CFO Message

Maximize profit through ROIC management and use optimal capital procurement to make ever greater advances

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The CFO's Mission

Act as a Compass for Management

When I took up this post one year ago, I stated in this report, "The basic mission of the CFO is to support the sustainable growth of the Company from a finance viewpoint. Maintaining a long-term perspective, I hope to steadily enact capital policies and financial strategies that help enhance our corporate value. "My thoughts on this have not changed, but I feel that my awareness of the significance of my mission and the degree of my responsibility has deepened.

The Group has grown by providing value to society through the manufacture and sale of lead-acid batteries as its core business for more than 100 years. Amidst the movement toward carbon neutrality, however, for the Group to continue practicing its corporate philosophy of "Innovation and Growth" and pursue sustainable growth, we believe that the Group needs to evolve into an enterprise that contributes even more to society, and management has repeatedly examined the future that we should seek and the path to get there. In April 2023, we announced Vision 2035, our long-term vision. I believe that we were able to demonstrate, both internally and externally, the Group's strong commitment to transforming business structures in the coming 100 years and focusing on mobility and public infrastructure fields.

To expand the mobility and public infrastructure fields, we are about to make a series of large-scale investments that are an order of magnitude greater than anything we have done in the past. We also need to investigate the various options concerning capital policies that will serve as the basis for these investments. It goes without saying that we must ensure returns to shareholders and protect the Group's financial soundness. If Vision 2035 is the north star showing the direction that we will head, then my role as CFO is to serve as the compass so that we do not lose sight of our path. I hope to perform this role and guide GS Yuasa in the correct direction.

The recent announcement of Vision 2035 can be said to be a significant historical turning point for the Group. My desire to make the Group a business enterprise that in 20 and 30 years from now employees will be happy to work for is stronger than ever.

Review of the Fifth Mid-Term Management Plan

Numerical Targets Achieved

In fiscal 2022, the final year of the Fifth Mid-Term Management Plan, consolidated net sales reached 517.7 billion yen as a result of an increase in the sales volume of lithium-ion batteries for HEVs, the conversion of our site in Turkey into a consolidated subsidiary, and effects from the lower value of the yen. In terms of profit, operating profit before amortization of goodwill increased substantially to 32.1 billion yen due to steady progress in reviewing sales prices in response to effects from high raw material costs. As a result, we largely achieved the numerical targets set under the Fifth Mid-Term Management Plan.

The original term of the plan was extended one year due to the unexpected COVID-19 pandemic during the plan, but I view the achievement of the targets very highly. With regard to growth strategy, we brought to fruition many of the measures that we have been steadily carrying out for the past four years. In particular, the facts that the automotive lithium-ion batteries business has become profitable and further growth in earnings is now in sight are highly significant as the turning point from upfront investment to reaping profits.

On the other hand, there are issues that need to be addressed. During the Fifth Mid-Term Management Plan, Lithium Energy Japan and our sites in China recorded impairment losses, and our target for return on equity (ROE) was not achieved in the final year of the plan. Also, large-scale investments totaling approximately 81.0 billion yen including the expansion of production capacity of the Blue Energy Co., Ltd. No.2 plant and investment to increase production at overseas sites resulted in expansion of the balance sheet, and asset efficiency deteriorated somewhat as a result of this. We will continue to make efforts during the term of the Sixth Mid-Term Management Plan to improve those issues that have become apparent.

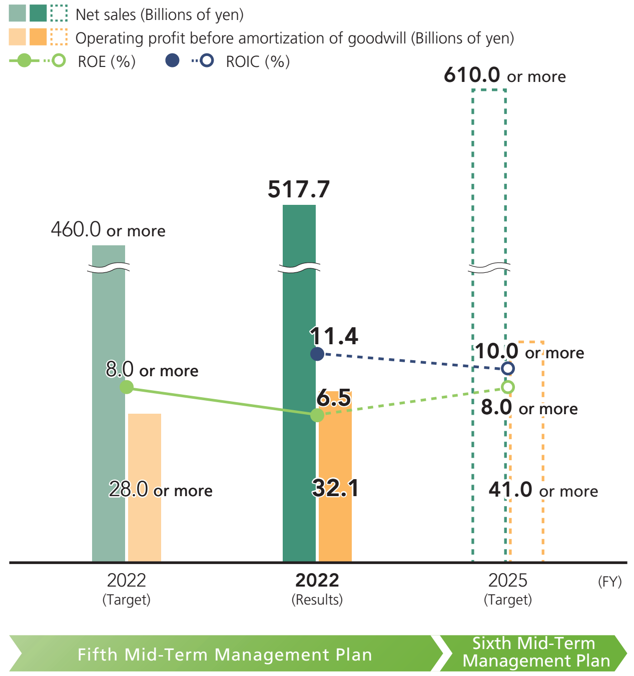
Outlook for the Sixth Mid-Term Management Plan

Building Foundations for Achieving the Ideal under Vision 2035

The Sixth Mid-Term Management Plan, which started in fiscal 2023, is positioned as a three-year plan for building the foundations for transformation toward achieving our ideal vision for 2035. For the final year of the plan, we will pursue further improvement of results including net sales of 610.0 billion yen and operating profit before amortization of goodwill of 41.0 billion yen.

