduced a new management structure to further strengthen governance for the plan's

steady implementation. Major improvements are as shown above.

Cash Allocation

Proactively allocate capital to investment for growth



During the three-year period of the medium-term management plan, we intend to allocate to growth areas approximately 30 billion yen including operating cash flow of approximately 8.5 billion yen, cash on hand, and a portion of external procurement.

We have designated metal 3D printers and laser processing machines as our growth areas. We will invest in R&D in these areas and are considering mergers, acquisitions, and alliances for business expansion. We will also make strategic investments for growth in the European, North American, and South American markets.

Financial Targets (FY2026)

	FY2023 (Result)	FY2024 (Plan)	FY2025 (Plan)	FY2026 (Plan)
Net sales	67.1 billion yen	72.2 billion yen	82.5 billion yen	90.7 billion yen
Operating profit	(2.8 billion yen)	1.1 billion yen	4.6 billion yen	7.3 billion yen

	Indicators	Targets	2023 results
Capital efficiency	ROE (5-year average)	8% or more	3.5%
Financial soundness	Equity ratio	50% or more	57.5%
Shareholder returns	DOE <sup>*1</sup>	2% or more*	2.2%
	Total return ratio <sup>*2</sup>	40% or more	— <sup>*3</sup>

\* Dividends per share: 27 yen or more (calculated from the average shareholders' equity at the beginning and the end of FY2023 × DOE of 2%)

\*1 DOE (Dividend on Equity Ratio) = Total dividends / Shareholders' equity (average at the beginning and the end of the period)

\*2 Formula for calculating the total return ratio in the Company: Total return ratio = (dividends in FY *n*) + (purchase amount of treasury shares in FY *n* + 1) / Profit for FY *n*

\*3 Profit in FY2023 was negative, and the total return ratio was calculated to be negative, which is indicated by a hyphen.

Our five-year average ROE during FY2023 was 3.5%, but we are working toward an earnings recovery as quickly as possible with a target of a five-year average ROE of 8% or more.

We have also set targets of 50% or more for the equity ratio, DOE of 2% or more as shareholder returns, and a total return ratio of 40% or more.

## Message from COO



**Yuji Akutsu**

Chief Operating Officer (COO)  
Executive Vice President and  
Director

## Sodick will extend the successes of our turnkey business model in the United States to Japan, Europe, and other regions, leading the way into a new era of manufacturing and customer support.

### Developing a turnkey business model strengthens our commitment to provide a complete manufacturing solution for our customers.

Since I assumed COO position in November 2022, I have been working to promote growth strategy, built on three key themes: creating a solutions business, strengthening the after-sales service business, and promoting DX (Digital Transformation). In the solutions business, we create and provide advanced machines with big technical advantage and added value, such as software, solutions, remote services, and maintenance programs. In FY2023 we received rapidly increasing inquiries from mid- and large-sized Japan and U.S. corporate customers asking if Sodick could provide the necessary machinery and solutions to enable them to produce their desired products with. This is known as “turnkey solutions” in the United States, whereby we design and develop the entire process including work holding, machinery, and measurement procedure for manufacturing a product.

A reason behind the trend mentioned above is a shortage of human resources in manufacturing, which puts our customers in the difficult situation of having to make highly complex competitive products with limited human resources.

Last autumn, we invited a group of representatives from corporate customers expanding their molding machine businesses across the United States including experts in molding technology to our Kaga Factory as well as to Sodick F.T Miyazaki Factory, to show the entire automated system, from precision die manufacturing to molding. As a result, we immediately received orders for the entire automated process, including precision die, molding equipment, and automated production systems. Turnkey solution projects also increased in the aerospace industry, which has regained momentum since last year. Sodick has a complete range of die-sinker electrical discharge machines (EDMs) and small-hole drilling EDMs, which are indispensable for the production of aircraft engine components, some inquiries have already led to orders, and the scale of our business is expanding as we provide various process enhancing features, such as automation, measuring equipment, associated software, rotary axis, and specially designed fixtures. We expect the demand for such projects to continue to grow going forward. To respond positively to such emerging opportunities and accelerate expansion of our turnkey business, we will develop our internal human resources and also utilize external resources appropriately.



### Key to innovation is “engaging (with customers)”

In addition, we have been working to strengthen the after-sales service business and promote DX in parallel with creating a turnkey-focused solutions business. In 2023, we introduced CRM\* in Japan. In the United States, CRM was already operating to provide customer and sales information centrally. We worked to integrate CRM with the after-sales service business system and will launch a new business platform to manage after-sales customer support data in spring 2024. The key to innovation is “engaging (with customers),” and we will utilize IoT technology to remotely monitor machines and production status at customer sites, providing customers with various remote services, including software updates.

We are now in an era when we can realize full remote support for customers to keep smooth manufacturing operations without visiting the manufacturing site of the customers.

Through DX evolution, customers, machines, and Sodick will always be connected, and this transformation will lead to a shift toward a sustainable society (for example, all employees’ work style change due to a reduction of business travel frequency, reduction of CO<sub>2</sub> emissions, etc.).

\* Customer Relationship Management: A system and tool for managing relationships and interactions between a company and its customers

### Structural reform and overseas strategy

The Sodick Group in FY2023 unfortunately recorded an operating loss. We recognized in analysis of our financial results by country that influence and fluctuations of the Greater China economy have become extremely large over the past decade and these fluctuations potentially have a direct and huge impact on our consolidated financial performance. We have to reduce the impact and fluctuations in the consolidated financial results as we steadily continue to proceed our growth strategies to achieve our goals. Therefore, we are currently engaged in structural reforms to restructure and optimize our production system in China. At the same time, we are expediting growth strategies for North America and Europe and accelerating business development in Asia, with the aim of generating stable well-balanced corporate profit structure in every geographical area of operations.

We will extend our successful U.S. business model to Europe. In Europe, we have two subsidiaries, in the U.K. and Germany, operating mainly EDMs business, however from now on, we will reinforce our industrial machinery business as well. We are considering a wider presence in Ireland, making it a priority region, since many major pharmaceutical and medical device companies are moving into that market, where the technical advantage of our injection molding machines can be well received.

We will also strengthen our base in India, which has shown a rapid economic growth in recent years. Just

recently, I visited a local customer and found they have a large number of skilled staff members who produce extremely precise work. India is a very high potential market. We will establish a prompt delivery system by investing in local machine inventory because customers in India require short lead times to respond to rapid increase of product demand. We currently have one sales company and three branch offices, and we plan to build a new technical center in the state of Maharashtra, an industrial region where many mold and die makers are concentrated. The technical center will feature a showroom displaying our latest advanced machinery and technology.

Meanwhile, in Mexico, production volume has grown sluggish in recent years, reflecting the economic downturn in the automobile industry, but the situation has gradually recovered. Only a limited number of countries including Japan, China, South Korea, the United States, and some European countries have a capability of producing precision molds. As labor costs in the United States have continued to rise, Mexico is now an alternative location where for example, Chinese companies are also actively investing. With its huge working population and low labor costs, we assume that Mexico will become the next growth area for our machine tools, if its production capability of molds expands. Sodick will give a high priority to this market where we already have a strong presence.

### Our responsibility to stakeholders

The Sodick Group is very highly respected by stakeholders all over the world as we expand the business globally. We recognize that it is our social responsibility to meet these expectations, but we are sorry that we could not do so in FY2023. Currently, we are working collectively on structural reforms and growth strategies to steadily develop our business activities while keeping in mind the global market in the future.

As a business, we have important responsibilities—

generating profits through business activities, constantly updating parts-recycling and energy-saving technologies that fuel GX (Green Transformation), and responding to the great trust that customers place in Sodick. In addition, we believe that it is vital that we will make our business highly profitable and pay stable dividends to our shareholders. We will evolve and grow to fulfill our responsibilities to all stakeholders. Please look forward to Sodick continuously achieving our goals in the future.



## Message from CFO



**Hirofumi Maejima**

Chief Financial Officer (CFO)  
Director and  
Corporate Executive Officer

## Sodick is standing at a major turning point in its corporate history. We aim to achieve a sustainable increase in corporate value by implementing structural reforms and efficient management practices while seriously considering capital efficiency.

### Looking back on financing activities of FY2023

We encountered drastic changes of the surrounding business environment of Sodick in FY2023, and the times had truly changed. In financing activities, we made a decision in 2022 to buy back and cancel 2.5 million treasury shares. Those activities had been continuing through 2023 and ended in May. In addition, we executed a variety of financing activities to deal with the unexpected situation. Financial results for FY2023 deteriorated because of a significant decrease in the sales unit of machine tools and industrial machinery due to the prolonged and severe economic slowdown in Greater China, our largest market. Moreover, depreciation of the yen, acceleration of inflation, and continuous cost increases of raw materials, energy prices, labor costs, etc., throughout the year hurt our results. Since the 2008 global financial crisis, we have steadily strengthened our financial position while maintaining a sufficient level of working capital in response to demand fluctuations and achieved a 58.5% capital-to-asset ratio well above the 55% average of major machinery companies, as of the end of FY2022. However, the situation changed in FY2023. As the operating rates of the factory significantly decreased, the production costs have dramatically increased, and the operating

cash flow has significantly decreased. We secured a sufficient level of working capital with the use of external funding, and proceeded with liquidation of accounts receivable and inventory reduction in order to control the balance sheet. Our financial policy is that we can afford to procure funds while ensuring financial soundness, to keep from falling into a cycle of cash shortages due to delays in cash conversion and too large working capital.

In addition, the trend toward depreciation of the yen appears firmly to be prolonged, and the impact of appreciation of the yen prompted by overseas emergencies, which frequently occurred in the past, seems less likely to occur now. In FY2023, the exchange gain resulting from the depreciation of the yen failed to cover losses, leading to an operating loss of 2.8 billion yen and an ordinary loss of 1.2 billion yen.

Reflecting changes in cash flows from operating, investing, and financing activities, the balance of cash and cash equivalents increased to 33.3 billion yen at the end of FY2023. The year-on-year increase is largely due to fund raising and surplus cash in overseas subsidiaries. We are considering measures like subsidiary-parent loans in order for the timely utilization of surplus cash within the Group.

### Purpose of structural reforms and underlying basic policy

Regarding trends in the Chinese market since 2022, opinions vary widely on when and to what degree the demand will bounce back. Especially China has significantly restricted information on its economy since 2023, making it difficult to obtain sufficient data to make reliable predictions even through the representative in China. Greater China accounts for a large percentage of total sales of Sodick, and so we began considering more carefully and quickly about how to promote the business in China. Our business model, under which most products are manufactured overseas rather than in Japan, has enabled us to maintain high profit even when the yen is stronger. However, the success pattern of this business model does not seem to apply during a persistent depreciation of the yen. Furthermore, energy and raw materials costs have become the norm. Having no control over such external factors, we started to structurally reform both our business and finance practices from perspectives of responding to changes in the external environment and realizing self-reformation to mitigate risks.

In China, we will optimize production capacity to match current market size by integrating two factories into one factory and improve profitability even against the raw materials price hike with increased production efficiency. For other markets, including Japan, we will shift and reinforce production of main electrical discharge machines (EDMs) and injection molding machines into Japan since we cannot expect advantages of the overseas production system under current yen depreciation, while production in the Thailand factory had cost advantages before. We will transform and shift from the current excessive overseas production structure into a well-balanced structure across three production bases—Thailand, China, and Japan—to optimize the effect of exchange fluctuations.

From the perspective of self-reformation, we aim to narrow down our product lineup. To date, the number of

models for both EDMs and injection molding machines has increased every year, as we worked to meet the high-level requirements of our customers. But too many models brought disadvantages of insufficient resources supporting machines' stable performance and its improvement. From now on, we will narrow down our lineup and follow a policy of simultaneously improving the product performance and securing profit. Along with that, we will promote a change in awareness of the sales department that would prioritize profitability over number of units sold in sales targets. At the same time, as we mentioned above, we will do our utmost to collect funds in the shortest period while carefully monitoring the situation in each country where our products are sold.

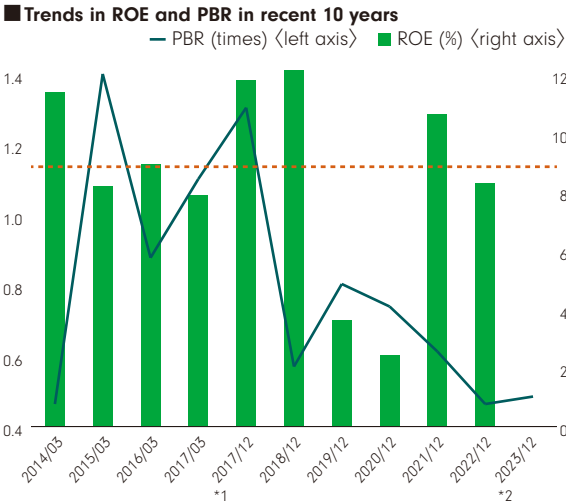
In addition, Sodick carried out an organizational restructuring in 2022, shifting from a functional organization to a divisional organization. This transformation was limited to a change of the organizational structure but has not yet reached a change in corporate culture. A large part of the business plan and strategy planning for each business is still entrusted to the Board of Directors. We will delegate authority to the executive officers. We expect that the executives of each business division would have an awareness of cost and return for each business, and could discuss their business with the use of ROIC (return on invested capital) and other indexes. The Board of Directors will focus on monitoring more than ever and we aim to shift to better and proper role sharing between the Board of Directors and executive officers.

We have decided to implement our structural reforms at this time in the case of sudden and significant changes in the external environment in 2023. This is a very major turning point in its corporate history for Sodick. We recognize that it is vital that we complete this restructuring to solidify a foundation for growth into the next decade.

### Management by being more conscious about cost of capital and stock price

We were in the red in FY2023, and ROE (return on equity) fell below the cost of equity. PBR (price book-value ratio) was 0.48 times at December 31, 2023, and PBR of Sodick has been continuously under 1.0 times since 2018. As for the trends in ROE in the recent 10 years, Sodick's ROE exceeded 8% on average until 2018, but after 2019 it significantly decreased to an average of 3.5%. The primary reason is a deterioration of the operating profit margin. We analyzed the current situation in which the profitability of the Sodick Group as a whole has declined significantly in relation to the external environment.



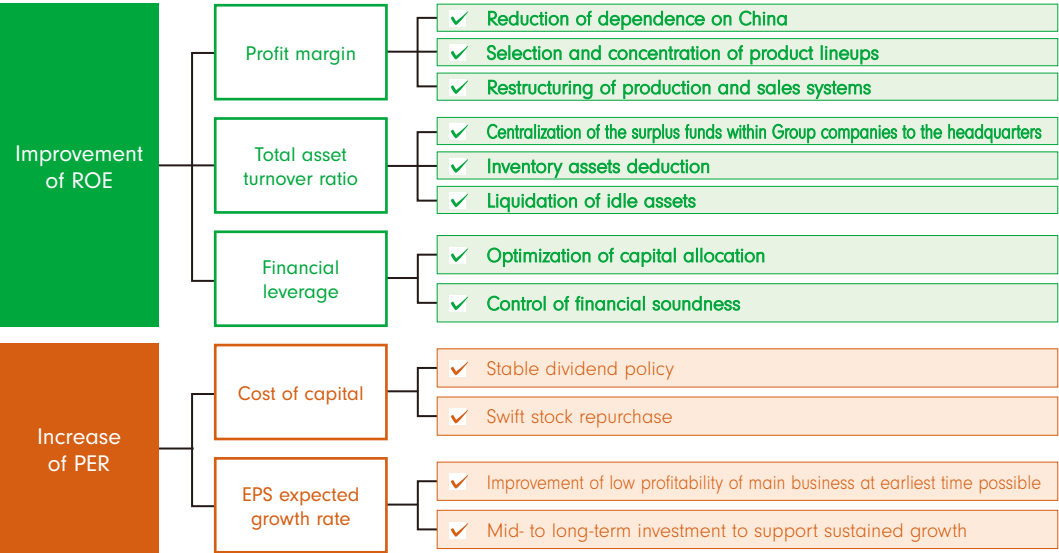


\*1 FY2017/12 was a transitional nine-month period following a change in the fiscal year-end, effective in 2017.  
\*2 ROE for FY2023 was minus.

Our core business is machine tool business, which is not a leading-edge industry like those related to IT enjoying rapid growth because of the unavoidable effect of high volatility of demand in global capital investment. As it is difficult to arouse the interest of many investors for the machinery industry, the average ROE and PBR of the industry also remain at a relatively low level.

Nevertheless, as our management challenges are now clear, we decided to implement structural reforms as soon as possible and then would like to show higher profits and higher ROE to our shareholders and investors. At the same time, we must invest for future growth opportunities and show our potential for growth to external stakeholders. In addition, we will optimize financial leverage and raise awareness of the cost of capital to improve ROE and PER (price earnings ratio), which should then lead to a higher PBR.

■ Measures to improve PBR



The purposes of the sufficient level of fund raising, as mentioned above, are not only to secure working capital but also to make an investment to support sustained growth. For example, we are considering aggressively investing in the metal 3D printer and laser processing machine businesses. It will support next-generation manufacturing. We will also invest in the after-sales service business, expecting it to maintain stable profitability, the solutions business, etc., to carry out the transformation of our business portfolio. Due to the nature of PBR, a quick improvement in a short period is not expected. However, we would like to promote reforms, get better results, and show the steady progress of our growth strategies every year. We would like Sodick to become a company that is expected to have great potential and grow despite some risks by all stakeholders in the market.

Under our new medium-term management plan, announced in February 2024, we planned to allocate about a total of 30 billion yen to growth investment and shareholder returns. This will be sourced from operating cash flow, cash in hand, and external funds over three years. In addition to capital investment, R&D investment, and return to shareholders, we consider strategic investment, including M&A. Sodick has traditionally emphasized in-house technical expertise in production. But from now on, it is necessary to consider possibilities of alliances with other companies and M&A to seek breakthroughs. As our competitors also need to reform, we foresee and are preparing for possible changes in the machine tool industry. We intend to examine our strategy from a versatile approach that takes human resources, technology, sales channels, etc., into account.

Promoting sustainability management

Since I was assigned as the director of the Corporate Division, I recognized that the world had changed between 2018 and 2019. While we could plan and execute valid theory-based policies until 2018, we found it difficult to predict our business environment reasonably after 2019 as various orders drastically changed.

The world economy is becoming chaotic. At the same time, the damage to the global environment by the increased greenhouse gas emissions has become more obvious. We must also pay close attention to the sustainability of the planet and society to continue our own business activities and keep sustainable growth. Sodick expressed its support for Task Force on Climate-related Financial Disclosures (TCFD) in December 2022, and set greenhouse gas emissions (Scope 1, 2) as metrics to evaluate and manage risks due to climate change and assess and track progress on corporate environmental activities. Furthermore, we set the target of a reduction of 46% of greenhouse gas emissions by 2030, compared with 2013. Currently, we are examining the plan and the activities of greenhouse gas emission reduction to respond to Scope 3 and aim to realize carbon neutrality across the whole Company by 2050. To achieve our targets, we have introduced renewable energy sources into our operations, installed and expanded the solar power generation systems at our facilities both overseas and in Japan (the Kaga Factory), and engaged in technology development to improve the environmental performance of our products toward realization of a decarbonized society.

In addition, we believe that human resources are sources of value creation of Sodick, and every employee is the driving force of our transformation. We will strive

to provide the comfortable work environment and the diverse working styles that allow our diverse employees to keep high productivity and remain in good physical and mental health. For example, we promote activities that improve the internal communication and workflow in the Company. Before the reforms, we had traditional and bureaucratic systems of many and frequent meetings with many attendants, and long and detailed explanations using several dozen pages of documents by the responsible department (but only short discussion after that). Such a bureaucratic process was a big obstacle to productivity. Furthermore, we have reviewed the whole business process streamlining excessive indirect work caused by complicated workflows, frequency of meetings, the number of attendants, the meeting time, the approval process, and volume of email communications, etc., and are trying to significantly improve the efficiency of our work from both digital and analog perspectives. In today's unpredictable times, it is not easy to make steady and continuous progress in our business. Indeed, we cannot overcome such a difficult situation while everyone spending so much time stuck together in meetings with vast amounts of documents.

We aim to delegate authority and accountability to young employees, shorten working hours, and boost the productivity of the Company to eliminate inefficient and internal legacy systems and processes. I believe that routine operational work is not true business, but the true business is "Thinking." Ideally, I would complete the daily tasks in half of the business day, and then spend the rest of business hours "Thinking." If we have such time in business hours, we can tackle more creative work, which will lead essentially to our working-style reform.

Message to shareholders and investors

Our basic policy on return to shareholders, as described in the current medium-term management plan, indicates DOE (dividend on equity ratio) of at least 2% in order to offer stable and continuous returns to shareholders while securing the necessary internal reserves. We will also maintain a total return ratio of at least 40% and strive to increase stock value by further increasing returns to shareholders.



