



President & CEO  
**Ryo Nagano**

## Aiming for a sustainable society and forging a future through creative strength

### Contributing to the materialization and development of sustainable society through our business operations

This is already my sixth year since assuming the position of President. The first thing I noticed when I came to FDK in 2019 was that this company's business is directly connected to ESG and the SDGs. By developing highly energy-efficient and recycling-efficient batteries, we are in the fortunate position to contribute to environmental sustainability through our work.

Our "10 Years' Scheme" announced in 2019 provides a vision of the FDK Group in 2029. The inclusion of the phrase "contributing to

materialization and development of a sustainable society" expresses our desire to contribute to society by providing safe and reliable electric energy.

This is our first integrated report. In presenting both financial and non-financial information in an integrated format, I want us to communicate our sustainability and value creation processes to all our stakeholders.

### Looking back on the first fiscal year of the R2 Mid-term Business Plan

As in FY2022, FY2023 was a year in which geopolitical risks and other factors greatly impacted raw material supply and demand balance, logistics, and other aspects of our business. With COVID-19's reclassification as a Class 5 disease, in many ways daily life returned to normal, but people's way of working and values remained very different. In addition, the labor shortage in Japan drove a rapid expansion of investment in new sectors such as AI and digital transformation (DX), and this was just one aspect of the increasingly rapid pace of change throughout the world.

For our company as well, extremely rapid currency fluctuations, rising energy prices, and other factors led to an ongoing challenging business environment. The breakdown in the supply and demand balance for raw materials was particularly impactful. Amid this,

although sales and profits increased in the batteries business, falling sales in the electronic devices business meant that sales and profits were decreased.

Batteries are our mainstay product, and with raw materials making up the majority of their cost, our business is heavily impacted by fluctuating prices of those materials. In order to survive in these circumstances and overcome the challenges of this age of uncertainty, we need to make ourselves more resilient, with both radical technological responses — e.g. by reassessing materials from the ground up — as well as management adjustments that will enable us to respond quickly to changing market conditions.

#### Three Pillars of R2

##### 1 Accelerate the profitable growth of core businesses

- Focus on growing markets and markets presenting high levels of added value
- Optimization of business scales through structural reforms

##### 2 Develop and launch new businesses

- Full-scale operation of the next-generation battery business and the solutions business
- Develop the elements for the more advanced generation battery business and solutions business

##### 3 Cultivate a culture of mutual acknowledgement and enhancement

- Build a system that enables each individual to demonstrate his or her abilities
- Improve the quality of management, including governance

## Achieving our “status-to-be” for 2029

Our 10 Years' Scheme describes the condition in which we have realized our Vision by 2029 as our “status-to-be.” With this in mind, we split the nine-year period from FY2020 into three Mid-Term Business Plans, labelled R1, R2, and R3. FY2023 was the first year of R2. The R2 targets will take into account issues identified in R1 and further strengthen our existing businesses 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.

### Accelerate the profitable growth of core businesses

Our base strategy is to focus on promising markets that will embrace high added value for our mainstay product ranges that are the backbone of the company. There were times when things did not go as envisioned due to changes in the external environment but our clear view of the markets enabled us to maintain a steady focus on our targets. In particular, we were able to achieve overall profitability in the extremely challenging batteries business and make up for the slump in the electronic devices business, demonstrating that the multi-pillar support targeted in R1 is taking shape.

Demand for our mainstay Ni-MH batteries grew in the in-vehicle applications, power backup, and social infrastructure markets, but declined in consumer markets. Sales in the previous fiscal year were below forecasts, but are now recovering steadily, and we are expecting to meet forecasts in FY2025, the last year of R2. To avoid the impacts of soaring materials costs, we are pursuing technological innovations that will enable us to achieve the same performance

without materials previously considered essential. Some of these developments are already being implemented.

Sales of lithium batteries for security and smart-meter applications were robust, and we also received new orders in the medical devices market. We continue to work on developing and mass-producing high-capacity models. Including alkaline batteries, battery departments have been able to cover the reduced income caused by soaring materials costs by cutting expenses, reviewing sales prices, and taking advantage of the weak yen. Going forward, we will improve profitability by expanding the high-value-added model.

### Develop and launch new businesses

We have set a goal for developing new businesses such that they will account for 30% of total sales by 2029. Of these, all-solid-state batteries hold particular promise, and we focused on delivering samples and establishing specifications in preparation for mass production. Although the batteries have earned a certain level of acceptance, the product specifications at present have limited application and cannot meet the performance needs of a large number of customers. Going forward, we will concentrate development resources on products with greater ranges of applicability.

We have received sample assessments of our Nickel Zinc batteries from certain customers, and quality levels have improved to nearly practical application. In FY2024, we will begin pilot production. The battery's excellent eco-friendly and safety characteristics are drawing many inquiries from customers, and we are close to establishing the battery as a new business.

Also, in FY2023 we acquired Baotou Santoku Battery Materials Co., Ltd., and made it a consolidated subsidiary under the trade name BAOTOU FDK CO., LTD. The immediate goal of the purchase was to secure a stable supply of hydrogen-absorbing alloys for anodes in Ni-MH batteries. In addition, such alloys are expected to have a number of potential uses in a future hydrogen-based society, so we are expecting this business to grow.

### Cultivate a culture of mutual acknowledgement and enhancement

Over the three years of R1, we have enacted a range of measures aimed at cultivating a corporate culture of mutual acknowledgement and enhancement for all employees working in the FDK Group. We began by having employees participate in developing the corporate philosophy that forms a part of the effort, then continued to implement a variety of reforms to our systems and processes within a short period of time. These include changes to the personnel evaluation system and salary structure, introduction of talent management, systematization and expansion of the education system, reforms to working styles such as the introduction of flextime work and telework, and the enhancement of internal improvement activities.

