

MATSUSHITA ELECTRIC INDUSTRIAL CO LTD

Form 20-F

August 30, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2007

Commission file number 1 - 6784

MATSUSHITA DENKI SANGYO KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

1006, Oaza Kadoma, Kadoma-shi, Osaka 571-8501, Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares*	New York Stock Exchange
Common Stock	New York Stock Exchange

* American Depositary Shares evidenced by American Depositary Receipts. Each American Depositary Share represents one share of Common Stock.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares (excluding treasury stock) of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

<u>Title of Class</u>	<u>Outstanding as of</u>	
	<u>March 31, 2007</u> <u>(Japan Time)</u>	<u>March 31, 2007</u> <u>(New York Time)</u>
Common Stock	2,146,284,458	
American Depositary Shares, each representing 1 share of Common Stock		189,195,592

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No .

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark which financial statement item the Company has elected to follow.

Item 17. Item 18. .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer .

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

This form contains 163 pages.

Table of Contents

CONTENTS

	<u>Page</u>
<u>About the Company</u>	1
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	1
<u>PART I</u>	
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	2
Item 2. <u>Offer Statistics and Expected Timetable</u>	2
Item 3. <u>Key Information</u>	2
A. <u>Selected Financial Data</u>	2
B. <u>Capitalization and Indebtedness</u>	3
C. <u>Reasons for the Offer and Use of Proceeds</u>	3
D. <u>Risk Factors</u>	3
Item 4. <u>Information on the Company</u>	9
A. <u>History and Development of the Company</u>	9
B. <u>Business Overview</u>	13
C. <u>Organizational Structure</u>	28
D. <u>Property, Plants and Equipment</u>	30
Item 4A. <u>Unresolved Staff Comments</u>	31
Item 5. <u>Operating and Financial Review and Prospects</u>	31
A. <u>Operating Results</u>	31
B. <u>Liquidity and Capital Resources</u>	43
C. <u>Research and Development</u>	46
D. <u>Trend Information</u>	47
E. <u>Off-Balance Sheet Arrangements</u>	48
F. <u>Tabular Disclosure of Contractual Obligations</u>	49
G. <u>Safe Harbor</u>	49
H. <u>Accounting Principles</u>	50
Item 6. <u>Directors, Senior Management and Employees</u>	56
A. <u>Directors and Senior Management</u>	56
B. <u>Compensation</u>	66
C. <u>Board Practices</u>	66
D. <u>Employees</u>	67
E. <u>Share Ownership</u>	68

Table of Contents

	<u>Page</u>
Item 7. <u>Major Shareholders and Related Party Transactions</u>	69
A. <u>Major Shareholders</u>	69
B. <u>Related Party Transactions</u>	70
C. <u>Interests of Experts and Counsel</u>	71
Item 8. <u>Financial Information</u>	71
A. <u>Consolidated Statements and Other Financial Information</u>	71
B. <u>Significant Changes</u>	73
Item 9. <u>The Offer and Listing</u>	73
A. <u>Offer and Listing Details</u>	73
B. <u>Plan of Distribution</u>	74
C. <u>Markets</u>	74
D. <u>Selling Shareholders</u>	75
E. <u>Dilution</u>	75
F. <u>Expenses of the Issue</u>	75
Item 10. <u>Additional Information</u>	76
A. <u>Share Capital</u>	76
B. <u>Memorandum and Articles of Association</u>	76
C. <u>Material Contracts</u>	87
D. <u>Exchange Controls</u>	88
E. <u>Taxation</u>	89
F. <u>Dividends and Paying Agents</u>	93
G. <u>Statement by Experts</u>	93
H. <u>Documents on Display</u>	94
I. <u>Subsidiary Information</u>	94
J. <u>Expenses of the Issue</u>	94
Item 11. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	94
Item 12. <u>Description of Securities Other than Equity Securities</u>	97
<u>PART II</u>	
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	98
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	98
Item 15. <u>Controls and Procedures</u>	98

Table of Contents

	<u>Page</u>
Item 16A. <u>Audit Committee Financial Expert</u>	98
Item 16B. <u>Code of Ethics</u>	99
Item 16C. <u>Principal Accountant Fees and Services</u>	99
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	100
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	101

PART III

Item 17. <u>Financial Statements</u>	104
Item 18. <u>Financial Statements</u>	104
Item 19. <u>Exhibits</u>	161

Table of Contents

- 1 -

All information contained in this annual report is as of March 31, 2007 or for the year ended March 31, 2007 (fiscal 2007) unless the context otherwise indicates.

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on August 8, 2007 was 119.76 yen = U.S.\$1.

About the Company

Matsushita Electric Industrial Co., Ltd. (hereinafter, unless the context otherwise requires, Matsushita, the Matsushita Group or the Company refers to Matsushita Electric Industrial Co., Ltd. and its consolidated subsidiaries as a group), best known for its Panasonic brand name, is one of the world's leading manufacturers of electronic and electric products for a wide range of consumer, business and industrial uses, as well as a wide variety of components. Based in Osaka, Japan, the Company recorded consolidated net sales of approximately 9,108 billion yen for fiscal 2007. Over the past eight decades, the Company has grown from a small domestic household electrical equipment manufacturer into a comprehensive electronic and electric equipment, systems and components manufacturer operating internationally. Of the fiscal 2007 net sales, nearly one-half was represented by sales in Japan, with the rest by overseas sales.

Cautionary Statement Regarding Forward-Looking Statements

This annual report includes forward-looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) about Matsushita. To the extent that statements in this annual report do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of the Matsushita Group in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause the Matsushita Group's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. Matsushita undertakes no obligation to publicly update any forward-looking statements after the date of this annual report (August 2007). Investors are advised to consult any further disclosures by Matsushita in its subsequent filings with the U.S. Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and its other filings.

The risks, uncertainties and other factors referred to above include, but are not limited to, economic conditions, particularly consumer spending and corporate capital expenditures in the United States, Europe, Japan, China, and other Asian countries; volatility in demand for electronic equipment and components from business and industrial customers, as well as consumers in many product and geographical markets; currency rate fluctuations, notably between the yen, the U.S. dollar, the euro, the Chinese yuan, Asian currencies and other currencies in which the Matsushita Group operates businesses, or in which assets and liabilities of the Matsushita Group are denominated; the ability of the Matsushita Group to respond to rapid technological changes and changing consumer preferences with timely and cost-effective introductions of new products in markets that are highly competitive in terms of both price and technology; the ability of the Matsushita Group to achieve its business objectives through joint ventures and other collaborative agreements with other companies; the ability of the Matsushita Group to maintain competitive strength in many product and geographical areas; the possibility of incurring expenses resulting from any defects in products or services of the Matsushita Group; the possibility that the Matsushita Group may face intellectual property infringement claims by third parties; current and potential, direct and indirect restrictions imposed by other countries over trade, manufacturing, labor and operations; fluctuations in market prices of securities and other assets in which the Matsushita Group has holdings or changes in valuation of long-lived assets, including property, plant and equipment and goodwill, and deferred tax assets; future changes or revisions to accounting policies or accounting rules; as well as natural disasters including earthquakes and other events that may negatively impact business activities of the Matsushita Group. The factors listed above are not all-inclusive.

Table of Contents

- 2 -

PART I**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information**A. Selected Financial Data**

	Yen (billions), except per share amounts and yen exchange rates				
	Fiscal year ended March 31,				
	2007	2006	2005	2004	2003
Income Statement Data:					
Net sales	9,108	8,894	8,714	7,480	7,402
Income (loss) before income taxes	439	371	247	171	69
Net income (loss)	217	154	58	42	(19)
Per common share:					
Net income (loss):					
Basic	99.50	69.48	25.49	18.15	(8.70)
Diluted	99.50	69.48	25.49	18.00	(8.70)
Dividends	25.00	17.50	15.25	12.50	10.00
Balance Sheet Data:					
Total assets	7,897	7,965	8,057	7,438	7,835
Long-term debt	227	264	477	461	588
Stockholders' equity	3,917	3,788	3,544	3,452	3,178
Common stock	259	259	259	259	259

Number of shares issued at year-end (thousands)	2,453,053	2,453,053	2,453,053	2,453,053	2,447,923
Number of shares issued and outstanding at year-end (thousands)	2,146,284	2,209,532	2,258,358	2,318,408	2,359,317
<u>Yen exchange rates per U.S. dollar:</u>					
Year-end	117.56	117.48	107.22	104.18	132.70
Average	116.92	113.15	107.49	113.07	125.05
High	110.07	104.41	102.26	104.18	115.89
Low	121.81	120.93	114.30	120.55	134.77

	<u>Feb.</u> <u>2007</u>	<u>Mar.</u> <u>2007</u>	<u>Apr.</u> <u>2007</u>	<u>May</u> <u>2007</u>	<u>Jun.</u> <u>2007</u>	<u>Jul.</u> <u>2007</u>
<u>Yen exchange rates for each month during the previous six months:</u>						
High	118.33	116.01	117.69	119.77	121.08	118.41
Low	121.77	118.15	119.84	121.79	124.09	123.34

Table of Contents

- 3 -

Note: Dividends per share reflect those paid during each fiscal year. The dollar amounts of the dividends per share have been computed at the exchange rates on the respective payment dates.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

Once a year, Matsushita implements a Groupwide risk assessment to identify risks in an integrated and comprehensive manner. By identifying, assessing and evaluating risks according to priority, Matsushita specifies risks related to the Corporate Headquarters, business domain companies and Group affiliates, takes countermeasures that correspond to the materiality of each specified risk, and seeks continuous improvements through the monitoring of the progress of such countermeasures. Primarily because of the business areas and geographical areas where it operates, and the highly competitive nature of the industry to which it belongs, Matsushita is exposed to a variety of risks and uncertainties in conducting its businesses, including, but not limited to, the following. These risks may adversely affect Matsushita's business, operating results and financial condition. This section includes forward-looking statements and future expectations as of the date of this annual report.

Risks Related to Economic Conditions

Weakness in Japanese and global economies may cause reduced demand for Matsushita's products

Demand for Matsushita's products and services may be affected by general economic trends in the countries or regions in which Matsushita's products and services are sold. Economic downturns and resulting declines in demand in Matsushita's major markets worldwide may thus adversely affect the Company's business, operating results and financial condition.

Currency exchange rate fluctuations could adversely affect Matsushita's operating results

Foreign exchange rate fluctuations may adversely affect Matsushita's business, operating results and financial condition, because its international business transactions and costs and prices of Matsushita's products and services in overseas countries are affected by foreign exchange rate changes. In addition, foreign exchange rate changes can also affect the yen value of Matsushita's investments in overseas assets and liabilities because Matsushita's consolidated financial statements are presented in Japanese yen. Generally, an appreciation of the yen against other major currencies such as the U.S. dollar and the euro may adversely affect Matsushita's operating results. Meanwhile, a depreciation of the yen against the aforementioned major currencies may have a favorable impact on Matsushita's operating results.

Interest rate fluctuations may adversely affect Matsushita's financial condition

Matsushita is exposed to interest rate fluctuation risks which may affect the Company's operational costs, interest expenses, interest income and the value of financial assets and liabilities. Accordingly, interest rate fluctuations may adversely affect the Company's business, operating results and financial condition.

Table of Contents

- 4 -

Decreases in the value of Japanese stocks may adversely affect Matsushita's financial results

Matsushita holds Japanese stocks as part of its investment securities. The value of these stocks may drop substantially due to economic conditions or other factors, resulting in losses from declines in value of the investment securities. Such decreases in the value of stocks may occur, causing adverse effects to Matsushita's operating results and financial condition. The decreases in the value of Japanese stocks may also reduce stockholders' equity on the balance sheet, as unrealized holding gains (losses) of available-for-sale securities are included as part of accumulated other comprehensive income (loss).

Risks Related to Matsushita's Business

Competition in the industry may adversely affect Matsushita's ability to maintain profitability

Matsushita develops, produces and sells a broad range of products and therefore faces many different types of competitors, from large international companies to relatively small, rapidly growing, and highly specialized organizations. Matsushita may choose not to fund or invest in one or more of its businesses to the same degree as its competitors in those businesses do, or it may not be able to do so in a timely manner or even at all. These competitors may have greater financial, technological, and marketing resources than Matsushita in the respective businesses in which they compete.

Rapid declines in product prices may adversely affect Matsushita's financial condition

Matsushita's business is subject to intense price competition worldwide, which makes it difficult for the Company to determine product prices and maintain adequate profits. Such intensified price competition may adversely affect Matsushita's profits, especially in terms of possible decreases in demand. For the year ending March 31, 2008, Matsushita expects that its product prices in consumer digital electronics and many other business areas will continue to decline, as has been the case in recent years.

Matsushita's business is, and will continue to be, subject to risks generally associated with international business operations

One of Matsushita's business strategies is business expansion in overseas markets. In many of these markets, Matsushita may face risks generally associated with international manufacturing and other business operations, such as political instability, cultural and religious differences, the spread of infectious diseases and labor relations, as well as economic uncertainty and foreign currency exchange risks. Matsushita may also face barriers in commercial and business customs in foreign countries, including difficulties in timely collection of accounts receivable or in building and expanding relationships with customers, subcontractors or parts suppliers. Matsushita may also experience various political, legal or other restrictions in investment, trade, manufacturing, labor or other aspects of operations, including restrictions on foreign investment or the repatriation of profits on invested capital, nationalization of local industry, changes in export or import restrictions or foreign exchange controls, and changes in the tax system or the rate of taxation in countries where Matsushita operates businesses. With respect to products exported overseas, tariffs, other barriers or shipping costs may make Matsushita's products less competitive in terms of price. Expanding its overseas business may require significant investments long before Matsushita realizes returns on such investments, and increased investments may result in expenses growing at a faster rate than revenues.

Table of Contents

- 5 -

Matsushita may not be able to keep pace with technological changes and develop new products and services in a timely manner to remain competitive

Matsushita may fail to introduce new products and services in response to technological changes in a timely manner. Some of Matsushita's core businesses, such as consumer digital electronics and key components and devices, are concentrated in industries where technological innovation is the central competitive factor. Matsushita continuously faces the challenge of developing and introducing viable and innovative new products. Matsushita must predict with reasonable accuracy both future demands and new technologies that will be available to meet such demands. If Matsushita fails to do so, it will not be able to compete in new markets.

Matsushita may not be able to develop product formats that can prevail as de facto standards

Matsushita has been forming alliances and partnerships with other major manufacturers to strengthen technologies and the development of product formats, such as next-generation home and mobile networking products, data storage devices, and software systems. Despite these efforts, Matsushita's competitors may succeed in developing de facto standards for future products before Matsushita can. In such cases, the Company's competitive position, business, operating results and financial condition could be adversely affected.

Matsushita may not be able to successfully recruit and retain skilled employees, particularly scientific, technical and management professionals

Matsushita's future success depends largely on its ability to attract and retain certain key personnel, including scientific, technical and management professionals. Matsushita anticipates that it will need to hire additional skilled personnel in all areas of its business. Industry demand for such employees, however, exceeds the number of personnel available, and the competition for attracting and retaining these employees is intense. Because of this intense competition for skilled employees, Matsushita may be unable to retain its existing personnel or attract additional qualified employees to keep up with future business needs. If this should happen, Matsushita's business, operating results and financial condition could be adversely affected.

Alliances with, and strategic investments in, third parties undertaken by Matsushita may not produce positive results

Matsushita develops its business by forming alliances or joint ventures with, and making strategic investments in, other companies, including investments in start-up companies. Furthermore, the strategic importance of partnering with third parties is increasing. In some cases, such partnerships are crucial to Matsushita's goal of introducing new products and services, but Matsushita may not be able to successfully collaborate or achieve expected synergies with its partners. Matsushita does not, however, control these partners, who may make decisions regarding their business undertakings with Matsushita that may be contrary to Matsushita's interests. In addition, if these partners change their business strategies, Matsushita may fail to maintain these partnerships.

Matsushita is dependent on the ability of third parties to deliver parts, components and services in adequate quality and quantity in a timely manner, and at a reasonable price

Matsushita's manufacturing operations depend on obtaining raw materials, parts and components, equipment and other supplies including services from reliable suppliers in adequate quality and quantity in a timely manner. It may be difficult for Matsushita to substitute one supplier for another, increase the number of suppliers or change one component for another in a timely manner or at all due to the interruption of supply or increased industry demand. This may adversely affect the Matsushita Group's operations. Although Matsushita decides purchase prices by contract, the prices of raw materials including oil, parts and components, may increase due to changes in supply and demand. Some components are only available from a limited number of suppliers, which also may adversely affect Matsushita's business, operating results and financial condition.

Table of Contents

- 6 -

Matsushita is exposed to the risk that its customers may encounter financial difficulties

Some of Matsushita's customers purchase products and services from Matsushita on payment terms that do not provide for immediate payment. If customers from whom Matsushita has substantial accounts receivable encounter financial difficulties and are unable to make payments on time, Matsushita's business, operating results and financial condition could be adversely affected.

Risks Related to Matsushita's Management Plans

Matsushita is implementing its new mid-term management plan, called the GP3 plan (announced on January 10, 2007) for the three-year term ending March 2010. In line with its twin corporate vision of contributing to realizing a ubiquitous networking society and coexistence with the global environment, Matsushita aims to earn the support of all its stakeholders worldwide by sustaining growth through continued innovation and ensuring sound business activities on a global basis. Due mainly to the various risk factors described in this section, Matsushita may not be successful in achieving all the goals set out in its mid-term management plan. In addition, Matsushita may not be able to improve efficiency or realize growth through these measures due to the increased costs arising from unexpected additional reorganization or restructuring, improper allocation of operational resources or other unpredictable factors. Also, Matsushita announced on July 24, 2007, its annual forecast and major initiatives for the year ending March 31, 2008. However, Matsushita may not be successful in achieving all the targets or in realizing the expected benefits because of various external and internal factors.

Risks Related to Legal Restrictions and Litigations

Matsushita may be subject to product liability or warranty claims that could result in significant direct or indirect costs

The occurrence of defects in Matsushita products could make Matsushita liable for damages not covered by product and completed operation liability insurance, whereby the Company could incur significant expenses. Due to negative publicity concerning these problems, Matsushita's business, operating results and financial condition may be adversely affected.

Matsushita may fail to protect its proprietary intellectual properties, or face claims of intellectual property infringement by a third party, and may lose its intellectual property rights on key technologies or be liable for significant damages

Matsushita's success depends on its ability to obtain intellectual property rights covering its products and product design. Patents may not be granted or may not be of sufficient scope or force to provide Matsushita with adequate protection or commercial advantage. In addition, effective copyright and trade secret protections may be unavailable or limited in some countries in which Matsushita operates. Competitors or other third parties may also develop technologies that are protected by patents and other intellectual property rights, which make such technologies unavailable or available only on terms unfavorable to Matsushita. Matsushita obtains licenses for intellectual property rights from other parties; however, such licenses may not be available at all or on acceptable terms in the future. Litigation may also be necessary to enforce Matsushita's intellectual property rights or to defend against intellectual property infringement claims brought against Matsushita by third parties. In such cases, Matsushita may incur significant expenses for such lawsuits. Furthermore, Matsushita may be prohibited from using certain important technologies or liable for damages in cases of admitted violations of intellectual property rights of others.

Table of Contents

- 7 -

Changes in accounting standards and tax systems may adversely affect Matsushita's operating results and financial condition

Introduction of new accounting standards or tax systems, or changes thereof, which Matsushita cannot predict, may have a material adverse effect on the Company's operating results and financial condition. In addition, if tax authorities have different opinions from Matsushita on the Company's tax declarations, Matsushita may need to make larger tax payments than estimated.

Payments or compensation related to environmental regulations or issues may adversely affect Matsushita's business, operating results and financial condition

Matsushita is subject to environmental regulations such as those relating to air pollution, water pollution, elimination of hazardous substances, waste management, product recycling, and soil and groundwater contamination, and may be held responsible for certain related payments or compensation. Furthermore, if these regulations become stricter and an additional duty of eliminating the use of environmentally hazardous materials is imposed, or if the Company determines that it is necessary and appropriate, from the viewpoint of corporate social responsibility, to respond to environmental issues, the payment of penalties for the violation of these regulations or voluntary payment of compensation for consolation to parties affected by such issues may adversely affect Matsushita's business, operating results and financial condition.

Leaks of confidential information may adversely affect Matsushita's business

In the normal course of business, Matsushita holds confidential information mainly about customers regarding credit worthiness and other information, as well as confidential information about companies and other third parties. Such information may be leaked due to an accident or other inevitable cause, and any material leakage of confidential information may result in significant expense for related lawsuits and adversely affect Matsushita's business and image. Moreover, there is a risk that Matsushita's trade secrets may be leaked by illegal conduct or by mere negligence of external parties, etc. If such is the case, Matsushita's business, operating results and financial condition may be adversely affected.

Governmental laws and regulations may limit Matsushita's activities or increase its operating costs

Matsushita is subject to governmental regulations in Japan and other countries in which it conducts its business, including governmental approvals required for conducting business and investments, laws and regulations governing the telecommunications businesses and electric product safety, national security-related laws and regulations and export/import laws and regulations, as well as commercial, antitrust, patent, product liability, environmental laws and regulations, consumer protection, financial and business taxation laws and regulations, and internal controls regulations due to the implementation of stricter laws and regulations and stricter interpretations. However, to the extent that Matsushita cannot comply with these laws and regulations from technical and economic perspectives, or if they become stricter and Matsushita determines that it would not be economical to continue to comply with them, Matsushita would need to limit its activities in the affected business areas. In addition, these laws and regulations could increase Matsushita's operating costs.

Table of Contents

- 8 -

Risks Related to Disasters or Unpredictable Events

Matsushita's facilities and information systems could be damaged as a result of disasters or unpredictable events, which could have an adverse effect on its business operations

Matsushita's headquarters and major facilities including manufacturing plants, sales offices and research and development centers are located in Japan. Matsushita also operates procurement, manufacturing, logistics, sales and research and development facilities all over the world. If major disasters such as earthquakes, fires, floods, wars, terrorist attacks, computer viruses or other events occur, or Matsushita's information system or communications network breaks down or operates improperly as a result of such events, Matsushita's facilities may be seriously damaged, and the Company may have to stop or delay production and shipment. Matsushita may incur expenses relating to such damages.

Other Risks

External economic conditions may adversely affect Matsushita's pension plans

Matsushita has contributory, funded benefit pension plans covering substantially all employees in Japan who meet eligibility requirements. A decline in interest rates may cause a decrease in the discount rate on benefit obligations. A decrease in the value of stocks may also affect the return on plan assets. As a result, the unrecognized portion of actuarial loss may increase, leading to a future recognized actuarial loss on an increase in future net periodic benefit costs of these pension plans, which may also affect stockholders' equity and pension liability, respectively.

Some long-lived assets may not produce adequate returns

Matsushita has many long-lived assets, such as plant, property and equipment, and goodwill, that generate returns. The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values. If these long-lived assets do not generate sufficient cash flows, impairment losses will have to be recognized, adversely affecting Matsushita's results of operations and financial condition.

Realizability of deferred tax assets may increase Matsushita's provision for income tax

In assessing the realizability of deferred tax assets based on the expected future generation of taxable income, Matsushita considers whether it is more likely than not that any portion or all of the deferred tax assets will not be realized. If Matsushita determines that temporary differences and loss carryforwards cannot be realized upon the generation of future taxable income during the deductible periods due to deteriorating business conditions, valuation allowance against deferred tax assets could be recognized and Matsushita's provision for income tax may increase.

Operating results and financial condition of associated companies may adversely affect Matsushita's operating results and financial condition

Matsushita holds equities of several associated companies. Matsushita can exercise influence over operating and financing policies of these companies. However, Matsushita does not have the right to make decisions for them since the companies operate independently. Some of those companies may record losses. If these associated companies do not generate profits, Matsushita's operating results and financial condition may be adversely affected.

Table of Contents

- 9 -

American Depositary Share (ADS) holders have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws

The rights of shareholders under Japanese law to take actions, including exercising their voting rights, receiving dividends and distributions, bringing derivative actions, examining Matsushita's accounting books and records, and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its nominee, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to exercise their voting rights underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from Matsushita. However, ADS holders will not be able to bring a derivative action, examine Matsushita's accounting books and records, or exercise appraisal rights through the depositary.

Item 4. Information on the Company

A. History and Development of the Company

GENERAL

The Company was incorporated in Japan on December 15, 1935 under the laws of Japan as Matsushita Denki Sangyo Kabushiki Kaisha (Address: 1006, Oaza Kadoma, Kadoma-shi, Osaka 571-8501, Japan. Phone : +81-6-6908-1121 / Agent : Mr. Yoichi Nagata, Director of Overseas Investor Relations of Matsushita Electric Industrial Co., Ltd.) as the successor to an unincorporated enterprise founded in 1918 by the late Konosuke Matsushita. Mr. Matsushita led the Company with his corporate philosophy of contributing to the peace, happiness and prosperity of humankind through the supply of quality consumer electric and electronic goods. The Company's business expanded rapidly with the recovery and growth of the Japanese economy after World War II, as it met rising demand for consumer electric and electronic products, starting with washing machines, black-and-white TVs and refrigerators. During the 1950s, Matsushita expanded its operations by establishing mass production and mass sales structures to meet increasing domestic demand, while also creating subsidiaries, making acquisitions and forming alliances. During the 1960s, Matsushita expanded its overseas businesses, and its products started obtaining worldwide recognition.

During the global recession caused by the first oil crisis in 1973, Matsushita strengthened its structure and overseas business relations. The advent and popularity of the video cassette recorder (VCR) from the late 1970s enabled Matsushita to receive worldwide recognition as a global consumer electronics manufacturer. In the 1980s, Matsushita further worked to evolve from a consumer products manufacturer to a comprehensive electronics products

manufacturer, expanding its business in the areas of information and communications technology, industrial equipment and components and devices. Since the 1990s, Matsushita has been emphasizing technological development and the use of advanced technology in every phase of life. In particular, Matsushita has been expanding its development activities in such areas as next-generation audiovisual (AV) equipment, multimedia products, and advanced electronic components and devices, many of which incorporate digital technology.

Table of Contents

- 10 -

Matsushita 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. Most of the Company's products are marketed under the Panasonic brand name worldwide, along with other product- or region-specific brand names, including National primarily for home appliances and household electric equipment sold in Japan and Technics for certain hi-fi products. Some of its subsidiaries also use their own brand names, such as Quasar, Victor, JVC and PanaHome. To sustain the future growth in the forthcoming ubiquitous networking age, Matsushita continues to emphasize technological development and the creation of new businesses, concentrating on several priority areas, such as digital AV networking equipment, mobile communications, data storage devices, environmental systems and related key components and devices and software. The Company is also striving to develop new service-oriented businesses, such as systems solutions and engineering services, as areas of potential growth over the mid-term.

In June 1995, Matsushita sold an 80% equity interest in MCA (subsequently renamed Universal Studios, Inc.) which the Company purchased in December 1990, to The Seagram Company Ltd. (currently Vivendi Universal S.A.) for approximately U.S.\$5.7 billion, leaving the Company with a minority interest. And in February 2006, Matsushita sold the remaining shares to Vivendi Universal S.A.

In March 1998, the Company announced a package of new management initiatives aimed at better sharing of interests with shareholders. As part of this package, management implemented, with approval at the annual shareholders meeting in June 1998, repurchase of 50 million shares of the Company's common stock, spending approximately 99 billion yen during fiscal 1999.

In October 1999, EPCOS AG, a German electronic components joint venture of the Company and Siemens AG of Germany, had its initial public offering, listing its shares on German and U.S. stock exchanges. Following EPCOS AG's public offering, Matsushita's 45% (held by a subsidiary) and Siemens AG's 55% holdings in EPCOS AG were each reduced to nearly 12.5%. Matsushita realized a 59 billion yen gain from the sale of its shares in EPCOS AG in fiscal 2000. In fiscal 2007, Matsushita sold the remaining shares in the market.

In April 2000, the Company made two of its majority-owned subsidiaries, Matsushita Refrigeration Company and Wakayama Precision Company, into wholly-owned subsidiaries by means of share exchanges. As a result of the share exchanges, Matsushita issued 16,321,187 shares of its common stock to shareholders of the respective companies.

In June 2000, Kunio Nakamura became President of Matsushita and, under his leadership, the Company implemented a new three-year business plan, called Value Creation 21, in April 2001. As the plan's theme Deconstruction and Creation indicates, its objective was to transform Matsushita into a company that meets the needs of the 21st century

through structural reforms and growth strategies with emphasis on enhancing growth potential, profitability and capital efficiency, thereby ensuring the Company's continued contribution to society.

In April 2001, the Company absorbed Matsushita Electronics Corporation, its wholly-owned subsidiary, by merger to implement unified operational management in such key device areas as semiconductors and display devices.

In April 2002, Matsushita and Toshiba Corporation (Toshiba) separated their respective liquid crystal display (LCD) panel operations and established a joint venture company, Toshiba Matsushita Display Technology Co., Ltd., for the development, manufacture and sale of LCD panels and next-generation display devices. Of the new company's initial stated capital of 10 billion yen, 60% was invested by Toshiba and 40% by Matsushita.

Table of Contents

- 11 -

As a drastic structural reform aimed at achieving new growth under the Value Creation 21 plan, Matsushita implemented share exchanges on October 1, 2002 with five of its majority-owned subsidiaries (Matsushita Communication Industrial Co., Ltd., Kyushu Matsushita Electric Co., Ltd., Matsushita Seiko Co., Ltd., Matsushita Kotobuki Electronics Industries, Ltd. and Matsushita Graphic Communication Systems, Inc.) and transformed them into wholly-owned subsidiaries of Matsushita. Following the completion of the share exchanges, Matsushita implemented a comprehensive Groupwide business reorganization on January 1, 2003 via company splits, business combinations and business transfers among several Group companies, including the parent company's internal divisional companies, whereby businesses of most of the Matsushita Group were reorganized into 14 new business domains.

As an extension of this Groupwide reorganization, Matsushita transformed two of its majority-owned subsidiaries, Matsushita Electronic Components Co., Ltd. and Matsushita Battery Industrial Co., Ltd., into wholly-owned subsidiaries via share exchanges, effective April 1, 2003.

Upon the aforementioned Groupwide restructurings, in April 2003, to prepare a framework that enables each business domain company to implement autonomously responsible management, Matsushita established a new global consolidated management system that focuses on capital efficiency and cash flows.

Also on April 1, 2003, Matsushita launched another joint venture company with Toshiba, upon separating their respective cathode ray tube (CRT) businesses with the exception of domestic CRT manufacturing operations. The new company, Matsushita Toshiba Picture Display Co., Ltd. (MTPD), aimed to maintain a competitive position in the global CRT market by integrating Matsushita and Toshiba's advanced CRT technologies, as well as both companies' product development and manufacturing capabilities. The Company formerly accounted for the investment in MTPD and its subsidiaries under the equity method, and began to consolidate MTPD on March 1, 2006 in accordance with FIN 46R, Consolidation of Variable Interest Entities, as a result of certain restructuring activities of MTPD. At March 31, 2006, the Company had a 64.5% equity interest in MTPD. At March 30, 2007, the Company acquired the remaining 35.5% equity interest in MTPD from Toshiba and MTPD was renamed MT Picture Display Co., Ltd.

Since fiscal 2003, Matsushita has been gradually shifting its focus from restructuring to growth. Matsushita made concerted efforts to enhance product competitiveness. V-products, which aim to capture leading shares in high-volume markets, made a significant contribution to overall business results.

In April 2003, Matsushita announced that it would position the Panasonic brand as a globally unified brand for overseas markets under the global brand slogan of "Panasonic ideas for life." This new brand strategy conveys to customers all over the world a new image for the Company and its products, while further enhancing brand value.

Table of Contents

- 12 -

In December 2003, Matsushita reached a basic agreement regarding a comprehensive business collaboration with its affiliate, Matsushita Electric Works, Ltd. (MEW), after which Matsushita initiated a tender offer for additional shares of MEW. As a result of the tender offer in which the Company purchased an additional 140,550 thousand shares of common stock of MEW at the total cost of 147 billion yen, MEW, PanaHome Corporation and their respective subsidiaries became consolidated subsidiaries of the Company in April 2004. Through collaboration, Matsushita and MEW aim for global excellence by maximizing synergy effects between the two companies to create new growth. Furthermore, Matsushita and MEW unified product designs, opened joint showrooms and introduced a series of Collaboration V-products that incorporate differentiated technologies of both companies, such as modular furniture systems, tank-less toilets, bathroom systems, high efficiency lighting systems and Integrated IP Network Platforms for building and area security management systems. For fiscal 2005, Matsushita and MEW also integrated overlapping businesses in the area of electrical supplies, building materials and equipment, home appliances and industrial equipment, and reformed distribution channels to establish an optimized, customer-oriented operational structure. In fiscal 2006, Matsushita leveraged the strengths of both companies to achieve sales increases in Collaboration V-products including bathroom systems, modular kitchens and air purifiers. At the same time, sales of air conditioners and related products rose substantially through the effective use of MEW sales channels for electrical supplies and building materials in Japan.

In fiscal 2005, as part of business restructuring of the Matsushita Group companies, power distribution equipment and monitoring and control system operations of Matsushita Industrial Information Equipment Co., Ltd. (MIIE) were transferred to MEW, while MIIE's information machine business was shifted to Panasonic Communications Co., Ltd. Subsequently, MIIE was absorbed by Matsushita in April 2005, and no longer operates as a separate entity.

In June 2006, Fumio Ohtsubo became President of Matsushita. Under its new management, Matsushita will make efforts to achieve global excellence, or in other words, to aim to earn the support of all its stakeholders worldwide by sustaining growth through continued innovation and ensuring sound business activities on a global basis.

In July 2007, each of Victor Company of Japan, Limited (JVC), a consolidated subsidiary of Matsushita, KENWOOD and SPARX International (Hong Kong) Limited, an investment management company which belongs to a group of companies headed by SPARX Group Co., Ltd. adopted resolutions for, or affirmed, JVC's issuance of 107,693,000 new shares of its common stock through third party allotments, and the new shares were subscribed by KENWOOD and the several investment funds managed by SPARX International (Hong Kong) Limited. JVC issued and allocated the new shares to KENWOOD and the SPARX funds on August 10, 2007. As a result, the Company's shareholding in JVC decreased from 52.4% to 36.8%, and JVC became an associated company under the equity method from a consolidated subsidiary in the fiscal 2008 second quarter.

CAPITAL INVESTMENT

Total capital investment amounted to 374 billion yen, 346 billion yen and 418 billion yen for fiscal 2005, 2006 and 2007, respectively. (For a reconciliation of capital investment to the most directly comparable U.S. GAAP financial measures, see [Overview Key performance indicators](#) in Section A of Item 5.) In these years, Matsushita curbed capital investment in a number of business areas, in line with an increased management emphasis on cash flows and capital efficiency, as seen in an increased adoption of cell-style production, which allowed the use of smaller scale facilities. Matsushita did, however, selectively invest in facilities for those product areas that are expected to drive future growth, including such key areas as semiconductors, particularly advanced system LSIs, PDPs and other strategic products.

Table of Contents

- 13 -

B. Business OverviewSALES BY BUSINESS SEGMENT

Matsushita is engaged in the production and sales of electronic and electric products in a broad array of business areas. The following table sets forth the Company's sales breakdown by business segment for the last three fiscal years:

	Yen (billions) (%)					
	Fiscal year ended March 31,					
	2007		2006		2005	
AVC Networks	4,047	2%	3,986	3%	3,859	1%
Home Appliances	1,303	5	1,241	1	1,230	1
Components and Devices	1,378	1	1,368	(7)	1,469	(12)
MEW and PanaHome	1,859	6	1,747	4	1,686	
JVC	647	(8)	703	(4)	730	(11)
Other	1,484	13	1,315	28	1,027	8
Eliminations	(1,610)		(1,466)		(1,287)	
Total	9,108	2%	8,894	2%	8,714	17%

* Percentage above reflect the changes from the previous year.

AVC Networks

Matsushita's principal products in the AVC Networks segment include video and audio equipment and information and communications equipment. Incorporating Matsushita's cutting-edge technologies, AVC Networks provides products, software, services and solutions that contribute to the realization of a ubiquitous networking society. As a leading manufacturer in many product lines in the AVC Networks segment, Matsushita has been striving to achieve new growth by offering competitive digital and networkable products based on the Company's proprietary technologies, designed to differentiate products and strengthen cost-competitiveness facilitated by the vertical integration by in-house production of key components and devices.

In large-screen flat-panel TVs, global demand for which is rapidly expanding, especially in plasma TVs as leading products, Matsushita maintains a vertically integrated manufacturing structure from key components and devices, such as plasma display panel (PDP), to finished products. In fiscal 2005, Matsushita introduced digital HD plasma TVs, which realized the highest level of picture quality in the industry, featuring an advanced PEAKS system, as well as enhanced media networking functions that can record video on SD Memory Cards. The Company also introduced the world's first 65-inch HD plasma TV. In fiscal 2006, Matsushita realized full HD (2.07 million pixels of 1,920 horizontal and 1,080 vertical pixels) with its 65-inch plasma TV and developed the world's largest 103-inch full HD PDP. Responding to the growing demand for plasma TVs, Matsushita began operating its No. 3 domestic PDP plant in September 2005, thus increasing monthly production to 300 thousand units (based on 42-inch panels) worldwide in December 2005. In fiscal 2007, the aforementioned No.3 domestic PDP plant came fully on stream in June 2006, realizing a global monthly production capacity of 460 thousand units. With the launch of its 103-inch model, the world's largest, and other full HD compatible products in Japan and overseas, Matsushita created a more extensive lineup. In addition, the Company offered more distinct high-value-added functions creating a more user-friendly experience with products. These initiatives helped Matsushita to maintain the leading market share in plasma TVs in Japan, the United States and Europe in fiscal 2007.

