MATSUSHITA ELECTRIC INDUSTRIAL CO LTD
Form 20-F
September 13, 2004
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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, 2004

Commission file number 1 - 6784

MATSUSHITA DENKI SANGYO KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

	Outstanding as of	
Title of Class	March 31, 2004 (Japan Time)	March 31, 2004 (New York Time)
Common Stock	2,318,407,612	
American Depositary Shares, each representing 1 share of common stock		103,593,084

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

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

Item 17. ¨   Item 18. x.

This form contains 154 pages.

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PART II

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All information contained in this Report is as of March 31, 2004 or for the year ended March 31, 2004 (fiscal 2004) 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 25, 2004 was 110.38 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 2004). 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 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, 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; current and potential, direct and indirect restrictions imposed by other countries over trade, manufacturing, labor and operations; and fluctuations in market prices of securities and other assets in which the Matsushita Group has holdings; as well as future changes or revisions to accounting policies or accounting rules.

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 7,480 billion yen for fiscal 2004. 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 2004 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,				
	2004	2003	2002	2001	2000
Income Statement Data:					
Net sales	7,480	7,402	7,074	7,781	7,405
Income (loss) before income taxes	171	69	(538)	105	248
Net income (loss)	42	(19)	(428)	42	106
Per common share:					
Net income (loss):					
Basic	18.15	(8.70)	(206.09)	19.96	51.49
Diluted	18.00	(8.70)	(206.09)	19.56	49.32
Dividends	12.50	10.00	12.50	12.50	14.00
	($0.109)	($0.107)	($0.100)	($0.116)	($0.125)
Balance Sheet Data:					
Total assets	7,438	7,835	7,768	8,295	8,076
Long-term debt	461	588	708	563	662
Stockholders equity	3,452	3,178	3,248	3,770	3,678
Common stock	259	259	259	211	210
	2,453,053	2,447,923	2,138,515	2,079,573	2,062,671

Number of shares issued at year-end (thousands)					
Yen exchange rates per U.S. dollar:					
Year-end	104.18	118.07	132.70	125.54	102.73
Average	113.08	121.96	125.05	110.60	111.35
High	104.18	115.71	115.89	104.19	101.53
Low	120.55	133.40	134.77	125.54	124.45

	Feb. 2004	**Mar. 2004**	**Apr. 2004**	**May 2004**	**Jun. 2004**	**Jul. 2004**
Yen exchange rates for each month during the previous six months:						
High	105.36	104.18	103.70	108.50	107.10	108.21
Low	109.59	112.12	110.37	114.30	111.27	111.88

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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:

Risks Related to Economic Conditions

Weakness in Japanese and global economies may cause reduced demand for the products of Matsushita

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. Although Matsushita continued to achieve improvements in its business performance in fiscal 2004, it currently does not foresee a rapid turnaround in the Japanese or global economy in the near term given the limited recovery in consumer spending. These conditions may continue in the short- to mid-term, thereby further negatively affecting Matsushita s businesses. Furthermore, if Japanese and global economies fall into stagnation, resulting decreased demand and slowdown in capital investment may adversely affect Matsushita s overall business.

Currency exchange rate fluctuations could adversely affect Matsushita s financial results

Matsushita is exposed to risks of foreign currency exchange rate fluctuations. Matsushita s consolidated financial statements, which are presented in Japanese yen, are affected by foreign exchange rate changes. These changes affect Matsushita s international business transactions and costs and prices of Matsushita s products and services in overseas countries in relation to the yen. They can also affect the yen value of Matsushita s investments in overseas assets and liabilities. Generally, an appreciation of the yen against other major currencies such as the U.S. dollar and the euro may adversely affect Matsushita s business results and financial condition. Meanwhile, a depreciation of the yen against aforementioned major currencies may have a favorable impact on Matsushita s business results and financial condition. Although Matsushita is taking measures to reduce or hedge against foreign currency exchange risks, foreign exchange rate fluctuations may hurt its businesses, results of operations and financial condition.

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Interest rate fluctuations may adversely affect Matsushita s financial results

Matsushita is exposed to the risk of interest rate fluctuations, which, despite the measures taken by Matsushita to hedge a portion of its exposure to interest rate fluctuations, may affect its overall operational costs, interest expense, interest income and the value of its financial assets and liabilities.

The decrease in the value of Japanese stocks may adversely affect Matsushita s financial results

Matsushita holds mostly Japanese stocks as part of its investment securities. The value of most of these stocks, however, dropped substantially over the past several years due to the stagnant Japanese economy. Matsushita recorded a loss in valuation declines in its investment securities. The decrease in the value of stocks may continue and adversely affect Matsushita s financial results. The decrease in the value of Japanese stocks may also reduce stockholders equity in 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 produces 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 available to them than Matsushita has 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 decide product prices so that it can obtain adequate profits. Such intensified price competition may adversely affect Matsushita s profits, especially when demand decreases. For the year ending March 31, 2005, Matsushita expects prices in many product areas in which it deals to decline at the same rate as, or more rapidly than, in recent fiscal years. Matsushita believes that this trend will affect its businesses, especially those in the area of its AVC Networks category and its Components and Devices category.

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Matsushita s business is, and will continue to be, subject to the 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, economic uncertainty, cultural and religious differences and labor relations, as well as 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 the products exported overseas, tariffs, other barriers or shipping costs may make Matsushita s products less competitive. 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.

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 by Matsushita, its competitors may be the ones who develop the *de facto* standards for future products. If that happens, Matsushita s business in those business areas, its results of operations and financial condition, could be adversely affected.

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

Matsushita s future success depends largely on its ability to attract and retain certain key personnel, including scientific, technical and management personnel. Matsushita anticipates that it will need to hire additional skilled personnel in all areas of its business. Industry demand for skilled employees, however, exceeds the number of personnel available, and the competition for attracting and retaining these employees, especially scientific and technical employees, is intense. Because of this intense competition for these 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, it could adversely affect Matsushita s future growth, results of operations and financial condition.

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The 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. Matsushita s reliance on the strategy of partnering with third parties is increasing. Such partnerships are crucial to Matsushita s goal of introducing new products and services, but Matsushita may not be able to successfully collaborate or achieve expected synergies with its partners. Matsushita does not, however, control these partners, who may make decisions regarding their business undertakings with Matsushita that may be contrary to Matsushita s interests. In addition, if these partners change their business strategies, Matsushita may fail to maintain these partnerships.

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

Matsushita s manufacturing operations depend on obtaining deliveries of raw materials, parts and components, equipment and other supplies 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 suppliers or change one component for another in a timely manner or at all due to the interruption of supply or increased industry demand. This may adversely affect the Matsushita Group s operations. Although Matsushita decides purchase prices by contract, these prices may become higher due to changes in supply and demand. Some components are only available from a limited number of suppliers and may adversely affect Matsushita s operations. For example, Matsushita uses steel and rare metals for most of its products, and an increase in prices of these products may adversely affect Matsushita s operating results.

Matsushita is exposed to the risk that its customers, including those to whom it has provided vendor financing, may encounter financial difficulties

Matsushita provides vendor financing to its customers. As more businesses utilize vendor financing, Matsushita may also provide increased vendor financing in the future. In addition, many of Matsushita s customers purchase products and services from it on payment terms that do not provide for immediate payment. If customers to whom Matsushita has extended or guaranteed vendor financing, or from whom it 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.

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Risks Related to Matsushita s Management Plans

Matsushita has implemented its new 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 leading-edge technologies. Based on this vision, Matsushita aims to become a company that creates more value for customers. Matsushita may not be successful in achieving all the goals set out in its mid-term business plan. Furthermore, in fiscal 2004, Matsushita introduced an autonomous business domain-based organizational structure, along with a new management system that places a top priority on improving its global consolidated results and cash flows. With the objective of further enhancing profitability, Matsushita will speed up its structural reforms in several of its business domain companies. Under the management structure, Matsushita seeks to conduct its consolidated Groupwide businesses speedily and efficiently, and to achieve synergies expected from such business restructuring. Matsushita may not, however, be able to improve efficiency, reduce costs or realize growth through these measures due to unexpected additional reorganization or restructuring expenses (for restructuring expenses expected in fiscal 2005, see Section D of Item 5), improper allocation of operational resources or other unpredictable factors. Also, Matsushita has implemented its annual forecast and major initiatives (announced on April 28, 2004) for the year ending March 31, 2005. Matsushita may not be successful in achieving all the targets or in realizing the benefits expected 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

Although Matsushita strictly follows its prescribed quality control standards for manufacturing, there is a risk that defects may occur in Matsushita s products and services. The occurrence of defects could make Matsushita liable for damages not covered by product and completed operation liability insurance. Due to negative publicity concerning these problems, Matsushita s reputation and corporate and brand image may be adversely affected.

