Message from the CEO

During the three years since fiscal 2017, Panasonic has taken a variety of initiatives to create a profit structure that can achieve continuous “profit growth through sales expansion.” In fiscal 2019, we achieved increases in both operating profit and net profit. However, profit excluding one-time effects, which reflects the Company’s true ability to generate profits, was far below our initial forecast. This unsatisfactory result was due to profit struggling to rise in growth-expected businesses, such as automotive-related businesses, and deterioration in the profitability of existing businesses that we had expected to generate stable profits.

To ensure the sustainable development of our Company, we must quickly break away from this low-profitability situation and return to a profit-growth track.

Under the new Mid-term strategy, which started in fiscal 2020, we are determined to carry out portfolio reforms setting three new portfolio classifications transcending the boundaries of the Company and organizations: “Core growth business,” “Co-creation business,” and “Revitalization business.” We aim to achieve both profit growth and profitability improvement by strengthening our competitiveness through promoting strategies according to each business’s characteristics and situations, while addressing changes in the social environment.

In light of the recent advances in information and communication technologies, as well as increasingly diverse individual preferences and values, manufacturers are facing ever greater changes in the management environment. It is now difficult to continuously generate profits with the conventional business model of mass-producing industrial products. Sensing the urgency of this situation, Panasonic has set a new direction to take: becoming a company that will achieve “Lifestyle Updates” by 2030. Toward achieving sustainable growth, we will shift our business model based on a long-term perspective and strive to transform our profit structure.

We are fully determined to keep working toward higher corporate value, including the promotion of ESG initiatives, which are the foundations for growth. The opinions of investors, which management will take into consideration, are always welcome. I would like to ask for your continued support of our endeavors.

Kazuhiro Tsuga
Representative Director
President
CEO

Panasonic Annual Report 2019

01
Performance Review

Please refer to Financial Review (PDF) and Fiscal 2019 Full-year Financial Results Presentation Materials (PDF)

Financial results for fiscal 2019 (year ended March 2019)

Overall operating profit increased due to one-time gains despite deteriorated profitability in the automotive, industrial, and consumer electronics businesses

Sales for fiscal 2019 were 8,002.7 billion yen, the same as the previous year’s level.

Operating profit increased by 31.0 billion yen, to 411.5 billion yen, due mainly to one-time gains including the partial revision of the pension scheme and disposal of assets. However, profit excluding these one-time effects was far below our initial forecast, due to deteriorated profitability in the automotive, industrial, and consumer electronics businesses, along with the recording of restructuring charges.

During the three years since fiscal 2017, Panasonic has promoted its growth strategy and profitability improvements toward a structure that can achieve continuous “profit growth through sales expansion.” However, the Company was unable to accomplish its initial aim.

Net profit attributable to Panasonic Corporation stockholders increased by 48.1 billion yen to 284.1 billion yen due to improvements in income taxes and others. As a result, ROE improved by 1.3 percentage points to 15.7% from the previous year.

Free cash flow was an inflow of 10.3 billion yen, improved by 45.9 billion yen from the previous year. Going forward, the Company will continue to strictly control investments and improve free cash flows by thoroughly generating cash flow from operating activities such as reducing inventory.

Forecast for fiscal 2020 (year ending March 2020)

Operating profit is expected to decrease due to factored-in business risks and restructuring charges

The Company will carry out reform of its business portfolio in fiscal 2020, the first year of the new Mid-term strategy.

Sales are expected to decrease by 102.7 billion yen from the previous year to 7.9 trillion yen, due mainly to a sales decrease in Industrial Solutions reflecting uncertainties in the macro environment, including the situation in the Chinese market, in addition to the impact of the establishment of a joint venture related to the “town development” business.

Operating profit is expected to decrease by 111.5 billion yen from the previous year to 300.0 billion yen, due to factoring in business risks in addition to business restructuring charges. Net profit attributable to Panasonic Corporation stockholders is expected to decrease by 84.1 billion yen from the previous year to 200.0 billion yen. As a result, ROE is expected to be 10.1%.

Points for the New Mid-term Strategy

Please refer to the new Mid-term strategy presentation material (PDF) for details of the new Mid-term strategy that started in fiscal 2020.

Executing portfolio management

Achieve both profit growth and improved profitability by transcending the boundaries of the Company and organizations

The Company recognizes that profit improvement is essential to ensure sustainable growth. Accordingly, under the new Mid-term strategy we will pursue a variety of initiatives aimed at raising profitability and returning to the profit-growth track.

Specifically, we are determined to steadily conduct portfolio management with new classifications: “Core growth business,” “Co-creation business,” and “Revitalization business.” Corresponding to each business’s characteristics and situations, we will implement initiatives that transcend the boundaries of the Company and organizations to enhance the competitiveness of individual businesses. In this way, we aim to achieve profit growth and improve profitability.

