Message from the Group CEO

Yuki Kusumi
Representative Director, President Group Chief Executive Officer

Determined to improve profitability Groupwide and enhance corporate value

In the two-year period after I assumed the role of Group CEO in the fiscal year ended March 31, 2022 (fiscal 2022), we concentrated our efforts on enhancing our competitiveness as a fundamental strength for achieving medium- to long-term growth. From fiscal 2024, we moved up a gear and transitioned from the stage of dedicating resources to the enhancement of competitiveness to a growth stage, accelerating longer-term growth-oriented investments and the transformation of our business portfolio. However, looking at our management indicators (KGIs) outlined in the medium-term strategy for fiscal 2023–2025, even though we will most likely achieve a cumulative operating cash flow of 2.0 trillion yen, an ROE of 10% or more (in fiscal 2025) and cumulative operating profit of 1.5 trillion yen both are unlikely to be achieved. While a management that emphasizes cash flow has taken root, we have not yet achieved the level of profitability initially targeted in the Group's investment areas and in businesses that are expected to support earnings.

As a result, the share price and price book-value ratio (PBR) have been lackluster for a long time, and we have been unable to meet the expectations of shareholders and investors. Needless to say, enhancing corporate value is my most important role as Group CEO. To overcome this situation, I will lead the way in sharing a sense of crisis with directors and executives of Panasonic Holdings and the heads of each operating company. I am also determined to implement reforms to improve profitability Groupwide. To more rigorously manage businesses in which the pace of reforms is stagnant, Panasonic Holdings will rigorously manage return on invested capital (ROIC) in each business division. As for "businesses with issues," we will aim to improve the situation as quickly as possible by adopting drastic measures that might involve business transfer or withdrawal. I am fully convinced that delivering results is absolutely essential to regaining the trust of shareholders and investors and meeting their expectations. We will carry out reforms with a sense of speed and widely communicate our progress and outcomes in an effort to improve corporate value.

Key initiatives in the final year of the medium-term strategy: Determined to improve profitability

In fiscal 2025, the final year of the medium-term strategy, we will focus on improving profitability Groupwide and aim to build a strong foundation of profitability to meet the expectations of shareholders and investors. More specifically, we will focus on the following three initiatives.

The first initiative is for strengthening the business foundations of investment areas. We have positioned three businesses as the Group's investment areas: automotive batteries, air quality & air-conditioning (A2W*1), and supply chain management (SCM) software. All are areas in which we can establish competitive advantages in markets expected to expand in the medium-to-long term. They are also areas that can greatly contribute to solving global environmental issues and drive the Group's growth. Currently, faced by market changes, upfront investments, and other factors, we are not achieving sufficient returns on invested capital. However, we will work on improving profitability and further strengthening our competitiveness to achieve higher growth.

*1 A2W (Air to Water): Heat pump hot waler supply systems and showers

Groupwide focal initiatives for the final year of the medium-term strategy

Strengthening the business foundations of investment areas

Automotive batteries	Aim for management structure to ensure sustainable double-digit ROIC (incl. IRA) from FY2028 onward
Air quality & air-conditioning	Continue to enhance competitiveness in preparation for demand growth
SCM software	Continuous transformation of Blue Yonder (BY) toward a proactive stance

Business Portfolio Management (PFM) & Financial Strategy

- Rigorously manage each business based on its growth potential and ROIC; Achieve zero "businesses with issues" for improved profitability

Continued enhancement of Groupwide management structure

- Human Capital Management / Operational Frontlines Innovation & PX*2 (accelerate enhancement of competitiveness)

*2 PX: Panasonic Transformation. DX initiatives in the Panasonic Group that go beyond the transformation of IT systems to strengthen management foundation.

Message from the Group CEO

In automotive batteries, we aim to establish a management structure that can maintain ROIC of 10% or more (including IRA tax credit) from fiscal 2028 onward. Panasonic Holdings will step up its monitoring efforts by establishing a medium-term KGI management framework.

The second initiative is about business portfolio management and financial strategy. For businesses expected to help Groupwide profitability apart from the investment areas, we will establish a new discipline to strictly manage the market position and competitiveness of each business based on growth potential and ROIC. Panasonic Holdings will also be involved in the management of business divisions under the control of the operating companies. By the end of fiscal 2027, we aim to achieve zero "businesses with issues" that lack growth potential and have an ROIC of less than WACC.

And the third initiative is for enhancing Groupwide management structure. We will continue with initiatives from a long-term perspective in areas such as human capital management, operational frontlines innovation, and PX, as a way of building stronger foundations for the enhanced competitiveness of each business.

