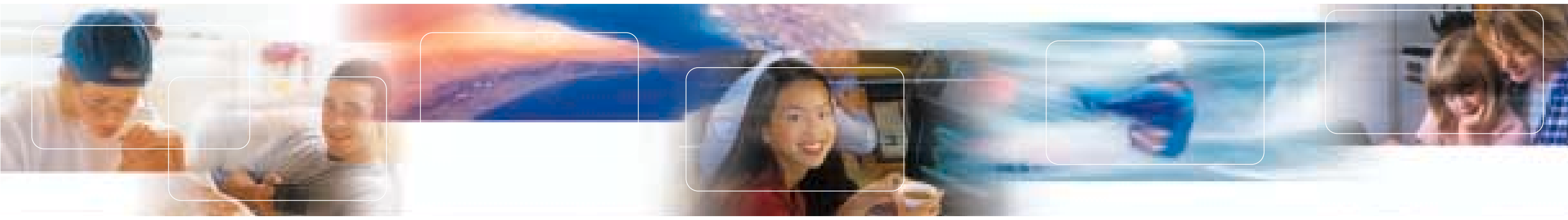


VICTOR COMPANY OF JAPAN, LIMITED ANNUAL REPORT 2000

APRIL 1999–MARCH 2000

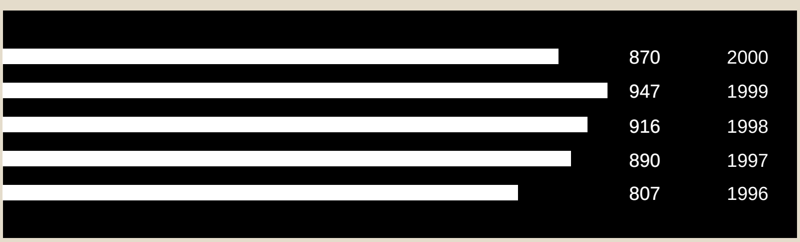
Financial Highlights

Victor Company of Japan, Limited

	Millions of yen			Thousands of U.S. dollars (Note A)
	2000	1999	1998	**2000**
Net sales	**¥870,235**	¥946,617	¥916,306	**$8,209,764**
Overseas	**545,316**	566,551	526,285	**5,144,491**
Domestic	**324,919**	380,066	390,021	**3,065,273**
Net loss	**(5,341)**	(8,315)	(4,703)	**(50,387)**
	Yen			U.S. dollars (Note A)
Per share:				
Net loss	**¥ (21.0)**	¥ (32.7)	¥ (18.5)	**$ (0.20)**
Cash dividends (Note B)	**—**	5.0	7.0	**—**
	Millions of yen			Thousands of U.S. dollars (Note A)
Stockholders' equity	**¥199,164**	¥232,162	¥243,086	**$1,878,906**
Total assets	**540,359**	588,001	624,050	**5,097,726**
Capital expenditures	**24,336**	28,815	36,651	**229,585**
Depreciation & amortization	**28,590**	30,513	24,008	**269,717**

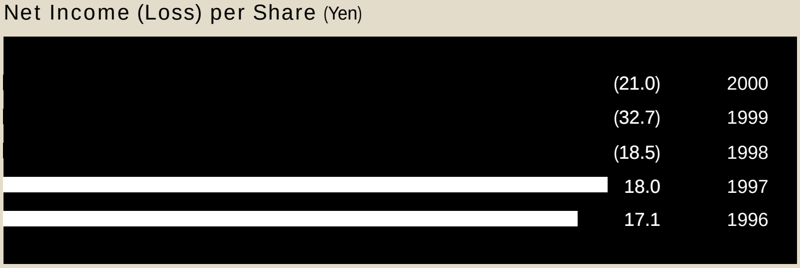
Notes: A. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106 to U.S.$1, the approximate rate prevailing on March 31, 2000.
B. Cash dividends represent amounts applicable to respective years.

Net Sales (Billions of yen)



Net Income (Loss) (Billions of yen)

Net Income (Loss) per Share (Yen)



Contents

Fiscal 2000: Aiming to Lessen Dependence on the Low Profit Margin Business of Consumer Electronics

To our shareholders and investors: I am pleased to present this report on our current position, our efforts in reinforcing management and our objective of achieving ¥1 trillion in consolidated net sales by fiscal 2003.

Fiscal 2000 Results During fiscal 2000, ended March 31, 2000, Victor Company of Japan, Limited (JVC) recorded consolidated net sales of ¥870,235 million (US$8,209.8 million), an operating loss of ¥8,019 million (US$75.7 million) and a net loss of ¥5,341 million (US$50.4 million), results substantially below performance estimates stated in last year's annual report.

Since I was appointed president, we have advanced efforts toward reinvigorating JVC in line with the medium-term management plans "Victor Vision" and "Re-Value 21." From these efforts, we determined that securing high profits is difficult in the extremely competitive field of consumer electronics, and we must realign the business structure by expanding professional systems, components and software operations, which have higher profit margins than consumer electronics.

However, growth in these operations has stagnated, and the revenue structure—dependent on consumer electronics operations—remains virtually unchanged. Domestic sales in consumer electronics operations were stagnant due to the economic recession in Japan. Although sales were favorable overseas, results were diluted by a corporate structure swayed by currency fluctuations.

The primary factor behind the fall in revenue during fiscal 2000 was the adverse impact of currency fluctuations. On a local currency basis, however, consumer electronics achieved strong growth. Overseas net sales grew 15% overall, with gains of 12% in North America, 18% in Europe and 19% in Asia. Consumer electronics accounted for 67.2% of total net sales, an increase of 2.5 percentage points, owing to strong demand overseas. Overseas sales represented 62.7% of total net sales, up 2.8 percentage points. As a result, consolidated net sales for the fiscal year under review, after removing the impact of currency fluctuations, would have increased 2.0%, compared with actual negative growth of 8.1%.

Fiscal 2001 Objective: Reinforce Management by Strengthening High-Value-Added Digital and Networking Products

Movements in currency exchange rates also influenced profitability. Expenses were recorded, applying downward pressure on profits, as a result of reviewing unprofitable businesses in fiscal 2000. Major expenses included the liquidation of projector operations at a subsidiary in the United States, a switchover to high-value-added TV models at a plant in the United Kingdom and investment to strengthen the structure of a sales subsidiary in Brazil. Although personnel expenses declined on account of progress in reducing personnel in Japan, expenses were incurred for special severance payments.

Efforts in Fiscal 2001 Due to the downturn in performance in fiscal 2000, JVC is prioritizing efforts to bolster the soundness of management and eliminate losses. First, the Company will promote improvements to profit margins by expanding its high-value-added digital and networking product lineup. Fiscal 2001 is expected to be a year of significant advances in digitization and networking in Japan, as broadcast satellite (BS) digital broadcasting will begin in December 2000 and the household penetration rate of PCs is projected to exceed 40%. Targeting these growth markets, JVC aims to boost sales of digital and networking products.

In the current fiscal year, JVC will focus efforts on mini digital video (DV) camcorders, which grew 67% on a unit base in fiscal 2000. Including professional DV, our goal is net sales of ¥91 billion, an increase of 21% compared with the previous fiscal year. The Company is bolstering production capacity more than 60% in line with the objective of increasing its mini DV camcorder share of the world market from 27% to 35%. The Company will also concentrate efforts on TVs and projectors that employ Direct-Drive Image Light Amplifier (D-ILA) devices, which were developed by JVC and realize bright, high-definition images; such optical discs as CDs and DVDs; D-VHS,

Digital & Network Product Lineup JVC Focuses in Fiscal 2001

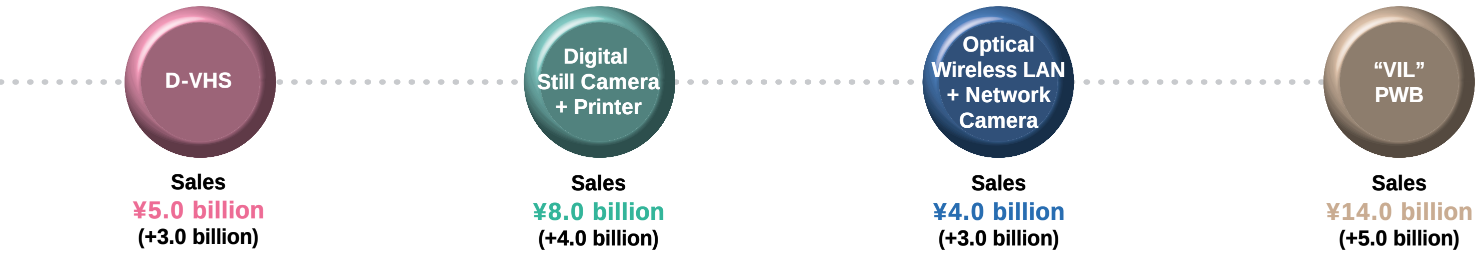
Digital Video Camcorder	Image Light Amplifier	Optical Disc	Digital Media
Sales ¥91.0 billion (+16.0 billion)	Sales ¥13.0 billion (+6.0 billion)	Sales ¥47.0 billion (+7.0 billion)	Sales ¥10.0 billion (+2.0 billion)

which enables digital recording and also keeps compatibility with conventional VHS; and high-density build-up multilayer printed wiring boards ("VIL" PWBs), which grew 81% in fiscal 2000. JVC expects an increase in profits during the current term due to lower costs of sales and higher revenues realized on a rise in the percentage of high-value-added products to net sales.

JVC introduced a "Company-in-Company" system to strengthen its digital and networking products. By business field, we established the AV & Multimedia Company, Components and Device Company, Entertainment Software Company and Media Products Company. With the transfer of broad authority, each company is able to swiftly execute strategies in development, production, marketing and customer service in accordance with their respective strengths, market trends and customer needs. With this structure, JVC aims to thoroughly improve workflow and efficiency while targeting autonomous management and maximum profitability. The Company aims to improve profitability in professional electronics operations by increasing efficiency by integrating divisions. To promote marketing strategies tailored to overseas regions, JVC will launch an Americas Company, Europe Company and Asia & Middle East Company. We are examining developments in China while monitoring market trends.

On introducing the "Company-in-Company" system, we divided the Research and Development Division into the Corporate Laboratory and Company Laboratories. By enhancing the flow of research and development results into business, we plan to increase profitability. Engineers, formerly assigned to divisions by product line, now develop products in Company Laboratories. The Corporate Laboratory focuses on medium- and long-term research and development projects that share common themes in all companies.

While reorganizing to enhance digital and networking products, JVC is strengthening overseas production



Fiscal 2003 Objective:
Revitalize the Profit Structure and
Achieve ¥1 Trillion
in Consolidated Net Sales

during the current fiscal year to increase profitability. The Company will transfer production of VHS-C camcorders, TV components and professional system cameras overseas in an attempt to reduce cost of sales by increasing overseas production as a percentage of cost of sales from 53% to 60%.

