Panasonic’s Automotive Business

Consumer Electronics Technologies Utilized in Automotive Business for High Growth

Since first marketing automotive lead-acid batteries in the 1930s, Panasonic has utilized technologies it has cultivated in consumer electronics to evolve its automotive business for about 80 years. The Company currently develops a broad range of products and systems in the three areas of “Comfort,” “Safety,” and “Environment,” including cockpit systems, ADAS and lithium-ion batteries.

With the electric vehicle (EV) market expanding and cars themselves evolving rapidly toward autonomous driving capability, sales in the Automotive Business in fiscal 2019 are projected to be 2 trillion yen as the business develops to provide key support for Panasonic’s growth.

Main Products and Systems

1 Comfort Area
Cockpit system, IVI, car navigation systems, Audio with display, head-up displays, car speakers, instrument panel switch, telematics control unit, etc.

2 Safety Area
ADAS, electronic mirrors, camera modules, sonars, ECU, angular rate sensors, steering angle sensors, automotive relays, etc.

3 Environment Area
Lithium-ion batteries, onboard charging systems, inverter-integrated compressors, EV relays, film capacitors, 12V energy recovery systems, etc.

Effective Demand Forecast for the Company’s Automotive Business (Comfort, Safety and Environment) (Company Estimate)

The Company’s Sales Target of Automotive Business (Comfort, Safety, Environment)

Aiming to become one of the top 10 auto parts manufacturers in the world
Shipments of next-generation cockpit system commence

Panasonic began shipments of an e-cockpit system to Jaguar Land Rover of Europe that features display technologies cultivated in digital AV products, compact projector technologies with exceptional heat dissipation, and optical lens technologies to strengthen marketability.

1 Business Strength

Comfort Area

- Know-how cultivated in digital home appliances, including display technologies, miniaturization technologies and optical lens technologies
- IVI*1 platform development jointly with automakers

2 Safety Area

- Possess strong key devices, including cameras, sonars and electronic control units (ECUs)
- Systems developed utilizing the Group’s image processing and AI technologies

3 Environment Area

- Expertise and technologies (quality responsiveness, development capability) in battery business, which has a long, over 80-year history
- Automotive lithium-ion battery production capacity of No. 1 market share (capacity basis)

Accelerating ADAS*2 development through synergies from making Ficosa a subsidiary

Ficosa International, S.A., a Spanish automotive parts and systems supplier, was made a consolidated subsidiary in April 2017. Through combining the technologies of both companies, Panasonic will further accelerate development of, primarily, electronic mirrors, as well as ADAS.

Bolstering lithium-ion battery production capacity to firmly maintain No. 1 share

Operations commenced in January 2017 at Panasonic’s battery factory inside the Tesla Gigafactory in Nevada, U.S. Production will also commence at a new plant in Dalian, China in fiscal 2018 to enable Panasonic to meet sharply increasing demand.

*1 IVI: In-Vehicle Infotainment
*2 ADAS: Advanced Driver Assistance System
Gigafactory Launches to Meet Growing EV Battery Demand
Production of New Battery Cells for Tesla’s “Model 3”

Panasonic’s lithium-ion battery factory within Tesla’s Gigafactory handles production of 2170-size*1 cylindrical battery cells for Tesla’s energy storage system and its new “Model 3” sedan, which began production in July 2017. The high performance cylindrical “2170 cell” was jointly designed and engineered by Tesla and Panasonic to offer the best performance at the lowest production cost in an optimal form factor for both electric vehicles (EVs) and energy products. Panasonic and Tesla are conducting phased investment in the Gigafactory, which will have 35 GWh*2/year production capacity of lithium-ion battery cells, more than was produced worldwide in 2013. Panasonic is estimating that global production volume for electric vehicles in fiscal 2026 will see an approximately six-fold increase from fiscal 2017 to over 3 million units. The Company will contribute to the realization of a sustainable energy society through the provision of electric vehicle batteries.

*1 2170 is the size of a cylinder with a diameter of 21 mm and height of 70 mm.
*2 Wh (watt-hour) is a unit of electrical energy. 1 GWh is 1 billion Wh. Assuming that the average household’s monthly power consumption is 300 kWh, 35 GWh, when converted to household power consumption, is equivalent to the amount of power consumed by approximately 117,000 households.
Mr. Kazuhiko Toyama, who has served as an outside director for Panasonic since June 2016, and Mr. Kazuhiro Tsuga, the current president of the Company, sat down to discuss the results of management and governance reforms to date, and what management and governance should be at a global corporation like Panasonic.

The Key Thing Is to Continue to Reform

— President Tsuga, you have carried out a number of reforms since your appointment in 2012, both in business structures as well as restoring the Business Divisions system. Could you tell us about the background to these reforms?

Tsuga • Looking back at our performance over the last ten years, Panasonic has been struggling in terms of growth. We aimed to create hit products that used our brand power and restore the business model of vertical integration within each product field. However, when I was appointed president, things were not actually going as well as we hoped, and so I felt that we needed to change our conventional business model. Along with structural reforms to scale down unprofitable businesses such as digital televisions, I revised how the Company
should make decisions and how we should engage in global competition in the IT era. At Panasonic, the president has a great deal of decision-making authority, and is able to access a great deal of information. However, there was almost no sharing of information between vertically-divided organizations. So I established the Group Strategy Meeting system, which includes corporate management, including heads of Divisional Companies, as a place to discuss management issues. These meetings allow us to share the same information I get as the president, pooling our collective wisdom to manage the Company. The Company’s structure has also become rather more complex, mainly due to large-scale M&As. So by restoring the Business Divisions system, and reorganizing the Company into 4 Divisional Companies, I have made the Company easier to visualize as a whole.

Toyama • One of the common weaknesses of Japanese companies is their decision-making ability. While they are very good at translating decisions into actions at the workplace, it’s extremely common for decision-making itself to be slow, or for the decisions to be vague. That’s the point I pay attention to in regard to governance: who makes the decisions and how? My focus is on whether this decision-making functions properly in terms of both timeliness and appropriateness.

