TRANSCANADA PIPELINES LTD
Form 40-F
February 22, 2011

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U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 40-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2010** Commission File Number **1-8887**

TRANSCANADA PIPELINES LIMITED

(Exact Name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

4922, 4923, 4924, 5172
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

TransCanada Tower, 450 - 1 Street S.W.
Calgary, Alberta, Canada, T2P 5H1
(403) 920-2000
(Address and telephone number of Registrant's principal executive offices)

TransCanada PipeLine USA Ltd., 717 Texas Street
Houston, Texas, 77002-2761; (832) 320-5201
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **None**
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:
ý Annual Information Form ý Audited annual financial statements
Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2010, 4,000,000 Cumulative Redeemable First Preferred Shares Series U
and 4,000,000 Cumulative Redeemable First Preferred Shares Series Y
were issued and outstanding.
675,673,927 common shares which are all owned by TransCanada Corporation

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o

The documents (or portions thereof) forming part of this Form 40-F are incorporated by reference into the following registration statement under the *Securities Act of 1933*, as amended:

Form	Registration No.
F-9	333-163641

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION & ANALYSIS

Except sections specifically referenced below which shall be deemed incorporated by reference herein and filed, no other portion of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements except as otherwise specifically incorporated by reference in the TCPL Annual Information Form shall be deemed filed with the U.S. Securities and Exchange Commission (the "Commission") as part of this report under the Exchange Act.

A. Audited Annual Financial Statements

For audited consolidated financial statements, including the auditors' report, see pages 89 through 140 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein. See the related supplementary note entitled "Reconciliation to United States GAAP" for a reconciliation of the differences between Canadian and United States generally accepted accounting principles attached as document 13.4.

B. Management's Discussion & Analysis

For management's discussion and analysis, see pages 2 through 88 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein.

C. Management's Report on Internal Control Over Financial Reporting

For information on management's internal control over financial reporting, see Management's Report on Internal Control Over Financial Reporting attached as document 13.6.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the staff of the Commission, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an Annual Report on Form 40-F arises; or transactions in said securities.

DISCLOSURE CONTROLS AND PROCEDURES

For information on disclosure controls and procedures, see "Controls and Procedures" in Management's Discussion and Analysis on page 76 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. Kevin E. Benson has been designated an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to the Registrant. The Commission has indicated that the designation of Mr. Benson as an audit committee financial expert does not make Mr. Benson an "expert" for any purpose, impose any duties, obligations or liability on Mr. Benson that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted codes of business ethics for its President and Chief Executive Officer, Chief Financial Officer, Controller, directors, employees and contractors. The Registrant's codes are available on its website at www.transcanada.com. No waivers have been granted from any provision of the codes during the 2010 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information on principal accountant fees and services, see "Corporate Governance Audit Committee External Auditor Service Fees" and "Corporate Governance Audit Committee Pre-Approval Policies and Procedures" on page 29 of the TCPL Annual Information Form.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements, as defined in this Form, other than the guarantees and commitments described in Note 24 of the Notes to the Audited Consolidated Financial Statements attached to this Form 40-F and incorporated herein by reference.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

For information on Tabular Disclosure of Contractual Obligations, see "Contractual Obligations" in Management's Discussion and Analysis on page 55 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately-designated standing Audit Committee. The members of the Audit Committee are:

Chair:	K.E. Benson
Members:	D.H. Burney
	E.L. Draper
	P.L. Joskow
	J.A. MacNaughton
	D.M.G. Stewart

FORWARD-LOOKING INFORMATION

This document, the documents incorporated by reference, and other reports and filings made with the securities regulatory authorities may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward looking information. Forward-looking statements in this document are intended to provide TCPL's securityholders and potential investors with information regarding TCPL and its subsidiaries, including management's assessment of TCPL's and its subsidiaries' future financial and operational plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects, projects, and financial performance of TCPL and its subsidiaries, expectations or projections about the future, strategies and goals for growth and expansion, expected and future cash flows, costs, schedules (including anticipated construction and completion dates), operating and financial results and expected impact of future commitments and contingent liabilities. All forward-looking statements reflect TCPL's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of TCPL's pipeline and energy assets, the availability and price of energy commodities, capacity payments, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, which could cause TCPL's actual results and experience to differ materially from the anticipated results or expectations expressed. The Company's material risks and assumptions are discussed further in TCPL's Management's Discussion and Analysis filed as document 13.2 hereto including under the headings "Natural Gas Pipelines Opportunities and Developments", "Natural Gas Pipelines Business Risks", "Oil Pipelines Opportunities and Developments", "Oil Pipelines Business Risks", "Energy Opportunities and Developments", "Energy Business Risks" and "Risk Management and Financial Instruments". Additional information on these and other factors is available in the reports filed by TCPL with Canadian securities regulators and with the Commission. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this document or otherwise, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

SIGNATURES

Pursuant to the requirements of the *Exchange Act*, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

TRANSCANADA PIPELINES LIMITED

Per: /s/ DONALD R. MARCHAND

Donald R. Marchand
Executive Vice-President and
Chief Financial Officer

Date: February 18, 2011

DOCUMENTS FILED AS PART OF THIS REPORT

13.1 TCPL's Annual Information Form for the year ended December 31, 2010.

13.2 Management's Discussion and Analysis (included on pages 2 through 88 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements).

13.3 2010 Audited Consolidated Financial Statements (included on pages 89 through 140 of the TCPL 2010 Management's Discussion and Analysis and Audited Consolidated Financial Statements), including the auditors' report thereon.

13.4 Related supplementary note entitled "Reconciliation to United States GAAP".

13.5 Independent Auditors' Report of Registered Public Accounting Firm on the 2010 Audited Consolidated Financial Statements and on the related supplementary note entitled "Reconciliation to United States GAAP."

13.6 Management's Report on Internal Control Over Financial Reporting.

13.7 Report of the Independent Registered Public Accounting Firm on the effectiveness of TCPL's Internal Control Over Financial Reporting, as at December 31, 2010.

EXHIBITS

23.1 Consent of KPMG LLP, Independent Registered Public Accountants.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.

32.1 Certification of Chief Executive Officer regarding Periodic Report containing Financial Statements.

32.2 Certification of Chief Financial Officer regarding Periodic Report containing Financial Statements.

TRANSCANADA PIPELINES LIMITED

ANNUAL INFORMATION FORM

February 14, 2011

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PRESENTATION OF INFORMATION

Unless the context indicates otherwise, a reference in this Annual Information Form (AIF) to TCPL or the Company includes TCPL s parent, TransCanada Corporation (TransCanada) and the subsidiaries of TCPL through which its various business operations are conducted and a reference to TransCanada includes TransCanada Corporation and the subsidiaries of TransCanada Corporation, including TCPL. Where TCPL is referred to with respect to actions that occurred prior to its 2003 plan of arrangement with TransCanada, which is described below under the heading TransCanada PipeLines Limited Corporate Structure , these actions were taken by TCPL or its subsidiaries. The term subsidiary , when referred to in this AIF, with reference to TCPL means direct and indirect wholly owned subsidiaries of, and legal entities controlled by, TransCanada or TCPL, as applicable.

Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2010 (Year End). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Certain portions of TCPL s Management s Discussion and Analysis dated February 14, 2011 (MD&A) are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR at www.sedar.com under TCPL s profile.

The Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board (AcSB) previously announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective January 1, 2011. As a United States (U.S.) Securities and Exchange Commission (SEC) registrant, TCPL prepares and files a Reconciliation to United States GAAP and has the option to prepare and file its consolidated financial statements using U.S. generally accepted accounting principles (U.S. GAAP). Previously, TCPL disclosed that effective January 1, 2011, the Company expected to begin reporting under IFRS. As a result of the developments noted below, management expects that the Company will adopt U.S. GAAP effective January 1, 2012. The Company s IFRS conversion project was proceeding as planned to meet the conversion date of January 1, 2011, prior to these developments. In accordance with Canadian GAAP, TCPL follows specific accounting policies unique to a rate-regulated business. These rate-regulated accounting (RRA) standards allow the timing of recognition of certain expenses and revenues to differ from the timing that may otherwise be expected in a non-rate-regulated business under Canadian GAAP in order to appropriately reflect the economic impact of regulators decisions regarding the Company s revenues and tolls. In October 2010, the AcSB and the Canadian Securities Administrators (CSA) amended their policies applicable to Canadian publicly accountable enterprises that use RRA in order to permit these entities to defer the adoption of IFRS for one year. Due to the continued uncertainty around the timing, scope and eventual adoption of an RRA standard under IFRS, TCPL will defer its adoption of IFRS accordingly and continue preparing its consolidated financial statements in 2011 in accordance with Canadian GAAP, as defined by Part V of the CICA Handbook, in order to continue using RRA. TCPL will continue to actively monitor IASB developments with respect to RRA and other IFRS. The impact of adopting U.S. GAAP is consistent with that currently reported in the Company s publicly filed Reconciliation to United States GAAP . Significant changes to existing systems and processes are not required to implement U.S. GAAP as the Company s primary accounting standard. For more information on TCPL s conversion project, see TCPL s MD&A under the headings Accounting Changes Future Accounting Changes International Financial Reporting Standards and Accounting Changes Future Accounting Changes U.S. GAAP Conversion Project .

Information in relation to metric conversion can be found at Schedule A to this AIF. Terms defined throughout this AIF are listed in the Glossary found at the end of this AIF.

FORWARD LOOKING INFORMATION

This AIF, the documents incorporated by reference into this AIF, and other reports and filings made with the securities regulatory authorities may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words anticipate , expect , believe , may , should , estimate , project , outlook , forecast or other similar words are used to identify such forward looking information. Forward-l statements in this document are intended to provide securityholders and potential investors with information regarding TCPL and its subsidiaries, including management s assessment of TCPL s and its subsidiaries future financial and operational plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects and financial performance of TCPL and its subsidiaries, expectations or projections about the future, strategies and goals for growth and expansion, expected and future cash flows, costs, schedules (including anticipated construction and completion dates), operating and financial results and expected impact of future commitments and contingent liabilities. All forward looking statements reflect TCPL s beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company s pipeline and energy assets, the availability and price of energy commodities, capacity payments, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and economic conditions in North America. By its nature, forward looking information is subject to various risks and uncertainties, including those material risks discussed in this AIF under the heading Risk Factors , which could cause TCPL s actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TCPL with Canadian securities regulators and with the SEC. Readers are cautioned not to place undue reliance on this forward looking information, which is given as of the date it is expressed in this AIF or otherwise, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to update publicly or revise any forward looking information, whether as a result of new information, future events or otherwise, except as required by law.

TRANSCANADA PIPELINES LIMITED

Corporate Structure

TCPL s head office and registered office are located at 450 - 1st Street S.W., Calgary, Alberta, T2P 5H1.

TCPL is a Canadian public company. Significant dates and events are set forth below.

Date		**Event**
March 21, 1951		Incorporated by Special Act of Parliament as Trans-Canada Pipe Lines Limited.
April 19, 1972		Continued under the *Canada Corporations Act* by Letters Patent, which included the alteration of its capital and change of name to TransCanada PipeLines Limited.
June 1, 1979		Continued under the *Canada Business Corporations Act* (CBCA).
July 2, 1998		Certificate of Arrangement issued in connection with the Plan of Arrangement with NOVA Corporation under which the companies merged and then split off the commodity chemicals business carried on by NOVA Corporation into a separate public company.
January 1, 1999		Certificate of Amalgamation issued reflecting TCPL s vertical short form amalgamation with a wholly owned subsidiary, Alberta Natural Gas Company Ltd.
January 1, 2000		Certificate of Amalgamation issued reflecting TCPL s vertical short form amalgamation with a wholly owned subsidiary, NOVA Gas International Ltd.
May 4, 2001		Restated TransCanada PipeLines Limited Articles of Incorporation filed.
June 20, 2002		Restated TransCanada PipeLines Limited By-Laws filed.
May 15, 2003		Certificate of Arrangement issued in connection with the plan of arrangement with TransCanada. TransCanada was incorporated pursuant to the provisions of the CBCA on February 25, 2003. The arrangement was approved by TCPL common shareholders on April 25, 2003 and following court approval, Articles of Arrangement were filed making the arrangement effective May 15, 2003. The common shareholders of TCPL exchanged each of their common shares (common share(s)) of TCPL for one common share of TransCanada The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to hold the assets it held prior to the arrangement and continues to carry on business as the principal operating subsidiary of the TransCanada

		group of entities.

Intercorporate Relationships

The following diagram presents the name and jurisdiction of incorporation, continuance or formation of TCPL s principal subsidiaries as at December 31, 2010. Each of the subsidiaries shown has total assets that exceeded 10 per cent of the total consolidated assets of TransCanada or revenues that exceeded 10 per cent of the total consolidated revenues of TransCanada as at and for the year ended December 31, 2010. TCPL owns, directly or indirectly, 100 per cent of the voting shares in each of each of these subsidiaries, with exception to TransCanada Keystone Pipeline, LP which TransCanada indirectly holds 100 per cent of the partnership interests thereof.

The above diagram does not include all of the subsidiaries of TCPL. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20 per cent of the total consolidated assets or total consolidated revenues of TCPL as at and for the year ended December 31, 2010.

GENERAL DEVELOPMENT OF THE BUSINESS

Commencing in 2011, TCPL s reportable business segments are Natural Gas Pipelines , Energy and Oil Pipelines . Natural Gas and Oil Pipelines are principally comprised of the Company s respective natural gas and oil pipelines in Canada, the U.S. and Mexico and its regulated natural gas storage operations in the U.S. Energy includes the Company s power operations and the non-regulated natural gas storage business in Canada.

TCPL s strategy in Natural Gas and Oil Pipelines is focused on growing its North American natural gas and crude oil transmission network and maximizing the long-term value of its existing pipeline assets. The Company has built a substantial energy business over the past decade and has achieved a major presence in power generation in selected regions of Canada and the U.S. More recently, TCPL has also developed a substantial non-regulated natural gas storage business in Alberta.

Summarized below are significant developments that have occurred in TCPL s Natural Gas Pipelines, Oil Pipelines and Energy businesses, respectively, and the significant acquisitions, dispositions, events or conditions which have had an influence on that development, during the last three financial years.

Developments in the Natural Gas Pipelines Business

Date		Description of Development
CANADIAN MAINLINE (Canadian Mainline)		
March 2008		The National Energy Board (NEB) approved the amended interim tolls for Canadian Mainline effective April 1, 2008. TCPL had filed an application with the NEB to increase the interim tolls previously approved in December 2007. This toll increase was a result of a significant decrease in forecasted flows on the system and was intended to allow TCPL to meet its 2008 revenue requirement.
December 2009		The NEB approved TCPL s application for 2010 final tolls for Canadian Mainline, effective January 1, 2010. The 2010 calculated return on equity was 8.52 per cent. Reduced throughput and greater use of shorter distance transportation contracts resulted in an increase in its tolls for 2010 compared to 2009.
August 2010		TCPL s open season to transport Marcellus volumes on the Canadian Mainline closed. The open season was initiated at the request of prospective shippers.
December 2010		TCPL filed an application with the NEB for approval of the interim 2011 tolls for the Canadian Mainline which contained certain changes to the tolling mechanism to reduce long haul tolls. The NEB decided not to approve the tolls as requested in the interim tolls application and set the current 2010 tolls as interim commencing January 1, 2011.
January 2011		TCPL filed for revised interim tolls effective March 1, 2011 based on the existing 2007 2011 settlement with customers. If approved, the revised interim tolls will allow for collection of revenues that will more closely reflect TCPL s costs and forecast throughput in 2011. TCPL is continuing its discussions with stakeholders with the

		intent of increasing the level of support for a potential settlement and expects to file a subsequent application for final 2011 tolls for the Canadian Mainline later in 2011.
ALBERTA SYSTEM (Alberta System)		
April 2008		An expansion of the Alberta System in the Fort McMurray area was placed in service on its projected on-stream date.
February 2009		The NEB approved TCPL s June 2008 application for federal regulation of the Alberta System effective April 29, 2009.
June 2010		TCPL reached a three year settlement agreement with the Alberta System shippers and other interested parties and filed a 2010-2012 Revenue Requirement Settlement Application with the NEB.
August 2010		The NEB approved TCPL s November 2009 application for the Alberta System s Rate Design Settlement and the commercial integration of the ATCO Pipeline system with the Alberta System.
September 2010		The NEB approved the Alberta System s 2010-2012 Revenue Requirement Settlement Application.
October 2010		The NEB approved final 2010 rates for the Alberta System, which reflect the Alberta System 2010-2012 Revenue Requirement Settlement and Rate Design Settlement.
December 2010		The NEB approved the interim 2011 tolls for the Alberta System reflecting the 2010-2012 Revenue Requirement Settlement and continuing to transition to the toll methodology approved in the Rate Design Settlement. TCPL expects to file for final 2011 tolls on the Alberta System which will reflect the outcome of further discussions with stakeholders with respect to 2011 tolls and commercial integration of the ATCO Pipeline system.
North Central Corridor Expansion (North Central Corridor)		
October 2008		The Alberta Utilities Commission (AUC), which previously regulated the Alberta System, approved TCPL s application for a permit to construct the North Central Corridor.
October 2008		Construction of the North Central Corridor commenced.
May 2009		The 140 kilometer (km) North Star section of the North Central Corridor was completed.
September 2009		Work on the final phase of the North Central Corridor commenced.
March 2010		The North Central Corridor was completed, on schedule and under budget.

TRANSCANADA PIPELINES LIMITED **6**

Date		Description of Development
Groundbirch Pipeline Project (Groundbirch)		
March 2010		The NEB approved TCPL s application after a public hearing, to construct and operate Groundbirch.
August 2010		TCPL received final regulatory approvals and commenced construction of Groundbirch.
December 2010		Groundbirch was completed on schedule and under budget, and began transporting natural gas from the Montenay shale gas formation into the Alberta System.
Horn River Pipeline Project (Horn River)		
February 2009		TCPL announced the successful completion of a binding open season, securing support for firm transportation contracts of 378 million cubic feet per day (MMcf/d) for the pipeline.
February 2010		TCPL filed an application with the NEB for approval to construct and operate the pipeline.
April 2010		The NEB announced that it would hold a public hearing process on TCPL s February 2010 application for approval to construct and operate the pipeline. The NEB hearing relating to the Horn River pipeline concluded in November 2010.
January 2011		TCPL received approval from the NEB to construct the Horn River pipeline.
FOOTHILLS SYSTEM (Foothills System)		
June 2010		TCPL reached an agreement to establish a cost of capital for Foothills System. The NEB approved final tolls for 2010, effective July 1, 2010.
MACKENZIE GAS PIPELINE PROJECT (Mackenzie Gas Project)		
December 2009		A Joint Review Panel of the Canadian government released a report on environmental and socio-economic factors in relation to the Mackenzie Gas Project. The report was submitted to the NEB as part of the review process for approval of the project.
December 2010		The NEB approved the proponents application to construct the Mackenzie Gas Project subject to numerous conditions.
ALASKA PIPELINE PROJECT (Alaska Pipeline)		
December 2008		The Alaska Commissioners of Revenue and Natural Resources issued the Alaska Gasline Inducement Act (AGIA) license to TCPL to advance the Alaska Pipeline. Subsequently, TCPL commenced the engineering, environmental, field and commercial work. Under AGIA, the State of Alaska has agreed to reimburse a share of the eligible pre-construction costs to TCPL to a maximum of US$500 million.
June 2009		TCPL reached an agreement with ExxonMobil Corporation (ExxonMobil) to jointly advance the Alaska Pipeline. A joint project team is developing the engineering, environmental, aboriginal relations and commercial work.
April 2010		The Alaska Pipeline open season commenced.
Third Quarter 2010		Interested shippers on the proposed Alaska Pipeline project submitted conditional commercial bids in the open season that closed July 30, 2010. The project is now working with shippers to resolve those conditions within the project s control.
BISON PIPELINE (Bison)		

September 2008		TCPL acquired Bison Pipeline LLC from Northern Border Pipeline Company (NBPL) for US$20 million. The assets of Bison Pipeline LLC included executed precedent agreements as well as regulatory, environmental and engineering work on Bison.
December 2010		Construction of Bison was completed.
January 2011		Bison was placed in commercial service upon receiving final regulatory approvals to commence operations.
GREAT LAKES SYSTEM (Great Lakes System)		
November 2009		The U.S. Federal Energy Regulatory Commission (FERC) initiated an investigation to determine whether rates on the Great Lakes System were just and reasonable. In response, Great Lakes Gas Transmission Limited Partnership (Great Lakes) filed a cost and revenue study with the FERC in February 2010.
July 2010		FERC approved, without modification, the settlement stipulation agreement reached among Great Lakes, active participants and the FERC trial staff. As approved, the stipulation and agreement applies to all current and future shippers on the Great Lakes System.

Date		Description of Development
NORTH BAJA SYSTEM (North Baja System)		
July 2009		TCPL completed the sale of North Baja Pipeline, LLC (North Baja) to its affiliate, TC PipeLines, LP. As part of the transaction, TCPL agreed to amend its incentive distribution rights with TC PipeLines, LP. Under the amendment, TCPL received additional common units in exchange for a resetting of its incentive distribution rights at a lower percentage which escalates with increases in TC PipeLines, LP distributions. The aggregate consideration received from the partnership included a combination of cash and common units totaling approximately US$395 million.
GUADALAJARA (Guadalajara)		
May 2009		TCPL announced that it was the successful bidder on a contract to build, own and operate the Guadalajara pipeline.
December 2010		The Guadalajara pipeline was 70 per cent complete at Year End.

Further information about developments in the Natural Gas Pipelines business can be found in the MD&A under the headings TransCanada s Strategy , Natural Gas Pipelines Highlights , Natural Gas Pipelines Financial Analysis and Natural Gas Pipelines Opportunities and Developments .

Developments in the Oil Pipelines Business

Date		Description of Development
KEYSTONE		
2008		TCPL increased its equity ownership in TransCanada Keystone Pipeline, LP (Keystone U.S.) and TransCanada Keystone Pipeline Limited Partnership (Keystone Canada) to 79.99 per cent from 50 per cent with ConocoPhillips equity ownership being reduced concurrently to 20.01 per cent.
March 2008		Keystone U.S. received a Presidential Permit authorizing the construction, maintenance and operation of facilities at the U.S. and Canada border for the transportation of crude oil between the two countries. The Presidential Permit, was issued following the issuance by the U.S. Department of State of the Final Environmental Impact Statement on January 11, 2008 for the construction of the Keystone U.S. pipeline and its Cushing extension (the Cushing Extension).
June 2008		The NEB approved the application for additional pumping facilities required to expand the Canadian portion of Keystone (as defined below and referred to in this section as Keystone) from approximately 435,000 barrels per day (Bbl/d) to 591,000 Bbl/d to accommodate volumes to be delivered to the Cushing markets.
July 2008		TCPL announced plans for Keystone U.S. Gulf Coast expansion (the U.S. Gulf Coast Expansion) to provide additional capacity in 2013 of 500,000 Bbl/d from Western Canada to the U.S. Gulf Coast, near existing terminals in Port Arthur, Texas.
October 2008		The Company successfully conducted an open season for the U.S. Gulf Coast Expansion by securing additional firm, long term transportation contracts.

August 2009		TCPL became sole owner of Keystone project through the purchase of ConocoPhillips remaining interest (approximately 20 per cent) for US$553 million and the assumption of US$197 million of short-term debt.
March 2010		The NEB approved TCPL s application to construct and operate the Canadian portion of the U.S. Gulf Coast Expansion.
April 2010		The U.S. Department of State issued a Draft Environmental Impact Statement for the U.S. Gulf Coast Expansion.
June 2010		Keystone oil pipeline commenced operating at a reduced maximum operating pressure as the first phase of Keystone began delivering oil to Wood River and Patoka in Illinois (Wood River/Patoka).
November 2010		The open season for the Bakken Marketlink (Bakken Marketlink) project, which commenced in September 2010, closed successfully. The Company secured firm, five year shipper contracts of 65,000 Bbl/d.
November 2010		The open season for the Cushing Marketlink (Cushing Marketlink) project, which commenced in September 2010, closed successfully. The Company secured contractual support sufficient to proceed with the Cushing Marketlink project, which would when completed have the ability to provide 150,000 Bbl/d of crude oil from Cushing, Oklahoma to the U.S. Gulf Coast.
December 2010		The reduced maximum operating pressure restriction on the Canadian conversion phase of the base Keystone oil pipeline was removed by the NEB following the completion of in-line inspections.
Fourth Quarter 2010		Construction of the Cushing Extension was completed, and line fill commenced in late 2010.
January 2011		The required operational modifications were completed on the Wood River/Patoka phase of Keystone oil pipeline. As a result, the system was capable of operating at the approved design pressure and the Company commenced recording earnings for the Wood River/Patoka phase in February 2011.
February 2011		The commercial in service of the Cushing Extension commenced.

Further information about developments in the Oil Pipelines business can be found in the MD&A under the headings TransCanada s Strategy , Oil Pipelines Highlights , Oil Pipelines Financial Analysis and Oil Pipelines Opportunities and Developments .

Developments in the Energy Business

Date		Description of Development
RAVENSWOOD GENERATING STATION (Ravenswood)		
August 2008		TCPL completed its acquisition of Ravenswood for US$2.9 billion, subject to certain post-closing adjustments, pursuant to a purchase agreement with KeySpan Corporation and certain subsidiaries.
BÉCANOUR (Bécancour)		
June 2010		Hydro-Québec Distribution (Hydro-Québec) notified TCPL it would exercise its option to extend the agreement to suspend all electricity generation from Bécancour throughout 2011. Hydro-Québec had previously announced that it would exercise its option to extend the agreement to suspend all electricity generation from Bécancour throughout 2010. Under the original agreement, Hydro-Québec has the option, subject to certain conditions, to extend the suspension on an annual basis until such time as regional electricity demand levels recover. TCPL will continue to receive payments under the agreement similar to those that would have been received under the normal course of operation.
BRUCE POWER (Bruce Power)		
January 2008		The sixteenth and final new steam generator was installed in Bruce A (as defined below and referred in this section as Bruce A) Units 1 and 2.
Fourth Quarter 2008		A review of the end of life estimates for Units 3 and 4 was completed. As a result of the review, Unit 3 was expected to be in commercial service until 2011, providing an additional two years of generation before refurbishment. After the refurbishment, the end of life estimate for Unit 3 was to be extended to 2038. The review also showed that Unit 4 was expected to remain in commercial service until 2016, providing seven years of generation before refurbishment, after which the end of life estimate for Unit 4 was expected to be extended to 2042.
July 2009		Bruce Power and the Ontario Power Authority (OPA) amended certain terms and conditions included in the Bruce Power Refurbishment Implementation Agreement. The amendments were consistent with the intent of the agreement, originally signed in 2005, and recognize the significant changes in Ontario s electricity market. Under the original agreement, Bruce A committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 and replace the steam generators on Unit 4. An amendment in 2007 provided for a full refurbishment of Unit 4, which will extend the expected operating life of the unit. This most recent amendment included amendments to Bruce B (as defined below and referred in this section as Bruce B) floor price mechanism, the removal of a support payment cap for Bruce A, an amendment to the capital cost-sharing mechanism, and provision for deemed generation payments to Bruce Power at the contract prices under circumstances where generation from Bruce A and Bruce B is reduced due to system curtailments on the Independent Electricity System Operator controlled grid in Ontario.

October 2010		The last of the 960 calandria tubes were successfully installed in Bruce A Units 1 and 2.
December 2010		The last of the fuel channel assemblies into Bruce A Unit 2 were successfully installed.
February 2011		A maintenance outage of approximately three weeks commenced on February 1, 2011 on Bruce B Unit 8 and outages of approximately seven weeks each are scheduled to begin in mid-April 2011 for Bruce B Unit 7 and mid-October 2011 for Bruce B Unit 5. Bruce A expects an outage of approximately one week on Unit 3 in July 2011 and, following approval from the Canadian Nuclear Safety Commission, the West Shift Plus outage of approximately six months is scheduled to commence in early November 2011 on Unit 3. The West Shift Plus outage is a key part of the life extension strategy for Unit 3 and is an extension of the West Shift program which was successfully executed in 2009. Subject to regulatory approval, Bruce Power expects to load fuel into Unit 2 in second quarter 2011 and achieve a first synchronization of the generator to the electrical grid by the end of 2011, with commercial operation expected to occur in first quarter 2012. Bruce Power expects to load fuel into Unit 1 in third quarter 2011, with a first synchronization of the generator during first quarter 2012 and commercial operation expected to occur during third quarter 2012. Plant commissioning and testing are underway and will accelerate in second quarter 2011 when construction activities are essentially complete.
February 2011		The Bruce Power Refurbishment Implementation Agreement was amended to reflect: the suspension date for contingent support payments on Bruce A output was extended to June 1, 2012 from December 31, 2011, and as a result, all output from Bruce A will receive spot prices from June 1, 2012 until the restart of Units 1 and 2 is complete; and a recovery of costs incurred by Bruce A in connection with development of fuel programs.
PORTLANDS ENERGY CENTRE (Portlands Energy)		
April 2009		Portlands Energy was fully commissioned, ahead of time and under budget.
OAKVILLE GENERATING STATION		
September 2009		The OPA advised TCPL that it was awarded a 20 year Clean Energy Supply contract to build, own and operate a 900 MW a generating station in Oakville, Ontario.

Date		Description of Development
October 2010		The Government of Ontario announced that it would not proceed with the Oakville generating station. TCPL commenced negotiations with the OPA on a settlement which would terminate the Clean Energy Supply contract and compensate TCPL for the economic consequences associated with the contract s termination.
CARTIER WIND (Cartier Wind)		
November 2008		The 109 MW Carleton wind farm, the third of five phases of Cartier Wind, became operational.
Third Quarter 2009		Construction activity began on the Cartier Wind s 212 MW Gros-Morne and 58 MW Montagne-Sèche wind farms. The Montagne-Sèche project and phase one of the Gros-Morne project are expected to be operational in 2011, and phase two of the Gros-Morne project is expected to be operational in 2012, subject to the necessary approvals.
COOLIDGE (Coolidge)		
May 2008		TCPL announced that the Phoenix, Arizona based utility, Salt River Project Agricultural Improvement and Power District, signed a 20 year power purchase agreement to secure 100 per cent of the output from Coolidge.
December 2008		The Arizona Corporation Commission granted a Certificate of Environmental Compatibility approving Coolidge.
August 2009		TCPL began construction of Coolidge.
December 2010		At Year End, construction of Coolidge was approximately 95 per cent complete and commissioning was approximately 80 per cent finished.
KIBBY WIND (Kibby Wind)		
July 2008		Kibby Wind received unanimous final development plan approval from Maine s Land Use Regulation Commission.
October 2009		The first phase of Kibby Wind, including 22 turbines capable of producing a combined 66 MW of power, was completed and placed in service ahead of schedule and under budget.
October 2010		The 66 MW second phase of the Kibby Wind was completed and placed in service. This phase included the installation of an additional 22 turbines, ahead of schedule and on budget.
SUNDANCE (Sundance)		
February 2011		On February 8, 2011, TransCanada received from TransAlta Corporation ("TransAlta") notice under the Sundance A power purchase arrangement that TransAlta has determined that the Sundance 1 and 2 generating units cannot be economically repaired, replaced, rebuilt or restored and that TransAlta therefore seeks to terminate the power purchase arrangement in respect of those units. TransCanada has not received any information that would validate TransAlta s determination that the units cannot be economically restored to service. TransCanada has 10 business days from the date of TransAlta s notice to either agree with or dispute TransAlta s determination that the Sundance 1 and 2 generating units cannot be economically repaired, replaced, rebuilt or restored. TransCanada will assess any information provided by TransAlta during this 10 -day period. If TransCanada disputes TransAlta s determination, the issue will be resolved using the dispute resolution procedure under the terms of the power purchase arrangement. In December 2010, the Sundance 1 and 2 generating units were withdrawn from service for testing. In January 2011, these same units were subject to a force majeure claim by TransAlta under the power purchase arrangement. TransCanada

		has received insufficient information to make an assessment of TransAlta s force majeure claim and therefore has recorded revenues under the power purchase arrangement as though this event was a normal plant outage.
Second Quarter 2010		Sundance B Unit 3 experienced an unplanned outage related to mechanical failure of certain generator components that the facility operator, TransAlta, has asserted is a force majeure event. TransCanada has received no information that validates a claim of force majeure and therefore has recorded revenues under the power purchase arrangement as though this event was a normal plant outage. TransCanada is pursuing the remedies available to it under the terms of the power purchase arrangement.
HALTON HILLS GENERATING STATION (Halton Hills)		
September 2010		Halton Hills, which was constructed pursuant to a 20 year Clean Energy Supply contract with the OPA in November 2006, was completed and placed in service.
ZEPHYR (Zephyr) AND CHINOOK (Chinook) POWER TRANSMISSION LINES		
February 2009		The FERC approved the application filed by TCPL in December 2008 requesting approval to charge negotiated rates and to proceed with open seasons in the spring of 2009 for Zephyr and Chinook, respectively. Zephyr is a proposed 1,609 km (1,000 mile), 500 kilovolt high voltage direct current (HVDC) line that would be capable of delivering primarily wind generated power from Wyoming to Nevada. Chinook is a proposed 1,609 km (1,000 mile), 500 kilovolt HVDC line that would be capable of delivering primarily wind generated power to markets from Montana to Nevada. The open seasons commenced in October 2009.
May 2010		TCPL concluded a successful open season for Zephyr. Support from key markets and a positive regulatory environment are necessary before the significant siting and permitting activities required to construct Zephyr will commence and TCPL anticipates making a decision on whether to proceed in 2011.
December 2010		TCPL closed the open season for Chinook without allocating capacity to Montana shippers. TCPL continues to advance the Chinook project, and discussions with Montana wind developers and other market participants is ongoing.

Further information about developments in the Energy business can be found in the MD&A under the headings TCPL s Strategy , Energy Highlights , Energy Financial Analysis and Energy Opportunities and Developments .

BUSINESS OF TCPL

TCPL is a leading North American energy infrastructure company focused on Natural Gas Pipelines, Oil Pipelines and Energy. At Year End, Natural Gas Pipelines accounted for approximately 54 per cent of revenues and 49 per cent of TCPL s total assets, Oil Pipelines had not yet recorded any revenues but accounted for 18 per cent of TCPL s total assets and Energy accounted for approximately 46 per cent of revenues and 27 per cent of TCPL s total assets. The following is a description of each of TCPL s three main areas of operation.

The following table shows TCPL s revenues from operations by segment, classified geographically, for the years ended December 31, 2010 and 2009.

Revenues From Operations (millions of dollars)	**2010**	**2009**
Natural Gas Pipelines		
Canada - Domestic	$2,125	$2,389
Canada - Export(1)	837	755
United States and other	1,411	1,585
	4,373	4,729
Oil Pipelines	Nil	Nil
Energy(2)		
Canada Domestic	2,243	2,690
Canada - Export(1)	1	1
United States and other	1,447	761
	3,691	3,452
Total Revenues(3)	$8,064	$8,181

(1) Exports include pipeline revenues attributable to deliveries to U.S. pipelines and power deliveries to U.S. markets.

(2) Revenues include sales of natural gas.

(3) Revenues are attributed to countries based on country of origin of product or service.

Natural Gas Pipelines Business

TCPL is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and regulated gas storage facilities. TCPL s network of wholly owned natural gas pipelines extends more than 60,000 km (37,000 miles), and its partially owned natural gas pipelines extend more than 8,800 km (5,500 miles), tapping into virtually all major gas supply basins in North America. TCPL has substantial Canadian and U.S. natural gas pipeline and related holdings, including those listed below. The following natural gas pipelines are owned 100 per cent by TCPL unless otherwise stated.

TCPL has the following natural gas pipelines and related holdings in Canada:

- TCPL s Canadian Mainline is a 14,101 km (8,762 mile) natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S.

- TCPL s Alberta System is a natural gas transmission system in Alberta and Northeast British Columbia (B.C.) which gathers natural gas for use within the province of Alberta and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System and with third party natural gas pipelines. The 24,187 km (15,029 mile) Alberta System is one of the largest carriers of natural gas in North America. During the past three completed financial years TCPL has enhanced the Alberta System as follows:

o North Central Corridor, which extends the northern section of the Alberta System, was completed in March 2010; and

o TCPL continues to advance further pipeline development in B.C. and Alberta to transport unconventional shale gas supply as follows:

Groundbirch was completed in December 2010, connecting the Alberta System to natural gas supplies from the Montney shale gas formation in Northeast B.C. TCPL has entered into firm transportation agreements with Groundbirch pipeline customers for 1.24 billion cubic feet per day (Bcf/d) by 2014;

TCPL has applied to build the proposed Horn River pipeline, an extension of the Alberta System to serve production from the new shale gas supply in the Horn River basin north of Fort Nelson, B.C. TCPL received approval from the NEB to construct the Horn River pipeline in January 2011. The Horn River pipeline is scheduled to be operational in second quarter 2012 with commitments for contracted natural gas of over 634 MMcf/d by 2014; and

the Company has received requests for additional natural gas transmission service throughout the northwest portion of the Western Canadian Sedimentary Basin, including the Horn River and Montney areas of B.C. These new requests are expected to result in the need for further extensions and expansions of the Alberta System.

- TCPL s Foothills System is a 1,241 km (771 mile) natural gas transmission system in Western Canada which carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada.

- TransCanada Pipeline Ventures LP owns a 161 km (100 mile) pipeline and related facilities that supply natural gas to the oil sands region near Fort McMurray, Alberta as well as a 27 km (17 mile) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

- TQM (TQM) is 50 per cent owned by TCPL. TQM is a 572 km (355 mile) pipeline system that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with the Portland System. TQM is operated by TCPL.

- The Mackenzie Gas Project is a proposed natural gas pipeline extending 1,196 km (743 mile) that would connect northern onshore natural gas fields with North American markets. TCPL has the right to acquire an equity interest in the project.

TCPL has the following natural gas pipeline and related holdings in the U.S.:

- The proposed Alaska Pipeline is a 4.5 Bcf/d natural gas pipeline and treatment plant. The pipeline would extend 2,737 km (1,700 miles) from the natural gas treatment plant at Prudhoe Bay, Alaska to Alberta, or an alternative pipeline to Valdez, Alaska. TCPL received approval of its plan to conduct an open season from the FERC in March 2010. An open season commenced at the end of April 2010, and continued until July 2010. TCPL is continuing to negotiate with potential shippers from the initial open season. The Alaska Pipeline project is a joint effort between TCPL and ExxonMobil pursuant to the AGIA.

- TCPL s ANR System (ANR System) is a 17,000 km (10,563 mile) natural gas transmission system which transports natural gas from producing fields located in the Texas and Oklahoma panhandle regions, from the offshore and onshore regions of the Gulf of Mexico, and from the U.S. Midcontinent region to markets located mainly in Wisconsin, Michigan, Illinois, Indiana and Ohio. ANR System also connects with other natural gas pipelines, providing access to diverse sources of North American supply, including Western Canada, and the mid-continent and Rocky Mountain supply regions, and a variety of markets in the Midwestern and Northeastern U.S.

Underground gas storage facilities owned and operated by American Natural Resources Company and ANR Storage Company (collectively, ANR) provide regulated gas storage services to customers on the ANR System and the Great Lakes System in upper Michigan. In total, the ANR business unit owns and operates natural gas storage facilities throughout the State of Michigan with total natural gas storage capacity of 250 billion cubic feet (Bcf).

- The GTN System (GTN System) is TCPL s 2,178 km (1,353 miles) natural gas transmission system that transports Western Canada Sedimentary Basin and Rocky Mountain sourced natural gas to third party natural gas pipelines and markets in Washington, Oregon and California, and connects with the Tuscarora Gas Transmission Company (Tuscarora) pipeline.

- The Bison pipeline is a 487 km (303 mile) natural gas pipeline from the Powder River Basin in Wyoming connecting to the Northern Border Pipeline System (NBPL System) in Morton County, North Dakota. The Company commenced construction of the Bison pipeline in July 2010 and the pipeline became operational in January 2011. The Bison pipeline has long term shipping commitments for 407 MMcf/d.

- The Great Lakes System is a 3,404 km (2,115 mile) natural gas transmission system connecting to the Canadian Mainline and serves markets primarily in Eastern Canada and the Northeastern and Midwestern U.S. TCPL operates the Great Lakes System and effectively owns 71.3 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership, which it has through its 38.2 per cent interest in TC PipeLines, LP.

- The NBPL System is 50 per cent owned by TC PipeLines, LP and is a 2,250 km (1,398 mile) natural gas transmission system, which serves the U.S. Midwest. TCPL operates and effectively owns 19.1 per cent of the NBPL System through its 38.2 per cent interest in TC PipeLines, LP.

- Tuscarora is 100 per cent owned by TC PipeLines, LP. TCPL operates the Tuscarora System (Tuscarora System) a 491 km (305 mile) pipeline system transporting natural gas from the GTN System at Malin, Oregon to Wadsworth,

TRANSCANADA PIPELINES LIMITED **12**

Nevada with delivery points in Northeastern California and Northwestern Nevada. TCPL effectively owns 38.2 per cent of the system through its 38.2 per cent interest in TC PipeLines, LP.

- North Baja is 100 per cent owned by TC PipeLines, LP. TCPL operates the North Baja System, a natural gas transmission system which extends 138 km (86 miles) from Ehrenberg, Arizona to a point near Ogilby, California on the California/Mexico border and connects with a third party natural gas pipeline system in Mexico. TCPL effectively owns 38.2 per cent of the same through its 38.2 per cent interest in TC PipeLines, LP.

- The Iroquois System (Iroquois System) is a gas transmission system that connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the Northeastern U.S. TCPL has a 44.5 per cent ownership interest in this 666 km (414 mile) pipeline system.

• The Portland System (Portland System) is a 474 km (295 mile) pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the Northeastern U.S. TCPL has a 61.7 per cent ownership interest in the Portland System and operates this pipeline.

• TCPL holds a 38.2 per cent interest in TC PipeLines, LP, a publicly held limited partnership of which a subsidiary of TCPL acts as the general partner. The remaining interest of TC PipeLines, LP is widely held by the public. TC PipeLines, LP owns a 50 per cent interest in the NBPL System, 46.4 per cent in the Great Lakes System, 100 per cent of the Tuscarora System and 100 per cent of the North Baja System.

TCPL has the following natural gas pipeline and related holdings in Mexico and South America:

• TransGas is a 344 km (214 mile) natural gas pipeline system which runs from Mariquita in the central region of Colombia to Cali in the southwest of Colombia. TCPL holds a 46.5 per cent ownership interest in this pipeline.

• Owned 30 per cent by TransCanada, Gas Pacifico is a 540 km (336 mile) natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. TransCanada also has a 30 per cent ownership interest in INNERGY, an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico.

• Tamazunchale is a 130 km (81 mile) natural gas pipeline in east-central Mexico which extends from the facilities of Pemex Gas near Naranjos, Veracruz to an electricity generating station near Tamazunchale, San Luis Potosi.

• The proposed Guadalajara pipeline is under construction and when completed will extend approximately 305 km (190 miles) transporting natural gas from a LNG terminal under construction near Manzanillo on Mexico s Pacific coast to Guadalajara, the second largest city in Mexico. The Guadalajara pipeline is supported by a twenty-five year contract for its entire capacity with Comisión Federal de Electridad, Mexico s state-owned electric power company. Guadalajara pipeline has an expected in service date of mid-2011 and was 70 per cent complete at Year End.

Further information about the Company s pipeline holdings, developments and opportunities and significant regulatory developments which relate to Natural Gas Pipelines can be found in the MD&A under the headings Natural Gas Pipelines , Natural Gas Pipelines Opportunities and Developments and Natural Gas Pipelines Financial Analysis .

Oil Pipelines Business

With increasing production from crude oil sands in Alberta and new crude oil discoveries in the U.S., including the Bakken shale play in Montana and North Dakota, along with growing demand for secure, reliable sources of energy, TCPL has identified opportunities to develop new oil pipeline capacity. The Company s Keystone crude oil pipeline and other opportunities in TCPL s oil pipeline business are described below.

Keystone (Keystone) is a crude oil pipeline system designed to initially carry 1.1 million Bbl/d which is comprised of the completed 3,467 km (2,154 mile) Wood River/Patoka and Cushing Extension phases, and the proposed 2,673 (1,661 mile) U.S. Gulf Coast Expansion. The Wood River/Patoka phase transports crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka, Illinois and is designed for an initial nominal capacity of 435,000 Bbl/d. The Wood River/Patoka phase was placed in service in June 2010. The Cushing Extension extends the pipeline to Cushing, Oklahoma and increases nominal capacity to 591,000 Bbl/d if design capacity is achieved. The Cushing Extension was placed in service in February 2011. The proposed U.S. Gulf Coast Expansion, which would expand and extend Keystone from Hardisty to a delivery point near existing terminals in Port Arthur, Texas, is expected to provide additional pipeline capacity in 2013, pending U.S. regulatory approval.

The Company is pursuing the opportunity to transport growing Bakken shale crude oil production from the Williston Basin in Montana and North Dakota for delivery to major U.S. refining markets. Following an open season conducted in the second half of 2010, the Company secured firm, five year shipper contracts totaling 65,000 Bbl/d for its proposed Bakken Marketlink project, which would transport U.S. crude oil from Baker, Montana to Cushing, Oklahoma on facilities that form part of the U.S. Gulf Coast Expansion. Following an open season conducted in the second half of 2010, the Company secured contractual support sufficient to proceed with the Cushing Marketlink project, which would when completed transport up to 150,000 Bbl/d of crude oil from Cushing, Oklahoma to the U.S. Gulf Coast on facilities that form part of the U.S. Gulf Coast Expansion. With these commitments, TCPL will file for the necessary regulatory approvals in the U.S. to construct and operate the Bakken and Cushing Marketlink pipelines. Commercial in service is anticipated in 2013.

Further information about the Company s pipeline holdings, developments and opportunities and significant regulatory developments which relate to Oil Pipelines can be found in the MD&A under the headings Oil Pipelines , Oil Pipelines Opportunities and Developments and Oil Pipelines Financial Analysis .

Regulation of the Natural Gas and Oil Pipelines Businesses

Canada

Under the terms of the *National Energy Board Act* (Canada), the Canadian Mainline, TQM, and the Foothills and Alberta systems (collectively referred to in this section as the Systems) are regulated by the NEB (the Alberta System became subject to federal jurisdiction on April 29, 2009 following NEB approval of an application by TCPL). The NEB sets tolls which provide TCPL the opportunity to recover projected costs of transporting natural gas, including the return on the average investment base for each of the Systems. In addition, new facilities are approved by the NEB before construction begins and the NEB regulates the operations of each of the Systems. Net earnings of the Systems may be affected by changes in investment base, the allowed return on equity, the level of deemed common equity and any incentive earnings.

The NEB regulates the terms and conditions of service, including rates, and the physical operation of the Canadian portion of Keystone. NEB approval is also required for facility additions, such as the Canadian portion of the proposed U.S. Gulf Coast Expansion project which was approved by the NEB in March 2010.

United States

TCPL s wholly owned and partially owned U.S. pipeline systems, including the ANR, GTN, Great Lakes, Iroquois, Portland, NBPL, North Baja and Tuscarora systems, are considered natural gas companies operating under the provisions of the *Natural Gas Act of 1938* and the *Natural Gas Policy Act of 1978*, and are subject to the jurisdiction of the FERC. The *Natural Gas Act of 1938* grants the FERC authority over the construction and operation of pipelines and related facilities. The FERC also has authority to regulate rates for natural gas transportation and interstate commerce.

The FERC also regulates the terms and conditions of service, including transportation rates, on the U.S. portion of Keystone system. Certain states in which Keystone has right of ways also regulate construction and siting of Keystone.

Energy Business

The Energy segment of TCPL s business includes the acquisition, development, construction, ownership and operation of electrical power generation plants, the purchase and marketing of electricity, the provision of electricity account services to energy and industrial customers, the development, construction and ownership and operation of non-regulated natural gas storage in Alberta.

The electrical power generation plants and power supply that TCPL has an interest in, including those under development, in the aggregate, represent more than 10,800 MW of power generation capacity. Power plants and power supply in Canadian power account for approximately 65 per cent of this total, and power plants in U.S. power account for the balance, being approximately 35 per cent.

TCPL owns and operates the following facilities:

- Ravenswood generating station, located in Queen s, New York, is a 2,480 MW power plant that consists of multiple units employing steam turbine, combined cycle and combustion turbine technology. Ravenswood has the capacity to serve approximately 20 per cent of New York City s peak load.

- Halton Hills, a 683 MW natural gas-fired power plant in Halton Hills, Ontario, which was placed in service in September 2010. All of the power produced by the facility is sold to the OPA under a 20 year Clean Energy Supply contract.

- Kibby Wind, a 132 MW wind farm located in the Kibby and Skinner Townships in Maine. The first 66 MW phase of Kibby Wind was place in service in October 2009 and the second 66 MW phase was placed in service in October 2010.

- TC Hydro, TCPL s hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers, consists of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.

- Ocean State Power (Ocean State Power), a 560 MW natural gas-fired, combined-cycle facility in Burrillville, Rhode Island.

- Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec under a 20 year power purchase agreement expiring in 2026. Steam is also sold to an industrial customer for use in commercial processes. Since 2008, electricity generation at the Bécancour power plant has been temporarily suspended under an agreement entered into with Hydro-Québec. Under the agreement, TCPL receives payments that are similar to those that would have been received under the normal course of operation.

- Natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW).

- Grandview, a 90 MW natural gas-fired cogeneration power plant located on the site of the Irving Oil Limited oil refinery in Saint John, New Brunswick. Irving Oil Limited is under a 20 year tolling arrangement that expires in 2025, to supply fuel for the plant and to contract 100 per cent of the plant s heat and electricity output.

- Cancarb, a 27 MW facility located in Medicine Hat, Alberta fuelled by waste heat from TCPL s adjacent thermal carbon black facility.

- Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta. The facility s central processing system is capable of maximum injection and withdrawal rates of 725 MMcf/d of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

TCPL has the following long-term power purchase arrangements in place:

- TCPL has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A coal-fired power generation facility under a power purchase arrangement that expires in 2017. TCPL also has the rights to 50 per cent of the generating capacity of the 706 MW Sundance B facility under a power purchase arrangement, which expires in 2020. The Sundance A and Sundance B facilities are located in South Central Alberta.

- The Sheerness (Sheerness) facility, which consists of two coal-fired thermal power generating units, is located in Southeastern Alberta. TCPL has the rights to 756 MW of generating capacity from the Sheerness power purchase arrangement that expires in 2020.

TCPL has interests in the following:

- Two nuclear power generating stations, Bruce A, which is owned 48.8 per cent by TCPL and has four 750 MW reactors, of which two are currently operating and two are being refurbished, and Bruce B, which is owned 31.6 per cent by TCPL and has four operating reactors with a combined capacity of approximately 3,200 MW. Bruce Power is two partnerships with generating facilities and offices located on 2,300 acres northwest of Toronto, Ontario on which are housed Bruce A and Bruce B. The two units of Bruce A which are being refurbished are expected to re-commence commercial operations in first quarter and third quarter 2012.

- A 60 per cent ownership in CrossAlta, which is a 68 Bcf underground natural gas storage facility connected to the Alberta System near Crossfield, Alberta. The facility s central processing system is capable of maximum injection and withdrawal rates of 550 MMcf/d of natural gas.

- A 62 per cent interest in the Carleton (109 MW), Anse-à-Valleau (101 MW), and Baie-des-Sables (110 MW) wind farms, the first three phases of the Cartier Wind energy project, which commenced commercial operation in November 2008, November 2007 and November 2006, respectively.

- Portlands Energy, a 550 MW, combined-cycle natural gas power plant located in Toronto, Ontario is 50 per cent owned by TCPL. This facility, which was fully commissioned in April 2009, provides electricity under a 20 year Accelerated Clean Air Energy Supply contract with the OPA.

