China & Northeast Asia Company Medium-term Initiatives

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China & Northeast Asia Company
Panasonic Corporation

Notes: 1. This is an English translation from the original presentation in Japanese.
2. In this presentation, “Fiscal 2020” or “FY20” refers to the year ending March 31, 2020.

Long-term and Big Potential Growth Opportunities

- Playing a major role for innovation as an engineering global superpower
  
  Nominal GDP growth forecast
  
  Continue to grow by 6% at present
  
  Source: IMF, etc.

- The world’s largest “market” boosted by state policy
  
  Huge housing interior demand
  
  Huge premium market
  
  Occupies 1/3 of the world market
  
  Global personal luxury goods market evolution (billion RMB)
  
  Source: McKinsey China Luxury Report 2019

- Huge “business opportunities” Scale of social Issues
  
  Becoming a society that faces Aging/Declining birthrate
  
  Rapid demographic Change
  
  Population change rate relative to 1995
  
  Source: National Bureau of Statistics of China
  
  Responding to Food safety and Food loss
  
  Rapid expansion of the fresh food EC market
  
  Source: BDR

- Nation of Innovation
  
  8.2 million university graduates
  
  2019 University Ranking in Asia
  
  Tsinghua University
  
  Beijing University
  
  Fudan University
  
  Tokyo University
  
  Zhejiang University
  
  *More than 1 billion USD in corporate value
  
  HR/Money/Experiment sites are all available
  
  Number of Unicorn Companies
  
  Source: QS2019

- 15 times more new graduates than Japan

- 2019 University Ranking in Asia

- Nation of Innovation

- Source: Cbinsight 2019

- 80 85 2000 05 10 15 20

- Population change rate relative to 1995

- Unit: billion RMB

- The figure after 2018 is forecast

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Establishment and Overview of China & Northeast Asia Company

Background of Establishing Regional Company

Since entering the Chinese market in 1987, “Matsushita Electric” has been developed and rooted in local businesses

- Shipment amount of approx. 3 trillion yen to China Region (Largest among Japanese Companies)
- A total of 85 independent R&D, manufacturing and sales bases
- Employees: 60,000
- Engineers: 8,800
- Hygiene toilet seat
- Bathroom heater
- Refrigerated/Freezer showcase
- Brand awareness in China

- Cost ranking NO.1 Japanese Company
- Share by sales value NO.1

On the other hand, growth slowed down in the Chinese market for the last 10 years

- Rate of variability of each item based on 2002 (China’s entry into WTO)
- Acquistion of Sanyo
- Withdrawal of TV

Factor Analysis

- Business Speed ✔ Japan oriented management, slow decision making
- ✔ Lack of understanding for Chinese values and rapid market changes
- Management Style ✔ Aggregation of 85 individual bases with siloed strategies
- ✔ System and mechanism that cannot fully utilize excellent Chinese talents
- Cost Power ✔ Excessive dependence on premier quality
- ✔ Insufficient capability to deal with rapidly emerging Chinese suppliers

Entered into the Chinese market with a new regional company.
Realizing the speed, style and cost to win in China
Established CNA mainly based on AP China Business and LS China business

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Business Policies/Strategies
CNA Priority Business Strategies

“Living Spaces” and “Fresh Food Supply Chain” as priority businesses to realize “Lifestyle Updates”

Co-create with partners to expand business in China with 2 updates growing in China

Living Spaces -Health/ Nursing-

Fresh Food Supply Chain

Expand from tangible thing to intangible thing

Expand to BtoB(toC)

Priority Business

Realizing the speed, style and cost to win in China

China Speed

China Cost

China Style

Foundation Reform

Trust, Cooperation, Balance

Long-term Reliability

Elemental Technology

Panasonic

Continuing Japan’s Superiority

Wide range of products

Brand Power

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Presentation at China International Import Expo * (November, ’19)

Great response from Chinese government officials and local media to our living spaces solution proposal

<table>
<thead>
<tr>
<th>No. of Visitors</th>
<th>210,000 visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Our booth)</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>No. of Government VIP Visitors</th>
<th>78 visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 4 deputy class government officials at national level</td>
<td></td>
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<tr>
<td>- 40 above deputy class government officials at provincial level</td>
<td></td>
</tr>
<tr>
<td>- 31 above deputy class government officials at the Agency Bureau level and 3 others</td>
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</table>

