

Work together as one globally centering on Yaskawa principles and practice "i<sup>3</sup>-Mechatronics," a solution concept to become the company that supports a wider range of industries and society than ever before

I'm Masahiro Ogawa. I became the Representative Director, President in March 2023. Since joining Yaskawa Electric in 1987, I had consistently gained experience in the Robotics division. In 2010, I moved to the U.S. and oversaw all our business segments, while gaining experience of global business management. After coming back to Japan in 2016, I worked hard to realize the "i<sup>3</sup>-Mechatronics" advocated by Mr. Ogasawara, Chairman of the Board. From now on, as the President, I will lead the Yaskawa Group to let us work together as one to make further progress.

Since its foundation, Yaskawa Electric has consistently focused on "electric motors and their applications." With motor technology as its core, Yaskawa has developed its technology from motors in coal mining facilities to steel and material production facilities, factory automation, and i<sup>3</sup>-Mechatronics, while sincerely meeting the needs of the market and customers in each era. It is Yaskawa Group's ability to contribute to society through industry to present a path toward the realization of the ideal production site that customers want by using "motors and their applications" technology. I believe that this continuation is our existential significance and mission.

Our customers' business environment is evolving every day. Accordingly, their expectations and requests for the Yaskawa Group will increase in the future. In this environment, I would like to work with our employees to realize the unique social contribution that the Yaskawa Group can make. It is a great challenge, but I will take the lead in our efforts to further develop the Yaskawa Group.

M. Ogawa

Masahiro Ogawa Representative Director, President



## What I want to accomplish as the President

One day in November 2022, when I visited the president's office for a business meeting, Mr. Ogasawara, the Chairman of the Board, (the former President) asked me to become the next President. The timing was unexpected, but in one minute, I was determined to become the President and replied with my acceptance. I had overseen the Robotics business for 7 years until FY2022, and during that time, I always tried to operate the business with total optimization, so I was not reluctant to take responsibility for the entire company and make decisions as the President. I determined my mind when I was actually asked.

What I think I should accomplish as the President is to think about and implement "How we should respond to current events and expectations from markets and customers in our current position" to make Yaskawa a company that will continue to develop for the future. My role is not to drastically change what we have done in the past, but to add something extra to the present and connect it to the future while being conscious of the sustainability of growth.

In addition, in these days when supply chains are expanding globally, it is necessary to take an event that occurs anywhere in the world as our own. In order to be a robust company that can respond flexibly to global events, it is necessary to instill Yaskawa principle and i<sup>3</sup>-Mechatronics as guidelines for the conduct of all employees and to build a corporate culture. When it becomes a culture, the conduct of employees is aligned, and it is more likely to be inherited. I will be a leader in fostering a corporate culture and create the foundation for the Yaskawa Group's continued growth in the future.

## The review of previous mid-term business plan "Challenge 25 Plus"

The previous mid-term business plan "Challenge 25 Plus" ended in FY2022, but the actual situation was very different from that assumed in FY2019. The U.S.-China trade conflict started, and economic activity and human movement were restricted by the COVID-19 pandemic. After the resumption of economic activity, there was a shortage of electronic components, mainly semiconductors, due to a rapid recovery in demand, and we also faced rapid fluctuations in foreign exchange rates and inflation. All of these changes in the environment were unexpected, but it is very valuable that we could achieve the revenue and operating profit targets set out in "Challenge 25 Plus" in this situation. However, I recognize that how to handle the shortage of parts remains as a challenge, so we will take measures to fulfill responsibilities to supply in a stable manner under the new mid-term business plan, "Realize 25."

Another major achievement of "Challenge 25 Plus" is that we were able to confirm that the measures the Yaskawa Group has taken so far was correct. The Yaskawa Group's global management, which is characterized by autonomy for each region and local production, worked effectively against fluctuations in foreign exchange rates. Although we cannot control fluctuations in foreign exchange rates, we were able to build a resilient system. This is also an effective response to geopolitical risk and decoupling. I believe that it is worthwhile to further strengthen this resilient global system, and this realization is reflected in "Realize 25."

Also in the period of "Realize 25," unexpected environmental changes are inevitable. In my personal experience, it has definitely helped me to become aware of my shortcomings and continue to learn to compensate for them as I proceed to my goals. I believe that the Yaskawa Group can become a stronger company by gaining awareness by tough changes and challenges and gaining experience to overcome them.

# porate Governance

## Strategy of the new mid-term business plan "Realize 25"

The goals of "Realize 25" are also the goals of our longterm business plan, "Vision 2025" (FY2016 – FY2025). Of course, as the President, I am also looking at the sustainable growth of the Yaskawa Group beyond FY2025, but first I will have all of our employees focus on achieving "Vision 2025."

