

MATSUSHITA ELECTRIC INDUSTRIAL CO LTD

Form 20-F

September 11, 2006

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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, 2006

Commission file number 1 - 6784

MATSUSHITA DENKI SANGYO KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

| <u>Title of Class</u> | <u>Outstanding as of</u> | |
|---|--|---|
| | <u>March 31, 2006 (Japan Time)</u> | <u>March 31, 2006 (New York Time)</u> |
| Common Stock | 2,209,531,991 | |
| American Depositary Shares, each representing 1 share of Common Stock | | 183,029,886 |

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

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

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

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

Item 17. Item 18. .

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

Large accelerated filer Accelerated filer Non-accelerated filer .

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

This form contains 173 pages.

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All information contained in this Report is as of March 31, 2006 or for the year ended March 31, 2006 (fiscal 2006) 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 23, 2006 was 116.43 yen = U.S.\$1.

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 and its Group companies (the Matsushita Group). 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 (September 2006). 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.

About the Company

Matsushita Electric Industrial Co., Ltd. (hereinafter, unless the context otherwise requires, Matsushita 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 8,894 billion yen for fiscal 2006. 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 2006 net sales, nearly one-half was represented by sales in Japan, with the rest by overseas sales.

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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, | | | | |
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| <u>Income Statement Data:</u> | | | | | |
| Net sales | 8,894 | 8,714 | 7,480 | 7,402 | 7,074 |
| Income (loss) before income taxes | 371 | 247 | 171 | 69 | (538) |
| Net income (loss) | 154 | 58 | 42 | (19) | (428) |
| Per common share: | | | | | |
| Net income (loss): | | | | | |
| Basic | 69.48 | 25.49 | 18.15 | (8.70) | (206.09) |
| Diluted | 69.48 | 25.49 | 18.00 | (8.70) | (206.09) |
| Dividends | 17.50 | 15.25 | 12.50 | 10.00 | 12.50 |
| | (\$0.152) | (\$0.145) | (\$0.109) | (\$0.107) | (\$0.100) |
| <u>Balance Sheet Data:</u> | | | | | |
| Total assets | 7,965 | 8,057 | 7,438 | 7,835 | 7,768 |

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| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Long-term debt | 264 | 477 | 461 | 588 | 708 |
| Stockholders equity | 3,788 | 3,544 | 3,452 | 3,178 | 3,248 |
| Common stock | 259 | 259 | 259 | 259 | 259 |
| Number of shares issued at year-end (thousands) | 2,453,053 | 2,453,053 | 2,453,053 | 2,447,923 | 2,138,515 |

Yen exchange rates per U.S. dollar:

| | | | | | |
|----------|--------|--------|--------|--------|--------|
| Year-end | 117.48 | 107.22 | 104.18 | 118.07 | 132.70 |
| Average | 113.15 | 107.49 | 113.07 | 121.96 | 125.05 |
| High | 104.41 | 102.26 | 104.18 | 115.71 | 115.89 |
| Low | 120.93 | 114.30 | 120.55 | 133.40 | 134.77 |

| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | Feb. | Mar. | Apr. | May | Jun. | Jul. |
| | 2006 | 2006 | 2006 | 2006 | 2006 | 2006 |

Yen exchange rates for each month
during the previous six months:

| | | | | | | |
|------|--------|--------|--------|--------|--------|--------|
| High | 115.82 | 115.89 | 113.79 | 110.07 | 111.66 | 113.97 |
| Low | 118.95 | 119.07 | 118.66 | 113.46 | 116.42 | 117.44 |

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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

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 carrying out its businesses, including, but not limited to, the following:

This section includes forward-looking statements and future expectation as of March 31, 2006.

Risks Related to Economic Conditions

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

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

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

Although Matsushita is taking measures to reduce or hedge against foreign currency exchange risks, foreign exchange rate fluctuations may adversely affect its business, operating results and financial condition, because Matsushita's 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 aforementioned major currencies may have a favorable impact on Matsushita's operating results.

Interest rate fluctuations may adversely affect Matsushita's financial results

Matsushita is exposed to interest rate fluctuation risks which, despite measures taken to hedge such risks, may affect the Company's operational costs, interest expense, interest income and the value of its financial assets and liabilities.

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

Matsushita holds mostly Japanese stocks as part of its investment securities. Over the past several years, the value of most of these stocks has dropped substantially due to the stagnant Japanese economy, resulting in losses in valuation declines of investment securities. Such decreases in the value of stocks may continue, causing further adverse effects to Matsushita's financial results. The decrease 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

Matsushita is subject to intense competition in areas in which it operates, and this may adversely affect its ability to maintain its 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 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 results

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, 2007, Matsushita expects that its product prices in many business areas will continue declining, 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 over 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 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 despite its efforts to develop new products and services continuously. 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 demand and new technologies that will be available to meet such demand. 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. In such cases, the Company's competitive position, 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 its future business needs. If this should happen, Matsushita's future growth, 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 venture 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.

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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'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 operations.

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

Many of Matsushita's customers purchase products and services 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 has implemented its mid-term management plan "Leap Ahead 21" (announced on January 9, 2004) for the three-year term ending March 2007. Matsushita's business vision focuses on "realizing a ubiquitous networking society and contributing to coexistence with the global environment through cutting-edge technologies. Based on this vision, Matsushita aims to become a company that creates more value for customers. 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 business 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 April 28, 2006, its annual forecast and major initiatives for the year ending March 31, 2007. However, Matsushita may not be successful in achieving all the targets or in realizing the expected benefits because of 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's 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 reputation, corporate and brand image, and sales activities may be adversely affected.

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Matsushita may fail to protect its proprietary intellectual properties, or face a claim 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 others; however, such licenses may not be available at all or on acceptable terms only 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.

Changes in accounting standards and tax systems may adversely affect Matsushita's financial results and 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 financial results and operations. 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 may be adversely affected.

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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 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, 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.

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, Matsushita's facilities may be seriously damaged, or 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.

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.

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Financial results and condition of associated companies may adversely affect Matsushita's results of operations 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 companies may record losses. If these associated companies do not generate profits, Matsushita's business results and financial condition may be adversely affected.

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.

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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 April 1997, Matsushita established four internal divisional companies responsible for AVC (audiovisual and computer products), home appliances and household equipment, air conditioners, and electric motors by grouping a majority of its some 50 product divisions, in order to facilitate strategic planning, effective decision making and more efficient allocation of resources across a broader range than that afforded by each single product division.

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, the 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.

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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 (MEC), 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.

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 has a 64.5% equity ownership in MTPD.

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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.

Based on an agreement with Minebea Co., Ltd. (Minebea) signed in August 2003, certain businesses in the information equipment motor field of Matsushita were transferred to Minebea-Matsushita Motor Corporation, a joint venture of Matsushita and Minebea established on April 1, 2004. Of the new joint venture company's stated capital of 10 billion yen, 60% was invested by Minebea and 40% by Matsushita.

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.

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 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.

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LEAP AHEAD 21 PLAN

Matsushita's business vision focuses on realizing a ubiquitous networking society and contributing to coexistence with the global environment through leading-edge technologies. Based on this vision, Matsushita will make efforts to achieve global excellence in 2010, or in other words, to become a leading company in all aspects of management and a company that is supported by its customers worldwide. As the midpoint toward achieving this goal, Matsushita established its new mid-term management plan Leap Ahead 21, for the three-year term from fiscal 2005 through 2007.

Accelerating Growth Businesses

In fiscal 2005, Matsushita aggressively launched a new line of V-products to capture top shares in high-volume markets and make a significant contribution to overall business results. At the same time, the Company strengthened Companywide marketing efforts for these products. Through the above mentioned collaboration activities with MEW, Matsushita succeeded in creating an organizational structure under which the Company can provide customers all over the world with solutions for comfortable living in the home and office. Meanwhile, the Company carried out structural reforms through selection and concentration of management resources into priority areas and restructuring of locations.

Matsushita continued investments into strategic businesses and promoted business alliances primarily for flat-panel TVs which global demand is expected to increase significantly.

In January 2005, Matsushita jointly established IPS Alpha Technology, Ltd. with Hitachi, Ltd. (Hitachi), Hitachi Displays, Ltd. and Toshiba Corporation. IPS Alpha Technology, Ltd. began mass production of high-quality panels for LCD TVs in May 2006.

The Company also continues comprehensive collaboration with Hitachi in PDP business, covering development, production, marketing and intellectual property rights. Together, Matsushita and Hitachi will work to improve product performance, lower costs, raise productivity and conduct joint sales promotions, with the aim of building a mutually beneficial cross-licensing relationship.

In fiscal 2006, Matsushita strategically focused investments into cutting-edge system LSIs and other semiconductors that serve as key components in digital AV products, and PDPs, for which global demand is expected to increase significantly. In September 2005, operations commenced at the third domestic PDP plant in Amagasaki, Japan. A month later, Matsushita began mass production of system LSIs from 300mm wafers at its plant in Uozu, Japan.

Reinforcing Management Structures

Matsushita will increase the speed with which it recovers invested capital by reducing assets and further implementing the selection of priority businesses and concentration of management resources into such businesses. Furthermore, in addition to drastically reducing materials procurement costs, Matsushita will further strengthen its management structures through other aggressive cost reduction projects to enhance profitability.

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Since 2001, Matsushita has utilized a cell-style production system, mainly at domestic facilities, where assembly of each product is performed by a single person or a small team. In the process, Matsushita has achieved notable results in terms of improved productivity and employee job satisfaction. Cell-style production results in improved cost-competitiveness by making continual improvements, shortening delivery times and minimizing inventory. In March 2005, Matsushita expanded this initiative with a Next Cell Production Project, which targets the further reduction of inventories. Furthermore, the Company will utilize IT to manage such initiatives at Just in Time Production and Vendor Managed Inventory, in which inventory is controlled by each vendor.

In June 2003, Matsushita launched a Corporate Cost Busters Project aimed at lowering expenses on a Companywide basis. To extend this initiative throughout the Matsushita Group, the Company began a Second Corporate Cost Busters Project in fiscal 2006 to eliminate redundancies throughout all areas of the Company.

Reducing consolidated total assets is also a key of Matsushita's commitment to management that focuses on cash flows. Since fiscal 2002, Matsushita has carried out initiatives aimed at reducing total assets, with particular emphasis on inventory reductions as well as fixed asset reductions. Going forward, Matsushita will strive to enhance capital efficiency across all businesses to maximize cash flows.

R&D Strategy

With regard to R&D, the Company will strengthen technological capabilities from a 10-year perspective, with the ultimate goal of consistently creating new value-added products and services. In line with this goal, the Corporate R&D Group established the ten-year Technology Vision as a corporate roadmap for the development of technologies in such areas as next-generation system LSIs, networkable consumer electronics and fuel cell cogeneration systems for the home. Shared company-wide and reviewed annually, this roadmap will be the basis for the selection of R&D projects, and the concentration of resources into them. Through Development Process Innovation Management (DPIM) at each business domain company, based on evaluation of return on investment, Matsushita will further reduce product development lead times.

New Initiatives to Maximize Shareholder Value

In fiscal 2005, Matsushita started to implement new initiatives to maximize shareholder value, including policies to increase dividend payments and execute its own share repurchases. Historically, Matsushita has maintained stable levels of cash dividends. Then, in fiscal 2005, the Company reassessed this policy and, in line with growth strategies outlined in the Leap Ahead 21 plan, decided to proactively return profits to shareholders taking into consideration consolidated business performance. Specifically, the Company provides shareholder return in the form of cash dividends and share repurchases, with due consideration to the level of cash flows. With respect to dividends, Matsushita pursues steady and continuous growth of return to shareholders, while at the same time taking into

consideration various factors including mid-term business performance, capital expenditure requirements and the Company's financial condition. As for share repurchases, the Company aims to achieve reductions in the total number of outstanding shares, in effect, in an effort to raise shareholder value on a per-share basis. Based on this new policy, in fiscal 2005, Matsushita increased annual cash dividends to 15 yen per share and, in effect, reduced outstanding shares through repurchases of approximately 60 million of its own shares for approximately 92.9 billion yen from the market. Matsushita plans to increase total dividends per share for fiscal 2007 to 30 yen per share, compared with 20 yen per share in fiscal 2006. From May 2005 to the end of March 2006, the Company executed share repurchases from the market totaling approximately 83 billion yen, and plans to repurchase a maximum of 50 million shares, up to 100 billion yen, from May 2006 to the end of March 2007.

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Meanwhile, with recent trends toward the globalization of capital markets, corporate acquisitions are likely to increase. Under the basic philosophy that shareholders should make final decisions regarding large-scale purchases of Matsushita shares, the Company established a new policy regarding large-scale purchases of Matsushita shares (ESV* plan). The ESV Plan will also continue through fiscal 2007. (For further details, see No. 15.1 of Item 19.)

In June 2006, Fumio Ohtsubo became President of Matsushita. Under its new management, Matsushita will continue to pursue innovation to achieve global excellence in 2010 and contribute to a ubiquitous networking society and coexistence with the global environment.

* ESV stands for Enhancement of Shareholder Value.

CAPITAL INVESTMENT

Total capital investment amounted to 271 billion yen, 374 billion yen and 346 billion yen for fiscal 2004, 2005 and 2006, respectively. The increase of capital investment during fiscal 2005 from the previous year is attributed partly to the consolidation of MEW and PanaHome and their respective subsidiaries. (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.

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, | | | | | |
| | 2006 | | 2005 | | 2004 | |
| AVC Networks | 3,986 | 3% | 3,859 | 1% | 3,840 | 5% |
| Home Appliances | 1,241 | 1 | 1,230 | 1 | 1,223 | 2 |
| Components and Devices | 1,368 | (7) | 1,469 | (12) | 1,660 | (3) |
| MEW and PanaHome | 1,747 | 4 | 1,686 | | | |
| JVC | 703 | (4) | 730 | (11) | 819 | (4) |
| Other | 1,315 | 28 | 1,027 | 8 | 949 | 16 |
| Eliminations | (1,466) | | (1,287) | | (1,011) | |
| Total | 8,894 | 2% | 8,714 | 17% | 7,480 | 1% |

* Percentage above reflect the changes from the previous year.

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- Notes: 1. MEW, PanaHome and their respective subsidiaries became consolidated subsidiaries of the Company on April 1, 2004. Accordingly, a new business segment, MEW and PanaHome, has been added from fiscal 2005.
2. Under the collaboration with MEW, the Company reorganized business and sales channels in such areas as electrical construction materials, building equipment and home appliances. Accordingly, fiscal 2005 business segment information for Home Appliances and MEW and PanaHome has been reclassified to conform with fiscal 2006 for information by business segment.

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 TVs, Matsushita produces a broad range of models to meet all segments of demand in domestic and international markets, ranging from cathode ray tube (CRT) models to flat-panel TVs, such as plasma TVs and liquid crystal display (LCD) TVs. For large-screen flat-panel TVs, the 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 2004, Matsushita adopted a new global brand of VIERA series for its flat-panel TVs and introduced new HD plasma TVs with built-in a unique picture enhancement accelerator with kinetic system (PEAKS) for outstanding picture quality. 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 and responded to the growing demand of large-screen TVs. Then, in fiscal 2006, Matsushita realized full HD (2.07 million pixels of 1,920 horizontal and 1,080 vertical pixels) of the 65-inch plasma TV and developed the world's largest 103-inch full HD PDP, aiming to commercialize the product during 2006. To maintain top market shares in plasma TVs, the Company has been expanding PDP manufacturing facilities and strengthening its production capabilities. In February 2004, the Company started manufacturing of plasma TVs at its No. 2 domestic plant in Osaka, Japan, expanding annual production capacity to 1.8 million units worldwide in December 2004. Responding to the growing demand of plasma TVs, a No. 3 domestic plant began operating in September 2005, thus expediting annual production to 3.6 million units worldwide in December 2005. The No. 3 domestic plant will reach full capacity in fiscal 2007, boosting worldwide capacity to 5.5 million units.

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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 under. For LCD TVs with screen sizes of 26- to 32-inches, the Company jointly established IPS Alpha Technology, Ltd. with Hitachi, Ltd., Hitachi Displays, Ltd. and Toshiba in January 2005 and began mass producing in June 2006 aiming to secure a stable supply of high-quality TV-use LCD panels. Regarding CRTs, in order to strengthen competitiveness, Matsushita and Toshiba integrated CRT operations and established Matsushita Toshiba Picture Display Co., Ltd., in April 2003, and accelerated business and organizational restructuring including closure/integration of locations, thereby creating an optimum structure that facilitates the effective use of management resources. (See Section A of this Item 4 for more information about joint ventures related to CRT and LCD).

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 2004, Matsushita began simultaneous global product introductions for a new line of DVD recorders, adopted a new global brand of DIGA series for its DVD recorders and accelerated product shift from VHS video recorders to DVD recorders. In particular, Matsushita introduced a series of new models, such as the industry's first DVD/VCR combination model and a model which allows remote programmability via mobile phones. 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 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.

For SD Memory Cards, the use of SD Memory Card in PCs, mobile phones, car navigation systems and other new products is rapidly increasing, as well as providing a bridge media for flat-panel TVs and other digital AV products, thereby solidifying the SD Memory Card's position as the industry standard.

For digital cameras which is the centerpiece of SD Memory Card compatible products, new models that leverage unique and advanced technologies, such as aspherical lenses and optical image stabilizers (OIS), enjoyed notable market success in fiscal 2004. In fiscal 2005, a new model featuring OIS and a large 2.5-inch LCD in a slim 24.2 mm body achieved one of the top shares in the domestic 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 domestic market. Overseas sales of digital cameras also increased, particularly in the European market.

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For video cameras, Matsushita introduced a new line of compact easy-to-use models incorporating OIS and 3CCD camera system featuring outstanding picture quality for both video and still pictures. The 3CCD camera system which uses separate CCD to process each of the three primary components of light (Red/Green/Blue) boosts 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 expands development of products compatible with DVD, SD Memory Cards and other bridge media from conventional digital video tape models. In fiscal 2006, Matsushita expanded its lineups of DVD video cameras. In October 2005, 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 audio equipment, Matsushita produces a variety of products, including home audio equipment such as mini-component stereo systems, home theater systems, and portable audios such as radios, radio cassette recorders and headphone players/recorders. The demand for audio equipment is shifting rapidly from analog to digital products. Particularly, demand continues to grow for digital audio players compatible with PCs and Matsushita promotes SD audio players which enable to enjoy music without the use of PC. In April 2005, Matsushita simultaneously unveiled digital audio players, using the SD Memory Cards as a bridge media, and the world's first mini-component stereo system featuring an SD card slot and the aforementioned digital audio players were well-received in the Japanese market. In November 2005, the Company strengthened its product lineup with the launch of mini-component stereo system equipped with a hard disk drive. By utilizing SD Memory Cards as a bridge media, Matsushita proposes a new way to enjoy music in the car in place of conventional cassette tapes, and through mobile phones particularly in Japan.

With respect to PCs, Matsushita continued to upgrade its notebook models over the last several years, concentrating on lightweight notebook PCs and ruggedized notebook PCs. In fiscal 2004, Matsushita introduced the world's lightest (1,299 grams) B5-sized notebook PC with a 12.1-inch LCD screen and a built-in DVD-ROM and CD-R/RW combination drive. In fiscal 2005, Matsushita introduced the world's lightest (1,290 grams) B5-sized notebook PC with a 12.1-inch LCD screen and a built-in DVD Super 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 the area of PC peripherals, Matsushita has been focusing on upgrading its optical disc drive lineups. To meet the demand for slimmer, lighter-weight optical disc drives for notebook PCs, in fiscal 2004, the Company introduced the industry's thinnest and lightest DVD multi drives compatible with DVD-RAM, DVD-R and DVD-RW formats. 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 Blu-ray Disc Drive.

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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 2004, Matsushita introduced a new model with a built-in auto-focus 1.28 megapixel CCD camera and interchangeable decorative jackets with which users can enjoy their favorite designs in Japan. Meanwhile, Matsushita expanded its business in overseas markets, GSM standard mobile phones including clamshell design camera-equipped handsets and ultra-compact, stylish models received favorable acclaim in Europe and China. In fiscal 2005, new models with interchangeable decorative jackets and SD memory card compatibility, aimed at strengthening coordination with AV equipment, were introduced in Japan. However, in overseas markets, performance of mobile phones on the whole was unfavorable, due to such factors as increased inventory 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, as demand continues to shift to 3G. Owing to these factors, performance of the mobile phone business on the whole has continued to be severe. In light of this situation, Matsushita announced that it will phase out overseas 2.5G mobile phone businesses, and subsequently restructure certain overseas locations, including manufacturing operations in the Philippines and the Czech Republic. Matsushita will concentrate management resources on development of post-3G, next-generation technologies.

In the area of fixed-line communications, Matsushita integrated its communications and digital imaging technologies through a merger of two major subsidiaries in early 2003. As a result, in addition to its lineup of telecom products such as facsimile equipment, cordless telephones, copiers and printers, the Company has, in recent years, developed multifunction digital equipment that integrate facsimile, copier, printer, scanner and telephone functions into a single unit. In fiscal 2005, the Company has also 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 an High Definition Power Line Communication (HD-PLC) module 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.

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In the area of automotive electronics, Matsushita supplies advanced car navigation systems for the domestic market, while further promoting global expansion in car audio equipment. Demand has grown steadily for DVD-equipped car multimedia systems. In response, in fiscal 2004, the Company introduced a new car navigation system series in Japan that incorporates DVD and other AV entertainment features. The Company continued to launch new products in this series in fiscal 2005. 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 of car navigation systems with digital tuners that allow viewing of high-quality terrestrial digital TV broadcasts. Overseas, the Company launched the Strada series in China, a market characterized by its high-growth potential. Driven by strong sales, particularly in North America, Matsushita retained its leading global position in rear-seat entertainment systems. Receiving high market acclaim for user-friendliness, 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 cars, which continue to enjoy increased demand, car-mounted cameras and intelligent keyless systems.

In the area of broadcast-use AV equipment and systems, DVCPRO camera recorder systems remain the Company's flagship product. In fiscal 2004, Matsushita announced the new DVCPRO P2, which is designed to use SD Memory Cards as an alternative recording media to video tape. Meanwhile, with the start of terrestrial digital broadcasting in Japan in December 2003, Matsushita supplied digital broadcasting systems, including a compact, lightweight DVCPRO series, to major TV broadcasting stations in Japan. Sales of set-top boxes for cable TVs were also favorable. Meanwhile, Matsushita's leading position in the global in-flight AV systems market has been strengthened by continued deliveries of popular AV systems with LCD monitors and advanced personal multimedia systems that allow passengers to enjoy in-flight entertainment and shopping from their seats. 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 outstanding picture quality. With the establishment of an Integrated IP Network Platform Center in October 2005, Matsushita is accelerating business development of comprehensive security businesses. Other products, including payment terminals for logistics industries and product tracking systems, also contributed to increased sales.

Home Appliances

Matsushita's principal products in this segment include home appliances, such as washing machines, vacuum cleaners, dishwasher/dryers, rice cookers, microwave ovens and induction-heating (IH) cooking equipment; refrigeration and air conditioning equipment such as refrigerators and room air conditioners; and household equipment, mainly electric and gas water heating systems, and sanitary equipment. 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, providing products and services that foster a sense of security and brand loyalty.

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In the area of electric home appliances and refrigeration and air conditioning equipment, Matsushita in fiscal 2004 introduced a hydrofluorocarbon (HFC)-free, energy-saving refrigerator that preserves food while removing odors and eliminating bacteria, and an air conditioner that features ventilating functions and a unique oxygen charging technology. Also in fiscal 2004, the Company announced a tilted-drum washer/dryer incorporating universal design concepts and environmentally friendly features. In fiscal 2005, the Company expanded its lineup, and these washer/dryers seized the top share in domestic unit sales by model type. Also 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. Furthermore, in global markets, the Company expanded sales of high-value-added home appliances in China and Asia, while at the same time enhancing brand image. Products for these markets include tilted-drum washer/dryers, HFC-free refrigerators and air conditioners with oxygen enrichment functions. In fiscal 2006, Matsushita increased sales in home appliances products such as more energy-efficient tilted-drum washer/dryers to employ a heat-pump drying system, air conditioners that requires no cleaning or filter change for 10 years and refrigerators with 50% more freezer space that was well-received in the domestic market. Overseas, Matsushita began production of tilted-drum washer/dryers at its Hangzhou, China plant in August 2005, aiming to increase production capacity in China.

In the area of household equipment, in fiscal 2004, a new water heating system was launched. This product uses CO₂ as a natural refrigerant and boasts the industry's highest energy efficiency. In fiscal 2005, Matsushita, together with Tokyo Gas Co., Ltd., introduced a fuel cell co-generation system for the home. In CO₂ water heating systems, the Company maintained high domestic market shares by strengthening product competitiveness and expanding product lineups in fiscal 2006.

In the healthcare systems business, in fiscal 2004, Matsushita's blood glucose monitoring system that measures the glucose level quickly and accurately with just a small amount of blood contributed to the Company's sales increase. In fiscal 2005, Matsushita expanded product lines of ultrasonic diagnostic equipment. In fiscal 2006, the Company introduced the world's first cordless rechargeable carbon dioxide surgical laser for dental use.

In the lighting business, in fiscal 2003 Matsushita developed an electrodeless ballasted compact fluorescent lamp featuring low power consumption and extended life. In fiscal 2004, the Company introduced an incandescent lamp with double life-span of current models. In fiscal 2005, an energy-saving lamp characterized by its spiral-shaped fluorescent tube was introduced with a wide product range. Furthermore, in fiscal 2006, Matsushita significantly increased its market share in consumer-use fluorescent lamps. This strong performance was underpinned by new fluorescent lamps with extended lifetime and spiral-shaped compact fluorescent lamps. Meanwhile, the Company outperformed the industry in sales growth of LCD backlights.

In the environment systems business, in fiscal 2004, Matsushita enjoyed favorable domestic sales of a new product that simultaneously supplies and ventilates air. The Company also supplied solar and wind power generation systems to the 2004 Athens Olympics in fiscal 2004, and the Aichi World Expo in fiscal 2005. In fiscal 2006, overseas sales were particularly strong for ventilation systems. At the same time, the Company released a micro-mist sauna for the bathroom, attracting significant market acclaim in Japan. Also, combining the Company's black-box technologies with those of MEW, Matsushita launched an ion-generating air purifier, which uses ultra-fine ion particles that penetrate deep into fabric fibers to inhibit bacteria buildup and eliminate unpleasant odors.

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Components and Devices

Matsushita's semiconductor business is primarily made up of integrated circuits (ICs), such as system LSIs and bipolar ICs, discrete devices and image sensors including charge coupled devices (CCDs). Utilizing its extensive know-how and high speed, low-power consumption, and ultra-fine process technologies, Matsushita has been focusing its efforts on five main growth businesses: digital TVs, optical disc-related products, mobile communications, image sensors and automotive devices.

