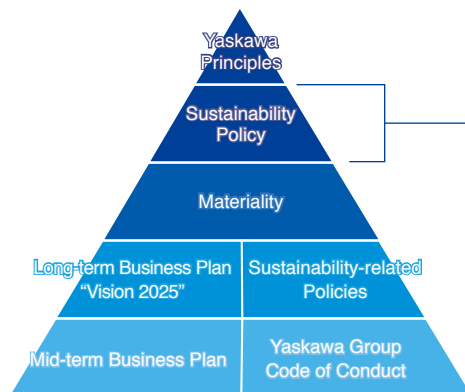


Sustainability Management

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.

System Diagram of Sustainability Promotion



Sustainability Policy

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

1. We will contribute to the value creation for customers and society through creating innovation by cutting-edge mechatronics technologies.
2. 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 evaluated trends in the international community and social issues that are closely related to us from two perspectives: "importance to stakeholders" and "importance to Yaskawa" at the Board of Directors and identified issues of particular importance as materiality. Also, we

have set quantitative and qualitative KPIs which clarified the direction of each focus area and strategy about identified materiality. Through the resolution of materiality issues, Yaskawa Group is working to realize a sustainable society and increase corporate value, which we aim to achieve under our sustainability policy.

Create Social Value and Solve Social Issues through Business Activities



Realize revolutionary industrial automation with partners through "i³-Mechatroncis"



Build clean social infrastructure and foundation for safe and comfortable living



Develop new technologies and business domains through open innovations



Strengthen Management Foundation that Contributes to Sustainable Society/Businesses



Sustainable and productive manufacturing



Create a rewarding workplace and human resource development



Fair and transparent governance system



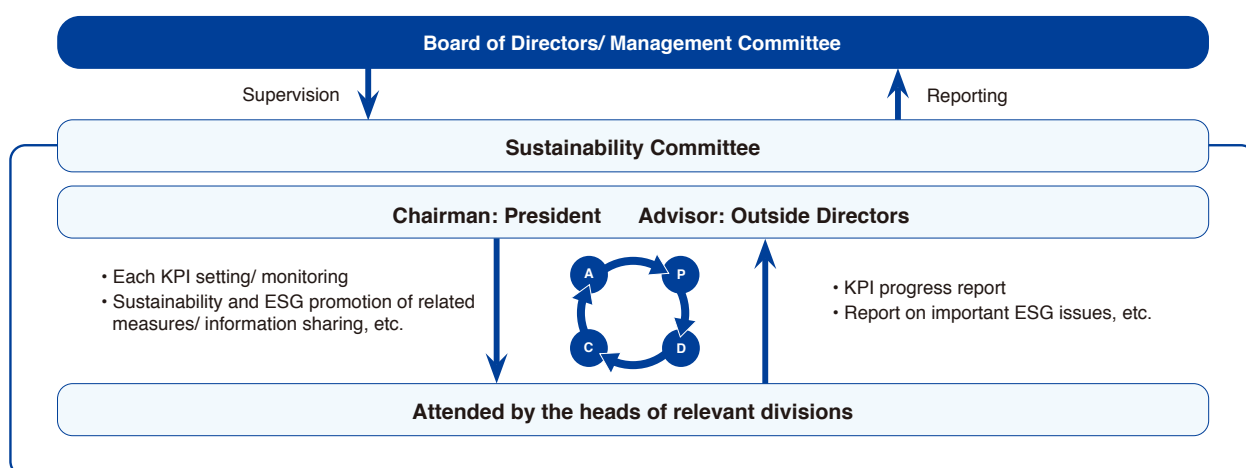
► Sustainability Promotion System

Our company has established 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.