The strategy of "Realize 25" to realize "Vision 2025" is to strengthen our execution capabilities. By launching new products early in the mid-term business plan period and revitalizing our existing business foundation for development, production, sales, and services, we will grow in both volume and quality. At the same time, we will work to re-strengthen our global supply chain to prepare for the next further growth.

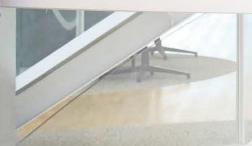
In the PDCA cycle, "Realize 25" is a period of "Do." Awareness in this period leads to challenges for the next mid-term business plan. I don't want to see similar challenges on the agenda of the discussion after three years without tacking them now. We have decided what we are going to do and how to do it, so what we should do now is to just do it with determination. The management, including general managers and division managers, recognize their roles and act in response to the direction of the entire company, and take proper responsibility for the results. As the head of the company, I will take responsibility for the direction that we have decided as a company.

Since we launched the concept of i<sup>3</sup>-Mechatronics in 2017, we have been pushing hard to transform our business model. Now is the right time for us to align the direction of everyone from the management to employees to get our new business model off the ground and get the results. We aim to achieve the goals of "Realize 25" by ensuring that we execute what we have decided through actively communicating with employees using the discussion\* opportunities, as well as through applying detailed PDCA cycle through discussion with the management.

\* About 10 meetings for direct discussion between the management and employees are held in a year.



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# Creating Social Value and Solvin

## Yaskawa group's sustainability goals

"We realize i<sup>3</sup>-Mechatronics with the core motor technology and contribute to customers. As a result of that, social value is created, and social problems are solved." As a technology-driven company, I believe that making progress toward achieving this is what we should be headed for. In one of our sustainability goals, "realize revolutionary industrial automation with partners through i3-Mechatroncis," Yaskawa expresses what it should be, and we emphasize this the most. We will also implement "Build clean social infrastructure and foundation for safe and comfortable living" and "Develop new technologies and business domains through open innovations." At present, attention is focused on addressing environmental issues such as reducing CO2 emissions in order to achieve carbon neutrality, but if we broaden our horizons to the SDGs, social issues will become even more diverse. I believe that sustainability goals will change depending on which issues we focus on and when, but "Realize revolutionary industrial automation with partners through 'i<sup>3</sup>-Mechatroncis'" is our belief that expresses ourselves that have consistently pursued "electric motors and its applications." And for the Yaskawa Group to achieve sustainable growth while responding to social challenges and market demands, we need to upgrade production, human resources and governance.

#### Aiming to make further strides by making the most of diversity as driving force

We aim to achieve "Vision 2025" and "Realize 25" through initiatives to meet the Yaskawa Group's sustainability goals, which are our important KGIs, while making "the roles assigned to each employee and their achievements surely lead to our ultimate goal, the Yaskawa Principles" the common understanding of the Yaskawa Group as a whole. I respect and support the personalities, aspirations, and diversity of our employees, who are the cornerstones of our business operations, as long as they are in line with the company-wide direction. This is because I believe that the source of energy that drives our organization comes from "a gap". People have unique ways of thinking and approaching by the difference of genders, generations, handicaps, and cultures. The driving force generated by them in an organization is invaluable. It must be used to move the company toward company-wide goals.

In recent years, because new products to realize i<sup>3</sup>-Mechatronics, such as the YRM-X controller,  $\Sigma$ -X, and MOTOMAN NEXT, have been developed, the global understanding of i<sup>3</sup>-Mechatronics has improved. By using the diversity existing within the Yaskawa Group as the driving force to meet local demand, we will achieve further growth.

Servo motors, AC drives, and robots are devices that are used in the entire industry. The Yaskawa Group has a unique strength to possess these products as its core products and I believe that we will be able to support industry and society more broadly by increasing the number of partners. We are committed to contributing to our customers and society and creating value through the implementation of i<sup>3</sup>-Mechatronics by working together as one globally based on Yaskawa Principles. Please look forward to our further progress and I appreciate your continued support.



### **Sustainability Policy and Initiatives**

Under the Yaskawa Principles, Yaskawa Group formulated its Sustainability Policy in FY2021. In line with this policy, we identify material issues and develop targets for long-term and mid-term business plans to promote sustainability strategically. In addition, we will monitor progress and implement the PDCA cycle to achieve a sustainable society and increase corporate value.



#### **Sustainability Policy**

We will strive to realize a sustainable society and increase corporate value through the implementation of the Yaskawa Group Principle of Management which is to leverage the pursuit of our business to contribute to the advancement of society and the well-being of humankind.

