

# Issues and Countermeasures

October 31, 2012

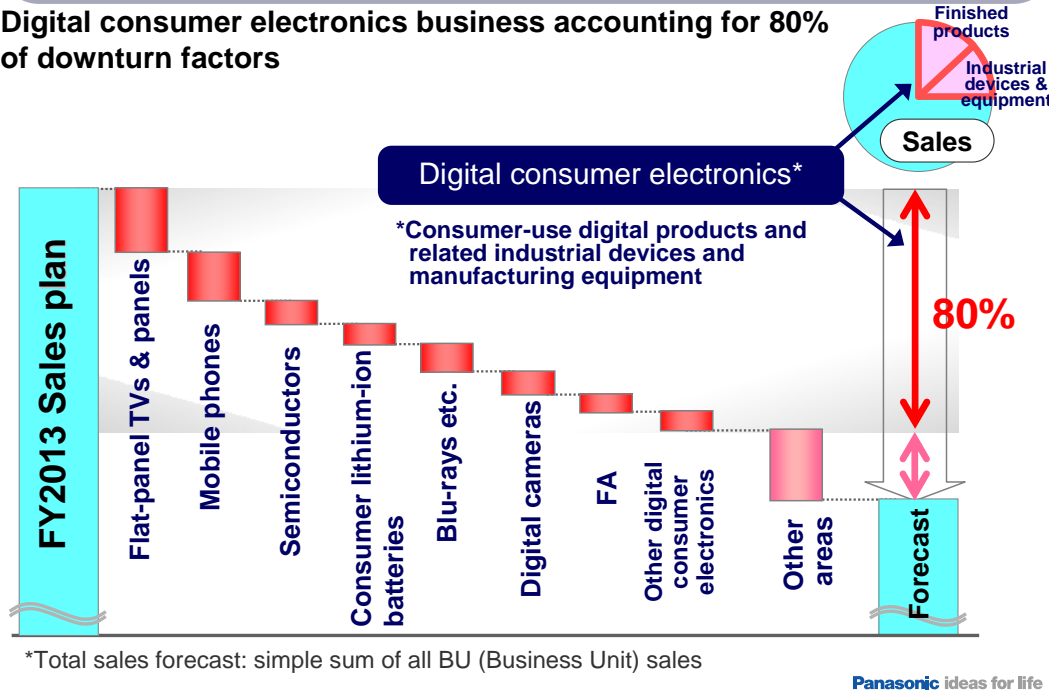
Panasonic Corporation  
Kazuhiro Tsuga

- This presentation outlines Panasonic Group's issues and countermeasures.

## Downturn in Business

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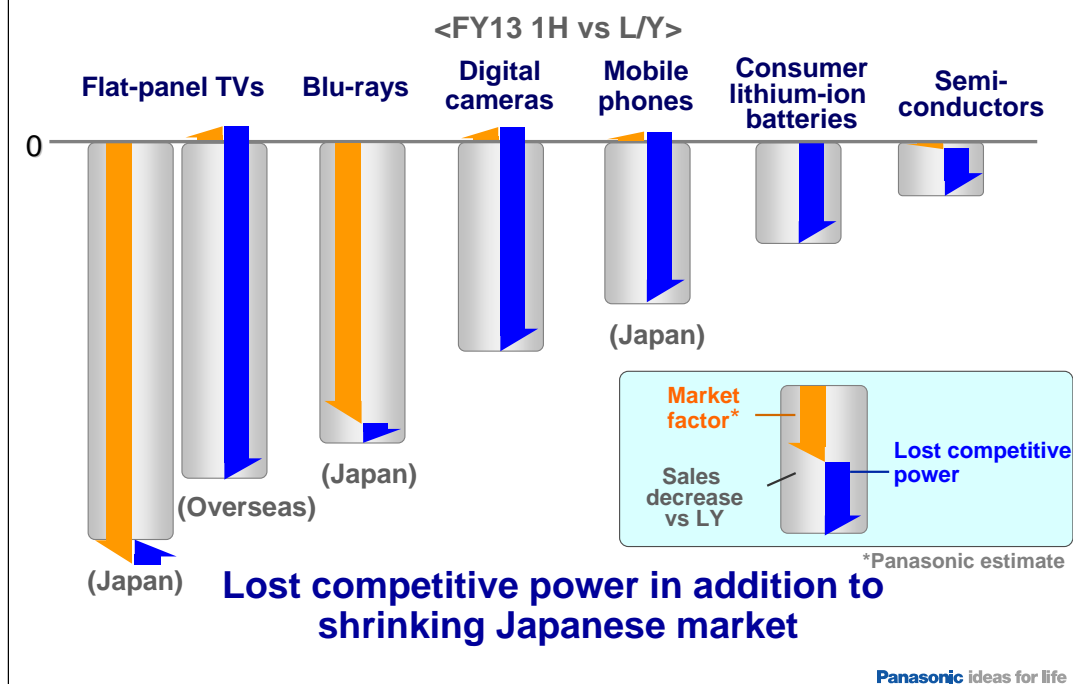
Digital consumer electronics business accounting for 80% of downturn factors