In fiscal 2004, Matsushita began mass production of 0.18-micron FeRAM (ferroelectric random-access memory)-embedded system-on-a-chip (SoC), a system LSI for mobile network applications. Furthermore, in fiscal 2005, to address the challenge of shortened product lifecycles, Matsushita developed an Integrated Platform that combines software and hardware resources across differing product categories to improve R&D efficiency and design quality. In fiscal 2006, the Company expanded applications for digital products such as SD camcorder and mobile phone, featuring the aforementioned Integrated Platform.

In the area of image sensors, in fiscal 2004, the Company developed a MOS image sensor, featuring high image quality and low power consumption. In fiscal 2005, the Company expanded product lines, and began mass-producing and shipping the industry's smallest camera modules featuring this MOS image sensor. Through these efforts, in fiscal 2006, Matsushita recorded sales growth in image sensors.

Regarding production, overseas operations have been strengthened and expanded. In fiscal 2004, in succession to system LSI, Matsushita began mass production of image sensors in Singapore. Moreover, in Japan, to advance process technology of system LSIs from the conventional 0.13-micrometer process, the Company began construction of a new semiconductor factory, establishing a cutting-edge production process for 300mm wafers in fiscal 2005. In fiscal 2006, Matsushita became the world's first company to commence mass production of 65-nanometer process system LSIs using 300mm wafers, thereby achieving significant improvements in production efficiency.

The electronic devices business covers a wide range of products in growth markets including digital AV, information communications and automotive electronics. Matsushita strives to develop high value-added products in seven priority areas: capacitors, modules, printed circuit boards, power supply and inductive products, circuit components, electromechanical components and speakers. In fiscal 2004, Matsushita expanded sales with a focus on priority areas including high-fidelity speakers for flat-panel TVs, weight sensors for protective airbags and multilayer printed circuit boards. In fiscal 2005, the Company concentrated efforts in the development of ALIVH (Any Layer Inner Via Hole) multilayer printed circuit boards facilitating compact design and 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, weight sensors for protective airbags and multilayer printed circuit boards. The Company also saw continued strong sales of circuit components for AV equipment and electromechanical components such as automobile switches.

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The battery business consists of primary batteries, including dry batteries, and rechargeable batteries, such as lithium-ion batteries. Responding to increased performance requirements for digital equipment, including digital cameras, mobile phones and notebook PCs, Matsushita develops and supplies high-performance batteries, such as long-lasting alkaline batteries and lithium-ion rechargeable batteries. In fiscal 2004, to meet increasing demand from mobile phone manufacturers, the Company reinforced its supply structure for lithium-ion batteries. Meanwhile, in fiscal 2005, Matsushita launched Oxyride, a revolutionary dry battery that provides increased output, and approximately 1.5 times longer battery life, compared with ordinary alkaline batteries in Japan. In fiscal 2006, Matsushita expanded global marketing initiatives for Oxyride, whereby now covering 35 countries worldwide, attracting significant market acclaim, particularly for use in digital equipment. In rechargeable batteries, the Company continued to focus management resources on lithium-ion batteries. In this area, Matsushita is developing products that feature compact design and enhanced overall performance, allowing extended use in such product applications as notebook PCs, mobile phones and other mobile equipment. Matsushita also developed new lithium-ion batteries with higher capacity and the industry's highest energy density.

In electric motors, Matsushita supplies products that meet growing market needs in terms of efficiency, noise reduction, compact design and energy conservation. These motors are incorporated into various products, including home appliances, AV equipment and industrial equipment. In October 2003, Matsushita transferred the HDD-use fluid dynamic bearing motor business to Matsushita Kotobuki Electronics Industries, Ltd. (currently Panasonic Shikoku Electronics Co., Ltd.), and discontinued operations in two domestic manufacturing subsidiaries in December of that year. 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 Matsushita 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. The Company also expanded its home- and industrial-use electric motor manufacturing operations in China to better serve the needs of finished product manufacturers expanding in that region. Fiscal 2006 saw strong sales of power brushless motors for document production equipment, and, in North America, fan motors for refrigerators. Matsushita also accelerated the implementation of its value chain strategy to facilitate 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.

MEW and PanaHome

This segment includes Matsushita Electric Works, Ltd. (MEW), PanaHome Corporation (PanaHome) and their respective subsidiaries. Major products in this business include MEW's electrical construction materials, home appliances, building products, electronic and plastic materials, and automation controls, and PanaHome's detached housing, home remodeling, and asset and property management businesses.

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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 developed the growing home renovation 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.

To provide living spaces that are friendly to both people and the environment, PanaHome focuses product strategies on the Eco-life concept, which emphasizes safety, security, health, comfort and high energy efficiency. The Company is developing its main businesses of detached housing, asset and property management and home remodeling based on this Eco-life concept. 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 using photocatalyst technology to reduce maintenance costs. In fiscal 2006, PanaHome's detached housing business continued to strengthen new homes with the aforementioned photocatalyst technologies. These technologies were previously used on external wall tiles, and are now applied to windows as well. PanaHome also began marketing Eco-life Home, which 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 augmented business proposals to landowners. PanaHome also promoted consulting-style marketing in the home remodeling business, proposing living spaces that incorporate entirely new concepts.

JVC

The JVC segment consists of businesses of Victor Company of Japan, Ltd. and its group companies. Major products in this segment include consumer electronic equipment such as TVs, camcorders, DVD recorders and players, audio systems, car AV, and other AV products, professional electronic equipment, components, and prerecorded audio and video software and recordable media. These products are sold under the Victor or JVC brand names primarily through

JVC's own sales and distribution networks in Japan and overseas.

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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. As a result of these efforts, in fiscal 2005 JVC introduced an HD-ILA hybrid projection TV employing JVC's unique high-definition micro display device and the industry's first palm-sized hard disk camcorder Everio. In fiscal 2006, JVC achieved monthly production of 20,000 units of HD-ILA hybrid projection TVs in North America, and also began marketing in Japan, Asia, China and Europe. JVC also received global market acclaim in its Everio series camcorders, in which JVC established an industry lead by adopting hard disk drives in place of conventional media.

In the consumer electronics field, JVC has originally placed principal emphasis on display and optical disc products as well as camcorders, car electronics and audio video systems of key business area. In fiscal 2006, JVC focused on HD-ILA hybrid projection systems as the principal business area and also display, camcorder, car electronics, and audio video systems as main business areas in order to meet changing consumer demand.

Digital products and related equipment are growing rapidly in the consumer electronics industry, and in fiscal 2004, JVC expanded its range of LCD TVs and DVD recorders. 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 unique HD-ILA hybrid projection TV was launched in the U.S., and full-scale market introduction also progressed. Car electronics products recorded strong growth, but sales of digital camcorders were down, and audio systems sales slackened in Europe. In fiscal 2006, JVC strengthened HD-ILA hybrid projection TVs and launched new series of HDD camcorders. Despite such efforts, businesses of DVD recorders and audio equipment 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 the professional electronics field, JVC has focused on two categories, security and presentation systems. In fiscal 2004 and 2005 sales of security systems, including surveillance cameras, recorded consistent growth. In fiscal 2006, security products faced difficult situations in Japan, although overseas sales in professional-use HDV camera recorders and security products increased.

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

JVC's software and media businesses are comprised of 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.

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JVC's software business has been operated mainly in Japan. In fiscal 2004, JVC released hit albums from such artists as the Southern All Stars and SMAP. To reinforce its content rights business, JVC established JEN (JVC Entertainment Networks Inc.). Fiscal 2005 was also characterized by severe business circumstances, due to postponement of major releases by popular artists, and decrease in sales of music software stemming from the expiration of sales consignment contracts with key industry players. As for the media business operating worldwide, JVC strengthened sales of such digital media as DVD-RW and Mini DV tapes. Market conditions in fiscal 2005 were tough for recording tapes due to rapid fall in sales prices of Mini DV tapes and declining demand in VHS recording tapes. However, recordable DVD discs 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 the 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.

Other

Matsushita's Other segment includes factory automation (FA) equipment, industrial robots, welding machines, power distribution equipment and other industrial equipment. Matsushita strives to enhance services provided to customers through innovative manufacturing processes in circuit manufacturing technology. Responding to various needs of customers at the factory, the Company provides optimal solutions in electronic component mounting, semiconductor mounting, manufacturing processes, welding machines and robots.

In the FA business, Matsushita provides optimal solutions in electronic component mounting, semiconductor mounting and manufacturing processes. Responding to the ever-diversified needs of its customers at the factory, Matsushita provides innovative manufacturing processes in circuit manufacturing technology. In fiscal 2004, the Company enhanced growth by strengthening the electronic component mounting system business and fine device bonding system business supported by active FA equipment demand from Euro-American Electronics Manufacturing Services (EMS) in China, Taiwan and Korea, and Taiwanese manufacturers' Original Design Manufacturing (ODM) as a result of increasing demand for digital AV products, mobile phones and PCs. In fiscal 2005, the 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 continued steady sales growth in the aforementioned electronic component mounting business and semiconductor mounting business. Furthermore, Matsushita developed the industry-first Integrated Process Assembly Cell (IPAC), a modular line that combines electronic component and semiconductor mounting in one platform.

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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, | | | | | |
| | 2006 | | 2005 | | 2004 | |
| Japan | 4,611 | 52% | 4,581 | 53% | 3,478 | 46% |
| North and South America | 1,387 | 16 | 1,283 | 14 | 1,327 | 18 |
| Europe | 1,114 | 12 | 1,122 | 13 | 1,080 | 15 |
| Asia and Others | 1,782 | 20 | 1,728 | 20 | 1,595 | 21 |
| Total | 8,894 | 100% | 8,714 | 100% | 7,480 | 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.

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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 638 consolidated companies as well as 67 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 48% of the Company's total consolidated sales in fiscal 2006.

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.

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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.

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 in Japan and abroad. 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 purchasing by concentrating order placements to qualified suppliers from all over the world and buying the most competitive parts and materials.

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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.

PATENT LICENSE AGREEMENTS

Matsushita holds numerous Japanese and foreign patent registrations 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.

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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 and 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 end-of-life 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 13 billion yen at March 31, 2006 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.

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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 the recycling of electric and electronic equipments, and the other is the RoHS Directive that bans the sales of electrical and electronic equipment using the 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. In 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.

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 as of the end of October 2005 are also excluded.

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 suppliers of kerosene.

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).

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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, 2006 comprise the accounts of 638 consolidated companies, with 67 companies reflected by the equity method.

Principal divisional companies and subsidiaries as of March 31, 2006 are as listed below:

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

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

- (2) Principal domestic subsidiaries:

| <u>Name of company</u> | <u>Percentage owned</u> |
|---|-------------------------|
| Matsushita Electric Works, Ltd. | 52.1% |
| Victor Company of Japan, Ltd. | 52.7 |
| Panasonic Communications Co., Ltd. | 100.0 |
| PanaHome Corporation | 54.8 |
| Panasonic Electronic Devices Co., Ltd. | 100.0 |
| Panasonic Mobile Communications Co., Ltd. | 100.0 |
| Matsushita Plasma Display Panel Co., Ltd. | 75.0 |
| 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 |

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Note: Organizational changes implemented, effective April 1, 2005, are as follows:

Matsushita Electronic Components Co., Ltd. was renamed Panasonic Electronic Devices Co., Ltd.

Matsushita Kotobuki Electronics Industries, Ltd. was renamed Panasonic Shikoku Electronics Co., Ltd.

(3) Principal overseas subsidiaries:

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

Note: Organizational changes implemented, effective July 1, 2005, are as follow:

Guangzhou Matsushita Air-Conditioner Co., Ltd. was renamed Panasonic Home Appliances Air-Conditioning (Guangzhou) Co., Ltd.

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.

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The following table sets forth information as of March 31, 2006 with respect to manufacturing facilities:

| <u>Location</u> | <u>Floor Space (thousands of square feet)</u> | <u>Principal Products Manufactured</u> |
|------------------------------|---|--|
| Osaka | 10,749 | Plasma TVs, DVD products, washing machines, other home appliances, information equipment, industrial equipment, components, batteries, kitchen fixtures, building products. |
| Shiga | 5,918 | Air conditioners, refrigerators, compressors, vacuum cleaners, other home appliances, building products, housing products. |
| Kanagawa | 4,170 | Communications, information equipment, VCRs, audio equipment, car AV equipment, compact discs, refrigerators, batteries. |
| Hyogo | 3,521 | Plasma TVs, PCs, cooking appliances, components. |
| Tochigi | 2,859 | LCD TVs, building products. |
| Ibaraki | 2,491 | Recordable media, information equipment, housing products. |
| Okayama | 1,982 | Camcorders, components. |
| Kyoto | 1,968 | Semiconductors, components, lighting products. |
| Nara | 1,720 | Home appliances, gas equipment. |
| Shikoku | 3,063 | Information equipment, home appliances, building products. |
| Kyushu | 4,415 | Information and communications equipment, components, industrial equipment, building products, housing products. |
| North America | 7,041 | TVs, home appliances, VCRs, DVD discs, car audio equipment, communications equipment, components, batteries, automation controls, lighting products. |
| Europe | 3,515 | Plasma TVs, TVs, car audio equipment, home appliances, components, information and communications equipment, automation controls, lighting products. |
| Asia (excluding China) | 23,131 | TVs, VCRs, 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, housing products. |
| China | 10,223 | 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 | 23,148 | Home appliances, industrial equipment, components, semiconductors, video and audio equipment, batteries, information and communications equipment, lighting products, automation controls, housing products. |
| Total | 109,914 | |

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

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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 13.9 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 10.9 million square feet, and administrative offices with an aggregate floor space of approximately 23.5 million square feet.

As of March 31, 2006, Matsushita leased approximately 26.9 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 2006, 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, 2006 and which remain unresolved as of the date of the filing of this Form 20-F with the Commission.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

Matsushita is one of the world's leading producers of electronic and electric products. Matsushita currently offers a comprehensive range of products, systems and components for consumer, business and industrial use based on sophisticated electronics and precision technology, expanding to building materials and equipment, and housing business. Most of Matsushita's products are marketed under Panasonic, its principle brand name, and several other brand names, including National, Technics, Quasar, Victor, JVC and PanaHome. Matsushita divides its business into six segments: AVC Networks, Home Appliances, Components and Devices, MEW and PanaHome, JVC and Other. AVC Networks includes video and audio equipment, and information and communications equipment. Home Appliances includes household equipment. Components and Devices includes semiconductors, general electronic components, batteries and electric motors. MEW and PanaHome includes electrical supplies, home appliances, building materials and equipment, and housing business. JVC includes products marketed under the brand name of JVC or Victor. Other includes electronic-parts-mounting machines, industrial robots and industrial equipment.

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Economic environment

The Japanese economy over the last three fiscal years was generally characterized by gradual recovery from the long continued stagnancy in the 1990 s. In the year ended March 31, 2004, economic growth in Japan showed moderate improvement as a result of rising exports and increased capital investment. 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. However, 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, 2005, 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.

The overseas economy, in the year ended March 31, 2004, was generally favorable owing to the continuously steady advances in the U.S. and Chinese economies, although post-war Iraq and other unstable factors remained. In the year ended March 31, 2005, the global economy 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 a result of an improved U.S. employment situation, as well as the high-growth Chinese economy. The global economy, in the year ended March 31, 2006, was favorable overall, with strong growth in the U.S. and China.

Condition of foreign currency exchange rates and Matsushita s policy

Foreign currency exchange rates fluctuated during the three-year period ended March 31, 2006. In the year ended March 31, 2004, the Japanese yen strengthened against the U.S. dollar but weakened against the euro, and in the following year, this trend continued. Meanwhile, in the year ended March 31, 2006, the Japanese yen was weak against the U.S. dollar and the 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 operation s functional currency.

Initiatives implemented by Matsushita

Under the aforementioned economic environment, Matsushita implemented a variety of major Companywide restructuring initiatives to transform itself into a lean and agile Matsushita, based on the theme Deconstruction and Creation of its mid-term business plan, Value Creation 21, which covered the three-year period ended March 31, 2004. In fiscal 2004, Matsushita continued to implement business domain-based restructuring initiatives, while accelerating its growth strategies. In fiscal 2006, the second year of its mid-term Leap Ahead 21 plan, ending March 2007, the Company continued to focus on the growth strategies, which include (1) the launch of differentiated products such as a new line of V-products, (2) the comprehensive collaboration with MEW, through which Matsushita integrated overlapping businesses and reformed distribution channels to establish an optimized, customer-oriented business structure, and (3) the acceleration of business and organizational restructuring that began in fiscal 2004, including the selection and concentration of businesses and closure/integration of locations at each business domain company. (For details of the Leap Ahead 21 plan, see Section A of Item 4.)

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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 2004, net sales increased 1% to 7,480 billion yen, led by strong sales of V-products, particularly digital AV products, mobile phones and factory automation (FA) equipment, which were sufficient to offset sales declines in the Components and Devices and JVC categories. The sales increase positively affected earnings. In addition, Matsushita recorded a 72 billion yen gain from the transfer to the Japanese government of the substitutional portion of Japanese Welfare Pension Insurance (JWPI) that the Company and certain of its subsidiaries operated on behalf of the Japanese government. Meanwhile, Matsushita incurred restructuring charges of 45 billion yen for early retirement programs at certain domestic group companies, and losses of 52 billion yen on valuation of investment securities, mainly stocks of affiliated companies. Reflecting all these factors, and despite an increase in minority interests due to improved earnings of certain subsidiaries and equity in losses of certain associated companies, the Company recorded a net income of 42 billion yen.

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 competitions. In addition, Matsushita enjoyed a 32 billion yen gain from the return to the Japanese government of the substitutional portion of JWPI 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 the 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 competitions. 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.

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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, | | |
| | 2006 | 2005 | 2004 |
| Net sales | 8,894 | 8,714 | 7,480 |
| Income before income taxes to net sales ratio | 4.2% | 2.8% | 2.3% |
| Research and development costs to net sales ratio | 6.3% | 7.1% | 7.7% |
| Total assets | 7,965 | 8,057 | 7,438 |
| Stockholders' equity | 3,788 | 3,544 | 3,452 |
| Stockholders' equity to total assets ratio | 47.6% | 44.0% | 46.4% |
| Capital investment | 346 | 374 | 271 |
| Free cash flow | 982 | 287 | 388 |

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.

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

| | Yen (billions) | | |
|---|------------------------------------|-------------------|-------------------|
| | Fiscal year ended March 31, | | |
| | 2006 | 2005 | 2004 |
| | <u> </u> | <u> </u> | <u> </u> |
| Purchases of property, plant and equipment shown as capital expenditures in the consolidated statements of cash flows | 357 | 352 | 276 |
| Effects of timing difference between acquisition dates and payment dates | (11) | 22 | (5) |
| | <u> </u> | <u> </u> | <u> </u> |
| Capital investment | 346 | 374 | 271 |
| | <u> </u> | <u> </u> | <u> </u> |

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, |
| <u> </u> |

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| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|-------------|
| Net cash provided by operating activities | 575 | 465 | 473 |
| Net cash provided by (used in) investing activities | 407 | (178) | (85) |
| Free cash flow | <u>982</u> | <u>287</u> | <u>388</u> |

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

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.)

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(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**

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

(9) Net Income

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

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(10) Results of Operations by Business Segment

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

| | Yen (billions) | | Percent change |
|----------------------------|----------------|--------------|----------------|
| | 2006 | 2005 | |
| Sales: | | | |
| AVC Networks | 3,986 | 3,859 | 3% |
| Home Appliances | 1,241 | 1,230 | 1 |
| Components and Devices | 1,368 | 1,469 | (7) |
| MEW and PanaHome | 1,747 | 1,686 | 4 |
| JVC | 703 | 730 | (4) |
| Other | 1,315 | 1,027 | 28 |
| Eliminations | (1,466) | (1,287) | |
| Total | 8,894 | 8,714 | 2% |
| Segment profit: | | | |
| AVC Networks | 191 | 127 | 50% |
| Home Appliances | 77 | 75 | 3 |
| Components and Devices | 81 | 58 | 40 |
| MEW and PanaHome | 73 | 67 | 9 |
| JVC | (6) | 10 | |
| Other | 62 | 38 | 62 |
| Corporate and eliminations | (64) | (67) | |
| Total | 414 | 308 | 34% |

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

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

sufficient to offset decreased sales in mobile phones.

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

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

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

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

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

Sales of MEW and PanaHome increased 4% to 1,747 billion yen, compared with 1,686 billion yen a year ago. Sales at MEW and its subsidiaries were mostly unchanged from the previous year, with favorable sales in electrical construction materials and automation controls. At PanaHome Corporation, sales gains were recorded in detached housing, contributing to increased sales overall.

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

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

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

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

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

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

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Year ended March 31, 2005 compared with 2004**(1) Sales**

Consolidated net sales for fiscal 2005 increased 16% to 8,714 billion yen, from 7,480 billion yen in the previous year, mainly contributed by a new series of competitive V-products and the addition of MEW, PanaHome and respective subsidiaries to the Company's consolidated financial results. As mentioned earlier, the overall economic situation in Japan during fiscal 2005 was favorable, characterized by increased consumer spending, sufficient to offset the negative factors such as a strong Japanese yen, rising raw materials costs, and intensified global price competition. Amid these circumstances, Matsushita aimed to increase sales and enhance profitability through the launch of a new series of competitive V-products. The Company also expanded simultaneous global product introductions in digital AV products, 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 and home appliances, especially V-products. Although sales in Components and Devices decreased due to downturn of demand in the second half of the fiscal year, the annual sales increased compared with a year ago.

Domestic sales were up 32% to 4,581 billion yen. Although sales of products in the Home Appliances, Components and Devices, JVC and Other categories were below the previous year, the increase of sales in the AVC Networks segment, especially flat-panel TVs, DVD equipment and mobile phones, and the addition of MEW and PanaHome and their respective subsidiaries contributed to the overall sales increase. Overseas sales were 4,133 billion yen, up 3% when translated into yen with sales increases recorded in the Home Appliances and Other categories, and on a local currency basis, sales increased 6%.

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

In fiscal 2005, cost of sales increased 16% to 6,176 billion yen due to the increase in net sales, along with the consolidation of MEW, PanaHome and their respective subsidiaries. Selling, general and administrative expenses were also up 13% to 2,229 billion yen due to the same reason.

(3) Gain from the Transfer of the Substitutional Portion of JWPI

In fiscal 2005, Matsushita recorded a 32 billion yen gain from the transfer to the Japanese government by certain subsidiaries of the substitutional portion of JWPI which represents a decrease of 56% compared with 72 billion yen gain in the previous fiscal year. The Company believes this transfer has reduced the risks of managing plan assets related to the substitutional portion of JWPI. (For further details, see Note 10 of the Notes to Consolidated Financial

Statements.)

(4) Interest Income, Dividends Received and Other Income

In fiscal 2005, interest income amounted to 19 billion yen, remaining mostly unchanged, and dividends received decreased 2% to 5 billion yen. In addition, other income totaled 83 billion yen, a 39% increase from fiscal 2004, due mainly to increased net gain on sale of available-for-sale securities. (For further details, see Note 5 of the Notes to Consolidated Financial Statements.)

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(5) Interest Expense and Other Deductions

In fiscal 2005, interest expense decreased 18% to 23 billion yen, owing to a reduction in the Company's borrowings. Other deductions increased 13% to 174 billion yen. Other deductions in fiscal 2005 include restructuring charges of 111 billion yen, mainly consisting of expenses for early retirement programs to employees at certain domestic and overseas group companies and expenses associated with the closure/integration of locations, compared with 54 billion yen in the previous fiscal year. The substantial portion of the expenses for these restructuring activities were paid or settled in fiscal 2005 and related liability at March 31, 2005 was 3 billion yen. The Company also incurred 30 billion yen for impairment losses on fixed assets, compared with 12 billion yen in fiscal 2004 and a write-down of 16 billion yen on investment securities, compared with 52 billion yen in fiscal 2004. (For further details, see Notes 4, 5, 7 and 15 of the Notes to Consolidated Financial Statements.)

(6) Income before Income Taxes

As a result of the above-mentioned factors, income before income taxes for fiscal 2005 increased 45% to 247 billion yen, compared with 171 billion yen in fiscal 2004. Its ratio to net sales increased 0.5% to 2.8%, compared with 2.3% in the previous year.

(7) Provision for Income Taxes

Provision for income taxes for fiscal 2005 amounted to 153 billion yen, compared with 99 billion yen in the previous year. Its ratio to income before income taxes rose to 62.1%, from 57.7% a year ago, due mainly to an increase in valuation allowance allocated to income tax expenses in certain of its subsidiaries.

(8) Minority Interests

Minority interests increased to 28 billion yen for fiscal 2005, compared with 20 billion yen in fiscal 2004, reflecting the increased minority interests of the newly consolidated subsidiaries including MEW and PanaHome.

(9) Equity in Losses of Associated Companies

In fiscal 2005, equity in losses of associated companies decreased to 7 billion yen, from the previous year's 11 billion yen, due mainly to improved earnings or decreased losses at certain associated companies, despite a decreased equity

in earnings of associated companies due to the consolidation of MEW, PanaHome and their respective subsidiaries.

(10) Net Income

As a result of all the factors stated in the preceding paragraphs, the Company recorded net income of 58 billion yen for fiscal 2005, compared with net income of 42 billion yen in the previous fiscal year.

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(11) Results of Operations

Results of operations by business segment for fiscal 2005, as compared with the previous fiscal year, were as follows:

| | <u>Yen (billions)</u> | | <u>Percent change</u> |
|----------------------------|-----------------------|--------------|-----------------------|
| | <u>2005</u> | <u>2004</u> | |
| Sales: | | | |
| AVC Networks | 3,859 | 3,840 | % |
| Home Appliances | 1,230 | 1,223 | 1 |
| Components and Devices | 1,469 | 1,660 | (12) |
| MEW and PanaHome | 1,686 | | |
| JVC | 730 | 819 | (11) |
| Other | 1,027 | 949 | 8 |
| Eliminations | (1,287) | (1,011) | |
| Total | 8,714 | 7,480 | 16% |
| Segment profit: | | | |
| AVC Networks | 127 | 129 | (1)% |
| Home Appliances | 75 | 53 | 42 |
| Components and Devices | 58 | 50 | 15 |
| MEW and PanaHome | 67 | | |
| JVC | 10 | 25 | (60) |
| Other | 38 | 15 | 161 |
| Corporate and eliminations | (67) | (77) | |
| Total | 308 | 195 | 58% |

Matsushita continues further implementing the selection of priority businesses and concentration of management resources into growth businesses. For the fiscal 2005, Matsushita strengthened its management structure through various cost rationalization initiatives at each business domain company, including the closure and integration of locations, the implementation of early retirement programs to employees, and the promotion of Company-wide cost reduction activities to eliminate redundancies throughout all areas.