- We will contribute to the value creation for customers and society through creating innovation by cutting-edge mechatronics technologies.
- We will realize fair and transparent corporate management through communication and collaboration with stakeholders around the world.
- 3. We will work to resolve social issues globally with the aim of achieving SDGs as a universal goal.

#### Sustainability Challenges and Targets (Materiality)

In regard to sustainability challenges and targets (materiality), we identified issues of high importance by evaluating trends in the international community and social issues that are closely related to us from two perspectives: "importance to stakeholders" and "importance to Yaskawa." These issues were discussed at internal meetings, including those of the Board of Directors, and issues of particular importance were identified as materiality. Moreover, we have clarified the direction of each focus area and strategy, and set quantitative and qualitative KPIs. Through the resolution of identified materiality issues, we are working to realize a sustainable society and increase corporate value, which we aim to achieve under our sustainability policy.



#### **Sustainability Promotion System**

Our company has established a Sustainability Committee chaired by the President.

This committee is attended by heads of related divisions and outside directors as advisors to promote sustainability management for the Group as a whole. It also plans, deliberates, develops among the Group, and monitors priority measures and policies related to materiality. Sustainability initiatives are regularly reported to the Board of Directors and the Management Committee.

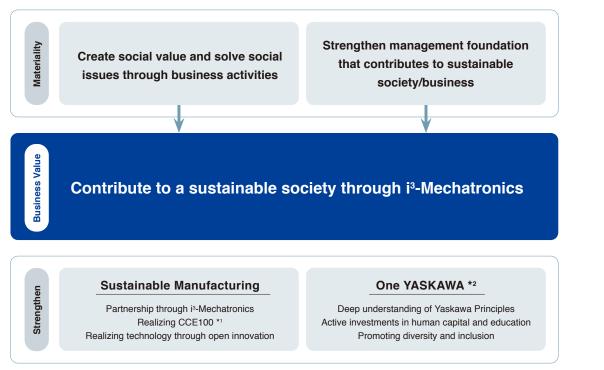
In FY2022, the Sustainability Committee met in April and October 2022. In addition to internal management, outside directors participated in lively discussions on KPIs for each materiality.



#### Concept of Sustainability Promotion in the Mid-term Business Plan "Realize 25"

Our group will enhance its business value of "contributing to a sustainable society through i<sup>3</sup>-Mechatronics" by promoting materiality initiatives. We will use the challenges in

the previous mid-term business plan "Challenge 25 Plus" as reinforcement points in the current mid-term business plan "Realize 25" and aim to develop targets.



\*1 CCE100 (Contribution to Cool Earth 100): Target to reduce CO<sub>2</sub> emissions from our products by more than 100 times by 2025
\*2 One YASKAWA: Initiatives to promote a corporate culture that brings the Yaskawa Group together by promoting the penetration of Yaskawa Principles on a global scale.

### Sustainability Challenges and Targets (Materiality) and **Their Progress**

Our group's materiality initiatives and progress are described below. Through the Sustainability Committee, we monitor KPIs on an ongoing basis and implement the PDCA cycle to achieve our goals and realize our vision.

Sustainability Challenges and Targets and Related SDGs	Desired Outcomes			
Create Social Value and Solve Social Issues through Business Activities				
1. Realize revolutionary industrial automation with partners through "i <sup>3</sup> -Mechatroncis"	Solve customer management issues with i <sup>3</sup> -Mechatronics, a solution concept	Accumulation of "i <sup>a</sup> -Mechatronics" project success cases		
2. Build clean social infrastructure and foundation for safe and comfortable living	Use Yaskawa's technological capabilities to improve the environmental performance of products and reduce the environmental impact of the world by expanding sales	Achieve CCE 100 (Contribution to Cool Earth 100)     [FY2025: 100 times]		
	Apply and expand Yaskawa's existing mechatronics technology and take on new domains	<ul> <li>Expanding examples of mechatronics technology applications</li> </ul>		
3. Develop new technologies and business domains through open innovations	Leverage M&A / Alliance to provide feedback on business expansion and technology in new areas	<ul> <li>Strengthen initiatives in new areas through M&amp;A and alliances</li> </ul>		
	Promote external collaboration to develop the world's first and best technologies and products	<ul> <li>Reinforcement of Industry-Academia-Government collaboration</li> </ul>		
	Demonstrate business synergies through venture investment and collaboration	<ul> <li>Expansion of venture investments by YIP*1</li> </ul>		
Strengthen Management Foundation that	Contributes to Sustainable Society/Businesses			
4. Sustainable and productive manufacturing	Promote global production efficiency and optimization through domestic and overseas expansion of the "Yaskawa Solution Factory" concept	Introduction of cutting-edge manufacturing		
	Reduce CO <sub>2</sub> emissions and address global climate change issues	Reduction of greenhouse gas emission through the Green Process		
	Provide optimal maintenance throughout the life cycle with the ultimate goal of "not stopping customer equipment"	<ul> <li>Improvement of product safety and quality</li> </ul>		
	Implement supply chain management based on adherence to sustainable procurement guidelines	Construction of a sustainable supply chain		
5. Create a rewarding workplace and human resource	Demonstrate the strengths of diverse human resources by promoting the active participation of women	Diversity and inclusion		
development	Develop human resources based on personnel philosophy and improve the job satisfaction of employees	Human resource development		
	Eliminate work stoppage accidents and create a safe workplace	Occupational safety		
	Raise employees' awareness of human rights and create a workplace where human rights are respected	Human rights and work practices		
	Promote social contribution activities to coexist and co-create with local communities by developing human resources for the evolution of manufacturing	Contribution to local communities		
6. Fair and transparent governance system	Promote sustainable growth and increase corporate value through constructive dialogue with investors	"Aggressive" governance system utilizing the Corporate     Governance Code		
39310111	Raise the level of the security organization and build an autonomous and continuous information security system	Strengthening of information security		
	Prevent escalation by early detection of compliance risks	Enhancement of compliance		

