The Perfect Experience

Getting Back on Our Feet

Victor Company of Japan, Limited

Annual Report 2006

For the year ended March 31, 2006

The Perfect Experience

Our ultimate goal is to deliver the power and emotion of entertainment.

Whether hanging out with friends, relaxing with family, or just having fun, we want to help you have a good time.

How? By providing unique, high-quality products and services that bring the energy, rhythm, and emotion of audiovisual content to you and creating new and exciting ways to communicate. In this way, we hope to inject richness and color into people's lives.

In short, our commitment is to deliver "The Perfect Experience"—truly moving experiences and total customer satisfaction.

Contents

Performance & Strategies

Victor Company of Japan, Limited (JVC), will continue to move forward with and **bolster operational reforms**, work to become **a top niche player**, and overhaul its operations from the perspective of **core and non-core businesses** to get back on a growth track.

Corporate Social Responsibility

JVC is committed to enriching people's lives, **contributing** to cultural advancement, and being a **good corporate citizen** that is **trusted** by the international community as well as is engaged in a wide array of activities aimed at achieving these management goals.

Corporate Information

We will protect the **JVC brand** that has been built over the years and establish our own position so that the business can be passed on for generations to come.

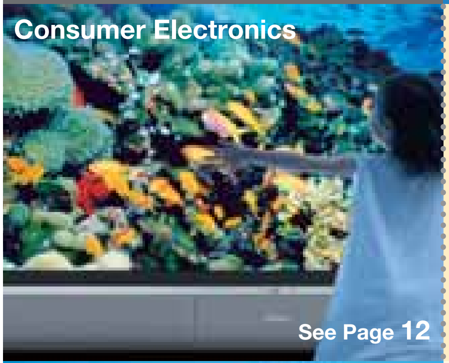
Financial Information

In fiscal 2006, JVC generated consolidated **net sales** of ¥806.9 billion, and recorded an **operating loss** of ¥6.9 billion and a **net loss** of ¥30.6 billion.

JVC at a Glance

Segment	Percent of Total Fiscal 2006 Sales	Sales (Billions of Yen)

Consumer Electronics



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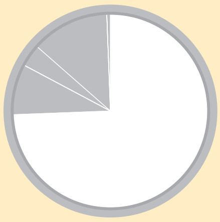
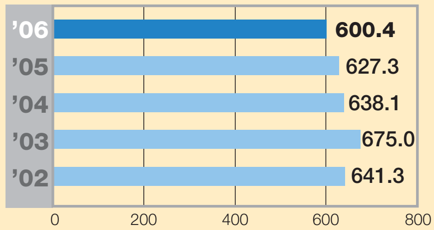
74.4%





Professional Electronics

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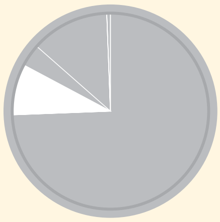
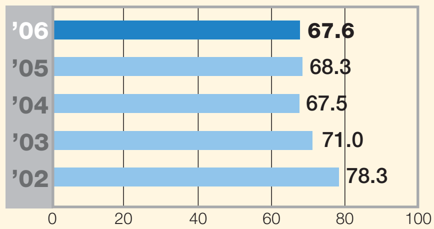
8.4%





Components & Devices

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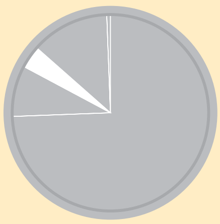
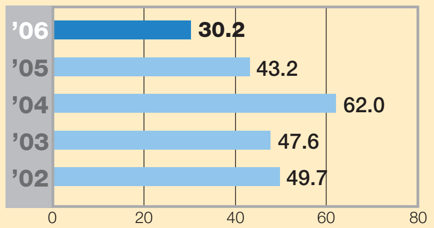
3.7%





Software & Media

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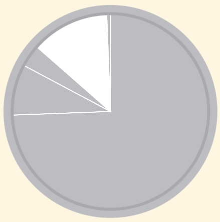
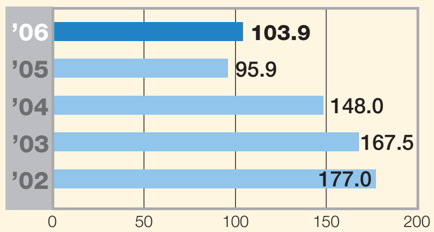
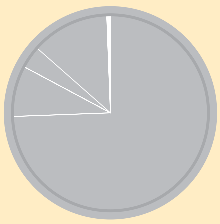
12.9%

