MATSUSHITA ELECTRIC INDUSTRIAL CO LTD
Form 20-F
August 30, 2007
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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.

Title of each class	Name of each exchange on which registered
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.

Title of Class	Outstanding as of March 31, 2007 (Japan Time)	Outstanding as of March 31, 2007 (New York Time)
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 x 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 x.

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 x No ¨.

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

Item 17. ¨ Item 18. x.

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 x 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 x.

This form contains 163 pages.

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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.

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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
Yen exchange rates per U.S. dollar:					
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

	Feb. 2007	**Mar. 2007**	**Apr. 2007**	**May 2007**	**Jun. 2007**	**Jul. 2007**
Yen exchange rates for each month during the previous six months:						
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

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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.

<u>Risks Related to Economic Conditions</u>

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.

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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.

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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.

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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.

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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.

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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.

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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.

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.

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.

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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.

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B. Business Overview

SALES 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.

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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.

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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.

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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.

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.

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.

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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.

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.

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.

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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.

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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.

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.

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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.

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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.

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 byphenyls (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.

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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.

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.:

Name of internal divisional company
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:

Name of company	Percentage owned
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:

Name of company	Country of incorporation	Percentage owned
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

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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:

Location	Floor Space (thousands of square feet)	Principal Products Manufactured
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.

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	

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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 busin 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.

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.

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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.

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 stock holders 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.

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.

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

	Yen (billions)		
	Fiscal year ended March 31,		
	2007	2006	2005
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.

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(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.

(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)		
	2007	2006	Percent change
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.

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.

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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.

(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