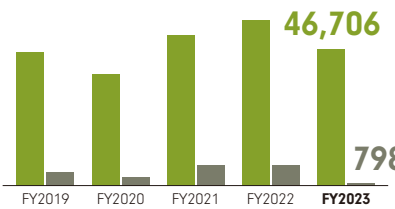
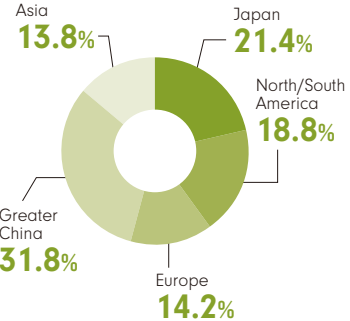


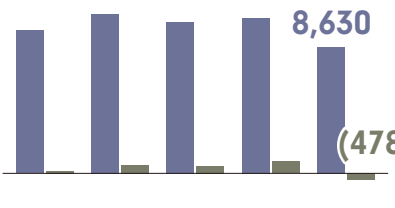
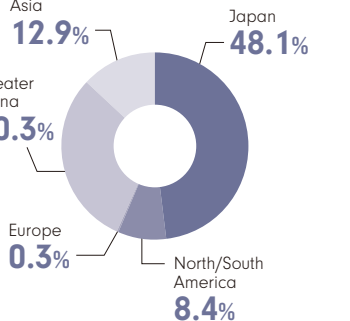
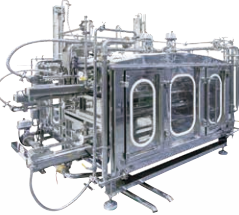
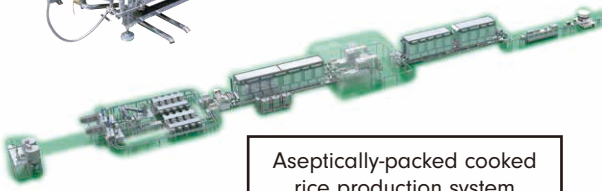
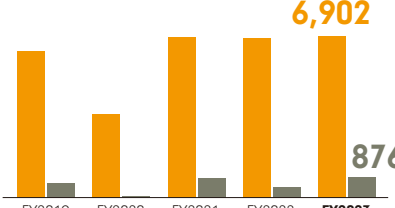
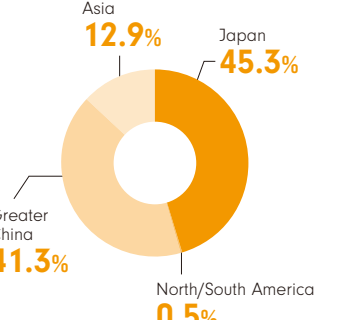
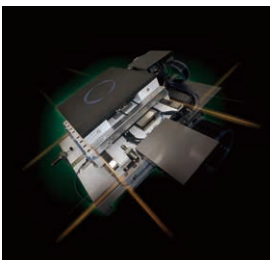

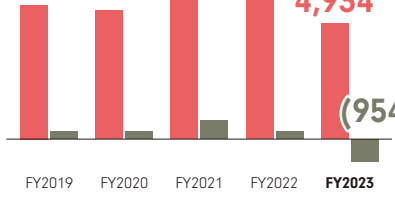
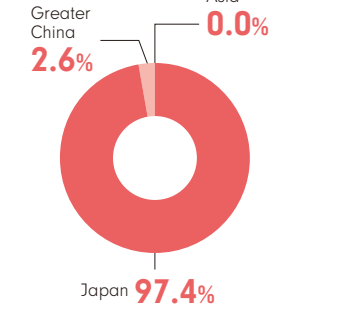
Sodick was started by Toshihiko Furukawa, the founder, as a start-up with 24 employees almost 50 years ago. What is important for a start-up company is the entrepreneur spirit—to come up with one's own creative idea and try it by oneself—and the ability to overcome various risks and challenges along the way. Because

Sodick has continued to have this entrepreneur spirit since its foundation, we have grown and achieved the milestone of listing in the Second Section of the Tokyo Stock Exchange and then the Prime Market.

Today's Sodick has also many young and mid-career employees who possess the entrepreneur spirit. Though it is still in the middle of reform, we, the top executives of the Company, strongly believe that those new members will play a big role shortly by showing a big picture—the future direction of Sodick—, delegating more authorities to them. To our shareholders, please look forward to recognizing Sodick's future after our entire reformation including our business fundamentals, profit structure, and organizational structure for success.



## Segment Overview

	Industries covered	Main products	Net sales/Segment profit (million yen)	Composition ratio of net sales by region	FY2023 overview
<b>Machine Tool Segment</b>	Automobiles, IT, smartphones, electrical and electronic parts, aerospace, medical devices, etc.	 AL100G+  AL600G iG+E	<p>Composition ratio of net sales: <b>70%</b></p>  <p>■ Net sales ■ Segment profit</p>		Although aerospace-related demand continued to recover in Japan, Europe, and the United States, demand related to automobiles, semiconductors, and electronic parts remained weak in Japan, Greater China, and Asia, resulting in a year-on-year decrease in net sales. Segment profit fell significantly from that of the previous fiscal year due to the weak yen and ongoing high production costs associated with inflation at overseas plants.
<b>Industrial Machinery Segment</b>	Automobiles, IT, smartphones, electrical and electronic parts, medical devices, etc.	 VR40G  GL30G2	<p>Composition ratio of net sales: <b>13%</b></p>  <p>■ Net sales ■ Segment profit</p>		Demand has been decreasing in the industrial machinery industry as a whole mainly due to the impact of inventory adjustments and investment delays caused by the weakening of market conditions for semiconductors and electronic parts. The overall situation has been severe in every region and industry where we operate. As a result, net sales decreased year on year.
<b>Food Machinery Segment</b>	Food (noodles, packaged cooked rice, confectionery, bread, precooked side dishes), restaurants, frozen foods, etc.	 CIP automatic noodle boiling machine with enhanced cleaning power  Aseptically-packed cooked rice production system	<p>Composition ratio of net sales: <b>10%</b></p>  <p>■ Net sales ■ Segment profit</p>		Demand for noodle-making machines in Japan and overseas, as well as aseptically-packed cooked rice production systems for overseas markets, has remained strong, and net sales increased year on year.
<b>Other Segments</b>	Automobiles, semiconductor manufacturing equipment, etc.	 Ceramic  Linear motor	<p>Composition ratio of net sales: <b>7%</b></p>  <p>■ Net sales ■ Segment profit</p>		Due to weak demand for precision dies and mold operations in the automotive-related industries, and weakening demand for external sales of ceramics, including the continued slowdown in the semiconductor manufacturing equipment market, net sales decreased year on year.

## Strategy of Each Segment

# Machine Tool Segment

Sodick offers a wide lineup of products including electrical discharge machines (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 devices, etc.

### Core products

Die-sinker EDMs, Wire-cut EDMs, Small-hole drilling EDMs, Metal 3D printers, Precision machining centers, CAD-CAM, Electron beam

### Opportunities

- Innovation 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

### Risks

- 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
- Price hike of the raw materials and parts supply shortages, supply chain disruptions
- Price hike of natural resources and energy, and electricity

## Review on results and recognized issues of FY2023

## Large decline in segment profit on extremely weak demand throughout the year

From the second half of 2022, capital investments for semiconductors and electronic parts stagnated, and investment in the automotive industry remained sluggish. This led to a significant decline in machine tool demand in Japan, Greater China, and the rest of Asia. In addition, segment profit sharply fell due to production adjustments, which led to a decline in profitability, as well as higher costs from rising global inflation for raw materials, energy, human resources, etc.

In the machine tool segment, we embarked on a policy of full-fledged production adjustments from the end of 2022 and began implementing measures including head-count reductions at overseas factories in early 2023. To optimize production capacity in line with demand, we decided to consolidate production in China into the Amoy Factory in Xiamen and to strengthen the production structure at the Kaga Factory in Japan for production volume increase. In addition, we aim to make the Suzhou Factory in China primarily a technical center and customer service center, while maintaining some manufacturing functions.

## Implementing structural reforms and reviewing product lineup

We are accelerating structural reforms and our growth strategy as the demand decrease has continued for longer than initially forecasted. Currently, China has entered a phase and we found it difficult to make decisions about capital investments. However, we also expect a rapid rebound in demand in China. We are optimizing our production structure at factories in Japan and overseas and also reallocating human resources to be able to respond to circumstances.

We are also streamlining our EDM product lineup and improving existing products in performance and energy efficiency. Labor shortages at customer sites have also become an ongoing issue, and we are quickly developing applications that can produce high-quality results relatively easily even without highly skilled technicians. We are preparing for a sharp increase in demand by shortening delivery times and selling inventories of certain products. We are also strengthening our after-sales service business to reinforce and maintain our contact points with customers through meticulous support.

## Growth strategies

## Developing measures to strengthen sales in India and Mexico as new priority areas

We are not simply waiting for existing markets to recover but are also strengthening sales in new priority areas where growth can be expected. We established a local sales company in Mexico, SODICK TECHNOLOGIA MEXICO, and have been carrying out full-scale business development since July 2023. We previously sold products in fields including those for automobiles, aircraft, and home appliances in Mexico through Sodick, Inc. in the United States, but going forward we will proactively expand sales and offer after-sales service business in Mexico as well as in Central and South America through this new sales base. We are also planning to establish a technical center in India to further strengthen our structure there.

In terms of product development, we announced the LSP5070 linear motor-driven femtosecond laser processing machine in October 2023, and are currently working with customers to develop various applications. As the performance of laser oscillators improves, laser processing machines are now necessary in a wide range of fields for precision processing. Sodick is now meeting that demand with high-quality products. In metal 3D printers, we aim to use our strength in gigacasting molds related to new energy vehicles (NEVs) for full-scale market development in Europe and the United States. Also, we concluded a capital and business alliance with a metal 3D printer manufacturer in Italy in April 2024.

## Returning production to Japan to create structure resilient to exchange rate fluctuations and strengthen technological development

We recognized the rapid depreciation of the yen since 2022 as a good opportunity to shift production back to Japan. With our solid, high production capacity in Japan, we can adjust production areas based on profitability during exchange rate fluctuations and also train highly skilled human resources. In production technologies in particular, new ideas and concepts are born against the burdens of production. Therefore, we see the enhancement of production capacity at the Kaga Factory as effective in cultivating technological competitiveness for future growth.

We intend to start shipments of new laser processing machines in the near future. With multiple machines lined up on the Kaga Factory floor, employees are again showing an enthusiastic spirit. We intend to propel this business forward from Kaga once again.



AL40G+ die-sinker EDM

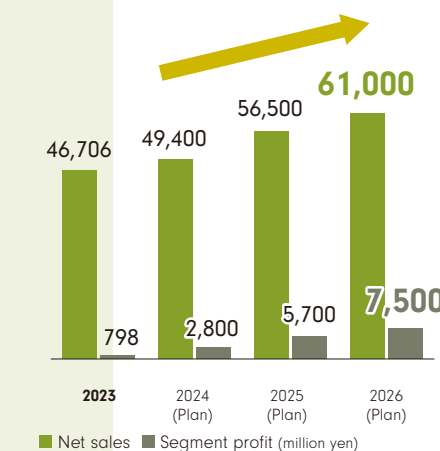


LSP5070 linear motor-driven femtosecond laser processing machine



Multi-factory (Kaga Factory in Japan)

## FY2023 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 manufactured by our injection molding machines are used in many general consumer goods due to their light weight and multi-functionality, including home appliances, electrical and electronic parts, automobiles, and medical devices.

## Main applications

Manufacturing of plastic components and other difficult-to-process materials, special materials, light metal components, etc.

## Main customers

Automobiles, IT, smartphones, electrical and electronic parts, medical devices, etc.

## Core products

Horizontal injection molding machines, Vertical injection molding machines, Light metal alloy injection molding machines, Automatic injection molding production systems, Quality and production management software

## Opportunities

- Innovation in the automotive and aerospace industries (automated driving, EV, electrification, lighter-weight components, adoption of new materials, etc.)
- Expansion of communications network (5G, big data, highly functional terminals, etc.)
- Growth in demand for high-precision processing equipment along with advancement of manufacturing
- Increased needs for labor savings, automation, and environmental considerations
- Growing demand for highly functional plastics and bioplastics

## Risks

- Economic stagnation of the world by conflicts and export prohibition measures
- Intensified price competition in injection molding machine market
- Demand change along with economic fluctuations
- Large fluctuations in foreign exchange markets
- Price hike of the raw materials and parts supply shortages

## Review on results and recognized issues of FY2023

## Sales and profit declined because of decrease of demand in China, in other regions, and across all industries

Demand for industrial machinery declined across all regions and industries, as semiconductor and electronic parts industries, which had been strong performers during the first half of 2022, entered a period of inventory adjustments and postponed investment, and the automotive industry also suppressed investment. The intensified competition in delivery times and prices occurred because of the release of inventories of the new and old products by competitors and overseas dealers. Furthermore, a sharp drop of orders below initial estimates and excessive production at the new Amoy Factory in Xiamen, China, which commenced operations at the beginning of 2023, resulted in pressure on profitability and a loss for the year as we were unable to absorb manufacturing costs.

## Early start of structural reforms as market conditions deteriorate

We had three manufacturing locations of molding machine production—at Thailand, Xiamen (China), and Kaga (Japan)—but we decided to discontinue production at the Amoy Factory in Xiamen and shift to the Kaga Factory along with the recent stagnant market conditions. We are aiming to raise production efficiency and reduce the production costs by increasing the domestic production (at Kaga Factory).

In terms of product strategy, we increased the sales of the MS series of the fully electric molding machines and resumed selling the conventional hybrid molding machines newly based on ISO standards. We will continue to closely survey market needs and increase the high-value-added product lineup to shift our sales efforts to the higher-margin models.



GL60G2 direct-pressure hybrid molding machine

## Growth strategies

## Committed to turning a profit by implementing the profit improvement plan and acquiring automation solution projects

We aim to take advantage of all sales opportunities and potential cost reduction items in FY2024. The primary issue is high costs due to the price hike of material and labor costs. We are aiming to improve profitability through the joint cost reduction activities with manufacturing divisions, the increase of production efficiency, and the sales activities focusing on our narrowed down product lineup.

Furthermore, we expect demand in growth for our ultra-high-precision injection molding machines, in which we excel, over the long term in regions including Asia and Europe. To meet those needs, we have begun offering a complete selection of the automation lines of manufacturing, including everything from molds to molded products, with collaborating with Sodick F.T, which develops the solutions to automation of manufacturing in the Sodick Group. We have established a new supervisory department to oversee sales, engineering, and after-sales services, organized a system to enable optimal decision-making on-site, made adjustments to each project, and developed the human resources, for this business to succeed.

Regarding overseas expansion, we intend to expand our competitive strength in medical devices in the United States into the European market and are currently prepared to earn the CE\* certification to obtain approval to sell our products in Europe. As a first step, we exhibited our molding machines at a trade show (MACH 2024) held in Birmingham, U.K., in April 2024, and have begun product training for European dealers.

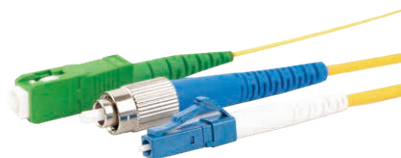
\* CE: Conformité Européenne. CE certification indicates that a product has met EU testing requirements and can be sold in the European Economic Area.



Ultra-precision processing innovation factory (at Miyazaki Factory, Sodick F.T)



The MACH exhibition held in U.K. in April



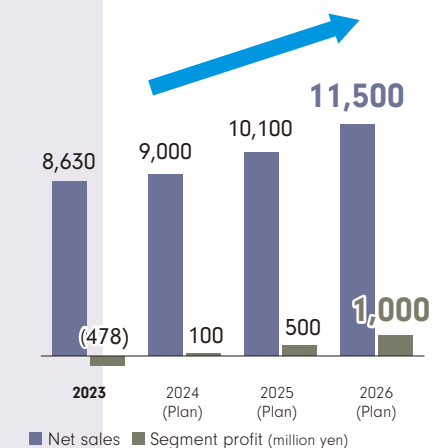
Optical connectors

## Further enhancing our strengths and competitiveness, focusing on the area of high-precision parts

Sodick's injection molding machines have the significant advantage of easily setting molding conditions without relying on the experience and intuition of skilled technicians conventionally. A molding method based on individual experience and intuition is highly personal, and non-transferable to others. A design verification process using procedures like CAE analysis\* backed by the advanced molding technology theory is needed to continue to produce high-value-added molded parts. We are providing solutions to enable the manufacturing staff of our customers to focus on more creative jobs and to increase the competitiveness of the customers, by providing solutions to the automation of manufacturing of the customers. In fact, we are actively conducting the test molding of new development projects at our molding machine showroom every day, and our V-LINE® technology is playing a role in new product development that could change the world. In the future, we will focus on producing such higher-value-added products as optical connectors for AI data centers, lenses for augmented reality (AR) and virtual reality (VR), and CASE-related parts for the automotive industry, which will need such higher-precision parts. Our aim is for Sodick's molding machines to contribute to the development of new products that will make the world more convenient, enjoyable, and efficient.

\* CAE (computer-aided engineering) analysis: Simulation and analysis using computer

## FY2023 results and three-year targets under medium-term management plan







# Food Machinery Segment

The food machinery segment supplies customers with optimal food processing equipment from our lineup, including noodle-making machines, noodle boiling systems, and aseptically-packed cooked rice production systems, to make noodles, packaged cooked rice, and precooked side dishes sold at convenience stores and supermarkets. We also contribute to creating a food culture that is safe and secure, healthy and delicious.

**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 machines, Noodle steaming machines, Sterilizing machines, Aseptically-packed cooked rice production systems

**Opportunities**

- Rising standards of living and expanding distribution network including chilled logistics infrastructure, supermarkets, and convenience stores in Greater China and the rest of Asia
- Global market growth 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 need to extend shelf lives for high-quality cooked noodles and precooked side dishes

**Risks**

- Business weighted toward domestic food market, noodle market, and cooked rice market
- Significant increases in prices of parts and materials due to inflation

## Review on results and recognized issues of FY2023

### Sales and profit growth on solid results from noodle-making machines and aseptically-packed cooked rice production systems

Net sales were slightly higher on continued solid demand both in Japan and overseas. The cost of sales ratio worsened due to higher costs for materials, dependence on outsourcing, and an increased number of employees; however, segment profit improved significantly due to an increase in equipment to be accepted and paid for in the fourth quarter.

Although demand, primarily in Greater China and the rest of Asia, for uncooked noodles and packaged cooked rice is increasing due to improvements in food quality and infrastructure, business negotiations take longer than before. Therefore, we need to reinforce our overseas sales to acquire orders more quickly. We have established a new overseas sales department to integrate the previously dispersed sales-related departments and are focusing on winning new customers through exhibiting at a trade show in Vietnam.

### While strengthening competitiveness, aim to enter new regions and sectors

To strengthen our production structure for noodle-making machines and cooked rice production systems, the new plant at the Amoy Factory in Xiamen, China commenced operations in January 2023, and a new plant was completed at the Kaga Factory in Japan in November 2023. We are further strengthening our competitiveness through developing new technologies and raising productivity. The newly established overseas sales department is also engaged in business development primarily in Greater China, the rest of Asia, and the United States.

In addition to cooked rice and noodle-making equipment, where we already have an established track record, we are developing sales activities for precooked side dishes and other potential new sectors, and further enhancing our strength in maintenance services.



Cooked rice production systems (part of aseptically-packed cooked rice production systems)

## Growth strategies

### Optimal allocation of management resources to become a comprehensive, global manufacturer of food machinery with strong earnings capabilities

We are building a stable earnings base by optimally allocating human resources, physical assets, financial resources, and information at each business division. As part of these efforts, we are establishing bases close to markets and optimizing our staffing.

We are introducing products that meet market needs, primarily in Asia, to accurately address abundant appetite for capital investments. In 2023, we received an order from an Indian company that holds a large share of India's instant noodle market. We also aim to proactively develop sales activities in other countries including Vietnam and Thailand.

In terms of production, in 2023, we built the new plant at the Amoy Factory in Xiamen, China and increased the capacity of the food machinery plant at the Kaga Factory in Japan.

We are linking the Kaga Factory and the Amoy Factory to address the needs of major markets in Asia. We will work to reduce transportation and customs costs by producing in the optimal location for maximum efficiency.

### Solutions to provide safe and secure food to address food issues and contribute to a sustainable society

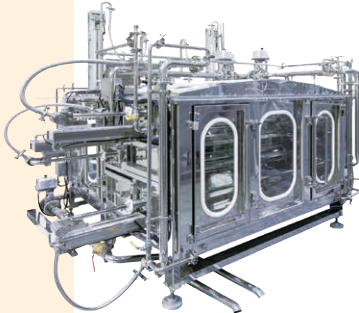
In 2023, we developed a more compact and space-saving CIP\* automatic noodle boiling machine with enhanced cleaning power compared to existing products. We also developed a time-saving continuous steam sterilizer that raises the temperature in 30% less time than previous models. In terms of new products, we have successfully developed continuous vacuum cooling equipment that extends shelf lives and contributes to reducing food waste. We have displayed the product at our in-house technical exhibition.

Our development departments have been creating and improving products from various perspectives including energy conservation, high productivity, space savings, and multi-functionality. Providing safe and secure food addresses food issues, and reducing food waste curtails CO<sub>2</sub> emissions during food disposal, contributing to a sustainable society.