Fiscal 2019 Results and Fiscal 2020 Forecast (Billions of yen)

<table>
<thead>
<tr>
<th></th>
<th>FY2020 forecast</th>
<th>FY2019</th>
<th>vs. FY2019/ Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>7,900.0</td>
<td>8,002.7</td>
<td>-102.7</td>
</tr>
<tr>
<td>Operating profit</td>
<td>300.0</td>
<td>411.5</td>
<td>-111.5</td>
</tr>
<tr>
<td>Other income/loss**</td>
<td>0.0</td>
<td>84.5</td>
<td>-84.5</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>290.0</td>
<td>416.5</td>
<td>-126.5</td>
</tr>
<tr>
<td>Net profit attributable to Panasonic Corporation stockholders</td>
<td>200.0</td>
<td>284.1</td>
<td>-84.1</td>
</tr>
<tr>
<td>ROE</td>
<td>10.1%</td>
<td>15.7%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>-</td>
<td>10.3</td>
<td>-</td>
</tr>
</tbody>
</table>

* In real terms excluding the effect of exchange rates
** Other income/loss = Other income (expenses) + Share of profit investments accounted for using the equity method

Message from the CEO
Panasonic Annual Report 2019

02
Core growth business:
Focus resources to drive medium- to long-term profit growth
Core growth business comprises Spatial Solutions, Gemba (operational frontlines) Process, and Industrial Solutions. In fiscal 2020, we expect these businesses to generate EBITDA* of approximately 390.0 billion yen, accounting for about 70% of the Company total. For the past three years, EBITDA margins for these businesses have transitioned at around the 10% level. We regard them as businesses that are highly competitive within the Panasonic Group. By proactively shifting resources into these areas, we aim to add about 100.0 billion yen of EBITDA by fiscal 2022, aiming to lead Company-wide profit growth over the medium to long term.

We view the Core growth business as an area that will enable sustainable value creation and business growth by addressing increasingly severe social issues. In recent years, drastic changes in the social environment, such as labor shortages, energy issues, and a surge in the amount of information being communicated, have prompted a variety of problems. We will strive to make an even larger contribution toward addressing these social issues by concentrating on the solutions and recurring-type businesses, while endeavoring to transform our business model.

* EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

Co-creation business:
Enhance competitiveness through regional and business collaboration
Panasonic’s consumer electronics and housing businesses are positioned within the Co-creation business, which aims to enhance competitiveness through regional and business collaboration.

In the consumer electronics business, the Company will address the Chinese market, where it anticipates major growth over the medium to long term. To step up our focus, we established the China & Northeast Asia Company in April 2019, headed by Tetsuro Homma, representative director and senior managing executive officer. The speed and cost-competitiveness derived from the China operations will be combined with our trustworthiness and high technological expertise developed in Japan, leading to enhanced competitiveness. Looking to the future, the strengths refined from the China and Japan businesses can be leveraged in other Asian businesses.

In the housing business, the Company will establish a joint venture with Toyota Motor Corporation related to the town development business. The Company aims to create “new value for the entire town as a whole” by integrating Toyota's initiatives toward mobility services and Panasonic’s initiatives toward “Lifestyle Updates.”

Co-creation business plays the important role of serving as points of contact with our B2C customers. We will continue to enhance competitiveness in these businesses, to further refine the “Panasonic” brand.
Revitalization business:
Enhance competitiveness into the future while prioritizing profit improvement
Automotive Solutions and Automotive Batteries businesses, in which we have made investments expected to serve as growth drivers, are defined as Revitalization business. Although we are currently facing struggles, these are our significant businesses where we can expect future growth as the automotive industry continues to extensively evolve and change.

Our priority is to improve profits and recover investments, as well as to enhance competitiveness by focusing on areas where we have advantages to rebuild our business base.

In the Automotive Solutions business, Panasonic is prioritizing profit improvement. We will optimize development resources by region and by product to thoroughly control development expenses. In the automotive cylindrical batteries business, the Company will thoroughly improve productivity to gain return on investment. In the automotive prismatic batteries business, the Company will establish a joint venture with Toyota Motor Corporation and strengthen competitiveness by integrating the strengths of both companies to achieve a stable supply of batteries to various automakers.

Enhancing management structure

Reduce fixed costs, aiming at 100.0 billion yen of profit contribution
Panasonic will work on reducing fixed costs such as taking radical measures with loss-making businesses and improving efficiency in indirect operations. In three years, the Company aims for a 100.0 billion yen Company-wide contribution.

For all businesses, the Company will accelerate selection and concentration. The profitability forecast and other indicators will be continuously monitored, and swift action will be taken if a certain business should withdraw, or if a certain business is likely to achieve better growth outside the scope of Panasonic.