We have established the “Dojo,” a place for those who have skills and know-how to pass them on to those wishing to learn, “thanks points” that employees exchange with each other, and other schemes to encourage a culture of mutual enhancement. The quality of suggestions we have collected through “STEP UP FDK,” our company-wide suggestion initiative, has been changing year to year. A feeling has emerged within the company that if we work at something we can change it, and there is a greater impetus than ever before for people to think about how to improve things together. We are seeing high-quality suggestions that can help our business from a number of groups.

In R2, I want to consolidate these positive trends and enable the systems we have built to take root.

## The sources of FDK's strength

In the years since 1950 when FDK began selling carbon-zinc batteries, we have released a series of new products, from alkaline batteries, ferrites for deflection yokes, core memories, rotary transformers and optical isolators, and more. Since 2010, we have expanded our Ni-MH battery, lithium battery, and power supply businesses through corporate acquisitions. Our portfolio has changed over that period, and today we have a very well-balanced portfolio. As our main income sources have changed over time, we have amassed a great deal of technology within the company, and this has become our greatest source of strength. We will continue to develop technologies that are ahead of their time and organically reorganize our portfolio to grow the company's value.

Another source of our strength is our people. When I became president five years ago, I had a sense of FDK as a group of professionals. In addition to the engineers who were tirelessly striving to create good products, the sales people, corporate departments, and many of the other employees had opinions on how to make the

company even better. Over the course of the company's long history, FDK has tried and learned many things, and worked hard to create added value. The culture that drives the company to take on challenges is built on the experience of repeatedly making new things based on lessons learned from past mistakes and painful experiences.

Going forward, the ability that I most want to develop in our employees is the ability to manage risk. I want to foster the kind of human resources who are always able to anticipate future events and react appropriately when they occur, to enable the company to respond as needed in this age of high uncertainty. As this is not easy, we have the “And Game” guidelines. In order to satisfy all stakeholders, it is important that employees are able to make judgments for themselves about what kind of work they should do when the need arises. If each and every one of us can act autonomously without waiting for orders from above, the organizational gears will mesh smoothly together and the organization itself will develop autonomously. This is the kind of company I want us to become.





## Progress on the five materialities

Let me quickly review our progress on the five materialities.

### Provision of safe and reliable electric energy

This is the very nature of our business, as well as our value to society. As I said when talking about new businesses, we are preparing to take on challenges to meet expected future demand, including new products such as all-solid-state batteries and nickel zinc batteries as well as new fields such as hydrogen absorbing alloy applications.

### Coexistence with the global environment

To meet our target of 100% renewable energy usage by 2030, we continue to pursue energy conservation measures that include replacing aging equipment at our locations, reducing peak power consumption, and purchasing non-fossil-fuel energy certificates. We are using roof space for solar power generation at our Takasaki Plant. We also began using solar power at our Tottori Plant in 2024. As of last fiscal year, our ratio of renewable energy use in Japan was approximately 13%.

### Promotion of diverse human resources

We are setting human capital management KPIs, building a PDCA cycle, and formulating the basic framework for a 360° evaluation system. As a result of our efforts to create a health management policy, build health promotion systems, and implement activities, we have become a Certified Health & Productivity Management Organization for 2024.



Solar panels installed at the Takasaki Plant (Gunma Prefecture)

We are investing in our employees with side-job system design, comprehensive e-learning, ongoing language study abroad, full self-development curricula, and increasing the company share of costs for remote education and English conversation courses. We are also improving compensation by raising wage levels, building bonus distribution frameworks for meeting targets, and other measures.

In the Employee Satisfaction Survey that we launched in 2020, scores have gone up annually, confirming that our various initiatives are having the desired effect.

### Sustainable enhancement of corporate governance/ Improved risk compliance

We have established a Group Business Management Office, the main aim of which is to enhance internal audit systems for overseas offices. It serves as the contact point for running the monitoring PDCA cycle.

### Contribution to the sustainability of local communities and society

At our locations, we have been engaged in activities rooted in the local community for many years, with community clean-up activities at the forefront. In FY2023 as well, we supported local communities with a range of activities that included environmental awareness events and concerts, operating classes at local schools, and sales of goods from vocational aid facilities.



Solar panels installed at the Tottori Plant (Tottori Prefecture)

## Leaving the comfort zone to aim even higher

Batteries are a clean energy source that do not release CO<sub>2</sub> during use, and their role in society will grow in the future. Combining secondary batteries with non-CO<sub>2</sub>-emitting power generators such as solar power systems can significantly contribute to decarbonization. The business of FDK is the manufacture of highly energy-efficient batteries, and increasing their use around the world can directly contribute to preserving the global environment. There is a lot, then, that we can do.

We have made “Leave the comfort zone” the theme for FY2024 with the aim of further raising the overall level of our company. After five long years as president, it occurred to me that I have perhaps become complacent and prone to resting on my laurels, so this also

applies to me personally. If we raise the tension just slightly and shift gears, we can change ourselves, change our organization, and ultimately, change our company. Customers will pay accordingly for employees who work with enthusiasm and products and services that provide high added value. The profits are returned to the shareholders and spent on employees and the business's future. I want to ensure the continuity of this cycle.

We still have many weaknesses as a company, but that is precisely why I believe we have so much capacity to grow. We will pursue “And Game” so that we can continue to be a company that is needed by society.