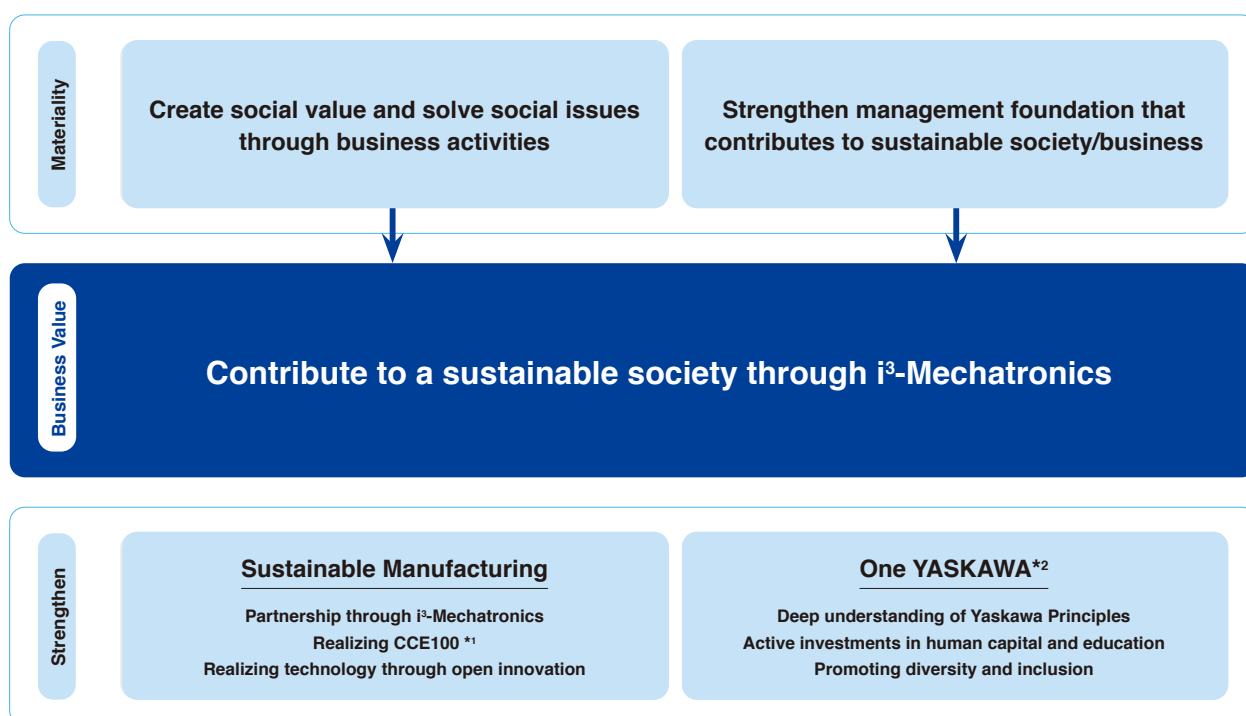
In FY2023, Sustainability Committee met in May and November 2023. In addition to internal management, outside directors participated in lively discussions on KPIs, the status of implementation, and activity plans for each materiality.



► Concept of Sustainability Promotion in the Mid-term Business Plan “Realize 25”

Yaskawa group will enhance its business value of “contributing to a sustainable society through i³-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 CO₂ 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 Management

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	Desired Outcomes	Initiatives [Targets]		
Create Social Value and Solve Social Issues through Business Activities				
1. Realize revolutionary industrial automation with partners through “i ³ -Mechatronics”	Solve customer management issues with “i ³ -Mechatronics,” a solution concept and contribute to the improvement and evolution of society and production activities.	• Accumulation of “i ³ -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]		
	Contribute to the realization of a sustainable society through the challenge of developing new domains by applying mechatronics technology.	• Expand examples of mechatronics technology applications, mainly in the four fields of energy conservation, clean power, food and agriculture, and biomedical		
3. Develop new technologies and business domains through open innovations	Create new value for society through business expansion in new areas through M & A/alliances.	• Strengthen initiatives in new areas through M & A and alliances		
	Promote external collaboration to develop the world’s first and best technologies and products	• Reinforcement of Industry-Academia-Government collaboration		
	Demonstrate business synergies through venture investment and collaboration	• Expansion of venture investments by YIP* ¹		
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	• Improving production efficiency at own plants (improving productivity indicators* ²) [FY2022: +19%* ³ FY2025: +34% (compared to FY2019)* ⁴]	
	Reduce CO ₂ emissions and address global climate change issues	• Reduction of greenhouse gas emission through the Green Process	• Reducing greenhouse gas (CO ₂) emissions [FY2025: -30%* ⁵ (compared to FY2018)]	
	Provide optimal maintenance throughout the life cycle with the ultimate goal of “not stopping customer equipment”	• Improvement of product safety and quality	• Product safety through our group’s Product Liability Committee [FY2022: Strengthening global development of activities to pinch off the “bud of PL” * ⁶] • Improving product quality through the introduction of new systems [FY2022: Start of global operation of market quality information centralized system]	
	Implement supply chain management based on adherence to sustainable procurement guidelines	• Construction of a sustainable supply chain	• Improving the rate of compliance with Sustainable Procurement Guidelines [FY2022: Compliance rate: 100%* ⁷ (target: major suppliers of Yaskawa Electric) FY2025: Compliance rate: 100% (target: major suppliers of the Yaskawa Group)]	
5. Create a rewarding workplace and human resource development	Demonstrate the strengths of diverse human resources by promoting the active participation of women	• Diversity and inclusion	• Raising the ratio of female managers [FY2025: Non-consolidated/Group in Japan: 3.4%* ⁷]	
	Develop human resources based on personnel philosophy and improve the job satisfaction of employees	• Human resource development	• Increase the ratio of professional human resources* ⁸ [FY2025: Corporate average 20% or more* ⁹]	
	Eliminate work stoppage accidents and create a safe workplace	• Occupational safety	• 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]	
	Aim for the sustainable development of the company and its employees by improving productivity by creating an environment in which each employee can work with peace of mind and make the most of his or her abilities	• Health management* ¹⁰	• Improvement of indicators for the realization of health management	
	Raise employees’ awareness of human rights and create a workplace where human rights are respected	• Human rights and work practices	• Implementation and establishment of human rights due diligence processes for employees [FY2022: Implementation of human rights due diligence for group companies in Japan FY2025: Consideration of measures to meet the requirements of EU sustainability laws* ¹¹]	
	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	• Development of human resources in science and engineering who will realize “evolution of manufacturing” [FY2022: Launch of a new manufacturing human resource development program]	
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	• Implementation of the Principles of the Corporate Governance Code (Reasonable explanation where not implemented)	
	Raise the level of the security organization and build an autonomous and continuous information security system	• Strengthening of information security	• Internal and external security monitoring/measures in systems and security level evaluation/improvement by external auditing organizations	
	Prevent escalation by early detection of compliance risks	• Enhancement of compliance	• Strengthen compliance through internal reporting • Strengthen cooperation by holding meetings with compliance officers overseas	