Table of Contents

- 14 -

Regarding LCDs, Matsushita and Toshiba Corporation (Toshiba) combined their respective LCD operations and jointly established Toshiba Matsushita Display Technology Co., Ltd. in April 2002, which manufactures LCD panels for PCs, mobile phones and smaller screen TVs with screen sizes 20-inches and smaller. For LCD TVs with screen sizes of 26- to 32-inches, the Company jointly established IPS Alpha Technology, Ltd. with Hitachi Displays, Ltd. and Toshiba in January 2005 and began mass production in May 2006 aiming to secure a stable supply of high-quality LCD panels for TVs. In fiscal 2007, LCD TV products which feature IPS technology to realize vivid color even from a wide angle have been well received in markets worldwide due to their high picture quality and performance. This helped the Company to capture around 20% of the domestic market for LCD TVs in the 26- to 32-inch range.

For digital cameras, in fiscal 2005, a new model featuring optical image stabilizers (OIS) and a large 2.5-inch LCD in a slim 24.2 mm body achieved one of the top shares in the Japanese market and contributed to sales growth. In fiscal 2006, new technologies such as the industry's first EX optical x19 zoom function and the world's first 16:9 wide CCD were well-received and maintained one of the top shares in the Japanese market. Overseas sales of digital cameras also increased, particularly in the European market. In fiscal 2007, cameras featuring a 28mm wide-angle lens and compact models with 10x zoom capability were particularly well received in the market. Moreover, with the launch of the Company's first digital SLR camera, Matsushita has a stronger lineup to meet a wider range of customer needs. As a result, the Company recorded much higher sales of digital cameras in fiscal 2007, particularly in the U.S. and Europe.

As for DVDs, Matsushita offers a wide range of DVD recorders and players. Since introducing the world's first consumer-use DVD recorder in 2000, the Company has been the market forerunner in this segment. In fiscal 2005, the Company continued to lead the industry by launching a series of competitive models, such as the industry's first DVD/VCR combination models with built-in hard disk drives (HDDs) and IP network-compatible models which allow access from personal computers (PCs) and mobile phones. In fiscal 2006, Matsushita expanded a new series of DVD recorders with HD compatible models in the Japanese market and launched digital broadcast-ready models in Europe ahead of competitors. Furthermore, Matsushita enhanced user-friendliness by introducing new models which are compatible to different DVD formats, and by significantly shortening times required to display program guides and begin recording, as well as incorporating universal design concepts. Such innovations helped Matsushita maintain its top global share in DVD recorders. In fiscal 2007, the Company introduced Blu-ray disc (BD) players in the U.S., Europe and other markets in September 2006, and BD recorders in Japan in November 2006. In addition, Matsushita put particular emphasis on making AV equipment more user-friendly. As a result of these initiatives, Matsushita maintained its leading global share in the DVD recorder market.

For SD Memory Cards, the use of SD Memory Cards in PCs, mobile phones, car navigation systems and other new products is rapidly increasing, in addition to their usage as a bridge media for flat-panel TVs and other digital AV products. These developments are solidifying the SD Memory Card's position as the industry standard. In fiscal 2007, Matsushita launched a new 4GB SDHC Memory Card* to meet rising consumer needs related to the recording and storage of large volumes of data such as HD video. This product enables Matsushita to respond to demands for high-speed, reliable recording and large data storage capacity, which are required for HD movies and other applications.

- * SDHC (SD High-Capacity) Memory Cards are based on the new SD Memory Card Specifications (Version 2.00) which enable the development of SDHC Memory Cards with capacities up to 32GB.

Table of Contents

- 15 -

For video cameras, Matsushita introduced a new line of compact easy-to-use models incorporating OIS and the 3CCD camera system featuring outstanding picture quality for both video and still pictures. The 3CCD camera system, which uses separate CCDs to process each of the three primary components of light (Red/Green/Blue), realizes one of the highest levels of picture quality in the industry. To meet diversified consumer needs by leveraging the strengths of its OIS and 3CCD technologies, Matsushita is expanding development of products compatible with DVD, SD Memory Cards and other bridge media from conventional digital video tape models. In fiscal 2006, while expanding its lineups of DVD video cameras, Matsushita introduced the world's smallest high-resolution SD Memory Card camcorder. In February 2006, the Company also launched the first 3CCD DVD camcorder for global markets. In fiscal 2007, Matsushita launched new products in December 2006 that can record HD video. SD Memory Card camcorders in particular were popular due to their high picture quality, compact and rugged design, and dust-resistance, leading to strong sales.

With respect to PCs, Matsushita has continued to upgrade its notebook models over the last several years, concentrating on lightweight notebook PCs and ruggedized notebook PCs. In fiscal 2005, Matsushita introduced the world's lightest B5-sized notebook PC with a 12.1-inch LCD screen and a built-in DVD Multi Drive that is compatible with the DVD-RAM, DVD-R, DVD-RW, +R and +RW formats. In February 2006, Matsushita announced new models for the domestic market, featuring the world's longest battery running time and the lightest model in its class. Matsushita will continue to provide high value-added products in this segment to remain an industry leader. In fiscal 2007, sales of notebook PCs continued to grow as lightweight products featuring extended battery life and rugged designs were well received in major markets including the U.S., Europe and Japan. In March 2007, Matsushita launched new notebook PCs that weighed less than previous models, were significantly better at withstanding shocks when dropped, and incorporated spill-resistant keyboards, a feature currently in high demand from customers. These kinds of features were well received, helping the Company to maintain its leading share in the domestic mobile PC market in 2006.

In the area of PC peripherals, Matsushita has been focusing on upgrading its optical disc drive lineup. In fiscal 2006, Matsushita's slim products, including the industry's thinnest (9.5 mm) DVD Super Multi Drive, maintained the No.1 share in the global market. In addition, Matsushita completed the development of a next-generation, high-capacity BD Drive. In fiscal 2007, Matsushita launched BD Drives and continued to lead the industry in developing slimmer, lighter disc drives by building on its success with the DVD Super Multi Drive, the industry's thinnest at just 9.5mm.

In the area of mobile communications equipment, in recent years Matsushita has developed and introduced a number of new mobile phones with advanced function, stylish design and ease-of-use. In fiscal 2005, new models with interchangeable decorative jackets and SD Memory Card compatibility to enhance coordination with AV equipment, were introduced in Japan. However, in overseas markets, the performance of mobile phones on the whole was unfavorable, due to such factors as higher inventories in the Chinese market and intensified price competition in Europe and Asia. In fiscal 2006, new models released in Japan, such as a 3G mobile phone that enables users to watch terrestrial digital broadcasting with outstanding picture quality, led to favorable domestic results. Meanwhile, overseas mobile phone markets faced rapid price declines in 2.5G mobile phones, due to the ongoing shift in demand to 3G.

Owing to these factors, the Company's mobile phone business on the whole continued to struggle. In light of this situation, Matsushita announced that it will phase out overseas 2.5G mobile phone businesses, and subsequently restructure certain overseas business locations, including manufacturing operations in the Philippines and the Czech Republic. In fiscal 2007, mobile number portability (MNP) was introduced in Japan in October 2006, triggering more intense competition among mobile phone handset manufacturers. In this environment, Matsushita resumed shipments of handsets to SOFTBANK MOBILE Corporation and KDDI CORPORATION.

Table of Contents

- 16 -

The Company also launched new mobile phone handsets for NTT DoCoMo, Inc. such as the P903iTV handset compatible with one-segment terrestrial digital TV broadcasts that combines Matsushita's high picture quality, high reception and energy-saving technologies, and the P703iμ, the world's thinnest handset at just 11.4mm*.

* As of February 2007; clamshell-type 3G (W-CDMA) phones

In the area of fixed-line communications, in fiscal 2005, the Company introduced network cameras which are compatible with IPv6, the next-generation communications standard, and other network-related products such as TV door intercom systems with wireless color-monitor-equipped handsets. In fiscal 2006, strong sales of telephones and facsimile machines led to an increased global market share for these products, while a new TV door intercom system with wireless color monitor handsets, the first product of its type, received market acclaim. In the U.S. market, Matsushita launched a High Definition Power Line Communication (HD-PLC) adapter that enables high-speed data transmission over existing power lines by simply plugging the module into an electrical outlet. In full-color digital multifunction products (MFPs), Matsushita introduced new models boasting the world's fastest start-up time (just 15 seconds), made possible through the Company's unique induction-heating (IH) technology, which also contributes to significant energy savings. In fiscal 2007, in home networks, the aforementioned TV door intercom systems continued to be well received by Japanese consumers. In addition, Matsushita launched its HD-PLC adapter in Europe and Japan. In office networks, Matsushita maintained one of the leading market shares for private branch exchange (PBX) products. This reflected strong sales, particularly overseas, of models that boast greater functionality and user-friendliness. Sales of new full-color digital MFPs were also favorable.

Matsushita's automotive electronics business encompasses two priority areas: automotive multimedia equipment such as car AV and car navigation systems, and components and devices that promote safety, environmental preservation and energy efficiency. In fiscal 2005, the Company launched new products in the Strada series of car navigation systems. Favorable sales of these car navigation systems, featuring improved AV functions such as outstanding picture quality and high-resolution wide-screen monitors, improved Matsushita's domestic market share. In fiscal 2006, taking the lead in the introduction of new products, Matsushita continued robust domestic sales of its Strada series connectable to digital tuners that allow viewing of high-quality terrestrial digital TV broadcasts. Overseas, the Company launched the Strada series in China. Driven by strong sales, particularly in North America, Matsushita retained its leading global position in rear-seat entertainment systems. The Company also achieved the top position in Japan for its Electronic Toll Collection (ETC) terminals with voice confirmation functions. Moreover, the Company increased sales in a variety of electrical devices including batteries for hybrid vehicles, which continue to enjoy increased demand, car-mounted cameras and smart entry systems. In fiscal 2007, Matsushita recorded strong sales of the aforementioned Strada series in Japan, leading to a higher share in both the automaker and consumer markets. Meanwhile, with the growing popularity of ETC systems, Matsushita's ETC terminals continued to be well received in the Japanese market. In components and devices, the Company also increased sales of a variety of products that improve environmental performance, safety and security.

In the system solutions business, Matsushita conducts business in a variety of fields including security systems, broadcasting systems and business solutions. In fiscal 2006, Matsushita released a series of systems and products that provide total building and area security solutions, utilizing an Integrated IP Network Platform developed in close collaboration with MEW. Within this product range, the Company's megapixel network camera received market acclaim for its outstanding picture quality. With the establishment of an Integrated IP Network Platform Center in October 2005, Matsushita is accelerating the development of comprehensive security businesses. Other products, including payment terminals for logistics industries and product tracking systems, also contributed to increased sales.

Table of Contents

- 17 -

In fiscal 2007, Matsushita launched new security system products compatible with an integrated IP network platform, and a series of security products. Megapixel network cameras that realize high picture quality sold particularly well in fiscal 2007. Meanwhile, amid the spread of terrestrial digital broadcasting in Japan, Matsushita maintained its high market share in digital set-top boxes for cable TV. The Company also continued to win strong support for its HD cameras from TV broadcasters. Furthermore, the Company recorded higher sales of IC card verification and settlement systems, payment terminals for logistics industries, and wireless systems for business users.

Home Appliances

Matsushita's principal products in this segment include home appliances such as washing machines, vacuum cleaners, dishwasher/dryers, rice cookers, microwave ovens, induction-heating (IH) cooking equipment, refrigerators, room air conditioners, water heating systems, and compressors. This segment also includes healthcare systems, lighting, and environmental systems.

In home appliances, Matsushita strives to develop products based on environmental technologies and universal design concepts that meet rapidly changing customer needs and growing interest in health and the environment.

In the area of electric household appliances, refrigeration and air conditioning equipment, in fiscal 2005, Matsushita launched a dishwasher/dryer that utilizes a highly concentrated detergent mist to lift and remove stains, air conditioners with automatic filter cleaning and dust removal functions, refrigerators with full-open food drawers that allow easy access to hard-to-reach areas, and other unique products. In addition, together with Tokyo Gas Co., Ltd., Matsushita introduced a fuel cell co-generation system for the home. In fiscal 2006, Matsushita introduced the world's first model of tilted-drum washer/dryer to employ a heat-pump drying system that uses no electric heater or cooling water for the drying process. The Company's refrigerators with 50% more freezer space were also well-received in the domestic market. In fiscal 2007, Matsushita maintained its dominant share of IH cooking equipment in the Japanese market by realizing high quality through its integrated production system including IH coils. Matsushita's air conditioners captured the leading market share in Japan owing to automatic airflow control mechanism as well as the aforementioned automatic filter cleaning and dust removal functions. In addition, Matsushita developed the U-Vacua series of high-performance vacuum insulation boasting the world's highest level of thermal insulation. The Company boosted the storage space of refrigerators with this technology, thereby securing the leading market share in Japan.

In the healthcare systems business, in fiscal 2005, Matsushita expanded its lineup of ultrasound diagnostic equipment. In fiscal 2006, the Company introduced a cordless rechargeable carbon dioxide surgical laser for dental use. In fiscal 2007, mainstay blood glucose monitoring systems maintained their leading share in the domestic market with

increased sales. A new in-the-ear, tailor-made hearing aid, which can be adjusted with a maximum of 32 audio channels, was also well received in the market.

In the lighting business, an energy-saving lamp characterized by its spiral-shaped fluorescent tube was introduced in fiscal 2005. In fiscal 2006, Matsushita significantly increased its market share in consumer-use fluorescent lamps with new models which extended its lifetime and spiral-shaped screw-in compact models. Meanwhile, the Company outperformed the industry in sales growth of LCD backlights. In fiscal 2007, Matsushita launched its Pa-look Ball Premier series, which significantly reduces electricity consumption and compares with the best in the industry in terms of energy efficiency and product lifetime.

Table of Contents

- 18 -

In the environmental systems business, the Company supplies solar and wind power generation systems to the Aichi World Expo in fiscal 2005. In fiscal 2006, the Company released a micro-mist sauna for the bathroom, attracting significant market acclaim in Japan. In addition, the Company launched an ion-generating air purifier by combining the Company's black-box technologies with those of MEW. In fiscal 2007, micro-mist saunas that employ nanometer-size water particles recorded strong sales. The Company rolled out the industry's first dehumidifier with intelligent hybrid control, which realizes optimal levels of humidity for any season. Also, Matsushita's strong domestic track record and technologies enabled it to win an order for an electronic dust collection system for a road tunnel in Madrid, Spain, as part of a highway extension project.

Components and Devices

Matsushita develops and supplies components and devices used in various products ranging from AV equipment and information and communication devices to home appliances and industrial equipment. Major products included in this category are semiconductors, electronic devices, batteries and electric motors. Responding to growing demands for the rapid supply of devices and solutions tailored to specific markets and businesses, Matsushita is facilitating even closer cooperation between component and device divisions and finished product divisions right from the development phase. This approach is helping the Company to rapidly launch high-value-added products that meet customer needs.

In the semiconductor business, Matsushita primarily focuses on products for digital TVs, optical discs, mobile communications equipment, image sensor application products and automotive devices. The Company provides total solutions for a wide range of semiconductor products such as system LSIs, image sensors, analog LSIs and discrete devices. Moreover, Matsushita supplies key devices founded on cutting-edge technologies to finished product divisions across the Group, and actively works to tap demand from external clients.

In fiscal 2005, Matsushita developed an Integrated Platform that combines software and hardware resources across different product categories to improve R&D efficiency and design quality. In fiscal 2006, Matsushita began incorporating the Integrated Platform into SD camcorders and other products. In fiscal 2007, this platform was fully extended to digital product categories such as plasma TVs, DVD recorders and mobile phones. The wider use of the Integrated Platform is allowing Matsushita to dramatically increase product development speed and reduce development costs. It is also playing a major role in realizing a high level of reliability thanks to the reuse of tried and tested software.

In addition to the system LSI field, distinct products in the discrete device, analog LSI and image sensor fields also supported operations in the semiconductor business during the year under review. Prior to this, in fiscal 2005, the

Company expanded product lines of a MOS image sensor featuring high image quality and low power consumption, and in fiscal 2006 began mass-producing and shipping the industry's smallest camera modules featuring this MOS image sensor.

Table of Contents

- 19 -

In terms of manufacturing, operations in both Japan and overseas have been strengthened and expanded. In order to advance process technology for system LSIs from the conventional 0.13-micrometer process, the Company began construction of a new semiconductor factory in Japan, establishing a cutting-edge production process for 300mm wafers in fiscal 2005. In fiscal 2006, Matsushita commenced mass production of 65-nanometer process system LSIs using 300mm wafers, thereby achieving significant improvements in production efficiency. In fiscal 2007, Matsushita began the full-scale mass production of these 65-nanometer process system LSIs using 300mm wafers at its new Uozu plant to meet accelerated demand for high-performance digital consumer products. Matsushita is striving to shift the majority of assembly and test production for discrete general-purpose devices overseas, and further increase the volume of analog LSI and system LSI manufacturing at overseas plants as it works to create an optimal global manufacturing framework.

The electronic devices business operates globally with a focus on seven priority areas: capacitors, tuners, printed circuit boards, power supply products, circuit components, electromechanical components, and speakers. Aiming to meet customer needs for higher performance AV equipment, and more compact and thinner information and communication devices, Matsushita strives to develop high-value-added components. The Company is also strengthening its position in the automotive electronics field which continues to grow as cars are fitted with more electronic components. In fiscal 2005, the Company concentrated efforts on the development of high-density printed circuit boards ALIVH (Any Layer Inner Via Hole) that help to realize more compact equipment and on digital TV tuners that enable exceptional picture quality. In fiscal 2006, Matsushita strengthened its lineup with products including digital TV tuners, high-fidelity speakers for flat-panel TVs, and the aforementioned ALIVH. The Company also saw continued strong sales of circuit components for AV equipment and electromechanical components such as switches for automotive applications. In fiscal 2007, Matsushita continued to grow sales of digital TV tuners that enable exceptional picture quality, and specialty polymer aluminum electrolytic capacitors that are compact and have a high noise reduction function. The Company's angular rate sensors, which sustained a high market share as components that improve the accuracy of car navigation systems, were also incorporated in digital cameras. Furthermore, sales of electronic devices for mobile phones designed for one-segment terrestrial digital TV broadcast function were strong during the year under review. Examples of products that recorded higher sales included high-frequency components, ALIVH, and chip tuners that feature receiver sensitivity and low electricity consumption. Favorable sales were also recorded in film capacitors and electrical double layer capacitors used in hybrid vehicles.

The battery business consists of primary batteries, including dry batteries, and rechargeable batteries, such as lithium-ion batteries. Batteries are key devices that aid the development of a wide variety of more compact, thinner and lighter products. In addition to larger capacity and longer life, batteries today have to be even safer and more reliable. In fiscal 2005, in Japan, Matsushita launched Oxyride, a revolutionary dry battery that provides increased output, and approximately 1.5 times longer battery life than ordinary alkaline batteries in Japan. In fiscal 2006, Matsushita expanded global marketing initiatives for Oxyride which attracted significant market acclaim, particularly for use in digital equipment. In rechargeable batteries, the Company developed new lithium-ion batteries with larger capacity and the industry's highest energy density. In fiscal 2007, in primary batteries, the aforementioned Oxyride dry battery proved popular with customers, particularly for use in digital cameras and other digital AV equipment. In rechargeable batteries, the Company focused on boosting capacity and developing new safety technology in response to customer needs for more compact notebook PCs, mobile phones and other mobile equipment that can be used for

extended periods.

Table of Contents

- 20 -

In electric motors, Matsushita supplies products that meet growing market needs in terms of efficiency, noise reduction and compact design. These motors are incorporated into various products, including home appliances, AV equipment and industrial equipment. In April 2004, Matsushita shifted its information equipment motor business, excluding brushless motors, to a new company jointly established with Minebea Co., Ltd. Meanwhile, in fiscal 2005 the Company formed joint ventures with Zhejiang Wolong Hi-Tech Co., Ltd. of China and Daikin Industries, Ltd. of Japan in the field of induction motors for home appliances, and expanded its home- and industrial-use electric motor manufacturing operations in China. In fiscal 2006, Matsushita facilitated close cooperation with finished product divisions, supplying motors for not only conventional products, but also new products such as tilted-drum washer/dryers and DVD recorders, as well as commencing production of compressor motors in China. In fiscal 2007, sales of FA servo motors, motors for vacuum cleaners and compact brushless motors used in game consoles were strong. The electric motors business continued to enhance the aforementioned cooperation with finished product divisions, leading to the use of motors produced in-house in tilted-drum washer/dryers, optical disc drives and other new products.

MEW and PanaHome

This segment includes Matsushita Electric Works, Ltd. (MEW), PanaHome Corporation (PanaHome) and their respective subsidiaries.

MEW manufactures, sells, installs and provides services related to a wide variety of products. These include electrical construction materials, home appliances, building products, electronic and plastic materials and automation controls. In fiscal 2005, MEW enhanced its position in the growing home remodeling market, and broadened the scope of its housing materials and equipment operations by providing total solutions in hardware, software and services. MEW also augmented global product competitiveness and market development capabilities through initiatives such as organizational structural reforms in China, where R&D, manufacturing and sales functions were integrated within each individual business unit. In the home appliances business, which includes aesthetic products and fitness machines for the home, MEW further expanded research in the fields of health and ergonomics. In fiscal 2006, MEW, through collaboration with Matsushita, attracted market acclaim with new Collaboration V-products in housing materials and equipment, including bathroom systems, modular kitchens and modular furniture systems for home theaters. In electrical construction materials, sales grew steadily in energy-efficient lighting fixtures featuring audio feedback functions, along with household fire alarm devices. With growing consumer interest in health and beauty, MEW also received significant market acclaim in its home appliances business for aesthetic products and home fitness machines. Furthermore, MEW recorded increased sales in various key areas such as electronics and plastics, including materials for high heat-resistance multilayer printed circuit boards, molding compounds for car-mounted components and automation controls for applications in mobile phones and automotive devices. In fiscal 2007, MEW recorded sales gains for a number of products in electrical construction materials. In addition to a substantial increase in sales of home fire alarms, MEW saw strong sales of security equipment such as room access control systems, as well as

atmospheric lighting and highly efficient lighting fixtures. In building products, sales of all-electric homes and interior furnishings such as modular furniture were robust, as were those of exterior finishing materials such as photocatalytic self-cleaning cladding. The A La Uno toilet, featuring a fully automatic cleaning system based on new materials and a new washing method, also proved popular with customers. In home appliances, amid rising public interest in health and beauty, MEW reported particularly strong sales increases for the JOBA horseback-riding fitness machine and aesthetic products. MEW also posted higher sales of environmentally friendly semiconductor encapsulation materials and multilayer printed circuit board materials in the electronic and plastic materials business, and factory automation-related products and automotive devices in the automation controls business.

Table of Contents

- 21 -

PanaHome's operations are primarily focused on detached housing, asset and property management, and home remodeling. In all these businesses, to provide living spaces that are friendly to both people and the environment, the company's product strategies are guided by the basic Eco-life Home concept, which emphasizes safety, security, health, comfort and high energy efficiency. In fiscal 2005, PanaHome focused on solar power generation systems and housing products with features compliant to next-generation energy conservation standards, and also introduced its original external wall tiles featuring photocatalyst technology to reduce maintenance costs. In fiscal 2006, PanaHome continued to strengthen its range of new homes by applying the aforementioned photocatalyst technologies to windows as well. PanaHome also began marketing an Eco-life Home, that is particularly suited to cold weather regions. In the asset and property management business, PanaHome met the diversified needs of varied tenant segments, established a structure for providing design recommendations for rental homes, and enhanced its business proposals aimed at landowners. PanaHome also promoted consulting-style marketing in the home remodeling business, proposing living spaces that incorporate entirely new concepts. In fiscal 2007 in the detached housing business, PanaHome enhanced its lineup of EL SOLANA homes, aiming to realize environments where residents can live in health and comfort by offering a wider choice of equipment and fittings such as solar power generation systems and photocatalytic external wall tiles. The company also launched PanaHome Aging Home, a new type of residence designed for at-home nursing care that emphasizes comfort and makes caring for the elderly easier. In the asset and property management business, PanaHome became the first company in the industry to offer all-electric rental apartment homes, which help to lower maintenance costs. This was part of overall efforts to strengthen its rental property management support system. In the home remodeling business, the company offered living spaces designed around its Eco-life Reform concept and took other steps to enhance its consulting-based sales approach.

JVC

The JVC segment consists of businesses of Victor Company of Japan, Ltd. and its group companies. JVC is involved in both hardware and entertainment software businesses. Using its high-quality audio and visual technologies, JVC aims to deliver truly moving experiences and customer satisfaction.

Over the last three fiscal years, JVC has placed priority on developing its Only One product series that incorporates JVC's original market-leading audio and visual technology. In fiscal 2005, despite sharp price declines, LCD TVs and the company's three-in-one VCR-HDD-DVD recorders were well-received in the Japanese market. Overseas, JVC's HD-ILA hybrid projection TV employing its unique high-definition micro display device, was launched in the U.S., and full-scale market introduction also progressed. In fiscal 2006, JVC focused on HD-ILA hybrid projection systems as its principal business area and also on display, camcorder, car electronics, and audio video systems as main business areas in order to meet changing consumer demand. JVC strengthened HD-ILA hybrid projection TVs and launched the new Everio series of compact HDD camcorders. Despite such efforts, of the DVD recorder and audio equipment businesses struggled. Under these circumstances, with the aim of securing growth and increased profitability, JVC accelerated structural reforms, including dissolution of its in-house company system in favor of a

product segment system, and the closure/integration of certain domestic and overseas locations. In fiscal 2007, a number of products saw higher sales, including the Everio series, which are capable of approximately five hours of full-HD recording, a world first. However, overall sales at JVC declined due to a reduction in the number of models in the DVD recorder lineup and weak sales of such products as audio equipment in Japan, as well as projection TVs overseas.

In the professional electronics field, JVC has focused on two categories, security and presentation systems. In fiscal 2005, sales of security systems, including surveillance cameras, recorded steady growth. In fiscal 2006, security products faced a difficult situation in Japan, although overseas sales in professional-use HDV camera recorders and security products increased. In fiscal 2007, despite sluggish sales of audio products in Japan, sales of professional-use HDV camera recorders and security products grew steadily in overseas markets.

Table of Contents

- 22 -

In the field of components and devices, JVC's fluid dynamic bearing (FDB) motors for HDDs received market acclaim for its high quality. In fiscal 2006, sales of FDB motors for HDDs were strong, but were offset by the impact of a rapid contraction in the market for deflection yokes for PC monitors and JVC's initiatives to restructure this business through the selection and concentration of management resources into growth areas. In fiscal 2007, sales of motors for HDDs and automobile optical pickups increased.

JVC's software and media businesses comprise the media business, which manufactures and sells recordable media and prerecorded audio and video software, and the software business, which identifies, develops and manages promising artists, and produces, sells and distributes their content. JVC's software business has been operating mainly in Japan. In fiscal 2005, JVC strengthened sales of digital media products such as DVD-RW and Mini DV tapes. While market conditions were tough for recording tapes due to a rapid fall in sales prices of Mini DV tapes and declining demand in VHS recording tapes, recordable DVD discs sales grew strongly with the popularization of DVD recorders, mainly in Japan. In fiscal 2006, sales gains were recorded in software and media as a whole. Although sales of media struggled with sharp price declines for blank media, JVC's major artists continued to produce hits through Victor Entertainment and Teichiku Entertainment Inc. In fiscal 2007, sales of media continued to struggle, particularly blank media such as Mini DV tapes and DVD-RW due to a rapid market shift in demand for camcorder media. JVC faced difficult situations also due to a lack of major hit releases from Victor Entertainment.

Other

In the factory automation (FA) business, Matsushita provides optimal solutions in electronic component mounting, semiconductor mounting and manufacturing processes with the aim of contributing to the development of client businesses through innovative manufacturing processes in circuit manufacturing technology. Responding to the ever-diversified needs of its customers at the factory, Matsushita provides innovative manufacturing processes in circuit manufacturing technology. In fiscal 2005, Matsushita's high-speed modular placement machines that boast the industry's highest productivity recorded solid sales performance. Meanwhile, in the semiconductor mounting business, LCD panel bonders, high-speed die bonders and plasma cleaners achieved favorable results with high levels of precision and productivity. In fiscal 2006, Matsushita reported continued steady sales growth in the electronic component mounting business and semiconductor mounting business. In addition, Matsushita developed the Integrated Process Assembly Cell (IPAC), a modular line that combines electronic component and semiconductor mounting in one platform. In fiscal 2007, Matsushita enhanced its product lineup in the electronic component mounting business. This included upgrading its high-speed modular placement machines, introducing new ultra-high-speed models and providing more products for small- and medium-scale manufacturing. In the semiconductor mounting business, the Company launched high-speed die bonders and other products that feature both high precision and high productivity.

Table of Contents

- 23 -

MARKETING CHANNELS

The table below shows a breakdown of Matsushita's net sales by geographical area for the periods indicated:

	Yen (billions) (%)					
	Fiscal year ended March 31,					
	2007		2006		2005	
Japan	4,616	51%	4,611	52%	4,581	53%
North and South America	1,381	15	1,387	16	1,283	14
Europe	1,218	13	1,114	12	1,122	13
Asia and Others	1,893	21	1,782	20	1,728	20
Total	9,108	100%	8,894	100%	8,714	100%

Sales and Distribution in Japan

In Japan, Matsushita's products are sold through several sales channels, each established according to the type of products or customers: Sales of consumer and household products are handled or coordinated by relevant corporate sales divisions, such as the Corporate Marketing Division for Panasonic Brand and the Corporate Marketing Division for National Brand, while sales of general electronic components and certain other devices to manufacturers are handled by the Corporate Industrial Marketing & Sales Division, in each case to stay close to respective customers and meet their specific and ever-diversifying needs. For other products, there are also organizations under the direct control of business domain companies that conduct sales and marketing of their own products, mostly to non-consumer customers, such as industrial and business corporations, public institutions, construction companies and governments through their sales offices and subsidiaries or through outside agencies.

Of the above, the Corporate Marketing Division for Panasonic Brand and the Corporate Marketing Division for National Brand were established in April 2001 as part of Matsushita's domestic consumer sales and distribution structure reorganizations, whereby the former corporate consumer products sales divisions, sales functions within individual product divisions and the Advertising Division were integrated into the two new corporate marketing divisions to provide greater customer satisfaction by shortening the distance between factories and consumers.

In fiscal 2005, Matsushita and MEW integrated the sales functions of each of the electrical supplies, building materials and equipment, and home appliances businesses as a part of collaboration between the two companies. Regarding the electrical supplies business, in January 2005, the Corporate Electrical Supplies Sales Division of Matsushita was integrated into MEW and the Corporate Construction Business Promotion Division was newly established within Matsushita. In April 2005, in the building materials and equipment business, the Corporate Housing Equipment Sales Division of Matsushita, excluding the businesses for city gas companies and OEM sales of equipment and instruments, and the Matsushita Housing Equipment & Systems Corporation were transferred and integrated to MEW. Furthermore, in the home appliances business, MEW sales functions for beauty and health products were integrated into Matsushita, whereby Matsushita reorganized the integrated MEW's sales functions and Corporate Marketing Division for National Brand of Matsushita into a new Corporate Marketing Division for National Brand Home Appliances and Corporate Marketing Division for National Brand Wellness Products. The Corporate Marketing Division for National Brand Home Appliances handles such large electric appliances as air conditioners, refrigerators and washing machines, while the Corporate Marketing Division for National Brand Wellness Products is responsible for products in fields such as beauty, health, batteries and lamps.

Table of Contents

- 24 -

Overseas Operations

Worldwide, Matsushita has 653 consolidated companies as well as 71 companies which are accounted for by the equity method. International marketing and sales of Matsushita's products are handled mainly through its sales subsidiaries and affiliates located in respective countries or regions in coordination with business domain companies and regional headquarter companies. In some countries, however, marketing and sales are handled through independent agents or distributors, depending on regional characteristics. Additionally, certain products are also sold on an OEM basis and marketed under the brand names of third parties.

Overseas sales represented approximately 49% of the Company's total consolidated sales in fiscal 2007.

In order to promote global business development, Matsushita has been expanding its overseas manufacturing operations. The Company's overseas manufacturing is conducted by overseas manufacturing subsidiaries and affiliates under the control of business domain companies in coordination with regional headquarter companies. In April 2003, a new business performance evaluation system (which had previously been applied at domestic companies only) was extended to overseas operations, whereby the performance of each business domain company is now evaluated based on Capital Cost Management (CCM), which measures capital efficiency, and cash flows, on a global consolidated basis, including overseas companies under its control. This provides incentive to each business domain company to further establish globally optimized operational structures.

In recent years, the Company established a globally optimized manufacturing structure, taking into consideration cost and proximity to market as well as social, political and environmental factors. Currently, the Company views Asia, China and Eastern Europe as critical to this structure. Specifically, Matsushita has focused on China as a large potential market and a production site to supply global, as well as Chinese markets. As such, the Company has been enhancing production capacity at its Chinese facilities for such borderless products as DVD players, microwave ovens, compressors and components, as well as such new growth products as PDPs.

Matsushita also places an emphasis on promoting localization of research and development of products and technologies to enhance competitiveness of overseas manufacturing sites. Such endeavors included establishment of a second R&D base in China in fiscal 2003 to speed up local-based product development and to build an optimum global R&D network. In January 2004, Matsushita established a software development site in China to minimize escalating software development costs in areas such as digital consumer electronics. In March 2005, Matsushita and MEW established the Chinese Lifestyle Research Center in Shanghai, China to strengthen product planning activity. In Asia, the Company established the Panasonic R&D Center Malaysia in October 2003 as a digital networking multi-media software development base.

Overseas operations are expected to serve as a growth engine for the entire Matsushita Group. Matsushita will therefore further strengthen ties between manufacturing companies in various regions and business domain companies in Japan. Matsushita will also identify strategic products and sales channels for each region and country, and effectively allocate management resources in order to boost sales. In addition to markets in Europe and the United States, Matsushita views the growing BRICs markets as a key to success overseas.

The Company established a Russia Division, India Coordination Department and Brazil Coordination Department in April 2007.

Table of Contents

- 25 -

Customers

The largest markets for Matsushita have traditionally been consumer products. However, since the 1980s, the proportion of sales to non-consumer customers, such as industrial and business corporations, governments and other institutions, including large customers such as electric and electronic equipment manufacturers, automotive manufacturers and various other machinery makers, has been rising as Matsushita places increasing emphasis on industrial and commercial products and systems and electronic components. Matsushita's business is not materially dependent on any single customer.

SEASONALITY OF BUSINESS

The Company's business has no significant seasonality in terms of sales or profits. However, for the consumer electronics business, the fiscal third quarter (October to December) is normally a peak period because it falls in the year-end shopping season in Japan and many overseas markets. Additionally, seasonal appliances, such as air conditioners and refrigerators, have different business cycles, sales of which peak in summer. These do not have a material effect upon the Company's overall operations.

RAW MATERIALS AND SOURCE OF SUPPLY

Matsushita purchases a wide variety of parts and materials from various suppliers globally. The Company applies a multi-sourcing policy not depending upon any one particular source of supply for most essential items. The Company has also been endeavoring to promote a policy of global optimum procurement by concentrating order placements to qualified suppliers from all over the world and purchasing the most competitive parts and materials.

In an attempt to improve operational efficiency and to reduce parts and materials costs, Matsushita has been increasing centralized purchasing at its headquarters for materials commonly used in many product divisions throughout Matsushita, such as steel, plastics, semiconductors and electronic components, while at the same time accelerating the initiatives to standardize parts and materials. Such efforts are coordinated by the Corporate Centralized Purchasing Center* established in April 2003. At the business domain company level, an increasing focus has been put on centralized purchasing for parts and materials commonly used in factories within each business

domain company.

To minimize the adverse effects of global price increases of raw materials, Matsushita further strengthened materials cost reduction initiatives including a reduction in the number of parts through the standardization of design, use of Value Engineering techniques, and additional cost reduction activities covering indirect materials.

With an increasing global awareness of CSR values, the Company recently decided to extend its commitment to social responsibility by requiring its suppliers to maintain environmental preservations, quality, safety, information security management, human rights and comply with the related laws and regulations.

By implementing above mentioned activities and strengthening partnership with excellent suppliers, Matsushita aims to reinforce its procurement activities.

*On May 1, 2007, Corporate Centralized Purchasing Center was renamed as Global Sourcing Center.

Table of Contents

- 26 -

PATENT LICENSE AGREEMENTS

Matsushita holds numerous Japanese and foreign patents for its products, and shares technologies with a number of Japanese and foreign manufacturers. Its technical assistance, or licensing, to other manufacturers has been increasing year by year.

For example, Matsushita's patents related to MPEG2 technology, which is widely used in digital TVs, are licensed to other companies through MPEG LA LLC. Patents which are essential to DVD technology are licensed as a part of the joint licensing program operated by seven Japanese and U.S. companies. Furthermore, the Company's patents relating to CD technology are licensed to many manufacturers.

Matsushita is a licensee under various license agreements which cover a wide range of products, including AV products, computers, communications equipment, semiconductors and other components. Matsushita has non-exclusive patent license agreements with, among others, Thomson Licensing Inc. and Thomson Licensing S.A. covering a broad range of products, including TVs, VCRs and DVD products. Matsushita has non-exclusive patent cross-license agreements with, among others, Texas Instruments Incorporated and International Business Machines Corporation, both covering semiconductors, information equipment and certain other related products. Matsushita has non-exclusive patent cross-license agreements with Koninklijke Philips Electronics N.V. covering semiconductor devices, various lamps, cathode-ray and electron tubes and certain other products.

The Company considers all of its technical exchange and license agreements beneficial to its operations.