\*1 Abbreviation of Yaskawa Innovation Program. New business creation scheme with CVC functions launched in FY2016
 \*2 Revenue per person for indirect and direct personnel at plants in Japan (compared to FY2019)

\*5 Target was set in October 2022.

6 A person at the level of being able to teach others or perform alone in the skills within a task to which he or she is assigned
7 Target was revised in October 2022.

\*4 The target value was changed following the revision of the 2050 carbon neutral target in May 2022.

\*8 Percentage of all skill items set at the end of FY2022 that are at or above a certain skill level

Initiatives	[Targets]	FY2022 Results
		<ul> <li>Strengthened customer approach with key products (YRM-X controller, Sigma-X series, YASKAWA Cockpit) based on i<sup>3</sup>-Mechatronics concept</li> </ul>
		Expansion of results through collaboration with top manufacturers in each industry
		• 67.4 times
		<ul> <li>Promoted initiatives in mechatronics application areas with a focus on energy conservation, clean power, food and agriculture, and humatronics</li> </ul>
		<ul> <li>Continued aggressive search for growth opportunities through M&amp;A/alliances to create technological synergies in our company's business areas of factory automation and mechatronics applications</li> </ul>
		<ul> <li>Promoting Industry-Academia-Government collaboration in and outside Japan on research and development that contributes to our company's future technologies</li> </ul>
		Venture investments: 2 (Cumulative number: 19)
	<ul> <li>Improving production efficiency at own plants (improving productivity indicators*<sup>2</sup>)</li> <li>[FY2022: +19%*<sup>3</sup> FY2025: +23% (compared to FY2019)]</li> </ul>	Productivity indicators: +21% (compared to FY2019)
	Reducing greenhouse gas (CO <sub>2</sub> ) emissions     [FY2025: -30%* <sup>4</sup> (compared to FY2018)]	• -20.0% (compared to FY2018)
	<ul> <li>Product safety through our group's Product Liability Committee         [Fiscal 2022: Strengthening global development of activities to pinch off the             "bud of PL"*s]         Improving product quality through the introduction of new systems             [FY2022: Start of global operation of market quality information centralized             system]     </li> </ul>	<ul> <li>Global development of activities to pinch off the "bud of PL" (No. of buds: 19, Product improvement development: 1)</li> <li>Centralization of quality information on a global scale (managing market quality information by coding and centralizing data from global production sites)</li> </ul>
	<ul> <li>Improving the rate of compliance with Sustainable Procurement Guidelines [FY2022: Compliance rate: 100%*3 (target: major suppliers of Yaskawa Electric) FY2025: Compliance rate: 100% (target: major suppliers of Yaskawa Group)]</li> </ul>	Compliance rate: 100% (target: major suppliers of Yaskawa Electric)
	<ul> <li>Raising the ratio of female managers [FY2025: Non-consolidated/Group in Japan: Double (compared to FY2021)]</li> </ul>	Ratio of female managers: 1.8 times (non-consolidated), 1.5 times (domestic group) (compared to the beginning of FY 2021)
	<ul> <li>Increase the ratio of professional human resources*6 [FY2025: Corporate average 75% or more*3]</li> </ul>	Professional rating ratio for all skill items: 41%*8
	Improvement of lost-time injury frequency rate     [FY2025: Non-consolidated: Maintain 0.2 or less Major production bases in Japan and overseas: Maintain 0.4 or less]	Lost time injury frequency rate: 0.00 (non-consolidated), 0.12 (domestic group), 0.22 (global)
	<ul> <li>Implementation and establishment of human rights due diligence processes for employees [FY2022: Implementation of human rights due diligence for group companies in Japan FY2025: Implementation at all global sites]</li> </ul>	<ul> <li>Implementation of human rights due diligence for domestic groups</li> <li>Assess the current status of initiatives at major global sites</li> </ul>
	<ul> <li>Development of human resources in science and engineering who will realize "evolution of manufacturing" [FY2022: Launch of a new manufacturing human resource development program]</li> </ul>	YASKAWA Innovation Center Visitors: 7,837     Implementation of a new manufacturing human resource     development program
	Implementation of the Principles of the Corporate Governance Code (Reasonable explanation where not implemented)	<ul> <li>Implementation of the principles of the Corporate Governance Code required of companies listed in "prime market"</li> </ul>
	<ul> <li>Internal and external security monitoring/measures in systems and security level evaluation/improvement by external auditing organizations</li> </ul>	<ul> <li>Implementation of security threat analysis, risk investigation, and early countermeasures for in-house systems through the introduction of services</li> </ul>
	Strengthen compliance through internal reporting	Continued appropriate responses to whistleblowing and other compliance issues