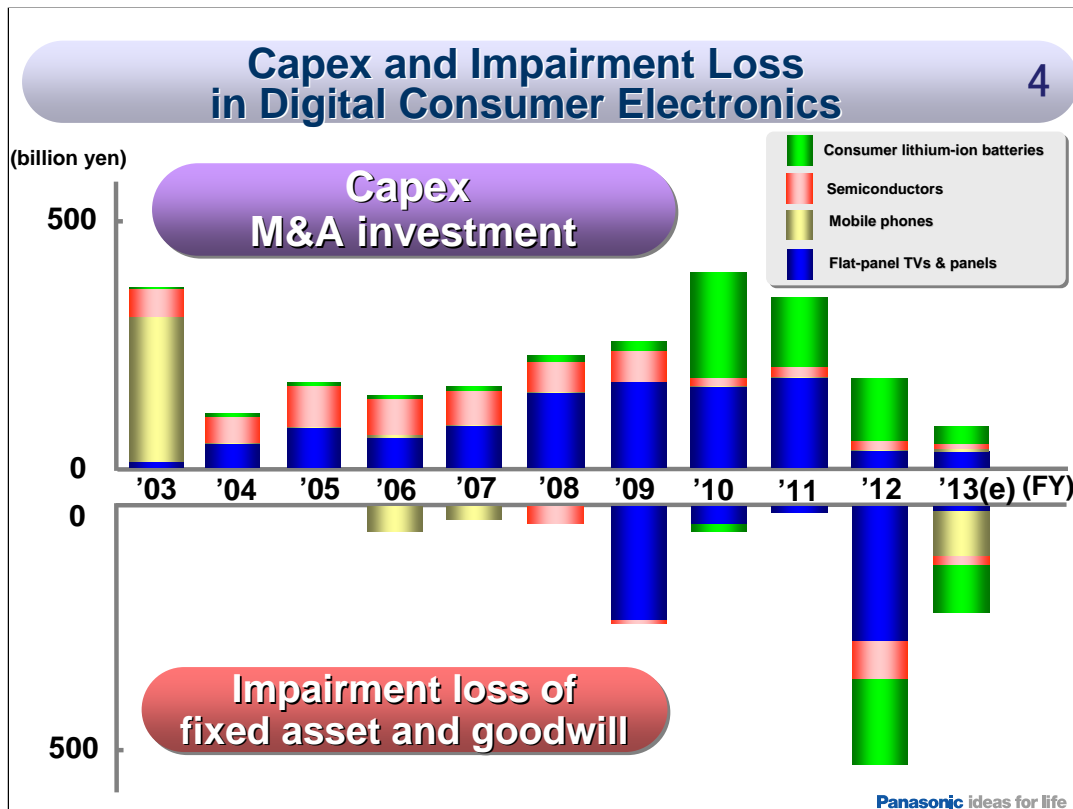
- The major reason for the drastic downward earnings including goodwill impairment and an increase in valuation allowances to deferred tax assets was our business itself deteriorated.
- As you can see, digital consumer electronic product business accounted for most part of this downturn.
- Although digital consumer electronic products consist only quarter of all corporate sales, they accounted for 80% of all downturn factors.

## Downturn in Digital Consumer Electronics

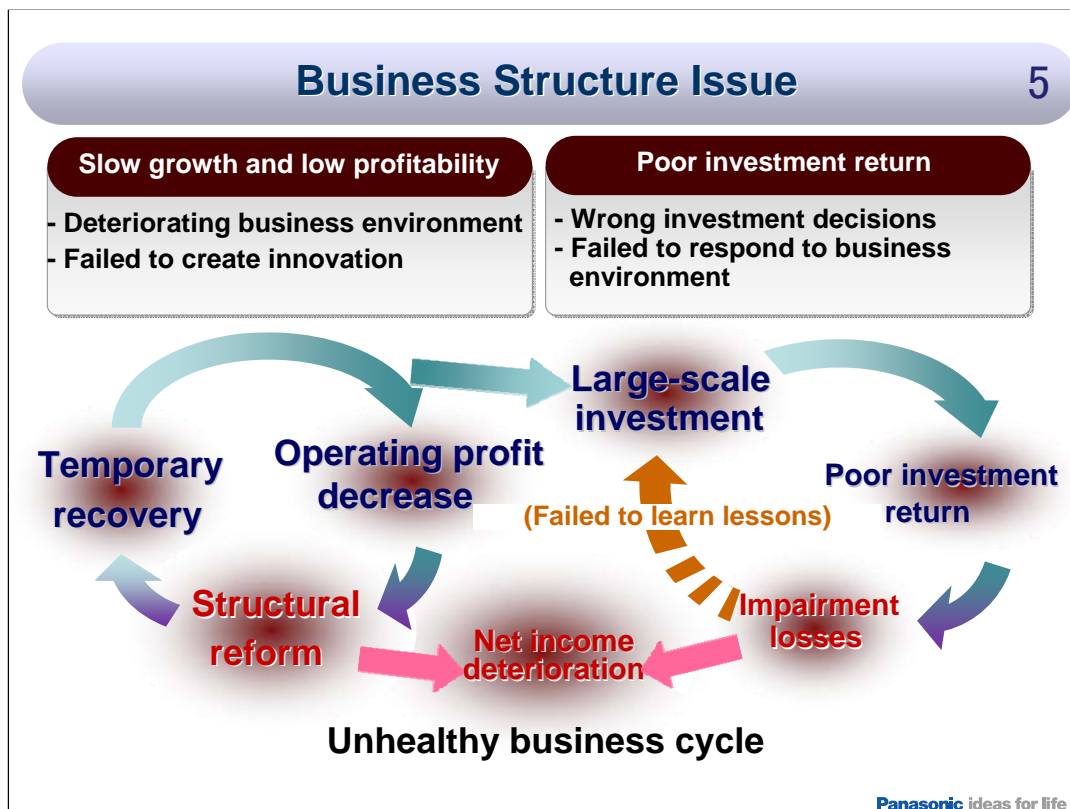
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- This shows the downturn factors by product compared to the last year, dividing into market factor and our worsening competitive power.
- Flat-panel TV and Blu-ray businesses were deteriorated by the shrinking Japanese market, and other business by our lost competitive power, especially in price competition.
- We unfortunately become a loser in digital consumer electronics.