This gets harder the bigger an organization gets, or the more global it becomes. In Panasonic’s case, our axis is based on numerous Business Divisions and products. These are held together with another axis of 4 Divisional Companies, combined with the axes of each region globally. Each of these axes is subject to an incredible amount of decision-making on a daily basis, so it’s a truly major challenge to develop this in terms of organizational capacity. Moreover, these axes, and the business environment, are constantly changing, day to day and hour to hour, so it’s not possible to set a goal point or final shape for reform. We must continue to evolve, and this continuity itself must be secured, which makes it hard. The reason I wanted to take part in this as an outside director is because the same awareness of issues and goals are shared by the management team, which consists of Mr. Tsuga and the presidents of the 4 Divisional Companies. And these are also in line with my own ideas on direction of reform.

The Role of the Outside Director

—When you invited Mr. Toyama to be an Outside Director, there was a positive response from the capital market. What changes have there been?

Tsuga • There’s a lot Mr. Toyama has taught me, or made me realize, since he came here. I’m very grateful for how he will bring up some key point before I even ask him. We always thought of our previous governance as more along the lines of something you develop to prevent anything improper happening. However, as Mr. Toyama has been advising me on all sorts of issues, I’ve come to see it rather as something you use to move towards what a global company should truly be; something extremely natural and unforced.

Toyama • I talked about decision-making earlier. In Japanese companies, this is often done bottom-up, carefully building a consensus. During normal times, the people higher up need only to ratify the decisions made this way. But sometimes that’s not enough, and the heads of Divisional Companies and Business Divisions need to make clear decisions from the top.

Most of these decisions are crucial ones for the business, or ones that are part of major reforms. Being in management myself, I’ve made these sorts of decisions, so I understand how much courage is needed, and how hard you have to work, withstanding the loneliness. The role of an Outside Director is to support those making such decisions. It’s important to monitor the process objectively and provide support to prevent the wrong decision from being made. It may seem that someone outside won’t understand the contents of this decision-making, and it’s true that we can’t understand it at the same level as people inside the Company. But we can coach them. That’s because we’ve been keeping an eye on the players all this time. In my view, that’s the role of us outside directors.

Aiming to Be a Truly Global Company

—With the slogan, “A Better Life, A Better World,” Panasonic has announced a policy of making contributions to our customers globally. What are your thoughts on creating the organizations needed for this?
**Tsuga** Our previous overseas expansions have not really made use of overseas resources. This is because our core idea was to divide roles with Japan taking the lead, and we didn’t allow local sites enough organizational capability to work independently.

However, our customers are overseas. So we need local people, who are close to our customers, to be fully aware of how they can contribute to our customers’ needs. It’s extremely important to allow sites near our customers to have the organizational capability for development, production, and sales, and so we need to temporarily break down the system that was optimized centered on Japan. As a result, even though there is a temporary drop in efficiency, in the long run, I am confident that it will become better than the old Japan-centric system.

In fact, there’s an example I can offer from when I was in charge of our automotive business. At the time, there was the strong view among Japanese employees, in any country, that “we’re the principal players, and overseas is just where we are.” As a result, we weren’t of enough help. So I changed our organization to make overseas the principal players, and Japan the supporting player. A few years later, the local side gained strength and were able to liaise between Europe and the United States to supplement each other’s weaknesses. This experience is why, even if we can’t do it throughout the entire Company immediately, I feel that we should use the opportunities of M&A and so on to tear down the Japan-centric system, empowering our local offices and move forward with reform step by step.

**Toyama** The issue in that story is something shared by all Japanese manufacturers. From the high economic growth period to around the collapse of the bubble economy, Japanese manufacturers’ advantage lay in how they could use their strong products to expand globally, succeeding in the global market. Its organizational capabilities have evolved in line with this model. I would imagine it’s rather hard to completely change this in one go. However, this is the foundation of our global expansion, so without changing it, we won’t be able to compete overseas. It’s important to keep making efforts to change, without giving up. The difference between keeping up this sustained effort for ten years, and not bothering, is not something that can be easily done overnight.

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**The Essence of Governance Is Sharing Principles and Values**

*—* When expanding business overseas, what sort of things do you see as the main points in terms of governance?*

**Toyama** The first thing I can say is that we need to do our best to avoid creating any asymmetry between the governed side and the governing side. Neither side must deceive the other. The question is how far we can close up the information gap on both sides.

Even more important than that is how far we can share the base of management regulations and values among people in the Group, and whether they match in terms of what people really feel. This is an extremely important issue.

It will become extremely important that the base is universal and can be shared among people of different backgrounds and religions. I feel that the essence of governance is found here.

**Tsuga** At Panasonic, we have a management philosophy bequeathed to us by our founder. We also have our brand slogan, “A Better Life, A Better World,” which translates our philosophy in a global and easier to understand manner. In addition to contributing to “A Better Life” for our individual customers in the B2C field, we will expand our contributions for “A Better World” by helping with social issues in the B2B field. I think it is important to enact our management philosophy in a tangible way, through each of our employees applying
this philosophy to specific actions, and expanding this to other organizations within the Group.

Toyama ◆ As globalization and changes in our business progress, we should evolve our principles to suit the times. Conversely, it might actually be better to change them, as those who have evolved them will develop a sense of ownership. The difficult thing is that, being a company, we are forced to include impersonal economy competition into our requirements on a separate dimension from our principles. However, even if these two contradict each other in the short term, in the long term I believe they will be perfectly compatible. As globalization progresses, reforms will need to be carried out with unflagging determination.

This reform process is a bit like a seesaw, crashing down with a bang with shocks like being in the red, then rising up again, relieved and returned, after the danger has passed. The key thing is that reforms should not be able to be undone. How far we can get the entire Company to realize that we can’t go back, so we have to keep evolving.

Tsuga ◆ In that sense, I often hear from outside partners and customers that Panasonic’s changed lately. But I suspect that there’s a lot of places internally where, if we look, these reforms haven’t yet reached. In my view, this will take a long time. It’s simply not possible to change the legacy of a century-old company in a day.