TCPL owns the following facilities which are under construction or development:

- The Cartier Wind energy project consists of five wind projects in the Gaspé region of Québec contracted by Hydro-Québec representing a total of 590 MW when complete. Three of the wind farms are in service, and two are currently under construction. The Montagne-Sèche project and phase one of the Gros-Morne project (101 MW) are expected to be operational in 2011, and phase two of the Gros-Morne project (111 MW) is expected to be operational in 2012, subject to the necessary approvals. Cartier Wind is 62 per cent owned by TCPL. All of the power produced by Cartier Wind is sold to Hydro-Québec under a 20 year power purchase agreement.

- Coolidge is a simple-cycle, natural gas-fired peaking power generation station under construction in Coolidge, Arizona. Based on optimal operating conditions, TCPL expects an electrical output of approximately 575 MW from this facility, designed to provide a quick response to peak power demands. Construction commenced in August 2009 and was approximately 95 per cent complete at Year End. The generating station is expected to be placed in service in accordance with its 20 year power purchase agreement with the Salt River Project Agricultural Improvement and Power District in second quarter 2011.

Further information about TCPL s energy holdings and significant developments and opportunities in relation to Energy can be found in the MD&A under the headings Energy , Energy Highlights , Energy Financial Analysis , and Energy Opportunities and Developments .

GENERAL

Employees

At Year End, TCPL had approximately 4,230 full time active employees, substantially all of whom were employed in Canada and the U.S., as set forth in the following table.

Calgary		1,862
Western Canada (excluding Calgary)		460
Houston		453
U.S. Midwest		453
U.S. Northeast		409
Eastern Canada		264
U.S. Southeast/Gulf Coast		233
U.S. West Coast		86
Mexico and South America		10
	Total	**4,230**

Social and Environmental Policies

Health, safety and environment (HS&E) are top priorities in all of TCPL s operations and activities. These areas are guided by the Company s HS&E Commitment Statement, which outlines guiding principles for a safe and healthy environment for TCPL s employees, contractors and the public, and for TCPL s commitment to protect the environment. All employees are responsible for TCPL s HS&E performance. TCPL is committed to being an industry leader in conducting its business so that it meets or exceeds all applicable laws and regulations, and minimizes risk to people and the environment. TCPL is committed to tracking and improving its HS&E performance, and to promoting safety on and off the job, in the belief that all occupational injuries and illnesses are preventable. TCPL endeavors to do business with companies and contractors that share its perspective on HS&E performance and to influence them to improve their collective performance. TCPL is committed to respecting the diverse environments and cultures in which it operates and to support open communication with its stakeholders.

The Health, Safety and Environment Committee of the Board of Directors (the Board) monitors compliance with the Company s HS&E corporate policy through regular reporting. TCPL s HS&E management system is modeled on the International Organization for Standardization s (ISO) standard for environmental management systems, ISO, 14001, and focuses resources on the areas of significant risk to the organization s HS&E business activities. Management is informed regularly of all important HS&E operational issues and initiatives through formal reporting processes. TCPL s HS&E management system and performance are assessed by an independent outside firm every three years. The most recent assessment occurred in December 2009 and did not identify any material issues. The HS&E management system is subject to ongoing internal review to ensure that it remains effective as circumstances change.

As one of TCPL s priorities, safety is an integral part of the way its employees work. In 2010, one of TCPL s objectives was to sustain health and safety performance. Overall, TCPL s safety frequency rates in 2010 continued to be better than most industry benchmarks.

The safety and integrity of the Company s existing and newly developed infrastructure also continued to be top priorities. All new assets are designed, constructed and commissioned with full consideration given to safety and integrity, and are brought into service only after all necessary requirements have been satisfied. The Company expects to spend approximately $250 million in 2011 for pipeline integrity on its wholly owned pipelines, an increase of approximately $95 million over 2010 primarily due to increased levels of in-line pipeline inspection on all systems and pipeline enhancements in areas of population encroachment. Under the approved regulatory models in Canada, non-capital pipeline integrity expenditures on NEB regulated pipelines are treated on a flow-through basis and, as a result, these expenditures have no impact on TCPL s earnings. Under the Keystone contracts, pipeline integrity expenditures are recovered through the tolling mechanism and, as a result, these expenditures have no impact on TCPL s earnings. Expenditures for GTN System may also be recovered through a cost recovery mechanism in its rates if threshold expenditures are achieved. TCPL s pipeline safety record in 2010 continued to be above industry benchmarks. TCPL experienced no pipeline breaks in 2010. Spending associated with public safety on the Energy assets is focused primarily on the Company s hydro dams and associated equipment, and is consistent with previous years.

Aboriginal and Stakeholder Relations

TCPL has recognized the enhanced level of engagement of a wide variety of stakeholders in its business activities that can have a significant impact on the Company s ability to obtain approvals for new assets and to maintain its licences to operate. TCPL has adopted a code of business ethics which applies to the Company s employees that is based on the Company s four core values of integrity, collaboration, responsibility and innovation, which guide the interaction between and among the Company s employees and serve as a standard for TCPL in its dealings with all stakeholders. The code, which may be viewed on TransCanada s website at www.transcanada.com, sets out the fundamental principles of compliance with the law, fair dealing and a commitment to HS&E.

TCPL s approach to stakeholder engagement is based on building relationships, mutual respect and trust while recognizing the unique values, needs and interests of each community. Key principles that guide TCPL s engagement include: the Company s respect for the diversity of Aboriginal/Native American communities and recognition of the importance of the land to these communities; and the Company s belief in engaging stakeholders from the earliest stages of its projects, through the project development process and into operations.

Environmental Protection

TCPL s facilities are subject to stringent federal, provincial, state and local environmental statutes and regulations regarding environmental protection, including requirements that establish compliance and remedial obligations. Such laws and regulations generally require facilities to obtain and comply with a wide variety of environmental restrictions, licences, permits and other approvals. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and/or criminal penalties, the imposition of remedial requirements, and/or the issuance of orders respecting future operations. TCPL has ongoing inspection programs designed to keep all of its facilities in compliance with environmental requirements.

At December 31, 2010, TCPL recorded liabilities of approximately $84 million (2009 - $91 million) for remediation obligations and compliance costs associated with environmental regulations. The Company believes it has considered all necessary contingencies and established appropriate reserves for environmental liabilities, however, there is the risk that unforeseen matters may arise requiring the Company to set aside additional amounts.

TCPL is not aware of any material outstanding orders, claims or lawsuits against it in relation to the release or discharge of any material into the environment or in connection with environmental protection.

In 2010, the Company owned assets in four regions, Alberta, Québec, B.C., and the Northeastern U.S., where regulations exist to address industrial greenhouse gas (GHG) emissions. TCPL has procedures in place to address these regulations. In Alberta, under the Specified Gas Emitters Regulation, industrial facilities emitting GHGs over an intensity threshold level are required to reduce GHG emissions intensities by 12 per cent below an average baseline. TCPL s Alberta-based facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with which TCPL has power purchase arrangements. As an alternative to reducing emissions intensities, compliance can be achieved through acquiring offsets or making payments to a technology fund at a cost of $15 per tonne of carbon dioxide (CO2) equivalents in excess of the mandated reduction. A program is in place to manage the compliance costs incurred by these assets as a result of regulation. Compliance costs on the Alberta System are recovered through tolls paid by customers. Some of the compliance costs from the Company s power generation facilities in Alberta are recovered through market pricing and contract flow-through provisions. TCPL has estimated and recorded related costs of $22 million for 2010, after contracted cost recovery.

In Québec, the natural gas distributor collects the hydrocarbon royalty on behalf of the provincial government through a green fund contribution charge on gas consumed. In 2010, the cost pertaining to the Bécancour facility arising from the hydrocarbon royalty was less than $1 million as a result of an agreement between TCPL and Hydro-Québec to temporarily suspend the facility s power generation. The cost is expected to increase substantially when the plant returns to service.

The carbon tax in B.C., which came into effect in mid-2008, applies to CO2 emissions from fossil fuel combustion. Compliance costs for fuel combustion at the Company s compressor and meter stations in B.C. are recovered through tolls paid by customers. Costs related to the carbon tax in 2010 were estimated at $4 million. As specified by this law, the cost per tonne of CO2 will increase in July 2011 to $25.00 from $20.00.

Northeastern U.S. states that are members of the Regional Greenhouse Gas Initiative (RGGI) implemented a CO2 cap-and-trade program for electricity generators effective in January 2009. Under the RGGI, both the Ravenswood and Ocean State Power generation facilities will be required to submit allowances following the end of the first compliance period on December 31, 2011. TCPL participated in the quarterly auctions of allowances for the Ravenswood and Ocean State Power generation facilities and incurred related costs of approximately $5 million in 2010. These costs were generally recovered through the power market and the net impact on TCPL was not significant.

RISK FACTORS

Environmental Risk Factors

Environmental Risks

Environmental risks from TCPL s operating facilities typically include: air emissions, such as nitrogen oxides, particulate matter and GHGs; potential impacts on land, including land reclamation or restoration following construction; the use, storage and release of chemicals or hydrocarbons; the generation, handling and disposal of wastes and hazardous wastes; and water impacts such as uncontrolled water discharge. Environmental controls including physical design, programs, procedures and processes are in place to effectively manage these risks.

As mentioned above, TCPL s operations are subject to various environmental laws and regulations that establish compliance and remediation obligations. Compliance obligations can result in significant costs associated with installing and maintaining pollution controls, fines and penalties resulting from any failure to comply, and potential limitations on operations. Remediation obligations can result in significant costs associated with the investigation and remediation of contaminated properties, and with damage claims arising from the contamination of properties. It is not possible for TCPL to estimate the amount and timing of all future expenditures related to environmental matters due to:

- uncertainties in estimating pollution control and clean up costs, including at sites where only preliminary site investigation or agreements have been completed;
- the potential discovery of new sites or additional information at existing sites;
- the uncertainty in quantifying the Company s liability under environmental laws that impose joint and several liability on all potentially responsible parties;
- the evolving nature of environmental laws and regulations, including the interpretation and enforcement of them; and
- the potential for litigation on existing or discontinued assets.

Oil Leaks and Spills

In 2010, the Wood River/Patoka phase of Keystone became operational. Steel pipelines are a safe, efficient and economical method of transporting crude oil. The equipment and procedures put in place with respect to Keystone provide the capability to contain oil leaks quickly and safely.

TCPL s pipelines are designed, constructed and operated to the highest industry standards and meet or exceed all regulatory requirements. Keystone is continuously monitored and is fully automated with remotely started secure pumps and valves. A variety of methods are used to detect and prevent leaks. In the unlikely event of a leak or spill, valves can be closed to isolate the leak and limit spill volumes.

The Company has established emergency response plans to be enacted in the unlikely event of a leak or spill along TCPL s operational crude oil pipeline. The plans encompass the necessary personnel and equipment to respond to any size of spill as well as clean-up and remediation operations to minimize any effects on the environment. The plan outlines specific environmental features in the vicinity of the pipeline and containment and remediation efforts are based on practices that are well-understood and tested. In addition, TCPL has an on-going program to provide local emergency responders with the information and training necessary to ensure their preparedness for responding to events.

Changing Legislation and Regulations

The impact of new or proposed provincial, state and/or federal safety and environmental laws, regulations, guidelines and enforcement in Canada and the U.S. on TCPL s business is not yet certain. TCPL makes assumptions about possible expenditures to safety and environmental matters based on current laws and regulations and interpretations thereof. If the laws or regulations or the interpretation thereof changes, the Company s assumptions may change. Incremental costs may or may not be recoverable under existing rate structures or commercial agreements. Proposed changes in environmental policy, legislation or regulation are routinely monitored by TCPL, and where the risks are potentially large or uncertain, the Company works independently or through industry associations to comment on proposals.

In April 2010, the Environmental Protection Agency (EPA) published an Advanced Notice of Proposed Rulemaking to solicit comments with respect to EPA s reassessment of current regulations under the Toxic Substances Control Act, governing the authorized use of polychlorinated biphenyls (PCBs) in certain equipment. The proposed changes could require notification to the EPA when PCBs are discovered in any pipeline system, a phase out and eventual elimination of PCB use in pipeline systems and air compressor systems and the immediate elimination of the storage of PCB equipment for reuse. If finalized as proposed, these changes are likely to have significant cost implications for the Company s U.S. assets.

Regulation of air pollutant emissions under the U.S. Clean Air Act (CAA) and state regulations continue to evolve. A number of EPA initiatives could lead to impacts ranging from requirements to install emissions control equipment, to additional administrative and reporting requirements. At this time, there is insufficient detail to accurately determine the potential impacts of these initiatives. While the majority of the proposals are not expected to be material to TCPL, the Company anticipates additional future costs related to the monitoring and control of air emissions.

In addition to those climate change policies already in force, there are also several federal (Canada and U.S.), regional and provincial initiatives currently in development. While recent political and economic events may significantly affect the scope and timing of new policies, TCPL anticipates that most of the Company s facilities in Canada and the U.S. are or will be subject to federal and/or regional climate change regulations to manage industrial GHG emissions. Certain of these initiatives are outlined below.

The Canadian government has continued to express interest in pursuing a harmonized continental climate change strategy. In January 2010, Environment Canada submitted a revised GHG reduction target to the United Nations Framework Convention on

Climate Change as part of its submission for the Copenhagen Accord. The revised target represents a 17 per cent reduction in GHG emissions by 2020 relative to 2005 levels. In June 2010, the Federal government initiated consultation on its policy for coal-fired power operations with the stated intention of publishing the draft regulatory framework in Canada Gazette in early 2011. TCPL participated in this consultation process directly through meetings with government officials and through the Canadian Electricity Association. The new regulations to reduce GHG emissions for coal-fired operations are expected to come into effect in July 2015.

In the U.S., the EPA is proceeding towards regulating industrial GHG emissions under the CAA. In May 2010, the EPA issued its final version of the Tailoring Rule which outlines emissions thresholds and a schedule for phasing in certain permitting requirements under the CAA. Under this rule, the Prevention of Significant Deterioration program stipulates the air pollution protection criteria a company must meet to obtain a construction permit. Requirements will apply to GHG emissions starting in January 2011. The second phase of the program will commence in July 2011, with new rulemaking in 2012 to establish emission thresholds and permitting requirements to take effect in 2013. In addition to the Prevention of Significant Deterioration requirements, the Tailoring Rule sets comparable emissions thresholds and timetables for new and existing facilities to obtain operating permits under Title V of the CAA. The regulation of GHG emissions by the EPA under the CAA would have implications for TCPL with respect to permitting for existing, new and modified facilities.

The Western Climate Initiative (WCI) continues to work toward implementing a regional cap-and-trade program expected to come into effect in 2012. The cap-and-trade program would be a key component of the plan to help WCI members reach their goal of reducing GHG emissions 15 per cent below 2005 by 2020. Beginning in 2012, the cap would cover utilities and large industrial sectors, and expand by 2015 to cover transportation fuels, and commercial and residential fuels. The WCI comprises seven Western states and four Canadian provinces. While TCPL has assets located in all four Canadian member provinces (B.C., Manitoba, Ontario and Québec) and five of the member states (California, Oregon, Washington, Montana and Arizona), the cap-and-trade program is proposed to begin in 2012 in California and the Canadian provinces of B.C., Québec, and Ontario. The programs would cover TCPL s pipeline and power facilities, however, TCPL expects the cost of compliance would be largely recoverable on the facilities that trigger emissions thresholds.

TCPL monitors climate change policy developments and, when warranted, participates in policy discussions in jurisdictions where the Company has operations. The Company is also continuing its programs to manage GHG emissions from its facilities and to evaluate new processes and technologies that result in improved efficiencies and lower GHG emission rates.

With respect to business opportunities, the Company has well established processes and criteria for assessing new business opportunities including those that may arise as a result of climate change policies. These processes have been and continue to be key contributors to TCPL s financial strength and success. Governments in North America are developing long-term plans for limiting GHG emissions. These plans, combined with a shift in consumer attitude and demand for low-emissions fuels, will require changes in energy supply and infrastructure. With the Company s experience in pipeline transmission and power generation, TCPL is well-positioned to participate in these opportunities.

With respect to physical risks arising from climate change, TCPL has in place a set of procedures to manage its response to natural disasters such as forest fires, tornadoes, earthquakes, floods, volcanic eruptions and hurricanes regardless of cause. These procedures are included in TCPL Operating Procedures and are part of the Company s Incident Management System. The procedures ensure that the health and safety of the Company s employees and the environment are not compromised during natural disasters.

TCPL s assets are located throughout North America and the Company s facility design must deal with different geographical areas. In northern regions, changing permafrost levels due to warmer temperatures have been experienced, however, very few kilometers of TCPL s pipeline systems are currently in permafrost regions. If TCPL builds new facilities in northern areas, the Company s facility designs will take into account the potential for changing permafrost levels.

Other Risk Factors

A discussion of the Company s risk factors can be found in the MD&A under the headings Natural Gas Pipelines Opportunities and Developments , Natural Gas Pipelines Business Risks , Natural Gas Pipelines Outlook , Oil Pipelines Opportunities and Developments , Oi Pipelines Business Risks , Oil Pipelines Outlook , Energy Opportunities and Developments , Energy Business Risks , Energy Outlook Management and Financial Instruments .

DIVIDENDS

All of TCPL s common shares are held by TransCanada and as a result, any dividends declared by TCPL on its common shares are paid to TransCanada. TCPL s Board has not adopted a formal dividend policy. The Board reviews the financial performance of TCPL quarterly and makes a determination of the appropriate level of dividends to be declared in the following quarter. Provisions of various trust indentures and credit arrangements to which TCPL is a party, restrict TCPL s ability to declare and pay dividends to TransCanada and preferred shareholders under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on TransCanada s ability to declare and pay dividends on its common and preferred shares. In the opinion of TCPL management, such provisions do not currently restrict or alter TCPL s ability to declare or pay dividends.

The holders of TCPL s cumulative redeemable first preferred shares, series U (the Series U Preferred Shares) are entitled to receive as and when declared by the Board, fixed cumulative cash dividends at an annual rate of $2.80 per share, payable quarterly. The dividends declared per share on TCPL s respective common shares, Series U Preferred Shares, and cumulative redeemable first preferred shares, series Y (the Series Y Preferred Shares) during the past three completed financial years are set forth in the following table.

	2010	**2009**	**2008**
Dividends declared on common shares(1)	$1.67	$1.62	$1.49
Dividends declared on Series U Preferred Shares	$2.80	$2.80	$2.80
Dividends declared on Series Y Preferred Shares	$2.80	$2.80	$2.80

(1) TCPL dividends on its common shares are declared in an amount equal to the aggregate cash dividend paid by TransCanada to its public shareholders. The amounts presented reflect the aggregate amount divided by the total outstanding common shares of TCPL.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

TCPL s authorized share capital consists of an unlimited number of common shares, of which 675,673,927 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares, issuable in series. There were 4,000,000 Series U Preferred Shares and 4,000,000 Series Y Preferred Shares issued and outstanding at Year End. The following is a description of the material characteristics of each of these classes of shares.

Common Shares

As the holder of all of TCPL s common shares, TransCanada holds all the voting rights in those common shares.

Series U Preferred Shares

Subject to certain limitations, the Board may, from time to time, issue first preferred shares in one or more series and determine for any such series, its designation, number of shares and respective rights, privileges, restrictions and conditions. The first preferred shares as a class, have, among others, provisions to the following effect.

The holders of the Series U Preferred Shares are entitled to receive dividends as set out above under Dividends .

The first preferred shares of each series shall rank on a parity with the first preferred shares of every other series, and shall be entitled to preference over the common shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends, the repayment of capital and the distribution of assets of TCPL in the event of a liquidation, dissolution or winding up of TCPL.

TCPL is entitled to purchase for cancellation, some or all of the Series U Preferred Shares outstanding at the lowest price which such shares are obtainable, in the opinion of the Board, but not exceeding $50.00 per share plus costs of purchase. Furthermore, TCPL may redeem, on or after October 15, 2013, some or all of the Series U Preferred Shares upon payment for each share at $50.00 per share.

Except as provided by the CBCA or as referred to below, the holders of the first preferred shares will not have any voting rights nor will they be entitled to receive notice of or to attend shareholders meetings unless and until TCPL fails to pay, in the aggregate, six quarterly dividends on the Series U Preferred Shares.

The provisions attaching to the first preferred shares as a class may be modified, amended or varied only with the approval of the holders of the first preferred shares as a class. Any such approval to be given by the holders of the first preferred shares may be given by the affirmative vote of the holders of not less than 66 2⁄3 per cent of the first preferred shares represented and voted at a meeting or adjourned meeting of such holders.

Series Y Preferred Shares

The rights, privileges, restrictions and conditions attaching to the Series Y Preferred Shares are substantially identical to those attaching to the Series U Preferred Shares, except that the Series Y Preferred Shares are redeemable by TCPL after March 5, 2014.

Debt

The following table sets out the issuances by TCPL of senior unsecured notes, medium term unsecured note debentures and junior subordinated notes with terms to maturity in excess of one year, during the 12 months ended December 31, 2010.

Date Issued	**Issue Price per $1,000 Principal Amount of Notes**	**Aggregate Issue Price**
May 27, 2010	US$997.43	US$1,000,000,000
September 21, 2010	US$998.81 (1)	US$500,000,000
September 21, 2010	US$996.86 (1)	US$750,000,000

(1) These notes were issued under the same prospectus supplement. Notes maturing in 2015 were issued at 99.881 per cent and notes maturing in 2040 were issued at 99.686 per cent.

There are no provisions associated with this debt that entitle debt holders to voting rights. From time to time, TCPL issues commercial paper for terms not exceeding nine months.

CREDIT RATINGS

The following table sets out the current credit ratings assigned to those outstanding classes of securities of TCPL which have been rated by DBRS Limited (DBRS), Moody s Investors Service, Inc. (Moody s) and Standard and Poor s (S&P):

	DBRS	**Moody s**	**S&P**
Senior Unsecured Debt			
Debentures	A	A3	A-
Medium-Term Notes	A	A3	A-
Junior Subordinated Notes	BBB (high)	Baa1	BBB
Preferred Shares	Pfd-2 (low)	Baa2	P-2
Commercial Paper	R-1 (low)	-	-
Trend/Rating Outlook	Stable	Stable	Stable

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. The following information concerning the Company s credit ratings relates to the Company s financing costs, liquidity and operations. The availability of TCPL s funding options may be affected by certain factors, including the global capital market environment and outlook as well as the Company s financial performance. TCPL s access to capital markets at competitive rates is dependent on its credit rating and rating outlook, as determined by credit rating agencies such as DBRS, Moody s and S&P, and if TCPL s ratings were downgraded the Company s financing costs and future debt issuances could be unfavorably impacted. A description of the rating agencies credit ratings listed in the table above is set out below.

DBRS Limited (DBRS)

DBRS has different rating scales for short- and long-term debt and preferred shares. High or low grades are used to indicate the relative standing within all rating categories other than AAA and D. The absence of either a high or low designation indicates the rating is in the middle of the category. The R-1 (low) rating assigned to TCPL s short-term debt is in the third highest of ten rating categories and indicates good credit quality. The overall strength is not as favourable as higher rating categories, but any qualifying negative factors that exist are considered manageable. The A rating assigned to TCPL s senior unsecured debt is in the third highest of ten categories for long-term debt. Long-term debt rated A is good credit quality. The capacity for the payment of interest and principal is substantial, but the degree of strength is less than that of AA rated securities. The BBB (high) rating assigned to junior subordinated notes is in the fourth highest of the ten categories for long-term debt. Long-term debt rated BBB is of adequate credit quality. The capacity for the payment of interest and principal is considered acceptable, but it may be vulnerable to future events. The Pfd-2 (low) rating assigned to TCPL s and TransCanada s preferred shares is in the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies. In general, Pfd-2 ratings correspond with long-term debt rated in the A category.

Moody s Investors Service, Inc. (Moody s)

Moody s has different rating scales for short- and long-term obligations. Numerical modifiers 1, 2 and 3 are applied to each rating classification from Aa through Caa, with 1 being the highest and 3 being the lowest. The A3 rating assigned to TCPL s senior unsecured debt is in the third highest of nine rating categories for long-term obligations. Obligations rated A are considered upper medium grade and are subject to low credit risk. The Baa 1 and Baa2 ratings assigned to TCPL s junior subordinated debt and preferred shares, respectively, are in the fourth highest of nine rating categories for long-term obligations, with the junior subordinated debt ranking slightly higher within the Baa rating category with a modifier of 1 as opposed to the modifier of 2 on the preferred shares. Obligations rated Baa are subject to moderate credit risk, are considered medium-grade, and as such, may possess certain speculative characteristics.

Standard & Poor s (S&P)

S&P has different rating scales for short- and long-term obligations. Ratings from AA through CCC may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within a particular rating category. The A- rating assigned to TCPL s senior unsecured debt is in the third highest of ten rating categories for long-term obligations. An A rating indicates the obligor s capacity to meet its financial commitment is strong; however, the obligation is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The BBB and P-2 ratings assigned to TCPL s junior subordinated notes and TCPL s and TransCanada s preferred shares exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

MARKET FOR SECURITIES

TransCanada holds all of the common shares of TCPL and these are not listed on a public market. During 2010, 26,121,204 common shares of TCPL were issued to TransCanada as set out in the following table:

Date	**Number of TCPL Common Shares**	**Price per TCPL Common Share**	**Aggregate Issuance Price**
April 7, 2010	10,674,455	$37.66	$402,000,000
August 4, 2010	4,642,271	$36.62	$170,000,000
October 14, 2010	10,804,478	$38.41	$415,000,000

TransCanada s common shares are listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE) under the symbol TRP . TransCanada s cumulative redeemable first preferred, series 1 (the Series 1 Preferred Shares), cumulative redeemable first preferred, series 3 (the Series 3 Preferred Shares), and cumulative redeemable first preferred, series 5 (the Series 5 Preferred Shares) have been listed for trading on the TSX since September 30, 2009, March 12, 2010 and June 29, 2010, respectively, under the symbols TRP.PR.A , TRP.PR.B , and TRP.PR.C , respectively. The following tables set forth the reported monthly high, low, and month-end closing trading prices and monthly trading volumes of the common shares of TransCanada on the TSX and the NYSE, and the respective Series 1 Preferred Shares, Series 3 Preferred Shares and Series 5 Preferred Shares on the TSX, for the period indicated:

Common Shares

	TSX (TRP)				**NYSE (TRP)**			
Month	**High ($)**	**Low ($)**	**Close ($)**	**Volume Traded**	**High (US$)**	**Low (US$)**	**Close (US$)**	**Volume Traded**
December 2010	38.71	36.53	37.99	36,564,145	38.44	35.86	38.04	8,743,709
November 2010	38.04	35.49	36.20	47,122,180	37.72	34.77	35.33	8,000,248
October 2010	39.28	37.06	37.67	24,452,953	38.59	36.33	36.95	6,887,287
September 2010	38.88	37.25	38.17	35,287,579	37.75	36.00	37.12	5,548,775
August 2010	38.45	35.75	38.00	23,551,406	36.53	34.23	35.64	6,079,595
July 2010	37.25	35.50	36.33	30,315,925	35.85	32.86	35.35	8,077,360
June 2010	37.31	34.57	35.61	30,159,655	36.69	33.02	33.43	8,154,916
May 2010	36.92	30.01	35.50	32,936,332	36.47	25.80	33.17	9,235,485
April 2010	38.16	35.18	35.84	30,450,870	38.01	34.92	35.20	6,424,836
March 2010	37.87	34.75	37.22	42,951,844	37.11	33.20	36.76	5,806,751
February 2010	35.30	33.96	34.78	25,627,521	33.68	31.58	33.00	5,669,857
January 2010	36.44	34.00	34.17	23,180,090	35.07	31.85	31.91	6,314,623

Series 1 Preferred Shares

	TSX (TRP.PR.A)
Month	

	High ($)	Low ($)	Close ($)	Volume Traded
December 2010	26.00	25.50	26.00	559,051
November 2010	26.79	25.95	25.97	583,072
October 2010	26.45	26.13	26.29	528,964
September 2010	27.89	25.90	26.24	613,195
August 2010	26.11	25.80	26.00	623,916
July 2010	25.95	25.35	25.95	454,853
June 2010	25.90	25.15	25.45	552,510
May 2010	25.45	25.00	25.11	1,147,115
April 2010	25.85	25.06	25.25	619,658
March 2010	26.59	25.08	25.69	1,289,162
February 2010	26.29	25.80	25.95	727,716
January 2010	27.15	25.80	26.15	1,561,414

Series 3 Preferred Shares

	TSX (TRP.PR.B)			
Month	High ($)	Low ($)	Close ($)	Volume Traded
December 2010	25.59	24.65	25.57	219,795
November 2010	25.98	24.85	24.98	342,225
October 2010	25.48	24.85	25.10	522,319
September 2010	25.66	24.95	25.36	431,061
August 2010	25.20	24.85	24.98	533,912
July 2010	25.00	24.60	24.94	291,835
June 2010	24.75	24.16	24.65	425,787
May 2010	24.84	23.99	24.20	458,273
April 2010	25.07	23.90	23.90	497,079
March 2010	25.08	24.83	25.02	1,817,221

Series 5 Preferred Shares

	TSX (TRP.PR.C)			
Month	**High ($)**	**Low ($)**	**Close ($)**	**Volume Traded**
December 2010	26.26	25.00	25.81	351,359
November 2010	26.45	25.50	25.65	397,725
October 2010	26.17	25.36	25.56	499,857
September 2010	26.50	25.28	25.69	597,352
August 2010	25.82	25.20	25.70	613,671
July 2010	25.41	24.84	25.30	1,084,450
June 2010	24.98	24.75	24.95	944,707

In addition, the Series U Preferred Shares and Series Y Preferred Shares are listed on the TSX under the symbols TCA.PR.X and TCA.PR.Y, respectively. The following table sets forth the reported monthly high and low trading prices and monthly trading volumes of the Series U Preferred Shares and the Series Y Preferred Shares.

Series U Preferred Shares and Series Y Preferred Shares

	Series U (TCA.PR.X)				Series Y (TCA.PR.Y)			
Month	**High ($)**	**Low ($)**	**Close ($)**	**Volume Traded**	**High ($)**	**Low ($)**	**Close ($)**	**Volume Traded**
December 2010	51.06	49.72	49.98	52,579	50.74	49.03	49.90	49,336
November 2010	50.96	50.12	50.60	36,146	51.00	50.20	50.40	27,331
October 2010	50.60	49.72	50.31	33,895	50.39	49.80	50.08	33,761
September 2010	50.70	49.10	50.09	47,937	50.60	49.25	49.95	41,626
August 2010	49.49	48.60	49.28	29,179	49.49	48.50	49.25	29,827
July 2010	49.24	48.65	49.15	26,727	49.34	48.69	48.70	38,686
June 2010	49.05	46.11	48.61	33,108	49.50	46.32	48.90	76,367
May 2010	47.81	45.60	46.70	40,984	47.14	45.01	46.25	59,507
April 2010	48.45	46.60	47.20	52,186	48.60	46.65	47.00	44,835
March 2010	49.70	48.54	48.55	67,659	49.49	48.50	48.51	28,358
February 2010	49.19	48.50	48.60	86,737	49.20	48.10	48.90	40,250
January 2010	50.97	48.75	48.75	166,685	50.00	48.57	49.10	42,244

DIRECTORS AND OFFICERS

As of February 14, 2011, the directors and officers of TransCanada as a group beneficially owned, or exercised control or direction, directly or indirectly, over an aggregate of 517,667 common shares of TransCanada. This constitutes less than one per cent of TransCanada s common shares. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities.

Directors

Set forth below are the names of the thirteen directors who served on the Board at Year End, together with their jurisdictions of residence, all positions and offices held by them with TCPL and its significant affiliates, their principal occupations or employment during the past five years and the year from which each director has continually served as a director of TCPL. Positions and offices held with TransCanada are also held by such person at TCPL. Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed.

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
Kevin E. Benson DeWinton, Alberta Canada	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007. Director, Emergency Medical Services Corporation.	2005
Derek H. Burney(1), O.C. Ottawa, Ontario Canada	Senior strategic advisor at Ogilvy Renault LLP (law firm). Chair (not a Director), International Advisory Board for Garda World Consulting & Investigation, a division of Garda World Security Corporation since 2008. Chair, Canwest Global Communications Corp. (communications) from August 2006 (director since April 2005) to October 2010 and Lead Director at Shell Canada Limited (oil and gas) from April 2001 to May 2007.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management. Director, Institute for International Business, University of Toronto and Director, the Toronto-Dominion Bank. Vice Chair, Canadian Public Accountability Board until February 2010 and Chair of the Audit Committee of the same organization from 2003 to 2009.	1992
E. Linn Draper Lampasas, Texas U.S.	Director, Alliance Data Systems Corporation (data processing and services) and Director, Alpha Natural Resources, Inc. (mining). Chair, NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas). Lead Director, Temple-Inland Inc. (materials).	2005
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast LLP (law firm). Director, Metro Inc., RBC Dexia Investor Services Trust, Royal Bank of Canada and Care Canada. Director, Institut Québecois des Hautes Études Internationales, Laval University from 2002 until 2009.	2002
Russell K. Girling Calgary, Alberta Canada	President and Chief Executive Officer, TransCanada since July 1, 2010. Chief Operating Officer from July 2009 to June 30, 2010 and President, Pipelines from June 2006 to June 30, 2010. Prior to June 2006, Chief Financial Officer and Executive Vice-President, Corporate Development. Director, Agrium Inc.	2010
Kerry L. Hawkins Winnipeg, Manitoba Canada	Director, NOVA Chemicals Corporation until July 2009. President, Cargill Limited (agricultural) from September 1982 to December 2005.	1996
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TransCanada since April 2005. Director, Nexen Inc. (oil and gas) and Director, WestJet Airlines Ltd. Chair, Resolute Energy Inc. (oil and gas) from January 2002 to April 2005. Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005.	2002
Paul L. Joskow New York, New York	Economist and President of the Alfred P. Sloan Foundation. Professor of Economics, Emeritus, Massachusetts Institute of Technology (MIT) where he has been on the faculty	2004

U.S.	since 1972. Trustee of Yale University since July 1, 2008 and member of the Board of Overseers of the Boston Symphony Orchestra since September 2005. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007 and Director of National Grid plc from 2000 to 2007. Director, Exelon Corporation (energy), and a trustee of Putnam Mutual Funds.	
John A. MacNaughton(2), C.M. Toronto, Ontario Canada	Chair of the Business Development Bank of Canada. Chair, CNSX Markets Inc. (formerly the Canadian Trading and Quotation System Inc.) (stock exchange) from 2006 to July 2010. Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology) from 2005 to September 2010. Chair of the Independent Nominating Committee of the Canada Employment Insurance Financing Board since 2008. Founding President and Chief Executive Officer of the Canada Pension Plan Investment Board from 1999 to 2005.	2006
David P. O Brien(3) Calgary, Alberta Canada	Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, and Enerplus Corporation. Member of the Science, Technology and Innovation Council of Canada.	2001

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
W. Thomas Stephens Greenwood Village, Colorado U.S.	Chair and Chief Executive Officer of Boise Cascade, LLC from November 2004 to November 2008. Director, Boise Inc. until April 2010. Trustee, Putnam Mutual Funds.	2007(4)
D. Michael G. Stewart Calgary, Alberta Canada	Director, Canadian Energy Services & Technology Corp. (previously Canadian Energy Services LP (Director, Canadian Energy Services Inc., the GP)), Pengrowth Energy Corporation (previously Pengrowth Corporation (the administrator of Pengrowth Energy Trust)) and C&C Energia Ltd. Director, Orleans Energy Ltd. from October 2008 to December 2010. Chairman and a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006. Director, Creststreet Power & Income General Partner Limited, the General Partner of Creststreet Power & Income Fund L.P. (wind power) from December 2003 to February 2006.	2006

(1) Canwest Global Communications Corp. (Canwest) voluntarily entered into, and successfully obtained an Order from the Ontario Superior Court of Justice (Commercial Division) commencing proceedings under the Companies Creditors Arrangement Act (CCAA) on October 6, 2009. Although no cease trade orders were issued, following the filing Canwest shares were de-listed from trading on the TSX and now trade on the TSX Venture Exchange. Canwest emerged from CCAA protection and its newspaper business was acquired by Postmedia Network on July 13, 2010 and its broadcast media business was acquired by Shaw Communications Inc. on October 27, 2010. Mr. Burney ceased to be a director of Canwest on October 27, 2010.

(2) Nortel Networks Limited is the principal operating subsidiary of Nortel Networks Corporation (collectively referred to as Nortel). Mr. MacNaughton became a director of Nortel on June 29, 2005. Nortel was subject to a management cease trade order on April 10, 2006 issued by the Ontario Securities Commission (OSC) and other provincial securities regulators. The cease trade order related to a delay in filing certain of Nortel s 2005 financial statements. The order was revoked by the OSC on June 8, 2006 and by the other provincial securities regulators very shortly thereafter. On January 14, 2009, Nortel, and certain of Nortel s other Canadian subsidiaries filed for creditor protection under the CCAA.

(3) Air Canada filed for protection under the CCAA and applicable bankruptcy protection statutes in the U.S. in April 2003. Mr. O Brien resigned as a director of Air Canada on November 26, 2003.

(4) Mr. Stephens previously served on the Board from 2000 to 2005.

Board Committees

TCPL has four committees of the Board: the Audit Committee, the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. The voting members of each of these committees, as of Year End, are identified below:

Audit Committee		**Governance Committee**		**Health, Safety and Environment Committee**		**Human Resources Committee**	
Chair:	K.E. Benson	Chair:	J.A. MacNaughton	Chair:	E.L. Draper	Chair:	W.T. Stephens

Members:	D.H. Burney E.L. Draper P.L. Joskow J.A. MacNaughton D.M.G. Stewart	Members:	K.E. Benson D.H. Burney P.L. Joskow D.P. O Brien D.M.G. Stewart S.B. Jackson	Members:	W.K. Dobson P. Gauthier K.L. Hawkins W.T. Stephens	Members:	W.K. Dobson P. Gauthier K.L. Hawkins D.P. O Brien S.B. Jackson

The charters of the Audit Committee, Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee can be found on TransCanada s website under the Corporate Governance - Board Committees page located at www.transcanada.com. Information about the audit committee can be found in this AIF under the heading Audit Committee .

Further information about the Board committees and corporate governance can also be found on TransCanada s website.

Officers

All of the executive officers and corporate officers of TCPL reside in Calgary, Alberta, Canada, with the exception of Mr. Hobbs who resides in Houston, Texas, U.S. References to positions and offices with TCPL prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices held with TCPL are also held by such person at TCPL. As of the date hereof, the officers of TCPL, their present positions within TCPL and their principal occupations during the five preceding years are as follows:

Executive Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Russell K. Girling	President and Chief Executive Officer	Prior to July 2010, Chief Operating Officer since July 2009 and President, Pipelines since June 2006. Prior to June 2006, Executive Vice-President, Corporate Development, since March 2003 and Chief Financial Officer, since August 1999.
Gregory A. Lohnes	Executive Vice-President and President, Natural Gas Pipelines	Prior to July 2010, Executive Vice-President and Chief Financial Officer. Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company, since August 2000.
Donald R. Marchand	Executive Vice-President and Chief Financial Officer	Prior to July 2010, Vice-President, Finance and Treasurer, since September 1999.
Dennis J. McConaghy	Executive Vice-President, Corporate Development	Prior to July 2010, Executive Vice-President, Pipeline Strategy and Development. Prior to June 2006, Executive Vice-President, Gas Development, since May 2001.
Sean McMaster	Executive Vice-President, Corporate, and General Counsel and Chief Compliance Officer	Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since 2006. Prior to June 2006, Vice-President, Transactions, Power Division, TCPL, since April 2003.
Alexander J. Pourbaix	President, Energy and Oil Pipelines	President, Energy from June 2006 to June 2010 and Executive Vice-President, Corporate Development from July 2009 to June 2010. Prior to June 2006, Executive Vice-President, Power, since March 2003.
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Corporate Services, since January 2002.
Donald M. Wishart	Executive Vice-President, Operations and Major Projects	Prior to July 2009, Executive Vice-President, Operations and Engineering, since March 2003.

Corporate Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Sean M. Brett	Vice-President and Treasurer	Prior to July 2010, Vice-President, Commercial Operations of TC Pipelines GP, Inc., and Director, LP Operations of TCPL. Prior to November 2009, Director, Joint Venture Management, Keystone Pipeline Project of TCPL. Prior to December 2008, Vice-President and Treasurer of TC Pipelines GP, Inc. Prior to January 2007, Mr. Brett held a number of positions of increasing responsibility with TransCanada s Finance and Treasury Group.
Ronald L. Cook	Vice-President, Taxation	Vice-President, Taxation, since April 2002.
Donald J. DeGrandis	Vice-President and Corporate Secretary	Prior to February 2009, Corporate Secretary. Prior to June 2006, Associate General Counsel, Corporate Services, since June 2004.
Lee G. Hobbs	President, U.S. Natural Gas Pipelines	Senior Vice-President and General Manager, U.S. Pipelines, Pipelines Division, TCPL, June 2009 to July 2010. Vice-President and General Manager, U.S. Pipelines Central, Pipelines Division, TCPL, March 2007 to June 2009. President, Great Lakes Gas Transmission Company and Great Lakes Gas Transmission Limited Partnership, September 2006 to March 2007. Prior to September 2006, Vice-President and Controller, TCPL, since July 2001.
Joel E. Hunter	Vice-President, Finance	Director, Corporate Finance, January 2008 to July 2010. Prior to January 2008, Senior Analyst, Corporate Finance. Prior to January 2007 Mr. Hunter held a number

		of positions of increasing responsibility with TransCanada s Finance and Treasury Group.
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Risk Management, since October 2001.
G. Glenn Menuz	Vice-President and Controller	Prior to June 2006, Assistant Controller, since October 2001.

Conflicts of Interest

Directors and officers of TCPL and its subsidiaries are required to disclose the existence of existing or potential conflicts in accordance with TCPL policies governing directors and officers and in accordance with the CBCA. Although some of the directors sit on boards or may be otherwise associated with companies that ship natural gas on TCPL s pipeline systems, TCPL, as a common carrier in Canada, cannot, under its tariff, deny transportation service to a credit worthy shipper. Further, due to the specialized nature of the industry, TCPL believes that it is important for its Board to be composed of qualified and knowledgeable

directors, so some of them must come from the oil and gas producer and shipper community; the Governance Committee monitors relationships among directors to ensure that business associations do not affect the Board s performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

CORPORATE GOVERNANCE

The Board and the members of TCPL s management are committed to the highest standards of corporate governance. TCPL s corporate governance practices comply with the governance rules of the CSA, those of the NYSE and of the SEC applicable to foreign issuers. As a non-U.S. company, TCPL is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on our website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TCPL is in compliance with the CSA s National Instrument 52-110, Audit Committees; National Policy 58-201, Corporate Governance Guidelines; and National Instrument 58-101, Disclosure of Corporate Governance Practices. Further information about TCPL s corporate governance can be found on TransCanada s website at www.transcanada.com under the heading Corporate Governance or at Schedule B to TransCanada s Management Proxy Circular (the Proxy Circular) dated February 14, 2011.

AUDIT COMMITTEE

TCPL has an Audit Committee which is responsible for assisting the Board in overseeing the integrity of TCPL s financial statements and compliance with legal and regulatory requirements and in ensuring the independence and performance of TCPL s internal and external auditors. The Charter of the Audit Committee can be found in Schedule C of this AIF and on TransCanada s website under the Corporate Governance Board Committees page, at www.transcanada.com.

Relevant Education and Experience of Members

The members of the Audit Committee at Year End were Kevin E. Benson (Chair), Derek H. Burney, E. Linn Draper, Paul L. Joskow, John A. MacNaughton and D. Michael G. Stewart.

The Board believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be independent and financially literate within the meaning of the definitions under Canadian and U.S. securities laws and the NYSE rules. In addition, the Board has determined that Mr. Benson is an Audit Committee Financial Expert as that term is defined under U.S. securities laws. The Board has made these determinations based on the education and breadth and depth of experience of each member of the Audit Committee. The following is a description of the education and experience, apart from their respective roles as directors of TCPL, of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

Kevin E. Benson

Mr. Benson earned a Bachelor of Accounting from the University of Witwatersrand (South Africa) and was a member of the South African Society of Chartered Accountants. Mr. Benson was the President and Chief Executive Officer of Laidlaw International, Inc. until October 2007. In prior years, he has held several executive positions including one as President and Chief Executive Officer of The Insurance Corporation of British Columbia and has served on other public company boards and on the audit committees of certain of those boards.

Derek H. Burney

Mr. Burney earned a Bachelor of Arts (Honours) and Master of Arts from Queen s University. He is currently a senior strategic advisor at Ogilvy Renault LLP. Mr. Burney previously served as President and Chief Executive Officer of CAE Inc. and as Chair and Chief Executive Officer of Bell Canada International Inc. Mr. Burney was the lead director at Shell Canada Limited until May 2007 and was the Chair of Canwest Global Communications Corp. until October 2010. He has served on one other organization s audit committee.

E. Linn Draper

Dr. Draper holds a Bachelor of Science in Chemical Engineering from Rice University and a Ph.D. in Nuclear Science and Engineering from Cornell University. Dr. Draper was Chair, President and Chief Executive Officer of American Electric Power Co., Inc. until 2004. He previously served as Chair, President and Chief Executive Officer of Gulf States Utilities Company. Dr. Draper has served and continues to serve on several other public company boards.

Paul L. Joskow

Mr. Joskow earned a Bachelor of Arts with Distinction in Economics from Cornell University, a Masters of Philosophy in Economics from Yale University, and a Ph.D. in Economics from Yale University. He is currently the President of the Alfred P. Sloan Foundation and a Professor of Economics, Emeritus, at MIT. He has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

John A. MacNaughton

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chair of the Business Development Bank of Canada, and was Chair of CNSX Markets Inc. (formerly Canadian Trading and Quotation System Inc.) until July 2010. In prior years, he has held several executive positions including founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board and President of Nesbitt Burns Inc. He has served on the audit committee of other public companies.

D. Michael G. Stewart

Mr. Stewart earned a Bachelor of Science (Honours) in Geological Science from Queen s University. Mr. Stewart has served and continues to serve on the boards of several public companies and other organizations and on the audit committees of certain of those boards. He has been active in the Canadian energy industry for over 37 years.

Pre-Approval Policies and Procedures

TCPL s Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval for specified non-audit services. For engagements of $25,000 or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, and for engagements between $25,000 and $100,000, approval of the Audit Committee Chair is required, and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of $100,000 or more, pre-approval of the Audit Committee is required. In all cases, regardless of the dollar amount involved, where there is a potential for conflict of interest involving the external auditor to arise on an engagement, the Audit Committee Chair must pre-approve the assignment.

To date, TCPL has not approved any non-audit services on the basis of the de-minimus exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

External Auditor Service Fees

The following table provides information about the fees paid by the Company to KPMG LLP, the external auditor of the TransCanada group of companies, for professional services rendered for the 2010 and 2009 fiscal years.

Fee Category	2010	2009	Description of Fee Category
	(millions of dollars)		
Audit Fees	**$6.5**	**$7.2**	Aggregate fees for audit services rendered for the audit of the annual consolidated financial statements or services provided in connection with statutory and regulatory filings or engagements, the review of interim consolidated financial statements and information contained in various prospectuses and other offering documents.
Audit Related Fees	**$0.2**	**$0.2**	Aggregate fees for assurance and related services that are reasonably related to performance of the audit or review of the consolidated financial statements and are not reported as Audit Fees. The nature of services comprising these fees related to the audit of the financial statements of certain Company pension plans.
Tax Fees	**$1.0**	**$1.1**	Aggregate fees rendered for tax planning and tax compliance advice. The nature of these services consisted of domestic and international tax planning advice and tax compliance matters including the review of income tax returns and other tax filings.
All Other Fees	**$0.2**	**$0.4**	Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services primarily consisted of advice and training primarily related to IFRS.
Total	**$7.9**	**$8.9**	

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date hereof and since the beginning of the most recently completed financial year, no executive officer, director, or former executive officer or director of TCPL or its subsidiaries, no proposed nominee for election as a director of TCPL, or any associate of any such director, executive officer or proposed nominee has been indebted to TCPL or any of its subsidiaries. There is no indebtedness of any such person to another entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by TCPL or any of its subsidiaries.

SECURITIES OWNED BY DIRECTORS

The following table sets out the number of each class of securities of TCPL or any of its affiliates beneficially owned, directly or indirectly, or over which control or direction is exercised and the number of DSUs (as defined below and referred to in this section as DSU(s)) credited to each director, as of February 14, 2011.

Director	**TransCanada Common Shares**(1)	**Deferred Share Units**(2)
K. Benson	13,000	34,009
D. Burney	4,418	31,395
W. Dobson	6,000	45,199
E.L. Draper	0	34,919
P. Gauthier	2,000	40,261
R. Girling(3)(4)	599,971	N/A
K. Hawkins(5)	5,061	62,546
S.B. Jackson	39,000	63,781
P.L. Joskow	5,000	22,994
J. MacNaughton	50,000	26,731
D. O Brien	52,639	42,637
W. T. Stephens	1,470	11,577
D.M.G. Stewart(6)	13,247	13,612

(1) The information as to shares beneficially owned or over which control or direction is exercised, not being within the knowledge of TCPL, has been furnished by each of the nominees. Except as indicated in these notes, the nominees have sole voting and dispositive power with respect to the securities listed above. As to each class of shares of TCPL, its subsidiaries and affiliates, the percent of outstanding shares beneficially owned by any one director or nominee or by all directors and officers of TCPL as a group does not exceed 1 per cent of the class outstanding.

(2) The value of a DSU is tied to the value of TransCanada s common shares. A DSU is a bookkeeping entry, equivalent to the value of a TransCanada common share, and does not entitle the holder to vote or other shareholder rights, other than the accrual of additional DSUs for the value of dividends. A director cannot redeem DSUs until the director ceases to be a member of the Board. Upon ceasing to be a member of the Board, Canadian directors may redeem their units for cash or common shares at the market price, while U.S. directors may only redeem their units for cash.

(3) Securities owned, controlled or directed include common shares that Mr. Girling has a right to acquire through the exercise of stock options that are vested under the Stock Option Plan, which is described in this AIF under the heading Equity Compensation Plan Information Stock Option Plan . Directors as such do not participate in the Stock Option Plan. Mr. Girling, as an employee of TCPL, has the right to acquire 544,897 common shares under vested stock options, which amount is included in this column.

(4) Mr. Girling is an employee of TCPL and participates is the Company s Executive Share Unit program; he does not participate in the DSU program.

(5) The shares listed include 3,500 shares held by Mr. Hawkins wife.

(6) The shares listed include 1,723 shares held by Mr. Stewart s wife.

COMPENSATION OF DIRECTORS

Unless as otherwise defined in the following sections, all capitalized terms used from herein shall have the same meaning ascribed to them in TransCanada s Proxy Circular.

TransCanada s directors also serve as directors of TCPL. An aggregate fee is paid for serving on the Boards of TransCanada and TCPL. Since TransCanada does not hold any assets directly, other than the common shares of TCPL and receivables from certain of TransCanada s subsidiaries, all directors costs are assumed by TCPL according to a management services agreement between the two companies. The meetings of the boards and committees of TransCanada and TCPL run concurrently.

TCPL s director compensation practices are designed to reflect the size and complexity of TCPL and to reinforce the emphasis we place on shareholder value by linking a significant portion of directors compensation to the value of common shares. As a result, directors compensation consists of annual retainers and meeting fees paid in cash and in equity-based compensation known as deferred share units (DSUs).

The Governance Committee assesses the market competitiveness of our director compensation on an annual basis against publicly traded autonomous Canadian companies in the Comparator Group (as defined in Schedule F to this AIF under the heading

Compensation Discussion and Analysis) and a general industry sample of Canadian companies, using an analysis provided by an outside consultant. Its goal is to provide total compensation to directors that is generally targeted at the median of our peers in both level and form in order to attract and retain qualified individuals. This goal is reflected in the current compensation paid to directors. The compensation philosophy for directors compensation is different than that for the executive officers discussed under the heading Compensation Discussion and Analysis in that it is not directly based on the performance of the Company.

