



FDK

Achieving sustainability management through the practice of an “And Game”

10 Years' Scheme and Business Philosophy

It has now been five years since I assumed the position of President. My first undertaking upon doing so in 2019 was the formulation of our 10 years' scheme.

This scheme declares our goals for the company in 2029 as our “Vision,” and the conditions under which these are achieved as our “status-to-be.”

Behind this lies an awareness of the problems the company was facing when I became President. Despite the FDK Group's numerous technological assets and excellent human resources, I believed that they were not being put to the fullest use. I felt that in order to unlock the Group's true potential, it was vital that all employees share a new banner and a set of goals to aspire to. To this end, I listened principally to what the management team, which ties together each of our businesses, perceived as problems and what they wanted to do about them, thereby consolidating the content of the Vision. Although I was the one who finally put it together, the meaning of every word and phrase was discussed within the company, selecting and discarding particular elements to produce the final result.

If the Vision is a beacon marking our final destination, the “status-to-be” is a tangible definition of how much of what we will be providing to whom when the Vision is achieved, as well as the levels of profit and sales generated. With this as our goal, the nine years from FY2020 have been divided into three Mid-Term Business Plans. R1, the first of these plans, reached completion in March 2023, and R2 just began in April.

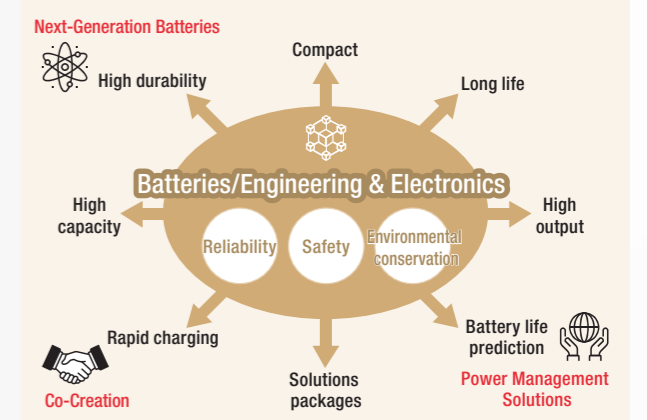
Around the time the 10 years' scheme was formulated, we also decided to develop a new business philosophy. Although FDK has been in business for more than 70 years, until now it has had no official business philosophy. Given what a momentous task this was, it was decided to emphasize employee

participation. The discussion was divided into several groups, including a management group, a group of senior employees, and a group of younger employees, each of which developed several candidates. The winning candidates from each group were voted on by all employees, and the last remaining candidate was selected as the business philosophy.

The event took about six months before a final decision was made, but what was finally chosen were the wonderful words “Inspiring transformation; shaping the future and creating happiness,” a philosophy that incorporates many opinions from the younger generation. I think it is a fantastic phrase, perfectly encapsulating what we have been doing and what we want to do from now on, as well as resonating with our Vision.

The status-to-be of the FDK Group: Our offerings

We are adding various functions and features in addition to the reliability, safety, and environmental conservation that we have always offered, thereby achieving a wider range of applications and meeting an increasingly diverse range of customer needs.



FDK CORPORATION President & CEO

Ryo Nagano

Top Message

Looking Back on the R1 Mid-term Business Plan

The first of the three-year plans making up the nine years to realize our Vision was R1. We set this period as a time to concentrate on the basics in order to step up, establishing three goals: Stabilize current businesses and establish growth with profit; Proactively cultivate new business as a segue to the next generation (to make up 30% of total by 2029); and Establish a corporate culture in which each employee makes a personal effort to satisfy customers in a self-disciplined way. Here, we report on the results and challenges with respect to each of these goals.

1. Stabilize current businesses and establish growth with profit

The mainstay of our business is Ni-MH batteries. Because of their excellent safety features, such as usability at high and low temperatures and resistance to overcharge and over-discharge, they are widely used around the world, not only as general rechargeable batteries, but also as backup power sources in critical situations.

In the first year of R1, we also saw a significant increase in the profit margin on lithium batteries. Lithium batteries are single-use primary batteries, but they boast a long service life of up to 20 years in some cases, and are used in a variety of applications, including automotive equipment, medical devices, and home security systems, such as smoke detectors. Efforts to promote efficiency, such as the integration of production bases, contributed to the improvement in profitability.

In the second year of R1, the electronics business, which had been enduring difficult conditions, returned to profitability. After Ni-MH batteries and lithium batteries, it has grown to become the third pillar of our product lineup. Accordingly, we can say that the first two years of the plan went very well.

However, in FY2022, the third year of the plan, the impact of the two-year-long COVID-19 pandemic hit hard. Unable to cope with market fluctuations and soaring raw material prices, the profitability of Ni-MH batteries, our main product line, deteriorated substantially. Fortunately, the lithium battery and electronics businesses remained strong in the third year, so the company as a whole was able to weather the storm without major impact.

Overall, it was a three-year period during which the three pillars of our business, Ni-MH batteries, lithium batteries, and electronics, stood strong.



However, we recognize that strengthening resilience to cope with unforeseen events is an issue to be addressed going forward.

2. Proactively cultivate new business as a segue to the next generation

We have set a goal for developing new businesses that will lead to the next generation such that they account for 30% of our total business by 2029. The main focus is on what we call next-generation batteries, and in this regard, we are focusing on all-solid-state batteries, nickel-zinc batteries, and metal-hydride/air rechargeable batteries.

