Issues and Countermeasures

October 31, 2012

Panasonic Corporation
Kazuhiro Tsuga

- This presentation outlines Panasonic Group’s issues and countermeasures.
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.
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.
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.
• 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.
• 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.
• 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.
• 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.
### Corporate Emergency Countermeasure

**Cash flow performance management project**

| Generate cash flow | Reduce investment, sell and liquidate properties etc. |

**Emergency management countermeasure**

<table>
<thead>
<tr>
<th>Revisit compensation and benefit (effective in Nov. ‘12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Voluntarily return compensation (executive level)</td>
</tr>
<tr>
<td>⇒ Monthly compensation vs L/Y</td>
</tr>
<tr>
<td>Chairman / president: - 40%</td>
</tr>
<tr>
<td>Executives: - 20%</td>
</tr>
<tr>
<td>- Abolish executives’ company cars (excluding representative directors)</td>
</tr>
<tr>
<td>- Reduce winter bonus (manager level)</td>
</tr>
<tr>
<td>⇒ -35% vs L/Y</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revisit corporate sport activity (effective in next season)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will suspend basketball and badminton activities</td>
</tr>
</tbody>
</table>

- 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.
• 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.
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 100th anniversary, we will furthermore maximize our value creation to be a highly profitable company and a Green Innovation Company.
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.
• 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.
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.
• 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.
Disclaimer Regarding Forward-Looking Statements

This presentation includes forward-looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) about Panasonic and its Group companies (the Panasonic Group). To the extent that statements in this presentation do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of the Panasonic Group in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause the Panasonic Group’s actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. Panasonic undertakes no obligation to publicly update any forward-looking statements after the date of this presentation. Investors are advised to consult any further disclosures by Panasonic in its subsequent filings with the U.S. Securities and Exchange Commission pursuant to the U.S. Securities Exchange Act of 1934 and its other filings.

The risks, uncertainties and other factors referred to above include, but are not limited to, economic conditions, particularly consumer spending and corporate capital expenditures in the United States, Europe, Japan, China, and other Asian countries; volatility in demand for electronic equipment and components from business and industrial customers, as well as consumers in many product and geographical markets; currency rate fluctuations, notably between the yen, the U.S. dollar, the euro, the Chinese yuan, Asian currencies and other currencies in which the Panasonic Group operates businesses, or in which assets and liabilities of the Panasonic Group are denominated; the possibility of the Panasonic Group incurring additional costs of raising funds, because of changes in the fund raising environment; the ability of the Panasonic Group to respond to rapid technological changes and changing consumer preferences with timely and cost-effective introductions of new products in markets that are highly competitive in terms of both price and technology; the possibility of not achieving expected results on the alliances or mergers and acquisitions including the business reorganization after the acquisition of all shares of Panasonic Electric Works Co., Ltd. and SANYO Electric Co., Ltd.; the ability of the Panasonic Group to achieve its business objectives through joint ventures and other collaborative agreements with other companies; the ability of the Panasonic Group to maintain competitive strength in many product and geographical areas; the possibility of incurring expenses resulting from any defects in products or services of the Panasonic Group; the possibility that the Panasonic Group may face intellectual property infringement claims by third parties; current and potential, direct and indirect restrictions imposed by other countries over trade, manufacturing, labor and operations; fluctuations in market prices of securities and other assets in which the Panasonic Group has holdings or changes in valuation of long-lived assets, including property, plant and equipment and goodwill, deferred tax assets and uncertain tax positions; future changes or revisions to accounting policies or accounting rules; as well as natural disasters including earthquakes, prevalence of infectious diseases throughout the world, disruption of supply chain and other events that may negatively impact business activities of the Panasonic Group. The factors listed above are not all-inclusive and further information is contained in Panasonic’s latest annual reports, Form 20-F, and any other reports and documents which are on file with the U.S. Securities and Exchange Commission.

In order to be consistent with generally accepted financial reporting practices in Japan, operating profit (loss) is presented in accordance with generally accepted accounting principles in Japan. The company believes that this is useful to investors in comparing the company’s financial results with those of other Japanese companies. Under United States generally accepted accounting principles, expenses associated with the implementation of early retirement programs at certain domestic and overseas companies, and impairment losses on long-lived assets are usually included as part of operating profit (loss) in the statement of income.