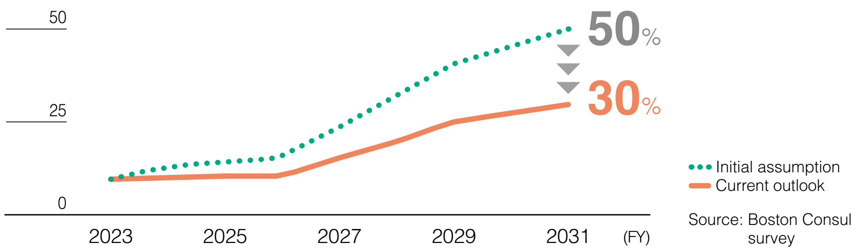
Strengthening the business foundations of investment areas

Automotive batteries

In the Group strategy announcement in May 2023, of the three investment areas, we positioned the automotive batteries business as a priority investment area, in which the Group will make strategic and focused investments.

Owing to more stringent environmental regulations for a decarbonized society, this market will certainly expand in the long term. However, the global battery EV (BEV) market has changed significantly over the past year. In the North American market, where we are focusing our efforts, the automakers that had previously pivoted sharply towards BEVs have now changed their strategy to expand their vehicle lineups based on customer needs, announcing the introduction of HEV and PHEV models. As a result, compared to our initial assumptions, the BEV ratio for 2030 is expected to decrease, and the pace of expansion appears to be slowing. We think the overexcitement has subsided and that the market has returned to cruising speed.

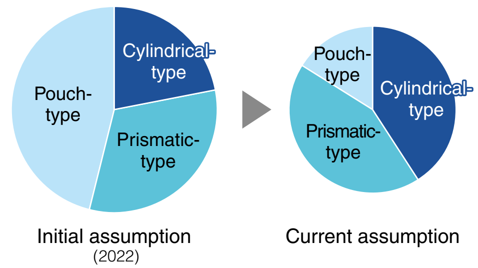
BEV ratio in North America (%)



Source: Boston Consulting Group (BCG) survey

On the other hand, our strength lies in nickel-based cylindrical batteries, which have the potential to lead advancements in energy density development while also ensuring safety. As a result, automakers are increasingly adopting these batteries for BEV models that require longer driving ranges. We believe our market share in North America in 2030 will have expanded beyond our initial forecast, while we also assume a greater uptake of iron phosphate-based prismatic-type batteries by automakers for vehicle models that prioritize cost, as well as safety.

Outlook for North America EV market in 2030



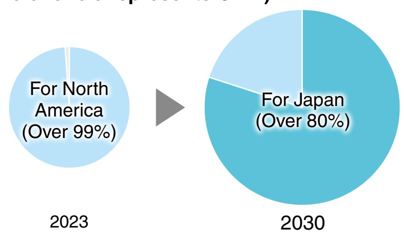
Source: Estimated by the Company

In light of these changes in the market environment, we are revising our investment strategy. Our investments in the Kansas factory in North America, which is currently under construction, will continue as planned because customer demand is already visible. However, we will be flexible and cautious, with our investment decisions, by assessing customer demand, rather than being bound by the target we announced in May 2023 to expand production capacity to 200 GWh by 2030.

At the same time, we remain committed to improving ROIC. In fiscal 2025, ROIC in the automotive battery business overall is expected to remain in the single digits, even after the impact of IRA tax credit, mainly due to increased investments in the Kansas factory and losses at factories in Japan where changes in the demand structure precipitated by the IRA dragged down capacity utilization. With the aim of transforming the management structure in this business so that it can maintain an ROIC of 10% or more from fiscal 2028 onward, we will press ahead with the following measures.

The first measure is strengthening of the customer base. In addition to supplying batteries for Lucid's luxury EVs and Hexagon Purus's commercial vehicle battery systems, which we had already announced by 2023, in March 2024 we concluded an agreement with Mazda Motor Corporation to supply batteries and a basic cooperative agreement on supply with SUBARU. The supply destination of our domestic factories, particularly the Osaka factory (Suminoe and Kaizuka), which is currently operating at reduced capacity, will be shifted from North America to Japan. We will continue to expand our supply bases for customers who adopt our cylindrical batteries.

Capacity & destination of Japan production (size of circle represents GWh)



The second one is productivity improvements. At the Nevada factory in North America, which began mass production in fiscal 2017, we plan to increase production capacity by more than 15% by fiscal 2031 compared to fiscal 2024 with continuous productivity improvements. The Nevada factory took several years to reach production stability, with ROIC finally surpassing 10% in fiscal 2022, the fifth year of mass production. Improvements have been made since then, with ROIC now just close to 11%. Going forward, we will continue to make further improvements.

Message from the Group CEO

Also, at the Kansas factory, which is scheduled to commence mass production in fiscal 2025, we will improve labor productivity by more than 30% compared to the Nevada factory. By capitalizing on our experience at the Nevada factory, we will significantly shorten the period to production stability and aim to achieve an ROIC of 10% two years earlier than the Nevada factory, in other words, in the third year of mass production. At the Osaka factory in Japan (Suminoe and Kaizuka), we will improve labor productivity per GWh by more than 35% in fiscal 2029 compared to fiscal 2023 by switching to 2170-size cells and installing state-of-the-art production lines. Automotive batteries are a business where, in addition to depreciation costs of production equipment, labor expenses for maintenance account for a relatively large percentage of costs. We believe that improving labor productivity is a key factor in enhancing our cost competitiveness.