DIRECTOR COMPENSATION TABLE

The following table sets forth the total compensation paid by TCPL to directors in 2010.

Name	**Fees Earned(1) ($)**	**Share-based Awards(2) ($)**	**All Other Compensation ($)**	**Total ($)**
K.E. Benson	117,500	72,000	-	189,500
D.H. Burney	112,000	72,000	-	184,000
W.K. Dobson	113,500	72,000	-	185,500
E.L. Draper	131,000	72,000	-	203,000
P. Gauthier	116,500	72,000	-	188,500
K.L. Hawkins	116,500	72,000	-	188,500
S.B. Jackson(3)	213,000	180,000	36,629	429,629
P.L. Joskow	115,000	72,000	-	187,000
J.A. MacNaughton	117,500	72,000	-	189,500
D.P. O Brien	103,000	72,000	-	175,000
W.T. Stephens	104,800	98,200	-	203,000
D.M.G. Stewart	112,000	72,000	-	184,000

(1) Includes all annual Board and committee retainers, meeting fees and travel fees paid in cash, including that portion of their cash retainers, meeting fees and travel fees that directors elected to be paid in DSUs.

(2) These amounts reflect the portion of the Board retainer ($72,000) and the Board Chair retainer ($180,000) that is required to be paid in DSUs. Directors may also be granted share-based awards in the form of DSUs as additional directors compensation under the DSU Plan. There were no DSUs awarded to directors in separate grants in 2010.

(3) In 2010, the Chair was reimbursed for certain third-party office and other expenses of approximately $31,137 and received a Company-paid reserved parking stall valued at $5,492.

RETAINERS AND FEES PAID TO DIRECTORS

Annual Board and committee retainers are paid to each director who is not an employee of TCPL in quarterly installments, in arrears, and are pro-rated from the date of the director s appointment to the Board and the relevant committees. Each committee chair is entitled to claim a per diem for time spent on committee activities outside of the committee meetings. TCPL pays a travel fee of $1,500 per meeting for which round trip travel time exceeds three hours, and reimburses the directors for out-of-pocket expenses incurred in attending such meetings. The retainers and fees paid to non-employee directors in 2010 are set forth in the following table. Directors who are U.S. residents are paid the same amounts as outlined below in U.S. dollars. There were no changes to directors fees in 2010.

Board Chair retainer	$360,000 per annum ($180,000 in cash + $180,000 value of DSUs)(1)(2)
Board Chair meeting fee	$3,000 per Chaired Board meeting(1)
Board retainer	$142,000 per annum ($70,000 cash + $72,000 value of DSUs)(2)
Committee retainer	$4,500 per annum
Committee Chair retainer	$5,500 per annum
Board and Committee meeting fee	$1,500 per meeting
Committee Chair meeting fee	$1,500 per meeting

(1) The Chair is paid only the Board Chair retainer fee, the Board Chair meeting fee and the travel fee. The Chair does not receive any other retainers or meeting fees.

(2) The $180,000 portion of the Board Chair retainer paid in DSUs is equal to an aggregate of 4,836 DSUs and the $72,000 portion of the Board retainer paid in DSUs is equal to an aggregate of 1,934 DSUs for each Canadian director, and 1,984 DSUs for each U.S. director. DSUs were granted quarterly, in arrears,

based on the closing price of the common shares of TransCanada at the end of each quarter in 2010 of $37.22, $35.61, $38.17 and $37.99, respectively. Refer to footnote (5) to the table entitled 2010 Retainers and Fees below for additional information on compensation of U.S. directors.

Directors are entitled to direct all or a portion of their cash retainers, meeting fees and travel fees to be paid in DSUs. In 2010, Mr. Benson, Mr. Burney, Dr. Draper, Mr. Hawkins and Mr. MacNaughton directed all of their retainers, meeting fees and travel fees to be paid in DSUs. Ms. Gauthier directed her committee retainers, committee meeting fees and travel fees to be paid in DSUs. Mr. O Brien directed his Board retainers to be paid in DSUs. Mr. Stephens directed 20 per cent of his retainers, meeting fees, and travel fees to be paid in DSUs. In addition, Mr. Jackson directed the cash portion of his Chair retainer as well as his Board Chair meeting fee and travel fees to be paid in DSUs. Dr. Dobson, Mr. Joskow and Mr. Stewart elected to receive the cash portion of their retainers, meeting fees and travel fees in cash. For further information on the plan for DSUs, see the description under the heading Share Unit Plan for Non-Employee Directors below.

2010 Retainers and Fees

The following table sets out the total fees paid in cash and the value of the DSUs awarded or credited for each non-employee director in 2010 as at the date of the grant, unless otherwise stated. Mr. Girling, as an employee of TCPL, receives no cash fees or DSUs as a director.

Name	Board Retainer	Committee Retainer	Committee Chair Retainer	Board Meeting Fee	Committee Meeting Fee(1)	Travel Fee	Strategic Planning Sessions	Total Fees Paid in Cash	Total Value of DSUs Credited(2)	Total Cash & Value of DSUs Credited(3)
	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
K.E. Benson	142,000	9,000	5,500	12,000	18,000	1,500	1,500	-	189,500	189,500
D.H. Burney	142,000	9,000	N/A	10,500	13,500	7,500	1,500	-	184,000	184,000
W.K. Dobson(4)	142,000	9,000	N/A	13,500	13,500	6,000	1,500	113,500	72,000	185,500
E.L. Draper(5)	142,000	9,000	5,500	13,500	21,000	10,500	1,500	-	203,000	203,000
P. Gauthier(4)	142,000	9,000	N/A	13,500	13,500	9,000	1,500	85,000	103,500	188,500
K.L. Hawkins(4)	142,000	9,000	N/A	12,000	13,500	10,500	1,500	-	188,500	188,500
S.B. Jackson(6)	360,000	N/A	N/A	27,000	N/A	3,000	3,000	-	393,000	393,000
P.L. Joskow(5)	142,000	9,000	N/A	13,500	13,500	7,500	1,500	115,000	72,000	187,000
J.A. MacNaughton	142,000	9,000	5,500	10,500	18,000	3,000	1,500	-	189,500	189,500
D.P. O Brien	142,000	9,000	N/A	10,500	10,500	1,500	1,500	33,000	142,000	175,000
W.T. Stephens(4) (5)	142,000	9,000	5,500	13,500	19,500	12,000	1,500	104,800	98,200	203,000
D.M.G. Stewart(7)	142,000	9,000	N/A	13,500	15,000	3,000	1,500	112,000	72,000	184,000

(1) Amounts shown represent $1,500 per meeting attended paid to each committee member, including the committee chair, plus $1,500 per meeting attended and chaired paid to committee chairs.

(2) Amounts shown include the minimum required amount of Board retainers paid in DSUs ($180,000 value of DSUs for the Chair, $72,000 value of DSUs for other Board members) plus the value of the retainers, meeting fees and travel fees elected to be received in DSUs.

(3) Fees are aggregate amounts respecting duties performed on both TransCanada and TCPL Boards.

(4) Dr. Dobson, Ms. Gauthier, Mr. Hawkins and Mr. Stephens attended the special meeting of the Audit Committee on June 14, 2010 as guests. They were each paid the fee of $1,500 for attending.

(5) Directors who are U.S. residents are paid or credited these amounts, including DSU equivalents, in U.S. dollars.

(6) Mr. Jackson s Board meeting fee includes the fee of $3,000 for each Board meeting he chaired.

(7) Mr. Stewart chaired the November 2, 2010 Audit Committee meeting in Mr. Benson s absence. He was paid the fee of $1,500 for chairing the meeting.

Minimum Share Ownership Guidelines

The Board believes that directors can more effectively represent the interests of shareholders if they have a significant investment in the common shares of TransCanada, or their economic equivalent. As a result, TCPL requires each director (other than Mr. Girling who is subject to executive share ownership guidelines) to acquire and hold a minimum number of common shares, or their economic equivalent, equal in value to five times the director s annual cash portion of their Board retainer. Directors have a

maximum of five years to reach this level of ownership. The level of ownership can be achieved by direct purchase of common shares, by participation in the TransCanada Dividend Reinvestment Plan or by directing all or a portion of their retainer fees, attendance fees and travel fees into DSUs as described under the heading Share Unit Plan for Non-Employee Directors below. Should a director s shareholdings fall below the minimum threshold at any time after having met such threshold due to subsequent share price fluctuations, the director is expected to ensure he or she re-attains the minimum threshold within a reasonable amount of time as determined and reviewed by the Governance Committee.

As of February 14, 2011, all of the directors have achieved the minimum share ownership requirement.

Share Unit Plan for Non-Employee Directors

The Share Unit Plan for Non-Employee Directors (the DSU Plan) was established in 1998. Pursuant to the DSU Plan, Board members are permitted to elect to receive in DSUs any portion of their retainers and meeting fees (including travel fees) regularly paid in cash. The DSU Plan also allows the Governance Committee in its discretion, to grant units as additional compensation for directors.

Initially the value of a DSU is equal to the market value of a common share at the time the directors are credited with the units. The value of a DSU, when redeemed, is equivalent to the market value of a common share at the time the redemption takes place. In addition, at the time dividends are declared and paid on the common shares, each DSU accrues an amount equal to such dividends, which amount is then reinvested in additional DSUs at a price equal to the then market value of a common share. DSUs cannot be redeemed until the director ceases to be a member of the Board. Canadian directors may redeem DSUs for cash or common shares at the market price, while U.S. directors may only redeem their units for cash.

COMPENSATION DISCUSSION AND ANALYSIS

Information relating to TCPL s executive compensation is provided in Schedule F to this AIF under the heading Compensation Discussion and Analysis . The information is excerpted from TransCanada s Proxy Circular. Board and committee meetings of TransCanada and TCPL run concurrently. TCPL is the principal operating subsidiary of TransCanada.

Executive officers of TCPL also serve as executive officers of TransCanada. An aggregate remuneration is paid for serving as an executive of TCPL and for service as an executive officer of TransCanada. Since TransCanada does not hold any material assets directly other than the common shares of TCPL and receivables from certain of TransCanada s subsidiaries, all executive employee costs are assumed by TCPL according to a management services agreement between the two companies.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

TCPL and its subsidiaries are subject to various legal proceedings and regulatory actions arising in the normal course of business. While the final outcome of such legal proceedings and regulatory actions cannot be predicted with certainty and there can be no assurance that such matters will be resolved in TCPL s favour, it is the opinion of TCPL s management that the resolution of such proceedings and regulatory actions will not have a material impact on TransCanada s consolidated financial position, results of operations or liquidity.

TRANSFER AGENT AND REGISTRAR

TCPL s transfer agent and registrar is Computershare Trust Company of Canada with its Canadian transfer facilities in the cities of Vancouver, Calgary, Winnipeg, Toronto, Montréal and Halifax.

INTEREST OF EXPERTS

TCPL s auditors, KPMG LLP, have confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

1. Additional information in relation to TCPL may be found under TCPL s profile on SEDAR at www.sedar.com.

2. Additional financial information is provided in TCPL s audited consolidated financial statements and MD&A for its most recently completed financial year.

GLOSSARY

AcSB	Accounting Standards Board
AGIA	*Alaska Gasline Inducement Act*
AIF	Annual Information Form of TransCanada PipeLines Limited dated February 14, 2011
Alaska Pipeline	A proposed natural gas pipeline extending from Prudhoe Bay, Alaska to either Alberta or Valdez, Alaska
Alberta System	A natural gas transmission system in Alberta and Northeast B.C.
ANR	American Natural Resources Company and ANR Storage Company, collectively
ANR System	A natural gas transmission system extending from producing fields located primarily in Texas, Oklahoma, the Gulf of Mexico and U.S. Midcontinent region to markets located primarily in Wisconsin, Michigan, Illinois, Ohio and Indiana, and regulated underground natural gas storage facilities in Michigan
AUC	Alberta Utilities Commission
Bakken Marketlink	A proposed pipeline that would transport crude oil from Baker, Montana to Cushing on facilities that form part of the U.S. Gulf Coast Expansion
Bbl/d	Barrels per day
B.C.	British Columbia
Bcf	Billion cubic feet
Bcf/d	Billion cubic feet per day
Bécancour	A natural gas-fired cogeneration plant near Trois-Rivières, Québec
Bison	A natural gas pipeline extending from the Powder River Basin in Wyoming to the NBPL System in North Dakota
Board	TransCanada s Board of Directors
Bruce A	A partnership interest in a nuclear power generation facility consisting of Units 1 to 4 of Bruce Power (Bruce Power A L.P.)
Bruce B	A partnership interest in a nuclear power generation facility consisting of Units 5 to 8 of Bruce Power (Bruce Power L.P.)
Bruce Power	A nuclear power generating facility located northwest of Toronto, Ontario (Bruce A and Bruce B, collectively)
CAA	*Clean Air Act*
Canadian Audit Committee Rules	As defined in Schedule B attached to this AIF
Canadian GAAP	Canadian generally accepted accounting principles
Canadian Governance Guidelines	As defined in Schedule B attached to this AIF
Canadian Mainline	A natural gas transmission system extending from the Alberta/Saskatchewan border east into Québec
Canwest	Canwest Global Communications Corp.
Cartier Wind	Five wind farms in Gaspé, Québec, three of which are operational and two under construction
CBCA	*Canada Business Corporations Act*
CCAA	*Companies Creditors Arrangement Act*
CEO	Chief Executive Officer
Chinook	A proposed power transmission line project originating in Montana and terminating in Nevada
CICA	Canadian Institute of Chartered Accountants
CO2	Carbon dioxide
Common shares	Common shares of TransCanada or TCPL, as applicable
Coolidge	A simple-cycle, natural gas-fired peaking power generation station under construction in Coolidge, Arizona
CSA	Canadian Securities Administrators
Cushing Extension	The second phase of the Keystone oil pipeline delivering crude oil to Cushing, Oklahoma
Cushing Marketlink	A proposed pipeline that would provide crude oil from Cushing, Oklahoma to the U.S. Gulf Coast on facilities that form part of the U.S. Gulf Coast Expansion
DBRS	DBRS Limited
DSU(s)	Deferred Share Units, as defined in this AIF under the heading Compensation of Directors
DSU Plan	Share Unit Plan for Non-Employee Directors, as defined in this AIF under the heading Retainers and Fees Paid to Directors Share Unit Plan for Non-Employee Directors
Energy	As defined in this AIF under the heading General Development of the Business
EPA	Environmental Protection Agency (U.S.)
ExxonMobil	ExxonMobil Corporation
FERC	Federal Energy Regulatory Commission (U.S.)
Foothills System	A natural gas transmission system extending from central Alberta to the B.C./U.S. border and to the Saskatchewan/U.S. border
GHG	Greenhouse gas

Great Lakes	Great Lakes Gas Transmission Limited Partnership
Great Lakes System	A natural gas transmission system that connects to the Canadian Mainline and serves markets in Eastern Canada and the Northeastern and Midwestern U.S.
Groundbirch	A phase of the Alberta System, connecting natural gas supply primarily from the Montney shale gas formation in Northeast B.C. to existing infrastructure in Northwest Alberta
GTN System	A natural gas transmission system extending from the B.C./Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon
Guadalajara	A natural gas pipeline under construction in Mexico extending from Manzanillo, Colima to Guadalajara, Jalisco
Halton Hills	A natural gas-fired, combined cycle power plant in Halton Hills, Ontario
Horn River	A proposed extension of the Alberta System that would connect new shale gas supply in the Horn River basin north of Fort Nelson, B.C.
HR Committee	Human Resources Committee
HS&E	Health, safety and environment
HVDC	High voltage direct current
Hydro-Québec	Hydro-Québec Distribution
IASB	International Accounting Standards Board

IFRS	International Financial Reporting Standards
Iroquois System	A natural gas transmission system connects with the Canadian Mainline near Waddington, New York and delivers natural gas in the Northeastern U.S.
ISO	International Organization for Standardization
Keystone Canada	TransCanada Keystone Pipeline Limited Partnership
Keystone	Wood River/Patoka, the Cushing Extension and the U.S. Gulf Coast Expansion, collectively
Keystone U.S.	TransCanada Keystone Pipeline, LP
Kibby Wind	A wind farm located in Kibby and Skinner townships in northwestern Franklin County, Maine
km	Kilometer(s)
LNG	Liquefied Natural Gas
Mackenzie Gas Project	A proposed natural gas pipeline extending from a point near Inuvik, Northwest Territories to the northern border of Alberta
MD&A	TCPL s Management s Discussion and Analysis dated February 14, 2011
MIT	Massachusetts Institute of Technology
MMcf/d	Million cubic feet per day
Moody s	Moody s Investors Service, Inc.
MW	Megawatt(s)
Natural Gas Pipelines	As defined in this AIF under the heading General Development of the Business
NBPL	Northern Border Pipeline Company
NBPL System	A natural gas transmission system extending from a point near Monchy, Saskatchewan to the U.S. Midwest
NEB	National Energy Board
Nortel	Nortel Networks Limited and Nortel Networks Corporation
North Baja System	A natural gas transmission system extending from Arizona to the Baja California, Mexico/California border
North Central Corridor	A phase of the Alberta System which extends the northern section thereof
NYSE	New York Stock Exchange
Ocean State Power	A natural gas-fired, combined-cycle plant in Burrillville, Rhode Island
Oil Pipelines	As defined in this AIF under the heading General Development of the Business
OPA	Ontario Power Authority
OSC	Ontario Securities Commission
PCBs	Polychlorinated biphenyls
Portland System	A natural gas transmission system that extends from a point near East Hereford, Québec to the Northeastern U.S.
Portlands Energy	A natural gas-fired combined-cycle power plant near downtown Toronto, Ontario
Proxy Circular	TransCanada s Management Proxy Circular dated February 14, 2011
Ravenswood	A natural gas-and oil-fired generating facility located in Queens, New York
RGGI	Regional Greenhouse Gas Initiative
RRA	Rate-regulated accounting
S&P	Standard and Poor s
SEC	U.S. Securities and Exchange Commission
Series 1 Preferred Shares	TransCanada s cumulative, redeemable, first preferred shares, series 1
Series 3 Preferred Shares	TransCanada s cumulative, redeemable, first preferred shares, series 3
Series 5 Preferred Shares	TransCanada s cumulative, redeemable, first preferred shares, series 5
Series U Preferred Shares	TCPL s cumulative, redeemable, first preferred shares, series U
Series Y Preferred Shares	TCPL s cumulative, redeemable, first preferred shares, series Y
Sheerness	A coal-fired power generating facility near Hanna, Alberta
Subsidiary	As defined in this AIF under the heading Presentation of Information
Sundance	Two coal-fired power generating facilities near Wabamun, Alberta (Sundance A and Sundance B, collectively)
Systems	As defined in this AIF under the heading Regulation of the Pipeline Business
TCPL	TransCanada PipeLines Limited
TQM	A natural gas pipeline that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with the Portland System
TransCanada or the Company	TransCanada Corporation
TransAlta	TransAlta Corporation
TSX	Toronto Stock Exchange
Tuscarora	Tuscarora Gas Transmission Company
Tuscarora System	A natural gas transmission system extending from Malin, Oregon to Wadsworth, Nevada
U.S. or US	United States
U.S. GAAP	U.S. generally accepted accounting principles
	A proposed extension and expansion of the Keystone crude oil pipeline to the U.S. Gulf Coast

U.S. Gulf Coast Expansion	
WCI	Western Climate Initiative
Wood River/Patoka	The first phase of the Keystone oil pipeline delivering crude oil to Wood River and Patoka in Illinois
Year End	December 31, 2010
Zephyr	A proposed power transmission line project originating in Wyoming and terminating in Nevada

SCHEDULE A

METRIC CONVERSION TABLE

The conversion factors set out below are approximate factors. To convert from Metric to Imperial multiply by the factor indicated. To convert from Imperial to Metric divide by the factor indicated.

Metric	**Imperial**	**Factor**
Kilometres (km)	Miles	0.62
Millimetres	Inches	0.04
Gigajoules	Million British thermal units	0.95
Cubic metres*	Cubic feet	35.3
Kilopascals	Pounds per square inch	0.15
Degrees Celsius	Degrees Fahrenheit	to convert to Fahrenheit multiply by 1.8, then add 32 degrees; to convert to Celsius subtract 32 degrees, then divide by 1.8

* The conversion is based on natural gas at a base pressure of 101.325 kilopascals and at a base temperature of 15 degrees Celsius.

SCHEDULE B

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

The Board and the members of TCPL s management are committed to the highest standards of corporate governance. TCPL s corporate governance practices comply with the governance rules of the CSA, those of the NYSE and of the SEC applicable to foreign private issuers. As a non-U.S. company, TCPL is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on our website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TCPL is in compliance with the CSA s National Instrument 52-110, Audit Committees (Canadian Audit Committee Rules); National Policy 58-201, Corporate Governance Guidelines; and National Instrument 58-101, Disclosure of Corporate Governance Practices (collectively, the Canadian Governance Guidelines). At TCPL, we believe that the principal objective in directing and managing the company s business and affairs is promoting the best interests of TCPL in a manner that will ultimately maximize long-term shareholder value and enhance stakeholder relations. TCPL believes that effective corporate governance improves corporate performance and benefits all shareholders. We believe that honesty and integrity are vital factors in ensuring good corporate governance. The discussion that follows relates primarily to the Canadian Governance Guidelines and highlights various elements of the Company s corporate governance program. It has been approved by the Governance Committee and by the Board.

Board of Directors

The Board believes that, as a matter of policy, there should be a majority of independent directors on TCPL s Board. The Board is charged with making this determination based on the annual review conducted by the Governance Committee. The Board is currently comprised of 13 directors, of whom 12 (92%) were determined by the Board in 2011 to be independent directors. Twelve nominees are being put forward for election at the Meeting, 11 (92%) of whom are independent. The Board annually determines the independent status of each of its members and each nominee for election, based on a written set of criteria developed in accordance with the definition of independent in the Canadian Audit Committee Rules and the Canadian Governance Guidelines. The independence criteria also conform to the applicable rules of the SEC and the NYSE. The Board has determined that none of the nominees for director, with the exception of Mr. Girling, have a direct or indirect material relationship with TCPL that could interfere with their ability to act in the best interests of TCPL. Mr. Girling, as the President and Chief Executive Officer (CEO) of TCPL, is not independent.

The Governance Committee reviews, at least annually, the existence of any relationship between each director and TCPL to ensure that the majority of directors are independent of TCPL.

Further, the Board considered whether directors serving on boards of non-profit organizations which receive donations from TCPL pose any potential conflict. The Board determined that such relationships, where they exist, do not interfere with any such director s ability to act in the best interests of TCPL, as all decisions on making donations to non-profit organizations are made by a management committee on which no directors serve. The Board also considered family relationships and possible associations with companies which have relationships with TCPL, in its determination of independence.

Although some of the proposed nominees sit on boards or may be otherwise associated with companies that ship natural gas or crude oil on TCPL s pipeline systems, TCPL as a regulated carrier in Canada and the U.S. cannot deny transportation service to a credit worthy shipper. Further, due to the specialized nature of the industry, TCPL believes that it is important for its Board to be composed of qualified and knowledgeable directors which includes directors from the oil and gas producer and shipper community. The Governance Committee monitors relationships among directors to ensure that business associations do not affect the Board s performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

All reporting issuers of which the nominees are presently directors are set out in the table in TransCanada s Proxy Circular under the heading Nominees for Election to the Board of Directors under the headings Other Public Board Directorships and Other Public Board Committee Memberships .

In 2010, independent directors of the Board met separately before and after every regularly scheduled and special meeting. There were eight regularly scheduled meetings and one special meeting during 2010. In addition, all of the directors are available to meet with management as required.

Mr. Jackson has served as the non-executive Chair of TCPL since April 30, 2005. He has also acted as chair person for Deer Creek Energy Limited (from 2001 to 2005) and Resolute Energy Inc. (from 2002 to 2005).

During 2010, all directors demonstrated a strong commitment to their roles and responsibilities. The overall attendance rate was 97% at Board meetings and an average of 97% at committee meetings. Of the three director absences from the Board and committee meetings, two were health related. Specific attendance statistics are set out with each director s biography in TransCanada s Proxy Circular under the heading Nominees for Election to the Board of Directors .

Board Mandate

The Board discharges its responsibilities directly and through committees. At regularly scheduled meetings, members of the Board and management discuss a broad range of issues relevant to TCPL s strategy and business interests and the Board is responsible for the approval of TCPL s strategic plan. In addition, the Board receives reports from management on TCPL s operational and financial performance. The Board had eight scheduled meetings in 2010. Special meetings are held from time to time as required; there was one special meeting of the Board in 2010. There were also two strategic issue sessions and one full-day strategic planning session of the Board held in 2010. In addition, the Audit Committee and Board held an IFRS training session conducted by management and KPMG.

The Board operates under a written charter while retaining plenary power. Any responsibility not delegated to management or a committee of the Board remains with the Board. The Charter of the Board of Directors addresses Board composition and organization, and the Board s duties and responsibilities for managing the affairs of TCPL and its oversight responsibilities with respect to: management and human resources; strategy and planning; financial and corporate issues; business and risk management; policies and procedures; compliance reporting and corporate communications; and general legal obligations, including the ability to use independent advisors as necessary. The charter is available on TransCanada s website at www.transcanada.com and is attached to TCPL s AIF as Schedule E .

The Board also closely oversees any potential conflicts of interest between the Company and its affiliates including TC PipeLines, LP, a Nasdaq listed master limited partnership.

Charters have been adopted for each of the committees outlining their principal responsibilities. The Board and each committee reviews its charter annually to ensure it is in line with the current developments in corporate governance. The Board and each committee is responsible to update its respective charter. All charters are available on TransCanada s website at www.transcanada.com.

Position Descriptions

The Board has developed written position descriptions for its chair, the chair of each of the Board committees and for the CEO. The responsibilities of each committee chair are set out in each respective committee s Charter. The written position descriptions and the committee charters are available on TransCanada s website at www.transcanada.com.

The Human Resources Committee (the HR Committee) and the Board annually review and approve the CEO s personal performance objectives and review with him his performance against the previous year s objectives. The HR Committee s compensation discussion and analysis can be found in the Schedule F to TCPL s AIF under the heading Compensation Discussion and Analysis .

Orientation and Continuing Education

New directors are provided with an orientation and education program that includes a directors manual containing information about the duties and obligations of directors, the business and operations of TCPL, copies of the Board and committee charters, copies of past public filings and documents from recent Board meetings. New directors are given additional historical and financial information which provides both background information and an outline of the principle business issues, a session on corporate strategy, are provided opportunities to visit TCPL s facilities and project sites, and are provided with opportunities for meetings and discussions with the executive leadership team and other directors. New directors also meet with the Vice President, Strategy who provides an overview of the different areas of operation within TCPL and identifies key areas of interest to the individual director. Briefing sessions are also held for new committee members, as appropriate. The directors manual and the director induction and continuing education process are reviewed annually by the Governance Committee. The details of the orientation of each new director are tailored to each director s individual needs and expressed areas of interest. Examples of past activities and visits include a power marketing and trading floor tour and discussions with the

Western power group business leaders, a visit to the Bruce Power site in Kincardine, Ontario, a tour of ANR Pipeline Company s Gulf of Mexico Facilities, a tour of the pipeline operations control room and a tour of the Ravenswood generating station in Queens, New York.

Senior management as well as external experts make presentations to the Board and to its committees periodically on various business related topics and on changes in legal, regulatory and industry requirements. Directors tour certain TCPL operating facilities and project sites on an annual basis. In 2010, directors participated in a site visit of a crude oil gathering and distribution facility in Hardisty, Alberta, the starting point of the Keystone pipeline, and a tour of in-situ oil sands operations in MacKay River, Alberta. Directors also held a summit in Houston, Texas in September of 2010 which included a site visit to an oil pumping station and a section of the new Keystone Cushing Extension in Kansas. Ongoing director education also includes strategic issues sessions, of which three were held in 2010. Topics for the strategic issues sessions, and locations for site visits are determined by the Governance Committee annually based on current issues, corporate objectives and director input. TCPL encourages continuing education for its directors, periodically suggests programs which may be relevant to the directors and provides funding for director education where appropriate. For further detail regarding director education in 2010, refer to 2010 Director Education in TransCanada s Proxy Circular. All Canadian directors are members of the Canadian Institute of Corporate Directors, which provides many opportunities for director education.

Board Access to Senior Management

Board members have complete access to the Company s management, subject to reasonable advance notice to the Company and reasonable efforts to avoid disruption to the Company s management, business and operations. The Board encourages senior management to include key managers in Board meetings who can share their expertise on matters before the Board. This also enables the Board to gain exposure to key managers with future potential in the Company.

Ethical Business Conduct

The Board has formally adopted and published a set of Corporate Governance Guidelines, which affirms TCPL s commitment to maintaining a high standard of corporate governance. The guidelines address the structure and composition of the Board and its committees and also provide guidance to both the Board and management in clarifying their respective responsibilities. The Board s strengths include: an independent, non-executive Chair; well informed and experienced directors who ensure that standards exist to promote ethical behaviour throughout TCPL; an effective board size; alignment with shareholders through director share ownership requirements; and annual assessments of Board, committee and individual director effectiveness. TCPL s Corporate Governance Guidelines are available on TransCanada s website at www.transcanada.com.

The Board has also adopted a code of business ethics for directors which incorporates as its basis, principles of good conduct and highly ethical behaviour. TCPL has adopted a code of business ethics for its employees which also applies to its CEO, Chief Financial Officer and Controller, all of which are certified on an annual basis. Compliance with the Company s various codes is monitored by the Audit Committee and reported to the Board. Any waiver of the codes of business ethics by executive officers or directors must be approved by the Board or appropriate committee and disclosed. There have been no material departures from the code in 2010. TCPL s code of business ethics may be viewed on TransCanada s website at www.transcanada.com.

Director Succession Planning and Nomination

The Governance Committee, which is composed entirely of independent directors, is responsible for proposing new nominees to the Board, which in turn is responsible for identifying suitable candidates for election by the shareholders. The Governance Committee annually reviews the qualifications of persons proposed for election to the Board and submits its recommendations to the Board for consideration. The objective of this review is to maintain the composition of the Board in a way that provides the best mix of skills and experience to guide TCPL s long-term strategy and ongoing business operations. New nominees must have experience in the industries in which TCPL participates or experience in general business management of corporations that are a similar size and scope to TCPL, the ability to devote the time required, and a willingness to serve. The Governance Committee also advises the Board on the criteria for, and determination of, the independence of each director.

The Governance Committee regularly assesses the skill set of current Board members against a list of potentially desirable skills and experience to be sought when recruiting new directors to the Board. The Governance Committee periodically reviews a summary of the director retirement schedule based on the mandatory retirement age, and considers this along with a director skills matrix and the structure of committees of the Board. The Governance Committee is currently engaged in considering the skills and expertise of Board and committee members who will be retiring in the coming years, and reviewing its priorities for potential candidates for Board membership to replace retiring members. The committee has also retained a third party search company to assist in reviewing and selecting appropriate candidates for consideration by the Board. Further information relating to director skills and succession planning can be found in TransCanada s Proxy Circular under the heading Director Skills and Succession Planning .

The Board has determined that no person shall stand for election or re-election to the Board if he or she attains the age of 70 years on or before the date of the annual meeting held in relation to the election of directors; provided however, that if a director attains the age of 70 before serving a full seven consecutive years on the Board, that director may stand for re-election, upon the recommendation of the Board each year until that director has served a full seven years on the Board.

Further information relating to the Governance Committee can be found in Schedule D to TCPL s AIF under the heading Description of Board Committees and Their Charters - Governance Committee .

Compensation

The Governance Committee, which is composed entirely of independent directors, reviews the compensation of the directors on an annual basis, taking into account such matters as time commitment, responsibility, and compensation provided by comparable companies, and makes an annual recommendation to the Board for consideration. Towers Watson provides an annual report on directors compensation paid by comparable companies to facilitate the Governance Committee s review of director compensation. Directors may receive their annual retainer, committee and/or chair fees and travel fees in the form of cash and/or DSUs. With the exception of Mr. Girling, who follows the Share Ownership Guidelines for executives, Directors must hold a minimum of five times their annual cash retainer fee in common shares or related DSUs of TCPL. Directors have a maximum of five years from the time they join the Board to reach this level of share ownership. The value of ownership levels is recalibrated when the annual cash retainer is increased.

The HR Committee, which is composed entirely of independent directors, is accountable on behalf of the Board to consider the compensation programs and the constituent elements for all executive officers including the CEO and after consideration to recommend to the Board the remuneration package for the CEO and the Executive Leadership Team which includes all Named Executive Officers. The HR Committee reviews and recommends to the Board the executive compensation disclosure to be included in TCPL s AIF. The process the HR Committee uses for these determinations can be found in Schedule F to TCPL s AIF under the heading Compensation Discussion and Analysis .

Further information relating to the HR Committee can be found in Schedule D to TCPL s AIF under the heading Description of Board Committees and Their Charters - Human Resources Committee .

Information relating to compensation consulting services provided by Towers Watson during the 2010 financial year can be found in Schedule F to TCPL s AIF under the heading Compensation Discussion and Analysis The Role of the External Compensation Consultant .

Other Board Committees

The Board has the following Committees: Audit; Health, Safety and Environment; Governance; and Human Resources. Details relating to these committees can be found in Schedule D to TCPL s AIF under the heading Description of Board Committees and Their Charters .

Assessments

The Governance Committee is responsible for making an annual assessment of the overall performance of the Board, its committees and its individual members, and reporting its findings to the Board. An annual questionnaire and/or in-person interview is utilized as part of this process. Currently the committee has determined that in person interviews conducted by the Chair with each member of the Board individually is the most effective way in which members individual views can be reviewed by the full Board. The Chair conducts the interviews based on a series of questions provided by the Governance Committee and distributed to all members.

The annual assessment examines the effectiveness of the Board as a whole, and of each committee, and solicits input on areas of potential vulnerability or areas that members believe could be improved or enhanced to ensure the continued effectiveness of the Board and its committees. The annual assessment also includes questions regarding personal and peer individual performance. Each committee also conducts an annual self-assessment.

When utilized, responses from the annual questionnaire are compiled by the Corporate Secretary and provided to the Chair, and responses from the in-person interviews are compiled by the Chair. Results are distributed to directors and discussed at the Board.

Formal interviews with each member of TCPL s executive leadership team are carried out annually by the Chair. The Chair of the Governance Committee also interviews each director annually on his or her assessment of the Chair s performance. Each of these assessments are reported annually to the full Board. The Governance Committee monitors and discusses external assessments of Board governance and regularly monitors the literature on evolving best practice in corporate governance.

Financial Literacy of Directors

The Board has determined that all of the members of its Audit Committee are financially literate. An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by TCPL s financial statements.

Majority Voting for Directors

TCPL has adopted a policy whereby, at any meeting where the number of nominees for election is the same as the number of director positions on the Board, if proxy votes withheld for the election of any particular director are greater than 5% of the votes cast by proxy, a ballot pertaining to the election of each of the directors will be held at that meeting. A director is required to tender his resignation if the director receives more votes withheld than for that director s election when such ballot is held. In the absence of extenuating circumstances, the Board is expected to accept that resignation within 90 days. The Board may fill a vacancy in accordance with TCPL s by-laws and the CBCA. The policy does not apply in the event of a proxy contest with respect to the election of directors. This policy is part of TransCanada s Corporate Governance Guidelines which are published on TransCanada s website at www.transcanada.com.

Management and CEO Succession

The HR Committee has the responsibility to oversee the succession planning process for the senior executive officers and report to the Board on its findings. The succession plan for the CEO is led by the HR Committee and is reviewed and discussed with the Board. For the senior executive officers, the CEO prepares an overview of each executive officer role including the skills and expertise necessary to properly discharge the responsibilities of the role. For current incumbents, areas of strength are reviewed and development plans prepared to ensure satisfactory on-going performance. Potential future candidates for senior executive officer positions are identified. Each candidate s skills and experience are analyzed against the skills necessary for promotion to a particular senior executive officer position. Further development opportunities are identified for each candidate which include additional or varied management experience, training, development and educational opportunities.

The role summary for each of the senior executive officer positions and an assessment of the performance and competencies of incumbent executives and potential successors are reviewed with the HR Committee and the Board at least annually. The CEO s succession planning process continues over several years for those executive officers who are considered as having the potential to progress to that role. The process includes an on-going analysis of the performance, skills and experience as well as an assessment of personal attributes and characteristics which are considered necessary for the position.

SCHEDULE C

CHARTER OF THE AUDIT COMMITTEE

1. <u>Purpose</u>

The Audit Committee shall assist the Board of Directors (the Board) in overseeing and monitoring, among other things, the:

- Company s financial accounting and reporting process;
- integrity of the financial statements
- Company s internal control over financial reporting;
- external financial audit process;
- compliance by the Company with legal and regulatory requirements; and

- independence and performance of the Company s internal and external auditors.

To fulfill its purpose, the Audit Committee has been delegated certain authorities by the Board of Directors that it may exercise on behalf of the Board.

2. <u>Roles and Responsibilities</u>

I. Appointment of the Company s External Auditors

Subject to confirmation by the external auditors of their compliance with Canadian and U.S. regulatory registration requirements, the Audit Committee shall recommend to the Board the appointment of the external auditors, such appointment to be confirmed by the Company s shareholders at each annual meeting. The Audit Committee shall also recommend to the Board the compensation to be paid to the external auditors for audit services and shall pre-approve the retention of the external auditors for any permitted non-audit service and the fees for such service. The Audit Committee shall also be directly responsible for the oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The external auditor shall report directly to the Audit Committee.

The Audit Committee shall also receive periodic reports from the external auditors regarding the auditors independence, discuss such reports with the auditors, consider whether the provision of non audit services is compatible with maintaining the auditors independence and the Audit Committee shall take appropriate action to satisfy itself of the independence of the external auditors.

II. Oversight in Respect of Financial Disclosure

The Audit Committee, to the extent it deems it necessary or appropriate, shall:

(a) review, discuss with management and the external auditors and recommend to the Board for approval, the Company s audited annual financial statements, annual information form including management discussion and analysis, all financial statements in prospectuses and other offering memoranda, financial statements required by regulatory authorities, all prospectuses and all documents which may be incorporated by reference into a prospectus, including without limitation, the annual proxy circular, but excluding any pricing supplements issued under a medium term note prospectus supplement of the Company;

(b) review, discuss with management and the external auditors and recommend to the Board for approval the release to the public of the Company s interim reports, including the financial statements, management discussion and analysis and press releases on quarterly financial results;

(c) review and discuss with management and external auditors the use of pro forma or adjusted non-GAAP information and the applicable reconciliation;

(d) review and discuss with management and external auditors financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Audit Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;

(e) review with management and the external auditors major issues regarding accounting and auditing principles and practices, including any significant changes in the Company s selection or application of accounting principles, as well as major issues as to the adequacy of the Company s internal controls and any special audit steps adopted in light of material control deficiencies that could significantly affect the Company s financial statements;

(f) review and discuss quarterly reports from the external auditors on:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;

(iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;

(g) review with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company s financial statements;

(h) review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;

(i) review disclosures made to the Audit Committee by the Company s CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company s internal controls;

(j) discuss with management the Company s material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company s risk assessment and risk management policies;

III. Oversight in Respect of Legal and Regulatory Matters

(a) review with the Company s General Counsel legal matters that may have a material impact on the financial statements, the Company s compliance policies and any material reports or inquiries received from regulators or governmental agencies.

IV. Oversight in Respect of Internal Audit

(a) review the audit plans of the internal auditors of the Company including the degree of coordination between such plan and that of the external auditors and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;

(b) review the significant findings prepared by the internal auditing department and recommendations issued by the Company or by any external party relating to internal audit issues, together with management s response thereto;

(c) review compliance with the Company s policies and avoidance of conflicts of interest;

(d) review the adequacy of the resources of the internal auditor to ensure the objectivity and independence of the internal audit function, including reports from the internal audit department on its audit process with associates and affiliates;

(e) ensure the internal auditor has access to the Chair of the Audit Committee and of the Board and to the Chief Executive Officer and meet separately with the internal auditor to review with him any problems or difficulties he may have encountered and specifically:

(i) any difficulties which were encountered in the course of the audit work, including restrictions on the scope of activities or access to required information, and any disagreements with management;

(ii) any changes required in the planned scope of the internal audit; and

(iii) the internal audit department responsibilities, budget and staffing;

and to report to the Board on such meetings;

V. Insight in Respect of the External Auditors

(a) review the annual post audit or management letter from the external auditors and management s response and follow up in respect of any identified weakness, inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved, and intervene in the resolution if required;

(b) review the quarterly unaudited financial statements with the external auditors and receive and review the review engagement reports of external auditors on unaudited financial statements of the Company;

(c) receive and review annually the external auditors formal written statement of independence delineating all relationships between itself and the Company;

(d) meet separately with the external auditors to review with them any problems or difficulties the external auditors may have encountered and specifically:

(i) any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and

(ii) any changes required in the planned scope of the audit;

and to report to the Board on such meetings;

(e) review with the external auditors the adequacy and appropriateness of the accounting policies used in preparation of the financial statements;

(f) meet with the external auditors prior to the audit to review the planning and staffing of the audit;

(g) receive and review annually the external auditors written report on their own internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, and any steps taken to deal with such issues;

(h) review and evaluate the external auditors, including the lead partner of the external auditor team;

(i) ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law, but at least every five years;

VI. Oversight in Respect of Audit and Non Audit Services

(a) pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non audit services, other than non audit services where:

(i) the aggregate amount of all such non audit services provided to the Company constitutes not more than 5% of the total fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the non audit services are provided;

(ii) such services were not recognized by the Company at the time of the engagement to be non audit services; and

(iii) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee;

(b) approval by the Audit Committee of a non audit service to be performed by the external auditor shall be disclosed as required under securities laws and regulations;

(c) the Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals required by this subsection. The decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the Audit Committee at its first scheduled meeting following such pre-approval;

(d) if the Audit Committee approves an audit service within the scope of the engagement of the external auditor, such audit service shall be deemed to have been pre-approved for purposes of this subsection;

VII. Oversight in Respect of Certain Policies

(a) review and recommend to the Board for approval the implementation and amendments to policies and program initiatives deemed advisable by management or the Audit Committee with respect to the Company s codes of business ethics and Risk Management and Financial Reporting policies;

(b) obtain reports from management, the Company s senior internal auditing executive and the external auditors and report to the Board on the status and adequacy of the Company s efforts to ensure its businesses are conducted and its facilities are operated in an ethical, legally compliant and socially responsible manner, in accordance with the Company s codes of business conduct and ethics;

(c) establish a non traceable, confidential and anonymous system by which callers may ask for advice or report any ethical or financial concern, ensure that procedures for the receipt, retention and treatment of complaints in respect of accounting, internal controls and auditing matters are in place, and receive reports on such matters as necessary;

(d) annually review and assess the adequacy of the Company s public disclosure policy;

(e) review and approve the Company s hiring policies for partners, employees and former partners and employees of the present and former external auditors (recognizing the Sarbanes-Oxley Act of 2002 does not permit the CEO, controller, CFO or chief accounting officer to have participated in the Company s audit as an employee of the external auditors during the preceding one-year period) and monitor the Company s adherence to the policy;

VIII. Oversight in Respect of Financial Aspects of the Company s Canadian Pension Plans (the Company s pension plans), specifically:

(a) provide advice to the Human Resources Committee on any proposed changes in the Company s pension plans in respect of any significant effect such changes may have on pension financial matters;

(b) review and consider financial and investment reports and the funded status relating to the Company s pension plans and recommend to the Board on pension contributions;

(c) receive, review and report to the Board on the actuarial valuation and funding requirements for the Company s pension plans;

(d) review and approve annually the Statement of Investment Policies and Procedures (SIP&P);

(e) approve the appointment or termination of auditors and investment managers;

IX. Oversight in Respect of Internal Administration

(a) review annually the reports of the Company s representatives on certain audit committees of subsidiaries and affiliates of the Company and any significant issues and auditor recommendations concerning such subsidiaries and affiliates;

(b) review the succession plans in respect of the Chief Financial Officer, the Vice President, Risk Management and the Director, Internal Audit;

(c) review and approve the policy and guidelines for the Company s hiring of partners, employees and former partners and employees of the external auditors who were engaged on the Company s account;

X. Oversight Function

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company s financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Audit Committee, its Chair and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Audit Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Company, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as an audit committee financial expert is based on that individual s education and experience, which that individual will bring to bear in carrying out his or her duties on the Audit Committee, designation as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit Committee and Board in the absence of such designation. Rather, the role of any audit committee financial expert, like the role of all Audit Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Company s financial information or public disclosure.

3. <u>Composition of Audit Committee</u>

The Audit Committee shall consist of three or more Directors, a majority of whom are resident Canadians (as defined in the Canada Business Corporations Act), and all of whom are unrelated and/or independent for the purposes of applicable Canadian and United States securities law and applicable rules of any stock exchange on which the Company s shares are listed. Each member of the Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise (as those terms are defined from time to time under the requirements or guidelines for audit committee service under securities laws and the applicable rules of any stock exchange on which the Company s securities are listed for trading or, if it is not so defined as that term is interpreted by the Board in its business judgment).

4. Appointment of Audit Committee Members

The members of the Audit Committee shall be appointed by the Board from time to time, on the recommendation of the Governance Committee and shall hold office until the next annual meeting of shareholders or until their successors are earlier appointed or until they cease to be Directors of the Company.

5. Vacancies

Where a vacancy occurs at any time in the membership of the Audit Committee, it may be filled by the Board on the recommendation of the Governance Committee.

6. Audit Committee Chair

The Board shall appoint a Chair of the Audit Committee who shall:

(a) review and approve the agenda for each meeting of the Audit Committee and as appropriate, consult with members of management;

(b) preside over meetings of the Audit Committee;

(c) make suggestions and provide feedback from the Audit Committee to management regarding information that is or should be provided to the Audit Committee;

(d) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and

(e) meet as necessary with the internal and external auditors.

7. <u>Absence of Audit Committee Chair</u>

If the Chair of the Audit Committee is not present at any meeting of the Audit Committee, one of the other members of the Audit Committee present at the meeting shall be chosen by the Audit Committee to preside at the meeting.

8. <u>Secretary of Audit Committee</u>

The Corporate Secretary shall act as Secretary to the Audit Committee.

9. <u>Meetings</u>

The Chair, or any two members of the Audit Committee, or the internal auditor, or the external auditors, may call a meeting of the Audit Committee. The Audit Committee shall meet at least quarterly. The Audit Committee shall meet periodically with management, the internal auditors and the external auditors in separate executive sessions.

10. <u>Quorum</u>

A majority of the members of the Audit Committee, present in person or by telephone or other telecommunication device that permit all persons participating in the meeting to speak to each other, shall constitute a quorum.

11. <u>Notice of Meetings</u>

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Audit Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

12. Attendance of Company Officers and Employees at Meeting

At the invitation of the Chair of the Audit Committee, one or more officers or employees of the Company may attend any meeting of the Audit Committee.

13. Procedure, Records and Reporting

The Audit Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Audit Committee may deem appropriate but not later than the next meeting of the Board.

14. **Review of Charter and Evaluation of Audit Committee**

The Audit Committee shall review its Charter annually or otherwise, as it deems appropriate, and if necessary propose changes to the Governance Committee and the Board. The Audit Committee shall annually review the Audit Committee s own performance.

15. **Outside Experts and Advisors**

The Audit Committee is authorized, when deemed necessary or desirable, to retain and set and pay the compensation for independent counsel, outside experts and other advisors, at the Company s expense, to advise the Audit Committee or its members independently on any matter.

16. **Reliance**

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.

SCHEDULE D

DESCRIPTION OF BOARD COMMITTEES AND THEIR CHARTERS

The Board has four standing committees: the Audit Committee; the Governance Committee; the Health, Safety and Environment Committee; and the Human Resources Committee. The Board does not have an Executive Committee. The Audit, Human Resources and Governance committees are required to be composed entirely of independent directors. The Health, Safety and Environment Committee is required to have a majority of independent directors.

Each of the committees has the authority to retain advisors to assist in the discharge of its respective responsibilities. Each of the committees reviews its respective charter at least annually and, as required, recommends changes to the Governance Committee and to the Board. Each of the committees also reviews its respective performance annually.

Each of the committees has a charter which is published on TransCanada s website at www.transcanada.com.

CHAIR S PARTICIPATION IN COMMITTEES

Mr. S.B. Jackson, the Chair of the Board, is an independent director. The Chair is appointed by the Board and serves in a non-executive capacity. The Board adopted the practice of holding simultaneous meetings of certain committees and, as a result, the Chair is a voting member of the Governance and Human Resources Committees but is not a member of the Audit and Health, Safety and Environment Committees. The simultaneous sitting of certain committees allows more time to be available for each committee to focus on its respective responsibilities. All committee meetings include scheduled periods where members can discuss the committee operations and responsibilities without management present.

AUDIT COMMITTEE

Chair: K.E. Benson

Members: D.H. Burney, E.L. Draper, P.L. Joskow, J.A. MacNaughton, D.M.G. Stewart

This committee is comprised of six independent directors and is mandated to assist the Board in monitoring, among other things, the integrity of the financial statements of TCPL, the compliance by TCPL with legal and regulatory requirements, and the independence and performance of TCPL s internal and external auditors. The committee is also mandated to review and recommend to the Board approval of TCPL s audited annual and unaudited interim consolidated financial statements and related management discussion and analysis, and other corporate disclosure documents including information circulars, the annual information form, all financial statements in prospectuses and other offering memoranda, any financial statements required by regulatory authorities and all prospectuses and documents which may be incorporated by reference into a prospectus, before they are released to the public or filed with the appropriate regulatory authorities. In addition, the committee reviews and recommends to the Board the appointment and compensation of the external auditor, oversees the accounting, financial reporting, control and audit functions, and recommends funding of TCPL s Canadian pension plans.

Audit Committee information as required under the Canadian Audit Committee Rules (as defined in Schedule B to TCPL s AIF) is contained in TCPL s AIF under the heading Audit Committee . Audit Committee information includes the charter, committee composition, relevant education and experience of each member, reliance on exemptions, financial literacy of each member, committee oversight, pre-approval policies and procedures, and external auditor service fees by category.

The committee oversees the operation of an anonymous and confidential toll-free telephone number for employees, contractors and the public to call with respect to perceived accounting irregularities and ethical violations, and has set up a procedure for the receipt, retention, treatment and regular review of any such reported activities. This telephone number is published on TransCanada s website at www.transcanada.com, on its intranet for employees and in the Company s Annual Report to shareholders.

The committee reviews the audit plans of the internal and external auditors and meets with them at the time of each committee meeting, in each case both with and without the presence of management. The committee annually receives and reviews the external auditor s formal written statement of independence delineating all relationships between itself and TCPL and its report on recommendations to management regarding internal controls and procedures, and ensures the rotation of the lead audit partner having primary responsibility for the audit as required by law. The committee pre-approves all audit services and all permitted non-audit services. In addition, the committee discusses with management TCPL s material financial risk exposures and the actions management has taken to monitor and control such exposures, reviews the internal control procedures to oversee their effectiveness, monitors compliance with TCPL s policies and codes of business ethics, and reports on these matters to the Board. The committee reviews and approves the investment objectives and choice of investment managers for the Canadian pension plans and considers and approves any significant changes to those plans relating to financial matters.

There were six meetings of the Audit Committee in 2010.

GOVERNANCE COMMITTEE

Chair: J.A. MacNaughton

Members: K.E. Benson, D.H. Burney, S. B. Jackson, P.L. Joskow, D.P. O Brien, D.M.G. Stewart

This committee is comprised of seven independent directors and is mandated to enhance TCPL s governance through a continuing assessment of TCPL s approach to corporate governance. The committee is mandated to identify qualified individuals to become Board members, to recommend to the Board nominees for election as directors at each annual meeting of shareholders and to annually recommend to the Board placement of directors on committees. The committee annually reviews the independence status of each director in accordance with written criteria in order to provide the Board with guidance for its annual determination of director independence and for the placement of members on committees. The committee also reviews directors service on other boards to ensure there is no overboarding or interlocking relationship which would interfere with a member s independence status or be an impediment to a director in the discharge of his or her responsibilities. The committee also oversees the risk management activities of TCPL. The committee monitors and reviews with management the identified risks to ensure there is proper Board and committee oversight and management programs in place to mitigate risks. The committee also makes recommendations to the Board related to TCPL s risk management programs and policies on an ongoing basis.