Matsushita may fail to protect its proprietary intellectual property, 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 strength to provide Matsushita with enough protection or commercial advantage. In addition, effective copyright and trade secret protection 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 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 become prohibited from using certain important technologies or liable for damages in cases of admitted violations of intellectual property rights of others.

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

Introduction of new accounting standards or tax systems, or changes thereof, which Matsushita can not 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 tax payments more than estimated.

Payments or compensation related to environmental regulations 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, despite its strict compliance with these regulations. Furthermore, if these regulations become more strict, the payments or compensation required for the violation of these regulations may adversely affect Matsushita s business, operating results and financial condition.

Leak of confidential information may adversely affect Matsushita s business

In the normal course of business, Matsushita holds confidential information, including individual information on its customers. Although Matsushita keeps confidential information with utmost care, such information may be leaked due to an accident or other inevitable cause and any material leakage of confidential information may result in significant expenses for related lawsuits and adversely affect Matsushita s image. Moreover, Matsushita s trade secrets may be illegally leaked by a third party, and this would negatively affect Matsushita s business.

Governmental 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 more strict interpretations. However, to the extent that Matsushita cannot comply with these laws and regulations, Matsushita s activities would be limited. In addition, these laws and regulations could increase Matsushita s operating costs.

<u>Other Risks</u>

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.

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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.

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.

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. In addition, Matsushita s operations, including procurement, manufacturing, logistics, sales and research and development facilities are located all over the world. If major disasters such as earthquakes, fires, floods, wars, terrorist attacks, computer viruses or other events occur, Matsushita s facilities may be damaged and it may have to stop or delay its production and shipment. Matsushita may incur expenses relating to such damages.

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.

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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. Yukitoshi Onda, President of Panasonic Finance (America), Inc.) 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 television sets (TVs) and refrigerators. During the 1950s, Matsushita expanded its operations by establishing mass production and mass sales structures to meet increasing domestic demand, while also creating subsidiaries, making acquisitions and forming alliances. During the 1960s, Matsushita expanded its overseas businesses, and its products started obtaining worldwide recognition.

During the global recession caused by the first oil crisis in 1973, Matsushita strengthened its structure and overseas business relations. The advent and popularity of the video cassette recorder (VCR) from the late 1970s enabled Matsushita to receive worldwide recognition as a global consumer electronics manufacturer. In the 1980s, Matsushita further worked to evolve from a consumer products manufacturer to a comprehensive electronics products manufacturer, expanding its business in the areas of information and communications technology, industrial equipment and components. 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. 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 sold in Japan and Technics for certain hi-fi products. Some of its subsidiaries also use their own brand names, such as Quasar, Victor and JVC. 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 period.

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.

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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 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. At the same time, as an incentive to Board members and employees toward the enhancement of corporate value, the Company introduced stock option plans for Board members and select senior executives, and a stock-price-linked remuneration plan for employees of manager-level or above. The Company has been continuing share repurchases in subsequent years.

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 reduced to nearly 12.5%, respectively. Matsushita realized a 59 billion yen gain from the sale of its shares in EPCOS AG in fiscal 2000.

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.

VALUE CREATION 21 PLAN

In June 2000, Kunio Nakamura became President of Matsushita and, under his leadership, the Company implemented its new three-year business plan, called Value Creation 21, in April 2001. As the plan s theme Deconstruction and Creation indicates, its objective is 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.

During fiscal 2002, the Company implemented a series of structural reforms under this Value Creation 21 plan, including the restructuring of its domestic consumer sales and distribution structure, management initiatives through the use of information technology (IT) such as supply chain management (SCM), the selective integration of businesses and manufacturing locations, manufacturing reforms such as the introduction of cell-style production, the reform of the Companywide research, development and design (R&DD) structure to concentrate development resources into strategic product or core technology areas, and employment restructuring initiatives including the regional-based employee remuneration system and early retirement programs. Expenses related to the implementation of these restructuring initiatives, combined with adverse economic conditions, caused a sharp decline in the Company s earnings results in fiscal 2002.

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. By establishing new internal divisional companies directly under the control of the parent company, namely the Semiconductor, Display Devices and Lighting companies, the development, manufacturing and sales functions that were previously disbursed between Matsushita and MEC for each of these strategic businesses have been integrated.

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. The joint venture aims at becoming one of the world s leading LCD panel manufactures, combining Matsushita s fast-response LCD image processing technology, Toshiba s technology in low-temperature polysilicon LCD panel manufacturing and both companies expertise in consumer products, personal computers and communications 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 strategic units. This major reorganization was implemented with a focus on the elimination of duplicated business lines and counterproductive competition amongst the Group companies, the unification and concentration of R&D resources, and the establishment of a totally integrated operational structure from development and manufacturing to sales in each domain for full customer satisfaction.

As an extension of this Groupwide reorganization, Matsushita transformed two of its majority-owned subsidiaries, namely Matsushita Electronic Components Co., Ltd. and Matsushita Battery Industrial Co., Ltd., into its 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., now positioned as the third largest TV-use CRT operation in the world, aims 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. Of the new joint venture company s stated capital of 10 billion yen, 64.5% was invested by Matsushita and 35.5% by Toshiba.

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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 cash flows. Under this new management system, each business domain company aims to maximize not only growth, but also capital efficiency and cash flows through efforts to achieve a leaner balance sheet, attaining speedy management with accelerated asset turnover on a consolidated basis.

Based on an agreement with Minebea Co., Ltd. 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, implementing the following initiatives:

Development and introduction of competitive V-products

To bring about a swift recovery in business results, Matsushita launched 88 V-products in fiscal 2003 as a driving force that can capture the top share in high-volume markets and contribute to the Company s overall performance. As a result of a Groupwide commitment to this initiative, sales of V-products reached approximately 1 trillion yen in fiscal 2003, allowing Matsushita to achieve increased market share in many product categories. In markets with shortened product lifecycles, particularly digital audiovisual (AV) equipment, the gradual launch of products into global market results in lost sales and profit opportunities. Matsushita therefore utilizes simultaneous global product introductions aimed at increasing both sales and profits. In fiscal 2004, Matsushita selected 90 new V-products and increased sales through global simultaneous product introductions, particularly in digital AV equipment, such as DVD recorders. As a result, overall sales of V-products reached approximately 1.24 trillion yen on a global basis in fiscal 2004.

Expansion of overseas business

The Company is taking various initiatives to strengthen overseas operations as an engine for overall corporate growth. For the mid-term, Matsushita is aiming at achieving over 60% of total operating profit from its overseas operations. Specifically, the Company plans to accelerate operational expansion in China, aiming for a 1 trillion yen business size on a Groupwide basis in fiscal 2006.

Enhancement of brand value

In April 2003, Matsushita announced that it would position the Panasonic brand as a globally unified brand for overseas markets under the 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.

R&D strategy

In R&D, to increase efficiency, the Company realigned technological management categorization and systems. 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.

COLLABORATION WITH MEW

In December 2003, Matsushita reached a basic agreement regarding a comprehensive business collaboration with an 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 group companies 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 and increase productivity. The two companies have also agreed to integrate their brand strategies, whereby, from October 2004, the NAIS and National brands currently used by MEW will be unified under the National brand for products sold in Japan, and the Panasonic brand for those sold in overseas markets. Regarding business operations initiatives, the two companies will strive to achieve further growth in such areas as home appliances, household equipment and construction materials, electric equipment, lighting, home and building networks, environment-related systems and healthcare and medical equipment, thereby solidifying the Matsushita Group s position as a global leader in these fields.

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 be a company which creates more value for customers all over the world by 2010. 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, and commenced initiatives for sustainable growth. The Leap Ahead 21 will mainly implement following two initiatives.

Accelerating Growth Business

Matsushita is positioning selected V-products as the main vehicle of future growth. During fiscal 2005, the initial year of the Leap Ahead 21, Matsushita plans to introduce 71 new V-products based in three core concepts: unique and advanced black-box technologies that cannot be easily imitated by competitors; universal design to make products easier to use for everyone; and, environmental consideration, such as saving energy and resources. The Company will develop V-products into strong business pillars that result in global market expansion and earning maximum profits at an early stage in product lifecycles.

In addition, the Company s comprehensive business collaboration with MEW will commence in fiscal 2005, through which the Company aims to establish an optimum operating structure from the customer s point of view and maximize value for the new Matsushita Group.

Reinforcing Management Structures

With the objective of further enhancing profitability, Matsushita will speed up structural reforms in several business domain companies. Also, the Company will promote activities to reduce inventories and cut materials costs, as well as eliminate all unnecessary costs in all areas of business, thereby creating a leaner management structure.