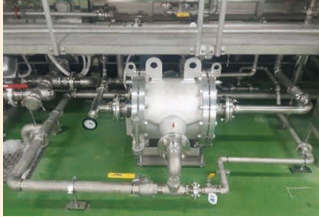
\* Cleaning in Place: Stationary cleaning that is automatically carried out inside the machine without the need for disassembly



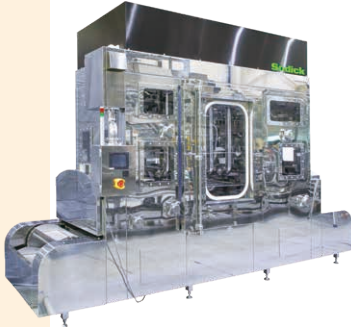
Continuous vacuum cooling equipment



CIP automatic noodle boiling machine with enhanced cleaning power  
Use of moving nozzles in the most contaminated noodle transfer section of the boiling tank increases cleaning functionality

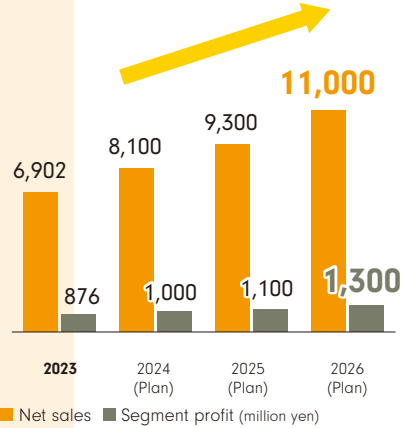


Spiral-type exhaust heat recovery equipment  
Recovers exhaust heat released from boiling equipment, reduces amount of heavy oil used, and contributes to reducing CO<sub>2</sub> emissions



Time-saving continuous steam sterilizer  
Use of jet nozzles that efficiently spray steam to sterilize food, with reduced energy consumption, space requirement, and amount of heavy oil used

## FY2023 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

- Innovation 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

### Review on results and recognized issues of FY2023

## Records segment loss on decline in factory productivity from weaker market conditions

Net sales and segment profit declined, as precision dies and mold operations faced difficult conditions in automotive-related demand, while sales of ceramic products saw overall weak demand on a continued slowdown in the semiconductor manufacturing equipment market.

In addition to again recognizing that the segment's structure has become inefficient and unable to respond flexibly to major changes in market conditions, we will work to expand our field of operations to include market surveys and R&D, and reduce our reliance on certain designated customers.

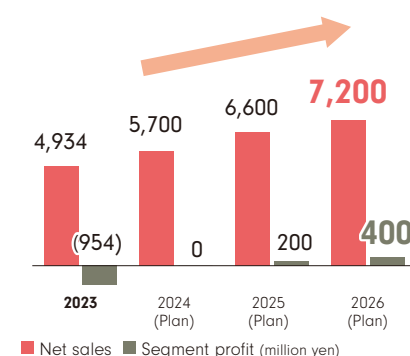
### Growth strategies

## Expanding business fields and product portfolio for stable performance and growth

We are transforming the organization without regard to business divisions and organizational frameworks to create new businesses by integrating all of Sodick's accumulated expertise and technologies, while acquiring new technologies in that process. In precision dies and mold operations, we are working with the industrial machinery segment to develop solution sales. We are also pursuing greater management stability by strategically expanding our product portfolio. The ceramics business has primarily handled products for machine tools and flat panel displays; however, it is now using CIM\* to manufacture consumer products. Precision dies and mold operations have focused on automotive-related products, but are now expanding into solution sales, CIM products, LIM\* products, and precision plastic gears. In addition to sales of lighting equipment, the LED lighting business is branching out into sales of light poles, transmission towers, adjustable light systems, and artificial grass, as well as products for sports stadiums.

In this segment, we aim to utilize our core technologies to meet the customers' needs in a wide range of fields and thus contribute to many industries, enriching people's daily lives while protecting the global environment.

FY2023 results and three-year targets under medium-term management plan



\* CIM: Ceramic injection molding  
\* LIM: Liquid injection molding

## Sodick F.T Playing Major Role in Implementing Group's Growth Strategy

Part of the Sodick Group's growth strategy is to strengthen our offering of automation solutions by linking molds, molding machines, automation equipment, systems, and applications. A key component of this strategy is the development of solutions by Sodick's industrial machinery segment in coordination with Sodick F.T, a Group company that deals with the precision dies and mold operations.

### Pursuing the challenges of ultra-precision, a cutting-edge technology

Sodick F.T's Mold and Die Division, based at its Miyazaki Factory in Japan, manufactures, develops, and sells precision molds and precision molding products, and manufactures and sells commissioned mold products for micro-nano processing by machining. Because Sodick F.T is a Group company, it can manufacture ultra-precise products by making maximum use of the superior functions of Sodick's machine tools and industrial machinery.

Sodick F.T also established a new Customer Solutions Division in the second half of 2023 and has begun operations to strengthen its automation solutions.

### Innovation factory concept "designing new factory operation"

The innovation factory, as a pioneer in manufacturing, is offering customers factory operations of the future by using Sodick's latest machines and continuously seeking out new possibilities in manufacturing. This prototype consists of one line encompassing everything from computer-aided design (CAD) and computer-aided manufacturing (CAM) to mold manufacturing using Sodick's machine tools and parts manufacturing using Sodick's injection molding machines, as well as assembly, inspection, and packaging done by robotic arms.

### ► Automation solutions resolving issues at manufacturing sites

General manufacturing processes use multiple molding machines to make parts, and then, the parts are manually assembled into finished products. However, the fully automated lines at this factory have introduced automated assembly equipment that can manufacture finished products from parts molding to assembly without human intervention. We are supporting customers' innovation by allowing customers to see firsthand this fully automated, labor-saving, ultra-precise manufacturing of the future.

### ► Using metal 3D printers in mold manufacturing

Sodick F.T also uses Sodick's metal 3D printers in mold manufacturing to provide solutions that reduce lead times in mold manufacturing, increase the precision of molded products, and raise productivity.

For mold manufacturing, the use of metal 3D printers has successfully reduced the manufacturing process roughly 55% compared with previous processes.

For the injection molding of plastic products, the use of metal 3D printers able to arrange resin-cooling pipes freely and three-dimensionally makes it possible to increase cooling efficiency, shorten molding cycles, and increase the precision of molded products.

Through coordination within the Group, we are providing solutions to resolve issues in customers' manufacturing.

### Sodick F.T

#### Mold and Die Division

Mold manufacturing  
Molded product manufacturing  
Ultra-fine processing

IAC Division  
LED lighting

#### EMG Division

Ceramics



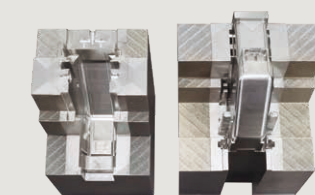
Innovation factory at Miyazaki Factory. Close to 150 Sodick machine tools and injection molding machines are operating on the premises.



Automated assembly line with robotic arms



Mold and Die Division's molding line



Molds made using metal 3D printers. Internal cooling pipes can be optimally arranged.





**Tatsuo Toyonaga**  
General Manager  
Advanced Research Center

## Working for even greater competitiveness in Sodick's technological strengths, leading the way toward a new age of manufacturing

**“We create it if it does not exist”**

**Strengths in technologies and experience, built up by in-house production history**

Sodick started as a machine tool company, and as of today, machine tools, mainly electrical discharge machines (EDMs), account for close to 70% of total sales of Sodick. Many machine tool manufacturers procured major parts from outside and produced products only by assembling those procured parts. However, Sodick was unique in having an extremely high in-house production ratio. 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 has led to major advances in processing technology. Later, we provided the automatic operation system, from processing to finishing, of EDMs loading NC units. Prior to that, an extremely large number of processes and labor were required by the electrical discharge process. For example, machine operators had to do rough processing with the first electrode, and then repeat processing with the replacement of other electrodes while gradually reducing the processing energy to adjust the precise surface processing. The loaded NC units greatly improved productivity by reducing these

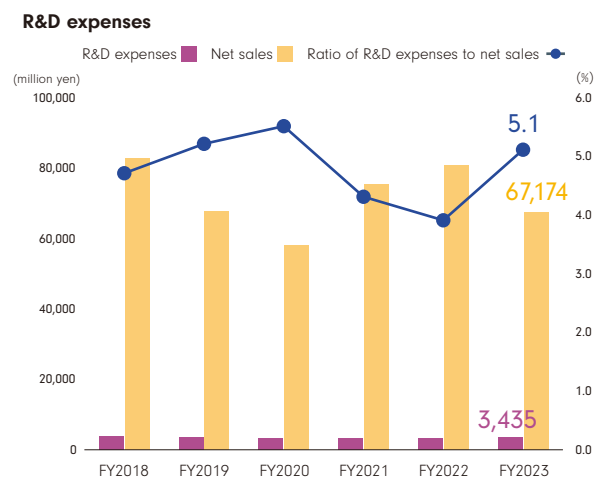
complicated and time-consuming tasks and this success led to the explosive spread of EDMs. Subsequently, Sodick developed an original linear motor, and achieved even greater performance with the introduction of the world's first EDM loading a linear motor in 1998. As I was also involved in production of the EDM loading a linear motor, I remember very well that the competitors initially rejected linear motor technology, but followed us by delivering machine loading technology 10 years later.

As a pioneer in EDMs, Sodick has attempted to enhance performance to meet the manufacturing customers' requirement. However, it was quite hard for Sodick to achieve the desired performance as the procured parts from outside did not have enough quality. We therefore pursued in-house production, to resolve customer issues based on our development spirit of “We create it if it does not exist.” The experience and wide-ranging technologies are our major competitive advantages. Our engineers today still have deeply rooted confidence that “We can do it” no matter how high the technological hurdles we face.

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

Sodick develops products at R&D departments in each division—machine tools, injection molding machinery, and food machinery. We also have R&D functions in the Japan Head Office, Silicon Valley in the United States, and Shanghai, China. We are conducting medium- to long-term research including advanced software, hardware, and next-generation technologies, aiming to enhance our competitiveness with the advanced technologies. There are currently roughly 200 R&D engineers in Japan and roughly 50 overseas in Sodick. As we work toward to achieve our mid-to-long term business vision, we are developing human resources while recruiting new personnel in order to develop systems like IoT and strengthen our software development structure.

We are also investing steadily in R&D, with a benchmark of 4–5% of net sales.



## Strengthening our technological competitiveness to be “World's No. 1” Focusing resources on wire-cut EDMs and laser processing machines

During 2023, R&D divisions embarked on structural reforms. Our previous strategy focused on developing new products that would lead to acquiring new customers and to keep up with rapid technological innovation. However, we are required to change our R&D strategy as we face drastic changes in the external environment like a weaker yen and inflation. For R&D in the future, we aim to strengthen our competitiveness by optimally allocating and selectively concentrating adequate human resources and investment into important businesses and products, avoiding the dispersion of human resources and investment.

For EDMs, which account for the largest portion of our sales, we will focus on raising our competitive advantage in particular by enhancing the basic performance of our mainline wire-cut EDMs. Enhancing the basic performance does not simply mean appealing to customers with catalogs and specification sheets, but

raising the performance so that when customers actually use a new machine, they will gain a significant benefit.

As our new product area, we entered and will focus on the laser processing machine field. We released “LSP5070,” a linear motor-driven femtosecond laser processing machine in October 2023. This machine was primarily targeted at processing the molds of the metal separator for fuel cells used in large fuel cell vehicles and achieved high precision and speed that could not be reached with previous processing methods. We highly expect growing demand in the future. We also expect laser processing machines to be able to process a diverse range of materials including metal, semiconductors, glass, and ceramics. We believe that accumulating knowledge of application for various materials and developing software like simulation will be the keys to our competitiveness.

## “Contributing to evolving manufacturing”

**We will accomplish the dream for 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. We launched metal 3D printers in 2014 and offered new ways of making metal molds. However, manufacturing is entering an even newer age and we are constantly pursuing R&D with a view toward the next stage.

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 convenience stores to 36 hours, from the previous 18 hours. This is contributing to reduction of food waste. In addition, the AL600G i Groove+ Edition wire-cut EDM is a cutting-edge machine

that also has achieved a high level of environmental performance. This machine succeeded to reduce the electrical usage of the EDM's pump by 25%, which accounts for roughly 70% of an EDM's electrical power consumption.

For the future manufacturing business, we recognize that needs for automation to address labor shortages and technological succession will accelerate further. We are currently focusing on technologies for software and IoT systems to provide innovative total solutions connecting with various machines. We will work to develop digital technologies in various areas with a spirit of “We create it if it does not exist” to realize customers' dreams.



## Intellectual Property Strategy



**Tetsuo Sera**

Department Manager  
Intellectual Property Department

### Basic policy regarding intellectual property rights

The Sodick Group places importance on acquiring and protecting development rights to technologically differentiate our products and services. We have formulated the following basic policy on intellectual property rights.

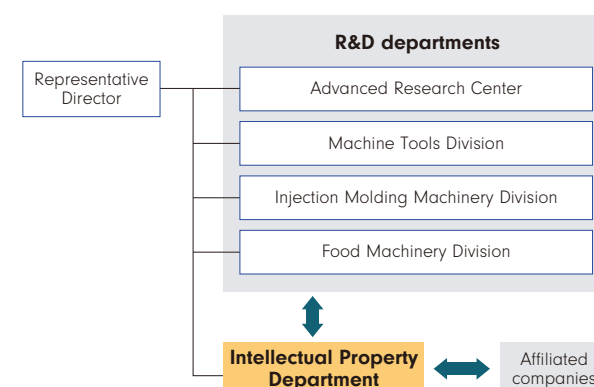
1. The Company recognizes that intellectual property is an important management asset and will strive to protect and utilize intellectual property.

2. The Company will comply with laws, regulations, and internal Company guidelines related to intellectual property and will respect other companies' intellectual property.
3. On the basis of analysis of patent information, the Company will formulate appropriate intellectual property strategies to secure sustainable growth and enhance corporate value.

### Intellectual property management structure

The Intellectual Property Department of Sodick is under the direct control of the President and has responsibility for all operations related to the intellectual property in the Sodick Group. The Intellectual Property Department manages, unitarily and transversely, all the intellectual property of business divisions, and can facilitate making the intellectual property strategy while considering the synergies of the Sodick Group as a whole.

Intellectual Property Department staff are stationed at the Head Office/Research and Technology Center (Yokohama, Japan) and the Kaga Factory (Japan) to ensure smooth coordination with engineers and management.



### Intellectual Property Landscape

We recognize Intellectual Property Landscape (IPL) as one of Sodick's most important intellectual property administrative operations. IPL is a methodology for formulating business strategies and corporate decision-making and effectively utilizing the outcome through the comprehensive analysis of patent/non-patent information,

the current situation, and future predictions. To strengthen the IPL operations, we encourage all members of the Intellectual Property Department to obtain the specialist certification of "Intellectual Property Analyst (Patent), certified by the Association of Intellectual Property Education."

### Proactive approach to intellectual property

In 2022, the Intellectual Property Department launched the IPL to "take a proactive approach to intellectual property." We aim to firmly tie investment in intangible assets to the future enhancement of corporate value and shorten this cycle. To instill a spirit of "active intellectual property" in Sodick, we provided the R&D department and planning department in each division with demonstrations on the IPL.

For example, at the food machinery segment, we have included intellectual property strategy meetings as one of our strategy planning meetings. With the mission of "creating a safe, secure, healthy, and delicious food culture," the Food Machinery Division is establishing

\* Cleaning in Place: Stationary cleaning that is automatically carried out inside the machine without the need for disassembly

### Specific initiatives

#### Corporate brand protection

The Sodick brand is a management asset that has been built up since the Group's founding and the underlying source of profit. By combining patent rights, design rights, trademark rights, and other intellectual property rights, we are protecting the Company's brand. This approach is leading to further corporate brand enhancement.

At the same time, we have recently confirmed that products that appear to be counterfeit versions of Sodick products are being sold, primarily via e-commerce websites. We are striving to protect the Sodick brand by taking appropriate and reasonable action against companies illegally selling counterfeit products.

We encourage customers to purchase our products from our sales offices or authorized dealers to ensure that they do not purchase counterfeit products.

#### Human resource development

We conduct regular intellectual property training, primarily for engineers involved in R&D. We encourage them to deepen their knowledge of intellectual property to understand the importance of property rights and make the best use of them. We hope this training helps create an organizational culture where all employees respect other companies' intellectual property.

#### Incentive system

We are increasing employees' motivation in R&D by honoring the achievements of inventors and encouraging inventions. We are offering bonuses to those who take action to ensure that service inventions the Company has acquired remain in force when patents are applied for and are registered.

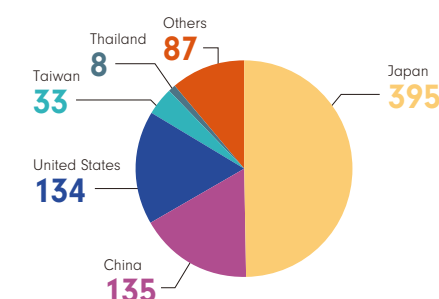
We have also established provisions to offer extra bonuses for inventions that make a particular contribution to the Company's profits.

### Targets and progress related to intellectual property

We have basically achieved the targets set in 2019 for the number of patents held and the ratio of overseas patents. Therefore, from 2023, we have been focusing on the IPL's contribution to business strategies and addressing counterfeit products. One of our trademarks was infringed in China in 2008, and we have continuously been working to address counterfeit items, including through legal action. The number of trademarks held has increased from 133 (including 17 in China) at the end of 2008 to 452 (including 96

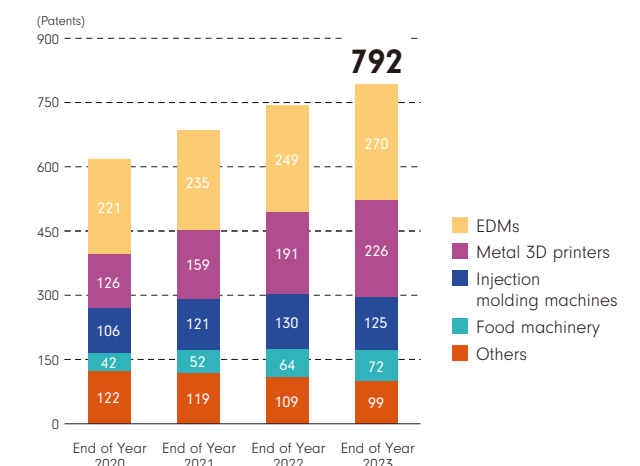
in China) at the end of 2023. In 2022, we joined the Japan Trademark Association and participated in the revisions to Nice Classification, the International Classification of Goods and Services, in order to facilitate trademark registration. We will continue to acquire trademark rights and design rights, pursue litigation, patrol e-commerce websites and request removal of counterfeit items, seek the cancellation of usurped trademark applications, and take other actions going forward.

Number of patents held by country and region



With a sales structure in the five major markets of Japan, China, the rest of Asia, the United States, and Europe, Sodick is pursuing a competitive advantage by building up a global patent portfolio. We will work to optimize countries for patent applications according to our management plans.

Number of patents held by product



## Materiality (Important Issues)

### Materiality Designation Process

Addressing the UN's Sustainable Development Goals (SDGs) and other issues surrounding sustainability is essential to achieving the 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

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

Identification of social issues

Shift to next-generation automobiles, factory automation and labor savings, addressing IoT

Contributing to evolving manufacturing

**E**  
Environment

Carbon neutrality, global warming, energy savings, harmful chemical substance management

Summarization as important issues

Addressing environmental management

**S**  
Society

Work style diversification (work-life balance), promotion of active participation by women, declining birthrates and aging population, human rights issues

Summarization as important issues

Promoting diversification of human resources

**G**  
Governance

Governance, compliance and risk management

Summarization as important issues

Strengthening governance

### 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	
<b>Contributing to evolving manufacturing</b>  <b>Anticipated outcomes</b> <b>Contribute to building of a foundation for economic development through more sophisticated manufacturing</b> <ul style="list-style-type: none"> <li>Higher precision, higher functional EDMs</li> <li>Higher precision injection molding machines and greater diversity of molding materials</li> </ul>	Percentage of environmentally friendly models in machine tool lineup: 50% by 2024 Percentage of net sales of environmentally friendly products to net sales of injection molding machinery business: 25% by 2024 Percentage of net sales of environmentally friendly products to net sales of food machinery business: 20% by 2024	
<b>Addressing environmental management</b>  <b>Anticipated outcomes</b> <b>Use renewable energy and reduce CO<sub>2</sub> emissions to achieve carbon neutrality</b> <ul style="list-style-type: none"> <li>CO<sub>2</sub> emission reduction targets</li> <li>Promotion of wire recycling system</li> <li>Use of solar power generation</li> <li>Environmentally friendly products (biodegradable plastic molding machines, boiling machines equipped with CIP automated cleaning, etc.)</li> <li>Conversion to environmentally friendly company vehicles</li> <li>Implementation of QVP+ activities</li> </ul>	Reducing greenhouse gas emissions Greenhouse gas emissions (Scope 1 and 2) (1) 46% reduction by 2030 (vs. that of 2013) (2) Carbon neutrality by 2050 (including Scope 3) Improving energy consumption rate index At least 3% improvement over three years (2024-2026)	
<b>Promoting diversification of human resources</b>  <b>Anticipated outcomes</b> <b>Further promote a corporate culture in which diverse employees can work comfortably with a sense of satisfaction</b> <ul style="list-style-type: none"> <li>New personnel system (job classifications aligned with life stages, impartial evaluation of performance)</li> <li>Hiring of non-Japanese employees (Boston and Shanghai career forums)</li> <li>Addressing the Act on Promotion of Women's Participation and Advancement in the Workplace</li> <li>Promotion of work style reforms (reduced working hours, remote work, parental and nursing care leave, etc.)</li> </ul>	Increasing percentage of women in management positions 5% by 2026 Increasing percentage of male employees taking parental leave 100% by 2027	
<b>Strengthening governance</b>  <b>Anticipated outcomes</b> <b>Strengthen both offensive and defensive governance to support management as the Company grows</b> <ul style="list-style-type: none"> <li>Enhancement of governance</li> <li>Strengthening of risk management and compliance</li> <li>Thorough export controls</li> </ul>	No numerical targets set. Aim to resolve issues from perspectives including evaluation of the Board of Directors' effectiveness, internal controls, risk management, and compliance.	