COMPETITION

The markets in which the Company sells its products are highly competitive. Matsushita's principal competitors, across the full range of its products, consist of several large Japanese and overseas manufacturers and a number of smaller and more specialized companies. Advancements toward a borderless economy have also applied pressure to Japanese manufacturers, including Matsushita, in terms of global price competition, especially from Chinese and Korean manufacturers. To counter this, the Company is devising various measures to enhance its competitiveness, with a focus on the development of differentiated products, cost reduction and efficiency improvements. Such measures include the development of products with Matsushita's differentiated technologies, innovation of manufacturing processes through the use of information technology, increasing overseas production for optimum manufacturing

allocation from a global perspective, and shortening production and distribution lead time through the expansion of supply chain management (SCM) in cooperation with several overseas and domestic mass-scale retailers and the introduction of cell-style production, as well as developing joint ventures and other cooperative agreements with domestic and overseas partners.

Also, with the development of digital and networking technologies, competition in terms of the so-called *de facto* standard has become crucial. In response, Matsushita has been strengthening its efforts toward alliances with leaders not only in the electronics industry but also the software, devices, broadcasting, communications services and other diverse industries.

Table of Contents

- 27 -

GOVERNMENT REGULATIONS

Like other electronics manufacturers, Matsushita is subject to government regulations related to the environment.

Matsushita has established an efficient system to collect and recycle used home appliances, comprising air conditioners, TVs, refrigerators, washing machines and PCs in compliance with the Japanese Law for Recycling of Specified Kinds of Consumer Electric Goods (the Recycling Law) effective April 1, 2001. The Company also established the Matsushita Eco Technology Center Co., Ltd. not only for dismantling used products and recycling scrapped materials, but also for research and development of recycling technology. Likewise, Matsushita, as the leader in the domestic home electric and electronic equipment industry, has been consistently working on environmental protection initiatives that appropriately meet the standards set forth in the Recycling Law or other relevant laws or regulations, including those regarding water and land-soil anti-pollution.

In January 2003, the Company announced that disposed electric equipment that contained polychlorinated biphenyls (PCB) might be buried in the ground of its four manufacturing facilities and one former manufacturing facility in Japan. The applicable laws in Japan require that PCB equipment be appropriately maintained and disposed of by July 2016. The Company has accrued estimated total cost of approximately 11 billion yen at March 31, 2007 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 or minimum of the cost, but the payments are not considered to be fixed and reliably determinable.

In Europe, two environmental directives went into force in February 2003 and 25 EU member states are currently drawing up their state laws and some of them have already come into force. One of these directives is the WEEE Directive designed to promote recycling of electric and electronic equipments, and the other is the RoHS Directive that bans the sales of electrical and electronic equipment using six specified hazardous substances (Lead, Mercury, Cadmium, Hexavalent chromium, Polybrominated biphenyls, Polybrominated diphenyl ethers) from the EU market since July 2006. Matsushita completed initiatives for the non-use of the abovementioned six specified hazardous substances in its target products*1 (31,400 models) by the end of October 2005, in order to reduce possible contamination by these substances after products are disposed of. Preparing for mandatory recycling under the WEEE directive, effective August 2005, Matsushita established Ecology Net Europe GmbH (ENE) in Germany in April 2005. Matsushita promotes construction of networks connecting manufacturers, recycling companies and hauling companies through ENE. Through these efforts, Matsushita is carrying out its compliance programs not only to meet the requirements of these two directives but also to establish cost efficient systems that will further enhance its competitive edge.

China's Management Methods on the Control of Pollution from Electronic Information Products, commonly known as China RoHS, took effect from March 1, 2007. This applies to electronic information products imported or manufactured in China, that are sold on the Chinese market. Restricted substances are the same as the 6 EU RoHS substances. There are labeling requirements for the product and disclosure of the substances in the packaging. And in Europe, Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) came into force in June 2007. REACH requires all chemicals of one tonne or more in volume that are manufactured in or imported into the European Union each year to be tested for health and safety and registered with a new central European authority. Matsushita is carrying out its compliance programs to meet the requirements of these two regulations.

The Company is subject to a number of other government regulations in Japan and overseas, but overall, it presently manages to operate its businesses without any significant difficulty or financial burden in coping with them.

- *1 Excluding products specified by customers or those that use materials and components with no feasible alternatives or suppliers, for example products or materials commonly used in other industries (e.g. housing materials, bicycles). Components and materials for which applications to be exempted from the RoHS Directive have been submitted to the EU by the end of October 2005 are also excluded.

Table of Contents

- 28 -

REPORT ON KEROSENE FAN HEATER RECALL
AND COMPANY'S COUNTERMEASURES

In 2005, certain kerosene fan heaters, which were manufactured by Matsushita between 1985 and 1992, resulted in hospitalization, and in some cases death, due to exposure to carbon monoxide exhaust. To prevent a recurrence, in November 2005, the Company established a special committee led by President Nakamura to implement recall efforts, product inspections and repairs of affected models of kerosene fan heaters. Using various media, Matsushita notified customers of the risks involved in the use of these products, while sending out employees (approximately 200,000 in total) to distribute leaflets directly to users, and visit kerosene suppliers.

Matsushita has made all-out efforts to locate recalled kerosene fan heaters through the cooperation of various parties, and will continue efforts to identify the purchasers and users of all remaining recalled heaters. At the same time, to prevent a recurrence, the Company is carrying out a wide range of initiatives. On May 1, 2006, Matsushita reorganized the aforementioned special committee into a permanent organization, the Corporate FF Customer Support & Management Division, under which Matsushita will continue recall efforts through various public awareness campaigns. Furthermore, the Company will thoroughly review product safety in design and manufacturing processes. Specifically, Matsushita will undertake studies of material deterioration caused by long-term use, together with the development of technologies to prevent risks caused by complex factors involved in the extended use of certain products. Furthermore, the Company will establish a new risk management system to enable prompt action in an emergency, in compliance with its primary principle, the customer comes first. The Company will also reinforce safety education programs for the presidents of all Group companies, the directors of all divisions and the managers responsible for specific operations (such as design, manufacturing, and quality control). In terms of product quality issues, in addition to its commitment to the idea that safety and quality come first from the product design stage, Matsushita will continue to take all possible measures, such as the analysis of product age-related degradation and user environments, to ensure the quality and safety of products.

C. Organizational Structure

In order to maintain production, sales and service activities effectively in broad business areas as a comprehensive electronics manufacturer, Matsushita has been operating under a decentralized divisional management structure with substantial delegation of authority to divisional companies and subsidiaries, with the headquarters focusing on Groupwide strategic functions. In January 2003, Matsushita launched a new business domain-based organizational structure, and introduced new Group management control systems from April 1, 2003. Under this new structure, each business domain company, either an internal divisional company of the parent company or a subsidiary, takes full

responsibility in its own business area, thereby establishing an autonomous management structure that expedites self-completive business operations to accelerate growth. On April 1, 2004, MEW, PanaHome and their respective subsidiaries became consolidated subsidiaries of the Company. Accordingly, the Company successfully eliminated overlaps in R&D, manufacturing and sales, thereby creating an optimum Group structure that facilitates the effective use of management resources to achieve growth strategies.

Table of Contents

- 29 -

Matsushita's consolidated financial statements as of March 31, 2007 comprise the accounts of 653 consolidated companies, with 71 companies reflected by the equity method.

Principal divisional companies and subsidiaries as of March 31, 2007 are as listed below:

- (1) Internal divisional companies of Matsushita Electric Industrial Co., Ltd.:

<u>Name of internal divisional company</u>
Panasonic AVC Networks Company
Panasonic Automotive Systems Company
Panasonic System Solutions Company
Matsushita Home Appliances Company
Healthcare Business Company
Lighting Company
Semiconductor Company
Motor Company

- (2) Principal domestic subsidiaries:

<u>Name of company</u>	<u>Percentage owned</u>
Matsushita Electric Works, Ltd.	52.1%
Victor Company of Japan, Ltd.	52.7
Panasonic Communications Co., Ltd.	100.0
PanaHome Corporation	54.7
Matsushita Plasma Display Panel Co., Ltd.	75.0
Panasonic Electronic Devices Co., Ltd.	100.0
Panasonic Mobile Communications Co., Ltd.	100.0
Panasonic Factory Solutions Co., Ltd.	100.0
Matsushita Ecology Systems Co., Ltd.	100.0
Matsushita Refrigeration Company	100.0
Matsushita Battery Industrial Co., Ltd.	100.0
Panasonic Shikoku Electronics Co., Ltd.	100.0

- (3) Principal overseas subsidiaries:

<u>Name of company</u>	<u>Country of incorporation</u>	<u>Percentage owned</u>
Panasonic Corporation of North America	U.S.A.	100.0%
Panasonic Europe Ltd.	U.K.	100.0
Panasonic AVC Networks Czech, s.r.o.	Czech	100.0
Panasonic Asia Pacific Pte. Ltd.	Singapore	100.0
Panasonic AVC Networks Singapore Pte. Ltd.	Singapore	100.0
Panasonic Communication Philippines Corporation	Philippines	100.0
Panasonic Taiwan Co., Ltd.	Taiwan	69.8
Panasonic Corporation of China	China	100.0
Panasonic Home Appliances Air-Conditioning (Guangzhou) Co., Ltd.	China	67.8

Table of Contents

- 30 -

D. Property, Plants and Equipment

The Company's principal executive offices and key research laboratories are located in Kadoma, Osaka, Japan.

Matsushita's manufacturing plants are located principally in Japan, other countries in Asia, North and South America and Europe. The Company considers all of its factories well maintained and suitable for current production requirements.

The following table sets forth information as of March 31, 2007 with respect to manufacturing facilities:

<u>Location</u>	<u>Floor Space (thousands of square feet)</u>	<u>Principal Products Manufactured</u>
Osaka	10,622	Plasma TVs, DVD products, washing machines, other home appliances, information equipment, industrial equipment, components, batteries, kitchen fixtures, building products.
Shiga	5,944	Air conditioners, refrigerators, compressors, vacuum cleaners, other home appliances, building products, housing products.
Kanagawa	3,977	Communications, broadcast- and business-use AV equipment, Video cameras, LCD TVs, car AV equipment, CD and DVD discs, refrigerators, batteries.
Hyogo	3,977	Plasma TVs, PCs, cooking appliances, components.
Ibaraki	2,530	Recordable media, information equipment, housing products.
Toyama	2,475	Semiconductors, components.
Tochigi	2,459	LCD TVs, building products.
Kyoto	2,066	Semiconductors, components, lighting products.
Okayama	1,983	Camcorders, components.
Nara	1,888	Home appliances, gas equipment.
Shikoku	3,016	Video cameras, building products.
Kyushu	4,403	Information and communications equipment, components, industrial equipment, building products, housing products.
North America	4,443	TVs, home appliances, DVD discs, car audio equipment, communications equipment, components, batteries, automation controls, lighting products.
Europe	3,705	Plasma TVs, TVs, car audio equipment, home appliances, components, information and communications equipment, automation controls, lighting products.

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Asia (excluding China)	21,123	TVs, DVD products, audio equipment, air conditioners, refrigerators, other home appliances, components, semiconductors, information and communications equipment, industrial equipment, compressors, batteries, electronic and plastic materials, lighting products.
China	12,365	TVs, plasma TVs, DVD products, audio equipment, air conditioners, washing machines, other home appliances, car audio equipment, communications equipment, semiconductors, industrial equipment, compressors, components, batteries, automation controls, electronic and plastic materials.
Other	20,667	Home appliances, industrial equipment, components, semiconductors, video and audio equipment, batteries, information and communications equipment, lighting products, automation controls, housing products.
Total	107,643	

Table of Contents

- 31 -

Substantially all of the above facilities and properties are fully owned by the Company.

In addition to its manufacturing facilities, Matsushita's properties all over the world include sales offices located in various cities with an aggregate floor space of approximately 13.1 million square feet, research and development facilities with an aggregate floor space of approximately 7.2 million square feet, employee housing and welfare facilities with an aggregate floor space of approximately 10.5 million square feet, and administrative offices with an aggregate floor space of approximately 23.0 million square feet.

As of March 31, 2007, Matsushita leased approximately 32.4 million square feet of floor space, most of which was for sales office space.

Substantially all of Matsushita's properties are free of material encumbrances and Matsushita believes such properties are in adequate condition for their purposes and suitably utilized. During fiscal 2007, there was no material problem, regarding both the productive capacity and the extent of utilization of the Company's properties.

In terms of environmental issues, all of the Matsushita Group's properties operate in compliance with governmental and municipal laws and regulations. Furthermore, the Company established a number of internal environmental guidelines which are stricter than those provided by the authority. In case any occasional non-compliance may take place, such as the previously mentioned PCB issue, Matsushita takes immediate and appropriate actions to meet the regulatory requirements and to ensure current good utilization standards.

Item 4A. Unresolved Staff Comments

The Company is a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. There are no written comments which have been provided by the staff of the Securities and Exchange Commission regarding the Company's periodic reports under that Act not less than 180 days before the end of the fiscal year ended March 31, 2007 and which remain unresolved as of the date of the filing of this Form 20-F with the Commission.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

Matsushita is one of the world's leading producers of electronic and electric products. Matsushita 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. Most of Matsushita's products are marketed under Panasonic, its principle brand name, and several other brand names, including National, Technics, Quasar, Victor, JVC and PanaHome. Matsushita divides its business into six segments: AVC Networks, Home Appliances, Components and Devices, MEW and PanaHome, JVC and Other. AVC Networks includes video and audio equipment, and information and communications equipment. Home Appliances includes household equipment. Components and Devices includes semiconductors, general electronic components, batteries and electric motors. MEW and PanaHome includes electrical supplies, home appliances, building materials and equipment, and housing business. JVC includes products marketed under the brand name of JVC or Victor. Other includes FA equipment and other industrial equipment.

Table of Contents

- 32 -

JVC issued and allocated new shares of its common stock to third parties on August 10, 2007. As a result, the Company's shareholding in JVC decreased from 52.4% to 36.8%, and JVC became an associated company under the equity method from a consolidated subsidiary in the fiscal 2008 second quarter. Accordingly, the JVC segment will be abolished from the second quarter of fiscal 2008, ending March 31, 2008.

Economic environment

The Japanese economy over the last three fiscal years continued steady growth. In the year ended March 31, 2005, the overall economic situation in Japan remained favorable, characterized by increased consumer spending, due mainly to an unusually hot summer and demand related to the Athens Olympics, although the second half of the year met a downturn in demand, mainly in components and devices industries compared with the first half. In the year ended March 31, 2006, the overall economic situation in Japan continued a moderate recovery trend due mainly to favorable exports and increased capital investment, as well as favorable consumer spending. In the year ended March 31, 2007, although consumer spending has yet to fully regain its strength, the Japanese economy maintained a recovery trend as a result of favorable exports and increased capital investment.

The overseas economy, in the year ended March 31, 2005, continued its moderate growth, although it slowed somewhat in the second fiscal half, characterized by the steady progress of the U.S. economy with strong consumer spending, mainly as a result of an improved U.S. employment situation, as well as the high-growth Chinese economy. In the year ended March 31, 2006, the overseas economic situation was favorable overall with strong growth in the U.S. and China. In the year ended March 31, 2007, the U.S. economy, despite a decrease in housing investment, continued growth with robust consumer spending and an increase in capital investment. Meanwhile, in major European countries, there was a trend toward moderate economic recovery with expanding domestic demand, due mainly to increased consumer spending. In Asia, the Chinese economy maintained a high growth while other economies in the region also enjoyed favorable conditions overall.

Condition of foreign currency exchange rates and Matsushita's policy

Foreign currency exchange rates fluctuated during the three-year period ended March 31, 2007. In the year ended March 31, 2005, the Japanese yen strengthened against the U.S. dollar but weakened against euro. Meanwhile, in the year ended March 31, 2006, the Japanese yen was weak against the U.S. dollar and the euro. In the year ended March 31, 2007, the Japanese yen continued to be weak against the U.S. dollar and euro. In order to alleviate the effects of currency-related transaction risks, Matsushita has traditionally used several currency risk hedging methods, such as forward foreign-exchange contracts and currency options contracts with leading banks. Matsushita has also increased matching of export and import exchange contracts. As a basic countermeasure against currency exchange

risk, the Company has been strengthening production operations outside Japan to meet overseas demand, while reducing dependence on exports from Japan. The Company does not have any material unhedged monetary assets, liabilities or commitments denominated in currencies other than the individual operations' functional currencies.

Table of Contents

- 33 -

Initiatives implemented by Matsushita

Under the aforementioned economic environment, Matsushita implemented various initiatives to accelerate growth strategies and further strengthen management structures. The achievements of the Leap Ahead 21 plan during the last three years are as follows: First, a lean and agile management style was established. Matsushita expanded its business, focusing on simultaneous global product introductions by improving R&D efficiency and implementing distribution reforms, as well as by reducing total assets and factory inventories. The Company also made efforts to reduce fixed costs by implementing its comprehensive cost reduction activities. Second, Matsushita established robust business pillars to support a strong management structure. The Company implemented initiatives to enhance product competitiveness, whereby V-products were well received by the market and made a significant contribution to an increase in market share. Regarding plasma TVs in particular, the Company expanded its operations to meet a rapid increase in demand both in Japan and overseas, and succeeded in securing a high market share. Third, the collaboration with Matsushita Electric Works, Ltd. (MEW) proved to be successful. Over the three years of the Leap Ahead 21 plan, the Company has endeavored to integrate sales and manufacturing functions with MEW, and implement common brand strategies, as well as reinforce product competitiveness, thereby generating synergies. Through this collaboration, in the two-year period from fiscal 2006 to 2007, the Company achieved an increase in sales of approximately ¥130 billion. Finally, Matsushita implemented shareholder-oriented management in parallel with its solid business recovery. Over the three years of the plan, with the aim of enhancing corporate value, the Company executed own share repurchases of approximately ¥330 billion and proactively increased total dividends per share.

Summary of operations

Matsushita's consolidated sales and earnings results during the last three fiscal years, reflecting the aforementioned external and internal conditions, can be summarized as follows:

In fiscal 2005, net sales increased 16% to 8,714 billion yen, led by favorable sales of digital AV equipment and home appliances, especially V-products, and the addition of MEW, PanaHome and their respective subsidiaries to the Company's consolidated financial results. The sales increase combined with comprehensive cost reduction efforts contributed to the profit gains, sufficient to offset the negative factors including a strong Japanese yen, rising raw materials prices, and intensified global price competition. In addition, Matsushita enjoyed a 32 billion yen gain from the return to the Japanese government of the substitutional portion of Japanese Welfare Pension Insurance that certain of the Company's subsidiaries operated on behalf of the Japanese government, while recording a 16 billion yen write-down of investment securities. Meanwhile, Matsushita incurred expenses of 111 billion yen due to the implementation of restructuring initiatives including selection and concentration of management resources at each business domain company. Reflecting all these factors, and increases in provision for income taxes and minority interests due to the consolidation of MEW, PanaHome and their respective subsidiaries, and a decrease in equity in

losses of certain associated companies, the Company recorded a net income of 58 billion yen.

In fiscal 2006, net sales increased 2% to 8,894 billion yen, led by favorable sales of digital AV equipment and home appliances, especially V-products. The sales increase combined with comprehensive cost reduction efforts contributed to the profit gains, sufficient to offset the negative factors such as a strong Japanese yen, rising raw materials prices and ever-intensified global price competition. In addition, the Company incurred 37 billion yen in expenses associated with the implementation of early retirement programs, 85 billion yen as impairment losses associated with the CRT TV-related subsidiaries which face sharp declines in global demand and other businesses and 25 billion yen as expenses associated with a recall of certain kerosene fan heaters, which the Company manufactured and sold in Japan between 1985 and 1992. Meanwhile, the Company recorded a 79 billion yen gain on sale of securities and 23 billion yen gain related to the liquidation of a consolidated subsidiary, MEI Holding Inc. (MHI), a company holding Universal Studios-related shares. Reflecting all these factors, and the adverse effects of equity in losses of 51 billion yen mainly associated with CRT TV-related associated companies, the Company recorded a net income of 154 billion yen.

Table of Contents

- 34 -

In fiscal 2007, net sales increased 2% to 9,108 billion yen, due mainly to an increase in sales of digital products such as flat-panel TVs in Japan and overseas. Regarding earnings, despite the effects from rising raw materials prices and ever-intensified global price competition, an increase in sales, cost rationalization and a weaker yen contributed to earnings gains. In addition, the Company recorded gains on the sale of the investments regarding cable broadcasting business and gains on sales of tangible fixed assets, and incurred restructuring expenses, including 14.2 billion yen associated with the implementation of early retirement programs, and 49.2 billion yen as impairment losses. Reflecting all these factors, and the increases in provision for income taxes and minority interests due to increased profits in MEW and PanaHome, and the effect of one-time charge incurred in fiscal 2006 at certain subsidiaries, as well as a sharp increase in equity in earnings of associated companies mainly as a result of the consolidation of CRT TV-related associated companies on March 1, 2006, which incurred losses associated with the implementation of large-scale restructuring initiatives a year ago. Accordingly, the Company recorded a net income of 217 billion yen.

Key performance indicators

The following are performance measures that Matsushita believes are key indicators of its business results for the last three fiscal years.

	Yen (billions) (%)		
	Fiscal year ended March 31,		
	2007	2006	2005
Net sales	9,108	8,894	8,714
Income before income taxes to net sales ratio	4.8%	4.2%	2.8%
Research and development costs to net sales ratio	6.3%	6.3%	7.1%
Total assets	7,897	7,965	8,057
Stockholders' equity	3,917	3,788	3,544
Stockholders' equity to total assets ratio	49.6%	47.6%	44.0%
Return on equity	5.6%	4.2%	1.7%
Capital investment	418	346	374
Free cash flow	(35)	982	287

Note: Return on equity is calculated by dividing net income by the average of stockholders' equity at the beginning and the end of each fiscal year.

Matsushita defines Capital investment as purchases of property, plant and equipment (PP&E) on an accrual basis which reflects the effects of timing differences between acquisition dates and payment dates. Matsushita has included the information concerning capital investment because its management uses this indicator to manage its capital expenditures and it believes that such indicator is useful to investors to present accrual basis capital investments in addition to the cash basis information in the consolidated statements of cash flows.

Table of Contents

- 35 -

Matsushita's management also believes that this indicator provides useful information when it is compared with depreciation expenses, which are shown in Note 16 of the Notes to Consolidated Financial Statements, for purposes of evaluating the replacement of PP&E. This indicator is, however, subject to the limitation that capital investments may not produce future returns (because current expenditures may not provide an efficient use of capital) and may also be subject to impairment. Also, this indicator is subject to the limitation that it may not represent the true cost of maintaining the Company's portfolio of PP&E as it excludes expenditures for repairs and maintenance, operating leases, and intangible assets that may be integral to the use of PP&E. Matsushita compensates for these limitations by referring to this indicator together with relevant U.S. GAAP financial measures, such as capital expenditures, depreciation and amortization, shown in its consolidated statements of cash flows, to present an accurate and complete picture for purposes of capital expenditure analysis.

The following table shows a reconciliation of capital investment to purchases of property, plant and equipment:

	Yen (billions)		
	Fiscal year ended March 31,		
	2007	2006	2005
Purchases of property, plant and equipment shown as capital expenditures in the consolidated statements of cash flows	411	357	352
Effects of timing difference between acquisition dates and payment dates	7	(11)	22
Capital investment	418	346	374

Matsushita defines "Free cash flow" as the sum of net cash provided by operating activities and net cash provided by investing activities. Matsushita has included the information concerning free cash flow because its management uses this indicator, and it believes that such indicator is useful to investors, to assess its cash availability after financing of its capital projects.

Matsushita's management also believes that this indicator is useful in understanding Matsushita's current liquidity and financing needs in light of its operating and investing activities, i.e., its ability to pay down and draw on available cash. It should be noted, however, that free cash flow Matsushita reports may not be comparable to free cash flow reported by other companies. It should also be noted that free cash flow should not be viewed in a manner that inappropriately implies that it represents the residual cash flow available for discretionary uses, since at any given time Matsushita may be subject to mandatory debt service requirements and may have other non-discretionary expenditures that are not deducted from this indicator. Matsushita compensates for these limitations by referring to

this indicator together with relevant U.S. GAAP financial measures shown in its consolidated statements of cash flows and consolidated balance sheets, to present an accurate and complete picture for purposes of cash availability analysis.

Table of Contents

- 36 -

The following table shows a reconciliation of free cash flow to net cash provided by operating activities:

	<u>Yen (billions)</u>		
	<u>Fiscal year ended March 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net cash provided by operating activities	533	575	465
Net cash provided by (used in) investing activities	(568)	407	(178)
Free cash flow	(35)	982	287

Details of Matsushita's consolidated sales and earnings results were as follows:

Year ended March 31, 2007 compared with 2006(1) Sales

Consolidated net sales for fiscal 2007 increased 2% to 9,108 billion yen, from 8,894 billion yen in the previous year, mainly contributed by a new series of competitive V-products. The electronics industry in the fiscal year under review faced severe business conditions in Japan and overseas, due mainly to rising prices for crude oil and other raw materials and continued price declines caused by ever-intensified global competition, mainly in digital products. Under these circumstances, Matsushita implemented initiatives to accelerate growth strategies and further strengthen management structures. First, Matsushita made all-out efforts to enhance product competitiveness centering on V-products, which were well received by the market and made a significant contribution to an increase in market share. Regarding plasma TVs in particular, the Company expanded its operations to meet a rapid increase in demand both in Japan and overseas, and succeeded in securing a high market share. In addition, the Company also endeavored to reduce fixed costs by implementing its company-wide cost reduction activities. Furthermore, the collaboration with Matsushita Electric Works, Ltd. (MEW) proved to be successful. The Company endeavored to integrate sales and manufacturing functions with MEW, and implement common brand strategies, as well as reinforce product competitiveness, thereby contributing to increased sales by generating synergies between the both companies. As a

result of these initiatives, the Company cited sales gains due mainly to an increase in sales of digital products such as flat-panel TVs in Japan and overseas.

Domestic sales amounted to 4,617 billion yen, mostly unchanged from 4,611 billion yen a year ago. Despite sales downturns in mobile phones and JVC, sales gains were recorded mainly in automotive electronics equipment and digital AV products such as flat-panel TVs, whereby maintaining the same level from a year ago. Overseas sales were up by 5%, to 4,492 billion yen, compared with 4,283 billion yen in the previous fiscal year, due mainly to increased sales of digital AV products such as flat-panel TVs and digital cameras.

(2) Cost of Sales and Selling, General and Administrative Expenses

In fiscal 2007, cost of sales amounted to 6,394 billion yen, up 4% from the previous year mainly as a result of an increase in net sales. Selling, general and administrative expenses were down 3% to 2,254 billion yen compared to the previous year.

Table of Contents

- 37 -

(3) **Interest Income, Dividends Received and Other Income**

In fiscal 2007, interest income increased 8% to 31 billion yen, and dividends received increased 16% to 8 billion yen. In other income, in addition to gains on sales of tangible fixed assets, the Company recorded 27 billion yen gain on the sale of the investments regarding cable broadcasting business.

(4) **Interest Expense, Goodwill Impairment and Other Deductions**

Interest expense decreased 4% to 21 billion yen, owing primarily to a reduction in short-term and long-term borrowings. In other deductions, compared with 49 billion yen of restructuring charges in fiscal 2006, the Company recorded 20 billion yen including 14 billion yen associated with the implementation of early retirement programs, and 30 billion yen as goodwill impairment compared with the previous year's 50 billion yen, and 19 billion yen as other impairment losses on long-lived assets compared with 16 billion yen a year ago. (For further details, see Notes 4, 5, 7, 8 and 15 of the Notes to Consolidated Financial Statements.)

(5) **Income before Income Taxes**

As a result of the above-mentioned factors, as well as increased operating profit, income before income taxes for fiscal 2007 increased 18% to 439 billion yen, compared with 371 billion yen in fiscal 2006, while the ratio to net sales increased 0.6% to 4.8%, compared with 4.2% in the previous year.

(6) **Provision for Income Taxes**

Provision for income taxes for fiscal 2007 amounted to 192 billion yen, compared with 167 billion yen in the previous year. The effective tax rate to income before income taxes declined to 43.7%, from 45.0% a year ago. This is due mainly to a decrease in valuation allowance to deferred tax assets compared with fiscal 2006.

(7) Minority Interests

Minority interests (earnings) amounted to 31 billion yen for fiscal 2007, compared with minority interests (losses) of 1 billion yen in fiscal 2006. This result was due mainly to increased profits in MEW and PanaHome, and effect of one-time charge incurred in fiscal 2006 at certain subsidiaries.

(8) Equity in Losses of Associated Companies

In fiscal 2007, equity in earnings of associated companies amounted to 1 billion yen, from the previous year's losses of 51 billion yen, mainly as a result of the consolidation of CRT TV-related associated companies on March 1, 2006, which incurred losses associated with the implementation of large-scale restructuring initiatives a year ago.

(9) Net Income

As a result of all the factors stated in the preceding paragraphs, the Company recorded a net income of 217 billion yen for fiscal 2007, an increase of 41% from 154 billion yen in the previous year.

Table of Contents

- 38 -

(10) Results of Operations by Business Segment

Results of operations by business segment for fiscal 2006, as compared with the previous fiscal year, were as follows:

	Yen (billions)		Percent change
	2007	2006	
Sales:			
AVC Networks	4,047	3,986	2%
Home Appliances	1,303	1,241	5
Components and Devices	1,378	1,368	1
MEW and PanaHome	1,859	1,747	6
JVC	646	703	(8)
Other	1,484	1,315	13
Eliminations	(1,609)	(1,466)	10
Total	9,108	8,894	2%
Segment profit:			
AVC Networks	220	191	15%
Home Appliances	84	77	8
Components and Devices	100	81	23
MEW and PanaHome	79	73	9
JVC	(6)	(6)	
Other	60	62	(3)
Corporate and eliminations	(77)	(64)	20
Total	460	414	11%

The Company's business segments are classified into six segments: AVC Networks, Home Appliances, Components and Devices, MEW and PanaHome, JVC, and Other. Results of sales and profits by business segment for fiscal 2007, as compared with the previous fiscal year, were as follows:

AVC Networks sales increased 2% to 4,047 billion yen, compared with 3,986 billion yen in the previous year. Within this segment, sales of video and audio equipment increased, due mainly to strong sales of digital AV products, such as

flat-panel TVs and digital cameras. Sales of information and communications equipment decreased as a result of sluggish sales in mobile phones, although sales of automotive electronics equipment were quite favorable.

With respect to this segment, profit improved 15% from 191 billion yen in fiscal 2006, to 220 billion yen for fiscal 2007, which is equivalent to 5.4% against sales. This increase was attributable mainly to expanded sales in flat-panel TVs, digital cameras, PCs and automotive electronics equipment, as well as cost rationalization effects. Particularly in plasma TVs, despite price declines under ever-intensified global competition, the Company accelerated the introduction of large-sized, full HD models and comprehensive cost reduction efforts including curbing materials costs, thereby achieving a profit growth.

Sales of Home Appliances increased 5% to 1,303 billion yen, compared with 1,241 billion yen in the previous year. Within Home Appliances, sales gains were recorded mainly in air conditioners and compressors.

Table of Contents

- 39 -

Profit in this segment rose 8% from 77 billion yen in fiscal 2006, to 84 billion yen for fiscal 2007, or 6.4% of sales. Despite the adverse effects from rising costs for raw materials including plastic materials, the successful introduction of unique products, such as tilted-drum washer/dryers and air conditioners equipped with automatic filter cleaning and dust removal functions, and the effects of various cost rationalization activities, led to increased earnings in this segment.

Sales of Components and Devices increased 1% to 1,378 billion yen, from the previous year's 1,368 billion yen. Although sales in semiconductors decreased in fiscal 2007, strong sales in electronic components and devices led to overall sales growth in this segment.

With respect to this segment, profit increased 23% from 81 billion yen in fiscal 2006, to 100 billion yen for fiscal 2007. Despite the negative effects from rising prices for raw materials including coppers and aluminum, profit against sales for this segment rose to 7.2% for fiscal 2007, due mainly to sales gains and cost rationalization efforts. In particular, a significant profit growth was recorded in electronic components and devices, mainly as a result of strong sales in components for digital AV products and automotive electronics equipment.

Sales of MEW and PanaHome increased 6% to 1,859 billion yen, compared with 1,747 billion yen a year ago. Sales at MEW and its subsidiaries increased from the previous year with favorable sales in electrical construction materials such as home fire alarms and high energy-efficient lighting fixtures, and electronic and plastic materials such as semiconductor encapsulation materials. At PanaHome Corporation and its subsidiaries, sales gains were recorded in detached housing, contributing to increased sales overall.

With respect to this segment, despite the adverse effects of rising prices for raw materials including coppers and nickels, profit increased 9% to 79 billion yen, which is equal to 4.2% of sales, from 73 billion yen in the previous year, as a result of the aforementioned sales gains and cost rationalization efforts.

Sales of JVC were 647 billion yen, down 8% from 703 billion yen in the previous year. This result was due mainly to sales downturns in DVD recorders and audio equipment in Japan, as well as sluggish overseas sales of rear-projection TVs, resulting in overall decreased sales compared with a year ago.

With respect to this segment, losses amounted to 6 billion yen, mostly unchanged from losses of 6 billion yen in fiscal 2006. In the JVC segment, there has been a recent negative trend in segment profit. Although JVC has implemented measures to strengthen operational reforms and reinforce product strategies, JVC incurred losses in fiscal 2007, as a result of the aforementioned sales downturns and sharp price declines of digital AV products.

Sales in the Other segment amounted to 1,484 billion yen, up 13% from the previous year.

With respect to this segment, profit was down 3% from 62 billion yen for fiscal 2006, to 61 billion yen, which were equivalent to 4.1% against sales in fiscal 2007.

Table of Contents

- 40 -

Year ended March 31, 2006 compared with 2005**(1) Sales**

Consolidated net sales for fiscal 2006 increased 2% to 8,894 billion yen, from 8,714 billion yen in the previous year, mainly contributed by a new series of competitive V-products. As mentioned earlier, the overall economic situation in Japan during fiscal 2006 continued steady growth, characterized by increased exports and capital investment, as well as consumer spending, sufficient to offset the negative factors such as rising raw materials costs and price declines, mainly in digital AV products, caused by ever-intensified global price competition. Under these circumstances, Matsushita strived to increase sales and enhance profitability through the launch of a new series of competitive V-products. The Company also continued its focus on simultaneous global product introductions in digital AV and other product categories to continually expand priority businesses, aiming at increasing market share and securing profits at an early stage in product life cycles. As a result of these initiatives, consolidated sales gains were recorded in digital AV equipment, such as plasma TVs and digital cameras, and home appliances, such as air-conditioners and microwave ovens.

Domestic sales were up 1% to 4,611 billion yen from a year ago, due mainly to increased sales of digital AV products, such as plasma TVs and digital cameras, automotive electronics equipment and air-conditioners. Overseas sales were up by 4% to 4,283 billion yen when translated into yen, due mainly to sales increases in digital AV products, such as plasma TVs and digital cameras, PCs and factory automation (FA) equipment.

(2) Cost of Sales and Selling, General and Administrative Expenses

In fiscal 2006, cost of sales amounted to 6,155 billion yen, remaining mostly unchanged from the previous year as a result of the company-wide cost reduction initiatives to lower fixed costs, despite an increase in net sales. Selling, general and administrative expenses were up 4% to 2,325 billion yen compared to the previous year.

(3) Interest Income, Dividends Received and Other Income

In fiscal 2006, interest income increased 45% to 28 billion yen, and dividends received increased 22% to 7 billion yen. In addition, a gain from the transfer by certain subsidiaries of the substitutional portion of Japanese Welfare Pension Insurance to the Japanese government was recorded in the previous year, which resulted in a decreased gain of 32 billion yen in the current year. Meanwhile, other income increased 78% to 147 billion yen due mainly to the increase in gross realized gains related to the sale of certain securities. (For further details, see Note 5 of the Notes to Consolidated Financial Statements.)

(4) Interest Expense, Goodwill Impairment and Other Deductions

Interest expense decreased 5% to 22 billion yen, owing primarily to a reduction in short-term and long-term borrowings. Restructuring charges also decreased by more than half of last year's result to 49 billion yen. The Company incurred 25 billion yen as expenses associated with a recall of certain kerosene fan heaters as well as 35 billion yen as a write-down of investment securities and 50 billion yen as goodwill impairment and 16 billion yen as other impairment losses on long-lived assets. (For further details, see Notes 4, 5, 7 and 15 of the Notes to Consolidated Financial Statements.)

(5) Income before Income Taxes

As a result of the above-mentioned factors, including increased operating profit, income before income taxes for fiscal 2006 increased 50% to 371 billion yen, compared with 247 billion yen in fiscal 2005, while the ratio to net sales increased 1.4% to 4.2%, compared with 2.8% in the previous year.

Table of Contents

- 41 -

(6) Provision for Income Taxes

Provision for income taxes for fiscal 2006 amounted to 167 billion yen, compared with 153 billion yen in the previous year. The effective tax rate to income before income taxes declined to 45.0%, from 62.1% a year ago. This is due mainly to tax effects attributable to investments in subsidiaries, despite an increase of valuation allowance in certain subsidiaries.

(7) Minority Interests

Losses in minority interests amounted to 1 billion yen for fiscal 2006, compared with earnings in minority interests of 28 billion yen in fiscal 2005, due mainly to losses incurred at certain subsidiaries.

(8) Equity in Losses of Associated Companies

In fiscal 2006, equity in losses of associated companies increased to 51 billion yen, from the previous year's 7 billion yen, due mainly to the adverse effects of equity in losses of CRT TV-related associated companies.

(9) Net Income

As a result of all the factors stated in the preceding paragraphs, the Company recorded a net income of 154 billion yen for fiscal 2006, an increase of 164% from 59 billion yen in the previous year.