CAPITAL INVESTMENT

Total capital investment (excluding intangibles) amounted to 320 billion yen, 251 billion yen, and 271 billion yen for fiscal 2002, 2003, and 2004, respectively. 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, plasma display panels (PDPs) and other strategic products.

For the current fiscal year ending March 31, 2005 (fiscal 2005), Matsushita expects its capital investment to increase to approximately 340 billion yen. This investment will be funded primarily through internal sources.

B. Business Overview

SALES BY PRODUCT CATEGORY

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 product category for the last three fiscal years:

	Yen (billions) (%)
	Fiscal year ended March 31,

	2004		2003		2002	
AVC Networks:						
Video and audio equipment	1,418	19%	1,398	19%	1,296	18%
Information and communications equipment	2,206	29	2,114	29	2,100	30
Subtotal	3,624	48	3,512	48	3,396	48
Home Appliances	1,189	16	1,184	16	1,142	16
Components and Devices	1,142	15	1,194	16	1,090	15
JVC	803	11	828	11	813	12
Other	722	10	684	9	633	9
Total	7,480	100%	7,402	100%	7,074	100%

Note: As described in the Notes to the Consolidated Financial Statements, effective fiscal 2004, the Company reclassified product categories for sales breakdown reporting purposes, whereby sales are now divided into five new categories: AVC Networks, Home Appliances, Components and Devices, JVC and Other. Prior year figures have been restated to reflect this change.

AVC Networks

Matsushita s principal products in the AVC Networks category include video and audio equipment and information and communications equipment. Products in this category have been undergoing rapid technological changes as a result of digitization and networking, along with rapidly evolving broadband communications, which in turn have provided new business opportunities. As a leading manufacturer in many product lines in the AVC Networks category, Matsushita has been striving to achieve new growth by offering competitive digital and networkable products based on black-box technologies through simultaneous global marketing, aiming at contributing to the creation of a ubiquitous networking society.

Video and Audio Equipment

Principal products in this sector include TVs, VCRs, camcorders, digital still cameras (DSCs), DVD players and recorders, and personal and home audio equipment. Matsushita maintains a leading share in the domestic and overseas markets for a number of major products in this field. During the three-year period ended March 31, 2004, Matsushita expanded sales in this category by taking a lead in the introduction of attractive digital and networkable products, despite the negative effects of slow consumer spending, especially in Japan, and intensified global price competition. A series of competitive V-products that the Company has introduced since fiscal 2003 has been a major factor in this growth. Matsushita s current focus is to strengthen its 3D value chain consisting of secure digital memory cards (SD Memory Cards) and compatible products, DVDs and digital TVs to create new demand in the digital networking era.

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 display panel (PDP) and liquid crystal display (LCD) TVs. The Company s CRT TVs include both analog and digital models, while all of its flat-panel TVs are digital. Matsushita introduced three new 9.9cm-thick PDP TVs in 37-, 42- and 50-inch models in fiscal 2003, which were the world s first to integrate digital tuners for broadcast satellite (BS), communications satellite and terrestrial broadcasting. In fiscal 2004, Matsushita introduced new high-definition PDP TVs in 37-, 42- and 50-inch models with built-in slots for compact SD Memory Cards and the picture enhancement accelerator with kinetic system (PEAKS) for outstanding picture quality. Meanwhile, Matsushita has also reinforced its lineup of LCD TVs. Building on its LCD TV range of 14- to 22-inch models, Matsushita introduced a 32-inch model in fiscal 2003 and new 14-, 17- and 20-inch models with PEAKS for outstanding picture quality in fiscal 2004. To promote the advantage of digital TVs in the networking era, Matsushita has recently begun offering various digital TV models with Internet connection capability called T-Navi in the Japanese market. As flat-panel TVs have entered a rapid growth phase in Japan and overseas, the Company has been expanding its PDP manufacturing facilities, aiming at maintaining its top share of the worldwide PDP TV market. (See related description of PDP facility expansion under Components and Devices below.)

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In the VCR and video camera area, Matsushita has been expanding its range of digital camcorders and DSC that incorporate SD Memory Card slots for data storage and enhanced networking convenience. Of these, new models of DSC that benefit from the world-renowned optical technology of Leica Camera AG achieved notable market success in fiscal 2003. In fiscal 2004, Matsushita introduced new models of DSC that leverage unique and advanced technologies, such as aspherical lenses and optical image stabilizers (OIS). A new compact, easy-to-use SD Multi AV Recorder capable of recording and playback of digital video, still images, audio and other content on an SD Memory Card was also introduced during fiscal 2003. The Company added the world s slimmest model to this product line in fiscal 2004.

As for DVDs, Matsushita offers a wide range of DVD players and DVD recorders. Since its introduction of the first DVD recorder in 2000, the Company has been the market forerunner in this product line. The Company continued its lead by launching a series of competitive models with built-in hard disk drives (HDDs) for extended recording time and SD Memory Card slots. In fiscal 2004, Matsushita began simultaneous global introductions for its latest DVD recorders, and reinforced product range with VCR combination models with dual tuners for simultaneous recording of two channels.

In the area of audio equipment, Matsushita produces a variety of products, including compact disc (CD) players, CD radio cassette recorders and Mini Disc players, as well as radio receivers, tape recorders, portable headphone players, stereo hi-fi equipment and electronic musical instruments. Matsushita expanded its range of new audio equipment in recent years with the launch of DVD-Audio players and a series of products using the SD Memory Card, such as an ultra-compact wearable headphone player. Matsushita has been greatly expanding its range of SD Memory Card compatible products, covering not only audio and video equipment, but also information and communications equipment and home appliances, which has further enhanced the Company s leadership of the SD format in the industry.

Information and Communications Equipment

Information equipment includes products such as personal computers (PCs), PC displays, CD-ROM, DVD-ROM, DVD-RAM and other optical disk drives, HDDs, copying machines and printers. Communications equipment includes products such as facsimile equipment, cordless telephones, cellular phones, other mobile communications equipment and digital private branch exchanges. Products in this sector also include other systems equipment, such as car audio and navigation equipment, cable TV systems, broadcast- and business-use AV equipment and systems, large-screen visual equipment and communications network-related equipment. Of these, Matsushita is a worldwide leader in such business lines as optical disk drives, facsimile equipment, broadcast-use digital VCR equipment and airline in-flight AV systems. The Company also maintains a leading position in the Japanese cellular phone industry.

With respect to PCs, Matsushita continued to upgrade its notebook models over the last several years, centered on slim, lightweight notebook PCs, and ruggedized notebook PCs built to resist shock. In fiscal 2002, Matsushita introduced the world s lightest (960 grams) B5-sized notebook PC in Japan, followed by even smaller and lighter models during fiscal 2003. 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.

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In the area of PC peripherals, Matsushita has been focusing on upgrading its disk drive lineups. In optical disk drives, the Company introduced DVD multi drives compatible with DVD-RAM, DVD-R and DVD-RW formats in fiscal 2002. To meet demand related to slim notebook PCs, Matsushita developed the industry s slimmest and lightest DVD multi drives in fiscal 2004. As for HDDs, the Company has become more selective in its product lineup during the past few years, focusing on upgraded models using hydro dynamic bearing spindle motors, and 1.8-inch small-form-factor HDDs for use in notebook PCs and mobile AV equipment, while substantially reducing production of conventional 3.5-inch HDDs.

In the area of mobile communications equipment, in recent years, Matsushita has developed and introduced a number of new cellular phones, including third generation (3G) format products with a focus on advanced functions, stylish designs and ease-of-use. Sales of cellular phones experienced a setback in fiscal 2002 due to both a sharp decline in demand, especially in Japan and Europe, and glitches that were found in certain models. Early in fiscal 2003, the Company launched new thin cellular phones for NTT DoCoMo, Inc. that are mobile Internet-compatible and have high picture quality and, in the second half of that fiscal year, in response to the rapid development in demand, the Company introduced new models with built-in cameras. These new models were well received and helped to boost the Company s reputation in the Japanese cellular phone market. Meanwhile, the Company has been expanding its business in overseas markets, especially in Europe and China, centered on GSM standard cellular models including, most recently, clamshell design camera-equipped handsets and ultra-compact, stylish models. Regarding 3G cellular phones, corresponding to NTT DoCoMo s commencement of wideband code division multiple access (W-CDMA) services in Japan during fiscal 2002, Matsushita began shipments of W-CDMA base stations and terminals. The Company was the first in the world to develop and supply W-CDMA cellular phones that provide a TV-phone function through transmission of moving images and large volumes of data. In fiscal 2003, a new W-CDMA cellular phone was launched that boasts a rotating LCD screen for camcorder-style recording of video and still images, followed by the introduction in fiscal 2004 of a new model with a built-in auto-focus 1.28 megapixel CCD camera and interchangeable decorative jackets. The Company intends to solidify its competitive position as a leader in the 3G market.