To increase profits, the Company is proceeding with a program to reduce personnel to a 10,000-employee structure on a non-consolidated basis by March 2001. Although currency fluctuations are expected to adversely effect income during the current term, we anticipate an overall increase in profits due to the absence of a charge for restructuring subsidiaries in fiscal 2000. As a result, JVC forecasts net income of ¥3 billion in fiscal 2001.

Objectives for Fiscal 2003 Our mid-term objective is to achieve ¥1 trillion in consolidated net sales in fiscal 2003. Management has prioritized ROE and ROA as primary numerical targets in increasing asset efficiency. The major focus of our efforts is switching to a business structure with profit margins higher than that of consumer electronics, centered on components operations and entertainment operations. JVC will focus on fields of growth and promote the aggressive development of high-value-added products, aiming for consumer electronics, components and entertainment operations to each contribute 30% to operating income, with professional systems making up the remaining 10%.

We expect components operations to have a high operating profit margin. Demand is steadily rising for "VIL" PWBs targeting the mobile phone market. High-value-added deflection yokes are poised to further increase their share of the market. Amid progress in higher frequencies and more compactness in various equipment, Semiconductor Package Substrates, which mount unpackaged semiconductor chips on "VIL" PWBs, are also a promising product.

Entertainment operations are also likely to secure a high operating profit margin. With strengths in both hardware and software, JVC offers total content solutions through its broadcasting and distribution businesses, which provide services ranging from content to production support and systems, and through its lineup of digital

networking products for distributing content. We expect our music operations to expand through our alliance with Universal Music Group. The Company will reinforce image and video operations based on the anticipation of strong growth in demand for image content as media types and the number of channels increase.

In consumer electronics and professional systems, JVC will advance its digital and networking product lineup, and promote high-value-added products related to the concepts mobile, digital and networking. We will aggressively develop digital audio equipment, integrated home servers utilizing our strong points in D-VHS and hard disk drives (HDDs), and multimedia displays based on ILA technology. In addition, the Company will strengthen efforts in mobile networking. JVC will provide new added value by connecting such mobile terminals as mini DV camcorders, digital still cameras and mobile PCs—JVC's areas of expertise—through infrared wireless local area networks (LAN) and 5.2 GHz band radio wave communications technology.

In the networked society, JVC aims to be a corporation sensitive to user needs. Realizing through network-compatible products an environment where anyone, anywhere at anytime can acquire information in an optimal format, the Company aims to provide the information users need through content, services, solutions and networks.

With an eye on fields of growth, JVC plans to increase profit margins by rapidly releasing products that utilize the uniqueness and strengths of the Company. At the same time, we will strive to break through the ¥1 trillion net sales mark by fiscal 2003 in our aim to achieve outstanding growth in the 21st century.

We thank our investors, customers and associates for their continued support.

Takeo Shuzui

Takeo Shuzui
President

CONSUMER ELECTRONICS

We commemorate fiscal 2000 as the year we expanded our share of the audiovisual market and achieved double-digit growth in overseas markets, with the exception of South America.

Among our products, the mini DV camcorder showed the most remarkable growth. Backed by our reputation as a leading manufacturer constantly at the forefront of innovation in compactness and lightness as well as in improving quality and performance, our mini DV camcorder has increased its market share in countries around the world with total shipments exceeding two million units since its release five years ago. A mini DV camcorder released during the current fiscal year enhances system performance with the capability and simplicity to create video files and send video mail with a PC. Steadily growing as the number one product among its audiovisual product lineup, JVC boosted its digital camcorder production capacity 60% to 130,000 units per month with the goal of acquiring a 35% share of the world market during the current fiscal year. With solid demand for digital camcorder hardware as a foothold, we also plan to expand mini DV camcorder cassette tape sales. JVC is strengthening facilities so as to raise its present 14% mini DV camcorder cassette tape market share to 20% by the end of the current term.

In video, we will be primed for the emerging era of digital broadcasting with the release of D-VHS units with HS mode in Japan by the end of 2000 for recording high-definition (HD) transmissions via BS digital broadcasting with high-resolution image quality. With JVC leading technological development, D-VHS continues to gain acceptance throughout the world as it garners the support of prominent global hardware and software manufacturers. Applying hard disk technology and incorporating a HDD in video decks will improve accessibility dramatically. By introducing

DIGITAL VIDEO CAMCORDER (U.S. and Europe model)
This slim, high-quality image DVC is the first in the world able to create video files for e-mail with audio. The video files can then easily be sent with a PC.

D-VIDEO HOME SYSTEM (Europe model, not introduced in the U.S.)
D-VHS is the digital format for the 21st century, boasting image quality and storage capacity (21 hours of continuous recording). It employs codec for recording and playback of analog signals converted into digital signals. Backward compatibility is offered with VHS and S-VHS formats.

Providing Products That Enhance Consumer Lifestyles Through Digital Networking

such large-capacity combined media, we aim to strengthen the position of video decks as home servers.

The year 2000 marks a fundamental shift from analog TVs to large HD displays. JVC has expounded for a decade that the enlargement of TVs is a crucial element of home theaters. Our vision of the home audiovisual (AV) center is gradually becoming a reality. There has been a period of weak demand in Japan prior to the shift, as sales of TVs declined across the industry in 1999. This year, however, is the first year of full-scale BS digital broadcasting in Japan following such major events as the Group of Eight (G-8) summit and the Olympics, where test broadcasting is scheduled. The year 2000 is foreseen as the launching platform for large high-definition displays, with estimates of a total of ten million units sold by the start of digitization of terrestrial broadcasting in 2003. Last year, JVC released a large, thin, lightweight ILA TV model, which employs an ILA device developed by JVC. We also handle plasma display panels (PDP) and liquid crystal displays (LCD). JVC aims to aggressively develop marketing for high-definition displays, positioning them in a central role as displays for information appliances.

With an eye on the fast-growing DVD market, JVC will expand the scale of production fourfold compared with the previous fiscal year. We will begin making inroads in Asia, as DVD is backward compatible with the popular VCD format. The Company will offer all DVD disc media, including DVD-RAM, DVD-RW and DVD-R, and work to double production capacity amid projections of outstanding growth in demand mainly for image software.

As our digital product lineup nears completion ahead of the full-blown emergence of the digital era, we are making enhancements to system performance made possible by digitization, including the incorporation of I/O ports for communicating with various products and connecting with PCs. Last year, JVC introduced the mobile PC

ILA PROJECTION TV (Japan model)
The ILA Projection TV is a large 52-inch display that incorporates D-ILA hologram devices, which allow for unprecedented high luminance and high resolution in a lightweight (52 kg) and thin (45 cm) body.

DIGITAL THEATER SYSTEM
Our Digital Theater System combines a DVD player and six speakers that are easy to set up and operate for the enjoyment of high-quality images and sound.

Inter Link as a platform for connecting a variety of equipment. The Company will provide a way to link AV and information equipment by continuing to release new models in Japan.

JVC is forming a new organization as it begins to provide products compatible with digital networking. Eliminating the former business divisions organized by product, we established four business units that target needs arranged by customer lifestyle. Integrating video and TV operations, the Home AV Network Business Unit provides total AV entertainment solutions and digital household appliances for the living room. Fusing together audio and visual technologies, the Personal & Mobile Network Business Unit will develop personal and mobile AV entertainment operations. The Communication Network Business Unit will expand communications operations centered on peripheral equipment, and the Projection & System Network Business Unit will create a professional AV solutions business centered on D-ILA projector operations through the Company's innovative technologies.

As a cross-structural function of these business units, the Product Strategy Planning Office proposes product strategies that include systems to the Company Laboratory, which will develop core technologies high in system performance. As a pioneer of the new era, JVC launched several high-priority projects during the current term in an effort to create products that provide a new way of life. We will continue to offer a product lineup of various fashionable products, including skeleton-type portable MD players that target young adults, radio cassette players, video decks as well as VHS tapes and MDs.

MOBILE PC (Japan model)
The Mobile PC is a thin, lightweight handheld PC with a variety of original AV applications installed.

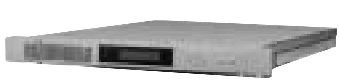
BLANK MEDIA
Our lineup of blank media is renowned for quality and reliability.

PROFESSIONAL ELECTRONICS

JVC has traditionally provided products essential to production at broadcasting stations including video cameras and video tape recorders (VTRs). Recently, the Company introduced encoders and decoders as a transmission system for digital broadcasting. Thanks to our marketing efforts, we became a provider of encoders and decoders to all of the eight BS stations in Japan that are to begin broadcasting in December. This achievement was made possible by products that maximize JVC strengths in high-quality image management and compression technology. Experiments in the digitization of terrestrial broadcasting have begun in ten locations in Japan, and five of those locations employ JVC products. The Company will advance technological development and conduct aggressive marketing in anticipation of an increase in production companies in line with the emergence of full-scale digital terrestrial broadcasting and heightened demand for content, as well as the expansion of overseas markets.

As communications networks grow in capacity, the transmission of large volumes of data for high-quality images is expected to sharply increase in fields beyond broadcasting. Encoders and decoders, which compress and decompress data, are likely to be employed on both ends of transmissions. By slightly changing the specifications of encoders and decoders for broadcasting, we will support the transmission of data between corporate bases, schools, production companies and broadcasting stations.

Used in production, demand for the D9 (Digital-S series)-compliant professional camera is strong mainly overseas. A total of 20,000 units are employed in 350 stations around the world. Projecting growth in content creation, JVC will aggressively promote the PROFESSIONAL DV series—high-performance digital camcorders that are light and easy to use. Widely received for their functionality in connecting directly to networks, sales of the



HDTV DECODER
The HDTV Decoder boasts the world's smallest size, compatible with EIA rack 1U. It is compatible with 1080i, 720P, 480P and 480i HDTV formats.

PROFESSIONAL DV CAMCORDER
The lightweight mini DV format professional camcorder features functions ranging from recording to editing and playback in a compact body.

Positioning Our Leading Products in Anticipation of Full-Scale Digital Broadcasting

PROFESSIONAL DV series increased primarily in the United States from the latter half of last year. Ensuring volume in the current term, JVC plans to increase market share by enhancing price competitiveness through cost reductions achieved from overseas production and mass production.

Converters are a product expected to grow substantially in the near future. At the onset of the digital era, insufficient content has become a concern. As a way to continue using accumulated content, we will aggressively promote converters that effortlessly convert conventional quality images to high-definition quality images, and, as long as traditional broadcasting continues, converters that convert high-definition (1080i/720p) quality images to standard definition (480i/480p) quality images.

Content management and databases are indispensable in effectively utilizing content at broadcasting stations. Employing changer technology developed for karaoke machines, DVD archives provide a solution to content management by creating a database of up to 600 stored DVDs. DVD archives have attracted attention from organizations that accumulate large volumes of data, including libraries and hospitals in addition to broadcasting stations.

JVC is also nurturing promising products related to wireless optics. Latent demand to change from wired to wireless homes and offices is strong. We are advancing research and development in both optical and radio technologies. JVC is focusing research and development that will make the home network a reality, namely wireless optical technology, which possesses higher frequencies than radio waves, thus affording a higher potential transmission capacity. Convenience will increase significantly, as 10 MB transmission capacity has already expanded to 100 MB.