Designation of initiatives to address important issues



## Policy, Structure, and Initiatives 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.

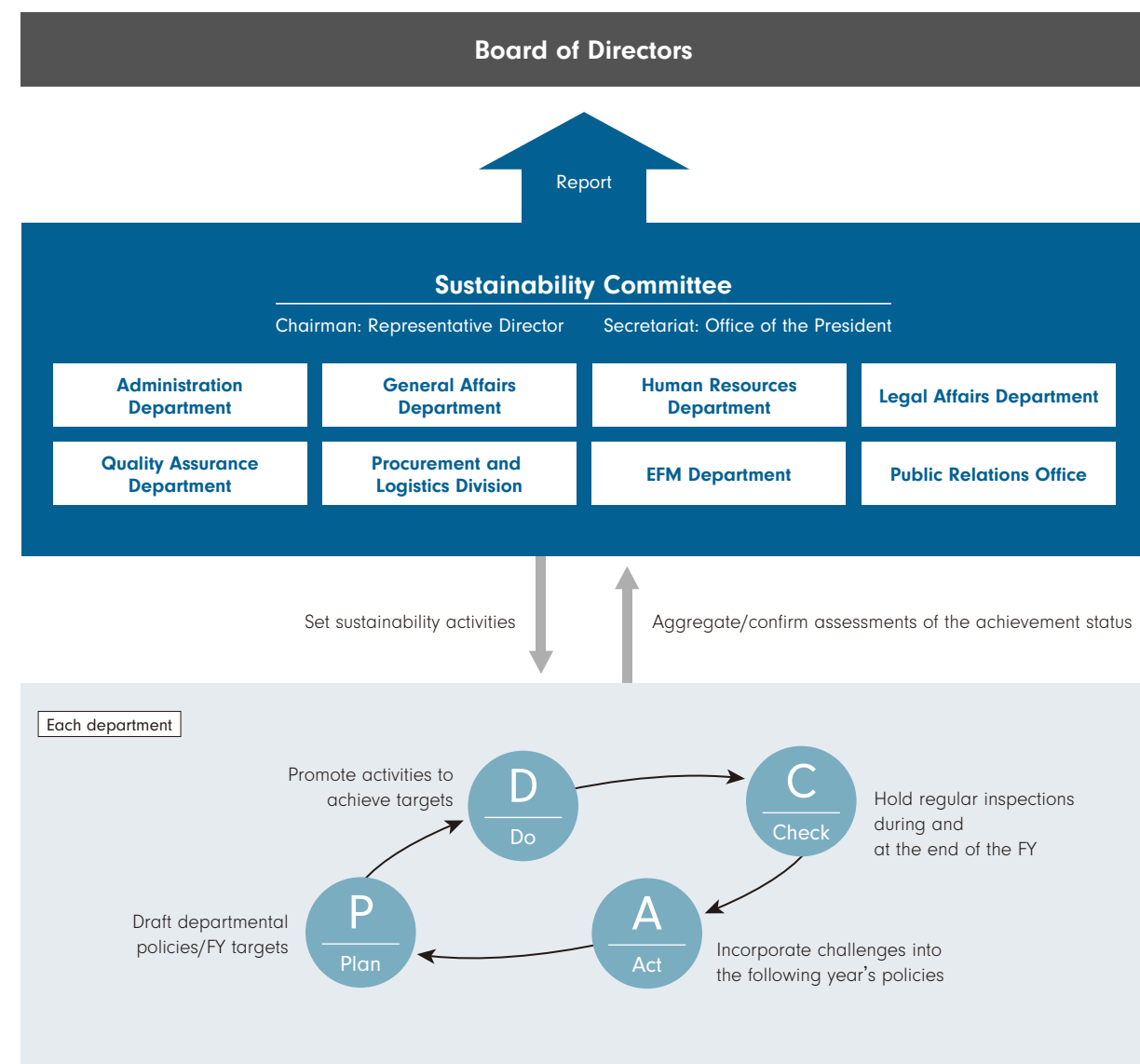
We do this in accordance with the Sodick Group Corporate Ethics Charter and Corporate Code of Conduct (Compliance Guidelines). On the basis of the practice of sincere business activities, we recognize that sustainability initiatives such as “contributing to evolving manufacturing,” “addressing environmental management,” “promoting diversification of human resources,” and “strengthening governance” are our important management issues. We are proactively addressing these issues to enhance corporate value over the medium to long term.

### Structure for Promotion

The Sustainability Committee, chaired by the 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 by repeating PDCA cycle.

### System for Promoting Sustainability



### Major Activities during 2023

Stakeholder	Theme	Activity	Related SDGs
Environment	Reducing environmental impact of business activities	<ul style="list-style-type: none"> <li>Measures to conserve and recycle resources (reduction of paper and plastic waste, reuse of packaging materials, etc.)</li> <li>Installed solar power generation system (business sites in Japan and overseas) and visualized peak electricity demand to reduce electricity use</li> <li>Strengthened and improved management of harmful chemical substances</li> </ul>	7, 13, 14, 15
	Green procurement	<ul style="list-style-type: none"> <li>Centralized information on Green Procurement Standards</li> <li>Activities to reduce printed materials with printing failure</li> </ul>	15
Customers	Contributing to the environment through products	<ul style="list-style-type: none"> <li>Promoted development of environmentally friendly products</li> <li>Promoted development of recyclable and green products</li> <li>Developed biodegradable plastic molding technologies</li> </ul>	9, 12, 13, 15
	Quality enhancement	<ul style="list-style-type: none"> <li>Activities to reduce design-caused defects</li> <li>Strengthened risk assessment by model</li> <li>Formulated manual of welding standards for machine tools</li> </ul>	9, 12
	BCP	<ul style="list-style-type: none"> <li>Business continuity plan for procurement and logistics (survey, improvement)</li> </ul>	11
Society	Social and cultural activities	<ul style="list-style-type: none"> <li>Supported FACTORY'S GOODS program of pop-up exhibitions of Japanese manufacturing</li> <li>Participated in “Eco-Festa in Kaga 2023”</li> <li>Sodick sumo team participation in major competition</li> </ul>	9, 14
Employees	Promoting diversity	<ul style="list-style-type: none"> <li>Hired non-Japanese employees</li> <li>Accepted non-Japanese technical interns</li> <li>Hired employees with disabilities</li> <li>Promoted and encouraged women in the workforce</li> </ul>	5, 8, 10
	Creating comfortable workplace environments	<ul style="list-style-type: none"> <li>Promoted health and productivity management</li> <li>Made remote work optional</li> <li>Carried out employee satisfaction survey and applied scores as compensation indicator for Directors</li> <li>Activities to eliminate harassment</li> <li>Use of DX to improve operational efficiency</li> <li>Held safety training to eliminate work-related injuries</li> <li>Traffic safety courses and dissemination of information to employees to prevent traffic accidents with company vehicles</li> </ul>	8
	Human resource development	<ul style="list-style-type: none"> <li>Expanded position-specific training and training to enhance various skills</li> <li>Held IT security seminar</li> <li>Made skill and qualification information visible (talent management system)</li> </ul>	4
Shareholders and Investors	Strengthening corporate governance	<ul style="list-style-type: none"> <li>Adjusted corporate governance structure (established management meetings)</li> <li>Strengthened internal controls and risk management</li> <li>Strengthened management supervisory functions</li> <li>Increased management transparency</li> <li>Increased dialogue with stakeholders</li> </ul>	
	ESG information disclosure	<ul style="list-style-type: none"> <li>Issued Integrated Report</li> <li>Disclosed information in response to TCFD recommendations</li> <li>Expanded disclosure of ESG information</li> </ul>	

## Examples of Creating Value

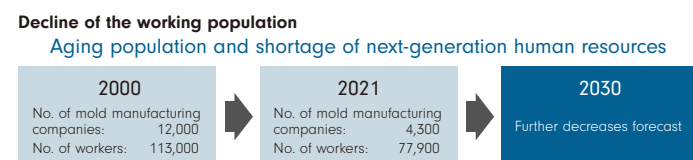
# Proposing smart solutions to resolve customers' issues

Manufacturing industries today are facing the rapidly intensifying issues of labor shortages, high manufacturing costs, and a shift toward producing smaller volumes of a wider range of items. To resolve customers' management and on-site issues simultaneously, Sodick is implementing initiatives to "Create," "Implement," and "Overcome Difficulties" as we make every effort to propose new manufacturing solutions to contribute to both customers and industries.

## Making mold processing a sustainable industry

Our primary customers in our main business of EDMs are in the mold industry. The profitability of this industry has been stagnant over time, and it is now facing various issues. The decline of the working population is particularly severe. According to statistics from the Japan Die & Mold Industry Association, Japan's mold industry saw the number of mold manufacturing companies decrease 64% and the number of workers fall 31% in 2021 compared to 2000. Further decreases are forecast by 2030.

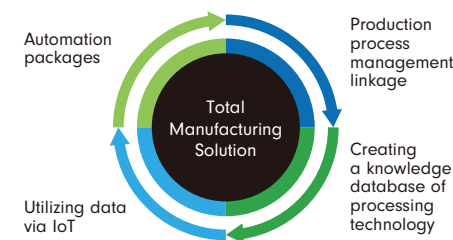
The industry has recently been experiencing a shift toward manufacturing smaller volumes of a wider range of items and sharply higher manufacturing costs. Efforts toward significant labor savings and operational efficiency improvements are required, otherwise the industry can be seen as threatened.



## Smart mold processing project launched

Sodick cannot ignore our customers' business continuity concerns. We launched the "smart factory" project in March 2022 to develop technologies including mold manufacturing process automation, the introduction of DX, and energy savings to resolve issues faster.

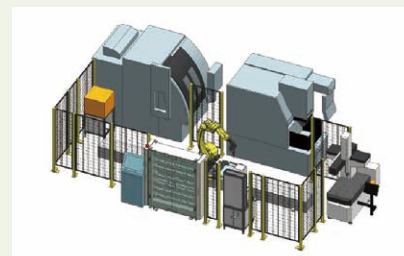
The project has four themes: "automation packages," "production process management linkage," "creating a knowledge database of processing technology," and "utilizing data via IoT." We provide overall process packages that take into account system design and linkage with peripheral equipment to meet customers' needs and investment amounts. We also utilize computer-aided manufacturing for on-site arrangements and process optimization to digitalize and carry out simulations. In addition, we utilize IoT to collect information from machine tools in real time for preventive maintenance. We aim to change mold manufacturing drastically by this integration of accumulated technologies and new technologies. We believe only Sodick can leverage this strength of in-house development of these core technologies.



## Sodick SMART SITE that verifies semi-automation, full automation, and automation sought by customers

We newly built the Sodick SMART SITE at our Kaga Factory, and it includes a type of flexible, automated production system for small-scale to large-scale machining to verify whether it meets customers' needs. Robots for automatically changing electrodes and processing materials, and automatic measuring devices are attached peripherally to the machine tools, making it possible to automate operations that were previously done by hand. The system can reduce the frequency of human intervention and improve productivity by achieving machine operation outside work hours. The system can be expected to reduce human error as well.

The idea of an automation system brings to mind the need to purchase a range of hardware with a huge upfront investment. However, it is also possible to start with semi-automation with centralized management of certain peripheral devices already individually in place, like processing machines and measuring equipment. It is then possible to upgrade the system as needed by adding features like robots, offering automation solutions according to the customer's needs.



Automation from processing to transport and measurement

Sodick SMART SITE (at the Kaga Third Factory, Japan)



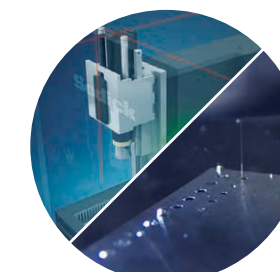
IoT  
Visualization



AI  
Intelligence



Dynamics  
Flexibility



Society 5.0  
High Efficiency

In the future, machine tools are expected to be equipped with sensors, the ability to collect and transfer a variety of data, and controllers that fully use sensor information as standard features.

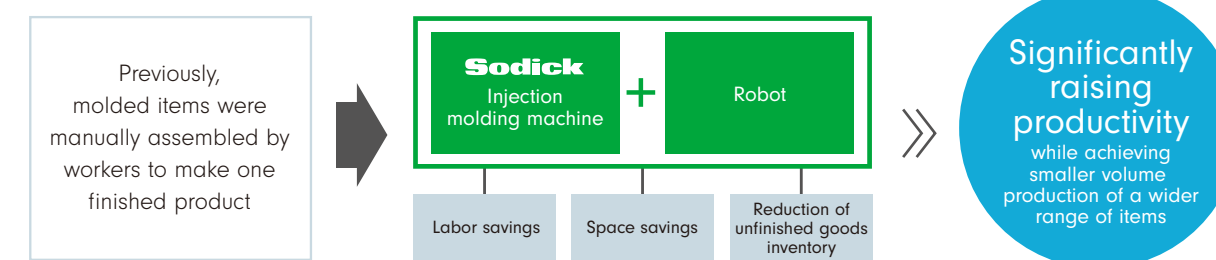
## "For manufacturing of high-precision plastic items, leave everything to Sodick"

Sodick's industrial machinery customers face the unavoidable issues of the automation of production processes and digitalization. Sodick provides customers production line automation solutions that include systems and software together with molds and automation equipment, in addition to molding machines. Group company Sodick F.T's Miyazaki Factory has almost 150 Sodick machine tools and injection molding machines, and it designs, manufactures, and sells molds and automation equipment. Sodick F.T has established a new Customer Solutions Division to strengthen its sales of automation solutions in coordination with Sodick's Injection Molding Machinery Division. The company is also training staff with an eye toward future technologies and is strengthening its marketing activities with the slogan "For manufacturing of high-precision plastic items, leave everything to Sodick."



Fully automated line achieves labor savings and improves production efficiency

## Sodick F.T Miyazaki Factory: Automation solution



## Turnkey solutions sought in many fields around the world

Automation needs for on-site production processes are increasing in various industries including those for automobiles, semiconductors, IT, aerospace, and medical devices. This trend gives Sodick an opportunity to help resolve customer issues for the overall manufacturing industry in addition to those of our existing customers. To keep pace with cutting-edge technology and strengthen our development capabilities and speed, we will work to secure and train human resources, one of our most important issues for future growth.



## Examples of Creating Value

# Promoting health and productivity management

An environment in which employees are both mentally and physically healthy and are highly motivated is indispensable for a company's sustainable growth. We announced a Health and Productivity Management Declaration in 2022 and have launched a factory workplace improvement project led by a full-time occupational health nurse of Sodick and one employee each from the Human Resources Department and the General Affairs Department.

We talked about the project's progress to date and future direction with Chika Kuromoto, a full-time occupational health nurse who joined Sodick in June 2023 with responsibility for occupational health and health and productivity management.

## Changing the way individual employees communicate for better workplaces

After joining the Company and analyzing the results of employee health checkups, stress tests, and face-to-face conversation, I noticed that communication among employees is a major issue of the Company. In particular, I realized that many employees with mental health issues have difficulties with workplace communication. I also learned that although many employees desire a workplace with active communication where employees help each other and work with a positive attitude, they themselves are unable to change the way they communicate. I thought I need to do something to change this situation quickly and I shared my thoughts with my co-workers. Then, we finally launched the workplace improvement project.



Chika Kuromoto (center) with project team members from the Human Resources Department and the General Affairs Department



Members of the workplace improvement project team at the Kaga Factory

## Learning from the Kaga City “Be the Player” education project

Kaga City in Ishikawa Prefecture, Japan, where Sodick's Kaga Factory is located, has introduced the school education vision “Be the Player (Create Your Own Future)” for all elementary and junior high schools. The vision encourages students to learn on their own “to think, act, and resolve issues by themselves.” We met the project's director, observed classes, and were very impressed by how the students easily accepted new things like AI text generation, applications, and digital units, immediately investigated things on their own, and helped and relied on each other to achieve their mission. We felt that Sodick needed to become a company where these students would want to work.

We thought that the Kaga Factory workplace improvement project needed this kind of attitude toward working on one's own to change workplace environments and resolve issues. We decided to use Kaga City's “Be the Player” slogan for our project and asked for their support in project workshop operations.



Group working in a problem-solving class at a junior high school near the Kaga Factory

## Holding workplace improvement project workshops

When we asked for project participants at the Kaga Factory in December 2023, many employees applied for the project. Fourteen participants from various departments attended the first workshop held in January 2024. The first things we did were to introduce ourselves to one other and share the project's main goals. At the second workshop, in February, members gave presentations of issues they vaguely felt in their workplaces, and we divided them into several working groups to address those issues.

### Workshop date and content

Date	Study theme
Late January	1st session: Introductions “Meet the people, meet the theme”
Mid-February	2nd session: What I want to be and do “Finding ideas, making friends”
Mid-March	3rd session: Thinking about small actions “Forming ideas”
Early June (tentative)	4th session: I went there and tried it “Learning by doing”
Mid-July (tentative)	5th session: Presentation of half-year's accomplishments “Creating momentum”
Early August (tentative)	6th session: Review “Looking back to change experiences into learning”



Second session workshop in February 2024



## Launching dedicated website, aiming to develop activities at all business sites

From the third session, we moved on to a phase of giving form to each group's ideas and presenting them at various workplaces. When we set up a website for the project on our own intranet to introduce the project activities to all employees, we received a lot of positive feedback.

We launched this activity at the Kaga Factory at first, and plan to expand to other locations to improve communication and the workplace culture. Sodick aims to create a better working environment where each and every employee can work comfortably with high motivation.



Top page of the website for this project on our own intranet

## Examples of Creating Value

# Reforming governance

At Sodick, strengthening corporate governance is one of our management materiality issues. In addition to complying with Japan's revised Corporate Governance Code, we will further strengthen our corporate governance to enhance management transparency, impartiality, and speed.

## Continuously strengthening and improving governance for sustainable growth

Given today's drastically changing management environment, an effective governance structure is indispensable. Sodick is working to support management by strengthening both offensive and defensive governance. Since 2018, we have accelerated the strengthening and reform of the governance structure in areas including ensuring diversity and improving the effectiveness of the Board of Directors, accelerating management decision-making, and addressing issues related to sustainability. Every fiscal year, all Directors evaluate their own operational execution and management to confirm that the Board's operational execution meets guidelines. Then, Audit & Supervisory Board Members analyze and assess the overall effectiveness of the Board of Directors based on the result of the self-evaluation. Then, we develop measures to improve any issues identified. From the perspective of ensuring diversity, even though the number of women in management positions tends to be relatively low in the machinery industry, we have been proactively appointing female Directors and Audit & Supervisory Board Members. We are also reviewing and adjusting whenever necessary the number of members of the Advisory Committee on Personnel and the Committee on Compensation to ensure objectivity and impartiality.

### 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)
2024	● Change of chair of Advisory Committee on Personnel and Committee on Compensation from President and Representative Director to External Director ● Addition of one External Director (total of five persons) ● Addition of one female Audit & Supervisory Board Member (total of two persons)

## Further major reform aiming for comprehensive corporate governance structure

In FY2023, we withdrew our medium-term management plan and long-term management plan, and announced a new medium-term management plan. As we believe that we need to strengthen the structure for monitoring progress under the new plan, we shifted to a "monitoring-type" structure with External Directors constituting a majority of the Board of Directors and are steadily implementing structural reforms and a growth strategy. Under the new structure, we abolished the system of appointing Directors with special titles, and of the nine members of the Board of Directors, a majority of five Directors are independent External Directors (who constitute 55.5% of the Board of Directors). In addition, we changed the chair of the Advisory Committee on Personnel and the Committee on Compensation from the President to an External Director to further strengthen the Company's governance.

We identified "streamlined agenda of items to be resolved," "expanded discussion regarding medium- and long-term vision," and "accelerated management decision-making" as features of the Company's governance we desire. To achieve this, we have shifted to the "monitoring-type" structure that is becoming the international standard, in order to reinforce the management supervisory function in the Board of Directors and facilitate more in-depth deliberation.

### Desired form of governance structure

- Desired form —
- 1 Streamlined agenda of items to be resolved and reported
  - 2 Expanded medium- and long-term deliberation
  - 3 Accelerated management decision-making

We strive to resolve Company issues and meet market demands through shifting to a company with an Audit and Supervisory Committee.