Sales in the AVC Networks segment increased 1% to 3,859 billion yen, from 3,840 billion yen in the previous fiscal year. Within this segment, sales of video and audio equipment increased, due mainly to growth in sales of such digital

AV products as flat-panel TVs and digital cameras, which more than offset declines in audio equipment. Sales of information and communications equipment decreased due mainly to the sales declines in mobile phones, fixed-line telephones and facsimile machines, which offset steady sales in PCs and automotive electronics.

With respect to this segment, profit decreased 1% from 129 billion yen for fiscal 2004, to 127 billion yen for fiscal 2005. This decrease was attributable mainly to lower sales in mobile phones and price declines in digital products, in spite of a sales increase and cost rationalization.

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Sales of Home Appliances increased 1% to 1,230 billion yen, due mainly to sales gains in air-conditioners and compressors.

Profit in this segment rose 42% from 53 billion yen for fiscal 2004, to 75 billion yen for fiscal 2005. This increase was due mainly to the successful introduction of new value-added products and domestic sales gains, combined with the effects of various rationalization efforts.

Sales of Components and Devices decreased 12% to 1,469 billion yen, due mainly to the sales declines in electric motors, despite sales in semiconductors and general components remaining at the same level as previous year.

With respect to this segment, profit increased 15% from 50 billion yen for fiscal 2004, to 58 billion yen for fiscal 2005, owing largely to rationalization effects in general components and electric motors businesses, despite a decrease in sales.

Sales of newly consolidated MEW and PanaHome were 1,686 billion yen. MEW registered robust sales in various key areas, especially building products such as residential furnishings and storage units, electronic devices, and automation controls for applications in mobile phones and automotive devices. Meanwhile, performance at PanaHome, which is primarily involved in the housing field, was supported by steady sales in the residential real-estate market in Japan. With respect to this segment, profit amounted to 67 billion yen.

Sales of JVC were 730 billion yen, down 11% from the previous year. Although domestic sales of AV equipment were favorable, sluggish sales in the Americas and Europe, slow introduction of new products and lower sales in music CDs in Japan led to an overall sales decline.

With respect to this segment, profit decreased 60% from 25 billion yen for fiscal 2004, to 10 billion yen for fiscal 2005, due to decreased sales and effects of price declines in digital products, despite a reduction in materials procurement costs and a decrease in fixed costs.

Sales in the Other segment were 1,027 billion yen, up 8% from the previous year, due mainly to sales increases in FA equipment and industrial equipment.

With respect to this segment, profit increased 161% from 15 billion yen for fiscal 2004, to 38 billion yen for fiscal 2005, owing to sales increases as well as the effects of various rationalization efforts.

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

As its basic policy, Matsushita has long placed emphasis on maintaining sound balance sheets, and on generating as much available funding as possible from internal sources through efforts to raise the operational efficiency or asset turnover ratios, so as not to overly rely on external fund raising. This conservativeness is exemplified in the tradition of maintaining the ratio of stockholders' equity to total assets at a relatively high level and keeping large cash balance. The ratio of stockholders' equity to total assets as of March 31, 2006 rose to 47.6%, and the total of short-term borrowings and long-term debt was 604 billion yen as of March 31, 2006, down from 863 billion yen a year ago. Cash balance also increased to 1,678 billion yen (the total of cash and cash equivalents of 1,667 billion yen plus time deposits with a maturity of more than three months of 11 billion yen) as of March 31, 2006, compared with the previous year's 1,315 billion yen (the total of cash and cash equivalents of 1,170 billion yen plus time deposits of 145 billion yen). This is due mainly to 397 billion yen of proceeds from sale of the majority shares of Matsushita Leasing & Credit Co., Ltd. and dividend and loan collections from this company, in addition to the sale of Universal Studios-related shares.

In order to facilitate access to global capital markets, Matsushita obtains credit ratings from the world's two leading credit rating agencies, Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Rating Services (S&P). In addition, Matsushita maintains credit ratings from Rating and Investment Information, Inc. (R&I), a rating agency nationally recognized in Japan, primarily for access to the Japanese capital markets. As of March 31, 2006, Matsushita's debt ratings are: Moody's: Aa3 (long-term); S&P: A+ (long-term, outlook: stable), A-1 (short-term); and R&I: AA+ (long-term), a-1+ (short-term). As of June 7, 2006, long-term deposit rating of Matsushita was upgraded by Moody's.

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

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

certain contractual obligations.

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

As of March 31, 2006, the outstanding balance of short-term borrowings totaled 340 billion yen, and long-term debt was 264 billion yen. Matsushita's borrowings are not significantly affected by seasonal factors. (For further details, see Note 9 of the Notes to Consolidated Financial Statements.) Most borrowings are at fixed rates.

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In recent years, Matsushita has focused on raising capital efficiency upon review of its balance sheet. As a part of this move, the Company initiated an endeavor to achieve more efficient utilization of available cash resources held by subsidiaries and associated companies. This is achieved by lending such cash resources to other subsidiaries and associated companies, as necessary, through a network of cash management systems at the corporate headquarters and financial subsidiaries located in each global region.

Furthermore, Matsushita uses its system of evaluating the business domain companies based on two results-based standards, namely Capital Cost Management (CCM), which measures capital efficiency, and cash flows, which represents a company's ability to generate cash. Both of these standards, that are deemed to share interests with investors, are applied to each business domain company's performance on a global consolidated basis. Regarding cash flows, Matsushita uses free cash flow (see Overview Key performance indicators in Section A of this Item 5) as an important indicator to evaluate its performance.

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

Fiscal 2006 Financial Position and Liquidity

The Company's consolidated total assets as of the end of fiscal 2006 decreased to 7,965 billion yen, as compared to 8,057 billion yen at the end of the last fiscal year.

The Company's consolidated total liabilities as of March 31, 2006 also decreased 341 billion yen to 3,675 billion yen, attributable to a decrease in retirement and severance benefits as well as repayments of borrowings and bonds in certain subsidiaries. (For further details, see Notes 9 and 10 of the Notes to Consolidated Financial Statements.)

Minority interests increased 6 billion yen, to 502 billion yen.

Stockholders' equity increased 243 billion yen to 3,788 billion yen, from the previous year's 3,544 billion yen. Although stockholders' equity decreased by 87 billion yen due to the repurchase of the Company's own shares as part of Matsushita's strategy to enhance shareholder value, total stockholders' equity increased due mainly to an increase of 115 billion yen in retained earnings and a decrease of 212 billion yen in accumulated other comprehensive loss, which reflects improved cumulative translation adjustments, unrealized holding gains of available-for-sale securities and minimum pension liability adjustments.

Capital investment during fiscal 2006 totaled 346 billion yen, down 8% from the previous fiscal year's total of 374 billion yen. (For a reconciliation of capital investment to the most directly comparable U.S. GAAP financial measure and related discussion, see Overview Key performance indicators in Section A of this Item 5.) The Company implemented capital investment primarily to increase production capacity in strategic businesses that are expected to drive future growth, such as semiconductors and digital AV equipment, particularly plasma TVs, while at the same time curbing capital investment in a number of business areas, in line with increasing management emphasis on capital efficiency.

Depreciation (excluding intangibles) during fiscal 2006 amounted to 275 billion yen, compared with 287 billion yen in the previous fiscal year, as a result of the above-mentioned decrease in overall capital investment.

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Net cash provided by operating activities in fiscal 2006 amounted to 575 billion yen, compared with 465 billion yen in the previous fiscal year. This increase, despite an increase in trade receivables, was attributable mainly to the improvement in net income and an increase in trade payables. Net cash provided by investing activities amounted to 407 billion yen, compared with net cash used in investing activities of 178 billion yen in fiscal 2005, due mainly to 397 billion yen of proceeds from sale of the majority shares of Matsushita Leasing & Credit Co., Ltd. as well as dividend and loan collections from this company, in addition to the sale of Universal Studios- related shares. Net cash used in financing activities was 525 billion yen, compared with 406 billion yen in fiscal 2005. This was mainly attributable to a decrease in proceeds from long-term debt. All these activities, compounded by the effect of exchange rate fluctuations of 40 billion yen, resulted in a net increase of 497 billion yen in cash and cash equivalents during fiscal 2006. Cash and cash equivalents at the end of fiscal 2006 totaled 1,667 billion yen, compared with 1,170 billion yen a year ago. These are held primarily in yen (70%), U.S. dollars (11%) and Euro (3%).

Free cash flow in fiscal 2006 amounted to 982 billion yen, compared with 287 billion yen in fiscal 2005. (For a reconciliation of free cash flow to the most directly comparable U.S. GAAP financial measure and related discussion, see [Overview Key performance indicators](#) in Section A of this Item 5.)

Commitments for Capital Expenditures

As of March 31, 2006, commitments outstanding for the purchase of property, plant and equipment amounted to 50 billion yen.

C. Research and Development

Matsushita considers research and development (R&D) to be a key factor in its success and essential to the achievement of its corporate theme: to provide the utmost satisfaction to customers throughout the world through differentiated products and services and to contribute to the progress and happiness of mankind. Under this theme, Matsushita is committed to R&D activities that create next-generation businesses from a mid- to long-term viewpoint, while at the same time supporting current or ongoing products and businesses. Also, to address the 21st century's needs for more convenient lifestyles around the evolving ubiquitous networking society and coexistence with the global environment, the main focus of Matsushita's R&D activities has been increasingly directed to digital networks and environmental technologies.

In fiscal 2004, Matsushita realigned technological management categorization and systems to further increase efficiency in R&D. In corporate R&D functions, to encourage engineers to concentrate on prioritized R&D themes and leading-edge technologies, Matsushita introduced a new management system with which it can administrate themes at each step in the research process. In business domain companies' R&D functions, Matsushita significantly reduced lead time for product development by introducing an innovative R&D process management, developed from the standpoint of return on investment.

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

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In fiscal 2006, Matsushita continued to utilize this platform to add value to finished products, improve efficiency in software development and achieve advances in design quality. At the same time, the Company has draw up a vision for the next decade in order to guide the selection and concentration of R&D projects. In addition, Matsushita will efficiently allocate R&D resources through continuous investment in priority areas, while actively leveraging R&D initiatives outside of the Company through collaboration with other companies and academic institutions.

Research and development costs amounted to 579 billion yen, 616 billion yen and 565 billion yen for the three fiscal years ended March 31, 2004, 2005 and 2006, respectively, representing 7.7%, 7.1% and 6.3% of Matsushita's total net sales for each of those periods. These investments were used to strengthen R&D in priority areas, such as the Integrated Platform, full HD PDPs, household fuel cell cogeneration systems, and High Definition Power Line Communications (HD-PLC).

D. Trend Information

To increase profitability and efficiency through structural reforms and a new growth strategy, the Company implemented various management reforms and restructuring initiatives under the aforementioned three-year Value Creation 21 plan, ended March 31, 2004. Based on this plan, the Company also commenced new growth strategies in fiscal 2004. These included the strategic development and introduction of competitive V-products and the launch of a new business domain-based Group organizational structure. Under the new structure, business domain companies take full responsibility for R&D, manufacturing and sales in their respective business areas.

In fiscal 2005, Matsushita embarked on a new mid-term Leap Ahead 21 plan and implemented initiatives to achieve growth, especially V-products and the addition of MEW, PanaHome and their respective subsidiaries to the Company's results. Through collaboration with MEW, Matsushita will strategically utilize the management resources of both companies. In areas such as electrical supplies, building materials and equipment, home appliances and industrial equipment, the two companies successfully eliminated overlaps in R&D, manufacturing and sales, thereby creating an optimized group structure that facilitates the effective use of management resources to achieve growth strategies. Matsushita and MEW also opened joint showrooms and introduced a series of Collaboration V-products that incorporate differentiated technologies from both companies.

The Company also accelerated business and organizational restructuring. Major restructuring initiatives, including the implementation of early retirement programs and the closure/integration of locations, have been autonomously carried out by each business domain company. As a result, Matsushita completed large-scale restructuring in fiscal 2005, leading to improved business performance and further concentration of management resources into growth businesses.

In fiscal 2006, Matsushita made progress in four major areas. First, we successfully launched a wide range of competitive new products. These included a new series of V-products to capture leading shares in high-volume markets and make a significant contribution to overall business results. As consumer demand trends rapidly shifted from analog to digital, plasma TVs, for which global demand is rapidly expanding, and digital cameras recorded significant sales gains compared to the previous year. In home appliances, the introduction of innovative products, such as industry-first air conditioners that require no cleaning or filter change for 10 years, enjoyed steady sales gains in Japan, making a significant contribution to overall business results.

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Second, we were successful in augmenting core businesses. Focusing on digital AV products, we implemented simultaneous global product introductions and unified marketing to maximize sales and profitability, while expanding market shares in strategic product areas such as flat-panel TVs and digital cameras. In addition, Matsushita strategically focused investments into cutting-edge system LSIs and other semiconductors that serve as key components in digital AV products, and plasma display panels (PDPs), for which global demand is expected to increase significantly. In September 2005, operations commenced at the third domestic PDP plant in Amagasaki, Japan. A month later, Matsushita began mass production of system LSIs from 300mm wafers at its plant in Uozu, Japan.

Another achievement was increased sales through collaboration with MEW. 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, domestic sales of air conditioners and related products rose substantially through the effective use of MEW sales channels for electrical supplies and building materials.

Finally, we implemented various measures to reinforce management structures. Such measures included selection and concentration of management resources, restructuring at various locations and other reforms within each business domain company. Furthermore, Matsushita carried out sweeping cost reduction initiatives to lower fixed costs and contribute to increased profitability, despite a severe business environment characterized by rapid price decline.

In fiscal 2007, challenging conditions are expected to prevail in global economies due to a variety of factors including rising crude oil and other raw materials prices and risks associated with currency exchange rates caused by growing concerns over trade and budget deficits in the U.S. Given these conditions, substantial growth is unlikely for the consumer electronics industry as a whole. Furthermore, competition in high-growth markets is expected to intensify as consumer preferences rapidly shift from analog to digital AV products. In this, the final year of the Leap Ahead 21 plan, Matsushita aims to achieve its goals through workplace-oriented initiatives that accelerate growth strategies and further reinforce management structures. V-products, created through innovative technologies, will continue to be the centerpiece of Matsushita's growth strategy. In fiscal 2007, Matsushita plans to launch V-products in 82 product categories, with a combined sales target of 1.8 trillion yen. Furthermore, we will expand marketing and advertising to highlight the innovative and unique features of V-products and achieve leading market shares. Meanwhile, simultaneous global product introductions will be expanded to cover a wider range of products in more geographic regions.

Through the aforementioned initiatives, Matsushita expects to attain further improvements in earnings, subject to external conditions including currency exchange volatility, the success of growth strategies and the effective establishment of management structures.

To establish reinforced management structures, Matsushita will implement further manufacturing innovations with a Next Cell Production Project, which targets the reduction of inventories. Furthermore, the Company will utilize IT to manage such initiatives as Just in Time Production and Vendor Managed Inventory. Matsushita will also construct a corporate IT architecture (CITA) and a common infrastructure for the Group. In this way, the Company will expedite the management process, strengthen the response capabilities to changes in the business environment, and reduce information systems costs. The Company will also strengthen management structures and increase profitability through a corporate project to eliminate redundancies throughout all areas of the Company.

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For fiscal 2007, Matsushita projects its capital investment will total approximately 380 billion yen. (For the definition of capital investment and related discussion, see Overview Key performance indicators in Section A of this item 5. For purposes of deriving this forward-looking figure, we have assumed that there are no material effects of timing difference between acquisition dates and payment dates with respect to purchases of property, plant and equipment during fiscal 2007.) Matsushita will continue to focus investment into such strategic businesses as cutting-edge system LSIs and other semiconductors as well as plasma TVs.

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

E. Off-Balance Sheet Arrangements

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

In fiscal 2006, Matsushita sold machinery and equipment for 115 billion yen, which are used to manufacture semiconductors and plasma display panels, mainly to SMBC Leasing Company, Limited, an affiliate of Sumitomo Mitsui Banking Corporation. The assets are leased back to Matsushita over a period of four to five years. Matsushita guarantees a specific value of the leased assets. These leases are classified as operating leases for U.S. GAAP purposes. Including the above-mentioned, the amount of future minimum lease payment under operating lease is 179 billion yen at March 31, 2006. (For further details, see Notes 6 and 19 of the Notes to Consolidated Financial Statements.)

In fiscal 2006, Matsushita also sold, without recourse, trade accounts receivable of 194 billion yen to independent third parties for proceeds of 193 billion yen.

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

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F. Tabular Disclosure of Contractual Obligations

The two tables below show Matsushita's cash payment obligations and guarantees and other commercial commitments, broken down by the payment amounts due for each of the periods specified below, as of March 31, 2006:

| | Yen (millions) | | | | |
|---|------------------------|---------------------|----------------|---------------|------------------|
| | Payments Due by Period | | | | |
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations: | | | | | |
| Long-Term Debt Obligations | 368,492 | 146,457 | 99,758 | 1,493 | 120,784 |
| Capital Lease Obligations | 70,631 | 28,596 | 31,395 | 8,796 | 1,844 |
| Operating Lease Obligations | 178,917 | 44,938 | 80,714 | 50,647 | 2,618 |
| Purchase Obligations | 50,160 | 50,160 | | | |
| Defined benefit plan contribution | 154,613 | 154,613 | | | |
| Total Contractual Cash Obligations | 822,813 | 424,764 | 211,867 | 60,936 | 125,246 |

| | Yen (millions) |
|--------------------------------------|----------------------------|
| | Total Amounts Committed |
| Other Commercial Commitments: | |
| Discounted exported bills | 535 |
| Guarantees | 17,444 |
| Total Commercial Commitments | 17,979 |

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

G. Safe Harbor

Not applicable

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H. Accounting Principles

Critical Accounting Policies

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

Long-lived Assets

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. Factors which may contribute to the need for future impairment charges include changes in the use of assets resulting from the Company's restructuring initiatives, technological changes or any significant declines in the demand for related products.

Valuation of Investment Securities

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

Individual securities are reduced to net realizable value by a charge to earnings for other-than-temporary declines in fair value. Management regularly reviews each investment security for impairment based on criteria that include the extent to which cost exceeds market value, the duration of that market decline and the financial health of and specific prospects for the issuer. Because such specific information may become available after the Company makes the impairment evaluation, and whether the impairment is other-than-temporary depends upon future events that may or may not occur, the Company may be required to recognize an other-than-temporary impairment in the future. Determination of whether a decline in value is other-than-temporary requires judgment. At March 31, 2006, the Company has recorded 725 billion yen of available-for-sale securities, 35 billion yen of cost method securities, 3 billion yen of equity method securities that have market values, and 393 billion yen of equity method securities that do not have market values, and advances, part or all of which could be determined to be other-than-temporarily impaired in future periods, depending on changes to the current facts and assumptions. In fiscal 2006, the Company recorded 35 billion yen impairment losses on investment securities.

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

Valuation of Inventory

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

Warranties

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

Valuation of Accounts Receivable and Noncurrent Receivables

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

The Company records noncurrent receivables, representing loans from finance lease transactions, at cost, less the related allowance for impaired receivables. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of impairment is measured based

on the present value of expected future cash flows or the fair value of the collateral. Cash receipts on impaired receivables are applied to reduce the principal amount of such receivables until the principal has been recovered and are recognized as interest income thereafter. Management's judgment is required in making estimates of the future cash flows of an impaired loan. Such estimates are based on current economic conditions and the current and expected financial condition of the debtor. (For further details, see Schedule II of Item 18.)

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Valuation of Goodwill

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the goodwill may be impaired, such as an adverse change in business climate. Impairment is recorded if the fair value of goodwill is less than its carrying amount. The fair value determination used in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions. These estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change. The Company recognized an impairment loss of 50 billion yen during fiscal 2006 related to goodwill of a mobile communication subsidiary. This impairment is due to a decrease in the estimated fair value of the reporting unit caused by decreased profit expectation and the closure of certain businesses in Europe and Asia. The fair value was determined by using the estimated present fair value of future cash flows or quoted market prices. At March 31, 2006, the Company has recorded 413 billion yen of goodwill, part or all of which could be determined to be impaired in future periods, depending on changes to the current facts and assumptions. For further discussion on goodwill and other intangible assets, see Note 8 of the Notes to Consolidated Financial Statements included in this annual report.

Valuation of Deferred Tax Assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized based on available evidence. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At March 31, 2006, the Company has recorded gross deferred tax assets of 1,130 billion yen with a total valuation allowance of 464 billion yen. Included in the gross deferred tax assets is 242 billion yen resulting from net operating loss carryforwards (NOLs) of 648 billion yen, which are available to offset future taxable income. In order to fully realize these NOLs, the Company will need to generate sufficient taxable income by the expiration of these NOLs. These NOLs of 429 billion yen expire from fiscal 2009 through 2013 and the substantial majority of the remaining balance expire thereafter or do not expire. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 2006 based on available evidence. The Company could be required to increase the valuation allowance if such assumptions would change concluding that the Company would not be able to generate sufficient taxable income. For further discussion on valuation of deferred tax assets, see Note 11 of the Notes to Consolidated Financial Statements included in this annual report.

Retirement and Severance Benefits

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

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

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

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

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

Accounting for Derivatives

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

Loss Contingencies

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

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New Accounting Pronouncements

In December 2004, FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which addresses accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123R will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. SFAS No. 123R will be effective for the Company as of April 1, 2006. The application of SFAS No. 123R is not expected to have a material effect on the company's consolidated financial statements.

In December 2004, FASB issued SFAS No. 151, *Inventory Costs*, which clarifies the accounting for abnormal amounts of its idle facility expense, freight, handling costs, and wasted material (spoilage). Under SFAS No. 151, such items will be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for the Company for inventory costs incurred on or after April 1, 2006. The application of SFAS No. 151 is not expected to have a material effect on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, which eliminates an exception in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for the Company for nonmonetary asset exchanges occurring on or after April 1, 2006. The application of SFAS No. 153 is not expected to have a material effect on the Company's consolidated financial statements.

In September 2005, EITF issued EITF 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*, which provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a nonmonetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements occurring after April 1, 2006. The application of EITF 04-13 is not expected to have a material effect on the Company's consolidated financial statements.

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Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The Articles of Incorporation of the Company provide that the number of Directors of the Company shall be three or more and that of Corporate Auditors shall be three or more. Directors and Corporate Auditors shall be elected at the general meeting of shareholders. The Board of Directors has ultimate responsibility for administration of the Company's affairs. Directors may, by resolution of the Board of Directors, appoint a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a President and Director, and one or more Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors. The Chairman of the Board of Directors, Vice Chairman of the Board of Directors, President and Director, Executive Vice Presidents and Directors, and Senior Managing Directors are Representative Directors and severally represent the Company. The term of office of Directors shall, under the Articles of Incorporation of the Company, expire at the conclusion of the ordinary general meeting of shareholders with respect to the last business year ending within one year from their election, and in the case of Corporate Auditors, the terms of office shall expire at the conclusion of the ordinary general meeting of shareholders with respect to the last business year of the Company ending within four years from their election. However, they may serve any number of consecutive terms if re-elected.

The Corporate Auditors of the Company are not required to be, and are not, certified public accountants. Under the Company Law of Japan and related laws and ordinances (collectively, the Company Law), at least half of the Corporate Auditors shall be a person who has not been a Director, accounting counselor, executive officer, manager or any other capacity as an employee of the Company or any of its subsidiaries prior to his or her assumption of office as a Corporate Auditor. Each Corporate Auditor has the statutory duty to audit the non-consolidated and consolidated financial statements and business reports to be submitted by a Director to the general meeting of shareholders and, based on such audit and a report of an Accounting Auditor referred to below, to respectively prepare his or her audit report. Each Corporate Auditor also has the statutory duty to supervise Directors' execution of their duties. The Corporate Auditors are required to attend meetings of the Board of Directors and express opinions, if necessary, at such meetings, but they are not entitled to vote.

In addition to Corporate Auditors, an independent certified public accountant or an independent audit corporation must be appointed by general meetings of shareholders as Accounting Auditor of the Company. Such Accounting Auditor has the duties to audit the consolidated and non-consolidated financial statements proposed to be submitted by a Director at general meetings of shareholders and to report their opinion thereon to certain Corporate Auditors designated by the Board of Corporate Auditors to receive such report (if such Corporate Auditors are not designated, all Corporate Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements). The consolidated financial statement is prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and financial information on a non-consolidated (a parent company alone) basis is in conformity with Japanese regulations.

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

Corporate Auditors may not at the same time be Directors, accounting counselors, executive officers, managers or any other capacity as employees of the Company or any of its subsidiaries.

Under the Company Law and the Articles of Incorporation of the Company, the Company may, by a resolution of the Board of Directors, exempt Directors or Corporate Auditors from their liabilities owed to the Company arising in connection with their failure to perform their duties to the extent permitted by the Company Law. In addition, the Company has entered into liability limitation agreements with each of the outside Directors and outside Corporate Auditors which limit the maximum amount of their liabilities owed to the Company arising in connection with their failure to perform their duties to the extent permitted by the Company Law.

The Company implemented in fiscal 2004 a reform of its corporate management and governance structure by (i) reorganizing the role of the Board of Directors, (ii) introducing Matsushita's own Executive Officer system* in its Group and (iii) strengthening its Corporate Auditor system, all tailored to the Group's new business domain-based, autonomous management structure. (For details of the Groupwide reorganization, see the explanation of the Value Creation 21 plan in Section A of Item 4.)

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

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

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

Furthermore, compensation for members of the Board of Directors and Executive Officers is linked to the business performance evaluation standards, namely CCM and cash flows, which are similar to the evaluation standards used by capital markets, to align management interests with shareholder interests and enhance corporate value.

Meanwhile, in fiscal 2004, the non-statutory full-time Senior Corporate Auditors were newly appointed within the Company's internal divisional companies in order to strengthen auditing functions at each business domain company. In addition, the Company has also launched the Group Auditor's Meeting in order to promote collaboration among the Company's Corporate Auditors, the non-statutory full-time Senior Corporate Auditors of the internal divisional companies and the corporate auditors of the Company's subsidiaries and affiliates.

The following table shows information about Matsushita's Directors and Corporate Auditors as of June 28, 2006, including their dates of birth, positions, responsibilities and brief personal records.

