

[English translation of the original Japanese]

Q&A Summary from Briefings on FY3/25 3Q Financial Results and Group Management Reform

This is an English translation of the Japanese Q&A summary.

Please note that there may be some differences between this summary and the simultaneous English interpretation provided for the briefings.

[Date & Time] Tuesday, February 4, 2025 / 17:30-19:00 (JST)

[Speakers] Yuki Kusumi, Group CEO
Hirokazu Umeda, Group CFO
Kazuyo Sumida, Group CSO

<QA session for journalists>

Questioner 1:

Q: The Group CEO has emphasized that operating companies play the main role in the Panasonic Group. On the other hand, you have been concerned about lacking effective governance over each operating company, which has led to centrifugal forces. Please share your thoughts on the governance reforms in the group management reform announced today, particularly regarding the potential dissolution of Panasonic Corporation, and whether the name "Panasonic Corporation" will remain or not.

A: (Yuki Kusumi) When I was in charge of the automotive business, to put it frankly, I sometimes felt that I did not want to be interfered, as various directives were given from the headquarters. From that experience, I decided to entrust operating companies with more responsibility, intentionally allowing some centrifugal forces; this was how we started our operating company system. As we proceeded, each operating company made efforts from the perspective of autonomous responsibility management and management reforms progressed. However, I recognized that various issues, including governance, began to emerge where numerical outcomes were not achieved. One example is the increase in fixed costs. We need to firmly establish governance in such areas. Moreover, Group CFO Umeda and I are members of the board at each operating company and involved in decisions made there. We received feedback from outside directors that this situation can make it difficult to change decisions when matters were raised to the holding company. I would like to change this structure starting from FY3/26. We will strengthen the governance accordingly.
Regarding whether to retain the name Panasonic Corporation, we have not yet discussed this matter.

Q: Tariffs have become a hot topic in the U.S. How will the changes in tariffs affect future results, and what specific impact might they have on certain businesses.

A: (Hirokazu Umeda) The situation has become unpredictable over the past two days with changes in tariff policies, and we are also trying to assess the situation. In terms of the impact, we do have a certain level of sales from our Mexican operations to the U.S. We will consider how to respond to our supply chain based on discussions between the two countries. Additionally, the Panasonic Group's largest business in the U.S. is EV batteries, which are mostly produced in the U.S. This aligns with the direction of the U.S. policies, and the new factory being built in Kansas is also located in the U.S. Considering the overall business environment, we should pay close attention to tariffs, but at this point, we do not anticipate significant changes. However, we are aware that if we do not respond appropriately, there could be potential impacts. From the perspective of a company, we want to wait for a certain level of clarity on the assumptions and will respond accordingly.

Questioner 2:

Q: Is a sale of the TV business included as an option in your management reform?

A: (Yuki Kusumi) We have not made a decision regarding whether to sell the TV business, and I cannot make a comment at this time. We are considering various options.

Questioner 3:

Q: Regarding the TV business, in the past, you have been mentioning that you intend to continue this business. You also mentioned about a significant impact on "Panasonic shops" in Japan. In addition, you were involved in this business and may have a personal attachment. Can we interpret that it is now clearly identified as a business with issues and that it will not be treated as an exception going forward?

A: (Yuki Kusumi) As I have been involved in the TV business, I do have a personal attachment to it. However, I believe that in order to make ourselves a group of businesses with high profitability, we must fundamentally reassess how we conduct our businesses. In the past reforms of the TV business, we have successfully reduced fixed costs by outsourcing some of our operations to other companies. I believe that further thorough efforts in this area are needed to reform the TV business.

Q: Regarding the difference between structural issues and fundamental issues, please elaborate on the fundamental issues of the Panasonic Group.

A: (Yuki Kusumi) The structural issues are that we are at a disadvantage against our competitors in each business. The fundamental issues are the problems that the Panasonic Group is inherently facing, for example, the lack of effective governance over fixed costs. Additionally, the difficulty in modernizing our management is another issue.

Questioner 4:

Q: What is the reason and objective to announce the management reform at the timing of today's Q3 results announcement?