#### Company issues

- (1) Insufficient time for Board of Directors' deliberations
- (2) Relative lack of deliberation from a medium- to long-term perspective
- (3) Scope of agenda items too broad to permit progress without the approval of the Board of Directors on a case-by-case basis

#### [Practical guidelines for corporate governance system]

- Strengthening Board of Directors' supervisory function

#### [Corporate Governance Code]

- \* Discussion and disclosure of the following:
- Business portfolio review
  - Allocation of management resources in areas including equipment, R&D, human capital, and investment

### Governance reforms being implemented since FY2024

#### Shorten the term of office of Directors

Shorten the term of office of Directors **from the current two years to one year** in order to clarify the management responsibilities of Directors and to establish a management structure that can respond quickly to changes in the business environment

#### Change the structure of the Board of Directors

Change the structure of the Board of Directors to one that is suitable for supervising the promotion of the new medium-term management plan, **creating a substantial monitoring Board of Directors, so that we can steadily implement structural reforms and the new plan**

- ▶ Increase the number of External Directors at the Board of Directors **to a majority** (Ratio of independent External Directors: 55%)
- ▶ Change the Chairperson of the Advisory Committee on Personnel and the Committee on Compensation from the President and Representative Director to **an External Director**

#### Consider shifting to a company with an Audit and Supervisory Committee

Consider shifting to a company with an Audit and Supervisory Committee from FY2025 to achieve a stronger corporate governance structure

#### Abolish the system of appointing Directors with special titles

Abolish the system of appointing Directors with special titles and **separate the decision-making and supervisory function, and executive function of management so as to clarify their roles**

#### Review officer compensation

Consider reviewing **officer compensation** under the new structure **to be more closely tied to the new medium-term management plan**

- ▶ Ratio of fixed and variable compensation
- ▶ Review of performance-related compensation
- ▶ Medium- to long-term incentives

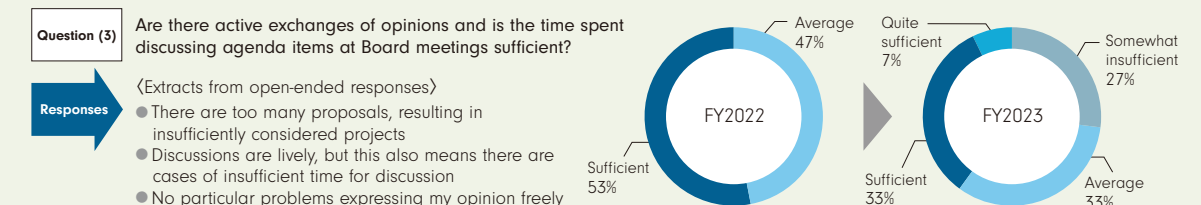
## Plan to shift to a company with an Audit and Supervisory Committee in FY2025

In addition, under the new FY2024 structure of the Board of Directors, we are carrying out initiatives including a review of officer compensation and preparing to shift to a company with an Audit and Supervisory Committee, targeted for FY2025. During 2024, we are looking into topics like the Articles of Incorporation and internal guidelines and structures, and are considering proposing the final resolution at the March 2025 Ordinary General Meeting of Shareholders. We believe that this shift to a company with an Audit and Supervisory Committee will strengthen the management supervisory function and enhance corporate value.

### Increase in items identified as "needing improvement" from Directors' and Audit & Supervisory Board Members' effectiveness evaluations

During FY2023, we carried out a self-evaluation questionnaire on the effectiveness of the Board of Directors.

The evaluation was critical overall, with increases from FY2022 in "Insufficient" and "Somewhat insufficient" responses to several important items including "Diversity and skills of the Board of Directors," "Discussions at the Board of Directors," and "Role as a supervisory body for management." We will steadily address these issues for further improvement going forward.





## Addressing Environmental Management

### Accelerating Environmental Conservation Activities

The Sodick Group has designated four materiality issues as management's most important issues, one of which is "addressing environmental management." We will work on this issue along various themes including carbon neutrality, global warming, energy savings, and management of harmful chemical substances, from the perspectives of promoting sustainability activities and increasing corporate value over the medium 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. We continuously review and improve our operations confirming the effectiveness.

### Management of Chemical Substances That Affect the Environment

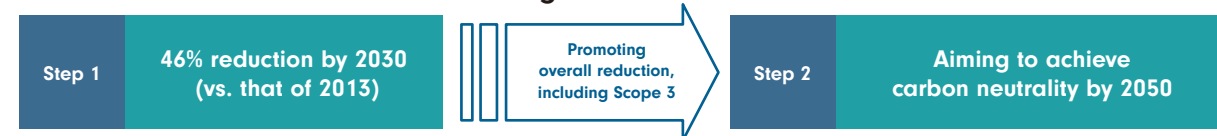
In addition to releasing our Green Procurement Standards and lists of hazardous chemicals, we worked to develop a proprietary ERP-linked harmful chemical substances control system (SHCSCS).

#### Environmental Policy—FY2024—

- 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 centralize our control system for harmful chemical substances. We also aim to understand and comply with customers' requests and the laws and regulations of Japan and other countries in order to reduce and completely eliminate harmful chemical substances.

## Long-Term Environmental Targets

### Greenhouse Gas Emission Reduction Targets



#### Greenhouse gas\*1 emission data

(values calculated from January through December of relevant years)

	2019	2020	2021	2022	2023
Emissions (t-CO <sub>2</sub> )	21,855	19,932	23,304	21,920	18,635

#### Crude oil equivalent

	2019	2020	2021	2022	2023
Emissions (kl)	9,382	9,043	10,692	11,212	9,390

\*1 Scope 1 and 2

\*2 Sodick business sites in Japan: market-based/Thailand factory: location-based

## Environment-Related Materiality and KPIs

Materiality	KPIs	Activities
	Targets	
Addressing environmental management	<p>Reducing greenhouse gas emissions</p> <p>Greenhouse gas emissions: (1) 46% reduction by 2030 (vs. that of 2013) (2) Carbon neutrality by 2050</p> <p>Improving energy consumption rate index</p> <p>Energy consumption rate index: At least 3% improvement over three years (2024-2026)</p>	<p>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</p> <p>Maintaining best-effort target of 1% reduction under Act on Rationalizing Energy Use</p>
Contributing to evolving manufacturing	<p>Percentage of environmentally friendly models in machine tool lineup: 50% by 2024</p> <p>Setting targets for environmentally friendly products</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>Reducing electricity consumption with AL i Groove+ Edition</p> <p>Sales of AI-VENT (that does not use a dryer)</p> <p>Developing equipment that reduces food waste and extends freshness</p>

## Examples of Initiatives

### Expansion of solar power generation systems

We are expanding solar power generation systems at our business sites both in Japan and overseas. We started to install systems at the Kaga Factory in Japan in 2021, and we have already installed the systems at the food machinery plant, multi-factory, and No. 8 factory. A system was also introduced at the new food machinery plant in May 2024. As a result of these efforts, the annual volume of solar power generated for the entire Kaga Factory has reached approximately 2,500 MWh (the annual electricity consumption of approximately 700 households\*<sup>1</sup>), eliminating approximately 1,096 tons\*<sup>2</sup> of greenhouse gas emissions annually.

\*1 Average household consumption calculated at 300 kWh/month per household

\*2 Calculations based on emission factors by location published by the Ministry of the Environment



Full view of the Kaga Factory with expanded solar power generation systems

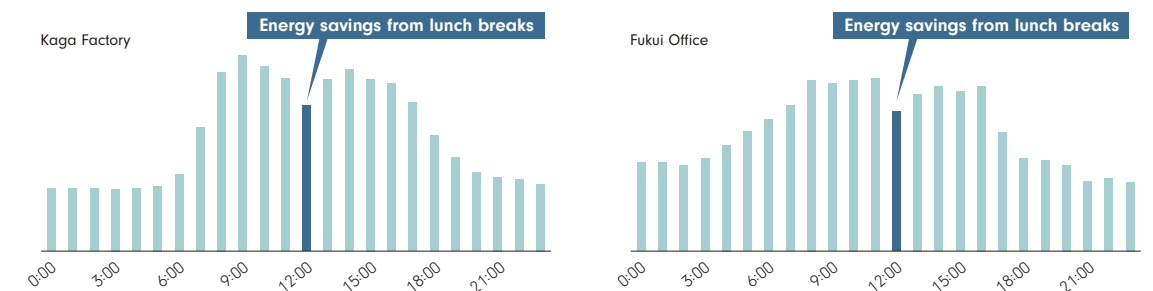
### Turning off lights and computer displays during lunch break

From 2015, Sodick began turning off lights and computer displays in factories and offices during a one-hour break at noontime. Because we cannot turn off all lights, we use narrowly targeted switches to leave the lights on only where needed, and this enables us to thoroughly reduce unnecessary electricity consumption. In addition, we are using a system that shows on one screen the amount of electricity being consumed. Visualizing electricity consumption in real time enables us to confirm the effect of the energy-reducing initiative and to promote activities to conserve electricity. The electricity reductions at the Kaga Factory and the Fukui Office are as follows:

Full-year energy reduction effect

116,670 kWh/year

#### Electricity reduction from lunch breaks



## CDP Evaluation

The Sodick Group received a "B-" rating from CDP\* in its evaluation of the Group's climate change initiatives and information disclosure. We recognize our response to climate change as an important management issue and will continue to accelerate initiatives.

\* CDP: An international non-governmental organization (NGO) founded in the U.K. in 2000 whose main activities include requesting companies and local governments to disclose information on measures to combat environmental issues such as climate change countermeasures, water resource protection, and forest preservation, as requested by global institutional investors and major purchasing organizations strongly interested in environmental issues, and encouraging the implementation of said measures





## Disclosure Based on TCFD Recommendations

### 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).

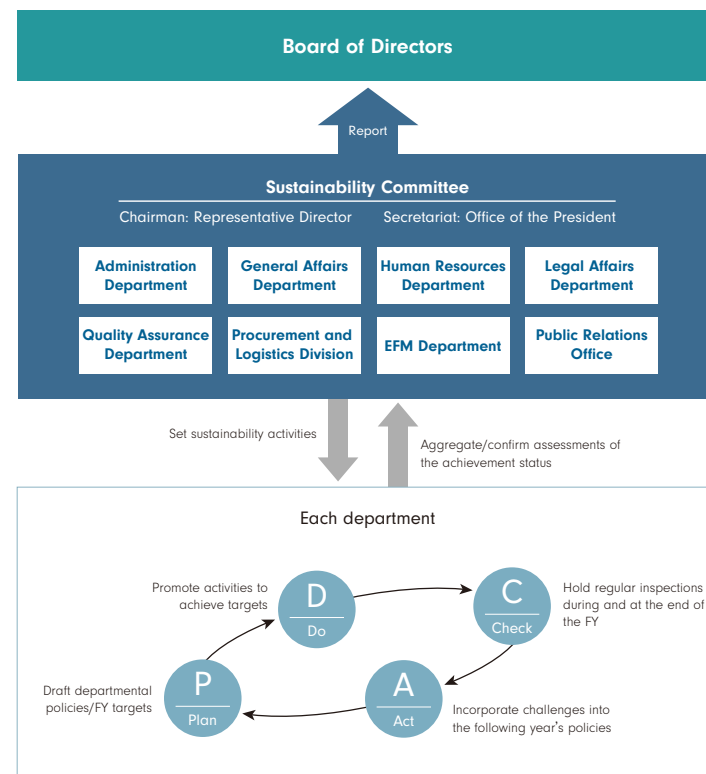


#### Governance

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 have established a Sustainability Committee chaired by the 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.

#### System for promoting sustainability



#### 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 (Scope 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 (Impact from the Transition to a Decarbonized Society)

Classification			Significance		Our initiatives
			4°C scenario	1.5°C scenario	
Risks	Policies and regulations	Introduction of carbon taxes and emissions trading	Low	Medium	<ul style="list-style-type: none"><li>● Introduction of renewable energy (installation and expansion of solar power generation equipment)</li><li>● Development and sale of products that can contribute to reducing CO<sub>2</sub> emissions and an environmentally friendly society through ISO 14001 operations</li></ul>
		Energy conservation policies	Low	Medium	<ul style="list-style-type: none"><li>● Development and sale of products that can contribute to reducing CO<sub>2</sub> emissions and an environmentally friendly society through ISO 14001 operations</li></ul>
		Obligation for information disclosure	Low	Medium	<ul style="list-style-type: none"><li>● Tracking and disclosure of chemical substance content in products</li><li>● Establishment of system for managing hazardous chemical substances</li></ul>
	Technology	Spread of renewable energy and energy-saving technologies	Low	Medium	<ul style="list-style-type: none"><li>● Maintenance of reliably resilient performance of linear motor-driven machine tools</li><li>● Development and sale of products with excellent energy savings through ISO 14001 operations</li></ul>
	Market	Changes in energy costs	Low	Low	<ul style="list-style-type: none"><li>● Installation and expansion of solar power generation equipment</li></ul>
		Changes in raw material costs	Low	Medium	<ul style="list-style-type: none"><li>● Development of special wire technology to help reduce consumables</li></ul>
Changes in customer behavior		Low	Medium	<ul style="list-style-type: none"><li>● Development and sale of products that can contribute to reducing CO<sub>2</sub> emissions in each stage of the product life cycle and an environmentally friendly society through ISO 14001 operations</li></ul>	
Opportunities	Policies and regulations	Energy conservation policies	Low	Medium	<ul style="list-style-type: none"><li>● Development of carbon-free/energy-saving products<ul style="list-style-type: none"><li>• Injection molding machines to manufacture light parts</li><li>• Metal 3D printers to help shorten manufacturing processes</li><li>• Rapid cooling equipment for granule powder that efficiently manages temperature</li></ul></li></ul>
	Technology	Spread of renewable energy and energy-saving technologies	Low	High	<ul style="list-style-type: none"><li>● Development of carbon-free/energy-saving products<ul style="list-style-type: none"><li>• Injection molding machines to manufacture light parts</li><li>• Metal 3D printers to help shorten manufacturing processes</li></ul></li></ul>
Physical risks	Acute	Intensification of abnormal weather	Low	Low	<ul style="list-style-type: none"><li>● Establishment of business continuity plan (BCP)</li><li>● Surveys on supplier BCPs</li></ul>

\* Implemented a review of impact through comprehensive risk management (December 2023)



## Social Initiatives

### Human Capital Strategy

#### Human Capital and Diversity

The Sodick Group believes that human resources are an important source of capital for increasing corporate value over the medium to long term. We strive to create a work environment and corporate culture where all employees can grow together with the Company, respect each other's diversity as to gender, nationality, and career, and play active roles.

It is important to respect diverse perspectives and values in order to respond to changes in the business environment such as global business expansion, the development of new businesses that meet diverse market needs, and the creation of added value. On

the basis of the policies of "promoting unified human resource management," "continuing recruitment and promotion that emphasize diversity of human resources," and "creating a comfortable work environment and offering career support," we aim to encourage all employees to enhance their expertise and build their careers and personal networks through interactions with diverse human resources both in Japan and overseas. Moreover, for recruiting, we proactively employ people with different experiences, skills, and careers as we believe that the fusion of these human resources will become a source of new value creation.

#### KPIs and results related to human capital and diversity

Indicators	Targets	Results (FY2023)
Employee satisfaction score	Standard deviation score of 55 or higher by 2026	40
Percentage of female employees in management positions	5% by 2026	3.1%
Percentage of female employees who desire management positions	20% by 2026	10%
Percentage of male employees taking parental leave	100% by 2027	60.9%

#### Increasing Employee Engagement

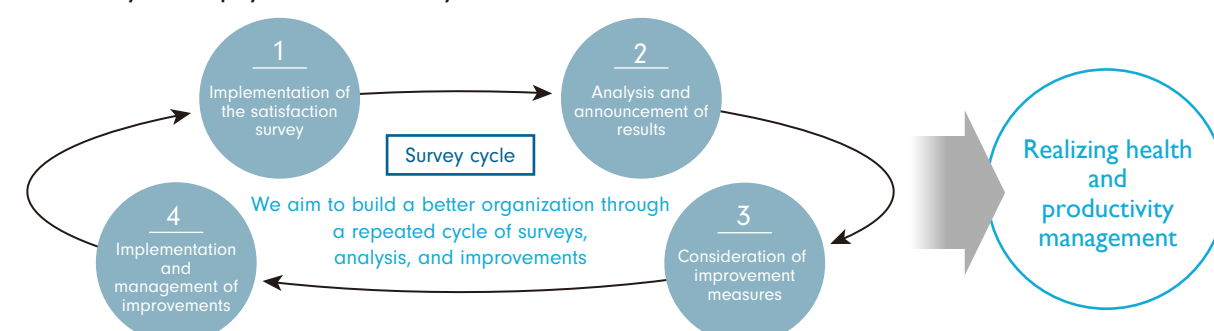
We actively promote workplace environment improvement and health advancement to enable every employee to be both physically and mentally healthy and continuously take on the challenge of achieving further growth.

We believe that maintaining the growth of the Company and its employees will increase motivation, leading to improved productivity and financial performance Company-wide. To achieve this, we need to understand current issues, and we began conducting an employee satisfaction survey in 2022 to assess the current state of the Company and discern what employees "expect" and "want," etc. We identify issues from the survey results, consider and implement measures for improvement, and evaluate their effectiveness through the satisfaction survey of the following year. We repeat this cycle every year. Through these efforts, we hope to encourage every employee to take deeper interest in the Company, thereby creating a better organization and realizing health and productivity management.

#### Expected effects of increased engagement

Improved labor productivity	There is a positive correlation between the "engagement score" and "labor productivity." We believe that as the score increases, labor productivity will also increase.
Improved operating profit margin	There is also a positive correlation between the "engagement score" and "operating profit margin in the current fiscal year." We believe that as the score increases, the operating profit margin will also increase.
Decreased turnover rate	Organizations with a higher "engagement score" tend to have a lower "turnover rate." We believe that a higher score contributes to lower turnover rates especially among middle-level employees.
Improved customer satisfaction	We believe that a high "engagement score" will result in fewer late arrivals and early leaveings, fewer accidents, fewer product shortages, and increased customer satisfaction.
Improved share price	We believe that as the "engagement score" improves, operating profit and ROE (return on equity) will also improve.

#### Utilization cycle of employee satisfaction surveys



#### Method of Using Employee Satisfaction Surveys

To raise the Company-wide engagement score, we view it necessary to address both "hygiene factors (system and treatment, etc.)" that lead to dissatisfaction and "motivation factors (organizational climate, etc.)" that contribute to satisfaction. As a first step, we reviewed bonuses and implemented a significant wage increase in the second half of 2022. Because the effects of "hygiene factors" will disappear if they are not constantly considered, we plan to continue to increase base pay while improving revenues and have set a target of boosting the average annual salary of career track positions to 1.5 times that of 2022 by 2034. Our approach to "motivation factors" will focus on creating mechanisms to change the organizational climate and will be implemented from 2024.

Moreover, increasing employees' sense of fulfillment is quite important in order to generate sustained innovation and continuously improve business performance. We recognize this as one of our top priorities. In 2024, we revised officer compensation and introduced a system in which employee satisfaction scores are linked to officer compensation.

#### Human Resource Development

To fulfill the Company's philosophy of providing the highest value to customers and striving to contribute to a sustainable society as a company that "Create Your Future," we must become a company where people can grow, as well as create opportunities for the growth for each and every employee. We will work toward this goal while upholding an educational philosophy of developing human resources who are "all challengers" who will work together as one to anticipate the future and boldly take on new challenges.

#### Position-Specific Training

In an era with a rapidly changing environment where the future is uncertain and difficult to predict, we believe that managers need to move away from traditional management styles and instead adopt an empathetic approach that listens to the team members' voice. In addition to the normal position-specific training, we will provide servant leadership training<sup>\*1</sup>. For non-management employees, we will provide training to develop self-reliant human resources in order to help them understand the importance of proactive action for their own career development. Our aim is to develop human resources who can adapt to change.

#### Attendance results for position-specific training and targets for FY2024

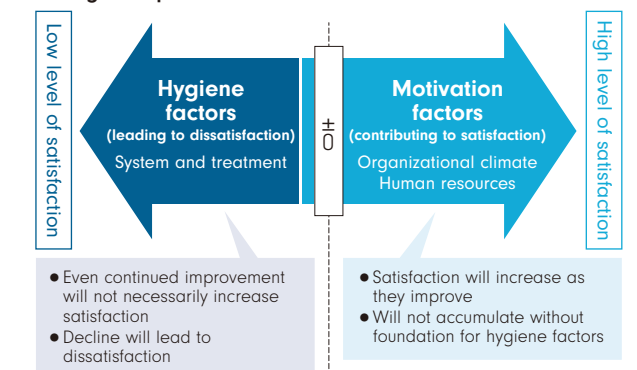
Training	Goals	Points	Attendance rate
Management positions	To develop human resources capable of managing medium- to large-scale organizations through an understanding of management strategies according to job classification	Focus on content that is necessary for running a department from a management perspective	2024 target: 100% 2023: 93% 2022: 87% 2021: 95%
Non-management positions	To set skills required for each position according to job classification and train those in higher ranks to become next-generation managers who understand the basics of management	Create content focused on practical problem-solving methods. For higher ranks, enhance in-basket thinking <sup>*2</sup> , boss management <sup>*3</sup> , and guidance for the next generation	2024 target: 100% 2023: 89% 2022: 98% 2021: 98%

<sup>\*1</sup> Servant leadership: A style of leadership that builds mutually beneficial relationships of trust by serving and supporting subordinates to recognize and bring out their abilities

<sup>\*2</sup> In-basket thinking: A way of thinking that allows people to complete tasks accurately and very precisely within a given time frame. By honing this way of thinking, one can develop the ability to prioritize and organize issues and other information, analyze problems while devising strategies, and produce results

<sup>\*3</sup> Boss management: A communication technique for motivating superiors and drawing out active support from others to achieve work goals

#### Aiming for improvement based on two factors



Need to raise two factors in parallel

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

#### Targeted engagement score (rating)

Engagement score									
33	39	42	45	48	52	55	58	61	67
DD	DDD	C	CC	CCC	B	BB	BBB	A	AA
Rating									

We use Link and Motivation Inc.'s Motivation Cloud (a survey that visualizes the degree of engagement of an organization's workforce) for employee satisfaction surveys. We aim to achieve a score that exceeds the industry standard by utilizing Link and Motivation's consulting services.