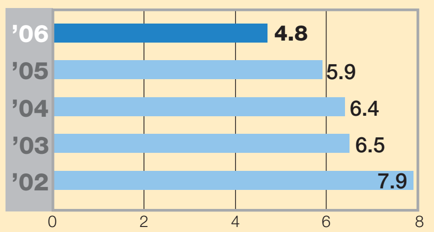




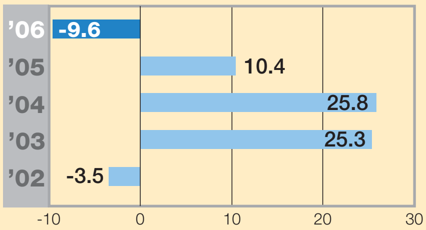
Other

0.6%



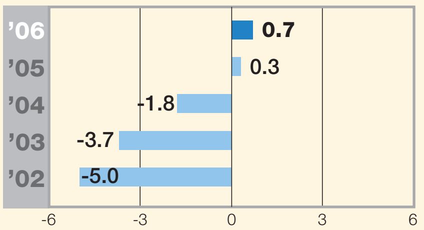


Operating Income (Loss) (Billions of Yen)	Major Products	Highlights



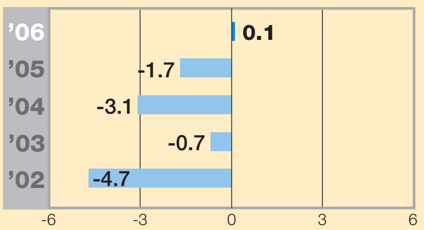
- Televisions
- Digital video cameras
- DVD players/recorders
- Car AV systems
- Audio systems
- VCRs

- Despite robust sales of LCD TVs and hard disk camcorders, segment sales in Japan were down as a result of the poor performance of DVD equipment and MD audio products.
- Growth in sales of HD-ILA hybrid projection TVs in the United States and video cameras outside of Japan were hampered by lower sales of CRT TVs and the streamlining of the DVD equipment lineup due to quality issues, resulting in flat overseas sales.



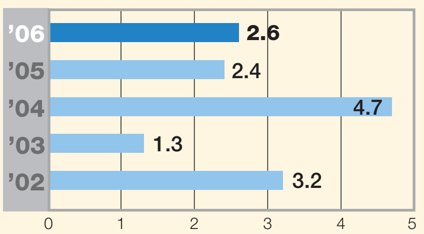
- Video surveillance equipment
- Audio equipment
- Video equipment
- Projectors

- Sales of professional HDV high-definition camera recorder and security products were strong overseas; however, sluggish sales of system products and such security products as video surveillance equipment in Japan led to a decline in segment sales.



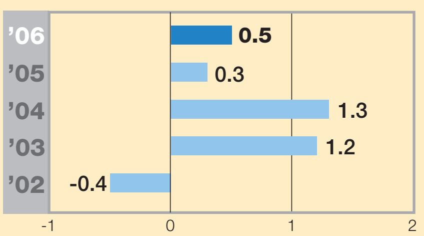
- Motors
- Optical pickups
- High-density, multi-layer printed wiring boards (PWBs)
- Deflection yokes

- Although sales of motors for hard disk drives gained ground, segment sales decreased due to the rapid contraction of the deflection yoke market and structural reforms designed to narrow the focus of the business.



- Recordable media
- Pre-recorded audio and visual software, including CDs, DVDs, and videotapes

- Recordable media struggled amid a decline in the price of digital products.
- Sales of pre-recorded music software grew as major artists kept the hits coming.