D-ILA PROJECTOR
This D-ILA Projector boasts true S-XGA graphics at 2000 ANSI lumens in addition to the full range of standard professional specifications.

NETWORK CAMERA
This network camera is compatible with Web servers on the Internet and LANs and WANs as well.

COMPONENTS & DEVICES

In addition to mainstay deflection yokes, the Components and Devices business has won the confidence of clients for its product lineup comprising “VIL” PWBs, disk drive motors for computer peripherals. External sales of 89% are expected to rise even further, led by growth in these promising fields. The revenue and profit structure is becoming more stable with these three business pillars as a foundation.

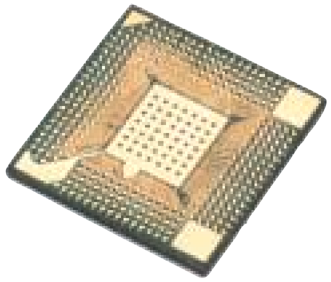
Featuring compactness, multiple functionality and compatibility at high frequency, “VIL” PWBs are attracting attention in accordance with digitization and mobilization as seen in the rapid diffusion of mobile phones. Amid projections of growth in mobile phone shipments from 280 million units in 1999 to 640 million units in 2001, production of “VIL” PWBs is forecast to grow 80% from ¥79 billion in 1999 to ¥142 billion in 2000, according to Japan Printed Circuit Association (JPCA) estimates.

Our “VIL” PWBs are widely acknowledged for their highly reliable free inter-layer connections made possible with innovative laser processing technology. Our “VIL” PWBs are employed in the digital mobile phone components of Motorola, Inc., one of the world’s three largest mobile phone manufacturers, and shipments have begun to a second company. Manufacturers in Asia are expected to enter full-scale production of mobile phones, and JVC is advancing preparations with an eye on that market.

“VIL” PWBs created a wave of new products as demonstrated by JVC’s mini DV camcorder, which have been well received throughout the world. Semiconductor Package Substrates, which directly connect bare integrated circuits (ICs) and “VIL” PWBs, also have the potential to create new products and markets. Semiconductor Package Substrates are forecast to contribute to greater speeds and densities of a wide range of devices, as they handle signals faster than conventional package substrates in products that require high frequencies and digital processing.

Compatible with mobile 1/2-inch height floppy disk drives (FDD), our FDD motor is another component targeted at growing markets. The world market for 1/2-inch height FDD motors is projected to increase 33% from 24.3 million units in 1999 to 32.4

“VIL” PWB (HIGH-DENSITY BUILD-UP MULTILAYER PRINTED WIRING BOARD)
High mounting density is realized with the combination of two-layer build-up and laser-processed blind holes for connections.



SEMICONDUCTOR PACKAGE SUBSTRATE
Through original fine “VIL” processing technology, JVC is able to produce high-density substrates applicable to high-frequency digital equipment.

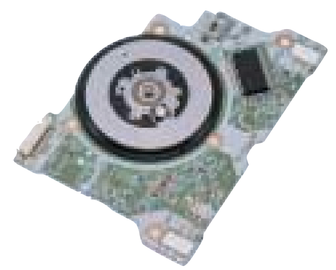
Business Structure Stabilizing on Growth in "VIL" PWBs and Motors for Computer Peripherals

million units in 2001. Our FDD motors are easy to use, reducing power consumption by 80% while preserving high startup rotation torque. Employment in various applications, primarily notebook PCs, which demand energy conservation, expanded our share of the world market to 60% for the component. In other motor operations, we are positioning laser beam printer (LBP) motors as a promising product, which are expected to grow substantially. JVC is making a firm push to convert its HDD motors, for which demand is increasing while profitability is declining, to high-value-added devices.

Our world market share for deflection yokes remained unchanged during the fiscal year under review. In 1999, home electronics manufacturers continued to withdraw from CRT monitor operations at their domestic plants. Although sales fell during the fiscal year under review, we made progress in developing new customers. JVC attained a 60% share of the free market, excluding the market comprising manufacturers that do not engage in external procurement, allowing the Company to maximize the merits of mass production in deflection yokes operations. In the display monitor market, though LCDs are projected to increase in market share by 10% to nearly 30% of the total market by 2003, the CRT monitor market is forecast to expand as much as 7% annually during the same period.

Despite expectations of growth, the downward spiral of prices is not expected to stop. JVC will continue to develop the business, focusing on high-value-added deflection yokes through proactive proposals to customers.

Our market share for deflection yokes is maintained through a system that swiftly responds to frequent design changes by locating manufacturing bases near customers after acquiring their unwavering trust on the prerequisite conditions of the components industry—quality, lead time and cost. Another factor is our highly rated technological development capabilities, which develop proposals a step ahead of the competition for the benefit of our customer's engineering processes. These factors behind the success of our deflection yokes hold true in all component businesses. With plans to locate production centers near customers in the future, JVC will engage in overseas production of "VIL" PWBs to create a business structure resilient to currency fluctuations.



FDD MOTORS
JVC's floppy disk drive motors realize compactness, a low profile and high efficiency through the development of custom ICs for saving power and the employment of new indexing.

DEFLECTION YOKES
With a unique design, JVC's deflection yokes deliver high quality and high performance. Compatible with high-speed scanning, our deflection yokes feature an advanced environmental design and have been highly evaluated for computer display monitors.

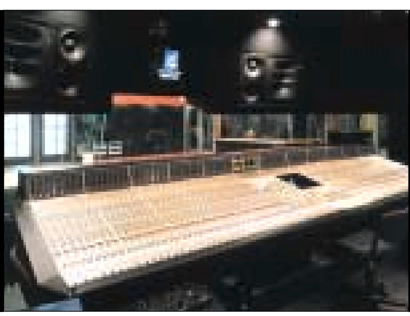
ENTERTAINMENT

With a focus on digitization in entertainment operations, JVC promotes expanding content and acquiring rights to works. Through an alliance with the world powerhouse Universal Music Group in March 2000, JVC joined the top echelon of the music industry in the Japanese market. Content was enhanced in October 1999 with the acquisition of a controlling stake in Teichiku Entertainment, Inc., which is a leader in *enka*, traditional Japanese songs. BS digital broadcasting of an audio channel scheduled to start in December 2000 presents an excellent opportunity for JVC to create programming for the audio channel and market the Company’s abundant selection of music titles.

The Japanese music market is gradually bipolarizing into works that become hit products and works tailored to the diversified tastes of listeners in various music genres and titles. Reinforcing its music title development structure in this operating environment, JVC formed a strategic business alliance with Universal Music Group based on the mutual understanding of the necessity to increase efficiency and lower costs by integrating marketing, production and distribution and utilize the benefits of scale. In May 2000, the production and advertising functions of Universal-Victor, Inc. were integrated with Universal Music K.K., strengthening the production environment further, and Victor Entertainment, Inc. was consigned to market all Universal Music products. Becoming a leading coalition in the music field in Japan, we significantly improved our capability to influence the industry.

In response to individual needs, JVC is promoting music that stimulates latent demand through the launch of new recording labels. We launched the Rewind Recordings label in a tie-up with a street music production company, and the AOSIS label through Victor Entertainment, Inc. to target the market for mid-age and elder-age groups, which have been slow to develop in Japan. In production, earnings and expenses according to work are coming under control after years of endeavors as producers selectively concentrate on promising artists.

AUDIO CD
“Viva La Revolution” by Dragon Ash, one of the many hit albums from Japanese artists in 1999.



AOYAMA STUDIO
This is the control room of Studio 402 inside Victor Entertainment Inc.’s Aoyama Studio, one of the prominent music studios in Japan.

Expanding Content and Bolstering Acquisition of Rights

Monitoring trends in Internet music distribution, we are accelerating the acquisition of rights to works. In Japan, there are numerous cases where music production companies use their considerable influence to control master recording rights. In particular, the room to maneuver between recording companies and independent artist production companies is shrinking. JVC has never handled works the Company cannot obtain rights to. From now on, however, we plan to acquire a variety of rights, including rights that permit the transmission of music titles. To accomplish this objective, we entered artist management operations and have already recruited promising new talent.

Monitoring trends in Internet music distribution, based on knowledge of content and listener tastes, JVC is aiming to create a music distribution system as a new business able to secure suitable profits, which is essential to fostering the music business. JVC has taken the initiative in creating a business model for music distribution by starting trials in cooperation with NTT Communications Corporation and other technology companies.

JVC views the rapid growth in the Internet, BS digital broadcasting and such new media as DVD as an opportunity to expand business. Consigned to sell the works of three major studios comprising Universal Studios, Paramount Pictures and 20th Century Fox, our video sales in Japan enjoy a leading share of the business. With its core business in buying rights to international movies, theatrical distribution and packaging prerecorded videos, the visual software production division controls the rights to titles it developed and produced, and plans to expand operations by making inroads in Japanese movies and TV program production. As the scale of production increases financially, we are working to minimize risks and focus on superior works, as we are doing in music operations.

We are also aggressively advancing game operations. JVC sells software for all game machine platforms, and software created and licensed overseas by the Company has been highly rated.

MEDIA

One strength of JVC media operations is its tailored services for providing solutions in every aspect of media production. With a foundation in manufacturing all types of media, including CDs and DVDs, JVC is a media department store with a support structure for post-production and fulfillment operations. Responding to customer needs, our post-production operations

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Growth Supported by the Age of Content

provide packaging services for editing and creating post-production materials, and our fulfillment operations offer services for peripheral work generated in content creation, including distribution, delivery, warehousing and printing services. JVC receives the support of its customers for its efforts to provide exciting services in packaged media for the enjoyment of culture.

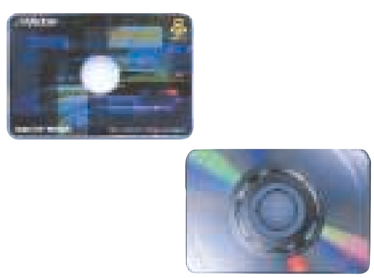
Last year, one of our companies in the United States experienced extraordinary growth. JVC Disc America Co., which develops its own customers, achieved sales and profits that exceeded initial expectations on the back of the favorable U.S. economy and the hit songs of its client recording companies. Our fulfillment operations continue to grow as one of the top three businesses in the fulfillment industry in the United States, and we plan to expand the business further. We commenced fulfillment operations in the United States in 1996, when the PC penetration rate was 40%. Operations were expanded to provide comprehensive services for delivering PC games created by individuals to customers, for which a distribution infrastructure did not exist. In Japan, the penetration rate of PCs is expected to exceed 40% this year, leading to a period of substantial growth for fulfillment operations.

In the audio CD media market in Japan, three powerful alliances are forming, one including JVC, in accordance with restructuring in the music industry. JVC's market share in the industry will increase during the current term due to the Company receiving consignment of Universal Music Group's media production operations.