The committee reviews and reports to the Board on the performance of the Board and each of its committees, in conjunction with the Chair of the Board, as set forth in TCPL s Disclosure of Corporate Governance Practices , in Schedule B of TCPL s AIF. The committee also monitors the relationship between management and the Board, and reviews TCPL s structures to ensure that the Board is able to function independently of management. The committee chair, in consultation with directors, annually reviews the performance of the Chair of the Board and reports the results to the Board. The committee is also responsible for an annual review of director compensation, for the administration of the DSU Plan and establishing, reviewing and assessing the minimum share ownership guidelines for directors.

The committee monitors best governance practice and ensures any corporate governance concerns are raised with management. The committee ensures the Company has a best practice orientation package and monitors continuing education for all directors as set forth in more detail in Schedule B of TCPL s AIF. For a summary of the continuing education sessions attended by directors in 2010, refer to the table under the section below entitled 2010 Director Education . The committee also has responsibility for oversight of the Company s Strategic Planning process.

There were three meetings of the Governance Committee in 2010.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

Chair: E.L. Draper

Members: W.K. Dobson, P. Gauthier, K.L. Hawkins, W.T. Stephens

This committee is comprised of five independent directors and is mandated to monitor the health, safety, security and environmental practices and procedures of TCPL and its subsidiaries for compliance with applicable legislation, conformity with industry standards and prevention or mitigation of losses. The committee also considers whether the implementation of TCPL s policies related to health, safety, security and environmental matters are effective, including policies and practices to prevent loss or injury to TCPL s employees and its assets, networks or infrastructure from malicious acts, natural disasters or other crisis situations. The committee reviews reports and, when appropriate, makes recommendations to the Board on TCPL s policies and procedures related to health, safety, security and the environment. This committee meets separately with officers of TCPL and its business units who have responsibility for these matters and reports to the Board on such meetings.

There were three meetings of the Health, Safety and Environment Committee in 2010.

HUMAN RESOURCES COMMITTEE

Chair: W.T. Stephens

Members: W.K. Dobson, P. Gauthier, K.L. Hawkins, S. B. Jackson, D.P. O Brien

This committee is comprised of six independent directors and is mandated to review the Company s human resources policies and plans, monitor succession planning and to assess the performance of the Chief Executive Officer and other senior executive officers of TCPL against pre-established performance objectives. A report on senior management development and succession is prepared annually for presentation to the Board which the committee reviews on an annual basis. The committee reports to the Board with recommendations on the remuneration package for the senior executive officers of TCPL, including the CEO. The committee approves all longer-term compensation including stock options and any major changes to TCPL s company-wide compensation and benefit plans. The committee considers and approves any changes to TCPL s Canadian pension plans relating to benefits provided under these plans. The committee is also responsible for the review of the executive share ownership guidelines.

The committee recognizes the importance of maintaining good governance practices for the development and administration of executive compensation and benefit programs, and has instituted processes that enhance the committee s ability to effectively carry out its responsibilities. Examples of processes that the committee uses include:

- holding in-camera sessions without Company management present prior to and following every regularly scheduled committee meeting;
- hiring external consultants and advisors and requiring their attendance at specified committee meetings;
- annually approving a checklist that sets out the timetable of all regularly occurring accountabilities for the committee which provides context for the discussion of related items; and
- using a two-step review process where items are provided for the committee s initial review at a meeting prior to the approval meeting.

There were four meetings of the Human Resources Committee in 2010.

SCHEDULE E

CHARTER OF THE BOARD OF DIRECTORS

I. INTRODUCTION

A. The Board s primary responsibility is to foster the long-term success of the Company consistent with the Board s responsibility to act honestly and in good faith with a view to the best interests of the Company.

B. The Board of Directors has plenary power. Any responsibility not delegated to management or a committee of the Board remains with the Board. This Charter is prepared to assist the Board and management in clarifying responsibilities and ensuring effective communication between the Board and management.

II. COMPOSITION AND BOARD ORGANIZATION

A. Nominees for directors are initially considered and recommended by the Governance Committee of the Board, approved by the entire Board and elected annually by the shareholders of the Company.

B. The Board must be comprised of a majority of members who have been determined by the Board to be independent. A member is independent if the member has no direct or indirect relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member s independent judgment.

C. Directors who are not members of management will meet on a regular basis to discuss matters of interest independent of any influence from management.

D. Certain of the responsibilities of the Board referred to herein may be delegated to committees of the Board. The responsibilities of those committees will be as set forth in their Charter, as amended from time to time.

III. DUTIES AND RESPONSIBILITIES

A. Managing the Affairs of the Board

The Board operates by delegating certain of its authorities, including spending authorizations, to management and by reserving certain powers to itself. Certain of the legal obligations of the Board are described in detail in Section IV. Subject to these legal obligations and to the Articles and By-laws of the Company, the Board retains the responsibility for managing its own affairs, including:

i) planning its composition and size;

ii) selecting its Chair;

iii) nominating candidates for election to the Board;

iv) determining independence of Board members;

v) approving committees of the Board and membership of directors thereon;

vi) determining director compensation; and

vii) assessing the effectiveness of the Board, committees and directors in fulfilling their responsibilities.

B. Management and Human Resources

The Board has the responsibility for:

i) the appointment and succession of the Chief Executive Officer (CEO) and monitoring CEO performance, approving CEO compensation and providing advice and counsel to the CEO in the execution of the CEO s duties;

ii) approving a position description for the CEO;

iii) reviewing CEO performance at least annually, against agreed-upon written objectives;

iv) approving decisions relating to senior management, including the:

a) appointment and discharge of officers of the Company and members of the senior executive leadership team;

b) compensation and benefits for members of the senior executive leadership team;

c) acceptance of outside directorships on public companies by senior executive officers (other than not-for-profit organizations);

d) annual corporate and business unit performance objectives utilized in determining incentive compensation or other awards to officers; and

e) employment contracts, termination and other special arrangements with senior executive officers, or other employee groups if such action is likely to have a subsequent material[1] impact on the Company or its basic human resource and compensation policies.

v) taking all reasonable steps to ensure succession planning programs are in place, including programs to train and develop management;

vi) approving certain matters relating to all employees, including:

a) the annual salary policy/program for employees;

b) new benefit programs or changes to existing programs that would create a change in cost to the Company in excess of $10,000,000 annually;

c) Canadian pension fund investment guidelines and the appointment of pension fund managers; and

d) material benefits granted to retiring employees outside of benefits received under approved pension and other benefit programs.

C. Strategy and Plans

The Board has the responsibility to:

i) participate in strategic planning sessions to ensure that management develops, and ultimately approve, major corporate strategies and objectives;

ii) approve capital commitment and expenditure budgets and related operating plans;

iii) approve financial and operating objectives used in determining compensation;

iv) approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to the Company;

v) approve material divestitures and acquisitions; and

vi) monitor management s achievements in implementing major corporate strategies and objectives, in light of changing circumstances.

D. Financial and Corporate Issues

The Board has the responsibility to:

i) take reasonable steps to ensure the implementation and integrity of the Company s internal control and management information systems;

ii) monitor operational and financial results;

iii) approve annual financial statements and related Management s Discussion and Analysis, review quarterly financial results and approve the release thereof by management;

iv) approve the Management Proxy Circular, Annual Information Form and documents incorporated by reference therein;

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1 For purposes of this Charter, the term material includes a transaction or a series of related transactions that would, using reasonable business judgment and assumptions, have a meaningful impact on the Corporation. The impact could be relative to the Corporation s financial performance and liabilities as well as its reputation.

v) declare dividends;

vi) approve financings, changes in authorized capital, issue and repurchase of shares, issue and redemption of debt securities, listing of shares and other securities, issue of commercial paper, and related prospectuses and trust indentures;

vii) recommend appointment of external auditors and approve auditors fees;

viii) approve banking resolutions and significant changes in banking relationships;

ix) approve appointments, or material changes in relationships with corporate trustees;

x) approve contracts, leases and other arrangements or commitments that may have a material impact on the Company;

xi) approve spending authority guidelines; and

xii) approve the commencement or settlement of litigation that may have a material impact on the Company.

E. Business and Risk Management

The Board has the responsibility to:

i) take reasonable steps to ensure that management has identified the principal risks of the Company s businesses and implemented appropriate strategies to manage these risks, understands the principal risks and achieves a proper balance between risks and benefits;

ii) review reports on capital commitments and expenditures relative to approved budgets;

iii) review operating and financial performance relative to budgets or objectives;

iv) receive, on a regular basis, reports from management on matters relating to, among others, ethical conduct, environmental management, employee health and safety, human rights, and related party transactions; and

v) assess and monitor management control systems by evaluating and assessing information provided by management and others (e.g. internal and external auditors) about the effectiveness of management control systems.

F. Policies and Procedures

The Board has responsibility to:

i) monitor compliance with all significant policies and procedures by which the Company is operated;

ii) direct management to ensure the Company operates at all times within applicable laws and regulations and to the highest ethical and moral standards;

iii) provide policy direction to management while respecting its responsibility for day-to-day management of the Company s businesses; and

iv) review significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment).

G. Compliance Reporting and Corporate Communications

The Board has the responsibility to:

i) take all reasonable steps to ensure the Company has in place effective disclosure and communication processes with shareholders and other stakeholders and financial, regulatory and other recipients;

ii) approve interaction with shareholders on all items requiring shareholder response or approval;

iii) take all reasonable steps to ensure that the financial performance of the Company is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;

iv) take all reasonable steps to ensure that financial results are reported fairly and in accordance with generally accepted accounting principles;

v) take all reasonable steps to ensure the timely reporting of any other developments that have significant and material impact on the Company; and

vi) report annually to shareholders on the Board s stewardship for the preceding year (the Annual Report).

IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

A. The Board is responsible for:

i) directing management to ensure legal requirements have been met and documents and records have been properly prepared, approved and maintained;

ii) approving changes in the By-laws and Articles of Incorporation, matters requiring shareholder approval, and agendas for shareholder meetings;

iii) approving the Company s legal structure, name, logo, mission statement and vision statement; and

iv) performing such functions as it reserves to itself or which cannot, by law, be delegated to committees of the Board or to management.

SCHEDULE F

COMPENSATION DISCUSSION AND ANALYSIS

This section of the Proxy Circular explains how TransCanada s executive compensation program is designed and operated with respect to the President and CEO (referred to as CEO in this section and under the section entitled Executive Compensation Tables), Chief Financial Officer (CFO), the three other most highly compensated executives, and the (Retired) President and CEO (Retired CEO) included in this reported financial year (collectively referred to as the Executive Officers).

For 2010, information is reported for the Company s Executive Officers as follows:

R.K. Girling	President & Chief Executive Officer (formerly Chief Operating Officer)
D.R. Marchand	Executive Vice-President & Chief Financial Officer (formerly Vice-President, Finance & Treasurer)
A.J. Pourbaix	President, Energy & Oil Pipelines (formerly President, Energy & Executive Vice-President, Corporate Development)
G.A. Lohnes	President, Natural Gas Pipelines (formerly Executive Vice-President & Chief Financial Officer)
D.M. Wishart	Executive Vice-President, Operations & Major Projects
H.N. Kvisle	(Retired) President & Chief Executive Officer(1)

(1) Mr. Kvisle retired from the Company effective September 1, 2010. More information regarding Mr. Kvisle s retirement provisions is in the section entitled Termination and Change of Control Benefits Retired President & Chief Executive Officer Compensation .

This section is divided into the following areas of interest:

1. An introduction outlining TransCanada s business considerations that affect the executive compensation program;
2. A review of the change to the executive compensation program for the 2010/2011 compensation cycle;
3. A summary of business results for 2010;
4. Information on TransCanada s executive compensation philosophy and program;

14,768 17,317

Notes

	73,450	56,503	98,247
Accounts			
	939,787	891,454	917,358
Allowance for doubtful receivables			
	(24,476)	(23,398)	(25,468)
Net trade receivables			
	1,007,433	939,327	1,007,454
Inventories (Note 2)			

	750,681	786,845	828,802
Other current assets (Notes 6, 10 and 17)			
	303,411	269,954	343,901
Total current assets			
	2,653,992	2,494,083	2,816,365
Investments and advances:			
Associated companies (Note 3)			

	156,506	138,652	170,284
Other investments and advances (Notes 4 and 8)			
	115,298	138,326	134,392
Total investments and advances			
	271,804	276,978	304,676
Property, plant and equipment (Notes 5 and 6):			
Land			

283,305 313,991 275,951

Buildings

1,453,550 1,638,974 1,410,759

Machinery and equipment

2,728,925 2,723,993 2,744,599

Construction in progress

44,220 60,173 36,151

4,510,000 4,737,131 4,467,460

Less accumulated depreciation

3,084,551 3,061,703 3,086,469

Net property, plant and equipment	1,425,449	1,675,428	1,380,991
Other assets:			
Goodwill (Notes 7 and 21)	473,377	512,146	471,425
Intangible assets (Notes 5, 6, 7 and 21)	203,591	223,013	191,437
Other assets (Notes 9 and 10)	184,781	216,164	179,631

Total other assets			
	861,749	951,323	842,493
	5,212,994	5,397,812	5,344,525

See accompanying Notes to Consolidated Financial Statements.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

March 31, 2014 and 2013 and September 30, 2014

	Yen (millions)		
	March 31,		September 30,
	2014	2013	2014 (Unaudited)
Liabilities and Equity			
Current liabilities:			
Short-term debt, including current portion of long-term debt (Notes 5 and 8)	84,738	480,304	86,848
Trade payables:			
Related companies (Note 3)	43,525	38,752	46,501
Notes	200,355	52,030	246,601
Accounts	693,135	701,004	683,994
Total trade payables	937,015	791,786	977,096
Accrued income taxes (Note 10)	40,454	32,162	40,329
Accrued payroll (Note 16)	217,246	201,460	172,156
Other accrued expenses (Notes 15 and 19)	799,959	713,314	824,737
Deposits and advances from customers	75,520	75,669	86,109
Employees deposits	5,146	6,610	4,781
Other current liabilities (Notes 9, 10 and 17)	277,781	297,854	289,798
Total current liabilities	2,437,859	2,599,159	2,481,854
Noncurrent liabilities:			
Long-term debt (Notes 5 and 8)	557,374	663,091	516,089
Retirement and severance benefits (Note 9)	430,701	621,802	397,301
Other liabilities (Note 10)	200,622	209,487	201,296
Total noncurrent liabilities	1,188,697	1,494,380	1,114,686
Equity:			
Panasonic Corporation shareholders equity:			
Common stock (Note 12):			
Authorized 4,950,000,000 shares			
Issued 2,453,053,497 shares	258,740	258,740	258,740
Capital surplus (Notes 12 and 13)	1,109,501	1,110,686	986,460
Retained earnings (Note 12)	878,742	769,863	941,182
Accumulated other comprehensive income (loss) (Note 14):			
Cumulative translation adjustments	(167,219)	(297,015)	(86,993)
Unrealized holding gains (losses) of available-for-sale securities (Note 4)	6,027	(218)	13,582
Unrealized gains (losses) of derivative instruments (Note 17)	(237)	(4,573)	1,357
Pension liability adjustments (Note 9)	(290,270)	(326,423)	(276,903)
Total accumulated other comprehensive loss	(451,699)	(628,229)	(348,957)
Treasury stock, at cost (Note 12):			

141,496,296 shares as of March 31, 2014, 141,394,374 shares as of March 31, 2013, and 141,532,404 shares as of September 30, 2014	(247,132)	(247,028)	(247,174)
Total Panasonic Corporation shareholders equity	1,548,152	1,264,032	1,590,251
Noncontrolling interests	38,286	40,241	157,734
Total equity	1,586,438	1,304,273	1,747,985
Commitments and contingent liabilities (Notes 5 and 19)			
	5,212,994	5,397,812	5,344,525

See accompanying Notes to Consolidated Financial Statements.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended March 31, 2014, 2013 and 2012 and Six Months ended September 30, 2014 and 2013

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Revenues, costs and expenses:					
Net sales:					
Related companies	129,045	135,006	174,887	65,363	75,816
Other	7,607,496	7,168,039	7,671,329	3,657,520	3,630,504
Total net sales	7,736,541	7,303,045	7,846,216	3,722,883	3,706,320
Cost of sales (Notes 3, 14, 16, 17 and 19)	(5,638,869)	(5,419,888)	(5,864,515)	(2,683,320)	(2,719,436)
Selling, general and administrative expenses (Note 16)	(1,792,558)	(1,722,221)	(1,937,976)	(862,584)	(840,295)
Interest income	10,632	9,326	13,388	6,230	4,831
Dividends received	1,992	3,686	6,129	1,236	1,510
Other income (Notes 4, 9, 14, 16 and 17)	243,488	91,807	44,124	17,625	108,075
Interest expense (Note 8)	(21,911)	(25,601)	(28,404)	(9,421)	(11,884)
Impairment losses of long-lived assets (Note 6)	(103,763)	(138,138)	(399,259)	(3,605)	(6,165)
Goodwill impairment (Note 7)	(8,069)	(250,583)	(163,902)		
Other deductions (Notes 3, 4, 6, 14, 15, 16 and 17)	(221,258)	(249,819)	(328,645)	(67,142)	(35,551)
Income (loss) before income taxes	206,225	(398,386)	(812,844)	121,902	207,405
Provision for income taxes (Note 10):					
Current	92,817	66,532	69,206	42,352	40,561
Deferred	(3,152)	318,141	(59,439)	(5,441)	(3,235)
	89,665	384,673	9,767	36,911	37,326
Equity in earnings of associated companies (Note 3)	5,085	7,891	6,467	5,138	3,096
Net income (loss)	121,645	(775,168)	(816,144)	90,129	173,175
Less net income (loss) attributable to noncontrolling interests	1,203	(20,918)	(43,972)	9,196	3,841
Net income (loss) attributable to Panasonic Corporation	120,442	(754,250)	(772,172)	80,933	169,334

	Yen				
Net income (loss) per share attributable to Panasonic Corporation common shareholders (Note 11):					
Basic	52.10	(326.28)	(333.96)	35.01	73.25
Diluted				35.01	

See accompanying Notes to Consolidated Financial Statements.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2014, 2013 and 2012 and Six Months ended September 30, 2014 and 2013

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Net income (loss)	121,645	(775,168)	(816,144)	90,129	173,175
Other comprehensive income (loss), net of tax (Note 14):					
Translation adjustments	136,633	198,287	(19,887)	85,403	55,005
Unrealized holding gains (losses) of available-for-sale securities	6,201	(13,416)	(3,476)	7,581	12,521
Unrealized gains (losses) of derivative instruments	4,300	(845)	(6,018)	1,450	2,032
Pension liability adjustments	38,551	(62,481)	(79,874)	13,198	(31,074)
	185,685	121,545	(109,255)	107,632	38,484
Comprehensive income (loss)	307,330	(653,623)	(925,399)	197,761	211,659
Less comprehensive income (loss) attributable to noncontrolling interests	10,358	(6,299)	(44,210)	14,086	7,868
Comprehensive income (loss) attributable to Panasonic Corporation	296,972	(647,324)	(881,189)	183,675	203,791

See accompanying Notes to Consolidated Financial Statements.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Equity

Years ended March 31, 2014, 2013 and 2012 and Six Months ended September 30, 2014 and 2013

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Common stock:					
Balance at beginning of period	258,740	258,740	258,740	258,740	258,740
Balance at end of period	258,740	258,740	258,740	258,740	258,740
Capital surplus:					
Balance at beginning of period	1,110,686	1,117,530	1,100,181	1,109,501	1,110,686
Sale of treasury stock			(1,752)		
Equity transactions with noncontrolling interests and others (Note 13)	(1,185)	(6,844)	19,101	(123,041)	(850)
Balance at end of period	1,109,501	1,110,686	1,117,530	986,460	1,109,836
Retained earnings:					
Balance at beginning of period	769,863	1,535,689	2,496,107	878,742	769,863
Sale of treasury stock	(5)	(17)	(166,334)	(1)	(3)
Cash dividends to Panasonic Corporation stockholders	(11,558)	(11,559)	(21,912)	(18,492)	
Net income (loss) attributable to Panasonic Corporation	120,442	(754,250)	(772,172)	80,933	169,334
Balance at end of period	878,742	769,863	1,535,689	941,182	939,194
Accumulated other comprehensive income (loss):					
Balance at beginning of period	(628,229)	(735,155)	(625,300)	(451,699)	(628,229)
Other comprehensive income (loss), net of tax (Note 14)	176,530	106,926	(109,017)	102,742	34,457
Equity transactions with noncontrolling interests and others			(838)		
Balance at end of period	(451,699)	(628,229)	(735,155)	(348,957)	(593,772)
Treasury stock (Note 12):					
Balance at beginning of period	(247,028)	(247,018)	(670,736)	(247,132)	(247,028)
Sale of treasury stock	12	25	424,154	5	6
Repurchase of common stock	(116)	(35)	(436)	(47)	(26)
Balance at end of period	(247,132)	(247,028)	(247,018)	(247,174)	(247,048)
Noncontrolling interests:					
Balance at beginning of period	40,241	47,780	387,343	38,286	40,241
Cash dividends paid to noncontrolling interests	(13,628)	(10,549)	(11,642)	(16,094)	(8,165)
Net income (loss) attributable to noncontrolling interests	1,203	(20,918)	(43,972)	9,196	3,841
Other comprehensive income (loss), net of tax (Note 14)	9,155	14,619	(238)	4,890	4,027
Equity transactions with noncontrolling interests and others (Note 21)	1,315	9,309	(283,711)	121,456	236

Balance at end of period	38,286	40,241	47,780	157,734	40,180

See accompanying Notes to Consolidated Financial Statements.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2014, 2013 and 2012 and Six Months ended September 30, 2014 and 2013

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Cash flows from operating activities (Note 16):					
Net income (loss)	121,645	(775,168)	(816,144)	90,129	173,175
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	331,083	339,367	374,785	137,156	165,976
Net gains on sale of investments	(25,769)	(29,125)	(5,822)	(1,441)	(24,010)
Provision for doubtful receivables	8,218	6,641	12,162	1,496	2,111
Deferred income taxes (Note 10)	(3,152)	318,141	(59,439)	(5,441)	(3,235)
Write-down of investment securities (Notes 3 and 4)	142	4,017	16,636	36	45
Impairment loss on long-lived assets and goodwill (Notes 6 and 7)	111,832	388,721	563,161	3,605	6,165
Cash effects of changes in, excluding acquisition:					
Trade receivables	(34,882)	128,088	24,228	22,581	11,539
Inventories	64,601	64,625	40,318	(69,461)	(46,691)
Other current assets	35,714	51,168	17,130	(11,639)	18,741
Trade payables	124,467	(68,282)	(103,788)	35,905	(11,150)
Accrued income taxes	11,572	4,817	(7,473)	2,063	3,185
Accrued expenses and other current liabilities	32,875	(117,098)	(9,089)	(30,701)	(43,165)
Retirement and severance benefits	(140,422)	(8,811)	(29,374)	(19,470)	(101,416)
Deposits and advances from customers	1,363	3,247	(14,547)	8,868	8,177
Other, net (Notes 3 and 19)	(57,337)	28,402	(761)	3,614	2,020
Net cash provided by (used in) operating activities	581,950	338,750	1,983	167,300	161,467
Cash flows from investing activities (Note 16):					
Proceeds from disposition of investments and advances	63,185	195,401	104,542	12,649	53,477
Increase in investments and advances	(18,226)	(4,144)	(6,945)	(4,316)	(5,122)
Capital expenditures	(201,735)	(320,168)	(495,342)	(102,219)	(99,830)
Proceeds from disposals of property, plant and equipment	53,321	146,562	53,333	14,780	12,518
(Increase) decrease in time deposits, net	1,674	36,795	30,952	(1,653)	1,642
Proceeds from sale of consolidated subsidiaries	176,489	6,685		18,928	
Purchase of shares of newly consolidated subsidiaries, net of acquired companies cash and cash equivalents (Note 21)	(45,455)	(3,383)			
Other, net	(17,125)	(41,342)	(28,416)	(18,194)	(8,937)
Net cash provided by (used in) investing activities	12,128	16,406	(341,876)	(80,025)	(46,252)

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PANASONIC CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended March 31, 2014, 2013 and 2012 and Six Months ended September 30, 2014 and 2013

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Cash flows from financing activities (Note 16):					
Increase (decrease) in short-term debt with maturities of three months or less, net	(135,699)	(25,168)	141,451	(9,607)	(117,202)
Proceeds from short-term debt with maturities longer than three months	11,469	433,820	280,677	13,450	7,191
Repayments of short-term debt with maturities longer than three months	(35,163)	(650,938)	(60,000)	(8,674)	(16,089)
Proceeds from long-term debt		648	828		
Repayments of long-term debt	(342,761)	(226,320)	(370,052)	(37,232)	(34,958)
Dividends paid to Panasonic Corporation shareholders (Note 12)	(11,558)	(11,559)	(21,912)	(18,492)	
Dividends paid to noncontrolling interests	(13,628)	(10,549)	(11,642)	(16,094)	(8,165)
Repurchase of common stock (Note 12)	(116)	(35)	(436)	(47)	(26)
Sale of treasury stock (Note 12)	7	8	73	4	3
Purchase of noncontrolling interests	(4,025)	(940)	(10,640)	(1,114)	(547)
Other, net	(841)	(25)	(1,441)	(366)	(377)
Net cash used in financing activities	(532,315)	(491,058)	(53,094)	(78,172)	(170,170)
Effect of exchange rate changes on cash and cash equivalents	34,421	57,774	(7,428)	32,985	17,242
Net increase (decrease) in cash and cash equivalents	96,184	(78,128)	(400,415)	42,088	(37,713)
Cash and cash equivalents at beginning of year	496,283	574,411	974,826	592,467	496,283
Cash and cash equivalents at end of year	592,467	496,283	574,411	634,555	458,570

See accompanying Notes to Consolidated Financial Statements.

PANASONIC CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

(1) Summary of Significant Accounting Policies

(a) **Description of Business**

Panasonic Corporation (hereinafter, the Company, including consolidated subsidiaries, unless the context otherwise requires) is one of the world s leading producers of electronic and electric products. The Company currently offers a comprehensive range of products, systems and components for consumer, business and industrial use based on sophisticated electronics and precision technology, expanding to building materials and equipment, and housing business.

Sales by segment for the year ended March 31, 2014 were as follows: Appliances 22%, Eco Solutions 20%, AVC Networks 14%, Automotive & Industrial Systems 33%, and Other 11%. A sales breakdown for the year ended March 31, 2014 by geographical market was as follows: Japan 50%, North and South America 14%, Europe 10%, and Asia and Others 26%.

Sales by segment for the six months ended September 30, 2014 were as follows: Appliances 23%, Eco Solutions 20%, AVC Networks 14%, Automotive & Industrial Systems 35%, and Other 8%. A sales breakdown for the six months ended September 30, 2014 by geographical market was as follows: Japan 47%, North and South America 15%, Europe 9%, and Asia and Others 29%.

The Company is not dependent on a single supplier, and has no significant difficulty in obtaining raw materials from suppliers.

(b) **Basis of Presentation of Consolidated Financial Statements**

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner that reflects adjustments which are necessary to conform with U.S. generally accepted accounting principles (U.S. GAAP).

(c) **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its majority-owned, controlled subsidiaries. The Company also consolidates entities in which controlling interest exists through variable interests in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, Consolidation. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in companies and joint ventures over which the Company has the ability to exercise significant influence (generally through a 20% to 50% voting interest) are included in Investments and advances Associated companies in the consolidated balance sheets.

(d) **Revenue Recognition**

The Company generates revenue principally through the sale of consumer and industrial products, equipment, and supplies. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

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Revenue from sales of products is generally recognized when the products are received by customers. Revenue from sales of certain products with customer acceptance provisions related to their functionality is recognized when the product is received by the customer and the specific criteria of the product functionality are successfully tested and demonstrated.

The Company enters into arrangements with multiple elements, which may include any combination of products or equipment, installation and maintenance. The Company allocates revenue to each element based on its relative selling price if such element meets the criteria for treatment as a separate unit of accounting as prescribed in the provisions of ASC 605, Revenue Recognition. Revenue from sales of products or equipment is generally recognized upon completion of installation or upon acceptance by customers if installation is not required. Maintenance revenue is recognized on a straight-line basis over the term of the maintenance agreement.

The Company s policy is to accept product returns only in the case that the products are defective. The Company issues contractual product warranties under which it guarantees the performance of products delivered and services rendered for a certain period of time. A liability for the estimated product warranty related cost is established at the time revenue is recognized, and is included in Other accrued expenses. Estimates for accrued warranty cost are primarily based on historical experience and current information on repair cost.

Historically, the Company has made certain allowances related to sales to its consumer business distributors. Such allowances are generally provided to compensate the distributors for price adjustments due to a decline in the product s value, and are classified as a reduction of revenue on the consolidated statements of operations. Estimated price adjustments are accrued when the related sales are recognized. The estimate is made based primarily on the historical experience and specific arrangements made with the distributors.

The Company also occasionally offers incentive programs to its distributors in the form of rebates. These rebates are accrued at the latter of the date at which the related revenue is recognized or the date at which the incentive is offered, and are recorded as reductions of sales in accordance with the provisions of ASC 605.

Taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of operations.

(e) **Leases (See Note 5)**

The Company accounts for leases in accordance with the provisions of ASC 840, Leases. Leases of assets under certain conditions are recorded as capital leases in property, plant and equipment in the consolidated balance sheets.

(f) **Inventories (See Note 2)**

Finished goods and work in process are stated at the lower of cost (average) or market. Raw materials are stated at cost, principally on a first-in, first-out basis or average basis, not in excess of current replacement cost.

(g) **Foreign Currency Translation (See Note 14)**

Foreign currency financial statements are translated in accordance with the provisions of ASC 830, Foreign Currency Matters, under which all assets and liabilities are translated into yen at year-end rates and income and expense accounts are translated at weighted-average rates.

Adjustments resulting

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from the translation of financial statements are reflected under the caption, Accumulated other comprehensive income (loss), a separate component of equity.

(h) **Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment. Depreciation is computed primarily using the straight-line method based on the following estimated useful lives:

Buildings	5 to 50 years
Machinery and equipment	2 to 10 years

(i) **Goodwill and Other Intangible Assets (See Notes 6 and 7)**

Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. The Company applies the provisions of ASC 350, Intangibles Goodwill and Other. Goodwill and intangible assets determined to have an indefinite useful life are not amortized, and are instead reviewed for impairment at least annually based on an assessment of current estimated fair value. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform the second step of the impairment test (measurement). If the fair value of the reporting unit exceeds its carrying amount, the second step does not need to be performed. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in business combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using the guideline merged and acquired company method, guideline public company method, and a discounted cash flow analysis. The provisions of ASC 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment based on an assessment of the undiscounted cash flows expected to be generated by the asset, whenever impairment indications are presented. An impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(j) **Investments and Advances (See Notes 3, 4 and 14)**

Investments and advances primarily consist of investments in and advances to associated companies, cost method investments, available-for-sale securities, and long-term deposits. Cost method investments and long-term deposits are recorded at historical cost.

The equity method is used to account for investments in associated companies in which the Company exerts significant influence over operating and financial policies, generally having a 20% to 50% voting interest, and corporate joint ventures. The Company also uses the equity method for certain investees if the minority shareholders have substantive participating rights. Under the equity method of accounting, investments are stated at their underlying net equity value after elimination of intercompany profits. The cost method is used when the Company does not have significant influence.

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The excess of cost of the stock of the associated companies over the Company s share of their net assets at the acquisition date, included in the equity investment balance, is recognized as equity method goodwill. Such equity method goodwill is not amortized and is instead tested for impairment as part of the equity method investment.

The Company accounts for debt and marketable equity securities in accordance with the provisions of ASC 320, Investments Debt and Equity Securities.

The provisions of ASC 320 require that certain investments in debt and marketable equity securities be classified as held-to-maturity, trading, or available-for-sale securities. The Company classifies its existing marketable equity securities other than investments in associated companies and all debt securities as available-for-sale. Available-for-sale securities are carried at fair value with unrealized holding gains or losses included as a component of accumulated other comprehensive income (loss), net of applicable taxes.

Realized gains and losses are determined on the average cost method and reflected in earnings.

On a continuous basis, but no less frequently than at the end of each quarter, the Company evaluates the carrying amount of each of the investments in associated companies, cost method investments and available-for-sale securities for possible other-than-temporary impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the period of time the fair value has been below the carrying amount or cost basis of investment, financial condition and prospects of each investee, and other relevant factors.

Investments in associated companies, cost method investments and available-for-sale securities are reduced to fair value by a charge to earnings when impairment is considered to be other than temporary. Impairment is measured based on the amount by which the carrying amount or cost basis of the investment exceeds its fair value. Fair value is determined based on quoted market prices, discounted cash flows or other valuation techniques as appropriate.

(k) **Allowance for Doubtful Receivables**

An allowance for doubtful trade receivables and advances is provided at an amount calculated based on historical experience, while specific allowances for doubtful trade receivables and advances are provided for the estimated amounts considered to be uncollectible after reviewing individual collectibility.

(l) **Income Taxes (See Note 10)**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change in tax rate is enacted.

The Company accounts for uncertainty in tax positions in accordance with the provisions of ASC 740, Income Taxes. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are

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reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in Provision for income taxes Current in the consolidated statements of operations.

(m) **Advertising (See Note 16)**
Advertising costs are expensed as incurred.

(n) **Net Income (Loss) per Share (See Note 11)**
The Company accounts for net income (loss) per share in accordance with the provisions of ASC 260, Earnings Per Share. This Codification Section establishes standards for computing net income (loss) per share and requires dual presentation of basic and diluted net income (loss) per share on the face of the statements of operations for all entities with complex capital structures.

Under the provisions of ASC 260, basic net income (loss) per share is computed based on the weighted-average number of common shares outstanding during each period, and diluted net income (loss) per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(o) **Cash Equivalents**
Cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

(p) **Derivative Financial Instruments (See Notes 14 and 17)**
Derivative financial instruments utilized by the Company are comprised principally of foreign exchange contracts, cross currency swaps and commodity futures used to hedge currency risk and commodity price risk.

The Company accounts for derivative instruments in accordance with the provisions of ASC 815, Derivatives and Hedging. On the date the derivative contract is entered into, the Company ordinarily designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), or a foreign-currency fair-value or cash-flow hedge (foreign-currency hedge). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge s inception and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income (loss), depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings.

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(q) **Impairment of Long-Lived Assets (See Note 6)**

The Company accounts for impairment or disposition of long-lived assets in accordance with the provisions of ASC 360, Property, Plant, and Equipment. In accordance with the provisions of ASC 360, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds its fair value.

(r) **Restructuring Charges (See Note 15)**

The Company accounts for costs associated with exit or disposal activities in accordance with the provisions of ASC 420, Exit or Disposal Cost Obligations. Pursuant to the provisions of ASC 420, liabilities for restructuring costs are recognized when the liability is incurred, which may be subsequent to the date when the Company has committed to a restructuring plan.

(s) **Segment Information (See Note 20)**

The Company accounts for segment information in accordance with the provisions of ASC 280, Segment Reporting. Pursuant to the provisions of ASC 280, the segments are the components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker of the Company in deciding how to allocate resources and in assessing performance.

Certain businesses were transferred among segments on April 1, 2014 and July 1, 2014. Accordingly, segment information for each of the three years ended March 31, 2014 and for the six months ended September 30, 2013 has been reclassified to conform to the segment composition for the six months ended September 30, 2014.

(t) **Fair Value Measurements (See Note 18)**

The provisions of ASC 820, Fair Value Measurements and Disclosures, define fair value and establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets.
Level 2	Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Unobservable inputs for the asset or liability.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The Company maintains policies and procedures to value assets and liabilities using the best and most relevant data available. With regards to Level 3 valuations, the Company performs a variety of procedures to assess the reasonableness of the valuations quarterly or annually. These reviews are performed by the accounting section and approved by the President and the Chief Financial Officer of the Company. This detailed review may include the use of a third-party valuation firm.

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(u) **Retirement and Severance Benefits (See Note 9)**

The Company accounts for the defined benefit pension plans and the lump-sum payment plans in accordance with the provisions of ASC 715, Compensation-Retirement Benefits. In accordance with the provisions, funded status of defined benefit pension plans (that is the balance of plan assets less benefit obligations) is recognized on the consolidated balance sheets and pension liability adjustments, net of tax, are recorded in the Accumulated other comprehensive income (loss).

Actuarial net gains and losses in excess of the corridor (10% of benefit obligations or fair value of plan assets, whichever is greater) are amortized over the average remaining service period of employees, except for the plan described as follows.

The Company and certain domestic subsidiaries made a transition from the defined benefit pension plan to a defined contribution pension plan, effective after July 1, 2013 with respect to employees future service. Actuarial net gains and losses to the defined benefit pension plan in excess of the corridor are amortized over the average remaining life expectancy of plan participants. The effect of this transition in the year ended March 31, 2014 is described in Note 9.

(v) **Use of Estimates**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions are used in the valuation and disclosure of revenue recognition, allowance for doubtful receivables, valuation of inventories, impairment of long-lived assets, impairment of goodwill, environmental liabilities, valuation of deferred tax assets, uncertain tax positions, employee retirement and severance benefit plans and assets acquired and liabilities assumed in business combinations.

(w) **Subsequent Events**

Management had evaluated the subsequent events through February 17, 2015, the issuance date of the Company s consolidated financial statements.

Additionally, management has evaluated subsequent events that have occurred subsequent to February 17, 2015 through the financial statement issuance date of April 28, 2015 and has disclosed the subsequent events in Note 22.

(x) **Adoption of New Accounting Standards**

On April 1, 2014, the Company adopted Accounting Standards Update (ASU) 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05, which amends ASC 830, Foreign Currency Matters, requires a cumulative translation adjustment, to be released into net income when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. The adoption of ASU 2013-05 did not have a material effect on the Company s consolidated financial statements.

On April 1, 2014, the Company adopted ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.

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ASU 2013-11 requires an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward for tax purposes, a similar tax loss, or a tax credit carryforward. The adoption of ASU 2013-11 did not have a material effect on the Company s consolidated financial statements.

(y) **New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(2) Inventories

Inventories as of March 31, 2014 and 2013 and September 30, 2014 are summarized as follows:

	Yen (millions)		
	March 31,		September 30,
	2014	2013	2014 (Unaudited)
Finished goods	449,820	453,440	509,415
Work in process	128,323	135,308	139,785
Raw materials	172,538	198,097	179,602
	750,681	786,845	828,802

(3) Investments in and Advances to, and Transactions with Associated Companies

The most significant associated companies among Panasonic Group are Sumitomo Mitsui Trust Panasonic Finance Co., Ltd. (SMTPFC) and Panasonic Healthcare Holdings Co., Ltd. (PHCHD). As of March 31, 2014, the Company has a 15.1% equity ownership in SMTPFC and a 20.0% equity ownership in PHCHD. The Company applies the equity method to account for its investments in SMTPFC as the Company holds significant influence over operating and financial policies of SMTPFC.

On March 31, 2014, Panasonic acquired 20.0% of the shares of PHCHD, a company affiliated with investment funds managed by Kohlberg Kravis Roberts & Co. L.P., making PHCHD an associated company accounted for under the equity method. In addition, on the same date, Panasonic sold all of the shares of Panasonic Healthcare Co., Ltd. (PHC), a consolidated subsidiary of Panasonic which manufactures and sells healthcare devices, to PHCHD, which resulted in a gain of 78,699 million yen. By owning 20.0% of the shares in PHCHD, Panasonic will fulfill its responsibilities to its customers to a certain extent in respect of a business which is conducted under the brand name of Panasonic.

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Certain financial information in respect of associated companies in aggregate as of March 31, 2014 and 2013, and for each of the years then ended March 31, 2014 is as follows:

	Yen (millions)	
	2014	2013
Current assets	1,291,814	1,220,563
Other assets	372,151	242,685
	1,663,965	1,463,248
Current liabilities	668,126	658,278
Other liabilities	494,400	392,150
Net assets	501,439	412,820
Company s equity in net assets	145,115	123,337

		Yen (millions)	
	2014	2013	2012
Net sales	828,452	856,307	942,008
Gross profit	186,299	172,443	170,920
Net income	26,031	25,521	20,104

Purchases and dividends received from associated companies for each of the three years ended March 31, 2014 are as follows:

		Yen (millions)	
	2014	2013	2012
Purchases	124,581	105,923	278,342
Dividends received	3,229	3,418	3,603

Retained earnings include undistributed earnings of associated companies in the amount of 49,166 million yen and 43,927 million yen, as of March 31, 2014 and 2013, respectively.

During the years ended March 31, 2014 and 2013, a write-down of investments and advances in associated companies was not incurred. During the year ended March 31, 2012, the Company incurred a write-down of 8,831 million yen for other-than-temporary impairment of investments and advances in associated companies. The fair values of the investments and advances in associated companies were based on quoted market price or discounted cash flows by using an appropriate discounted rate. An impairment charge was recorded to reduce the carrying value of the investment to its fair value. The write-down is included in Other deductions in the consolidated statements of operations.

Investments in associated companies include marketable equity securities which have quoted market values as of March 31, 2014 and 2013 and its comparison with the related carrying amounts is as follows:

	Yen (millions)	
	2014	**2013**
Carrying amount	24,293	27,707
Market value	37,992	29,789

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(4) Investments in Securities

The Company classifies its existing marketable equity securities, other than investments in associated companies, and all debt securities as available-for-sale.

The cost, fair value, gross unrealized holding gains and gross unrealized holding losses of available-for-sale securities included in other investments and advances as of March 31, 2014 and 2013 are as follows:

	Yen (millions) 2014			
	Cost	**Fair value**	**Gross unrealized holding gains**	**Gross unrealized holding losses**
Noncurrent:				
Equity securities	18,825	63,101	44,283	7
Corporate and government bonds	1,674	1,694	20	
Other debt securities	16	16		
	20,515	64,811	44,303	7

	Yen (millions) 2013			
	Cost	**Fair value**	**Gross unrealized holding gains**	**Gross unrealized holding losses**
Noncurrent:				
Equity securities	49,176	84,035	34,878	19
Corporate and government bonds	1,691	1,718	27	
Other debt securities	12	12		
	50,879	85,765	34,905	19

The cost, fair value, gross unrealized holding gains and gross unrealized holding losses of available-for-sale securities included in other investments and advances as of September 30, 2014 are as follows:

	Yen (millions) September 30, 2014 (unaudited)			
	Cost	**Fair value**	**Gross unrealized holding**	**Gross unrealized holding**

			gains	losses
Noncurrent:				
Equity securities	20,959	76,029	55,121	51
Corporate and government bonds	1,653	1,672	19	
Other debt securities	16	16		
	22,628	77,717	55,140	51

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Maturities of investments in available-for-sale securities as of March 31, 2014 and 2013 are as follows:

	Yen (millions)			
	2014		2013	
	Cost	Fair value	Cost	Fair value
Due after one year through five years	1,377	1,381	1,403	1,412
Due after five years through ten years	313	329	300	318
Equity securities	18,825	63,101	49,176	84,035
	20,515	64,811	50,879	85,765

Proceeds from sale of available-for-sale securities for the years ended March 31, 2014, 2013 and 2012 were 45,376 million yen, 144,139 million yen and 73,141 million yen, respectively. The gross realized gains on sale of available-for-sale securities for the years ended March 31, 2014, 2013 and 2012 were 23,734 million yen, 32,440 million yen and 13,532 million yen, respectively. The Company did not incur gross realized losses on sale of available-for-sale securities for the year ended March 31, 2014. Gross realized losses for the years ended March 31, 2013 and 2012 were 2,734 million yen and 5,561 million yen, respectively. The cost of securities sold in computing gross realized gains and losses is determined by the average cost method.

During the year ended March 31, 2014, the Company did not incur a write-down for other-than-temporary impairment of available-for-sale securities. During the years ended March 31, 2013 and 2012, the Company incurred a write-down of 4,000 million yen and 7,597 million yen, respectively, for other-than-temporary impairment of available-for-sale securities, mainly reflecting the aggravated market condition of certain industries in Japan. The write-down is included in other deductions in the consolidated statements of operations.

Gross unrealized holding losses on investments in available-for-sale securities and the fair value of the related investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2014 and 2013 are as follows:

	Yen (millions)					
	2014					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	89	7			89	7
	89	7			89	7

	Yen (millions)					
	2013					
	Less than 12 months				Total	

			12 months or more			
	Fair value	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Equity securities	241	19			241	19
	241	19			241	19

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The gross unrealized loss position has been continuing for a relatively short period of time. Based on this and other relevant factors, management has determined that these investments are not considered other-than-temporarily impaired. The Company did not have investment securities that had been in a continuous loss position for twelve months or more as of March 31, 2014 and 2013.

The carrying amounts of the Company s cost method investments totaled 20,677 million yen and 21,566 million yen as of March 31, 2014 and 2013, respectively. For substantially all such investments, the Company did not evaluate for impairment losses, as it was not practicable to estimate the fair value of investments and no significant events or changes that might have affected the fair value of investments were observed. A part of such investments was considered other-than-temporarily impaired and the Company recorded a write-down of 142 million yen, 17 million yen and 208 million yen for the years ended March 31, 2014, 2013 and 2012, respectively.

As of March 31, 2014, there were no equity securities which were pledged as collateral. As of March 31, 2013, equity securities with a book value of 43,740 million yen were pledged as collateral for the deferred payments of certain taxes based on the Japanese Custom Act and Consumption Tax Law.

(5) Leases

The Company has capital and operating leases for certain land, buildings, machinery and equipment, and finite-lived intangible assets with SMTPFC and other third parties.

During the year ended March 31, 2014, proceeds from sale of assets subject to subsequent lease-back were not material to the Company. During the years ended March 31, 2013 and 2012, the Company sold and leased back certain land, buildings, and machinery and equipment for 68,071 million yen and 21,783 million yen, respectively. The base lease term ranges up to 10 years. The resulting leases are being accounted for as operating leases or capital leases. Regarding certain leased assets, the Company has options to purchase the leased assets, or to terminate the leases and guarantee a specified value of the leased assets, subject to certain conditions, during or at the end of the lease term. Regarding leased land and buildings, there are no future commitments, obligations, provisions, or circumstances that require or result in the Company s continuing involvement.

As of March 31, 2014 and 2013, the gross book value of land, buildings, machinery and equipment, and finite-lived intangible assets under capital leases, including the above-mentioned sale-leaseback transactions was 32,257 million yen and 63,799 million yen, and the related accumulated amortization recorded was 12,878 million yen and 28,403 million yen, respectively.

Rental expenses for operating leases, including the above-mentioned sale-leaseback transactions were 41,536 million yen, 41,297 million yen and 84,062 million yen for the years ended March 31, 2014, 2013 and 2012, respectively.

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Future minimum lease payments under non-cancelable capital leases and operating leases as of March 31, 2014 are as follows:

	Yen (millions)	
Year ending March 31	**Capital leases**	**Operating leases**
2015	10,103	31,631
2016	8,714	16,541
2017	7,788	6,618
2018	7,083	5,530
2019	6,627	4,600
Thereafter	7,437	16,250
Total minimum lease payments	47,752	81,170
Less amount representing interest	3,211	
Present value of net minimum lease payments	44,541	
Less current portion	9,201	
Long-term capital lease obligations	35,340	

Future minimum lease payments under operating leases as of September 30, 2014 are as follows:

	Yen (millions) (unaudited)
	Operating leases
Due within 1 year	31,004
Due after 1 year within 2 years	15,412
Due after 2 years within 3 years	6,848
Due after 3 years within 4 years	5,508
Due after 4 years within 5 years	4,469
Thereafter	14,308
Total minimum lease payments	77,549

(6) Long-Lived Assets

The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these assets or related asset group will be sufficient to recover the remaining recorded asset values. Impairment losses are not charged to segment profit. The disclosure below for the years ended March 31, 2014, 2013 and 2012 has been modified to reflect the most recent segment composition.

The Company recognized impairment losses in the aggregate of 103,763 million yen of long-lived assets during the year ended March 31, 2014.

The Company recorded impairment losses for certain machinery related to domestic flat TV manufacturing facilities in AVC Networks segment and Automotive & Industrial Systems segment. As a result of continuous substantial decline of product prices, the Company estimated that the carrying amounts would not be recoverable through future cash flows based on of the Company s mid-term financial forecast of the business,. The fair value was mainly determined through an appraisal based on the repurchase cost.

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The Company recorded impairment losses for certain machinery of domestic and foreign manufacturing facilities related to the resin-based multi-layer printed circuit board business, and thin and high density interposer business among the printed circuit board business in Automotive & Industrial Systems segment. As a result of the decision to discontinue these businesses, the Company estimated that the carrying amounts would not be recoverable through future cash flows. The fair value of machinery was mainly determined through an appraisal based on the repurchase cost.

The Company recorded impairment losses for certain land, buildings, and machinery related to domestic and foreign semiconductor business in Automotive & Industrial Systems segment. As a result of the decline in market demand and per unit selling price, the Company estimated that the carrying amounts would not be recoverable through future cash flows through the business restructuring activities. The fair value was mainly determined through an appraisal based on the repurchase cost.

Impairment losses of 6,681 million yen, 7,117 million yen, 25,563 million yen, 56,632 million yen, 6,424 million yen and 1,346 million yen were related to Appliances, Eco Solutions, AVC Networks, Automotive & Industrial Systems, Other and assets which are not allocated to an operating segments, respectively.

The Company classified certain buildings and other assets related to a domestic flat TV manufacturing plant as assets held for sale in accordance with the provision of ASC 360. These assets are included in Other current assets in the consolidated balance sheet as of March 31, 2014. Furthermore, the Company recognized a loss of 31,412 million yen regarding these assets as the carrying amount was higher than fair value less cost to sell. This loss is included in Other deductions in the consolidated statement of operations for the year ended March 31, 2014.

The Company recognized impairment losses in the aggregate of 138,138 million yen of long-lived assets during the year ended March 31, 2013.

The Company recorded impairment losses for certain machinery and finite-lived intangible assets, such as patents and know-how and trademark, related to solar battery business in Eco Solutions segment. 73,894 million yen of impairment losses related to finite-lived intangible assets. As a result of the continuous substantial decline of product prices, the Company revised its strategies for sales and investment and estimated that the carrying amounts would not be recoverable through future cash flows. The fair value of finite-lived intangible assets was mainly determined based on the excess earnings method and the relief-from-royalty method. The fair value of machinery was determined through an appraisal based on the repurchase cost.

The Company recorded impairment losses for certain land, buildings, machinery and finite-lived intangible assets, such as patents and know-how, related to consumer lithium-ion battery business in Automotive & Industrial Systems segment. 13,658 million yen of impairment losses were related to finite-lived intangible assets. As a result of the continuous substantial decline of product prices, the Company revised its strategies for sales and investment and estimated that the carrying amounts would not be recoverable through future cash flows. The fair value of finite-lived intangible assets was mainly determined based on the excess earnings method and the relief-from-royalty method. The fair value of land, buildings and machinery was determined through an appraisal based on the repurchase cost.

Impairment losses of 76,995 million yen, 5,984 million yen, 50,722 million yen and 4,437 million yen related to Eco Solutions, AVC Networks, Automotive & Industrial Systems, and the remaining segments, respectively.

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The Company classified certain buildings related to a domestic flat TV manufacturing plant as assets held for sale in accordance with the provision of ASC 360. These assets are included in Other current assets in the consolidated balance sheet as of March 31, 2013. Furthermore, the Company recognized a loss of 39,874 million yen regarding these assets as the carrying amount was higher than fair value less cost to sell. This loss is included in Other deductions in the consolidated statement of operations for the year ended March 31, 2013.