Toyama ◆ Rather, in Panasonic’s case, I think it’s more important to leverage that legacy to keep persistently changing.

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Lastly, could I get a final comment from each of you?

Tsuga ◆ As our founder meant when he said, “bring together the collective wisdom,” we need to openly, honestly listen to what people say. So we will honestly listen to people outside the Company who speak directly, just like Mr. Toyama.

However, what can really change a company isn’t so much asking these people to change it, but by being inspired by their words, and changing it ourselves. There must be no change to broadening how we make contributions to society and our customers as we aim to develop as a public entity of society. All flattery aside, I’m extremely grateful we have Mr. Toyama with us, and so can become more open-minded.

Toyama ◆ Thank you very much. I see my work as an Outside Director as a sort of public office. Listed companies in particular have a large role as public institutions within society, as Mr. Tsuga noted just now, and it’s Outside Directors like me who act to guarantee that. However, a company’s highest organ is the team that is the board of directors, and this team would normally be assessed retroactively whether it has really done a good job. How much can we calmly and deliberately strengthen the backbone of the Company without pursuing short-term results? I am often aware of this when I am involved in making each decision.

Management at a manufacturer has many aspects that are truly deep and difficult. In fact, I have studied this a lot to deepen my understanding. I hope to keep on studying hard, and contributing for as long as I can as an Outside Director, so any support you can offer will be gratefully received.

Tsuga ◆ It would be my pleasure. Thank you very much for today.
Financial / ESG Highlights
Panasonic Corporation and Subsidiaries, Years ended March 31

Panasonic began applying International Financial Reporting Standards (IFRS) on a voluntary basis in the fiscal year ended March 2017. Financial figures for the fiscal year ended March 2016 are also presented in accordance with IFRS in addition to conventional US GAAP standards.

Graphs of Main Financial / ESG Indicators

**Financial Highlights**

**Net Sales**

Sales decreased year on year due to the impact of yen appreciation, but in real terms excluding the impact of exchange rates, sales increased on growth in automotive, consumer electronics and other businesses.

**Operating Profit and Ratio to Sales**

While being impacted by upfront investments for future growth and exchange rates, etc., profit increased year on year due to streamlining initiatives and the effects of legal costs recorded in the previous year, as well as other factors.

**Capital Investment* and Depreciation**

Capital investment increased year on year due to investment in production facilities for automotive lithium-ion batteries.

**Free Cash Flow**

Free cash flow was negative for fiscal 2017 due to strategic investments made for future growth, including acquisition of shares in Hussmann Corporation.

**ESG Highlights**

Panasonic works to maximize contributions to CO2 emissions reductions from products and services through improved energy-saving performance and more widespread use. In fiscal 2017, contributions to CO2 reductions increased to 52.69 million tons.

Panasonic promotes zero emissions of factory waste (recycling rate of 99% or higher) by limiting the volume of total wastes including revenue-generating waste, increasing the volume of recycled resources and reducing the final disposal volume to as close to zero as possible.

Note: Recycling rate = Amount of resources recycled/(amount of resources recycled + amount of landfill). *Waste that is potentially saleable
The composition of the Board has been substantially changed to further strengthen corporate governance. The number of Directors was reduced from 17 to 12 as of June 29, 2017, and the Outside Director ratio was increased to one-third.

Promoting diversity is an important management initiative, and in Japan in particular, the hiring of women to positions with decision-making authority is a recognized issue. Panasonic continues to increase the number of women in managerial positions and the percentage of women in positions of responsibility through the promotion of various initiatives.

Interest-bearing debt increased from March 31, 2016 due to the issue of straight corporate bonds and other factors. Cash and cash equivalents increased from March 31, 2016 due to recording net profit and issuing corporate bonds, despite outflows from investing activities.

Panasonic Corporation stockholders’ equity increased due to recording net profit and other factors, despite worsening in Other components of equity caused by yen appreciation, etc.

Net profit attributable to Panasonic Corporation stockholders decreased year on year due to having restated deferred tax assets (decrease in provision for income taxes) the previous fiscal year.

ROE was 9.9% due to a decrease in net profit attributable to Panasonic Corporation stockholders.

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Investing 1 Trillion Yen for Future Growth

For the period from fiscal 2016 to fiscal 2019, Panasonic plans to allocate a cumulative total of 1 trillion yen for strategic investment, in addition to regular capital investment, as a strategy to accelerate its growth. Investment thus far has been made primarily in businesses for which high growth is expected, including the Automotive and B2B businesses.

As of March 31, 2017, the Company has already invested, or made the decision to invest, approximately 80% of the 1 trillion yen total.

Specifically, in fiscal 2017, the Company made capital investments in manufacturing facilities in the U.S. and China for lithium-ion batteries used in electric vehicles. In the area of M&A, the Company made Hussmann Corporation (Hussmann), a U.S. industrial refrigerator and freezer display case manufacturer, a consolidated subsidiary. In fiscal 2018, it is making Ficosa International, S.A., a Spanish automotive parts and systems supplier, and Zetes Industries S.A. of Belgium, which is involved in logistics solutions, consolidated subsidiaries.

For investment projects going forward, Panasonic intends to focus primarily on investment in the Automotive business. It will continue to make decisions while carefully considering investment returns and potential risks.

Overview of Main Investment Projects

Strengthening Collaboration with Tesla

In addition to the collaboration with Tesla in the lithium-ion battery business, Panasonic also collaborates with the company in the solar cell business and will begin production of solar cells this summer at its Buffalo, New York, factory. Solar cells produced at this factory are supplied to Tesla. In addition, the solar cells are used in roof tiles sold by Tesla, a product that integrates solar
cells with roofing materials.

Panasonic will continue its investment in the factory going forward and plans to raise solar cell production capacity to 1 GW by 2019.

Building an Automotive Battery Factory in China

In China, the largest automobile market in the world, environmental issues are worsening as economic development takes place, and demand for eco-conscious cars is expected to increase going forward. Panasonic established a joint venture with a local company in Dalian, China and launched an automotive battery factory in April 2017. Production is scheduled to commence before the end of fiscal 2018, and Panasonic plans to supply products globally, not only in China.