The spread of PCs is expected to spur growth in the CD market. With the coming age of the Internet in the United States, a demand for CDs is anticipated to increase as major Internet service providers distribute connection software on large volumes of CDs as a means to promote sales. Music distribution via the Internet is creating demand for CD purchases as mid-age and elder-age groups, which were not a promising market until now, listen to music samples over networks. This year, shipments of PCs that incorporate CD-R drives, now at approximately 15% of the total penetration rate, will grow substantially, stimulating significant gains in growth of CD-R/RW media.

Released at the beginning of the Internet age, "hybrid cards" combine both read-only-memory (CD-ROM) and recordable (CD-R) areas on a single disc. Hybrid cards are being promoted for applications that include electronic commerce and the clinical records of hospitals. Demand for conventional disc-shaped hybrid discs is expected to increase as a media for recording game software results.

AUDIO CDS, VIDEO CASSETTES, DVDS AND COMPUTER GAMES
JVC is involved in every major media for entertainment, including content creation, mastering and distribution.



HYBRID CARDS (Japan model)
JVC holds a patent to this card-shaped optical disc, which features areas dedicated to both playback and recording. It can be used in a normal CD-ROM drive.

Takeo Shuzui
President

Hirotada Sasaki
Senior Managing Director

Hiroki Shimizu
Senior Managing Director

Yasushi Ebi
Managing Director

Takao Aida
Managing Director

Masato Yamauchi
Managing Director

Hajime Takashima
Managing Director

Motoo Nishimura
Managing Director

President

Takeo Shuzui*

Senior Managing Directors

Hirotada Sasaki*
System Business; General Manager,
Professional Products, Systems & Network Sector;
President, HITS Laboratories, Inc.

Hiroki Shimizu*
President, AV & Multimedia Company;
VHS Standard Center

Managing Directors

Yasushi Ebi*
Domestic Consumer Marketing Div., Market Creation Div., Logistics and Recycle Business Promotion.

Takao Aida*
Corporate Accounting & Finance, Corporate Facility Management, Information System Development, Management Administration, International Administration.

Masato Yamauchi*
Personnel and General Affairs, Legal & Intellectual Property, Customer Satisfaction;
General Manager, Personnel and General Affairs Div.

Hajime Takashima
Engineering, New Business Development, ILA Device Business Dept., Production Engineering Div., Total ILA Business Development and Promotion;
General Manager, Technology Development Div.

Motoo Nishimura
President, Entertainment Software Company;
President, Victor Entertainment Inc.

Directors

Hideo Aiso

Shuji Kurita
Professional Products & Systems Marketing Div., World Cup Business Promotion and Corporate Communications.

Fusao Kishi
General Manager, IT Business Promotion Office;
Environmental Administration.

Itaru Ozaki
Executive Vice President, AV & Multimedia Company;
General Manager, International Sales Div., AV & Multimedia Company;
Business in China

Noritsugu Enami
General Manager, Consumer Marketing Div.

Masatoshi Hirabayashi
Executive Vice President, AV & Multimedia Company;
General Manager, Personal & Mobile Network Business Unit, AV & Multimedia Company

Eiichi Tsuchiya
Executive Vice President, AV & Multimedia Company;
General Manager, Home AV Network Business Unit, AV & Multimedia Company.

Shigeharu Tsuchitani
General Manager, Corporate Planning Headquarters;
Overseas Support, Design Center

Corporate Auditors

Masani Hoshino
Yasuo Omori
Makoto Matsuo
Yukihiro Tanii

*Representative Director

(As of July 2000)

FIVE-YEAR SUMMARY

Victor Company of Japan, Limited
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note A)
	2000	1999	1998	1997	1996	**2000**
For the year						
Net sales	**¥870,235**	¥946,617	¥916,306	¥890,373	¥806,551	**$8,209,764**
Overseas	**545,316**	566,551	526,285	484,394	409,358	**5,144,491**
Domestic	**324,919**	380,066	390,021	405,979	397,193	**3,065,273**
Cost of sales	**600,506**	642,140	629,859	607,383	548,728	**5,665,151**
Selling, general and administrative expenses	**277,748**	305,698	276,431	271,482	252,815	**2,620,264**
Income (Loss) before income taxes and minority interests	**6,088**	(3,671)	6,223	12,139	10,148	**57,434**
Income taxes	**11,295**	4,466	10,796	7,141	3,135	**106,557**
Net income (loss)	**(5,341)**	(8,315)	(4,703)	4,586	4,343	**(50,387)**
Depreciation & amortization	**28,590**	30,513	24,008	27,212	28,475	**269,717**
Capital expenditures	**24,336**	28,815	36,651	31,552	30,479	**229,585**
R&D expenditures	**43,351**	41,660	37,649	39,563	38,500	**408,972**

	Millions of yen					Thousands of U.S. dollars (Note A)
At year-end						
Working capital	**¥127,709**	¥142,628	¥124,395	¥160,869	¥123,357	**$1,204,802**
Stockholders' equity	**199,164**	232,162	243,086	250,418	247,891	**1,878,906**
Total assets	**540,359**	588,001	624,050	603,920	561,654	**5,097,726**

	Yen					U.S. dollars (Note A)
Per share						
Net income (loss)	**¥ (21.0)**	¥ (32.7)	¥ (18.5)	¥ 18.0	¥ 17.1	**$ (0.20)**
Cash dividends (Note B)	**—**	5.0	7.0	7.0	5.0	**—**

Notes: A. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106 to U.S.$1, the approximate rate prevailing on March 31, 2000.
B. Cash dividends represent amounts applicable to the respective years.

FINANCIAL CONTENTS

Analysis of Income For the fiscal year ended March 31, 2000, JVC posted consolidated net sales of ¥870,235 million (US$8,209.8 million), a decrease of 8.1% compared with the previous fiscal year. In Japan, total sales fell 14.5%, adversely affected by lower prices, a slowdown in consumer spending and weak private capital investment. Overseas, total sales decreased 3.7% due to the strong yen despite favorable demand in Europe and the United States.

By category, **sales of Consumer Electronics** declined 4.5% to ¥584,934 million (US$5,518.2 million), accounting for 67.2% of net sales, up 2.5 percentage points. Overseas sales of Consumer Electronics, which make up 51.2% of net sales, achieved strong sales on a local currency basis, buoyed by robust sales of DVC and DVD players. Overseas sales of the segment grew 15% overall, with sales increasing 12% in North America, 18% in Europe and 19% in Asia on a local currency basis. Adversely affected by currency fluctuations, however, overseas sales in the segment declined 2.8% compared with the previous fiscal year. In Japan, such high-value-added products as DVC and D-VHS grew in terms of units sold. However, domestic sales of the segment fell 9.4%, owing to an overall decline in the industry from weak consumer spending, lower prices and a sharp fall in TVs and inexpensive VTRs.

Sales of Professional Electronics decreased 18.0% to ¥88,311 million (US$833.1 million), representing 10.1% of net sales, down 1.3 percentage points. Despite firm demand for surveillance cameras, domestic sales fell 18.8% due to lackluster demand for D-ILA projectors, optical communications systems and karaoke systems, adversely affected by weak private capital investment. Although sales of the PROFESSIONAL DV series increased in the second half of the term, overseas sales decreased 16.4%, owing to inventory adjustments, price competition and currency fluctuations.

NET SALES BY CATEGORY (Billions of yen)

	Consumer Electronics	Professional Electronics	Components & Devices	Entertainment	Other	Total
2000	584.9 67.2%	88.3 10.1%	66.8 7.7%	125.2 14.4%	5.0 0.6%	870.2 100.0%
Change	(4.5)%	(18.0)%	(9.4)%	(16.0)%	25.5%	(8.1)%
Domestic Sales Change	139.1 (9.4)%	56.2 (18.8)%	14.2 (25.3)%	110.4 (18.2)%	5.0 47.1%	324.9 (14.5)%
Overseas Sales Change	445.8 (2.8)%	32.1 (16.4)%	52.6 (3.8)%	14.8 5.7%	0.0 –	545.3 (3.7)%
1999	612.3 64.7%	107.6 11.4%	73.7 7.8%	148.9 15.7%	4.0 0.4%	946.6 100.0%
Major Products	VCRs, camcorders, videotapes, televisions, stereo systems, car audio systems, CD radio cassette tape players and telephones	Professional-use and educational-use systems, information systems, karaoke systems and projectors	Components for use in computer displays, video heads, motors and “VIL” PWBs	Audio and visual software including CDs, DVDs and videotapes	Interior furniture	

Sales of Components & Devices were down 9.4% to ¥66,791 million (US$630.1 million), making up 7.7% of net sales, a decline of 0.1 percentage point from a year earlier. Domestic sales dropped 25.3% as demand for deflection yokes fell sharply, adversely affected by a decrease in orders as customers shifted manufacturing overseas. Overseas sales, which grew 6% on a local currency basis due to large gains in “VIL” PWBs, declined 3.8% due to the adverse effects of currency fluctuations.

Sales in the Entertainment business decreased 16.0% to ¥125,173 million (US$1,180.9 million), a 1.3 percentage point decrease to 14.4% of net sales. Although new singers debuted in music operations, domestic sales were down 18.2%, as there were no runaway hit movies like *Titanic* last year. Overseas sales increased 5.7%, despite currency fluctuations, on substantial growth in music CDs, especially in the United States.

JVC advanced efforts to improve cost of sales and reduce inventory. Adversely affected by a decline in prices, however, cost of sales was 69.0% of net sales, an increase of 1.2 percentage points. Selling, general and administrative (SG&A) expenses to net sales increased 0.4 percentage point to 31.9%, owing to reductions in selling and personnel expenses. An operating loss of ¥8,019 million (US$75.7 million) was recorded, partially due to the rise in cost of sales to net sales.

In other income and expenses, expenses were recorded for restructuring subsidiaries, including the liquidation of projector operations at a subsidiary in the United States, a switchover to high-value-added TV models at a plant in the United Kingdom, and investment to strengthen the structure of a sales subsidiary in Brazil. An unrealized gain from appreciation of trading securities possessed by a subsidiary in the United States substantially contributed to other income.

Net interest expense (interest expense plus interest and dividend income) was ¥3,770 million (US$35.6 million), a decrease of ¥2,515 million owing to reductions in interest-bearing debt.

Income before income taxes and minority interests amounted to ¥6,088 million (US$57.4 million). Income taxes totaling ¥11,295 million (US$106.6 million) led to a net loss of ¥5,341 million (US$50.4 million). Net loss per share was ¥21.0 (US$0.20). In consideration of performance during the fiscal year under review, management decided to suspend cash dividends for the year.

Cash Flow Analysis Purchases of property, plant and equipment during the year were ¥23,121 million (US$218.1 million), with investment concentrated on digital and networking operations. Purchases of property, plant and equipment were lower than depreciation and amortization of ¥28,953 million (US$273.1 million). The Company prepared the 2000 consolidated statement of cash flows in accordance with new accounting regulations. The 1999 and 1998 consolidated statements of cash flows have not been restated.