- Interior furniture
- Production facilities

Fiscal 2006 Highlights

Fiscal 2006 Highlights

- Two New "Everio" Hard Disk Camcorders GZ-MG77 and GZ-MG67 and SHARE STATION DVD Burner CU-VD10 Introduced (February 2006)
- HD-ILA Hybrid Projection TV HD-61MD60 Receives Fiscal 2005 Energy Conservation Grand Prize's Chairman's Award from the Energy Conservation Center, Japan (January 2006)
- Compact Component System with Wood Cone Speakers EX-A10 Launched (October 2005)
- High-Quality Sound Technology "net K2" Co-Developed with Victor Entertainment, Inc., Introduced (September 2005)
- New HD-ILA Hybrid Projection TVs with Newly Developed Full High-Definition D-ILA Device Released (September 2005)
- Top Prizes in the Media Cam and In-Car Multimedia Divisions of the Annual European Imaging and Sound Association (EISA) Awards Presented to JVC (August 2005)
- JVC to Remain UEFA EUROTOP Official Partner (June 2005)
- World's First Single-Sided, Dual-Layer DVD-RW Disc Technology Developed (April 2005)

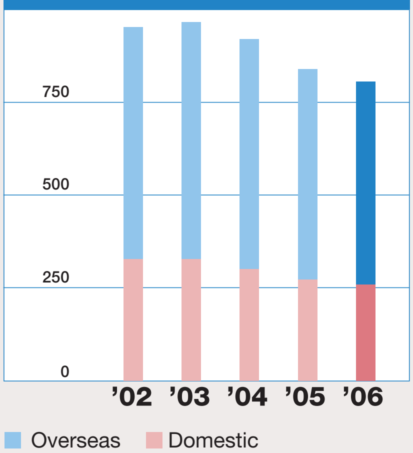
Financial Highlights

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31

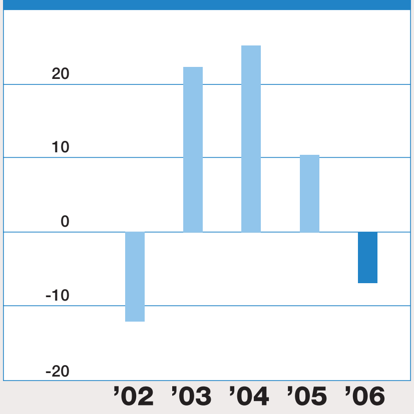
	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
For the year:				
Net sales	**¥806,900**	¥840,591	¥921,978	**$6,896,581**
Overseas	**547,784**	567,565	619,962	**4,681,915**
Domestic	**259,116**	273,026	302,016	**2,214,666**
Net income (loss)	**(30,608)**	(1,858)	15,609	**(261,607)**
Capital expenditures	**29,490**	28,959	25,900	**252,051**
Depreciation and amortization	**26,848**	23,422	22,735	**229,470**
At year-end:				
Stockholders' equity	**¥136,289**	¥158,236	¥159,326	**$1,164,863**
Total assets	**446,812**	466,549	507,117	**3,818,906**
	Yen			U.S. dollars (Note 1)
Per share:				
Net income (loss)	**¥ (120.5)**	¥ (7.7)	¥ 61.1	**$ (1.03)**
Diluted net income	**—**	—	57.9	**—**
Cash dividends (Note 2)	**—**	5.0	5.0	**—**

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥117 to U.S.$1, the approximate rate prevailing on March 31, 2006.
2. Cash dividends represent amounts applicable to respective years.

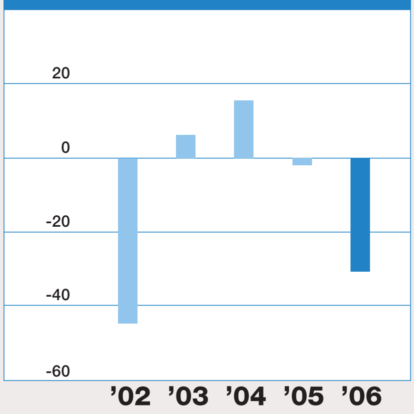
Net Sales
(Billions of yen)



Operating Income (Loss)
(Billions of yen)



Net Income (Loss)
(Billions of yen)



Masahiko Terada, President

"We will forge ahead with ongoing reforms to rebuild our business and pave the way for a bright future."