#### Start of "Management Interview Relay" video streaming

The Company-wide employee satisfaction survey revealed issues with "reciprocal communication across positions" and "trust in management." In response, the Human Resources Department started streaming video of the "Management Interview Relay" to increase opportunities for communication between employees and management. A total of three videos featured exchanges of opinions on topics such as "department management," "on-site issues," and "organizational reform," as well as discussions on ways to improve the working environment, such as "preventing tasks from being performed by one single individual" and "fostering a culture of feedback."

We will continue to analyze employee satisfaction scores and focus our approach to improve the scores. We also aim to improve engagement and develop a shared Company-wide sense of purpose through communicating the thoughts of executives and managers and their feelings about the Company to all employees.



Promoting Diversification of Human Resources (Diversity & Inclusion)

Hiring Women and Promoting Their Advancement

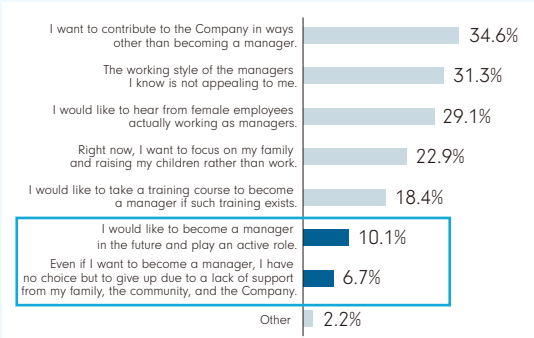
We believe that the active participation of women is important for achieving diverse perspectives and values. We are working to increase the number of female employees as well as the percentage of women in management positions. In 2023, we conducted a survey of all female employees regarding work environment and their future career goals in order to develop effective measures for further active participation by women. In this survey, only 10% of respondents answered that they would like to “become a manager in the future and play an active role.” From this fairly low result, we found that we need to encourage them to understand the work as a manager at the Company. At the same time, we understood that it is quite important to create an environment in which female employees can feel they “want to take on the challenge of management positions.”

Data on active participation by women

Indicators	Targets	FY2022 results	FY2023 results
Percentage of women in management positions	At least 5% (2026)	2.9%	3.1%
Percentage of women hired	At least 25% (FY2027)	20%	28%
Female employee turnover ratio	Within 3% (2027)	6.9%	3.0%

Increasing the number of female employees aiming for management positions

In response to the question “What do you think about the Company’s expectations for the active participation of women?” only 10% of respondents answered, “I would like to become a manager in the future and play an active role.” A few people answered, “Even if I want to become a manager, I have no choice but to give up because I do not have enough support from my family or the Company.” In response to these results, we will further strengthen measures to create a comfortable work environment and expand training for employees aiming for management positions. Moreover, the women’s working group and human resource development team will work together to raise skills of every female employee and provide them with opportunities to consider their own career advancement.



Conducted from September through October 2023. From a survey of all 213 female employees (excluding officers and temporary employees); response rate: 81.8%; number of respondents: 179; multiple choice

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 aside several days a year and encouraging employees to take paid leave on those days. We aim to create a virtuous cycle in which employees rest properly and return to work refreshed and motivated. Also, we are implementing measures such as operational streamlining, severe controls on working hours by system, and training for managers to systematically reduce overtime work.

We are also working to create an environment in which employees can balance work and child rearing, and are implementing reforms such as expanding the scope of those eligible for short working hours and encouraging male employees to take parental leave. Regarding encouraging male employees to take parental leave, we

are promoting the creation of an environment in which they can easily take leave through having interviews between the Human Resources Department and those eligible to take leave and providing information through the in-house newsletter. As a result, the number of male employees taking parental leave has increased.

Data on work flexibility

	FY2019	FY2020	FY2021	FY2022	FY2023
Average number of days of paid leave taken	12.0	11.5	11.6	14.1	13.3
Annual average overtime hours	252	250	296	299	253
Number of employees taking parental leave	Women: 8 Men: 2	9 3	3 11	8 13	10 14
Number of employees working reduced hours	8	7	8	11	13

Human Rights and Compliance

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

All corporate officers 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 for Human Rights and Compliance

In 2023, we held harassment training sessions and human rights and compliance training for all new employees. In addition, we are working to ensure thorough Company-wide awareness and create comfortable work environments with no 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.

Health and Productivity Management, and Occupational Health and Safety

Promoting Health and Productivity Management

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.

Sodick established a health and productivity management structure in April 2022, and the 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.

Promotion structure



Major initiatives during FY2023

- Publishing health-related information (in-house newsletter/web portal)
- Offering specific health guidance and health seminars
- Implementing health promotion campaigns and events (walking events)
- Improving attendance rates for cancer screening, etc. (providing medical checkups and PET cancer screenings for employees aged 40 and over)

- Conducting interviews and providing time management education for employees who work long hours
- Expanding systems related to work-life balance (encouraging male employees to take parental leave, etc.)

\* Please also visit the Sodick website for more information on our initiatives in areas such as global human resource participation, occupational health and safety, industrial accident prevention, EAP (Employee Assistance Program), and mental health. <https://www.sodick.co.jp/en/sustainability/society/index.html>



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.

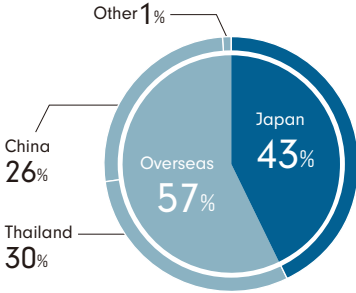
Conducting Supplier Surveys and Audits

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

To contribute to the sustainable development of society, the Sodick Group works with its suppliers to promote sustainability throughout its supply chain. We have formulated the Sodick Sustainable Procurement Guidelines, based on the four categories of human rights and labor, compliance, the environment, and quality and safety. We ask suppliers to cooperate with our efforts to disseminate a sustainability mindset. We distributed the guidelines to our major suppliers in Japan and received the Confirmation of Acknowledgement from suppliers accounting for more than 90% of our procurement value in Japan. Looking ahead, we are considering conducting supplier surveys in order to monitor their sustainability initiatives continuously.

Number of suppliers (FY2023)



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.

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

Together with Suppliers

Promoting Digital Transformation in Procurement Transactions

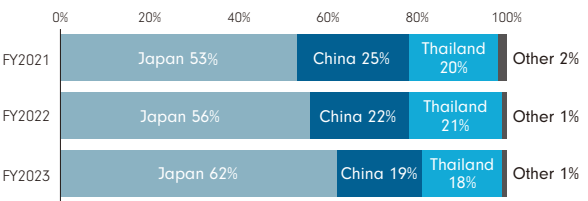
We are promoting digitalization of operations for order receipt, order placement, and billing operations by contacting with suppliers through Web-EDI (an online electronic data interchange system). We introduced the Sodick-EDI, a new Web-EDI system, in 2022 and have consolidated operations with suppliers for quotation requests, order receipt and order placement, delivery date adjustments, and billing operations on the Sodick-EDI. This system enables us and suppliers to manage transactions more easily than before. It also allows for more efficient and sophisticated operations for both suppliers and the Sodick Group.

Ensuring Supply Chain Resilience

Diversifying and Reviewing Procurement Channels

The Sodick Group is working to disperse risks by securing multiple procurement channels in Japan and overseas for stable procurement of parts and materials. We respond to shortages in parts and materials supply through procuring distribution inventories and alternative products. We are also continuously reviewing procurement channels to cope with foreign exchange rate fluctuations, such as the yen's depreciation, and changes in production volume at each factory.

Location of suppliers by country (procurement value basis)



BCP (Business Continuity Plan)

BCP Initiatives

We have established a system to grasp the situation and minimize the impact on business continuity when supply chain issues emerge from earthquakes or other large-scale natural disasters, pandemic outbreaks, or international conflicts, etc. We grasp the suppliers' BCP responses and provide support for improvements.

Promoting Category Management

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

Conducting Surveys of Secondary Manufacturers

We are working to strengthen the resilience of our supply chain in light of the risks of natural disasters and other calamities and geopolitical risks around the world. In 2023, we formulated Sodick Supply Chain Survey and conducted a supplier survey on important items with large procurement value. In addition to conducting surveys of primary manufacturers, we did surveys of secondary manufacturers that supply parts and materials to primary manufacturers in order to understand the situation across the entire supply chain. Based on the results, we will introduce measures including having multiple procurement channels and strengthen a resilient supply chain for quick response to changes in international circumstances.

Conducting BCP Surveys

We conducted our first BCP survey in 2016 and did subsequent BCP surveys in 2020 and 2022. We got responses from 76.5% of suppliers surveyed in 2022, but we aim to have even more responses to the next survey. Going forward, we intend to survey domestic and overseas suppliers every two years and to promote activities to raise awareness of BCP measures.

Management Team

Directors



**Kenichi Furukawa**  
CEO  
President and Representative Director



**Yuji Akutsu**  
COO  
Executive Vice President and Director



**Hideki Tsukamoto**  
CTO/CPMO and Director  
Senior Corporate Executive Officer



**Hirofumi Maejima**  
CFO and Director  
Corporate Executive Officer

External Directors



**Kazunao Kudo**



**Kenzo Nonami**



**Yoshikazu Goto**



**Haruchika Gohara**



**Ayako Sano**

Audit & Supervisory Board Members

Audit & Supervisory Board Members



**Tomohide Kawamoto**



**Tetsuro Kawahara**



**Mari Otaki**



**Yukiko Omura**

External Audit & Supervisory Board Members

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 skills

of the entire Board of Directors and appoints Directors and Audit & Supervisory Board Members with diverse backgrounds.  
Based on this approach, the Directors and Audit & Supervisory Board Members as of end-March 2024 are as shown below.

Overview of Directors and Audit & Supervisory Board Members (as of end-March 2024)

Director	Status & Committees	Attendance (FY2023)		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	R&D/Technological Development/Manufacturing	Global	Marketing
Kenichi Furukawa	▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●	●	●		●	●
Yuji Akutsu	▲Advisory Committee on Personnel ★Committee on Compensation	(Note 1)		●	●			●	●
Hideki Tsukamoto		13/13 times		●			●	●	
Hirofumi Maejima		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 ▲Advisory Committee on Personnel ★Committee on Compensation	13/13 times		●			●		
Haruchika Gohara	■External ◆Independent	10/10 times (Note 2)	11/11 times (Note 2)		●	●			
Ayako Sano	■External ◆Independent	(Note 1)		●	●	●			
Audit & Supervisory Board Member	Status & Committees	Attendance (FY2023)		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	R&D/Technological Development/Manufacturing	Global	Marketing
Tomohide Kawamoto		10/10 times (Note 3)	11/11 times (Note 3)		●	●		●	
Tetsuro Kawahara		(Note 1)	(Note 1)	●	●				
Mari Otaki	■External ◆Independent	12/13 times	14/14 times		●	●			
Yukiko Omura	■External ◆Independent	(Note 1)	(Note 1)	●		●		●	

\* 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 and Audit & Supervisory Board Members.  
Note 1: Director Yuji Akutsu, External Director Ayako Sano, Audit & Supervisory Board Member Tetsuro Kawahara, and External Audit & Supervisory Board Member Yukiko Omura were elected at the Ordinary General Meeting of Shareholders held on March 28, 2024; no activity applicable in FY2023.  
Note 2: Haruchika Gohara was elected as External Audit & Supervisory Board Member at the Ordinary General Meeting of Shareholders held on March 30, 2023, and 10 Board of Directors meetings and 11 Audit & Supervisory Board meetings have been held since he assumed his post. He was elected as External Director at the Ordinary General Meeting of Shareholders held on March 28, 2024.  
Note 3: Audit & Supervisory Board Member Tomohide Kawamoto was elected at the Ordinary General Meeting of Shareholders held on March 30, 2023, and 10 Board of Directors meetings and 11 Audit & Supervisory Board meetings have been held since he assumed his post.

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.
R&D/technological development/manufacturing	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.



## With a good balance of tradition and innovation without fear of change, Sodick has the potential to continue operating for 100 years.

### Steady progress on corporate governance reform

**Kudo:** I have served as an External Director since 2018. When I was appointed, Sodick had just embarked on corporate governance reform. The first step was to aim for the best structure of the Board of Directors. The role of a board of directors is, inherently, to determine the direction that an organization should take and the goals that an organization should achieve. And, it is an important process to clarify the business challenges firstly. So we have discussed carefully checking the current status and issues, rather than just setting goals or plans immediately.

In recent years, companies have embraced a new management concept of human capital management. It seems that multiple regression analysis, a statistical technique, has revealed an apparent correlation between non-financial information, such as human capital investment and the proportion of women in management positions, and financial information such as PBR (price book-value ratio). So, Sodick has also started strategically investing in human capital, aiming to boost its profitability and corporate value from last year.

**Nonami:** I was appointed as an External Director of Sodick in 2020, and I think that corporate governance of Sodick has improved gradually but steadily. In 2021, Sodick adopted the substantive position of CEO, COO, and CTO, and the management system to clearly divide and set each responsibility and task of each CXO position. I think that corporate governance of Sodick is almost near completion. In 2022, Sodick set up the top management meeting and the management meeting of each division, and those two management meetings combined into one management meeting in 2024. As the management meeting process of Sodick became more transparent, the Board of Directors

including External Directors was able to understand the whole corporate activity in more detail. Furthermore, Sodick significantly reduced the time spent just explaining the background of each agenda, and increased the time to discuss the actual agenda at the Board of Directors.

**Goto:** Since 2024, independent External Directors have occupied the majority, the proportion of female Directors has increased in the Board of Directors, and the diversity of the Board of Directors has been developed. The number of executive officers has been dramatically reduced to clarify each responsibility and authority, and we recognize that our corporate governance system has reached an advanced level in Japan.

I think Sodick needs to further deepen the content of discussions at the Board of Directors in the future. It is important to clarify and share the decision-making process that explains why an action was taken, before the action was actually taken. The Board of Directors can look back on the action and reconsider measures for improvement if we have the decision-making process of the Board of Directors. It seems that there is a tendency in Japanese corporate culture to say “everyone was involved in the decision-making process” and “we got results,” but such a decision process makes the basis and the accountability of each management decision unclear. However, as initiatives and background are clearly explained by executive officers in the management meeting of Sodick now, the Board of Directors including External Directors can also clearly understand the progress on those initiatives. I look forward to more vigorous discussions of the Board of Directors to ask one another more than before, for example, why such a judgement is made or why do you set the numerical value (target).

### Top priorities: Developing future management personnel

**Kudo:** Three of us are members of the Advisory Committee on Personnel. We understand that developing future corporate leaders is an extremely important issue—not limited to the machine tool industry but well beyond the industry’s borders—in the noticeably rapid changes of the business environment and the increasingly more challenging corporate management conditions. It is vital that Sodick develop the next generation of strong leaders—individuals who have a strong passion for manufacturing and are respected by other employees. To this end, we are now engaged in making the personnel system more visible and making the human resources of each department more visible internally.

**Nonami:** For corporate governance, a structure is important, of course, but I think a human resource factor is also really important. Especially these days, companies that emphasize seniority as a determining factor for promotion cannot have a bright future. If we are not able to develop

the necessary personnel in-house, we have to consider also hiring talented personnel from all over the world. Now, the time has come for Sodick to pursue major reforms in human resource development.

**Goto:** Corporate management methods were introduced for a long time, and corporate governance methods also have been introduced from abroad in recent years. Japanese companies including Sodick were forced to take urgent actions to cope with a variety of requirements of the capital market, and those countermeasures have almost come to a close. From now on, we would like to review our corporate governance reforms more comprehensively.

I assume that the reason behind these requirements is likely that companies in Europe and the U.S. had sizeable issues to deal with in their business environment and were sensitive to the underlying issues. The corporate governance system in Europe and the U.S. has been formed based on



**Yoshikazu Goto**  
External Director

**Kazunao Kudo**  
External Director

**Kenzo Nonami**  
External Director

their culture—their perception—to prioritize efficiency and enable a company to revitalize its operations even when confronted by a variety of challenges. Capitalism since its origin has had a variety of risks that includes sometimes failing, going out of control, scandals which require the supervision of management based on the ethical doctrine that human nature is fundamentally evil, or a company simply going bankrupt. In terms of sustainability, many social issues are also the consequence of pursuing modern science.

I doubt that all these circumstances could apply to Japan just as it is. Taking a long-term and overlooking perspective, Japanese companies seem to relatively have progressed enough to prevent bankruptcies, maintain stable employment conditions, and coexist harmoniously with nature. In the future, I would expect Sodick to make the above advantages into its original indicators of management, and express and call attention to the unique value of Sodick by using the original indicators.

### Structural reforms, aiming to reconstruct a large portion of Sodick

**Kudo:** The new medium-term management plan announced in February 2024 is essentially a blueprint for Sodick’s dramatic structural reforms. Currently, we are faced with many underlying issues such as the slump of business results, a low stock price, and a low PBR (below 1.0 times). To overcome the current situation, it is essential to drastically change our awareness of manufacturing costs first. In addition, we need to check the level and competence of ourselves, comparing with competitors, and strive to differentiate ourselves from competitors in terms of products as well as sales strategy.

As External Directors, we will closely monitor the steady progress of all initiatives of the structural reform and check whether Sodick is progressing toward a recovery in business results.

**Nonami:** I agree. The previous medium-term management plan, which was withdrawn in the fourth quarter of FY2023, was made based on the premise of continuous growth in the Chinese market the same as before. However, today, as such a continuous growth in China is not expected for the time being, we should prepare for a bigger crisis than the 2008 global financial crisis. Our top management and executive officers have been well aware of this current critical situation, but all the employees must share this same sense of crisis if Sodick is to overcome the recent challenges. Now more than

ever, top management must deliver a passionate message to employees and all stakeholders to encourage them to unite all their efforts.

**Goto:** I highly appreciate that Sodick quickly revised strategy, withdrew the previous plan, and announced structural reform measures in response to drastic changes in the business environment.

Formulating a new management plan is essentially a great opportunity for a company. In addition, the bigger the crisis the company faces, the greater the chance of discontinuous change in the corporate structure it can expect. We have a variety of frameworks such as PDCA, backcasting, and SWOT, when making business plans. Both PDCA and backcasting are originally effective management methods on site, used for promoting management by objectives through a top-down approach. Deep analysis and careful consideration are required in the strategy planning process, so I would like to recommend using a flowchart method with the SWOT analysis, and not recommend backcasting as it fits consideration into frame. I suppose that Japanese companies are competent on site in general so that they are able to consider their business strategy. If Sodick establishes the appropriate framework and management cycle of business strategy to learn from outcomes, we can accumulate knowledge and enhance proficiency through the experiences of each business.



## Sodick—creating the future of manufacturing around the world

**Kudo:** I am sure that we cannot achieve a desired outcome with conventional ideas. Before thinking about the new medium-term management plan, I asked myself again where Sodick's strength exists. I thought high-end EDMs were definitely Sodick's strength. Today, while this market is losing momentum and shrinking, I think Sodick should remain focused on cutting-edge, high-end products that will invigorate the market. The Advanced Research Center has taken R&D on unmanned production lines incorporating sensing technology and AI to a higher level. I imagine that a new age of Sodick's machines seems to be just around the corner, when customers using Sodick's machines no longer need to conduct daily or periodic inspections, and the machines can essentially produce high-quality products without human involvement.

**Nonami:** I also believe that it is vitally important that Sodick aims to be the world's top manufacturer and has a clear global strategy for its future. As many growth markets still exist in the world, more customers will purchase our products if Sodick can consistently manufacture high-precision products and effectively call attention to the benefits of the product to customers. In other words, such market development with appealing high-quality products and technologies is essential in everything that Sodick has accomplished based on the spirit of foundation, and I suppose that only Sodick can continue this approach.

**Kudo:** Just recently I looked up the history of companies dating back to the Edo Period (1603–1868). Global companies that have continued for more than 400 years have the following noteworthy points of 1) achieving a good balance between tradition and innovation without fear of change; 2) perpetuating solid management capabilities; 3) preserving a corporate culture since the foundation; and 4) valuing their employees. Sodick started with a founder who had enough qualifications of an entrepreneurial philosophy and the driving force to develop business like the founders of the above well-established companies. I think

that human resources are the most important factor among all the characteristics to describe a long-standing, successful company and make the difference from others. Through careful human resource development, which we discussed earlier, Sodick can continue operations for more than 100 years.