- We have hugely invested in digital consumer electronics during the past 10 years.
- Here, you can see our Capex since FY2003, including M&A and investment in major products. Not only we have hugely invested in flat-panel TVs and semi-conductors, but also we fully acquired Matsushita Communication Industrial Co., Ltd. (mobile phone business) and SANYO Electric Co., Ltd. (consumer lithium-ion battery business), spending substantial amount of money.
- We unfortunately anticipate not to have investment return as much as we expected before, resulting in the huge impairment loss in a sequel to the last fiscal year.



- I recognize that our deteriorating profitability comes from our structural issue shown in this chart.
- We have had slow growth and low profitability for the past 20 years. We have focused on consumer electronics and the business activities in Japan, where the business environment is deteriorating to poorly have investment return, leading the unhealthy business cycle of worsening profitability, temporarily improving profitability from restructuring and facing back to worsening profitability.
- We tried to depart from this unhealthy business cycle and hugely invested in the era of digitalization. We however failed to respond to the commoditization of the products and made wrong investment decisions, resulting in poor investment return and asset impairment.
- What we should do before we have another start to improve profitability, is recognizing this business cycle is unhealthy.

**Streamline and restructure  
digital consumer electronic business**

**Generate cash flow**

**Toward new growth  
- New midterm plan -**

- These are three major points I would like to present today.
- First, we streamline and restructure digital consumer electronics business.
- Since I took up my position, I have revisited each of our major business to fix its strategy. Although I have not finished going through everything yet, I would like to explain our current position.

Flat-Panel TV & Panel		7
Steady business structural change		
	LCD	Plasma
Panel business	Streamline and expand business for non-TV products	
	<ul style="list-style-type: none"> <li>- Liquidate module production sites Production cessation: Czech Republic: Dec. '12, Malaysia: Jan. '13</li> <li>- Non-TV panel sales ratio FY2013 over 50%</li> </ul>	<ul style="list-style-type: none"> <li>- Expand digital whiteboard business Strengthen large-size product lineups (85"/103")</li> <li>- Non-TV panel sales ratio FY2013 over 10%</li> </ul>
TV set business	Shift to large-size product business and outsource	
	<ul style="list-style-type: none"> <li>- *Sales ratio of over 40": 30%</li> <li>- *In-house panel usage ratio: 30%</li> </ul>	<ul style="list-style-type: none"> <li>- *Sales ratio of over 50": 70%</li> </ul>
Returned to black in 1H		*FY2013 forecast
<b>FY2013 operating profit improvement (vs LY): 110 billion yen</b>		
<small>Panasonic ideas for life</small>		

- We steadily change flat-panel TV business.
- One of the major topics in our panel business is to further streamline and expand business for non-TV products. In the LCD panel business, we will liquidate module production sites in Czech Republic and Malaysia, and expand business for non-TV products such as medical monitors and tablets. We are targeting more than 50% of sales in non-TV products in FY2013.
- In the PDP panel business, we further expand non-TV products, such as digital whiteboards.
- In our TV set business, we have returned to the black, shifting to large-size product business and outsourcing panel production as steadily as we expected.
- Although the profit does not seem to reach our business plan due to the sales decline, we expect to have improvement of 110 billion yen comparing with FY2012.