Where We Went Wrong

Fiscal 2006 Results

In fiscal 2006, ended March 31, 2006, Victor Company of Japan, Limited (JVC), saw, on a consolidated basis, net sales decline 4.0%, to ¥806.9 billion, and reported an operating loss of ¥6.9 billion, compared with operating income of ¥10.4 billion in the previous fiscal year, and a net loss of ¥30.6 billion, compared with a net loss of ¥1.9 billion in the previous fiscal year. We deeply regret having to announce these results after two rounds of downward revisions.

Although fierce competition spurred by the advent of digital AV products has led to continued deterioration in corporate performance subsequent to the latter half of fiscal 2005, product quality issues are mainly to blame. In response, we kicked off operational reforms in the beginning of fiscal 2006 and launched management reforms to reinforce our business structure, including employment structure reform, Companywide organizational reform, and production site realignment, in the latter half of the fiscal year. Nevertheless, JVC's mainstay Consumer Electronics business segment recorded greater-than-projected service costs for the fiscal year under review, owing to quality issues with DVD recorders. In addition, sales opportunities were lost due to delays in the development of LCD TVs stemming from an unsuccessful outsourcing strategy. Largely as a result of these two events, we were not able to put a brake on the downturn in performance within the promised time frame. This is something that I, as president, accept responsibility for and realize is unacceptable.

Factors Contributing to Poor Performance

Why did performance decline despite the implementation of management reforms? Our first order of business is to clearly identify the true causes of weak results.

First, management transparency was insufficient. We had to revise our performance forecasts downward twice because we were unable to get a clear read on actual business conditions—from goals and progress to risks throughout the organization—due to the detrimental impact of the conventional in-house company system's multilayered structure and sectionalism.

Second, management anchored in autonomous responsibility has yet to be firmly established. Since not all department managers were fully aware that they must take responsibility for their plans, management was unable to successfully perform the critical task of ascertaining the status of frontline operations and quickly responding to changes in operating conditions. We were not able to break free from delays in new product development and respond to falling prices because we failed to make speedy decisions linking development, production, and sales as well as take action.

Right now, the greatest challenge for JVC is to eliminate these two root causes of underperformance. If we are to accomplish this, we must shore up our communication skills, strengthen our ability to respond to frontline needs, and create a new corporate culture that can keep pace in the digital era. In addition, we must remain determined to clear our path of all obstacles.

Fiscal 2007 Issues and Objectives

Fiscal 2007 marks the final year of our medium-term plan Leap Ahead 21. However, with operations in their present state of disarray, we recognize that our most pressing task is to figure out how to recover from the fall that we took in fiscal 2006 and get back on our feet. Our ultimate goal is to restore the market's confidence in the Company by demonstrating that we are steadily making solid progress toward recovery.

JVC will implement management reforms aimed at returning to profitability in fiscal 2007, building a strong management foundation in fiscal 2008, and positioning the Company for growth in fiscal 2009. Reconstruction-oriented measures will focus on the following three objectives: (1) continuing and strengthening operational reforms, (2) reinforcing product strategies rooted in establishing the Company as a top niche player, and (3) overhauling operations from the perspective of core and non-core businesses as well as developing new businesses.

1. Continuing and Bolstering Operational Reforms

Regarding organizations that were restructured via Companywide organizational reform implemented in November 2005, JVC has launched initiatives to put in place a style of management that emphasizes autonomous responsibility to enhance management transparency and speed. We are already starting to see the benefits of these efforts, and in fiscal 2007, we will go a step further by implementing measures to bolster operational reforms to tie these benefits to actual results.

Specifically, we will put organizations newly established as a result of Companywide organizational reform into full play to strengthen our capacity for technological innovation, bolster our procurement strategies, revamp marketing initiatives, and overhaul production sites.

2. Reinforcing Product Strategies Rooted in Establishing the Company as a Top Niche Player

JVC's brand statement, "The Perfect Experience," embodies our commitment to deliver truly moving experiences and total customer satisfaction through high-quality sound and images. To make this ring true, we place more emphasis on the quality of our products and services than the scale of our operations and are not working to be number one but to be recognized globally as a truly unique company.

It is also critical that we find our niche, an area where we can build a strong presence as a manufacturer that is vital to the AV market. Once we have found a place that we can call home, we will bolster our presence to become a top niche player by making the most of the technological prowess that we have garnered over the years to create original products that set us apart from the competition.

The Nuts and Bolts

JVC will reinvent its corporate culture through sweeping operational reforms to come out a winner in the era of digital AV.

