

# Top Message

## Creating new value for energy devices and contributing to realizing a sustainable society



**Osamu Murao**

President and Representative Director, GS Yuasa Corporation

### Our worth and values

#### Contributing to society through sustainable business

In the more than a century since our founding, the GS Yuasa Group has continued to offer society new value through a diverse range of products built around storage batteries. Looking back at that history, we have grown by creating products that solved the social issues of the time. These include power supplies for communication equipment that supported the development of wireless communications at the beginning of the 20th century; auxiliary power supplies that played a role in the dawn of industrialization in Japan when power generation facilities were as yet incomplete; and lead-acid batteries that accelerated motorization in the postwar era.

This spirit is still alive and well in the DNA of the Group. For example, the batteries we have developed have demonstrated reliable performance even in harsh environments such as the deep sea and outer space. I believe that our ability to create one-of-a-kind products other companies cannot imitate has been honed through our continuous challenging of the cutting edge. As a result, the Group's technologies and products support people's lives and industry in a variety of fields, including storage batteries for automobiles and motorcycles, emergency power supplies for public infrastructure, and energy storage systems for wind and solar power plants.

Our business has a strong affinity with sustainability, and I believe that our social mission and responsibility will become even greater as solving the problems of climate change and energy resources becomes an issue for all of humanity. We recognize that the role of storage batteries as energy devices that store energy and supply it when needed will become increasingly important, and we hope to meet those expectations.

My understanding is that our corporate philosophy of "Innovation and Growth," established at the time of our 2004 corporate merger, means creating new value that contributes to society, thereby achieving sustainable growth ourselves. For the Group to generate new value and build the second and third pillars of our business, it is essential for us to have both advanced technological capabilities and expertise, as well as a flexible approach that keeps us listening to our customers and the market and allows us to continue reforming ourselves. In my discussions, I keep in mind what brings joy to the customer, and the idea that, to create new value, it is important to always approach things from the perspective of the recipient of that value.

For the Company to contribute to society in the years to come, it is important that we innovate further in those technologies we have developed for storing and using electricity, and that we implement and operate those

technologies as part of the public infrastructure. I believe that creating a society in which all people can feel joy will lead to the realization of a sustainable society. For us, this will mean expanding our vision from the development, manufacturing, and sales of energy devices, to energy management that allows society as a whole to make full use of those devices, and beyond that to energy resource recycling.

#### Uniting to enhance management quality

There is something else that is important when talking about "Innovation and Growth." I believe that as a manufacturing company, it is crucial that we maintain and improve quality in order to gain the trust of our customers and society and grow over the long term. We aim to improve not only the quality of our products, but the quality of our management overall through Total Quality Management (TQM).

This is why, since my appointment as president in 2015, I have called for management with quality at its core, and have held regular quality management meetings, improvement case study presentations, and key quality problem case study presentations. We have shared the experience and expertise of those on the front lines with the entire company, including overseas, and have emphasized opportunities and approaches for learning from our mistakes.

For example, when we first started holding our improvement case study presentations, most of the presentations were given by quality-related departments and engineering and manufacturing departments. Now, however, the sales, human resources, and financial departments are also participating, and efforts in pursuit of quality are leading to business process improvements across the entire company.

In recent years, the unified efforts of the development, production, sales, and administrative departments have begun to bear fruit, and the incidence of complaints in the market and the in-process defect loss rate have both been steadily decreasing. Further, not only has product quality improved, but I sense that management quality overall—including business processes—has been enhanced, something that I have been aiming for.

### Toward medium- to long-term growth

#### Completing the Fifth Mid-Term Management Plan

In fiscal 2022, the final year of the current Mid-Term



Management Plan, we forecast consolidated net sales of 520.0 billion yen, a record high 29.0 billion yen in operating profit before amortization of goodwill, and profit attributable to owners of parent of 12.0 billion yen. In the automotive lithium-ion batteries business, a growth segment, we will expand production capacity to meet demand for lithium-ion batteries for hybrid electric vehicles (HEVs) by starting operation of Blue Energy Co., Ltd. second plant. In the industrial battery and power supply business, we will further enhance synergies with GS Yuasa Infrastructure Systems Co., Ltd., a new addition to the Group in 2021.