In the area of fixed-line communications, Matsushita over the years has developed businesses in such products as facsimile equipment, cordless telephones, copiers and printers, primarily as stand-alone products. Beginning with the introduction of a multifunction model that provides facsimile, copier, printer, scanner and telephone functions in a single unit, however, the Company has been placing an increased focus on integration of communications and digital imaging technologies. This move was further accelerated by the merger in early 2003 of two major subsidiaries operating in this area. Matsushita also has been developing Internet-protocol (IP) products, such as IPv6 technology-based telephones and facsimile machines, using the synergies of the merger and the advantage of possessing both imaging and communications technologies.

In the area of car AV equipment, Matsushita supplies advanced car navigation systems for the domestic market, while further promoting global expansion in car audio equipment. Through joint efforts with automakers, Matsushita in fiscal 2002 launched a new car navigation model that can receive various mobile information services, followed by another model with a built-in HDD capable of processing a large volume of data in an instant. In fiscal 2003, the Company began supplying an upgraded model as an in-car multimedia terminal to a leading automobile company in Japan. Demand has been steadily growing 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. Overseas, the Company launched new car audio equipment in the North American market, including a rear-seat entertainment system that features a flat-panel, large-screen LCD display with a built-in DVD player, and a digital surround sound car audio system compatible with high-quality DVD audio. Meanwhile, to address the expansion of electronic toll collection (ETC) services in Japan, the Company has been increasing sales of in-car terminals, as well as related infrastructure equipment.

In the area of broadcast-use AV equipment and systems, the DVCPRO series of digital video systems has always been the Company s flagship product. In fiscal 2004, Matsushita announced an upgraded model, the DVCPRO P2, which is designed to use SD Memory Cards as its recording media. Meanwhile, with the start of terrestrial digital broadcasting in Japan in December 2003, Matsushita supplied digital broadcasting systems, including a compact, light DVCPRO series, to major TV broadcasting stations in Japan. 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.

Home Appliances

Matsushita s principal products in this category include home appliances, such as refrigerators, room air conditioners, washing machines, clothes dryers, vacuum cleaners, electric irons, microwave ovens, cooking appliances, dishwasher/dryers; and household equipment, mainly comprising kitchen fixture systems, electric, gas and kerosene hot water supply equipment, and bath and sanitary equipment. This category also includes healthcare systems, lighting, and environmental systems.

Building upon its position as the leading manufacturer in the Japanese home appliance industry, Matsushita strives to further develop value-added products that address changing and diversifying customer lifestyles, the trend toward an aging population and rapidly growing interest in health and the environment.

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In the area of electric home appliances and household equipment, Matsushita in fiscal 2002 was one of the first manufacturers to develop a refrigerator using hydrocarbon refrigerant, which eliminates the use of ozone layer depletive refrigerants. Furthermore, Matsushita introduced an eco-friendly and energy-efficient water heating system that employs a natural refrigerant heat pump and boasts an ozone-depleting coefficient of zero in April 2002. During fiscal 2003, Matsushita introduced a fully automatic clothes washer/dryer, featuring a unique foam washing system; a combination steamer/microwave oven; a new series of hydrofluorocarbon (HFC)-free, large inner-capacity refrigerators; and a unique air conditioner that offers the same oxygen concentration indoors as that found in the natural environment. In fiscal 2004, the Company successfully increased its domestic market share in major appliances, as it introduced a user-friendly washer/dryer with a 30-degree tilted drum featuring lower water consumption, an air conditioner incorporating a ventilating function in addition to the above-mentioned unique oxygen charging technology, 200V flameless induction-heating (IH) cooking equipment that is compatible with cooking ware made of any metal, and a new water heating system that uses CO_2 as a natural refrigerant and boasts the industry s highest energy efficiency. Several of these new high-value added products, such as HFC-free refrigerators and air conditioners featuring the oxygen charging technology were also introduced into the Asian market, including China.

Matsushita s efforts have also been extended to the development of home appliance business using digital networking technologies that will provide customers with solutions for safe, convenient and comfortable living. In fiscal 2004, Matsushita launched a new networked home appliance system that enables customers to control home appliances such as air conditioners, refrigerators, washing machines and microwave ovens through wireless control functions, including the ability to report irregularities or emergencies detected through various sensors.

In the healthcare systems business, in fiscal 2002 Matsushita introduced a Web-based tele-healthcare system that allows patients to measure their vital signs and doctors to remotely access the patient s information. The Ministry of Health, Labour and Welfare of Japan officially recognized the system to be introduced for medical use. In fiscal 2004, a new system that measures the glucose level quickly and accurately with just a small amount of blood contributed to the Company s sales increase.

In the lighting business, in fiscal 2003 Matsushita developed an electrodeless ballasted compact fluorescent lamp featuring low power consumption and extended life, and in 2004 the Company began selling a spiral-shaped ballasted compact florescent lamp, which, although the same size as an incandescent lamp, offers greater energy efficiency.

In the environment-related systems business, Matsushita began construction of ventilation facilities for the Hai Van Tunnel in Vietnam in fiscal 2003. In Japan, ventilation systems and equipment that comply with the revised construction standards law to combat sick house syndrome contributed to Matsushita s sales increase in this product category in fiscal 2004. Meanwhile, the Company supplied a wind power generation system to the 2004 Athens Olympics. The Company also introduced the world s first air purifier with a filter to neutralize allergens in fiscal 2004.

Components and Devices

Major products included in this category are semiconductors, general components, display devices, batteries and electric motors, some of which are incorporated into Matsushita s finished products and some of which are for sale to other manufacturers.

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Matsushita is strengthening businesses in the components and devices category by concentrating efforts on black-box, or proprietary, technologies, particularly in the area of semiconductors such as system LSIs, the key to Matsushita s competitive edge in digital AV and information/communications equipment. The Company is enhancing cooperation between components and devices and finished product divisions from the product development stage to create value chains around them. Matsushita also strives to expand external sales of components and devices to accelerate sales growth and strengthen the earnings base.

Matsushita s semiconductor business is primarily made up of integrated circuits (ICs), such as metal oxide semiconductor large-scale integration (LSI) circuits and bipolar ICs, discrete devices and image sensor including charge coupled devices (CCDs). Matsushita has been focusing on five main growth businesses, comprising four system LSI fields, namely those for optical disk-related products, digital TVs, mobile communications, and networks and SD Memory Cards, and image sensors. These operations support innovative and competitive products at the Company s finished product divisions and, as a value chain, the success of these finished products support sales of system LSIs for external customers. In particular, Matsushita has been strengthening development of multifunctional system LSI circuits, which form the basis of digital network-related equipment. Successful results in recent years include system LSI chip sets for DVD players and recorders, MPEG-2 encoder chips and 32-bit microcontrollers with embedded dynamic RAM. In fiscal 2003, Matsushita developed a power-efficient multi-codec system LSI, enabling extended continuous operating time for cellular phones that provide video phone and other video content capabilities, and a new system LSI for digital high-definition television (HDTV) broadcast receivers that accomplishes all back-end processing functions on a single chip. 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. Meanwhile, Matsushita has also been striving to achieve higher levels of manufacturing process technologies. In April 2002, the Company commenced production of highly integrated 0.13-micron system LSIs primarily for digital AV equipment. Furthermore, Matsushita began construction of a new semiconductor production facility in Japan, installing the cutting-edge 90-nanometer production process for 300mm wafers in May 2004. In the area of image sensors, in October 2003, Matsushita integrated its CCD and camera module businesses, thereby achieving a more effective organizational structure. In February 2004, the Company developed the industry s smallest image sensor, featuring high picture quality and low power consumption for applications such as camera-equipped cellular phones and AV equipment.

Matsushita manufactures a variety of general components, including capacitors, modules, printed circuit boards, power supply and inductive products, circuit components, electromechanical components and speakers for AV equipment, automotive electronics and information/ communications. In fiscal 2002, Matsushita augmented its range of specialty polymer aluminum electrolytic capacitors, while also developing cutting-edge ultracompact, high-capacitance products in the field of multi-layer ceramic chip capacitors and film capacitors. Furthermore, in fiscal 2003, Matsushita developed three-dimensional integrated circuit modules that help downsize and enhance functionalities of mobile electronic devices and networked appliances. In fiscal 2004, Matsushita expanded sales of high-fidelity speakers for flat-panel TVs, weight sensors for protective airbags and multilayer printed circuit boards. In an effort to achieve growth and enhanced profitability in the general components business, the Company has continued to implement selection and concentration of management resources, especially in capacitor operations.