Net cash provided by operating activities totaled ¥18,762 million (US$177.0 million). This was the result of an increase in income before income taxes and minority interests, decrease in inventories and notes and accounts receivable, as well as an increase in notes and accounts payable.

Net cash used in investing activities amounted to ¥14,168 million (US$133.7 million). Sales of marketable securities partially offset purchases of property, plant and equipment.

Net cash used in financing activities was ¥10,735 million (US$101.3 million). Major uses of cash were for the redemption of bonds and a decrease in short-term bank loans, net, which was partially offset by an increase in commercial paper, net.

As a result, free cash flows totaled ¥4,594 million (US$43.3 million). Cash and cash equivalents at end of the year decreased 10.7% to ¥71,585 million (US$675.3 million) compared with cash and cash equivalents at beginning of the year.

Financial Position Total assets decreased ¥47,642 million (US$449.5 million) to ¥540,359 million (US$5,097.7 million) as a result of efforts to reduce assets to improve asset efficiency.

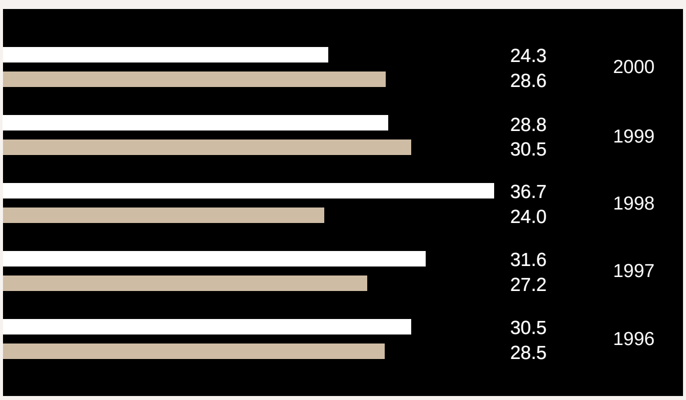
Total current assets declined ¥32,812 million (US$309.5 million), owing to a reduction in inventories and a decrease in notes and accounts receivable. Total current liabilities decreased ¥17,893 million (US$168.8 million) as debt was repaid. As a result, working capital fell ¥14,919 million (US$140.7 million) to ¥127,709 million (US$1,204.8 million) compared with the previous fiscal year. The current ratio decreased from 1.59 to 1.57.

Interest-bearing debt decreased ¥33,370 million (US$314.8 million) to ¥131,896 million (US$1,244.3 million).

Stockholders' equity fell ¥32,998 million (US$311.3 million) to ¥199,164 million (US$1,878.9 million) on account of a reduction in consolidated retained earnings in accordance with the application of tax-effect accounting and the net loss recorded during the term. Stockholders' equity as a percentage of total assets was 36.9% compared with 39.5% in the previous fiscal year. Stockholders' equity per share was ¥783.41 (US$7.39).

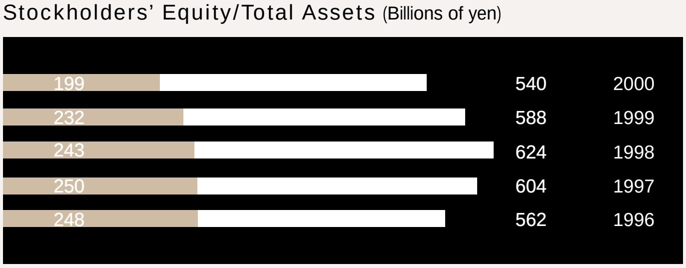
Forward-Looking Statements When included in this annual report, the words "will," "should," "expects," "intends," "anticipates," "estimates,"and similar expressions, among others, identify forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the date of this annual report. The Company expressly disclaims any obligations or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Capital Expenditures/Depreciation & Amortization (Billions of yen)



Capital Expenditures Depreciation & Amortization

Stockholders' Equity/Total Assets (Billions of yen)



Stockholders' Equity

Consolidated Statements of Operations

Victor Company of Japan, Limited
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Net sales	**¥870,235**	¥946,617	¥916,306	**$8,209,764**
Costs and expenses:				
Cost of sales	**600,506**	642,140	629,859	**5,665,151**
Selling, general and administrative expenses	**277,748**	305,698	276,431	**2,620,264**
	878,254	947,838	906,290	**8,285,415**
Operating income (loss)	**(8,019)**	(1,221)	10,016	**(75,651)**
Other income (expenses):				
Interest and dividend income	**2,408**	2,407	1,937	**22,717**
Unrealized gain from appreciation of trading securities	**16,386**	2,325	—	**154,585**
Equity in income of affiliated companies	**36**	453	295	**340**
Interest expense	**(6,178)**	(8,692)	(5,671)	**(58,283)**
Gain on sales of investment securities	**6,330**	530	893	**59,717**
Loss on liquidation of subsidiaries	**(451)**	(2,293)	—	**(4,255)**
Loss from financial support of affiliated companies	**—**	(1,122)	(1,356)	**—**
Restructuring charges	**(2,662)**	(537)	(2,063)	**(25,113)**
Other, net	**(1,762)**	4,479	2,172	**(16,623)**
	14,107	(2,450)	(3,793)	**133,085**
Income (Loss) before income taxes and minority interests	**6,088**	(3,671)	6,223	**57,434**
Income taxes (Note 6)**:**				
Current	**8,622**	6,443	7,488	**81,340**
Deferred	**2,673**	(1,977)	3,308	**25,217**
	11,295	4,466	10,796	**106,557**
Loss before minority interests	**(5,207)**	(8,137)	(4,573)	**(49,123)**
Minority interests	**(134)**	(178)	(130)	**(1,264)**
Net loss	**¥ (5,341)**	¥ (8,315)	¥ (4,703)	**$ (50,387)**
	Yen			U.S. dollars (Note 2)
Amounts per share of common stock:				
Net loss	**¥ (21.0)**	¥ (32.7)	¥ (18.5)	**$ (0.20)**
Cash dividends applicable to the year	**—**	5.0	7.0	**—**

See accompanying notes.

Victor Company of Japan, Limited
March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2000**	1999	**2000**
Current assets:			
Cash and time deposits (including time deposits with maturities over three months of ¥208 million (US$1,962 thousand) in 2000 and ¥738 million in 1999)	**¥ 71,793**	¥ 80,888	**$ 677,292**
Marketable securities (Note 5)	**22,583**	12,395	**213,047**
Notes and accounts receivable:			
Trade	**105,751**	117,778	**997,651**
Unconsolidated subsidiaries and affiliated companies	**1,033**	1,012	**9,745**
Allowance for doubtful accounts	**(5,172)**	(5,024)	**(48,792)**
Inventories (Note 4)	**117,037**	128,579	**1,104,123**
Deferred tax assets (Note 6)	**12,219**	19,111	**115,274**
Other current assets	**25,296**	28,613	**238,641**
Total current assets	**350,540**	383,352	**3,306,981**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliated companies	**4,637**	9,403	**43,745**
Other (Notes 5 and 8)	**25,864**	23,988	**244,000**
Total investments and advances	**30,501**	33,391	**287,745**
Property, plant and equipment:			
Land	**29,954**	30,677	**282,585**
Buildings	**108,505**	110,020	**1,023,632**
Machinery and equipment (Note 8)	**244,923**	244,871	**2,310,594**
Construction in progress	**5,241**	7,340	**49,444**
	388,623	392,908	**3,666,255**
Less accumulated depreciation	**275,576**	272,219	**2,599,774**
Net property, plant and equipment	**113,047**	120,689	**1,066,481**
Deferred tax assets (Note 6)	**2,810**	16,913	**26,509**
Other assets	**13,834**	15,100	**130,510**
Foreign currency translation adjustments	**29,627**	18,556	**279,500**
	¥540,359	¥588,001	**$5,097,726**

See accompanying notes.

Liabilities and stockholders' equity	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current liabilities:			
Bank loans (Note 7)	**¥ 41,982**	¥ 61,052	**$ 396,057**
Current portion of long-term debt (Note 7)	**479**	15,733	**4,519**
Notes and accounts payable:			
Trade	**117,968**	112,278	**1,112,905**
Construction	**3,085**	3,100	**29,104**
Unconsolidated subsidiaries and affiliated companies	**8,076**	7,517	**76,189**
Accrued income taxes (Note 6)	**4,715**	3,771	**44,481**
Accrued expenses (Note 8)	**21,641**	19,827	**204,160**
Other current liabilities	**24,885**	17,446	**234,764**
Total current liabilities	**222,831**	240,724	**2,102,179**
Long-term debt (Notes 7 and 8)	**89,435**	88,481	**843,726**
Employees' retirement benefits	**20,819**	21,037	**196,406**
Other long-term liabilities	**2,438**	1,419	**23,000**
Minority interests	**5,672**	4,178	**53,509**
Contingent liabilities (Note 9)			
Stockholders' equity (Note 10)**:**			
Common stock, par value ¥50 per share;			
Authorized—800,000,000 shares			
Issued—254,230,058 shares	**34,115**	34,115	**321,840**
Additional paid-in capital	**67,216**	67,216	**634,113**
Retained earnings	**97,834**	130,832	**922,962**
	199,165	232,163	**1,878,915**
Treasury stock, at cost	**(1)**	(1)	**(9)**
Total stockholders' equity	**199,164**	232,162	**1,878,906**
	¥540,359	¥588,001	**$5,097,726**

Victor Company of Japan, Limited
Years ended March 31, 2000, 1999 and 1998

	Shares of common stock (thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	254,229	¥34,115	¥67,216	¥149,088
Net loss	—	—	—	(4,703)
Adjustment due to change in number of consolidated subsidiaries	—	—	—	(377)
Adjustment due to change in number of affiliated companies	—	—	—	(97)
Common stock issued upon conversion of bonds	1	0	0	—
Cash dividends paid (¥8.0 per share)	—	—	—	(2,033)
Bonuses to directors and corporate auditors	—	—	—	(94)
Balance at March 31, 1998	254,230	¥34,115	¥67,216	¥141,784
Net loss	—	—	—	(8,315)
Adjustment due to change in number of consolidated subsidiaries	—	—	—	(647)
Adjustment due to change in number of affiliated companies	—	—	—	(119)
Cash dividends paid (¥7.0 per share)	—	—	—	(1,779)
Bonuses to directors and corporate auditors	—	—	—	(92)
Balance at March 31, 1999	254,230	¥34,115	¥67,216	¥130,832
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**—**	**(27,259)**
Net loss	**—**	**—**	**—**	**(5,341)**
Cash dividends paid (¥1.5 per share)	**—**	**—**	**—**	**(381)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(17)**
Balance at March 31, 2000	**254,230**	**¥34,115**	**¥67,216**	**¥ 97,834**

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	$321,840	$634,113	$1,234,264
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**(257,160)**
Net loss	**—**	**—**	**(50,387)**
Cash dividends paid ($0.01 per share)	**—**	**—**	**(3,594)**
Bonuses to directors and corporate auditors	**—**	**—**	**(161)**
Balance at March 31, 2000	**$321,840**	**$634,113**	**$ 922,962**

See accompanying notes.