In the automotive batteries business, we will utilize our base in Turkey, which became a consolidated subsidiary in May 2022, to expand business by strengthening our production and sales structures for Europe, the Middle and Near East, and North Africa.

By steadily advancing these measures, we will achieve the performance targets set out in the Fifth Mid-Term Management Plan.

### Carbon neutrality as an inflection point for our times

Over the past few years, the movement toward carbon neutrality has accelerated on a global scale. Particularly in Europe, China, and Japan, there has been a marked movement toward the electrification of automobiles and the introduction of renewable energy. This trend is, without

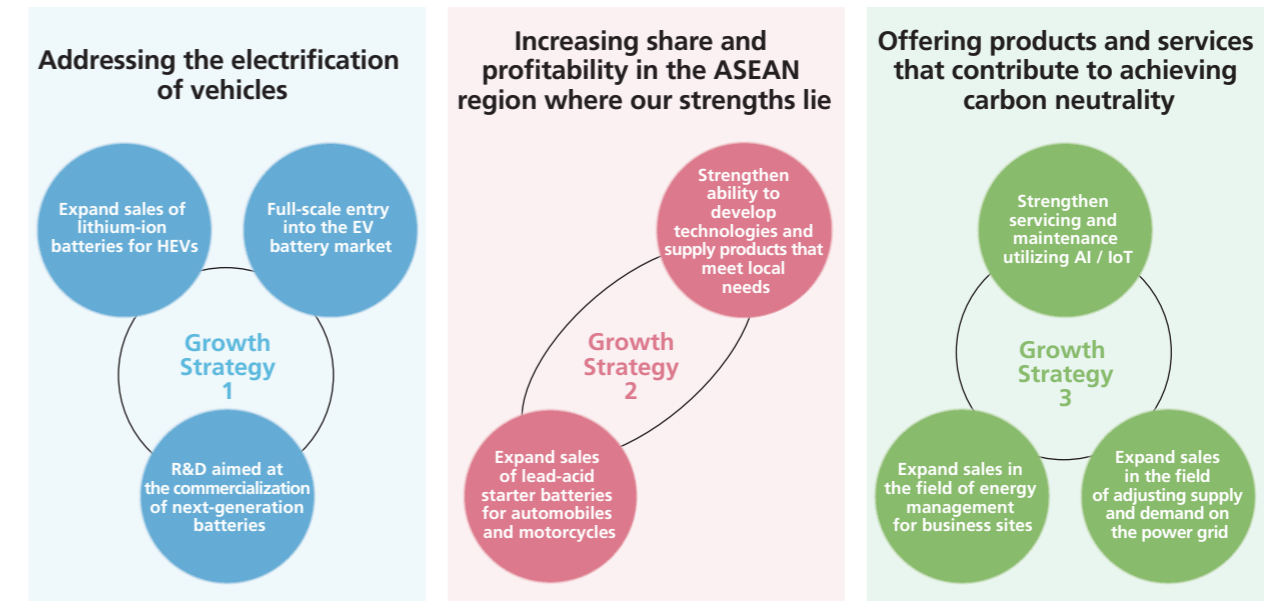
a doubt, an opportunity for our business, with its strong affinity with sustainability, and a tailwind that will drive growth. At the same time, we realize that there are risks, including increased costs for reducing environmental impact through the deployment of energy-saving equipment, as well as a gradual decline in demand for automotive lead-acid starter batteries, which to date have been our mainstay business.

In this context, I see this trend toward carbon neutrality as an inflection point for our times. Our policy is thus to enhance the earning power of each of our businesses while carefully assessing both opportunities and risks in this rapidly changing market environment. As we work toward medium- to long-term growth, we will be pursuing growth strategies in the following three major fields.

#### 1. Addressing the electrification of vehicles

Our first growth strategy will be to address the electrification of automobiles. We will focus on expanding sales of lithium-ion batteries for HEVs and research and development in electric vehicle (EV) batteries and next-generation batteries in anticipation of the growth of the market for EVs. Based on a variety of surveys, we predict that HEVs will be the mainstream of electrification through the mid-2030s, and that EVs will come into the mainstream after that, though there will be differences in terms of timing and region. To date, we have worked to boost our automotive lithium-ion batteries business under our policy of concentrating resources on HEVs during the term of our Fifth Mid-Term Management Plan. As a result, we have

#### Growth strategies in three fields for medium- to long-term growth



achieved steady growth, including a return to profitability in fiscal 2021. Going forward, we expect to expand our annual production capacity of lithium-ion batteries for HEVs to 70 million cells in the latter half of the 2020s to steadily meet demand from new car manufacturers.