The factory is the Company’s first in China for automotive batteries, and it now has established a three-pronged production system consisting of Japan, the U.S. and China.

Acquisition of Hussmann

Panasonic invested approximately 185.4 billion yen* in April 2016 and acquired Hussmann, a U.S.-based manufacturer of industrial refrigerator and freezer display cases. This gave the Company the top global sales share in the commercial display case market.

Utilizing Hussmann’s business infrastructure, the Company will distribute products in the U.S., the world’s largest market, as well as in Canada, Mexico and countries in Oceania. Moreover, by leveraging both companies’ strengths, such as our energy-saving technologies and CO2 refrigerant technologies and Hussmann’s exceptional product technology, the Company intends to develop the food distribution business into a business that supports future growth.

*Acquisition price for the displayed purchase amount (exchange rate of JPY 120 to USD 1)
Looking Back on Fiscal 2017

— Panasonnisc experienced an increase in sales in real terms after excluding the effects of foreign currency exchange rates in fiscal 2017. How would you assess the Company’s performance?

In recent years, Panasonic has taken the initiative and promoted the shift to a new business model. In specific terms, the Company is making the most of its strengths and technologies in areas where it excels with a focus on addressing customers’ needs. As a result, we are seeing those efforts undertaken to date bear fruit with growth in the Automotive Business helping to boost sales in real terms.

—I am confident that we have addressed all areas that currently require reform. Having said this, the need to promote reform is ever present. As one recent example, our solar photovoltaic systems for the housing market in Japan, which used to generate substantial profit, have become unprofitable. As a result, we need to make changes to seek markets outside Japan. As conditions continue to change worldwide, we can expect the need for structural reform of our businesses to be a constantly resurfacing theme. Knowing this, we will make every effort to accurately grasp conditions as they evolve and will take the initiative in implementing appropriate measures.

Looking ahead, we will strive to constantly uncover fields in which we can put forward useful proposals based on our resources and technologies. Our next goal will then be to expand those areas in which we can make contributions.
The Automotive Business Where Our Areas of Contribution Continue to Expand

— Having led the Automotive business earlier in your career, what are your thoughts on the current status of this business?

Business conditions in this particular field have changed dramatically beyond our expectations. Rather than a change in users, I refer to changes in the value placed on environmental impact as well as the safety and security of the elderly. When I became responsible for the Automotive business in 2008, enjoyment stemmed largely from driving. Who could have foreseen that an era of electric vehicles, advanced driver assistance systems (ADASs), and self-driving cars would be upon us so quickly?

Under these circumstances, we can expect increased demand for more placid and safer vehicles, at least in the city. Segmentation is projected to considerably advance in the automobile sector in the future. In addition to public transportation vehicles, I believe that the nature of private cars will also vary. Against this backdrop, and as opportunities in the automotive field extend across a wide variety of areas from batteries through devices to systems and even to mobility services in the future, I expect that our role will expand beyond our position as a conventional manufacturer of component parts.

— Is there a chance that you will also provide solutions to general consumers seeking to choose a car?

Taking into consideration the growing demand for vehicles that the elderly can safely drive, we cannot be expected to stand idly by. As society continues to age going forward, and in the event that there are requests from society, I am predicting that the situations described above may possibly arise.

Established the Connected Solutions Company as a Driver of B2B Solutions Business Growth

— The Company went as far as lowering its flagship AVC banner when setting up the Connected Solutions Company, which is responsible for the B2B Solutions business. What led you to this decision?

First, we were forced to downsize as a result of declining profitability in the TV business, which was a mainstay component of the AVC Networks Company. At the same time, we undertook a review of other businesses within our portfolio. As a result, all that remained of the AVC Networks Company was virtually a focus on the B2B field. Recognizing the difficulties in strengthening the solutions business based solely on an amalgamation of old businesses, we changed the name of the company to Connected Solutions and also installed new management.

— The head of the Connected Solutions Company, Yasuyuki Higuchi, held a number of positions prior to his appointment including chairman of Microsoft Japan Co., Ltd.

We undertook to reform the Appliances, Automotive & Industrial Systems, and Eco Solutions companies mainly through internal human resources. However, Panasonic has limited experience in the B2B solutions field that underpins the Connected Solutions Company. As a result, Mr. Higuchi, who has held several senior positions across a variety of industries including the IT field and has a wealth of experience and knowledge in B2B solutions, was appointed CEO of the Connected Solutions Company.

— Do you envisage any difficulty in pushing forward the Solutions business in an electronics industry that previously revolved around the manufacture and sale of products?

Indeed, even if we contribute to our customers, we will to a degree have to wait and see before we can confidently predict profitability. B2B solutions requires wide-ranging expertise encompassing people, products, and data. However, no one company currently exists that is capable of bringing these disparate parts together into a single solution.
Our strengths lie in our abundant knowledge of people and products as well as our frontline and engineering. By adding to these strengths, we will be better placed to uncover issues that customers seek to overcome and cut forward appropriate solutions. The critical question here is to consider whether this undertaking is profitable or can be provided at a cost customers consider is a reasonable price. This is the most difficult hurdle, which we will work to overcome in concert with Mr. Higuchi.

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4 Enhancing Our Organization Capacity Overseas in Line with Global Expansion

— What do you see as important when looking to expand globally in the future?

The most important point is to enhance our overseas organizational capabilities. Whether it is for B2C or B2B business purposes, our goal for the foreseeable future is to shift from a management approach that is centered on Japan to a locally driven model with the self-contained organizational capabilities to complete each task at respective on-site locations. We will look to take up a variety of challenges through our overseas businesses. This includes whether to draw from the top management of companies acquired overseas, or to appoint local staff to top management positions and empowering them with the authority to act on their own. In the case of the latter, there is little or no need to take on a direct public role. Japanese staff can work behind the scenes in a support capacity. This is in fact the model that we have initiated in India.

— The sense of value and operating conditions differ from country to country.

First, it is imperative that we go to each country. It is important that we try with a variety of businesses. Through this process, we must learn as much as we can. We are now looking at which countries and what kind of business opportunities lie in.