A: (Yuki Kusumi) Traditionally, such management plans have been announced in early May following the full-year financial results announcement. However, this time, I felt it was necessary to accelerate our structural reforms. Also, if we proceed these reforms in a limited scope within our group, the expected progress will not be made. Therefore, we decided to make this announcement at this time to involve more members and advance the process with speed.

Q: You mentioned employment structure reform; does this include headcount reductions, and what is the scale of these reforms?

A: (Yuki Kusumi) The scale of reforms varies among our operating companies. I think that businesses that have been rigorously controlling headcount will not undergo large-scale employment structure reforms. Therefore, we will consider the scale of the reductions going forward and will explain it in due course.

Q: Will headcount reductions be implemented by the end of FY3/29?

A: (Yuki Kusumi) Employment structure reform includes aspects that need to be addressed quickly as well as aspects that require improvement by FY3/29. We will conduct these reforms by each operating company, but we aim to complete the structural reforms, that need to be addressed with speed, during FY3/26.

Q: Can I understand that its implementation in FY3/26 refers to early retirement programs?

A: (Yuki Kusumi) Yes, that understanding is correct.

Questioner 5:

Q: Regarding the businesses with issues, it seems that not all businesses will be sold off entirely, and there may be various methods. Is it correct to understand that there is a possibility for some businesses to remain?

A: (Yuki Kusumi) First of all, we are prepared to divest if necessary. What I mentioned is that we may withdraw some products or from certain regions.

Q: Does dissolving Panasonic Corporation show your strong determination to make this reform, while the consumer electronics business has been the foundation of the Panasonic Group and has been leading the industry?

A: (Yuki Kusumi) I want to avoid any misunderstandings; our consumer electronics business is very important, and it needs to become highly profitable. From this perspective, it is necessary to advance reforms.

Questioner 6:

Q: Air-quality and air-conditioning business has been categorized as “priority investment areas,” but now they are positioned as “businesses to be reconstructed.” Is the theme shifting from manufacturing to solutions going forward? Please share your thoughts on this point.

A: (Yuki Kusumi) When we talk about solutions, we are not just referring to software solutions. For example, we are involved in Home Energy Management System (HEMS). These solutions

integrate air-conditioning, solar power, storage batteries, and Eco Cute systems to realize zero-energy houses. Also, in Electric Works Company, we are developing RE100 solutions for factories and aim to expand these solutions for offices in the future. These are also examples of solutions. I would like you to think of it in this way. Furthermore, in Cold Chain Solutions, Hussmann does not just supply refrigerated showcases; they also provide electronic price tags on shelves that allow real-time price changes for products. We have a variety of such solutions available in our group.

Q: Will there be no more “priority investment areas”? Should we understand that air-quality and air-conditioning business (HVAC) will be excluded from that area?

A: (Yuki Kusumi) What we positioned as the priority investment area in air-quality and air-conditioning business (HVAC) was A2W. We explained this at the recent briefing hosted by Lifestyle Segment (Panasonic Corporation) in November 2024 and are working in that direction. Regarding the priority investment areas, we are reaching the peak of our current medium-term investment plan in terms of scale. Therefore, we have decided not to use the term "priority investment" going forward.

Q: I would like to ask about the impact of the U.S. administration change. The EV battery business is important for the Panasonic Group. With the global EV market slowing down and the U.S. withdrawing from the Paris Agreement, how do you view the risks in this business?

A: (Yuki Kusumi) The pace of growth of the EV market may slow down, but I believe that it will continue to grow. In our automotive battery business, we will make investments in line with firm demands from our customers (car manufacturers), and if growth slows down, we will adjust our investments accordingly. As for our future investment policy in this area, we aim to strengthen collaboration with car manufacturers. Also, with support of the IRA tax credit, we will be able to reduce the burden of large-scale investments.

Questioner 7:

Q: There are reports that the U.S. has partially halted funding contributions under the IRA tax credit. To what extent will this affect the amount of tax credit that you have anticipated? Additionally, if the IRA tax credit were to be suspended, what level of risk do you foresee to the automotive battery business?

A: (Yuki Kusumi) Regarding the IRA tax credit, our current view is that the IRA subsidy for consumers purchasing EVs (30D) is under discussion and may be suspended, while the IRA tax credit for battery cell manufacturing (45X) is not within the scope right now. However, we are closely monitoring developments in the U.S. government.

