

Q&A Summary for Panasonic IR Day 2014 (Automotive & Industrial Systems Company)

Date / Time: May 21, 2014 / 14:20-15:20

Location: Shiodome Tokyo Panasonic Building, Tokyo

Presenter: Yoshio Itoh, Automotive & Industrial Systems (AIS) Company President

Questioner 1:

Q: What is your view on carbon automotive battery? Are you developing any new technology alternative to li-ion battery?

A: Carbon battery is still in the research phase. We do R&D on next-generation battery including nickel-air battery.

Questioner 2:

Q: Are you trying to be a Tier 1 manufacturer? How much of your current customers are Tier 1 manufacturers?

A: Around 20% of our automotive customers in FY14 are Tier 1 and Tier 2 manufacturers and the rest goes to automanufacturers. We would like to increase the business with Tier 1, Tier 2 and non-Japanese automanufacturers. We have been receiving strong orders towards our target in FY19 and will add some non-continuous measures to achieve 2 trillion yen sales in FY19.

Q: Why does FCF decrease in FY15?

A: Some cash outflow due to restructuring done in FY14 and Capex increase and inventory increase with sales increase will offset profit improvement.

Questioner 3:

Q: What is the synergy with non-housing business in ES Company in terms of the industrial energy business?

A: We separate sales channel into two: AIS Company is working for B2B customers and ES Company for B2C. Both Companies work together on large scale storage battery business, and develop together on small scale storage battery business through separated sales channels.

Q: How are you going to expand infotainment business, having both high-end market with cockpit systems and low-end with display audio products?

A: We will expand business with value-added cockpit systems in the US, Europe and Japan and with display audio products in emerging markets developing in China, Taiwan and other Asian countries to reduce cost.

Questioner 4:

Q: Do you think li-ion battery will be the mainstream in power storage battery system? What is your competitiveness? Are you going to have cylinder type cells, the same type battery for Tesla?

A: It depends on application whether lead or li-ion batteries are suitable. Our li-ion battery is high capacity and compact. Li-ion battery which can be used in the wide range of temperature is more suitable to storage battery systems for base stations in India or Indonesia where the temperature are very high. Our li-ion battery has a long-operating life, differentiate from competitors in module and system business rather than

selling a single cell.

Q: What makes you decide investing on Tesla's Giga Factory project? How are you going to manage your risk?

A: We have been discussing in detail. We can share Capex with Tesla or we can invest in sequence rather than at once, depending on their demand and we have asked them to give us their manufacturing plan.

Questioner 5:

Q: How much is your Capex on automotive battery business to achieve 450 billion yen sales in FY19?

A: We will spend 14 billion yen in FY15 but may have some more which is not finalized yet, so that the amount may be doubled of 14 billion yen. We are sure to manage risk and invest in sequence.

Q: Then, is your Capex is around 50% of your sales? It sounds the Capex is around 30 billion yen for 60 billion yen sales.

A: Since we have improved productivity, we believe we have more sales.

Q: Do you think you may have to change your Capex on Tesla when other competitors are more aggressive on their investment? How are you going to utilize your facility in Japan when you have a new facility in the US?

A: We are proud of our high capacity battery. We can reduce the number of battery in installation for the longer running distance and the lighter weight on board. We think we have much more number of battery for large scale storage battery for power plant.

Questioner 6:

Q: Are you going to restructure business divisions?

A: We will recategorize business in business divisions as needed, since some device business should be worked beyond one business division to respond to modularization and systemization.

Q: Are you going to increase SG&A?

A: We do not plan to increase SG&A at this moment, since we believe we can maintain our current level by improving efficiency especially with our strong global business network.

Questioner 7:

Q: Do you expect profit decline with 3% price decline per year?

A: We expect price decline as always and will cover this negative factor by rationalization and mass production.

Questioner 8:

Q: I believe cylinder type battery technology has been matured. Can you still reduce cost when you start to invest on Giga Factory project where the profitability will decline due to depreciation expenses?

A: The cylinder type battery capacity has increased around 1.7 times comparing with 10 years ago. We are 1 and a half-2 years ahead of competitors and will maintain our strong competitiveness in future. We have received orders other than Tesla and expanded into storage battery business in future.

Questioner 9:

Q:How is your technology for safe driving?

A:We have such excellent devices and cameras to assist safe driving and established ADAS R&D center to expand the business more.

Q:Are your inventory turnover and cash conversion cycle worsen when automotive business is more expanded?

A:Inventory will be built up but we will try to reduce the inventory day, working with suppliers for the past two years.

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