— Which country or countries are you interested in now?

The key to success of our overseas expansion endeavors rests with our business in China. This manner in which conditions in China continues to change is like no other country. How we can raise our presence in China is an important barometer in foretelling our future.
**Interview with the President**

**Toward Realizing A Better Life, A Better World**

Panasonic will celebrate its 100th anniversary next year. While certain pundits have set the average lifespan of a company at 30 years, what are your thoughts on achieving this significant milestone?

With our founder at the helm, Panasonic embarked on addressing countless challenges during its early years. In the ensuing years, the Company has racked up a variety of successes and failures. Despite these ups and downs, we have never lost sight of our roots. We are acutely aware that the Company is a public entity of society. Our business is comprised of resources that are critical to society. Building on the knowledge and efforts of this resource, “people,” Panasonic’s existence revolves around the ability to make contributions. Contributing to society is not a one-sided product-out function. It is a market-in function with customers at the core. This does not change whether or not it is our 100th anniversary.

Every effort that I have made over the past five years since I became President has been derived from this understanding.

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What kind of help and service will Panasonic deliver in the future?

In a nutshell, and as stated in our corporate slogan, we will work to provide A Better Life, A Better World. We are conveying throughout the Company the need to firmly grasp the form that this will take as a result of this pursuit.

As far as A Better World is concerned, or more succinctly an area where we must address social issues, the definition of “Better” will differ depending on the situation or values of the respective country or nation. For example, in some nations, solving air pollution is the priority. Here, governments carry out measures in a top-down manner. There are also countries with insufficient social infrastructure, where there are villages without electricity. There are many issues that we do not recognize if we remain in Japan, and these can become business opportunities.

A Better Life, where the focus is on ensuring a comfortable and rich existence for individuals, also has many permutations depending on each individual’s position within society and value set. This can vary from an advanced lifestyle to one that entails a return to nature. Our goal is to gradually increase the depth of our businesses in response to these diverse values. By providing a wide range of services, we are better positioned to help realize A Better Life for our customers around the world.

In the Company’s early days in Japan, Panasonic was guided by the founder’s “tap water philosophy.” Accordingly, the Company’s primary role was to provide high-quality, high-performance products to as many people as possible at an affordable price. In other words, mass production was our best way of contributing to society. There are still many emerging markets in regions and countries around the world where this philosophy applies.

As far as developed countries are concerned, society has shifted away from a focus on tangible products. Compensation is increasingly seen in terms of such intangible items as services. Here A Better Life is not defined in terms of the purchase of products, but more on the prerequisite development of a service infrastructure. Put another way, realizing A Better Life is predicated on the development of A Better World. Again, for
developed countries, there is a wide variety of definitions of a quality product. Under these circumstances, we will provide products with unique attributes that meet the needs of individual customers while at the same time helping to realize A Better Life also through indirect services via B2B businesses.

— It would seem that areas in which the Company can contribute are expanding.

Our founder believed that expanding the areas in which we contribute would lead to improved profits. We are taking great care to draw on this philosophy as we push forward our business activities.

For example, if human resources from the TV business are shifted to the automotive field, the profit margins for those businesses and work that these human resources are responsible for will improve exponentially. This is the type of reform that I have continued to push forward.

6 The Future of the Electronics Industry

— Amid the growing impact of software and trend toward the use of networks, the value that electronics technology brings to society appears to be declining in relative terms. What is your outlook for the electrical industry?

In instances where the focus is limited to basic functions and performance, it is more than likely that products will be commoditized. From our perspective, we are promoting the transition to premium domains. Our focus is on providing products that customers can purchase with confidence. Even in those cases where the price is a little high, each purchase stems from an ability to exactly match individual needs.

Meanwhile, conventional cameras were for taking photographs. But today we see qualitative changes such as their use as a sensor for information gathering. With the dissemination of high-performance batteries, the potential now exists to replace fixed 100V cords with a more convenient and mobile option. In this way, we can expect new fields to emerge through combinations of AV, network, and AI technologies. Taking each of these factors into consideration, there is still ample room for the electronics industry to evolve. The question then arises: How can these trends be turned into a business? In addressing this question, I am convinced there is a need to push forward technologies in areas that can be commercialized, step by step.

— As someone who has considerable experience in R&D, which technologies and fields do you believe have the potential to change the world in the future?

One area is the field of robotics. As far as Panasonic is concerned, robotics technologies have a strong role to play through industrial applications. My current interest, however, is in the potential for using robotics in the medical and nursing care fields. In an era where society continues to age, it will become increasingly important to provide machinery and systems support to both sectors going forward. I believe that society has expectations toward the development of robots that can support or help prevent elderly people from stumbling.

There will be new requests for adding value in the housing sector integrated with consumer electronics. Here, the opportunity exists for Panasonic to provide various unique housing space proposals. These include amenable housing for the elderly and consumer electronics that can be easily set with houses.

— In closing, do you have any message for stakeholders?

Society has become extremely complex over the almost 100 years since our founding. Unlike the electrification era, it has become increasingly difficult to predict the future using a few easy-to-understand key words. On the occasion of our 100th anniversary, we must reconsider the present and future. It is imperative that we think long and hard about what kind of contributions we can make for society.

Panasonic will continue to realize growth by thoroughly pursuing A Better Life, A Better World. As we work toward achieving our goals, I kindly request the continued support of all stakeholders.
As the Newly Appointed CFO

— What are your aspirations as CFO?

In fiscal 2017, ended March 31, 2017, Panasonic achieved an increase in sales in real terms excluding the effects of foreign currency exchange rates. Looking ahead, we are growing increasingly confident in our ability to secure and maintain both sales and profit growth. While taking definitive steps to achieve its management goals for fiscal 2019, namely operating profit of 450 billion yen and net profit attributable to Panasonic Corporation stockholders of 250 billion yen or more, the Company will endeavor to increase its corporate value by implementing the following measures.