The third measure is evolving of our technological foundations. As announced in 2023, we will start to operate an R&D facility in Kadoma and a production technology development facility in Suminoe in a bid to accelerate the development of next-generation cells, productivity improvements, and production capacity expansion. As for 4680-size cells, which incorporate new technologies for higher energy density, preparations for mass production at the Wakayama factory are nearly complete. The stable mass production of the 4680-size cells will require the solving of numerous technical challenges. By harnessing our hitherto development and production track record with the 1865- and 2170-size cylindrical-type batteries, we will build an even stronger competitive foundation with the 4680-size cells.

Air quality & air-conditioning (Air to Water (A2W) heat pump)

Contrary to our initial assumptions, the A2W market in Europe that we are focused on is currently seeing a slowdown due to deterioration in the European economy and changes in subsidy schemes, so a return to growth is expected to take several years. On the other hand, we expect that the developments in carbon-neutral and low-GWP refrigerant regulations, as well as demand for energy savings, will most likely drive growth in the market toward 2030. At present, the top positions in the market are being closely contested. How we go about enhancing our competitive advantage as quickly as possible in anticipation of market growth will be crucial, in our view.

Going forward, in order to build a competitive advantage, we will focus on differentiation and the strengthening of our foundation, including stronger relationships with installers, and aim to expand into key markets. Our differentiation strategy will focus on strengthening product competitiveness and creating new value by offering air quality and energy-saving solutions. As for initiatives in key markets, we will clarify the KSFs for each country and make every effort to improve our position in the market.

In July 2024, Eiichi Katayama was newly appointed as the head of the Heating & Ventilation A/C business. Under a new management structure, it will move quickly to address outstanding issues. Panasonic Holdings too will keep a close eye on whether the measures in this business are competitive enough.

Supply chain management (SCM) software

In the area of SCM software, we are revising our plans from the time of the initial acquisition of Blue Yonder, spearheaded by Duncan Angove, who was appointed CEO in fiscal 2023. We have positioned the three years from 2023 to 2025 as a period for an additional 200 million dollars of strategic investments to strengthen the foundations of this business.

Also, we will work on integrating US-based One Network Enterprises (One Network), with which Blue Yonder signed an acquisition agreement for approximately 839 million dollars in March 2024. By expanding One Network's information-sharing platform services to over 3,000 Blue Yonder customers, we anticipate that Blue Yonder's total addressable market (TAM) will increase by 1.3 times. We will aim to quickly capitalize on these synergy effects and establish ourselves as a market player that can provide an SCM platform with real-time, multi-tiered orchestration capabilities, thereby achieving a dominant competitive advantage.

Business portfolio management and financial strategy

Approach to business portfolio management

In fiscal 2024, I began business portfolio management, which had been kept on hold for two years after I became Group CEO. The execution of business portfolio management will hinge on three criteria.

The first criterion is relevance to Groupwide common strategy. That is, whether each business can continue to contribute effectively to the areas of Groupwide common strategies, namely the environment and lifestyle. The second criterion is the market position and competitiveness of the business. Alongside the future growth potential of the market, we will thoroughly assess both the quantitative and qualitative aspects of each business' position and profitability. And the third criterion is "best-ownership perspective." Revising and reorganizing the business portfolio is merely a means to an end; it is for the sake of all stakeholders involved in our business, including shareholders, customers, partners, and employees. More specifically, our focus is on whether Panasonic Holdings can take necessary actions on the most important issues of the business, whether it can make necessary investments when the business needs more cash for growth than it generates, and whether it can evaluate the business's quality and competence.

Message from the Group CEO

Business Portfolio Management

(1) Relevance to Groupwide common strategy
"Contributions to global environment" "Contributions to each customer's life-long health, safety, and comfort"

(2) Market position & competitiveness
Assess each business' position & profitability with expectation of market growth

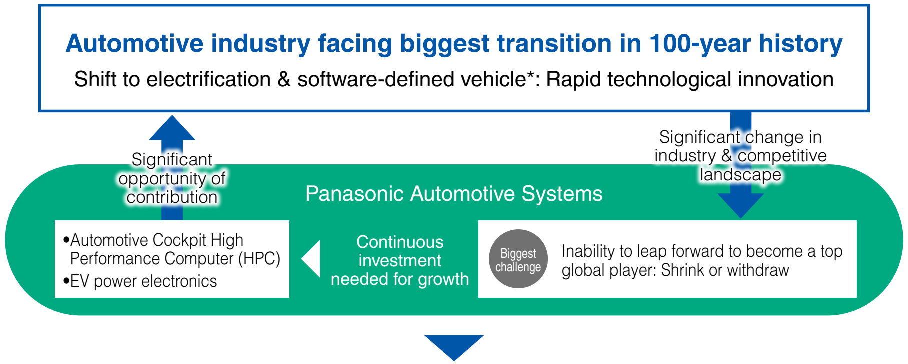
+

(3) Best-ownership perspective
- Whether Panasonic Holdings Corporation (PHD) can take necessary actions on the business' most important issues
- Whether PHD can make necessary growth investments, if the business needs more cash than it can generate
- Whether PHD can evaluate the business' quality and competence