*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)
 *3 Target was revised in April 2022.
 *4 Target was revised in April 2024.
 *5 The target value was changed following the revision of the 2050 carbon neutral target in May 2022.

*6 Target was set in October 2022.
 *7 Target was revised in June 2024.
 *8 A person at the level of being able to teach others in the skills within a task to which he or she is assigned
 *9 Definition of professional human resources and target values were revised in June 2024
 *10 Initiatives were added in April 2024
 *11 Target was revised in April 2024.

	FY2023 Results	Challenges
	<ul style="list-style-type: none"> Strengthened customer approach with key products (MOTOMAN NEXT series, YRM controller, Sigma-X series, YASKAWA Cockpit) based on i-Mechatronics concept Expansion of achievement through collaboration with top manufacturers in each industry 	Implementation of horizontal expansion of solutions demonstrated in "i-Mechatronics" project and global expansion based on YRM controllers
	113.9 times	None
	Promoted initiatives in mechatronics application fields, focusing on the four main fields <ul style="list-style-type: none"> Launched GA700 series of AC drives with large-capacity Launched PV inverter for solar power generation, "Enewell-SOL P3A" 	Expanding sales of a new type of PV inverter, "Enewell-SOL P3A" to capture energy creation and energy conservation demand
	Continued aggressive search for growth opportunities through M&A/alliances to create technological synergies in our company's business areas of factory automation and mechatronics applications <ul style="list-style-type: none"> Moved "automation of cucumber leaf removing work," which is being developed in collaboration with JA ZEN-NOH to the full-fledged introduction phase Promoted automation of plant factories through a capital and business alliance with Oishii Farm Corporation in the U.S. 	Promoting automation and building new industrial structures in mechatronics application fields such as food, biomedical, and agriculture
	Promoted Industry-Academia-Government collaboration in and outside Japan on research and development that contributes to Yaskawa's future technologies	Deepening understanding of customers' demand and reflecting it in Industry-Academia-Government collaboration in order to develop business domains
	Venture investment: 1 (Cumulative number: 20)	Early creation of business synergies through collaboration
	Productivity indicators: +21% (compared to FY2019)	<ul style="list-style-type: none"> Construction of a production system capable of responding to demand fluctuations (variable-mix variable-volume production) without depending on manpower for further productivity improvement Expansion of automation fields in low-volume variable-mix production and promotion of advanced manufacturing.
	-18.6% (compared to FY2018)	<ul style="list-style-type: none"> Promotion of switching to CO₂-free electricity at domestic sites Expansion of introduction of photovoltaic power generation at overseas sites
	<ul style="list-style-type: none"> Global development of activities to pinch off the "bud of PL" (No. of buds: 29, The number of risk assessments completed (target: 15, completed: 100%) Centralization of quality information on a global scale (start of operations in China). 	Strengthening activities to pinch off the "bud of PL" and prevent quality problems on a global basis
	Support for developing sustainable procurement policies and establishing guidelines for 2 overseas group companies	Continuing regular meetings to confirm progress and share information at domestic and overseas group companies
	Ratio of female managers: 2.4% (non-consolidated), 2.6 % (group in Japan)	<ul style="list-style-type: none"> Aim to achieve the industry average level Examination and establishment of new KPIs Continue hiring activities based on the target of hiring more than 20% of new female graduates
	The ratio of professional human resources: 15%	Promoting the steady execution of "Human Resources Development Plan" drafted for each workplace and individual and establishing an environment for autonomous growth
	Lost-time injury frequency rate: 0.16 (non-consolidated), 0.44 (domestic group), 0.56 (global)	<ul style="list-style-type: none"> Implementing preventive activities through recurrence prevention activities, horizontal expansion activities, and various safety patrols Conducting risk assessments Conducting safety and health education
	Completion of setting of indicators (10 items) for the realization of health management and acquisition of certification as Excellent Health Management Corporations 2024	Improving indicators for the realization of health management
	Non-consolidated: Continued implementation of human rights due diligence. Domestic: Introduction of human rights due diligence at affiliated companies. Overseas: Assessment of current status at major sites	<ul style="list-style-type: none"> Confirming the requirements and impact of EU sustainability laws and regulations that may have global impact, and examining initiatives Conducting E-learning at group companies in Japan (some of which use group ES questionnaires to confirm risks)
	Completion of planning of a new program (robot kit assembly, programming, and cooperative work with robots operating in YASKAWA Innovation Center)	<ul style="list-style-type: none"> Implementing local and social contribution activities with employee participation Launching a new program (robot kit production) targeting junior high school students Expanding the scope of the program to support acquisition of robot operator qualifications Responding to requests from The Consortium of Human Education for Future Robot System Integration (CHERSI)
	Implementation of the principles of the Corporate Governance Code required of companies listed in "prime market"	Continue to set themes and prioritize and implement deliberations at the Board of Directors, Nomination Advisory Committee, and Compensation Advisory Committee
	<ul style="list-style-type: none"> Strengthened information security personnel and global SOC (Security Operation Center) monitoring by utilizing security threat analysis services Early detection of potential risks and implementation of countermeasures Security audits for global sites and response to information security legislation in overseas countries 	Security measures for new technologies such as generative AI
	<ul style="list-style-type: none"> Appropriate responses to internal reporting and other compliance issues Shared issues by meeting with compliance officers, including those overseas 	Deepening communication and sharing issues face-to-face with overseas compliance officers