### Revisit overseas business

- Exit smartphone business in Europe
- ▶ Scheduled in FY2013

### Streamline operations

- Slimmed down R&D workforce to optimal level (end of Sep. '12)
- Ceased production in Japan (June '12)
- Had other company integrating our sales subsidiary (Oct. '12)

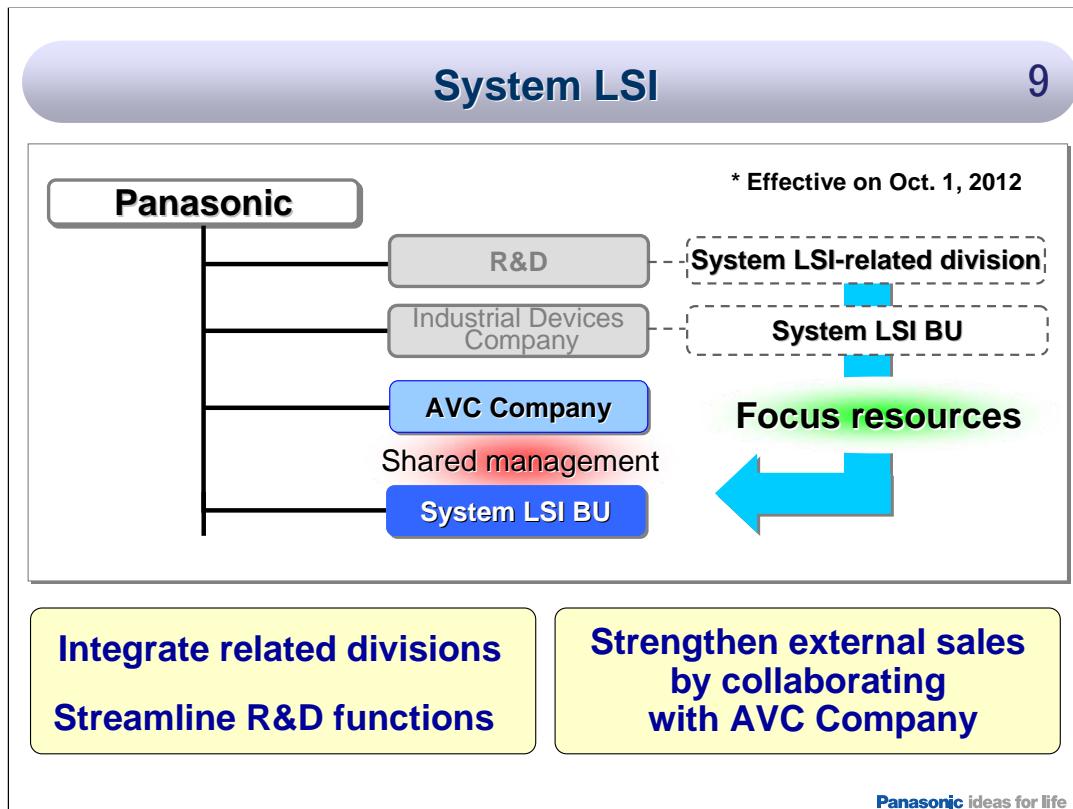
**Reduce 30% of fixed cost in Japan**  
(vs FY2013 2H business plan)

Establish new company specializing in handset business (scheduled in Apr. '13)

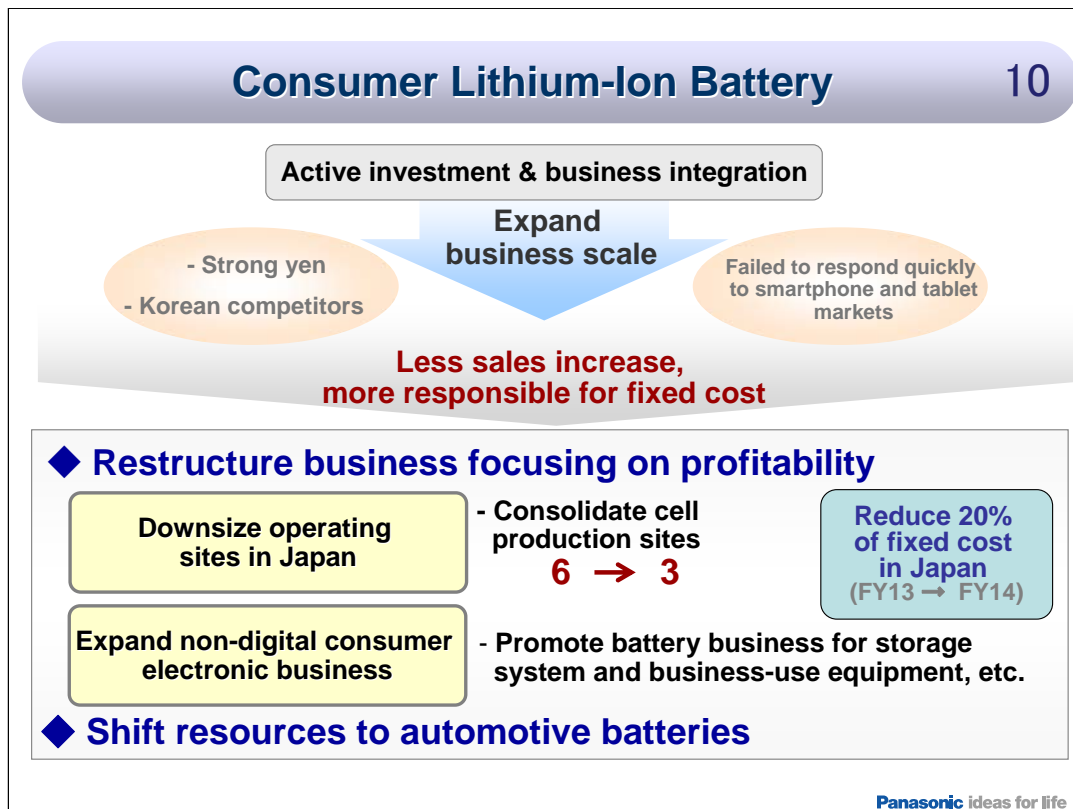
**Create new business collaborating with AVC Company**