I made a commitment to set the direction for a revision of our business portfolio in fiscal 2024 and to gradually implement that review. One example is the automotive business, in which we are targeting further growth through a partnership agreement with Apollo Global Management (Apollo).
The automotive industry is facing the biggest transformation in its 100-year history with CASE. To survive in the core areas of the automotive business, such as cockpit HPC (high performance computer) and EV power electronics, a large-scale R&D investment is needed in order to respond to the shift to electric-powered and software-defined vehicles. On the other hand, in the context of the "best-ownership perspective" I mentioned earlier, we came to the conclusion that we would be unable to execute those investments sufficiently on our own, so we would have to seek the support of an external partner. By welcoming Apollo, one of the world's largest funds, as a new partner, we will be able to leverage not only Apollo's financial resources, but also its information network, M&A capabilities, and human resources for management. It presents a key opportunity for us to advance as a top global player. Also, this decision was made because the partnership will benefit our customers and our employees.

Business portfolio management is not something that abruptly ends under a set timeline; we believe it is an ongoing process that will continue into the future. In the case of the automotive business, it was a major course setting at the operating company level. Furthermore, in July 2024, a strategic capital partnership and the establishment of a new company with ORIX was announced. Our business portfolio revision will continue based on the criteria outlined on the left, and we will consider various possibilities at different levels and inform the capital markets of any decisions we make at the appropriate time.

Case of Panasonic Automotive Systems



Reached final partnership agreement with Apollo from a best-ownership perspective

* Vehicles that can be continuously upgraded after sales (e.g., adding new features and functionality) with software controlling vehicle through connectivity

Thorough discipline with ROIC

As we continue to revise our business portfolio, Panasonic Holdings needs to properly manage the criterion of "market position and competitiveness" of each business.

Until now, we had used the Net Debt/EBITDA ratio as a benchmark of financial discipline at each operating company, with Panasonic Holdings monitoring their financial health. From fiscal 2025, we will also rigorously manage return on invested capital (ROIC) in each business division.

This is something related to my self-examination. Panasonic Holdings needs to improve its ROE, which represents the return on equity capital entrusted to us by the shareholders. Therefore, the operating companies and each business division must improve their return on invested capital (ROIC) for the capital invested by the holding company. For the current medium-term strategy, we set ROIC, as well as operating cash flow, as the KGIs for the operating companies, but due to disruptions in the supply chain and other factors, inventories have sharply increased, so we have had to prioritize operating cash flow to enhance earnings capabilities. As a result, I feel responsible that we have not been able to thoroughly implement management with a strong awareness of ROIC. I explained this point and my awareness of the issues at the Group's Management Conference attended by the heads of business divisions and business units from each operating company.

By the end of fiscal 2027, we aim to achieve zero "businesses with issues" that have negative growth and an ROIC of less than WACC. By forecasting through to the end of fiscal 2027, by the end of fiscal 2026 we will have set a course of action to follow, which will include not only the self-recovery of ROIC by businesses, but also drastic measures that might involve a business transfer or withdrawal. We are targeting fiscal 2027 for the entire Group, but we will assess the situation in each business and aim to quickly make improvements wherever possible.

WACC is merely the minimum return expected by the capital markets, and simply exceeding WACC is insufficient. All business divisions will set their sights on the more ambitious target of WACC + 3 percentage points. For the business divisions that continuously fall short of this level, Panasonic Holdings will actively intervene. Rather than just pursuing numbers, we will clearly articulate scenarios for improving ROIC that are balanced with growth potential, including deadlines.

Our television business, however, will be managed separately, taking into account our full lineup strategy for home appliances, and we will assess whether it can continue without incurring losses. However, it is not untouchable by any means; if it is struggling, we will take further measures. In addition, the businesses in the Group's investment areas will also be managed separately, with Panasonic Holdings specifying and monitoring management indicators.

Enhancing Groupwide management structure

Human capital management

Since the time of its founding, the Panasonic Group has long valued the idea of "developing people before making products." And in fulfilling the Group's mission of achieving "an ideal society with affluence both in matter and mind," each employee needs to implement the Group's Basic Business Philosophy. We must ensure that this can happen by guaranteeing employees' well-being. This is what the Group's human capital management is all about.

In order to thoroughly implement the Basic Business Philosophy, in April 2023 we established the Panasonic Leadership Principles (PLP), a set of global common guidelines of conduct. We have incorporated the PLP into HR management measures such as for recruitment, training, performance assessment, promotion, and transfers. Moreover, by including a 360-degree assessment based on the PLP in the evaluation of the management team, we have established a system that enables the senior management to thoroughly put the Basic Business Philosophy into practice.