Name**Positions, responsibilities and brief personal records**

(Date of birth)

| | |
|---|---|
| Kunio Nakamura (Jul. 5, 1939) | <u>Chairman of the Board of Directors</u> |
| | -June 1993 Director of the Company; |
| | -June 1996 Managing Director of the Company; |
| | -June 1997 Senior Managing Director of the Company; |
| | -June 2000 President of the Company; |
| -June 2006 Chairman of the Board of Directors of the Company. | |

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| <u>Name</u> | <u>Positions, responsibilities and brief personal records</u> |
|--|--|
| (Date of birth) | |
| Masayuki Matsushita (Oct. 16, 1945) | <u>Vice Chairman of the Board of Directors</u> -Feb. 1986 Director of the Company; -June 1990 Managing Director of the Company; -June 1992 Senior Managing Director of the Company; -June 1996 Executive Vice President of the Company; -June 2000 Vice Chairman of the Board of Directors of the Company. |
| Fumio Ohtsubo (Sep. 5, 1945) | <u>President and Director</u> -June 1998 Director of the Company, and Vice President of AVC Company; -June 2000 Managing Director of the Company; -June 2002 In charge of Storage Devices Business; -Jan. 2003 President of Panasonic AVC Networks Company; -June 2003 Senior Managing Director of the Company; -June 2006 President and Director of the Company. |
| Takami Sano* (Apr. 2, 1943) | <u>Executive Vice President and Director</u> -June 1998 Director of the Company, and Director of Corporate Industrial Marketing & Sales Division; -June 2000 Managing Director of the Company; -June 2003 Senior Managing Director of the Company, President of Panasonic Automotive Systems Company, and in charge of Industrial Sales; -June 2005 Executive Vice President of the Company, and Representative in Tokyo; -Apr. 2006 In charge of Panasonic Systems Solutions Company, Corporate eNet Business Division and Corporate Construction Business Promotion Division. |
| Susumu Koike (Nov. 15, 1945) | <u>Executive Vice President and Director</u> -June 1998 Director of the Company, and in charge of semiconductor technology; -June 2000 Managing Director of the Company; -Apr. 2001 President of Semiconductor Company; -June 2003 Senior Managing Director of the Company, and in charge of |

Technology, Intellectual Property and Camera Modules Business;
-Apr. 2006 Executive Vice President of the Company, and in charge of
Semiconductor Company.

Tetsuya Kawakami
(Dec. 7, 1941)

Executive Vice President and Director

-June 2000 Director of the Company, and in charge of Finance and Accounting;
-June 2003 Managing Director of the Company, and in charge of Finance and
Accounting;
-June 2004 Senior Managing Director of the Company;
-Apr. 2006 Executive Vice President of the Company.

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| <u>Name</u> | <u>Positions, responsibilities and brief personal records</u> |
|--|--|
| (Date of birth) | |
| Toshihiro Sakamoto* (Oct. 27, 1946) | <u>Senior Managing Director</u> -June 2000 Director of the Company, and Vice President of AVC Company, and in charge of Visual Products Group; -June 2003 In charge of Corporate Planning; -June 2004 Managing Director of the Company; -Apr. 2006 Senior Managing Director, and President of Panasonic AVC Networks Company. |
| Shunzo Ushimaru* (May 5, 1944) | <u>Senior Managing Director</u> -June 2002 In charge of Corporate Marketing Division for Panasonic Brand; -June 2003 Executive Officer of the Company; -June 2004 Managing Executive Officer of the Company; -Apr. 2006 Senior Managing Executive Officer of the Company, in charge of Corporate Marketing Division for Panasonic Brand, Corporate Marketing Division for National Brand Home Appliances, Corporate Marketing Division for National Brand Wellness Products, Corporate Sales Strategy Division for National/Panasonic Retailers, Commodity Sales / Electrical Supplies Sales / Project Sales and Building Products Sales, Advertising, Panasonic Center, Logistics, Corporate CS Division and Design, Chairman of Corporate Brand Committee and Showroom Strategic Committee; -June 2006 Senior Managing Director of the Company. |
| Takahiro Mori* (Jun. 16, 1947) | <u>Managing Director</u> -Apr. 2001 Director of Corporate Communications Division; -June 2003 Executive Officer of the Company; -Oct. 2004 Vice Chairman of Showroom Strategic Committee; -June 2005 Managing Director, and in charge of Corporate Communications Division; -Apr. 2006 In charge of Corporate Planning. |
| Shinichi Fukushima* (Nov. 13, 1948) | <u>Managing Director</u> -Apr. 1997 General Manager of Corporate Personnel Dept. of the Company; |

- June 2003 Director of the Company, and in charge of Personnel and General Affairs;
- June 2005 Managing Director of the Company.

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| <u>Name</u> (Date of birth) | <u>Positions, responsibilities and brief personal records</u> |
|---------------------------------------|---|
| Junji Esaka* (Dec. 19, 1946) | <u>Managing Director</u> -Apr. 2003 Vice President of Matsushita Home Appliances Company, in charge of Refrigeration and Air Conditioning Business; -June 2003 Executive Officer of the Company; -Feb. 2006 Managing Executive Officer of the Company, and in charge of Appliances Business, President of Matsushita Home Appliances Company, in charge of Lighting Company and Healthcare Business Company; -June 2006 Managing Director of the Company. |
| Ikuo Uno (Jan. 4, 1935) | <u>Director</u> -July 1986 Director of Nippon Life Insurance Company; -Apr. 1997 President of Nippon Life Insurance Company; -Apr. 2005 Chairman, Nippon Life Insurance Company; -June 2005 Director of the Company. |
| Yoshifumi Nishikawa (Aug. 3, 1938) | <u>Director</u> -June 1986 Director of The Sumitomo Bank, Ltd.; -June 1997 President of The Sumitomo Bank, Ltd.; -Dec. 2002 President of Sumitomo Mitsui Financial Group, Inc.; -June 2005 Director of the Company; -Jan. 2006 President, CEO of Japan Post Corporation. |
| Hidetsugu Otsuru* (Aug. 20, 1943) | <u>Director</u> -June 1998 Director of the Company (resigned in March 1999); -Apr. 1999 President of Matsushita Electronics Corporation; -June 2001 Managing Director of the Company; -June 2002 In charge of Quality Administration and Environmental Affairs; -June 2003 In charge of Facility Management; -Feb. 2006 Director of the Company; |

-May 2006 In charge of Fan heaters Recall Affairs Division.

Mikio Ito*

(Nov. 29, 1946)

Director

-Apr. 1997 General Manager of Industrial Relations Dept. of the Company;

-June 2003 Director of Tokyo Branch;

-June 2004 Director of the Company, Director of Corporate Legal Affairs
Division, in charge of Corporate Risk Management, Corporate
Information Security and Business Ethics.

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| <u>Name</u> | <u>Positions, responsibilities and brief personal records</u> | |
|--|--|---|
| (Date of birth) | | |
| Ikusaburo Kashima* (Oct. 8, 1948) | <u>Director</u> | |
| | -July 1999 | Director General of Price Bureau of Economic Planning Agency; |
| | -Jan. 2001 | Retired from office at Ministry of Economy, Trade and Industry; |
| | -June 2003 | Vice Chairman of Information Technology Promotion Agency; |
| | -June 2004 | Joined the Company as an Executive Counsellor; |
| | -June 2005 | Director of the Company and Deputy Chief of Overseas Operations. |
| Masaharu Matsushita (Sep. 17, 1912) | <u>Honorary Chairman of the Board of Directors and Executive Advisor</u> | |
| | -Oct. 1947 | Director of the Company; |
| | -Aug. 1949 | Vice President of the Company; |
| | -Jan. 1961 | President of the Company; |
| | -Feb. 1977 | Chairman of the Board of Directors; |
| | -June 2000 | Honorary Chairman of the Board of Directors and Executive Advisor. |
| Kazumi Kawaguchi (Oct. 25, 1943) | <u>Senior Corporate Auditor</u> | |
| | -June 1996 | Senior Managing Director of Kyushu Matsushita Electric Co., Ltd.; |
| | -June 1999 | General Manager of Affiliates Management Dept. of the Company; |
| | -June 2000 | General Manager of Corporate Accounting Dept.; |
| | -July 2001 | In charge of Corporate Accounting Group; |
| | -June 2003 | Senior Corporate Auditor of the Company. |
| Yukio Furuta (Sep. 20, 1944) | <u>Senior Corporate Auditor</u> | |
| | -June 1995 | Director of Matsushita Electronics Corporation; |
| | -Apr. 2001 | Director of Corporate Manufacturing & Development Division of Semiconductor Company; |
| | -June 2003 | Vice President of Semiconductor Company; |
| | -June 2004 | Senior Corporate Auditor of the Company. |
| Yasuo Yoshino (Oct. 5, 1939) | <u>Corporate Auditor</u> | |
| | -July 1988 | Director of Sumitomo Life Insurance Company; |
| | -July 1997 | Executive Vice President of Sumitomo Life Insurance Company; |
| | -July 2001 | Chairman of the Board of Sumitomo Life Insurance Company; |
| | -June 2003 | Corporate Auditor of the Company. |

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| <u>Name</u> | <u>Positions, responsibilities and brief personal records</u> |
|--------------------------------------|--|
| (Date of birth) | |
| Ikuo Hata (Aug. 6, 1931) | <u>Corporate Auditor</u> -Apr. 1992 President of Osaka District Court; -Sept. 1995 Registered as an attorney-at-law (Osaka Bar Association); -June 1998 Vice Board Chairman of Japan Federation of Arbitration Associations; -July 2001 Member of Supreme Court Committee on Construction-related Disputes; -June 2004 Corporate Auditor of the Company. |
| Hiroyuki Takahashi (Mar. 1, 1937) | <u>Corporate Auditor</u> -June 1993 Director, Director of Human Resources of Mitsui & Co., Ltd.; -June 1996 Executive Managing Officer of Mitsui & Co., Ltd.; -June 1997 Corporate Auditor of Mitsui & Co., Ltd.; -Oct. 2000 Executive Managing Director and Secretary-General of Japan Corporate Auditors Association; -Oct. 2005 Director of Japan Corporate Auditors Association (retired as Director on June 25, 2006); -June 2006 Corporate Auditor of the Company. |

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

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

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

The following table shows information about Matsushita's Executive Officers as of June 28, 2006, including their positions and responsibilities.

| <u>Name</u> | <u>Positions and responsibilities</u> |
|---------------|---|
| Koshi Kitadai | Senior Managing Executive Officer President of Panasonic Electronics Devices Co., Ltd. |

Yoshiaki Kushiki Managing Executive Officer
President of Panasonic Mobile Communications Co., Ltd.

Yasuo Katsura Managing Executive Officer
Director of Tokyo Branch

Tameshige Hirata Managing Executive Officer
President of Matsushita Ecology Systems Co., Ltd.

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| <u>Name</u> | <u>Positions and responsibilities</u> |
|---------------------|---|
| Toru Ishida | Managing Executive Officer President of Matsushita Battery Industrial Co., Ltd. |
| Katsutoshi Kanzaki | Managing Executive Officer President of Panasonic Factory Solutions Co., Ltd. In charge of Matsushita Welding Systems Co., Ltd. |
| Yoshitaka Hayashi | Executive Officer Director of Corporate Management Division for China and Northeast Asia Chairman of Panasonic Corporation of China |
| Fujio Nakajima | Executive Officer Senior Vice President of Panasonic AVC Networks Company Director of Technology Planning & Development Center |
| Tomiyasu Chiba | Executive Officer President of Panasonic Shikoku Electronics Co., Ltd. |
| Nobutane Yamamoto | Executive Officer In charge of Corporate Procurement |
| Kazuyoshi Fujiyoshi | Executive Officer President of Panasonic Communications Co., Ltd. |
| Tomio Kawabe | Executive Officer Director of Corporate Management Division for Asia and Oceania President of Panasonic Asia Pacific Pte. Ltd. |
| Takae Makita | Executive Officer In charge of Information Systems |
| Hitoshi Otsuki | Executive Officer Director of Corporate Management Division for Europe |

Chairman of Panasonic Europe Ltd.

Masashi Makino

Executive Officer

Director of Corporate Manufacturing Innovation Division

Yoshinobu Sato

Executive Officer

Director of Corporate Sales Strategy Division for National/Panasonic Retailers

Joachim Reinhart

Executive Officer

COO of Panasonic Europe Ltd.

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| <u>Name</u> | <u>Positions and responsibilities</u> |
|------------------|--|
| Yutaka Mizuno | Executive Officer Vice President of Panasonic Automotive Systems Company In charge of Sales |
| Yoshihiko Yamada | Executive Officer Director of Corporate Management Division for North America Chairman of Panasonic Corporation of North America |
| Kazuhiro Tsuga | Executive Officer In charge of Digital Network and Software Technologies |
| Ikuo Miyamoto | Executive Officer President of Motor Company |
| Ken Morita | Executive Officer Senior Vice President of Panasonic AVC Networks Company Director of Visual Products and Display Devices Business Group |
| Hideo Kawasaki | Executive Officer President of Semiconductor Company |
| Shigeru Omori | Executive Officer Director of Corporate Industrial Marketing & Sales Division |
| Takumi Kajisha | Executive Officer In charge of Corporate Communication Division Vice Chairman of Showroom Strategic Committee |
| Masaaki Fujita | Executive Officer Senior Vice President of Panasonic AVC Networks Company Director of PDP TV Business Unit of Visual Products and Display Devices Business Group |

| | |
|---------------------|--|
| Kazunori Takami | Executive Officer |
| | In charge of Corporate Marketing Division for National Brand Home Appliances and Corporate Marketing Division for National Brand Wellness Products |
| Yoshihisa Fukushima | Executive Officer |
| | In charge of Intellectual Property |
| Makoto Uenoyama | Executive Officer |
| | General Manager of Corporate Accounting Group |

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

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B. Compensation

The aggregate amount of remuneration, including bonuses, paid by the Company during fiscal 2006 to all Directors and Corporate Auditors twenty-seven persons for services in all capacities was 925 million yen.

In accordance with customary Japanese business practices, a retiring Director or Corporate Auditor receives a lump-sum retirement payment, which was subject to approval at the ordinary general meeting of shareholders. Directors' condolence grants and retirement benefits paid in fiscal 2006 amounted to 216 million yen. (For details of the Company's stock option plans for Board members and select senior executives, see Section E of this Item 6.)

At the meeting of Board of Directors held on April 28, 2006, the Company resolved to terminate the retirement benefit system for retiring Directors and Corporate Auditors as of the ordinary general meeting of shareholders to be held on June 28, 2006, with respect to any services performed after such date thereby merging such system into a new annual remuneration system that reflects each Director's contribution and accomplishments. As a result, it was resolved at the ordinary general meeting of shareholders held on June 28, 2006, to grant final retirement benefits to four Directors who retired as of that day. It was further resolved to grant to fifteen Directors and four Corporate Auditors of the Company who would continue to hold their offices after the date of that general meeting of shareholders, such amount of retirement benefits within a reasonable range to be determined in accordance with certain standards of the Company, for the services they have rendered to that date. The decision as to the exact amounts to be granted to such Directors and Corporate Auditors as well as the time and method of payment has been entrusted to the Company's Board of Directors and Corporate Auditors respectively.

C. Board Practices

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

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

(http://ir-site.panasonic.com/annual/2006/pdf/matsushita_ar2006_e32.pdf)

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

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D. Employees

The following table lists the number of full-time employees of Matsushita as of March 31, 2006, 2005 and 2004:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------|-------------------|-------------------|-------------------|
| Employees: | | | |
| Domestic | 144,871 | 150,642 | 119,528 |
| Overseas | 189,531 | 184,110 | 170,965 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 334,402 | 334,752 | 290,493 |
| | <u> </u> | <u> </u> | <u> </u> |

On April 1, 2004, MEW, PanaHome and their respective subsidiaries became consolidated subsidiaries of the Company. Therefore the number of employees as of March 31, 2005 has increased compared with the number as of March 31, 2004.

Most regular Company employees in Japan, except management personnel, are union members, principally of the Matsushita Electric Industrial Workers Union, which is affiliated with the Japanese Electrical Electronic & Information Union.

As is customary in Japan, the Company negotiates annually with the unions and revises annual wage. The annual bonuses of all employees are linked to the Company's performance of the previous year. The Company also renews the terms and conditions of labor contracts, other than those relating to wages and bonuses, every other year. In recent years, the Company has introduced in Japan new comprehensive employment and personnel systems to satisfy the diverse needs of employees.

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

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E. Share Ownership

- (1) The following table lists the number of shares owned by the Directors and Corporate Auditors of the Company as of June 28, 2006. The total is 17,888,254 shares constituting 0.82% of all outstanding shares of the Company's common stock.

| <u>Name</u> | <u>Position</u> | <u>Number of Matsushita Shares Owned as of June 28, 2006</u> |
|---------------------|--|--|
| Kunio Nakamura | Chairman of the Board of Directors | 42,000 |
| Masayuki Matsushita | Vice Chairman of the Board of Directors | 7,913,351 |
| Fumio Ohtsubo | President and Director | 25,000 |
| Takami Sano | Executive Vice President and Director | 31,923 |
| Susumu Koike | Executive Vice President and Director | 25,562 |
| Tetsuya Kawakami | Executive Vice President and Director | 17,057 |
| Toshihiro Sakamoto | Senior Managing Director | 16,278 |
| Shunzo Ushimaru | Senior Managing Director | 28,578 |
| Takahiro Mori | Managing Director | 10,060 |
| Shinichi Fukushima | Managing Director | 11,005 |
| Junji Esaka | Managing Director | 111,000 |
| Ikuo Uno | Director | 0 |
| Yoshifumi Nishikawa | Director | 0 |
| Hidetsugu Otsuru | Director | 23,000 |
| Mikio Ito | Director | 9,000 |
| Ikusaburo Kashima | Director | 3,000 |
| Masaharu Matsushita | Honorary Chairman of the Board of Directors and Executive Advisor | 9,598,637 |
| Kazumi Kawaguchi | Senior Corporate Auditor | 12,803 |
| Yukio Furuta | Senior Corporate Auditor | 7,000 |
| Yasuo Yoshino | Corporate Auditor | 3,000 |
| Ikuo Hata | Corporate Auditor | 0 |
| Hiroyuki Takahashi | Corporate Auditor | 0 |
| Total | | 17,888,254 |

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

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In June 2002, the Company obtained approval at the ordinary general meeting of shareholders regarding the issue of stock acquisition rights as stock options for Board members and select Executive Counselors, pursuant to Articles 280-20 and 280-21 of the former Commercial Code of Japan then in effect. Upon the shareholders' approval, the Board of Directors adopted resolutions to issue at no charge an aggregate of 116 stock acquisition rights, each representing a stock option to purchase 1,000 shares of common stock of the Company, to the then twenty-seven Directors and eight Executive Counselors. The stock acquisition rights are exercisable during the period from July 1, 2004 through June 30, 2008. The amount to be paid by qualified persons upon exercise of each stock acquisition right is set at 1,734 yen per share of common stock, which was calculated by a formula approved by shareholders at the said ordinary general meeting of shareholders. As of May 31, 2006, 77 stock acquisition rights, exercisable for a total of 116 stock acquisition rights, remained outstanding.

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

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

- (2) The full-time employees of the Company and its major subsidiaries in Japan are eligible to participate in the Matsushita Electric Employee Shareholding Association, whereby participating employees contribute a portion of their salaries to the Association and the Association purchases shares of the Company's common stock on their behalf. The Company had uniformly provided a 10% subsidy on top of any funds employees contribute to the Association. However, from July 2004, the Company started to provide the subsidy in proportion to the number of points that each employee selects to exchange within certain limitations under the Cafeteria Plan, the Company's new flexible benefit plan. Under the Cafeteria Plan, each employee is allotted a certain number of points based on prescribed standards, which he or she may exchange for various benefits, including the Company's subsidy for contributions to the Association, subsidies for rental housing, subsidies for asset building savings, educational assistance, hotel accommodations, etc. As of March 31, 2006, the Association owned 34,617 thousand shares of the Company's common stock constituting 1.41% of all outstanding shares of the Company's common stock.

Item 7. Major Shareholders and Related Party Transactions**A. Major Shareholders**

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

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As explained in Section B of Item 10, the Securities and Exchange Law of Japan and regulations thereunder (collectively, SEL) requires any person, regardless of his/her residence, who has become, beneficially and solely or jointly, a holder of more than five percent of the total issued shares of common stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan, to file with the Director-General of a competent Local Finance Bureau of Ministry of Finance within five business days (or in the case of certain financial institutions prescribed by SEL, within certain longer periods prescribed by SEL) a report concerning such shareholdings. The Company is aware of the July 14, 2005 filing by Dodge & Cox (an investment advisory company), stating that, as of the end of June 2005, Dodge & Cox and its affiliates owned, beneficially or of record, 5.41% in total of the issued shares of the Company's common stock, as calculated pursuant to the Securities and Exchange Law of Japan.

The shareholders that owned more than five percent of the Company's common stock on the register of shareholders as of March 31, 2006 were Moxley & Co., The Master Trust Bank of Japan, Ltd. (trust account) and Japan Trustee Services Bank, Ltd. (trust account), which are securities processing services companies. The Company understands that these shareholders are not the beneficial owners of the Company's common stock, but the Company does not have available further information concerning such beneficial ownership by these shareholders. The ten largest shareholders of record and their share holdings as of the end of the last fiscal year are as follows:

| <u>Name</u> | <u>Share ownership (in thousands of shares)</u> | <u>Percentage of total issued shares</u> |
|---|---|--|
| Moxley & Co. | 183,031 | 7.46% |
| The Master Trust Bank of Japan, Ltd. (trust account) | 140,727 | 5.73 |
| Japan Trustee Services Bank, Ltd. (trust account) | 128,742 | 5.24 |
| Nippon Life Insurance Co. | 67,000 | 2.73 |
| Sumitomo Mitsui Banking Corporation | 65,425 | 2.66 |
| Sumitomo Life Insurance Co. | 50,212 | 2.04 |
| State Street Bank and Trust Co. 505103 | 36,352 | 1.48 |
| State Street Bank and Trust Co. | 35,817 | 1.46 |
| Mitsui Sumitomo Insurance Co., Ltd. | 35,106 | 1.43 |
| Matsushita Electric Employee Shareholding Association | 34,617 | 1.41 |

- (2) As of March 31, 2006, approximately 17.18% of the Company's common stock was owned by 185 United States shareholders, including the ADR Depository's nominee, Moxley & Co., considered as one shareholder of record, owning approximately 7.46% of the total common stock.
- (3) Matsushita is not, directly or indirectly, owned or controlled by other corporations, by the Japanese government or any foreign government or by any natural or legal person or persons severally or jointly.

- (4) As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of Matsushita.

B. Related Party Transactions

Not applicable

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C. Interests of Experts and Counsel

Not applicable

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

(1) Consolidated Statements

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

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

(2) Legal Proceedings

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

(3) Dividend Policy

Since its founding, Matsushita has consistently regarded returning profits to shareholders as a key management priority. Historically, Matsushita has maintained stable levels of cash dividends. Then, in fiscal 2005, the Company reassessed this policy and in line with growth strategies outlined in the Leap Ahead 21 plan, decided to proactively return profits to shareholders taking into consideration consolidated business performance. Specifically, the Company will provide shareholder return in the form of cash dividends and share repurchases, with due consideration to the level of cash flows. With respect to dividends, Matsushita will pursue steady and continuous growth of return to shareholders, while at the same time taking into consideration various factors including mid-term business

performance, capital expenditure requirements and the Company's financial condition. As for share repurchases, the Company aims to achieve reductions in the total number of outstanding shares, in effect, in an effort to raise shareholder value on a per-share basis. In principle, purchased shares are held as treasury stock to a maximum of 10% of the total number of outstanding shares. Based on this policy, in fiscal 2006 the Company increased annual cash dividends to 20.00 yen consisting of an interim dividend of 10.00 yen per share and a year-end cash dividend of 10.00 yen per share that was approved at the ordinary general meeting of shareholders held on June 28, 2006.

B. Significant Changes

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

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Item 9. The Offer and Listing**A. Offer and Listing Details**

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

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

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

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

| Fiscal Year ended March 31 | Tokyo Stock Exchange | | New York Stock Exchange | |
|----------------------------|---------------------------------------|-------|--|-------|
| | Price per Share of Common Stock (yen) | | Price per American Depositary Share (dollars)* | |
| | High | Low | High | Low |
| 2002 | 2,325 | 1,408 | 19.15 | 11.33 |
| 2003 | 1,780 | 1,011 | 14.47 | 8.53 |

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| | | | | |
|-------------|-------|-------|-------|-------|
| 2004 | 1,648 | 875 | 15.57 | 7.33 |
| 2005 | 1,685 | 1,385 | 16.05 | 12.72 |
| 2006 | 2,640 | 1,520 | 22.65 | 14.31 |
| 2005 | | | | |
| 1st quarter | 1,685 | 1,452 | 15.80 | 12.72 |
| 2nd quarter | 1,550 | 1,385 | 14.22 | 12.72 |
| 3rd quarter | 1,626 | 1,462 | 16.05 | 13.62 |
| 4th quarter | 1,629 | 1,512 | 15.84 | 14.43 |

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| Fiscal Year ended March 31 | Tokyo Stock Exchange | | New York Stock Exchange | |
|-----------------------------------|--|------------|---|------------|
| | Price per Share of Common Stock (yen) | | Price per American Depositary Share (dollars)* | |
| | High | Low | High | Low |
| 2006 | | | | |
| 1st quarter | 1,695 | 1,520 | 15.60 | 14.31 |
| 2nd quarter | 1,942 | 1,681 | 17.72 | 15.12 |
| 3rd quarter | 2,485 | 1,908 | 20.70 | 16.52 |
| 4th quarter | 2,640 | 2,300 | 22.65 | 19.79 |
| 2007 | | | | |
| 1st quarter | 2,855 | 2,215 | 25.00 | 19.09 |
| Most recent 6 months | High | Low | High | Low |
| February 2006 | 2,565 | 2,395 | 22.23 | 20.53 |
| March 2006 | 2,640 | 2,465 | 22.65 | 20.96 |
| April 2006 | 2,855 | 2,660 | 24.39 | 22.81 |
| May 2006 | 2,780 | 2,415 | 25.00 | 21.63 |
| June 2006 | 2,540 | 2,215 | 22.70 | 19.09 |
| July 2006 | 2,400 | 2,085 | 21.05 | 18.00 |

* The prices of ADSs are based upon reports by the NYSE, with all fractional figures rounded up to the nearest two decimal points. The prices of ADSs, prior to the December 11, 2000 ADS ratio change, have been restated on the current basis that each ADS represents one share of Common Stock.

B. Plan of Distribution

Not applicable

C. Markets

See Section A of this Item 9.