- We will exit smartphone business in Europe in FY2013, adding to streamlining operations in Japan.
- We slimmed down R&D workforce to optimal level, departing from vertical business model and improving our R&D technology, and ceased production in Japan in June resulting in having only two production sites in Malaysia and China.
- We had the other company integrating our sales subsidiary Panasonic Telecom as of October 1.
- We therefore expect to have 30% of fixed cost reduction in Japan, in 2H of FY2013, compared with the business plan.
- We will establish a new company specializing in handset business to improve our market access ability.
- We also create new business collaborating with AVC company.





- We restructured system LSI business as of October 1. We put system LSI BU under Industrial Devices Company and the R&D related department directly under the head office and managed both by the head of AVC Company.
- This reorganization is based on the ideas from AVC company looking for secure competitiveness in system devices, and the system LSI business figuring its future strategy with securing its business scale.
- We further promote system LSI business by integrating related divisions, streamlining operations and strengthening external sales by collaborating with AVC company.



- We have hugely invested in consumer lithium-ion battery as each of Panasonic and SANYO and pursued the top market share and the business scale in the industry through our acquisition.
- We however failed to accurately respond to the market and its demand, resulting in less sales increase and more deteriorating profitability with more responsibility for fixed cost.
- We will further restructure its business to improve profitability. We will downsize operating sites in Japan from six to three to reduce 20% of fixed cost in Japan in FY2014. Meantime, we expand non-digital consumer electronic business such as batteries for storage system and business-use equipment to secure high profitability.
- We need further restructuring in addition to those countermeasures to return to the black at the earliest stage.
- As whole lithium-ion battery business, we shift our resources to automotive battery where the demand is drastically expanding.

Previous  
Strategy

Expanded cell production scale

**Business environment change**

◆ **Select and reduce investment**

- No additional investment in factory in Malaysia

◆ **Expand system and solution business to improve profitability**

- Focus on Japanese housing industry
- Integrate R&D, production and sales operations in Eco Solutions Company



Panasonic ideas for life

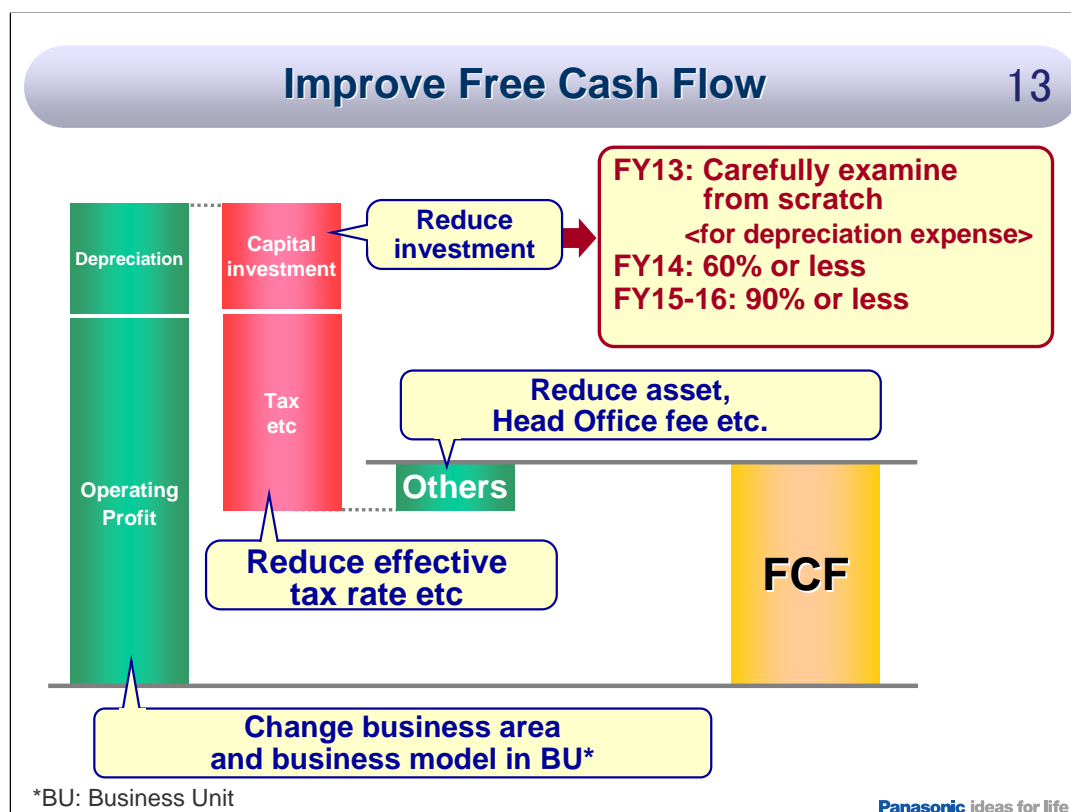
- Our solar business, not in digital consumer electronics, steadily contributes to profitability with the active investment in cell production such as our highly efficient 'HIT'.
- Its business environment has however changed recently suffering from more severe price decline than digital consumer electronics and our competitiveness becomes limited in the market.
- We therefore transform our focus from business scale to profitability. As part of this, we impaired its asset.
- We will cease further investment in the factory in Malaysia. Meantime we will expand system and solution business including storage battery system and power conditioner etc. We will focus on the fast growing Japanese housing industry where our products and sales channels could take advantage. We transfer R&D, production and sales operations from Energy Company to Eco Solutions Company to enable to more accurately respond to the market.

