

# Risk Factors

Once a year, Matsushita implements a Groupwide risk assessment survey to identify potential risks in an integrated and comprehensive manner. By identifying, assessing and evaluating risks according to priority, Matsushita specifies risks related to the Corporate Headquarters, business domain companies and Group affiliates, takes countermeasures that correspond to the materiality of each risk, and seeks continuous improvements through the monitoring of the progress of such countermeasures.

Primarily because of the business areas and geographical areas where it operates, and the highly competitive nature of the industry to which it belongs, Matsushita is exposed to a variety of risks and uncertainties in conducting its businesses, including, but not limited to, the following. These risks may adversely affect Matsushita's business, operating results and financial condition. This section includes forward-looking statements and future expectations as of the date of this annual report.

## **Risks Related to Economic Conditions**

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

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

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

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

### **Interest rate fluctuations may adversely affect Matsushita's financial condition, etc.**

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

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

Matsushita holds mostly Japanese stocks as part of its investment securities. The value of these stocks may drop substantially due to economic conditions or other factors, resulting in

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

## **Risks Related to Matsushita's Business**

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

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

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

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

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

One of Matsushita's business strategies is business expansion in overseas markets. In many of these markets, Matsushita may face risks generally associated with international manufacturing

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

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

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

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

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

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

Matsushita's future success depends largely on its ability to attract and retain certain key personnel, including scientific,

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

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

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

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

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

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

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

## **Risks Related to Matsushita's Management Plans**

Matsushita is implementing its new mid-term management plan, called the "GP3 plan" (announced on January 10, 2007) for the three-year term ending March 2010. In line with its twin corporate visions of "contributing to realizing a ubiquitous networking society" and "coexistence with the global environment," Matsushita aims to earn the support of all its stakeholders worldwide by sustaining growth through continued innovation and ensuring sound business activities on a global basis. Due mainly to the various risk factors described in this section, Matsushita may not be successful in achieving all the goals set out in its mid-term management plan. In addition, Matsushita may not be able to improve efficiency or realize growth through these measures due to the increased costs arising from unexpected additional reorganization or restructuring, improper allocation of operational resources or other unpredictable factors. Also, Matsushita announced on April 27, 2007, its annual forecast and major initiatives for the year ending March 31, 2008. However, Matsushita may not be successful in achieving all the targets or in realizing the expected benefits because of various external and internal factors.

## **Risks Related to Legal Restrictions and Litigations**

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

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

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

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

brought against Matsushita by third parties. In such cases, Matsushita may incur significant expenses for such lawsuits. Furthermore, Matsushita may be prohibited from using certain important technologies or liable for damages in cases of admitted violations of intellectual property rights of others.

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

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

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

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

### **Leaks of confidential information may adversely affect Matsushita's business**

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

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

Matsushita is subject to governmental regulations in Japan and other countries in which it conducts its business, including governmental approvals required for conducting business and

investments, laws and regulations governing the telecommunications businesses and electric product safety, national security-related laws and regulations and export/import laws and regulations, as well as commercial, antitrust, patent, product liability, environmental laws and regulations, consumer protection, financial and business taxation laws and regulations, and internal controls regulations due to the implementation of stricter laws and regulations and stricter interpretations.

However, to the extent that Matsushita cannot comply with these laws and regulations from technical and economic perspectives, or if they become stricter and Matsushita determines that it would not be economical to continue to comply with them, Matsushita would need to limit its activities in the affected business areas. In addition, these laws and regulations could increase Matsushita's operating costs.

### **Risks Related to Disasters or Unpredictable Events**

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

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

### **Other Risks**

#### **External economic conditions may adversely affect Matsushita's pension plans**

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

#### **Some long-lived assets may not produce adequate returns**

Matsushita has many long-lived assets, such as plant, property and equipment, and goodwill, that generate returns. The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining

recorded asset values. If these long-lived assets do not generate sufficient cash flows, impairment losses will have to be recognized, adversely affecting Matsushita's results of operations and financial condition.

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

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

#### **Financial results and condition of associated companies may adversely affect Matsushita's operating results and financial condition**

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

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

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