(10) Results of Operations by Business Segment

Results of operations by business segment for fiscal 2006, as compared with the previous fiscal year, were as follows:

	<u>Yen (billions)</u>		<u>Percent change</u>
	<u>2006</u>	<u>2005</u>	
Sales:			
AVC Networks	3,986	3,859	3%

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Home Appliances	1,241	1,230	1
Components and Devices	1,368	1,469	(7)
MEW and PanaHome	1,747	1,686	4
JVC	703	730	(4)
Other	1,315	1,027	28
Eliminations	(1,466)	(1,287)	
	<u> </u>	<u> </u>	<u> </u>
Total	8,894	8,714	2%
	<u> </u>	<u> </u>	<u> </u>
Segment profit:			
AVC Networks	191	127	50%
Home Appliances	77	75	3
Components and Devices	81	58	40
MEW and PanaHome	73	67	9
JVC	(6)	10	
Other	62	38	62
Corporate and eliminations	(64)	(67)	
	<u> </u>	<u> </u>	<u> </u>
Total	414	308	34%
	<u> </u>	<u> </u>	<u> </u>

Table of Contents

- 42 -

The Company's business segments are classified into six segments: AVC Networks, Home Appliances, Components and Devices, MEW and PanaHome, JVC and Other. Results of sales and profits by business segment for fiscal 2006, as compared with the previous fiscal year, were as follows:

AVC Networks sales increased 3% to 3,986 billion yen, compared with 3,859 billion yen in the same period of the previous year. Within this segment, sales of video and audio equipment increased, due mainly to strong sales of digital AV products, such as plasma TVs and digital cameras. Sales of information and communications equipment also increased, mainly as a result of sales gains in PCs and automotive electronics equipment, which were more than sufficient to offset decreased sales in mobile phones.

With respect to this segment, profit improved 50% from 127 billion yen in fiscal 2005, to 191 billion yen for fiscal 2006, which is equivalent to 4.8% against sales. This increase was attributable mainly to expanded sales in digital products and cost rationalization.

Sales of Home Appliances increased 1% to 1,241 billion yen, compared with 1,230 billion yen in the previous year. Within Home Appliances, sales gains were recorded in air conditioners and microwave ovens, which were sufficient to offset decreased sales in vacuum cleaners and other household equipment.

Profit in this segment rose 3% from 75 billion yen in fiscal 2005, to 77 billion yen for fiscal 2006. This increase was due mainly to the successful introduction of new high value-added products, combined with the effects of various rationalization activities.

Sales of Components and Devices decreased 7% to 1,368 billion yen, from the previous year's 1,469 billion yen. Sluggish sales in semiconductors for the fiscal year, despite increased sales in electronic components and devices, led to overall lower sales.

With respect to this segment, profit increased 40% from 58 billion yen in fiscal 2005, to 81 billion yen for fiscal 2006, owing largely to cost rationalization effects, which were sufficient to offset the negative effects of decreased sales. Profit against sales for this segment was 5.9% for fiscal 2006.

Sales of MEW and PanaHome increased 4% to 1,747 billion yen, compared with 1,686 billion yen a year ago. Sales at MEW and its subsidiaries were mostly unchanged from the previous year, with favorable sales in electrical

construction materials and automation controls. At PanaHome Corporation, sales gains were recorded in detached housing, contributing to increased sales overall.

With respect to this segment, profit increased 9% to 73 billion yen, which is equal to 4.2% of sales, from 67 billion yen in the previous year, as a result of an increase in sales and cost rationalization efforts.

Sales of JVC were 703 billion yen, down 4% from 730 billion yen in the previous year. Despite favorable sales in software and media, sales downturns in AV equipment and devices led to overall decreased sales compared with a year ago.

With respect to this segment, profit decreased from a gain of 10 billion yen in fiscal 2005, to a loss of 6 billion yen for fiscal 2006, due mainly to delayed launches of digital AV products and price declines in digital products.

Table of Contents

- 43 -

In the JVC segment, there was a negative trend in segment profit. In response to this, JVC is implementing measures focused on the following three points: (1) continuing and strengthening operational reforms, (2) reinforcing product strategies rooted in establishing JVC as a top niche player, and (3) overhauling operations from the perspective of JVC's core and non-core businesses as well as developing new businesses.

Sales in the Other segment amounted to 1,315 billion yen, a sharp increase of 28% from the previous year, due mainly to favorable sales in FA equipment.

With respect to this segment, profit jumped 62% from 38 billion yen for fiscal 2005, 4.7% against sales, to 62 billion yen in fiscal 2006, owing primarily to sales increases as well as the effects of various rationalization efforts.

B. Liquidity and Capital Resources*Matsushita's Policy on Financial Position and Liquidity*

As its basic policy, Matsushita has long placed emphasis on maintaining sound balance sheets, and on generating as much available funding as possible from internal sources through efforts to raise the operational efficiency or asset turnover ratios, so as not to overly rely on external fund raising. This conservativeness is exemplified in the tradition of maintaining the ratio of stockholders' equity to total assets at a relatively high level and keeping large cash balance. The ratio of stockholders' equity to total assets as of March 31, 2007 rose to 49.6%, and the total of short-term borrowings and long-term debt was 450 billion yen as of March 31, 2007, down from 154 billion yen a year ago. Cash balance decreased to 1,462 billion yen (the total of cash and cash equivalents of 1,237 billion yen plus time deposits with a maturity of more than three months of 225 billion yen) as of March 31, 2007, compared with the previous year's 1,678 billion yen (the total of cash and cash equivalents of 1,667 billion yen plus time deposits of 11 billion yen). This is due mainly to the repayments of long-term debts and repurchase of common stock.

In order to facilitate access to global capital markets, Matsushita obtains credit ratings from the world's two leading credit rating agencies, Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Rating Services (S&P). In addition, Matsushita maintains credit ratings from Rating and Investment Information, Inc. (R&I), a rating agency nationally recognized in Japan, primarily for access to the Japanese capital markets. As of March 31, 2007, Matsushita's debt ratings are: Moody's: Aa2 (long-term); S&P: AA- (long-term, outlook: stable), A-1+ (short-term); and R&I: AA+ (long-term), a-1+ (short-term). As of February 9, 2007, long-term deposit rating of Matsushita was upgraded by S&P.

Within the rating classification system of R&I, a-1 is the highest of five categories for short-term debt and indicates a strong degree of certainty regarding debt repayment, with a plus (+) sign added to a rating in that category to indicate an especially high degree of certainty regarding debt repayment; and AA is the second highest of nine categories for long-term debt and indicates a very high degree of certainty regarding debt repayment, with a plus (+) or minus (-) sign added to a rating in that category to indicate its relative standing within that category.

Matsushita believes that its credit ratings include the rating agencies' assessment of the general operating environment, its positions in the markets in which it competes, reputation, movements and volatility in its earnings, risk management policies, liquidity and capital management. An adverse change in any of these factors could result in a reduction of Matsushita's credit ratings, and that could, in turn, increase its borrowing costs and limit its access to the capital markets or require it to post additional collateral and permit counterparties to terminate transactions pursuant to certain contractual obligations.

Table of Contents

- 44 -

With the above-mentioned cash balance, combined with the generally high credit ratings from leading credit rating agencies, Matsushita believes that it has sufficient sources of liquidity for either working capital or long-term investment needs.

As of March 31, 2007, the outstanding balance of short-term borrowings totaled 223 billion yen, and long-term debt was 227 billion yen. Matsushita's borrowings are not significantly affected by seasonal factors. (For further details, see Note 9 of the Notes to Consolidated Financial Statements.) Most borrowings are at fixed rates.

In recent years, Matsushita has focused on raising capital efficiency upon review of its balance sheet. In fiscal 2007, to meet the needs of more sophisticated global operations, Matsushita established Panasonic Global Treasury Center B.V. in Amsterdam, the Netherlands, a new overseas financial subsidiary with in-house banking functions that facilitate various finance and foreign exchange transactions worldwide. Along with the establishment of the new company, Matsushita is striving to further enhance the efficiency of group-wide treasury transactions by introducing a new round-the-clock treasury system.

Regarding cash flows, Matsushita uses free cash flow (see *Overview* *Key performance indicators* in Section A of this Item 5) as an important indicator to evaluate its performance.

Regarding the use of financial instruments for hedging purposes, see Item 11.

Fiscal 2007 Financial Position and Liquidity

The Company's consolidated total assets as of the end of fiscal 2007 decreased to 7,897 billion yen, as compared with 7,965 billion yen at the end of the last fiscal year.

The Company's consolidated total liabilities as of March 31, 2007 also decreased 246 billion yen to 3,429 billion yen, attributable to a decrease in retirement and severance benefits as well as repayments of borrowings and bonds in certain subsidiaries. (For further details, see Notes 9 and 10 of the Notes to Consolidated Financial Statements.)

Minority interests increased 50 billion yen, to 551 billion yen.

Stockholders' equity increased 129 billion yen to 3,917 billion yen, from the previous year's 3,788 billion yen. Although stockholders' equity decreased by 153 billion yen due to the repurchase of the Company's own shares as part of Matsushita's strategy to enhance shareholder value, total stockholders' equity increased due mainly to an increase of 161 billion yen in retained earnings and an increase of 133 billion yen in accumulated other comprehensive income, which reflects improvements in cumulative translation adjustments, unrealized holding gains of available-for-sale securities, and pension liability adjustments of 61 billion yen, as a result of adoption of SFAS No.158.

Table of Contents

- 45 -

Capital investment (excluding intangibles) during fiscal 2007 totaled 418 billion yen, up 21% from the previous fiscal year's total of 346 billion yen. (For a reconciliation of capital investment to the most directly comparable U.S. GAAP financial measure and related discussion, see *Overview Key performance indicators* in Section A of this Item 5.) The Company implemented capital investment primarily to increase production capacity in strategic business areas such as semiconductors and digital AV equipment, particularly plasma TVs, while curbing capital investment in a number of business areas, in line with increasing management emphasis on capital efficiency.

Depreciation (excluding intangibles) during fiscal 2007 amounted to 280 billion yen, up 2% compared with 275 billion yen in the previous fiscal year.

Net cash provided by operating activities in fiscal 2007 amounted to 533 billion yen, compared with 575 billion yen in the previous fiscal year. This decrease, despite a decrease in trade receivables and improvement in net income, was attributable mainly to a decrease in trade payables, and accrued expenses and other current liabilities. Net cash used in investing activities amounted to 568 billion yen, compared with net cash provided by investing activities of 407 billion yen in fiscal 2006, due mainly to an increase in time deposits and a decrease in proceeds from disposition of investments and advances. Net cash used in financing activities was 428 billion yen, compared with 525 billion yen in fiscal 2006. This was mainly attributable to a decrease in repayments of long-term debt. All these activities, compounded by the effect of exchange rate fluctuations, resulted in a net decrease of 431 billion yen in cash and cash equivalents during fiscal 2007. Cash and cash equivalents at the end of fiscal 2007 totaled 1,237 billion yen, compared with 1,667 billion yen a year ago.

Free cash flow in fiscal 2007 amounted to a cash inflow of 35 billion yen, compared with 982 billion yen in fiscal 2006. (For a reconciliation of free cash flow to the most directly comparable U.S. GAAP financial measure and related discussion, see *Overview Key performance indicators* in Section A of this Item 5.)

Commitments for Capital Expenditures

As of March 31, 2007, commitments outstanding for the purchase of property, plant and equipment amounted to 106 billion yen

Table of Contents

- 46 -

C. Research and Development

In order to contribute to a ubiquitous networking society and coexistence with the global environment, Matsushita engages in a broad range of R&D activities, including nanotechnologies and other advanced research; digital network software technologies for AV equipment and next-generation mobile communications; component and device technologies such as plasma displays and system LSIs; environmental technologies such as fuel cell cogeneration systems; and various manufacturing technologies.

In fiscal 2005, under the new R&D management structure, Matsushita strived to enhance the efficiency of its R&D activities, while continuously selecting priority R&D themes at the Corporate R&D Group and innovating R&D management of development processes at business domain companies. These actions reduced lead time for product development. Matsushita developed an Integrated Platform that combines software and hardware resources across differing product categories to improve R&D efficiency and design quality.

In fiscal 2006, Matsushita continued to utilize this platform to add value to finished products, improve efficiency in software development and achieve advances in design quality. At the same time, the Company drew up a long-term vision in order to guide the selection and concentration of R&D projects.

Matsushita has promoted a platform strategy to link an array of different product categories. With the creation of its Integrated Platform, the Company has been able to combine and utilize software and hardware assets across digital consumer product lines to enhance the efficiency of software development and boost design quality. In fiscal 2007, the Integrated Platform was incorporated into plasma TVs, Blu-ray disc recorders, SD Memory Card camcorders, and mobile phones compatible with one-segment terrestrial digital TV broadcasts. Aiming to realize more comfortable living for customers, Matsushita also focuses its R&D efforts on developing products that are easier to use through research into universal design that makes highly-functional consumer products more user-friendly. At the same time, the Company aims to efficiently use technology resources by prioritizing R&D projects based on a medium- to long-term vision. Matsushita actively uses external R&D resources as part of its strategy.

Research and development costs amounted to 616 billion yen, 565 billion yen and 578 billion yen for the three fiscal years ended March 31, 2005, 2006 and 2007, respectively, representing 7.1%, 6.3% and 6.3% of Matsushita's total net sales for each of those periods.

Table of Contents

- 47 -

D. Trend Information

In fiscal 2008, the outlook for the global economy, centered on the United States, remains uncertain due to the continued risk of rising prices for crude oil and other raw materials. In the electronics industry, while significant growth is not expected in major industrialized markets, rapid expansion in emerging markets such as BRICs is forecast to continue.

In recent years, the Matsushita Group has been promoting fundamental management reforms. From fiscal 2008, the Group will move into a new phase of promoting full-fledged growth strategies. In line with its twin corporate vision of contributing to realizing a ubiquitous networking society and coexistence with the global environment, Matsushita aims to earn the support of all its stakeholders worldwide by sustaining growth through continued innovation and ensuring sound business activities on a global basis.

To realize these objectives, Matsushita has announced the GP3 plan, a new mid-term management plan to be completed by March 2010. Based on the basic policy of achieving steady growth with profitability, Matsushita will implement a range of concrete initiatives for fiscal 2010 to achieve 10 trillion yen in sales, representing growth, and ROE of 10%, measuring capital efficiency, which have been established as two criteria of the GP3 plan.

Matsushita will place particular emphasis on three priority themes for its mid-term growth strategies: double-digit growth in overseas sales, four strategic businesses, and continuous selection and concentration. First, Matsushita will aim for double-digit growth in overseas sales of consumer products by enhancing marketing tailored to regional characteristics. Second, with regard to four strategic businesses, Matsushita will focus on its digital AV business, automotive electronics business, businesses providing comfortable living, and semiconductors and other devices businesses. Through collaboration between these businesses, the Company will strive to expand synergies, while making every effort to drive steady growth in each business. Finally, Matsushita will work to establish strong businesses through selection and concentration of its management resources on prioritized business areas, taking into consideration the characteristics and growth stages of these businesses. In particular, Matsushita will continue aggressive strategic investment in growing businesses and R&D for prioritized themes.

In addition, Matsushita will implement Groupwide innovation activities toward the realization of a manufacturing-oriented company. Matsushita defines the concept of a manufacturing-oriented company as one that combines all the business activities of the Group toward the launch of products, thereby contributing to the creation of customer value. Accordingly, Matsushita will seek to optimize all elements of its operations, centered on products, and implement innovative measures to enhance the quality of Groupwide management, thereby stimulating and streamlining the efficiency of manufacturing processes.

Table of Contents

- 48 -

In fiscal 2008, the first year of the GP3 plan, Matsushita will strengthen measures to accelerate growth. Regarding V-products, which are the core of its growth strategies, Matsushita aims to achieve sales of approximately 2 trillion yen in a total of 73 product categories. In overseas businesses, aiming to increase sales in the above-mentioned emerging markets in addition to North America and Europe, Matsushita set up a Russia Division, India Coordination Department, and Brazil Coordination Department. Matsushita will also provide management resources to implement the marketing of cutting-edge products focused on wealthier consumers. Meanwhile, Matsushita established a Corporate Division for Promoting Manufacturing-oriented Innovation on April 1, 2007, which is responsible for extending its most advanced innovation initiatives across the Group and pursuing optimum standardization. The division will also promote cooperation across business fields and operating regions to strengthen competitiveness, including cost performance, in areas such as design and quality, procurement, logistics and overseas sales.

For fiscal 2008, Matsushita projects its capital investment will total approximately 460 billion yen. (For the definition of capital investment and related discussion, see Overview Key performance indicators in Section A of this item 5. For purposes of deriving this forward-looking figure, we have assumed that there are no material effects of timing difference between acquisition dates and payment dates with respect to purchases of property, plant and equipment during fiscal 2008.) Matsushita will continue to focus investment into such strategic businesses as cutting-edge system LSIs and other semiconductors as well as plasma TVs.

The discussion above includes forward-looking statements. For details about Cautionary Statement Regarding Forward-Looking Statements, see page 1.

E. Off-Balance Sheet Arrangements

The Company established sale-leaseback arrangements for manufacturing machinery and equipment, and sale of receivables without recourse, as off-balance sheet arrangements in order to reduce its total assets.

In fiscal 2007, Matsushita sold machinery and equipment for 74 billion yen, which are used to manufacture semiconductors and plasma display panels, to Sumishin Matsushita Financial Services Co., Ltd. The assets are leased back to Matsushita over a period of two to five years. Matsushita guarantees a specific value of the leased assets. These leases are classified as operating leases for U.S. GAAP purposes. Including the above-mentioned, the amount of future minimum lease payment under operating lease is 204 billion yen at March 31, 2007. (For further details, see Notes 6 and 19 of the Notes to Consolidated Financial Statements.)

In fiscal 2007, Matsushita sold, without recourse, trade receivables of 315 billion yen to independent third parties for proceeds of 314 billion yen. In fiscal 2007, Matsushita sold, with recourse, trade receivables of 304 billion yen to independent third parties for proceeds of 304 billion yen.

In addition, the Company provides several types of guarantees and similar arrangements. (For further details, see Note 19 of the Notes to Consolidated Financial Statements.)

Table of Contents

- 49 -

F. Tabular Disclosure of Contractual Obligations

The two tables below show Matsushita's cash payment obligations and guarantees and other commercial commitments, broken down by the payment amounts due for each of the periods specified below, as of March 31, 2007:

	Yen (millions)				
	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations:					
Long-Term Debt Obligations	215,261	26,609	64,692	100,589	23,371
Capital Lease Obligations	65,602	27,474	29,813	7,103	1,212
Operating Lease Obligations	204,146	66,262	75,328	60,706	1,850
Purchase Obligations	105,575	105,575			
Defined benefit plan contribution	154,049	154,049			
Total Contractual Cash Obligations	744,653	379,989	169,833	168,398	26,433

	Yen (millions)
	Total Amounts Committed
Other Commercial Commitments:	
Discounted exported bills	409
Guarantees	15,034
Total Commercial Commitments	15,443

Discounted exported bills generally have contractual lives of less than one year. Loan guarantees are principally provided on behalf of employees, associated companies and customers and generally have long-term contractual lives coinciding with the maturities of the guaranteed obligations. (For further details, see Notes 6, 9 and 19 of the Notes to Consolidated Financial Statements.)

G. Safe Harbor

Not applicable

Table of Contents

- 50 -

H. Accounting Principles

Critical Accounting Policies

The Company has identified the following critical accounting policies which are important to its financial condition and results of operations, and require management's judgment.

Long-lived Assets

The useful lives of long-lived assets are summarized in Note 1(h) of the Notes to Consolidated Financial Statements included in this annual report and reflect the estimated period that the Company expects to derive economic benefit from their use. In estimating the useful lives and determining whether subsequent revisions to the useful lives are necessary, the Company considers the likelihood of technological obsolescence, changes in demand for the products related to such assets, and other factors which may affect their utilization of the long-lived assets. The effect of any future changes to the estimated useful lives of the long-lived assets could be significant to the Company's results of operations.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of assets 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 future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. Factors which may contribute to the need for future impairment charges include changes in the use of assets resulting from the Company's restructuring initiatives, technological changes or any significant declines in the demand for related products.

Valuation of Investment Securities

The Company holds available-for-sale securities, equity method securities and cost method securities, included in short-term investments and investments and advances. Available-for-sale securities are carried at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income (loss), net

of applicable taxes.

Individual securities are reduced to net realizable value by a charge to earnings for other-than-temporary declines in fair value. Management regularly reviews each investment security for impairment based on criteria that include the extent to which cost exceeds market value, the duration of that market decline and the financial health of and specific prospects for the issuer. Because such specific information may become available after the Company makes the impairment evaluation, and whether the impairment is other-than-temporary depends upon future events that may or may not occur, the Company may be required to recognize an other-than-temporary impairment in the future. Determination of whether a decline in value is other-than-temporary requires judgment. At March 31, 2007, the Company has recorded 788 billion yen of available-for-sale securities, 31 billion yen of cost method securities, 3 billion yen of equity method securities that have market values, and 477 billion yen of equity method securities that do not have market values, and advances, part or all of which could be determined to be other-than-temporarily impaired in future periods, depending on changes to the current facts and assumptions. In fiscal 2007, the Company recorded 3 billion yen impairment losses on investment securities.

For further discussion on valuation of investment securities, see Notes 4 and 5 of the Notes to Consolidated Financial Statements included in this annual report.

Table of Contents

- 51 -

Valuation of Inventory

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale. The Company routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written-down to net realizable value. Judgments and estimates must be made and used in connection with establishing such allowances in any accounting period. In estimating the net realizable value of its inventories, the Company considers the age of the inventories and the likelihood of spoilage or changes in market demand for its inventories.

Warranties

The Company makes estimates of potential warranty claims related to its goods sold. The Company provides for such costs based upon historical experience and its estimate of the level of future claims. Management makes judgments and estimates in connection with establishing the warranty reserve in any accounting period. Differences may result in the amount and timing of its revenue for any period if management makes different judgments or utilizes different estimates. (For further details, see Note 19 of the Notes to Consolidated Financial Statements.)

Valuation of Accounts Receivable and Noncurrent Receivables

The Company reviews its accounts receivable on a periodic basis and provides an allowance for doubtful receivables based on historical loss experience and current economic conditions. In evaluating the collectibility of individual receivable balances, the Company considers the age of the balance, the customers' historical payment history, their current credit-worthiness and adequacy of collateral.

The Company records noncurrent receivables, representing loans from finance lease transactions, at cost, less the related allowance for impaired receivables. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows or the fair value of the collateral. Cash receipts on impaired receivables are applied to reduce the principal amount of such receivables until the principal has been recovered and are recognized as interest income thereafter. Management's judgment is required in making estimates of the future cash flows of an impaired loan. Such estimates are based on current economic conditions and the current and expected financial condition of the debtor. (For further details, see Schedule II of Item 18.)

Table of Contents

- 52 -

Valuation of Goodwill

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the goodwill may be impaired, such as an adverse change in business climate. Impairment is recorded if the fair value of goodwill is less than its carrying amount. The fair value determination used in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions. These estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change. The Company recognized an impairment loss of 27 billion yen during fiscal 2007 related to goodwill of a mobile communication subsidiary. This impairment is due to a decrease in the estimated fair value of the reporting unit caused by decreased profit expectation and the intensification of competition in a domestic market which was unforeseeable in the prior year. The Company recognized an impairment loss of 3 billion yen during fiscal 2007 related to goodwill of JVC due primarily to profit performance in JVC's consumer electronics business being lower than the Company's expectation. The fair value was determined by using the estimated present fair value of future cash flows or quoted market prices. At March 31, 2007, the Company has recorded 379 billion yen of goodwill, part or all of which could be determined to be impaired in future periods, depending on changes to the current facts and assumptions. For further discussion on goodwill and other intangible assets, see Note 8 of the Notes to Consolidated Financial Statements included in this annual report.

Valuation of Deferred Tax Assets

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 based on available evidence. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At March 31, 2007, the Company has recorded gross deferred tax assets of 989 billion yen with a total valuation allowance of 439 billion yen. Included in the gross deferred tax assets is 249 billion yen resulting from net operating loss carryforwards (NOLs) of 705 billion yen, which are available to offset future taxable income. In order to fully realize these NOLs, the Company will need to generate sufficient taxable income by the expiration of these NOLs. These NOLs of 520 billion yen expire from fiscal 2009 through 2014 and the substantial majority of the remaining balance expire thereafter or do not expire. 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, net of the existing valuation allowance at March 31, 2007 based on available evidence. The Company could be required to increase the valuation allowance if such assumptions would change concluding that the Company would not be able to generate sufficient

taxable income. For further discussion on valuation of deferred tax assets, see Note 11 of the Notes to Consolidated Financial Statements included in this annual report.

Retirement and Severance Benefits

Retirement and severance benefits costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate and expected return on assets are the most critical assumptions among others, including retirement rates, mortality rates and salary growth.

Table of Contents

- 53 -

While management believes that the assumptions used are appropriate, actual results in any given year could differ from actuarial assumptions because of economic and other factors. The resulting difference is accumulated and amortized over future periods and therefore, generally affect the Company's retirement and severance benefit cost and obligations.

The Company determines discount rates by looking to rates of return on high-quality fixed income investments, and the expected long-term rate of return on pension plan assets by considering the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets.

Decreases in discount rates lead to increases in benefit obligations which, in turn, could lead to an increase in amortization cost through amortization of actuarial gain or loss, and vice versa. A decrease of 50 basis points in the discount rate is expected to increase the projected benefit obligation by approximately nine percent.

A decline in market stock values generally results in a lower expected rate of return on plan assets, which would result in an increase of future retirement and severance benefit costs.

SFAS No.158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment for FASB Statements No.87, 88, 106, and 132(R), was adopted by the Company for the year ended March 31, 2007. As a result, the Company recorded a pension liability adjustments of 45 billion yen as of March 31, 2007. The corresponding amount was changed to the stockholders' equity.

Accounting for Derivatives

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company uses derivative instruments principally to manage foreign currency risks resulting from transactions denominated in currencies other than the Japanese yen. As discussed in Note 1(p) of the Notes to Consolidated Financial Statements included in this annual report, the Company recognizes all derivatives as either assets or liabilities on the balance sheet at their fair values. Changes in the fair value of a derivative are reported in earnings or other comprehensive income depending on their use and whether they qualify for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the hedged item. The Company evaluates and determines on a continuous basis if the derivative remains highly effective in offsetting changes in the fair value or cash flows of the hedged item. If the derivative ceases to be highly effective in offsetting changes in the fair value or cash flows of the hedged item, the Company discontinues hedge

accounting prospectively. Because the derivatives the Company uses are not complex, significant judgment is not required to determine their fair values. Fair values are determined principally by receiving quotations from banks or brokers.

Table of Contents

- 54 -

Loss Contingencies

Loss contingencies may from time to time arise from situations such as product liability claims, warranty claims, disputes over intellectual property rights, environmental remediation obligations, and other legal actions. Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. In recording liabilities for probable losses, management is required to make estimates and judgments regarding the amount or range of the probable loss. Management continually assesses the adequacy of estimated loss contingencies and, if necessary, adjusts the amounts recorded as better information becomes known.

Table of Contents

- 55 -

New Accounting Pronouncements

In June 2006, FASB issued FASB interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company as of April 1, 2007. The application of FIN 48 did not have a material effect on the Company's consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans require the fair value of plan assets and benefit obligations to be measured as of the date of the fiscal year-end consolidated balance sheet and will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans on the Company's consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 157.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of SFAS No. 115*. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value.

Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings. SFAS No. 159 will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 159.

In September 2006, Securities and Exchange Commission (SEC) staff published Staff Accounting Bulletin No. 108 (SAB No. 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 requires quantification of the effects of financial statement errors on each of the balance sheets and statements of

income and the related financial statement disclosures. On March 31, 2007, the Company applied SAB No. 108. The adoption of SAB No. 108 did not have a material effect on the Company's consolidated financial statements.

Table of Contents

- 56 -

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management**

The Articles of Incorporation of the Company provide that the number of Directors of the Company shall be three or more and that of Corporate Auditors shall be three or more. Directors and Corporate Auditors shall be elected at the general meeting of shareholders. The Board of Directors has ultimate responsibility for administration of the Company's affairs and monitoring of the execution of business by Directors. Directors may, by resolution of the Board of Directors, appoint a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a President and Director, and one or more Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors. The Chairman of the Board of Directors, Vice Chairman of the Board of Directors, President and Director, Executive Vice Presidents and Directors, and Senior Managing Directors are Representative Directors and severally represent the Company. A Japanese joint stock corporation with corporate auditors, such as Matsushita, is not obliged under the Company Law of Japan and related laws and ordinances (collectively, the Company Law), to have any outside directors on its board of directors. However, Matsushita has two (2) outside Directors. An outside director is defined as a director of the company who has never engaged in the execution of business of the company or its subsidiaries as a director of any of these corporations, and who has never served as an executive officer, manager or in any other capacity as an employee of the company or its subsidiaries. The term of office of Directors shall, under the Articles of Incorporation of the Company, expire at the conclusion of the ordinary general meeting of shareholders with respect to the last business year ending within one year from their election, and in the case of Corporate Auditors, the terms of office shall expire at the conclusion of the ordinary general meeting of shareholders with respect to the last business year ending within four years from their election. However, they may serve any number of consecutive terms if re-elected.

Corporate Auditors of the Company are not required to be, and are not, certified public accountants. Corporate Auditors may not at the same time be Directors, accounting counselors, executive officers, managers or any other capacity as employees of the Company or any of its subsidiaries. Under the Company Law, at least half of the Corporate Auditors shall be outside corporate auditors. An outside corporate auditor is defined as a corporate auditor of the company who has never been a director, accounting counselor, executive officer, manager or in any other capacity as an employee of the company or any of its subsidiaries. Each Corporate Auditor has the statutory duty to audit the non-consolidated and consolidated financial statements and business reports to be submitted by a Director to the general meeting of shareholders and, based on such audit and a report of an Accounting Auditor referred to below, to respectively prepare his or her audit report. Each Corporate Auditor also has the statutory duty to supervise Directors' execution of their duties. The Corporate Auditors are required to attend meetings of the Board of Directors and express opinions, if necessary, at such meetings, but they are not entitled to vote.

In addition to Corporate Auditors, an independent certified public accountant or an independent audit corporation must be appointed by general meetings of shareholders as Accounting Auditor of the Company. Such Accounting Auditor has the duties to audit the consolidated and non-consolidated financial statements proposed to be submitted by

a Director at general meetings of shareholders and to report their opinion thereon to certain Corporate Auditors designated by the Board of Corporate Auditors to receive such report (if such Corporate Auditors are not designated, all Corporate Auditors) and certain Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements). The consolidated financial statement is prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and financial information on a non-consolidated (a parent company alone) basis is in conformity with Japanese regulations.

Table of Contents

- 57 -

Corporate Auditors constitute the Board of Corporate Auditors. The Board of Corporate Auditors has a statutory duty to, based on the reports prepared by respective Corporate Auditors, prepare and submit its audit report to Accounting Auditors and certain Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements and the business report). A Corporate Auditor may note his or her opinion in the audit report if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report of the Board of Corporate Auditors. The Board of Corporate Auditors shall elect one or more full-time Corporate Auditors from among its members. The Board of Corporate Auditors is empowered to establish auditing policies, the manner of investigation of the status of the corporate affairs and assets of the Company, and any other matters relating to the execution of the duties of Corporate Auditors. However, the Board of Corporate Auditors may not prevent each Corporate Auditor from exercising his or her powers.

Under the Company Law and the Articles of Incorporation of the Company, the Company may, by a resolution of the Board of Directors, exempt Directors or Corporate Auditors, acting in good faith and without significant negligence, from their liabilities owed to the Company arising in connection with their failure to perform their duties to the extent permitted by the Company Law. In addition, the Company has entered into liability limitation agreements with each of the outside Directors and outside Corporate Auditors, acting in good faith and without significant negligence, which limit the maximum amount of their liabilities owed to the Company arising in connection with their failure to perform their duties to the extent permitted by the Company Law.

The Company implemented in fiscal 2004 a reform of its corporate management and governance structure by (i) reorganizing the role of the Board of Directors, (ii) introducing Matsushita's own Executive Officer system* in its Group and (iii) strengthening its Corporate Auditor system, all tailored to the Group's new business domain-based, autonomous management structure.

Matsushita's Executive Officer system was introduced to address the diversity of business operations over the entire Group through delegation of authority and to help integrate the comprehensive strengths of all Group companies in Japan and overseas. The Board of Directors appoints Executive Officers mainly from senior management personnel of business domain companies, such as internal divisional companies and subsidiaries, as well as from management personnel responsible for overseas subsidiaries and certain senior corporate staff. The Executive Officers assume responsibility as the Group's executives regarding execution of business. The Executive Officers may be given such titles as Senior Managing Executive Officer, Managing Executive Officer and Executive Officer, depending on the extent of responsibility and achievement of each individual. The terms of office of the Executive Officers shall expire at the conclusion of the ordinary general meeting of shareholders with respect to the last business year of the Company ending within one year from their election. Each of the Executive Officers has the authority to operate businesses for which such Executive Officer is responsible, under the supervision of the Board of Directors and in accordance with the Board of Directors' decisions on the management of corporate affairs.

* Matsushita's Executive Officer (*Yakuin*) system is a non-statutory system and different from the corporate executive officer (*Shikkoyaku*) system that large Japanese corporations may adopt at their option under the statutory corporate governance system referred to as "Company with Committees" system stipulated in the Commercial Code of Japan and related legislation, which became effective on April 1, 2003 and re-enacted under the Company Law since May 1, 2006.

Table of Contents

- 58 -

The Board of Directors has, at the same time, been reformed in order to concentrate on establishing corporate strategies and supervising the implementation thereof by the Executive Officers. The Company has reduced the number of Directors to facilitate more effective decision-making, and shortened their term of office to one year in order to clarify their responsibilities. Taking into consideration the diversified scope of the Company's business operations, the Company has chosen to continue its policy of having management personnel, who are well-versed in day-to-day operations at operational fronts, be members of the Board of Directors, while outside Directors continue to fully participate in Board meetings.

Meanwhile, in fiscal 2004, the non-statutory full-time Senior Auditors were newly appointed within the Company's internal divisional companies in order to strengthen auditing functions at each business domain company. In addition, the Company has also launched the Group Auditor's Meeting chaired by the Chairman of the Board of Corporate Auditors of the Company in order to promote collaboration among the Company's Corporate Auditors, the non-statutory full-time Senior Auditors of the internal divisional companies and the corporate auditors of the Company's subsidiaries and affiliates. Moreover, as a part of their audit duties, Corporate Auditors maintain a close working relationship with the Internal Audit Group of the Company to ensure effective audits. Furthermore, in order to enhance the effectiveness of audits conducted by Corporate Auditors and ensure the smooth implementation of audits, the Company has established a Corporate Auditor's Office with full-time staff under the direct control of the Board of Corporate Auditors.

The following table shows information about Matsushita's Directors and Corporate Auditors as of June 27, 2007, including their dates of birth, positions, responsibilities and brief personal records.

Name	Positions, responsibilities and brief personal records
(Date of birth)	
Kunio Nakamura (Jul. 5, 1939)	<u>Chairman of the Board of Directors</u> -Jun. 1993 Director of the Company; -Jun. 1996 Managing Director of the Company; -Jun. 1997 Senior Managing Director of the Company; -Jun. 2000 President of the Company; -Jun. 2006 Chairman of the Board of Directors of the Company.
Masayuki Matsushita (Oct. 16, 1945)	<u>Vice Chairman of the Board of Directors</u> -Feb. 1986 Director of the Company; -Jun. 1990 Managing Director of the Company; -Jun. 1992 Senior Managing Director of the Company; -Jun. 1996 Executive Vice President of the Company; -Jun. 2000 Vice Chairman of the Board of Directors of the Company.
Fumio Ohtsubo	<u>President and Director</u>

(Sep. 5, 1945)	-Jun. 1998	Director of the Company, and Vice President of AVC Company;
	-Jun. 2000	Managing Director of the Company;
	-Jan. 2003	President of Panasonic AVC Networks Company;
	-Jun. 2003	Senior Managing Director of the Company;
	-Jun. 2006	President and Director of the Company.

Table of Contents

- 59 -

Name (Date of birth)	Positions, responsibilities and brief personal records
Takami Sano (Apr. 2, 1943)	<p><u>Executive Vice President and Director</u></p> <ul style="list-style-type: none"> -Jun. 1998 Director of the Company, and Director of Corporate Industrial Marketing and Sales Division; -Jun. 2000 Managing Director of the Company; -Jun. 2003 Senior Managing Director of the Company; -Jun. 2005 Executive Vice President of the Company, and Representative in Tokyo; -Apr. 2006 In charge of Panasonic Systems Solutions Company, Corporate eNet Business Division and Corporate Construction Business Promotion Division; -Apr. 2007 In charge of Automotive Electronics Business and Panasonic Mobile Communications Co., Ltd.
Susumu Koike (Nov. 15, 1945)	<p><u>Executive Vice President and Director</u></p> <ul style="list-style-type: none"> -Jun. 1998 Director of the Company, and in charge of semiconductor technology; -Jun. 2000 Managing Director of the Company; -Apr. 2001 President of Semiconductor Company; -Jun. 2003 Senior Managing Director of the Company, and in charge of Technology; -Apr. 2006 Executive Vice President of the Company, and in charge of Semiconductor Company.
Shunzo Ushimaru (May 5, 1944)	<p><u>Executive Vice President and Director</u></p> <ul style="list-style-type: none"> -Jun. 2002 In charge of Corporate Marketing Division for Panasonic Brand; -Jun. 2003 Executive Officer of the Company; -Jun. 2004 Managing Executive Officer of the Company; -Apr. 2006 Senior Managing Executive Officer of the Company, in charge of Corporate Marketing Division for Panasonic Brand, Corporate Marketing Division for National Brand Home Appliances, Corporate Marketing Division for National Brand Wellness Products, Corporate Sales Strategy Division for National/Panasonic Retailers, Commodity Sales / Electrical Supplies Sales / Project Sales and Building Products Sales, Advertising, Panasonic Center, Logistics, Corporate CS Division and Design, Chairman of Corporate Brand Committee and Showroom Strategic Committee; -Jun. 2006 Senior Managing Director of the Company; -Apr. 2007 Executive Vice President of the Company, and in charge of Domestic Consumer Marketing.
Koshi Kitadai* (Oct. 1, 1945)	<p><u>Senior Managing Director</u></p> <ul style="list-style-type: none"> -Jun. 2000 President, Matsushita Electronic Devices Co., Ltd. (now Panasonic Electronic Devices Co., Ltd.);

- Jun. 2003 Managing Executive Officer of the Company;
- Jun. 2005 Senior Managing Executive Officer of the Company;
- Apr. 2007 President, Panasonic Automotive Systems Company, and in charge of Corporate Industrial Marketing and Sales.