The Company recognized impairment losses in the aggregate of 399,259 million yen of long-lived assets during the year ended March 31, 2012.

The Company recorded impairment losses for certain buildings, machinery and equipment, and finite-lived intangible assets related to certain domestic flat TV manufacturing facilities in AVC Networks segment and Automotive & Industrial Systems segment. As a result of the continuously substantial decline of product prices and the yen appreciation, the Company estimated that the carrying amounts would not be recoverable through future cash flows. The fair value of buildings was determined through an appraisal based on the repurchase cost. The fair value of machinery and equipment was determined through an appraisal based on the repurchase cost or net realizable value. The fair value of finite-lived intangible assets was determined based on the discounted estimated cash flows expected to result from the use and eventual disposition of the assets.

The Company recorded impairment losses for certain machinery and equipment related to domestic semiconductor manufacturing facilities in Automotive & Industrial Systems segment. As a result of the decline in market demand and per unit selling price of Digital AV products on which semiconductor business is heavily dependent as a supplier, the Company decided to cease the use of the above-mentioned facilities. The fair value of machinery and equipment was determined through an appraisal based on the net realizable value.

The Company recorded impairment losses of 25,536 million yen for certain finite-lived intangible assets related to customer relationship, and patents and know-how of optical pick-up business in Automotive & Industrial Systems segment. As a result of the decline of product prices and the increase in material cost, the Company estimated that the carrying amounts would not be recoverable through future cash flows. The fair value was mainly determined based on excess earnings method and relief-from-royalty method.

The Company recorded impairment losses of 95,546 million yen for certain finite-lived intangible assets related to customer relationship, and patents and know-how of consumer lithium-ion battery business in Automotive & Industrial Systems segment. As a result of decline of the product prices and the yen appreciation, the Company estimated that the carrying amounts would not be recoverable through future cash flows. The fair value was mainly determined based on excess earnings method and relief-from-royalty method.

Impairment losses of 28,067 million yen, 32,308 million yen, 330,188 million yen and 8,696 million yen were related to Appliances, AVC Networks, Automotive & Industrial Systems, and the remaining segments, respectively.

On March 5, 2012, the Company and Innovation Network Corporation of Japan reached a final agreement regarding the sale of the Mobara plant of Panasonic Liquid Crystal Display Co., Ltd., a subsidiary of the Company, to Japan Display Inc. The Company classified these buildings, machinery and equipment, and finite-lived intangible assets related to the plant as assets held for sale and these assets were included in other current assets in the consolidated balance sheet at March 31, 2012. The Company sold these assets in April 2012.

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The Company recognized impairment losses in the aggregate of 3,605 million yen of long-lived assets for the six months ended September 30, 2014. 1,740 million yen, 837 million yen and 719 million yen of impairment losses were related to AVC Networks, Automotive & Industrial Systems and Other, respectively.

The Company recognized impairment losses in the aggregate of 6,165 million yen of long-lived assets for the six months ended September 30, 2013. 3,616 million yen and 1,199 million yen of impairment losses were related to Eco Solutions and AVC Networks, respectively.

(7) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the years ended March 31, 2014 and 2013 are as follows:

	Yen (millions)					
	Appliances	**Eco Solutions**	**AVC Networks**	**Automotive & Industrial Systems**	**Other**	**Total**
Balance as of March 31, 2012:						
Goodwill	40,951	178,270	254,537	459,669	68,986	1,002,413
Accumulated impairment losses	(3,745)		(77,349)	(153,398)	(10,504)	(244,996)
	37,206	178,270	177,188	306,271	58,482	757,417
Goodwill acquired during the year		3,518				3,518
Goodwill impaired during the year		(72,197)	(91,007)	(87,379)		(250,583)
Translation adjustments		1,794				1,794
Balance as of March 31, 2013:						
Goodwill	40,951	183,582	254,537	459,669	58,482	997,221
Accumulated impairment losses	(3,745)	(72,197)	(168,356)	(240,777)		(485,075)
	37,206	111,385	86,181	218,892	58,482	512,146
Goodwill acquired during the year		23,145				23,145
Goodwill impaired during the year				(8,069)		(8,069)
Goodwill disposed of during the year					(54,200)	(54,200)
Translation adjustments		355				355
Balance as of March 31, 2014:						
Goodwill	40,951	207,082	254,537	459,669	4,282	966,521
Accumulated impairment losses	(3,745)	(72,197)	(168,356)	(248,846)		(493,144)
	37,206	134,885	86,181	210,823	4,282	473,377

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The carrying amount of goodwill by segment shown above is the total amount of goodwill allocated to reporting unit for impairment test by segment and the allocation does not agree with that used for internal management purposes.

Goodwill related to Other segment decreased mainly as a result of disposition of the healthcare business in the year ended March 31, 2014.

The Company recorded an impairment loss of 72,197 million yen for the year ended March 31, 2013 related to goodwill of solar battery business in Eco Solutions segment. This impairment was due to the continuous substantial decline of product prices and reversal of strategies for sales and investments which resulted in a decrease in the estimated fair value of the reporting unit. The fair value was determined based on the combination of discounted cash flow method, guideline public company method and guideline transaction method.

The Company recorded an impairment loss of 91,007 million yen for the year ended March 31, 2013 related to goodwill of mobile phone business in AVC Networks segment. This impairment was due to the decline in market share in Japan and the revision of the overseas development strategy which resulted in a decrease in the estimated fair value of the reporting unit. The fair value was determined based on the combination of discounted cash flow method, guideline public company method and guideline transaction method.

The Company recorded an impairment loss of 74,574 million yen for the year ended March 31, 2013 related to goodwill of consumer lithium-ion battery business in Automotive & Industrial Systems segment. This impairment was due to the continuous substantial decline of product prices and reversal of strategies for sales and investment which resulted in a decrease in the estimated fair value of the reporting unit. The fair value was determined based on the combination of discounted cash flow method, guideline public company method and guideline transaction method.

The Company recorded impairment losses of 12,805 million yen for the year ended March 31, 2013 related to certain businesses in Automotive & Industrial Systems segment. These impairments were due to a downturn in profitability and the fair values were mainly determined based on the combination of discounted cash flow method and guideline public company method.

The Company recorded an impairment loss of 26,988 million yen for the year ended March 31, 2012 related to goodwill of semiconductor business in Automotive & Industrial Systems segment. This impairment was due to a decrease in the estimated fair value of the reporting unit caused by the decline in market demand and per unit selling price of Digital AV products on which semiconductor business is heavily dependent as a supplier. The fair value was determined based on the combination of discounted cash flow method and guideline public company method.

The Company recorded an impairment loss of 44,629 million yen for the year ended March 31, 2012 related to goodwill of optical pick-up business in Automotive & Industrial Systems segment. This impairment was due to a decrease in the estimated fair value of the reporting unit caused by the decline of product prices and the increase in material cost. The fair value was determined based on the combination of discounted cash flow method, guideline public company method and guideline transaction method.

The Company recorded an impairment loss of 73,387 million yen for the year ended March 31, 2012 related to goodwill of consumer lithium-ion battery business in Automotive & Industrial Systems segment. This impairment was due to a decrease in the estimated fair value of the reporting unit caused by the decline of product prices and the yen appreciation. The fair value was determined based on the combination of discounted cash flow method, guideline public company method and guideline transaction method.

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The Company recorded an impairment loss of 8,394 million yen and 10,504 million yen for the year ended March 31, 2012 related to AVC Networks and Other segments, respectively. These impairments were due to a downturn in profitability and the fair value was determined based on the discounted cash flow method.

Intangible assets, excluding goodwill, as of March 31, 2014 and 2013 are as follows:

	Yen (millions)			
	2014		2013	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Finite-lived intangible assets:				
Patents and know-how	171,320	99,091	205,576	105,964
Software	320,435	266,967	338,778	276,146
Other	100,798	37,021	92,035	36,480
	592,553	403,079	636,389	418,590

	Yen (millions)	
	2014	2013
Indefinite-lived intangible assets	14,117	5,214

Aggregate amortization expense for finite-lived intangible assets for the years ended March 31, 2014, 2013 and 2012 was 51,994 million yen, 61,373 million yen and 78,455 million yen, respectively. Estimated amortization expense for the next five years is as follows:

Year ending March 31	Yen (millions)
2015	41,026
2016	32,690
2017	25,479
2018	19,278
2019	12,507

There were no impairment losses of indefinite-lived intangible assets for the years ended March 31, 2014, 2013 and 2012. Impairment losses of finite-lived intangible assets are included in impairment losses of long-lived assets discussed in Note 6.

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(8) Long-term Debt and Short-term Borrowings

Long-term debt as of March 31, 2014 and 2013 is set forth below:

	Yen (millions)	
	2014	**2013**
Unsecured Straight bond, due 2013, interest 0.82% *1		10,000
Unsecured Straight bond, due 2013, interest 1.49% *2		20,000
Unsecured Straight bond, due 2014, interest 1.404%		200,000
Unsecured Straight bond, due 2014, interest 2.02% *1	31,769	31,769
Unsecured Straight bond, due 2015, interest 1.66% *2	39,999	39,996
Unsecured Straight bond, due 2016, interest 0.752%	200,000	200,000
Unsecured Straight bond, due 2018, interest 1.081%	150,000	150,000
Unsecured Straight bond, due 2019, interest 2.05%	100,000	100,000
Unsecured Straight bond, due 2019, interest 1.593% *2	30,000	30,000
Unsecured bank loans, due 2013 2015, effective interest 1.1% for the year ended March 31, 2014 and 1.0% for the year ended March 31, 2013	1,821	100,294
Secured bank loans by subsidiaries, due 2014 2021, effective interest 1.76% for the year ended March 31, 2014 and 1.84% for the year ended March 31, 2013	825	1,074
Capital lease obligations	44,541	64,653
	598,955	947,786
Less current portion	41,581	284,695
	557,374	663,091

*1 Bonds originally issued by SANYO Electric Co., Ltd. (SANYO) were transferred to the Company for the year ended March 31, 2012.

*2 Bonds originally issued by Panasonic Electric Works Co., Ltd. (PEW) were transferred to the Company for the year ended March 31, 2012.

The aggregate annual maturities of long-term debt after March 31, 2014 are as follows:

Year ending March 31	**Yen (millions)**
2015	41,581
2016	249,601
2017	7,438
2018	156,770
2019	106,346
2020 and thereafter	37,219

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, when the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank. As of March 31, 2014 and 2013, loans subject to such general agreements amounted to 825 million yen and 1,074 million yen, respectively.

Each of the loan agreements grants the lender the right to request additional security or mortgages on certain assets. As of March 31, 2014 and 2013, investments and advances with a book value of 1,754 million yen and 2,008 million yen respectively, were pledged as collateral by subsidiaries for secured loans from banks.

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The balances of short-term debt as of March 31, 2013 include 140,573 million yen of short-term bonds. The weighted-average interest rate on short-term debt outstanding as of March 31, 2014 and 2013 was 7.6% and 2.4%, respectively.

The commitment line agreements into which the Company entered with several banks in October 2012 ended in August 2013. The upper limit for unsecured borrowing based on the agreements was a total of 600,000 million yen, but there was no borrowing under this agreement.

(9) Retirement and Severance Benefits

The Company and certain subsidiaries have contributory, funded benefit pension plans covering substantially all employees who meet eligibility requirements. Benefits under the plans are primarily based on the combination of years of service and compensation.

In addition to the plans described above, upon retirement or termination of employment for reasons other than dismissal, employees are entitled to lump-sum payments based on the current rate of pay and length of service. If the termination is involuntary or caused by death, the severance payment is greater than in the case of voluntary termination. The lump-sum payment plans are not funded.

Effective April 1, 2002, the Company and some of the subsidiaries amended their benefit pension plans by introducing a point-based benefits system, and their lump-sum payment plans to cash balance pension plans. Under the point-based benefits system, benefits are calculated based on accumulated points allocated to employees each year according to their job classification and years of service. Under the cash balance pension plans, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Effective after July 1, 2013 with respect to employees future service, the Company and certain domestic subsidiaries decided to make a transition from the defined benefit pension plan to a defined contribution pension plan. Under the provision of ASC715, upon this transition, any decrease in projected benefit obligations (PBO) due to plan amendments in the past remaining in pension liability adjustments under accumulated other comprehensive income (loss) is required to be immediately recognized in earnings. Accordingly, the Company recognized a curtailment gain of 79,762 million yen in Other income in the consolidated statement of operations for the year ended March 31, 2014.

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Reconciliations of beginning and ending balances of the benefit obligations of the contributory, funded benefit pension plans, the unfunded lump-sum payment plans, and the cash balance pension plans, and the fair value of the plan assets as of March 31, 2014 and 2013 are as follows:

	Yen (millions)	
	2014	**2013**
Change in benefit obligations:		
Benefit obligations at beginning of year	2,461,033	2,293,644
Service cost	26,570	55,123
Interest cost	40,103	51,621
Prior service benefit	644	860
Actuarial loss (gain)	(32,151)	183,924
Benefits paid	(120,589)	(120,117)
Effect of sale of consolidated subsidiaries	(41,389)	(6,229)
Foreign currency translation	16,859	9,295
Curtailments, settlements and other	(20,573)	(7,088)
Benefit obligations at end of year	2,330,507	2,461,033
Change in plan assets:		
Fair value of plan assets at beginning of year	1,842,631	1,721,398
Actual return on plan assets	107,350	170,410
Employer contributions	97,170	67,914
Benefits paid	(112,922)	(113,495)
Effect of sale of consolidated subsidiaries	(35,198)	(5,475)
Foreign currency translation	13,356	8,448
Curtailments, settlements and other	(4,661)	(6,569)
Fair value of plan assets at end of year	1,907,726	1,842,631
Funded status	(422,781)	(618,402)

The accumulated benefit obligation for the pension plans was 2,267,561 million yen and 2,416,117 million yen as of March 31, 2014 and 2013, respectively.

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets as of March 31, 2014 and 2013 are as follows:

	Yen (millions)	
	2014	**2013**
Plans with projected benefit obligations in excess of plan assets:		

Projected benefit obligations	2,173,332	2,262,043
Fair value of plan assets	1,739,314	1,637,551
Plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligations	2,125,670	2,217,724
Fair value of plan assets	1,739,314	1,637,551

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Accounts recognized in the consolidated balance sheets as of March 31, 2014 and 2013 consist of:

	Yen (millions)	
	2014	2013
Other assets	11,237	6,090
Other current liabilities	(3,317)	(2,690)
Retirement and severance benefits	(430,701)	(621,802)
	(422,781)	(618,402)

Amounts recognized in accumulated other comprehensive income (loss) as of March 31, 2014 and 2013 consist of:

	Yen (millions)	
	2014	2013
Prior service benefit	(14,551)	(99,477)
Actuarial loss	489,951	627,139
	475,400	527,662

Net periodic benefit cost for the contributory, funded benefit pension plans, the unfunded lump-sum payment plans, and the cash balance pension plans of the Company for each of the three years ended March 31, 2014 consists of the following components:

	Yen (millions)		
	2014	2013	2012
Service cost benefits earned during the year	26,570	55,123	55,368
Interest cost on projected benefit obligation	40,103	51,621	54,552
Expected return on plan assets	(50,593)	(53,764)	(52,299)
Amortization of prior service benefit	(4,520)	(22,458)	(23,347)
Recognized actuarial loss	21,341	30,335	31,203
Losses (gains) on curtailments and settlements	(77,938)	2,209	10,419
Net periodic benefit cost	(45,037)	63,066	75,896

Net periodic benefit cost for the six months ended September 30, 2014 and 2013 are a loss of 14,082 million yen and a gain of 55,167 million yen, respectively.

The estimated prior service benefit and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for the year ending March 31, 2015 are gains of 4,316 million yen and losses of 25,430 million yen, respectively.

Weighted-average assumptions used to determine benefit obligations as of March 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	1.6%	1.6%
Rate of compensation increase	1.7%	1.7%

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Weighted-average assumptions used to determine net periodic benefit cost for each of the three years ended March 31, 2014 are as follows:

	2014	2013	2012
Discount rate	1.6%	2.2%	2.5%
Expected return on plan assets	2.7%	3.1%	3.1%
Rate of compensation increase	1.7%	1.8%	1.8%

The expected return on plan assets is determined based on the portfolio as a whole and not on the sum of the returns on individual asset categories, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns.

Each plan of the Company has a different investment policy, which is designed to ensure sufficient plan assets are available to provide future payments of pension benefits to the eligible plan participants and is individually monitored for compliance and appropriateness on an on-going basis. Considering the expected long-term rate of return on plan assets, each plan of the Company establishes a basic portfolio comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the basic portfolio in order to generate a total return that will satisfy the expected return on a mid-term to long-term basis. The Company evaluates the difference between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. The Company revises the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The Company s pension plan assets allocation is approximately 25% for equity securities, approximately 50% for debt securities, and approximately 25% for other investments, primarily in life insurance company general accounts.

For the Company s major defined benefit pension plans, equity investments are mainly investments in listed equity securities, broadly in Japanese equity, developed international equity and emerging markets. The investments in debt securities are comprised primarily of government, municipal, and corporate bonds. The Company mainly chooses debt securities with rating above BBB, high liquidity and appropriate repayment, and has appropriately diversified the investments by sector and geography. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. Other investments include fund-of-funds investment, equity long/short hedge funds investment and private equity investment. Fund-of-funds investment and equity long/short hedge funds investment are primarily invested in listed equity securities with trading frequency and a stable return, while private equity investment is diversified products with low correlation.

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The fair values of the Company s pension plan assets as of March 31, 2014, by asset category, are as follows:

	Yen (millions)			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	92,408			92,408
Equity securities:				
Japanese companies	40,800			40,800
Foreign companies	56,650			56,650
Commingled funds [(a)]		360,772		360,772
Debt securities:				
Government and Municipal bonds	67,857			67,857
Corporate bonds		10,611		10,611
Commingled funds [(b)]		866,270		866,270
Life insurance company general accounts		274,639		274,639
Other [(c)]		121,521	16,198	137,719
Total	257,715	1,633,813	16,198	1,907,726

The fair values of the Company s pension plan assets as of March 31, 2013, by asset category are as follows:

	Yen (millions)			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	129,274			129,274
Equity securities:				
Japanese companies	46,055			46,055
Foreign companies	58,007			58,007
Commingled funds [(a)]		376,142		376,142
Debt securities:				
Government and Municipal bonds	82,353			82,353
Corporate bonds		17,735		17,735
Commingled funds [(b)]		774,995		774,995
Life insurance company general accounts		244,004		244,004
Other [(c)]		95,300	18,766	114,066
Total	315,689	1,508,176	18,766	1,842,631

(a) These funds invest mainly in listed equity securities, approximately 60% Japanese companies and 40% foreign companies.

(b) These funds primarily invest in Japanese government bonds and foreign government bonds.

(c) Other investments primarily include fund-of-funds investment, equity long/short hedge funds investment, private equity investment and collateralized loan obligation investment.

The three levels of the fair value hierarchy are discussed in Note 1 (t).

Level 1 assets are comprised principally of equity securities and government and municipal bonds, which are valued using unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Level 2 assets are comprised principally of commingled funds, which are valued at their net asset values that are calculated by the fund and have daily liquidity, corporate bonds, which are valued based on quoted

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prices for identical assets in market that are not active, and life insurance company general accounts, which are valued at conversion value. Fund-of-funds investment and hedge funds investment that use equity long/short strategies, which primarily invest in listed equity securities and debt securities, are valued based on net asset value.

Level 3 assets are comprised principally of collateralized loan obligation investment and private equity investment, which are valued based on prices and other relevant information such as similar market transactions and latest financial information available.

A reconciliation of the beginning and ending balances of level 3 assets as of March 31, 2014 and 2013 is as follows:

	Yen (millions)		
	Collateralized loan obligation	Private equity	Total
Balance as of April 1, 2012	10,350	10,222	20,572
Realized gains (losses)	1,007	766	1,773
Unrealized gains (losses) relating to assets held	2,501	332	2,833
Purchases, sales, issuances and settlements, net	(5,558)	95	(5,463)
Transfers out of Level 3	(926)	(23)	(949)
Balance as of March 31, 2013	7,374	11,392	18,766
Realized gains (losses)	2,350	111	2,461
Unrealized gains (losses) relating to assets held	(491)	(96)	(587)
Purchases, sales, issuances and settlements, net	(1,438)	(2,033)	(3,471)
Transfers out of Level 3	(863)	(108)	(971)
Balance as of March 31, 2014	6,932	9,266	16,198

The Company expects to contribute 56,930 million yen to its defined benefit plans for the year ending March 31, 2015.

The benefits expected to be paid from the defined pension plans for each of the years ending March 31, 2015 through 2019 are 112,828 million yen, 113,707 million yen, 111,267 million yen, 114,104 million yen and 116,159 million yen, respectively. The aggregate benefits expected to be paid in the five year period from the year ending March 31, 2020 through 2024 are 595,166 million yen. The expected benefits to be paid are based on the same assumptions used to measure the Company s benefit obligation as of March 31, 2014 including estimated future employee service.

The amount of cost recognized for the Company s and certain subsidiaries contributions to the defined contribution plans in the year ended March 31, 2014 was 23,450 million yen.

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(10) Income Taxes

Income (loss) before income taxes and income taxes for each of the three years ended March 31, 2014 are summarized as follows:

	Yen (millions)		
	Domestic	**Foreign**	**Total**
For the year ended March 31, 2014			
Income before income taxes	56,792	149,433	206,225
Income taxes:			
Current	35,305	57,512	92,817
Deferred	2,998	(6,150)	(3,152)
Total income taxes	38,303	51,362	89,665
For the year ended March 31, 2013			
Income (loss) before income taxes	(450,544)	52,158	(398,386)
Income taxes:			
Current	29,970	36,562	66,532
Deferred	311,882	6,259	318,141
Total income taxes	341,852	42,821	384,673
For the year ended March 31, 2012			
Income (loss) before income taxes	(838,217)	25,373	(812,844)
Income taxes:			
Current	26,346	42,860	69,206
Deferred	(58,706)	(733)	(59,439)
Total income taxes	(32,360)	42,127	9,767

The Company and its subsidiaries in Japan are subject to a National corporate tax of 28.05%, an Inhabitant tax of approximately 20.2% (applied to a National corporate tax) varying by local jurisdiction, and a deductible Enterprise tax of approximately 7.4% varying by local jurisdiction, which, in aggregate, resulted in a combined statutory tax rate in Japan of approximately 37.8% for the years ended March 31, 2014 and 2013.

The Company and its subsidiaries in Japan are subject to a National corporate tax of 30%, an Inhabitant tax of approximately 20.5% (applied to a National corporate tax) varying by local jurisdiction, and a deductible Enterprise tax of approximately 7.4% varying by local jurisdiction, which, in aggregate, resulted in a combined statutory tax rate in Japan of approximately 40.5% for the year ended March 31, 2012.

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The effective tax rates for each of the three years ended March 31, 2014 differ from the combined statutory tax rates for the following reasons:

	2014	2013	2012
Combined statutory tax rate	37.8%	(37.8)%	(40.5)%
Lower tax rates of overseas subsidiaries	(9.1)	(0.8)	(0.4)
Expenses not deductible for tax purposes	1.3	0.6	0.5
Change in valuation allowance allocated to income tax expenses :			
Foreign tax credit carryforwards	5.7	3.5	1.7
Change in judgement and others	7.1	106.3	25.5
Tax effects on outside basis difference in subsidiaries	(1.8)	(0.6)	0.8
Goodwill impairment	1.5	23.8	8.2
Effect of enacted changes in Japanese tax laws and rates			3.7
Other	1.0	1.6	1.7
Effective tax rate	43.5%	96.6%	1.2%

During the year ended March 31, 2012, changes in Japanese corporate tax law and statutory tax rates to be applied to taxable income from the following years in two steps were enacted in Japan. During the year ended March 31, 2014, Japanese corporate tax law which changed the applicable fiscal year of the second reductions in rates was enacted. Income taxes for the year ended March 31, 2014 included the effect to deferred tax assets and liabilities which resulted from the change of the aforementioned tax rates. This effect resulted in an expense which was not material to the Company.

Included in provision for income taxes for the year ended March 31, 2013 were increases in valuation allowances for deferred tax assets of 371,557 million yen in Panasonic Corporation and 40,968 million yen in Panasonic Mobile Communications Co., Ltd., recorded during the six months ended September 30, 2012. For these entities, the adjustment to the beginning-of-the-year balance of valuation allowances as a result of change in judgment was 420,947 million yen. Based on a decline in profitability due mainly to significant sales decreases in digital consumer products including flat-panel TVs in Japan, the Company increased valuation allowances for deferred tax assets of the aforementioned two companies, since, based on its considerations of the realizability of the deferred tax assets in accordance with the provision of ASC 740, Income Taxes, it was determined that it was more likely than not the deferred tax assets would not be realized.

For the year ended March 31, 2012, Japanese corporate tax law and statutory tax rates to apply to taxable income from the following year were enacted in Japan. Tax law changes result in reductions in rates in two steps in future years. In consequence, the Company recorded income tax expense of 25,536 million yen for adjustments of deferred tax assets and liabilities.

The tax benefit of net operating loss carryforwards recognized for the years ended March 31, 2014, 2013 and 2012 were 69,937 million yen, 29,779 million yen and 34,889 million yen, respectively.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of March 31, 2014 and 2013 are presented below:

	Yen (millions)	
	2014	2013
Deferred tax assets:		
Inventory valuation	84,452	83,006
Expenses accrued for financial statement purposes but not currently included in taxable income	216,429	173,823
Property, plant and equipment	201,226	219,413
Retirement and severance benefits	156,401	226,957
Tax loss carryforwards	778,933	807,823
Other	143,947	142,651
Total gross deferred tax assets	1,581,388	1,653,673
Less valuation allowance	1,367,498	1,433,080
Net deferred tax assets	213,890	220,593
Deferred tax liabilities:		
Net unrealized holding gains of available-for-sale securities	(14,385)	(11,921)
Intangible assets	(40,817)	(46,542)
Other	(44,010)	(39,887)
Total gross deferred tax liabilities	(99,212)	(98,350)
Net deferred tax assets	114,678	122,243

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and loss carryforwards become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and loss carryforwards, net of the existing valuation allowances as of March 31, 2014 and 2013.

The net change in total valuation allowance for the years ended March 31, 2014, 2013 and 2012 was a decrease of 65,582 million yen, of which a decrease due to the expiration of tax loss carryforwards amounted to 95,412 million yen, an increase of 403,255 million yen and an increase of 39,471 million yen, respectively.

As of March 31, 2014, the Company had, for income tax purposes, net operating loss carryforwards of approximately 2,267,508 million yen, of which 2,109,053 million yen expire from the year ending March 31, 2015 through 2023 and the remaining balance will expire thereafter or do not expire. As of March 31, 2014, the Company had, for income tax purposes, tax credit carryforwards of approximately 38,827 million yen, which expire within the year ending March 31, 2015 through 2017.

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Net deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	2014	**2013**
Other current assets	88,052	77,727
Other assets	125,086	139,306
Other current liabilities	(9,067)	(4,607)
Other liabilities	(89,393)	(90,183)
Net deferred tax assets	114,678	122,243

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures of 886,525 million yen as of March 31, 2014, because the Company currently does not expect temporary differences arising from these unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company no longer plans to indefinitely reinvest undistributed earnings, and current tax will be incurred upon distribution from or sale of subsidiaries. The calculation of related unrecognized deferred tax liability is not practicable.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for each of the three years ended March 31, 2014 is as follows:

	Yen (millions)		
	2014	**2013**	**2012**
Balance at beginning of year	(15,126)	(15,311)	(14,693)
Increase related to prior year tax positions	(3,036)	(678)	(6,058)
Decrease related to prior year tax positions	2,081	3,529	1,435
Increase related to current year tax positions	(2,720)	(2,138)	(3,541)
Change in consolidated subsidiaries	3,390		1,616
Settlements	1,599	50	5,646
Translation adjustments	(806)	(578)	284
Balance at end of year	(14,618)	(15,126)	(15,311)

As of March 31, 2014, 2013 and 2012, the total amount of unrecognized tax benefits are 13,527 million yen, 14,675 million yen and 14,457 million yen, respectively, that if recognized, would reduce the effective tax rate. It is reasonably possible that developments on tax matters in certain tax jurisdictions may result in approximately thirty-five percent reduction of the Company s total unrecognized tax benefits within the next twelve months. The Company has accrued interests and penalties related to unrecognized tax benefits and the amount of interest and penalties included in provision for income taxes and cumulative amount accrued were not material as of and for the years ended March 31, 2014, 2013 and 2012.

The Company files income tax returns in Japan and various foreign tax jurisdictions. There are a number of subsidiaries which operate within each of the Company s major jurisdictions resulting in a range of open tax years. The open tax year for Panasonic Corporation is for the year ended March 31, 2014. The open tax years for the significant subsidiaries in the United States of America, which is the other major tax jurisdiction besides Japan, are for the year ended March 31, 2010 and thereafter.

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(11) Net Income (Loss) per Share Attributable to Panasonic Corporation Common Shareholders

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share attributable to Panasonic Corporation common shareholders computation for each of the three years ended March 31, 2014 and for the six months ended September 30, 2014 and 2013 is as follows:

	Yen (millions)				
	Year ended March 31,			Six months ended September 30, (Unaudited)	
	2014	2013	2012	2014	2013
Net income (loss) attributable to Panasonic Corporation common shareholders	120,442	(754,250)	(772,172)	80,933	169,334

	Number of shares				
	Year ended March 31,			Six months ended September 30, (Unaudited)	
	2014	2013	2012	2014	2013
Average common shares outstanding	2,311,618,296	2,311,683,353	2,312,167,772	2,311,540,895	2,311,643,803
Dilutive effect:					
Stock options				69,546	
Diluted common shares outstanding				2,311,610,441	

	Yen				
	Year ended March 31,			Six months ended September 30, (Unaudited)	
	2014	2013	2012	2014	2013
Net income (loss) per share attributable to Panasonic Corporation common shareholders:					
Basic	52.10	(326.28)	(333.96)	35.01	73.25
Diluted				35.01	

Diluted net income (loss) per share attributable to Panasonic Corporation common shareholders for each of the three years ended March 31, 2014 and for the six months ended September 30, 2013 has been omitted because the Company did not have potentially dilutive common shares that were outstanding for the period.

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(12) Stockholders Equity

The Company may repurchase its common stock from the market pursuant to the Company Law of Japan. For the years ended March 31, 2014, 2013 and 2012, respectively, 108,780 shares, 57,369 shares and 635,123 shares were repurchased.

The Company sold 6,858 shares, 14,291 shares and 242,043,928 shares of its treasury stock for the years ended March 31, 2014, 2013 and 2012, respectively. Sales of treasury stock for the year ended March 31, 2012 includes the share exchange of treasury stock to noncontrolling interest holders. On April 1, 2011, PEW and SANYO became wholly-owned subsidiaries through the share exchange in order to accelerate synergy generation and maximize synergy. All the shares delivered by the Company were sourced from its treasury stock (241,961,655 shares) held by the Company. As a result, treasury stock decreased by 424,010 million yen. The difference between the fair value of the shares of the Company delivered to the noncontrolling interest holders and the decrease in the carrying amount of the treasury stock was recognized as an adjustment to capital surplus and retained earnings in the consolidated balance sheets.

The Company Law of Japan provides that an amount equal to 10% of cash dividends be appropriated as a capital reserve or legal reserve until the aggregated amount of capital reserve and legal reserve equals 25% of stated capital. The capital reserve and legal reserve are not available for dividends but may be transferred to capital surplus or retained earnings or stated capital upon approval at the shareholders meeting.

Cash dividends and transfers to the legal reserve charged to retained earnings during the three years ended March 31, 2014 represent dividends paid out during the periods and related appropriation to the legal reserve. Cash dividends per share paid during the years ended March 31, 2014, 2013 and 2012 amounted to 5.00 yen, 5.00 yen and 10.00 yen, respectively. The accompanying consolidated financial statements do not include any provisions for the year-end dividend of 8.0 yen per share, totaling approximately 18,492 million yen in respect of the year ended March 31, 2014 approved by the board of directors in April 2014.

On October 31, 2014, the board of directors approved an interim dividend of 8.0 yen per share, totaling 18,492 million yen on outstanding common stock as of September 30, 2014.

In accordance with the Company Law of Japan, there are certain restrictions on payment of dividends in connection with the treasury stock repurchased. As a result of restrictions on the treasury stock repurchased, retained earnings of 247,391 million yen as of March 31, 2014 were restricted as to the payment of cash dividends.

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

(13) Equity Transactions with Noncontrolling Interests

Net income (loss) attributable to Panasonic Corporation and transfers (to) from noncontrolling interests for each of the three years ended March 31, 2014 and for the six months ended September 30, 2014 and 2013 are as follows:

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Net income (loss) attributable to Panasonic Corporation common shareholders	120,442	(754,250)	(772,172)	80,933	169,334
Transfers (to) from noncontrolling interests:					
Increase (decrease) in capital surplus for purchase of additional shares in consolidated subsidiaries	(1,185)	(6,844)	19,101	(123,261)	(850)
Total	(1,185)	(6,844)	19,101	(123,261)	(850)
Net income (loss) attributable to Panasonic Corporation and transfers (to) from noncontrolling interests	119,257	(761,094)	(753,071)	(42,328)	168,484

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

(14) Other Comprehensive Income (Loss)

Components of other comprehensive income (loss) for each of the three years ended March 31, 2014 are as follows:

	Yen (millions)				
	Translation adjustments	Unrealized holding gains (losses) of available-for-sale securities	Unrealized holding gains (losses) of derivative instruments	Pension liability adjustments	Total
Accumulated other comprehensive income (loss) Balance as of April 1, 2011	(453,158)	16,835	2,277	(191,254)	(625,300)
Arising during the period:					
Pre-tax amount	(27,150)	(8,294)	(583)	(126,654)	(162,681)
Tax expense		5,041	3	35,188	40,232
Net-of-tax amount	(27,150)	(3,253)	(580)	(91,466)	(122,449)
Reclassification adjustment for (gains) losses included in net income:					
Pre-tax amount	7,263	(374)	(9,556)	18,275	15,608
Tax expense		151	4,118	(6,683)	(2,414)
Net-of-tax amount	7,263	(223)	(5,438)	11,592	13,194
Other comprehensive income (loss), net of tax	(19,887)	(3,476)	(6,018)	(79,874)	(109,255)
Other comprehensive income (loss) attributable to noncontrolling interests, net-of-tax amount	1,059	(151)		(1,146)	(238)
Equity transactions with noncontrolling interests and others	(8,064)	(227)	13	7,440	(838)
Accumulated other comprehensive income (loss) Balance as of March 31, 2012	(482,168)	13,283	(3,728)	(262,542)	(735,155)
Arising during the period:					
Pre-tax amount	195,825	4,131	13,922	(72,417)	141,461
Tax expense		(1,508)	(2,900)	909	(3,499)
Net-of-tax amount	195,825	2,623	11,022	(71,508)	137,962
Reclassification adjustment for (gains) losses included in net income:					
Pre-tax amount	2,462	(25,706)	(12,953)	10,605	(25,592)
Tax expense		9,667	1,086	(1,578)	9,175
Net-of-tax amount	2,462	(16,039)	(11,867)	9,027	(16,417)

Other comprehensive income (loss), net of tax	198,287	(13,416)	(845)	(62,481)	121,545
Other comprehensive income (loss) attributable to noncontrolling interests, net-of-tax amount	13,134	85		1,400	14,619

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			Yen (millions)		
	Translation adjustments	Unrealized holding gains (losses) of available-for-sale securities	Unrealized holding gains (losses) of derivative instruments	Pension liability adjustments	Total
Accumulated other comprehensive income (loss) Balance as of March 31, 2013	(297,015)	(218)	(4,573)	(326,423)	(628,229)
Arising during the period:					
Pre-tax amount	139,689	45,347	(7,781)	113,379	290,634
Tax expense		(16,793)	501	(16,758)	(33,050)
Net-of-tax amount	139,689	28,554	(7,280)	96,621	257,584
Reclassification adjustment for (gains) losses included in net income:					
Pre-tax amount	(3,056)	(35,937)	12,120	(61,117)	(87,990)
Tax expense		13,584	(540)	3,047	16,091
Net-of-tax amount	(3,056)	(22,353)	11,580	(58,070)	(71,899)
Other comprehensive income (loss), net of tax	136,633	6,201	4,300	38,551	185,685
Other comprehensive income (loss) attributable to noncontrolling interests, net-of-tax amount	6,837	(44)	(36)	2,398	9,155
Accumulated other comprehensive income (loss) Balance as of March 31, 2014	(167,219)	6,027	(237)	(290,270)	(451,699)

Pre-tax amount of reclassification adjustment for (gains) losses included in net income (loss) in the table above is included in the following in the consolidated statement of operations.

Translation adjustments Other income (deductions)

Unrealized holding gains (losses) of available-for-sale securities Other income (deductions)

Unrealized holding gains (losses) of derivative instruments

Foreign exchange contract Other income (deductions)

Commodity derivatives Cost of sales

Pension liability adjustments Net periodic pension cost (See Note 9)

Pre-tax amount of reclassification adjustment for (gains) losses included in net income (loss) relating to foreign exchange contract is (9,732) million yen, 10,765 million yen and 8,070 million yen, for the years ended March 31, 2014, 2013 and 2012, respectively. Pre-tax amount of reclassification adjustment for (gains) losses included in net income (loss) relating to commodity derivatives is (2,388) million yen, 2,188 million yen and 1,486 million yen, for the years ended March 31, 2014, 2013 and 2012, respectively.

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A breakdown of arising during the period and reclassification adjustment for (gains) losses included in net income relating to pension liability adjustments for the years ended March 31, 2014, 2013 and 2012 are as follows:

	Yen (millions) 2014		
	Prior service benefit	Actuarial gain (loss)	Total
Arising during the period:			
Pre-tax amount	(644)	114,023	113,379
Tax expense	228	(16,986)	(16,758)
Net-of-tax amount	(416)	97,037	96,621
Reclassification adjustment for (gains) losses included in net income:			
Pre-tax amount	(84,282)	23,165	(61,117)
Tax expense	4,842	(1,795)	3,047
Net-of-tax amount	(79,440)	21,370	(58,070)

	Yen (millions) 2013		
	Prior service benefit	Actuarial gain (loss)	Total
Arising during the period:			
Pre-tax amount	(860)	(71,557)	(72,417)
Tax expense	304	605	909
Net-of-tax amount	(556)	(70,952)	(71,508)
Reclassification adjustment for (gains) losses included in net income:			
Pre-tax amount	(22,458)	33,063	10,605
Tax expense	5,359	(6,937)	(1,578)
Net-of-tax amount	(17,099)	26,126	9,027

	Yen (millions) 2012		
	Prior service benefit	Actuarial gain	Total

		(loss)	
Arising during the period:			
Pre-tax amount	(28,019)	(98,635)	(126,654)
Tax expense	11,348	23,840	35,188
Net-of-tax amount	(16,671)	(74,795)	(91,466)
Reclassification adjustment for (gains) losses included in net income:			
Pre-tax amount	(23,347)	41,622	18,275
Tax expense	9,865	(16,548)	(6,683)
Net-of-tax amount	(13,482)	25,074	11,592

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Components of other comprehensive income (loss) for the six months ended September 30, 2014 and 2013 are as follows:

	Yen (millions) September 30, 2014 (unaudited)				
	Translation adjustments	Unrealized holding gains (losses) of available-for-sale securities	Unrealized holding gains (losses) of derivative instruments	Pension liability adjustments	Total
Accumulated other comprehensive income (loss) Balance as of April 1, 2014	(167,219)	6,027	(237)	(290,270)	(451,699)
Arising during the period:					
Pre-tax amount	80,124	11,777	784	5,868	98,553
Tax expense		(3,973)	42	1,050	(2,881)
Net-of-tax amount	80,124	7,804	826	6,918	95,672
Reclassification adjustment for (gains) losses included in net income:					
Pre-tax amount	5,279	(346)	787	5,996	11,716
Tax expense		123	(163)	284	244
Net-of-tax amount	5,279	(223)	624	6,280	11,960
Other comprehensive income (loss), net of tax	85,403	7,581	1,450	13,198	107,632
Other comprehensive income (loss) attributable to noncontrolling interests, net-of-tax amount	5,177	26	(144)	(169)	4,890
Accumulated other comprehensive income (loss) Balance as of September 30, 2014	(86,993)	13,582	1,357	(276,903)	(348,957)

Pre-tax amount of reclassification adjustment for (gains) losses included in net income (loss) on the table above is included in the following in the consolidated statement of income.

Translation adjustments Other income (deductions)

Unrealized holding gains (losses) of available-for-sale securities Other income (deductions)

Unrealized holding gains (losses) of derivative instruments

Foreign exchange contract (614) million yen Other income (deductions)

Commodity derivatives (173) million yen	Cost of sales
Pension liability adjustments	Net periodic pension cost

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	Yen (millions) September 30, 2013 (unaudited)				
	Translation adjustments	Unrealized holding gains (losses) of available-for-sale securities	Unrealized holding gains (losses) of derivative instruments	Pension liability adjustments	Total
Accumulated other comprehensive income (loss) Balance as of April 1, 2013	(297,015)	(218)	(4,573)	(326,423)	(628,229)
Arising during the period:					
Pre-tax amount	57,413	39,970	(8,442)	37,991	126,932
Tax expense		(14,453)	606	(2,021)	(15,868)
Net-of-tax amount	57,413	25,517	(7,836)	35,970	111,064
Reclassification adjustment for (gains) losses included in net income:					
Pre-tax amount	(2,408)	(20,894)	10,502	(69,851)	(82,651)
Tax expense		7,898	(634)	2,807	10,071
Net-of-tax amount	(2,408)	(12,996)	9,868	(67,044)	(72,580)
Other comprehensive income (loss), net of tax	55,005	12,521	2,032	(31,074)	38,484
Other comprehensive income (loss) attributable to noncontrolling interests, net-of-tax amount	2,839	(15)		1,203	4,027
Accumulated other comprehensive income (loss) Balance as of September 30, 2013	(244,849)	12,318	(2,541)	(358,700)	(593,772)

Pre-tax amount of reclassification adjustment for (gains) losses included in net income (loss) on the table above is included in the following in the consolidated statement of income.

Translation adjustments Other income (deductions)

Unrealized holding gains (losses) of available-for-sale securities Other income (deductions)

Unrealized holding gains (losses) of derivative instruments

Foreign exchange contract (9,264) million yen Other income (deductions)

Commodity derivatives (1,238) million yen Cost of sales

Pension liability adjustments Net periodic pension cost

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

(15) Restructuring Charges

In connection with the reorganization of the Company s operations, the Company has incurred certain restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for each of the three years ended March 31, 2014 are as follows:

	Yen (millions)		
	2014	**2013**	**2012**
Expenses associated with the implementation of early retirement programs:			
Domestic	25,451	32,441	91,880
Overseas	6,583	5,996	9,114
Total	32,034	38,437	100,994
Expenses associated with the closure and integration of locations	32,100	40,788	83,459
Total restructuring charges	64,134	79,225	184,453

Expenses associated with the implementation of the early retirement programs in the domestic and overseas subsidiaries for the six months ended September 30, 2014 and 2013 are 5,094 million yen and 1,813 million yen, respectively.

These restructuring charges are included in other deductions in the consolidated statements of operations.

The Company has provided early retirement programs to those employees voluntarily leaving the Company. The accrued early retirement programs are recognized when the employees accept the offer and the amount can be reasonably estimated. Expenses associated with the closure and integration of locations include amounts such as moving expenses of facilities and costs to terminate leasing contracts incurred at domestic and overseas manufacturing plants and sales offices. An analysis of the accrued restructuring charges for each of the three years ended March 31, 2014 is as follows:

	Yen (millions)		
	2014	**2013**	**2012**
Balance at beginning of year	45,889	70,942	31,492
New charges	64,134	79,225	184,453
Cash payments or otherwise settled	(81,163)	(104,278)	(145,003)
Balance at end of year	28,860	45,889	70,942

The restructuring activities are generally insignificant on an individual activity basis and are short term in nature and are generally completed within one year of initiation. The total amount of costs expected to be incurred in connection with the activity are generally not materially different from the respective restructuring charges as disclosed below except as indicated otherwise. Furthermore, the amounts of restructuring costs incurred, subsequent to the fiscal year end, for the initiation of any given restructuring activity are not significant except as indicated otherwise.

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The disclosure below has been modified to reflect the revised segments. The following description represents restructuring activities for the year ended March 31, 2014 by segment:

Appliances

Appliances segment restructured its operations to improve efficiency in Japan and overseas. Total restructuring charges amounting to 2,977 million yen included charges from the implementation of early retirement programs of 1,281 million yen and charges from the closure and integration of locations in the amount of 1,696 million yen. The ending liability balance amounted to 230 million yen and 298 million yen for the years ended March 31, 2014 and 2013, respectively.

Eco Solutions

Eco Solutions segment restructured its operations to improve efficiency in Japan and overseas. Total restructuring charges amounting to 3,553 million yen included charges from the implementation of early retirement programs of 1,918 million yen and charges from the closure and integration of locations in the amount of 1,635 million yen. The ending liability balance amounted to 987 million yen and 700 million yen for the years ended March 31, 2014 and 2013, respectively.

AVC Networks

AVC Networks segment restructured its operations for selection and concentration of its businesses mainly in Japan. Total restructuring charges amounting to 9,372 million yen included charges from the implementation of early retirement programs of 1,202 million yen and charges from the closure and integration of manufacturing locations in the amount of 8,170 million yen. The ending liability balance amounted to 677 million yen and 38,112 million yen for the years ended March 31, 2014 and 2013, respectively.

The beginning liability balance amounted to 36,165 million yen which was in connection with the restructuring activity of domestic plasma display panel fifth factory of Panasonic Plasma Display Co., Ltd., a subsidiary of the Company. This was all paid or otherwise settled during the fiscal year. There was no additional restructuring charge incurred for the year ended March 31, 2014.

Automotive & Industrial Systems

Automotive & Industrial Systems segment restructured its operations to improve cost competitiveness through selection and concentration of business mainly in Japan. Total restructuring charges amounting to 29,733 million yen included charges from the implementation of early retirement programs of 14,152 million yen and charges from the closure and integration of locations in the amount of 15,581 million yen. The ending liability balance amounted to 21,236 million yen and 3,070 million yen for the years ended March 31, 2014 and 2013, respectively.

Other

Other segment restructured its operations to improve efficiency and cost effectiveness mainly in Japan. Total restructuring charges amounting to 12,872 million yen included charges from the early retirement programs of 10,444 million yen and charges from the closure and integration of locations in the amount of 2,428 million yen. The ending liability balance amounted to 1,138 million yen and 3,709 million yen for the years ended March 31, 2014 and 2013, respectively.

The beginning liability balance amounted to 113 million yen which was in connection with the restructuring activity of SANYO s semiconductor business. This was all paid or otherwise settled during the fiscal year. There was no additional restructuring charge incurred for the year ended March 31, 2014

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Restructuring charges which are not attributable to any reportable segments were mainly for restructuring activities to accelerate integration of the organization at corporate headquarters, and amounted to 5,627 million yen which included charges from the implementation of early retirement programs of 3,037 million yen and charges from the closure and integration of locations in the amount of 2,590 million yen. The ending liability balance amounted to 4,592 million yen for the years ended March 31, 2014. There was no ending liability balance for the year ended March 31, 2013.

The following description represents restructuring activities for the year ended March 31, 2013 by segment:

Appliances

Appliances segment restructured its operations to improve efficiency mainly in Japan. Total restructuring charges amounting to 3,257 million yen included charges from the implementation of early retirement programs of 699 million yen and charges from the closure and integration of locations in the amount of 2,558 million yen. The ending liability balance amounted to 298 million yen and 59 million yen for the years ended March 31, 2013 and 2012, respectively.

Eco Solutions

Eco Solutions segment restructured its operations to improve efficiency in Japan and overseas. Total restructuring charges amounting to 1,536 million yen included charges from the implementation of early retirement programs of 938 million yen and charges from the closure and integration of locations in the amount of 598 million yen. The ending liability balance amounted to 700 million yen and 342 million yen for the years ended March 31, 2013 and 2012, respectively.

AVC Networks

AVC Networks segment restructured its operations to improve cost competitiveness through selection and concentration of business in Japan and overseas. Total restructuring charges amounting to 24,268 million yen included charges from the implementation of early retirement programs of 16,965 million yen and charges from the closure and integration of manufacturing locations in the amount of 7,303 million yen. The ending liability balance amounted to 38,112 million yen and 45,861 million yen for the years ended March 31, 2013 and 2012, respectively.

The total amount expected to be incurred in connection with the restructuring activity of domestic plasma display panel fifth factory of Panasonic Plasma Display Co., Ltd., a subsidiary of the Company amounted to 54,370 million yen as of March 31, 2013. The beginning liability balance amounted to 45,819 million yen and additional restructuring charges incurred of 3,287 million yen and costs paid or otherwise settled of 12,941 million yen during the fiscal year. The ending liability balance amounted to 36,165 million yen.

Automotive & Industrial Systems

Automotive & Industrial Systems segment restructured its operations to improve efficiency and cost effectiveness mainly in Japan. Total restructuring charges amounting to 10,672 million yen included charges from the implementation of early retirement programs of 3,750 million yen and charges from the closure and integration of locations in the amount of 6,922 million yen. The ending liability balance amounted to 3,070 million yen and 1,119 million yen for the years ended March 31, 2013 and 2012, respectively.

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Other

Other segment restructured its operations for selection and concentration of its businesses in Japan and overseas. Total restructuring charges amounting to 33,356 million yen included charges from the early retirement programs of 9,949 million yen and charges from the closure and integration of locations in the amount of 23,407 million yen. The ending liability balance amounted to 3,709 million yen and 23,119 million yen for the years ended March 31, 2013 and 2012, respectively.

The total amount expected to be incurred in connection with the restructuring activity of SANYO s semiconductor business amounted to 45,749 million yen as of March 31, 2013. The beginning liability balance amounted to 3,644 million yen and additional restructuring charges incurred of 1,579 million yen and costs paid or otherwise settled of 5,110 million yen during the fiscal year. The ending liability balance amounted to 113 million yen.

Restructuring charges which are not attributable to any reportable segments were for restructuring activities to accelerate integration of the organization at corporate headquarters, and amounted to 6,136 million yen which included charges from the implementation of early retirement programs of 6,136 million yen. There was no ending liability balance for the year ended March 31, 2013. The ending liability balance amounted to 442 million yen for the years ended March 31, 2012.

The following description represents restructuring activities for the year ended March 31, 2012 by segment:

Appliances

Appliances segment restructured its operations to improve efficiency. Total restructuring charges amounting to 12,790 million yen included implementation of early retirement programs of 10,606 million yen and closure and integration of locations in the amount of 2,184 million yen. The ending liability balance amounted to 59 million yen and 123 million yen for the years ended March 31, 2012 and 2011, respectively.

Eco Solutions

Eco Solutions segment restructured its operations mainly in Japan to improve cost effectiveness. Total restructuring charges amounting to 12,061 million yen included implementation of early retirement programs of 9,151 million yen and closure and integration of locations in the amount of 2,910 million yen. The ending liability balance amounted to 342 million yen for the year ended March 31 2012. There was no ending liability balance for the year ended March 31, 2011

AVC Networks

AVC Networks segment restructured its operations to improve cost competitiveness through selection and concentration of business mainly in Japan. Total restructuring charges amounting to 74,573 million yen included implementation of early retirement programs of 16,186 million yen and closure and integration of manufacturing locations in the amount of 58,387 million yen. The ending liability balance amounted to 45,861 million yen and 1,922 million yen for the years ended March 31, 2012 and 2011, respectively.