During this period, my most important roles will be to bolster the cash-generating capacity of existing businesses to ensure we generate the funds needed to build foundations and to pursue optimal capital allocation so that we can implement business structure reforms. I believe that growth investment is based on a cycle in which cash generated from existing businesses is used as a source of funds and the cash is allocated to priority markets. In addition to the automotive batteries business and industrial batteries and power supplies business, in the automotive lithium-ion battery business, lithium-ion batteries for HEVs can generate

Results under the Fifth Mid-Term Management Plan and Targets under the Sixth Mid-Term Management Plan



Notes: 1. The Fifth Mid-Term Management Plan originally covered the period from fiscal 2019 to fiscal 2021, but due to effects from the COVID-19 pandemic, the single-year plan for fiscal 2020 was excluded and the mid-term plan was changed to a four-year plan with fiscal 2022 as the final year.
2. ROE and ROIC refer to profit before amortization of goodwill (operating profit and profit).

substantial cash. We will seek to use this cash to achieve growth over the medium to long term by investing in growth fields including mobility and public infrastructure.

Capital Policy

Raising Capital for Upfront Investment for the Future is an Issue

The term of the Sixth Mid-Term Management Plan will be a three-year period for upfront investment. We plan to make large-scale investments in further increasing production capacity of lithium-ion batteries for HEVs and production of lithium-ion batteries for BEVs, which is expected to become a new pillar of business in the future. We may also implement M&A if we determine that we can steadily recover cash and a business will contribute to corporate growth.

Taking these factors into consideration, we estimate that investing cash flow will be approximately 190.0 billion yen. In contrast to this, the Group is expected to generate cumulative operating cash flow of approximately 140.0 billion yen over the next three years, while free cash flow will be minus 50.0 billion yen. When capital needed for shareholder returns is added, we need to raise approximately 80.0 billion yen. These figures only include a portion of the investment relating to production of lithium-ion batteries for BEVs, and we expect to need to raise even more capital in the future.

As a CFO, I am aware that our biggest issue is securing the funds that we will need for large-scale investment in the future. As I mentioned earlier, we will first work to maximize operating cash flow, but will also reduce cross shareholdings to improve capital efficiency. For some time, we have had a basic policy of reducing cross shareholdings that do not lead directly to the generation of profit, and we will continue to carry out divestment after rigorously assessing relationships with partner companies in the future and allocate the proceeds to growth investment.

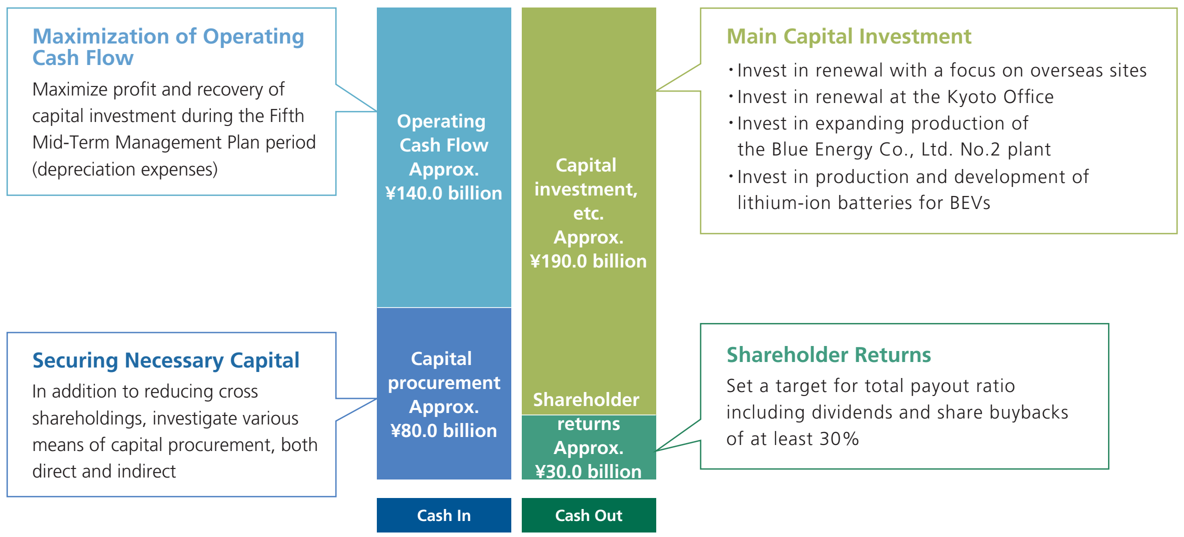
ROIC Management

Set ROIC Target of 10% and Raise Capital Efficiency

I recognize that generating returns that exceed the cost of capital and improving capital efficiency are important missions of the CFO. In the Sixth Mid-Term Management Plan, in addition to a target of ROE of 8% or more, we set a management target of ROIC of 10% or more.