Media Coverage

11,100

(including 21 TV reports)

Announcement of Branding Strategy in China

Stay Close Forever, For the Joy of Mind and Body

Stay Close Forever, For the Joy of Mind and Body

Solution Display: Over 200 purchase intentions

Air-conditioning/Air quality Solution

Nursing Space (Housing-Facility)

Health Space Unit (Bathroom/Bedroom)

LDK Space

*One of the nation’s largest exhibitions, which is positioned as one of the country’s most important diplomatic events, aiming to disseminate the policy of the opening of the Chinese Market.
Priority Businesses : Living Spaces “Health/Nursing” Business

- Establish a brand image ahead of other companies
- Scale with new business model development

Promote projects as fast as Chinese companies

Integration of strengths cultivated in LS-AP businesses

Priority Businesses : Fresh Food Supply Chain Business

- Growing refrigerated distribution market due to food loss and safety concerns.
- Numerous small and medium-sized enterprises operate independently without Gulliver's oligopoly (dominant corporation in industry)

Establish an optimal partner for each supply chain and establish a traceable refrigeration solution

Collaboration with local automobile manufacturers
Launched demonstration tests with a focus on EV refrigeration truck business

Our strength with strong hardware and a reliable brand

Panasonic Brand

Food refrigeration distribution market

Food refrigeration distribution rate

Food damage rate

Transportation

Warehouse

Production

Process

Existing Retail

Existing Consumers

Warehouse

Transportation

○ From equipment sales to reinforcing engineering business
○ Evolve into a recurring business such as remote monitoring etc.

China Railway Tieelong Dalian Logistic Park (179,000 m²)
Business Strategies : Proposing New Value Through Dual Integrations
(Air-conditioning, Air quality, Housing Equipment × CE)

Enhance equipment business for B2B such as large-scale air-conditioning by combining air-conditioning/air quality + LS/AP integration

Accelerating the integration of housing equipment and CE
Integrating excellent Chinese HRs and some businesses cultivated in the CE business into the building and housing solutions division, accelerating the integration of housing equipment and CE.

B2B Marketing Enhancement
Enhance B2B channel development by unifying marketing organization of large-scale residential air-conditioning Unit (CAC)

(1) New Panasonic Appliances Air-Conditioning Equipment (China)
- Enhance initiatives to win increasing demand
- Strengthen sales for residential developers

(2) B2B marketing by Building and Housing Solutions Business Division
- Respond to diversifying housing developer needs with a wealth of housing equipment products (strong products such as No.1 air quality products and toilette) for housing interior
- Accelerate the use of equipment products with IoT with leading technology in CE

Creation of Integrated Value for Air-conditioning and Air Quality
Providing new value around air balance technology and differentiated devices

Optimization of 4 elements of air balance + Differentiated Devices

(1) Development of air-conditioning and air quality integrated products
- Integrated products utilizing humidity control (air quality technology) (will be released in FY 2021)
- Maximizing value with a focus on health by creating units around bathrooms and bedrooms

(2) Enhance touch points for spatial value experiences
- P Center Hangzhou (From Oct 1)
- Air quality/air-conditioning Flagship store
- WELL Lab (Beijing)

Business Strategies : Growth of Chinese CE Business
Increase online sales by sequentially deploying network-connected CE for each living space, strengthening OMO marketing, etc.

Sequentially deploy network-connected CE for each living space

Enhance measures for direct OMO marketing
Develop direct OMO marketing and strengthen seamless connections with customers

Seamlessly connect to customers

OMO: Online Merges Offline
Marketing concept that aims to provide a better customer experience by fusing on/off channels with a customer perspective and customer experience.

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Toward Further Reform in the CNA Region

Business Management Rooted in China

Toward a management style that further expand opportunities for the local employees. Working style transformation from working as an individual to working together as a group.

