Message from the CFO

Initiatives to improve profitability and revise our business portfolio while strengthening our financial base

Capital policy and fiscal 2019 financial position
When conducting business, we place emphasis on return on invested capital as well as improving financial stability. With regard to return on invested capital, we are conscious of capital cost, aiming to continuously secure an ROE of 10% or more, thus exceeding the capital market expectations. In terms of financial stability, we are working to increase Panasonic Corporation stockholders’ equity through the accumulation of net profit, to establish a strong financial base capable of supporting business structural reform and investment in growth.

Under this policy, we attained an ROE of 15.7% in fiscal 2019, maintaining a level of more than 10%, as in the previous fiscal year. We also succeeded in increasing Panasonic Corporation stockholders’ equity, reaching 1,913.5 billion yen at the end of fiscal 2019. The ratio of Panasonic Corporation stockholders’ equity was 31.8%.

ROE / Panasonic Corporation Stockholders’ Equity to Total Assets Ratio

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<th>(%)</th>
<th>16/3</th>
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<td>40.0</td>
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**Hirokazu Umeda**
Director
Managing Executive Officer / CFO
Upon formulating our new Mid-term strategy, I gave particular consideration as CFO to two points: our position from a capital market perspective, and the increasingly uncertain financial and economic environments.

Regarding the capital market perspective, with our growth in profits generated from businesses leveling off, we are behind other competitors in terms of profitability indicators such as operating profit ratio, and the gaps are widening. This means that we must further improve profitability by revising our business portfolio to meet capital market expectations.

As for the financial and economic environments, predicting changes in financial flow and other factors is currently difficult due to trade friction, Brexit and adjustments to monetary policy in major countries. We must strengthen our financial base to prepare for risks arising from these external environments.

Under the new Mid-term strategy, we organized our businesses into portfolio classifications of “Core growth,” “Co-creation” and “Revitalization.” In addition, we will decisively revise our portfolio and aim for higher profitability by promoting the strategic shift of management resources according to each business’s characteristics and initiatives that transcend boundaries of the Company and organizations.

Regarding the necessary capital to implement our new Mid-term strategy, we will be conscious in ensuring financial discipline, based on the policy of allocating capital with cash flow generated from business (operating cash flow, divestiture). However, we will respond flexibly when investment opportunities arise before sufficient cash flow is generated from business.

To generate funds and allocate them strategically, we apply the return on invested capital (ROIC) and weighted average cost of capital (WACC) for each Business Division when making decisions regarding portfolio management or investment. In our Business Divisions, we will aim for ROIC improvements, such as inventory reduction and working capital improvement, as well as profitability improvements through fixed-cost reduction and others. At the same time, we will thoroughly monitor and follow up on the recovery of the 1-trillion-yen strategic investments which started in fiscal 2016.

Through these initiatives, we aim to maintain ROE of 10% or more on a Group-wide basis.

In preparation for any contingencies caused by factors such as deterioration in financial and economic environments, we issued senior notes denominated in U.S. dollars in July 2019 to diversify our funding sources and strengthen our funding base by gaining access to markets outside Japan, which encompass a broad range of investors. This was our first issuance in overseas markets in 27 years.

Under the new Mid-term strategy, we will strictly adhere to our capital allocation policy and push forward with efforts to improve profitability and strengthen our financial base, which will promote our efforts to revise our business portfolio from a financial perspective.

Since its foundation, Panasonic has managed its business, recognizing that returning profits to shareholders is one of its most important policies. The Company, in principle, distributes profits to shareholders based on its business performance and strives for stable and continuous dividend payments. We target a dividend payout ratio of approximately 30% with respect to consolidated net profit attributable to Panasonic Corporation stockholders.

In view of this policy, the Company’s annual dividend came in at 30 yen per share in fiscal 2019. This was the same amount as the previous fiscal year. Moving forward, we will continue to work to improve net income and generate free cash flows while implementing initiatives aimed at achieving sustainable growth in corporate value and shareholder return.