Fiscal 2006 Operational Reforms

Companywide organizational reform

- Elimination of the in-house company system
- Placement of the consumer electronics business's marketing departments under the direct control of headquarters
- Streamlining of shared support departments

Employment structure reform

Initial plan:
500-employee workforce reduction
Actual results:
723-employee workforce reduction

Production site realignment

Elimination of one domestic production site (Tsurugamine Plant) and one overseas production site (Berlin Plant)

Consideration of new business development

Establishment of the Committee for the Creation of New Businesses

Continuation and Reinforcement of Operational Reforms in Fiscal 2007

Organizational realignment of technology departments

- Implement organizational reform to link core technology development and growth strategies
- Bolster overseas R&D centers' product development capabilities
- Accelerate development process reforms (establish an Engineering Innovation Promotion Center)
- Strengthen software technology capabilities

Expansion and strengthening of the Global Marketing Department

- Enhance the Global Marketing Department's function with regard to domestic and overseas consumer electronics operations
- Shore up sales framework for the BRIC (Brazil, Russia, India, and China) countries
- Develop new sales channels and expand existing sales channels for distinct products (existing: prosumer; new: Internet, installment business)

Strengthening of the Global Procurement Center

- LCD panels: Build new alliances with manufacturers in Japan, Republic of Korea, and Taiwan
- System LSI: Strengthen relationships with LSI production manufacturers to fully leverage our software development capabilities

Realignment of production sites to speed up management and curb production costs

- Rebuild the production framework for displays
- Launch an integrated, global production management system

New business development

- Bring to market a full HD home projector and a 4K x 2K super high-definition projector for professional use
- Establish a new business model utilizing JVC's original high-quality "net K2" sound technologies
- Put together a sales force dedicated to high-end home theaters
- Harness development power to accelerate the commercialization of next-generation optical disc products

As we move forward with product-differentiation strategies, we will focus on hard disks, high definition, and networks. Anchored in these three areas, JVC will draw on its roots in high-quality sound and image technology to bring to the world completely new forms of entertainment.

In addition, we will expand existing sales channels that enable us to clearly communicate to customers what makes our products unique and develop new sales channels that are in tune with the times in order to boost sales of unique products.

3. Overhauling Operations and Developing New Businesses

To thrive amid intensifying competition triggered by the emergence of digital AV products, we need to reinforce our strategies for securing a position as a top niche player while reworking existing operations and developing new businesses to make effective use of management resources.

To this end, JVC has realigned its existing operations into five core and non-core businesses—the consumer electronics, professional electronics, devices, music entertainment, and media.

We have positioned consumer electronics and music entertainment operations, which have existed since the Company's very foundation and lie at the heart of our corporate identity, as core businesses. Serving as the pillars for Companywide operations, these two businesses will work to enhance corporate value while seeking to collaborate with each other.

At the present time, the consumer electronics business's growth engine is displays, and a substantial portion of its revenues is derived from video cameras and car AV systems; however, JVC is narrowing the focus of these operations and will revise all product categories in the business over the medium term from the perspective of growth potential and profitability.

In the music entertainment business, we aim to break away from our dependence on major hits and create a style of management where there are always numerous artists in the pipeline, from talent that has just been discovered to artists in the mid-career stage and stars at the height of their careers. In addition, we will seize business opportunities arising from such changes in the market as digitization and networking by leveraging the contents that we own in various arenas, including the licensing business, and building new business models and frameworks.

Turning to non-core operations, our first step will be to streamline the product categories within each business to sharpen the focus of these operations and harness the benefits of synergies with the two core businesses.

In professional electronics, JVC will target the prosumer market, which bridges the high-end consumer market with the traditional professional electronics market, and focus development activities on specific markets and products capable of generating synergies with core businesses.

As for device operations, we will identify devices that can be used in in-house products as well as devices that can be supplied to other companies to form partnerships with vendors—devices like our motors for hard disk drives—and invest management resources in these devices.

The media business can be classified broadly into pre-recorded software and recordable media. We will focus on maximizing the synergies stemming from the fulfillment role that pre-recorded software plays in the core music entertainment business as well as the synergies between recordable media and recorders in the consumer electronics business. In this way, we will increase our focus on key businesses.