To ensure employees' well-being, we have expanded the open transfer/assignment system* that supports autonomous career development, and we are also providing more options in terms of working hours and locations to further the career of every individual. Also, to transform the entire Group into a highly diverse organization that gives full play to the individuality of employees, we are introducing diversity ratio targets for the management team with the aim of kicking off the transformation from the management level.

Furthermore, in July 2024 we welcomed Tatsuo Kinoshita from outside the Group to fill the role of Group CHRO. He has HR management experience at global corporations with a deeply entrenched culture in which all employees embrace challenges. We believe that various rules and regulations established in the Company over the years based on past failures might be hampering the motivation of employees and placing too many constraints on their self-motivated endeavors. When I joined the Company about 35 years ago, there was a culture of creativity and challenge based on the Basic Business Philosophy. Even new employees would put forward various proposals and all employees were allowed to work with more freedom. I expect Kinoshita to leverage his experiences to lead a transformation of the Group's corporate culture so that every employee can rise above the established rules and show initiative based on principles.

I believe that maximizing the capabilities of each and every employee and the organization as a whole is the key to our competitiveness. We aim to transform the organization into one where all employees can achieve growth through challenges and unlock their full potential with the right personnel engaged in work that contributes to value creation, mainly in the form of sales, profits, and enhanced competitiveness. In doing so, we seek to maximize the returns generated from human capital.

*We also have in place a scheme for transferring or assigning employees beyond the operating companies

Message from the Group CEO

Operational frontlines innovations and PX

To accelerate the enhancement of our competitiveness, we will continue to work on deploying operational frontlines innovations and carrying out the PX (Panasonic Transformation) project.

With our operational frontline innovations, we aim to thoroughly eliminate wastefulness and stagnation for the purpose of enabling each business to gain an excellent level of operational capability. The fact that, among the KGIs called for in the medium-term strategy, we are on track to achieve the operating cash flow target, despite the prospect of missing the operating profit goal, is a reflection of the results of this initiative. Since commencing these activities in 2022, over the past two years, the number of sites where constant *kaizen* (improvement) activities have been embedded owing to the voluntary actions of employees on the operational frontlines has reached 124, which is more than half of our sites worldwide. This initiative will be expanded to all Group sites by the end of fiscal 2025.

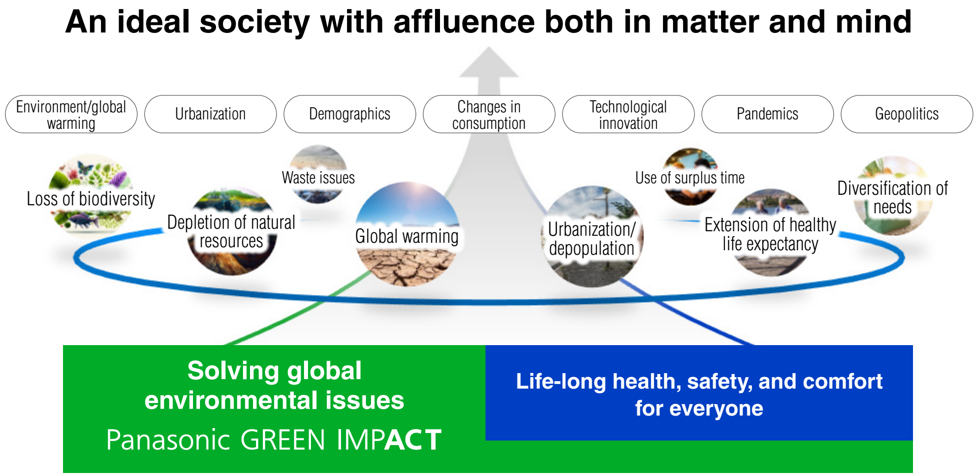
Through the PX project, since 2021 we have been working to transform not only our IT systems, but also our organizational culture, working styles, and business processes across the entire Panasonic Group. We are utilizing digital technology to transform development, manufacturing, and sales, and we are also making use of generative AI. The evolution of generative AI is creating a major trend that replaces many white-collar jobs. We are keenly aware that if the Group does not embrace this trend, we risk being left behind. In July 2023, we rolled out Panasonic's own version of generative AI in an effort to exhaustively improve productivity in our indirect departments.

Determined to improve profitability and working towards our vision

Our mission is to achieve "prosperity with matter and mind as one," which was the lifelong pursuit of our founder Konosuke Matsushita. In other words, that is to achieve "an ideal society with affluence both in matter and mind." Since the time of our establishment, we have remained committed to achieving this mission by making contributions through our business activities in step with the times, so as to address social issues and bring benefits to people. Presently, there are two areas that the Panasonic Group must address as part of our Groupwide common strategies: (1) solving global environmental issues; and (2) the lifelong health, safety, and comfort for everyone. By making contributions in these areas, we will aim to achieve our mission by contributing to a sustainable society, generating profits as a result of our contributions, and enhancing corporate value. This is exactly what sustainability management is to us and what we consider the practical implementation of our Basic Business Philosophy is.