Table of Contents

- 60 -

Name	Positions, responsibilities and brief personal records
(Date of birth)	
Toshihiro Sakamoto* (Oct. 27, 1946)	<u>Senior Managing Director</u> -Jun. 2000 Director of the Company, and Vice President of AVC Company, and in charge of Visual Products Group; -Jun. 2003 In charge of Corporate Planning; -Jun. 2004 Managing Director of the Company; -Apr. 2006 Senior Managing Director, and President of Panasonic AVC Networks Company.
Yasuo Katsura* (Sep. 19, 1947)	<u>Managing Director</u> -Jun. 2001 President, Matsushita Communication Industrial Co., Ltd. (now Panasonic Mobile Communications Co., Ltd.); -Jun. 2003 Executive Officer of the Company; -Jun. 2004 Managing Executive Officer of the Company, and Director of the Tokyo Branch.
Takahiro Mori* (Jun. 16, 1947)	<u>Managing Director</u> -Apr. 2001 Director of Corporate Communications Division; -Jun. 2003 Executive Officer of the Company; -Jun. 2005 Managing Director of the Company, and in charge of Corporate Communications Division; -Apr. 2006 In charge of Corporate Planning; -Apr. 2007 Vice Chairman of Corporate Brand Committee.
Shinichi Fukushima* (Nov. 13, 1948)	<u>Managing Director</u> -Apr. 1997 General Manager of Corporate Personnel Dept. of the Company; -Jun. 2003 Director of the Company, and in charge of Personnel and General Affairs; -Jun. 2005 Managing Director of the Company.
Junji Esaka* (Dec. 19, 1946)	<u>Managing Director</u> -Apr. 2003 Vice President of Matsushita Home Appliances Company, in charge of Refrigeration and Air Conditioning Business; -Jun. 2003 Executive Officer of the Company; -Feb. 2006 Managing Executive Officer of the Company, and in charge of Appliances Business, President of Matsushita Home Appliances Company, in charge of Lighting Company and Healthcare Business Company; -Jun. 2006 Managing Director of the Company.

Table of Contents

- 61 -

Name (Date of birth)	Positions, responsibilities and brief personal records
Hitoshi Otsuki* (Jun. 6, 1947)	<u>Managing Director</u> -Jun. 2000 President, Panasonic U.K. Ltd.; -Jun. 2003 Executive Officer of the Company, Director of Europe Division, and Chairman of Panasonic Europe Ltd.; -Apr. 2007 Managing Executive Officer of the Company, and in charge of Overseas Operations.
Ikusaburo Kashima* (Oct. 8, 1948)	<u>Managing Director</u> -Jul. 1999 Director General of Price Bureau of Economic Planning Agency; -Jun. 2003 Vice Chairman of Information Technology Promotion Agency; -Jun. 2004 Joined the Company as an Executive Counselor; -Jun. 2005 Director of the Company and Deputy Chief of Overseas Operations; -Apr. 2007 Managing Director of the Company, and in charge of Legal Affairs, Corporate Risk Management, Corporate Information Security, Corporate Business Ethics, and Corporate International Affairs.
Ikuo Uno (Jan. 4, 1935)	<u>Director</u> -Jul. 1986 Director of Nippon Life Insurance Company; -Apr. 1997 President of Nippon Life Insurance Company; -Apr. 2005 Chairman, Nippon Life Insurance Company; -Jun. 2005 Director of the Company.
Yoshifumi Nishikawa (Aug. 3, 1938)	<u>Director</u> -Jun. 1986 Director of The Sumitomo Bank, Ltd.; -Jun. 1997 President of The Sumitomo Bank, Ltd.; -Dec.2002 President of Sumitomo Mitsui Financial Group, Inc.; -Jun. 2005 Director of the Company; -Jan. 2006 President, CEO of Japan Post Corporation; -Apr. 2007 President of Japan Post.
Hidetsugu Otsuru * (Aug. 20, 1943)	<u>Director</u> -Jun. 1998 Director of the Company (resigned in March 1999); -Apr. 1999 President of Matsushita Electronics Corporation; -Jun. 2001 Managing Director of the Company; -Jun. 2002 In charge of Quality Administration and Environmental Affairs; -Jun. 2003 In charge of Facility Management; -Feb. 2006 Director of the Company; -May 2006 In charge of Corporate FF Customer Support & Management Division.
Makoto Uenoyama* (Feb. 14, 1953)	<u>Director</u> -Jun. 2003 General Manager, Corporate Accounting Group; -Apr. 2006 Executive Officer of the Company; -Apr. 2007 In charge of Accounting and Finance.

Table of Contents

- 62 -

Name (Date of birth)	Positions, responsibilities and brief personal records
Masaharu Matsushita (Sep. 17, 1912)	<u>Honorary Chairman of the Board of Directors and Executive Advisor</u> -Oct. 1947 Director of the Company; -Jan. 1961 President of the Company; -Feb. 1977 Chairman of the Board of Directors; -Jun. 2000 Honorary Chairman of the Board of Directors and Executive Advisor.
Yukio Furuta (Sep. 20, 1944)	<u>Senior Corporate Auditor</u> -Jun. 1995 Director of Matsushita Electronics Corporation; -Apr. 2001 Director of Corporate Manufacturing & Development Division of Semiconductor Company; -Jun. 2003 Vice President of Semiconductor Company; -Jun. 2004 Senior Corporate Auditor of the Company.
Kenichi Hamada (May 2, 1947)	<u>Senior Corporate Auditor</u> -Jun. 1999 Director of Kyushu Matsushita Electric Co., Ltd. (now Panasonic Communications Co., Ltd.), and in charge of accounting; -Jun. 2001 Managing Director, Kyushu Matsushita Electric Co., Ltd.; -Jun. 2003 Senior Managing Director, Panasonic Communications Co., Ltd.; -Jun. 2005 Vice President, Panasonic Communications Co., Ltd., and in charge of accounting, compliance, legal affairs group, information systems group, public relations group, and information security. (Resigned post on June 25, 2007)
Yasuo Yoshino (Oct. 5, 1939)	<u>Corporate Auditor</u> -Jul. 1988 Director of Sumitomo Life Insurance Company; -Jul. 1997 Vice President of Sumitomo Life Insurance Company; -Jul. 2001 Chairman of Sumitomo Life Insurance Company; -Jun. 2003 Corporate Auditor of the Company.
Ikuo Hata (Aug. 6, 1931)	<u>Corporate Auditor</u> -Apr. 1992 President of Osaka District Court; -Sep. 1995 Registered as an attorney-at-law (Osaka Bar Association); -Jun. 1998 Vice Board Chairman of Japan Federation of Arbitration Associations; -Jul. 2001 Member of Supreme Court Committee on Construction-related Disputes; -Jun. 2004 Corporate Auditor of the Company.

Table of Contents

- 63 -

Name	Positions, responsibilities and brief personal records
(Date of birth)	
Hiroyuki Takahashi (Mar. 1, 1937)	<u>Corporate Auditor</u> -Jun. 1993 Director, Director of Human Resources of Mitsui & Co., Ltd.; -Jun. 1996 Executive Managing Director of Mitsui & Co., Ltd.; -Jun. 1997 Corporate Auditor of Mitsui & Co., Ltd.; -Oct. 2000 Executive Managing Director and Secretary-General of Japan Corporate Auditors Association; -Oct. 2005 Director of Japan Corporate Auditors Association (retired as Director on June 25, 2006); -Jun. 2006 Corporate Auditor of the Company.

Asterisks (*) denote members of the Board of Directors who concurrently serve as Executive Officers, pursuant to the Executive Officer System which was introduced to facilitate the development of optimum corporate strategies that integrate the Group's comprehensive strengths.

Ikuo Uno and Yoshifumi Nishikawa are outside directors as stipulated in the Company Law.

Yasuo Yoshino, Ikuo Hata and Hiroyuki Takahashi are outside corporate auditors as stipulated in the Company Law.

There are no family relationships among any Directors or Corporate Auditors except as described below:

Masayuki Matsushita, Vice Chairman of the Board of Directors is the son of Masaharu Matsushita, Honorary Chairman of the Board of Directors and Executive Advisor.

The following table shows information about Matsushita's Executive Officers as of June 27, 2007, including their positions and responsibilities.

Name	Positions and responsibilities
Nobutane Yamamoto	<p>Managing Executive Officer</p> <p>In charge of Global Procurement / Global Logistics/</p> <p>Director, Corporate Procurement Division</p>
Yoshinobu Sato	<p>Managing Executive Officer</p> <p>Director, Corporate Marketing Division for Consumer Products/</p> <p>in charge of Corporate CS Division and Showroom Strategic Planning Office/ Chairman, Showroom Strategic Committee</p>
Yoshihiko Yamada	<p>Managing Executive Officer</p> <p>Director, Corporate Management Division for North America/</p> <p>Chairman, Panasonic Corporation of North America</p>
Ken Morita	<p>Managing Executive Officer</p> <p>Senior Vice President, Panasonic AVC Networks Company/</p> <p>Director, Visual Products and Display Devices Business Group, Panasonic AVC Networks Company</p>

Table of Contents

- 64 -

<u>Name</u>	<u>Positions and responsibilities</u>
Yoshitaka Hayashi	Executive Officer Director, Corporate Management Division for China and Northeast Asia/ Chairman, Panasonic Corporation of China
Fujio Nakajima	Executive Officer Senior Vice President, Panasonic AVC Networks Company/ Director, Technology Planning & Development Center, Panasonic AVC Networks Company/General Manager, Digital Broadcasting Business Promotion Office
Takae Makita	Executive Officer In charge of Information Systems/ Associate Director, Corporate IT Innovation Division
Masashi Makino	Executive Officer Director, Corporate Division for Promoting Manufacturing-oriented Innovation
Joachim Reinhart	Executive Officer COO, Panasonic Europe Ltd.
Yutaka Mizuno	Executive Officer Vice President, Panasonic Automotive Systems Company/ in charge of Sales, Panasonic Automotive Systems Company
Mikio Ito	Executive Officer In charge of Public and Private Institutions
Kazuhiro Tsuga	Executive Officer In charge of Digital Network & Software Technology/ Overseas R&D Centers/ Digital Network Strategic Planning Office
Ikuo Miyamoto	Executive Officer President, Motor Company

Hideo Kawasaki Executive Officer

President, Semiconductor Company

Shigeru Omori Executive Officer

Director, Corporate Industrial Marketing & Sales Division

Takumi Kajisha Executive Officer

In charge of Corporate Communications Division/

Director, Corporate Communications Division/

in charge of CSR Office, Corporate Advertising Group, and Corporate Citizenship Group/ Vice Chairman, Showroom Strategic Committee

Masaaki Fujita Executive Officer

Senior Vice President, Panasonic AVC Networks Company/

Director, Visual Products and Display Devices Business Group, PDP TV Business Unit, Panasonic AVC Networks Company

Table of Contents

- 65 -

<u>Name</u>	<u>Positions and responsibilities</u>
Kazunori Takami	Executive Officer In charge of Corporate Marketing Division for National Brand Home Appliances and Corporate Marketing Division for National Brand Wellness Products/ Director, Corporate Marketing Division for National Brand Home Appliances
Yoshihisa Fukushima	Executive Officer In charge of Intellectual Property/ Director, Corporate Intellectual Property Division/ President, Intellectual Property Rights Operations Company
Masatsugu Kondo	Executive Officer President, Matsushita Battery Industrial Co., Ltd./ President, Rechargeable Battery Company, Matsushita Battery Industrial Co., Ltd.
Naoto Noguchi	Executive Officer Director, Corporate Environmental Affairs Division/ in charge of Corporate Quality Administration Division
Osamu Waki	Executive Officer President, Panasonic Mobile Communications Co., Ltd.
Toshiaki Kobayashi	Executive Officer President, Panasonic Electronic Devices Co., Ltd.
Joseph Taylor	Executive Officer COO, Panasonic Corporation of North America
Yoshiiku Miyata	Executive Officer Director, Corporate Management Division for Europe/

Chairman, Panasonic Europe Ltd.

Takashi Toyama

Executive Officer

President, Panasonic System Solutions Company/

Director, Corporate Construction Business Promotion Division

Jun Ishii

Executive Officer

Associate Director, Corporate Marketing Division for Consumer Products

Toshiro Kisaka

Executive Officer

Director, Corporate Management Division for Asia and Oceania/

President, Panasonic Asia Pacific Pte. Ltd.

(Directors who concurrently serve as Executive Officers are not included in the above list.)

Table of Contents

- 66 -

B. Compensation

The aggregate amounts of remunerations, including equity compensation such as stock options, bonuses, and other financial benefits given in consideration of performance of duties (collectively, the remunerations), paid by the Company during fiscal 2007 to all seventeen Directors and all five Corporate Auditors for services in all capacities were 1,078 million yen and 110 million yen, respectively.

Under the Company Law, the maximum amounts of remunerations of directors and corporate auditors of Japanese joint stock corporations, except for a joint stock corporation with specified committees, must be approved at a general meeting of shareholders if the articles of incorporation of the company do not provide items about remunerations of directors and corporate auditors. Companies must also obtain the approval at a general meeting of shareholders to change such maximum amounts. Therefore, the remuneration of the directors and corporate auditors are subject to the approval of shareholders if the articles of incorporation of the company do not prescribe such items. The maximum total amounts of remunerations for Directors and Corporate Auditors of the Company is therefore determined by a resolution at a general meeting of shareholders, because the Articles of Incorporation of the Company do not provide such items, and thus remunerations of Directors and Corporate Auditors of the Company are under the oversight of shareholders. The remuneration amount for each Director is determined by the Company's Representative Directors who are delegated to do so by the Board of Directors, and the amount of remuneration for each Corporate Auditor is determined upon discussions amongst Corporate Auditors.

Since the fiscal year ended March 31, 2004, the amounts of the remuneration and bonuses of Directors have reflected each individual's performance based on CCM (Capital Cost Management) and cash flows. From the fiscal year ending March 31, 2008, in order to promote steady growth with profitability, the Company will adopt CCM and sales as indicators which represent profitability and growth, respectively. By implementing this new performance evaluation criteria based on shareholder interest, the Company intends to promote continuous growth and enhance profitability on a long-term basis for the Matsushita Group as a whole. In order to realize a remuneration system with a high level of transparency and acceptability, the Company terminated its retirement benefits for Directors and Corporate Auditors in June 2006. (For details of the Company's stock option plans for Board members and select senior executives, see Section E of this Item 6.)

C. Board Practices

For information on the Company's Directors and Corporate Auditors, see Section A of this Item 6.

The Company has made available on the annual report delivered to ADR holders a general summary of the significant differences between its corporate governance practices and those followed by U.S. companies under the New York Stock Exchange (NYSE) listing standards. The general summary of the significant differences is also available for viewing in the electronic version of the annual report located at the Company's web site below.

(http://ir-site.panasonic.com/annual/2007/pdf/matsushita_ar2007_e48.pdf)

The rights of ADR holders, including their rights relating to corporate governance practices, are governed by the Amended and Restated Deposit Agreement (incorporated by reference to the Registration Statement on Form F-6 (File No. 333-12694) filed on October 4, 2000).

Table of Contents

- 67 -

D. Employees

The following table lists the number of full-time employees of Matsushita as of March 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Employees:			
Domestic	145,418	144,871	150,642
Overseas	183,227	189,531	184,110
	<u> </u>	<u> </u>	<u> </u>
Total	328,645	334,402	334,752
	<u> </u>	<u> </u>	<u> </u>

Most regular Company employees in Japan, except management personnel, are members of unions that belong to the Matsushita Electric Workers Unions. As is customary in Japan, the Company negotiates annually with the unions and revises annual wage. The annual bonuses of unionized employees are determined in consideration of the Company's performance of the previous year. The Company also renews the terms and conditions of labor contracts, other than those relating to wages and bonuses, every other year. In recent years, the Company has introduced in Japan new comprehensive employment and personnel systems to satisfy the diverse needs of employees.

Such systems include an individual performance-oriented annual salary system, a regional-based employee remuneration system and an alternative payment system under which employees can receive retirement and fringe benefits up front in addition to their semiannual bonuses. During the last few years, the Company and its several subsidiaries have also implemented special early retirement programs for employees who wished to pursue careers outside the Company. For a quarter century, Matsushita has not experienced any major labor strikes or disputes. The Company considers its labor relations to be excellent.

Table of Contents

- 68 -

E. Share Ownership

- (1) The following table lists the number of shares owned by the Directors and Corporate Auditors of the Company as of June 27, 2007. The total is 17,960,305 shares constituting 0.83% of all issued and outstanding shares of the Company's common stock, excluding its own stock.

<u>Name</u>	<u>Position</u>	<u>Number of Matsushita Shares Owned as of June 27, 2007</u>
Kunio Nakamura	Chairman of the Board of Directors	58,000
Masayuki Matsushita	Vice Chairman of the Board of Directors	7,913,351
Fumio Ohtsubo	President and Director	33,000
Takami Sano	Executive Vice President and Director	34,923
Susumu Koike	Executive Vice President and Director	29,562
Shunzo Ushimaru	Executive Vice President and Director	31,578
Koshi Kitadai	Senior Managing Director	20,041
Toshihiro Sakamoto	Senior Managing Director	20,278
Yasuo Katsura	Managing Director	13,516
Takahiro Mori	Managing Director	13,060
Shinichi Fukushima	Managing Director	15,005
Junji Esaka	Managing Director	114,000
Hitoshi Otsuki	Managing Director	10,000
Ikusaburo Kashima	Managing Director	5,000
Ikuo Uno	Director	0
Yoshifumi Nishikawa	Director	0
Hidetsugu Otsuru	Director	25,000
Makoto Uenoyama	Director	6,000
Masaharu Matsushita	Honorary Chairman of the Board of Directors and Executive Advisor	9,598,637
Yukio Furuta	Senior Corporate Auditor	10,000
Kenichi Hamada	Senior Corporate Auditor	6,354
Yasuo Yoshino	Corporate Auditor	3,000
Ikuo Hata	Corporate Auditor	0
Hiroyuki Takahashi	Corporate Auditor	0
Total		17,960,305

In June 2001, a stock option plan for Directors and select Executive Counselors was approved at the ordinary general meeting of shareholders. The then thirty Directors on the Board and nine Executive Counselors were granted stock options ranging from 2,000 to 10,000 shares of common stock each, at a price of 2,163 yen per share, exercisable from July 1, 2003 through June 30, 2007. For the stock option plan, the Company in early July 2001 purchased on the TSE a total of 128,000 shares of common stock with an aggregate purchase price of approximately 250 million yen.

Table of Contents

- 69 -

In June 2002, the Company obtained approval at the ordinary general meeting of shareholders regarding the issue of stock acquisition rights as stock options for Board members and select Executive Counselors, pursuant to Articles 280-20 and 280-21 of the former Commercial Code of Japan then in effect. Upon the shareholders' approval, the Board of Directors adopted resolutions to issue at no charge an aggregate of 116 stock acquisition rights, each representing a stock option to purchase 1,000 shares of common stock of the Company, to the then twenty-seven Directors and eight Executive Counselors. The stock acquisition rights are exercisable during the period from July 1, 2004 through June 30, 2008. The amount to be paid by qualified persons upon exercise of each stock acquisition right is set at 1,734 yen per share of common stock, which was calculated by a formula approved by shareholders at the said ordinary general meeting of shareholders. As of July 31, 2007, out of the 116 stock acquisition rights, 15 are those which have not been exercised or waived.

In June 2003, the Company introduced new business performance evaluation standards (See Section A of this Item 6.) which affect compensation of Directors and Executive Officers. This new evaluation system is intended to encourage pursuit of sustained growth and enhanced profitability for the Group as a whole, thereby accomplishing the goal of increasing corporate value in the interest of shareholders. Upon the introduction of this incentive type compensation system, stock acquisition rights as stock options for Directors and select senior executives have not been offered since June 2003.

(For more details, see Note 12 of the Notes to Consolidated Financial Statements.)

- (2) The full-time employees of the Company and its major subsidiaries in Japan are eligible to participate in the Matsushita Electric Employee Shareholding Association, whereby participating employees contribute a portion of their salaries to the Association and the Association purchases shares of the Company's common stock on their behalf. The Company provides the subsidy in proportion to the number of points that each employee selects to exchange within certain limitations under the Cafeteria Plan, the Company's flexible benefit plan. Under the Cafeteria Plan, each employee is allotted a certain number of points based on prescribed standards, which he or she may exchange for various benefits, including the Company's subsidy for contributions to the Association, subsidies for rental housing, subsidies for asset building savings, educational assistance, hotel accommodations, etc. As of March 31, 2007, the Association owned 33,827 thousand shares of the Company's common stock constituting 1.57% of all issued and outstanding shares of the Company's common stock, excluding its own stock.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

- (1) To the knowledge of the Company, except as discussed below, no shareholders beneficially own more than five percent of the Company's common stock, which is the only class of stock it has issued.

Table of Contents

- 70 -

As explained in Section B of Item 10, the Securities and Exchange Law of Japan and regulations thereunder (collectively, SEL) requires any person, regardless of his/her residence, who has become, beneficially and solely or jointly, a holder of more than five percent of the total issued shares of common stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan, to file with the Director-General of a competent Local Finance Bureau of Ministry of Finance within five business days (or in the case of certain financial institutions prescribed by SEL, within certain longer periods prescribed by SEL) a report concerning such shareholdings. The Company is aware of the March 7, 2007 filing by Dodge & Cox (an investment advisory company), stating that, as of the end of February 2007, Dodge & Cox and its affiliates owned, beneficially or of record, 7.52%, and the August 17, 2006 filing by Barclays Global Investors Japan Trust & Banking Co., Ltd. and its 9 relevant joint holders, stating that, as of the end of June 2005 these companies owned, beneficially or of record, 3.31% in total of the issued shares of the Company's common stock as calculated pursuant to the Securities and Exchange Law of Japan.

The shareholders that owned more than five percent of the Company's common stock on the register of shareholders as of March 31, 2007 were Moxley & Co., and The Master Trust Bank of Japan, Ltd. (trust account), which are securities processing services companies. The Company understands that these shareholders are not the beneficial owners of the Company's common stock, but the Company does not have available further information concerning such beneficial ownership by these shareholders. The ten largest shareholders of record and their share holdings as of the end of the last fiscal year are as follows:

<u>Name</u>	<u>Share ownership (in thousands of shares)</u>	<u>Percentage of total issued shares</u>
Moxley & Co.	189,197	7.71%
The Master Trust Bank of Japan, Ltd. (trust account)	125,982	5.13
Japan Trustee Services Bank, Ltd. (trust account)	83,905	3.42
State Street Bank and Trust Co.	68,399	2.78
Nippon Life Insurance Co.	67,000	2.73
Sumitomo Mitsui Banking Corporation	57,725	2.35
Sumitomo Life Insurance Co.	35,382	1.44
Mitsui Sumitomo Insurance Co., Ltd.	35,106	1.43
Matsushita Electric Employee Shareholding Association	33,827	1.37
Japan Trustee Services Bank, Ltd. (trust account No. 4)	32,780	1.33

* Holdings of less than 1,000 shares have been omitted.

- (2) As of March 31, 2007, approximately 16.80% of the Company's common stock was owned by 143 United States shareholders, including the ADR Depositary's nominee, Moxley & Co., considered as one shareholder of record,

owning approximately 7.71% of the total common stock.

- (3) Matsushita is not, directly or indirectly, owned or controlled by other corporations, by the Japanese government or any foreign government or by any natural or legal person or persons severally or jointly.
- (4) As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of Matsushita.

B. Related Party Transactions

Not applicable

Table of Contents

- 71 -

C. Interests of Experts and Counsel

Not applicable

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

(1) Consolidated Statements

Refer to Consolidated Financial Statements and Notes to Consolidated Financial Statements (see Item 18).

Finished goods and materials sent out of Japan are mainly bound for consolidated subsidiaries of the Matsushita Group, and are not, therefore, recorded as exports on a consolidated basis. For this reason, the proportion of exports to total net sales is not significant.

(2) Legal Proceedings

There are some legal actions and administrative investigations against Matsushita. Management is of the opinion that damages, based on the information currently available, if any, resulting from these actions will not have a material effect on Matsushita's results of operations or financial position.

(3) Dividend Policy

Since its establishment, the Company has managed its businesses under the concept that returning profits to shareholders is one of its most important policies. Along with the implementation of a mid-term growth strategy since fiscal 2005, the Company has implemented a proactive and comprehensive profit return to shareholders through dividend payments and own share repurchases, upon careful consideration of its consolidated business performance.

From the perspective of return on the capital investment made by shareholders, the Company, in principle, distributes profits to shareholders based on its consolidated business performance. As the result of growth strategies in GP3, the Company's new mid-term management plan starting in fiscal 2008, Matsushita will aim for stable and continuous growth in dividends based on consolidated net income. The Company is also targeting a dividend payout ratio of between 30% and 40% with respect to consolidated net income. Specifically, for fiscal 2007, ended March 31, 2007, the Company paid total cash dividends per share of 30.00 yen, comprising an interim dividend of 15.00 yen per share and a year-end dividend of 15.00 yen per share. Regarding own share repurchases, the Company plans to use cash flows generated by the GP3 plan to flexibly repurchase its own shares in order to increase shareholder value per share and profitability on capital, while at the same time taking into consideration strategic investments and the Company's financial condition.

Table of Contents

- 72 -

(4) **Initiatives to Maximize Shareholder Value**

On April 28, 2005, the Board of Directors resolved to adopt a policy related to a Large-scale Purchase of the Company's shares called the Enhancement of Shareholder Value (ESV) Plan. With respect to a Large-scale Purchaser who intends to acquire 20% or more of all voting rights of the Company, this policy requires that (i) a Large-scale Purchaser provides sufficient information, such as its outline, purposes or conditions, the basis for determination of the purchase price and funds for purchase, and management policies and business plans which the Large-scale Purchaser intends to adopt after the completion of the Large-scale Purchase, to the Board of Directors before a Large-scale Purchase is to be conducted and (ii) after all required information is provided, the Board of Directors should be allowed a sufficient period of time (a sixty-day period or a ninety-day period) for consideration.

The Board of Directors intends to assess and examine any proposed Large-scale Purchase after the information on such purchase is provided, and subsequently to disclose the opinion of the Board of Directors in order to assist shareholders in making their decisions. The Board of Directors may negotiate with the Large-scale Purchaser or suggest alternative plans to shareholders, if it is deemed necessary.

If a Large-scale Purchaser does not comply with the rules laid out in the ESV Plan, Matsushita's Board of Directors may take countermeasures against the Large-scale Purchaser to protect the interests of all shareholders. Countermeasures include the implementation of stock splits, issuance of stock acquisition rights or any other measures that the Board of Directors is permitted to take under the Company Law in Japan, other laws and the Company's Articles of Incorporation. If a Large-scale Purchaser complies with the Large-scale Purchase rules, the Board of Directors does not intend to prevent the Large-scale Purchase at its own discretion, unless it is clear that such Large-scale Purchase will cause irreparable damage or loss to Matsushita.

The Board of Directors will make decisions relating to countermeasures by referring to advice from outside professionals, such as lawyers and financial advisers, and fully respecting the opinions of outside Directors and Corporate Auditors. The Board of Directors will adopt specific countermeasures which it deems appropriate at that time.

If the Board of Directors elects to make a stock split for shareholders as of a certain record date, the maximum ratio of the stock split shall be five-for-one. If the Board of Directors elects to issue stock acquisition rights in a rights offering, the Company will issue one stock acquisition right for every share held by shareholders on a specified record date. One share shall be issued on the exercise of each stock acquisition right.

If the Board of Directors elects to issue stock acquisition rights as a countermeasure, it may determine the exercise period and exercise conditions of the stock acquisition rights in consideration of the effectiveness thereof as a countermeasure, such as the condition that shareholders do not belong to a specific group of shareholders including a Large-scale Purchaser. The Company recognizes that the aforementioned countermeasures may cause damage or loss, economic or otherwise, to a prospective Large-scale Purchaser who does not comply with the Large-scale Purchase Rules.

Matsushita does not anticipate that taking such countermeasures will cause shareholders, other than the Large-scale Purchaser, economic damage or loss of any rights, however, in the event that the Board of Directors determines to take a specific countermeasure, the Board of Directors will disclose such countermeasure in a timely and appropriate manner, pursuant to relevant laws and stock exchange regulations. The term of office of directors is one year, and they are elected at the annual general meeting of shareholders in June. All of the current Directors have stated agreement with the policy related to the ESV Plan before the annual general meeting of shareholders held on June 27, 2007 and were elected as directors at the meeting. Matsushita's Board of Directors intends to review the Large-scale Purchase Rules, as necessary, for reasons including amendments to applicable legislation. Any such review would be conducted strictly in the interests of all shareholders.

On April 28, 2006 and April 27, 2007, the Board of Directors resolved to continue the ESV Plan.

For further details, please see the press release issued on April 27, 2007 at the Company's Web site:
<http://panasonic.co.jp/corp/news/official.data/data.dir/en070427-9/en070427-9.html>

Table of Contents

- 73 -

B. Significant Changes

No significant changes have occurred since the date of the annual financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

The primary market for the Company's common stock (Common Stock) is the Tokyo Stock Exchange (TSE). The Common Stock is traded on the First Section of the TSE and is also listed on two other stock exchanges (Osaka and Nagoya) in Japan. In the United States, the Company's American Depositary Shares (ADSs) have been listed on and traded in the NYSE in the form of American Depositary Receipts (ADRs). There may from time to time be a differential between the Common Stock's price on exchanges outside the United States and the market price of ADSs in the United States.

Matsushita delisted its shares from two stock exchanges (Fukuoka and Sapporo) in Japan in January 2004, Dusseldorf Stock Exchange in February 2004, the Pacific Exchange in March 2004, Euronext Paris Stock Exchange in April 2004, Amsterdam Stock Exchange in June 2006 and Frankfurt Stock Exchange in August 2006.

ADRs were originally issued pursuant to a Deposit Agreement dated as of April 28, 1970, as amended from time to time (Deposit Agreement), among the Company, the Depositary for ADRs, and the holders of ADRs. The current Depositary for ADRs is JPMorgan Chase Bank, N.A., which succeeded to this business from Morgan Guaranty Trust Company of New York upon their merger. Effective December 11, 2000, Matsushita again revised its ADR Deposit Agreement and executed a 10:1 ADS ratio change. As a result, one ADS now represents one share of Common Stock. ADRs evidence ADSs that represent the underlying Common Stock deposited under the Deposit Agreement with Sumitomo Mitsui Banking Corporation, as agent of the Depositary.

Table of Contents

- 74 -

The following table sets forth for the periods indicated the reported high and low closing prices of the Company's Common Stock on the TSE, and the reported high and low closing composite prices of the Company's ADSs on the NYSE:

Fiscal Year ended March 31	Tokyo Stock Exchange		New York Stock Exchange	
	Price per Share of Common Stock (yen)		Price per American Depositary Share (dollars)*	
	High	Low	High	Low
2003	1,780	1,011	14.47	8.53
2004	1,648	875	15.57	7.33
2005	1,685	1,385	16.05	12.72
2006	2,640	1,520	22.65	14.31
2007	2,870	2,080	22.78	18.96
2006				
1st quarter	1,695	1,520	15.60	14.31
2nd quarter	1,942	1,681	17.72	15.12
3rd quarter	2,485	1,908	20.70	16.52
4th quarter	2,640	2,300	22.65	19.79
2007				
1st quarter	2,870	2,155	22.78	18.96
2nd quarter	2,550	2,080	21.62	20.45
3rd quarter	2,670	2,150	20.17	19.10
4th quarter	2,495	2,250	21.28	19.14
2008				
1st quarter	2,585	2,295	21.15	19.49
Most recent 6 months	High	Low	High	Low
February 2007	2,490	2,310	20.42	19.14
March 2007	2,495	2,250	21.28	19.14
April 2007	2,485	2,295	21.00	19.08
May 2007	2,575	2,365	21.22	19.93
June 2007	2,585	2,395	21.15	19.49
July 2007	2,470	2,135	20.17	18.02

* The prices of ADSs are based upon reports by the NYSE, with all fractional figures rounded up to the nearest two decimal points. The prices of ADSs, prior to the December 11, 2000 ADS ratio change, have

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F
been restated on the current basis that each ADS represents one share of Common Stock.

B. Plan of Distribution

Not applicable

C. Markets

See Section A of this Item 9.

Table of Contents

- 75 -

D. Selling Shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the Issue

Not applicable

Table of Contents

- 76 -

Item 10. Additional Information

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

Organization

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Company Law (*kaishaho*) of Japan (Company Law). The Company is registered in the Commercial Register (*shogyo tokibo*) maintained by the Moriguchi Branch Office of the Osaka Legal Affairs Bureau.

Objects and purposes

Article 3 of the Articles of Incorporation of the Company provides that its purpose is to engage in the following lines of business:

1. manufacture and sale of electric machinery and equipment, communication and electronic equipment, as well as lighting equipment;
2. manufacture and sale of gas, kerosene and kitchen equipment, as well as machinery and equipment for building and housing;
3. manufacture and sale of machinery and equipment for office and transportation, as well as for sales activities;
4. manufacture and sale of medical, health and hygienic equipment, apparatus and material;

5. manufacture and sale of optical and precision machinery and equipment;
6. manufacture and sale of batteries, battery-operated products, carbon and manganese and other chemical and metal products;
7. manufacture and sale of air conditioning and anti-pollution equipment, as well as industrial machinery and equipment;
8. manufacture and sale of other machinery and equipment;
9. engineering and installation of machinery and equipment related to any of the preceding items as well as engineering and performance of and contracting for other construction work;
10. production and sale of software;
11. sale of iron and steel, nonferrous metals, minerals, oil, gas, ceramics, paper, pulp, rubber, leather, fibre and their products;
12. sale of foods, beverages, liquor and other alcoholics, agricultural, livestock, dairy and marine produces, animal feed and their raw materials;
13. manufacture and sale of drugs, quasi-drugs, cosmetics, fertilizer, poisonous and deleterious substance and other chemical products;

Table of Contents

- 77 -

14. manufacture and sale of buildings and other structures and components thereof;
15. motion picture and musical entertainment business and promotion of sporting events;
16. export and import of products, materials and software mentioned in each of the preceding items (other than item 9);
17. providing repair and maintenance services for the products, goods and software mentioned in each of the preceding items for itself and on behalf of others;
18. provision of information and communication services, and broadcasting business;
19. provision of various services utilizing the Internet including Internet access and e-commerce;
20. business related to publishing, printing, freight forwarding, security, maintenance of buildings, nursing care, dispatch of workers, general leasing, financing, non-life insurance agency and buying, selling, maintaining and leasing of real estate;
21. investment in various businesses;
22. accepting commission for investigations, research, development and consulting related to any of the preceding items; and
23. all other business or businesses incidental or related to any of the preceding items.

Table of Contents

- 78 -

Directors

Each Director (other than an outside Director) has executive powers and duties to manage the affairs of the Company and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent the Company in all respects. Under the Company Law, the Directors must refrain from engaging in any business competing with the Company unless approved by the Board of Directors and any Director who has a special interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. Under the Company Law, the maximum total amounts of remunerations must be approved at a general meeting of shareholders. The Company must also obtain the approval at a general meeting of shareholders to change such maximum amounts. Within such authorized amounts, the remuneration amount for each Director is determined by Representative Director who is delegated to do so by the Board of Directors, and the amount of remuneration for each Corporate Auditor is determined upon discussions amongst the Corporate Auditors.

Except as stated below, neither the Company Law nor the Company's Articles of Incorporation make special provisions as to the Directors' or Corporate Auditors' power to vote in connection with their own compensation or retirement age, the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power), or requirements to hold any shares of Common Stock of the Company. Under the Company Law, the Company is required to obtain resolutions of the Board of Directors in specific circumstances, e.g. for a company to acquire or dispose of material assets; to borrow a substantial amount of money; to appoint or dismiss important employees and to establish, change or abolish material corporate organizations such as a branch office; to determine such material conditions for offering of corporate bonds as set forth in the ordinances of the Ministry of Justice; to establish and maintain the internal control system to secure legitimate performance of duties of Directors as set forth in the ordinances of the Ministry of Justice; and to exempt a Director or Corporate Auditor from the liability for his/her actions under Article 423, Paragraph 1 of the Company Law pursuant to Article 426, Paragraph 1 of the Company Law.

The Regulations of the Board of Directors of the Company require a resolution of the Board of Directors for the Company to borrow a large amount of money or to give a guarantee in a large amount. There is no statutory requirement as to what constitutes a large amount in these contexts. However, it has been the general practice of the Company's Board of Directors to adopt a resolution for a borrowing in an amount not less than 10 billion yen or its equivalent.