There are two types of all-solid-state batteries: sulfide batteries, which are large and powerful, and oxide batteries, which are small and adaptable, but it is the latter that we are focusing on developing. At only 4 mm square in size, they can be embedded in circuit boards just like electronic components, making them versatile enough to be used in a variety of applications such as IoT devices and wearable terminals. Furthermore, when combined with a power generation circuit such as a solar cell, they can operate semi-permanently. As such, from a sustainability perspective, this is a very promising type of battery.

Rechargeable Ni/Zinc batteries are secondary batteries that apply the positive electrode and structural technologies developed for Ni-MH batteries and the zinc negative electrode technology of alkaline batteries, offering environmentally friendly properties and a high level of safety. Since they can be used as an alternative to lead-acid batteries, which have a severe environmental impact, and weigh only half as much, they are expected to be widely used for in-vehicle and backup power sources.

Metal-hydride/air rechargeable batteries replace the positive electrode of Ni-MH batteries with air (oxygen), enabling both high energy density and safety.

The commercialization of these next-generation batteries did not lead to actual business in the three years of R1. Given that the technical hurdles are higher than we had imagined, it is likely to take a little more time. In spite of this, sample shipments of customized versions of all-solid-state batteries have begun, and sample shipments of nickel-zinc batteries to several customers have also taken place. The hard work of developing metal-hydride/air rechargeable batteries is steadily bearing fruit, including an ongoing development project in cooperation with the Ministry of the Environment.

3. Establish a corporate culture in which each employee makes a personal effort to satisfy customers in a self-disciplined way

Our third goal is to foster a corporate culture in which all FDK employees strive independently to satisfy our customers.

With employee participation in developing the corporate philosophy forming a part of the effort, we have implemented a variety of reforms to our systems and processes in a short period of time. These include the introduction of talent management, changes to the salary structure, systematization and expansion of the education system, reforms to working styles, such as the introduction of a flextime system and telework, the enhancement of internal improvement activities, and initiatives to improve employee satisfaction.

One of the most significant changes was in the personnel evaluation system. In addition to performance evaluation, which had been the sole basis for

evaluation, competency evaluation for individual positions was introduced. For each position, there is an ideal CEO profile and an ideal department head profile. By taking these factors into consideration, we are now able to conduct personnel evaluations from a broad perspective, including the presence or absence of skills, rather than simply evaluating making an effort as good and failing as bad.

Other measures to enhance interaction and communication among employees include the “Dojo,” a place for those who have skills and know-how to pass them on to those who wish to learn, and an incentive points system where employees exchange “thank you” points with each other. In this way, efforts to invigorate the internal company environment are ongoing.

Mid-Term Business Plan R2

Over the three years of R2, which runs from April 2023, we will take into account the issues identified in R1 and further strengthen our existing three major businesses of Ni-MH batteries, lithium batteries, and electronics to enhance their resilience. This period will also see the launch of new businesses, leading into the finalization stage in the following three-year period.

We cannot rule out the possibility that more unforeseen difficulties, in addition to soaring material costs and significant exchange rate fluctuations, may emerge in the future. We will strive to improve the quality of our management, including governance, to become a company that can respond to changes in the market environment, while building systems that allow each employee to perform to the best of their abilities and fostering a culture in which employees can improve each other's skills.

I want us to spend these three years building a solid foundation, so that by 2029, we will be a company that is strong enough to survive no matter what comes its way.

The FDK Group's Materialities

In formulating the Group's materialities, we first established an internal Sustainability Promotion Committee (initially the Sustainability Promotion Preparatory Committee) and compiled a list of social issues based on approximately 1,500 keywords identified by the committee members. After repeated discussions on the relevance of the identified social issues to the Group's business, five materialities were selected as issues of high relevance and significance to the company.

“Provision of safe and secure electric energy” and “coexistence with the global environment” are the foundation of our business and represent “Whats” that we must accomplish to realize our philosophy and Vision.

“Promoting the active participation of diverse human resources” and “sustainable enhancement of corporate governance” refer to Hows for achieving the Whats.

“Contributing to sustainability in regions, society and communities” is an issue of a different nature from the first four, but it is one that is rooted in local society and has a significant impact on residents. As a company committed to being a member of the local community, we recognize that this is an important issue to address.

Through its business activities, the Group aims to realize the five materialities it has identified to achieve sustainable development of society and sustainable enhancement of corporate value.



Achieving Sustainability Management through an “And” rather than “Or” Game

“And Game” is a phrase that I have used consistently since becoming President. Although this is a very important concept, I still hear some people say they do not understand it well, so I would like to take this opportunity to explain it again.

It is actually very simple. A company has four groups of stakeholders: customers/partners, shareholders, employees, and society. The term “And Game” expresses the idea of satisfying all (and) rather than one (or) of these four groups. If you rank stakeholders in order of priority, such as shareholders first or customers first, a distortion will emerge somewhere, and someone ranked lower in priority will end up hurt. I have seen a number of such companies myself.

At a time when there is an increasing demand for sustainable enhancement of corporate value, I believe that practicing this “And Game” is the way to meet the expectations of society. We satisfy society by solving social issues, and we derive profit from our customers' appreciation of that added value. That profit is then used to reward shareholders and employees. It is working through this cycle that constitutes the “And Game,” and I am strongly convinced that it will lead to the realization of sustainability management.

Through its business activities, the FDK Group will keep working to help realize a sustainable society, thereby enhancing its corporate value. I ask for your continued support so that together we can create a future that brings smiles to the faces of all our stakeholders.