First, we will push forward measures that reflect each business’s characteristics. At the same time, we will review and consider the need to reorganize the portfolio from a mid- to long-term perspective. As for the investments that are key to the Company’s growth strategy, we will undertake the well-focused allocation of funds. Moving forward, we will then reinforce efforts to monitor progress in a bid to generate steady returns.

From a financial perspective, we will continue to engage in cash flow-oriented management while ramping up control over our balance sheet. This will help in setting up a robust platform that can flexibly adjust to changes in our business structure and respond to aggressive investment activity.
In addition, we will rebuild our core systems and ensure that the information necessary for management decisions is readily available. We will also improve the efficiency of indirect operations in order to proactively promote work style reform.

Moreover, amid a business environment that continues to change rapidly, we will place the utmost importance on communicating with shareholders and investors, and to reflect any feedback into our business management.

As CFO, I will endeavor to raise the effectiveness of initiatives in support of our business activities.

Financial Position

— Can you comment on the Company’s financial position in fiscal 2017?

While Panasonic places considerable weight on return on invested capital, the Company remains conscious of ROE, an indicator of capital efficiency, in the conduct of its Group-wide business activities. At the same time, the Company focuses on improving financial stability as the underlying strength of growth investments. Cognizant of cash flows as the wellspring for enhancing corporate value, we have also continued to practice cash flow-oriented management.

By carrying out various Group-wide initiatives based on this stance, Panasonic reported the following key financial indicators in fiscal 2017.

Key Financial Indicators for Fiscal 2017

<table>
<thead>
<tr>
<th>ROE</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panasonic Corporation stockholders’ equity to total assets ratio</td>
<td>26.3%</td>
</tr>
</tbody>
</table>

In addition to Standard & Poor’s lifting the Company’s credit rating from BBB+ to A- in November 2015, Panasonic’s credit rating as assessed by Moody’s rose from Baa1 to A3 in October 2016.

Credit Ratings as of July 31, 2017

<table>
<thead>
<tr>
<th>Ratings agency</th>
<th>Long term (outlook)</th>
<th>Short term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating and Investment Information</td>
<td>A (stable)</td>
<td>a-1</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>A— (stable)</td>
<td>A-2</td>
</tr>
<tr>
<td>Moody’s</td>
<td>A3 (stable)</td>
<td>—</td>
</tr>
</tbody>
</table>
Measures Aimed at Achieving Management Goals

— What measures will you take to achieve the management goals for fiscal 2019?

In line with our goal to realizing profit growth, we will work toward achieving operating profit of 450 billion yen and net profit attributable to Panasonic Corporation stockholders of 250 billion yen or more as management goals for fiscal 2019. In order to achieve these goals, we will undertake the following four measures.

1. Implement measures in line with the characteristics of each business while reviewing and reorganizing the portfolio

Panasonic categorized its activities into the three high-growth, stable-growth, and low-profitable businesses. We implement business strategies in line with the characteristics of each business.

We concentrate our management resources into high-growth business with the aim of boosting both sales and profit. Our energies in stable-growth businesses are directed toward generating steady profit and cash flows. As far as low-profitable businesses are concerned, we focus our attention on improving profitability. This entails pushing forward a host of initiatives including changing business activities, cutting back fixed costs, and streamlining operations.

Looking ahead, we will continue to carry out measures in line with the characteristics of each business, while reviewing and considering the need to reorganize the portfolio. Through these means, we will enhance our corporate value on a sustainable basis.

2. Undertake well-focused strategic investments while reinforcing efforts to monitor progress

Over the four-year period from fiscal 2016 to fiscal 2019, Panasonic plans to undertake strategic investments totaling 1 trillion yen in an effort to secure and maintain both sales and profit growth.

In undertaking strategic investments of 1 trillion yen, we have taken steps to clearly define objectives from a business strategy perspective. At the same time, each decision to invest has been made while carefully identifying perceived risks. As a result, investments in such areas as automotive rechargeable battery equipment and the acquisitions of Ficosa International, S.A. and Hussmann Corporation came to roughly 400 billion yen as of the end of fiscal 2017. With the addition of other candidate investments, most of which are classified in the high-growth business domain, approximately 80% has been either invested or decided.

Moving forward, we expect to continue investing in automotive- and other related businesses. We will also maintain our focus on evaluating risks and return while undertaking well-focused investments. At the same time, we will closely monitor progress with a view to recouping profit and cash flows. We will place considerable emphasis on putting in place proper and appropriate measures.

3. Secure the necessary finance to fund growth investments

In addition to strengthening the ability of each business to generate cash flows, we are also working diligently to create cash from our balance sheet in order to secure the necessary fund for growth investments. As a result, our cash conversion cycle* improved one day compared with the previous fiscal year, to 30 days in fiscal 2017.
On a related note, Panasonic took a major step toward securing the necessary fund for growth investments by issuing unsecured straight bonds in Japan in the aggregate principal amount of 400 billion yen in September 2016. These bonds were issued in a timely manner when interest rates in Japan were hovering at extremely low levels.

* The cash conversion cycle (CCC) is an indicator of corporate capital efficiency. The CCC is calculated by deducting the amount of accounts payable from the sum total of accounts receivable and inventories measured in terms of the number of days of net sales. The shorter the number of days the higher is the amount of free cash flows available for strategic use.

4. Measures aimed at increasing net profit

Panasonic adopted IFRS* in fiscal 2017, ended March 31, 2017, in lieu of generally accepted accounting principles in the U.S.

The significance in adopting IFRS rests on the Company’s decision to focus on IFRS-based operating profit going forward, and to increase net profit and cash flow while placing added weight on and controlling costs that are traditionally posted as non-operating items including structural reform, quality, litigation expenses. At the same time, steps will be taken to enhance management control and to strengthen governance by implementing management control based on IFRS at all subsidiaries in Japan and overseas.

Through each of the aforementioned 4 initiatives, the Group as a whole will work diligently to achieve the management goals set for fiscal 2019. At the same time, we will endeavor to secure an ROE of at least 10% by increasing profitability.

We will also focus on maintaining the level of cash flows at 150 billion yen or more on a constant free cash flow basis excluding strategic investments by reinforcing the ability of each business to generate cash flows.