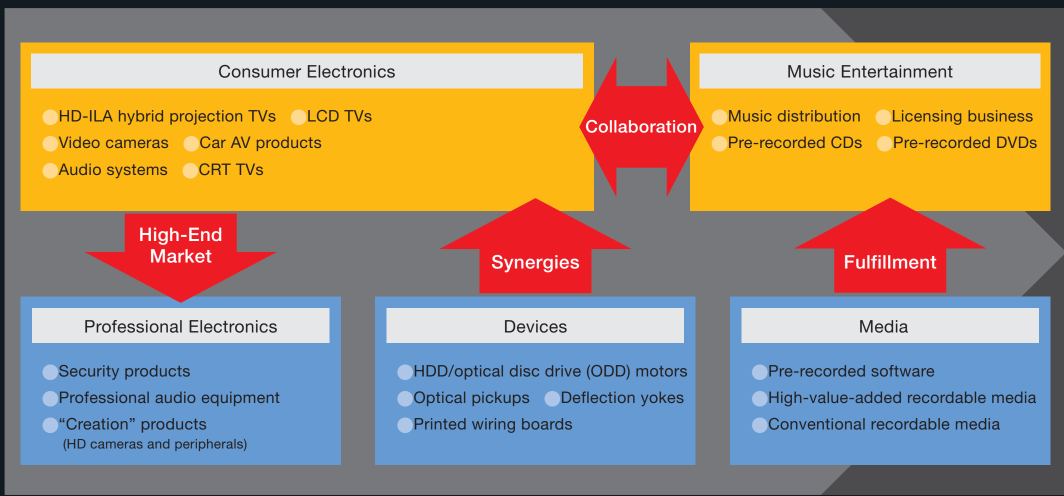
The Committee for the Creation of New Businesses, which began operations in November 2005 as part of Companywide organizational reform, is conducting Companywide deliberations pertaining to the development of new businesses. This committee establishes the direction of Companywide R&D activities, examines and makes decisions regarding the commercialization of products in line with the Company's approach to R&D, and makes efficient use of management resources.

Getting Back on Our Feet

We will rework our existing operations from the perspective of core and non-core businesses to maximize synergistic effects and fully unleash our originality.

Business Restructuring

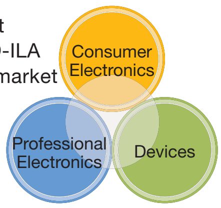
1. Classification of operations into core and non-core businesses
2. Pursuit of synergistic effects between businesses



Core business | Non-core business

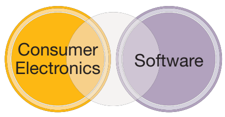
Initiatives to Create New Businesses Will Draw Upon the Collective Strengths of All Operations

- Introduce professional front projectors equipped with D-ILA in the high-end consumer market

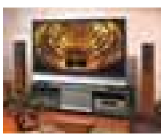


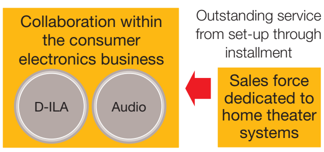
- Apply JVC's high-quality "net K2" sound technologies in the network field

net K2

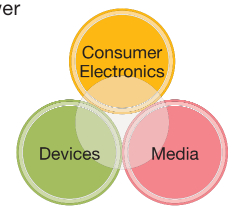


- Actively invest in the promotion of home theater systems made up of distinct products via dedicated sales representatives





- Focus development power on accelerating the commercialization of next-generation optical disc products



“We Pledge to Return to Our Brand’s Roots and Make a Comeback.”

We are responsible for passing on the JVC brand to the next generation. Our corporate brand is backed by sophisticated technological capabilities developed over the years and our constant pursuit of originality.

JVC’s strong emphasis on technology and originality, however, has tended to diminish the amount of attention given to the time-to-market concept wherein frontline development, production, and sales activities are connected to ensure the timely launch of products. It is vital that each employee squarely faces his tasks, forges ahead with determination, and fulfills his responsibilities and that we put into practice a customer-oriented management system that leverages the collective knowledge of the Group via teamwork that pools individual strengths if we are to change this climate and strike a balance between the time-to-market concept and originality.