Management KPIs

Expand profit amounts in the Core growth business to improve corporate value
For fiscal 2022, the final year of the new Mid-term strategy, and onward, Panasonic will aim toward Company-wide management that can stably achieve the following targets: for the Core growth business, the goals are an EBITDA growth rate of 5–10% and an EBITDA margin of 10% or more, as well as a Company-wide ROE target of 10% or more.

Management KPIs

<table>
<thead>
<tr>
<th>FY2022 onward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core growth business</td>
</tr>
<tr>
<td>EBITDA growth rate</td>
</tr>
<tr>
<td>EBITDA margin</td>
</tr>
<tr>
<td>Company-wide</td>
</tr>
<tr>
<td>ROE</td>
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</table>

Capital allocation policy

Allocate capital for the new Mid-term strategy with cash flow generated from businesses
The basic policy of capital allocation is allotting the necessary capital to achieve the new Mid-term strategy that will come from cash flow generated from business (operating cash flows, divestiture), while being aware of financial discipline.

The Company will respond flexibly when investment opportunities arise before sufficient cash flow can be generated from business operations.

Achieving “Lifestyle Updates”

Offering the most suitable products and services for each customer
In light of the dramatically changing business environment with the recent advances in information and communications technology, as well as diversifying preferences and values of individual customers, Panasonic is ready to take on the new challenge of pursuing products and services most suitable for each customer. This will be conducted by leveraging various types of data, state-of-the-art AI and IoT technology, to continue updating products and services after sales, going beyond the conventional method of creating a new model with added technology and features. This is the basic idea of “Lifestyle Updates.”

To achieve the most suitable lifestyles, advancements in social conditions such as information networks and transportation services are indispensable. These are also areas where the Company can make further contributions with its B2B businesses. Through these initiatives, Panasonic will transform its business model and aim for sustainable growth.
Environmental, Social, and Governance (ESG) Policy

Promoting effective corporate governance
The Company believes it is important to enhance corporate value by fulfilling accountability through dialogue with various stakeholders such as shareholders and customers, making an effort to execute transparent business activities, and swiftly conducting business activities with fairness and honesty, based on its basic philosophy of “a company is a public entity of society.” The Company recognizes that corporate governance is the important basic structure for the aforementioned purpose and is working to enhance its effectiveness.

The Company has worked to strengthen its corporate governance structure based on a structure that includes a Board of Directors, Audit & Supervisory Board members (A&SB Members), and an Audit & Supervisory Board. In fiscal 2016, we voluntarily established the Nomination and Compensation Advisory Committee and put in place the Outside Directors and Outside A&SB Members Committee, and we also began evaluating the Board of Directors’ effectiveness. In fiscal 2018, we revised the Board of Directors, to raise the minimum ratio of outside directors to one third, in the aim of improving the Board of Directors’ flexibility, transparency, and objectiveness. The Company’s Board of Directors welcomes enriched communication from outside directors, incorporating external viewpoints into its exchanges of opinions and discussions when conducting deliberations and making decisions.

Going forward, we will continue to utilize the Nomination and Compensation Advisory Committee and leverage our framework for evaluating the Board of Directors’ effectiveness to promotive effective corporate governance.

Initiatives for realizing “A Better Life” and “A Sustainable Global Environment”
Based on the Paris Agreement and the Sustainable Development Goals (SDGs), Panasonic has been conducting various activities in the fields of social issues where we can contribute to for solutions.

In particular, environment and energy are key global issues. Rising environmental awareness all over the world has begun to affect our business activities in terms of both business risks and opportunities.

In addition to ongoing activities to contribute to the environment through our business, we will exercise our corporate social responsibility through responding to demands for environmental consideration from society and our business partners. Based on the Panasonic Environmental Vision 2050, which was formulated with the aim to realize both “a better life” and “a sustainable global environment” at the same time, Panasonic will work towards creation and more efficient utilization of energy that exceeds the amount of energy used, by developing products, technologies and solutions relating to creation, storage and energy efficiency, and energy management.

Global human resources strategy to support our management strategies
To create new business and achieve growth by being closer to customers in markets with growth potential, the Company has been reorganizing its working environments and systems that enable each employee to play an active role as well as developing and promoting optimum talents, regardless of nationality or length of service. More specifically, Panasonic has been taking steps to develop managerial talent possessing diverse experience and aptitude for such roles, while also promoting its talent management committees led by local top managements in each region. This has enabled Panasonic to move at a more rapid pace making employee assignments and developing careers that extend across companies and nations. Also, Panasonic is implementing mechanisms including a global talent database system that makes it possible to monitor skills, experience and other attributes of individual employees, as well as a performance management system that gauges results of employees and hastens the process of talent development on the basis of global common policy.