In addition to various restructuring activities in this segment, the Company made a decision to shut off production in domestic plasma display panel fifth factory of Panasonic Plasma Display Co., Ltd., a subsidiary of the Company. Due to the continuously substantial decline of product prices caused by intense price competition and the yen appreciation, the profitability of the flat-panel TV business declined significantly. The Company decided to restructure the panel business to optimize its

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production scale by consolidating manufacturing sites. The restructuring activity and material cash outlays are expected to take place through the year ending March 31, 2015. The total amount expected to be incurred in connection with the activity and the actual amount incurred for the year ended March 31, 2012 amounted to 51,083 million yen. In connection with the plasma display panel business, there was no beginning liability balance with new restructuring charges incurred in the amount of 51,083 million yen and costs paid or otherwise settled of 5,264 million yen during the fiscal year. The ending liability balance amounted to 45,819 million yen.

Automotive & Industrial Systems

Automotive & Industrial Systems segment restructured its operations to improve efficiency and cost effectiveness mainly in Japan. Total restructuring charges amounting to 34,528 million yen included implementation of early retirement programs of 27,077 million yen and closure and integration of locations in the amount of 7,451 million yen. The ending liability balance amounted to 1,119 million yen and 257 million yen for the years ended March 31, 2012 and 2011, respectively.

Other

Other segment restructured its operations for selection and concentration of its businesses in Japan and overseas. Total restructuring charges amounting to 47,786 million yen included early retirement programs of 35,419 million yen and closure and integration of locations in the amount of 12,367 million yen. The ending liability balance amounted to 23,119 million yen and 29,011 million yen for the years ended March 31, 2012 and 2011, respectively.

The total amount expected to be incurred in connection with the restructuring activity of SANYO s semiconductor business that was initiated in the year ended March 31, 2011 amounted to 44,170 million yen as of March 31, 2012. The beginning liability balance amounted to 28,060 million yen with no additional restructuring charges incurred and costs paid or otherwise settled of 24,416 million yen during the fiscal year. The ending liability balance amounted to 3,644 million yen.

Restructuring charges which are not attributable to any reportable segments were for restructuring activities to accelerate integration of the organization at corporate headquarters, and amounted to 2,715 million yen which included charges from the implementation of early retirement programs of 2,555 million yen and closure and integration of locations in the amount of 160 million yen. The ending liability balance amounted to 442 million yen and 179 million yen for the years ended March 31, 2012 and 2011, respectively.

(16) Supplementary Information to the Statements of Operations and Cash Flows

Research and development costs, advertising costs, shipping and handling costs and depreciation charged to income for each of the three years ended March 31, 2014 are as follows:

	Yen (millions)		
	2014	**2013**	**2012**
Research and development costs	478,817	502,223	520,217
Advertising costs	105,091	114,826	137,942
Shipping and handling costs	147,597	139,392	153,345
Depreciation	278,792	277,582	295,808

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

The components included in other deductions for each of the three years ended March 31, 2014 are as follows:

	Yen (millions)		
	2014	2013	2012
Restructuring charges	64,134	79,225	184,453
Loss on disposal of long-lived assets	58,304	64,522	17,789
Expenses associated with discontinuation or voluntary recall of products	43,516	25,512	30,264
Environmental remediation costs for equipment with polychlorinated biphenyls	13,841		
Net foreign exchange loss	6,324	14,050	
Loss on sale of investment securities	2,480	6,813	10,826
Depreciation associated with idle production capacity	1,166	5,211	7,957
Write-down of investment securities	142	4,017	16,636
Loss on divestitures of non-core business		9,792	19,498
Reclassification adjustment for losses associated with translation adjustments		2,300	6,260
Loss on curtailments and settlements		2,209	10,419
Other	31,351	36,168	24,543
Total other deductions	221,258	249,819	328,645

Net foreign exchange gains included in other income for the year ended March 31, 2012 is 4,658 million yen.

Net foreign exchange gains included in other income for the six months ended September 30, 2014 are 3,388 million yen. Net foreign exchange losses included in other deductions for the six months ended September 30, 2013 are 5,120 million yen.

Shipping and handling costs are included in selling, general and administrative expenses in the consolidated statements of operations.

In the years ended March 31, 2014, 2013 and 2012, the Company sold, without recourse, trade receivables and others of 617,456 million yen, 642,220 million yen and 505,018 million yen to independent third parties for proceeds of 613,956 million yen, 637,183 million yen and 504,098 million yen, and recorded losses on the sale of trade receivables of 3,500 million yen, 5,037 million yen and 920 million yen, respectively. In the years ended March 31, 2014, 2013 and 2012, the Company sold, with recourse, trade receivables of 501,193 million yen, 421,681 million yen and 401,693 million yen to independent third parties for proceeds of 500,656 million yen, 421,145 million yen and 401,158 million yen, and recorded losses on the sale of trade receivables of 537 million yen, 536 million yen and 535 million yen, respectively. These losses are included in selling, general and administrative expenses and other deductions. The Company is responsible for servicing most of the receivables. The amounts of trade receivables sold to independent third parties which have not been collected as of March 31, 2014, 2013 and 2012 are 130,143 million yen, 167,394 million yen and 129,946 million yen, respectively. These receivables had been derecognized as of March 31, 2014, 2013 and 2012. Included in trade notes receivable and trade accounts receivable as of March 31, 2014 are amounts of 32,505 million yen without recourse and 44,503 million yen with recourse scheduled to be sold to independent third parties. The sale of trade receivables was accounted for under the provision of ASC 860, Transfers and Servicing, which provides accounting and reporting standards for transfer and servicing of financial assets and extinguishments of liabilities.

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For the year ended March 31, 2014, the Company s management and labor unions agreed to reduce the employee s bonuses. As a result of the agreements, the Company and certain domestic subsidiaries reversed accrued employee s bonus expenses, included in Accrued payroll in the consolidated balance sheet as of March 31, 2013. This revision is regarded as a change in accounting estimate. Accordingly, the amounts of Income before income taxes increased by 20,133 million yen, and net income attributable to Panasonic Corporation increased by 18,448 million yen for the year ended March 31, 2014. In addition, basic net income attributable to Panasonic Corporation common shareholders per share increased by 7.98 yen. Diluted net income attributable to Panasonic Corporation common shareholders per share is not provided because the Company did not have potential dilutive common shares.

A gain of 12,199 million yen from stocks contributed to an employee retirement benefit trust, and a gain of 78,699 million yen from sale of the healthcare business, which is discussed in Note 3 to the consolidated financial statements, are included in other income for the year ended March 31, 2014.

Net gain from insurance recovery related to the flooding in Thailand included in other income for the year ended March 31, 2013 amounted to 7,966 million yen which was net of loss of 503 million yen incurred due to the flooding. Net loss incurred due to the flooding in Thailand included in other deductions for the year ended March 31, 2012 amounted to 2,513 million yen, which was net of insurance recovery of 7,987 million yen.

Net gain from insurance recovery related to the Great East Japan Earthquake included in other income for the year ended March 31, 2012 amounted to 5,706 million yen which was net of loss of 9,721 million yen incurred due to the earthquake.

Interest expenses and income taxes paid, and noncash investing and financing activities for each of the three years ended March 31, 2014 are as follows:

	Yen (millions)		
	2014	**2013**	**2012**
Cash paid:			
Interest	20,362	25,244	28,636
Income taxes	81,245	61,715	76,679
Noncash investing and financing activities:			
Capital leases	6,179	4,684	6,668
Treasury stock transferred under share exchange			424,010

(17) Derivatives and Hedging Activities

The Company operates internationally, giving rise to significant exposure to market risks arising from changes in foreign exchange rates, and commodity prices. The Company assesses these risks by continually monitoring changes in these exposures and by evaluating hedging opportunities. Derivative financial instruments utilized by the Company to hedge these risks are comprised principally of foreign exchange contracts, cross currency swaps and commodity derivatives. The Company does not hold or issue derivative financial instruments for trading purpose.

Amounts included in accumulated other comprehensive income (loss) as of March 31, 2014 and September 30, 2014 are expected to be recognized in earnings principally over the next twelve months. The maximum term over which the Company is hedging exposures to the variability of cash flows for foreign currency exchange risk is approximately five months.

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The Company is exposed to credit risk in the event of non-performance by counterparties to the derivative contracts, but such risk is considered mitigated by the high credit rating of the counterparties.

The contract amounts of foreign exchange contracts, cross currency swaps, and commodity futures as of March 31, 2014 and 2013 are as follows:

	Yen (millions)	
	2014	2013
Foreign exchange contracts	856,774	782,101
Cross currency swaps	29,810	35,725
Commodity futures	858,139	557,505

The fair values of derivative instruments as of March 31, 2014 are as follows:

	Yen (millions)			
	Asset derivatives		Liability derivatives	
	Consolidated balance sheet location	Fair value	Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	520	Other current liabilities	758
Commodity futures	Other current assets	34	Other current liabilities	291
Total derivatives designated as hedging instruments under ASC 815		554		1,049
Derivatives not designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	4,125	Other current liabilities	1,813
Cross currency swaps	Other current assets	335		
Commodity futures	Other current assets	4,238	Other current liabilities	9,767
Total derivatives not designated as hedging instruments under ASC 815		8,698		11,580
Total derivatives		9,252		12,629

Regarding derivative assets and liabilities as of March 31, 2014, gross amounts offset in the consolidated balance sheet were 3,371 million yen and gross amounts subject to master netting agreements but not offset in the consolidated balance sheet were 3,521 million yen.

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The fair values of derivative instruments as of March 31, 2013 are as follows:

	Yen (millions)			
	Asset derivatives		Liability derivatives	
	Consolidated balance sheet location	Fair value	Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	687	Other current liabilities	8,379
Commodity futures	Other current assets	19	Other current liabilities	763
Total derivatives designated as hedging instruments under ASC 815		706		9,142
Derivatives not designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	516	Other current liabilities	5,445
Cross currency swaps			Other current liabilities	184
Commodity futures	Other current assets	3,887	Other current liabilities	8,989
Total derivatives not designated as hedging instruments under ASC 815		4,403		14,618
Total derivatives		5,109		23,760

Regarding derivative assets and liabilities as of March 31, 2013, gross amounts offset in the consolidated balance sheet were 4,625 million yen and gross amounts subject to master netting agreements but not offset in the consolidated balance sheet were 4,060 million yen.

The fair values of derivative instruments at September 30, 2014 are as follows:

	Yen (millions) (unaudited)			
	Asset derivatives		Liability derivatives	
	Consolidated balance sheet location	Fair value	Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	1,764	Other current liabilities	3,039
Commodity futures	Other current assets	13	Other current liabilities	282

Total derivatives designated as hedging instruments under ASC 815		1,777		3,321
Derivatives not designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	7,352	Other current liabilities	2,513
Cross currency swaps	Other current assets	872	Other current liabilities	85
Commodity futures	Other current assets	1,079	Other current liabilities	6,802
Total derivatives not designated as hedging instruments under ASC 815		9,303		9,400
Total derivatives		11,080		12,721

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Regarding derivative assets and liabilities as of September 30, 2014 gross amounts offset in the consolidated balance sheet and gross amounts subject to master netting agreements but not offset in the consolidated balance sheet were not important.

The effect of derivative instruments on the consolidated statement of operations for the year ended March 31, 2014 is as follows:

Derivatives designated as hedging instruments under ASC 815:

Cash flow hedging relationships:

	Yen (millions)		
		Amount of gain reclassified from accumulated OCI into operations (effective portion)	
Derivatives	Amount of gain or (loss) recognized in OCI derivative (effective portion)	Location of gain or (loss) recognized in operations	Amount of gain or (loss)
Foreign exchange contracts	(5,880)	Other income (deductions)	(9,732)
Commodity futures	(1,901)	Cost of sales	(2,388)
Total	(7,781)		(12,120)

605 million yen of fair value changes relating to ineffective portion of cash flow hedge and fair value changes relating to amounts excluded from hedge effectiveness testing recognized on foreign exchange contracts are included in other deductions. 907 million yen of fair value changes recognized on commodity futures were reclassified from accumulated other comprehensive income into the consolidated statement of operations as a result of the discontinuance of a cash flow hedge were included in cost of sales.

Fair value hedging relationships:

Derivatives from fair value hedging relationships did not have a material effect on consolidated statement of operations.

Derivatives not designated as hedging instruments under ASC 815:

	Amount of gain (loss) recognized in operations on derivative	
Derivatives	Location of gain or (loss) recognized in operations	Amount of gain or (loss)
Foreign exchange contracts	Other income (deductions)	11,679
Cross currency swaps	Other income (deductions)	519
Commodity futures	Cost of sales	(427)

Total	11,771

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The effect of derivative instruments on the consolidated statement of operations for the year ended March 31, 2013 is as follows:

Derivatives designated as hedging instruments under ASC 815:

Cash flow hedging relationships:

	Yen (millions)		
		Amount of gain reclassified from accumulated OCI into operations (effective portion)	
Derivatives	**Amount of gain or (loss) recognized in OCI derivative (effective portion)**	**Location of gain or (loss) recognized in operations**	**Amount of gain or (loss)**
Foreign exchange contracts	13,960	Other income (deductions)	10,765
Commodity futures	(38)	Cost of sales	2,188
Total	13,922		12,953

566 million yen of fair value changes relating to ineffective portion of cash flow hedge and fair value changes relating to amounts excluded from hedge effectiveness testing recognized on foreign exchange contracts are included in other deductions.

Fair value hedging relationships:

Derivatives from fair value hedging relationships did not have a material effect on consolidated statement of operations.

Derivatives not designated as hedging instruments under ASC 815:

	Amount of gain (loss) recognized in operations on derivative	
Derivatives	**Location of gain or (loss) recognized in operations**	**Amount of gain or (loss)**
Foreign exchange contracts	Other income (deductions)	2,949
Cross currency swaps	Other income (deductions)	(488)
Commodity futures	Cost of sales	(784)
Total		1,677

The effect of derivative instruments on the consolidated statement of operations for the year ended March 31, 2012 is as follows:

Derivatives designated as hedging instruments under ASC 815:

Cash flow hedging relationships:

	Yen (millions)		
		Amount of gain reclassified from accumulated OCI into operations (effective portion)	
Derivatives	**Amount of gain or (loss) recognized in OCI derivative (effective portion)**	**Location of gain or (loss) recognized in operations**	**Amount of gain or (loss)**
Foreign exchange contracts	4,571	Other income (deductions)	8,070
Commodity futures	(5,154)	Cost of sales	1,486
Total	(583)		9,556

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94 million yen of fair value changes relating to ineffective portion of cash flow hedge and fair value changes relating to amounts excluded from hedge effectiveness testing recognized on foreign exchange contracts are included in other deductions.

Fair value hedging relationships:

Hedging instruments	Location of gain or (loss) recognized in operations	Amount of gain or (loss) recognized in operations
Commodity futures	Cost of sales	(4,787)
Total		(4,787)

Hedging instruments	Location of gain or (loss) recognized in operations	Amount of gain or (loss) recognized in operations
Trade accounts receivable (payable)	Other income (deductions)	6,510
Total		6,510

Ineffective portion of changes in fair value of fair value hedges resulted in gains of 1,723 million yen.

Derivatives not designated as hedging instruments under ASC 815:

	Amount of gain (loss) recognized in operations on derivative	
Derivatives	Location of gain or (loss) recognized in operations	Amount of gain or (loss)
Foreign exchange contracts	Other income (deductions)	16,234
Cross currency swaps	Other income (deductions)	766
Interest rate swaps	Other income (deductions)	0
Commodity futures	Other income (deductions)	0
Total		17,000

The effect of derivative instruments on the consolidated statement of operations for the six months ended September 30, 2014 is as follows:

Derivatives designated as hedging instruments under ASC 815:

Cash flow hedging relationships:

	Yen (millions) (unaudited)		
			Amount of gain reclassified from accumulated OCI into operations (effective portion)
Derivatives	Amount of gain or (loss) recognized in OCI derivative (effective portion)	Location of gain or (loss) recognized in operations	Amount of gain or (loss)
Foreign exchange contracts	970	Other income (deductions)	(614)
Commodity futures	(186)	Cost of sales	(173)
Total	784		(787)

244 million yen of fair value changes relating to ineffective portion of cash flow hedge and fair value changes relating to amounts excluded from hedge effectiveness testing recognized on foreign exchange contracts are included in other deductions.

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Fair value hedging relationships:

Derivatives from fair value hedging relationships did not have a material effect on consolidated statement of operations.

Derivatives not designated as hedging instruments under ASC 815:

	Yen (millions) (unaudited)	
	Amount of gain (loss) recognized in operations on derivative	
Derivatives	**Location of gain or (loss) recognized in operations**	**Amount of gain or (loss)**
Foreign exchange contracts	Other income (deductions)	2,269
Cross currency swaps	Other income (deductions)	452
Commodity futures	Other income (deductions)	(194)
Total		2,527

The effect of derivative instruments on the consolidated statement of operations for the six months ended September 30, 2013 is as follows:

Derivatives designated as hedging instruments under ASC 815:

Cash flow hedging relationships:

	Yen (millions) (unaudited)		
		Amount of gain reclassified from accumulated OCI into operations (effective portion)	
Derivatives	**Amount of gain or (loss) recognized in OCI derivative (effective portion)**	**Location of gain or (loss) recognized in operations**	**Amount of gain or (loss)**
Foreign exchange contracts	(6,604)	Other income (deductions)	(9,264)
Commodity futures	(1,838)	Cost of sales	(1,238)
Total	(8,442)		(10,502)

179 million yen of fair value changes relating to ineffective portion of cash flow hedge and fair value changes relating to amounts excluded from hedge effectiveness testing recognized on foreign exchange contracts are included in other deductions.

Fair value hedging relationships:

Derivatives from fair value hedging relationships did not have a material effect on consolidated statement of operations.

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Derivatives not designated as hedging instruments under ASC 815:

	Yen (millions) (unaudited) Amount of gain (loss) recognized in operations on derivative	
Derivatives	Location of gain or (loss) recognized in operations	Amount of gain or (loss)
Foreign exchange contracts	Other income (deductions)	10,434
Cross currency swaps	Other income (deductions)	662
Commodity futures	Other income (deductions)	(386)
Total		10,710

(18) Fair Value

ASC 820, Fair Value Measurements and Disclosures defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets.
Level 2	Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Unobservable inputs for the asset or liability.

The following table represents assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2014 and 2013:

	Yen (millions) March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities:				
Equity securities	63,101			63,101
Corporate and government bonds		1,694		1,694
Other debt securities		16		16
Total available-for-sale securities	63,101	1,710		64,811

Derivatives:			
Foreign exchange contracts		4,645	4,645
Cross currency swaps		335	335
Commodity futures	2,935	1,337	4,272
Total derivatives	2,935	6,317	9,252
Liabilities:			
Derivatives:			
Foreign exchange contracts		2,571	2,571
Commodity futures	8,000	2,058	10,058
Total derivatives	8,000	4,629	12,629

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	Yen (millions) March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Available-for-sale securities:				
Equity securities	84,035			84,035
Corporate and government bonds		1,718		1,718
Other debt securities		12		12
Total available-for-sale securities	84,035	1,730		85,765
Derivatives:				
Foreign exchange contracts		1,203		1,203
Commodity futures	3,693	213		3,906
Total derivatives	3,693	1,416		5,109
Liabilities:				
Derivatives:				
Foreign exchange contracts		13,824		13,824
Cross currency swaps		184		184
Commodity futures	6,306	3,446		9,752
Total derivatives	6,306	17,454		23,760

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2014:

	Yen (millions) September 30, 2014 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Available-for-sale securities:				
Equity securities	76,029			76,029
Corporate and government bonds		1,672		1,672
Other debt securities		16		16
Total available-for-sale securities	76,029	1,688		77,717
Derivatives:				
Foreign exchange contracts		9,116		9,116
Cross currency swaps		872		872
Commodity futures	610	482		1,092

Total derivatives	610	10,470	11,080
Liabilities:			
Derivatives:			
Foreign exchange contracts		5,552	5,552
Cross currency swaps		85	85
Commodity futures	3,746	3,338	7,084
Total derivatives	3,746	8,975	12,721

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The Company s existing marketable equity securities and commodity futures are included in Level 1, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Level 2 available-for-sale securities include all debt securities, which are valued using inputs other than quoted prices that are observable. Level 2 derivatives including foreign exchange contracts, cross currency swaps and commodity futures are valued using quotes obtained from brokers, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and market prices for commodity futures.

The following table presents assets and liabilities that are measured at fair value on a nonrecurring basis for the years ended March 31, 2014 and 2013;

	Yen (millions) Year ended March 31, 2014				
	Total gains (losses)	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Long-lived assets	(135,175)			121,463	121,463
Goodwill	(8,069)			0	0

	Yen (millions) Year ended March 31, 2013				
	Total gains (losses)	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Long-lived assets	(178,012)			417,842	417,842
Goodwill	(250,583)			0	0

During the year ended March 31, 2014, the Company classified all of the assets described above in Level 3 as the Company used unobservable inputs to value these assets when recognizing losses related to the assets. The fair value for the major assets was measured primarily through an appraisal based on the repurchase cost.

During the year ended March 31, 2013, the Company classified all of the assets described above in Level 3 as the Company used unobservable inputs to value these assets when recognizing losses related to the assets. The fair value for the major assets was measured through an appraisal based on the repurchase cost, excess earnings method, relief-from-royalty method, and the combination of discounted cash flow method, guideline public company method and guideline merged and acquired company method.

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

The following table presents significant unobservable inputs used to measured fair value on a nonrecurring basis categorized as Level 3 for the years ended March 31, 2014 and 2013:

	Yen (millions) Year ended March 31, 2014			
	Fair value	Valuation technique	Unobservable inputs	Range
Assets:				
Long-lived assets	121,463	Repurchase cost method	Residual value ratio	0.0%-99.4%

	Yen (millions) Year ended March 31, 2013			
	Fair value	Valuation technique	Unobservable inputs	Range
Assets:				
Long-lived assets	417,842	Repurchase cost method	Residual value ratio	52.0%-64.0%
		Excess earnings method	Discount rate	10.0%-12.3%
		Relief-from-royalty method	Discount rate	6.5%-12.3%
Goodwill	0	Discounted cash flow method	Weighted average cost of capital	6.2%-12.3%
		Guideline public company method	EBITDA multiple	2.6-6.2
		Guideline merged and acquired company method	EBITDA multiple	7.0-11.0

For the six months ended September 30, 2014, there were no circumstances that required any significant assets and liabilities that are not measured at fair value on an ongoing basis to be measured and recognized at fair value.

The fair value of financial instrument

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Available-for-sale securities

The carrying amount is equal to the fair value which is estimated based on quoted market prices or other observable inputs. The fair value is also described in Note 4.

Long-term debt, including current portion

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using appropriate current discount rates. The Company classified long-term debt in Level 2.

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Derivative financial instruments

The fair value of derivative financial instruments is estimated based on unadjusted market prices or quotes obtained from brokers, which are periodically validated by pricing models using observable inactive market inputs. The fair value is equal to the carrying amount and also described in Note 17.

Advances

The fair value of advances is estimated based on the present value of future cash flows using appropriate current discount rates. The Company classified advances in Level 2. The following table excludes advances for which carrying amount approximates fair value.

Financial instruments other than those listed above (such as Cash and cash equivalents, Time deposits, Trade receivables, Short-term debt, Trade payables and Accrued expenses)

The carrying amount approximates fair value because of the short maturity of these instruments. The following table excludes these financial instruments.

	Yen (millions)					
	March 31, 2014		March 31, 2013		September 30, 2014 (Unaudited)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivatives:						
Assets:						
Available-for-sale securities	64,811	64,811	85,765	85,765	77,717	77,717
Liabilities:						
Long-term debt, including current portion	598,955	615,816	947,786	957,896	565,597	580,940
Derivatives:						
Assets:						
Foreign exchange contracts	4,645	4,645	1,203	1,203	9,116	9,116
Cross currency swaps	335	335			872	872
Commodity futures	4,272	4,272	3,906	3,906	1,092	1,092
Liabilities:						
Foreign exchange contracts	2,571	2,571	13,824	13,824	5,552	5,552
Cross currency swaps			184	184	85	85
Commodity futures	10,058	10,058	9,752	9,752	7,084	7,084

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(19) Commitments and Contingent Liabilities

The Company provides guarantees to third parties mainly on bank loans provided to associated companies and customers. The guarantees are made to enhance their credit. For each guarantee provided, the Company is required to perform under the guarantee if the guaranteed party defaults on a payment. Also, as discussed in Note 16, the Company sold certain trade receivables to independent third parties, some of which are with recourse. If the collectibility of those receivables with recourse becomes doubtful, the Company is obligated to assume the liabilities. As of March 31, 2014, the maximum amount of undiscounted payments the Company would have to make in the event of default was 26,095 million yen. As of September 30, 2014, the maximum amount of undiscounted payments the Company would have to make in the event of default was 26,750 million yen. The carrying amount of the liabilities recognized for the Company s obligations as a guarantor under those guarantees as of March 31, 2014 and 2013 and September 30, 2014 was immaterial.

As discussed in Note 5, in connection with the sale and leaseback of certain machinery and equipment, the Company guarantees a specific value of the leased assets. For each guarantee provided, the Company is required to perform under the guarantee if certain conditions are met during or at the end of the lease term. As of March 31, 2014, the maximum amount of undiscounted payments the Company would have to make in the event that these conditions are met was 5,311 million yen. As of September 30, 2014, the maximum amount of undiscounted payments the Company would have to make in the event that these conditions are met was 4,345 million yen. The carrying amount of the liabilities recognized for the Company s obligations as a guarantor under those guarantees as of March 31, 2014 and 2013 and September 30, 2014 was immaterial.

The Company issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. The change in accrued warranty costs for the years ended March 31, 2014 and 2013 is summarized as follows:

	Yen (millions)	
	2014	**2013**
Balance at beginning of year	50,855	58,139
Liabilities accrued for warranties issued during the period	31,818	32,946
Warranty claims paid during the period	(26,624)	(35,438)
Changes in liabilities for pre-existing warranties during the period, including expirations	527	(4,792)
Balance at end of year	56,576	50,855

As of March 31, 2014, commitments outstanding for the purchase of property, plant and equipment were approximated to be 4,199 million yen.

Certain subsidiaries are under contracts to purchase specific raw materials until 2020. As of March 31, 2014, commitments outstanding for this contract were approximated to be 74,959 million yen. A loss of 16,732 million yen under this contract was recorded for the year ended March 31, 2014. The corresponding loss is included in cost of sales.

Liabilities for environmental remediation costs are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. In January 2003, the Company announced that disposed electric equipment that contained polychlorinated biphenyls (PCB equipment) might be buried in the ground of its four manufacturing facilities and one former manufacturing facility. The applicable laws

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require that PCB equipment be appropriately maintained and disposed of by March 31, 2027. As of March 31, 2014, the Company has accrued estimated total cost of 18,265 million yen for necessary actions such as investigating whether the PCB equipment is buried at the facilities, including excavations, maintaining and disposing the PCB equipment that is already discovered, and soil remediation, since it represents management s best estimate of the cost, but the payments are not considered to be fixed and reliably determinable.

The Company and certain subsidiaries are under the term of leasehold interest contracts for the land which domestic factories reside on and have obligations for restitution on departure. The asset retirement obligations cannot be reasonably estimated because the durations of use of the leased land are not specified and there are no plans to undertake relocation in the future. Therefore the Company did not recognize asset retirement obligations.

The Company and certain of its subsidiaries are subject to a number of legal proceedings including civil litigations related to trade, tax, products or intellectual properties, or governmental investigations. The Company has been dealing with the various litigations and investigations. Depending upon the outcome of these different proceedings, the Company and certain of its subsidiaries may be subject to an uncertain amount of fines, and accordingly the Company has accrued for certain probable and reasonable estimated amounts for the fines.

Since November 2007, the Company and MT Picture Display Co., Ltd. (MTPD), a subsidiary of the Company, have been subjected to investigations by government authorities, including the Japan Fair Trade Commission, the U.S. Department of Justice and the European Commission, in respect of alleged antitrust violations relating to cathode ray tubes (CRTs). Subsequent to these actions by the authorities, a number of class action lawsuits have been filed in the U.S. and Canada against the Company and certain of its subsidiaries. For the year ended March 31, 2010, the Japan Fair Trade Commission issued a cease and desist order against MTPD and assessed a fine against its three subsidiaries in South East Asia, but each named company filed for a hearing to challenge the orders which is currently subject to proceedings. Since February 2009, the Company has been subjected to investigations by government authorities, including the U.S. Department of Justice and the European Commission, in respect to alleged antitrust violations relating to compressors for refrigerator use. Subsequent to these actions by the authorities, a number of class action lawsuits have been filed in the U.S., etc. against the Company and certain of its subsidiaries. The Company has paid a fine to the U.S. Department of Justice and the Competition Bureau Canada for the year ended March 31, 2011 to resolve alleged antitrust violations relating to compressors for refrigerator use. For the year ended March 31, 2012, the Company received notification of the European Commission s decision and accepted a fine on the refrigerator compressors. For the year ended March 31, 2014, the Company paid the settlement to the plaintiff of the class action lawsuits in the U.S. on the refrigerator compressors. Other than those above, there are a number of legal actions against the Company and certain subsidiaries. Management is of the opinion that damages, if any, resulting from these actions, will not have a material effect on the Company s consolidated financial statements.

The ability to predict the outcome of these actions and proceedings is difficult to assess given that certain of the investigations and legal proceedings are still at an early stage, present novel legal theories, involve a large number of parties or taking place in jurisdictions outside of Japan where the laws are complex or unclear. Accordingly, the Company is unable to estimate the losses or range of losses for the actions and proceedings where there is only a reasonable possibility that a loss exceeding amounts already recognized may have been incurred.

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(20) Segment Information

In accordance with the provisions of ASC 280, Segment Reporting, the segments reported below are the components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker of the Company in deciding how to allocate resources and in assessing performance.

Certain businesses were transferred among segments on April 1, 2014 and July 1, 2014. Accordingly, segment information for each of the three years ended March 31, 2014 and the six months ended September 30, 2013 has been reclassified to conform to the segment composition for the six months ended September 30, 2014.

Appliances is comprised of development, manufacture and sales of consumer electronics (flat panel TVs, home audio equipment, video equipment, refrigerators, microwave ovens, rice cookers, washing machines, vacuum cleaners, personal-care products, etc.), air-conditioners (room air-conditioners, large-sized air-conditioners, etc.), cold chain (showcases, etc.), devices (compressors, electric motors, fuel cells, etc.) and bicycle related products.

Eco Solutions is comprised of development, manufacture and sales of lighting fixtures, electric lamps (including LED lighting), wiring devices, solar photovoltaic systems, interior furnishing materials, water-related products, ventilation and air-conditioning equipment, air purifiers, etc.

AVC Networks is comprised of visual and imaging business (surveillance cameras, projectors, digital cameras, etc.), mobility business (PCs, etc.), communication business (IP-related equipment, etc.) and vertical solution business (aircraft in-flight entertainment systems, social infrastructure systems equipment, etc.).

Automotive & Industrial Systems is comprised of development, manufacture and sales of automotive related products (car-use-multimedia-related equipment, electrical components, etc.), industrial related devices (electronic components, electronic materials, automation controls, semiconductors, optical devices, dry batteries, lithium-ion batteries, storage batteries, etc.) and manufacturing related systems (electronic-component-mounting machines, welding equipment, etc.).

Other consists of PanaHome Corporation and others.

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

Information by segment for each of the three years ended March 31, 2014 and the six months ended September 30, 2014 and 2013 is shown in the tables below:

By Business Segment:

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Sales:					
Appliances:					
Customers	1,497,485	1,478,626	1,770,053	767,796	765,949
Intersegment	279,931	255,926	307,637	148,574	140,351
Total	1,777,416	1,734,552	2,077,690	916,370	906,300
Eco Solutions:					
Customers	1,404,799	1,246,162	1,227,158	668,669	647,574
Intersegment	269,636	261,351	270,599	121,739	123,653
Total	1,674,435	1,507,513	1,497,757	790,408	771,227
AVC Networks:					
Customers	1,045,144	1,032,157	1,168,718	505,654	485,102
Intersegment	107,378	155,045	223,975	25,992	64,195
Total	1,152,522	1,187,202	1,392,693	531,646	549,297
Automotive & Industrial Systems:					
Customers	2,563,709	2,338,966	2,225,199	1,296,106	1,271,477
Intersegment	158,085	202,540	379,720	82,073	76,459
Total	2,721,794	2,541,506	2,604,919	1,378,179	1,347,936
Other:					
Customers	714,530	717,412	1,015,783	273,609	309,299
Intersegment	176,760	199,462	265,794	24,293	54,939
Total	891,290	916,874	1,281,577	297,902	364,238
Eliminations					
Customers	510,874	489,722	439,305	211,049	226,919
Intersegment	(991,790)	(1,074,324)	(1,447,725)	(402,671)	(459,597)
Total	(480,916)	(584,602)	(1,008,420)	(191,622)	(232,678)
Consolidated total	7,736,541	7,303,045	7,846,216	3,722,883	3,706,320

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	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Segment profit (loss):					
Appliances	29,509	43,485	37,092	32,384	13,450
Eco Solutions	92,106	60,296	60,436	41,843	39,577
AVC Networks	35,707	32,687	(578)	3,942	(2,351)
Automotive & Industrial Systems	69,150	179	(91,428)	52,237	48,049
Other	24,345	7,426	(12,219)	1,943	6,605
Eliminations and Adjustments	54,297	16,863	50,422	44,630	41,259
Total segment profit	305,114	160,936	43,725	176,979	146,589
Interest income	10,632	9,326	13,388	6,230	4,831
Dividends received	1,992	3,686	6,129	1,236	1,510
Other income	243,488	91,807	44,124	17,625	108,075
Interest expense	(21,911)	(25,601)	(28,404)	(9,421)	(11,884)
Impairment losses of long-lived assets	(103,763)	(138,138)	(399,259)	(3,605)	(6,165)
Goodwill impairment	(8,069)	(250,583)	(163,902)		
Other deductions	(221,258)	(249,819)	(328,645)	(67,142)	(35,551)
Consolidated income (loss) before income taxes	206,225	(398,386)	(812,844)	121,902	207,405

	Yen (millions)		
	Year ended March 31,		
	2014	2013	2012
Identifiable assets:			
Appliances	955,463	922,581	985,927
Eco Solutions	1,220,782	1,096,171	1,144,567
AVC Networks	668,828	781,583	867,090
Automotive & Industrial Systems	1,749,003	1,725,751	1,812,000
Other	629,179	718,014	873,122
Eliminations and Adjustments	(10,261)	153,712	918,349
Consolidated total	5,212,994	5,397,812	6,601,055
Depreciation (including intangibles other than goodwill):			
Appliances	53,928	47,628	52,216
Eco Solutions	49,708	47,137	36,980
AVC Networks	40,592	40,304	53,424
Automotive & Industrial Systems	123,375	130,949	135,882
Other	17,972	21,034	22,270

Eliminations and Adjustments	45,211	51,903	73,491
Consolidated total	330,786	338,955	374,263
Capital investment (including intangibles other than goodwill):			
Appliances	37,586	62,697	69,919
Eco Solutions	46,902	58,733	47,353
AVC Networks	22,611	41,373	48,225
Automotive & Industrial Systems	94,594	136,482	159,239
Other	15,240	18,781	22,949
Eliminations and Adjustments	22,194	24,647	21,991
Consolidated total	239,127	342,713	369,676

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The figures in Eliminations and Adjustments include revenues and expenses which are not attributable to any reportable segments for the purpose of evaluating operating results of each segment, consolidation adjustments, and eliminations of intersegment transactions.

Adjustments to segment sales to Customers for the years ended March 31, 2014, 2013 and 2012 mainly include price differences of 642,832 million yen, 592,893 million yen and 546,914 million yen, respectively, between sales prices to external customers and the internal sales prices adopted for performance measurement purposes for the sales of consumer products through sales department. Adjustments also include the sales of certain associated companies under the equity method, amounting to a deduction of 105,815 million yen, 96,225 million yen and 90,122 million yen, respectively, included in segment sales solely for the purpose of assessing segment performance

Adjustments of profit for the years ended March 31, 2014, 2013 and 2012 mainly include 14,568 million yen, (17,210) million yen, and 15,246 million yen, respectively, of profit and loss of corporate headquarters and sales departments of consumer products which are not allocated to any reportable segments. The adjustments also include 39,729 million yen, 34,073 million yen and 35,176 million yen of consolidation adjustments, respectively, mainly related to amortization of finite-lived intangible assets recognized upon business combinations and other differences in accounting standards.

Adjustments to segment sales to Customers for the six months ended September 30, 2014 and 2013 mainly include price differences for 273,804 million yen and 283,720 million yen, respectively, between sales prices to external customers and the internal sales prices adopted for performance measurement purposes for the sales through sales department of consumer products. Adjustments also include the sales of certain associated companies under the equity method, amounting to a deduction of 49,555 million yen and 50,518 million yen, respectively, included in segment sales solely for the purpose of assessing segment performance.

Adjustments of profit for the six months ended September 30, 2014 and 2013 mainly include 37,615 million yen and 32,673 million yen, respectively, of profit and loss of corporate headquarters and sales departments of consumer products which are not allocated to any reportable segments. The adjustments also include 7,015 million yen and 8,586 million yen of consolidation adjustments, respectively, mainly related to amortization of finite-lived intangible assets recognized upon business combinations and other differences in accounting standards.

Assets which are not attributable to any reportable segments include those which are attributable to sales departments of consumer products, goodwill controlled by corporate headquarters, and intangible assets recognized upon business combinations.

Capital investment consists of purchases of property, plant and equipment, and intangibles on an accrual basis.

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(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

By Geographical Area:

Sales attributed to countries based upon the customer s location and property, plant and equipment are as follows:

	Yen (millions)				
	Year ended March 31,			Six months ended September 30,	
	2014	2013	2012	2014	2013
				(Unaudited)	
Sales:					
Japan	3,897,934	3,790,392	4,162,025	1,749,938	1,787,332
North and South America	1,134,658	1,022,278	966,527	561,246	553,909
Europe	740,269	665,863	743,547	343,864	354,255
Asia and Others	1,963,680	1,824,512	1,974,117	1,067,835	1,010,824
Consolidated total	7,736,541	7,303,045	7,846,216	3,722,883	3,706,320
United States included in North and South America	967,551	866,048	804,012	483,560	471,831
China included in Asia and Others	994,852	940,804	1,043,036	536,920	510,646
Property, plant and equipment:					
Japan	936,487	1,153,080	1,339,115		
North and South America	47,382	44,067	36,739		
Europe	40,191	37,622	39,607		
Asia and Others	401,389	440,659	318,822		
Consolidated total	1,425,449	1,675,428	1,734,283		

There are no individually material countries which should be separately disclosed in North and South America, Europe, and Asia and Others, except for the United States of America and China on sales.

Transfers between business segments or geographic segments are made at arms-length prices. There are no sales to a single external major customer for each of the three years ended March 31, 2014 and for the six months ended September 30, 2014 and 2013.

(21) Acquisition

On February 28, 2014, the Company acquired 90% of outstanding shares of Viko Electric Co., Ltd. (VIKO) and accordingly, has a controlling interest in VIKO from the acquisition date.

VIKO is in the business of manufacturing and sales of electrical and materials, such as wiring devices, low voltage switchgears, smart meters and building automation system. As a result of this acquisition, by utilizing VIKO s management resources, such as its strong brand awareness, sales channels, and C-Type wiring devices and technologies, using Turkey as the base, the Company expects expansion in the sales of wiring devices and other product ranges as well as electrical equipment and materials produced by the Company, such as lighting devices and fans, not only in Turkey, but in the Middle East, CIS and African markets. In addition, by introducing new products by making use of the Company s product competitiveness and development capabilities, and by making improvements in productivity through sharing manufacturing

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PANASONIC CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

know-how with VIKO, the Company will create synergies with VIKO and is aiming for further expansion of the business.

The fair value of the consideration paid for the controlling interest of VIKO and the noncontrolling interests as of the acquisition date is as follows:

	Yen (millions)
Fair value of consideration:	
Cash	47,510
Fair value of noncontrolling interests	3,771
Total	51,281

The fair value of noncontrolling interests was estimated based on the acquisition consideration taking into consideration a control premium. Acquisition-related cost was not material and included in other deductions in the consolidated statement of operations for the year ended March 31, 2014.

Assets acquired and liabilities assumed as of the acquisition date were as follows:

	Yen (millions)
Cash and cash equivalents	131
Goodwill	23,145
Intangible assets	30,295
Other assets	11,701
Total assets acquired	65,272
Deferred tax liabilities	5,963
Other liabilities	8,028
Total liabilities assumed	13,991
Total net assets acquired	51,281

Intangible assets of 20,188 million yen are subject to amortization, which include a dealer network of 17,629 million yen with a 13-year useful life. Intangible assets of 10,107 million yen are not subject to amortization, all of which relates to trade name.

The goodwill represents the future expansion of the Company from new revenue streams arising from the acquisition of VIKO and synergies with the existing Company s businesses. The total amount of goodwill is included in Eco Solutions segment, and is not deductible for tax purpose.

Net sales and income before income taxes of VIKO that are included in the consolidated statements of operations for the year ended March 31, 2014 are not material.

Pro forma information has been omitted as the amounts are not material.

(22) Subsequent Events

Based on the board of directors meeting held on February 3, 2015, the Company resolved to issue unsecured straight bonds up to 400 billion yen and proceeded to issue the bonds on March 10, 2015 through a public offering in Japan for the purpose of funding capital expenditures, equity investments and loans, and redemption of bonds.

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PANASONIC CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Information as of and for the six months ended September 30, 2014 and 2013 is unaudited)

During the year ended March 31, 2015, Panasonic Corporation has recorded in earnings an income tax benefit associated with a decrease in a valuation allowance on deferred tax assets of approximately 130 billion yen. This decrease is primarily a result of new positive evidence supporting the realizability of the deferred tax assets. The Company reversed part of its valuation allowance primarily based on the improvement in its profitability in recent years and expectations for future years, reflecting the Company s successful implementation of business restructurings eliminating a number of unprofitable businesses and shifting its resources to key target areas and markets with future growth potential.

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Schedule II

PANASONIC CORPORATION

AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

(In millions of yen)

Years ended March 31, 2014, 2013 and 2012

	Balance at beginning of period	Add Charged to income	Deduct Bad debts written off	Deduct Reversal	Add (deduct) Cumulative translation adjustments	Balance at end of period
Allowance for doubtful receivables:						
2014	23,398	8,218	4,126	4,231	1,217	24,476
2013	26,604	6,641	6,092	6,254	2,499	23,398
2012	21,860	12,162	1,648	4,696	(1,074)	26,604

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APPENDIX A

(Translation)

SHARE EXCHANGE AGREEMENT

Panasonic Corporation (Panasonic) and Panasonic Information Systems Co., Ltd. (Panasonic IS) hereby execute this share exchange agreement (this Agreement) as set forth herein.

Article 1 (Share Exchange)

Panasonic and Panasonic IS shall implement the share exchange (the Share Exchange) in accordance with the provisions of this Agreement, whereby Panasonic shall become Panasonic IS s wholly-owning parent company in the share exchange and Panasonic IS shall become Panasonic s wholly-owned subsidiary in the share exchange.

Article 2 (Trade Names and Addresses of Wholly-Owning Parent Company in Share Exchange and Wholly-Owned Subsidiary in Share Exchange)

The trade names and addresses of Panasonic and Panasonic IS are as follows, respectively.

Panasonic (wholly-owning parent company in the share exchange)

Trade name:	Panasonic Corporation
Address:	1006, Oaza Kadoma, Kadoma City, Osaka

Panasonic IS (wholly-owned subsidiary in the share exchange)

Trade name:	Panasonic Information Systems Co., Ltd.
Address:	19-19, Chayamachi, Kita-ku, Osaka City, Osaka

Article 3 (Shares to be Delivered upon Share Exchange and Allotment Thereof)

1. Upon the Share Exchange, Panasonic shall deliver to the shareholders of Panasonic IS (excluding Panasonic), as money or other assets in exchange for common stock of Panasonic IS held by such shareholders, the number of shares of common stock of Panasonic calculated by multiplying the total number of shares of common stock of Panasonic IS held by shareholders of Panasonic IS (excluding Panasonic) at the time immediately preceding the time Panasonic acquires all of the issued shares of Panasonic IS through the Share Exchange (the Base Time) by 2.5.

2. With respect to the allotment of shares of common stock of Panasonic that shall be delivered pursuant to the provisions of the immediately preceding paragraph, shares of common stock of Panasonic shall be allotted to the shareholders of Panasonic IS at the Base Time (excluding Panasonic) at the ratio of 2.5 shares of common stock of Panasonic for each share of common stock of Panasonic IS held by such shareholders.

3. If the number of shares of common stock of Panasonic that shall be allotted and delivered to each shareholder of Panasonic IS in accordance with the two immediately preceding paragraphs includes any fractions of less than one share, Panasonic shall deal with such fractions pursuant to the provisions of Article 234 of the Company Law.

Article 4 (Amount of Stated Capital and Reserves of Wholly-Owning Parent Company in Share Exchange)

The amount of the increases in the stated capital and reserves of Panasonic upon the Share Exchange are as follows:

The amount of stated capital to be increased:

0 yen

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The amount of capital reserve to be increased:

Minimum amount required to be increased pursuant to the provisions of laws and regulations.

The amount of legal reserve to be increased:

0 yen

Article 5 (Effective Date)

The date on which the Share Exchange becomes effective (the Effective Date) shall be August 1, 2015; provided, however, that the parties may, upon consultation and agreement with each other, change such date, if necessary.

Article 6 (Shareholders Meeting Approving Share Exchange Agreement)

1. Pursuant to the provisions of Article 796, Paragraph 3, the main clause of the Company Law, Panasonic shall implement the Share Exchange without obtaining the approval of this Agreement by a resolution of the shareholders meeting as stipulated in Article 795, Paragraph 1 of the Company Law; provided, however, that if, pursuant to the provisions of Article 796, Paragraph 4 of the Company Law, the approval of this Agreement by the shareholders meeting of Panasonic becomes necessary, Panasonic shall obtain approval of this Agreement at the shareholders meeting by the day immediately preceding the Effective Date.

2. Panasonic IS shall obtain the approval of this Agreement by the shareholders meeting stipulated in Article 783, Paragraph 1 of the Company Law by the day immediately preceding the Effective Date.

Article 7 (Management of Company Assets)

1. During the period after the execution of this Agreement and before the Effective Date, Panasonic and Panasonic IS shall perform their respective businesses, and manage and operate their respective assets with the due care of a prudent manager, and unless otherwise provided for in this Agreement, Panasonic and Panasonic IS shall consult and agree with each other before taking any action that could materially affect their assets or rights and obligations.

2. In accordance with a resolution of the meeting of the Board of Directors that will be held by the day immediately preceding the Effective Date, Panasonic IS shall cancel, by the Base Time (provided that, in the case where there is any purchase of treasury shares through the exercise of the dissenters appraisal right, the Base Time shall occur after such purchase becomes effective), all of its treasury shares held by Panasonic IS and those to be held by Panasonic IS by the Base Time (including the treasury shares to be acquired on the Effective Date through the exercise of the dissenters appraisal right in connection with the Share Exchange).

Article 8 (Limitation of Payment of Dividends from Surplus, etc.)

1. Panasonic IS may make payments of dividends from surplus to its shareholders or registered stock pledgees entered or recorded on its final register of shareholders at the close of March 31, 2015 up to the amount of 32.5 yen per share, 346,320,000 yen in the aggregate.

2. Panasonic IS shall not, after the execution of this Agreement, make payments of dividends from surplus with respect to a record date prior to the Effective Date, except as provided for in the preceding Paragraph.

Article 9 (Change of Terms and Conditions of Share Exchange and Cancellation of Share Exchange)

If, during the period after the execution of this Agreement and before the Effective Date, (i) a material change occurs in the financial conditions or management conditions of Panasonic or Panasonic IS, (ii) a situation

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arises or is discovered that materially obstructs the implementation of the Share Exchange, or (iii) some other situation arises that makes it significantly difficult to achieve the purpose of this Agreement, Panasonic and Panasonic IS may, upon consultation, change the contents of this Agreement such as the terms and conditions of the Share Exchange or cancel the Share Exchange.

Article 10 (Validity of this Agreement)

This Agreement shall cease to have any effect if this Agreement is not approved at the shareholders meeting of Panasonic provided for in Article 6 hereof (only in the case where, pursuant to the provisions of Article 796, Paragraph 4 of the Company Law, the approval of this Agreement at the shareholders meeting of Panasonic is required) or not approved at the shareholders meeting of Panasonic IS, or if any of the approvals from regulatory authorities that are required by laws and regulations, for the implementation of the Share Exchange, is not obtained, by the day immediately preceding the Effective Date.

Article 11 (Matters for Consultation)

In addition to the matters set forth in this Agreement, matters not provided for in this Agreement and any other matters necessary with respect to the Share Exchange shall be determined upon consultation with each other in accordance with the purpose of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate and, upon signing and sealing hereof, each of Panasonic and Panasonic IS retains one (1) original hereof.

February 3, 2015

Panasonic	1006, Oaza Kadoma, Kadoma-shi, Osaka Panasonic Corporation Kazuhiro Tsuga [Seal] President, Member of the Board
Panasonic IS	19-19, Chayamachi, Kita-ku, Osaka City, Osaka Panasonic Information Systems Co., Ltd. Kazuhiro Maegawa [Seal] President, Member of the Board

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APPENDIX B

VALUATION REPORT OF PANASONIC IS S FINANCIAL ADVISOR (ENGLISH TRANSLATION)

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APPENDIX C

RESPONSE TO REFERRAL TO THIRD PARTY COMMITTEE (ENGLISH TRANSLATION)

February 3, 2015

To: Board of Directors, Panasonic Information Systems Co., Ltd.

Response to Referrals

Third-Party Committee of Panasonic Information Systems Co., Ltd.

Chairman:	Makoto IWAHASHI
Member:	Kunio MIURA
Member:	Naoki YAMASHITA

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Section 1 Intent and Purpose of the Response to Referrals

Panasonic Information Systems Co., Ltd. (Panasonic IS) is planning to conduct a share exchange (the Share Exchange) with Panasonic Corporation (Panasonic), which holds 63.69% of the total number of issued shares of Panasonic IS as of September 30, 2014, in order to make Panasonic a wholly-owning parent company and to make Panasonic IS a wholly-owned subsidiary.

Panasonic, a counterparty of the Share Exchange, is a parent company (controlling shareholder) of Panasonic IS, and, for Panasonic IS, the Share Exchange is the significant transactions, etc. with the controlling shareholder. Therefore, if the Board of Directors of Panasonic IS makes a decision to implement the Share Exchange, it is required to obtain an opinion from an entity who has no interest in Panasonic (Rule 441-2, Securities Listing Regulations of Tokyo Stock Exchange, Inc.).

Accordingly, Panasonic IS requested this Third-Party Committee (the Committee) to provide its opinion concerning the following referred matters. Through deliberations mentioned below, the Committee provides the result of its examination (i.e., its opinion) on the referred matters in this Response to Referrals (*toshinsho*).

All members of the Committee have no specific interest in Panasonic. They have examined the referred matters and have stated their opinions from a perspective independent of Panasonic IS and Panasonic.

Section 2 Referred Matters

(i) Whether or not the purpose of the Share Exchange is reasonable;

(ii) Whether or not the appropriateness of the terms and conditions of the exchange under the Share Exchange is ensured;

(iii) Whether or not the interests of the minority shareholders of Panasonic IS are fully considered in the Share Exchange through fair procedures; and

(iv) Based on the foregoing, whether Panasonic IS s decision to implement the Share Exchange would not be disadvantageous to the minority shareholders of Panasonic IS.

Section 3 Conclusion (Opinion of the Committee)

The Committee recognizes that Panasonic IS s decision to implement the Share Exchange would not be disadvantageous to the minority shareholders of Panasonic IS.