Additionally, we will allocate resources to EV batteries, a sector that is expected to expand in anticipation of future market changes. In April 2022, an organization specializing in the development of lithium-ion batteries for EVs was set up within the Lithium-ion Batteries Business Unit to accelerate R&D in this area. We are accelerating R&D in high-performance, high-safety, and high-quality EV batteries for delivery in the next few years, making the most of the technologies and platforms we have developed to date and directly incorporating the requirements of new car manufacturers. At the same time, we will also engage in R&D into practical application of next-generation batteries with a view to the future.

#### 2. Increasing share and profitability in the ASEAN region where our strength lies

Our second growth strategy will be in the overseas lead-acid battery market, where we will focus on expanding sales in the ASEAN region. Although the electrification of automobiles is advancing, gasoline-powered vehicles are expected to remain the norm in emerging countries for the foreseeable future, particularly in the ASEAN region, as motorization progresses with economic growth and the number of vehicles owned increases. For the time being, we will continue our strategy in emerging markets, focusing primarily on lead-acid starter batteries for automobiles and motorcycles.

In emerging markets, the issue is how well we can maintain and improve our advantage. The Group has been

expanding its business in Asia since the 1960s in alignment with the overseas expansion of Japanese automakers and has increased its market share. Today, in addition to 15 manufacturing and sales sites in the ASEAN region, we have also established a technical center in Thailand for technical development so that we can quickly identify regional needs and reflect them in our products. Leveraging the relationships we have cultivated with Japanese automakers, we will further strengthen our sales force and bring to market high-value-added products such as batteries for vehicles with start-and-stop systems (ISS: idling stop systems) that allow us to differentiate, leading to improved profitability. Taking advantage our global information network, one of our strengths, we will direct our resources to areas of positive investment efficiency.

#### 3. Offering products and services that contribute to achieving carbon neutrality

Our third growth strategy is to meet the growing demand for storage batteries, which are essential to achieving carbon neutrality. Following the Japanese government's "Declaration of Carbon Neutrality by 2050," renewable energy is being introduced throughout Japan, and demand for storage batteries, which are indispensable for adjusting supply and demand on the power grid, is expected to grow in line with this trend. Companies are also beginning to install storage batteries as a means of managing energy at their business sites to achieve carbon neutrality. The main products of the industrial battery and power supply business are backup batteries and power supply units. However, to further expand our business in the areas of adjusting supply and demand on the power grid and energy management at business sites, we will utilize the lithium-ion battery technology



and expertise acquired through the development and production of automotive batteries to develop even more competitive products in this field going forward.

In addition, since storage batteries for backup use and for adjusting supply and demand on power grids are part of the power infrastructure, appropriate selection and installation as well as an emphasis on maintenance operations are important in ensuring stable operation and optimal control. We will thus be strengthening our business in creating services that will allow products to be used sustainably. We aim to establish a business model that generates continuous revenue by suggesting preventive maintenance and appropriate upgrades using AI, IoT, and other digital technologies once products are delivered.

Strengthen the management platform

Encourage ESG initiatives and use of digital technologies

E: Environment

To achieve sustainable corporate growth, it is important that we strengthen our business foundations through non-financial initiatives as well as, at the same time, through growth strategies in each business.

The Company recognizes that reducing the environmental burden of our business activities is an important social responsibility. In May 2021, we announced the "GY 2030 Long-Term Greenhouse Gas Target." As one of the initiatives aimed at achieving that target, in November 2021 we switched all of the electricity used at GS Yuasa's Kyoto Plant to substantially renewable energy sources. Further, in fiscal 2022 we introduced an Internal Carbon Pricing System (ICP System). By converting CO<sub>2</sub> emissions associated with the deployment of equipment into cost equivalents and adding them to our investment decisions, we will promote low-carbon investments, including the introduction of energy-saving equipment and renewable energy, while also identifying the impact of CO<sub>2</sub> reductions. The Company is committed to achieving carbon neutrality through our efforts to reduce CO<sub>2</sub> emissions in our operations.