Common Stock

General

Except as otherwise stated, set forth below is information relating to the Company's Common Stock, including brief summaries of the relevant provisions of the Company's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Company Law of Japan and related legislation.

Under the Company Law, generally, shares may be transferred only by delivering share certificates.

Table of Contents

- 79 -

In order to assert shareholders' rights against the Company, a shareholder must have its name and address registered on the Company's register of shareholders, in accordance with the Company's Share Handling Regulations. The registered beneficial holder of deposited shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against the Company.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of common stock of the Company, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void and the companies are not required to withdraw those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Authorized capital

Article 5 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is four billion nine hundred and fifty million (4,950,000,000) shares.

As of March 31, 2007, 2,453,053,497 shares of Common Stock were issued. All shares of Common Stock of the Company have no par value.

Distribution of Surplus

Distribution of Surplus - General

Under the Company Law, dividends shall be paid by way of distribution of Surplus (Surplus is defined in Restriction on Distributions of Surplus) in cash or in kind.

The Company may make distributions of Surplus to the shareholders any number of times per business year, subject to certain limitations described in [Restriction on Distributions of Surplus](#). Distributions of Surplus need, in principle, to be declared by a resolution of a general meeting of shareholders, but the Company may also authorize distributions of Surplus by a resolution of the Board of Directors as long as its non-consolidated annual financial statements for the last business year fairly present its asset and financial situation, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of Common Stock of the Company held by respective shareholders. A resolution of a general meeting of shareholders or the Board of Directors, as the case may be, authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or the Board of Directors, as the case may be, grant a right to the shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders (see [Voting Rights](#) with respect to a [special resolution](#)).

Table of Contents

- 80 -

Under the Company's Articles of Incorporation, year-end dividends and interim dividends may be distributed to shareholders of the record as of March 31 and September 30 each year respectively, in proportion to the number of shares of the Common Stock of the Company held by respective shareholders following approval by the general meeting of shareholders or the Board of Directors. The Company is not obliged to pay any dividends in cash which have not been received within three years from the commencement of payment thereof. In Japan, the ex-dividend date and the record date for dividends precede the date when the amount of the dividends to be paid is determined by the Company. The shares of common stock generally goes ex-dividend on the third business day prior to the record date for dividends.

Distribution of Surplus Restriction on Distributions of Surplus

In making a distribution of Surplus, the Company must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside to its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D \quad (E + F + G)$$

In the above formula:

A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year

B = (if the Company has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by the Company less the book value thereof

C = (if the Company has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)

D = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)

E = (if the Company has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock

F = (if the Company has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed

G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and thereby increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to the shareholders after the end of the last business year) the amount set aside from such Surplus to additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

Table of Contents

- 81 -

The aggregate book value of Surplus to be distributed by the Company may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of treasury stock disposed of by the Company after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

The Company, for the fiscal year ended March 31, 2007, elected to become a company with respect to which consolidated balance sheets should be considered in the calculation of the Distribution Amount (*renketsu haito kisei tekiyo kaisha*) as described below. If a company has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount, a company shall, in calculating the Distributable Amount, further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by ordinances of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by ordinances of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the board of directors or, if so required by the Company Law, by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by the Company, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by the Company must be audited by the Corporate Auditors and the Accounting Auditor, as required by ordinances of the Ministry of Justice.

Stock splits

The Company may at any time split shares in issue into a greater number of shares by resolution of the Board of Directors, and may in principle amend its Articles of Incorporation to increase the number of authorized shares to be issued in proportion to the relevant stock split pursuant to a resolution of the Board of Directors rather than a special shareholders resolution (as defined in [Voting Rights](#)) as is otherwise required for amending the Articles of Incorporation.

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date therefor, at least two weeks prior to such record date.

Table of Contents

- 82 -

Consolidation of shares

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in *Voting Rights*). When a consolidation of shares is to be made, the Company must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to the Company for exchange. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

General meeting of shareholders

The ordinary general meeting of shareholders of the Company for each fiscal year is normally held in June in each year. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving notice of convocation thereof at least two weeks prior to the date set for the meeting.

Notice of convocation of a shareholders meeting setting forth the place, time, purpose thereof and certain matters set forth in the Company Law and the ordinances of the Ministry of Justice, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Under the Company Law, such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for exercising voting rights at the ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders of the Company holding at least three percent of the total number of voting rights for a period of six months or more may require the convocation of a general meeting of shareholders for a particular purpose by showing such a purpose and reason for convocation to a Representative Director. Unless such shareholders meeting is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders meeting.

Any shareholder or group of shareholders of the Company holding at least 300 voting rights or one percent of the total number of voting rights for a period of six months or more may propose a matter to be considered at a general meeting of shareholders by showing such matter to a Representative Director at least eight weeks prior to the date of such meeting.

Under the Company Law, any of minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if the articles of incorporation of a joint stock corporation so provide.

Table of Contents

- 83 -

Voting rights

So long as the Company maintains the unit share system (see Item 10.B. Memorandum and Articles of Association Common Stock Unit share system below; currently 1,000 shares constitute one unit) a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following two sentences. Any corporate or certain other entity, one-quarter or more of whose total voting rights are directly or indirectly owned by the Company, may not exercise its voting rights with respect to shares of Common Stock of the Company that it owns. In addition, the Company may not exercise its voting rights with respect to its shares that it owns. If the Company eliminates from its Articles of Incorporation the provisions relating to the unit of shares, holders of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting. The Company Law and the Company's Articles of Incorporation provide, however, that the quorum for the election of Directors and Corporate Auditors shall not be less than one-third of the total number of voting rights of all the shareholders entitled to exercise their voting rights. The Company's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. The Company's shareholders also may cast their votes in writing, or exercise their voting rights by electronic means pursuant to the method determined by the Board of Directors.

The Company Law and the Company's Articles of Incorporation provide that in order to amend the Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from a specific party other than its subsidiaries;
- (2) Consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Corporate Auditor;
- (5) the exemption of liability of a Director, Corporate Auditor or Accounting Auditor to a certain extent set forth in the Company Law;

- (6) a reduction of stated capital with certain exceptions in which just a usual resolution of shareholders is required or a shareholders resolution is not required;
- (7) a distribution of in-kind dividends which meets certain qualifications;
- (8) dissolution, liquidation, merger, consolidation, or corporate split with certain exceptions in which a shareholders resolution is not required;
- (9) the transfer of the whole or a material part of the business;
- (10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required; or
- (11) share exchange or share transfer for the purpose of establishing 100% parent-subsiary relationships with certain exceptions in which a shareholders resolution is not required;

Table of Contents

- 84 -

the quorum shall be one-third of the total voting rights of all the shareholders and the approval by at least two-thirds of the voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting is required (the special shareholders resolutions).

Pursuant to the terms of the Amended and Restated Deposit Agreement relating to American Depositing Receipts (ADRs) evidencing American Depositing Shares (ADSs), each ADS representing one share of Common Stock of the Company, as soon as practicable after receipt of notice of any meeting of shareholders of the Company, the Depository (currently JPMorgan Chase Bank, N.A.) will mail to the record holders of ADRs a notice which will contain the information in the notice of the meeting. The record holders of ADRs on a date specified by the Depository will be entitled to instruct the Depository as to the exercise of the voting rights pertaining to the shares of Common Stock of the Company represented by their ADSs. The Depository will endeavor, in so far as practicable, to vote the number of shares of Common Stock of the Company represented by such ADSs in accordance with such instructions. In the absence of such instructions, the Depository has agreed to give a discretionary proxy to a person designated by the Company to vote in favor of any proposals or recommendations of the Company. However, such proxy may not be given with respect to any matter which the Company informs the Depository that the Company does not wish such proxy given, or for any proposal that has, in the discretion of the Depository, a materially adverse effect on the rights of shareholders of the Company.

Issue of additional shares

Holders of the Company's shares of Common Stock have no pre-emptive rights under the Company Law. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under *Voting rights* above. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date at least two weeks prior to which public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least two weeks prior to the date on which such rights expire.

Subject to certain conditions, the Company may issue stock acquisition rights or bonds with stock acquisition rights by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon the exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it. The Company may determine by a resolution of the Board of Directors at the time of offerings that a transfer of the stock acquisition rights shall require the approval of the Company. Whether the Company will determine such a matter in future stock acquisition rights offerings will depend upon the circumstances at the time of such offerings.

Liquidation rights

In the event of a liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses and taxes will be distributed among shareholders in proportion to the respective numbers of shares of Common Stock held.

Table of Contents

- 85 -

Record date

As mentioned above (see Item 10.B. Memorandum and Articles of Association Common Stock *Distribution of Surplus* *Distribution of Surplus* *General*), March 31 is the record date for the Company's year-end dividends. So long as the Company maintains the unit share system, the shareholders and beneficial shareholders who are registered as the holders of one or more units of shares in the Company's registers of shareholders and/or that of beneficial shareholders at the end of each March 31 are entitled to exercise shareholders' rights at the ordinary general meeting of shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, the Company may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice.

The shares generally goes ex-dividends or ex-rights on Japanese stock exchanges on the third business day prior to a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

Acquisition by the company of its common stock

Under the Company Law and the Company's Articles of Incorporation, the Company may acquire its own shares of Common Stock (i) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (ii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which the Company's shares of Common Stock are listed or by way of tender offer (as long as its non-consolidated annual financial statements and certain documents for the last business year fairly present its asset and profit or loss status, as required by ordinances of the Ministry of Justice) (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

Shares acquired by the Company may be held for any period or may be cancelled by a resolution of the Board of Directors. The Company may also transfer such shares to any person, subject to a resolution of the Board of Directors and to other requirements similar to those applicable to the issuance of new shares, as described in *Issue of additional*

shares and pre-emptive rights above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

Unit share system

The Articles of Incorporation of the Company provide that 1,000 shares constitute one unit of shares of Common Stock. Although the number of shares constituting one unit is included in the Articles of Incorporation, any amendment to the Articles of Incorporation reducing (but not increasing) the number of shares constituting one unit or eliminating the provisions for the unit of shares may be made by a resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation. The number of shares constituting one unit, however, cannot exceed 1,000.

Table of Contents

- 86 -

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

Unless the Company's Board of Directors adopts a resolution to eliminate the provision for the unit shares from the Articles of Incorporation or the shareholders amend the Articles of Incorporation by a special shareholders resolution to eliminate the provision not to issue share certificates for less than a unit of shares, a share certificate for any number of shares constituting less than one unit will in general not be issued. As the transfer of shares normally requires the delivery of the share certificates therefore, shares constituting less than one unit for which no share certificates are issued is not transferable.

A holder of shares constituting less than one unit may require the Company to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of the Company. In addition, the Articles of Incorporation of the Company provide that a holder of shares constituting less than one unit may request the Company to sell to such holder such amount of shares which will, when added together with the shares constituting less than one unit held by such holder, constitute one unit of stock, in accordance with the provisions of the Share Handling Regulations of the Company.

A holder who owns ADRs evidencing less than 1,000 ADSs will indirectly own less than one full unit of shares of Common Stock. Although, as discussed above, under the unit share system holders of less than one unit have the right to require the Company to purchase their shares or sell shares held by the Company to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of units are unable to withdraw the underlying shares of Common Stock representing less than one unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares or sell shares held by the Company to such holders unless the Company's Articles of Incorporation are amended to eliminate the provision not to issue share certificates for the numbers of shares less than a unit. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of Common Stock in lots less than one unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

Sale by the Company of shares held by shareholders whose location is unknown

The Company is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company continuously for five years or more.

In addition, the Company may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for five years or more at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive distribution of Surplus on the shares continuously for five years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company, the Company may sell or otherwise dispose of the shareholder's shares by a resolution of the Board of Directors and after giving at least three months' prior public and individual notice, and hold or deposit the proceeds of such sale or disposal of shares at the then market price of the shares for the shareholder, the location of which is unknown.

Table of Contents

- 87 -

Reporting of substantial shareholdings

The Securities and Exchange Law of Japan and regulations thereunder requires any person, regardless of his/her residence, who has become, beneficially and solely or jointly, a holder of more than five percent of the total issued shares of common stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan, to file with the Director-General of a competent Local Finance Bureau of Ministry of Finance within five business days a report concerning such shareholdings.

A similar report must also be filed in respect to any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Any such report shall be filed with the Director General of the relevant Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors Network (EDINET) system. Copies of such report must also be furnished to the issuer of such shares.

Except for the general limitations under Japanese anti-trust and anti-monopoly regulations against holding of shares of common stock of a Japanese corporation which leads or may lead to a restraint of trade or a monopoly, and except for general limitations under the Company Law or the Company's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is practically no limitation under Japanese laws and regulations applicable to the Company or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of the Company or exercise voting rights thereon.

There is no provision in the Company's Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving the Company.

Daily price fluctuation limits under Japanese stock exchange rules

Stock prices on Japanese stock exchanges are determined on a real-time basis by the balance between bids and offers. These stock exchanges are order-driven markets without specialists or market makers to guide price formation. In order to prevent excessive volatility, these stock exchanges set daily upward and downward price range limitations for each listed stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside

these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit on these stock exchanges may not be able to effect a sale at such price on a particular trading day, or at all.

C. Material Contracts

All contracts concluded by the Company during the two years preceding the date of this annual report were entered into in the ordinary course of business.

Table of Contents

- 88 -

D. Exchange Controls

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of Common Stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen, except in limited circumstances.

Exchange non-residents are:

- (i) individuals who do not reside in Japan; and
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- (i) individuals who are exchange non-residents;
- (ii) corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and
- (iii) corporations (1) of which 50% or more of their shares are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior

approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding 100 million yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of the Company) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Table of Contents

- 89 -

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from the sale in Japan of shares of Common Stock of the Company held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

E. Taxation

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the ownership and disposition of shares of Common Stock and ADSs. Prospective purchasers and holders of the shares of Common Stock or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.

The following is a summary of the principal Japanese national and U.S. federal tax consequences of the ownership and disposition of shares of Common Stock or ADSs by an Eligible U.S. Holder and a U.S. Holder (each as defined below), as the case may be, that holds those shares or ADSs as capital assets (generally, property held for investment). This summary does not purport to address all material tax consequences that may be relevant to holders of shares of Common Stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of the Company's voting stock, investors that hold shares of Common Stock or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, persons that hold shares of Common Stock or ADSs through a partnership or other pass-through entity and Eligible U.S. Holders and U.S. Holders, as the case may be, whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the national or federal tax laws of Japan and of the United States as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), all of which are subject to change (possibly with retroactive effect) and to differing interpretations.

In addition, this summary is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement for ADSs and in any related agreement will be performed in accordance with its terms.

For purposes of this discussion, a U.S. Holder is any beneficial owner of shares of Common Stock or ADSs that, for U.S. federal income tax purposes, is:

- (i) a citizen or individual resident of the United States;
- (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized in or under the laws of the United States, any State, or the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- (iv) a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Table of Contents

- 90 -

An Eligible U.S. Holder is a U.S. Holder that:

- (i) is a resident of the United States for purposes of the Treaty;
- (ii) does not maintain a permanent establishment in Japan (a) with which shares of Common Stock or ADSs are effectively connected or (b) of which shares of Common Stock or ADSs form part of the business property; and
- (iii) is eligible for benefits under the Treaty, with respect to income and gain derived in connection with the shares of Common Stock or ADSs.

This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than national income taxation, inheritance and gift taxation. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of owning and disposing of shares of Common Stock or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders. In general, taking into account the earlier assumption, for purposes of the Treaty and for U.S. federal income and Japanese income tax purposes, beneficial owners of ADRs evidencing ADSs will be treated as the owners of the shares of Common Stock represented by those ADSs, and exchanges of shares of Common Stock for ADRs, and exchanges of ADRs for shares of Common Stock, will not be subject to U.S. federal income tax or Japanese income tax.

Japanese taxation

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of Common Stock of the Company or ADRs evidencing ADSs representing shares of Common Stock of the Company who are either individuals who are not residents of Japan or non-Japanese corporations, without a permanent establishment in Japan (non-resident Holders).

Generally, an individual who is a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by a Japanese corporation. The Company withholds taxes from dividends it pays as required by Japanese law. Stock splits in themselves are not subject to Japanese income tax.

In the absence of an applicable treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to individuals who are non-residents of Japan or non-Japanese corporations is 20%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock of the Company) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals, such as non-resident Holders), except for any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before March 31, 2009, and (ii) 15% for dividends due and payable on or after April 1, 2009. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15% or 10% for portfolio investors (15% under the income tax treaties with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and 10% under the income tax treaties with the U.K. and the United States).

Table of Contents

- 91 -

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally limited to 10% of the gross amount actually distributed, and dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on the Company's shares of Common Stock is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends in advance through the Company to the relevant tax authority before such payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight months after the Company's fiscal year-end or semi-fiscal year-end) to the Japanese tax authorities. To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority. The Company does not assume any responsibility to ensure withholding at the reduced treaty rate or not withholding for shareholders who would be eligible under an applicable tax treaty but do not follow the required procedures as stated above.

Gains derived from the sale of shares of Common Stock or ADSs outside Japan by a non-resident Holder holding such shares or ADSs as a portfolio investor are, in general, not subject to Japanese income or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty, subject to a certain filing requirement under Japanese law.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired from an individual shares of Common Stock or ADSs as a legatee, heir or donee even though neither the acquiring individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock of the Company or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

U.S. federal income taxation

The following is a summary of certain United States federal income tax consequences of the ownership of shares of Common Stock or ADSs by a U.S. Holder. This summary is based on United States tax laws, including the United States Internal Revenue Code of 1986, as amended, and on the Treaty all of which are subject to change possibly with retroactive effect.

Table of Contents

- 92 -

Taxation of dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company (PFIC) rules discussed below, the gross amount of any dividends received by a U.S. Holder (before reduction for Japanese withholding taxes) to the extent paid out of the Company's current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be subject to U.S. federal taxation. Dividends paid to non-corporate U.S. Holders in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable at a maximum tax rate of 15% provided that the U.S. Holders held the shares of Common Stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends the Company pays with respect to the shares of Common Stock or ADSs generally will be qualified dividend income. The U.S. Holder must include any Japanese tax withheld from the dividend payment in this gross amount even though it does not in fact receive it. The dividend is taxable to the U.S. Holder when the U.S. Holder, in the case of shares of Common Stock, or the Depositary, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend the U.S. Holder must include in its income will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date the dividend is includible in the U.S. Holder's income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the U.S. Holder includes the dividend payment in income to the date the U.S. Holder converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the shares of Common Stock or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty will be creditable against the U.S. Holder's United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. For foreign tax credit limitation purposes, the dividend will be income from sources outside the United States. Dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on the U.S. Holder's circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a U.S. Holder.

Taxation of capital gains

Subject to the PFIC rules discussed below, upon a sale or other disposition of shares of Common Stock or ADSs, a U.S. Holder will recognize gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's tax basis (determined in U.S. dollars) in such shares of Common Stock or ADSs. Generally, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period for such shares of Common Stock or ADSs is greater than 1 year. Long-term capital gain of a non-corporate U.S. Holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15%. Any such gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Table of Contents

- 93 -

Transfers of retained earnings and sales of shares of Common Stock to the Company

A transfer of retained earnings or legal reserve to stated capital is generally treated as a dividend payment for Japanese tax purposes subject to withholding tax. A sale of shares of Common Stock or ADSs to the Company results in a deemed dividend to the selling shareholders to the extent that the sales price exceeds the aggregate of the stated capital and the capital surplus attributable to the shares sold. Transfers of retained earnings or legal reserves to stated capital and deemed dividends that may result from sales of shares of Common Stock to the Company are not generally taxable events that give rise to foreign source income for U.S. federal income tax purposes and U.S. Holders would not be able to use the foreign tax credit arising from any Japanese withholding tax imposed on such transactions unless they can apply the credit (subject to limitations) against U.S. tax due or other foreign source income in the appropriate category for foreign tax credit purposes.

Passive foreign investment company considerations

The Company believes that shares of Common Stock and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change. If the Company were to be treated as a PFIC (unless a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to the shares of Common Stock or ADSs), gain realized on the sale or other disposition of shares of Common Stock or ADSs would in general not be treated as capital gain, and a U.S. Holder would be treated as if such holder had realized such gain and certain excess distributions ratably over the holder's holding period for the shares of Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, shares of Common stock or ADSs will be treated as stock in a PFIC if the Company were a PFIC at any time during the U.S. Holder's holding period in the shares of Common Stock or ADSs.

Dividends that such U.S. Holder receives from the Company will not be eligible for the special tax rates applicable to qualified dividend income if the Company is treated as a PFIC with respect to such U.S. Holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

F. Dividends and Paying Agents

Not applicable

G. Statement by Experts

Not applicable

Table of Contents

- 94 -

H. Documents on Display

According to the Securities Exchange Act of 1934, as amended, the Company is subject to the requirements of informational disclosure. The Company files various reports and other information, including its annual report on Form 20-F, with the U.S. Securities and Exchange Commission. These reports and other information may be inspected at the public reference room at the Securities and Exchange Commission, 100 F Street, N.E., Washington D.C. 20549. You can also obtain a copy of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain information on the operation of the Securities and Exchange Commission public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330.

Also, documents filed via the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) are available at the website of the U.S. Securities and Exchange Commission (<http://www.sec.gov>).

I. Subsidiary Information

Not applicable

J. Expenses of the Issue

Not applicable

Item 11. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk, including changes of foreign exchange rates, interest rates and prices of marketable securities and commodities. In order to hedge the risks of changes in foreign exchange rates, interest rates and commodity prices, the Company uses derivative financial instruments. The Company does not hold or issue financial instruments for trading purposes. Although the use of derivative financial instruments exposes the Company to the risk of credit-related losses in the event of nonperformance by counterparties, the Company believes that such risk is minor because of the high credit rating of the counterparties.

Equity Price Risk

The Company holds available-for-sale securities included in short-term investments and investments and advances. In general, highly-liquid and low risk instruments are preferred in the portfolio. Available-for-sale securities included in investments and advances are held as longer term investments. The Company does not hold marketable securities for trading purposes.

Table of Contents

- 95 -

Maturities, costs and fair values of available-for-sale securities were as follows at March 31, 2007 and 2006:

	Yen (millions)			
	2007		2006	
	Cost	Fair value	Cost	Fair value
Due within one year	93,089	93,179	56,769	56,753
Due after one year through five years	82,799	83,226	137,184	136,681
Due after five years through ten years	3,922	3,994	4,476	4,353
Equity securities	293,314	607,271	230,400	527,705
Total	473,124	787,670	428,829	725,492

Foreign Exchange Risk

The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility associated with foreign currency transactions. The Company primarily utilizes forward exchange contracts and options with a duration of less than a few months. The Company also enters into foreign exchange contracts from time to time to hedge the risk of fluctuation in foreign currency exchange rates associated with long-term debt that is denominated in foreign currencies. Foreign exchange contracts related to such long-term debt have the same maturity as the underlying debt.

The following table provides the contract amounts and fair values of foreign exchange contracts, primarily hedging U.S. dollar and euro revenues, at March 31, 2007 and 2006. Amounts related to foreign exchange contracts entered into in connection with long-term debt denominated in foreign currencies which eliminate all foreign currency exposures, are shown in the table of Interest Rate Risk.

	Yen (millions)	
	2007	2006

	Contract amount	Fair value	Contract amount	Fair value
Forward:				
To sell foreign currencies	409,216	(842)	404,383	121
To buy foreign currencies	323,478	(706)	258,335	2,522
Options purchased to sell foreign currencies			25,885	132
Cross currency swaps	14,388	(159)	4,130	(35)

Table of Contents

- 96 -

Commodity Price Risk

The Company is exposed to market risk of changes in prices of commodities including various non-ferrous metals used in the manufacturing of electronic components and devices. The Company enters into commodity future contracts to offset such exposure.

The following table provides the contract amounts and fair values of commodity futures, at March 31, 2007 and 2006.

	Yen (millions)			
	2007		2006	
	Contract amount	Fair value	Contract amount	Fair value
Commodity futures:				
To sell commodity	86,023	(11,243)	36,007	(7,401)
To buy commodity	210,890	33,996	93,061	43,674

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates principally to its debt obligations. The Company has long-term debt primarily with fixed rates. Fixed-rate debt obligations expose the Company to variability in their fair values due to changes in interest rates. To manage the variability in the fair values caused by interest rate changes, the Company enters into interest rate swaps when it is determined to be appropriate based on market conditions. Interest rate swaps change fixed-rate debt obligations to variable-rate debt obligations by entering into fixed-receiving, variable-paying interest rate swap contracts. The hedging relationship between interest rate swaps and hedged debt obligations is highly effective in achieving offsetting changes in fair values resulting from interest rate risk. The following tables provide information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates at March 31, 2007 and 2006. For debt obligations, the table presents principal cash flows by expected maturity dates, related weighted average interest rates and fair values of financial instruments. For interest rate swaps, the table presents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts.

Long-term debt, including current portion:

Yen (millions)									
Carrying amount and maturity date (as of March 31, 2007)									
	Average interest rate	Total	2008	2009	2010	2011	2012	There- after	Fair value
Straight bonds	1.6%	100,000					100,000		101,345
Straight bonds issued by subsidiaries	1.3%	80,000	10,000	30,000	20,000			20,000	80,165
Unsecured yen loans from banks and insurance companies	1.2%	30,580	16,596	11,243	2,658	58	20	5	30,516
Secured yen loans from banks by subsidiaries	2.1%	4,681	22	561	221	274	236	3,367	4,681
Total		215,261	26,618	41,804	22,879	332	100,256	23,372	216,707

Table of Contents

- 97 -

	Yen (millions)								
	Carrying amount and maturity date (as of March 31, 2006)								
	Average interest rate	Total	2007	2008	2009	2010	2011	There-after	Fair value
Straight bonds	1.3%	200,014	100,014					100,000	200,661
Straight bonds issued by subsidiaries	1.3%	80,000	20,000	10,000	30,000			20,000	79,518
Unsecured yen loans from banks and insurance companies	0.4%	84,983	25,615	17,616	41,112	577	45	18	83,398
Secured yen loans mainly from Development Bank of Japan by subsidiaries	0.2%	3,495	828	535	495	448	423	766	3,343
Total		368,492	146,457	28,151	71,607	1,025	468	120,784	366,920

Interest rate swaps:

Yen (millions)								
Notional amount and maturity date (as of March 31, 2007)								
Average receive rate	Average pay rate	2008	2009	2010	2011	2012	There-after	Fair value
3.82%	3.93%	6,136						

Notional amount and maturity date (as of March 31, 2006)								
Average receive rate	Average pay rate	2007	2008	2009	2010	2011	There-after	Fair value
0.87%	JPY6M LIBOR + 0.40%	15,000						14

Item 12. Description of Securities Other than Equity Securities

Not applicable

Table of Contents

- 98 -

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its principal executive and principal financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2007. Based on that evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of that date.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management, with the participation of the Company's principal executive and principal financial officers, evaluated the effectiveness of its internal control over financial reporting (as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934) using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2007. Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by KPMG AZSA & Co., an independent registered public accounting firm, as stated in their report which is included herein.

Evaluation of Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934) occurred during the year ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Matsushita's Board of Corporate Auditors has determined that Kenichi Hamada, a Senior Corporate Auditor of Matsushita, is an audit committee financial expert as such term is defined by Item 16A of Form 20-F. Mr. Hamada meets the independence requirements imposed on corporate auditors under the Company Law of Japan.

Table of Contents

- 99 -

Item 16B. Code of Ethics

Matsushita has adopted a Code of Ethics applicable to the Chief Executive Officer, the Chief Financial Officer and other Executive Officers. The Code of Ethics is attached as an exhibit to the annual report for the fiscal year ended March 31, 2004 on Form 20-F.

Item 16C. Principal Accountant Fees and Services**Fees and services by the Company's principal accountant**

The following table shows the aggregate fees accrued or paid to KPMG AZSA & Co. and its member firms (KPMG), the Company's principal accountant for the years ended March 31, 2007 and 2006:

	Yen (millions)	
	2007	2006
Audit fees	2,910	1,908
Audit-related fees	582	466
Tax fees	278	472
All other fees	148	13
Total	3,918	2,859

Audit fees are fees for professional services for the audit of the Company's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Audit-related fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under the Audit fees category, such as

assistance in review of internal controls related to the Sarbanes-Oxley Act of 2002, due diligence and issuance of certificated documents. Tax fees are fees for professional services rendered mainly for tax compliance, tax advice, tax consulting associated with international transfer prices and expatriate employee tax services. All other fees are fees for those services not reported under the Audit fees, Audit-related fees, and Tax fees categories, such as professional advices related to environmental regulations.

No services were provided for which pre-approval was waived pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Table of Contents

- 100 -

Policy of the Company's Board of Corporate Auditors on pre-approval of audit or non-audit services

In accordance with paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X and the related adopting release of the U.S. Securities and Exchange Commission, the Company's Board of Corporate Auditors must pre-approve the engagement of the Company's principal accountant, currently KPMG, by Matsushita or its subsidiaries to render audit or non-audit services. Also, paragraph (c)(4) of Rule 2-01 of Regulation S-X provides that an accountant is not independent from an audit client if the accountant provides certain non-audit services to the audit client. Under the policy adopted by the Company's Board of Corporate Auditors, all audit or non-audit services provided by KPMG must be specifically pre-approved by the Board of Corporate Auditors. Such pre-approval is considered at the monthly meetings of the Board of Corporate Auditors. Any service that either falls into a category of services that are not permitted by the applicable law or regulation or is otherwise deemed by the Board of Corporate Auditors to be inconsistent with the maintenance of the principal accountant's independence is rejected. Management's requests for proposed engagement of the principal accountant to render services that require immediate approval, if considered necessary, are pre-approved by a designated member of the Board of Corporate Auditors, and then reported to the Board of Corporate Auditors at its next meeting.

Item 16D. Exemptions from the Listing Standards for Audit Committees

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to the Company through Section 303A.06 of the New York Stock Exchange's Listed Company Manual, the Company relies on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with boards of corporate auditors meeting certain requirements. For a New York Stock Exchange-listed Japanese company with a board of corporate auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

The board of corporate auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with corporate auditors.

Japanese law must and does require the board of corporate auditors to be separate from the board of directors.

None of the members of the board of corporate auditors is elected by management, and none of the listed company's executive officers is a member of the board of corporate auditors.

Japanese law must and does set forth standards for the independence of the members of the board of corporate auditors from the listed company or its management.

The board of corporate auditors, in accordance with Japanese law or the listed company's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its principal accountant which audits its consolidated financial statements included in its annual reports on Form 20-F.

Table of Contents

- 101 -

To the extent permitted by Japanese law:

the board of corporate auditors must establish procedures for (i) the receipt, retention and treatment of complaints received by the listed company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by the listed company's employees of concerns regarding questionable accounting or auditing matters;

the board of corporate auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

the listed company must provide for appropriate funding, as determined by its board of corporate auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, (ii) compensation to any advisers employed by the board of corporate auditors, and (iii) ordinary administrative expenses of the board of corporate auditors that are necessary or appropriate in carrying out its duties.

In the Company's assessment, its Board of Corporate Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by that Rule) at acting independently of management and performing the functions of an audit committee as contemplated therein.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth, for each of the months indicated, the total number of shares purchased by or on behalf of the Company or any affiliated purchaser, the average price paid per share, the number of shares purchased as part of the repurchase plan announced on April 28, 2006 and February 1, 2007 as described above and the maximum number of shares or approximate Japanese Yen value that may yet be purchased under the plans or programs.

Table of Contents

- 102 -

<u>Period</u>	<u>(a) Total Number of Shares Purchased (Shares)</u>	<u>(b) Average Price Paid per Share* (Yen)</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plan (Shares)</u>	<u>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan (Shares)</u>
April 1 - 30, 2006	152,518	2,747		50,000,000
May 1 - 31, 2006	3,725,089	2,744	3,641,000	46,359,000
June 1 - 30, 2006	12,467,583	2,414	12,424,000	33,935,000
July 1 - 31, 2006	118,986	2,291		
August 1 - 31, 2006	143,094	2,411		
September 1 - 30, 2006	123,927	2,467		
October 1 - 31, 2006	7,936,531	2,571	7,777,000	26,158,000
November 1 - 30, 2006	8,619,181	2,344	8,533,000	17,625,000
December 1 - 31, 2006	4,559,707	2,273	4,403,000	13,222,000
January 1 - 31, 2007	4,341,439	2,371	4,218,000	9,004,000
February 1 - 28, 2007	8,501,169	2,383	8,394,000	16,606,000
March 1 - 31, 2007	12,784,239	2,363	12,698,000	3,908,000
Total	63,473,463	2,448	62,088,000	

* The amounts less than yen are rounded to the nearest whole of a yen.

On April 28, 2006, the Company announced that the Board of Directors resolved to repurchase its own shares from the market in conformity with provisions of Article 211-3, Paragraph 1, Item 2 of the former Japanese Commercial Code which shall continuously be applicable to the Company, despite the re-enactment of such Commercial Code to the Company Law of Japan with effect from May 1, 2006, pursuant to Article 81 of the Law for Maintenance of Relevant Laws Relating to the Enforcement of the Company Law as follows:

Class of shares	: Common stock
Aggregate number of shares to be repurchased	: Up to 50 million shares
Aggregate amount to be repurchased	: Up to 100 billion yen
Period of repurchase	: Between May 1, 2006 and late March 2007

Since the above-mentioned number of shares was executed, on February 1, 2007, the Company announced that the Board of Directors resolved to repurchase its own shares from the market, pursuant to Article 459, Paragraph 1, Item 1 of the Company Law of Japan as follows:

Class of shares	: Common stock
Aggregate number of shares to be repurchased	: Up to 25 million shares
Aggregate amount to be repurchased	: Up to 50 billion yen
Period of repurchase	: Between February 2, 2007 and March 30, 2007

Under the Company Law of Japan, a holder of shares consisting less than a full unit may require the Company to purchase such shares at their market value (see Common Stock - Unit share system in Section B of Item 10). During the year ended March 31, 2007, the Company purchased 1,297,266 shares for a total purchase price of 3,188,825,867 yen upon such requests from holders of shares consisting less than one full unit.

Table of Contents

- 103 -

The Directors, Corporate Auditors, Executive Officers and Executive Counselors in Japan are eligible to participate in the Matsushita Electric Directors and Executive Officers Shareholding Association, which is an affiliated purchaser, and the Association purchases shares of the Company's common stock on their behalf. During the year ended March 31, 2007, the Association purchased 88,197 shares for a total purchase price of 212,683,445 yen.

Table of Contents

- 104 -

PART III

Item 17. Financial Statements

Not applicable

Item 18. Financial Statements

Index of Consolidated Financial Statements of Matsushita Electric Industrial Co., Ltd. and Subsidiaries:

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	105
<u>Consolidated Balance Sheets as of March 31, 2007 and 2006</u>	107
<u>Consolidated Statements of Income for the years ended March 31, 2007, 2006 and 2005</u>	109
<u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2007, 2006 and 2005</u>	110
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2007, 2006 and 2005</u>	112
<u>Notes to Consolidated Financial Statements</u>	114

Schedule for the years ended March 31, 2007, 2006 and 2005:

<u>Schedule II Valuation and Qualifying Accounts and Reserves for the years ended March 31, 2007, 2006 and 2005</u>	160
---	-----

All other schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission as the required information is presented in the consolidated financial statements or notes thereto, or the schedules are not applicable.

Table of Contents

- 105 -

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Matsushita Electric Industrial Co., Ltd.:

We have audited the consolidated financial statements of Matsushita Electric Industrial Co., Ltd. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Matsushita Electric Industrial Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Matsushita Electric Industrial Co., Ltd. and subsidiaries' internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria), and our report dated June 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG AZSA & Co.