Section 4 Process and Method of the Committee s Deliberations

1. When the Committee Meetings were Held

First Meeting:	10:30 am to 0:30 pm, December 18, 2014 (Thursday)
Second Meeting:	5:30 pm to 6:30 pm, December 24, 2014 (Wednesday)
Third Meeting:	3:00 pm to 5:30 pm, January 13, 2015 (Tuesday)
Fourth Meeting:	3:00 pm to 5:30 pm, January 15, 2015 (Thursday)
Fifth Meeting:	6:00 pm to 8:00 pm, January 28, 2015 (Wednesday)
Sixth Meeting:	10:00 am to 0:00 pm, January 29, 2015 (Thursday)

Seventh Meeting:	3:00 pm to 5:00 pm, February 2, 2015 (Monday)
Eighth Meeting:	11:00 am to 0:00 pm, February 3, 2015 (Tuesday)

2. Method of Deliberations

The Committee examined the abovementioned referred matters by fully reviewing the materials provided by Panasonic IS (including parties delegated by Panasonic IS) (the Materials) and the explanations provided by Panasonic IS (including parties delegated by Panasonic IS), and also by holding a question-and-answer session with Panasonic IS, Panasonic IS s legal adviser and Panasonic IS s financial adviser, when needed.

3. Matters to be Noted

This Response to Referrals is based on the assumption that the Materials and said explanations are all true and correct and have no omission with respect to any material matter. Further, the Committee has made no independent investigation or review concerning the authenticity, accuracy or the like of the Materials and the explanations. In addition, as stated in Section 1, this Response to Referrals was prepared for the purpose of stating an opinion as to whether the decision to implement the Share Exchange will not be disadvantageous to minority shareholders. This Response to Referrals does not state any opinion on any specific managerial, legal, accounting, or tax issues that directly or indirectly relate to the Share Exchange.

Section 5 Review

1. Reasonableness of the Purpose of the Share Exchange (Referred Matter (i))

(1) Facts Confirmed by the Committee

The Committee has confirmed the matters described below based on the Materials and explanations received from Panasonic IS, etc.

A. Overview of the Share Exchange

At meetings of respective companies Board of Directors to be held on February 3, 2015, Panasonic IS and Panasonic plan to resolve to conduct the Share Exchange in order to make Panasonic a wholly-owning parent company and to make Panasonic IS a wholly-owned subsidiary, and also plan to execute on the same day a share exchange agreement (the Share Exchange Agreement) between both companies, pursuant to which 2.5 common shares of Panasonic shall be allocated per common share of Panasonic IS. The Share Exchange is scheduled to be implemented after the Share Exchange Agreement is approved by resolution of the general meeting of shareholders of Panasonic IS that is scheduled to be held in June 2015 (Panasonic plans to implement the Share Exchange in the form of a summary share exchange *(kan-i kabushiki kokan)* pursuant to the provisions of Article 796, Paragraph 3 of the Companies Act, without obtaining the approval by resolution of its shareholders meeting).

Also, following the Share Exchange, shares of Panasonic IS are scheduled to be delisted as of July 29, 2015 (the last trading date of the shares is scheduled to be July 28, 2015), prior to the effective date (August 1, 2015 (scheduled)) of the Share Exchange.

On the assumption that Panasonic IS would become a wholly-owned subsidiary of Panasonic upon the completion of the Share Exchange, Panasonic and Panasonic IS plan to commence consultations concerning business succession by way of an assignment of the entire business of Corporate Information Systems Company (C Information Systems Company), an internal divisional company of Panasonic that has performed a significant role in the IT functions of the Panasonic Group (hereinafter also simply called the Group), from Panasonic to Panasonic IS (the Assignment of Business), the effective date of the Assignment of Business being October 1, 2015 (scheduled).

B. Background of the Share Exchange

(a) Since its establishment in 1918, Panasonic has been conducting business broadly in the electronics industry, guided by its basic management philosophy, which states that the mission of an enterprise is to contribute to the progress and development of society and the well-being of people worldwide through its business activities. Panasonic is currently in the midst of implementing business restructuring of the Group. For this purpose, Panasonic made Panasonic Electric Works Co., Ltd. and Sanyo Electric Co. Ltd., which were consolidated subsidiaries, its wholly-owned subsidiaries in 2011. Panasonic also restructured its Group

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organization in 2013 to launch a business division system and a divisional company system formed by four companies (Appliances Company, Eco Solutions Company, AVC Networks Company, Automotive and Industrial Systems Company).

Panasonic has promoted IT innovation by making full use of its IT in the management reform process conducted thus far in order to concentrate all of the management resources into the target of maximizing value for customers. In April 2000, Matsushita Electric Industrial Co., Ltd. (currently, Panasonic) established C Information Systems Company in the form of an internal divisional company by consolidating and organizing existing internal system engineers. Since its establishment, C Information Systems Company has not only handled construction and operation of systems, but also provided its high-quality IT services within the Group, as a driving force for innovation in its operational processes. In particular, C Information Systems Company has performed a significant role as the IT function of the Group through construction and operation of the Panasonic Treasury System, the Corporate Supply Chain Management System and Panasonic s global IT network.

(b) On the other hand, Panasonic IS, which had originally been the information system department of Matsushita Electric Works, Ltd (Matsushita Electric Works), was established in 1999 as a wholly-owned subsidiary of Matsushita Electric Works, with the business purpose of integration, operation and management of systems related to information processing. Thereafter, in July 2001, Panasonic IS registered its stock for trading on the over-the-counter market with the Japan Securities Dealers Association; in December 2003, Panasonic IS listed its stock on the Second Section of the Tokyo Stock Exchange; and in November 2004, its stock was allocated to the First Section of the Tokyo Stock Exchange. As Matsushita Electric Works, the parent company of Panasonic IS, became a subsidiary of Panasonic in April 2004, Panasonic IS has become a subsidiary of Panasonic since then.

Panasonic IS has been providing IT support, such as the construction and operation of production management systems and online order receiving systems within the Group for over 50 years, including during the period when Panasonic IS was a department of Matsushita Electric Works. Also, based on the advantage of, among other things, its developing skills and operational capabilities, which have been strengthened through opportunities Panasonic IS has had meeting the various needs of its Group, as well as Panasonic IS s know-how in promoting rationalization and efficiency, which Panasonic IS has gained for over 15 years since it became independent as an internal division company, Panasonic IS has developed into a high-revenue company to offer total solutions for information systems from planning and design to development, operation and maintenance, even to customers outside the Group.

Furthermore, in the Panasonic IS s midterm management plan for fiscal years 2013-2015 which Panasonic IS formulated in 2013, Panasonic IS establishes key business goals for developing the business outside the Group, which include collaboration with the Panasonic Group in addition to ICT infrastructure service, system integration of core functions and creation of something new. Panasonic IS has taken steps to further strengthen its partnership with the Group, and Panasonic IS has developed IT solutions that utilize products and services provided by the Group as well as IT services provided by Panasonic IS.

(c) Panasonic views Panasonic IS as a company that contributes to the profits of the Group through its strength: while Panasonic IS is an internal IT subsidiary handling IT construction and operation for Panasonic Corporation Eco Solutions Company, Panasonic IS possesses advanced technologies as an IT company, and also possesses strength equivalent to external vendors such that it maintains a certain level of competitiveness in the external sales business, thereby creating added value. On the other hand, Panasonic considers that the following issues exist: the experience in global corporate systems is insufficient; and an overcomplicated business structure is created since Panasonic s IT division (C Information Systems Company) and Panasonic IS coexist in the Group.

Furthermore, considering the fact that Panasonic IS s sales to the Group account for approximately 80% of its total sales, while Panasonic expects Panasonic IS to conduct sales to the Group at an efficient and competitive price, Panasonic recognizes that there is a potential conflict of interest with minority shareholders of Panasonic IS and thus that a drastic solution is necessary to resolve this issue.

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C. Purpose of the Share Exchange

(a) Purpose of Making Panasonic IS a Wholly-owned Subsidiary of Panasonic through the Share Exchange

As described above, while Panasonic and Panasonic IS have thus far shared their management strategy as group companies to implement various measures for their business including the measures mentioned above. On the other hand, they mutually recognize that, in order to meet the further increasing competition in the market going forward, prompt decision making, flexible organizational restructuring and the reallocation of management resources will be required, and that it will be essential for them to utilize IT more effectively and efficiently as the Group.

Furthermore, Panasonic IS has thus far created and provided IoT (Internet of Things) solutions with high added value by utilizing management resources within the Group. Such solutions include, among other things, energy management support solutions and solutions for leisure facilities. However, Panasonic IS has recognized that it is imperative to secure additional management resources in order to consistently create new IT value in the future and to enhance its presence as an IT business company and its competitive advantage in the industry.

In such circumstances, taking the proposal of Panasonic as an opportunity, Panasonic and Panasonic IS have, since early November 2014, continuously discussed and considered various measures to further increase the corporate value of both companies. As a result, Panasonic and Panasonic IS came to mutually recognize and agree that that more proactive utilization of the management resources of Panasonic, through the Assignment of Business and other measures, will serve as the basis of the future growth and development of Panasonic IS, and also will be highly beneficial to increase the corporate value of not only Panasonic IS but also the entire Group. To that end, Panasonic and Panasonic IS came to the conclusion that it is essential and requisite to make Panasonic IS a wholly-owned subsidiary by way of the Share Exchange in order for Panasonic IS to make a prompt and flexible business judgments aiming to implement the above-mentioned steps.

(b) Purpose of Assignment of Business

As mentioned above, both C Information Systems Company and Panasonic IS have performed key roles by endeavoring to reinforce their collaborative relationships with business partners, both within and outside the Group, and improving their operational efficiency. However, the circumstances in which two (2) types of important IT service providers have co-existed within the Group have continued. In order to resolve the above-mentioned circumstances in a constructive manner, both Panasonic and Panasonic IS have come to the conclusion that, by conducting assignment of business of C Information Systems Company from Panasonic to Panasonic IS, they will be able to further improve their operational efficiency as a result of the unification of IT functions and be able to provide higher quality services to all of their customers.

After the Assignment of Business, it is planned that Panasonic IS will serve as the global core IT company within the Group and comprehensively support Group s all businesses, while further accelerating the development of its business outside the Group that Panasonic IS has thus far undertaken, and aiming to provide the optimal IT services needed to sustain the operations of the Group. As a result of the above-mentioned measures, it is believed that, among other things, the technical expertise and know-how that have been gained by C Information Systems Company and Panasonic IS individually thus far will be integrated and the types of IT system services utilized by the Group will be unified, while enhancing the effective use of the Group s existing IT-related assets and creating new types of external sales business which will lead to a greater revenue growth opportunities.

(c) As described above, the ultimate purpose of the Share Exchange is, through taking a series of steps of the Share Exchange and the subsequent Assignment of Business, to establish a structure that will enable them to expeditiously and efficiently implement the IT strategy most appropriate for the Group, and thereby devote its concentrated efforts on enhancing shareholder value.

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(2) Prospect for the Increase in the Corporate Value of Panasonic IS through the Share Exchange and the Reasonableness of its Purpose
According to the facts described above and the explanations received from Panasonic IS, Panasonic IS recognizes that it is imperative for it to secure additional management resources in order to meet the further increasing competition in the market going forward and to enhance its advantage as an IT business company in the future. As measures to respond to such need, based on its understanding that that more proactive utilization of the management resources of Panasonic will serve as the basis of the future growth and development of Panasonic IS, and also will be highly beneficial to increase the corporate value of not only Panasonic IS but also the entire Group, Panasonic IS came to the conclusion that becoming a wholly-owned subsidiary of Panasonic by way of the Share Exchange would be essential in order for Panasonic IS to make a prompt and flexible business judgments aiming to implement the above-mentioned steps. The Committee does not recognize that the understanding and judgment of Panasonic IS as described above are particularly unreasonable.

Furthermore, through taking a series of steps of the Share Exchange and the subsequent Assignment of Business, Panasonic IS will serve as the global core IT company within the Group. Further, a structure will be established that will enable them to expeditiously and efficiently implement the IT strategy most appropriate for the Group. As a result, the following effects are expected. Consequently, the corporate value of Panasonic IS and the Panasonic Group is expected to increase:

(i) As the situation of overlapped IT function is eliminated within the Group, it becomes possible to promote effective utilization of staff in the overlapping divisions, effective use of the existing IT-related assets, or rationalization of costs.

(ii) By collecting and integrating the technical expertise and know-how that have been gained by Panasonic IS and C Information Systems Company individually thus far, Panasonic IS will be able to provide an efficient and competitive IT system within the Group, and outside the Group, it will also obtain enhanced vendor negotiation ability, so that the infrastructure for the expansion or creation of external sales business will be improved; and

(iii) In association with the abovementioned effects, increase in revenue or other effects can be expected.

The above understanding and judgment of Panasonic IS are also quite concrete as they are made based on the existing backgrounds and current circumstances of both companies. Hence, the Committee recognizes that such understanding and judgment of Panasonic IS are sufficiently reasonable.

Additionally, if the corporate value of Panasonic IS and the Group were increased as described above, the increased corporate value would be fully reflected in the share value of Panasonic, which will become a wholly-owning parent company through the Share Exchange. Therefore, based on such idea, Panasonic IS has judged that its minority shareholders will be able to enjoy benefits brought by said increased corporate value and also other merits, i.e., higher liquidity guaranteed for shares of Panasonic in the market compared to the shares of Panasonic IS, as a result of becoming a shareholder of Panasonic through the Share Exchange.

The said judgment of Panasonic IS is also endorsable and is not particularly unreasonable.

(3) Sub-conclusion
Based on a comprehensive review of these matters, the Committee recognizes that the purpose of the Share Exchange is reasonable.

2. The Appropriateness of the Terms and Conditions of the Exchange under the Share Exchange (Referred Matter (ii))

(1) Introduction

According to Panasonic IS, the contents of allotment in the Share Exchange (the Share Exchange Ratio) are as follows:

Company name	**Panasonic**	**Panasonic IS**
Contents of allotment in the Share Exchange	1	2.5

With respect to the Share Exchange, SMBC Nikko Securities Inc. (SMBC Nikko), which is acting as a financial adviser of Panasonic IS, submitted a valuation report dated February 3, 2015 concerning the share exchange ratio (the Valuation Report). In the following section, the Committee will, after examining the assessment analyses applied in the Valuation Report, state its opinion as to whether the appropriateness of the terms and conditions of the exchange under the Share Exchange is ensured. The role of the Committee in this Response to Referrals is not to calculate the share exchange ratio. In fact, the Committee does not have information and time necessary for calculating the share exchange ratio. Further, the Valuation Report was prepared by the experts independent of both companies. Accordingly, it should be noted that assessment analyses applied in the Valuation Report were examined by the Committee only from a perspective of whether there was any substantial unreasonable aspect in such assessment analyses.

(2) Facts Confirmed by the Committee

The Committee has confirmed the facts described below based on the Materials and explanations received from Panasonic IS and other parties:

For the calculation of the Share Exchange Ratio, the market price analysis was adopted with respect to Panasonic, and the market price analysis, the comparable multiple valuation method and the discounted cash flow analysis (the DCF Analysis) were adopted with respect to Panasonic IS. The details of these analyses are as follows:

A. Market price analysis

With respect to Panasonic and Panasonic IS, the market price analysis was adopted since shares of both companies are listed in the Tokyo Stock Exchange and the market share price exists.

By setting February 2, 2015 as the reference date, the share value was calculated based on the average share price during the most recent six (6) business days (the period commencing on January 26, 2015, the first business day following, the day of Panasonic IS s announcement of its financial results for the third quarter of the fiscal year ending March 31, 2015), the most recent month, and the most recent three (3) months, each ending on the reference date. The average share price refers to the simple average closing share prices of the trading days during the relevant period.

B. Comparable multiple valuation method

With respect to Panasonic IS, the comparable multiple valuation method was adopted since there are several similar listed companies that can be compared with Panasonic IS and analogical reasoning of share value is possible by comparing similar companies through the comparable multiple valuation method.

The share value was calculated by selecting several comparable companies taking into account the businesses conducted, scale of the business and market capitalization, etc. of Panasonic IS, and by applying EBITDA multiples for the corporate value.

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C. DCF Analysis

In order to reflect in the calculation the situation of future business activities of Panasonic IS, the DCF Analysis was adopted with respect to Panasonic IS.

The share value was calculated by discounting the future cash flow based on Panasonic IS s future business plan for the period from the fiscal year ending in March 31, 2015 to the fiscal year ending in March 31, 2018 submitted by the management of Panasonic IS to the present value. In the calculation of the continuous value under the DCF Analysis, the perpetual growth rate method and the multiples method (in which EBITDA multiples were applied) were adopted. The discount rate was calculated by weighted average capital cost (WACC) under the capital asset pricing model (CAPM) theory.

(3) Assessment based on the above

All of the abovementioned analyses are generally accepted assessment ones. No particularly unreasonable point was found in selecting and adopting each analysis in the calculation of the Share Exchange Ratio. Further, as a result of the examination of the calculation process and the basis of calculation under each adopted analysis, the Committee found no arbitrary manipulation of data nor unreasonable calculation rationale, etc. that needs to be pointed out. The Share Exchange Ratio exceeds the calculation range of the market price analysis, and is within the calculation range of the comparable multiple valuation method and the DCF Analysis.

The share exchange rate to be applied to the Share Exchange was set based on good-faith negotiation by the directors of Panasonic IS, who owe a fiduciary duty for the purpose of pursuing common interest of its minority shareholders, under a circumstance in which there was no possible conflict of interest, by taking into account the interest of the minority shareholders. No particularly unreasonable point was found in the results of the calculation presented by SMBC Nikko, which is acting as a third-party valuation institution independent of both Panasonic and Panasonic IS. Further, no circumstance to suspect that the prices could have been arbitrarily calculated was found in such result.

(4) Sub-conclusion

Based on the foregoing, the Committee recognizes that the appropriateness of the terms and conditions of the exchange under the Share Exchange is ensured.

3. Fairness of the Procedure for the Share Exchange (Referred Matter (iii))

(1) Fact confirmed by Committee

The Committee has confirmed the facts described below based on the Materials and explanations received from Panasonic IS and other parties:

A. Independence of valuation institution to calculate the share exchange ratio

In order to ensure the fairness and appropriateness of the share exchange ratio to be applied to the Share Exchange, Panasonic IS and Panasonic, separately and respectively, decided to request a third-party valuation institution independent of both companies to calculate the share exchange ratio. Panasonic IS appointed SMBC Nikko as the third-party valuation institution, and Panasonic appointed Nomura Securities Co., Ltd., as the third-party institution.

B. Legal advice from legal advisor

Panasonic IS appointed Oh-Ebashi LPC & Partners as its legal advisor, and Panasonic appointed Nagashima Ohno & Tsunematsu as its legal advisor. Each company is receiving legal advice concerning the decision making methods, procedures, etc. to be implemented by its Board of Directors (including for the procedures of the Share Exchange) from its legal advisor.

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C. Measures to avoid conflicts of interest

In order to ensure the fairness of decision-making at Panasonic IS and to avoid conflicts of interest, Panasonic IS has reported that, among its directors, it will not allow Mr. Takahiro Nakagawa, who is concurrently an employee of Panasonic, to participate in any of the deliberations regarding or voting on the Share Exchange at its Board of Directors meeting. Panasonic IS has also reported that, among its corporate auditors, it will not allow Mr. Eiji Furusawa, who is concurrently an employee of Panasonic, to participate in the said deliberations at its Board of Directors meeting and will not allow him to state any opinion thereon. Neither Mr. Nakagawa nor Mr. Furusawa has participated in any of the discussions or negotiations with Panasonic regarding the Share Exchange on behalf of Panasonic IS.

(2) Sub-conclusion

Based on the forgoing, the Committee recognizes that the interests of the minority shareholders of Panasonic IS are fully considered in the Share Exchange through fair procedures.

4. Whether the Share Exchange Would Not Be Disadvantageous to the Minority Shareholders of Panasonic IS (Referred Matter (iv))

Taking into account the above findings with respect to the referred matters through (i) to (iii), the Committee recognizes no circumstance in which the resolution by the Board of Directors of Panasonic IS to implement the Share Exchange would be materially disadvantageous to the minority shareholders of Panasonic IS.

END

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Members of the Third-Party Committee

Chairman:	Makoto IWAHASHI Outside Corporate Auditor, Panasonic Information Systems Co., Ltd.
Member:	Kunio MIURA Attorney-at-law, Kawamoto Miura Law Office
Member:	Naoki YAMASHITA Certified public accountant, Yamashita CPA and Tax Accountant Office

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APPENDIX D

SELECTED ARTICLES OF THE COMPANIES ACT OF JAPAN (ENGLISH TRANSLATION)

[English Translation for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the original shall prevail.]

Companies Act

Act No. 86 of July 26, 2005

Part V Entity Conversion, Merger, Company Split, Share Exchange, and Share Transfer

Chapter IV Share Exchange and Share Transfer

Section 1 Share Exchange

Subsection 1 Common Provisions

(Conclusion of a Share Exchange Agreement)

Article 767 A Stock Company may effect Share Exchange. In such cases, the Stock Company shall conclude a Stock Exchange agreement with the company acquiring all of its Issued Shares (limited to a Stock Company or a Limited Liability Company; hereinafter referred to as the Wholly Owning Parent Company in Share Exchange in this Part).

Subsection 2 Share Exchange Which Causes a Stock Company to Acquire the Issued Shares

(Share Exchange Agreement Which Causes a Stock Company to Acquire the Issued Shares)

Article 768 In the case where a Stock Company effects a Share Exchange, if the Wholly Owning Parent Company in Share Exchange is a Stock Company, it shall prescribe the following matters in the Share Exchange agreement:

(i) the trade names and domiciles of the Stock Company effecting the Share Exchange (hereinafter referred to as the Wholly Owned Subsidiary Company in Share Exchange in this Part) and the Wholly Owning Parent Company in Share Exchange which is a Stock Company (hereinafter referred to as the Wholly Owning Parent Stock Company in Share Exchange in this Part);

(ii) if the Wholly Owning Parent Stock Company in Share Exchange is to deliver to shareholders of the Wholly Owned Subsidiary Company in Share Exchange Monies, etc. in lieu of the shares thereof when effecting the Share Exchange, the following matters concerning such Monies, etc.:

(a) if such Monies, etc. are shares of the Wholly Owning Parent Stock Company in Share Exchange, the description of the number of such shares (or, for a Company with Class Shares, the classes of the shares and the number of the shares for each class) or the method for calculating such numbers, and matters concerning the amount of the stated capital and capital reserves of the Wholly Owning Parent Stock Company in Share Exchange;

(b) if such Monies, etc. are Bonds of the Wholly Owning Parent Stock Company in Share Exchange (excluding those pertaining to Bonds with Share Options), the description of the classes of such Bonds and the total amount for each class of Bonds, or the method for calculating that total amount;

(c) if such Monies, etc. are Stock Options of the Wholly Owning Parent Stock Company in Share Exchange (excluding those attached to Bonds with Share Options), the description of the features and number of such Share Options, or the method for calculating such number;

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(d) if such Monies, etc. are Bonds with Share Options of the Wholly Owning Parent Stock Company in Share Exchange, the matters prescribed in (b) concerning such Bonds with Share Options and the matters prescribed in (c) concerning the Share Options attached to such Bonds with Share Options; or

(e) if such Monies, etc. are property other than shares, etc. of the Wholly Owning Parent Stock Company in Share Exchange, the description of the features and number or amount of such property, or the method for calculating such number or amount;

(iii) in the case prescribed in the preceding item, matters concerning the allotment of Monies, etc. set forth in that item to shareholders of the Wholly Owned Subsidiary Company in Share Exchange (excluding the Wholly Owning Parent Stock Company in Share Exchange);

(iv) if the Wholly Owning Parent Stock Company in Share Exchange is to deliver to holders of Share Options of the Wholly Owned Subsidiary Company in Share Exchange Share Options of the Wholly Owning Parent Stock Company in Share Exchange in lieu of such Share Options at the time of the Share Exchange, the following matters concerning such Share Options:

(a) the description of the features of the Share Options (hereinafter referred to as Share Options under Share Exchange Agreement in this Part) held by holders of Share Options of the Wholly Owned Subsidiary Company in Share Exchange who will receive delivery of Share Options of the Wholly Owning Parent Stock Company in Share Exchange;

(b) the description of the features and number of Share Options of the Wholly Owning Parent Stock Company in Share Exchange to be delivered to holders of Share Options under Share Exchange Agreement, or the method for calculating such number; and

(c) if Share Options under Share Exchange Agreement are Share Options attached to Bonds with Share Options, a statement to the effect that the Wholly Owning Parent Stock Company in Share Exchange will succeed to the obligations relating to the Bonds pertaining to such Bonds with Share Options and the description of the classes of the Bonds subject to such succession and the total amount for each class of Bonds, or the method for calculating that total amount;

(v) in the case prescribed in the preceding item, matters concerning the allotment of the Share Options of the Wholly Owning Parent Stock Company in Share Exchange set forth in that item to holders of Share Options under Share Exchange Agreement; and

(vi) the day on which the Share Exchange becomes effective (hereinafter referred to as the Effective Day in this Section).

(2) In the case prescribed in the preceding paragraph, if the Wholly Owned Subsidiary Company in Share Exchange is a Company with Class Shares, the Wholly Owned Subsidiary Company in Share Exchange and the Wholly Owning Parent Stock Company in Share Exchange may provide for the following matters in prescribing the matters set forth in item (iii) of that paragraph in accordance with the features of the classes of shares issued by the Wholly Owned Subsidiary Company in Share Exchange:

(i) if there is any arrangement that no Monies, etc. are allotted to shareholders of a certain class of shares, a statement to such effect and such class of shares; and

(ii) in addition to the matters listed in the preceding item, if there is any arrangement that each class of shares shall be treated differently with respect to allotment of Monies, etc., a statement to such effect and the details of such different treatment.

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(3) In the case prescribed in paragraph (1), the provisions on the matters listed in item (iii) of that paragraph shall be such that the Monies, etc. are delivered in proportion to the number of the shares (or, in cases where there are provisions on the matters listed in item (ii) of the preceding paragraph, the number of the shares of each class) held by shareholders of the Wholly Owned Subsidiary Company in Share Exchange (excluding the Wholly Owning Parent Stock Company in Share Exchange and shareholders of the class of shares referred to in item (i) of the preceding paragraph).

(Effectuation, etc. of a Share Exchange Which Causes a Stock Company to Acquire the Issued Shares)

Article 769 The Wholly Owning Parent Stock Company in Share Exchange shall acquire all of the Issued Shares of the Wholly Owned Subsidiary Company in Share Exchange (excluding shares of the Wholly Owned Subsidiary Company in Share Exchange already held by the Wholly Owning Parent Stock Company in Share Exchange) on the Effective Day.

(2) In the case set forth in the preceding paragraph, the Wholly Owned Subsidiary Company in Share Exchange shall be deemed to have given the approval set forth in Article 137(1) with regard to the acquisition of shares of the Wholly Owned Subsidiary Company in Share Exchange (limited to Shares with a Restriction on Transfer, and excluding those already held by the Wholly Owning Parent Stock Company in Share Exchange prior to the Effective Day) by the Wholly Owning Parent Stock Company in Share Exchange.

(3) In the cases listed in the following items, shareholders of the Wholly Owned Subsidiary Company in Share Exchange shall become the persons specified respectively in those items, in accordance with the provisions on the matters set forth in paragraph (1)(iii) of the preceding Article, on the Effective Day:

(i) in cases where there is a provision on the matters set forth in (a) of item (ii) of paragraph (1) of the preceding Article: shareholders of shares set forth in (a) of that item;

(ii) in cases where there is a provision on the matters set forth in (b) of item (ii) of paragraph (1) of the preceding Article: bondholders of Bonds set forth in (b) of that item;

(iii) in cases where there is a provision on the matters set forth in (c) of item (ii) of paragraph (1) of the preceding Article: holders of Share Options set forth in (c) of that item; or

(iv) in cases where there is a provision on the matters set forth in (d) of item (ii) of paragraph (1) of the preceding Article: bondholders of the Bonds pertaining to Bonds with Share Options set forth in (d) of that item, and holders of the Share Options attached to such Bonds with Share Options.

(4) In the case prescribed in paragraph (1)(iv) of the preceding Article, the Share Options under Share Exchange Agreement shall be extinguished and holders of the Share Options under Share Exchange Agreement shall become holders of the Share Options of the Wholly Owning Parent Stock Company in Share Exchange set forth in item (iv)(b) of that Article, in accordance with the provisions on the matters set forth in item (v) of that Article, on the Effective Day.

(5) In the case prescribed in (c) of item (iv) of paragraph (1) of the preceding Article, the Wholly Owning Parent Stock Company in Share Exchange shall succeed to the obligations relating to the Bonds pertaining to Bonds with Share Options set forth in (c) of that item on the Effective Day.

(6) The provisions of the preceding paragraphs shall not apply in cases where procedures under the provisions of Article 789 or Article 799 are not completed yet or where the Share Exchange is cancelled.

Chapter V Procedures of Entity Conversion, Merger, Company Split, Share Exchange, and Share Transfer

Section 2 Procedures of an Absorption-type Merger, etc.

Subsection 1 Procedures for a Company Absorbed in Absorption-type Merger, a Splitting Company in Absorption-type Company Split, and a Wholly Owned Subsidiary Company in Share Exchange

Division 1 Procedures for a Stock Company

(Keeping and Inspection, etc. of Documents, etc. Concerning an Absorption-type Merger Agreement, etc.)

Article 782 Each of the Stock Companies listed in the following items (hereinafter referred to as an Absorbed Stock Company, etc. in this Division) shall, from the day on which the Absorption-type Merger Agreement, etc. began to be kept until the day on which six months have elapsed from the day on which the Absorption-type Merger, Absorption-type Company Split or Share Exchange (hereinafter referred to as an Absorption-type Merger, etc. in this Section) becomes effective (hereinafter referred to as the Effective Day in this Section) (or, in the case of a Stock Company Absorbed in Absorption-type Merger, until the Effective Day), keep documents or Electromagnetic Records that state or record the contents of the matters specified respectively in those items (hereinafter referred to as the Absorption-type Merger Agreement, etc. in this Section) and other matters prescribed by the applicable Ordinance of the Ministry of Justice at its head office:

(i) Stock Company Absorbed in Absorption-type Merger: the Absorption-type Merger agreement;

(ii) Splitting Stock Company in Absorption-type Company Split: the Absorption-type Company Split agreement; and

(iii) Wholly Owned Subsidiary Company in Share Exchange: the Share Exchange agreement.

(2) The day on which the Absorption-type Merger Agreement, etc. began to be kept prescribed in the preceding paragraph means the earliest of the following days:

(i) if the Absorption-type Merger Agreement, etc. is required to be approved by a resolution of a shareholders meeting (including a Class Meeting), the day two weeks prior to the day of the shareholders meeting (or, in the cases prescribed in paragraph (1) of Article 319, the day when the proposal under that paragraph is submitted);

(ii) if there are shareholders who are to receive the notice under the provisions of paragraph (3) of Article 785, the day of the notice under the provisions of that paragraph or the day of the public notice under paragraph (4) of that Article, whichever is earlier;

(iii) if there are holders of Share Options who are to receive the notice under the provisions of paragraph (3) of Article 787, the day of the notice under the provisions of that paragraph or the day of the public notice under paragraph (4) of that Article, whichever is earlier;

(iv) if the procedures under the provisions of Article 789 are required to be carried out, the day of the public notice under the provisions of paragraph (2) of that Article or the day of the notice under the provisions of that paragraph, whichever is earlier; or

(v) in cases other than those prescribed in the preceding items, the day on which two weeks have elapsed from the day of conclusion of the Absorption-type Company Split agreement or the Share Exchange agreement.

(3) Shareholders and creditors of an Absorbed Stock Company, etc. (or, in the case of a Wholly Owned Subsidiary Company in Share Exchange, shareholders and holders of Share Options) may make the following requests to said Absorbed Stock Company, etc. at any time during its business hours; provided, however, that the fees designated by said Absorbed Stock Company, etc. are required to be paid in order to make the requests set forth in item (ii) or item (iv):

(i) requests for inspection of the documents set forth in paragraph (1);

(ii) requests for delivery of a transcript or extract of the documents set forth in paragraph (1);

(iii) requests for inspection of anything that indicates the matters recorded in the Electromagnetic Records set forth in paragraph (1) in a manner prescribed by the applicable Ordinance of the Ministry of Justice; and

(iv) requests that the matters recorded in the Electromagnetic Records set forth in paragraph (1) be provided by the Electromagnetic Method designated by the Absorbed Stock Company, etc., or requests for the delivery of any document that states such matters.

(Approval, etc. of the Absorption-type Merger Agreement, etc.)

Article 783 An Absorbed Stock Company, etc. shall obtain the approval of the Absorption-type Merger Agreement, etc. by a resolution of a shareholders meeting by the day immediately preceding the Effective Day.

(2) Notwithstanding the provisions of the preceding paragraph, in the cases where the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange is not a Company with Classes of Shares, if all or part of the Monies, etc. to be delivered to shareholders of the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange (hereinafter referred to as the Consideration for the Merger, etc. in this Article) are Equity Interests, etc. (meaning equity interests of a Membership Company or those prescribed by the applicable Ordinance of the Ministry of Justice as being equivalent thereto; hereinafter the same shall apply in this Article), the consent of all shareholders of the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange shall be obtained with regard to the Absorption-type Merger agreement or the Share Exchange agreement.

(3) In the cases where the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange is a Company with Classes of Shares, if all or part of the Consideration for the Merger, etc. are Shares with a Restriction on Transfer, etc. (meaning Shares with a Restriction on Transfer and those prescribed by the applicable Ordinance of the Ministry of Justice as being equivalent thereto; hereinafter the same shall apply in this Chapter), the Absorption-type Merger or the Share Exchange shall not become effective without a resolution of a Class Meeting constituted by the Class Shareholders of the class of shares subject to the allotment of the Shares with a Restriction on Transfer, etc. (excluding Shares with a Restriction on Transfer) (in cases where there are two or more classes of shares relating to such Class Shareholders, the respective Class Meetings constituted by Class Shareholders categorized by the class of such two or more classes of shares); provided, however, that this shall not apply to cases where there is no Class Shareholder who is able to exercise a voting right at such Class Meeting.

(4) In the cases where the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange is a Company with Classes of Shares, if all or part of the Consideration for the Merger, etc. are Equity Interests, etc., the Absorption-type Merger or the Share Exchange shall not become effective without the consent of all shareholders of the class subject to the allotment of the Equity Interests, etc.

(5) An Absorbed Stock Company, etc. shall notify its Registered Pledgees of Shares (excluding the Registered Pledgees of Shares in the cases prescribed in paragraph (3) of the following Article) and Registered Pledgees of Share Options concerning the Share Options specified in the items of Article 787(3) that it will effect the Absorption-type Merger, etc. by twenty days prior to the Effective Day.

(6) A public notice may be substituted for the notice under the provisions of the preceding paragraph.

(Cases Where Approval of the Absorption-type Merger Agreement, etc. Is Not Required)

Article 784 The provisions of paragraph (1) of the preceding Article shall not apply in the cases where the Company Surviving Absorption-type Merger, the Succeeding Company in Absorption-type Company Split or the

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Wholly Owning Parent Company in Share Exchange (hereinafter referred to as the Surviving Company, etc. in this Division) is the Special Controlling Company of the Absorbed Stock Company, etc.; provided, however, that this shall not apply in the cases where all or part of the value of the merger, etc. in the Absorption-type Merger or Share Exchange is Shares with a Restriction on Transfer, etc., and the Absorbed Stock Company, etc. is a Public Company and not a Company with Class Shares.

(2) In the cases prescribed in the main clause of the preceding paragraph, in any one of the following cases where shareholders of the Absorbed Stock Company, etc. are likely to suffer disadvantage, shareholders of the Absorbed Stock Company, etc. may demand that the Absorbed Stock Company, etc. refrain from effecting the Absorption-type Merger, etc.:

(i) in cases where the Absorption-type Merger, etc. violates the applicable laws and regulations or articles of incorporation; or

(ii) in cases where the matters set forth in Article 749(1)(ii) or (iii), Article 751(1)(iii) or (iv), Article 758(iv), Article 760(iv) or (v), Article 768(1)(ii) or (iii), or Article 770(1)(iii) or (iv) are grossly improper in light of the financial status of the Absorbed Stock Company, etc. or the Surviving Company, etc.

(3) The provisions of the preceding Article and the preceding paragraph shall not apply in cases where the sum of the book value of the assets that the Succeeding Company in Absorption-type Company Split succeeds to through the Absorption-type Company Split does not exceed one-fifth (or, in cases where a lesser proportion is prescribed in the articles of incorporation of the Splitting Stock Company in Absorption-type Company Split, such proportion) of the amount calculated by the method specified by the applicable Ordinance of the Ministry of Justice as the total assets of the Splitting Stock Company in Absorption-type Company Split.

(Dissenting Shareholders Share Purchase Demand)

Article 785 In cases of effecting an Absorption-type Merger, etc. (excluding the following cases), dissenting shareholders may demand that the Absorbed Stock Company, etc. purchase, at a fair price, the shares held by such shareholders:

(i) in cases prescribed in Article 783(2); or

(ii) in cases prescribed in paragraph (3) of the preceding Article.

(2) The dissenting shareholders provided for in the preceding paragraph shall mean the shareholders provided for in the following items in the cases listed in the same items (excluding shareholders entitled to allotment of Equity Interests, etc. prescribed in Article 783(4) in the cases prescribed in that paragraph):

(i) in cases where a resolution of a shareholders meeting (including a Class Meeting) is required to effect the Absorption-type Merger, etc.: the following shareholders:

(a) shareholders who gave notice to such Absorbed Stock Company, etc. to the effect that they dissented from such Absorption-type Merger, etc. prior to such shareholders meeting and who dissented from such Absorption-type Merger, etc. at such shareholders meeting (limited to those who can exercise voting rights at such shareholders meeting);

(b) shareholders who are unable to exercise voting rights at such shareholders meeting; and

(ii) in cases other than those prescribed in the preceding item: all shareholders.

(3) An Absorbed Stock Company, etc. shall notify its shareholders (excluding shareholders entitled to allotment of Equity Interests, etc. prescribed in Article 783(4) in the cases prescribed in that paragraph) that it will effect an Absorption-type Merger, etc. and the trade name and domicile of the Surviving Company, etc., by twenty days prior to the Effective Day; provided, however, that this shall not apply in the cases listed in the items of paragraph (1).

(4) In the following cases, a public notice may be substituted for the notice under the provisions of the preceding paragraph:

(i) in cases where the Absorbed Stock Company, etc. is a Public Company; or

(ii) in cases where the Absorbed Stock Company, etc. obtains the approval of the Absorption-type Merger Agreement, etc. by the resolution of a shareholders meeting set forth in Article 783(1).

(5) Demands under the provisions of paragraph (1) (hereinafter referred to as a Share Purchase Demand in this Division) shall be made, within the period from the day twenty days prior to the Effective Day to the day immediately preceding the Effective Day, by disclosing the number of shares relating to such Share Purchase Demand (or, for a Company with Classes of Shares, the classes of the shares and the number of shares for each class).

(6) Shareholders who made Share Purchase Demands may withdraw their Share Purchase Demands only in cases where such shareholders obtain the approval of the Absorbed Stock Company, etc.

(7) If the Absorption-type Merger, etc. is cancelled, the Share Purchase Demands shall become ineffective.

(Determination, etc. of Price of Shares)

Article 786 In cases where a Share Purchase Demand is made, if an agreement on the determination of the price of the shares is reached between the shareholder and the Absorbed Stock Company, etc. (or, after the Effective Day in cases of effecting an Absorption-type Merger, the Company Surviving Absorption-type Merger; hereinafter the same shall apply in this Article), the Absorbed Stock Company, etc. shall make payment within sixty days from the Effective Day.

(2) If no agreement on the determination of the price of the shares is reached within thirty days from the Effective Day, shareholders or the Absorbed Stock Company, etc. may file a petition to the court for a determination of the price within thirty days after the expiration of that period.

(3) Notwithstanding the provisions of paragraph (6) of the preceding Article, in the cases prescribed in the preceding paragraph, if the petition under that paragraph is not filed within sixty days from the Effective Day, shareholders may withdraw their Share Purchase Demands at any time after the expiration of such period.

(4) The Absorbed Stock Company, etc. shall also pay interest on the price determined by the court which shall be calculated at the rate of six percent per annum from and including the day of the expiration of the period referred to in paragraph (1).

(5) The purchase of shares relating to a Share Purchase Demand shall become effective on the Effective Day (or, in the case of effecting an Absorption-type Company Split, at the time of payment of the price of such shares).

(6) If a Company Issuing Share Certificates receives a Share Purchase Demand with respect to shares for which share certificates are issued, the Company must pay the price of the shares relating to such Share Purchase Demand in exchange for the share certificates.

(Objections of Creditors)

Article 789 In the cases listed in the following items, the creditors provided for in those items may state their objections to the Absorption-type Merger, etc. to the Absorbed Stock Company, etc.:

(i) in cases of effecting an Absorption-type Merger: creditors of the Stock Company Absorbed in Absorption-type Merger;

(ii) in cases of effecting an Absorption-type Company Split: creditors of the Splitting Stock Company in Absorption-type Company Split who are unable to request the Splitting Stock Company in Absorption-type Company Split to perform the obligations (including performance of the guarantee obligations that the Splitting Stock Company in Absorption-type Company Split jointly and severally assumes with the Succeeding Company in Absorption-type Company Split as a guarantor) (or, in the case where there are provisions on the matter set forth in Article 758(viii) or Article 760(vii), creditors of the Splitting Stock Company in Absorption-type Company Split); and

(iii) in cases where the Share Options under Share Exchange Agreement are Share Options attached to Bonds with Share Options: bondholders pertaining to such Bonds with Share Options.

(2) In cases where all or part of the creditors of the Absorbed Stock Company, etc. are able to state their objection pursuant to the provisions of the preceding paragraph, the Absorbed Stock Company, etc. shall give public notice of the matters listed below in the official gazette and shall give notices separately to each known creditor (limited to one who is able to state an objection pursuant to the provisions of such paragraph), if any; provided, however, that the period under item (iv) may not be less than one month:

(i) a statement that an Absorption-type Merger, etc. will be effected;

(ii) the trade name and domicile of the Surviving Company, etc.;

(iii) the matters prescribed by the applicable Ordinance of the Ministry of Justice as the matters regarding the Financial Statements of the Absorbed Stock Company, etc. and the Surviving Company, etc. (limited to a Stock Company); and

(iv) a statement to the effect that creditors may state their objections within a certain period of time.

(3) Notwithstanding the provisions of the preceding paragraph, if the Absorbed Stock Company, etc. gives public notice under that paragraph by the Method of Public Notice listed in item (ii) or item (iii) of paragraph (1) of Article 939 in accordance with the provisions of the articles of incorporation under the provisions of that paragraph in addition to the official gazette, the Absorbed Stock Company, etc. is not required to give separate notices under the provisions of the preceding paragraph (excluding such notices to creditors of the obligations of the Splitting Stock Company in Absorption-type Company Split that have arisen due to a tort in the case of effecting an Absorption-type Company Split).

(4) In cases where creditors do not raise any objections within the period under paragraph (2)(iv), such creditors shall be deemed to have approved the Absorption-type Merger, etc.

(5) In cases where creditors raise objections within the period under paragraph (2)(iv), the Absorbed Stock Company, etc. shall make payment or provide reasonable security to such creditors, or entrust equivalent property to a Trust Company, etc. for the purpose of having such creditors receive the payment; provided, however, that this shall not apply if there is no risk of harm to such creditors by such Absorption-type Merger, etc.

(Change in the Effective Day of an Absorption-type Merger, etc.)

Article 790 An Absorbed Stock Company, etc. may change the Effective Day by agreement with the Surviving Company, etc.

(2) In the cases prescribed in the preceding paragraph, the Absorbed Stock Company, etc. shall give public notice of the changed Effective Day by the day immediately preceding the original Effective Day (or, immediately preceding the changed Effective Day, in the case where the changed Effective Day comes before the original Effective Day).

(3) When the Effective Day is changed pursuant to the provisions of paragraph (1), the provisions of this Section and Article 750, Article 752, Article 759, Article 761, Article 769, and Article 771 shall apply by deeming the changed Effective Day to be the Effective Day.

(Keeping and Inspection, etc. of Documents, etc. Concerning an Absorption-type Company Split or Share Exchange)

Article 791 The Splitting Stock Company in Absorption-type Company Split or the Wholly Owned Subsidiary Company in Share Exchange shall, without delay after the Effective Day, prepare what are provided for in the following items for the categories set forth respectively in those items, jointly with the Succeeding Company in Absorption-type Company Split or the Wholly Owning Parent Company in Share Exchange:

(i) Splitting Stock Company in Absorption-type Company Split: documents or Electromagnetic Records that state or record the rights and obligations that the Succeeding Company in Absorption-type Company Split succeeded to by transfer from the Splitting Stock Company in Absorption-type Company Split through the Absorption-type Company Split and any other matters prescribed by the applicable Ordinance of the Ministry of Justice as those concerning an Absorption-type Company Split; and

(ii) Wholly Owned Subsidiary Company in Share Exchange: documents or Electromagnetic Records that state or record the number of shares of the Wholly Owned Subsidiary Company in Share Exchange acquired by the Wholly Owning Parent Company through the Share Exchange and any other matters prescribed by the applicable Ordinance of the Ministry of Justice as those concerning a Share Exchange.

(2) A Splitting Stock Company in Absorption-type Company Split or a Wholly Owned Subsidiary Company in Share Exchange shall, for a period of six months from the Effective Day, keep the documents or Electromagnetic Records set forth in the items of the preceding paragraph at its head office.

(3) Shareholders, creditors and any other interested parties of a Splitting Stock Company in Absorption-type Company Split may make the following requests to the Splitting Stock Company in Absorption-type Company Split at any time during its business hours; provided, however, that the fees designated by said Splitting Stock Company in Absorption-type Company Split are required to be paid in order to make the requests set forth in item (ii) or item (iv):

(i) requests for inspection of the documents set forth in the preceding paragraph;

(ii) requests for delivery of a transcript or extract of the documents set forth in the preceding paragraph;

(iii) requests for inspection of anything that indicates the matters recorded in the Electromagnetic Records set forth in the preceding paragraph in a manner prescribed by the applicable Ordinance of the Ministry of Justice; and

(iv) requests that the matters recorded in the Electromagnetic Records set forth in the preceding paragraph be provided by the Electromagnetic Method designated by the Splitting Stock Company in Absorption-type Company Split, or requests for the delivery of any document that states such matters.

(4) The provisions of the preceding paragraph shall apply mutatis mutandis to a Wholly Owned Subsidiary Company in Share Exchange. In such cases, the phrase shareholders, creditors and any other interested parties of a Splitting Stock Company in Absorption-type Company Split shall be deemed to be replaced with persons who were shareholders or holders of Share Options of the Wholly Owned Subsidiary Company in Share Exchange as of the Effective Day.

Subsection 2 Procedures for the Company Surviving Absorption-type Merger, the Succeeding Company in Absorption-type Company Split and the Wholly Owning Parent Company in Share Exchange

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Division 1 Procedures for a Stock Company

(Keeping and Inspection, etc. of Documents, etc. Concerning an Absorption-type Merger Agreement, etc.)

Article 794 The Stock Company Surviving Absorption-type Merger, the Succeeding Stock Company in Absorption-type Company Split or the Wholly Owning Parent Stock Company in Share Exchange (hereinafter referred to as the Surviving Stock Company, etc. in this Division) shall, from the day on which the Absorption-type Merger Agreement, etc. began to be kept until the day on which six months have elapsed from the Effective Day, keep documents or Electromagnetic Records that state or record the contents of the Absorption-type Merger Agreement, etc. and other matters prescribed by the applicable Ordinance of the Ministry of Justice at its head office.

(2) The day on which the Absorption-type Merger Agreement, etc. began to be kept prescribed in the preceding paragraph means the earliest of the following days:

(i) if the Absorption-type Merger Agreement, etc. is required to be approved by a resolution of a shareholders meeting (including a Class Meeting), the day two weeks prior to the day of the shareholders meeting (or, in the cases prescribed in paragraph (1) of Article 319, the day when the proposal under that paragraph is submitted);

(ii) the day of the notice under the provisions of paragraph 3 of Article 797 or the day of the public notice under paragraph (4) of that Article, whichever is earlier; or

(iii) if the procedures under the provisions of Article 799 are required to be carried out, the day of the public notice under the provisions of paragraph (2) of that Article or the day of the notice under the provisions of that paragraph, whichever is earlier.

(3) Shareholders and creditors of a Surviving Stock Company, etc. (or, in the case where the Monies, etc. to be delivered to shareholders of the Wholly Owned Subsidiary Company in Share Exchange are limited to shares of the Wholly Owning Parent Stock Company in Share Exchange or those prescribed by the applicable Ordinance of the Ministry of Justice as being equivalent thereto (excluding the case prescribed in Article 768(1)(iv)(c)), shareholders) may make the following requests to said Surviving Stock Company, etc. at any time during its business hours; provided, however, that the fees designated by said Surviving Stock Company, etc. are required to be paid in order to make the requests set forth in item (ii) or item (iv):

(i) requests for inspection of the documents set forth in paragraph (1);

(ii) requests for delivery of a transcript or extract of the documents set forth in paragraph (1);

(iii) requests for inspection of anything that indicates the matters recorded in the Electromagnetic Records set forth in paragraph (1) in a manner prescribed by the applicable Ordinance of the Ministry of Justice; and

(iv) requests that the matters recorded in the Electromagnetic Records set forth in paragraph (1) be provided by the Electromagnetic Method designated by the Surviving Stock Company, etc., or requests for the delivery of any document that states such matters.

(Approval, etc. of the Absorption-type Merger Agreement, etc.)

Article 795 A Surviving Stock Company, etc. shall obtain the approval of the Absorption-type Merger Agreement, etc. by a resolution of a shareholders meeting by the day immediately preceding the Effective Day.

(2) In the cases listed below, a director shall explain to that effect at the shareholders meeting set forth in the preceding paragraph:

(i) in cases where the amount prescribed by the applicable Ordinance of the Ministry of Justice as the amount of obligations that the Stock Company Surviving Absorption-type Merger or the Succeeding Stock

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Company in Absorption-type Company Split succeeds to by transfer from the Company Absorbed in Absorption-type Merger or the Splitting Company in Absorption-type Company Split (referred to as the Amount of Succeeded Obligations in the following item) exceeds the amount prescribed by the applicable Ordinance of the Ministry of Justice as the amount of assets that the Stock Company Surviving Absorption-type Merger or the Succeeding Stock Company in Absorption-type Company Split succeeds to by transfer from the Company Absorbed in Absorption-type Merger or the Splitting Company in Absorption-type Company Split (referred to as the Amount of Succeeded Assets in the following item);

(ii) in cases where the book value of the Monies, etc. (excluding shares, etc. of the Stock Company Surviving Absorption-type Merger or the Succeeding Stock Company in Absorption-type Company Split) delivered by the Stock Company Surviving Absorption-type Merger or the Succeeding Stock Company in Absorption-type Company Split to shareholders of the Stock Company Absorbed in Absorption-type Merger, to partners of the Membership Company Absorbed in Absorption-type Merger or to the Splitting Company in Absorption-type Company Split exceeds the amount obtained by deducting the Amount of Succeeded Obligations from the Amount of Succeeded Assets; or

(iii) in cases where the book value of the Monies, etc. (excluding shares, etc. of the Wholly Owning Parent Stock Company in Share Exchange) delivered by the Wholly Owning Parent Stock Company in Share Exchange to shareholders of the Wholly Owned Subsidiary Company in Share Exchange exceeds the amount prescribed by the applicable Ordinance of the Ministry of Justice as the amount of shares of the Wholly Owned Subsidiary Company in Share Exchange to be acquired by the Wholly Owning Parent Stock Company in Share Exchange.

(3) In cases where the assets of the Company Absorbed in Absorption-type Merger or the Splitting Company in Absorption-type Company Split include shares of the Stock Company Surviving Absorption-type Merger or the Succeeding Stock Company in Absorption-type Company Split, a director shall explain the matters concerning such shares at the shareholders meeting set forth in paragraph (1).