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In the area of display devices, Matsushita manufactures PDPs and CRTs, while production of LCDs has been shifted to a joint venture company created with Toshiba Corporation (Toshiba). Regarding PDPs, Matsushita has boosted its product lineup with the marketing of competitively-priced 37-, 42- and 50-inch units. In fiscal 2004, Matsushita introduced new 37-, 42- and 50-inch high definition PDPs for outstanding picture quality. Matsushita has been strengthening its PDP manufacturing structure through a number of initiatives, including the commencement of panel production at its PDP assembly plant in China in December 2002 and at its new manufacturing facility in Japan in April 2004. Regarding LCD devices, Matsushita and Toshiba combined their respective LCD operations and jointly established Toshiba Matsushita Display Technology Co., Ltd. in April 2002. The joint venture company has added new cutting-edge products, including low-temperature polysilicon LCD panels, to the existing product lineups of LCDs for PCs, cellular phones and TVs. Regarding CRTs, in order to strengthen competitiveness, Matsushita and Toshiba integrated their global CRT operations and launched a new company, Matsushita Toshiba Picture Display Co., Ltd., in April 2003. The new CRT joint venture seeks synergies from the combination of Matsushita and Toshiba s advanced TV-use CRT product development capabilities and manufacturing technologies. (For additional information on the LCD and CRT joint ventures, see Section A of this Item 4.)

Matsushita is an industry leader in primary batteries, especially dry batteries, and is also expanding its line of rechargeable batteries. Matsushita has increased production of compact, high-performance batteries, such as long-life alkaline batteries and lithium-ion rechargeable batteries, as these products are increasingly used in compact electronic equipment such as DSCs, cellular phones and notebook PCs. In addition, the Company introduced such new long-life compact batteries as nickel manganese batteries in fiscal 2003, and another new high-performance dry battery, that boasts approximately 1.5 times the life and performance of ordinary alkaline batteries in fiscal 2004, for a wide variety of applications, including DSC and portable audio players. To strengthen its competitive position in compact rechargeable batteries, the Company further expanded its lithium-ion battery plant in Osaka in fiscal 2003, and started manufacturing these batteries in China from April 2004 to meet increasing demand from cellular phone manufacturers.

Matsushita s line of electric motors includes those for information equipment, consumer appliances and factory automation (FA) equipment. In the area of information equipment motors, Matsushita has been an industry leader in vibration motors for cellular phones and polygon mirror scanner motors for laser beam printers. Matsushita is also a major manufacturer of brushless motors for appliances and servo motors for FA equipment. Since fiscal 2003, the Company has implemented restructuring in this business area for concentration of resources into growth areas, such as brushless motors and FA servo motors. In October 2003, Matsushita transferred the HDD-use fluid dynamic bearing motor business to Matsushita Kotobuki Electronics Industries, Ltd., and closed two manufacturing locations in Japan in December of that year. Meanwhile, Matsushita accelerated expansion of operations in China for appliance and FA motors, and also shifted its information equipment motor business excluding brushless motors to a new company jointly established with Minebea Co., Ltd.

JVC

The JVC category represents businesses of Victor Company of Japan, Ltd. and its group companies (JVC). Major products in this category include consumer electronic equipment (such as VCRs, camcorders, TVs, stereo hi-fi equipment, DVD products and other AV products), professional electronic equipment and systems, components, and prerecorded audio and video software and recordable media. These products are sold under 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 creating original, high quality products, Only One products that incorporate JVC s market-leading audio and visual technology. These efforts helped JVC to achieve solid sales results in its consumer electronics business in these years.

In the consumer electronics field, JVC s technological achievements in recent years have included high-definition displays incorporating Digital Image Scaling Technology (D.I.S.T.) and digital high-density storage systems such as D-VHS and DVD recorders/players. Building upon such technological strength, JVC has further worked on enhancing the network connectivity of its mainstay AV products. In fiscal 2002, part of these efforts resulted in market success in such products as a new VHS/DVD- combination deck, DVD players, car AV systems and digital video cameras. In fiscal 2003, continued sales success was achieved in new growth products, such as high definition TVs and PDP TVs. During fiscal 2004, digital technology became more widespread in the consumer electronics industry, and JVC expanded its range of PDP TVs and DVD recorders, and also introduced LCD TVs. During these years, as part of a global manufacturing base realigning program, JVC positioned its Yokohama Plant as the core mother base of all worldwide consumer electronics production. JVC also implemented other restructuring initiatives to ready itself for the next phase of growth.

In the professional electronics field, JVC has focused on two categories, the security and presentation systems. As a result, over the last three fiscal years, sales of security systems, that include JVC s high performance surveillance cameras, recorded consistent growth. During these years, businesses of other professional electronics systems experienced setbacks, with an exception of digital broadcasting equipment, which met rising demand on expansion of digital broadcasting services in Japan.

JVC s software and media businesses have been operated mainly in Japan. During the last three fiscal years, sales in Japanese music software business fell due to the industry-wide slump. However, JVC released hit records continuously, including CDs from such artists as Keisuke Kuwata and Dragon Ash in fiscal 2002, CDs and DVDs of Keisuke Kuwata and SMAP in fiscal 2003, and albums of the Southern All Stars and SMAP in fiscal 2004. Meanwhile, JVC has been expanding its range of recordable media business, including DVD-RW and Mini DV tapes.

In its new mid-term plan (Leap Ahead 21 plan), JVC positions the consumer electronics business to play a central role in accelerating the company s growth. Specifically, JVC will focus on display and optical disk products.

Other

Matsushita s other category includes factory automation (FA) equipment, industrial robots, welding machines, power distribution equipment and other industrial equipment. Matsushita aims to enhance service to its customers through innovative manufacturing processes centered on circuit manufacturing technology. Specifically, responding to trends in more compact digital products, the Company provides optimum solutions in electronic component mounting, fine devices, manufacturing processes, welding machines and robots.

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In the area of FA equipment, Matsushita is one of the world s leaders in placement machines including fine device bonding systems and fine process equipment, and also produces industrial robots. Within the mainstay placement machine, while developing and launching machines with faster processing-speeds and higher functionality, the Company has been building new core businesses by augmenting its lineups of high-growth device bonding systems in recent years. As part of this strategy, Matsushita launched modular placement machines suitable for flexible production styles, such as cell-style production in fiscal 2002, followed by the introduction of modular placement machines that were one of the highest levels of productivity in the industry in fiscal 2003. Furthermore, in fiscal 2004, the Company enhanced growth by strengthening the electronic-parts 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 demands of digital AV products, such as cellular phones and PCs.

In the area of welding machines, Matsushita introduced a fully digital carbon dioxide/metal active gas automatic welding machine that allows for superior welds over a variety of materials in fiscal 2002, followed by the introduction of a fully digital welding robot in fiscal 2003. In fiscal 2004, Matsushita expanded deliveries of fully digital automatic welding machines and robots, to automobile-related industries.

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,					
	2004		2003		2002	
Japan	3,478	46%	3,454	47%	3,314	47%
North and South America	1,327	18	1,421	19	1,495	21
Europe	1,080	15	1,000	13	839	12
Asia and Others	1,595	21	1,527	21	1,426	20
Total	7,480	100%	7,402	100%	7,074	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.

Also, as part of such reorganizations, in October 2001, Matsushita consolidated its 22 regional consumer sales companies throughout Japan, which handle distribution through local consumer electronics and appliance retailers, into a single company. Meanwhile, Matsushita s sales structure for volume retailers through another single sales subsidiary is being strengthened by expanding supply chain management (SCM). In addition, also in October 2001, Matsushita s credit sales subsidiary and leasing subsidiary were merged into one company, Matsushita Leasing & Credit Co., Ltd. By implementing these reforms and revitalizing its domestic consumer sales and distribution operations, Matsushita aimed at creation of an efficient structure that ensures speedy responses to customer needs and realizes a significant reduction in distribution costs and an increased market share.

Overseas Operations

Worldwide, Matsushita has 372 consolidated companies as well as 59 companies which are reflected 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 54% of the Company s total consolidated sales in fiscal 2004.

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 was introduced, 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, we view Asia, China and Eastern Europe as critical to this structure. Specifically, Matsushita has focused on China as a large potential market and a production site to supply global as well as Chinese markets. As such, the Company has been enhancing production capacity at its Chinese facilities for such borderless products as DVD players, microwave ovens, compressors and components, as well as such new growth products as PDPs.

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

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 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, which sales 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 any essential item. 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.

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 steels, plastics, semiconductors, 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 companies level, an increasing focus has been also paid to the centralized purchasing for the parts and materials commonly used in factories within each business domain company.