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** 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.

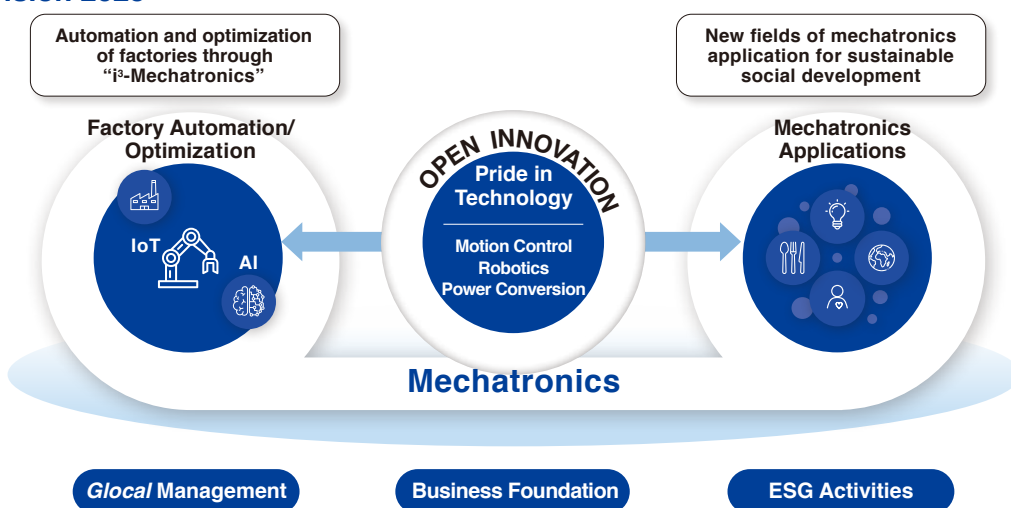
Empower Innovation

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

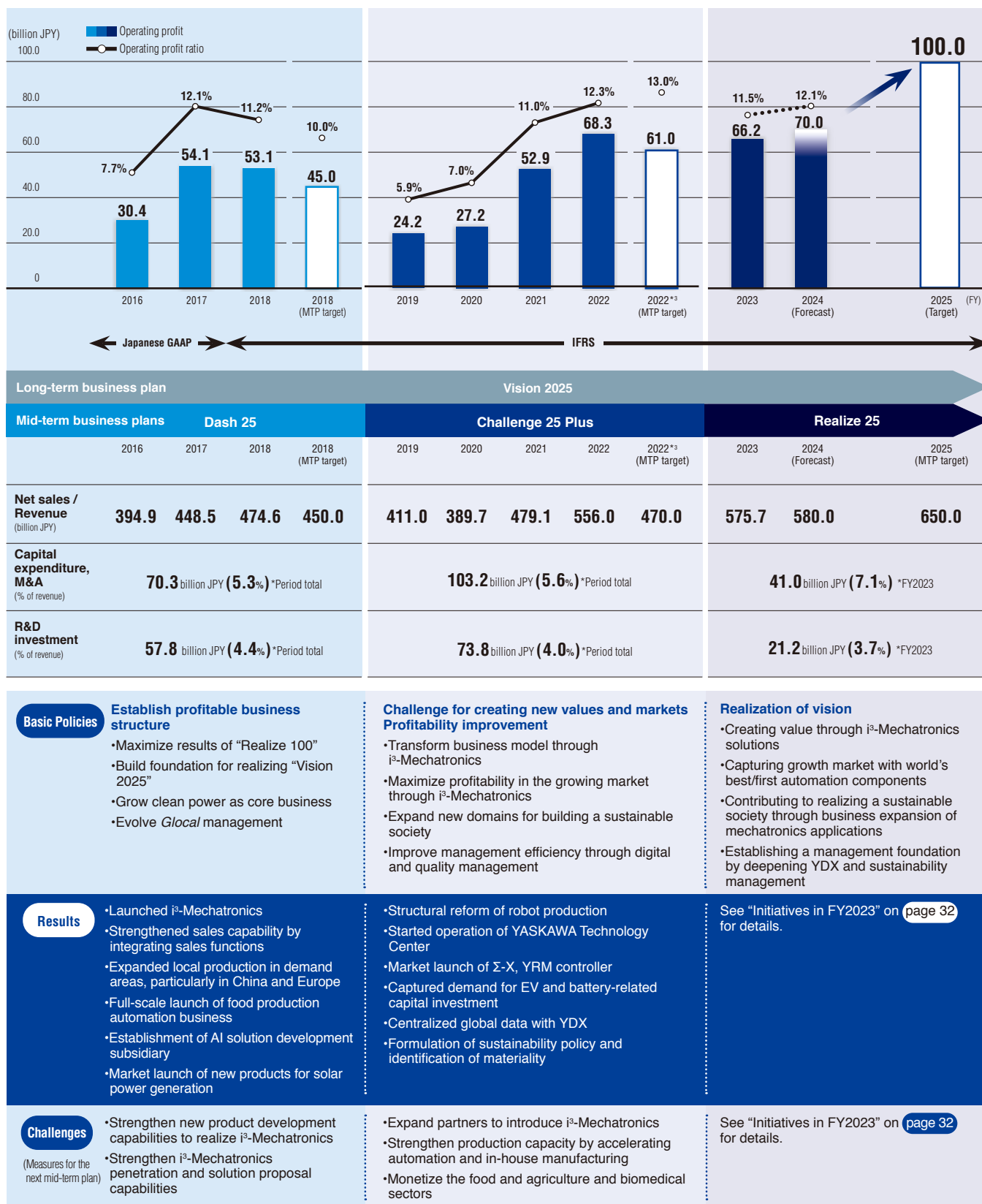
Operating profit	ROE*1	ROIC*2	Dividend payout ratio
Over 100 billion JPY	15.0% or more	15.0% or more	30.0%+α

*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

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 the goal. FY2023 was the first year of our last mid-term business plan, and we promoted various initiatives to realize our vision.



*3 In response to changes in the business environment, in April 2021 we extended the final year of Challenge 25 (FY2019 - FY2021) by 1 year and revised our targets.

Mid-term Business Plan “Realize 25”

The Yaskawa Group is proceeding with mid-term business plan “Realize 25” (FY2023 - FY2025) in order to achieve its long-term business 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%+α

Aim and Policies