(4) Where the Surviving Stock Company, etc. is a Company with Class Shares, in the cases listed in the following items, an Absorption-type Merger, etc. shall not become effective without a resolution of a Class Meeting constituted by Class Shareholders of the class of shares provided for respectively in those items (limited to Shares with a Restriction on Transfer and for which the provisions of the articles of incorporation set forth in Article 199(4) do not exist) (in cases where there are two or more classes of shares relating to such Class Shareholders, the respective Class Meetings constituted by Class Shareholders categorized by the class of such two or more classes of shares); provided, however, that this shall not apply to cases where there is no Class Shareholder who is able to exercise a voting right at such Class Meeting:

(i) in cases where the Monies, etc. delivered to shareholders of the Stock Company Absorbed in Absorption-type Merger or to partners of the Membership Company Absorbed in Absorption-type Merger are shares of the Stock Company Surviving Absorption-type Merger: the class of shares set forth in Article 749(1)(ii)(a);

(ii) in cases where the Monies, etc. delivered to the Splitting Company in Absorption-type Company Split are shares of the Succeeding Stock Company in Absorption-type Company Split: the class of shares set forth in Article 758(iv)(a); or

(iii) in cases where the Monies, etc. delivered to shareholders of the Wholly Owned Subsidiary Company in Share Exchange are shares of the Wholly Owning Parent Stock Company in Share Exchange: the class of shares set forth in Article 768(1)(ii)(a).

(Cases Where Approval of the Absorption-type Merger Agreement, etc. Is Not Required, etc.)

Article 796 The provisions of paragraphs (1) to (3) of the preceding Article shall not apply in the cases where the Company Absorbed in Absorption-type Merger, the Splitting Company in Absorption-type Company Split or the Wholly Owned Subsidiary Company in Share Exchange (hereinafter referred to as the Absorbed

Company, etc. in this Division) is the Special Controlling Company of the Surviving Stock Company, etc.; provided, however, that this shall not apply in the cases where all or part of the Monies, etc. to be delivered to shareholders of the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange, to partners of the Membership Company Absorbed in Absorption-type Merger or to the Splitting Company in Absorption-type Company Split are Shares with a Restriction on Transfer, etc. of the Surviving Stock Company, etc., and the Surviving Stock Company, etc. is not a Public Company.

(2) In the cases prescribed in the main clause of the preceding paragraph, in any one of the following cases where shareholders of the Surviving Stock Company, etc. are likely to suffer disadvantage, shareholders of the Surviving Stock Company, etc. may demand that the Surviving Stock Company, etc. refrain from effecting the Absorption-type Merger, etc.:

(i) in cases where the Absorption-type Merger, etc. violates the applicable laws and regulations or articles of incorporation; or

(ii) in cases where the matters set forth in Article 749(1)(ii) or (iii), Article 758(iv) or Article 768(1)(ii) or (iii) are grossly improper in light of the financial status of the Surviving Stock Company, etc. or the Absorbed Company, etc.

(3) The provisions of paragraphs (1) to (3) of the preceding Article shall not apply in cases where the amount set forth in item (i) does not exceed one-fifth (or, in cases where a lesser proportion is prescribed in the articles of incorporation of the Surviving Stock Company, etc., such proportion) of the amount set forth in item (ii); provided, however, that this shall not apply in the cases listed in the items of paragraph (2) of the preceding Article or the cases prescribed in the proviso to paragraph (1):

(i) the total amount of the amounts listed below:

(a) the amount obtained by multiplying the number of shares of the Surviving Stock Company, etc. to be delivered to shareholders of the Stock Company Absorbed in Absorption-type Merger or the Wholly Owned Subsidiary Company in Share Exchange, to partners of the Membership Company Absorbed in Absorption-type Merger or to the Splitting Company in Absorption-type Company Split (hereinafter referred to as Shareholders, etc. of the Absorbed Company, etc. in this item) by the amount of net assets per share;

(b) the total amount of the book value of Bonds, Share Options or Bonds with Share Options of the Surviving Stock Company, etc. to be delivered to Shareholders, etc. of the Absorbed Company, etc.; and

(c) the total amount of the book value of property other than shares, etc. of the Surviving Stock Company, etc. to be delivered to Shareholders, etc. of the Absorbed Company, etc.; and

(ii) the amount calculated by the method specified by the applicable Ordinance of the Ministry of Justice as the total assets of the Surviving Stock Company, etc.

(4) In the cases prescribed in the main clause of the preceding paragraph, if shareholders that hold the shares (limited to those that entitle the shareholders to exercise voting rights at a shareholders meeting under paragraph (1) of the preceding article) in the number prescribed by the applicable Ordinance of the Ministry of Justice notify the Surviving Stock Company, etc. to the effect that such shareholders dissent from the Absorption-type Merger, etc., within two weeks from the day of the notice under the provisions of paragraph (3) of the following Article or the public notice under paragraph (4) of that Article, such Surviving Stock Company, etc. must obtain the approval of the Absorption-type Merger Agreement, etc. by a resolution of a shareholders meeting no later than the day immediately preceding the Effective Day.

(Dissenting Shareholders Share Purchase Demand)

Article 797 In cases of effecting an Absorption-type Merger, etc., dissenting shareholders may demand that the Surviving Stock Company, etc. purchase, at a fair price, the shares held by such shareholders.

(2) The dissenting shareholders provided for in the preceding paragraph shall mean the shareholders provided for in the following items in the cases listed in the same items:

(i) in cases where a resolution of a shareholders meeting (including a Class Meeting) is required to effect the Absorption-type Merger, etc.: the following shareholders:

(a) shareholders who gave notice to such Surviving Stock Company, etc. to the effect that they dissented from such Absorption-type Merger, etc. prior to such shareholders meeting and who dissented from such Absorption-type Merger, etc. at such shareholders meeting (limited to those who can exercise voting rights at such shareholders meeting);

(b) shareholders who are unable to exercise voting rights at such shareholders meeting; and

(ii) in cases other than those prescribed in the preceding item: all shareholders;

(3) A Surviving Stock Company, etc. shall notify its shareholders that it will effect an Absorption-type Merger, etc. and the trade name and domicile of the Absorbed Company, etc. (or, in the cases prescribed in Article 795(3), the fact that it will effect an Absorption-type Merger, etc., the trade name and domicile of the Absorbed Company, etc. and the matters concerning shares set forth in that paragraph), by twenty days prior to the Effective Day.

(4) In the following cases, a public notice may be substituted for the notice under the provisions of the preceding paragraph:

(i) in cases where the Surviving Stock Company, etc. is a Public Company; or

(ii) in cases where the Surviving Stock Company, etc. obtains the approval of the Absorption-type Merger Agreement, etc. by the resolution of a shareholders meeting set forth in Article 795(1).

(5) Demands under the provisions of paragraph (1) (hereinafter referred to as the Share Purchase Demand in this Division) shall be made, within the period from the day twenty days prior to the Effective Day to the day immediately preceding the Effective Day, by disclosing the number of shares relating to such Share Purchase Demand (or, for a Company with Classes of Shares, the classes of the shares and the number of shares for each class).

(6) Shareholders who made Share Purchase Demands may withdraw their Share Purchase Demands only in cases where such shareholders obtain the approval of the Surviving Stock Company, etc.

(7) If the Absorption-type Merger, etc. is cancelled, the Share Purchase Demands shall become ineffective.

(Determination, etc. of Price of Shares)

Article 798 In cases where a Share Purchase Demand is made, if an agreement on the determination of the price of the shares is reached between the shareholder and the Surviving Stock Company, etc., the Surviving Stock Company, etc. shall make payment within sixty days from the Effective Day.

(2) If no agreement on the determination of the price of the shares is reached within thirty days from the Effective Day, shareholders or the Surviving Stock Company, etc. may file a petition to the court for a determination of the price within thirty days after the expiration of that period.

(3) Notwithstanding the provisions of paragraph (6) of the preceding Article, in the cases prescribed in the preceding paragraph, if the petition under that paragraph is not filed within sixty days from the Effective Day, shareholders may withdraw their Share Purchase Demands at any time after the expiration of such period.

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(4) The Surviving Stock Company, etc. shall also pay interest on the price determined by the court which shall be calculated at the rate of six percent per annum from and including the day of the expiration of the period referred to in paragraph (1).

(5) The purchase of shares relating to a Share Purchase Demand shall become effective at the time of payment of the price of such shares.

(6) If a Company Issuing Share Certificates receives a Share Purchase Demand with respect to shares for which share certificates are issued, the Company must pay the price of the shares relating to such Share Purchase Demand in exchange for the share certificates.

(Objections of Creditors)

Article 799 In the cases listed in the following items, the creditors provided for in those items may state their objections to the Absorption-type Merger, etc. to the Surviving Stock Company, etc.:

(i) in cases of effecting an Absorption-type Merger: creditors of the Stock Company Surviving Absorption-type Merger;

(ii) in cases of effecting an Absorption-type Company Split: creditors of the Succeeding Stock Company in Absorption-type Company Split; or

(iii) in cases of effecting a Share Exchange other than where the Monies, etc. to be delivered to shareholders of the Wholly Owned Subsidiary Company in Share Exchange are only shares of the Wholly Owning Parent Stock Company in Share Exchange or those prescribed by the applicable Ordinance of the Ministry of Justice as being equivalent thereto, or in the cases prescribed in Article 768(1)(iv): creditors of the Wholly Owning Parent Stock Company in Share Exchange.

(2) In cases where the creditors of the Surviving Stock Company, etc. are able to state their objection pursuant to the provisions of the preceding paragraph, the Surviving Stock Company, etc. shall give public notice of the matters listed below in the official gazette and shall give notices separately to each known creditor, if any; provided, however, that the period under item (iv) may not be less than one month:

(i) a statement that an Absorption-type Merger, etc. will be effected;

(ii) the trade name and domicile of the Absorbed Company, etc.;

(iii) the matters prescribed by the applicable Ordinance of the Ministry of Justice as the matters regarding the Financial Statements of the Surviving Stock Company, etc. and the Absorbed Company, etc. (limited to a Stock Company); and

(iv) a statement to the effect that creditors may state their objections within a certain period of time.

(3) Notwithstanding the provisions of the preceding paragraph, if the Surviving Stock Company, etc. gives public notice under that paragraph by Method of Public Notice listed in item (ii) or item (iii) of paragraph (1) of Article 939 in accordance with the provisions of the articles of incorporation under the provisions of that paragraph in addition to the official gazette, the Surviving Stock Company, etc. is not required to give separate notices under the provisions of the preceding paragraph.

(4) In cases where creditors do not raise any objections within the period under paragraph (2)(iv), such creditors shall be deemed to have approved the Absorption-type Merger, etc.

(5) In cases where creditors raise objections within the period under paragraph (2)(iv), the Surviving Stock Company, etc. shall make payment or provide reasonable security to such creditors, or entrust equivalent

property to a Trust Company, etc. for the purpose of having such creditors receive the payment; provided, however, that this shall not apply if there is no risk of harm to such creditors by such Absorption-type Merger, etc.

(Keeping and Inspection, etc. of Documents, etc. Concerning an Absorption-type Merger, etc.)

Article 801 The Stock Company Surviving Absorption-type Merger shall, without delay after the Effective Day, prepare documents or Electromagnetic Records that state or record the rights and obligations that the Stock Company Surviving Absorption-type Merger succeeded to by transfer from the Company Absorbed in Absorption-type Merger through the Absorption-type Merger and any other matters prescribed by the applicable Ordinance of the Ministry of Justice as those concerning an Absorption-type Merger.

(2) The Succeeding Stock Company in Absorption-type Company Split (limited to the Succeeding Stock Company in Absorption-type Company Split where the Limited Liability Company effects the Absorption-type Company Split) shall, without delay after the Effective Day, prepare, jointly with the Splitting Limited Liability Company in Absorption-type Company Split, documents or Electromagnetic Records that state or record the rights and obligations that the Succeeding Stock Company in Absorption-type Company Split succeeded to by transfer from the Splitting Limited Liability Company in Absorption-type Company Split through the Absorption-type Company Split and any other matters prescribed by the applicable Ordinance of the Ministry of Justice as those concerning an Absorption-type Company Split.

(3) Each of the Surviving Stock Companies, etc. listed in the following items shall, for a period of six months from the Effective Day, keep what are specified respectively in those items at its head office:

(i) Stock Company Surviving Absorption-type Merger: documents or Electromagnetic Records set forth in paragraph (1);

(ii) Succeeding Stock Company in Absorption-type Company Split: documents or Electromagnetic Records set forth in the preceding paragraph or Article 791(1)(i); and

(iii) Wholly Owning Parent Stock Company in Share Exchange: documents or Electromagnetic Records set forth in Article 791(1)(ii).

(4) Shareholders and creditors of the Stock Company Surviving Absorption-type Merger may make the following requests to said Stock Company Surviving Absorption-type Merger at any time during its business hours; provided, however, that the fees designated by said Stock Company Surviving Absorption-type Merger are required to be paid in order to make the requests set forth in item (ii) or item (iv):

(i) requests for inspection of the documents set forth in item (i) of the preceding paragraph;

(ii) requests for delivery of a transcript or extract of the documents set forth in item (i) of the preceding paragraph;

(iii) requests for inspection of anything that indicates the matters recorded in the Electromagnetic Records set forth in item (i) of the preceding paragraph in a manner prescribed by the applicable Ordinance of the Ministry of Justice; and

(iv) requests that the matters recorded in the Electromagnetic Records set forth in item (i) of the preceding paragraph be provided by the Electromagnetic Method designated by the Stock Company Surviving Absorption-type Merger, or requests for the delivery of any document that states such matters.

(5) The provisions of the preceding paragraph shall apply mutatis mutandis to the Succeeding Stock Company in Absorption-type Company Split. In such cases, the phrase shareholders and creditors in that

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paragraph shall be deemed to be replaced with shareholders, creditors and any other interested parties, and the term item (i) of the preceding paragraph in the items of that paragraph shall be deemed to be replaced with item (ii) of the preceding paragraph.

(6) The provisions of paragraph (4) shall apply mutatis mutandis to the Wholly Owning Parent Stock Company in Share Exchange. In such cases, the phrase shareholders and creditors in that paragraph shall be deemed to be replaced with shareholders and creditors (or, in cases where Monies, etc. to be delivered to shareholders of the Wholly Owned Subsidiary Company in Share Exchange are limited to shares of the Wholly Owning Parent Stock Company in Share Exchange or those prescribed by the applicable Ordinance of the Ministry of Justice as being equivalent thereto (excluding the case prescribed in Article 768(1)(iv)(c)), shareholders of the Wholly Owning Parent Stock Company in Share Exchange), and the term item (i) of the preceding paragraph in the items of that paragraph shall be deemed to be replaced with item (iii) of the preceding paragraph.

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APPENDIX E

April 28, 2015

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ANNOUNCEMENT OF FINANCIAL RESULTS

PANASONIC REPORTS FISCAL 2015 ANNUAL RESULTS

- Achieved Mid-term Plan Target of 5% Operating Profit Ratio -

Osaka, Japan, April 28, 2015 Panasonic Corporation (Panasonic [TSE: 6752]) today reported its consolidated financial results for the year ended March 31, 2015 (fiscal 2015).

Consolidated Results

Consolidated group sales for fiscal 2015 were 7,715.0 billion yen, at the same level as 7,736.5 billion yen in the year ended March 31, 2014 (fiscal 2014). In Japan, although sales in housing-related and consumer electronics businesses decreased due mainly to weakening demand after the consumption tax hike in April 2014, sales of residential solar photovoltaic systems were strong. Overseas sales increased due mainly to strong sales in automotive-related business along with robust demand, and a positive effect from yen depreciation.

During fiscal 2015 under review, the global economy moderately recovered despite slowdown in China, some ASEAN countries and European countries. The U.S. employment and consumer spending were stable and signs of economic improvement from recent weak economy were appeared in Japan.

Under such business circumstances, in fiscal 2015, Panasonic promoted its Business Division-based Management as an initiative in the second year of its mid-term management plan, Cross-Value Innovation 2015 (CV2015). Panasonic also promoted initiatives to consolidate a foundation to achieve CV2015 and to set its growth strategy for a new Panasonic in fiscal 2019.

Operating profit[1] significantly increased by 25% to 381.9 billion yen from 305.1 billion yen a year ago due to improvement of challenging businesses including business restructuring benefits, fixed cost reductions and materials cost streamlining. This led that the company achieved its CV2015 financial targets of operating profit and cumulative free cash flow one year ahead of schedule.

[1] For information about operating profit, see Note 2 of the Notes to consolidated financial statements on page E-9.

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In other income (deductions), gains from business transfers and proceeds from fixed assets were recorded. The business restructuring expenses including impairment losses on fixed assets as well as expenses related to litigation and the prevention of further accidents with residential water heating systems were also incurred. Accordingly, pre-tax income decreased by 12% to 182.5 billion yen from 206.2 billion yen a year ago. Net income attributable to Panasonic Corporation significantly increased by 49% to 179.5 billion yen from 120.4 billion yen a year ago due mainly to a decrease in provision for income taxes as a result of recording deferred tax assets (DTA), namely decrease in valuation allowances to DTA, of Panasonic Corporation in consolidated financial statements.

Breakdown by Segment

Some businesses were transferred among segments on April 1, 2014 and July 1, 2014. Accordingly, the figures for segment information in fiscal 2014 have been reclassified to conform to the presentation for July 1, 2014.

The company s annual consolidated sales and profits by segment compared with the previous year are summarized as follows:

Appliances

Sales were 1,769.7 billion yen, at the same level as 1,777.4 billion yen a year ago due mainly to favorable overseas sales in home appliances such as air-conditioners, and motors, despite weakening demand after the consumption tax hike and a negative impact from sharp price decline of TVs in Japan. Segment profit increased by 37% to 40.5 billion yen, compared with 29.5 billion yen a year ago. Profit improvement in air-conditioners and profit increase in devices including motors offset worsening profitability in TVs.

Eco Solutions

Sales decreased slightly by 1% to 1,666.0 billion yen from 1,674.4 billion yen a year ago. Overseas sales increased due to newly-consolidated VIKO, a Turkish company. Meantime, housing-related sales in Japan decreased due to weakening demand in housing market after the consumption tax hike. Segment profit increased by 3% to 95.3 billion yen from 92.1 billion yen a year ago due mainly to sales increase in residential solar photovoltaic systems, streamlining initiatives and fixed cost reduction.

AVC Networks

Sales were 1,154.3 billion yen, at the same level as 1,152.5 billion yen a year ago. Sales increase in a stable BtoB business and a positive effect from yen depreciation offset a negative impact from business restructuring in fiscal 2014 and 2015. Segment profit increased by 45% to 51.8 billion yen from 35.7 billion yen a year ago due mainly to profit improvement from sales increase in BtoB business and business restructuring benefits.

Automotive & Industrial Systems

Sales increased by 2% to 2,782.5 billion yen from 2,721.8 billion yen a year ago due mainly to favorable demand in automotive business overseas especially in North Americas and Europe offsetting sales decrease from downsizing unprofitable businesses and transferring businesses. The positive effect from yen depreciation also contributed to sales increase. Segment profit increased by 53% to 105.7 billion yen from 69.2 billion yen a year ago due mainly to business restructuring benefits including LCD panels and semiconductors and streamlining initiatives as well as the positive effect from yen depreciation.

Other

Sales decreased by 14% to 764.5 billion yen from 891.3 billion yen a year ago due mainly to the transfer of healthcare business at the end of fiscal 2014. Sales of PanaHome Corporation were at the same level as last year. Segment profit decreased by 40% to 14.6 billion yen from 24.3 billion yen a year ago due mainly to healthcare business transfer.

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Consolidated Financial Position

Net cash provided by operating activities for the year ended March 31, 2015 decreased by 90.5 billion yen from a year ago to 491.5 billion yen. Net cash used in investing activities amounted to 138.0 billion yen compared with an inflow of 12.1 billion yen a year ago. Accordingly, free cash flow (net cash provided by operating activities plus net cash provided by investing activities) decreased by 240.6 billion yen from a year ago to 353.5 billion yen due mainly to recording net income, an improvement in working capital, business transfers and disposals of investments in equity. Net cash provided by financing activities amounted to 257.6 billion yen compared with an outflow of 532.3 billion yen a year ago due mainly to an increase of long-term debt by the issuance of unsecured straight bonds of 400.0 billion yen in total and a dividend payment. Taking into consideration the exchange rate fluctuations, cash and cash equivalents totaled 1,280.4 billion yen as of March 31, 2015, an increase of 687.9 billion yen compared with a year ago.

The company s consolidated total assets as of March 31, 2015 increased by 744.0 billion yen to 5,956.9 billion yen from the end of fiscal 2014 due mainly to an increase in cash and cash equivalents by bond issuance and recording DTA as well as yen depreciation. Total liabilities increased by 337.8 billion yen to 3,964.4 billion yen due mainly to the issuance of unsecured straight bonds. Panasonic Corporation shareholders equity increased by 275.1 billion yen compared with the end of fiscal 2014 to 1,823.3 billion yen due mainly to recording net income and an improvement in accumulated other comprehensive income (loss) by yen depreciation, despite a decrease in capital surplus accompanied by the acquisition of additional interests of its subsidiaries. Adding noncontrolling interests to Panasonic Corporation shareholders equity, total equity was 1,992.5 billion yen.

Dividend

Total cash dividends for fiscal 2015, ended March 31, 2015, are expected to be 18.0 yen per share, including an interim dividend of 8.0 yen per share paid on December 4, 2014.

Panasonic Corporation is one of the world s leading manufacturers of electronic and electric products for consumer, business and industrial use. Panasonic s shares are listed on the Tokyo and Nagoya stock exchanges.

For more information, please visit the following web sites:

Panasonic home page URL: http://www.panasonic.com/global/home.html

Panasonic IR web site URL: http://www.panasonic.com/global/corporate/ir.html

(Financial Tables and Additional Information Attached)

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Panasonic Corporation

Consolidated Statements of Income and

Consolidated Statements of Comprehensive Income *

(Year ended March 31)

Consolidated Statements of Income

	Yen (millions) 2015	2014	Percentage 2015/2014
Net sales	¥ 7,715,037	¥ 7,736,541	100%
Cost of sales	(5,527,213)	(5,638,869)	
Selling, general and administrative expenses	(1,805,911)	(1,792,558)	
Interest income	14,975	10,632	
Dividends received	1,466	1,992	
Interest expense	(17,566)	(21,911)	
Expenses associated with the implementation of early retirement programs *	(16,417)	(32,034)	
Other income (deductions), net *	(181,915)	(57,568)	
Income before income taxes	182,456	206,225	88%
Provision for income taxes	1,981	(89,665)	
Equity in earnings of associated companies	11,929	5,085	
Net income	196,366	121,645	161%
Less net income attributable to noncontrolling interests	16,881	1,203	
Net income attributable to Panasonic Corporation	¥ 179,485	¥ 120,442	149%
Net income attributable to Panasonic Corporation, basic			
per common share	77.65 yen	52.10 yen	
per ADS	77.65 yen	52.10 yen	
Net income attributable to Panasonic Corporation, diluted			
per common share *	77.64 yen		
per ADS *	77.64 yen		
<Supplementary Information *>			
Depreciation (tangible assets)	¥ 242,149	¥ 278,792	
Capital investment **	¥ 226,680	¥ 217,033	
R&D expenditures	¥ 457,250	¥ 478,817	
Number of employees (March 31)	254,084	271,789	

Consolidated Statements of Comprehensive Income

	Yen (millions) 2015	2014	Percentage 2015/2014
Net income	¥ 196,366	¥ 121,645	161%
Other comprehensive income, net of tax			
Translation adjustments	193,690	136,633	
Unrealized holding gains of available-for-sale securities	8,351	6,201	
Unrealized gains of derivative instruments	3,445	4,300	

Pension liability adjustments	68,027	38,551	
	273,513	185,685	
Comprehensive income	469,879	307,330	153%
Less comprehensive income attributable to noncontrolling interests	31,946	10,358	
Comprehensive income attributable to Panasonic Corporation	¥ 437,933	¥ 296,972	147%

(Parentheses indicate expenses, deductions or losses.)

* See Notes to consolidated financial statements on pages E-9 - E-10.
** These figures are calculated on an accrual basis.

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Panasonic Corporation

Consolidated Balance Sheets **

March 31, 2015

With comparative figures for March 31, 2014

	Yen (millions)	
	March 31, 2015	**March 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents	¥ 1,280,408	¥ 592,467
Time deposits	18,470	
Trade receivables:		
Notes	79,055	73,458
Accounts	937,986	958,451
Allowance for doubtful receivables	(24,947)	(24,476)
Inventories	762,670	750,681
Other current assets	359,098	303,411
Total current assets	3,412,740	2,653,992
Investments and advances	313,669	271,804
Property, plant and equipment, net of accumulated depreciation	1,374,831	1,425,449
Other assets	855,707	861,749
Total assets	¥ 5,956,947	¥ 5,212,994
Liabilities and Equity		
Current liabilities:		
Short-term debt, including current portion of long-term debt	¥ 260,531	¥ 84,738
Trade payables:		
Notes	236,970	200,363
Accounts	746,335	736,652
Other current liabilities	1,488,964	1,416,106
Total current liabilities	2,732,800	2,437,859
Noncurrent liabilities:		
Long-term debt	712,385	557,374
Other long-term liabilities	519,210	631,323
Total noncurrent liabilities	1,231,595	1,188,697
Total liabilities	3,964,395	3,626,556
Panasonic Corporation shareholders equity:		
Common stock	258,740	258,740
Capital surplus	984,111	1,109,501
Retained earnings	1,021,241	878,742
Accumulated other comprehensive income (loss) *	(193,251)	(451,699)
Treasury stock, at cost	(247,548)	(247,132)
Total Panasonic Corporation shareholders equity	1,823,293	1,548,152

Noncontrolling interests	169,259	38,286
Total equity	1,992,552	1,586,438
Total liabilities and equity	¥ 5,956,947	¥ 5,212,994

* Accumulated other comprehensive income (loss) breakdown:

	Yen (millions)	
	March 31, 2015	**March 31, 2014**
Cumulative translation adjustments	¥ 11,858	¥ (167,219)
Unrealized holding gains of available-for-sale securities	14,285	6,027
Unrealized gains (losses) of derivative instruments	3,135	(237)
Pension liability adjustments	(222,529)	(290,270)

** See Notes to consolidated financial statements on pages E-9 - E-10.

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Panasonic Corporation

Consolidated Information by Segment *

(Year ended March 31)

By Segment:

	Yen (billions) 2015	2014	Percentage 2015/2014
[Sales]			
Appliances	¥ 1,769.7	¥ 1,777.4	100%
Eco Solutions	1,666.0	1,674.4	99%
AVC Networks	1,154.3	1,152.5	100%
Automotive & Industrial Systems	2,782.5	2,721.8	102%
Other	764.5	891.3	86%
Subtotal	8,137.0	8,217.4	99%
Eliminations and adjustments	(422.0)	(480.9)	
Consolidated total	¥ 7,715.0	¥ 7,736.5	100%
[Segment Profit]*			
Appliances	¥ 40.5	¥ 29.5	137%
Eco Solutions	95.3	92.1	103%
AVC Networks	51.8	35.7	145%
Automotive & Industrial Systems	105.7	69.2	153%
Other	14.6	24.3	60%
Subtotal	307.9	250.8	123%
Eliminations and adjustments	74.0	54.3	
Consolidated total	¥ 381.9	¥ 305.1	125%

* See Notes to consolidated financial statements on pages E-9 - E-10.

Panasonic Corporation

Consolidated Statement of Equity *

(Years ended March 31, 2015 and 2014)

(Year ended March 31, 2015)	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Panasonic Corporation shareholders equity	Noncontrolling interests	Yen (millions) Total equity
Balances at beginning of period	**¥ 258,740**	**¥ 1,109,501**	**¥ 878,742**	**¥ (451,699)**	**¥ (247,132)**	**¥ 1,548,152**	**¥ 38,286**	**¥ 1,586,438**
Gain (loss) from sale of treasury stock			(1)			(1)		(1)
Cash dividends			(36,985)			(36,985)	(22,244)	(59,229)
Increase (decrease) mainly in capital transactions		(125,390)				(125,390)	121,271	(4,119)
Disclosure of comprehensive income								
Net income			179,485			179,485	16,881	196,366
Translation adjustments				179,077		179,077	14,613	193,690
Unrealized holding gains of available-for-sale securities				8,258		8,258	93	8,351
Unrealized gains of derivative instruments				3,372		3,372	73	3,445
Pension liability adjustments				67,741		67,741	286	68,027
Total comprehensive income						437,933	31,946	469,879
Repurchase of common stock, net					(416)	(416)		(416)
Balances at end of period	**¥ 258,740**	**¥ 984,111**	**¥ 1,021,241**	**¥ (193,251)**	**¥ (247,548)**	**¥ 1,823,293**	**¥ 169,259**	**¥ 1,992,552**

(Year ended March 31, 2014)	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Panasonic Corporation shareholders equity	Noncontrolling interests	Total equity
Balances at beginning of period	**¥ 258,740**	**¥ 1,110,686**	**¥ 769,863**	**¥ (628,229)**	**¥ (247,028)**	**¥ 1,264,032**	**¥ 40,241**	**¥ 1,304,273**
Gain (loss) from sale of treasury stock			(5)			(5)		(5)
Cash dividends			(11,558)			(11,558)	(13,628)	(25,186)
Increase (decrease) mainly in capital transactions		(1,185)				(1,185)	1,315	130
Disclosure of comprehensive income (loss)								
Net income			120,442			120,442	1,203	121,645
Translation adjustments				129,796		129,796	6,837	136,633
Unrealized holding gains (losses) of available-for-sale securities				6,245		6,245	(44)	6,201
Unrealized gains (losses) of derivative instruments				4,336		4,336	(36)	4,300
Pension liability adjustments				36,153		36,153	2,398	38,551
Total comprehensive income						296,972	10,358	307,330
Repurchase of common stock, net					(104)	(104)		(104)
Balances at end of period	**¥ 258,740**	**¥ 1,109,501**	**¥ 878,742**	**¥ (451,699)**	**¥ (247,132)**	**¥ 1,548,152**	**¥ 38,286**	**¥ 1,586,438**

* See Notes to consolidated financial statements on pages E-9 - E-10.

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Panasonic Corporation

Consolidated Statements of Cash Flows *

(Year ended March 31)

	Yen (millions) 2015	2014
Cash flows from operating activities:		
Net income	¥ 196,366	¥ 121,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	286,528	331,083
Net (gain) loss on sale of investments	(8,261)	(25,769)
Cash effects of changes in, excluding acquisition:		
Trade receivables	68,901	(34,882)
Inventories	5,993	64,601
Trade payables	6,509	124,467
Retirement and severance benefits	(40,634)	(140,422)
Other	(23,939)	141,227
Net cash provided by operating activities	491,463	581,950
Cash flows from investing activities:		
Proceeds from disposals of investments and advances	43,625	63,185
Increase in investments and advances	(19,647)	(18,226)
Capital expenditures	(224,162)	(201,735)
Proceeds from disposals of property, plant and equipment	80,168	53,321
(Increase) decrease in time deposits	(18,470)	1,674
Other	478	113,909
Net cash (used in) provided by investing activities	(138,008)	12,128
Cash flows from financing activities:		
Increase (decrease) in short-term debt	(30,231)	(159,393)
Increase (decrease) in long-term debt	356,217	(342,761)
Dividends paid to Panasonic Corporation shareholders	(36,985)	(11,558)
Dividends paid to noncontrolling interests	(22,244)	(13,628)
(Increase) decrease in treasury stock	(417)	(109)
Purchase of noncontrolling interests and Other	(8,725)	(4,866)
Net cash provided by (used in) financing activities	257,615	(532,315)
Effect of exchange rate changes on cash and cash equivalents	76,871	34,421
Net increase in cash and cash equivalents	687,941	96,184
Cash and cash equivalents at beginning of period	592,467	496,283
Cash and cash equivalents at end of period	¥ 1,280,408	¥ 592,467

* See Notes to consolidated financial statements on pages E-9 - E-10.

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Notes to consolidated financial statements:

1. The company s consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP).

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 and 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. Please refer to the accompanying consolidated statement of income and Note 3 for the U.S. GAAP reconciliation.

3. Under U.S. GAAP, expenses associated with the implementation of early retirement programs at certain domestic and overseas companies and the impairment losses on goodwill and fixed assets would be included as part of operating profit in the statement of income.

4. In other income (deductions), the company incurred expenses associated with the implementation of early retirement programs of certain domestic and overseas companies.

5. In Other income (deductions), net, legal costs are included for fiscal 2015 and a one-off gain from the pension scheme change and a gain from transfers of healthcare business are included for fiscal 2014.

6. In Provision for income taxes, recording DTA, namely decrease in valuation allowances to DTA, for Panasonic on a consolidated basis is included.

7. Per share data (Years ended March 31)

	2015	2014
Net income attributable to Panasonic Corporation (millions of yen)	179,485	120,442
Average common shares outstanding (number of shares)	2,311,472,371	2,311,618,296
Net income attributable to Panasonic Corporation per share:		
Basic	77.65 yen	52.10 yen
Diluted	77.64 yen	

Diluted net income per share attributable to Panasonic Corporation common shareholders in fiscal 2014 has been omitted because the company did not have potentially dilutive common shares that were outstanding for the period.

8. The figures in Eliminations and adjustments include earnings and expenses which are not attributable to any reportable segments, for the purpose of evaluating operating results of each segment, and consolidation adjustments (including amortization of intangible assets and differences of accounting principles).

9. The company resolved, at the Board of Directors meeting held on February 3, 2015, to make Panasonic Information Systems Co., Ltd. (Panasonic IS) which is a consolidated subsidiary of Panasonic, a wholly-owned subsidiary by the way of share exchange. On the same day, the share exchange agreement was concluded between both companies in order to make Panasonic a wholly-owing parent company and Panasonic IS a wholly-owned subsidiary. The share exchange is scheduled to be implemented after the approval at ordinary general meeting of Panasonic IS, which is planned to be held in June 2015.

10. The company s segments are classified according to a divisional company-based management system, which focuses on global consolidated management by each divisional company, in order to ensure consistency of its internal management structure and disclosure. Some businesses were transferred among segments on April 1, 2014 and July 1, 2014. Accordingly, the figures for segment information in fiscal 2014 have been reclassified to conform to the presentation for July 1, 2014.

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11. Number of consolidated companies: 469 (including parent company)

12. Number of associated companies under the equity method: 94

Basic Accounting Policies:

Details relating the basic accounting policies have been omitted because there were no significant changes from the latest annual securities report filed on June 27, 2014.

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April 28, 2015

Panasonic Corporation

Supplemental Consolidated Financial Data for Fiscal 2015 ended March 31, 2015

Note: Certain businesses were transferred among segments on April 1, 2014 and July 1, 2014. Accordingly, the figures for segment information in fiscal 2014 have been reclassified to conform to the presentation for July 1, 2014.

1. Segment Information

yen (billions)

	Fiscal 2015 Results				
	Sales	15/14	Segment Profit	% of sales	15/14
Appliances (AP)	1,769.7	100%	40.5	2.3%	137%
Eco Solutions (ES)	1,666.0	99%	95.3	5.7%	103%
AVC Networks (AVC)	1,154.3	100%	51.8	4.5%	145%
Automotive & Industrial Systems (AIS)	2,782.5	102%	105.7	3.8%	153%
Other	764.5	86%	14.6	1.9%	60%
Total	8,137.0	99%	307.9	3.8%	123%
Eliminations and Adjustments *1	-422.0		74.0		
Consolidated total	7,715.0	100%	381.9	5.0%	125%
Appliances (production and sales consolidated) *2	2,308.6	99%	55.2	2.4%	135%

*1 The figures in Eliminations and Adjustments include earnings and expenses which are not attributable to any reportable segments, for the purpose of evaluating operating results of each segment, and consolidation adjustments (including amortization of intangible assets and differences of accounting principles).

*2 The figures in Appliances (production and sales consolidated) include the sales and profits of sales division for consumer products, which are included in Eliminations and Adjustments.

2. Business Division Information

yen (billions)

		Fiscal 2015 Results	
		Sales	15/14
AP	Refrigerator BD	123.4	98%
	Laundry Systems and Vacuum Cleaner BD	189.9	101%
	Cold Chain BD	93.0	105%
ES	Lighting BD	317.7	99%
	Energy Systems BD	414.5	105%

	Housing Systems BD	366.5	91%
	Panasonic Ecology Systems Co., Ltd.	159.9	110%
AVC *	Mobility Business	210.5	109%
	Visual and Imaging Business	267.3	95%
	Communication Business	149.0	101%
	Vertical Solution Business	308.3	114%

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Supplemental Consolidated Financial Data

for Fiscal 2015, ended March 31, 2015

Panasonic Corporation

yen (billions)

		Fiscal 2015 Results	
		Sales	15/14
AIS	Automotive Infotainment Systems BD	497.8	103%
	Portable Rechargeable Battery BD	321.3	113%
	Capacitor BD	121.9	104%
	Automation Controls BD	235.8	102%
	Panasonic Factory Solutions Co., Ltd.	116.2	114%

* Each business in AVC Networks consists of the following BDs.

Mobility Business	:	IT Products BD, Storage BD
Visual and Imaging Business	:	Imaging Network BD, Security Systems BD, Visual Systems BD
Communication Business	:	Office Products BD, Communication Products BD
Vertical Solution Business	:	Avionics BD, Infrastructure Systems BD

3. Additional Information

yen (billions)

		Fiscal 2015 Results				
		Sales	15/14	Profit	% of sales	15-14
AP	Air-Conditioner BD	325.5	104%	7.8	2.4%	+18.3
AIS	Semiconductor Business *	182.1	100%	-14.7	-8.1%	+18.8

* Semiconductor BD was transferred to Panasonic Semiconductor Solutions Co., Ltd., effective from June 1, 2014. Accordingly, the figures are presented as Semiconductor Business.

4. Sales by Region

yen (billions)

	Fiscal 2015 Results		
		Yen basis 15/14	Local currency basis 15/14
Domestic	3,692.0	95%	
Overseas	4,023.0	105%	98%
North and South America	1,218.0	107%	99%
Europe	729.4	99%	96%
Asia	1,040.8	107%	101%
China	1,034.8	104%	97%

Total	7,715.0	100%	97%

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Supplemental Consolidated Financial Data

for Fiscal 2015, ended March 31, 2015

Panasonic Corporation

5. **Capital Investment, Depreciation and R&D Expenditures**

Capital Investment by Segments

yen (billions)

	Fiscal 2015 Results	
		15-14
Appliances	45.8	+9.4
Eco Solutions	32.8	-9.7
AVC Networks	23.7	+3.2
Automotive & Industrial Systems	107.7	+15.6
Other	16.7	-8.8
Total	226.7	+9.7

Note: These figures are calculated on an accrual basis.

Depreciation (tangible assets)

yen (billions)

Fiscal 2015 Results	
	15-14
242.1	-36.6

R&D Expenditures

yen (billions)

Fiscal 2015 Results	
	15-14
457.3	-21.5

6. Foreign Currency Exchange Rates

	Export Rates Fiscal 2015 Results	Rates Used for Consolidation Fiscal 2015 Results
U.S. Dollars	¥ 106	¥ 110
Euro	¥ 139	¥ 139

7. Number of Employees

(persons)

	End of Mar. 2014	End of Mar. 2015
Domestic	115,320	106,697
Overseas	156,469	147,387
Total	271,789	254,084

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Supplemental Consolidated Financial Data

for Fiscal 2015, ended March 31, 2015

Panasonic Corporation

<Attachment 1> Reference

Segment Information for Fiscal 2015

Note: Certain businesses were transferred among segments on April 1, 2015. Accordingly, the figures for segment information in fiscal 2015 have been reclassified to conform to the presentation for fiscal 2016.

Sales yen (billions)

	1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
Appliances	616.9	576.2	634.0	507.7	2,334.8
Eco Solutions	384.4	406.0	433.9	441.7	1,666.0
AVC Networks	257.7	273.9	296.2	326.5	1,154.3
Automotive & Industrial Systems	682.7	703.5	704.3	706.3	2,796.8
Other	143.2	154.7	149.3	317.3	764.5
Total	2,084.9	2,114.3	2,217.7	2,299.5	8,716.4
Eliminations and Adjustments *1	-232.6	-243.7	-221.3	-303.8	-1,001.4
Consolidated Total	1,852.3	1,870.6	1,996.4	1,995.7	7,715.0

Segment profit yen (billions)

	1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
Appliances	31.0	8.9	18.4	-8.5	49.8
Eco Solutions	16.2	25.6	33.9	19.6	95.3
AVC Networks	-3.1	7.0	17.7	30.2	51.8
Automotive & Industrial Systems	21.1	36.9	30.9	27.5	116.4
Other	-2.0	3.9	-0.4	13.1	14.6
Total	63.2	82.3	100.5	81.9	327.9
Eliminations and Adjustments *1	19.1	12.4	12.8	9.7	54.0
Consolidated Total	82.3	94.7	113.3	91.6	381.9

yen (billions)

	Fiscal 2015 Results	
	Sales	**Profit**
Appliances (production and sales consolidated) *2	2,552.5	50.8

*1 The figures in Eliminations and Adjustments include earnings and expenses which are not attributable to any reportable segments, for the purpose of evaluating operating results of each segment, and consolidation adjustments (including amortization of intangible assets and differences of accounting principles).

*2 The figures in Appliances (production and sales consolidated) include the sales and profits of sales division for consumer products, which are included in Eliminations and Adjustments.

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Supplemental Consolidated Financial Data

for Fiscal 2015, ended March 31, 2015

Panasonic Corporation

<Attachment 2> Reference

Business Division Information for Fiscal 2015 (Sales)

Note: The figures for each Business Division in fiscal 2015 are conformed to the presentation for fiscal 2015.

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Refrigerator BD	33.3	34.7	31.1	24.3	123.4
	Laundry Systems and Vacuum Cleaner BD	39.3	48.3	56.6	45.6	189.9
	Cold Chain BD	21.3	25.9	22.5	23.3	93.0
ES	Lighting BD	69.9	75.7	88.8	83.3	317.7
	Energy Systems BD	98.3	103.9	105.0	107.3	414.5
	Housing Systems BD	91.1	90.6	98.3	86.4	366.5
	Panasonic Ecology Systems Co., Ltd.	36.8	35.9	43.3	44.0	159.9
AVC *	Mobility Business	46.0	46.0	56.0	62.5	210.5
	Visual and Imaging Business	60.3	68.0	69.4	69.6	267.3
	Communication Business	38.4	39.0	38.6	33.1	149.0
	Vertical Solution Business	69.3	68.7	82.1	88.1	308.3
AIS	Automotive Infotainment Systems BD	118.8	119.9	125.8	133.3	497.8
	Portable Rechargeable Battery BD	73.0	76.6	80.6	91.2	321.3
	Capacitor BD	30.2	32.1	30.2	29.3	121.9
	Automation Controls BD	59.0	60.3	58.4	58.1	235.8
	Panasonic Factory Solutions Co., Ltd.	28.9	37.2	24.0	26.1	116.2

* Each business in AVC Networks consists of the following BDs.

Mobility Business	: IT Products BD, Storage BD
Visual and Imaging Business	: Imaging Network BD, Security Systems BD, Visual Systems BD
Communication Business	: Office Products BD, Communication Products BD
Vertical Solution Business	: Avionics BD, Infrastructure Systems BD

Additional Information for fiscal 2015

Note: The figures for each additional information in fiscal 2015 have conformed to the presentation for fiscal 2015.

Sales

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Air-Conditioner BD	106.9	74.8	65.4	78.4	325.5
AIS	Semiconductor Business *	43.5	47.4	45.7	45.4	182.1

Profit

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Air-Conditioner BD	7.4	0.2	0.1	0.2	7.8
AIS	Semiconductor Business *	-5.3	-1.7	-3.8	-3.9	-14.7

* Semiconductor BD was transferred to Panasonic Semiconductor Solutions Co., Ltd., effective from June 1, 2014. Accordingly, the figures are presented as Semiconductor Business.

Supplemental Consolidated Financial Data

for Fiscal 2015, ended March 31, 2015

Panasonic Corporation

<Attachment 3> Reference

Business Division Information for Fiscal 2014 (Sales)

Note: The figures for each Business Division in fiscal 2014 are conformed to the presentation for fiscal 2015.

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Refrigerator BD	33.1	34.1	31.9	26.3	125.4
	Laundry Systems and Vacuum Cleaner BD	40.7	46.7	53.2	46.6	187.3
	Cold Chain BD	23.1	23.5	20.7	21.4	88.6
ES	Lighting BD	68.8	74.8	90.3	88.6	322.5
	Energy Systems BD	91.9	93.4	97.6	112.3	395.3
	Housing Systems BD	89.6	99.5	111.2	104.3	404.6
	Panasonic Ecology Systems Co., Ltd.	34.8	32.6	36.2	41.6	145.2
AVC *	Mobility Business	39.1	46.5	47.2	60.2	193.0
	Visual and Imaging Business	63.3	74.7	74.5	68.5	281.1
	Communication Business	37.0	39.5	37.7	33.7	147.9
	Vertical Solution Business	58.4	63.8	70.7	76.8	269.7
AIS	Automotive Infotainment Systems BD	114.3	114.4	124.1	130.5	483.3
	Portable Rechargeable Battery BD	70.6	74.7	73.4	66.3	284.9
	Capacitor BD	28.6	29.7	30.8	27.6	116.7
	Automation Controls BD	57.4	59.2	57.0	57.4	230.9
	Panasonic Factory Solutions Co., Ltd.	30.7	27.8	19.7	23.9	102.2

* Each business in AVC Networks consists of the following BDs.

Mobility Business	: IT Products BD, Storage BD
Visual and Imaging Business	: Imaging Network BD, Security Systems BD, Visual Systems BD
Communication Business	: Office Products BD, Communication Products BD
Vertical Solution Business	: Avionics BD, Infrastructure Systems BD

Additional Information for fiscal 2014

Note: The figures for each additional information in fiscal 2014 have conformed to the presentation for fiscal 2015.

Sales

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Air-Conditioner BD	95.3	73.4	63.9	79.6	312.2
AIS	Semiconductor BD	44.7	50.8	43.0	42.8	181.2

Profit

yen (billions)

		1st quarter (Apr.-June)	2nd quarter (July-Sep.)	3rd quarter (Oct.-Dec.)	4th quarter (Jan.-Mar.)	Full year (Apr.-Mar.)
AP	Air-Conditioner BD	0.7	-5.3	-1.8	-4.1	-10.5
AIS	Semiconductor BD	-3.8	-2.3	-5.4	-22.0	-33.5

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PART II

Information Not Required in Prospectus

Item 20. Indemnification of Officers and Directors

Article 330 of the Companies Act of Japan makes the provision of Section 10, Chapter 2, Book III of the Civil Code of Japan applicable to the relationship between the registrant and its directors and audit & supervisory board members, respectively. Section 10, among other things, provides in effect that:

(1) Any director or audit & supervisory board member of a company may demand advance payment of expenses which are considered necessary for the management of the affairs of such company entrusted to him;

(2) If a director or an audit & supervisory board member of a company has defrayed any expenses which are considered necessary for the management of the affairs of such company entrusted to him, he may demand reimbursement therefor from the company;

(3) If a director or an audit & supervisory board member has assumed an obligation necessary for the management of the affairs entrusted to him, he may require the company to perform it in his place or, if it is not due, to furnish adequate security; and

(4) If a director or an audit & supervisory board member, without any fault on his part, sustains damage through the management of the affairs entrusted to him, he may demand compensation therefor from the company.

Under Article 388 of the Companies Act, a company may not refuse a demand from an audit & supervisory board member referred to in subparagraphs (1) through (3) above unless the company establishes that the relevant expense or obligation was or is not necessary for the performance of the audit & supervisory board member s duties.

The directors and audit & supervisory board members of the registrant maintain liability insurance to cover themselves against liability for damages incurred by them in connection with their performance of duties in their respective capacities as such and litigation expenses incurred in relation thereto. The premium for the insurance is paid by the registrant, except for the premium for the special coverage portion of the insurance relating to liability arising from a derivative action to be owed by a director or audit & supervisory board member to the registrant and litigation expenses incurred in relation thereto.

Item 21. Exhibits and Financial Statements Schedules

(a) Exhibits

2.1	Share Exchange Agreement among Panasonic Corporation and Panasonic Information Systems Co., Ltd. (English translation filed herewith as Appendix A to the prospectus which is part of this registration statement)
3.1	Articles of Incorporation of Panasonic Corporation (English translation)
3.2	Share Handling Regulations of Panasonic Corporation (English translation) [1]
3.3	Regulations of the Board of Directors of Panasonic Corporation (English translation)
3.4	Regulations of the Audit & Supervisory Board of Panasonic Corporation (English translation)

4.1	Form of Second Amended and Restated Deposit Agreement among Panasonic Corporation and JPMorgan Chase Bank, N.A. as Depositary and holders of American Depositary Receipts [2]

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5.1	Opinion of Nagashima Ohno & Tsunematsu regarding legality of securities
8.1	Opinion of Sullivan & Cromwell LLP regarding United States Federal tax consequences of the Share Exchange
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23.1	Consent of KPMG AZSA LLC
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23.3	Consent of Sullivan & Cromwell LLP (included in Exhibit 8.1)
23.4	Consent of Panasonic IS s financial advisor
23.5	Consent of Panasonic IS s Third-party Committee
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99.1	Notice of convocation of Panasonic IS s general meeting of shareholders and attachments thereto (English translation)
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99.3	Selected Articles of the Companies Act of Japan (English translation filed herewith as Appendix D to the prospectus which is part of this registration statement)

(1) Incorporated by reference from Panasonic s annual report on Form 20-F filed on June 30, 2010.
(2) Incorporated by reference from the registration statement on Form F-6 (File No. 333-133099) filed by Panasonic and JPMorgan Chase Bank, N.A.) on April 22, 2013.

(b) Financial Statement Schedules

The financial statement schedule is set forth on page F-73 of the prospectus which is part of this registration statement.

(c) Reports, Opinions and Appraisals

See Appendices B and C.

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Item 22. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (§230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F (17 CFR 249.220f) at the start of any delayed offering or throughout a continuous offering.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

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(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(7) The undersigned registrant hereby undertakes as follows: That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(8) The registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (a)(7) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415 (§230.415 of this chapter), will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(9) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(10) The undersigned registrant hereby undertakes: (i) to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means, and (ii) to arrange or provide for a facility in the United States for the purpose of responding to such requests. The undertaking in subparagraph (i) above include information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

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(11) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Osaka, Japan, on April 28, 2015.

PANASONIC CORPORATION

By: /s/ Kazuhiro Tsuga
Kazuhiro Tsuga
President and Director

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hideaki Kawai, Mototsugu Sato and Shinji Kasayama, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities (until revoked in writing), to sign any and all amendments, including post-effective amendments, and supplements to this registration statement, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on April 28, 2015.

Signature	Title
/s/ Shusaku Nagae Shusaku Nagae	Chairman of the Board of Directors
/s/ Masayuki Matsushita Masayuki Matsushita	Vice Chairman of the Board of Directors
/s/ Kazuhiro Tsuga Kazuhiro Tsuga	President and Director (Principal Executive Officer)
/s/ Yoshihiko Yamada Yoshihiko Yamada	Executive Vice President and Director
/s/ Kazunori Takami Kazunori Takami	Executive Vice President and Director
/s/ Hideaki Kawai Hideaki Kawai	Senior Managing Director (Principal Financial Officer and Principal Accounting Officer)
/s/ Yoshiyuki Miyabe Yoshiyuki Miyabe	Senior Managing Director
/s/ Yoshio Ito Yoshio Ito	Senior Managing Director
/s/ Tamio Yoshioka Tamio Yoshioka	Senior Managing Director
/s/ Takashi Toyama Takashi Toyama	Managing Director

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Signature	Title
/s/ Jun Ishii Jun Ishii	Managing Director
/s/ Mamoru Yoshida Mamoru Yoshida	Managing Director
/s/ Tsuyoshi Nomura Tsuyoshi Nomura	Managing Director
/s/ Mototsugu Sato Mototsugu Sato	Managing Director

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Signature	Title
/s/ Shinji Kasayama Shinji Kasayama	Authorized Representative in the United States

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