(Hirokazu Umeda) As for the IRA tax credit 45X, our understanding is that it has not been a topic of discussion so far. Given the alignment with policies that create many jobs by having energy-related manufacturing bases in the U.S., it seems unlikely that tax credit for battery cell manufacturers will be eliminated. Even if 45X were to be eliminated, we believe that the tax credit that we applied in the past would not be reversed. Also, if it were to happen, it would

likely be several years down the line. We are reaching our investment peak in FY3/25.

Furthermore, our EV batteries made in the U.S. are sold in the U.S. Even with a slowdown in the EV market growth, we expect gradual growth. At the same time, we are collaborating with strong customers and expanding our customer base. Therefore, we can minimize the impact and recover our investments.

Q: Even if the IRA tax credits were to be suspended a few years down the line, can we understand that the burden of heavy investments would not be significant, and the impact would be limited?

A: (Hirokazu Umeda) That is correct. While the suspension of funding contributions is being discussed, what we are benefiting from is the tax credit, which is a yearly benefit. Therefore, we understand the impact would be limited. Also, even if there were to be exclusions in the future, there may be discussions in the U.S. government whether how to maintain consistency with their industrial policy. Of course, we will continue to monitor the situation regarding the IRA tax credit and the possibility of its suspension. In that regard, we will assess our capital allocation accordingly by judging on the timing of making investments and the timing of halting investments.

Questioner 8:

Q: Is it correct to understand that the dissolution of Panasonic Corporation (Lifestyle segment) as an operating company will occur by the end of FY3/26?

A: (Yuki Kusumi) The current Panasonic Corporation (Lifestyle segment) will cease to function as a corporate legal entity by the end of FY3/26. However, no final decision has been made yet. Internally, we aim to start virtual operations under the new structure in Q4 of FY3/26.

Q: Among the “low-profit” businesses, Industrial Devices and Electromechanical Control, both of which are in Industry segment, are included. On the other hand, in Industry segment, there is growing demand for circuit board materials and capacitors for generative AI server applications. How will the business segmentation within Industry segment be approached? For example, is it correct to think that there will be a focus on selection and concentration toward AI-related areas?

A: (Yuki Kusumi) Industry segment consists of various businesses. There are businesses that excel in materials and processes, as well as assembly-focused businesses. The key to the materials and processes business is know-how. If we can provide products tailored to customer needs, it can generate good profitability. On the other hand, assembly is easily imitated and is prone to falling into a red ocean (where intensified competition leads to deteriorating profitability). Therefore, Industry segment is focusing on materials and process-related businesses. The “low-profit” areas, such as assembly-related businesses, will be the targets for reform.

<Q&A session for institutional investors and analysts>

Questioner 1:

Q: Regarding the image of profitability improvement for FY3/27 and FY3/29 shown on page 8, in particular FY3/27, could you provide a breakdown on the expected profitability improvement in each item? Also, regarding page 10, why is the profit margin not shown for Solutions area; its sales scale is large and high profit margin should be required.

A: (Kazuyo Sumida) The profitability image for FY3/26 is to be quantified from now on. We will also need to scrutinize the expenses necessary for the structural reform. The graph is shown to convey our image. We would like to record the structural reform expenses in FY3/26 as much as possible. We also expect gains from the sale of businesses with issues and through portfolio management, which will offset the expenses to a certain extent, but we do not expect it to more than offset significantly. As for the breakdown, we currently do not have specific figures, so we will disclose them at an appropriate time when they are clarified. Regarding the profitability image for the Solutions business, while it is not clarified, we have an image of aiming for double-digit profitability in each business. However, since there are areas that require investment to strengthen organizational capability, some businesses may not achieve double digit by FY3/29. Nonetheless, we aim to achieve double-digit profitability in each business at an early stage.

Q: Is it correct to understand that the Devices and Smart Life areas can achieve those targets without much investment? In the Solutions area, you may require investment, and it may not be the case?