Consolidated Statement of Cash Flows

Victor Company of Japan, Limited
Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 6,088	$ 57,434
Depreciation and amortization	28,953	273,142
Interest and dividends income	(2,408)	(22,717)
Interest expense	6,178	58,283
Unrealized gain from appreciation of trading securities	(16,386)	(154,585)
Gain on sales of investment securities	(6,330)	(59,717)
Decrease in notes and accounts receivable	5,069	47,821
Decrease in inventories	3,667	34,594
Increase in notes and accounts payable	10,634	100,321
Other	(5,441)	(51,331)
Sub-total	30,024	283,245
Interest and dividends received	2,307	21,764
Interest paid	(6,180)	(58,302)
Income taxes paid	(7,389)	(69,707)
Net cash provided by operating activities	18,762	177,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23,121)	(218,123)
Proceeds from sales of property, plant and equipment	319	3,009
Purchases of marketable securities	(59,983)	(565,877)
Sales of marketable securities	66,813	630,311
Purchases of investment securities	(10,809)	(101,972)
Sales of investment securities	11,999	113,198
Other	614	5,793
Net cash used in investing activities	(14,168)	(133,661)
Cash flows from financing activities:		
Proceeds from long-term loans	3,603	33,991
Repayments of long-term loans	(316)	(2,981)
Redemption of bonds	(9,040)	(85,283)
Decrease in short-term bank loans, net	(15,549)	(146,689)
Increase in commercial paper, net	10,884	102,679
Cash dividends paid	(632)	(5,962)
Other	315	2,971
Net cash used in financing activities	(10,735)	(101,274)
Effect of exchange rate changes on cash and cash equivalents	(4,188)	(39,509)
Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method	1,764	16,642
Net decrease in cash and cash equivalents	(8,565)	(80,802)
Cash and cash equivalents at beginning of the year	80,150	756,132
Cash and cash equivalents at end of the year	¥ 71,585	$ 675,330

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited
Years ended March 31, 1999 and 1998

	Millions of yen	
	1999	1998
Cash flows from operating activities:		
Net loss	¥ (8,315)	¥ (4,703)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	30,513	24,008
Unrealized gain from appreciation of trading securities	(2,325)	—
Equity in income of affiliated companies	(453)	(295)
Loss (Gain) on disposal of property, plant and equipment, net	(1,087)	199
Deferred income taxes	(1,977)	3,755
Bonuses to directors and statutory auditors	(92)	(94)
Changes in operating assets and liabilities:		
Decrease (Increase) in notes and accounts receivable	13,423	(2,074)
Decrease (Increase) in inventories	17,012	(20,689)
Decrease (Increase) in other current assets	4,449	(532)
Increase (Decrease) in notes and accounts payable	(30,241)	15,108
Increase (Decrease) in accrued income taxes	(2,144)	1,420
Increase in other current liabilities	1,788	2,448
Other	1,027	2,068
Net cash provided by operating activities	21,578	20,619
Cash flows from investing activities:		
Capital expenditures	(28,815)	(36,651)
Proceeds from sales of fixed assets	5,382	2,027
Decrease (Increase) in marketable securities	6,366	(1,776)
Decrease in investment securities	2,203	3,079
Decrease (Increase) in investment in and advances to non-consolidated subsidiaries and affiliated companies	209	(4,137)
Other	1,712	754
Net cash used in investing activities	(12,943)	(36,704)
Cash flows from financing activities:		
Proceeds from long-term loans	6,526	—
Repayments of long-term loans	(7,830)	(2,572)
Proceeds from issuance of bonds	30,094	—
Redemption of bonds	(20,431)	(1,494)
Increase (Decrease) in short-term bank loans	(1,536)	13,357
Decrease in commercial paper	(3,612)	(6,869)
Cash dividends paid	(1,779)	(2,033)
Net cash provided by financing activities	1,432	389
Effect of exchange rate changes on cash and time deposits	(2,193)	567
Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method	1,866	1,480
Net increase (decrease) in cash and time deposits	9,740	(13,649)
Cash and time deposits at beginning of the year	71,148	84,797
Cash and time deposits at end of the year	¥ 80,888	¥ 71,148

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Victor Company of Japan, Limited (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 and 1998 consolidated statements of cash flows have not been restated. Significant differences in the consolidated statement of cash flows for 2000 and those for 1999 and 1998 include the use of pretax income in 2000 instead of net loss in 1999 and 1998, additional disclosure in cash flows from operating activities in 2000 of interest expense, income tax expense, interest and dividend income, interest and dividend received and income taxes paid.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Previously, only majority-owned companies were consolidated. The prior years' consolidated financial statements have not been restated.

The effect of applying this rule to the Company's consolidated financial statements was immaterial.

Investments in certain unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are, with minor exceptions, stated at their underlying net equity value after elimination of unrealized intercompany profits and losses. The Company's investments in its remaining subsidiaries and affiliated companies are immaterial in the aggregate, and are stated at cost or less.

The differences between acquisition cost and underlying net equity at the time of acquisition are generally being amortized on the straight-line method over five years.

Foreign currency translation

Current assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet dates, and non-current assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Resulting exchange gains or losses are credited or charged to income for the respective periods. Foreign currency items with forward exchange contracts are translated at the contracted rates.

Translation of foreign currency financial statements

In accordance with the Accounting Standards for Foreign Currency Translations, assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Stockholders' equity is translated at historical exchange rates.

Revenue and expenses are translated at the average exchange rates during the respective years.

Differences resulting from translation of the balance sheet of foreign consolidated subsidiaries are debited or credited to "foreign currency translation adjustments" in the accompanying balance sheets.

Cash and cash equivalents

In preparing the consolidated statement of cash flows for the year ended March 31, 2000, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents. Consolidated statements of cash flows for 1999 and 1998 used cash and time deposits instead of cash and cash equivalents.

Inventories

Inventories are stated at cost, which is determined by the average cost method.

Marketable securities and investment securities

Securities quoted on stock exchanges are stated at the lower of moving average cost or market. All other securities are stated at cost or less, reflecting write-downs based on significant impairment of the underlying equity, if not considered recoverable. Securities held by the consolidated subsidiaries in the United States are accounted for based on the Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debts and Equity Securities.

Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed primarily by the declining-balance method based on the estimated useful lives of the assets.

The ranges of useful lives for computing depreciation are generally as follows:

Buildings	20 to 50 years
Machinery and equipment	3 to 7 years

Expenditures for maintenance and repairs are charged to income as incurred.

Software costs

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2000. Software costs are amortized using the straight-line method over the estimated useful lives (three to five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

Finance leases

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Research and development

Research and development expenditures for new products or improvement of existing products are charged to income as incurred.

Income taxes

The Company provided income taxes at the amounts currently payable for the years ended March 31, 1999 and 1998. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as a cumulative adjustment of ¥27,259 million ($257,160 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

As a result of adopting the tax effect accounting, deferred tax assets and long-term deferred tax assets at March 31, 2000 were decreased by ¥6,170 million ($58,208 thousand) and ¥14,729 million ($138,953 thousand), respectively, deferred tax liabilities and long-term deferred tax liabilities at that date were increased by ¥460 million ($4,340 thousand) and ¥44 million ($415 thousand), respectively, net loss for the year ended March 31, 2000 was decreased by ¥1,959 million ($18,481 thousand), and the retained earnings at April 1, 1999 was decreased by ¥27,259 million ($257,160 thousand).

Employees' retirement benefits and pension plans

The Company has funded pension plans and unfunded benefit plans to provide retirement benefits for substantially all employees. Approximately 85% of total retirement benefits for employees is covered by funded pension plans.

Upon retirement or termination of employment for reasons other than dismissal for cause, eligible employees are entitled to lump-sum and/or annuity payments based on their current rates of pay and length of service.

Employees' retirement benefits is principally stated at 40% (100% for certain employees whose age reached 55) of the amount which would be required to be paid (less the amount which is expected to be covered by the pension plans) if all eligible employees voluntarily terminated their employment at the balance sheet date, plus the unamortized balance of certain previously accumulated amounts.

Costs with respect to the pension plans are funded as accrued in an amount determined actuarially. Prior service costs are being funded over 10 years and the resultant charges to income are offset by amortization of the excess amount of employees' retirement benefits which is expected to be covered by the pension plans.

Certain of the consolidated subsidiaries also have employees' retirement benefit plans and funded pension plans similar to those of the Company.

Amounts per share of common stock

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share assumes dilution that could occur if convertible bonds or similar securities were converted into common stock exercised to result in the issuance of common stock. As the Company reported net losses for the years ended March 31, 2000, 1999, and 1998, inclusion of potential common shares would have an antidilutive effect on per share amounts. Accordingly, the Company's basic and diluted earnings per share computations are the same for the periods presented.

Cash dividends per share represent the actual amount declared as applicable to the respective years.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. TRANSACTIONS WITH MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). The Company's relationship with Matsushita dates back to 1954, when Matsushita acquired a controlling equity interest in the Company. Since then, the Company has pursued an independent management policy in all aspects of its operations based on the principle of "mutual development through competition." There is no relationship of financial assistance between the two companies. Each company has a right of access to the technology developed by the other. At March 31, 2000, Matsushita held 133,227 thousand shares of common stock of the Company, 52.40% of the total outstanding shares.

Major account balances with Matsushita at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due from Matsushita	**¥ 298**	¥ 167	**$ 2,811**
Due to Matsushita	**3,030**	3,011	**28,585**

Sales to and purchases from Matsushita for the years ended March 31, 2000, 1999 and 1998 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Net sales	**¥ 900**	¥ 1,352	¥ 1,125	**$ 8,491**
Net purchases	**35,879**	30,558	33,225	**338,481**

4. INVENTORIES

Inventories at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Finished goods	**¥ 74,953**	¥ 87,851	**$ 707,104**
Work in process	**17,143**	17,834	**161,727**
Raw materials and supplies	**24,941**	22,894	**235,292**
	¥117,037	¥128,579	**$1,104,123**

5. MARKETABLE EQUITY SECURITIES

The aggregate book value, market value and unrealized gains pertaining to marketable equity securities included in "marketable securities" and "investments and advances — other" in the accompanying consolidated balance sheets at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Marketable securities:			
Book value	**¥15,295**	¥ 2,689	**$144,292**
Market value	**16,029**	2,898	**151,217**
Unrealized gains	**¥ 734**	¥ 209	**$ 6,925**
Investments and advances—other:			
Book value	**¥15,120**	¥10,137	**$142,642**
Market value	**22,864**	21,112	**215,699**
Unrealized gains	**¥ 7,744**	¥10,975	**$ 73,057**

6. INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants taxes. The Company and its domestic consolidated subsidiaries are subject to the income taxes referred to above which, in the aggregate, resulted in statutory tax rates of approximately 42% for the year ended March 31, 2000, 48% for the year ended March 31, 1999 and 51% for the year ended March 31, 1998. Foreign subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax for financial statement purposes for the year ended March 31, 2000:

Statutory tax rate	42.0%
Lower tax rates of overseas subsidiaries	(11.3)%
Expenses not deductible for tax purposes	53.0%
Effect of changes in valuation allowance for deferred tax assets	93.6%
Other	8.2%
Effective tax rate	185.5%

Significant components of the Company's deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Deferred tax assets:		
Loss on devaluation of inventory	**¥ 5,464**	**$ 51,547**
Accrued expenses not deductible for tax purposes	**4,264**	**40,227**
Depreciation	**8,372**	**78,981**
Retirement and severance benefits	**2,811**	**26,519**
Tax loss carryforwards	**12,591**	**118,783**
Other	**8,121**	**76,613**
Total gross deferred tax assets	**41,623**	**392,670**
Less valuation allowance	**26,206**	**247,226**
Net deferred tax assets	**¥15,417**	**$145,444**
Deferred tax liabilities:		
Unrealized gain from appreciation of trading securities	**¥(4,223)**	**$(39,840)**
Other	**(897)**	**(8,462)**
Total gross deferred tax assets	**¥(5,120)**	**$(48,302)**
Net deferred tax assets	**¥10,297**	**$ 97,142**

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans of certain of the Company's consolidated subsidiaries consist of notes maturing generally in three months. The applicable annual interest rates on short-term bank loans outstanding at March 31, 2000 and 1999 ranged from 0.73% to 23.64% and from 0.575% to 19.0%, respectively.