Osaka, Japan

June 27, 2007 except for Note 21, which is as of August 30, 2007

Table of Contents

- 106 -

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Matsushita Electric Industrial Co., Ltd.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Matsushita Electric Industrial Co., Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Matsushita Electric Industrial Co., Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Matsushita Electric Industrial Co., Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and the related financial statement schedule of Matsushita Electric Industrial Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and cash flows for each of the years in the three-year period ended March 31, 2007, and our report dated June 27, 2007 except for Note 21, which is as of August 30, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan

June 27, 2007

Table of Contents

- 107 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2007 and 2006

	Yen (millions)	
Assets	2007	2006
Current assets:		
Cash and cash equivalents (Note 9)	1,236,639	1,667,396
Time deposits (Note 9)	225,458	11,001
Short-term investments (Notes 5 and 18)	93,179	56,753
Trade receivables (Note 16):		
Related companies (Note 4)	29,114	22,101
Notes	68,472	66,502
Accounts	1,072,485	1,095,612
Allowance for doubtful receivables	(29,061)	(37,400)
	1,141,010	1,146,815
Net trade receivables		
Inventories (Note 3)	949,399	915,262
Other current assets (Notes 7, 11 and 18)	553,164	609,326
	4,198,849	4,406,553
Total current assets		
Investments and advances (Notes 5, 10 and 18):		
Associated companies (Note 4)	143,201	133,608
Other investments and advances	1,062,881	966,427
	1,206,082	1,100,035
Total investments and advances		
Property, plant and equipment (Notes 6, 7 and 9):		
Land	371,154	374,989
Buildings	1,633,747	1,667,764

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Machinery and equipment	3,126,397	3,142,607
Construction in progress	105,487	71,037
	<u>5,236,785</u>	<u>5,256,397</u>
Less accumulated depreciation	3,594,492	3,624,058
	<u>1,642,293</u>	<u>1,632,339</u>
Other assets:		
Goodwill (Notes 2 and 8)	379,324	413,137
Intangible assets (Notes 2 and 8)	115,631	104,158
Other assets (Notes 10 and 11)	354,779	308,418
	<u>894,734</u>	<u>825,713</u>
Total other assets	7,896,958	7,964,640
	<u>7,896,958</u>	<u>7,964,640</u>

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

- 108 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2007 and 2006

Liabilities, Minority Interests and Stockholders Equity	Yen (millions)	
	2007	2006
Current liabilities:		
Short-term borrowings, including current portion of long-term debt (Notes 6, 9 and 18)	223,190	339,845
Trade payables:		
Related companies (Note 4)	86,799	76,485
Notes	51,588	66,315
Accounts	796,590	838,479
Total trade payables	934,977	981,279
Accrued income taxes (Note 11)	61,524	51,128
Accrued payroll	139,719	142,594
Other accrued expenses (Note 19)	863,428	842,467
Deposits and advances from customers	83,676	90,600
Employees deposits	406	14,065
Other current liabilities (Notes 10, 11 and 18)	434,947	423,090
Total current liabilities	2,741,867	2,885,068
Noncurrent liabilities:		
Long-term debt (Notes 6, 9 and 18)	226,780	264,070
Retirement and severance benefits (Note 10)	280,958	414,266
Other liabilities (Note 11)	179,458	112,024
Total noncurrent liabilities	687,196	790,360
Minority interests	551,154	501,591

Stockholders' equity:

Common stock (Note 12):

Authorized -4,950,000,000 shares

Issued	-2,453,053,497 shares (2,453,053,497 shares in 2006)	258,740	258,740
Capital surplus (Note 12)		1,220,967	1,234,289
Legal reserve (Note 12)		88,588	87,526
Retained earnings (Note 12)		2,737,024	2,575,890
Accumulated other comprehensive income (loss) (Notes 5, 10, 13 and 17):			
Cumulative translation adjustments		(99,538)	(162,331)
Unrealized holding gains of available-for-sale securities		160,831	145,306
Unrealized gains of derivative instruments		862	1,326
Minimum pension liability adjustments			(10,420)
Pension liability adjustments		44,942	
Total accumulated other comprehensive income (loss)		107,097	(26,119)
Treasury stock, at cost (Note 12):			
306,769,039 shares (243,521,506 shares in 2006)		(495,675)	(342,705)
Total stockholders' equity		3,916,741	3,787,621
Commitments and contingent liabilities (Note 19)			
		7,896,958	7,964,640

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

- 109 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 2007, 2006 and 2005

	Yen (millions)		
	2007	2006	2005
Revenues, costs and expenses:			
Net sales:			
Related companies (Note 4)	250,863	204,740	192,489
Other	8,857,307	8,689,589	8,521,147
	9,108,170	8,894,329	8,713,636
Total net sales	9,108,170	8,894,329	8,713,636
Cost of sales (Notes 4 and 16)	(6,394,418)	(6,155,297)	(6,176,046)
Selling, general and administrative expenses (Note 16)	(2,254,211)	(2,324,759)	(2,229,096)
	30,553	28,216	19,490
Interest income	30,553	28,216	19,490
Dividends received	7,597	6,567	5,383
Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance (Note 10)			31,509
Other income (Notes 5, 6, 16 and 17)	114,545	147,399	82,819
Interest expense	(20,906)	(21,686)	(22,827)
Goodwill impairment (Note 8)	(30,496)	(50,050)	(3,559)
Other deductions (Notes 4, 5, 7, 8, 15, 16 and 17)	(121,690)	(153,407)	(174,396)
	439,144	371,312	246,913
Income before income taxes	439,144	371,312	246,913
Provision for income taxes (Note 11):			
Current	119,465	96,341	96,529
Deferred	72,398	70,748	56,805
	191,863	167,089	153,334
Income before minority interests and equity in earnings (losses) of associated companies	247,281	204,223	93,579

Minority interests	31,131	(987)	27,719
Equity in earnings (losses) of associated companies (Note 4)	1,035	(50,800)	(7,379)
Net income	217,185	154,410	58,481
	Yen		
Net income per share of common stock (Note 14):			
Basic	99.50	69.48	25.49
Diluted	99.50	69.48	25.49

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

- 110 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2007, 2006 and 2005

	Yen (millions)		
	2007	2006	2005
Common stock (Note 12):			
Balance at beginning of year	258,740	258,740	258,740
Balance at end of year	<u>258,740</u>	<u>258,740</u>	<u>258,740</u>
Capital surplus (Note 12):			
Balance at beginning of year	1,234,289	1,230,701	1,230,476
Transfer from legal reserve and retained earnings due to merger of a subsidiary		798	
Sale of treasury stock	96	62	225
Increase in capital surplus and transfer to minority interests arising on conversion of bonds by a subsidiary		2,728	
Other	(13,418)		
Balance at end of year	<u>1,220,967</u>	<u>1,234,289</u>	<u>1,230,701</u>
Legal reserve (Note 12):			
Balance at beginning of year	87,526	87,838	83,175
Transfer from retained earnings	1,062	438	4,663
Transfer to capital surplus due to merger of a subsidiary		(750)	
Balance at end of year	<u>88,588</u>	<u>87,526</u>	<u>87,838</u>
Retained earnings (Note 12):			
Balance at beginning of year	2,575,890	2,461,071	2,442,504
Net income	217,185	154,410	58,481

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Cash dividends	(54,989)	(39,105)	(35,251)
Transfer to legal reserve	(1,062)	(438)	(4,663)
Transfer to capital surplus due to merger of a subsidiary		(48)	
	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	2,737,024	2,575,890	2,461,071
	<u> </u>	<u> </u>	<u> </u>
Accumulated other comprehensive income (loss) (Note 13):			
Balance at beginning of year	(26,119)	(238,377)	(399,502)
Other comprehensive income, net of tax	72,085	212,258	161,125
Adjustment to initially apply SFAS No.158, net of tax (Note 11)	61,131		
	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	107,097	(26,119)	(238,377)
	<u> </u>	<u> </u>	<u> </u>

(Continued)

Table of Contents

- 111 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2007, 2006 and 2005

	Yen (millions)		
	2007	2006	2005
Treasury stock (Note 12):			
Balance at beginning of year	(342,705)	(255,721)	(163,817)
Treasury stock acquired due to acquisition of additional shares of newly consolidated subsidiaries (Note 2)			(124)
Repurchase of common stock	(153,179)	(87,150)	(92,879)
Sale of treasury stock	209	166	1,099
	(495,675)	(342,705)	(255,721)
Disclosure of comprehensive income (loss) (Note 13):			
Net income	217,185	154,410	58,481
Other comprehensive income (loss), net of tax:			
Translation adjustments	62,793	83,311	36,645
Unrealized holding gains (losses) of available-for-sale securities	15,525	72,698	(15,496)
Unrealized gains (losses) of derivative instruments	(464)	(5,077)	(273)
Minimum pension liability adjustments	(5,769)	61,326	140,249
	289,270	366,668	219,606

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

- 112 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2007, 2006 and 2005

	Yen (millions)		
	2007	2006	2005
Cash flows from operating activities (Note 16):			
Net income	217,185	154,410	58,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	317,685	309,399	325,465
Net gain on sale of investments	(40,154)	(47,449)	(31,399)
Provision for doubtful receivables	3,203	8,409	4,963
Deferred income taxes	72,398	70,748	56,805
Write-down of investment securities (Notes 4 and 5)	3,148	35,292	16,186
Impairment loss on long-lived assets (Notes 7 and 8)	49,175	66,378	33,078
Minority interests	31,131	(987)	27,719
(Increase) decrease in trade receivables	50,012	(31,042)	61,207
(Increase) decrease in inventories	474	36,498	84,405
(Increase) decrease in other current assets	64,074	(57,990)	14,649
Increase (decrease) in trade payables	(61,630)	112,340	(74,276)
Increase (decrease) in accrued income taxes	9,773	3,872	(3,422)
Increase (decrease) in accrued expenses and other current liabilities	(39,774)	37,108	(10,736)
Increase (decrease) in retirement and severance benefits	(108,559)	(73,180)	(99,499)
Increase (decrease) in deposits and advances from customers	(12,223)	(13,304)	(13,873)
Other	(23,361)	(35,084)	14,809
	532,557	575,418	464,562
Cash flows from investing activities (Note 16):			
Proceeds from sale of short-term investments	31,014	41,867	6,117
Purchase of short-term investments	(4,509)	(54,967)	(9,001)
Proceeds from disposition of investments and advances	142,074	849,409	101,374
Increase in investments and advances	(290,046)	(385,865)	(133,636)

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Capital expenditures	(411,309)	(356,751)	(352,203)
Proceeds from disposals of property, plant and equipment	182,892	168,631	78,131
(Increase) decrease in finance receivables			26,823
(Increase) decrease in time deposits	(223,801)	141,289	27,748
Inflows due to acquisition of additional shares of newly consolidated subsidiaries, net of cash paid			82,208
Proceeds from sale of shares of subsidiaries and dividends received	40,548	63,083	
Other	(34,671)	(59,605)	(5,857)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	<u>(567,808)</u>	<u>407,091</u>	<u>(178,296)</u>

(Continued)

Table of Contents

- 113 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2007, 2006 and 2005

	Yen (millions)		
	2007	2006	2005
Cash flows from financing activities (Note 16):			
Increase (decrease) in short-term borrowings	(5,826)	15,037	(8,009)
Increase (decrease) in employees' deposits	(13,951)	(104,835)	(125,261)
Proceeds from long-term debt	33,636	30,653	119,422
Repayments of long-term debt	(217,414)	(328,243)	(251,554)
Dividends paid	(54,989)	(39,105)	(35,251)
Dividends paid to minority interests	(16,285)	(16,281)	(14,765)
Repurchase of common stock (Note 12)	(153,179)	(87,150)	(92,879)
Sale of treasury stock (Note 12)	305	228	1,324
Other		5,128	1,395
	(427,703)	(524,568)	(405,578)
Effect of exchange rate changes on cash and cash equivalents	32,197	39,699	14,054
	(430,757)	497,640	(105,258)
Cash and cash equivalents at beginning of year	1,667,396	1,169,756	1,275,014
Cash and cash equivalents at end of year	1,236,639	1,667,396	1,169,756

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

- 114 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

March 31, 2007, 2006 and 2005

(1) **Summary of Significant Accounting Policies**

(a) **Description of Business**

Matsushita Electric Industrial Co., Ltd. (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. Most of the Company's products are marketed under Panasonic and several other trade names, including National, Technics, Quasar, Victor, JVC and PanaHome.

Sales by product category in fiscal 2007 were as follows: AVC Networks 41%, Home Appliances 14%, Components and Devices 12%, MEW and PanaHome* 19%, JVC 7%, and Other 7%. A sales breakdown in fiscal 2007 by geographical market was as follows: Japan 51%, North and South America 15%, Europe 13%, and Asia and Others 21%.

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

* MEW stands for Matsushita Electric Works, Ltd. and PanaHome stands for PanaHome Corporation.

(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 and reflect adjustments which are necessary to conform with U.S. generally accepted accounting principles.

(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 Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R).

Table of Contents

- 115 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(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.

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, equipment, installment and maintenance. The Company allocates revenue to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Deliverables.

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 a decline in the product's value, and are classified as a reduction of revenue on the consolidated statements of income. Estimated price adjustments are accrued when the related sales are recognized. The estimate is made based primarily on the historical experience or 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 later 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 EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

(e) **Leases (See Note 6)**

The Company accounts for leases in accordance with Statement of Financial Accounting Standards (SFAS) No.13, Accounting for Leases. Leases of the assets under certain conditions are recorded as capital leases in property, plant and equipment in the consolidated balance sheets.

(f) **Inventories (See Note 3)**

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, not in excess of current replacement cost.

Table of Contents

- 116 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Foreign Currency Translation (See Note 13)

Foreign currency financial statements are translated in accordance with SFAS No. 52, Foreign Currency Translation, 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 from the translation of financial statements are reflected under the caption, Accumulated other comprehensive income (loss), a separate component of stockholders' equity.

(h) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed primarily using the declining balance 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 Note 8)

Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, and are instead tested for impairment at least annually based on assessment of current estimated fair value of the intangible asset. SFAS No. 142 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 by the asset. 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 4, 5 and 13)**

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, generally having a 20% to 50% ownership interest, and corporate joint ventures. The Company also uses the equity method for some subsidiaries 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.

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 being amortized and is instead tested for impairment as part of the equity method investment.

The Company accounts for debt and equity securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.

SFAS No. 115 requires that certain investments in debt and 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 semi-annual period, 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.

Table of Contents

- 117 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(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 11)

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 apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Advertising (See Note 16)

Advertising costs are expensed as incurred.

(n) Net Income per Share (See Notes 12 and 14)

The Company accounts for net income per share in accordance with SFAS No. 128, Earnings per Share. This Statement establishes standards for computing net income per share and requires dual presentation of basic and diluted net income per share on the face of the statements of income for all entities with complex capital structures.

Under SFAS No. 128, basic net income per share is computed based on the weighted-average number of common shares outstanding during each period, and diluted net income 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.

Table of Contents

- 118 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(p) Derivative Financial Instruments (See Notes 13, 17 and 18)

Derivative financial instruments utilized by the Company are comprised principally of foreign exchange contracts, interest rate swaps, cross currency swaps and commodity futures used to hedge currency risk, interest rate risk and commodity price risk.

The Company accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Company recognizes derivatives in the consolidated balance sheets at their fair value in Other current assets, Other assets, Other current liabilities or Other liabilities. 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 an ongoing 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 either a fair-value hedge or a cash-flow hedge is reported in earnings.

Table of Contents

- 119 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(q) Impairment of Long-Lived Assets (See Note 7)

The Company accounts for impairment or disposition of long-lived assets in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, 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 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 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 exceeds the fair value of the asset.

(r) Restructuring Charges (See Note 15)

The Company accounts for costs associated with exit or disposal activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Pursuant to SFAS No. 146, 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) Stock-Based Compensation (See Note 12)

SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R) addresses accounting and disclosure requirements with measurement of the cost of employee service using a fair-value-based method of accounting for stock-based employee compensation plans.

The Company had continuously applied the intrinsic-based-method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for this stock option plans until fiscal 2006. The Company accounted for the disclosure in accordance with SFAS No. 123,

Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS No. 123, until fiscal 2006. The Company adopted SFAS No. 123R for the year ended March 31, 2007.

The effect of adopting SFAS No. 123R using the modified prospective method for the years ended March 31, 2007 was not material.

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

The Company accounts for segment information in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

Table of Contents

- 120 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(u) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(v) New Accounting Pronouncements

In June 2006, FASB issued FASB interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company as of April 1, 2007. The application of FIN 48 is not expected to have a material effect on the Company's consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans require the fair value of plan assets and benefit obligations to be measured as of the date of the fiscal year-end consolidated balance sheet and will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans on the Company's consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 157.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of SFAS No. 115. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings. SFAS No. 159 will be effective for the Company as of April 1, 2008. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 159.

In September 2006, Securities and Exchange Commission (SEC) staff published Staff Accounting Bulletin No. 108 (SAB No. 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 requires quantification of the effects of financial statement errors on each of the balance sheets and statements of income and the related financial statement disclosures. On March 31, 2007, the Company applied SAB No. 108. The adoption of SAB No. 108 did not have a material effect on the Company's consolidated financial statements.

Table of Contents

- 121 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(2) **Acquisition**

On April 1, 2004, the Company acquired 19.2% of the issued common shares of Matsushita Electric Works, Ltd. (MEW) through a tender offer to obtain its controlling interest. Until then, the Company had a 31.8% equity ownership.

This acquisition also resulted in another acquisition of a controlling interest of PanaHome Corporation (PanaHome) because both the Company and MEW had 27% equity ownerships, respectively.

The results of operations of MEW and PanaHome are included in the consolidated financial statements since that date. MEW is a manufacturer of household electric equipment, building products and related materials based in Osaka, Japan. As a result of the acquisition, the Company is expected to provide a comprehensive range of home electric and household equipment and systems in Japan. It also expects to reduce costs through economies of scale and sharing of research and development resources and marketing channels. The aggregate purchase cost of additional MEW shares was 147,187 million yen and was paid in cash. The carrying value of the Company's common shares of MEW immediately before the acquisition was 200,174 million yen. The carrying value of the Company's existing common shares of PanaHome at April 1, 2004 was 22,861 million yen.

The purchase price of additional MEW shares has been allocated based upon the estimated fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition. The excess of the purchase price over fair value of net identifiable assets was allocated to goodwill. The Company's new basis of investments in MEW and PanaHome upon the acquisition of additional shares of MEW was 343,844 million yen, which consisted of the purchase price of acquired shares and the carrying value of the existing shares, net of deferred tax liabilities of 26,378 million yen on the outside basis of existing shares that had been accounted for using the equity method. Such new basis of investments in MEW and PanaHome was allocated as follows:

Yen (millions)

Cash and cash equivalents	226,911
Other current assets	431,633
Property, plant and equipment	440,584
Goodwill	41,523
Intangible assets	25,533
In-process research and development	311
Other assets	220,631
	<hr/>
Total assets acquired	1,387,126
	<hr/>
Current liabilities	335,899
Noncurrent liabilities	419,803
	<hr/>
Total liabilities assumed	755,702
	<hr/>
Minority interests	287,580
	<hr/>
Net assets acquired	343,844
	<hr/>

Table of Contents

- 122 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In-process research and development represents the estimated value of in-process research and development projects that had not yet reached technical feasibility. The related technology had no alternative use and required substantial additional development by the Company. In-process research and development was charged to operations during the year ended March 31, 2005 and included in selling, general and administrative expenses in the consolidated statements of income.

Of the 25,533 million yen of acquired intangible assets, 20,005 million yen was assigned to assets subject to amortization, which have a weighted-average useful life of approximately seven years and include technologies of 9,592 million yen with a 10-year weighted-average useful life, and software of 8,892 million yen with a 5-year weighted-average useful life.

The total amount of goodwill is included in MEW and PanaHome segment, and is not deductible for tax purposes.

(3) Inventories

Inventories at March 31, 2007 and 2006 are summarized as follows:

	Yen (millions)	
	2007	2006
Finished goods	576,401	534,766
Work in process	126,134	126,152
Raw materials	246,864	254,344
	<u>949,399</u>	<u>915,262</u>

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

Certain financial information in respect of associated companies in aggregate at March 31, 2007 and 2006, and for the three years ended March 31, 2007 is shown below. The most significant of these associated companies are Toshiba Matsushita Display Technology Co., Ltd. (TMD) and Sumishin Matsushita Financial Services Co., Ltd. (SMFC). At March 31, 2007, the Company has a 40% equity ownership in TMD and a 34% equity ownership in SMFC.

The Company formerly accounted for the investment in MT Picture Display Co., Ltd. (MTPD) and its subsidiaries under the equity method, and began to consolidate MTPD on March 1, 2006 in accordance with FIN 46R, as a result of certain restructuring activities of MTPD. At March 30, 2007, the Company acquired 35.5% equity of MTPD from Toshiba Corporation and as a result, has a 100% equity in MTPD. MTPD is engaged in manufacturing and distributing cathode ray tubes. The impact of consolidating MTPD is not material to the Company's consolidated financial statements. Financial information associated with MTPD through February 28, 2006 is included in the aggregate information below, however, financial information as of and for the one month ended March 31, 2006, and as of and for the year ended March 31, 2007 is not included.

Table of Contents

- 123 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Financial information associated with SMFC for fiscal 2005 is not included below, as it was a subsidiary through fiscal 2005.

	Yen (millions)	
	2007	2006
Current assets	918,573	842,766
Other assets	632,511	578,082
	1,551,084	1,420,848
Current liabilities	765,051	633,909
Other liabilities	345,855	397,313
	440,178	389,626
Net assets	440,178	389,626
Company's equity in net assets	165,778	153,590

	Yen (millions)		
	2007	2006	2005
Net sales	1,352,107	1,227,057	1,187,975
Gross profit	216,002	195,141	176,765
Net loss	(7,595)	(70,381)	(11,178)

Purchases and dividends received from associated companies for the three years ended March 31, 2007 are as follows:

Yen (millions)

	2007	2006	2005
Purchases from	301,859	261,458	260,745
Dividends received	3,365	1,496	1,480

Retained earnings include undistributed earnings of associated companies in the amount of 30,557 million yen and 28,299 million yen, as of March 31, 2007 and 2006, respectively.

During the years ended March 31, 2006 and 2005, the Company incurred a write-down of 30,681 million yen and 2,833 million yen, respectively, for other-than-temporary impairment of investments and advances in associated companies. The write-down is included in other deductions in the consolidated statements of income.

Investments in associated companies include equity securities which have quoted market values at March 31, 2007 and 2006 compared with related carrying amounts as follows:

	Yen (millions)	
	2007	2006
Carrying amount	3,311	3,054
Market value	6,129	5,088

Table of Contents

- 124 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) 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 short-term investments, and investments and advances at March 31, 2007 and 2006 are as follows:

	Yen (millions)			
	2007			
	Cost	Fair value	Gross unrealized holding gains	Gross unrealized holding losses
Current:				
Japanese and foreign government bonds	64,836	64,882	46	
Convertible and straight bonds	18,004	18,048	44	
Other debt securities	10,249	10,249		
	<u>93,089</u>	<u>93,179</u>	<u>90</u>	
Noncurrent:				
Equity securities	293,314	607,271	314,488	531
Japanese and foreign government bonds	64,614	64,904	296	6
Convertible and straight bonds	15,392	15,464	85	13
Other debt securities	6,715	6,852	137	

	380,035	694,491	315,006	550
Yen (millions)				
2006				
	Cost	Fair value	Gross unrealized holding gains	Gross unrealized holding losses
Current:				
Japanese and foreign government bonds	30,028	30,012	3	19
Convertible and straight bonds	1,500	1,500		
Other debt securities	25,241	25,241		
	<u>56,769</u>	<u>56,753</u>	<u>3</u>	<u>19</u>
Noncurrent:				
Equity securities	230,400	527,705	297,371	66
Japanese and foreign government bonds	90,214	89,678		536
Convertible and straight bonds	32,866	32,702	13	177
Other debt securities	18,580	18,654	104	30
	<u>372,060</u>	<u>668,739</u>	<u>297,488</u>	<u>809</u>

Table of Contents

- 125 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Maturities of investments in available-for-sale securities at March 31, 2007 and 2006 are as follows:

	Yen (millions)			
	2007		2006	
	Cost	Fair value	Cost	Fair value
Due within one year	93,089	93,179	56,769	56,753
Due after one year through five years	82,799	83,226	137,184	136,681
Due after five years through ten years	3,922	3,994	4,476	4,353
Equity securities	293,314	607,271	230,400	527,705
	473,124	787,670	428,829	725,492

Proceeds from sale of available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were 84,806 million yen, 135,907 million yen and 74,719 million yen, respectively. The gross realized gains for the years ended March 31, 2007, 2006 and 2005 were 12,452 million yen, 63,757 million yen and 31,655 million yen, respectively. The gross realized losses on sale of available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were 313 million yen, 199 million yen and 256 million yen, respectively. The cost of securities sold in computing gross realized gains and losses is determined by the average cost method.

During the years ended March 31, 2007, 2006 and 2005, the Company incurred a write-down of 939 million yen, 458 million yen and 2,661 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 income.

Gross unrealized holding losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2007 and 2006, are as follows:

Table of Contents

- 126 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Yen (millions)					
	2007					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	9,229	531			9,229	531
Japanese and foreign government bonds	19,977	6			19,977	6
Convertible and straight bonds	1,839	13			1,839	13
	<u>31,045</u>	<u>550</u>			<u>31,045</u>	<u>550</u>
	2006					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	1,474	66			1,474	66
Japanese and foreign government bonds	114,558	555			114,558	555
Convertible and straight bonds	30,623	177			30,623	177
Other debt securities	1,822	30			1,822	30
	<u>148,477</u>	<u>828</u>			<u>148,477</u>	<u>828</u>

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 has not held unrealized losses for twelve months or more at March 31, 2007 and 2006.

The aggregate cost of the Company's cost method investments totaled 31,465 million yen and 35,211 million yen at March 31, 2007 and 2006. The Company recognized the gross realized losses of 31,264 million yen associated with the sale of a certain investment for the year ended March 31, 2006. For investments with an aggregate cost of 29,639 million yen and 32,621 million yen at March 31, 2007 and 2006, respectively, the Company estimated that the fair value exceeded the cost of investments (that is, the investments were not impaired). For the years ended March 31, 2007, 2006 and 2005, the remaining investments were considered other-than-temporarily impaired, resulting in a write-down of 2,209 million yen, 4,153 million yen and 10,692 million yen respectively.

(6) Leases

The Company has capital and operating leases for certain machinery and equipment with SMFC and other third parties. At March 31, 2007 and 2006, the gross book value of machinery and equipment under capital leases was 151,920 million yen and 168,374 million yen, and the related accumulated depreciation recorded was 93,488 million yen and 101,025 million yen, respectively.

Table of Contents

- 127 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

During the years ended March 31, 2007, 2006 and 2005, the Company sold and leased back certain machinery and equipment for 73,578 million yen, 115,326 million yen and 49,574 million yen, respectively. The base lease term is 2 to 5 years. The resulting leases are being accounted for as operating leases. The resulting gains of these transactions, included in other income in the consolidated statements of income, were not significant. The Company has options to purchase the leased assets, or to terminate the leases and guarantee a specified value of the leased assets thereof, subject to certain conditions, during or at the end of the lease term.

Rental expenses for operating leases, including the above-mentioned sale-leaseback transactions were 47,094 million yen, 41,302 million yen and 34,800 million yen for the years ended March 31, 2007, 2006 and 2005, respectively.

Future minimum lease payments under non-cancelable capital leases and operating leases at March 31, 2007 are as follows:

	Yen (millions)	
	Capital leases	Operating leases
Year ending March 31		
2008	28,635	66,262
2009	19,042	41,288
2010	11,756	34,040
2011	5,365	41,811
2012	1,959	18,895
Thereafter	1,261	1,850
Total minimum lease payments	68,018	204,146
Less amount representing interest	2,416	

Present value of net minimum lease payments	65,602
Less current portion	27,474
	<hr/>
Long-term capital lease obligations	38,128
	<hr/>

(7) 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 will be sufficient to recover the remaining recorded asset values. As discussed in Note 1 (q), the Company accounts for impairment of long-lived assets in accordance with SFAS No. 144. Impairment losses are included in other deductions in the consolidated statements of income, and are not charged to segment profit.

The Company recognized impairment losses in the aggregate of 18,324 million yen of property, plant and equipment during fiscal 2007.

The Company closed a domestic factory that manufactured air conditioner devices and recorded an impairment loss related to buildings, and machinery and equipment, as the Company estimated that the carrying amounts would not be recovered by the discounted estimated future cash flows expected to result from their eventual disposition.

The Company also recorded impairment losses related to buildings, and machinery and equipment used in building equipment, and electronic and plastic materials of some domestic and overseas subsidiaries. The profitability of each subsidiary was expected to be low in the future and the Company estimated the carrying amounts would not be recovered by the future cash flows.

Table of Contents

- 128 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Impairment losses of 1,416 million yen, 3,901 million yen, 10,163 million yen, 1,571 million yen and 1,273 million yen were related to Home Appliances, Components and Devices, MEW and PanaHome, Other and the remaining segments, respectively.

The Company recognized impairment losses in the aggregate of 16,230 million yen of property, plant and equipment during fiscal 2006.

The Company decided to sell certain land and buildings, and classified those land and buildings as assets held for sale. These assets are included in other current assets in the consolidated balance sheet and the Company recognized an impairment loss. The fair value of the land and buildings was determined by using a purchase price offered by a third party.

The Company also recorded impairment losses related to write-down of land and buildings used in connection with the manufacture of certain information and communications equipment at a domestic subsidiary. As a result of plans to carry out selection and concentration of businesses, the Company estimated the carrying amounts would not be recovered by the future cash flows. The fair value of land was determined by specific appraisal. The fair value of buildings was determined based on the discounted estimated future cash flows expected to result from the use of the buildings and their eventual disposition.

Impairment losses of 4,260 million yen, 2,771 million yen, 2,488 million yen, 2,754 million yen and 3,957 million yen were related to AVC Networks, Components and Devices, MEW and PanaHome, Other and the remaining segments, respectively.

The Company recognized impairment losses in the aggregate of 28,265 million yen of property, plant and equipment during fiscal 2005.

Due to severe competition primarily in the domestic audio and visual industry, the Company was in the process of realigning various branches of a certain domestic sales subsidiary. Consequently the Company decided to sell the land and buildings of the subsidiary near the end of fiscal 2005. As a result, the Company recognized an impairment loss. The fair value of the land and buildings was determined by using a purchase price offered by a third party.

The Company also recorded an impairment loss related to the write-down of land and buildings used in connection with the manufacture of certain information and communications equipment at a domestic subsidiary. As a result of plans to reduce production of these products, the Company estimated the carrying amounts would not be recovered by the future cash flows. The fair value of land was determined by specific appraisal. The fair value of buildings was determined based on the discounted estimated future cash flows expected to result from the use of the buildings and their eventual disposition.

Impairment losses of 13,393 million yen, 8,555 million yen and 6,317 million yen were related to AVC Networks, Home Appliances and the remaining segments, respectively.

Table of Contents

- 129 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2007 and 2006 are as follows:

	Yen (millions)						Total
	AVC Networks	Home Appliances	Components and Devices	MEW and PanaHome	JVC	Other	
Balance at March 31, 2005	312,025	22,488	70,907	43,113	3,197	10,182	461,912
Goodwill acquired during the year		47	216	402		714	1,379
Goodwill written off related to disposals during the year	(104)						(104)
Goodwill impaired during the year	(50,050)						(50,050)
Balance at March 31, 2006	261,871	22,535	71,123	43,515	3,197	10,896	413,137
Goodwill acquired during the year	40		116	2,443		4,202	6,801
Goodwill written off related to disposals during the year	(8)	(8)				(2,137)	(2,153)
Goodwill impaired during the year	(27,299)				(3,197)		(30,496)
Other	289	(8,254)					(7,965)
Balance at March 31, 2007	234,893	14,273	71,239	45,958		12,961	379,324

The Company recognized an impairment loss of 27,299 million yen during fiscal 2007 related to goodwill of a mobile communication subsidiary. This impairment is due to a decrease in the estimated fair value of the reporting unit caused by decreased profit expectation and the intensification of competition in a domestic market which was unforeseeable in the prior year.

The Company recognized an impairment loss of 3,197 million yen during fiscal 2007 related to goodwill of JVC due primarily to profit performance in JVC's consumer electronics business being lower than the Company's expectation.

The Company recognized an impairment loss of 50,050 million yen during fiscal 2006 related to goodwill of a mobile communication subsidiary. This impairment is due to a decrease in the estimated fair value of the reporting unit caused by decreased profit expectation and the closure of certain businesses in Europe and Asia.

The fair value was determined by using the estimated present fair value of future cash flows or quoted market prices.

Table of Contents

- 130 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Acquired intangible assets, excluding goodwill, at March 31, 2007 and 2006 are as follows:

	Yen (millions)				Average amortization period
	2007		2006		
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	
Amortizing intangible assets:					
Patents	53,339	33,447	39,245	30,620	8 years
Software	221,023	148,537	187,336	117,821	4 years
Other	37,705	15,394	37,516	12,806	39 years
	312,067	197,378	264,097	161,247	

	Yen (millions)	
	2007	2006
Non-amortizing intangible assets	942	1,308

Aggregate amortization expense for amortizing intangible assets for the years ended March 31, 2007, 2006 and 2005 was 37,337 million yen, 33,918 million yen and 37,569 million yen, respectively. Estimated amortization expense for the next five years is as follows:

Year ending March 31	Yen (millions)	
	2007	2006
	942	1,308

2008	32,711
2009	23,724
2010	14,172
2011	9,125
2012	6,003

The Company recorded an impairment loss of 116 million yen and 349 million yen of amortizing intangible assets in fiscal 2007 and 2005, respectively. The Company estimated the carrying amount would not be recovered by the future cash flows, due to severe competition in the domestic market. The Company also recognized an impairment loss of 239 million yen, 98 million yen and 905 million yen of non-amortizing intangible assets, in connection with the decline of their market value during fiscal 2007, 2006 and 2005, respectively. The impairment loss is included in other deductions in the consolidated statements of income.

Table of Contents

- 131 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Long-term debt at March 31, 2007 and 2006 is set forth below:

	Yen (millions)	
	2007	2006
Straight bonds, due 2007, interest 0.87%		100,014
Straight bonds, due 2011, interest 1.64%	100,000	100,000
Straight bonds issued by subsidiaries, due 2006 - 2013, interest 0.6% - 2.0%	80,000	80,000
Unsecured yen loans from banks and insurance companies, due 2006 - 2013, effective interest 1.2% in 2007 and 0.4% in 2006	30,580	84,983
Secured yen loans from banks and Development Bank of Japan by subsidiaries, due 2006 - 2027, effective interest 2.16% in 2007 and 0.24% in 2006	4,681	3,495
Capital lease obligations	65,602	70,631
	280,863	439,123
Less current portion	54,083	175,053
	226,780	264,070

The aggregate annual maturities of long-term debt after March 31, 2007 are as follows:

Year ending March 31	Yen (millions)
2008	54,083
2009	60,226

2010	34,279
2011	5,537
2012	102,155

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, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank.

Each of the loan agreements grants the lender the right to request additional security or mortgages on certain assets. At March 31, 2007, investments and advances, and property, plant and equipment with a book value of 6,061 million yen was pledged as collateral by subsidiaries for secured yen loans from banks. At March 31, 2006, property, plant and equipment with a book value of 6,645 million yen was pledged as collateral by subsidiaries for secured yen loans mainly from Development Bank of Japan. At March 31, 2007 and 2006, short-term loans subject to such general agreements amounted to 39,876 million yen and 33,951 million yen, respectively. The balance of short-term loans also includes borrowings under acceptances and short-term loans of foreign subsidiaries. The weighted-average interest rate on short-term borrowings outstanding at March 31, 2007 and 2006 was 5.1% and 4.4%, respectively.

Table of Contents

- 132 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(10) **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.

Effective April 1, 2002, the Company and certain of its subsidiaries amended their benefit pension plans by introducing a point-based benefits system, under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and years of service.

The contributory, funded benefit pension plans included those under Employees Pension Funds (EPF) as is stipulated by the Welfare Pension Insurance Law (the Law). The pension plans under the EPF were composed of the substitutional portion of Japanese Welfare Pension Insurance that the Company and certain of its subsidiaries operated on behalf of the Japanese Government, and the corporate portion which was the contributory defined benefit pension plan covering substantially all of their employees and provided benefits in addition to the substitutional portion.

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 certain of its subsidiaries amended their lump-sum payment plans to cash balance pension plans. 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.

Following the enactment of changes to the Law, the Company and certain of its subsidiaries obtained Government's approval for exemption from the benefit obligation related to future employee services under the substitutional portion in fiscal 2003. After obtaining the approval, some of these companies obtained another approval for separation of the remaining benefit obligation of substitutional portion which is related to past employee services and returned the remaining benefit obligation along with the plan assets calculated pursuant to the Government formula by March 31, 2004.

In fiscal 2005, certain other subsidiary of the Company transferred the substitutional portion of Japanese Welfare Pension Insurance to the Government. The Company recognized a gain of 31,509 million yen in accordance with EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities. This consists of 165,266 million yen of a subsidy from the Government, 22,660 million yen of derecognition of previously accrued salary progression and 156,417 million yen of recognition of related unrecognized actuarial loss.

The Company uses a December 31 measurement date for the majority of its benefit plans.

Table of Contents

- 133 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the March 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) at adoption represents the unrecognized prior service benefit and unrecognized actuarial loss, both of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic benefit cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and that are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at adoption of SFAS No. 158.

The incremental effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table. The adoption of SFAS No. 158 had no effect on the consolidated statement of income for the years ended March 31, 2007, or for any prior period presented, and it will not affect the Company's operating results in future periods.