Streamline and restructure  
digital consumer electronic business

**Generate cash flow**

Toward new growth  
- New midterm plan -

- Second, we strive to generate cash flow.



- We have to secure profit in each business. In low profitable BUs, we revisit and improve their business models.
- Since it takes some time to improve business models, I therefore promote the group-wide cash flow project.
- We specifically revisit and reduce investment: carefully examine things from scratch in 2H of FY2013, 60% or less of depreciation expense in FY2014 and 90% or less in FY2015 and FY 2016.

▽ Cash flow performance management project

FY2013 target: 200 billion yen

Generate cash flow

Reduce investment, sell and liquidate properties etc.

▽ Emergency management countermeasure

Revisit compensation and benefit  
(effective in Nov. '12)

- Voluntarily return compensation (executive level)

( ⇒ Monthly compensation vs L/Y  
Chairman / president: - 40%  
Executives: - 20% )

- Abolish executives' company cars  
(excluding representative directors)

- Reduce winter bonus (manager level)

( ⇒ -35% vs L/Y )

Revisit corporate sport activity  
(effective in next season)

Will suspend basketball and badminton activities

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- As in Mr. Kawai's presentation, we promote 'cash flow performance management project' to accelerate cash flow increase. This started in October to achieve 200 billion yen cash flow increase as a group-wide project.
- As part of the emergency management countermeasure, we revisit compensation and benefit, and corporate sport activity.
- Compensation for executives will be further reduced after November from the level in July 2012, as shown here.
- Winter bonus for managers will be reduced 35% compared with the last year. In addition, we will revisit all other benefit and extra-work.

**Dividend  
forecast  
announced  
on May 11, '12**

**Full-year: 10 yen  
(Interim: 5 yen, year-end: 5 yen)**

**Revised  
dividend  
forecast**

**No dividend payment**

**Improve profitability  
for stable dividend payment**

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- We have decided to revise dividend forecast in FY2013 to prioritize profitability.
- I announce that we will not pay dividend this fiscal year. I feel responsible for shareholders about no dividend payment, as we have continued to pay dividend since the post-war chaos period.
- We will strive to improve profitability at the earliest stage to return to the stable dividend payment.