A: (Kazuyo Sumida) That is correct. Investments may temporarily affect profitability, but we consider this as an investment for future growth, which may delay the timing to reach the target. For the Device and Smart Life businesses, which will be our profit foundation, we plan to generate profits while controlling investments and invest the cash flows into the area of focus.

Q: Regarding governance and corporate structure, how will the Group CEO take the lead if there is a discrepancy in opinions with the CEOs of each operating company? It seems that the next organizational structure is not yet established; is that still under consideration?

A: (Yuki Kusumi) Since we made this announcement today to start the reform promptly, there are still many things not finalized yet. Regarding the Solutions area, there are cases where we missed business opportunities as a result of lacking collaboration between different operating companies, even though they are addressing the same customers. The sales departments from the relevant Solutions business are discussing with each other to improve this situation. However, the organizational structure to accelerate this has not yet been established. If the opinions differ, there is a reason for it. Therefore, it is essential to have open discussions between the business heads and myself.

Q: Regarding the changes in the organizational structure, is it confirmed that Group CEO Kusumi and Group CFO Umeda will no longer be board members of the operating companies from April 2025?

A: (Yuki Kusumi) That is correct. As a form of governance for the operating companies, we plan to change the current structure of myself and Group CFO Umeda being directors of the operating companies. From April 2025, we will no longer be board members of the operating companies.

Questioner 2:

Q: Could you elaborate on how you will improve profitability by 150 billion yen by FY3/27?

Regarding the costs associated with this effect, you mentioned that one-time structural reform expenses and gains from sales will mostly be netted. For example, if outsourcing is implemented according the "integrate & close sites" on page 8, it may result in increased costs compared to what was previously done in-house. Will this be included within the 150 billion yen, or is there a possibility of a separate item for cost increases?

A: (Kazuyo Sumida) As you mentioned, for items that can be realized as one-time effects, we would like to bring the reforms forward as much as possible during FY3/26. On the other hand, some cases for the "integrate & close sites" may require a certain lead time, and this impact may continue in FY3/27. Including these, we plan to provide further details in the future, after we examine the specific impact to the 150 billion yen.

Q: Regarding the estimated figures for Q4, Energy and Connect will see a QoQ decrease in profits. Did some businesses perform exceptionally well in Q3, or is there a deterioration in the mix leading into Q4? Are there any things to take note regarding Energy and Connect apart from seasonality?

A: (Hirokazu Umeda) Connect performed very well in Q3. In Avionics, while the aircraft production did not recover, our services and communication such as Wi-Fi performed well. Regarding Process Automation, while there are some uncertainties for the future, we recently saw demand for smartphones, and Q3 results exceeded our expectations. For Connect in Q4, we do not expect a profit decrease considering its normal seasonality, since Q4 is a high-profitable quarter for Connect. However, there are concerns regarding Avionics, so we have a conservative view in this sense. Energy includes a reversal of quality-related provisions from Q4 last year. The favorable performance of generative AI-related businesses will contribute to the full-year results. For the exchange rate, our estimate is 140 yen to the dollar for Q4, while the current exchange rate is approximately 150 yen. Overall, our forecast may look conservative.

Questioner 3:

Q: Regarding page 12 of the financial results presentation, the revised forecast is an upward revision excluding Automotive. You explained that the revised adjusted operating profit of +15 billion yen for Energy includes an additional 6 billion yen of IRA. How do you analyze the positives and negatives based on actual performance?

A: (Hirokazu Umeda) The upward revision comes from Industry and Energy. For Energy, approximately 6 billion yen has been added due to a new item of IRA, resulting in an upward revision of approximately 10 billion yen in real terms. With strong customer demand, added

equipment starting operations and improved productivity, we achieved a sales volume of 10 GWh for the first time in Q3. Sales volumes were low in Q1 and Q2 due to our customer's production equipment issues, but we are moving towards full production in Q4. We are likely to achieve 38.2 GWh for the full year. Energy overall is becoming stable, including energy storage systems for generative AI.

Q: Regarding page 8 of the Group Management presentation, is the image for FY3/25 based on excluding Automotive, or does it start from the adjusted operating profit of 450 billion yen? The target of improving profit by over 150 billion yen in FY3/27 exceeds your record profit of 575.7 billion yen back in 1984, so it seems like an ambitious target. Could you explain your thinking behind this?