#### 02 Management Policy Long-term Business Plan "Vision 2025"

The Yaskawa Group has set forth its "Vision 2025" (FY2016 to FY2025), a long-term management plan for 10 years, with the starting point of FY2015, which is its centenary. Our basic policy in Vision 2025 is to contribute to the resolution of our customers' management issues through the evolution of our core business, and to create new added value for society through the expansion of new fields utilizing mechatronics technology.

#### **External Environment for 2025**

Changes in global population structure, such as declining birthrate and aging of developed countries Environmental problems and climate change caused by expansion of energy consumption Rapidly evolving telecommunication technologies such as 5G communication and IoT

### Yaskawa Principles Yaskawa's mission is to contribute broadly to social development and human welfare through the execution of our business.

- 1. Quality Always developing and improving world-class technologies with a focus on quality
- 2. Profitability
- ty Working to improve management efficiency and secure Profit necessary for the sustainable growth
- 3. Market Serving the needs of our customers and pursuing customer satisfaction

#### Yaskawa's FY2025 Goals

#### Respect Life

We aim to contribute to improving quality of life and building a sustainable society with technologies accumulated over the past century.

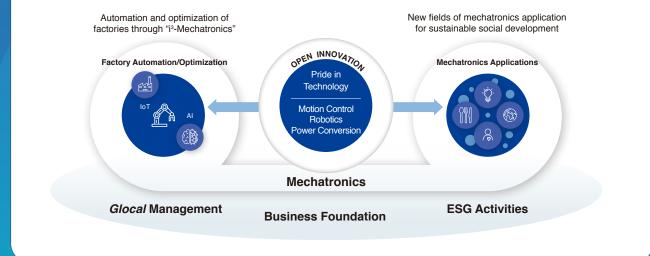
#### **Empower Innovation**

We venture in new technologies/domains/targets to bring excitement and enthusiasm to people.

#### **Deliver Results**

We promise to deliver assured results to stakeholders, while continuously enhancing business execution capabilities.

#### Vision 2025



#### Financial Targets for FY2025

Set "Operating Profit" as the most important KGI to be achieved in FY2025

Operating Profit	ROE*1	ROIC*2	Dividend Payout Ratio
Over 100 billion JPY	15.0% or more	15.0% or more	30.0%+a

\*1 ROE: Return on Equity = Net income attributable to owners of parent/Shareholders' equity \*2 ROIC: Return on invested capital = Net income attributable to owners of parent/Invested capital

# 01 Drivers of Value Creation

# orporate Governance

#### **Progress of Vision 2025**

Yaskawa has divided the 10 years of Vision 2025 into three mid-term business plan periods and is working to achieve this goal. With the completion of the first two mid-term business plan periods in FY2022, we are steadily approaching our vision and goals.





#### Mid-term Business Plan "Realize 25"

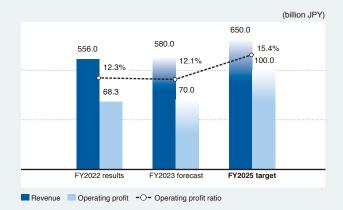
The Yaskawa Group launched mid-term business plan "Realize 25" for 3 years from FY2023 to FY2025 in order to achieve its long-term management plan "Vision 2025" and sustainable growth beyond that.



#### **Financial Targets**

The financial targets of Realize 25 are as follows. As for investments, we plan to invest a cumulative total of 150 billion yen over three years to solidify future sustainable growth. The main objectives of the investments are to improve value added through the expansion of in-house manufacturing and automation, the restructuring of factories and business sites, and the strengthening of local production in demand areas.