	Yen (millions)		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Investments and advances	1,206,704	(622)	1,206,082
Other assets	325,895	28,884	354,779
Total other assets	820,850	28,884	849,734
Other current liabilities	(426,298)	(8,649)	(434,947)
Total current liabilities	(2,733,218)	(8,649)	(2,741,867)
Retirement and severance benefits	(324,124)	43,166	(280,958)
Total noncurrent liabilities	(730,362)	43,166	(687,196)

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Minority interests	(549,506)	(1,648)	(551,154)
Minimum pension liability adjustments	16,189	(16,189)	
Pension liability adjustments		(44,942)	(44,942)
Total accumulated other comprehensive income (loss)	(45,966)	(61,131)	(107,097)
Total stockholders' equity	(3,855,610)	(61,131)	(3,916,741)

Table of Contents

- 134 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reconciliation 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 at March 31, 2007 and 2006 are as follows:

	Yen (millions)	
	2007	2006
Change in benefit obligations:		
Benefit obligations at beginning of year	1,930,073	1,885,228
Service cost	59,415	63,787
Interest cost	52,659	51,131
Prior service benefit	(3,269)	(5,850)
Actuarial loss	9,013	38,388
Benefits paid	(96,278)	(93,642)
Sale of majority shares of Matsushita Leasing & Credit Co., Ltd.		(12,867)
Foreign currency exchange impact	3,394	3,898
Benefit obligations at end of year	1,955,007	1,930,073
Change in plan assets:		
Fair value of plan assets at beginning of year	1,612,410	1,294,306
Actual return on plan assets	119,382	242,056
Employer contributions	155,986	159,885
Benefits paid	(76,744)	(79,374)
Sale of majority shares of Matsushita Leasing & Credit Co., Ltd.		(6,772)
Foreign currency exchange impact	2,582	2,309
Fair value of plan assets at end of year	1,813,616	1,612,410
Funded status	(141,391)	(317,663)

The accumulated benefit obligation for the pension plans was 1,945,020 million yen and 1,905,395 million yen at March 31, 2007 and 2006, 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 at March 31, 2007 and 2006 are as follows:

	Yen (millions)	
	2007	2006
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	823,421	972,446
Fair value of plan assets	533,814	598,355
Plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligations	817,849	842,315
Fair value of plan assets	533,814	485,099

Table of Contents

- 135 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Accounts recognized in the consolidated balance sheet at March 31, 2007 consist of:

	Yen (millions)
Other assets	148,216
Other current liabilities	(8,649)
Retirement and severance benefits	(280,958)
	(141,391)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007 consist of:

	Yen (millions)
Prior service cost	(295,419)
Actuarial loss	206,106
	(89,313)

The funded status at March 31, 2006, reconciled to the net amount recognized in the consolidated balance sheet at that date, is summarized as follows:

	Yen (millions)
Funded status	(317,663)

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Unrecognized prior service benefit	(317,103)
Unrecognized actuarial loss	285,548
	<hr/>
Net amount recognized	(349,218)
	<hr/>

Amounts recognized in the consolidated balance sheet at March 31, 2006 consist of:

	Yen (millions)
	<hr/>
Retirement and severance benefits	(414,266)
Other assets	49,103
Accumulated other comprehensive income, gross of tax	15,945
	<hr/>
Net amount recognized	(349,218)
	<hr/>

Table of Contents

- 136 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 the three years ended March 31, 2007 consisted of the following components:

	Yen (millions)		
	2007	2006	2005
Service cost – benefits earned during the year	59,415	63,787	71,081
Interest cost on projected benefit obligation	52,659	51,131	54,417
Expected return on plan assets	(50,069)	(37,088)	(35,101)
Amortization of prior service benefit	(25,201)	(26,376)	(23,533)
Recognized actuarial loss	18,407	43,145	48,641
	55,211	94,599	115,505

The estimated prior service cost and actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income (loss) into net periodic cost for the year ended March 31, 2008 are gain of 26,994 million yen and loss of 19,187 million yen, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2007 and 2006 are as follows:

	2007	2006
Discount rate	2.7%	2.7%
Rate of compensation increase	1.6%	1.6%

Weighted-average assumptions used to determine net cost for the three years ended March 31, 2007 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Discount rate	2.7%	2.7%	2.7%
Expected return on plan assets	3.3%	3.0%	3.0%
Rate of compensation increase	1.6%	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.

Table of Contents

- 137 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The weighted-average asset allocations of the Company's pension plans at March 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Asset category:		
Equity securities	45%	47%
Debt securities	43	37
Life insurance company general accounts	7	9
Other	5	7
	<u> </u>	<u> </u>
Total	100%	100%
	<u> </u>	<u> </u>

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 expects to contribute 154,049 million yen to its defined benefit plans in the year ending March 31, 2008.

The benefits expected to be paid from the defined pension plans in each fiscal year 2008 - 2012 are 85,914 million

yen, 90,352 million yen, 94,678 million yen, 99,030 million yen, and 104,342 million yen, respectively. The aggregate benefits expected to be paid in the five years from fiscal 2013 - 2017 are 544,850 million yen. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31 and include estimated future employee service.

Table of Contents

- 138 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Income Taxes

Income before income taxes and income taxes for the three years ended March 31, 2007 are summarized as follows:

	Yen (millions)		
	Domestic	Foreign	Total
For the year ended March 31, 2007			
Income before income taxes	317,007	122,137	439,144
Income taxes:			
Current	84,012	35,453	119,465
Deferred	67,984	4,414	72,398
Total income taxes	151,996	39,867	191,863
For the year ended March 31, 2006			
Income before income taxes	292,083	79,229	371,312
Income taxes:			
Current	63,966	32,375	96,341
Deferred	66,377	4,371	70,748
Total income taxes	130,343	36,746	167,089
For the year ended March 31, 2005			
Income before income taxes	140,464	106,449	246,913
Income taxes:			
Current	63,710	32,819	96,529
Deferred	64,229	(7,424)	56,805
Total income taxes	127,939	25,395	153,334

The Company and its subsidiaries in Japan are subject to a National tax of 30%, an Inhabitant tax of approximately 20.5%, 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 three years ended March 31, 2007.

Table of Contents

- 139 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The effective tax rates for the years differ from the combined statutory tax rates for the following reasons:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Combined statutory tax rate	40.5%	40.5%	40.5%
Tax credit related to research expenses	(2.2)	(1.5)	(2.4)
Lower tax rates of overseas subsidiaries	(4.2)	(3.7)	(5.9)
Expenses not deductible for tax purposes	0.8	3.6	2.8
Change in valuation allowance allocated to income tax expenses	9.8	15.7	25.7
Tax effects attributable to investments in subsidiaries	0.5	(12.0)	4.4
Other	(1.5)	2.4	(3.0)
	<u> </u>	<u> </u>	<u> </u>
Effective tax rate	43.7%	45.0%	62.1%
	<u> </u>	<u> </u>	<u> </u>

The significant components of deferred income tax expenses for the three years ended March 31, 2007 are as follows:

	<u>Yen (millions)</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Deferred tax expense (exclusive of the effects of other components listed below)	114,132	89,824	78,649
Benefits of net operating loss carryforwards	(41,734)	(19,076)	(21,844)
	<u> </u>	<u> </u>	<u> </u>
	72,398	70,748	56,805
	<u> </u>	<u> </u>	<u> </u>

Table of Contents

- 140 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2007 and 2006 are presented below:

	Yen (millions)	
	2007	2006
Deferred tax assets:		
Inventory valuation	94,489	76,463
Expenses accrued for financial statement purposes but not currently included in taxable income	251,194	294,984
Property, plant and equipment	167,089	179,114
Retirement and severance benefits	76,604	151,742
Tax loss carryforwards	249,356	242,180
Other	150,306	185,551
	989,038	1,130,034
Total gross deferred tax assets		
Less valuation allowance	438,837	464,100
	550,201	665,934
Net deferred tax assets		
Deferred tax liabilities:		
Net unrealized holding gains of available-for-sale securities	(127,588)	(124,751)
Other	(50,067)	(34,111)
	(177,655)	(158,862)
Total gross deferred tax liabilities		
Net deferred tax assets	372,546	507,072

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 at March 31, 2007.

The net change in total valuation allowance for the years ended March 31, 2007, 2006 and 2005 was a decrease of 25,263 million yen, an increase of 152,947 million yen and an increase of 65,127 million yen, respectively.

At March 31, 2007, the Company had, for income tax purposes, net operating loss carryforwards of approximately 704,631 million yen, of which 519,809 million yen expire from fiscal 2009 through 2014 and the substantial majority of the remaining balance expire thereafter or do not expire.

Table of Contents

- 141 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Net deferred tax assets and liabilities at March 31, 2007 and 2006 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	2007	2006
Other current assets	298,878	320,914
Other assets	154,467	201,429
Other current liabilities	(1,413)	(1,306)
Other liabilities	(79,386)	(13,965)
Net deferred tax assets	372,546	507,072

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures of 770,701 million yen as of March 31, 2007, because the Company currently does not expect those 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 permanently reinvest undistributed earnings. Calculation of related unrecognized deferred tax liability is not practicable.

(12) Stockholders' Equity

The Company may repurchase its common stock from the market pursuant to the former Japanese Commercial Code and the Company Law of Japan. For the years ended March 31, 2007, 2006 and 2005, respectively, 63,385,266, 48,945,141 and 60,363,663 shares were repurchased for the aggregate cost of approximately 153,179 million yen, 87,150 million yen and 92,879 million yen, respectively, primarily with the intention to hold as treasury stock to improve capital efficiency.

For the year ended March 31, 2005, the Company recognized 574,922 shares of its common stock held by a newly consolidated subsidiary as treasury stock.

The Company sold 137,733, 119,422 and 888,683 shares of its treasury stock for the years ended March 31, 2007, 2006 and 2005, respectively. The difference between sales price and book value was charged to capital surplus in the consolidated balance sheets.

The Company Law of Japan provides that an amount equal to 10% of appropriations 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 of the shareholders' meeting.

Cash dividends and transfers to the legal reserve charged to retained earnings during the three years ended March 31, 2007 represent dividends paid out during the periods and related appropriation to the legal reserve. Cash dividends per share paid during the three years ended March 31, 2007 amounted to 25.00 yen, 17.50 yen and 15.25 yen, respectively. The accompanying consolidated financial statements do not include any provisions for the year-end dividend of 15.00 yen per share, totaling approximately 32,194 million yen in respect of the year ended March 31, 2007, approved by the board of directors in April 2007.

Table of Contents

- 142 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 496,568 million yen at March 31, 2007 were restricted as to the payment of cash dividends.

The Company's directors and certain senior executives were granted options to purchase the Company's common stock. All stock options become fully exercisable two years from the date of grant and have a four-year term. Information with respect to stock options is as follows:

	<u>Number of shares</u>	<u>Weighted-average exercise price (Yen)</u>
Balance at March 31, 2004	414,000	2,223
Forfeited	(95,000)	2,285
	<u>319,000</u>	<u>2,204</u>
Balance at March 31, 2005	319,000	2,204
Exercised	(54,000)	2,001
Forfeited	(97,000)	2,186
	<u>168,000</u>	<u>2,280</u>
Balance at March 31, 2006	168,000	2,280
Exercised	(48,000)	1,922
Forfeited	(73,000)	2,690
	<u>47,000</u>	<u>2,008</u>
Balance at March 31, 2007, weighted-average remaining life 0.61 years	47,000	2,008

Treasury stock reserved for options at March 31, 2007 and 2006 was 30,000 shares and 86,000 shares, respectively.

Table of Contents

- 143 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other Comprehensive Income (Loss)

Components of other comprehensive income (loss) for the three years ended March 31, 2007 are as follows:

	Yen (millions)		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2007			
Translation adjustments:			
Translation adjustments arising during the period	57,312		57,312
Less: Reclassification adjustment for losses included in net income	5,481		5,481
Net translation adjustments	62,793		62,793
Unrealized holding gains of available-for-sale securities:			
Unrealized holding gains (losses) arising during the period	36,467	(12,232)	24,235
Less: Reclassification adjustment for gains included in net income	(11,200)	2,490	(8,710)
Net unrealized gains (losses)	25,267	(9,742)	15,525
Unrealized holding gains of derivative instruments:			
Unrealized holding gains (losses) arising during the period	(19,778)	7,900	(11,878)
Less: Reclassification adjustment for losses included in net income	19,183	(7,769)	11,414
Net unrealized gains (losses)	(595)	131	(464)
Minimum pension liability adjustments	(5,722)	(47)	(5,769)
Other comprehensive income (loss)	81,743	(9,658)	72,085

Table of Contents

- 144 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Yen (millions)		
	<u>Pre-tax amount</u>	<u>Tax expense</u>	<u>Net-of-tax amount</u>
For the year ended March 31, 2006			
Translation adjustments:			
Translation adjustments arising during the period	134,943		134,943
Less: Reclassification adjustment for gains included in net income	(51,632)		(51,632)
Net translation adjustments	<u>83,311</u>		<u>83,311</u>
Unrealized holding gains of available-for-sale securities:			
Unrealized holding gains (losses) arising during the period	188,915	(78,609)	110,306
Less: Reclassification adjustment for gains included in net income	(63,100)	25,492	(37,608)
Net unrealized gains (losses)	<u>125,815</u>	<u>(53,117)</u>	<u>72,698</u>
Unrealized holding gains of derivative instruments:			
Unrealized holding gains (losses) arising during the period	(25,581)	10,412	(15,169)
Less: Reclassification adjustment for losses included in net income	16,961	(6,869)	10,092
Net unrealized gains (losses)	<u>(8,620)</u>	<u>3,543</u>	<u>(5,077)</u>
Minimum pension liability adjustments	<u>101,805</u>	<u>(40,479)</u>	<u>61,326</u>
Other comprehensive income (loss)	<u>302,311</u>	<u>(90,053)</u>	<u>212,258</u>

Table of Contents

- 145 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Yen (millions)		
	Pre-tax amount	Tax expense	Net-of-tax amount
For the year ended March 31, 2005			
Translation adjustments:			
Translation adjustments arising during the period	35,172		35,172
Less: Reclassification adjustment for losses included in net income	1,473		1,473
Net translation adjustments	36,645		36,645
Unrealized holding gains of available-for-sale securities:			
Unrealized holding gains (losses) arising during the period	8,768	(7,669)	1,099
Less: Reclassification adjustment for gains included in net income	(27,611)	11,016	(16,595)
Net unrealized gains (losses)	(18,843)	3,347	(15,496)
Unrealized holding gains of derivative instruments:			
Unrealized holding gains (losses) arising during the period	(8,156)	3,409	(4,747)
Less: Reclassification adjustment for losses included in net income	7,520	(3,046)	4,474
Net unrealized gains (losses)	(636)	363	(273)
Minimum pension liability adjustments	189,519	(49,270)	140,249
Other comprehensive income (loss)	206,685	(45,560)	161,125

Table of Contents

- 146 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computation for the three years ended March 31, 2007 is as follows:

	Yen (millions)		
	2007	2006	2005
Net income	217,185	154,410	58,481
	Number of shares		
	2007	2006	2005
Average common shares outstanding	2,182,791,138	2,222,376,333	2,294,607,915
Dilutive effect:			
Stock options	13,858	11,909	
Diluted common shares outstanding	2,182,804,996	2,222,388,242	2,294,607,915
	Yen		
	2007	2006	2005
Net income per share:			
Basic	99.50	69.48	25.49
Diluted	99.50	69.48	25.49

Stock options were outstanding for the year ended March 31, 2005, but were not included in the calculation of diluted net income per share because the stock options' effect would be antidilutive (see Note 12).

Table of Contents

- 147 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 the years ended March 31, 2007, 2006 and 2005 are as follows:

	Yen (millions)		
	2007	2006	2005
Expenses associated with the implementation of early retirement programs:			
Domestic	8,733	31,446	93,170
Overseas	5,465	5,573	7,966
Total	14,198	37,019	101,136
Expenses associated with the closure and integration of locations	5,376	11,956	9,432
Total restructuring charges	19,574	48,975	110,568

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

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 expense 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 the years ended March 31, 2007, 2006 and 2005 is as follows:

	Yen (millions)		
	2007	2006	2005
Balance at beginning of the year	1,335	3,407	
New charges	19,574	48,975	110,568
Cash payments	(10,889)	(51,047)	(107,161)
Balance at end of the year	10,020	1,335	3,407

The following represent significant restructuring activities for the year ended March 31, 2007 by business segment:

AVC Networks

AVC Networks segment restructured mainly to accelerate selection and concentration of its businesses for strengthening its management structure. The restructuring activities mainly consisted of the implementation of early retirement programs in Japan and Europe.

Total restructuring charges amounted to 11,909 million yen, including expenses associated with the implementation of early retirement programs of 10,440 million yen.

Table of Contents

- 148 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Home Appliances

Home Appliances segment restructured its operations. The restructuring activities mainly consisted of closure and integrations in Japan.

Total restructuring charges amounted to 3,113 million yen.

Components and Devices

Components and Devices segment restructured mainly to enhance cost competitiveness as well as to address continuous price declines. The restructuring activities mainly consisted of the implementation of early retirement program in Asia for electronic devices business.

Total restructuring charges amounted to 3,468 million yen.

MEW and PanaHome

MEW and PanaHome segment incurred restructuring charges in the amount of 328 million yen mainly in Japan.

JVC

JVC segment incurred restructuring charges in the amount of 531 million yen mainly in Asia.

Other

Other segment incurred restructuring charges in the amount of 225 million yen mainly in domestic sales companies.

The following represent significant restructuring activities for the year ended March 31, 2006 by business segment:

AVC Networks

AVC Networks segment restructured mainly to address price declines in digital AV products. The restructuring activities mainly consisted of the implementation of early retirement programs.

Total restructuring charges amounted to 3,447 million yen.

Home Appliances

Home Appliances segment restructured its operations. The restructuring activities mainly consisted of closure and integration of locations in Japan.

Total restructuring charges amounted to 2,655 million yen.

Components and Devices

Components and Devices segment restructured mainly to enhance cost competitiveness as well as to address sharp price declines. The restructuring activities mainly consisted of the implementation of early retirement programs in Japan for semiconductor business.

Total restructuring charges amounted to 21,510 million yen, including expenses associated with the implementation of early retirement programs of 20,183 million yen.

MEW and PanaHome

MEW and PanaHome segment restructured to strengthen its management structures by realigning its organization. The restructuring activities mainly consisted of the implementation of early retirement programs and closure and integration of manufacturing plants and sales offices.

Total restructuring charges amounted to 9,385 million yen, including expenses associated with the implementation of early retirement programs of 4,832 million yen.

JVC

JVC segment restructured to strengthen its company-wide organizational and employment structure. The restructuring activities mainly consisted of the implementation of early retirement programs.

Total restructuring charges amounted to 8,891 million yen.

Other

Other segment incurred restructuring charges in the amount of 3,087 million yen mainly in overseas sales companies.

Table of Contents

- 149 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The following represent significant restructuring activities for the year ended March 31, 2005 by business segment:

AVC Networks

AVC Networks segment restructured mainly to cope with sharp price declines in digital products. The restructuring activities mainly consisted of the implementation of early retirement programs covering both video and audio equipment business and information and communications equipment business in Japan and Europe, shutting down of the manufacturing plant in Europe for video and audio equipment business and closure and integration of manufacturing plants and sales offices in Japan for information and communications equipment business.

Total restructuring charges amounted to 57,742 million yen, including expenses associated with the implementation of early retirement programs of 52,666 million yen.

Home Appliances

Home Appliances segment restructured mainly to address rising raw material costs as well as to enhance cost competitiveness. The restructuring activities mainly consisted of the implementation of early retirement programs and closure and integration of locations in Japan, and shutting down of the manufacturing plant in Europe for home appliances business.

Total restructuring charges amounted to 8,288 million yen, including expenses associated with the implementation of early retirement programs of 6,970 million yen.

Components and Devices

Components and Devices segment restructured to address the downturn in components and devices industries, caused in part by price declines. The restructuring activities mainly consisted of the implementation of early retirement programs in electronic components business and batteries business and closure and integration of manufacturing locations in Japan for electronic components business.

Total restructuring charges amounted to 22,986 million yen, including expenses associated with the implementation of early retirement programs of 21,979 million yen.

MEW and PanaHome

MEW and PanaHome segment incurred restructuring charges in the amount of 1,783 million yen, mainly related to a reorganization conducted to eliminate duplication of product lines and corporate functions with other Matsushita companies.

JVC

JVC segment restructured to enhance competitiveness in global markets. The restructuring activities mainly consisted of closure and integration of locations in electronic components business.

Total restructuring charges amounted to 9,208 million yen, mainly representing expenses associated with the implementation of early retirement programs.

Other

Other segment restructured to strengthen competitiveness of sales companies. The restructuring activities mainly consisted of the implementation of early retirement programs in domestic and overseas sales companies.

Total restructuring charges amounted to 10,561 million yen, including expenses associated with the implementation of early retirement programs of 10,370 million yen.

Table of Contents

- 150 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Supplementary Information to the Statements of Income and Cash Flows

Research and development costs, advertising costs, shipping and handling costs and depreciation charged to income for the three years ended March 31, 2007 are as follows:

	Yen (millions)		
	2007	2006	2005
Research and development costs	578,087	564,781	615,524
Advertising costs	199,155	181,235	174,604
Shipping and handling costs	170,311	170,469	166,404
Depreciation	280,177	275,213	287,400

Foreign exchange gains and losses included in other deductions for the years ended March 31, 2007, 2006 and 2005 are losses of 18,950 million yen, 13,475 million yen and 7,542 million yen, respectively.

Shipping and handling costs are included in selling, general and administrative expenses in the consolidated statements of income.

Included in other deductions for the year ended March 31, 2006 are claim expenses of 34,340 million yen.

In fiscal 2007, 2006 and 2005, the Company sold, without recourse, trade receivables of 315,329 million yen, 193,974 million yen and 48,578 million yen to independent third parties for proceeds of 314,265 million yen, 193,415 million yen and 48,469 million yen, and recorded losses on the sale of trade receivables of 1,064 million yen, 559 million yen and 109 million yen, respectively. In fiscal 2007 and 2006, the Company sold, with recourse, trade

receivables of 303,769 million yen and 69,308 million yen to independent third parties for proceeds of 303,561 million yen and 69,261 million yen, and recorded losses on the sale of trade receivables of 208 million yen and 47 million yen, respectively. Those losses are included in selling, general and administrative expenses. The Company is responsible for servicing the receivables. Included in trade notes receivable and trade accounts receivable at March 31, 2007 are amounts of 34,744 million yen without recourse and 34,382 million yen with recourse scheduled to be sold to independent third parties.

In fiscal 2005, the Company sold, without recourse, loans receivable of 96,339 million yen to independent third parties for proceeds of 106,779 million yen, and recorded gains on the sale of loans receivable of 10,440 million yen, which is included in other income.

Table of Contents

- 151 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The sale of the receivables was accounted for under SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities.

Interest expenses and income taxes paid, and noncash investing and financing activities for the three years ended March 31, 2007 are as follows:

	Yen (millions)		
	2007	2006	2005
Cash paid:			
Interest	22,202	21,853	25,513
Income taxes	109,692	92,469	99,951
Noncash investing and financing activities:			
Conversion of bonds		20,330	
Contribution of assets and liabilities to associated companies			4,302

(17) Derivatives and Hedging Activities

The Company operates internationally, giving rise to significant exposure to market risks arising from changes in foreign exchange rates, interest 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, interest rate swaps, cross currency swaps and commodity derivatives. The Company does not hold or issue derivative financial instruments for any purposes other than hedging.

Gains and losses related to derivative instruments are classified in other income (deductions) in the consolidated statements of income. The amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of

hedge effectiveness is not material for the three years ended March 31, 2007. Amounts included in accumulated other comprehensive income (loss) at March 31, 2007 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.

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.

Table of Contents

- 152 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The contract amounts of foreign exchange contracts, interest rate swaps, cross currency swaps and commodity futures at March 31, 2007 and 2006 are as follows:

	<u>Yen (millions)</u>	
	<u>2007</u>	<u>2006</u>
Forward:		
To sell foreign currencies	409,216	404,383
To buy foreign currencies	323,478	258,335
Options purchased to sell foreign currencies		25,885
Variable-paying interest rate swaps	6,136	15,000
Cross currency swaps	14,388	4,130
Commodity futures:		
To sell commodity	86,023	36,007
To buy commodity	210,890	93,061

Table of Contents

- 153 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(18) **Fair Value of Financial Instruments**

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:

Cash and cash equivalents, Time deposits, Trade receivables, Short-term borrowings, Trade payables and Accrued expenses

The carrying amount approximates fair value because of the short maturity of these instruments.

Short-term investments

The fair value of short-term investments is estimated based on quoted market prices.

Investments and advances

The fair value of investments and advances is estimated based on quoted market prices or the present value of future cash flows using appropriate current discount rates.

Long-term debt

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.

Derivative financial instruments

The fair value of derivative financial instruments, all of which are used for hedging purposes, are estimated by obtaining quotes from brokers.

Table of Contents

- 154 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The estimated fair values of financial instruments, all of which are held or issued for purposes other than trading, at March 31, 2007 and 2006 are as follows:

	Yen (millions)			
	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivatives:				
Assets:				
Short-term investments	93,179	93,179	56,753	56,753
Investments and advances	1,056,515	1,056,401	946,153	948,665
Liabilities:				
Long-term debt, including current portion	(280,863)	(282,309)	(439,123)	(437,547)
Derivatives:				
Other current assets:				
Forward:				
To sell foreign currencies			121	121
To buy foreign currencies			2,522	2,522
Options purchased to sell foreign currencies			132	132
Variable-paying interest rate swaps			14	14
Commodity futures to buy commodity	33,996	33,996	43,674	43,674
Other current liabilities:				
Forward:				
To sell foreign currencies	(842)	(842)		
To buy foreign currencies	(706)	(706)		
Cross currency swaps	(159)	(159)	(35)	(35)
Commodity futures to sell commodity	(11,243)	(11,243)	(7,401)	(7,401)

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 judgements and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Table of Contents

- 155 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Commitments and Contingent Liabilities

The Company provides guarantees to third parties on bank loans provided to its employees, associated companies and customers. The guarantees for the employees are principally made for their housing loans. The guarantees for associated companies and customers 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. At March 31, 2007, the maximum amount of undiscounted payments the Company would have to make in the event of default is 15,034 million yen. The carrying amount of the liabilities recognized for the Company's obligations as a guarantor under those guarantees at March 31, 2007 and 2006 was insignificant.

As discussed in Note 6, in connection with the sale and lease back 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. At March 31, 2007, the maximum amount of undiscounted payments the Company would have to make in the event that these conditions are met is 46,490 million yen. The carrying amount of the liabilities recognized for the Company's obligations as guarantors under those guarantees at March 31, 2007 and 2006 was insignificant.

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, 2007 and 2006 are summarized as follows:

	<u>Yen (millions)</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	37,436	35,216
Liabilities accrued for warranties issued during the period	48,068	50,206
Warranty claims paid during the period	(47,153)	(44,199)
	(272)	(3,787)

Changes in liabilities for pre-existing warranties during the period, including expirations

Balance at end of year	<u>38,079</u>	<u>37,436</u>
------------------------	---------------	---------------

Table of Contents

- 156 -

**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

At March 31, 2007, commitments outstanding for the purchase of property, plant and equipment approximated 105,575 million yen. Contingent liabilities at March 31, 2007 for discounted export bills of exchange amounted to 409 million yen.

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 require that PCB equipment be appropriately maintained and disposed of by July 2016. The Company has accrued estimated total cost of 10,627 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 or minimum of the cost, but the payments are not considered to be fixed and reliably determinable.

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.

(20) **Segment Information**

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, 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.

Business segments correspond to categories of activity classified primarily by markets, products and brand names. AVC Networks includes video and audio equipment, and information and communications equipment. Home

Appliances includes household equipment. Components and Devices includes electronic components, semiconductors, electric motors and batteries. MEW and PanaHome includes electrical supplies, electric products, building materials and equipment, and housing business. JVC includes products marketed under the brand name of JVC or Victor. Other includes electronic-parts-mounting machines, industrial robots and industrial equipment.

Table of Contents

- 157 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Information by segment for the three years ended March 31, 2007 is shown in the tables below:

By Business Segment:

	Yen (millions)		
	2007	2006	2005
Sales:			
AVC Networks:			
Customers	3,948,720	3,894,274	3,745,339
Intersegment	98,451	91,814	113,442
Total	4,047,171	3,986,088	3,858,781
Home Appliances:			
Customers	1,119,318	1,069,282	1,102,795
Intersegment	184,096	171,920	126,973
Total	1,303,414	1,241,202	1,229,768
Components and Devices:			
Customers	987,933	954,011	1,006,893
Intersegment	389,824	414,247	462,114
Total	1,377,757	1,368,258	1,469,007
MEW and PanaHome:			
Customers	1,809,503	1,695,949	1,628,372
Intersegment	49,210	51,258	57,885
Total	1,858,713	1,747,207	1,686,257
JVC:			
Customers	640,746	697,150	721,391

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Intersegment	5,833	5,966	8,818
Total	646,579	703,116	730,209
Other:			
Customers	601,950	583,663	508,846
Intersegment	882,026	731,629	518,277
Total	1,483,976	1,315,292	1,027,123
Eliminations	(1,609,440)	(1,466,834)	(1,287,509)
Consolidated total	9,108,170	8,894,329	8,713,636
Segment profit:			
AVC Networks	219,654	190,885	127,366
Home Appliances	83,510	77,135	74,794
Components and Devices	99,884	81,111	57,761
MEW and PanaHome	78,889	72,694	66,761
JVC	(5,659)	(5,782)	9,887
Other	60,500	62,225	38,352
Corporate and eliminations	(77,237)	(63,995)	(66,427)
Total segment profit	459,541	414,273	308,494
Interest income	30,553	28,216	19,490
Dividends received	7,597	6,567	5,383
Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance			31,509
Other income	114,545	147,399	82,819
Interest expense	(20,906)	(21,686)	(22,827)
Goodwill impairment	(30,496)	(50,050)	(3,559)
Other deductions	(121,690)	(153,407)	(174,396)
Consolidated income before income taxes	439,144	371,312	246,913
Identifiable assets:			
AVC Networks	2,333,353	2,276,573	2,205,663
Home Appliances	724,914	637,935	618,156
Components and Devices	989,293	966,684	930,315
MEW and PanaHome	1,354,679	1,371,405	1,384,695
JVC	419,980	438,456	483,867
Other	461,884	503,798	883,706
Corporate and eliminations	1,612,855	1,769,789	1,550,479
Consolidated total	7,896,958	7,964,640	8,056,881
Depreciation (including intangibles other than goodwill):			
AVC Networks	79,514	76,136	88,550
Home Appliances	32,207	29,633	31,785
Components and Devices	85,300	88,717	96,659

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

MEW and PanaHome	48,487	46,575	50,582
JVC	17,844	17,759	15,985
Other	15,561	38,253	30,329
Corporate and eliminations	38,601	12,058	11,079
	<u>317,514</u>	<u>309,131</u>	<u>324,969</u>
Capital investment (including intangibles other than goodwill):			
AVC Networks	168,448	126,815	103,340
Home Appliances	49,040	44,869	36,041
Components and Devices	138,930	124,219	126,826
MEW and PanaHome	47,558	44,849	32,989
JVC	15,478	16,994	23,045
Other	17,325	12,092	74,570
Corporate and eliminations	39,479	16,688	14,286
	<u>476,258</u>	<u>386,526</u>	<u>411,097</u>

Corporate expenses include certain corporate R&D expenditures and general corporate expenses.

Corporate assets consist of cash and cash equivalents, time deposits, marketable securities in short-term investments, investments and advances and other assets related to unallocated expenses.

Intangibles mainly represent patents and software.

Table of Contents

- 158 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

By Geographical Area:

Sales attributed to countries based upon the customer's location and property, plant and equipment are as follows:

	Yen (millions)		
	2007	2006	2005
Sales:			
Japan	4,616,520	4,611,440	4,580,555
North and South America	1,381,104	1,387,424	1,282,956
Europe	1,217,931	1,113,556	1,122,493
Asia and Others	1,892,615	1,781,909	1,727,632
Consolidated total	<u>9,108,170</u>	<u>8,894,329</u>	<u>8,713,636</u>
United States of America included in North and South America	1,213,867	1,206,357	1,127,412
Property, plant and equipment:			
Japan	1,171,223	1,201,266	1,272,839
North and South America	53,317	58,003	59,230
Europe	71,594	66,084	64,883
Asia and Others	346,159	306,986	261,128
Consolidated total	<u>1,642,293</u>	<u>1,632,339</u>	<u>1,658,080</u>

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 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 the

three years ended March 31, 2007.

The following information shows sales, geographical profit and identifiable assets which are attributed to geographic areas based on the country location of the Company or its subsidiaries for the three years ended March 31, 2007. In addition to the disclosure requirements under SFAS No. 131, the Company discloses this information as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, which a Japanese public company is subject to:

Table of Contents

- 159 -

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Yen (millions)		
	2007	2006	2005
Sales:			
Japan:			
Customers	4,941,413	4,945,802	5,033,645
Intersegment	2,029,589	1,944,537	1,586,407
	6,971,002	6,890,339	6,620,052
North and South America:			
Customers	1,335,631	1,340,352	1,248,012
Intersegment	21,654	26,185	23,605
	1,357,285	1,366,537	1,271,617
Europe:			
Customers	1,162,795	1,067,306	1,046,159
Intersegment	47,201	20,361	26,405
	1,209,996	1,087,667	1,072,564
Asia and Others:			
Customers	1,668,331	1,540,869	1,385,820
Intersegment	1,206,340	1,175,492	1,059,178
	2,874,671	2,716,361	2,444,998
Eliminations	(3,304,784)	(3,166,575)	(2,695,595)
	9,108,170	8,894,329	8,713,636
Consolidated total			
	9,108,170	8,894,329	8,713,636
Geographical profit:			
Japan	409,395	374,129	262,063
North and South America	22,500	16,773	20,834
Europe	13,903	4,511	7,393
Asia and Others	89,460	81,337	75,324

Edgar Filing: MATSUSHITA ELECTRIC INDUSTRIAL CO LTD - Form 20-F

Corporate and eliminations	(75,717)	(62,477)	(57,120)
Consolidated total	459,541	414,273	308,494
Identifiable assets:			
Japan	4,416,586	4,442,776	5,055,700
North and South America	455,216	443,432	402,155
Europe	452,924	412,948	379,571
Asia and Others	1,265,170	1,235,438	995,785
Corporate and eliminations	1,307,062	1,430,046	1,223,670
Consolidated total	7,896,958	7,964,640	8,056,881

(21) Subsequent event

Victor Company of Japan, Ltd (JVC), a consolidated subsidiary of the Company, issued and allocated new shares of common stock to third parties on August 10, 2007 for a cash consideration of 35 billion yen. As a result, the Company's shareholding in JVC decreased from 52.4% to 36.8%, and the Company recorded a loss of approximately 5 billion yen which has been recorded in the Company's stockholders' equity account in accordance with the provisions of Staff Accounting Bulletin (SAB) 51 of the Securities and Exchange Commission and the Company's accounting policy. JVC became an associated company under the equity method from a consolidated subsidiary in the fiscal 2008 second quarter.

It was discovered that approximately 46 million Nokia brand lithium-ion battery pack units manufactured between December 2005 and November 2006 by Matsushita Battery Industrial Co., Ltd., one of the Company's consolidated subsidiaries, may cause overheating initiated by a short circuit while charging, which could cause the battery to dislodge from a mobile phone handset. The total cost to be borne by the Company for voluntary replacement of the battery packs is currently estimated to be between approximately 10 billion yen and 20 billion yen as an external incremental cost. This cost will be accrued in the first half of fiscal 2008.

Table of Contents

- 160 -

Schedule II**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.****AND SUBSIDIARIES****Valuation and Qualifying Accounts and Reserves****(In millions of yen)****Years ended March 31, 2007, 2006 and 2005**

	Balance at beginning of period	Add		Deduct			Add (deduct) -cumulative translation adjustments	Balance at end of period
		Due to acquisition	Charged to income	Sale of shares of a subsidiary	Bad debts written off	Reversal		
Allowance for doubtful trade receivables:								
2007	37,400		3,203		7,002	5,012	472	29,061
2006	43,836		8,409	4,657	4,868	6,465	1,145	37,400
2005	47,873	7,278	4,963		6,384	10,364	470	43,836
Allowance for doubtful noncurrent receivables:								
2007								
2006								
2005								

Table of Contents

- 161 -

Item 19. Exhibits

Documents filed as exhibits to this annual report are as follows:

- 1.1 Articles of Incorporation of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.2 Share Handling Regulations of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.3 Regulations of the Board of Directors of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.4 Regulations of the Board of Corporate Auditors of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]
- 2.1 Specimen common stock certificates of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 2.2 Form of Amended and Restated Deposit Agreement among the Registrant, Morgan Guaranty Trust Company of New York (now JPMorgan Chase Bank, N.A.) as Depository and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt [incorporated by reference to the Registration Statement on Form F-6 (File No. 333-12694) filed on October 4, 2000]
- 4.1 Liability Limitation Agreement (English translation)
[Matsushita and each of Ikuo Uno and Yoshifumi Nishikawa, entered into a Liability Limitation Agreement, each dated June 29, 2005, in the form of this Exhibit.] [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]
[Matsushita and each of Yasuo Yoshino, Ikuo Hata and Hiroyuki Takahashi, entered into a Liability Limitation Agreement, each dated June 28, 2006, in the form of this Exhibit.]
- 8.1 Subsidiaries of the Registrant [List of significant subsidiaries (see Section C of Item 4)]
- 11.1 Code of Ethics for Directors and Executive Officers (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 13, 2004]
- 12.1 Certification of the principal executive officer of the Company required by Rule 13a-14(a)
- 12.2 Certification of the principal financial officer of the Company required by Rule 13a-14(a)
- 13.1 Certification required by Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 15.1 Continuation of Policy toward Large-scale Purchases of Matsushita Shares

Table of Contents

- 162 -

The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

Table of Contents

- 163 -

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Company certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
(Registrant)

Date: August 30, 2007

By

/s/ Yoichi Nagata
Yoichi Nagata
Attorney-in-Fact
Director of Overseas Investor Relations
Matsushita Electric Industrial Co., Ltd.

Table of Contents

Index to Exhibits

Documents filed as exhibits to this annual report are as follows:

- 1.1 Articles of Incorporation of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.2 Share Handling Regulations of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.3 Regulations of the Board of Directors of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 1.4 Regulations of the Board of Corporate Auditors of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]
- 2.1 Specimen common stock certificates of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 11, 2006]
- 2.2 Form of Amended and Restated Deposit Agreement among the Registrant, Morgan Guaranty Trust Company of New York (now JPMorgan Chase Bank, N.A.) as Depository and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt [incorporated by reference to the Registration Statement on Form F-6 (File No. 333-12694) filed on October 4, 2000]
- 4.1 Liability Limitation Agreement (English translation)
[Matsushita and each of Ikuo Uno and Yoshifumi Nishikawa, entered into a Liability Limitation Agreement, each dated June 29, 2005, in the form of this Exhibit.] [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]
[Matsushita and each of Yasuo Yoshino, Ikuo Hata and Hiroyuki Takahashi, entered into a Liability Limitation Agreement, each dated June 28, 2006, in the form of this Exhibit.]
- 8.1 Subsidiaries of the Registrant [List of significant subsidiaries (see Section C of Item 4)]
- 11.1 Code of Ethics for Directors and Executive Officers (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 13, 2004]
- 12.1 Certification of the principal executive officer of the Company required by Rule 13a-14(a)
- 12.2 Certification of the principal financial officer of the Company required by Rule 13a-14(a)
- 13.1 Certification required by Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 15.1 Continuation of Policy toward Large-scale Purchases of Matsushita Shares