D. Selling Shareholders

Not applicable

E. Dilution

Not applicable

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F. Expenses of the Issue

Not applicable

Item 10. Additional Information

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

Organization

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

Objects and purposes

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

1. manufacture and sale of electric machinery and equipment, communication and electronic equipment, as well as lighting equipment;
2. manufacture and sale of gas, kerosene and kitchen equipment, as well as machinery and equipment for building and housing;

3. manufacture and sale of machinery and equipment for office and transportation, as well as for sales activities;
4. manufacture and sale of medical, health and hygienic equipment, apparatus and material;
5. manufacture and sale of optical and precision machinery and equipment;
6. manufacture and sale of batteries, battery-operated products, carbon and manganese and other chemical and metal products;
7. manufacture and sale of air conditioning and anti-pollution equipment, as well as industrial machinery and equipment;
8. manufacture and sale of other machinery and equipment;
9. engineering and installation of machinery and equipment related to any of the preceding items as well as engineering and performance of and contracting for other construction work;
10. production and sale of software;

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11. sale of iron and steel, nonferrous metals, minerals, oil, gas, ceramics, paper, pulp, rubber, leather, fibre and their products;
12. sale of foods, beverages, liquor and other alcoholics, agricultural, livestock, dairy and marine produces, animal feed and their raw materials;
13. manufacture and sale of drugs, quasi-drugs, cosmetics, fertilizer, poisonous and deleterious substance and other chemical products;
14. manufacture and sale of buildings and other structures and components thereof;
15. motion picture and musical entertainment business and promotion of sporting events;
16. export and import of products, materials and software mentioned in each of the preceding items (other than item 9);
17. providing repair and maintenance services for the products, goods and software mentioned in each of the preceding items for itself and on behalf of others;
18. provision of information and communication services, and broadcasting business;
19. provision of various services utilizing the Internet including Internet access and e-commerce;
20. business related to publishing, printing, freight forwarding, security, maintenance of buildings, nursing care, dispatch of workers, general leasing, financing, non-life insurance agency and buying, selling, maintaining and leasing of real estate;
21. investment in various businesses;
22. accepting commission for investigations, research, development and consulting related to any of the preceding items; and
23. all other business or businesses incidental or related to any of the preceding items.

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Directors

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

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

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

Common Stock

General

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

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

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

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

Authorized capital

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

As of March 31, 2006, 2,453,053,497 shares of Common Stock were issued. All shares of Common Stock of the Company have no par value.

Distribution of Surplus

Distribution of Surplus - General

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

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

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

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

Distribution of Surplus Restriction on Distributions of Surplus

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

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

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

In the above formula:

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

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

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

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

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

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

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

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

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

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

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

Stock splits

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

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

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Consolidation of shares

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

General meeting of shareholders

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

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

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

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

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

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Voting rights

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

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

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

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

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- (11) share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships with certain exceptions in which a shareholders' resolution is not required;

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

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

Issue of additional shares

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

Subject to certain conditions, the Company may issue stock acquisition rights or bonds with stock acquisition rights by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon the exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it. The Company may determine by a

resolution of the Board of Directors at the time of offerings that a transfer of the stock acquisition rights shall require the approval of the Company. Whether the Company will determine such a matter in future stock acquisition rights offerings will depend upon the circumstances at the time of such offerings.

Liquidation rights

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

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Record date

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

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

Acquisition by the company of its common stock

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

Shares acquired by the Company may be held for any period or may be cancelled by a resolution of the Board of Directors. The Company may also transfer such shares to any person, subject to a resolution of the Board of Directors and to other requirements similar to those applicable to the issuance of new shares, as described in Issue of additional shares and pre-emptive rights above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

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Unit share system

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

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

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

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

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

The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

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

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

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

Reporting of substantial shareholdings

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

A similar report must also be filed in respect to any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

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

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

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acquisition or corporate restructuring involving the Company.

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Daily price fluctuation limits under Japanese stock exchange rules

Stock prices on Japanese stock exchanges are determined on a real-time basis by the balance between bids and offers. These stock exchanges are order-driven markets without specialists or market makers to guide price formation. In order to prevent excessive volatility, these stock exchanges set daily upward and downward price range limitations for each listed stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit on these stock exchanges may not be able to effect a sale at such price on a particular trading day, or at all.

C. Material Contracts

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

D. Exchange Controls

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

Exchange non-residents are:

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

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

Foreign investors are:

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

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In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding 100 million yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

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

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

E. Taxation

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

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

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

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

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

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

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

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

Japanese taxation

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

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

In the absence of an applicable treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to individuals who are non-residents of Japan or non-Japanese corporations is 20%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock of the Company) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals, such as non-resident Holders), except for any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before March 31, 2008, and (ii) 15% for dividends due and payable on or after April 1, 2008. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15% for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the U.K.

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

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

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

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

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

U.S. federal income taxation

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

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Taxation of dividends

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

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

Taxation of capital gains

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

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

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

Passive foreign investment company considerations

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

F. Dividends and Paying Agents

Not applicable

G. Statement by Experts

Not applicable

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H. Documents on Display

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

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

I. Subsidiary Information

Not applicable

Item 11. Quantitative and Qualitative Disclosures about Market Risk

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

Equity Price Risk

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

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Maturities, costs and fair values of available-for-sale securities were as follows at March 31, 2006 and 2005:

| | Yen (millions) | | | |
|--|----------------|----------------|----------------|----------------|
| | 2006 | | 2005 | |
| | Cost | Fair value | Cost | Fair value |
| Due within one year | 56,769 | 56,753 | 11,978 | 11,978 |
| Due after one year through five years | 137,184 | 136,681 | 79,841 | 80,008 |
| Due after five years through ten years | 4,476 | 4,353 | 10,261 | 10,378 |
| Equity securities | 230,400 | 527,705 | 228,202 | 392,903 |
| Total | 428,829 | 725,492 | 330,282 | 495,267 |

Foreign Exchange Risk

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

The following table provides the contract amounts and fair values of foreign exchange contracts, primarily hedging U.S. dollar and euro revenues, at March 31, 2006 and 2005. Amounts related to foreign exchange contracts entered into in connection with long-term debt denominated in foreign currencies which eliminate all foreign currency exposures, are shown in the table of Interest Rate Risk.

| Yen (millions) | |
|----------------|------|
| 2006 | 2005 |
| | |

| | <u>Contract amount</u> | <u>Fair value</u> | <u>Contract amount</u> | <u>Fair value</u> |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
| Forward: | | | | |
| To sell foreign currencies | 404,383 | 121 | 317,506 | (3,122) |
| To buy foreign currencies | 258,335 | 2,522 | 200,705 | 1,643 |
| Options purchased to sell foreign currencies | 25,885 | 132 | 29,981 | 61 |
| Cross currency swaps | 4,130 | (35) | 16,879 | 123 |

Commodity Price Risk

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

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The following table provides the contract amounts and fair values of commodity futures, at March 31, 2006 and 2005.

| | Yen (millions) | | | |
|--------------------|--------------------|---------------|--------------------|---------------|
| | 2006 | | 2005 | |
| | Contract amount | Fair value | Contract amount | Fair value |
| Commodity futures: | | | | |
| To sell commodity | 36,007 | (7,401) | 31,978 | (2,832) |
| To buy commodity | 93,061 | 43,674 | 75,824 | 12,554 |

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates principally to its debt obligations. The Company has long-term debt primarily with fixed rates. Fixed-rate debt obligations expose the Company to variability in their fair values due to changes in interest rates. To manage the variability in the fair values caused by interest rate changes, the Company enters into interest rate swaps when it is determined to be appropriate based on market conditions. Interest rate swaps change fixed-rate debt obligations to variable-rate debt obligations by entering into fixed-receiving, variable-paying interest rate swap contracts. The hedging relationship between interest rate swaps and hedged debt obligations is highly effective in achieving offsetting changes in fair values resulting from interest rate risk. The following tables provide information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates at March 31, 2006 and 2005. For debt obligations, the table presents principal cash flows by expected maturity dates, related weighted average interest rates and fair values of financial instruments. For interest rate swaps, the table presents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts.

Long-term debt, including current portion:

| | Yen (millions) | | | | | | | There- | Fair |
|---------------------|--|------|------|------|------|------|--------|--------|------|
| | Carrying amount and maturity date (as of March 31, 2006) | | | | | | | | |
| | Total | 2007 | 2008 | 2009 | 2010 | 2011 | There- | | |
| Average interest | | | | | | | | | |

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| | <u>rate</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>after</u> | <u>value</u> |
|---|-------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|----------------|
| Straight bonds | 1.3% | 200,014 | 100,014 | | | | | 100,000 | 200,661 |
| Straight bonds issued by subsidiaries | 1.3% | 80,000 | 20,000 | 10,000 | 30,000 | | | 20,000 | 79,518 |
| Unsecured yen loans from banks and insurance companies | 0.4% | 84,983 | 25,615 | 17,616 | 41,112 | 577 | 45 | 18 | 83,398 |
| Secured yen loans mainly from Development Bank of Japan by subsidiaries | 0.2% | 3,495 | 828 | 535 | 495 | 448 | 423 | 766 | 3,343 |
| Total | | 368,492 | 146,457 | 28,151 | 71,607 | 1,025 | 468 | 120,784 | 366,920 |

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| Yen (millions) | | | | | | | | | |
|--|-----------------------------|----------------|----------------|----------------|---------------|---------------|--------------|-----------------|----------------|
| Carrying amount and maturity date (as of March 31, 2005) | | | | | | | | | |
| | Average interest rate | Total | 2006 | 2007 | 2008 | 2009 | 2010 | There- after | Fair value |
| Japanese yen convertible bonds | 0.9% | 86,411 | 86,411 | | | | | | 87,197 |
| Straight bonds | 1.3% | 200,084 | | 100,084 | | | | 100,000 | 207,364 |
| Straight bonds issued by subsidiaries | 1.3% | 116,583 | 36,583 | 20,000 | 10,000 | 30,000 | | 20,000 | 119,093 |
| Unsecured yen loans from banks and insurance companies | 0.5% | 306,146 | 122,268 | 82,987 | 56,202 | 36,379 | 6,946 | 1,364 | 305,400 |
| Total | | 709,224 | 245,262 | 203,071 | 66,202 | 66,379 | 6,946 | 121,364 | 719,054 |

Interest rate swaps:

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

| Notional amount and maturity date (as of March 31, 2005) | | | | | | | | | |
|--|---------------------|------|--------|------|------|------|-----------------|---------------|--|
| Average receive rate | Average pay rate | 2006 | 2007 | 2008 | 2009 | 2010 | There- after | Fair value | |
| 0.87% | JPY6M LIBOR + 0.40% | | 15,000 | | | | | 84 | |

Item 12. Description of Securities Other than Equity Securities

Not applicable

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

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

None

Item 15. Controls and Procedures

The Company's management, with the participation of its principal executive and principal financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2006. Based on that evaluation, the Company's principal executive and principal financial officers concluded that the disclosure controls and procedures were effective as of that date.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934) occurred during the year ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

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

Item 16B. Code of Ethics

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

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

The following table shows the aggregate fees accrued or paid to KPMG AZSA & Co. and its member firms (KPMG), the Company's principal accountant for the years ended March 31, 2006 and 2005:

| | Yen (millions) | |
|--------------------|-----------------------|--------------|
| | 2006 | 2005 |
| Audit fees | 1,908 | 1,579 |
| Audit-related fees | 466 | 211 |
| Tax fees | 472 | 352 |
| All other fees | 13 | 27 |
| Total | 2,859 | 2,169 |

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

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

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

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

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

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

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

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

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

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

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

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

To the extent permitted by Japanese law:

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

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

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

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

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

The following table sets forth, for each of the months indicated, the total number of shares purchased by or on behalf of the Company or any affiliated purchaser, the average price paid per share, the number of shares purchased as part of the repurchase plan announced on August 27, 2004 as described above and the maximum number of shares or approximate Japanese Yen value that may yet be purchased under the plans or programs.

| <u>Period</u> | <u>(a) Total Number of Shares Purchased (Shares)</u> | <u>(b) Average Price Paid per Share (Yen)</u> | <u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plan (Shares)</u> | <u>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan (Shares)</u> |
|------------------------|--|---|---|---|
| April 1 - 30, 2005 | 109,485 | 1,584 | | |
| May 1 - 31, 2005 | 6,339,160 | 1,595 | 6,271,000 | 113,729,000 |
| June 1 - 30, 2005 | 17,886,229 | 1,647 | 15,234,000 | 98,495,000 |
| July 1 - 31, 2005 | 8,909,958 | 1,730 | 8,670,000 | 89,825,000 |
| August 1 - 31, 2005 | 10,834,084 | 1,882 | 10,626,000 | 79,199,000 |
| September 1 - 30, 2005 | 131,677 | 1,894 | | 79,199,000 |
| October 1 - 31, 2005 | 5,212,893 | 1,963 | 5,093,000 | 74,106,000 |
| November 1 - 30, 2005 | 1,579,600 | 2,177 | 1,383,000 | 72,723,000 |
| December 1 - 31, 2005 | 210,639 | 2,335 | | 72,723,000 |
| January 1 - 31, 2006 | 110,597 | 2,393 | | 72,723,000 |
| February 1 - 28, 2006 | 119,027 | 2,503 | | 72,723,000 |
| March 1 - 31, 2006 | 103,830 | 2,528 | | 72,723,000 |
| Total | 51,547,179 | 1,761 | 47,277,000 | |

On April 28, 2005, the Company announced that the Board of Directors resolved to repurchase its own shares from the market in conformity with provisions of Article 211-3, Paragraph 1, Item 2 of the former Japanese Commercial Code which shall continuously be applicable to the Company, despite the re-enactment of such Commercial Code to the Company Law of Japan with effect from May 1, 2006, pursuant to Article 81 of the Law for Maintenance of Relevant Laws Relating to the Enforcement of the Company Law as follows:

| | |
|--|---|
| Class of shares | : Common stock |
| Aggregate number of shares to be repurchased | : Up to 50 million shares |
| Aggregate amount to be repurchased | : Up to 100 billion yen |
| Period of repurchase | : Between May 2, 2005 and late March 2006 |

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On June 29, 2005, the Company announced repurchase of its shares from MEW, a consolidated subsidiary of the Company, as set out below. The shares so repurchased were originally allotted to MEW upon its business division and transfer to MEI relating to the sales function for the home appliances business of MEW in accordance with Article 211-3, Paragraph 1, Item 2 of the former Commercial Code which shall continuously be applicable to the Company for the reason referred to above.

| | |
|--|---------------------|
| Class of shares | : Common stock |
| Aggregate number of shares to be repurchased | : 2,542,767 shares |
| Aggregate amount to be repurchased | : 4,279,476,861 yen |

Under the Company Law of Japan, a holder of shares consisting less than a full unit may require the Company to purchase such shares at their market value (see Common Stock Unit share system in Section B of Item 10). During the year ended March 31, 2006, the Company purchased 1,668,141 shares for a total purchase price of 3,394,548,853 yen upon such requests from holders of shares consisting less than one full unit.

The Directors, Corporate Auditors, Executive Officers and Executive Counselors in Japan are eligible to participate in the Matsushita Electric Directors and Executive Officers Shareholding Association, which is an affiliated purchaser, and the Association purchases shares of the Company's common stock on their behalf. During the year ended March 31, 2006, the Association purchased 59,271 shares for a total purchase price of 115,700,895 yen.

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PART III

Item 17. Financial Statements

Not applicable

Item 18. Financial Statements

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

| | <u>Page</u> |
|--|--------------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 108 |
| <u>Consolidated Balance Sheets as of March 31, 2006 and 2005</u> | 109 |
| <u>Consolidated Statements of Income for the years ended March 31, 2006, 2005 and 2004</u> | 111 |
| <u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2006, 2005 and 2004</u> | 112 |
| <u>Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2005 and 2004</u> | 114 |
| <u>Notes to Consolidated Financial Statements</u> | 116 |

Schedule for the years ended March 31, 2006, 2005 and 2004:

| | |
|---|-----|
| <u>Schedule II — Valuation and Qualifying Accounts and Reserves for the years ended March 31, 2006, 2005 and 2004</u> | 170 |
|---|-----|

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Matsushita Electric Industrial Co., Ltd.:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Matsushita Electric Industrial Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG AZSA & Co.

Osaka, Japan

May 10, 2006

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2006 and 2005

| | Yen (millions) | |
|---|----------------|-----------|
| Assets | 2006 | 2005 |
| Current assets: | | |
| Cash and cash equivalents (Note 9) | 1,667,396 | 1,169,756 |
| Time deposits (Note 9) | 11,001 | 144,781 |
| Short-term investments (Notes 5 and 18) | 56,753 | 11,978 |
| Trade receivables (Notes 6 and 16): | | |
| Related companies (Note 4) | 22,101 | 17,612 |
| Notes | 66,502 | 107,258 |
| Accounts | 1,095,612 | 1,170,704 |
| Allowance for doubtful receivables | (37,400) | (43,836) |
| Net trade receivables | 1,146,815 | 1,251,738 |
| Inventories (Note 3) | 915,262 | 893,425 |
| Other current assets (Notes 7, 11 and 18) | 609,326 | 558,854 |
| Total current assets | 4,406,553 | 4,030,532 |
| Noncurrent receivables (Note 6) | | 246,201 |
| Investments and advances (Notes 5 and 18): | | |
| Associated companies (Note 4) | 133,608 | 166,955 |
| Other investments and advances | 966,427 | 979,550 |
| Total investments and advances | 1,100,035 | 1,146,505 |
| Property, plant and equipment (Notes 6, 7 and 9): | | |

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| | | |
|-----------------------------------|------------------|------------------|
| Land | 374,989 | 393,635 |
| Buildings | 1,667,764 | 1,665,243 |
| Machinery and equipment | 3,142,607 | 3,087,155 |
| Construction in progress | 71,037 | 84,139 |
| | <u>5,256,397</u> | <u>5,230,172</u> |
| Less accumulated depreciation | 3,624,058 | 3,572,092 |
| | <u>1,632,339</u> | <u>1,658,080</u> |
| Other assets: | | |
| Goodwill (Notes 2 and 8) | 413,137 | 461,912 |
| Intangible assets (Notes 2 and 8) | 104,158 | 101,585 |
| Other assets (Notes 10 and 11) | 308,418 | 412,066 |
| | <u>825,713</u> | <u>975,563</u> |
| Total other assets | 825,713 | 975,563 |
| | <u>7,964,640</u> | <u>8,056,881</u> |

See accompanying Notes to Consolidated Financial Statements.

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2006 and 2005

| Liabilities and Stockholders Equity | Yen (millions) | |
|--|-----------------------|------------------|
| | 2006 | 2005 |
| Current liabilities: | | |
| Short-term borrowings, including current portion of long-term debt (Notes 6, 9 and 18) | 339,845 | 385,474 |
| Trade payables: | | |
| Related companies (Note 4) | 76,485 | 30,121 |
| Notes | 66,315 | 37,099 |
| Accounts | 838,479 | 798,799 |
| Total trade payables | 981,279 | 866,019 |
| Accrued income taxes (Note 11) | 51,128 | 47,916 |
| Accrued payroll | 142,594 | 145,871 |
| Other accrued expenses (Note 19) | 842,467 | 789,999 |
| Deposits and advances from customers | 90,600 | 92,089 |
| Employees deposits | 14,065 | 118,441 |
| Other current liabilities (Notes 11 and 18) | 423,090 | 383,082 |
| Total current liabilities | 2,885,068 | 2,828,891 |
| Noncurrent liabilities: | | |
| Long-term debt (Notes 6, 9 and 18) | 264,070 | 477,143 |
| Retirement and severance benefits (Note 10) | 414,266 | 597,163 |
| Other liabilities (Note 11) | 112,024 | 113,491 |
| Total noncurrent liabilities | 790,360 | 1,187,797 |
| Minority interests | 501,591 | 495,941 |

Stockholders' equity:

Common stock (Note 12):

Authorized - 4,950,000,000 shares

| | | |
|---|-------------------|-------------------|
| Issued - 2,453,053,497 shares (2,453,053,497 shares in 2005) | 258,740 | 258,740 |
| Capital surplus (Note 12) | 1,234,289 | 1,230,701 |
| Legal reserve (Note 12) | 87,526 | 87,838 |
| Retained earnings (Note 12) | 2,575,890 | 2,461,071 |
| Accumulated other comprehensive income (loss) (Notes 5, 10, 13 and 17): | | |
| Cumulative translation adjustments | (162,331) | (245,642) |
| Unrealized holding gains of available-for-sale securities | 145,306 | 72,608 |
| Unrealized gains of derivative instruments | 1,326 | 6,403 |
| Minimum pension liability adjustments | (10,420) | (71,746) |
| | <u> </u> | <u> </u> |
| Total accumulated other comprehensive income (loss) | (26,119) | (238,377) |
| | <u> </u> | <u> </u> |
| Treasury stock, at cost (Note 12): | | |
| 243,521,506 shares (194,695,787 shares in 2005) | (342,705) | (255,721) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 3,787,621 | 3,544,252 |
| Commitments and contingent liabilities (Note 19) | | |
| | <u> </u> | <u> </u> |
| | 7,964,640 | 8,056,881 |
| | <u> </u> | <u> </u> |

See accompanying Notes to Consolidated Financial Statements.

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 2006, 2005 and 2004

| | Yen (millions) | | |
|--|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| Revenues, costs and expenses: | | | |
| Net sales: | | | |
| Related companies (Note 4) | 204,740 | 192,489 | 179,270 |
| Other | 8,689,589 | 8,521,147 | 7,300,474 |
| | <u>8,894,329</u> | <u>8,713,636</u> | <u>7,479,744</u> |
| Total net sales | 8,894,329 | 8,713,636 | 7,479,744 |
| Cost of sales (Notes 4 and 16) | (6,155,297) | (6,176,046) | (5,313,065) |
| Selling, general and administrative expenses (Note 16) | (2,324,759) | (2,229,096) | (1,971,187) |
| Interest income | 28,216 | 19,490 | 19,564 |
| Dividends received | 6,567 | 5,383 | 5,475 |
| Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance (Note 10) | | 31,509 | 72,228 |
| Other income (Notes 5, 6, 16 and 17) | 147,399 | 82,819 | 59,544 |
| Interest expense | (21,686) | (22,827) | (27,744) |
| Goodwill impairment (Note 8) | (50,050) | (3,559) | |
| Other deductions (Notes 4, 5, 7, 8, 15, 16 and 17) | (153,407) | (174,396) | (153,737) |
| | <u>371,312</u> | <u>246,913</u> | <u>170,822</u> |
| Income before income taxes | 371,312 | 246,913 | 170,822 |
| Provision for income taxes (Note 11): | | | |
| Current | 96,341 | 96,529 | 77,375 |
| Deferred | 70,748 | 56,805 | 21,160 |
| | <u>167,089</u> | <u>153,334</u> | <u>98,535</u> |
| Income before minority interests and equity in losses of associated companies | 204,223 | 93,579 | 72,287 |

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| | | | |
|---|----------|------------|----------|
| Minority interests | (987) | 27,719 | 19,618 |
| Equity in losses of associated companies (Note 4) | (50,800) | (7,379) | (10,524) |
| Net income | 154,410 | 58,481 | 42,145 |
| | | Yen | |
| Net income per share of common stock (Note 14): | | | |
| Basic | 69.48 | 25.49 | 18.15 |
| Diluted | 69.48 | 25.49 | 18.00 |

See accompanying Notes to Consolidated Financial Statements.

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2006, 2005 and 2004

| | Yen (millions) | | |
|---|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| Common stock (Notes 12 and 16): | | | |
| Balance at beginning of year | 258,740 | 258,740 | 258,738 |
| Issuance of common stock for conversion of bonds | | | 2 |
| Balance at end of year | 258,740 | 258,740 | 258,740 |
| Capital surplus (Notes 12 and 16): | | | |
| Balance at beginning of year | 1,230,701 | 1,230,476 | 1,219,686 |
| Issuance of common stock for conversion of bonds | | | 2 |
| Treasury stock provided for conversion of bonds | | | 4,209 |
| Stock issued under exchange offering | | | 6,579 |
| Transfer from legal reserve and retained earnings due to merger of a subsidiary | 798 | | |
| Sale of treasury stock | 62 | 225 | |
| Increase in capital surplus and transfer to minority interests arising on conversion of bonds by a subsidiary | 2,728 | | |
| Balance at end of year | 1,234,289 | 1,230,701 | 1,230,476 |
| Legal reserve (Note 12): | | | |
| Balance at beginning of year | 87,838 | 83,175 | 80,700 |
| Transfer from retained earnings | 438 | 4,663 | 2,475 |
| Transfer to capital surplus due to merger of a subsidiary | (750) | | |
| Balance at end of year | 87,526 | 87,838 | 83,175 |

| | | | |
|---|-------------------|-------------------|-------------------|
| Retained earnings (Note 12): | | | |
| Balance at beginning of year | 2,461,071 | 2,442,504 | 2,432,052 |
| Net income | 154,410 | 58,481 | 42,145 |
| Cash dividends | (39,105) | (35,251) | (29,218) |
| Transfer to legal reserve | (438) | (4,663) | (2,475) |
| Transfer to capital surplus due to merger of a subsidiary | (48) | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of year | 2,575,890 | 2,461,071 | 2,442,504 |
| | <u> </u> | <u> </u> | <u> </u> |
| Accumulated other comprehensive income (loss) (Note 13): | | | |
| Balance at beginning of year | (238,377) | (399,502) | (705,642) |
| Other comprehensive income, net of tax | 212,258 | 161,125 | 306,140 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of year | (26,119) | (238,377) | (399,502) |
| | <u> </u> | <u> </u> | <u> </u> |

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2006, 2005 and 2004

| | Yen (millions) | | |
|---|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Treasury stock (Note 12): | | | |
| Balance at beginning of year | (255,721) | (163,817) | (107,134) |
| Treasury stock acquired due to acquisition of additional shares of newly consolidated subsidiaries (Note 2) | | (124) | |
| Repurchase of common stock | (87,150) | (92,879) | (69,394) |
| Sale of treasury stock | 166 | 1,099 | |
| Conversion of bonds | | | 12,711 |
| | (342,705) | (255,721) | (163,817) |
| Disclosure of comprehensive income (loss) (Note 13): | | | |
| Net income | 154,410 | 58,481 | 42,145 |
| Other comprehensive income (loss), net of tax: | | | |
| Translation adjustments | 83,311 | 36,645 | (121,163) |
| Unrealized holding gains (losses) of available-for-sale securities | 72,698 | (15,496) | 106,186 |
| Unrealized gains (losses) of derivative instruments | (5,077) | (273) | 7,766 |
| Minimum pension liability adjustments | 61,326 | 140,249 | 313,351 |
| | 366,668 | 219,606 | 348,285 |

See accompanying Notes to Consolidated Financial Statements.