For fiscal 2005, to minimize adverse effects of global price increases of raw materials, Matsushita will further strengthen 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 auxiliary materials.

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PATENT LICENSE AGREEMENTS

Matsushita holds numerous Japanese and foreign patents and utility model 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 its products, including TVs, VCRs, CD players and CD-ROM drives. 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.

Most of Matsushita s license and technical assistance agreements are for three- to ten-year periods, unless the agreements cover specific patents to be licensed therein, in which case they are normally for the life of the patent.

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

COMPETITION

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

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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 appliance, 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 estimated the total cost of approximately 8 billion 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, which amount has been accrued since it represents management s best estimate or minimum of the cost, but the payments are not considered to be fixed and reliably determinable.

In Europe, two environmental directives went into force in February 2003 and 25 member states are currently drawing up their state laws. 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 practically prohibits the use of six specified hazardous substances (Lead, Mercury, Cadmium, Hexavalent chromium, Polybrominated biphenyls, Polybrominated diphenyl ethers) in products. 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.

Following in the footsteps of these EU directives, an increasing number of recycling and hazardous substance-related legislations are being enacted worldwide. Based on its corporate policy of contributing to the coexistence with the global environment, Matsushita is implementing appropriate measures to address these legislations at each business domain company and in each region.

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

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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 for R&D, manufacturing and sales in its own business area, thereby establishing an autonomous management structure that expedites self-completive business operations to accelerate growth.

Principal divisional companies and subsidiaries as of March 31, 2004 are as listed below:

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

Name of internal divisional company
Semiconductor Company
Panasonic AVC Networks Company
Panasonic Automotive Systems Company
Panasonic System Solutions Company
Matsushita Home Appliances Company
Packaged Air-Conditioner Company
Healthcare Business Company
Lighting Company
Motor Company

(2) Principal domestic subsidiaries:

Name of company	Percentage owned
Panasonic Communications Co., Ltd.	100.0%
Matsushita Electronic Components Co., Ltd.	100.0
Panasonic Mobile Communications Co., Ltd.	100.0
Panasonic Factory Solutions Co., Ltd.	100.0
Matsushita Ecology Systems Co., Ltd.	100.0

Matsushita Refrigeration Company	100.0
Matsushita Battery Industrial Co., Ltd.	100.0
Matsushita Kotobuki Electronics Industries, Ltd.	100.0
Matsushita Industrial Information Equipment Co., Ltd.	100.0
Victor Company of Japan, Ltd.	52.6

(3) Principal overseas subsidiaries:

Name of company	Country of incorporation	Percentage owned
Matsushita Electric Corporation of America	U.S.A.	100.0%
Matsushita Electric Europe (Headquarters) Ltd.	U.K.	100.0
Panasonic Mobile & Automotive Systems Czech s.r.o.	Czech	100.0
Matsushita Electric Asia Pte. Ltd.	Singapore	100.0
Panasonic AVC Networks Singapore Pte. Ltd.	Singapore	100.0
Panasonic AVC Networks Kuala Lumpur Malaysia Sdn. Bhd.	Malaysia	100.0
Matsushita Electric (Taiwan) Co., Ltd.	Taiwan	69.8
Matsushita Electric (China) Co., Ltd.	China	100.0
Guangzhou Matsushita Air-Conditioner Co., Ltd.	China	67.8

Note: Matsushita s consolidated financial statements as of March 31, 2004 comprise the accounts of 372 consolidated companies, with 59 companies reflected by the equity method.

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, 2004 with respect to manufacturing facilities:

Location	Floor Space (thousands of square feet)	Principal Products Manufactured
Osaka	8,693	VCRs, PDP TVs, DVD products, audio equipment, washing machines, other home appliances, information equipment, industrial equipment, components, batteries, kitchen fixtures.
Kanagawa	3,711	Communications, information and measuring equipment, VCRs, audio equipment, car AV equipment, compact discs, refrigerators, batteries.
Shiga	3,535	Air conditioners, refrigerators, compressors, vacuum cleaners.
Tochigi	1,798	TVs, TV picture tubes, information equipment.
Nara	1,948	Home appliances, gas and kerosene equipment, and DVD discs.
Okayama	1,982	VCRs, components, magnetic tapes and discs.
Kyoto	1,975	Semiconductors, components.
Ibaraki	590	Magnetic tapes.
Shikoku	2,811	VCRs, information equipment, home appliances.
Kyushu	3,285	Information and communications equipment, components, industrial equipment.
North America	6,968	TVs, home appliances, VCRs, DVD discs, car audio equipment, communications equipment, components, batteries.
Europe	3,899	VCRs, PDP TVs, TVs, audio equipment, car audio equipment, home appliances, components, information and communications equipment.
Asia (excluding China)	19,297	TVs, VCRs, DVD products, audio equipment, air conditioners, refrigerators, other home appliances, components, semiconductors, information and communications equipment, industrial equipment, compressors, batteries.
China	7,226	TVs, PDP TVs, DVD products, audio equipment, air conditioners, washing machines, other home appliances, car audio equipment, communications equipment, semiconductors, industrial equipment, compressors, components, batteries.
Other	16,235	Home appliances, industrial equipment, components, semiconductors, video and audio equipment, batteries, information and communications equipment.
Total	83,953	

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

In addition to its manufacturing facilities, Matsushita s properties all over the world include sales offices located in various cities with an aggregate floor space of approximately 8.7 million square feet, research and development facilities with an aggregate floor space of approximately 6.0 million square feet, employee housing and welfare facilities with an aggregate floor space of approximately 10.1 million square feet, and administrative offices with an aggregate floor space of approximately 22.0 million square feet.

As of March 31, 2004, Matsushita leased approximately 19.0 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 2004, 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.

For fiscal 2005, the Company will make a capital investment of approximately 340 billion yen, for the purpose of production of new products and enhancement of production capacity and efficiency with a focus on such areas as AV and information and communications equipment (approximately 93 billion yen), and electronic components and devices including semiconductors and key devices (approximately 132 billion yen).

The investments stated above will be funded mainly through internal sources.

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. Most of Matsushita s products are marketed under Panasonic, its principle brand name, and several other brand names, including National, Technics, Quasar, Victor and JVC. Matsushita divides its businesses into five segments: AVC Networks, Home Appliances, Components and Devices, JVC and Other. AVC Networks includes video and audio equipment, and information and communications equipment. Home Appliances includes home appliances and household equipment. Components and Devices includes electronic components, semiconductors, electric motors and batteries. JVC includes products marketed under the brand name of JVC or Victor. Other includes electronic-parts-mounting machines, industrial robots and industrial equipment.

Matsushita s results of operations and financial condition are affected by the economic environment in the markets in which it conducts its business, including Japan, other countries in Asia, the United States and Europe, as well as by fluctuations of exchange rates between the Japanese yen, the currency used in Matsushita s financial statements, and other key currencies in which Matsushita receives revenues for sales of its products overseas, primarily the U.S. dollar and the euro.

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Economic environment

The Japanese economy over the last three fiscal years was generally characterized by uncertainty and slow growth following the long continued stagnancy in the 1990 s. In the year ended March 31, 2002, economic growth in Japan slowed from the preceding year s temporary recovery, due to sluggish consumer spending and exports, along with setbacks in demand for information technology (IT) and related products. In the first half of the year ended March 31, 2003, the Japanese economy showed signs of a pickup, with a revival in exports and consumer spending growth. The economic recovery, however, did not last long, and the second half of that year again met stagnant consumer spending and a decline in exports. In the year ended March 31, 2004, economic growth in Japan showed moderate improvement as a result of rising exports and increased capital investment. Reflecting the aforementioned factors, Japan s real gross domestic product showed instability but slight signs of recovery from the worst period, recording a 1.2% decrease in fiscal 2002, a 1.1% increase in fiscal 2003, and a 3.3% increase in fiscal 2004.

Overseas, the U.S. economy showed signs of a recovery in the year ended March 31, 2002, and its moderate growth continued in the year ended March 31, 2003, despite the war in Iraq. During the same period, growth of Asian economies was somewhat slow, except for China, and European economies also experienced slow growth. In the year ended March 31, 2004, the overseas economy 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.

During the three-year period ended March 31, 2004, Japan experienced deflation due mainly to sluggish consumer spending and an increased inflow of products manufactured in low-cost countries. The consumer price index in Japan declined 1.0% in the year ended March 31, 2002 and declined 0.6% again in the year ended March 31, 2003. In the year ended March 31, 2004, the consumer price index continued to fall, recording a decline of 0.2%. This deflationary trend has been reflected in the declining prices of goods and services in Japan, putting pressure on the earnings of Japanese businesses.