Revenue	Operating profit	Operating profit ratio	ROE	ROIC	Dividend Payout Ratio
650.0 billion JPY	100.0 billion JPY	15.4%	15.0% or more	15.0% or more	30.0%+a



#### **Aim and Policies**

Providing new values by expansion of i<sup>3</sup>-Mechatronics and evolution of robotics to achieve "Vision 2025" and contribute to realizing a sustainable society

#### **Policies and Initiatives**

Details of the four basic policies for achieving Realize 25 are as follows:

#### Policy 1

#### Creating Value through i<sup>3</sup>-Mechatronics Solutions

In order to realize solutions for our customers, we will further strengthen Yaskawa Group's strengths in products and technologies. In addition, in order to optimally and sustainably supply these products, Yaskawa Group's production sites will become the flagship for implementing i<sup>3</sup>-Mechatronics, and we will further enhance the competitiveness of our products by realizing cutting-edge manufacturing. By utilizing vast amounts of data on these processes, we will achieve high quality and provide sustainable solutions to our customers.

Realizing new revolutionary industrial automation

This is the solution concept of i<sup>3</sup>-Mechatronics. We will enhance our contribution to customers by realizing what they need through seamlessly connecting the "products," the Yaskawa Group's strengths. Through this, we will expand the scope of Yaskawa Group's business and create further value.

#### **Policies and Initiatives**

#### Policy 2

#### Capturing Growth Market with World's Best/First Automation Components

In growing markets such as EVs, batteries, semiconductors, and food products, focusing on automation components, we will develop strategies for each market on a global basis to ensure that demand is captured.

In addition, we will promote cooperation between development, procurement, and production at the mother plants in Japan for each business, and strengthen our global production system based on the concept of local production in demand areas. By implementing these measures, we will realize global and stable manufacturing that is resistant to environmental changes and risks.

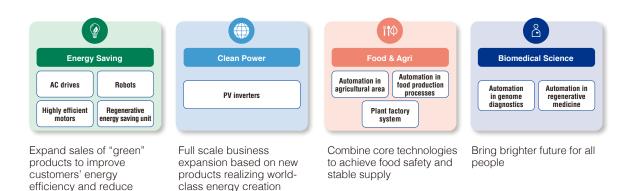




environmental impact

Policy 4

#### Contributing to Realizing a Sustainable Society through Business Expansion of **Mechatronics Applications**



Establishing a Management Foundation by Deepening YDX and Sustainability Management

#### Providing New Value through YDX Chain Based on PLM\*1 Restructuring

By restructuring product life cycle management by connecting data from the origins of "products," the flow of production, and information on the supply chain in the process, we will advance business reforms and provide new value to our customers.

#### Promoting Sustainability Management through Strengthening Initiatives towards Materiality\*2

In our sustainability policy, we have specified the materiality, including setting KPIs, of our contribution to society through i3-Mechatronics. We will strengthen these initiatives through PDCA. We will also focus on the people who support our business. We aim to achieve "One YASKAWA," in which the Yaskawa Group unites by promoting the penetration of Yaskawa Principles globally.

<sup>\*1</sup> PLM: Product Lifecycle Management

<sup>\*2</sup> Please see "Concept of Sustainability Promotion in the Mid-term Business Plan 'Realize 25'" on page 18.

#### 02 Management Policy Financial and Capital Strategy

We will increase the added value through i<sup>3</sup>-Mechatronics and launching new products, and achieve the operating profit of 100 billion yen in FY2025.

#### Shuji Murakami

Representative Director, Senior Managing Executive Officer

#### Summary of "Challenge 25 Plus"

As a second step in the 10 years toward realizing "Vision 2025," "Challenge 25 Plus," which was from FY2019 to FY2022, has been positioned as a period to take on "challenges for creating new values and markets," and we have been able to steadily advance the transformation of our business model with "j<sup>3</sup>-Mechatronics" at its core and the maximization of revenue in growth markets through this transformation. In particular, we have been able to instill the concept that "expanding customer value by providing technology and products that contribute to the improvement of manufacturing and the evolution of business that customers demand will also benefit Yaskawa" in our company and take actions toward this goal, which has enabled us to further establish our business model and realize high profitability.

With regard to "maximizing profitability in the growing market through i<sup>3</sup>-Mechatronics," a basic policy of "Challenge 25 Plus," we have been able to steadily capture the demand related to EVs and semiconductors. In addition, while we have been actively challenging the automation of new areas such as the agricultural sector, we believe there is still room for further efforts, and we will accelerate the expansion of our business areas by increasing

partner cooperation in various fields.