Active communication throughout the entire Group and employees who take the initiative to put forth innovative ideas will drive us ahead of the competition and put us on the path to victory in the new era.

JVC is all about delivering truly moving experiences and total customer satisfaction through high-quality sound and images. It is what customers have come to expect of us.

However, as a public institution using social infrastructure to generate profits, a corporation must fulfill such social obligations as ensuring the safety of its products and minimizing the environmental impact of its operations. In addition, a corporation is called upon to accurately assess and meet the needs and expectations of society.

From this perspective, we need to transform the mind-sets of all employees by once again reinforcing management transparency and autonomous responsibility-based management, which are critical steps toward achieving a turnaround in performance, and build on these changes to create a new corporate culture.

In fiscal 2007, JVC projects, on a consolidated basis, net sales of ¥830.0 billion, operating income of ¥10.0 billion, and net income of ¥2.0 billion. All of us at JVC will work together to meet these forecasts and win back the market’s confidence by returning to profitability in one year.

In light of our performance, we have decided to waive dividends for the fiscal year under review. This was an extremely difficult decision, and we will do everything in our power to resume dividend payments as soon as possible.

Last, in 2007, JVC will celebrate its 80th anniversary. Going forward, we ask for your continued support and understanding as we move resolutely ahead with management reforms to meet the expectations of stockholders and all other stakeholders.

July 2006

M. Terada

Masahiko Terada
President

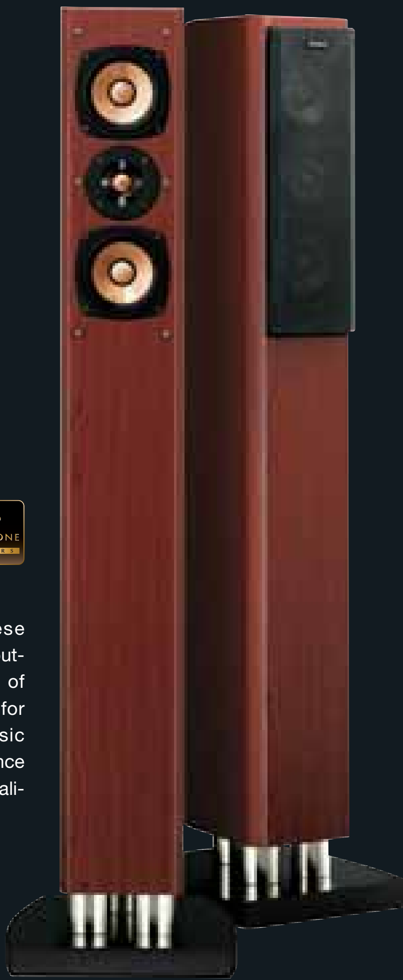
Aspiring to Be a Top Niche Player

In areas where its original technologies allow the Company to really shine, JVC is proactively introducing distinct products that set the Company apart from its competitors. We aim to position these products as growth drivers to expand Companywide sales.

"Everio" Hard Disk Camcorders

The world's first* camcorders to use a compact, hard disk drive as a storage device, "Everio" camcorders offer an outstanding level of convenience and new possibilities for creation that have earned the line strong sales worldwide.

* As of September 14, 2004, for household-use camcorders utilizing a one-inch hard disk drive as a storage device for MPEG-2 video



WOOD CONE SPEAKERS

Wood Cone Speakers

Audio systems using these speakers, which harness the outstanding acoustical qualities of wood by using the material for its diaphragms, delight music fans by bringing the performance to them through vivid, high-quality sound reproduction.

HD-ILA Hybrid Projection TVs

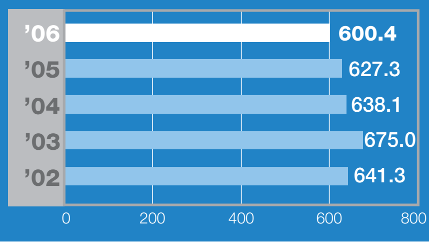
The third JVC option for large-screen flat-panel TVs, our HD-ILA hybrid projection TVs incorporate our proprietary reflective LCD device—D-ILA—to bring high-definition, high-resolution images to people around the world.