Condition of foreign currency exchange rates and Matsushita s policy

Foreign currency exchange rates fluctuated during the three-year period ended March 31, 2004. In the year ended March 31, 2002, the Japanese yen weakened against the U.S. dollar and the euro. In the following two years, the yen strengthened against the U.S. dollar but weakened against 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.

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Initiatives implemented by Matsushita

In the face of the aforementioned severe economic environment, Matsushita introduced, in April 2001, its mid-term business plan, Value Creation 21, which covered the three-year period ended March 31, 2004. Under the theme Deconstruction and Creation of the plan, the Company implemented a variety of major Companywide restructuring initiatives to transform itself into a lean and agile Matsushita and, from the year ended March 31, 2003 (fiscal 2003), gradually shifted its focus to growth strategies, which include the development and introduction of differentiated products, such as V-products, the launch of a business domain-based Groupwide organizational structure and the expansion of overseas operations as a growth engine for the entire Company. In fiscal 2004, Matsushita continued to carry out business domain-based restructuring initiatives, while accelerating its growth strategies. (For details of the Value Creation 21 plan, see Section A of Item 4.)

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 2002, net sales declined 9.1% to 7,074 billion yen. Although sales of video and audio equipment in the AVC Networks category rose, reflecting steady growth in digital AV equipment, sales in almost all other sectors dropped from the previous year. Specifically, information and communications equipment in the AVC Networks category and products in the Components and Devices category were negatively affected by a worldwide downturn in IT-related industries. A global setback in corporate capital investment also caused a steep fall in sales of FA and other industrial equipment. In addition to these sales declines, the Company incurred various restructuring expenses under the Value Creation 21 plan, including 164 billion yen related to employment restructuring programs, such as additional retirement allowances for special early retirement programs, 86 billion yen related to business restructuring expenses for the closure/integration of several manufacturing sites. Furthermore, Matsushita incurred a write-down of 92 billion yen on investments. Reflecting these adverse factors, along with corporate tax effects and a decrease in minority interests due to negative earnings of certain subsidiaries, the Company incurred a net loss of 428 billion yen.

In fiscal 2003, net sales increased 4.6% to 7,402 billion yen, led by video and audio equipment in the AVC Networks category and products in the Components and Devices category, largely on the success of V-products developed through integration of Matsushita s Groupwide technological resources. Despite the positive effects on earnings of this sales increase and the previous year s employment and business restructuring, the Company incurred a net loss of 19 billion yen, due in part to a write-down on investment securities, equity losses caused by losses of certain associated companies and losses related to adjustments of net deferred tax assets necessitated by the introduction of a pro-forma standard corporate taxation system in Japan.

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In fiscal 2004, net sales increased 1.1% to 7,480 billion yen, led by strong sales of V-products, particularly digital AV products, cellular 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 losses of certain associated companies, the Company recorded a net income of 42 billion yen.

Key performance indicators

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

	Yen (billions) (%)		
	Fiscal year ended March 31,		
	2004	2003	2002
Net sales	7,480	7,402	7,074
Income (loss) before income taxes to net sales ratio	2.3%	0.9%	(7.6)%
Research and development costs to net sales ratio	7.7%	7.4%	8.0%
Total assets	7,438	7,835	7,768
Stockholders equity	3,452	3,178	3,248
Stockholders equity to total assets ratio	46.4%	40.6%	41.8%
Capital investment	271	251	320
Free cash flow	404	687	38

Matsushita defines Capital investment as purchases of property, plant and equipment 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 its consolidated cash flow statement.

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

	Yen (billions)		
	Fiscal year ended March 31,		
	2004	2003	2002
Purchases of property, plant and equipment shown as capital expenditures in consolidated statements of cash flows	276	247	342
Effects of timing difference between acquisition dates and payment dates	(5)	4	(22)
Capital investment	271	251	320

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Matsushita defines Free cash flow as the sum of net cash provided by operating activities and net cash used in 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.

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

	Yen (billions)		
	Fiscal year ended March 31,		
	2004	2003	2002
Net cash provided by operating activities	489	698	113
Net cash used in investing activities	(85)	(11)	(75)
Free cash flow	404	687	38

Consolidation of Matsushita Electric Works, Ltd. and PanaHome Corporation

As outlined in Section A of Item 4 and further discussed in Section D of this Item 5, on April 1, 2004, Matsushita increased its holding of shares of common stock of Matsushita Electric Works, Ltd. (MEW) from 31.8% to 51.0%, and MEW became a consolidated subsidiary of Matsushita. Also, as a result of that acquisition, PanaHome Corporation (PanaHome), in which Matsushita and MEW each own a 27.0% equity ownership, became a consolidated subsidiary of Matsushita, with Matsushita owning a 54.0% equity ownership. For fiscal periods starting on or after April 1, 2004, beginning with the first quarter of fiscal 2005, these two companies and their respective group companies are fully consolidated in Matsushita s consolidated financial statements. Also, for fiscal periods starting on or after April 1, 2004, for financial reporting purposes, Matsushita has created the new business segment MEW and PanaHome for the business of MEW, PanaHome and their respective group companies.

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

Year ended March 31, 2004 compared with 2003

(1) Sales

Consolidated net sales for fiscal 2004 increased 1.1% to 7,480 billion yen, from 7,402 billion yen in the previous year. As mentioned earlier, the business environment during fiscal 2004 remained unstable but overall economic conditions began to show signs of a moderate recovery. Amid these circumstances, Matsushita aimed to increase sales and enhance profitability through the launch of a new series of competitive V-products, particularly those in the digital AV equipment area. The Company also expanded simultaneous global product introductions as a means of increasing market share and securing profits at an early stage in product life cycles. As a result of these initiatives, consolidated sales marked gains, led by strong sales of V-products, particularly in the areas of digital AV equipment, cellular phones and FA equipment, which were sufficient to offset sales declines in the Components and Devices, and JVC categories.

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Domestic sales edged up 0.7% to 3,478 billion yen. Although sales of products in the Home Appliances, Components and Devices, and Other categories remained at the same level as, or below the previous year, sales of products in the AVC Networks category, especially flat-panel TVs, DVD equipment and automotive electronics increased. Overseas sales were 4,002 billion yen, up 1.4% when translated into yen and up 4.0% on a local currency basis, with sales increases recorded in the AVC Networks, Home Appliances and Other categories.

(2) Other Revenues (Revenue excluding Net Sales)

Other revenues include interest income, dividends received, and other miscellaneous income. Of these, interest income decreased 12.1% to 20 billion yen, and dividends received increased 21.5% to 5 billion yen. In addition, Matsushita recorded a 72 billion yen non-recurring gain from the transfer to the Japanese government of the substitutional portion of JWPI, following the enactment of changes to the Welfare Pension Insurance Law. 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.) Other income totaled 60 billion yen, a 7.9% decrease from fiscal 2003 when the Company recorded a one-time gain from the sale of Panasonic Disc Services Corporation.

(3) Costs and Expenses

Despite the increase in net sales, cost of sales decreased 0.2% to 5,313 billion yen, reflecting a success in reducing materials costs. Selling, general and administrative expenses edged up 1.0% to 1,971 billion yen due mainly to an increase in research and development costs. Meanwhile, interest expense decreased 15.4% to 28 billion yen, owing to a reduction in the Company s borrowings. Other deductions increased 32.2% to 154 billion yen. Other deductions in fiscal 2004 include restructuring charges of 45 billion yen for early retirement programs at certain domestic group companies, 20 billion yen of other expenses associated with the closure/integration of manufacturing locations. Under the newly inaugurated business domain-based organizational structure, several Group companies carried out closure/integration for certain of their facilities that suffered losses from operation. Expenses for these restructuring activities were paid or settled in fiscal 2004 and no liability existed as of March 31, 2004. The Company also incurred 12 billion yen for impairment losses on fixed assets, and a write-down of 52 billion yen on investment securities, mainly stocks of affiliated companies. (For further details, see Notes 4, 5, 7 and 8 of the Notes to Consolidated Financial Statements.)

(4) Income before Income Taxes

As a result of the above-mentioned factors, income before income taxes increased 147.9% to 171 billion yen, compared with 69 billion yen in fiscal 2003. Its ratio to net sales increased 1.4% to 2.3%, compared with 0.9% in the previous year.

(5) Provision for Income Taxes

Provision for income taxes amounted to 99 billion yen, compared with 71 billion yen in the previous year. Its ratio to income before income taxes decreased to 57.7%, from 103.4% a year ago. This drop is caused mainly by a decrease in adjustments of net deferred tax assets to reflect the reduction in the statutory income tax rate due to revisions to local enterprise income tax laws on the introduction of a new pro-forma standard taxation system in Japan, as well as a decrease in valuation allowance allocated to income tax expenses.