* Accounting line items other than finance income and expenses (gain/loss on foreign exchange and interest income/expenses) conventionally posted as other income/deductions are all included in operating profit/loss (other profit/loss) and impact operating profit under IFRS.

Approach Toward the Return of Profits to Shareholders

---Can you elaborate on the application of cash flows from each of the investment and shareholders return perspectives?

Panasonic is currently in a phase during which it will focus on securing and maintaining both sales and profit growth by proactively undertaking growth investments. As far as free cash flows are concerned, we will prioritize investments in a bid to enhance our corporate value. However, Panasonic has recognized the return of profits to shareholders as an important management concern since its establishment. With this in mind, we maintain the basic policy of distributing profits in line with our consolidated performance and continue to target a consolidated dividend payout ratio of between 30 and 40%.

Guided by this policy, the Company’s annual dividend came in at 25 yen per share in fiscal 2017. This was the same level as the previous fiscal year. Moving forward, we will make every effort to increase net income and generate free cash flows. In addition to maximizing our corporate value, we will balance the needs to maintain an appropriate payout ratio with the stable and continuous growth in dividends and the return of profits to shareholders.

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# 10-Year Financial Summary

Panasonic Corporation and Subsidiaries, Years ended March 31

Panasonic began applying International Financial Reporting Standards (IFRS) on a voluntary basis in the fiscal year ended March 2017. Financial figures for the fiscal year ended March 2016 are also presented in accordance with IFRS standards in addition to conventional US GAAP standards.

## U.S. GAAP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>9,068,928</td>
<td>7,765,507</td>
<td>7,417,980</td>
<td>8,692,672</td>
<td>7,846,216</td>
<td>7,303,045</td>
</tr>
<tr>
<td>Operating profit</td>
<td>519,481</td>
<td>72,873</td>
<td>190,453</td>
<td>305,254</td>
<td>45,725</td>
<td>160,936</td>
</tr>
<tr>
<td>Income (loss) before income taxes</td>
<td>434,993</td>
<td>(382,634)</td>
<td>(29,315)</td>
<td>178,807</td>
<td>(812,844)</td>
<td>(398,386)</td>
</tr>
<tr>
<td>Net income (loss) attributable to Panasonic Corporation</td>
<td>281,877</td>
<td>(378,961)</td>
<td>(103,465)</td>
<td>74,017</td>
<td>(772,172)</td>
<td>(754,250)</td>
</tr>
<tr>
<td>Capital investment</td>
<td>449,348</td>
<td>494,368</td>
<td>385,489</td>
<td>403,778</td>
<td>333,695</td>
<td>310,866</td>
</tr>
<tr>
<td>Depreciation</td>
<td>282,102</td>
<td>325,835</td>
<td>251,839</td>
<td>284,244</td>
<td>295,808</td>
<td>277,582</td>
</tr>
<tr>
<td>R&amp;D expenditures</td>
<td>554,538</td>
<td>517,913</td>
<td>476,903</td>
<td>527,798</td>
<td>520,217</td>
<td>502,223</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>404,687</td>
<td>(352,830)</td>
<td>199,674</td>
<td>266,250</td>
<td>(339,893)</td>
<td>355,156</td>
</tr>
</tbody>
</table>

## At year-end (Millions of yen)

| Interest-bearing debt | 388,606 | 745,665 | 1,327,992 | 1,595,269 | 1,575,615 | 1,143,395 |
| Cash and cash equivalents | 1,214,816 | 973,867 | 1,109,912 | 974,826 | 574,411 | 496,283 |
| Total assets             | 7,443,614 | 6,403,316 | 8,358,057 | 7,822,870 | 6,601,055 | 5,397,812 |
| Panasonic Corporation shareholders’ equity | 3,742,329 | 2,783,980 | 2,792,488 | 2,558,992 | 1,929,786 | 1,264,032 |
| Total equity             | 4,256,949 | 3,212,581 | 3,679,773 | 2,946,335 | 1,977,566 | 1,304,273 |

## Per share data (Yen)

<table>
<thead>
<tr>
<th>Net income (loss) attributable to Panasonic Corporation per common share:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
</tr>
<tr>
<td>Diluted</td>
</tr>
<tr>
<td>Dividends declared per share</td>
</tr>
<tr>
<td>Panasonic Corporation shareholders’ equity per share</td>
</tr>
</tbody>
</table>

## Financial Indicators

| Operating profit/sales (%) | 5.7 | 0.9 | 2.6 | 3.5 | 0.6 | 2.2 |
| Income (loss) before income taxes/sales (%) | 4.8 | (4.9) | (0.4) | 2.1 | (10.4) | (5.5) |
| ROE (%) | 7.4 | (11.8) | (3.7) | 2.8 | (34.4) | (47.2) |
| Net income (loss) attributable to Panasonic Corporation/sales (%) | 3.1 | (4.9) | (1.4) | 0.9 | (9.8) | (10.3) |
| Total asset turnover ratio (Times) | 1.2 | 1.1 | 1.0 | 1.1 | 1.1 | 1.2 |
| Financial leverage (Times) | 2.0 | 2.1 | 2.6 | 3.0 | 3.2 | 3.8 |
| Interest-bearing debt/total assets (%) | 5.2 | 11.6 | 15.9 | 20.4 | 23.9 | 21.2 |
| Panasonic Corporation shareholders’ equity/total assets (%) | 50.3 | 43.5 | 33.4 | 32.7 | 29.2 | 23.4 |
| Payout ratio (%) | 26.3 | – | – | 28.0 | – | – |

## Exchange rate (Yen)

| 1 USD | 114 | 101 | 93 | 86 | 79 | 83 |
| 1 EUR | 162 | 143 | 131 | 113 | 109 | 107 |
| 1 RMB | – | – | – | – | – | 13.3 |