### Pursue Economies of Scale and Working Together to Improve Efficiency

1. Directing multiple sites to accelerate the metabolism of each site
2. Introduce a cluster system for bases and promote efficiency by group

### Purpose of introducing the cluster system
- High leveling by promoting exchanges between companies
- Presenting a career roadmap to excellent Chinese talented staff
- Promotion of regional shared services

### Base Direction

<table>
<thead>
<tr>
<th>Base</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Corporate liquidation</td>
</tr>
<tr>
<td>B</td>
<td>From JV to full ownership of capital</td>
</tr>
<tr>
<td>C</td>
<td>Integration of 3 sales companies into 1 company</td>
</tr>
<tr>
<td>D</td>
<td>Factory expansion and land acquisition</td>
</tr>
</tbody>
</table>

### Promotion of Chinese Style Mechanism

- Transition from a Japanese-style management style to a management style that Chinese people can sympathize with

- **China Style**
  - Leadership
  - Evaluation
  - Organization Design
  - Reward
  - Strong Top-down
  - Results-oriented positive/negative incentives
  - Aligning authority and responsibility
  - Transfer of authority

- CNA executives with a mix of Chinese and Japanese

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Vision of China and Japan’s “Co-creation”

- Pursue business structure with manufacturing and expansion of global businesses model from China to other regions
- Contribute to Group-wide stable profitability

Change gear toward China-led mass production

Robustly use reasonable “standard parts” of rapidly developing Chinese suppliers with our technology

**China Cost**

1. Reconstructing Chinese parts sourcing system
2. Group-wide consolidation expansion of procurement scale
3. Design to master standard parts from Chinese suppliers

Starting with Japan-China co-creation at China cost, consider transferring to China for businesses that have a foundation in place in China for medium- and long-term.

<table>
<thead>
<tr>
<th>past</th>
<th>now</th>
<th>long term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive instructions</td>
<td>Co-creation</td>
<td>Based on China</td>
</tr>
<tr>
<td>China cost</td>
<td>Global platform</td>
<td>Strategic base (All functions)</td>
</tr>
</tbody>
</table>

New Business Models to Asia and Japan

A part in innovation will be played in China where a foundation for utilizing big data is in place and specializes in agile development and expand to other countries

Planning, development and deployment of new business models

- Intelligent CE that blend into daily life
- SNS linked contents
- Smart ICT using big data

Expanding business models and know-how that are established in China to Asia and Japan

Expanding business models and know-how that are established in China to Asia and Japan

Expanding business models and know-how that are established in China to Asia and Japan

**FY20 1H Management Status**

- Despite the impact of market conditions, sales and profit in 2Q turned positive from previous year
- Growth driven by main businesses for China market

<table>
<thead>
<tr>
<th>CNA</th>
<th>vs. FY19</th>
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<tbody>
<tr>
<td></td>
<td>1Q</td>
</tr>
<tr>
<td>Sales</td>
<td>-5%</td>
</tr>
<tr>
<td>Adjusted OP</td>
<td>-14%</td>
</tr>
</tbody>
</table>

Positive Factors

- CNA’s main businesses (CE and housing equipment) grew more than previous year in China. During 1H, increased by 4%.

Negative Factors

- Air-conditioning device business (compressor) did not achieve the target.
- Geopolitical risks in Korea and Hong Kong.

<Comparison on a local currency basis>
### Vision for 2021

<table>
<thead>
<tr>
<th>Responsibility for gaining profits</th>
<th>Production</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within Region (consolidated production and sales)</td>
<td>CNA</td>
<td>CNA</td>
</tr>
<tr>
<td>Export (production and sales unconsolidated)</td>
<td>CNA</td>
<td>AP/LS</td>
</tr>
</tbody>
</table>

#### Adjusted OPM

4.5%  
(Sales: 672.0 billion yen)

**Proposing new value through integration of “housing equipment and CE” and “air-conditioning and air quality.” Accelerate collaboration with Chinese suppliers and reform cost structure.**

<table>
<thead>
<tr>
<th>FY19</th>
<th>FY22</th>
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- Deploy successful CNA’s initiatives in Asia and Japan
- Aiming to reach 940.0 billion yen sales in FY22 and contribute to sales expansion of AP and LS segments

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