However, our profitability remains low, and unless we break free of this situation, we will be unable to fulfill our aim of making sustained contributions. I believe we will not even be able to take our place on that stage. That is why we will set about improving profitability with a strong determination and make every effort to enhance corporate value.

Panasonic Group Vision



Message from the Group CFO

Hirokazu Umeda
Representative Director, Executive Vice President, Group CFO

Taking the initiative in improving profitability across the Group, aiming to improve PBR and achieve a sustainable increase in corporate value

I am seriously concerned about the fact that the Company's PBR (price book-value ratio) remains significantly below 1.0x in the first quarter of fiscal year ending March 31, 2025 (fiscal 2025), while, since the beginning of 2024, many other listed Japanese companies were able to improve their PBR levels, some of which previously had fallen below 1.0x.

I believe the reason for the Company's low PBR is we have not to able to improve and strengthen profitability. PBR can be broken down into ROE and PER. Because we were unable to improve profitability as anticipated, resulting in unmet targets and a downward revision of our financial forecast, both ROE and the PER, which reflects the capital market's expectations towards our growth, remain at low levels.

To overcome this situation, starting in fiscal 2025 we will implement a discipline to rigorously manage each business' competitiveness based on growth potential and ROIC, accelerate efforts to deal with businesses that remain low in profitability, and work to improve the profitability of the Group as a whole. By promoting these initiatives with a sense of speed and accumulating a track record of improving profitability, we will strive to earn the trust and expectations of the stakeholders, improve PBR, and achieve a sustainable increase in corporate value.

Basic approach to financial management

Our basic approach to financial management is to emphasize return on invested capital and financial stability. In terms of return on invested capital (ROIC), we promote business management that is conscious of capital costs and aim to achieve a stable ROE of 10% or more, with an eye to generating a return that exceeds the cost of stockholders' equity. In terms of financial stability, we strive to build a strong financial base that can support sustainable growth-oriented investments by appropriately controlling debt levels, considering factors such as ability to generate cash flow and the level of stockholders' equity.

Therefore, we have established a capital allocation policy as a basic approach to cash generation and allocation. As a rule, the funds required for investment and dividends are to be generated through cash flow from operations, divestitures, asset sales, and similar activities. At the same time, we will respond flexibly when investment opportunities such as M&A arise before sufficient cash flow is generated.

Review of fiscal 2024 and progress on medium-term strategy

The current medium-term strategy (fiscal years 2023 to 2025) sets the following medium-term management indicators (KGIs): cumulative operating cash flow of 2.0 trillion yen, ROE of 10% or more (fiscal 2025), and cumulative operating profit of 1.5 trillion yen. To achieve these targets, we are enhancing competitiveness in each business, promoting a management that emphasizes cash flow, and building a business foundation in investment areas.

Looking at the results for fiscal 2024, the second year of the medium-term strategy, net sales increased due to higher sales in the Automotive and Connect segments as well as the impact of currency conversions. In terms of operating profit, despite impacts from increasing fixed costs, including strategic investments for future growth and soaring raw material prices, we achieved an increase in profits due to price revisions, progress in rationalization, the impact of exchange rates, and the recording of U.S. Inflation Reduction Act (IRA) tax credit. Net profit also increased due to the factors cited above as well as a one-time decrease in income tax expenses associated mainly with the dissolution of a subsidiary. However, both sales and profits were significantly influenced by one-time factors such as exchange rates and IRA tax credit, and in real terms excluding those factors, they did not reach the forecast we announced at the beginning of the year.

Regarding progress on the KGIs, with the second year of the medium-term strategy now completed, cumulative operating cash flow is on track to hit the target of 2 trillion yen, with just over 600 billion yen remaining. ROE, on the other hand, exceeded the target of 10% in fiscal 2024, partly due to one-time factors, but is expected to be at 7.0%, falling short of the target of 10% in fiscal 2025. Finally, cumulative operating profit is expected to reach approximately 1 trillion yen over the three-year period, falling significantly short of the 1.5 trillion-yen target.

Message from the Group CFO

Although there were external factors such as the unexpected deterioration of market conditions that could not be foreseen at the time the strategy was formulated, I accept the fact that we are unlikely to achieve our KGIs, with the exception of cumulative operating cash flow, and that this is a result of our inability to increase the profitability of the entire Group as expected, although we have made a certain degree of progress in promoting a management that emphasizes cash flow.

Management Indicators (KGIs)	Cumulative operating CF 2.0 trillion yen (FY23-FY25)	ROE 10% or more (FY25)	Cumulative OP 1.5 trillion yen (FY23-FY25)
Outlook for the end of fiscal 2025	To be achieved	To be unachieved	To be unachieved

Below I summarize the measures we have taken to build a business foundation in our three announced investment areas of (1) automotive batteries, (2) air quality & air-conditioning, and (3) supply chain management (SCM) software.