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(6) Minority Interests

Minority interests increased to 20 billion yen for fiscal 2004, compared with 6 billion yen in fiscal 2003, reflecting the earnings improvements of several subsidiaries.

(7) Equity in Earnings (Losses) of Associated Companies

Equity in losses of associated companies decreased to 11 billion yen, from the previous year s 12 billion yen, due mainly to improved earnings or decreased losses at certain associated companies.

(8) Net Income (Loss)

As a result of all the factors stated in the preceding paragraphs, the Company recorded a net income of 42 billion yen for fiscal 2004, compared with a net loss of 19 billion yen in the previous fiscal year.

(9) Results of Operations

Results of operations by business segment for fiscal 2004, as compared with the previous fiscal year, were as follows*:

* As described in Note 19 of the Notes to Consolidated Financial Statements, from fiscal 2004, the Company changed its business segment classifications to five new segments: AVC Networks, Home Appliances, Components and Devices, JVC and Other. Prior year figures have been restated to reflect this change.

	Yen (billions)		
	2004	2003 (Restated)	Percent change
Sales:			
AVC Networks	3,840	3,668	4.7%
Home Appliances	1,223	1,197	2.1
Components and Devices	1,660	1,710	(2.9)

JVC	819	852	(3.8)
Other	949	819	15.8
Eliminations	(1,011)	(844)	
Total	7,480	7,402	1.1%
Segment profit:			
AVC Networks	129	83	55.9%
Home Appliances	53	45	16.6
Components and Devices	50	31	60.5
JVC	25	22	12.9
Other	15	13	12.7
Corporate and eliminations	(77)	(67)	
Total	195	127	54.5%

Sales in the AVC Networks segment increased 4.7% to 3,840 billion yen, from 3,668 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 DVD recorders, which more than offset declines in CRT TVs, VCRs and audio equipment. Sales of information and communications equipment also increased owing mainly to strong sales of automotive electronics and cellular phones, although sales of fixed-line telephones and facsimile machines decreased.

With respect to this segment, profit increased from 83 billion yen for fiscal 2003, to 129 billion yen for fiscal 2004. This increase was attributable mainly to higher sales in digital AV equipment, cellular phones and car electronics equipment, as well as positive effects of cost rationalization efforts.

Sales of Home Appliances increased 2.1% to 1,223 billion yen. Certain seasonal products recorded sales declines in Japan, but these were offset by solid sales of products such as washing machines, dishwashers and ventilation fans.

Profit in this segment rose 16.6% from 45 billion yen for fiscal 2003, to 53 billion yen for fiscal 2004. This increase was due mainly to the successful introduction of new value-added products and overseas sales growth, combined with the effects of various rationalization efforts.

Sales of Components and Devices decreased 2.9% to 1,660 billion yen. While semiconductor sales recorded solid gains, led by system LSIs for digital AV equipment, sales declines in general components and electronic tubes led to lower sales overall in this segment.

With respect to this segment, profit increased from 31 billion yen for fiscal 2003, to 50 billion yen for fiscal 2004, owing largely to positive effects through the increased plant operating rate on higher sales in semiconductors, which more than offset the negative effects of decreased sales and price declines in general components and certain other product lines.

Sales of JVC were 819 billion yen, down 3.8% from the previous year. Despite sales increases of flat-panel TVs and DVD recorders, overall sales of consumer electronics in Japan and the Americas declined, particularly in such products as CRT TVs and VCRs.

With respect to this segment, profit increased from 22 billion yen for fiscal 2003, to 25 billion yen for fiscal 2004, owing to such factors as a reduction in materials procurement costs and a decrease in personnel and other fixed costs, despite the decrease in sales and the effects of price declines.

Sales in the Other segment were 949 billion yen, up 15.8% from the previous year. FA equipment, especially modular placement machines increased overseas.

With respect to this segment, profit increased from 13 billion yen for fiscal 2003, to 15 billion yen for fiscal 2004, owing to sales increases of FA equipment.

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Year ended March 31, 2003 compared with 2002

(1) Sales

Consolidated net sales for fiscal 2003 increased 4.6% to 7,402 billion yen from 7,074 billion yen in the previous year. The business environment during fiscal 2003 was characterized by slow economic growth and persistent instability. Amid such an environment, Matsushita introduced 88 strategic V-products in Japan and overseas. The Company also implemented comprehensive Groupwide business and organizational restructuring, launching a new business domain-based management structure in January 2003 to accelerate the Company s growth strategy. As a result of these initiatives, consolidated sales marked gains, led by video and audio equipment in the AVC Networks category and products in the Components and Devices category, with both categories benefiting from the success of V-products. An upward turn in sales of the Home Appliances category was also a positive factor.

Domestic sales increased 4.2% to 3,454 billion yen, with growth achieved in all major product categories. The AVC Networks category, especially video and audio equipment, and the Components and Devices category, especially devices for digital AV equipment, led the sales increases in Japan. Overseas sales were 3,948 billion yen, up 5.0% when translated into yen and up 4.3% on a local currency basis, with sales increases recorded in all major product categories, except for information and communications equipment of the AVC Networks category.

(2) Other Revenues (Revenue excluding Net Sales)

Other revenues include interest income, dividends received and other income. Of these, interest income decreased 35.2% to 22 billion yen, and dividends received also decreased 45.2% to 5 billion yen. Other income increased 19.4% to 65 billion yen due mainly to a gain from the sale of Panasonic Disc Services Corporation.

(3) Costs and Expenses

Despite the increase in net sales, cost of sales remained mostly flat, increasing only 0.2% to 5,324 billion yen, and selling, general and administrative expenses edged down 0.5% to 1,952 billion yen. Meanwhile, interest expense decreased 27.2% to 33 billion yen, owing to a reduction in the Company s borrowings. Other deductions also decreased 70.2% to 116 billion yen, reflecting substantially reduced restructuring charges compared with the previous fiscal year. Other deductions in fiscal 2003 include 12 billion yen expensed as additional retirement allowances for early retirement programs of a domestic subsidiary and a write-down of 53 billion yen on investment securities. The expenses for these early retirement programs were paid or settled during fiscal 2003 and no liability existed as of March 31, 2004. In the previous fiscal year, Matsushita implemented aforementioned Companywide structural reforms to increase profitability and efficiency. In the process of these structural reforms, the Company incurred other deductions of 164 billion yen related to employment restructuring programs, such as additional retirement allowances for special early retirement programs, and 86 billion yen related to business restructuring expenses, such as impairment losses and other expenses associated with the closure or integration of several manufacturing locations. The expenses for these activities were paid or settled through fiscal 2003 and no liability existed as of March 31, 2004. The Company also recorded a write-down of 92 billion yen on investment securities during fiscal 2002. (For further details, see Notes 5, 7 and 15 of the Notes to Consolidated Financial Statements.)

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(4) Income (Loss) before Income Taxes

As a result of the above-mentioned factors, income (loss) before income taxes turned to an income of 69 billion yen, compared with a pretax loss of 538 billion yen in fiscal 2002.

(5) Provision for Income Taxes

Provision for income taxes amounted to an expense of 71 billion yen, compared with a benefit of 53 billion yen in the previous year. Its ratio to income (loss) before income taxes increased to 103.4% of pretax income, from 9.9% of pretax loss a year ago. This increase is caused mainly by adjustments of net deferred tax assets to reflect the reduction in the statutory income tax rate due to revisions to local enterprise income tax laws on the introduction of a new pro-forma standard taxation system in Japan, as well as an increase in valuation allowance allocated to income tax expenses.

(6) Minority Interests

Minority interests increased to 6 billion yen for fiscal 2003, compared with a negative 57 billion yen in fiscal 2002, reflecting the earnings improvements or a turnaround from losses of several subsidiaries.

(7) Equity in Earnings (Losses) of Associated Companies

Equity in earnings (losses) of associated companies decreased to a loss of 12 billion yen, from the previous year s profit of 59 million yen, due mainly to losses of certain associated companies.

(8) Net Income (Loss)

As a result of all the factors stated in the preceding paragraphs, the Company recorded a net loss of 19 billion yen for fiscal 2003, compared with a net loss of 428 billion yen in the previous fiscal year.

(9) Results of Operations

Results of operations by business segment for fiscal 2003, as compared with fiscal 2002, were as follows*:

* As mentioned above, the Company changed its business segment classifications in fiscal 2004. Accordingly, the following prior year figures are presented on a restated basis to reflect this change.

	Yen (billions)		
	2003 (Restated)	2002 (Restated)	Percent change
Sales:			
AVC Networks	3,668	3,509	4.5%