From the perspective of capital efficiency, in the automotive batteries business (Japan), we expect to maintain ROIC at a high level, so it will be crucial to earn as much cash as possible while we can and reinvest it in growth fields. In the automotive batteries business (overseas), we will strategically allocate resources to each region to raise capital efficiency and maximize profits. In the industrial batteries and power supplies business, we will steadily secure profits in the emergency field, which is a solid earnings base, and link this to additional business growth in the regular field including renewable energy. In the automotive lithium-ion batteries business, sales of lithium-ion batteries for HEVs are expanding and profitability is increasing, but considering the investment that will be necessary for BEV batteries in the future, we predict that there is a high likelihood that ROIC will decline temporarily, even if we are able to use subsidies from the Ministry of Economy, Trade and Industry. We see the next several years as a period to accumulate energy to leap forward so that we can increase business growth starting in fiscal 2027, and we plan to conduct management from a medium- to long-term perspective.

Capital Allocation (FY2023 - 2025)



Expansion from the Bottom-Up and Top-Down

We seek to improve the earnings capacity of the Group as a whole by reinforcing profit management on the business division level. When calculating ROIC, operating profit after tax is generally used as of the numerator, but we use operating profit before amortization of goodwill. This is because we seek to increase understanding of ROIC by using operating profit, which has already been introduced as a target management indicator for business divisions, in order to expand ROIC management throughout the entire company.

To promote a change in awareness concerning the execution of business based on an awareness of invested capital, we hold regular internal study sessions regarding ROIC for managers and front-line employees. In addition, we seek to establish ROIC throughout the organization by linking it to the TQM activities implemented by individual departments and enabling each employee and each department to make improvements autonomously.

In addition to this bottom-up expansion of understanding, we are also conducting top-down expansion. We are introducing evaluation criteria that clearly reflect the degree of achievement of ROIC targets for management.

To Shareholders and Investors

Building Deeper Relationships of Trust Through Dialogue

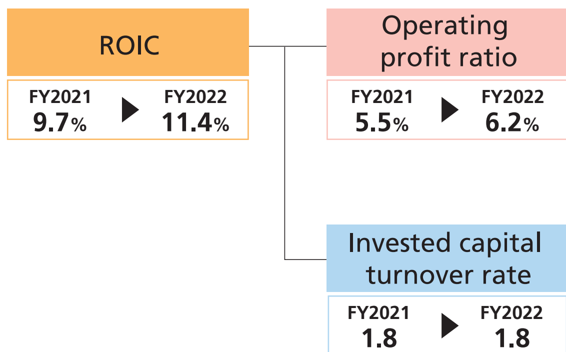
The Company positions shareholder returns as the highest-priority management issue, and we return profits to shareholders after comprehensively considering consolidated financial performance, internal reserves for future growth, financial conditions, and other factors. During the term of the Sixth Mid-Term Management Plan, which will be a period for upfront investment, we will continue to provide shareholder returns with a total payout ratio target of at least 30%. Taking shareholder interests into consideration, we will use profit before amortization of goodwill as the basis for calculating the total payout ratio.

Regarding shareholder dividends for fiscal 2022, we paid 50 yen per share, the same as in the previous fiscal year. In fiscal 2023, assuming that we achieve our profit forecasts, we plan to pay an interim dividend of 15 yen per share and a year-end dividend of 35 yen per share, for an annual dividend of 50 yen per share.

To increase shareholder value, we believe it is important to raise shareholder returns through improved business performance, leading to higher stock prices over the long term. Currently, our PBR is at around 1x, and it is my understanding that what we can do as a company to increase the stock price is to understand the expected rate of return by engaging in active dialogue with shareholders and investors, ensure that shareholders and investors have a proper understanding of the Company's growth strategies, and steadily execute and achieve the stories portrayed by those strategies.

I hope that you understand the vision for the future and the value creation story depicted by the Group in Vision 2035 and that you will closely monitor the Group's growth from a medium- to long-term perspective, rather than a short-term perspective. We hope to provide returns that exceed expectations to those who believe in the future of the Group and continue to support us.

ROIC Tree (FY2021 and 2022)



August, 2023

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