(1) In the automotive battery business, we have made progress in our efforts to expand our customer base. We continued discussions with Mazda Motor Corporation and SUBARU CORPORATION respectively, to establish medium- to long-term partnerships. We signed an agreement with Mazda to supply automotive batteries for battery EVs to be launched in the late 2020s as well as a basic cooperative agreement with SUBARU on the supply of automotive batteries. In addition, in order to strengthen our business foundation in North America, we have promoted efforts to build a supply chain in the countries with which the U.S. has concluded an FTA. We expect the automotive battery market to continue to expand over the medium to long term, albeit with fluctuations in demand. We are shifting from a “North America-focused” strategy to a “Japan and North America dual-region focused” strategy, strengthening the management and revenue foundation. By further improving the performance of cylindrical batteries, we will solidify our competitive advantage in the North American market, where long driving range is required. We will also strengthen our efforts in the Japanese market, where high performance and high quality are required as in North America, and where the EV market is expected to expand based on the government strategy.

(2) In the air quality & air-conditioning business, to grow the Air to Water heat pump system (A2W) business in Europe, we have promoted investments and alliances to enhance the upstream and downstream areas of the value chain, which is a source of competitiveness. The European A2W market is currently at a growth plateau due to factors such as changes in the countries’ economies, subsidy systems, and regulations, as well as trends in gas prices. However, we anticipate market growth toward 2030 due to advancements in carbon neutrality, low GWP refrigerant regulations, and energy-saving needs. In preparation for the recovery period, we will focus on strengthening our foundation and differentiating ourselves to enhance our competitive advantage while aiming to expand into key countries. In terms of differentiation, in addition to strengthening product competitiveness, we are working to create new customer value by pursuing initiatives to create air-quality and energy-saving solutions with INNOVA of Italy, in which we invested in fiscal 2024, and tado° of Germany, with which we have a business alliance. With regard to expanding into key countries, our policy is to identify key success factors (KSFs) for each country and then work accordingly to expand our market share there by strengthening our sales base, maintenance, and services.

(3) In SCM software business, with regard to Blue Yonder (BY), to strengthen our infrastructure and differentiate ourselves, we are investing in building scalable SaaS platforms, advanced AI, and end-to-end interoperability, with the aim of growing the SaaS business over the medium to long term. Our SaaS ARR* has increased by 1.5 times since the acquisition, and we are steadily seeing results, including those from previous investments. We are also continuing to prepare for the listing of the SCM business, centering on BY, which was announced in May 2022. The final decision will be made after considering all factors comprehensively, including the status of BY's business and market conditions.

*ARR (Annual Recurring Revenue)

Initiatives aimed at improving profitability and capital allocation policy for the current medium-term strategy

Our current challenge is to improve profitability. Although businesses that produced significant losses have been eliminated, there are still some that remain low in profitability. By imposing stricter management over each business and accelerating our business portfolio management, we will improve the profitability of the Group as a whole.

Our business portfolio management is conducted based on three criteria. The first criterion is relevance to Groupwide common strategy. In other words, we ask whether it is a business that contributes to solving environmental issues or whether it is a business that can deliver value tailored to each individual's lifestyle. The second criterion is the market position & competitiveness of the business. We make judgments based on both quantitative and qualitative factors such as future market growth potential, market position and share, and profitability. To these two criteria we added a third criterion last year: “best-ownership perspective.” If gaining a competitive edge outside of the Panasonic Group can increase the speed of growth, this will ultimately result in the enhancement of stakeholder value. Specifically, businesses are judged from the following three perspectives: whether Panasonic Holdings Corporation (PHD) can take necessary actions on the business’ most important issues; whether PHD can make necessary growth investments if the business needs more cash than it can generate; and whether PHD can evaluate the business’ quality and competence.

In fiscal 2024, we made a decision with regard to the automotive business from the best-ownership perspective. The automotive industry is facing the biggest transition in its 100-year history. To enhance our competitiveness and achieve further growth in the fields of automotive cockpit systems and onboard charging systems, which are the main focus of our automotive business, it is necessary to make large-scale investments in areas like electrification and software development. However, the Group has already decided to invest in automotive batteries, air quality & air-conditioning, and SCM software, which it has defined as its three areas of investment, and making large-scale investments in the automotive business outside of these areas would be difficult from the perspective of maintaining financial discipline. After considering these circumstances from the best-ownership perspective, we decided that we

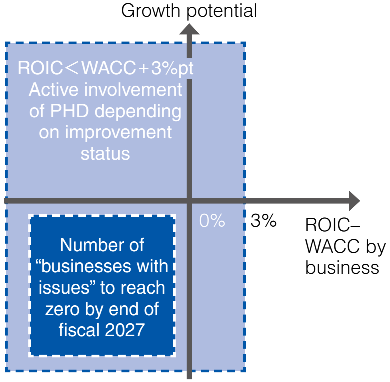
Message from the Group CFO

should seek outside help to grow the automotive business, and therefore welcomed Apollo Global Management (Apollo), one of the largest funds in the world, as our new partner. The funds managed by Apollo, together with Panasonic Automotive Systems which operates the automotive business, have entered into a share transfer agreement and a shareholder agreement.