Providing new values by expansion of i³-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 i³-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 i³-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.

This is the solution concept of i³-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.

Realizing new revolutionary industrial automation



Policy 2 Capturing Growth Market with World's Best/First Automation Components

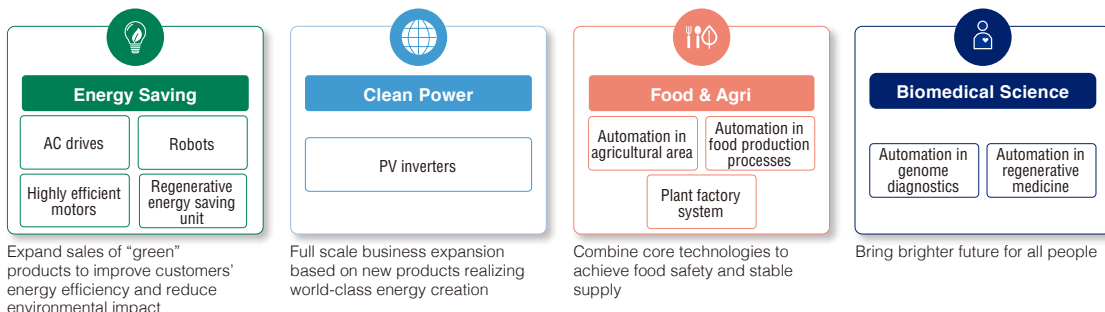
In growing markets such as EVs, batteries, semiconductors, and food products, focusing on automation components, we will develop strategies for each market on a global basis to ensure that demand is captured.

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.



Policy 3

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



Policy 4

Establishing a Management Foundation by Deepening YDX and Sustainability Management

1. 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.

2. 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.