On the profitability side, we were not able to achieve our target of 13% operating profit ratio due to the impact of high material cost. However, we are gradually proceeding with price pass-through in line with surging material cost, so even though there is a time lag, I believe that we can recover. In addition, by applying the medium- to long-term compensation system to our employees, we were able to motivate them to prioritize operating profit and foster a corporate culture that encourages employees to take on ambitious challenges.

### Assumption of Business Environment (Opportunities and Risks)

The market environment surrounding Yaskawa was very favorable until FY2022. As a reaction, we assume that capital investment will be restrained in FY2023 against the backdrop of rising interest rates in Europe and the U.S. and inventory adjustments. However, the business environment in Yaskawa is not bad at all, and the supply chain disruption caused by the parts shortage is on a recovering trend. It is expected that the revenue and operating profits will increase by making sure that the backlog of orders accumulated will be filled. In the medium to long term, investment for automation and demand for semiconductors are expected to grow, and the order environment is expected to normalize after 2024.

On the other hand, we assume the demand decline in China and global inflation as risks to be addressed. In China, we do not expect a sharp increase in capital investment that we have seen in the past, partly because the manufacturing industry has been too concentrated in China. We will lose opportunities if we do not appropriately capture opportunities of manufacturing industries being established in other regions to replace China. Nevertheless, we assume that domestic demand will be revitalized in China, so we will grasp the trend of domestic production of semiconductors and seize opportunities without missing out on new changes and developments. As for inflation, although it will subside as supply-side investment progresses, it is expected that global wage increases will be reflected in prices, and the profits

may be put under pressure if we do not respond appropriately. We will absorb the effects of inflation by proposing automation for customers and promoting internal automation to increase value-added and productivity.

#### For the Achievement of "Realize 25"

In the new mid-term business plan "Realize 25," announced in May 2023, we plan to substantially increase the revenue to 650 billion yen and the operating profit to 100 billion yen. In order to achieve 100 billion yen in operating profit, revenue also needs to increase over the 3 years of "Realize 25," and we will secure orders by responding to market changes. In addition, we will develop a high value-added business through "i3-Mechatronics," reduce costs by launching new products and promote price pass-through, and improve value-added through in-house manufacturing and automation. We expect to increase approximately 23 billion yen in operating profit through the effects of valueadded from FY2022 to FY2025. As for expenses, we will control the increase of the cost within a certain percentage of the added value due to the increase in revenue.

The key is how to increase value-added, so we will implement i<sup>3</sup>-Mechatronics by combining technology, production, sales, and quality to promote business model transformation.

If we can control volume, quality, and cost, we can foresee 100 billion yen of operating profit. We have been working based on this idea but will further enhance our activities and achieve our goal.

#### **Realize 25 Financial Targets**

Revenue		Operating profit ratio	ROE	ROIC	Payout ratio
650.0 billion yen	100.0 billion yen	15.4%	15.0% or more	15.0% or more	<b>30.0%+</b> a

#### Financial and Capital Strategy in "Realize 25"

Yaskawa has set targets of 15% for ROE and ROIC and a dividend payout ratio of  $30\% + \alpha$ , to achieve more returns against the 10% of cost of equity and 9% of WACC. This target has not been changed from the previous mid-term business plan. However, in order to maintain ROE of 15%, we



need to achieve operating profit growth of at least 10% per year, and in order to maintain ROIC of 15%, we need to limit the increase of borrowing to about 10%. In FY2022, borrowing increased due to strategic inventory build-up and the shortening of payment period, resulting in falling short of our ROIC target. In the 3 years of "Realize 25," it is necessary to keep borrowing at an appropriate level and increase capital efficiency to recover from the current situation. In FY2022, due to the supply shortage of parts, inventory was built up because all necessary parts were not gathered completely. We will optimize our borrowing by filling the backlog of orders.

If we can reduce our borrowing and achieve ROIC of 15%, we will be able to use the cash generated from our profits for the investment. Our cumulative investment plan is 150 billion yen (about 8% of the revenue), which is a more ambitious target than the previous ones. We plan to use cash effectively and make further up-front investments to improve efficiency and value-added, such as restructuring our factories and business sites, increasing in-house manufacturing and automation, and expanding production in areas with high demand.