Long-term debt at March 31, 2000 and 1999 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
1.5% unsecured convertible bonds due 2005	**¥11,483**	¥ 11,483	**$108,330**
0.35% unsecured convertible bonds due 2002	**19,999**	19,999	**188,670**
0.55% unsecured convertible bonds due 2005	**20,000**	20,000	**188,679**
4.3% Eurobonds due 2000	**—**	9,765	**—**
1.375% unsecured bonds due 2001	**5,000**	5,000	**47,170**
1.75% unsecured bonds due 2003	**5,000**	5,000	**47,170**
2.15% unsecured bonds due 2005	**10,000**	10,000	**94,339**
1.30% guaranteed notes due 2001	**4,561**	5,180	**43,028**
1.61% guaranteed notes due 2002	**4,327**	4,914	**40,821**
Loans, primarily from banks with interest principally at 0.79% to 9.20%			
Secured	**221**	379	**2,085**
Unsecured	**9,323**	12,494	**87,953**
	89,914	104,214	**848,245**
Less current portion	**479**	15,733	**4,519**
	¥89,435	¥ 88,481	**$843,726**

The 1.5% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 107% to 100% of the principal amount, respectively. The price at which shares of common stock shall be issued upon conversion is ¥2,867 ($27.05) per share, subject to adjustment under certain circumstance. The 0.35% and 0.55% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 102% to 100% and 103% to 100% of the principal amount, respectively. For both issues, the price at which shares of common stock shall be issued upon conversion is ¥1,487 ($14.03) per share, subject to adjustment under certain circumstance.

The aggregate annual maturities of long-term debt at March 31, 2000 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 479	$ 4,519
2002	11,187	105,538
2003	26,149	246,689
2004	7,274	68,622
2005	12,970	122,358
Thereafter	31,855	300,519
	¥89,914	$848,245

8. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt and accrued expenses at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Investments	¥ 8	$ 75
Machinery and equipment	221	2,085
	¥229	$2,160

9. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥ 6,119	$ 57,726
As guarantor for loans to employees	17,209	162,350
As guarantor for loan to affiliated company and lease obligations of affiliated company and others	1,125	10,613
	¥24,453	$230,689

10. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Code.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its consolidated subsidiaries uses derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Company and its consolidated subsidiaries are forward exchange contracts, option contracts and interest rate swap contracts.

These derivative financial transactions are utilized solely for hedging purposes under the internal control rules and executed by the Company's accounting department and those authorized by the Director responsible for accounting matters under the supervision by the Board of Directors. The Company does not anticipate any credit loss from nonperformance by the counterparties to the forward exchange contracts, option contracts and interest rate swap contracts.

The outstanding contract amounts of derivative financial transactions, their book values and their market values at March 31, 2000 are summarized as follows:

	Millions of yen		
March 31, 2000	Contract amount	Market value	Unrealized gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	**¥51,691**	**¥51,430**	**¥261**
To sell Euros	**14,828**	**13,909**	**919**
To sell Sterling pounds	**3,883**	**3,718**	**165**
To sell Canadian dollars	**2,500**	**2,399**	**101**
To sell Singapore dollars	**2,400**	**2,347**	**53**
To sell Others	**596**	**562**	**34**
To buy U.S. dollars	**15,342**	**15,037**	**(305)**
To buy Singapore dollars	**312**	**312**	**0**
To buy Thai bahts	**1,570**	**1,604**	**34**

	Thousands of U.S. dollars		
March 31, 2000	Contract amount	Market value	Unrealized gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	**$487,651**	**$485,189**	**$2,462**
To sell Euros	**139,887**	**131,217**	**8,670**
To sell Sterling pounds	**36,632**	**35,075**	**1,557**
To sell Canadian dollars	**23,585**	**22,632**	**953**
To sell Singapore dollars	**22,642**	**22,142**	**500**
To sell Others	**5,623**	**5,302**	**321**
To buy U.S. dollars	**144,735**	**141,858**	**(2,877)**
To buy Singapore dollars	**2,943**	**2,943**	**0**
To buy Thai bahts	**14,811**	**15,132**	**321**

	Millions of yen			
March 31, 2000	Contract amount	Book value	Market value	Unrealized gain (loss)
Option contracts:				
Call:				
To sell U.S. dollars	**¥12,965**	**¥49**	**¥132**	**¥ (83)**
To sell Euros	**2,153**	**16**	**10**	**6**
Put:				
To sell U.S. dollars	**3,749**	**20**	**111**	**(91)**
To sell Euros	**985**	**11**	**9**	**2**
Call:				
To buy U.S. dollars	**1,260**	**—**	**11**	**11**
Put:				
To buy U.S. dollars	**12,938**	**74**	**203**	**129**
To buy Euros	**2,153**	**27**	**25**	**(2)**

March 31, 2000	Thousands of U.S. dollars Contract amount	Book value	Market value	Unrealized gain (loss)
Option contracts:				
Call:				
To sell U.S. dollars	**$122,311**	**$462**	**$1,245**	**$(783)**
To sell Euros	**20,311**	**151**	**94**	**57**
Put:				
To sell U.S. dollars	**35,368**	**189**	**1,047**	**(858)**
To sell Euros	**9,292**	**104**	**85**	**19**
Call:				
To buy U.S. dollars	**11,887**	**—**	**104**	**104**
Put:				
To buy U.S. dollars	**122,057**	**698**	**1,915**	**1,217**
To buy Euros	**20,311**	**255**	**236**	**(19)**

March 31, 2000	Millions of yen Contract amount	Market value	Unrealized gain (loss)
Swap contracts:			
Receive fix/pay floating	**¥9,561**	**¥(10)**	**¥(10)**
Pay fix/receive floating	**5,000**	**2**	**2**

March 31, 2000	Thousands of U.S. dollars Contract amount	Market value	Unrealized gain (loss)
Swap contracts:			
Receive fix/pay floating	**$90,198**	**$(94)**	**$(94)**
Pay fix/receive floating	**47,170**	**19**	**19**

The forward contracts on the foreign currency receivable and payables translated into Japanese yen at the forward exchange rate on the accompanying consolidated financial statements were not included in the above amounts.

The fair value of forward exchange contracts are estimated based on market prices for contracts with similar terms.

The fair value of option contracts and interest rate swap contracts are estimated based on the quotes obtained from financial institutions.

12. LEASE INFORMATION

The Company and its consolidated subsidiaries lease certain buildings and structures, vehicles, machinery and equipment and other assets under non-capitalized finance and operating leases. Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance and operating leases is as follows.

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 1999 are as follows:

	Millions of yen Acquisition cost	Accumulated depreciation	Net book value
2000:			
Buildings and structures	**¥ 2,035**	**¥1,226**	**¥ 809**
Vehicles, machinery and equipment	**5,738**	**2,849**	**2,889**
Tools, furniture and fixtures	**11,699**	**5,742**	**5,957**
Leasehold rights	**109**	**66**	**43**
Software	**167**	**103**	**64**
	¥19,748	**¥9,986**	**¥9,762**

	Millions of yen Acquisition cost	Accumulated depreciation	Net book value
1999:			
Buildings and structures	¥ 1,335	¥ 386	¥ 949
Vehicles, machinery and equipment	6,455	3,293	3,162
Tools, furniture and fixtures	11,395	5,412	5,983
Leasehold rights	234	142	92
Software	153	74	79
	¥19,572	¥9,307	¥10,265

	Thousands of U.S. dollars Acquisition cost	Accumulated depreciation	Net book value
2000:			
Buildings and structures	**$ 19,198**	**$11,566**	**$ 7,632**
Vehicles, machinery and equipment	**54,132**	**26,877**	**27,255**
Tools, furniture and fixtures	**110,368**	**54,170**	**56,198**
Leasehold rights	**1,028**	**623**	**405**
Software	**1,576**	**972**	**604**
	$186,302	**$94,208**	**$92,094**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
Non-capitalized finance leases	**2000**	1999	**2000**
Due within one year	**¥3,694**	¥ 3,802	**$34,849**
Due after one year	**6,068**	6,463	**57,245**
	¥9,762	¥10,265	**$92,094**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2000**	1999	**2000**
Due within one year	**¥1,125**	¥ 670	**$10,613**
Due after one year	**1,824**	971	**17,208**
	¥2,949	¥1,641	**$27,821**

(3) Lease payments and assumed depreciation charges for the year ended March 31, 2000, 1999 and 1998 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Lease payments	**¥3,119**	¥3,276	¥3,352	**$29,425**
Assumed depreciation charges	**3,119**	3,276	—	**29,425**

Assumed depreciation charges were not required to be disclosed in 1998.

(4) Assumed depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

13. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2000, 1999 and 1998 is shown in the tables below.