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2006, 2005 and 2004

| | Yen (millions) | | |
|--|----------------|----------------|----------------|
| | 2006 | 2005 | 2004 |
| Cash flows from operating activities (Note 16): | | | |
| Net income | 154,410 | 58,481 | 42,145 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 309,399 | 325,465 | 278,177 |
| Net gain on sale of investments | (47,449) | (31,399) | (11,327) |
| Provision for doubtful receivables | 8,409 | 4,963 | 3,154 |
| Deferred income taxes | 70,748 | 56,805 | 21,160 |
| Write-down of investment securities (Notes 4 and 5) | 35,292 | 16,186 | 52,492 |
| Impairment loss on long-lived assets (Notes 7 and 8) | 66,378 | 33,078 | 11,666 |
| Minority interests | (987) | 27,719 | 19,618 |
| (Increase) decrease in trade receivables | (31,042) | 61,207 | 35,248 |
| (Increase) decrease in inventories | 36,498 | 84,405 | (37,016) |
| (Increase) decrease in other current assets | (57,990) | 14,649 | 13,450 |
| Increase (decrease) in trade payables | 112,340 | (74,276) | 87,226 |
| Increase (decrease) in accrued income taxes | 3,872 | (3,422) | 12,254 |
| Increase (decrease) in accrued expenses and other current liabilities | 37,108 | (10,736) | 10,782 |
| Increase (decrease) in retirement and severance benefits | (73,180) | (99,499) | (67,332) |
| Increase (decrease) in deposits and advances from customers | (13,304) | (13,873) | (15,906) |
| Other | (35,084) | 14,809 | 17,435 |
| | 575,418 | 464,562 | 473,226 |
| Cash flows from investing activities (Note 16): | | | |
| Proceeds from sale of short-term investments | 41,867 | 6,117 | |
| Purchase of short-term investments | (54,967) | (9,001) | (702) |
| Proceeds from disposition of investments and advances | 849,409 | 101,374 | 68,468 |
| Increase in investments and advances | (385,865) | (133,636) | (207,869) |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Capital expenditures | (356,751) | (352,203) | (275,544) |
| Proceeds from disposals of property, plant and equipment | 168,631 | 78,131 | 113,008 |
| (Increase) decrease in finance receivables | | 26,823 | 30,697 |
| (Increase) decrease in time deposits | 141,289 | 27,748 | 202,808 |
| Inflows due to acquisition of additional shares of newly consolidated subsidiaries, net of cash paid | | 82,208 | |
| Proceeds from sale of shares of subsidiaries and dividends received | 63,083 | | |
| Other | (59,605) | (5,857) | (16,311) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) investing activities | 407,091 | (178,296) | (85,445) |
| | <u> </u> | <u> </u> | <u> </u> |

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2006, 2005 and 2004

| | Yen (millions) | | |
|--|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| Cash flows from financing activities (Note 16): | | | |
| Increase (decrease) in short-term borrowings | 15,037 | (8,009) | (39,577) |
| Increase (decrease) in employees' deposits | (104,835) | (125,261) | 119 |
| Proceeds from long-term debt | 30,653 | 119,422 | 108,026 |
| Repayments of long-term debt | (328,243) | (251,554) | (228,039) |
| Dividends paid | (39,105) | (35,251) | (29,218) |
| Dividends paid to minority interests | (16,281) | (14,765) | (4,675) |
| Repurchase of common stock (Note 12) | (87,150) | (92,879) | (69,394) |
| Sale of treasury stock (Note 12) | 228 | 1,324 | |
| Other | 5,128 | 1,395 | 5,963 |
| Net cash used in financing activities | (524,568) | (405,578) | (256,795) |
| Effect of exchange rate changes on cash and cash equivalents | 39,699 | 14,054 | (23,442) |
| Net increase (decrease) in cash and cash equivalents | 497,640 | (105,258) | 107,544 |
| Cash and cash equivalents at beginning of year | 1,169,756 | 1,275,014 | 1,167,470 |
| Cash and cash equivalents at end of year | 1,667,396 | 1,169,756 | 1,275,014 |

See accompanying Notes to Consolidated Financial Statements.

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

Notes to Consolidated Financial Statements

March 31, 2006, 2005 and 2004

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

(a) **Description of Business**

Matsushita Electric Industrial Co., Ltd. (hereinafter, the Company, including consolidated subsidiaries, unless the context otherwise requires) is one of the world's leading producers of electronic and electric products. The Company currently offers a comprehensive range of products, systems and components for consumer, business and industrial use based on sophisticated electronics and precision technology, expanding to building materials and equipment, and housing business. Most of the Company's products are marketed under Panasonic and several other trade names, including National, Technics, Quasar, Victor, JVC and PanaHome.

Sales in fiscal 2006 were categorized as follows: AVC Networks 41%, Home Appliances 13%, Components and Devices 12%, MEW and PanaHome* 18%, JVC 8%, and Other 8%. A sales breakdown in fiscal 2006 by geographical market was as follows: Japan 52%, North and South America 16%, Europe 12%, and Asia and Others 20%.

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

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

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

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

The consolidated financial statements presented herein have been prepared in a manner and reflect adjustments which are necessary to conform with U.S. generally accepted accounting principles.

(c) **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its majority-owned, controlled subsidiaries. The Company also consolidates entities in which controlling interest exists through variable interests in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R).

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

Notes to Consolidated Financial Statements

The Company changed the presentation of deposits and advances from customers from net cash used in financing activities to net cash provided by operating activities in the consolidated statements of cash flows for the year ended March 31, 2006. In addition, the Company revised the corresponding prior year presentation. The revision decreased net cash provided by operating activities and increased net cash used in financing activities by 13,873 million yen and 15,906 million yen for the years ended March 31, 2005 and 2004, respectively. These changes were not material to the consolidated statements of cash flows for these years.

(d) Revenue Recognition

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

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

The Company enters into arrangements with multiple elements, which may include any combination of products, equipment, installment and maintenance. The Company allocates revenue to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). EITF 00-21 was effective for revenue arrangements entered into after June 30, 2003. EITF 00-21 did not have a material effect on the accompanying consolidated financial statements.

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

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

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

Notes to Consolidated Financial Statements

The Company also occasionally offers incentive programs to its distributors in the form of rebates. These rebates are accrued at the later of the date at which the related revenue is recognized or the date at which the incentive is offered, and are recorded as reductions of sales in accordance with EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

(e) Leases (See Note 6)

Prior to April 1, 2005, a subsidiary of the Company leased machinery and equipment to third parties. Leases of such assets were principally accounted for as direct financing leases and included in Trade receivables, Accounts and Noncurrent receivables in the accompanying consolidated balance sheet.

On April 1, 2005, the Company sold the majority shares of this subsidiary to a third party, and began to account for its remaining investment using the equity method.

(f) Inventories (See Note 3)

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

(g) Foreign Currency Translation (See Note 13)

Foreign currency financial statements are translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation, under which all assets and liabilities are translated into yen at year-end rates and income and expense accounts are translated at weighted-average rates. Adjustments resulting from the translation of financial statements are reflected under the caption, Accumulated other comprehensive income (loss), a

separate component of stockholders' equity.

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

Property, plant and equipment is stated at cost. Depreciation is computed primarily using the declining balance method based on the following estimated useful lives:

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

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

Notes to Consolidated Financial Statements

(i) Goodwill and Other Intangible assets (See Note 8)

Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, and are instead tested for impairment at least annually based on assessment of current estimated fair value of the intangible asset. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment based on an assessment of the undiscounted cash flows expected by the asset. An impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(j) Investments and Advances (See Notes 4, 5 and 13)

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

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

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

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

SFAS No. 115 requires that certain investments in debt and equity securities be classified as held-to-maturity, trading, or available-for-sale securities. The Company classifies its existing marketable equity securities other than investments in associated companies and all debt securities as available-for-sale. Available-for-sale securities are carried at fair value with unrealized holding gains or losses included as a component of accumulated other comprehensive income (loss), net of applicable taxes.

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

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**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
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Notes to Consolidated Financial Statements

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

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

(k) Allowance for Doubtful Receivables

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

(l) Income Taxes (See Note 11)

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

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

(m) **Advertising (See Note 16)**

Advertising costs are expensed as incurred.

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

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

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**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
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Notes to Consolidated Financial Statements

Under SFAS No. 128, basic net income per share is computed based on the weighted-average number of common shares outstanding during each period, and diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(o) Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

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

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

The Company accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Company recognizes derivatives in the consolidated balance sheets at their fair value in Other current assets, Other assets, Other current liabilities or Other liabilities. On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), or a foreign-currency fair-value or cash-flow hedge (foreign-currency hedge). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
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Notes to Consolidated Financial Statements

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

The Company accounts for impairment or disposition of long-lived assets in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(r) Restructuring Charges (See Note 15)

The Company accounts for costs associated with exit or disposal activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Pursuant to SFAS No. 146, liabilities for restructuring costs are recognized when the liability is incurred, which may be subsequent to the date when the Company has committed to a restructuring plan.

(s) Stock-Based Compensation (See Note 12)

SFAS No. 123, Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS No. 123, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.

As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-based-method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for its stock option plans described in Note 12,

and has adopted only the disclosure requirements of SFAS No. 123, as amended.

As the option price at the date of grant exceeded the fair market value of common stock, no compensation costs have been recognized in connection with the plans.

If the accounting provision of SFAS No. 123, as amended, had been adopted, the impact on the Company's net income for the three years ended March 31, 2006 would not be material.

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

Notes to Consolidated Financial Statements

(t) Use of Estimates

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

(u) New Accounting Pronouncements

In December 2004, FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which addresses accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123R will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. SFAS No. 123R will be effective for the Company as of April 1, 2006. The application of SFAS No. 123R is not expected to have a material effect on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS No. 151, *Inventory Costs*, which clarifies the accounting for abnormal amounts of its idle facility expense, freight, handling costs, and wasted material (spoilage). Under SFAS No. 151, such items will be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for the Company for inventory costs incurred on or after April 1, 2006. The application of SFAS No. 151 is not expected to have a material effect on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, which eliminates an exception in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial

substance. SFAS No. 153 will be effective for the Company for nonmonetary asset exchanges occurring on or after April 1, 2006. The application of SFAS No. 153 is not expected to have a material effect on the Company's consolidated financial statements.

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**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
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Notes to Consolidated Financial Statements

In September 2005, EITF issued EITF 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty, which provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a nonmonetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements occurring after April 1, 2006. The application of EITF 04-13 is not expected to have a material effect on the Company's consolidated financial statements.

(v) **Reclassifications**

Certain reclassifications have been made to the prior years' consolidated financial statements and notes thereto to conform with the presentation used for the year ended March 31, 2006.

(2) **Acquisition**

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

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

The results of operations of MEW and PanaHome are included in the consolidated financial statements since that date. MEW is a manufacturer of household electric equipment, building products and related materials based in Osaka, Japan. As a result of the acquisition, the Company is expected to provide a comprehensive range of home electric and household equipment and systems in Japan. It also expects to reduce costs through economies of scale and sharing of

research and development resources and marketing channels. The aggregate purchase cost of additional MEW shares was 147,187 million yen and was paid in cash. The carrying value of the Company's common shares of MEW immediately before the acquisition was 200,174 million yen. The carrying value of the Company's existing common shares of PanaHome at April 1, 2004 was 22,861 million yen.

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
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Notes to Consolidated Financial Statements

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

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

In-process research and development represents the estimated value of in-process research and development projects that had not yet reached technical feasibility. The related technology had no alternative use and required substantial

additional development by the Company. In-process research and development was charged to operations during the year ended March 31, 2005 and included in selling, general and administrative expenses in the consolidated statements of income.

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

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

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The unaudited pro forma information shows the results of the Company's consolidated income for the year ended March 31, 2004 as though MEW and PanaHome had been consolidated at the beginning of fiscal 2004. The unaudited pro forma results include the unaudited historical operating results of MEW and PanaHome for the year ended March 31, 2004.

The unaudited pro forma data is not necessarily indicative of the Company's results of income that would actually have been reported if the transaction in fact had occurred on April 1, 2003, and is not necessarily representative of the Company's consolidated results of income for any future period.

| | Unaudited |
|-----------------------|-----------------------|
| | Yen (millions) |
| | 2004 |
| Net sales | 8,771,836 |
| Net income | 49,129 |
| | Yen |
| | 2004 |
| Net income per share: | |
| Basic | 21.16 |
| Diluted | 20.94 |

(3) Inventories

Inventories at March 31, 2006 and 2005 are summarized as follows:

| | Yen (millions) | |
|-----------------|-----------------------|----------------|
| | 2006 | 2005 |
| Finished goods | 534,766 | 491,381 |
| Work in process | 126,152 | 139,745 |
| Raw materials | 254,344 | 262,299 |
| | 915,262 | 893,425 |

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

Certain financial information in respect of associated companies in aggregate at March 31, 2006 and 2005 and for the three years ended March 31, 2006 is shown below. The most significant of these associated companies are Toshiba Matsushita Display Technology Co., Ltd. (TMD) and Sumishin Matsushita Financial Services Co., Ltd. (SMFC). At March 31, 2006, the Company has a 40% equity ownership in TMD and a 34% equity ownership in SMFC.

The Company formerly accounted for the investment in Matsushita Toshiba Picture Display Co., Ltd. (MTPD) and its subsidiaries under the equity method, and began to consolidate MTPD on March 1, 2006 in accordance with FIN 46R, Consolidation of Variable Interest Entities, as a result of certain restructuring activities of MTPD. At March 31, 2006, the Company has a 64.5% equity ownership in MTPD, which is engaged in manufacturing and distributing cathode ray tubes. The impact of consolidating MTPD is not material to the Company's consolidated financial statements. Financial information associated with MTPD through February 28, 2006 is included in the aggregate information below, however, financial information as of and for the one month ended March 31, 2006 is not included.

As described in Note 2, MEW, PanaHome and their respective subsidiaries, which were formerly accounted for under the equity method, became consolidated subsidiaries of the Company on April 1, 2004. Accordingly, financial information associated with MEW, PanaHome and their respective subsidiaries in fiscal 2006 and 2005 is not included below.

Financial information associated with SMFC for fiscal 2005 and 2004 is not included below, as it was a subsidiary through fiscal 2005.

| Yen (millions) | |
|----------------|------|
| 2006 | 2005 |
| | |

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| | | |
|--------------------------------|------------------|----------------|
| Current assets | 842,766 | 417,848 |
| Other assets | 578,082 | 383,739 |
| | <u>1,420,848</u> | <u>801,587</u> |
| Current liabilities | 633,909 | 423,858 |
| Other liabilities | 397,313 | 97,800 |
| | <u>389,626</u> | <u>279,929</u> |
| Net assets | 389,626 | 279,929 |
| Company's equity in net assets | 153,590 | 118,489 |

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| | Yen (millions) | | |
|--------------|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Net sales | 1,227,057 | 1,187,975 | 2,552,682 |
| Gross profit | 195,141 | 176,765 | 577,451 |
| Net loss | (70,381) | (11,178) | (6,598) |

Purchases and dividends received from associated companies for the three years ended March 31, 2006 are as follows:

| | Yen (millions) | | |
|--------------------|----------------|---------|---------|
| | 2006 | 2005 | 2004 |
| Purchases from | 261,458 | 260,745 | 366,943 |
| Dividends received | 1,496 | 1,480 | 5,525 |

Retained earnings include undistributed earnings of associated companies in the amount of 28,299 million yen and 11,974 million yen, as of March 31, 2006 and 2005, respectively.

During the years ended March 31, 2006, 2005 and 2004, the Company incurred a write-down of 30,681 million yen, 2,833 million yen and 50,793 million yen, respectively, for other-than-temporary impairment of investments and advances in associated companies. The write-down is included in other deductions in the consolidated statements of income.

Investments in associated companies include equity securities which have quoted market values at March 31, 2006 and 2005 compared with related carrying amounts as follows:

| | Yen (millions) | |
|-----------------|----------------|-------|
| | 2006 | 2005 |
| Carrying amount | 3,054 | 3,168 |
| Market value | 5,088 | 4,133 |

(5) Investments in Securities

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

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The cost, fair value, gross unrealized holding gains, and gross unrealized holding losses of available-for-sale securities included in short-term investments and investments and advances at March 31, 2006 and 2005 are as follows:

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

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| | 2005 | | | |
|---------------------------------------|----------------|----------------|--------------------------------|---------------------------------|
| | Cost | Fair value | Gross unrealized holding gains | Gross unrealized holding losses |
| Current: | | | | |
| Japanese and foreign government bonds | 35 | 35 | | |
| Convertible and straight bonds | 5,000 | 5,000 | | |
| Other debt securities | 6,943 | 6,943 | | |
| | <u>11,978</u> | <u>11,978</u> | | |
| Noncurrent: | | | | |
| Equity securities | 228,202 | 392,903 | 164,826 | 125 |
| Japanese and foreign government bonds | 40,200 | 40,233 | 33 | |
| Convertible and straight bonds | 31,644 | 31,871 | 230 | 3 |
| Other debt securities | 18,258 | 18,282 | 101 | 77 |
| | <u>318,304</u> | <u>483,289</u> | <u>165,190</u> | <u>205</u> |

Maturities of investments in available-for-sale securities at March 31, 2006 and 2005 are as follows:

| | Yen (millions) | | | |
|--|----------------|------------|--------|------------|
| | 2006 | | 2005 | |
| | Cost | Fair value | Cost | Fair value |
| Due within one year | 56,769 | 56,753 | 11,978 | 11,978 |
| Due after one year through five years | 137,184 | 136,681 | 79,841 | 80,008 |
| Due after five years through ten years | 4,476 | 4,353 | 10,261 | 10,378 |

| | | | | |
|-------------------|----------------|----------------|----------------|----------------|
| Equity securities | <u>230,400</u> | <u>527,705</u> | <u>228,202</u> | <u>392,903</u> |
| | <u>428,829</u> | <u>725,492</u> | <u>330,282</u> | <u>495,267</u> |

Proceeds from sale of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 were 135,907 million yen, 74,719 million yen and 40,611 million yen, respectively. The gross realized gains for the years ended March 31, 2006, 2005 and 2004 were 63,757 million yen, 31,655 million yen and 12,391 million yen, respectively. The gross realized losses on sale of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 were 199 million yen, 256 million yen and 1,064 million yen, respectively. The cost of securities sold in computing gross realized gains and losses is determined by the average cost method.

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During the years ended March 31, 2006, 2005 and 2004, the Company incurred a write-down of 458 million yen, 2,661 million yen and 1,699 million yen, respectively, for other-than-temporary impairment of available-for-sale securities, mainly reflecting the aggravated market condition of certain industries in Japan. The write-down is included in other deductions in the consolidated statements of income.

Gross unrealized holding losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2006 and 2005, are as follows:

| | Yen (millions) | | | | | |
|--|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| | 2006 | | | | | |
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Equity securities | 1,474 | 66 | | | 1,474 | 66 |
| Japanese and foreign government bonds | 114,558 | 555 | | | 114,558 | 555 |
| Convertible and straight bonds | 30,623 | 177 | | | 30,623 | 177 |
| Other debt securities | 1,822 | 30 | | | 1,822 | 30 |
| | 148,477 | 828 | | | 148,477 | 828 |
| | 2005 | | | | | |
| | Less than 12 months | | 12 months or more | | Total | |

| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
|--------------------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Equity securities | 5,828 | 125 | | | 5,828 | 125 |
| Convertible and straight bonds | 1,497 | 3 | | | 1,497 | 3 |
| Other debt securities | 1,423 | 77 | | | 1,423 | 77 |
| | <u>8,748</u> | <u>205</u> | | | <u>8,748</u> | <u>205</u> |

The gross unrealized loss position has been continuing for a relatively short period of time. Based on this and other relevant factors, management has determined that these investments are not considered other-than-temporarily impaired. The Company has not held unrealized losses for twelve months or more at March 31, 2006 or 2005.

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The aggregate cost of the Company's cost method investments totaled 35,211 million yen and 189,740 million yen at March 31, 2006 and 2005. The Company recognized the gross realized losses of 31,264 million yen associated with the sale of a certain investment for the year ended March 31, 2006. For investments with an aggregate cost of 32,621 million yen and 34,245 million yen at March 31, 2006 and 2005, respectively, the Company estimated that the fair value exceeded the cost of investments (that is, the investments were not impaired). For the years ended March 31, 2006 and 2005, the remaining investments were considered other-than-temporarily impaired, resulting in a write-down of 4,153 million yen and 10,692 million yen, respectively.

(6) Leases

The Company has capital and operating leases for certain machinery and equipment with SMFC and other third parties. At March 31, 2006 and 2005, the gross book value of machinery and equipment under capital leases was 168,374 million yen and 47,765 million yen, and the related accumulated depreciation recorded was 101,025 million yen and 27,052 million yen, respectively.

During the years ended March 31, 2006, 2005 and 2004, the Company sold and leased back certain machinery and equipment for 115,326 million yen, 49,574 million yen and 44,636 million yen, respectively. The base lease term is 2 to 5 years. The resulting leases are being accounted for as operating leases. The resulting gains of these transactions, included in other income in the consolidated statements of income, were not significant. The Company has options to purchase the leased assets, or to terminate the leases and guarantee a specified value of the leased assets thereof, subject to certain conditions, during or at the end of the lease term.

Rental expenses for operating leases, including the above-mentioned sale-leaseback transactions were 41,302 million yen, 34,800 million yen and 29,049 million yen for the years ended March 31, 2006, 2005 and 2004, respectively.

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Future minimum lease payments under non-cancelable capital leases and operating leases at March 31, 2006 are as follows:

| | Yen (millions) | |
|--|-------------------|---------------------|
| | Capital leases | Operating leases |
| Year ending March 31 | | |
| 2007 | 29,857 | 44,938 |
| 2008 | 20,406 | 52,853 |
| 2009 | 12,201 | 27,861 |
| 2010 | 6,178 | 21,268 |
| 2011 | 2,913 | 29,379 |
| Thereafter | 1,923 | 2,618 |
| Total minimum lease payments | 73,478 | 178,917 |
| Less amount representing interest | 2,847 | |
| Present value of net minimum lease payments | 70,631 | |
| Less current portion | 28,596 | |
| Long-term capital lease obligations | 42,035 | |

Prior to April 1, 2005, a subsidiary of the Company leased machinery and equipment. Leases of such assets are principally accounted for as direct financing leases. On April 1, 2005, the Company sold the majority shares of this subsidiary to a third party, and began to account for its remaining investment using the equity method. Investments in non-cancelable financing leases at March 31, 2005 were as follows:

| | Yen (millions) |
|--|-----------------------|
| | 2005 |
| Total minimum lease payments to be received | 332,292 |
| Less amounts representing estimated executory cost | 13,840 |
| Less unearned income | 15,677 |
| | <hr/> |
| | 302,775 |
| Less allowance for doubtful receivables | 5,946 |
| | <hr/> |
| Net investment in financing leases | 296,829 |
| Less current portion | 105,817 |
| | <hr/> |
| Long-term investment in financing leases | 191,012 |
| | <hr/> |

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(7) **Long-Lived Assets**

The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these assets will be sufficient to recover the remaining recorded asset values. As discussed in Note 1 (q), the Company accounts for impairment of long-lived assets in accordance with SFAS No. 144. Impairment losses are included in other deductions in the consolidated statements of income, and are not charged to segment profit.

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

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

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

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

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

Due to severe competition primarily in the domestic audio and visual industry, the Company was in the process of realigning various branches of a certain domestic sales subsidiary. Consequently the Company decided to sell the land and buildings of the subsidiary near the end of fiscal 2005, and classified those land and buildings as assets held for sale, which were included in other current assets in the consolidated balance sheet. As a result, the Company recognized an impairment loss. The fair value of the land and buildings was determined by using a purchase price offered by a third party.

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

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

The Company recognized impairment losses of 10,623 million yen of property, plant and equipment during fiscal 2004.

One of the impairment losses is related to write-down of certain land and buildings at a domestic sales subsidiary to the fair value. Those assets were unused and the Company estimated the carrying amounts would not be recovered by the future cash flows. The remaining impairment loss is mainly related to write-down of machinery and equipment used in connection with the manufacture of certain electric components at a foreign subsidiary. As the prices of these products significantly decreased due to highly competitive market, the Company projected that the future business of those products would result in operating losses. The fair value was determined by estimating the market value.

Impairment losses of 2,530 million yen, 2,663 million yen, 4,099 million yen and 1,331 million yen were related to AVC Networks, Home Appliances, Components and Devices and the remaining segments, respectively.

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(8) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2006 and 2005 are as follows:

| | Yen (millions) | | | | | | Total |
|---|-----------------|--------------------|---------------------------|---------------------|-------|---------|----------|
| | AVC Networks | Home Appliances | Components and Devices | MEW and PanaHome | JVC | Other | |
| Balance at March 31, 2004 | 312,000 | 21,790 | 70,531 | | 2,943 | 11,643 | 418,907 |
| Goodwill acquired during the year | 25 | 698 | 376 | 43,113 | 254 | 2,098 | 46,564 |
| Goodwill impaired during the year | | | | | | (3,559) | (3,559) |
| Balance at March 31, 2005 | 312,025 | 22,488 | 70,907 | 43,113 | 3,197 | 10,182 | 461,912 |
| Goodwill acquired during the year | | 47 | 216 | 402 | | 714 | 1,379 |
| Goodwill written off related to disposals during the year | (104) | | | | | | (104) |
| Goodwill impaired during the year | (50,050) | | | | | | (50,050) |
| Balance at March 31, 2006 | 261,871 | 22,535 | 71,123 | 43,515 | 3,197 | 10,896 | 413,137 |

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

The Company recognized an impairment loss of 3,559 million yen during fiscal 2005 related to goodwill of a cable-broadcasting subsidiary. As the growth rate of the cable-broadcasting business was lower than the Company's expectation, the carrying amount of the cable-broadcasting unit was greater than the fair value of the reporting unit.

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

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Acquired intangible assets, excluding goodwill, at March 31, 2006 and 2005 are as follows:

| | Yen (millions) | | | | Average amortization period |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------------|
| | 2006 | | 2005 | | |
| | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization | |
| Amortizing intangible assets: | | | | | |
| Patents | 39,245 | 30,620 | 39,183 | 27,901 | 8 years |
| Software | 187,336 | 117,821 | 162,794 | 97,035 | 4 years |
| Other | 37,516 | 12,806 | 34,220 | 11,839 | 18 years |
| | 264,097 | 161,247 | 236,197 | 136,775 | |

| | Yen (millions) | |
|----------------------------------|----------------|-------|
| | 2006 | 2005 |
| Non-amortizing intangible assets | 1,308 | 2,163 |

Aggregate amortization expense for amortizing intangible assets for the years ended March 31, 2006, 2005 and 2004 was 33,918 million yen, 37,569 million yen and 23,789 million yen, respectively. Estimated amortization expense for the next five years is as follows:

| Year ending March 31 | Yen (millions) | |
|----------------------|----------------|------|
| | 2006 | 2005 |
| | | |

| | |
|------|--------|
| 2007 | 27,084 |
| 2008 | 18,961 |
| 2009 | 11,564 |
| 2010 | 5,537 |
| 2011 | 3,626 |

The Company recorded an impairment loss of 349 million yen of amortizing intangible assets in fiscal 2005. The Company estimated the carrying amount would not be recovered by the future cash flows, due to severe competition in the domestic market. The Company also recognized an impairment loss of 98 million yen, 905 million yen and 1,043 million yen of non-amortizing intangible assets, in connection with the decline of their market value during fiscal 2006, 2005 and 2004, respectively. The impairment loss is included in other deductions in the consolidated statements of income.