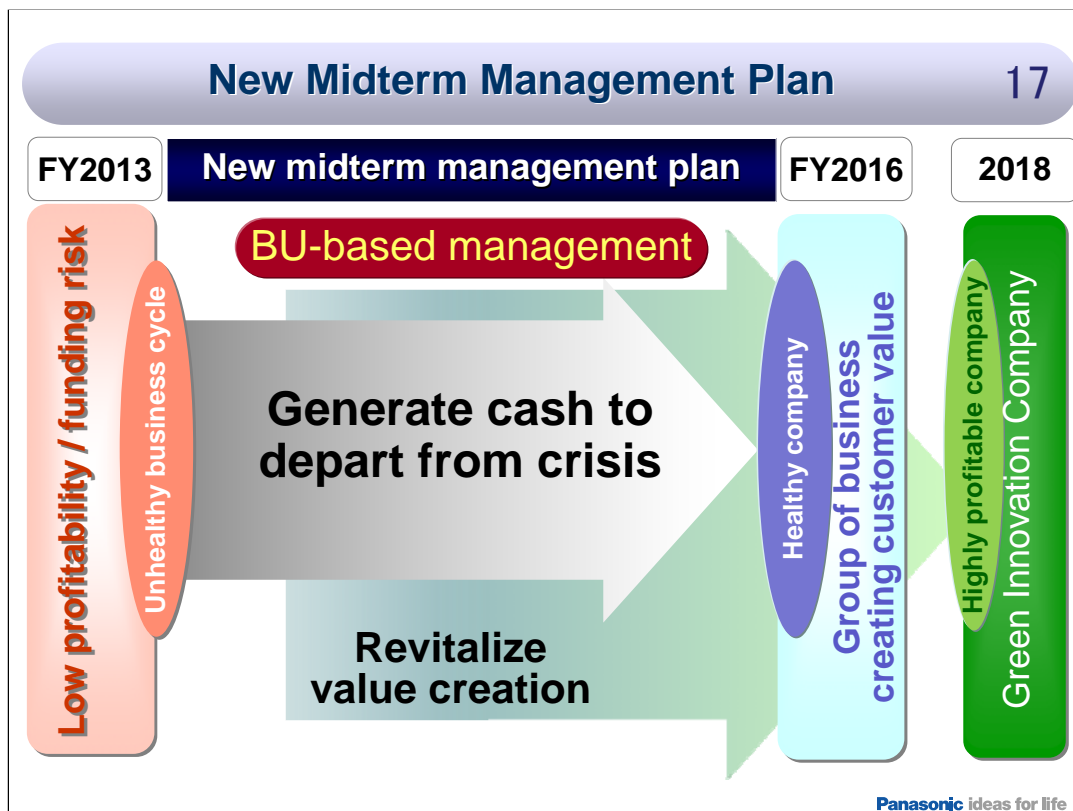
**Streamline and restructure  
digital consumer electronic business**

**Generate cash flow**

**Toward new growth  
- New midterm plan -**

- Last, I will explain our new midterm plan toward our new growth.





- Our priority in the new midterm plan is to depart from our current critical situation with low profitability and funding risk. We therefore have all BUs, as basic units, to access to customers and revitalize value creation, leading to group-wide cash generation.
- In FY2016, we would like to return to the group of business which creates customer value as a healthy company with a profitability meeting the market expectation.
- It may seem relatively a modest target but Panasonic is now in such an unhealthy business cycle and I believe we have to go through this process to depart from this critical situation.
- Toward the year of 2018, the 100<sup>th</sup> anniversary, we will furthermore maximize our value creation to be a highly profitable company and a Green Innovation Company.

**Toward healthy company****Corporate target -****Generate free cash flow of  
200 billion yen or more / year****Toward group of business creating customer value****BUs' target -****Operating profit ratio of  
5% or more in FY2016**

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- This is the outline of the new midterm plan.
- We have only one group-wide target: generate free cash flow of 200 billion yen or more per year. The target of 200 billion yen per year is required to return to a healthy company in the perspective of bond redemption and expected rate of return. We therefore do not have any sales target in next three years.
- We also have the target toward a group of business creating customer value: operating profit ratio of 5% or more in FY2016. That is, cash flow is the most important factor for us and we will revisit all BUs' business, meeting 5% of operating profit ratio.

### New growth with non-digital consumer electronic business

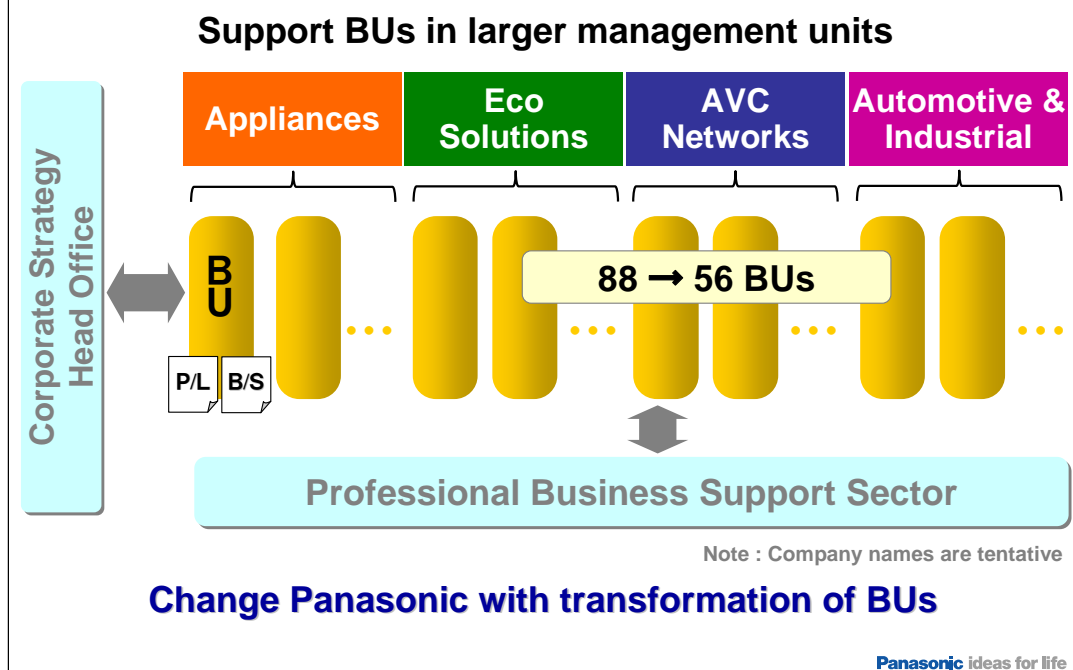
<Working groups> (domain companies)	<Focuses>
<b>Appliances</b> (Appliances, Healthcare)	- Strengthen global expansion - Expand B2B business
<b>Eco Solutions</b> (Eco Solutions)	- Strengthen energy creation & storage management system business - Expand business in non-residential engineering and services
<b>AVC Networks &amp; Systems</b> (AVC, Systems & Communications)	- Shift resources and revisit market needs - Expand business in services and solutions
<b>Automotive &amp; Industrial</b> (PAS*, Industrial Devices, Energy, MS*)	- Integrate and expand operations of electronic component systems business - Expand industrial business