S: Society

We will also focus our efforts on strengthening human capital. We seek "autonomous-minded human resources", people who can think for themselves, act on their own initiative, and deliver results. We believe that new value is created only when employees at each site practice "Innovation and Growth," innovating business processes unbound by conventional methods and practices, developing new technologies, entering new markets, and so on.

To advance the development and success of these kinds of human resources, we are working to create a workplace environment and put in place programs that allow for diverse, flexible work styles. In particular, we believe that work style reforms will eventually lead to the creation of varied types of corporate value. We would like to make further progress in creating an environment that encourages flexible work styles, for example remote work utilizing digital technology.

To keep pace with the rapidly changing business environment, diversity and inclusion in all phases of corporate activity is a top priority. In the area of empowering women, in particular, we will expand opportunities for women to play an active role by simultaneously supporting both "career development" and "work-life balance", working to increase the percentage of women in management and leadership positions.

We speak of "work-life balance," but I would like to continue to promote the development of an environment in which "life" takes priority, and we can refer to it as "life-work balance."

G: Governance

While the results of assessments show that, in general, we are able to ensure the effectiveness of our Board of Directors—a key governance theme—we continue to improve on issues singled out each year, primarily based on recommendations from our outside directors. At executive study sessions for those at the corporate officer, officer level and above, discussions are held about how "Innovation and Growth" can contribute to the environment in which the Company currently operates. We believe that another important issue in strengthening our ESG initiatives going forward is to consider a compensation system that is linked to ESG indicators.

In fiscal 2021, we launched a company-wide Business Continuity Plan (BCP) project in response the recent increase in supply chain disruptions and natural disasters. We are moving ahead to diversify risk across multiple locations, taking into account both production efficiency issues and the impact on our customers.

Use of digital technology that contributes to business transformation and value creation

Another area of emphasis as we strengthen our business foundation is the advancement of digital transformation (DX). We are promoting the use of AI, IoT, and other digital technologies in various operations, including the introduction of a battery demand forecasting system, an energy management project to optimize energy usage in factories, and a project to improve productivity through the digital transformation of the R&D department. In addition, employees are provided DX training to improve their basic knowledge, and ideas are solicited from



those on the front lines as part of the effort to achieve DX. That said, even the use of cutting-edge digital technology is meaningless unless it leads to business model innovation and new value creation. We intend to continue making proactive use of digital technology to bring about change, both internally and externally, while keeping a close eye on these issues.

To our stakeholders

Striving to practice "ambidextrous management" with an eye to the future

I have recently come to realize, once again, the importance and the difficulty of "ambidextrous management." For a company to continue creating new value for society, it is important that it "digs deep" to refine the competitiveness of its existing businesses, while at the same time engaging in an ongoing "search" so that it can expand into new business opportunities. In our case, new business opportunities include, for example, batteries to succeed lithium-ion technology and energy management, as well as resource recycling.

Funding needed to explore these new areas must be generated by existing businesses. That said, existing businesses must also "dig deep." It is important that, with the understanding of our stakeholders, we strike

a balance between how much of our management resources—including earnings from existing businesses—we invest in new areas, and how much is allocated to strengthening and expanding existing businesses.

There are no fixed rules in this process, and not all seeds we sow will bear fruit, no matter how certain we are. While there have been many innovations over the course of the GS Yuasa Group's 100-plus-year history, there have, naturally, also been failures. It is because our predecessors continued to take on new business challenges, nourished by their failures, that the Group is what it is today. We will continue to take on the challenge of new business, feeding off the failures we have experienced in order to succeed.

I believe it is my mission as the top management leader to clearly articulate what the Company values and what we hope to accomplish, and by doing so, to strike a chord with our stakeholders. Going forward, we will continue to listen sincerely to and engage in an ongoing dialogue with our stakeholders as we take on the challenge of creating value toward the realization of a prosperous society. I ask for your continued understanding and support in that effort.

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President and Representative Director, GS Yuasa Corporation