**Goto:** In the U.S., marketing activities and after-sales service business conducted by Sodick, Inc. are successful. In a sense, this achievement offers a glimpse into the future, not just for Sodick but for all Japanese manufacturers that are seeking a future business model. The reason why the approach in the U.S. has well worked is because the U.S. market respects the value of knowledge of engineering and software. For some reason, Japan tends to place value on things—the product—rather than the process that goes into making the product. More than 30 years ago, Japan led the world's manufacturing, but then overseas companies became stronger in downstream and assembly fields. Japanese companies have adjusted the production by making their supply and demand system international. Now many Japanese companies are starting to bring manufacturing back to Japan. However, the business conditions are different from those that existed before. Japanese manufactures need to reconstruct their own advantages and values which have evolved and are differentiated from the past, to maintain competence in the future. Consequently, the approach applied in the United States will come into play here in Japan from now on.

Sodick's corporate philosophy is quite literally embedded in its company name, which is derived from the phonetics of Japanese words for “create,” “implement,” and “overcome difficulties.” The Company has achieved a good balance between keeping tradition and pursuing innovation without fear of change. Sodick is developing new businesses in the U.S. and tackling structural reforms through quick decision-making. This kind of flexibility is particularly important when the business environment is evolving in directions that are hard to predict. I look forward to the progress of the structural reforms and the future of Sodick.



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 & Supervisory Committee Member) of Paramount Bed Holdings Co., Ltd. (current post)  
2022 External Director of Sodick Co., Ltd. (current post)



Kazunao Kudo External Director

1977 Joined Sumitomo Electric Industries, Ltd.  
2001 Production Department Manager of the Electronic Material Business Division of Sumitomo Electric Industries, Ltd.  
2007 President and Director of Suzhou Sumiden Automotive Wire Co., Ltd.  
2008 Executive Officer of Sumitomo Wiring Systems, Ltd.  
2015 China Supreme Adviser of Suzhou Sumiden Automotive Wire Co., Ltd.  
2018 External Director of Sodick Co., Ltd. (current post)  
2018 External Director of Shibaura Electronics Co., Ltd. (current post)



Kenzo Nonami External Director

1985 Researcher Engineer, National Aeronautics and Space Administration (NASA)  
2008 Director and Vice President of Chiba University (Research)  
2012 Chairman of Mini Surveyor Consortium (currently Japan Drone Consortium) (current post)  
2013 Representative Director and CEO of Autonomous Control Systems Laboratory Ltd.  
2019 Chairman of the Board of Advanced Robotics Foundation (current post)  
2020 External Director of Sodick Co., Ltd. (current post)  
2022 Representative Director of Autonomy Co., Ltd. (current post)  
2023 Head of Robotics of Fukushima Institute for Research, Education and Innovation (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 four Internal Directors and five 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

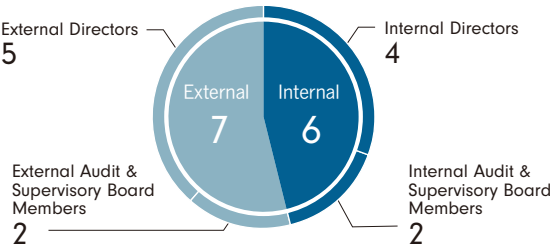
Five of Sodick's nine Directors are External Directors. They apply their objective perspectives and wealth of knowledge and experience to management, thereby strengthening the corporate governance structure. Furthermore, two of the four Audit & Supervisory Board Members are External Audit & Supervisory 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 management meetings.

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

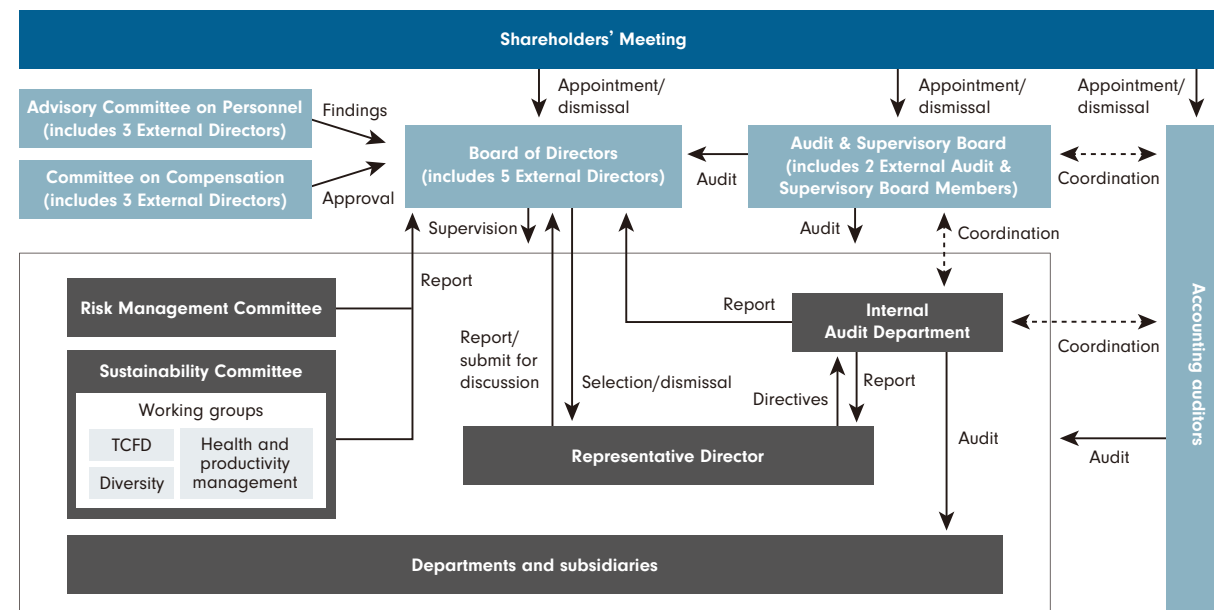
2012	● Introduction of executive officer system
2014	● Election of one External Director
2015	● Compliance with the Corporate Governance Code ● Addition of one External Director (total of two persons) ● Establishment of Advisory Committee on Personnel and Committee on Compensation
2016	● Evaluation of 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)
2024	● Change of chair of Advisory Committee on Personnel and Committee on Compensation from President and Representative Director to External Director ● Addition of one External Director (total of five persons) ● Addition of one female Audit & Supervisory Board Member (total of two persons)

### Corporate Governance Structure (as of end-March 2024)

Organizational Structure	Company with an Audit & Supervisory Board
Directors	9 Directors* <sup>1</sup> (of which 5 are External Directors) Chair of Board of Directors: Representative Director
Audit & Supervisory Board Members	4 Audit & Supervisory Board Members* <sup>2</sup> (of which 2 are External Audit & Supervisory Board Members)
Term of Appointment for Directors and Audit & Supervisory Board Members	Directors: 1 year 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* <sup>3</sup>	<a href="https://www.sodick.co.jp/sustainability/governance.html">https://www.sodick.co.jp/sustainability/governance.html</a> (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 2024)**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 nine Directors (four Internal Directors and five 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 four Audit & Supervisory Board Members, two 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, and chaired by an External Director.

Members	CEO, President and Representative Director
	Kenichi Furukawa
	COO, Executive Vice President and Director
	Yuji Akutsu
	External Director Kazunao Kudo (Chair)
	External Director Kenzo Nonami
	External Director Yoshikazu Goto

**Committee on Compensation**

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

Members	CEO, President and Representative Director
	Kenichi Furukawa
	COO, Executive Vice President and Director
	Yuji Akutsu
	External Director Kazunao Kudo (Chair)
	External Director Kenzo Nonami
	External Director Yoshikazu Goto

**Introduction of Our New External Director**

**Ayako Sano**  
External Director

**Current Post**

Head of Aya Law Office, External Director of Skylark Holdings Co., Ltd.

**Reasons for Appointment and Expected Duties**

Ms. Sano has advanced expertise and extensive knowledge as a lawyer, and experience as an external director, audit & supervisory committee member, and chairperson of a special committee for evaluating proposals for an MBO and privatization, etc., at companies other than the Company.

She was appointed as an External Director to utilize her expertise in compliance and risk management for operations of the Company and to further strengthen the Company's corporate governance structure.

**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**

<b>Self-Evaluation</b>  <b>Compilation &amp; Evaluation</b>  <b>Discussion on Enhancing Effectiveness</b>	A self-evaluation questionnaire is completed by all Directors.
	<b>Main Content of Questionnaire</b> <ul style="list-style-type: none"> <li>• Composition, diversity, and skill balance of the Board of Directors</li> <li>• Content and frequency of the resolutions and reports of the Board of Directors</li> <li>• Active discussion on the agenda, sufficient allocation of time</li> <li>• Functioning as a supervisory body for management, high-quality discussions</li> <li>• Adequate discussion of mid-to-long term challenges</li> <li>• Providing sufficient information to External Directors</li> <li>• Deeper understanding of the business by External Directors, implementation of factory tours</li> <li>• External Directors exchange opinions on the management of the Company with the Audit &amp; Supervisory Board</li> <li>• Evaluation of new meeting bodies operation (top management meeting and each division's management meeting)</li> <li>• Evaluation of Advisory Committee on Personnel and Committee on Compensation</li> <li>• Roles and duties of External Directors, etc.</li> </ul>
	Effectiveness of Board of Directors is analyzed and deliberated at Audit & Supervisory Board meetings based on each Director's self-evaluation.
	<b>FY2023 Evaluation Results</b> 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.
	Initiatives to further improve deliberations and enhance Board's supervisory functions
	<b>FY2024 Management Policy</b> We will work to enhance discussions at Board of Directors meetings on topics such as ensuring and fostering diversity of core human resources and long-term business strategies. In addition, we will strengthen communication between External Directors and External Audit & Supervisory Board Members, and work to address all issues for further effectiveness in the mid-to-long term.

	Results for FY2023	Future challenges
Overall effectiveness	<ul style="list-style-type: none"> <li>● Using new meeting bodies to share information on the business environment</li> <li>● Enhancement of matters for focused deliberation</li> </ul>	<ul style="list-style-type: none"> <li>● Further enhancing discussions at Board of Directors meetings</li> <li>● Improving the Board of Directors to accelerate management decision-making</li> <li>● Deliberating targeted topics regularly</li> <li>● Further improving operation of the new meeting bodies</li> </ul>
External Officer	<ul style="list-style-type: none"> <li>● Training for External Directors at external training organizations</li> <li>● Establishment of a forum for discussions between External Directors and External Audit &amp; Supervisory Board Members</li> <li>● Factory tours for External Directors and External Audit &amp; Supervisory Board Members</li> </ul>	<ul style="list-style-type: none"> <li>● Enhancing communication between External Directors and Audit &amp; Supervisory Board Members</li> <li>● Improving diversity and skill balance of Directors and Audit &amp; Supervisory Board Members</li> </ul>

Matters for Focused Deliberation by the Board of Directors

The Company conducts training for Directors and Audit & Supervisory Board Members. It also takes up for focused deliberation the latest measures to be implemented and issues to be considered by the Board of Directors. In addition, we conduct measures to help Directors

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

and Audit & Supervisory Board Members deepen understanding of the Company and to enable more in-depth discussion. Following are recent matters for focused deliberation (topics):

November 2022: Status and issues of shareholder returns
December 2022: Medium-term management plan
January 2023: Status and issues of capital policy
February 2023: Business risks and issues to be addressed
March 2023: Trends in the corporate governance structure
April 2023: Initiatives to improve the effectiveness of the Board of Directors
August 2023: Status of substantial shareholders
December 2023: Medium-term management plan

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) Directors and Audit & Supervisory Board Members take part in training provided by the Japan Association of Corporate Directors, the Japan Audit & Supervisory Board Members Association, and other organizations.

(2) We give External Directors and External Audit & Supervisory Board Members opportunities to participate in management meetings. 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 officers 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 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 69 and 70 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 (FY2023)

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)	230	186	18	25	6
Audit & Supervisory Board Member (excluding External Audit & Supervisory Board Member)	33	33	—	—	3
External Officer	48	48	—	—	8
Total	311	267	18	25	17



Risk Management

Basic Approach

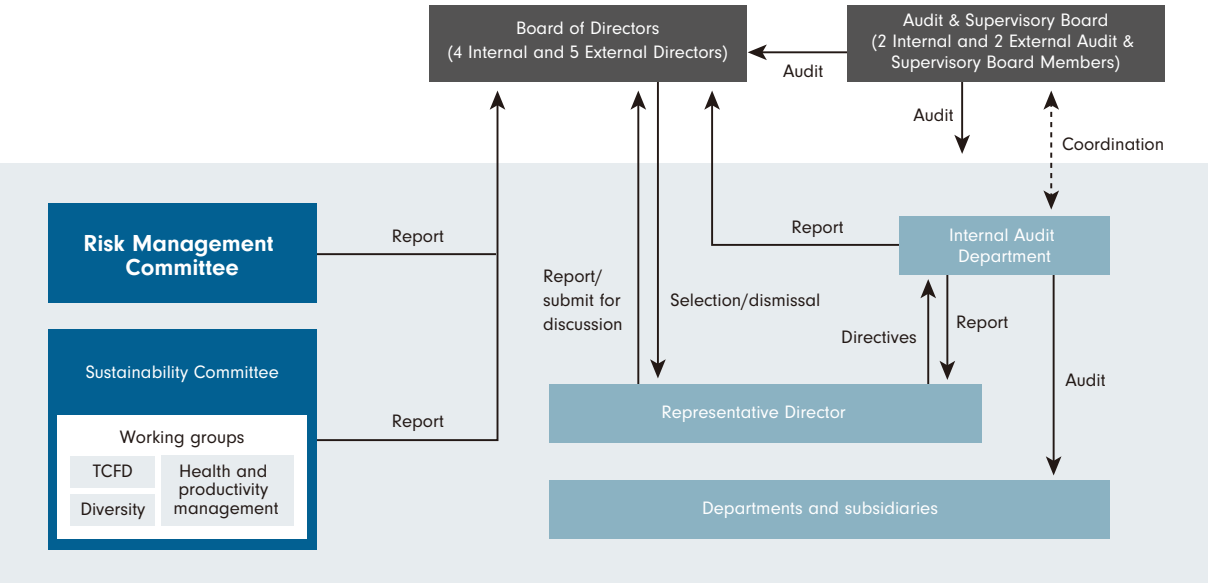
The Group has established basic rules for risk management, and works to determine, analyze, evaluate, and take appropriate measures to avoid the risks that exist at each division. At the same time, a Risk Management Committee has been established to formulate necessary preemptive response policies to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

impact on management. 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

Risk Management Structure (as of end-March 2024)



Risk Evaluation and Analysis

Once a quarter at the Risk Management Committee, we conduct risk investigation (which evaluates degree of impact and likelihood of occurrence) at each division of Sodick and its subsidiaries. We evaluate and analyze risks judged particularly significant, then discuss measures against these risks, report to and discuss those measures at the Board meetings, and finally reflect them in our business strategies.

In 2023, we considered measures including responding to the Counter-espionage Law of the People's Republic of China, whistleblower cases, and a policy for the use of generative AI. We also reported the details to the Board of Directors.

Cybersecurity

We strive to strictly manage confidential business and technological information through appropriate IT technology measures, the establishment of internal systems, and employee training. To strengthen our security measures, we conducted a third-party vulnerability diagnosis in 2022. In 2023, we carried out training for thoroughly preventing the use of illegal software.

Risks Related to Economic Fluctuations

Likelihood of occurrence: High

Degree of impact: Major

In addition to expanding the food machinery segment, which is relatively less affected by economic fluctuations, we are working to acquire new customers. We are also building a business portfolio for stable financial performance regardless of product sales volume. We aim to achieve this through creating new businesses, expanding the after-sales service businesses of regular maintenance services and consumables sales, and providing solutions for product automation and labor savings.

We are also carrying out ongoing cost reduction activities, reviewing suppliers, and incorporating the latest production technologies for automation and labor savings. We aim 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 Group has continued to promote overseas manufacture of its major products and is working to create production and sales structures that limit the impact of exchange rate fluctuations on profit with the offsetting effect of revenue and expenses. Nevertheless, given the challenging management environment under recent rapid depreciation of the yen, we have shifted and reduced production at the Suzhou Factory and consolidated production at the Amoy Factory. We review our production structure to respond to exchange rate fluctuations from a medium- to long-term perspective.

We are also promoting measures to reduce the impact of exchange rate fluctuations, such as foreign exchange hedging by forward exchange contracts for major currencies like the U.S. 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 Related to Natural and Other Disasters

Likelihood of occurrence: Medium

Degree of impact: Major

The Group has formulated a Business Continuity Plan (BCP) to minimize damage and ensure business continuity. 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.

Risks Related to Corporate Social Responsibility

Likelihood of occurrence: Medium

Degree of impact: Medium

We have established a Sustainability Committee chaired by the Representative Director and are pursuing initiatives toward compliance, social contribution, human resources, quality management, and the environment. In addition to promoting work style reforms, we are striving to create comfortable working environments through setting the designation days to take paid leave and encouraging the reduction of overtime work. We also work on initiatives to enforce the Sodick Group Corporate Ethics Charter and Corporate Code of Conduct (Compliance Guidelines), establish a human rights and compliance reporting desk and an external reporting hotline, and provide harassment-prevention training.

Regarding the environmental initiative, we are proactively developing technologies that reduce the environmental impact at manufacturing sites, including the shift to EVs and lighter weight vehicles, reducing plastic, and decreasing food waste. We have also established a specialized department to promote initiatives including carbon neutrality and CO<sub>2</sub> emission reductions.

Risks Related to Procurement of Raw Materials and Parts

Likelihood of occurrence: High

Degree of impact: Major

Under our basic procurement policy, we create mutual relationships with our suppliers and procure optimal parts globally with appropriate standards for quality, price, and stability. To ensure stable procurement of parts and materials, we have secured multiple procurement channels and suppliers in Japan and overseas to diversify our procurement sources and address risks including shortages of parts and materials and soaring costs for materials and logistics. We are also regularly inspecting inventory and writing down book values to prevent inventory assets from becoming unusable or being held too long time.

We investigate suppliers' business continuity plans (BCPs). Based on the results, we diagnose, maintain, and update our BCPs.

Risks at Overseas Businesses

Likelihood of occurrence: Medium

Degree of impact: Major

We have an internal system that can follow closely and respond flexibly to the global situation and legal and regulatory changes in the world. In the Chinese market in particular, we have a structure in place for sales in China to be covered by production in China. This enables us to reduce the effect of trade policies in China and other countries. We are also reviewing our production structure by consolidating production at the Amoy Factory in China.

We are using technical centers to strengthen our sales structures and customer support in Europe and the United States as we expect to increase our market share in the future. We are also reinforcing our sales structures in other regions where growth can be expected, including Southeast Asia, India, and Mexico, to reduce our dependence on China.

Information Security Risks

Likelihood of occurrence: Medium

Degree of impact: Major

The 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: Medium

Degree of impact: Major

We proactively recruit skilled human resources to secure and develop engineers with highly specialized technical skills and human resources with excellent skills in management strategy and global organizational management. We also emphasize human resource development through systematic post-employment training, executive training, and position-specific training. We have identified "diversification of human resources" as one of our materiality issues and are promoting a corporate culture in which diverse employees can actively work in comfort and with satisfaction. Furthermore, we believe that the physical and mental health of each employee is vital for the sustainable growth of the Company. We established the "Sodick Health and Productivity Management Declaration" in January 2022 to promote the improvement of the working environment and health promotion, as well as to secure and retain excellent human resources.