Starting in fiscal 2025, the second criterion, market position & competitiveness of the business, will be made stricter in order to accelerate efforts to deal with our remaining low-profit businesses and improve profitability, which is our current challenge. Specifically, we will monitor the market position & competitiveness of all businesses based on two criteria: growth potential and ROIC. The reason we also consider growth potential is that focusing solely on ROIC will have a risk of suppressing necessary investments and leading to a contracted equilibrium. If a business is showing negative sales growth and its ROIC is less than WACC by business, it will be categorized as a "business with issues" and PHD will actively engage in assessing the current situation, formulating strategies, monitoring progress, and determining direction so that the number of businesses categorized as "business with issues" will reach zero by fiscal 2027. For example, if a business is experiencing a decline in profitability due to a downturn in its market conditions or competitive environment, we will proceed with cost structure reforms such as reducing fixed costs, reviewing operations, and lowering costs, transforming the business into an entity that can generate profits even in worsening market conditions. If management skills are the cause, we will seek to improve the situation with a view to replacing the management team. Businesses that do not achieve results in a specified time frame even with these efforts, or businesses where structural disadvantages make profitability improvement difficult, will be evaluated for measures such as change of business region or market position, business transfer, or withdrawal.

WACC is simply the minimum return that capital markets expect, so efforts to improve profitability do not end with achieving zero "businesses with issues." We have therefore set our sights higher, aiming to make every business reach an ROIC level exceeding its "WACC by business +3 percentage points." In this way we aim to realize a structure that can achieve a continuous and stable ROE of 10% or more, even while making investments for growth.

Discipline through ROIC

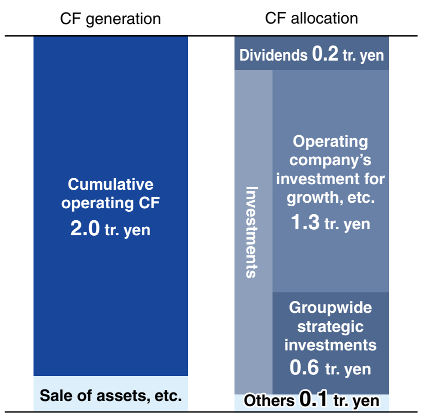


Note that businesses in the investment areas set by PHD will be monitored based on their achievement of medium-term KGIs to ensure that the necessary investments are made and that they contribute to profitability through their growth, since in this case the focus is not on short-term profit gain but on implementing proactive investments with a view to future growth.

The capital allocation policy for the medium-term strategy period remains unchanged. Our basic policy is that investments, dividends, etc. are to be managed within cash generated through businesses. The operating cash flow to be generated is 2.0 trillion yen, as stated in the KGI, and progress is on track as mentioned above. A portion of the necessary funds will be generated through the sale of assets.

Regarding cash allocation, based on the progress made through fiscal 2024, we plan to invest 1.9 trillion yen, of which 0.6 trillion yen will be allocated to strategic investments, mainly in the automotive battery business, our priority investment area. In terms of shareholder returns, we will strive to pay stable and continuous dividends with a target consolidated dividend payout ratio of 30%. The annual dividend for fiscal 2024 was 35 yen per share, an increase of 5 yen from the previous fiscal year. We also intend to reward our shareholders through enhanced shareholder and corporate value backed by improved profitability. Regarding the IRA tax credit, in light of their policy intent of curbing excessive inflation and promoting energy policies in the U.S., these funds will be allocated to investments in the automotive battery business in the U.S. and therefore excluded from net profit when considering and setting the level of dividends based on the dividend payout ratio of net profit and similar factors. Regarding financial discipline, we will set the Net Debt/EBITDA ratio at around 1.0x as a benchmark financial indicator and ensure strict adherence to financial discipline as a Group.

Capital allocation policy (FY23-25)



Turning to the full-year financial forecast for fiscal 2025, although the downturn in the Chinese market is expected to continue, we anticipate an increase in sales and operating profit due to rising demand for electronic components for generative AI servers and storage batteries. On the other hand, net profit is expected to decrease due to the absence of the one-time decrease in income tax expenses posted in the previous fiscal year.

In conclusion

I recognize that what we need to do now is steadfastly advance the efforts towards improving profitability that I have outlined above and steadily accumulate a track record of results. In promoting these initiatives, I place great importance on dialogue with all our investors and other stakeholders. In addition to financial results announcements, we hold Group strategy briefings and operating companies' strategy briefings to present our progress and results in an easy-to-understand manner, and we will continue to host dialogues with the capital markets and feed the opinions we receive back to management to improve the momentum and effectiveness of our initiatives.

In some respects, the results of our efforts, such as promoting a management that emphasizes cash flow, are beginning to bear fruit. By firmly promoting efforts aimed at improving profitability and steadily producing results, we will strive to earn the trust and expectations of everyone, improve PBR, and achieve a sustainable increase in corporate value. I ask for your continued support of the Panasonic Group, as we work to enhance our corporate value.