*1 PLM: Product Lifecycle Management

*2 Please see "Concept of Sustainability Promotion in the Mid-term Business Plan "Realize 25"" on page 26

Initiatives in FY2023

	Results	Challenges (Policy development in FY2024 based on FY2023 results)
Policy 1	<ul style="list-style-type: none"> [Technology] <ul style="list-style-type: none"> Launch of "MOTOMAN NEXT Series" and YRM Controller, "YRM1010" [Production] <ul style="list-style-type: none"> Completion of construction of a machining plant for robots in Japan to expand in-house production [Sales] <ul style="list-style-type: none"> Expansion of achievements through collaboration with top manufacturers in various industries [Quality] <ul style="list-style-type: none"> Centralization and structuring of market service data and integrated management of product quality status and market operation status 	<ul style="list-style-type: none"> [Evolution of i³-Mechatronics to realize customers' needs] <ul style="list-style-type: none"> Expanding solutions proposal based on thorough understanding of customers' needs (improvement and evolution) and increase product (technologies) sales Expanding the scope of automation and increasing the sophistication of manufacturing by implementing "i³-Mechatronics" at our own production sites Evolution of "i³-Mechatronics" through global collaboration
Policy 2	<ul style="list-style-type: none"> In-house production of major components globally and bulk procurement of key parts common to all divisions Strengthening of production/procurement systems and production systems in demand areas 	<ul style="list-style-type: none"> [Business expansion through strategic development based on trends in global growth markets] <ul style="list-style-type: none"> Capturing the resumption of investment in the semiconductor market Enhancing presence in semiconductor market in Japan by coordinating roles of domestic core sales companies and sales partners Providing automation solutions in response to changes in manufacturing and supply chains in the area of BEV (Battery Electric Vehicle), which is expected to expand Accelerating sales of "MOTOMAN NEXT series" and reinforcing product strategies based on understanding of customers' needs in AC servos and AC drives market
Policy 3	<ul style="list-style-type: none"> [Energy Saving] <ul style="list-style-type: none"> Launch of AC drive GA700 Series with large capacity [Clean Power] <ul style="list-style-type: none"> Launch of new PV inverters for photovoltaic power generation, "Enewell-SOL P3A" to strengthen efforts in the self-consumption market in Japan [Food & Agri] <ul style="list-style-type: none"> Promotion of plant factory automation through capital and business alliance with Oishii Farm Corporation in the United States Transition to full-scale introduction phase of "automation of removing cucumber's leaf" with JA ZEN-NOH [Biomedical Science] <ul style="list-style-type: none"> Promotion of joint research with external partners aiming to build robotic-based automation platform in the regenerative medicine field 	<ul style="list-style-type: none"> [Promotion of partner strategy to expand business in mechatronics application field] <ul style="list-style-type: none"> Sales expansion of new PV inverters for photovoltaic power generation, "Enewell-SOL P3A" Cooperation with partners in automation fields in food, agriculture, and biomedical
Policy 4	<ul style="list-style-type: none"> Establishing Yaskawa Data Lake as the base for reconstructing PLM 	<ul style="list-style-type: none"> [Implementing sustainability management by strengthening YDX-II*³ project] <ul style="list-style-type: none"> Reconstructing PLM through data linkage among production, sales, technology, and service and establishing Yaskawa Data Lake as the base.

*3 YDX: Abbreviation form for YASKAWA Digital Transformation. Activities to visualize and centralize management resources and to allocate them optimally were carried out in "YDX-I," the first phase. In "YDX-II," we are creating value for customers from a product and service perspectives.

Financial and Capital Strategy

Based on i³-Mechatronics concept, we will realize sustainable growth by demonstrating our unique strengths to the fullest and increasing added value.

Shuji Murakami

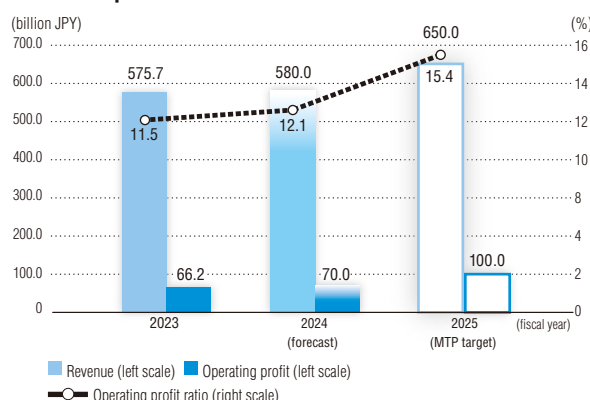
Representative Director,
Senior Managing Executive Officer



Summary of FY2023

In FY2023, the first year of our mid-term business plan, “Realize 25,” revenue fell short of expectations due to a delay in recovery in the semiconductor market and a slump in the Chinese market, which led to both operating profit and operating profit ratio falling short of expectations. On the other hand, the improvement of added value ahead of the initial expectations due to the promotion of price pass-through is a positive result. Toward FY2025, the final year of the mid-term business plan, we will further improve added value and build a structure that enables us to secure profits without depending on volume. In terms of the revenue target of the mid-term business plan (650 billion yen), we need to achieve the revenue target for FY2024 (580 billion yen) and expand further in FY2025, which is an ambitious target. We recognize that the challenge from the second half of FY2024 to FY2025 is to accurately grasp trends in the semiconductor market and catch up on volume.