## Ten-Year Financial Summary

	03/2015 FY	03/2016 FY	03/2017 FY	12/2017 FY		12/2018 FY	12/2019 FY	12/2020 FY	12/2021 FY	12/2022 FY	Unit: million yen	Unit: US\$1,000* <sup>1</sup>
											12/2023 FY	12/2023 FY
<b>Business performance</b>												
Net sales	63,090	65,146	61,812	65,604		82,716	67,591	58,030	75,174	80,495	67,174	473,626
Cost of sales	42,215	41,369	39,318	42,445		52,488	45,421	39,779	49,461	53,670	47,892	337,677
Gross profit	20,874	23,777	22,494	23,159		30,227	22,169	18,250	25,713	26,825	19,281	135,949
Selling, general and administrative expenses	15,984	17,424	17,257	15,669		20,338	18,747	16,397	18,899	21,011	22,100	155,826
Operating profit (loss)	4,891	6,353	5,236	7,490		9,888	3,422	1,852	6,813	5,813	(2,819)	(19,877)
Ordinary profit (loss)	5,647	5,719	4,620	7,910		9,619	3,558	2,046	8,588	8,275	(1,257)	(8,869)
Profit (loss) before income taxes	5,129	5,748	4,193	7,772		8,929	3,369	2,078	8,538	8,085	(2,433)	(17,155)
Profit (loss) attributable to owners of parent	3,550	4,167	3,644	5,736		6,462	2,002	1,346	6,591	6,021	(4,604)	(32,465)
R&D expenses	2,494	3,408	3,518	3,344		3,902	3,483	3,220	3,216	3,168	3,435	24,223
Capital investments	2,232	2,887	2,594	4,588		8,576	6,561	2,448	3,451	4,681	6,009	42,368
Depreciation	2,659	2,765	2,697	2,360		3,085	3,664	3,399	3,452	3,602	3,792	26,738
<b>Financial status</b>												
Total assets	104,167	99,722	109,271	121,815		119,082	114,647	116,117	134,866	138,433	134,066	945,260
Net assets	49,453	49,758	48,710	55,166		58,129	58,745	57,976	74,438	80,993	77,129	543,815
Interest-bearing debt	35,758	33,826	40,953	41,704		39,524	38,637	41,385	33,741	32,666	37,328	263,192
<b>Cash flow</b>												
Cash flows from operating activities	8,298	6,579	8,373	4,522		9,275	8,336	5,270	7,642	3,543	(14)	(104)
Cash flows from investing activities	(144)	(2,773)	(2,132)	(4,715)		(8,188)	(5,609)	(1,410)	(2,203)	(10,957)	(2,492)	(17,574)
Free cash flow	8,153	3,806	6,240	(193)		1,087	2,727	3,860	5,439	(7,413)	(2,507)	(17,678)
Cash flows from financing activities	(5,243)	(2,854)	3,134	(439)		(3,485)	(2,228)	1,665	(1,932)	(6,012)	1,421	10,021
<b>Per-share indicators</b>												
Earnings (loss) per share (EPS) (Yen/US\$* <sup>1</sup> )	70.55	82.82	76.91	122.15		137.58	42.58	28.63	125.67	112.67	(90.29)	(0.64)
Net assets per share (BPS) (Yen/US\$* <sup>1</sup> )	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	1,519.02	10.71
Dividends per share (Yen/US\$* <sup>1</sup> )	20.00	18.00	19.00	22.00		24.00	25.00	25.00	26.00	27.00	29.00	0.20
<b>Key financial indicators</b>												
Ratio of gross profit to net sales	33.1%	36.5%	36.4%	35.3%		36.5%	32.8%	31.4%	34.2%	33.3%	28.7%	
Ratio of operating profit to net sales	7.8%	9.8%	8.5%	11.4%		12.0%	5.1%	3.2%	9.1%	7.2%	(4.2%)	
Ratio of ordinary profit to net sales	9.0%	8.8%	7.5%	12.1%		11.6%	5.3%	3.5%	11.4%	10.3%	(1.9%)	
Return on equity (ROE)* <sup>2</sup>	7.7%	8.4%	7.4%	11.1%		11.4%	3.4%	2.3%	10.0%	7.8%	(5.8%)	
Ratio of ordinary profit to total assets (ROA)* <sup>3</sup>	5.6%	5.6%	4.4%	6.8%		8.0%	3.0%	1.8%	6.8%	6.1%	(0.9%)	
Debt-to-equity ratio (D/E ratio)* <sup>4</sup> (times)	0.86	0.75	0.92	0.84		0.72	0.69	0.74	0.49	0.46	0.59	
Equity ratio* <sup>5</sup>	47.4%	49.8%	44.5%	45.2%		48.7%	51.2%	49.9%	55.2%	58.5%	57.5%	
Dividend on equity ratio (DOE)* <sup>6</sup>	2.4%	2.0%	2.0%	2.1%		2.1%	2.1%	2.1%	2.3%	2.1%	2.2%	
Ratio of overseas sales	64.1%	63.8%	62.7%	69.6%		65.8%	62.0%	66.0%	70.8%	69.4%	67.1%	
Average exchange rate over the period Yen/USD	109.76	120.15	108.34	111.69		110.44	109.03	106.76	109.90	131.62	140.67	
Yen/EUR	138.69	132.60	118.74	128.55		130.35	122.03	121.88	129.91	138.14	152.11	
Yen/CNY	17.14	19.21	16.32	16.62		16.71	15.77	15.48	17.01	19.45	19.81	
Yen/THB	3.38	3.44	3.08	3.33		3.42	3.52	3.42	3.44	3.75	4.04	
<b>Other</b>												
Number of employees (consolidated)	3,183	3,216	3,415	3,651		3,676	3,579	3,633	3,683	3,746	3,562	

\*1 US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.

\*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 ratio (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 Financial Statements

### Consolidated Balance Sheets

		Unit: million yen	Unit: US\$1,000*
	12/2022 FY	12/2023 FY	12/2023 FY
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥ 36,047	¥ 34,621	\$ 244,102
Notes and accounts receivable-trade, and contract assets	15,698	14,692	103,595
Electronically recorded monetary claims-operating	2,792	1,312	9,257
Merchandise and finished goods	11,856	11,529	81,291
Work in process	10,068	9,444	66,587
Raw materials and supplies	12,390	11,423	80,542
Other	3,850	3,632	25,610
Allowance for doubtful accounts	(347)	(485)	(3,423)
Total current assets	92,356	86,170	607,561
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Buildings and structures	31,075	35,111	247,559
Machinery, equipment and vehicles	23,949	24,840	175,142
Tools, furniture and fixtures	4,639	4,807	33,894
Land	7,888	8,622	60,798
Leased assets	2,918	3,235	22,815
Construction in progress	1,721	266	1,880
Accumulated depreciation	(40,629)	(43,939)	(309,805)
Total property, plant and equipment	31,562	32,944	232,283
<b>Intangible assets</b>			
Goodwill	1,150	799	5,634
Other	1,471	1,855	13,080
Total intangible assets	2,622	2,654	18,715
<b>Investments and other assets</b>			
Investment securities	4,597	5,480	38,639
Long-term loans receivable	39	28	204
Deferred tax assets	1,353	783	5,528
Long-term time deposits	4,562	4,583	32,320
Other	1,386	1,463	10,316
Allowance for doubtful accounts	(48)	(43)	(306)
Total investments and other assets	11,891	12,296	86,701
Total non-current assets	46,076	47,895	337,699
Total Assets	¥ 138,433	¥ 134,066	\$ 945,260

\* US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.

		Unit: million yen	Unit: US\$1,000*
	12/2022 FY	12/2023 FY	12/2023 FY
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	¥ 5,312	¥ 4,185	\$ 29,512
Electronically recorded obligations-operating	6,734	4,964	35,005
Short-term borrowings	1,840	3,045	21,472
Current portion of bonds payable	140	140	987
Current portion of long-term borrowings	8,157	8,649	60,982
Accounts payable-other	1,878	1,306	9,211
Income taxes payable	1,025	364	2,568
Contract liabilities	4,448	3,296	23,242
Provision for product warranties	427	331	2,339
Provision for quality assurance	4	3	27
Provision for bonuses	1,211	1,051	7,414
Other	3,498	3,469	24,462
Total current liabilities	34,679	30,808	217,220
<b>Non-current liabilities</b>			
Bonds payable	440	300	2,115
Long-term borrowings	20,761	23,829	168,012
Provision for retirement benefits for directors (and other officers)	11	11	81
Provision for product warranties	67	73	521
Retirement benefit liability	673	613	4,322
Asset retirement obligations	66	67	479
Other	739	1,233	8,694
Total non-current liabilities	22,760	26,128	184,225
Total Liabilities	57,439	56,936	401,445
<b>Net Assets</b>			
<b>Shareholders' equity</b>			
Share capital	24,618	24,618	173,579
Capital surplus	9,717	9,717	68,518
Retained earnings	40,312	32,257	227,438
Treasury shares	(3,739)	(3,010)	(21,224)
Total shareholders' equity	70,909	63,583	448,311
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	1,030	1,397	9,852
Foreign currency translation adjustment	9,114	12,125	85,492
Remeasurements of defined benefit plans	(120)	(30)	(218)
Total accumulated other comprehensive income	10,024	13,491	95,125
Non-controlling interests	59	53	378
Total Net Assets	80,993	77,129	543,815
Total Liabilities and Net Assets	¥ 138,433	¥ 134,066	\$ 945,260

## Consolidated Statements of Income

		Unit: million yen	Unit: US\$1,000*
	12/2022 FY	12/2023 FY	12/2023 FY
<b>Net sales</b>	¥ 80,495	¥ 67,174	\$ 473,626
<b>Cost of sales</b>	53,670	47,892	337,677
<b>Gross profit</b>	26,825	19,281	135,949
<b>Selling, general and administrative expenses</b>			
Personnel expenses	9,674	9,874	69,622
Provision of allowance for doubtful accounts	(95)	118	839
Amortization of goodwill	144	152	1,078
Research and development expenses	2,065	2,158	15,222
Other	9,223	9,795	69,064
Total selling, general and administrative expenses	21,011	22,100	155,826
<b>Operating profit (loss)</b>	5,813	(2,819)	(19,877)
<b>Non-operating income</b>			
Interest income	392	479	3,379
Dividends income	287	147	1,043
Foreign exchange gains	1,681	729	5,143
Share of profit of entities accounted for using equity method	86	178	1,262
Subsidy income	256	190	1,341
Gain on sale of scraps	41	32	232
Other	154	248	1,755
Total non-operating income	2,900	2,007	14,154
<b>Non-operating expenses</b>			
Interest expenses	301	317	2,238
Provision of allowance for doubtful accounts	—	1	9
Rental expenses on non-current assets	42	48	341
Other	93	79	558
Total non-operating expenses	437	446	3,147
<b>Ordinary profit (loss)</b>	8,275	(1,257)	(8,869)
<b>Extraordinary income</b>			
Gain on sale of non-current assets	49	33	239
Compensation for forced relocation	—	7	54
Total extraordinary income	49	41	293
<b>Extraordinary losses</b>			
Loss on sale of non-current assets	2	45	323
Loss on retirement of non-current assets	39	99	703
Impairment losses	—	1,035	7,304
Extra retirement payments	184	—	—
Other	12	35	249
Total extraordinary losses	239	1,216	8,579
<b>Profit (loss) before income taxes</b>	8,085	(2,433)	(17,155)
Income taxes – current	2,010	1,343	9,470
Income taxes – deferred	49	836	5,901
Total income taxes	2,059	2,179	15,370
Profit (loss)	6,026	(4,613)	(32,525)
Profit (loss) attributable to non-controlling interests	4	(8)	(60)
<b>Profit (loss) attributable to owners of parent</b>	¥ 6,021	¥ (4,604)	\$ (32,465)

\* US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.

## Consolidated Statements of Comprehensive Income

		Unit: million yen	Unit: US\$1,000*
	12/2022 FY	12/2023 FY	12/2023 FY
<b>Profit (loss)</b>	¥ 6,026	¥ (4,613)	\$ (32,525)
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	298	366	2,587
Foreign currency translation adjustment	3,622	2,956	20,847
Remeasurements of defined benefit plans, net of tax	99	89	633
Share of other comprehensive income of entities accounted for using equity method	91	56	398
Total other comprehensive income	4,112	3,469	24,464
<b>Comprehensive income</b>	10,138	(1,143)	(8,061)
(Comprehensive income attributable to)			
owners of parent	10,131	(1,137)	(8,019)
non-controlling interests	¥ 6	¥ (5)	\$ (42)

\* US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.



## Consolidated Statements of Changes in Equity

	Unit: million yen										
	Shareholders' equity					Accumulated other comprehensive income					
	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	Non-controlling interests	Total net assets
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
12/2023 FY (from January 1, 2023 to December 31, 2023)											
Balance at beginning of period	24,618	9,717	40,312	(3,739)	70,909	1,030	9,114	(120)	10,024	59	80,993
Changes during period											
Dividends of surplus			(1,442)		(1,442)						(1,442)
Reserve for the awards and welfare fund for employees of overseas subsidiaries			(36)		(36)						(36)
Profit attributable to owners of parent			(4,604)		(4,604)						(4,604)
Change in scope of consolidation			(114)		(114)						(114)
Purchase of treasury shares				(1,203)	(1,203)						(1,203)
Disposal of treasury shares				75	75						75
Cancellation of treasury shares		(0)	(1,856)	1,857	—						—
Restricted share-based remuneration		0			0						0
Net changes of items other than shareholders' equity during period						366	3,010	89	3,467	(5)	3,461
Total changes during period	—	—	(8,055)	729	(7,325)	366	3,010	89	3,467	(5)	(3,864)
Balance at end of period	¥24,618	¥9,717	¥32,257	¥(3,010)	¥63,583	¥1,397	¥12,125	¥(30)	¥13,491	¥53	¥77,129
Unit: US\$ 1,000*											
	Shareholders' equity					Accumulated other comprehensive income					
	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	Non-controlling interests	Total net assets
12/2023 FY (from January 1, 2023 to December 31, 2023)											
Balance at beginning of period	\$173,579	\$68,518	\$284,233	\$(26,367)	\$499,963	\$7,265	\$64,265	\$(851)	\$70,679	\$420	\$571,062
Changes during period											
Dividends of surplus			(10,169)		(10,169)						(10,169)
Reserve for the awards and welfare fund for employees of overseas subsidiaries			(261)		(261)						(261)
Profit attributable to owners of parent			(32,465)		(32,465)						(32,465)
Change in scope of consolidation			(810)		(810)						(810)
Purchase of treasury shares				(8,486)	(8,486)						(8,486)
Disposal of treasury shares				535	535						535
Cancellation of treasury shares		(3)	(13,092)	13,095	—						—
Restricted share-based remuneration		3			3						3
Net changes of items other than shareholders' equity during period						2,587	21,227	633	24,446	(42)	24,404
Total changes during period	—	—	(56,796)	5,143	(51,652)	2,587	21,227	633	24,446	(42)	(27,248)
Balance at end of period	\$173,579	\$68,518	\$227,438	\$(21,224)	\$448,311	\$9,852	\$85,492	\$(218)	\$95,125	\$378	\$543,811

\* US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.

## Consolidated Statements of Cash Flows

	12/2022 FY	Unit: million yen 12/2023 FY	Unit: US\$ 1,000* 12/2023 FY
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 8,085	¥ (2,433)	\$ (17,155)
Depreciation	3,602	3,792	26,738
Amortization of goodwill	144	152	1,078
Increase (decrease) in retirement benefit liability	255	(6)	(44)
Increase (decrease) in provision for bonuses	398	(165)	(1,167)
Increase (decrease) in allowance for doubtful accounts	(103)	116	824
Interest and dividend income	(679)	(627)	(4,422)
Interest expenses	301	317	2,238
Share of loss (profit) of entities accounted for using equity method	(86)	(178)	(1,262)
Foreign exchange losses (gains)	(283)	(230)	(1,625)
Loss (gains) on sale and revaluation of investment securities	0	—	—
Loss (gains) on sale and retirement of non-current assets	(7)	111	787
Impairment losses	—	1,035	7,304
Decrease (increase) in trade receivables	2,614	2,800	19,745
Decrease (increase) in inventories	(5,125)	2,928	20,651
Increase (decrease) in trade payables	(1,370)	(3,020)	(21,298)
Increase (decrease) in accounts payable-other	113	(365)	(2,574)
Increase (decrease) in advances received	(4,618)	(112)	(796)
Increase (decrease) in accrued consumption taxes	(366)	188	1,328
Increase (decrease) in contract liabilities	3,230	(1,268)	(8,943)
Decrease (increase) in advance payments to suppliers	(19)	(159)	(1,124)
Other	(1,068)	(1,111)	(7,838)
Subtotal	5,015	1,765	12,445
Interest and dividends received	923	472	3,331
Interest paid	(298)	(317)	(2,240)
Income taxes refund (paid)	(2,096)	(1,934)	(13,640)
Net cash provided by (used in) operating activities	3,543	(14)	(104)
Cash flows from investing activities			
Payments into time deposits	(6,840)	(697)	(4,917)
Proceeds from withdrawal of time deposits	465	2,705	19,075
Purchase of property, plant and equipment	(3,554)	(4,302)	(30,338)
Proceeds from sale of property, plant and equipment	201	679	4,791
Purchase of intangible assets	(653)	(1,023)	(7,218)
Purchase of investment securities	(10)	—	—
Proceeds from sale of investment securities	0	—	—
Purchase of shares of subsidiaries and associates	(480)	(202)	(1,429)
Loan advances	(70)	(50)	(359)
Proceeds from collection of loans receivable	1	0	3
Other	(16)	399	2,818
Net cash provided by (used in) investing activities	(10,957)	(2,492)	(17,574)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(487)	1,161	8,190
Proceeds from long-term borrowings	5,000	12,500	88,134
Repayments of long-term borrowings	(6,921)	(8,985)	(63,356)
Redemption of bonds	(140)	(140)	(987)
Repayments of finance lease liabilities	(630)	(469)	(3,313)
Purchase of treasury shares	(1,433)	(1,201)	(8,474)
Dividends paid	(1,399)	(1,442)	(10,169)
Other	—	(0)	(4)
Net cash provided by (used in) financing activities	(6,012)	1,421	10,021
Effect of exchange rate change on cash and cash equivalents	2,355	1,501	10,590
Net increase (decrease) in cash and cash equivalents	(11,070)	415	2,933
Cash and cash equivalents at the beginning of period	44,229	33,158	233,793
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(269)	(1,900)
Cash and cash equivalents at the end of period	¥ 33,158	¥ 33,305	\$ 234,825

\* US\$ amounts are converted at the rate of US\$1 = 141.83 yen observed in trading in the Tokyo foreign currency market as of December 31, 2023.

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: 54,792,239

Total number of shareholders: 16,873

Number of employees: 1,183 (3,562 consolidated)

Fiscal year: January 1 – December 31

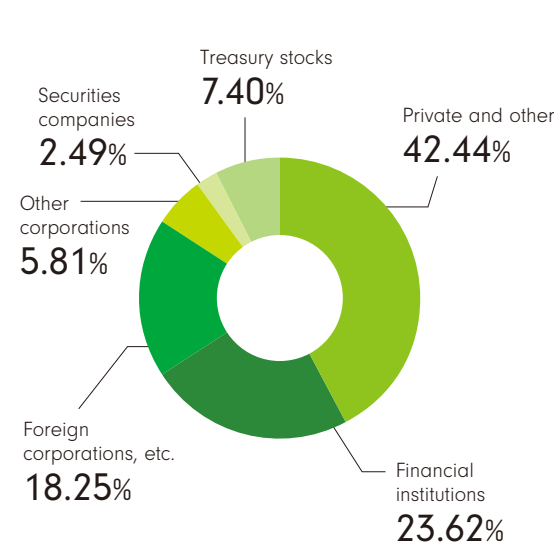
Annual shareholders’ meeting: March

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)	6,393,200	11.67
Sodick Co., Ltd.	4,051,960	7.40
Custody Bank of Japan, Ltd. (trust account)	2,549,700	4.65
Kiyoshi Morita	1,190,070	2.17
Sodick Business Partner Stock Ownership Association	957,900	1.75
TF Co., Ltd.	895,000	1.63
Sumitomo Mitsui Banking Corporation	850,000	1.55
Sodick Employee Stock Ownership Association	834,432	1.52
Kenichi Furukawa	832,001	1.52
Hiroko Furukawa	800,000	1.46

Share Distribution by Holder



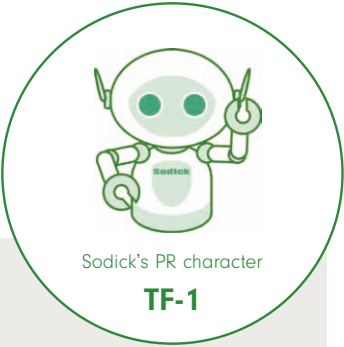
Sodick IR Site



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.



Group Network



- 1** Sodick Head Office/  
Research and  
Technology 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 Korea Co.,Ltd.
- 19** Sodick Vietnam Co., Ltd.
- 20** Sodick Philippines Inc.
- 21** PT Sodick Technology Indonesia
- 22** Sodick Singapore Pte., Ltd.
- 23** Sodick Technology (M) Sdn Bhd.
- 24** Sodick Technologies India Pte., Ltd.
- 25** SODICK TECHNOLOGIA MEXICO,  
S.A. DE C.V.



On the Publication of Sodick Integrated Report 2023

As stated in this report, Sodick is currently pursuing structural reforms with a focus on the three elements of management base, profit structure, and competitive advantage to build a base to achieve our medium-term management plan. All Group companies are endeavoring to reform their business models, organizations, and policies as we transform into sustainability management. We recognize that today in particular we need to strive to refine our corporate competitiveness and increase enterprise value through constructive dialogue with a broad range of stakeholders including shareholders and investors.

This report was prepared to provide readers with a deeper understanding of our value creation story as we seek to achieve our mid- and long-term vision of “Contributing to create a sustainable society through manufacturing.” In particular, the pages covering “Examples of Creating Value” and “Strategy/Business Model” introduce our thoughts and policies about the transformation of our management base and profit structure and the enhancement of the competitive advantage that we are currently emphasizing.

This report includes pages with basic information, financial data, and environmental, social, and governance (ESG) material based on major guidelines. The Office of the President, Corporate Division had a responsibility and made this report as editorial office with the cooperation of various sections 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, and Sodick F.T Co., Ltd., in planning and publishing the report. To disclose accurately the actual corporate activities, the executive team was directly involved in its 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 make it clear that the report production process and the information contained in this report are valid.

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

I also ask for the candid opinions of stakeholders as you gain an understanding of our management and corporate activities by reading this report and visiting our website.



Hirofumi Maejima

Chief Financial Officer (CFO)  
Director and  
Corporate Executive Officer



**Sodick Co., Ltd.**

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

<https://www.sodick.co.jp/en/>