## Note to U.S. GAAP

1. The Company’s financial statements were prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) until the fiscal year ended March 2016.
2. In order to be consistent with generally accepted financial reporting practices in Japan, operating profit, a non-GAAP measure, is presented as net sales less cost of sales, selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the company’s financial results with those of other Japanese companies. See the Company’s annual securities report and financial announcements for the details.
3. The Company defines capital investment as purchases of property, plant and equipment based on an accrual basis which reflects the effects of timing differences between acquisition date and payment date.
4. Capital investment and depreciation do not include intangibles.
5. Dividends per share reflect those declared by Panasonic in each fiscal year and consist of interim dividends paid during the fiscal year and year-end dividends paid after the fiscal year-end.
6. Due to the adoption of the provisions of FASB Accounting Standards Codification (ASC) #10, “Consolidation,” fiscal 2009 and prior years’ data have been restated.
7. SANYO Electric Co., Ltd. (SANYO) and its subsidiaries became consolidated subsidiaries of Panasonic in December 2009. The operating results of SANYO and its subsidiaries prior to December 2009 are thus not included in Panasonic’s consolidated financial statements.
8. “Diluted net income (loss) attributable to Panasonic Corporation common shareholders per share” from fiscal 2010 to fiscal 2014 has been omitted because the Company did not have potential common shares that were outstanding for the period.
9. Effective from the beginning of fiscal 2013, investments and depreciation expenses in molding dies are included in “Capital investment” and “Depreciation (tangible assets),” respectively. Accordingly, the amounts of “Depreciation (tangible assets)” and “Capital investment” for fiscal 2012 are changed.
10. Payout ratios have not been presented for those fiscal years in which the Company incurred a net loss attributable to Panasonic Corporation.
11. Interest-bearing debt is equal to the sum of short-term debt, including current portion of long-term debt, and long-term debt.
12. Formulas for financial ratios are as follows:
   - Operating profit ratio = Operating profit / Net sales
   - ROE (Return on equity) = Net income (loss) attributable to Panasonic Corporation / Average Panasonic Corporation shareholders’ equity at the beginning and the end of each fiscal year
   - Total assets turnover = Net Sales / Average total assets at the beginning and the end of each fiscal year
   - Financial leverage = Average total assets at the beginning and the end of each fiscal year / Average Panasonic Corporation shareholders’ equity at the beginning and the end of each fiscal year
   - Interest-bearing debt ratio = Interest-bearing debt / Total assets
   - Payout ratio = Dividends declared per share / Basic net income attributable to Panasonic Corporation common shareholders per share
### IFRS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>7,736,541</td>
<td>7,715,037</td>
<td>7,553,717</td>
<td>7,626,306</td>
</tr>
<tr>
<td>Operating profit</td>
<td>305,114</td>
<td>381,913</td>
<td>415,709</td>
<td>230,299</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>206,225</td>
<td>182,466</td>
<td>217,048</td>
<td>227,520</td>
</tr>
<tr>
<td>Net profit attributable to Panasonic Corporation stockholders</td>
<td>120,442</td>
<td>179,485</td>
<td>193,256</td>
<td>165,212</td>
</tr>
<tr>
<td>Capital investment</td>
<td>217,033</td>
<td>226,680</td>
<td>248,794</td>
<td>252,905</td>
</tr>
<tr>
<td>Depreciation</td>
<td>278,792</td>
<td>242,149</td>
<td>235,033</td>
<td>238,214</td>
</tr>
<tr>
<td>R&amp;D expenditures</td>
<td>478,817</td>
<td>457,250</td>
<td>449,828</td>
<td>438,851</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>594,079</td>
<td>353,455</td>
<td>124,406</td>
<td>125,551</td>
</tr>
<tr>
<td>Net sales</td>
<td>642,112</td>
<td>972,916</td>
<td>725,919</td>
<td>724,841</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>592,467</td>
<td>1,280,408</td>
<td>1,014,264</td>
<td>1,012,666</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,212,994</td>
<td>5,956,947</td>
<td>5,596,982</td>
<td>5,488,024</td>
</tr>
<tr>
<td>Panasonic Corporation stockholders’ equity</td>
<td>1,548,152</td>
<td>1,823,293</td>
<td>1,992,552</td>
<td>1,444,442</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,586,438</td>
<td>1,992,552</td>
<td>1,854,314</td>
<td>1,647,233</td>
</tr>
<tr>
<td>Operating profit/sales (%)</td>
<td>3.9</td>
<td>5.0</td>
<td>5.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Profit before income taxes/sales (%)</td>
<td>2.7</td>
<td>2.4</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>8.6</td>
<td>10.6</td>
<td>11.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Net profit attributable to Panasonic Corporation stockholders/sales (%)</td>
<td>1.6</td>
<td>2.3</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Total asset turnover ratio (Times)</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Financial leverage (Times)</td>
<td>3.8</td>
<td>3.3</td>
<td>3.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Interest-bearing debt/total assets (%)</td>
<td>12.3</td>
<td>16.3</td>
<td>13.0</td>
<td>13.2</td>
</tr>
<tr>
<td>Panasonic Corporation stockholders’ equity/total assets (%)</td>
<td>29.7</td>
<td>30.6</td>
<td>30.5</td>
<td>26.3</td>
</tr>
<tr>
<td>Payout ratio (%)</td>
<td>25.0</td>
<td>23.2</td>
<td>30.0</td>
<td>35.1</td>
</tr>
<tr>
<td>Exchange rate (Yen)</td>
<td>100</td>
<td>110</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>1 USD</td>
<td>134</td>
<td>139</td>
<td>133</td>
<td>133</td>
</tr>
<tr>
<td>1 EUR</td>
<td>16.4</td>
<td>17.7</td>
<td>18.9</td>
<td>18.9</td>
</tr>
</tbody>
</table>

**Note to IFRS**

1. The Company’s consolidated financial statements are prepared in conformity with International Financial Reporting Standards (IFRS).
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   - ROE (Return on equity) = Net profit attributable to Panasonic Corporation stockholders / Average Panasonic Corporation stockholders' equity at the beginning and the end of each fiscal year
   - Total assets turnover ratio = Net Sales / Average total assets at the beginning and the end of each fiscal year
   - Payout ratio = Dividends declared per share/Basic earnings per share attributable to Panasonic Corporation stockholders

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