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

Long-term debt at March 31, 2006 and 2005 is set forth below:

| | Yen (millions) | |
|---|----------------|---------|
| | 2006 | 2005 |
| Convertible bonds issued by subsidiaries, due 2005, interest 0.55% - 1.5% | | 86,411 |
| Straight bonds, due 2007, interest 0.87% | 100,014 | 100,084 |
| Straight bonds, due 2011, interest 1.64% | 100,000 | 100,000 |
| Straight bonds issued by subsidiaries, due 2005 - 2013, interest 0.6% - 2.15% | 80,000 | 116,583 |
| Unsecured yen loans from banks and insurance companies, due 2005 - 2013, effective interest 0.4% in 2006 and 0.5% in 2005 | 84,983 | 306,146 |
| Secured yen loans mainly from Development Bank of Japan by subsidiaries, due 2006 - 2016, effective interest 0.24% | 3,495 | |
| Capital lease obligations | 70,631 | 23,683 |
| | 439,123 | 732,907 |
| Less current portion | 175,053 | 255,764 |
| | 264,070 | 477,143 |

The aggregate annual maturities of long-term debt after March 31, 2006 are as follows:

| | Yen (millions) |
|-----------------------------|----------------|
| Year ending March 31 | |
| 2007 | 175,053 |

| | |
|------|--------|
| 2008 | 47,749 |
| 2009 | 83,404 |
| 2010 | 7,003 |
| 2011 | 3,286 |

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank.

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Each of the loan agreements grants the lender the right to request additional security or mortgages on property, plant and equipment. At March 31, 2006, property, plant and equipment with a book value of 6,645 million yen was pledged as collateral by subsidiaries for secured yen loans mainly from Development Bank of Japan. At March 31, 2006 and 2005, short-term loans subject to such general agreements amounted to 33,951 million yen and 29,687 million yen, respectively. The balance of short-term loans also includes borrowings under acceptances and short-term loans of foreign subsidiaries. The weighted-average interest rate on short-term borrowings outstanding at March 31, 2006 and 2005 was 4.4% and 4.0%, respectively.

(10) **Retirement and Severance Benefits**

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

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

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

In addition to the plans described above, upon retirement or termination of employment for reasons other than dismissal, employees are entitled to lump-sum payments based on the current rate of pay and length of service. If the termination is involuntary or caused by death, the severance payment is greater than in the case of voluntary

termination. The lump-sum payment plans are not funded.

Effective April 1, 2002, the Company and certain of its subsidiaries amended their lump-sum payment plans to cash balance pension plans. Under the cash balance pension plans, each participant has an account which is credited yearly based on the current rate of pay and market-related interest rate.

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Following the enactment of changes to the Law, the Company and certain of its subsidiaries obtained Government's approval for exemption from the benefit obligation related to future employee services under the substitutional portion in fiscal 2003. After obtaining the approval, some of these companies obtained another approval for separation of the remaining benefit obligation of substitutional portion which is related to past employee services and returned the remaining benefit obligation along with the plan assets calculated pursuant to the Government formula by March 31, 2004. In accordance with EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, the Company recognized a gain of 72,228 million yen under the caption of Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance for the year ended March 31, 2004. This consists of 287,145 million yen of a subsidy from the Government calculated as the difference between accumulated benefit obligation settled and the amount transferred to the Government, 69,756 million yen of derecognition of previously accrued salary progression and 284,673 million yen of recognition of related unrecognized actuarial loss, at the time when the past benefit obligation was transferred.

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

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

Net periodic benefit cost for the contributory, funded benefit pension plans, the unfunded lump-sum payment plans, and the cash balance pension plans of the Company for the three years ended March 31, 2006 consisted of the following components:

| Yen (millions) | | |
|----------------|-------------|-------------|
| 2006 | 2005 | 2004 |

| | | | |
|--|----------|----------|----------|
| Service cost – benefits earned during the year | 63,787 | 71,081 | 69,614 |
| Interest cost on projected benefit obligation | 51,131 | 54,417 | 73,665 |
| Expected return on plan assets | (37,088) | (35,101) | (35,741) |
| Amortization of prior service benefit | (26,376) | (23,533) | (9,879) |
| Recognized actuarial loss | 43,145 | 48,641 | 63,746 |
| Net periodic benefit cost | 94,599 | 115,505 | 161,405 |

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Reconciliation of beginning and ending balances of the benefit obligations of the contributory, funded benefit pension plans, the unfunded lump-sum payment plans, and the cash balance pension plans, and the fair value of the plan assets at March 31, 2006 and 2005 are as follows:

| | Yen (millions) | |
|--|------------------|------------------|
| | 2006 | 2005 |
| Change in benefit obligations: | | |
| Benefit obligations at beginning of year | 1,885,228 | 1,900,657 |
| Service cost | 63,787 | 71,081 |
| Interest cost | 51,131 | 54,417 |
| Prior service benefit | (5,850) | (97,360) |
| Actuarial (gain) loss | 38,388 | (12,070) |
| Benefits paid | (93,642) | (86,803) |
| Transfer of the substitutional portion | | (415,930) |
| Acquisition of MEW and PanaHome (Note 2) | | 470,676 |
| Sale of majority shares of Matsushita Leasing & Credit Co., Ltd. | (12,867) | |
| Foreign currency exchange impact | 3,898 | 560 |
| Benefit obligations at end of year | 1,930,073 | 1,885,228 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 1,294,306 | 1,072,621 |
| Actual return on plan assets | 242,056 | 74,873 |
| Employer contributions | 159,885 | 165,018 |
| Benefits paid | (79,374) | (67,089) |
| Transfer of the substitutional portion | | (228,004) |
| Acquisition of MEW and PanaHome (Note 2) | | 276,566 |
| Sale of majority shares of Matsushita Leasing & Credit Co., Ltd. | (6,772) | |
| Foreign currency exchange impact | 2,309 | 321 |
| Fair value of plan assets at end of year | 1,612,410 | 1,294,306 |

| | | |
|---|-----------|-----------|
| Funded status | (317,663) | (590,922) |
| Unrecognized prior service benefit | (317,103) | (338,948) |
| Unrecognized actuarial loss | 285,548 | 491,691 |
| Net amount recognized | (349,218) | (438,179) |
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Retirement and severance benefits | (414,266) | (597,163) |
| Other assets | 49,103 | 22,462 |
| Accumulated other comprehensive income, gross of tax | 15,945 | 136,522 |
| Net amount recognized | (349,218) | (438,179) |

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The accumulated benefit obligation for the pension plans was 1,905,395 million yen and 1,837,817 million yen at March 31, 2006 and 2005, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 2.7% | 2.7% |
| Rate of compensation increase | 1.6% | 1.8% |

Weighted-average assumptions used to determine net cost for the three years ended March 31, 2006 are as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------|-------------|-------------|
| Discount rate | 2.7% | 2.7% | 2.7% |
| Expected return on plan assets | 3.0% | 3.0% | 2.7% |
| Rate of compensation increase | 1.8% | 1.8% | 2.0% |

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

During the years ended March 31, 2005, the balance of retirement and severance benefits decreased, mainly as a result of the derecognition of an additional minimum pension liability, due to the transfer of the substitutional portion of Japanese Welfare Pension Insurance and a plan amendment of the Company and certain of its domestic subsidiaries.

The weighted-average asset allocation of the Company's pension plans at March 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| Asset category: | | |
| Equity securities | 47% | 44% |
| Debt securities | 37 | 37 |
| Life insurance company general accounts | 9 | 9 |
| Other | 7 | 10 |
| | <u> </u> | <u> </u> |
| Total | 100% | 100% |
| | <u> </u> | <u> </u> |

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

The Company expects to contribute 154,613 million yen to its defined benefit plans in the year ending March 31, 2007.

The benefits expected to be paid from the defined pension plans in each fiscal year 2007 – 2011 are 63,218 million yen, 68,871 million yen, 74,967 million yen, 81,034 million yen, and 87,334 million yen, respectively. The aggregate benefits expected to be paid in the five years from fiscal 2012 – 2016 are 469,423 million yen. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31 and include estimated future employee service.

(11) Income Taxes

Income before income taxes and income taxes for the three years ended March 31, 2006 are summarized as follows:

| Yen (millions) | | |
|----------------|---------|-------|
| Domestic | Foreign | Total |
| | | |

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| | | | |
|-----------------------------------|---------|--------|---------|
| For the year ended March 31, 2006 | | | |
| Income before income taxes | 292,083 | 79,229 | 371,312 |
| Income taxes: | | | |
| Current | 63,966 | 32,375 | 96,341 |
| Deferred | 66,377 | 4,371 | 70,748 |
| Total income taxes | 130,343 | 36,746 | 167,089 |

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| | Yen (millions) | | |
|--|----------------|---------|---------|
| | Domestic | Foreign | Total |
| For the year ended March 31, 2005 | | | |
| Income before income taxes | 140,464 | 106,449 | 246,913 |
| Income taxes: | | | |
| Current | 63,710 | 32,819 | 96,529 |
| Deferred | 64,229 | (7,424) | 56,805 |
| | 127,939 | 25,395 | 153,334 |
| For the year ended March 31, 2004 | | | |
| Income before income taxes | 40,353 | 130,469 | 170,822 |
| Income taxes: | | | |
| Current | 43,723 | 33,652 | 77,375 |
| Deferred | 25,702 | (4,542) | 21,160 |
| | 69,425 | 29,110 | 98,535 |

For the year ended March 31, 2004, domestic income taxes deferred include the impact of 8,614 million yen, attributable to adjustments of net deferred tax assets to reflect the reduction in the statutory income tax rate due to revisions to local enterprise income tax law on introduction of a new pro forma standard taxation system.

The Company and its subsidiaries in Japan are subject to a National tax of 30%, an Inhabitant tax of approximately 20.5%, and a deductible Enterprise tax of approximately 7.4% varying by local jurisdiction, which, in aggregate, resulted in a combined statutory tax rate in Japan of approximately 40.5% for the years ended March 31, 2006 and 2005. The Company and its subsidiaries in Japan were subject to a National tax of 30%, an Inhabitant tax of approximately 20.5%, and a deductible Enterprise tax of approximately 9.9%, which, in aggregate, resulted in a combined statutory tax rate in Japan of approximately 41.9% for the year ended March 31, 2004.

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

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|-------------------|
| Combined statutory tax rate | 40.5% | 40.5% | 41.9% |
| Tax credit related to research expenses | (1.5) | (2.4) | (1.3) |
| Lower tax rates of overseas subsidiaries | (3.7) | (5.9) | (10.6) |
| Expenses not deductible for tax purposes | 3.6 | 2.8 | 3.0 |
| Change in valuation allowance allocated to income tax expenses | 15.7 | 25.7 | 14.8 |
| Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates | | | 5.0 |
| Tax effects attributable to investments in subsidiaries | (12.0) | 4.4 | 2.3 |
| Other | 2.4 | (3.0) | 2.6 |
| | <u> </u> | <u> </u> | <u> </u> |
| Effective tax rate | 45.0% | 62.1% | 57.7% |
| | <u> </u> | <u> </u> | <u> </u> |

The significant components of deferred income tax expenses for the three years ended March 31, 2006 are as follows:

| | <u>Yen (millions)</u> | | |
|---|-----------------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Deferred tax expense (exclusive of the effects of other components listed below) | 89,824 | 78,649 | 20,376 |
| Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and regulations | | | 8,614 |
| Benefits of net operating loss carryforwards | (19,076) | (21,844) | (7,830) |
| | <u> </u> | <u> </u> | <u> </u> |

| | | |
|--------|--------|--------|
| 70,748 | 56,805 | 21,160 |
|--------|--------|--------|

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2006 and 2005 are presented below:

| | Yen (millions) | |
|--|------------------|------------------|
| | 2006 | 2005 |
| Deferred tax assets: | | |
| Inventory valuation | 76,463 | 73,414 |
| Expenses accrued for financial statement purposes but not currently included in taxable income | 294,984 | 230,640 |
| Property, plant and equipment | 179,114 | 181,826 |
| Retirement and severance benefits | 151,742 | 224,564 |
| Tax loss carryforwards | 242,180 | 211,996 |
| Other | 185,551 | 166,247 |
| | <u>1,130,034</u> | <u>1,088,687</u> |
| Total gross deferred tax assets | | |
| Less valuation allowance | 464,100 | 311,153 |
| | <u>665,934</u> | <u>777,534</u> |
| Net deferred tax assets | | |
| Deferred tax liabilities: | | |
| Net unrealized holding gains of available-for-sale securities | (124,751) | (65,744) |
| Other | (34,111) | (34,827) |
| | <u>(158,862)</u> | <u>(100,571)</u> |
| Total gross deferred tax liabilities | | |
| | <u>507,072</u> | <u>676,963</u> |
| Net deferred tax assets | | |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and loss

carryforwards become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and loss carryforwards, net of the existing valuation allowances at March 31, 2006.

The net change in total valuation allowance for the years ended March 31, 2006, 2005 and 2004 was an increase of 152,947 million yen, 65,127 million yen and 4,817 million yen, respectively.

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At March 31, 2006, the Company and certain of its subsidiaries had, for income tax purposes, net operating loss carryforwards of approximately 647,816 million yen, of which 428,709 million yen expire from fiscal 2009 through 2013 and the substantial majority of the remaining balance expire thereafter or do not expire.

Net deferred tax assets and liabilities at March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

| | Yen (millions) | |
|---------------------------|----------------|---------|
| | 2006 | 2005 |
| Other current assets | 320,914 | 343,038 |
| Other assets | 201,429 | 344,648 |
| Other current liabilities | (1,306) | (1,340) |
| Other liabilities | (13,965) | (9,383) |
| Net deferred tax assets | 507,072 | 676,963 |

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures of 758,446 million yen as of March 31, 2006, because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company no longer plans to permanently reinvest undistributed earnings. Calculation of related unrecognized deferred tax liability is not practicable.

(12) Stockholders Equity

In accordance with the former Japanese Commercial Code, at least 50% of the amount of converted debt must be credited to the common stock account. The certain sections of the former Japanese Commercial Code were revised by the Japanese Corporation Law effective May 1, 2006. The Company issued 2,468 shares in connection with the conversion of bonds for the year ended March 31, 2004.

The Company sold 119,422 shares and 888,683 shares of its treasury stock for the years ended March 31, 2006 and 2005, respectively. The difference between sales price and book value was charged to capital surplus in the consolidated balance sheets.

The Company also provided 10,444,421 shares of its treasury stock in connection with the conversion of bonds for the year ended March 31, 2004. The difference of carrying values of the bonds converted and treasury stocks provided was charged to capital surplus in the consolidated balance sheets.

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The Company may repurchase its common stock from the market pursuant to the former Japanese Commercial Code. For the years ended March 31, 2006, 2005 and 2004, respectively, 48,945,141, 60,363,663 and 56,483,929 shares were repurchased for the aggregate cost of approximately 87,150 million yen, 92,879 million yen and 69,394 million yen, respectively, primarily with the intention to hold as treasury stock to improve capital efficiency.

For the year ended March 31, 2005, the Company recognized 574,922 shares of its common stock held by a newly consolidated subsidiary as treasury stock.

The former Japanese Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until the aggregated amount of capital surplus and legal reserve equals 25% of stated capital. The capital surplus and legal reserve, up to 25% of stated capital, are not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. The capital surplus and legal reserve, exceeding 25% of stated capital, are available for distribution upon approval of the shareholders' meeting.

Cash dividends and transfers to the legal reserve charged to retained earnings during the three years ended March 31, 2006 represent dividends paid out during the periods and related appropriation to the legal reserve. The accompanying consolidated financial statements do not include any provision for the year-end dividend of 10.00 yen per share, totaling approximately 22,095 million yen, planned to be proposed in June 2006 in respect of the year ended March 31, 2006 or for the related appropriation.

In accordance with the former Japanese Commercial Code, there are certain restrictions on payment of dividends in connection with the treasury stock repurchased. As a result of restrictions on the treasury stock repurchased, retained earnings of 343,598 million yen at March 31, 2006 were restricted as to the payment of cash dividends.

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The Company's directors and certain senior executives were granted options to purchase the Company's common stock. All stock options become fully exercisable two years from the date of grant and have a four-year term. Information with respect to stock options is as follows:

| | <u>Number of shares</u> | <u>Weighted-average exercise price (Yen)</u> |
|--|-----------------------------|--|
| Balance at March 31, 2003 | 471,000 | 2,265 |
| Forfeited | (57,000) | 2,574 |
| Balance at March 31, 2004 | 414,000 | 2,223 |
| Forfeited | (95,000) | 2,285 |
| Balance at March 31, 2005 | 319,000 | 2,204 |
| Exercised | (54,000) | 2,001 |
| Forfeited | (97,000) | 2,186 |
| Balance at March 31, 2006, weighted-average remaining life 1.16 years | 168,000 | 2,280 |

Treasury stock reserved for options at March 31, 2006 and 2005 was 86,000 shares and 203,000 shares, respectively.

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(13) Other Comprehensive Income (Loss)

Components of other comprehensive income (loss) for the three years ended March 31, 2006 are as follows:

| | Yen (millions) | | |
|---|-------------------|----------------|----------------------|
| | Pre-tax amount | Tax expense | Net-of-tax amount |
| For the year ended March 31, 2006 | | | |
| Translation adjustments: | | | |
| Translation adjustments arising during the period | 134,943 | | 134,943 |
| Less: Reclassification adjustment for gains included in net income | (51,632) | | (51,632) |
| Net translation adjustments | 83,311 | | 83,311 |
| Unrealized holding gains of available-for-sale securities: | | | |
| Unrealized holding gains (losses) arising during the period | 188,915 | (78,609) | 110,306 |
| Less: Reclassification adjustment for gains included in net income | (63,100) | 25,492 | (37,608) |
| Net unrealized gains (losses) | 125,815 | (53,117) | 72,698 |
| Unrealized holding gains of derivative instruments: | | | |
| Unrealized holding gains (losses) arising during the period | (25,581) | 10,412 | (15,169) |
| Less: Reclassification adjustment for losses included in net income | 16,961 | (6,869) | 10,092 |
| Net unrealized gains (losses) | (8,620) | 3,543 | (5,077) |
| Minimum pension liability adjustments | 101,805 | (40,479) | 61,326 |
| Other comprehensive income (loss) | 302,311 | (90,053) | 212,258 |

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| | Yen (millions) | | |
|---|---------------------------|------------------------|------------------------------|
| | <u>Pre-tax amount</u> | <u>Tax expense</u> | <u>Net-of-tax amount</u> |
| For the year ended March 31, 2005 | | | |
| Translation adjustments: | | | |
| Translation adjustments arising during the period | 35,172 | | 35,172 |
| Less: Reclassification adjustment for losses included in net income | 1,473 | | 1,473 |
| | <u>36,645</u> | | <u>36,645</u> |
| Net translation adjustments | 36,645 | | 36,645 |
| Unrealized holding gains of available-for-sale securities: | | | |
| Unrealized holding gains (losses) arising during the period | 8,768 | (7,669) | 1,099 |
| Less: Reclassification adjustment for gains included in net income | (27,611) | 11,016 | (16,595) |
| | <u>(18,843)</u> | <u>3,347</u> | <u>(15,496)</u> |
| Net unrealized gains (losses) | (18,843) | 3,347 | (15,496) |
| Unrealized holding gains of derivative instruments: | | | |
| Unrealized holding gains (losses) arising during the period | (8,156) | 3,409 | (4,747) |
| Less: Reclassification adjustment for losses included in net income | 7,520 | (3,046) | 4,474 |
| | <u>(636)</u> | <u>363</u> | <u>(273)</u> |
| Net unrealized gains (losses) | (636) | 363 | (273) |
| Minimum pension liability adjustments | 189,519 | (49,270) | 140,249 |
| Other comprehensive income (loss) | <u>206,685</u> | <u>(45,560)</u> | <u>161,125</u> |

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| | Yen (millions) | | |
|---|-------------------|----------------|----------------------|
| | Pre-tax amount | Tax expense | Net-of-tax amount |
| For the year ended March 31, 2004 | | | |
| Translation adjustments: | | | |
| Translation adjustments arising during the period | (135,367) | | (135,367) |
| Less: Reclassification adjustment for losses included in net income | 14,204 | | 14,204 |
| | (121,163) | | (121,163) |
| Net translation adjustments | | | |
| | (121,163) | | (121,163) |
| Unrealized holding gains of available-for-sale securities: | | | |
| Unrealized holding gains (losses) arising during the period | 179,822 | (67,626) | 112,196 |
| Less: Reclassification adjustment for gains included in net income | (9,628) | 3,618 | (6,010) |
| | 170,194 | (64,008) | 106,186 |
| Net unrealized gains (losses) | | | |
| | 170,194 | (64,008) | 106,186 |
| Unrealized holding gains of derivative instruments: | | | |
| Unrealized holding gains (losses) arising during the period | 13,410 | (5,462) | 7,948 |
| Less: Reclassification adjustment for gains included in net income | (314) | 132 | (182) |
| | 13,096 | (5,330) | 7,766 |
| Net unrealized gains (losses) | | | |
| | 13,096 | (5,330) | 7,766 |
| Minimum pension liability adjustments | 502,543 | (189,192) | 313,351 |
| | 502,543 | (189,192) | 313,351 |
| Other comprehensive income (loss) | 564,670 | (258,530) | 306,140 |
| | 564,670 | (258,530) | 306,140 |

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(14) Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computation for the three years ended March 31, 2006 is as follows:

| | Yen (millions) | | |
|---|----------------|---------------|---------------|
| | 2006 | 2005 | 2004 |
| Net income available to common stockholders | 154,410 | 58,481 | 42,145 |
| Effect of assumed conversions: | | | |
| Convertible bonds, due 2004, interest 1.4% | | | 727 |
| Diluted net income | 154,410 | 58,481 | 42,872 |

| | Number of shares | | |
|--|----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2004 |
| Average common shares outstanding | 2,222,376,333 | 2,294,607,915 | 2,321,835,314 |
| Dilutive effect: | | | |
| Convertible bonds, due 2004, interest 1.4% | | | 59,460,443 |
| Stock options | 11,909 | | |
| Diluted common shares outstanding | 2,222,388,242 | 2,294,607,915 | 2,381,295,757 |

Yen

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------|-------------|-------------|-------------|
| Net income per share: | | | |
| Basic | 69.48 | 25.49 | 18.15 |
| Diluted | 69.48 | 25.49 | 18.00 |

Stock options were outstanding for the years ended March 31, 2005 and 2004, but were not included in the calculation of diluted net income per share because the stock options effect would be antidilutive (see Note 12).

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(15) Restructuring Charges

In connection with the reorganization of the Company's operations, the Company has incurred certain restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2006, 2005 and 2004 are as follows:

| | <u>Yen (millions)</u> | | |
|---|-----------------------|----------------|---------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Expenses associated with the implementation of early retirement programs: | | | |
| Domestic | 31,446 | 93,170 | 45,056 |
| Overseas | 5,573 | 7,966 | 875 |
| Total | 37,019 | 101,136 | 45,931 |
| Expenses associated with the closure and integration of locations | 11,956 | 9,432 | 8,216 |
| Total restructuring charges | 48,975 | 110,568 | 54,147 |

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

The Company has provided early retirement programs to those employees voluntarily leaving the Company. The accrued early retirement programs are recognized when the employees accept the offer and the amount can be reasonably estimated. An analysis of the accrued early retirement programs for the years ended March 31, 2006, 2005 and 2004 is as follows:

| | Yen (millions) | | |
|----------------------------------|----------------|----------|----------|
| | 2006 | 2005 | 2004 |
| Balance at beginning of the year | 3,407 | | |
| New charges | 37,019 | 101,136 | 45,931 |
| Cash payments | (39,091) | (97,729) | (45,931) |
| Balance at end of the year | 1,335 | 3,407 | |

Expenses associated with the closure and integration of locations include amounts such as moving expense of facilities and costs to terminate leasing contracts incurred at domestic and overseas manufacturing plants and sales offices. All the payments for expenses associated with closure and integration of locations were completed by the end of each fiscal year.

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The following represent significant restructuring activities for the year ended March 31, 2006 by business segment:

AVC Networks

AVC Networks segment restructured mainly to address price declines in digital AV products. The restructuring activities mainly consisted of the implementation of early retirement programs.

Total restructuring charges amounted to 3,447 million yen.

Home Appliances

Home Appliances segment restructured its operations. The restructuring activities mainly consisted of closure and integration of locations in Japan.

Total restructuring charges amounted to 2,655 million yen.

Components and Devices

Components and Devices segment restructured mainly to enhance cost competitiveness as well as to address sharp price declines. The restructuring activities mainly consisted of the implementation of early retirement programs in Japan for semiconductor business.

Total restructuring charges amounted to 21,510 million yen, including expenses associated with the implementation of early retirement programs of 20,183 million yen.

MEW and PanaHome

MEW and PanaHome segment restructured to strengthen its management structures by realigning its organization. The restructuring activities mainly consisted of the implementation of early retirement programs and closure and integration of manufacturing plants and sales offices.

Total restructuring charges amounted to 9,385 million yen, including expenses associated with the implementation of early retirement programs of 4,832 million yen.

JVC

JVC segment restructured to strengthen its company-wide organizational and employment structure. The restructuring activities mainly consisted of the implementation of early retirement programs.

Total restructuring charges amounted to 8,891 million yen.

Other

Other segment incurred restructuring charges in the amount of 3,087 million yen mainly in overseas sales companies.

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The following represent significant restructuring activities for the year ended March 31, 2005 by business segment:

AVC Networks

AVC Networks segment restructured mainly to cope with sharp price declines in digital products. The restructuring activities mainly consisted of the implementation of early retirement programs covering both video and audio equipment business and information and communications equipment business in Japan and Europe, shutting down of the manufacturing plant in Europe for video and audio equipment business and closure and integration of manufacturing plants and sales offices in Japan for information and communications equipment business.

Total restructuring charges amounted to 57,742 million yen, including expenses associated with the implementation of early retirement programs of 52,666 million yen.

Home Appliances

Home Appliances segment restructured mainly to address rising raw material costs as well as to enhance cost competitiveness. The restructuring activities mainly consisted of the implementation of early retirement programs and closure and integration of locations in Japan, and shutting down of the manufacturing plant in Europe for home appliances business.

Total restructuring charges amounted to 8,288 million yen, including expenses associated with the implementation of early retirement programs of 6,970 million yen.