1) Business segment information is as follows:

	Millions of yen				
	Audiovisual and information-related business	Entertainment business	Total	Eliminations and unallocation	Consolidated total
2000:					
Sales					
External sales	**¥745,062**	**¥125,173**	**¥870,235**	**¥ —**	**¥ 870,235**
Intersegment sales	**355**	**1,601**	**1,956**	**(1,956)**	**—**
Total sales	**745,417**	**126,774**	**872,191**	**(1,956)**	**870,235**
Operating expenses	**756,041**	**123,219**	**879,260**	**(1,006)**	**878,254**
Operating income (loss)	**¥ (10,624)**	**¥ 3,555**	**¥ (7,069)**	**¥ (950)**	**¥ (8,019)**
Identifiable assets	**¥378,737**	**¥ 84,693**	**¥463,430**	**¥ 76,929**	**¥ 540,359**
Depreciation & amortization	**24,544**	**3,671**	**28,215**	**375**	**28,590**
Capital expenditures	**21,529**	**2,655**	**24,184**	**152**	**24,336**
1999:					
Sales					
External sales	¥797,682	¥148,935	¥946,617	¥ —	¥946,617
Intersegment sales	55	1,330	1,385	(1,385)	—
Total sales	797,737	150,265	948,002	(1,385)	946,617
Operating expenses	802,298	145,715	948,013	(175)	947,838
Operating income (loss)	¥ (4,561)	¥ 4,550	¥ (11)	¥ (1,210)	¥ (1,221)
Identifiable assets	¥407,814	¥ 76,738	¥484,552	¥103,449	¥588,001
Depreciation & amortization	26,542	3,622	30,164	349	30,513
Capital expenditures	25,093	3,444	28,537	278	28,815
1998:					
Sales					
External sales	¥779,603	¥136,703	¥916,306	¥ —	¥916,306
Intersegment sales	—	1,968	1,968	(1,968)	—
Total sales	779,603	138,671	918,274	(1,968)	916,306
Operating expenses	774,720	133,111	907,831	(1,541)	906,290
Operating income	¥ 4,883	¥ 5,560	¥ 10,443	¥ (427)	¥ 10,016
Identifiable assets	¥431,647	¥ 84,056	¥515,703	¥108,347	¥624,050
Depreciation & amortization	19,733	3,695	23,428	580	24,008
Capital expenditures	33,637	2,829	36,466	185	36,651

	Thousands of U.S. dollars				
	Audiovisual and information-related business	Entertainment business	Total	Eliminations and unallocation	Consolidated total
2000:					
Sales					
External sales	**$7,028,887**	**$1,180,877**	**$8,209,764**	**$ —**	**$8,209,764**
Intersegment sales	**3,349**	**15,104**	**18,453**	**(18,453)**	**—**
Total sales	**7,032,236**	**1,195,981**	**8,228,217**	**(18,453)**	**8,209,764**
Operating expenses	**7,132,462**	**1,162,443**	**8,294,905**	**(9,490)**	**8,285,415**
Operating income (loss)	**$ (100,226)**	**$ 33,538**	**$ (66,688)**	**$ (8,963)**	**$ (75,651)**
Identifiable assets	**$3,572,990**	**$ 798,991**	**$4,371,981**	**$725,745**	**$5,097,726**
Depreciation & amortization	**231,547**	**34,632**	**266,179**	**3,538**	**269,717**
Capital expenditures	**203,104**	**25,047**	**228,151**	**1,434**	**229,585**

2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2000:							
Sales							
External sales	**¥416,271**	**¥249,451**	**¥145,709**	**¥ 58,804**	**¥ 870,235**	**¥ —**	**¥ 870,235**
Intersegment sales	**238,687**	**431**	**183**	**141,377**	**380,678**	**(380,678)**	**—**
Total sales	**654,958**	**249,882**	**145,892**	**200,181**	**1,250,913**	**(380,678)**	**870,235**
Operating expenses	**671,232**	**247,581**	**144,276**	**198,170**	**1,261,259**	**(383,005)**	**878,254**
Operating income (loss)	**¥ (16,274)**	**¥ 2,301**	**¥ 1,616**	**¥ 2,011**	**¥ (10,346)**	**¥ 2,327**	**¥ (8,019)**
Identifiable assets	**¥359,991**	**¥110,231**	**¥ 52,158**	**¥ 57,298**	**¥ 579,678**	**¥ (39,319)**	**¥ 540,359**

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1999:							
Sales							
External sales	¥474,911	¥263,530	¥156,044	¥ 52,132	¥ 946,617	¥ —	¥946,617
Intersegment sales	246,614	798	146	122,817	370,375	(370,375)	—
Total sales	721,525	264,328	156,190	174,949	1,316,992	(370,375)	946,617
Operating expenses	718,296	265,448	155,913	175,655	1,315,312	(367,474)	947,838
Operating income (loss)	¥ 3,229	¥ (1,120)	¥ 277	¥ (706)	¥ 1,680	¥ (2,901)	¥ (1,221)
Identifiable assets	¥378,124	¥ 93,712	¥ 64,676	¥ 59,943	¥ 596,455	¥ (8,454)	¥588,001

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1998:							
Sales							
External sales	¥496,970	¥228,932	¥137,625	¥ 52,779	¥ 916,306	¥ —	¥916,306
Intersegment sales	217,691	1,572	73	103,222	322,558	(322,558)	—
Total sales	714,661	230,504	137,698	156,001	1,238,864	(322,558)	916,306
Operating expenses	705,765	231,694	135,660	154,860	1,227,979	(321,689)	906,290
Operating income (loss)	¥ 8,896	¥ (1,190)	¥ 2,038	¥ 1,141	¥ 10,885	¥ (869)	¥ 10,016
Identifiable assets	¥394,610	¥100,468	¥ 69,601	¥ 59,033	¥ 623,712	¥ 338	¥624,050

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2000:							
Sales							
External sales	**$3,927,085**	**$2,353,311**	**$1,374,613**	**$ 554,755**	**$ 8,209,764**	**$ —**	**$8,209,764**
Intersegment sales	**2,251,765**	**4,066**	**1,726**	**1,333,745**	**3,591,302**	**(3,591,302)**	**—**
Total sales	**6,178,850**	**2,357,377**	**1,376,339**	**1,888,500**	**11,801,066**	**(3,591,302)**	**8,209,764**
Operating expenses	**6,332,378**	**2,335,669**	**1,361,094**	**1,869,528**	**11,898,669**	**(3,613,254)**	**8,285,415**
Operating income (loss)	**$ (153,528)**	**$ 21,708**	**$ 15,245**	**$ 18,972**	**$ (97,603)**	**$ 21,952**	**$ (75,651)**
Identifiable assets	**$3,396,141**	**$1,039,915**	**$ 492,057**	**$ 540,547**	**$ 5,468,660**	**$ (370,934)**	**$5,097,726**

3) Overseas sales information by geographic area is as follows:

	Millions of yen				
	Americas	Europe	Asia	Other area	Total
2000					
Overseas sales	**¥273,012**	**¥155,440**	**¥112,751**	**¥4,113**	**¥545,316**
Consolidated sales					**¥870,235**
Ratio of overseas sales to consolidated sales	**31.4%**	**17.9%**	**13.0%**	**0.4%**	**62.7%**
1999					
Overseas sales	¥284,099	¥165,320	¥112,782	¥4,350	¥566,551
Consolidated sales					¥946,617
Ratio of overseas sales to consolidated sales	30.0%	17.5%	11.9%	0.5%	59.9%
1998					
Overseas sales	¥255,323	¥145,698	¥120,925	¥4,339	¥526,285
Consolidated sales					¥916,306
Ratio of overseas sales to consolidated sales	27.8%	15.9%	13.2%	0.5%	57.4%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other area	Total
2000					
Overseas sales	**$2,575,585**	**$1,466,415**	**$1,063,689**	**$38,802**	**$5,144,491**
Consolidated sales					**$8,209,764**
Ratio of overseas sales to consolidated sales	**31.4%**	**17.9%**	**13.0%**	**0.4%**	**62.7%**

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of Victor Company of Japan, Limited:

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Victor Company of Japan, Limited and subsidiaries as of March 31, 2000 and 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, Victor Company of Japan, Limited and subsidiaries prospectively adopted new Japanese accounting standards for consolidation accounting, income taxes and research and development costs.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standard

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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FACTORIES

Domestic Plants
Yokohama, Yamato, Maebashi, Iwai, Mito, Hachioji, Koriyama, Isesaki, Fujieda, Yokosuka, Rinkan, Tsurugamine, Utsunomiya

Overseas Manufacturing Facilities
JVC Magnetics America, Co. (Division of JVC America, Inc.)
JVC Disc America, Co. (Division of JVC America, Inc.)
JVC Industrial de Mexico, S.A. de C.V.
JVC Manufacturing U.K. Ltd.
JVC Video Manufacturing Europe GmbH
J2T Video (Tonnerre) S.A.
JVC Electronics Singapore Pte. Ltd.
JVC Electronics Malaysia Sdn. Bhd.
Philips and JVC Video Malaysia Sdn. Bhd.
JVC Manufacturing (Thailand) Co., Ltd.
JVC Electronics (Thailand) Co., Ltd.
JVC Components (Thailand) Co., Ltd.
P.T. JVC Electronics Indonesia
Kuang Yuan Co., Ltd.
JVC Shanghai Electronics Co., Ltd.
JVC Beijing Electronic Industries Co., Ltd.
JVC Guangzhou Electronics Co., Ltd.
JVC Wuhan Electronic Industries Co., Ltd.
JVC Fujian Electronics Co., Ltd.

(As of July 2000)

JVC
Victor Company of Japan, Limited

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(Corporate Accounting & Finance Division)
Cable Address: VICTOREXPORT TOKYO
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Date of Establishment:
September 13, 1927

Number of Employees:
35,876*

Paid-in Capital:
¥34,115 million

Number of Shares of Common Stock Issued:
254,230,058 shares

Number of Stockholders:
22,838*

Stock Exchange Listings:
Tokyo Stock Exchange
Osaka Securities Exchange

Transfer Agent and Registrar:
The Chuo Mitsui Trust and Banking Co., Ltd.

Annual Meeting of Stockholders:
An ordinary annual meeting of stockholders shall be convened within three months after the day immediately following the day on which the accounts are closed.

Auditor:
Asahi & Co., A Member Firm of Andersen Worldwide SC.

Principal Consolidated Subsidiaries:

Domestic
Victor Entertainment, Inc.
Teichiku Entertainment, Inc.
Victor Interactive Software, Inc.
Victor Leisure System Co., Ltd.
JVC Advanced Media Co., Ltd.
Victor Arcs Co., Ltd.
Sanin Victor Sales Co., Ltd.
Okinawa Victor Sales Co., Ltd.
Victor Service & Engineering Co., Ltd.
Victor Data Systems Co., Ltd.
Victor Real Estate Co., Ltd.
Victor Finance Co., Ltd.
Victor Logistics, Inc.

Overseas
JVC Americas Corp.
US JVC Corp.
JVC Canada Inc.
JVC Europe Ltd.
JVC (U.K.) Ltd.
JVC Deutschland GmbH
JVC France S.A.
JVC Nederland B.V.
JVC Belgium S.A./N.V.
JVC Italia S.p.A.
JVC España S.A.
JVC Asia Pte. Ltd.
JVC America, Inc.
JVC Manufacturing U.K. Ltd.
JVC Video Manufacturing Europe GmbH
JVC Electronics Singapore Pte. Ltd.
JVC Electronics Malaysia Sdn. Bhd.
JVC Manufacturing (Thailand) Co., Ltd.
JVC Components (Thailand) Co., Ltd.
JVC Finance B.V.
JVC Entertainment, Inc.
JVC (China) Investment Co., Ltd.

Note: JVC’s fiscal 2000 consolidated financial statements comprise the accounts of 23 domestic and 50 overseas companies, including these principal subsidiaries.

(As of July 2000)

**As of March 2000*

VICTOR COMPANY OF JAPAN, LIMITED

Printed in Japan