Trends in performance, forecast and target of mid-term business plan



For the Achievement of “Realize 25”

In FY2024, investment in the semiconductor and electronic components markets is expected to resume in the second half. Capital investment in automation and labor-saving in the manufacturing industry and capital investment in the automobile market for hybrid and gas-powered vehicles are expected to recover. We plan to increase revenue and profit by accurately capturing the growing demand in these markets.

In light of the better-than-expected improvement in added value in FY2023 and the strong orders we expect to receive in FY2024, we do not think it is necessary to change the key target of mid-term business plan, which is an operating profit of 100 billion yen in FY2025. We believe that the most important thing for achieving the mid-term business plan target is to further improve the added value ratio and control expenses. Up until FY2023, we made upfront investments in automation of production and in-house production of parts to establish a system that enables us to operate without increasing expenses even if revenue increases. For example, we invested in robot factory No.4 in Japan, which manufactures casting parts in-house, and also in YASKAWA (Changzhou) Mechatronics system Co., Ltd. in China, which internalized manufacturing of printed circuit boards used in AC servos and AC drives. By in-house production, we do not simply take in the added value of conventional outsourcing. By automating the production process in line with the i³-Mechatronics concept, we can further

improve added value and achieve overall optimization, including both pre-process and post-processes. By producing efficiently using the equipment we have invested in, we will be able to absorb the increase in costs due to inflation in the future and aim to increase revenue without increasing volume of expenses overall. In addition, it is equally important that we do not only promote cost control in the form of productivity improvement, but also propose this to our customers in the form of “i³-Mechatronics” concept, leading to increased added value on both sides. The foundation of “i³-Mechatronics” concept is our unique strength in being able to globally supply AC servos, AC drives, and robots, which are essential for automation. In order to make proposals that take advantage of this strength, we have integrated the sales department that used to be separated for each product to handle all products in each region, which is being completed. In Japan, we are further evolving this system. We have established a system that allows us to offer both direct sales through a new company*¹ in which multiple sales subsidiaries within the group were integrated, and solution proposals through collaboration with sales expansion partners. In addition, on the product front, with the completion of “YRM controller*²” that enables us to maximize our strengths, a mechanism for collecting information from production sites has been incorporated into the product lineup, enabling us to provide differentiated solutions.

The implementation of “i³-Mechatronics” concept in the group’s production processes and the creation of higher added value through the proposal of “i³-Mechatronics” concept to customers are elements that we can improve through self-effort, and we will continue to promote these initiatives to achieve the mid-term business plan targets regardless of the external environment.

*¹ In March 2024, YASKAWA MECHATREC CORPORATION and SUEMATSU KYUKI Co., Ltd. were merged to form YASKAWA MECHATREC SUEMATSU KYUKI CORP.

*² Controller for integrated control of “cell” composed of devices and industrial robots by synchronizing various data from cell at high speed, in real time and in time series

Financial and Capital Strategy

Yaskawa has set targets of 15% for ROE and ROIC and a dividend payout ratio of 30%+α, to achieve more returns against the 10% of cost of equity and 9% of WACC. In FY2023, inventories increased as we built up product inventories in preparation for the growth of the semiconductor market. In FY2024, we will steadily turn this product inventory into revenue. We will also maintain the current level of product inventories to realize an immediate delivery system and increase the value we provide to customers. On the other hand, in terms of asset reduction, in FY2022 we shortened the terms of payment for suppliers in order to strengthen the supply chain, so we will also collect trade receivables in shorter term. For our sales expansion partners and direct sales customers in Japan and China, which have a long collection period, we will shorten the standard terms of receipt. In China, we will promote the use of cash instead of bills receivable. If we inevitably receive bills, we will also use them to make payments and implement operations to reduce working capital. In China, we have invested in various ways to generate business and profits. Going forward, we will reallocate funds globally by promoting the securitization and realization of assets and returning them to Japan through dividends and others.

The Basic Concept of the Balance Sheet Structure and Financial Discipline

We maintain a relatively high ROE level compared to the average of the same industry because our financial discipline is to use some leverage. We use the net D/E ratio to control the level of borrowing, and we have established a system to avoid having too much cash on hand. Specifically, we have a policy to maintain cash on hand at a level of about one month revenue. If the net D/E ratio falls below 0.1 times, we think that

Financial and Capital Strategy

we have a surplus cash and consider share buybacks unless there are additional investment projects, and when we increase borrowing, we consider 0.15 times as a maximum. If we do not pay attention to the net D/E ratio, cash will be retained in a state that does not generate profits. This will contribute to the stability of the company, but it will also prevent us from returning to our shareholders and lead to management without

discipline. Our policy is to maintain a cycle in which we do not have a surplus cash but use borrowed funds to invest, generate profits as a result, and use the collected cash to return to shareholders and pay back debts. On the other hand, wasteful investments lead to an increase in borrowings and worsen the net D/E ratio. Therefore, we are very conscious of the return on investment when making capital investments.