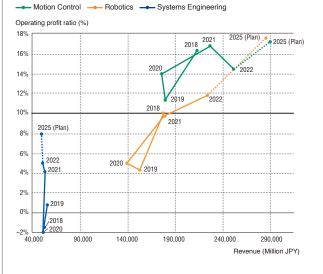
#### Cumulative investments and breakdown

Former mid-term business plan "Challenge 25 Plus" (FY2019 to FY2022) 4 years total (results)	New mid-term business plan "Realize 25" (FY2023 to FY2025) 3 years total (forecast)		
103.2 billion yen	150 billion yen		
(5.6% of revenue)	(8.0% of revenue)		
(5.0% 01 Tevenue)	(8.0 % Of Tevenue)		
Investment for technological development efficiency and production expansion in demand areas •Construction of YASKAWA Technology Center •Construction of an industrial	Up-front investment to improve efficiency and value-added •Restructuring factories and business sites		
	In-house manufacturing and automation     Strengthening production		
robot factory in Europe •Construction of a parts factory in China	systems in areas with high demand		

#### Concept of Business Portfolio Management

The segments of the Yaskawa Group consist of customers in similar industries and have similar production systems, so there is no significant difference in working capital or labor equipment ratio. Therefore, rather than using the ROIC of each business as a judgment index, we will focus on operating profits and aim to achieve the 10% operating profit ratio or higher in each business. If we cannot maintain an appropriate operating profit ratio, we will prioritize profit over revenue and work to increase profitability by selecting and concentrating areas of focus within the segments. Since Yaskawa already specializes in the industrial automation field, I believe that not only profitability but also synergies between segments are important.

#### Revenue and operating profit ratio by segment in the previous mid-term business plan, "Challenge 25 Plus" and the plan for the final year of the current mid-term business plan, "Realize 25"



In addition, Yaskawa's ROE is higher due to its higher leverage compared to the sector peer companies, but its capital costs are also higher due to significant changes in the business performance. In order to increase the equity spread, in other words, to lower capital costs, I believe it is important to steadily increase profitability in Robotics which has businesses with a wide range of end-users in order to absorb profit fluctuations of Motion Control, which are subject to market fluctuations of semiconductors and electronic components.

# Corporate Governance

### The Basic Concept of the Balance Sheet Structure

I believe that it is better to maintain the level of cash low. With regard to current assets, our policy is to maintain cash on hand at a level of about one month revenue, while controlling the global distribution of cash so that there is no surplus.

With regard to inventory, we will continue our policy of maintaining stocks at the strategically necessary level, but we will optimize what is considered surplus created when addressing the supply shortage of parts by filling the backlog of orders.

With regard to the capital structure, I believe that a ratio of equity attributable to owners of parent of 50% or more is the level at which stable management can be achieved. Although the amount of retained earnings for future capital investment will increase in the future, we will focus on efficiency while keeping a certain net D/E ratio as a guideline to prevent excess cash and capital.

#### **Concept of Cash Allocation**

Although free cash flow in FY2022 was temporarily negative due to strategic component inventory build-up, we plan to secure cash in line with the profits by optimizing inventories in FY2023. We plan to increase capital investment for future growth over the next 3 years, but also plan to increase operating profits, too. This will allow us to secure more free cash flow than before.

With regard to shareholder returns, the dividend payout ratio will be  $30\% + \alpha$ . We will give back to shareholders the returns through profit growth and a corresponding increase in dividends. However, if we generate more cash than expected, we will consider stock buybacks with capital efficiency in mind.

In FY2022, we started a medium- to long-term compensation system based on the degree of achievement of the mid-term business plan's target. This system provides incentives for employees to improve value-added and profitability through highly productive work. In addition, the system encourages them to join the employee stock ownership association, which is expected to increase employees' awareness of participation in management by providing incentives to increase corporate value.

#### Impact of YDX (YASKAWA Digital Transformation) on the Management and Decision Making

In the past, it took time to collect data from each subsidiary, but YDX enables us to quickly grasp the local situation. As for the company-wide budget, in the past, we used to accumulate locally generated data at the head office. However, because all raw data is gathered at the head office now, the head office can make plans with the top-down approach while reflecting the situation of each location, and each subsidiary can focus on implementation. specifically of what and how allocated resources are used for and take specific actions. In addition, the top-down plan enabled us to strategically allocate resources for the growth of the Yaskawa Group, to implement expense control based on companywide standards, and to expand initiatives in each division that take into consideration the benchmarks of other companies in the same industry.

#### **To Our Stakeholders**

In FY2022, we faced adverse business conditions, such as inflation and geopolitical risks, but we took necessary measures and implemented what we had to do. As a result, the Yaskawa Group grew steadily while gaining strength, and achieved our recordhigh financial results.

In the new mid-term business plan, "Realize 25," launched in FY2023, we will continue to build on what we have accumulated in the past two mid-term business plans, while further improving our ability to promote business and enhancing the effectiveness of "i<sup>3</sup>-Mechatronics," the solution concept of Yaskawa, globally.

With regard to enhancing ESG information disclosure, we will enhance our discussion to raise corporate value from a medium- to long-term perspective by effectively disclosing non-financial information in addition to financial and quantitative information, of which we have expanded disclosure. Please look forward to sustainable growth of the Yaskawa Group for the future and I appreciate your continued support.