A: (Hirokazu Umeda) FY3/25 represents the latest forecast; adjusted operating profit of 450 billion yen, and operating profit of 380 billion yen. The adjusted operating profit for FY3/26 may fluctuate slightly depending on portfolio management, but overall, the business environment is improving, and adjusted operating profit is expected to rise. In terms of operating profit, there are some uncertainties depending on the scale of structural reform to be recorded in other income/loss. In Q1 of FY3/26, we anticipate approximately 100 billion yen in gains from the sale of the projector business, which we announced last year. In FY3/25, we expect approximately 70 billion yen in structural reform expenses. Therefore, we expect a YoY improvement of approximately 170 billion yen in other income/loss. In addition to this, it will depend on the scale of structural reforms. Therefore, we believe that the target of profit improvement by over 150 billion yen is a realistic figure we can aim for.

A: (Yuki Kusumi) While this target may seem very high, we believe it is something we must achieve.

Questioner 4:

Q: Regarding the 10% for electrode active materials in the IRA tax credit, why has this come up now? What is it, and is it expected to continue in the future?

A: (Hirokazu Umeda) The IRA tax credit section 45X was finalized in October 2024. From the introduction of the IRA, it had been considered that 10% of labor costs and depreciation for cathode/anode electrode materials would be eligible, but it was not clear at that time. After the finalization in October 2024, it was determined that these would be eligible, and we recorded the amount equivalent for 2023 and 2024 in Q3, which is an impact of approximately 900 million yen to profit.

Q: As growth investments peak out in the future, could you explain the approach to cash allocation in the management reform?

A: (Yuki Kusumi) With investments for growth expected to become less intensive, if a certain level of profitability is achieved, capital allocation including shareholder returns will be considered more proactively.

Questioner 5:

Q: The current Panasonic Group is generating significant profits and achieved its medium-term cash flow targets. I think it is the first time in your history to execute such structural reforms of headcount reduction and business portfolio management in this situation. In the past, you conducted structural reform when you were loss-making. What is the meaning of structural reform now, including the possibility of withdrawing from the TV business, which can be considered as your foundation? Is it because you have a sense of crisis? Also, what is your objective with this management reform.

A: (Yuki Kusumi) Since my appointment as Group CEO, I have been stating that we have not achieved growth in the past 30 years. We were able to temporarily increase sales by making investments, but it didn't last for long. This kind of cycle has been repeated. Under such circumstances, our employees cannot take pride in our company. We are also receiving criticism from the capital markets. While we may have reached the 5% profit margin that the former CEO Tsuga aimed for, that 5% was a minimum. We need to focus on our profitability structure. When profitability reaches around 5%, we have repeatedly seen an increase in selling, general and administrative expenses ratio. As a result, profits did not increase, or it even decreased. From a management and governance perspective, I regret on our inability to manage headcount effectively. For example, if there is a situation where five people are attending what could actually be accomplished by two, it means that we are not effectively utilizing the talent entrusted to us by society. Working in such an environment does not benefit the employees' growth either. We need to address this rigorously. In the past, we only implemented early retirement programs when we had loss-making businesses, but in such situations, we lack the financial and temporal resources to adequately support our employees, even if we want to support them. I feel that I need to act now. I am determined to make the necessary changes during my tenure as Group CEO.

Questioner 6:

Q: I have a positive impression that this management reform is well thought out and is a significant step forward. While discussions are set to begin, I would like to know how the scale and role of the holding company will change going forward, as well as your thoughts on PEX.

A: (Yuki Kusumi) The budget of the holding company is supported by operating companies in relation to its size. We cannot raise that amount, as it would undermine their businesses. The budget reduction for the holding company and PEX needs to be larger than what is equivalent to the decrease in sales resulting from portfolio management. In terms of function, we are considering of consolidating shared services into PEX from the perspective of overall optimization, specifically the common services that each operating company requires, and ensuring effective governance. Also, some functions of the holding company have been outsourced to PEX, but this has resulted in inefficiencies. We are contemplating to return such functions that contribute to governance, to the holding company from the perspective of optimization.

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