Cash Allocation

Basic concept of cash allocation in “Realize 25”

Operating cash flow	Growth investment	Implementation of “i-Mechatronics” concept to our factories and facilities Construction and reorganization of factory to enhance efficiency (Japan, Europe and U.S., etc.)
	Shareholder return	Increase in dividends in line with profit growth + share buybacks
	Employee allocation	Performance-linked bonuses, mid- and long-term compensation, etc.

Our policy is to distribute operating cash flow in three directions: (1) growth investment, (2) shareholder return, and (3) employee allocation.

Under “Realize 25,” we plan to allocate 150 billion yen, including M&A, for growth investments. As mentioned above, for large-scale investments, we use NPV*³, which takes into account our capital cost, to determine investment returns. In addition to securing returns that exceed our capital cost, we also need to aim for higher returns toward our ROE target of 15%. We also believe that it is not realistic to make decisions based solely on theoretical figures. In order to prevent wasteful investment, we also need to discuss whether the investment is not simply aimed at increasing volume, whether it is an investment that will cause transformation within the group, and whether it will lead to an increase in added value (a dramatic improvement in productivity). Even if it is a small investment, such as a facility upgrade, a safety measures, or the expansion of a new product line, we basically consider “improvement of added value” in order to generate a return that exceeds the capital cost, and we plan to make a record level of investment in “Realize 25.”

With regard to shareholder returns, the dividend payout ratio will be 30%+α. 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.

In FY2022, we started a mid- and long-term compensation system based on the degree of achievement of the mid-term business plan’s target. Just as we do not make simple investments to increase capacity, we do not make simple investments to increase the number of human resources. Our basic approach to employee allocation is to provide support to enable existing human resources to demonstrate their higher capabilities and to enhance incentives to create added value.

*3 Net Present Value. The estimated value obtained from investments is converted into present value and the difference between the present value and the actual investment amount is used in investment decisions.

Business Portfolio Management

Profitability of the system engineering segment improved significantly in FY2023 through business restructuring including the sale of The Switch Engineering Oy (hereafter, The Switch). The reason for the sale is that the focus area of the system engineering business has changed in the course of the structural reform, as a result, we have judged that the focus businesses of the Switch and our group will no longer generate synergies. In addition, the PV inverter business, which was included in the system

engineering segment until FY2023, was integrated into Drives business in FY2024 because it was judged that the PV inverter business could demonstrate synergies with Drives business, and generate sufficient profits because they share the same technological base.

The system engineering segment, excluding the wind turbine business and the PV inverter business, was consolidated in YASKAWA Automation & Drives Corporation, a consolidated subsidiary, and as a result of thorough and efficient operations, the operating profit ratio exceeded 10%.

One issue we recognize in our business portfolio is that our capital costs are high due to large changes in business performance. In order to resolve this issue, I believe it is necessary to reduce the fluctuations in business performance by increasing businesses targeting a wide range of end users, regardless of the motion control business or the robotics business. For example, the performance of the AC servo business, whose major customers are in specific markets, is greatly affected by the ups and downs of those markets. On the other hand, robotics business has many end users as customers in diverse markets, reducing fluctuations in business performance due to specific markets. By expanding the end user business, I believe that the fluctuations in business performance of the company as a whole will become smaller.

In addition, as a new business portfolio, we are beginning to see some results in product deployment into new markets. For example, we can expect growth in the food market, where there are diverse end users and many non-automated fields. Furthermore, in the biomedical market, we believe that demand for robots will expand as the industrial production of cell culture becomes increasingly important. In this way, we will

accelerate initiatives in the automation field, which is expanding from conventional factories to energy creation, food and agriculture, and biomedical, as a growth field.

To Our Stakeholders

I recognize IR meetings to be an opportunity to reconsider how we will respond to the opportunities and risks we face in the future. Questions from investors and analysts sometimes include not only expectations but also concerns about us. Awareness through IR meetings leads to an opportunity to review management. I also share the views and concerns of the market toward us with the general managers and the management who are responsible for the matter to urge them to objectively assess the situation of each division and to consider improvement measures.

Again, I would like market participants to understand that our strength is that we can supply AC servos, AC drives, and robots globally through local production and make the most of them through “i³-Mechatronics” concept. Given that this concept is unique to us, I believe that our added value will increase further in the future. Up until now, we have been expanding our business globally for each business segment to strengthen our ability to respond with the three products, but we are transforming our initiative to a unified approach based on “i³-Mechatronics” concept. I am confident that the effects of these efforts will be reflected in our business results. Please look forward to sustainable growth of the Yaskawa Group for the future and I appreciate your continued support.