Components and Devices

Components and Devices segment restructured to address the downturn in components and devices industries, caused in part by price declines. The restructuring activities mainly consisted of the implementation of early retirement programs in electronic components business and batteries business and closure and integration of manufacturing locations in Japan for electronic components business.

Total restructuring charges amounted to 22,986 million yen, including expenses associated with the implementation of early retirement programs of 21,979 million yen.

MEW and PanaHome

MEW and PanaHome segment incurred restructuring charges in the amount of 1,783 million yen, mainly related to a reorganization conducted to eliminate duplication of product lines and corporate functions with other Matsushita companies.

JVC

JVC segment restructured to enhance competitiveness in global markets. The restructuring activities mainly consisted of closure and integration of locations in electronic components business.

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Total restructuring charges amounted to 9,208 million yen, mainly representing expenses associated with the implementation of early retirement programs.

Other

Other segment restructured to strengthen competitiveness of sales companies. The restructuring activities mainly consisted of the implementation of early retirement programs in domestic and overseas sales companies.

Total restructuring charges amounted to 10,561 million yen, including expenses associated with the implementation of early retirement programs of 10,370 million yen.

The following represent significant restructuring activities for the year ended March 31, 2004 by business segment:

AVC Networks

AVC Networks segment restructured mainly to address price declines in digital products. The restructuring activities mainly consisted of the implementation of early retirement programs mainly in Japan for both video and audio equipment business and information and communications equipment business.

Total restructuring charges amounted to 4,187 million yen, representing expenses associated with the implementation of early retirement programs.

Home Appliances

Home Appliances segment restructured to enhance cost competitiveness. The restructuring activities consisted of the implementation of early retirement programs in Japan for refrigerator and air conditioner business.

Total restructuring charges amounted to 31,286 million yen, representing expenses associated with the implementation of early retirement programs.

Components and Devices

Components and Devices segment restructured to enhance cost competitiveness through selecting and concentrating on key business areas. The restructuring activities mainly consisted of the implementation of early retirement programs and closure and integration of business locations in Japan and shutting down of the manufacturing plant in Asia for motor business.

Total restructuring charges amounted to 14,700 million yen, including expenses associated with the closure and integration of locations of 8,305 million yen.

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JVC

JVC segment restructured to enhance cost competitiveness.

Total restructuring charges amounted to 2,408 million yen, mainly representing expenses associated with the implementation of early retirement programs.

Other

Other segment incurred restructuring charges in the amount of 1,566 million yen for domestic sales companies.

(16) Supplementary Information to the Statements of Income and Cash Flows

Research and development costs, advertising costs, shipping and handling costs and depreciation charged to income for the three years ended March 31, 2006 are as follows:

| | Yen (millions) | | |
|--------------------------------|----------------|---------|---------|
| | 2006 | 2005 | 2004 |
| Research and development costs | 564,781 | 615,524 | 579,230 |
| Advertising costs | 181,235 | 174,604 | 146,046 |
| Shipping and handling costs | 170,469 | 166,404 | 141,570 |
| Depreciation | 275,213 | 287,400 | 253,762 |

Foreign exchange gains and losses included in other deductions for the years ended March 31, 2006, 2005 and 2004 is a loss of 13,475 million yen, 7,542 million yen and 13,588 million yen, respectively.

Shipping and handling costs are included in selling, general and administrative expenses in the consolidated statements of income.

Included in other deductions for the year ended March 31, 2006 are claim expenses of 34,340 million yen.

In fiscal 2006, 2005 and 2004, the Company sold, without recourse, trade accounts receivable of 193,974 million yen, 48,578 million yen and 4,661 million yen to independent third parties for proceeds of 193,415 million yen, 48,469 million yen and 4,657 million yen, and recorded losses on the sale of trade accounts receivable of 559 million yen, 109 million yen and 4 million yen, respectively, which is included in selling, general and administrative expenses. The Company is responsible for servicing the receivables. Included in trade accounts receivable at March 31, 2006 is amount of 19,495 million yen scheduled to be sold without recourse to independent third parties.

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In fiscal 2005, the Company sold, without recourse, loans receivable of 96,339 million yen to independent third parties for proceeds of 106,779 million yen, and recorded gains on the sale of loans receivable of 10,440 million yen, which is included in other income.

The sale of the receivables was accounted for under SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities.

Interest expenses and income taxes paid, and noncash investing and financing activities for the three years ended March 31, 2006 are as follows:

| | Yen (millions) | | |
|--|----------------|--------|--------|
| | 2006 | 2005 | 2004 |
| Cash paid: | | | |
| Interest | 21,853 | 25,513 | 30,505 |
| Income taxes | 92,469 | 99,951 | 65,121 |
| Noncash investing and financing activities: | | | |
| Conversion of bonds | 20,330 | | 16,924 |
| Stock provided under exchange offering | | | 6,579 |
| Contribution of assets and liabilities to associated companies | | 4,302 | 3,278 |

(17) Derivatives and Hedging Activities

The Company operates internationally, giving rise to significant exposure to market risks arising from changes in foreign exchange rates, interest rates and commodity prices. The Company assesses these risks by continually monitoring changes in these exposures and by evaluating hedging opportunities. Derivative financial instruments utilized by the Company to hedge these risks are comprised principally of foreign exchange contracts, interest rate

swaps, cross currency swaps and commodity derivatives. The Company does not hold or issue derivative financial instruments for any purposes other than hedging.

Gains and losses related to derivative instruments are classified in other income (deductions) in the consolidated statements of income. The amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the three years ended March 31, 2006. Amounts included in accumulated other comprehensive income (loss) at March 31, 2006 are expected to be recognized in earnings principally over the next twelve months. The maximum term over which the Company is hedging exposures to the variability of cash flows for foreign currency exchange risk is approximately five months.

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The Company is exposed to credit risk in the event of non-performance by counterparties to the derivative contracts, but such risk is considered mitigated by the high credit rating of the counterparties.

The contract amounts of foreign exchange contracts, interest rate swaps, cross currency swaps and commodity futures at March 31, 2006 and 2005 are as follows:

| | <u>Yen (millions)</u> | |
|--|-----------------------|-------------|
| | <u>2006</u> | <u>2005</u> |
| Forward: | | |
| To sell foreign currencies | 404,383 | 317,506 |
| To buy foreign currencies | 258,335 | 200,705 |
| Options purchased to sell foreign currencies | 25,885 | 29,981 |
| Variable-paying interest rate swaps | 15,000 | 15,000 |
| Cross currency swaps | 4,130 | 16,879 |
| Commodity futures: | | |
| To sell commodity | 36,007 | 31,978 |
| To buy commodity | 93,061 | 75,824 |

(18) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, Time deposits, Trade receivables, Short-term borrowings, Trade payables and Accrued expenses

The carrying amount approximates fair value because of the short maturity of these instruments.

Short-term investments

The fair value of short-term investments is estimated based on quoted market prices.

Noncurrent receivables

The carrying amount which is generally stated at the net realizable value approximates fair value.

Investments and advances

The fair value of investments and advances is estimated based on quoted market prices or the present value of future cash flows using appropriate current discount rates.

Long-term debt

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using appropriate current discount rates.

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Derivative financial instruments

The fair value of derivative financial instruments, all of which are used for hedging purposes, are estimated by obtaining quotes from brokers.

The estimated fair values of financial instruments, all of which are held or issued for purposes other than trading, at March 31, 2006 and 2005 are as follows:

| | Yen (millions) | | | |
|--|--------------------|---------------|--------------------|---------------|
| | 2006 | | 2005 | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-derivatives: | | | | |
| Assets: | | | | |
| Short-term investments | 56,753 | 56,753 | 11,978 | 11,978 |
| Investments and advances | 946,153 | 948,665 | 945,759 | 943,981 |
| Liabilities: | | | | |
| Long-term debt, including current portion | (439,123) | (437,547) | (732,907) | (742,737) |
| Derivatives: | | | | |
| Other current assets: | | | | |
| Forward: | | | | |
| To sell foreign currencies | 121 | 121 | | |
| To buy foreign currencies | 2,522 | 2,522 | 1,643 | 1,643 |
| Options purchased to sell foreign currencies | 132 | 132 | 61 | 61 |
| Variable-paying interest rate swaps | 14 | 14 | 84 | 84 |
| Cross currency swaps | | | 123 | 123 |
| Commodity futures to buy commodity | 43,674 | 43,674 | 12,554 | 12,554 |
| Other current liabilities: | | | | |

| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Forward to sell foreign currencies | | | (3,122) | (3,122) |
| Cross currency swaps | (35) | (35) | | |
| Commodity futures to sell commodity | (7,401) | (7,401) | (2,832) | (2,832) |

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgements and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(19) Commitments and Contingent Liabilities

The Company provides guarantees to third parties on bank loans provided to its employees, associated companies and customers. The guarantees for the employees are principally made for their housing loans. The guarantees for associated companies and customers are made to enhance their credit. For each guarantee provided, the Company is required to perform under the guarantee if the guaranteed party defaults on a payment. At March 31, 2006, the maximum amount of undiscounted payments the Company would have to make in the event of default is 17,444 million yen. The carrying amount of the liabilities recognized for the Company's obligations as a guarantor under those guarantees at March 31, 2006 and 2005 was insignificant.

As discussed in Note 6, in connection with the sale and lease back of certain machinery and equipment, the Company guarantees a specific value of the leased assets. For each guarantee provided, the Company is required to perform under the guarantee if certain conditions are met during or at the end of the lease term. At March 31, 2006, the maximum amount of undiscounted payments the Company would have to make in the event that these conditions are met is 40,152 million yen. The carrying amount of the liabilities recognized for the Company's obligations as guarantors under those guarantees at March 31, 2006 and 2005 was insignificant.

The Company issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. The change in accrued warranty costs for the years ended March 31, 2006 and 2005 are summarized as follows:

| | <u>Yen (millions)</u> | |
|---|-----------------------|-------------|
| | <u>2006</u> | <u>2005</u> |
| Balance at beginning of year | 35,216 | 30,720 |
| Increase due to acquisition (Note 2) | | 2,482 |
| Liabilities accrued for warranties issued during the period | 50,206 | 51,471 |
| Warranty claims paid during the period | (44,199) | (44,209) |

| | | |
|---|-------------------|-------------------|
| Changes in liabilities for pre-existing warranties during the period, including expirations | (3,787) | (5,248) |
| | <u> </u> | <u> </u> |
| Balance at end of year | 37,436 | 35,216 |
| | <u> </u> | <u> </u> |

At March 31, 2006, commitments outstanding for the purchase of property, plant and equipment approximated 50,160 million yen. Contingent liabilities at March 31, 2006 for discounted export bills of exchange amounted to 535 million yen.

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Liabilities for environmental remediation costs are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. In January 2003, the Company announced that disposed electric equipment that contained polychlorinated biphenyls (PCB equipment) might be buried in the ground of its four manufacturing facilities and one former manufacturing facility. The applicable laws require that PCB equipment be appropriately maintained and disposed of by July 2016. The Company has accrued estimated total cost of 12,953 million yen for necessary actions such as investigating whether the PCB equipment is buried at the facilities, including excavations, and maintaining and disposing the PCB equipment that is already discovered, and soil remediation, since it represents management's best estimate or minimum of the cost, but the payments are not considered to be fixed and reliably determinable.

There are a number of legal actions against the Company and certain subsidiaries. Management is of the opinion that damages, if any, resulting from these actions will not have a material effect on the Company's consolidated financial statements.

(20) **Segment Information**

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the segments reported below are the components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker of the Company in deciding how to allocate resources and in assessing performance.

Business segments correspond to categories of activity classified primarily by markets, products and brand names.

AVC Networks includes video and audio equipment, and information and communications equipment. Home Appliances includes household equipment. Components and Devices includes electronic components, semiconductors, electric motors and batteries. MEW and PanaHome includes electrical supplies, electric products, building materials and equipment, and housing business. JVC includes products marketed under the brand name of JVC or Victor. Other includes electronic-parts-mounting machines, industrial robots and industrial equipment.

As discussed in Note 2, MEW, PanaHome and their respective subsidiaries became consolidated subsidiaries of the Company on April 1, 2004. Accordingly, a new segment, MEW and PanaHome, has been added to the Company's business segment classifications from fiscal 2005.

As a result of the business reorganization between Home Appliances and MEW and PanaHome on April 1, 2005, a domestic subsidiary, formerly included in Home Appliances, has been transferred to MEW and PanaHome. Accordingly, the information associated with the subsidiary is now recorded within MEW and PanaHome, and information by segment for the year ended March 31, 2005 has been reclassified to conform with the presentation for the year ended March 31, 2006.

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Information by segment for the three years ended March 31, 2006 is shown in the tables below:

By Business Segment:

| | Yen (millions) | | |
|-------------------------|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Sales: | | | |
| AVC Networks: | | | |
| Customers | 3,894,274 | 3,745,339 | 3,771,516 |
| Intersegment | 91,814 | 113,442 | 68,752 |
| | 3,986,088 | 3,858,781 | 3,840,268 |
| Total | | | |
| Home Appliances: | | | |
| Customers | 1,069,282 | 1,102,795 | 1,174,138 |
| Intersegment | 171,920 | 126,973 | 49,052 |
| | 1,241,202 | 1,229,768 | 1,223,190 |
| Total | | | |
| Components and Devices: | | | |
| Customers | 954,011 | 1,006,893 | 1,073,108 |
| Intersegment | 414,247 | 462,114 | 586,564 |
| | 1,368,258 | 1,469,007 | 1,659,672 |
| Total | | | |
| MEW and PanaHome: | | | |
| Customers | 1,695,949 | 1,628,372 | |
| Intersegment | 51,258 | 57,885 | |
| | 1,747,207 | 1,686,257 | |
| Total | | | |
| JVC: | | | |
| Customers | 697,150 | 721,391 | 802,650 |

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| | | | |
|--------------------|-------------------|-------------------|-------------------|
| Intersegment | 5,966 | 8,818 | 16,349 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 703,116 | 730,209 | 818,999 |
| Other: | | | |
| Customers | 583,663 | 508,846 | 658,332 |
| Intersegment | 731,629 | 518,277 | 290,396 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 1,315,292 | 1,027,123 | 948,728 |
| Eliminations | (1,466,834) | (1,287,509) | (1,011,113) |
| | <u> </u> | <u> </u> | <u> </u> |
| Consolidated total | 8,894,329 | 8,713,636 | 7,479,744 |
| | <u> </u> | <u> </u> | <u> </u> |

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| | Yen (millions) | | |
|--|----------------|----------------|----------------|
| | 2006 | 2005 | 2004 |
| Segment profit: | | | |
| AVC Networks | 190,885 | 127,366 | 129,102 |
| Home Appliances | 77,135 | 74,794 | 52,759 |
| Components and Devices | 81,111 | 57,761 | 50,099 |
| MEW and PanaHome | 72,694 | 66,761 | |
| JVC | (5,782) | 9,887 | 24,675 |
| Other | 62,225 | 38,352 | 14,701 |
| Corporate and eliminations | (63,995) | (66,427) | (75,844) |
| Total segment profit | 414,273 | 308,494 | 195,492 |
| Interest income | 28,216 | 19,490 | 19,564 |
| Dividends received | 6,567 | 5,383 | 5,475 |
| Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance | | 31,509 | 72,228 |
| Other income | 147,399 | 82,819 | 59,544 |
| Interest expense | (21,686) | (22,827) | (27,744) |
| Goodwill impairment | (50,050) | (3,559) | |
| Other deductions | (153,407) | (174,396) | (153,737) |
| Consolidated income before income taxes | 371,312 | 246,913 | 170,822 |
| Identifiable assets: | | | |
| AVC Networks | 2,276,573 | 2,205,663 | 2,090,130 |
| Home Appliances | 637,935 | 618,156 | 701,143 |
| Components and Devices | 966,684 | 930,315 | 1,157,984 |
| MEW and PanaHome | 1,371,405 | 1,384,695 | |
| JVC | 438,456 | 483,867 | 503,943 |

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| | | | |
|---|-------------------|-------------------|-------------------|
| Other | 503,798 | 883,706 | 754,117 |
| Corporate and eliminations | 1,769,789 | 1,550,479 | 2,230,695 |
| | <u> </u> | <u> </u> | <u> </u> |
| Consolidated total | 7,964,640 | 8,056,881 | 7,438,012 |
| | <u> </u> | <u> </u> | <u> </u> |
| Depreciation (including intangibles other than goodwill): | | | |
| AVC Networks | 76,136 | 88,550 | 85,085 |
| Home Appliances | 29,633 | 31,785 | 31,674 |
| Components and Devices | 88,717 | 96,659 | 103,898 |
| MEW and PanaHome | 46,575 | 50,582 | |
| JVC | 17,759 | 15,985 | 16,339 |
| Other | 38,253 | 30,329 | 28,954 |
| Corporate and eliminations | 12,058 | 11,079 | 11,601 |
| | <u> </u> | <u> </u> | <u> </u> |
| Consolidated total | 309,131 | 324,969 | 277,551 |
| | <u> </u> | <u> </u> | <u> </u> |

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| | Yen (millions) | | |
|---|----------------|---------|---------|
| | 2006 | 2005 | 2004 |
| Capital investment (including intangibles other than goodwill): | | | |
| AVC Networks | 126,815 | 103,340 | 80,543 |
| Home Appliances | 44,869 | 36,041 | 26,268 |
| Components and Devices | 124,219 | 126,826 | 142,540 |
| MEW and PanaHome | 44,849 | 32,989 | |
| JVC | 16,994 | 23,045 | 17,735 |
| Other | 12,092 | 74,570 | 28,298 |
| Corporate and eliminations | 16,688 | 14,286 | 21,376 |
| | 386,526 | 411,097 | 316,760 |

Corporate expenses include certain corporate R&D expenditures and general corporate expenses.

Corporate assets consist of cash and cash equivalents, time deposits, marketable securities in short-term investments, investments and advances and other assets related to unallocated expenses.

Intangibles mainly represent patents and software.

By Geographical Area:

Sales attributed to countries based upon the customer's location and property, plant and equipment are as follows:

| | Yen (millions) | | |
|--|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Sales: | | | |
| Japan | 4,611,440 | 4,580,555 | 3,477,492 |
| North and South America | 1,387,424 | 1,282,956 | 1,326,940 |
| Europe | 1,113,556 | 1,122,493 | 1,080,143 |
| Asia and Others | 1,781,909 | 1,727,632 | 1,595,169 |
| Consolidated total | 8,894,329 | 8,713,636 | 7,479,744 |
| United States of America included in North and South America | 1,206,357 | 1,127,412 | 1,184,446 |

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| | Yen (millions) | | |
|--|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Property, plant and equipment: | | | |
| Japan | 1,201,266 | 1,272,839 | 889,108 |
| North and South America | 58,003 | 59,230 | 56,846 |
| Europe | 66,084 | 64,883 | 48,643 |
| Asia and Others | 306,986 | 261,128 | 214,905 |
| Consolidated total | 1,632,339 | 1,658,080 | 1,209,502 |
| United States of America included in North and South America | 48,923 | 51,732 | 50,225 |

There are no individually material countries of which sales and property, plant and equipment should be separately disclosed in North and South America, Europe and Asia and Others, except for the United States of America. Transfers between business segments or geographic segments are made at arms-length prices. There are no sales to a single external major customer for the three years ended March 31, 2006.

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The following information shows sales, geographical profit and identifiable assets which are attributed to geographic areas based on the country location of the Company or its subsidiaries for the three years ended March 31, 2006. In addition to the disclosure requirements under SFAS No. 131, the Company discloses this information as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, which a Japanese public company is subject to:

| | Yen (millions) | | |
|--------------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| Sales: | | | |
| Japan: | | | |
| Customers | 4,945,802 | 5,033,645 | 3,989,576 |
| Intersegment | 1,944,537 | 1,586,407 | 1,521,459 |
| Total | 6,890,339 | 6,620,052 | 5,511,035 |
| North and South America: | | | |
| Customers | 1,340,352 | 1,248,012 | 1,271,914 |
| Intersegment | 26,185 | 23,605 | 25,269 |
| Total | 1,366,537 | 1,271,617 | 1,297,183 |
| Europe: | | | |
| Customers | 1,067,306 | 1,046,159 | 1,014,687 |
| Intersegment | 20,361 | 26,405 | 12,648 |
| Total | 1,087,667 | 1,072,564 | 1,027,335 |
| Asia and Others: | | | |
| Customers | 1,540,869 | 1,385,820 | 1,203,567 |
| Intersegment | 1,175,492 | 1,059,178 | 972,843 |
| Total | 2,716,361 | 2,444,998 | 2,176,410 |
| Eliminations | (3,166,575) | (2,695,595) | (2,532,219) |

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| | | | |
|----------------------------|-----------|-----------|-----------|
| Consolidated total | 8,894,329 | 8,713,636 | 7,479,744 |
| Geographical profit: | | | |
| Japan | 374,129 | 262,063 | 131,796 |
| North and South America | 16,773 | 20,834 | 23,258 |
| Europe | 4,511 | 7,393 | 16,325 |
| Asia and Others | 81,337 | 75,324 | 89,706 |
| Corporate and eliminations | (62,477) | (57,120) | (65,593) |
| Consolidated total | 414,273 | 308,494 | 195,492 |

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MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Yen (millions) | | |
|----------------------------|----------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Identifiable assets: | | | |
| Japan | 4,442,776 | 5,055,700 | 3,887,504 |
| North and South America | 443,432 | 402,155 | 411,615 |
| Europe | 412,948 | 379,571 | 308,687 |
| Asia and Others | 1,235,438 | 995,785 | 858,238 |
| Corporate and eliminations | 1,430,046 | 1,223,670 | 1,971,968 |
| | 7,964,640 | 8,056,881 | 7,438,012 |

(21) Subsequent Event

On April 28, 2006, the Board of Directors approved plans to proactively provide returns to shareholders and continue the policy toward large-scale purchases of the Company's shares, with the aim of implementing its policy of shareholder-oriented management.

Specifically, the Company plans to increase total cash dividends per share for fiscal 2007, ending March 31, 2007, to 30.00 yen, compared with fiscal 2006 cash dividends of 20.00 yen per share. Regarding share repurchases, the Company plans to repurchase up to 50 million shares of its own stock for a maximum of 100 billion yen.

Under the basic philosophy that shareholders should make final decisions regarding large-scale purchases of the Company's shares, sufficient information should be provided through the Board of Directors to shareholders if a large-scale purchase is to be conducted. Under the above-mentioned basic philosophy, the Board of Directors decided to continue its policy toward large-scale purchasers who intend to acquire 20% or more of all voting rights of the Company. This policy requires that (i) a large-scale purchaser provides sufficient information to the Board of

Directors before a large-scale purchase is to be conducted and (ii) after all required information is provided, the Board of Directors should be allowed a sufficient period of time during which it will assess, examine, negotiate, form an opinion and seek alternatives. In the event of non-compliance with such rules by a prospective large-scale purchaser, the Board of Directors may take countermeasures to protect the interest of all shareholders.

On April 28, 2006, the Company announced the details regarding the Enhancement of Shareholder Value (ESV plan) entitled *Matsushita Announces Continuation of Policy toward Large-scale Purchases of the Company's Shares*.

On August 28, 2006, the Board of Directors approved and announced the signing of the definitive stock purchase agreement that the Company will transfer all its shares in Cable West Inc., a cable-broadcasting subsidiary, to Jupiter Telecommunications Co., Ltd. (J:COM) on September 28, 2006. The Company will transfer 107,801 shares, which represent 56% of the total issued and outstanding shares of Cable West Inc. to J:COM for approximately 40.9 billion yen.

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Schedule II**MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.****AND SUBSIDIARIES****Valuation and Qualifying Accounts and Reserves****(In millions of yen)****Years ended March 31, 2006, 2005 and 2004**

| | Balance at beginning of period | Add | | Deduct | | | Add (deduct) -cumulative translation adjustments | Balance at end of period |
|---|---|-----------------------|-------------------------|--------------------------------------|-----------------------------|----------|---|-----------------------------------|
| | | Due to acquisition | Charged to income | Sale of shares of a subsidiary | Bad debts written off | Reversal | | |
| Allowance for doubtful trade receivables: | | | | | | | | |
| 2006 | 43,836 | | 8,409 | 4,657 | 4,868 | 6,465 | 1,145 | 37,400 |
| 2005 | 47,873 | 7,278 | 4,963 | | 6,384 | 10,364 | 470 | 43,836 |
| 2004 | 53,043 | | 3,154 | | 3,088 | 3,662 | (1,574) | 47,873 |
| Allowance for doubtful noncurrent receivables: | | | | | | | | |
| 2006 | | | | | | | | |
| 2005 | | | | | | | | |
| 2004 | | | | | | | | |

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Item 19. Exhibits

Documents filed as exhibits to this annual report are as follows:

- 1.1 Articles of Incorporation of the Registrant (English translation)
- 1.2 Share Handling Regulations of the Registrant (English translation)
- 1.3 Regulations of the Board of Directors of the Registrant (English translation)
- 1.4 Regulations of the Board of Corporate Auditors of the Registrant (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]
- 2.1 Specimen common stock certificates of the Registrant (English translation)
- 2.2 Form of Amended and Restated Deposit Agreement among the Registrant, Morgan Guaranty Trust Company of New York (now JPMorgan Chase Bank, N.A.) as Depositary and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt [incorporated by reference to the Registration Statement on Form F-6 (File No. 333-12694) filed on October 4, 2000]
- 4.1 Liability Limitation Agreement (English translation)

[Matsushita and each of Ikuo Uno and Yoshifumi Nishikawa, entered into a Liability Limitation Agreement, each dated June 29, 2005, in the form of this Exhibit.] [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 12, 2005]

[Matsushita and each of Yasuo Yoshino, Ikuo Hata and Hiroyuki Takahashi, entered into a Liability Limitation Agreement, each dated June 28, 2006, in the form of this Exhibit.]
- 8.1 Subsidiaries of the Registrant [List of significant subsidiaries (see Section C of Item 4)]
- 11.1 Code of Ethics for Directors and Executive Officers (English translation) [incorporated by reference to the Annual Report on Form 20-F (File No. 1-06784) filed on September 13, 2004]
- 12.1 Certification of the principal executive officer of the Company required by Rule 13a-14(a)
- 12.2 Certification of the principal financial officer of the Company required by Rule 13a-14(a)
- 13.1 Certification required by Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 15.1 Continuation of Policy toward Large-scale Purchases of Matsushita Shares
- 15.2 Financial statements of Matsushita Toshiba Picture Display Co., Ltd.

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The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Company certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATSUSHITA ELECTRIC INDUSTRIAL
CO., LTD.

(Registrant)

Date: September 11, 2006

By /s/ Yoichi Nagata
 Yoichi Nagata
 Attorney-in-Fact
 Director of Overseas Investor Relations
 Matsushita Electric Industrial Co., Ltd.

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