\*PAS: Automotive Systems, MS: Manufacturing Solutions

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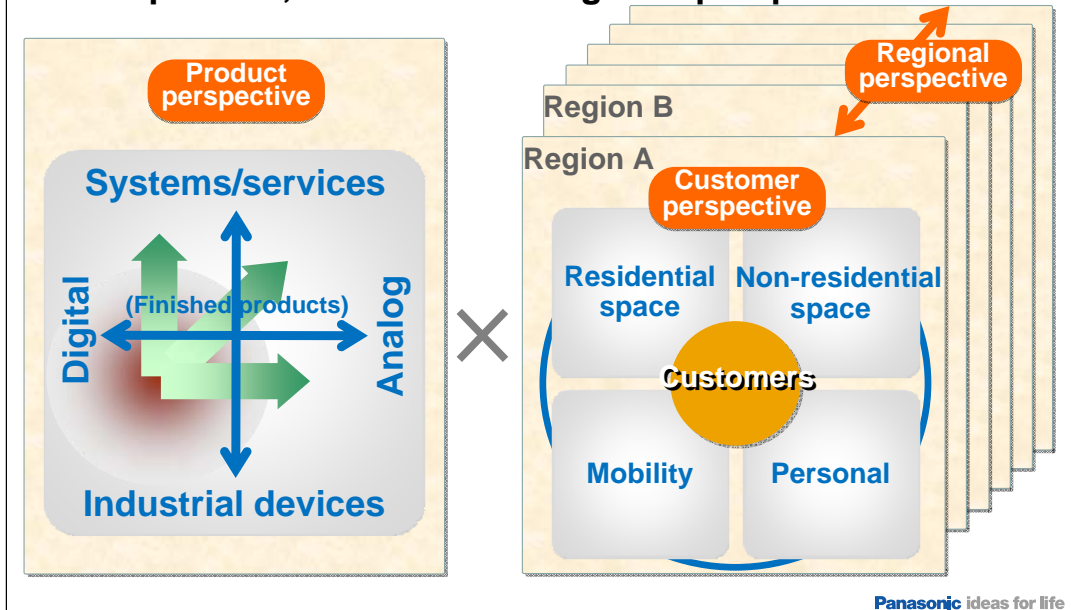
- Toward the year of 2018, we will strengthen non-digital consumer electronic business.
- Ahead of forming the new midterm plan, we have since April discussed what to do toward a new growth in the various groups of people such as BUs' heads, executives, local representatives, domain companies and all other employees.
- As you can see in the chart, we decide to focus on Appliances, Eco Solutions, AVC Networks & Systems, and Automotive & Industrial. And each of projects starts today to figure its growth strategy. In March 2013, we will present more detail in the new midterm plan.

## 4 Company System (Effective in April 2013) 20



- We will introduce four company system in April 2013, easily focus on these four business areas. We will consolidate 88 BUs into 56 BUs as autonomous management units which can be responsible for development, manufacturing and sales, categorized in the four company system.
- The basic unit of our business operation is a BU and each company will shift resources and integrate knowledge and skills so that all BUs properly transform.
- Corporate Strategy Head Office and Professional Business Support Sector launched in October will support BUs. Therefore Panasonic will change if BUs properly transform. This four company system will accelerate change of BU and Panasonic.

### Growth potential with product, customer and regional perspectives



- Under this organization, I think three perspectives of product, customer and regional are important to revitalize value creation.
- In the product perspective, we have to think how to improve our business of digital consumer electronics for customers value. Since now it is not easy to increase profitability only with high quality products, we have to know our customers and their demand and properly offer what they want.
- Along with the product perspective, we will work for customers in the customer and regional perspectives as well.
- I am sure each of BUs will further grow focusing on these three perspectives.



- I as a president feel responsible for all the impairment loss, the huge loss for two consecutive years and no dividend payment in this fiscal year.
- Since we just introduced our new organization in January 2012 as part of 'Transformation Project', I understand introducing the four company system may cause some confusion.
- I however believe that we have to go forward at the earliest stage, departing from the critical situation. We will have BU maximizing its capability which revitalizes Panasonic.
- Thank you for your continuous support.

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