Consumer Electronics

% of Total FY2006 Sales

74.4%

Sales (Billions of yen)



An integral part of JVC’s corporate identity, the Consumer Electronics segment’s goal as a core business is to deliver truly moving experiences and total customer satisfaction through high-quality sound and images. Looking at growth potential and profitability, D-ILA equipped products and LCD TVs are driving this segment’s growth, and video cameras and car AV systems are generating a substantial portion of its revenues.

In fiscal 2006, the Consumer Electronics segment posted sales of ¥600.4 billion, representing a 4% decline from the previous fiscal year and accounting for 74.4% of total Group sales. In addition, the segment reported an operating loss of ¥9.6 billion, representing a ¥19.9 billion decline from the previous fiscal year. This was the key factor contributing to the downturn in the Group’s performance.

D-ILA Equipped Products

The D-ILA business is one of this segment’s growth drivers that use JVC’s proprietary, in-house manufactured reflective LCD device “D-ILA” as a key device. HD-ILA hybrid projection TVs incorporate this device to achieve energy efficiency along with bright, high-resolution large-screen images. In fact, our 61-inch screen hybrid projection TV received the Fiscal 2005 Energy Conservation Grand Prize’s Chairman’s Award from the Energy Conservation Center, Japan. In July 2004, JVC began selling HD-ILA hybrid projection TVs in North America and has since positioned these products as the third JVC option for large-screen flat-panel TVs, along with plasma and LCD TVs.

In fiscal 2006, we achieved a more than 2.5-fold increase in the sales volume of HD-ILA hybrid projection TVs in North America by expanding retail channels, mainly local mass market retailers and AV specialty stores, and increasing product recognition through proactive marketing. JVC launched its HD-ILA hybrid projection TVs in Japan in June 2005, in China and other parts of Asia in fall 2005, and in Europe in 2006 to raise sales worldwide. In addition, the Company enhanced its HD-ILA projection TV lineup in fall 2005 with the addition of 1,080 pixel full HD sets capable of reproducing digital high-definition broadcasts without any loss of image quality.

In fiscal 2007, JVC will move from the development stage to full-fledged operations, working to meet its target of total sales of 240,000 sets, representing 73% year-on-year growth. Looking at strategies by region, the Company plans to further expand its sales channels in North America, focusing on warehouse clubs, and commence the full-scale introduction of HD-ILA hybrid projection TVs in Europe and countries in Asia outside of

Full High-Definition HD-ILA Hybrid Projection TV with New Genessa/ D.I.S.T. DynaPix Technology

HD-ILA hybrid projection TVs are the third JVC option for large-screen flat-panel TVs, along with plasma and LCD TVs. Our HD-ILA hybrid projection TVs incorporate our newly developed 0.7-inch full high-definition microdisplay device “D-ILA” to achieve 1,920 x 1,080 pixel resolution capable of producing true-to-life, full high-definition images.

Japan. As for individual products, we intend to launch additional full HD models as well as models with even larger screens and sets that are even slimmer to offer an even higher level of added value.

In addition, JVC will develop D-ILA front projectors, which the Company has traditionally positioned as products for professional systems, for use in the home, with an eye to the prosumer and high-end consumer markets. Armed with full HD, high-resolution home projectors with a 10,000:1 contrast ratio, we will establish JVC as a leading brand in high-quality, large-screen displays.

LCD TVs

In fiscal 2006, our LCD TV operations missed out on sales opportunities in the first half of the year due to development delays stemming from outsourcing management failures, mainly with regard to products for the European market, and encountered greater-than-anticipated price erosion in the North American market in the latter half of the year, leading to substantial deterioration in the Company's performance.

Against this backdrop, JVC implemented its H (High)/L (Low) strategy, which is designed to reflect the added value of innovative products in prices and ensure profitability through the development of a high-end line and a low-end line to support high-end products by securing a certain volume of sales, in Europe in the fiscal year under review. This strategy started to produce solid results in the latter half of fiscal 2006.

In fiscal 2007, we expect the market environment to remain tough and will put our H/L strategy into full play. Large screens, high-quality images, and fast response will serve as differentiating features of our high-end products. We will introduce 46-inch screen sets and strive to deliver even better pictures via our Genessa/D.I.S.T. DynaPix image processing engine. In addition, we will bolster our product lineup by expanding the use of our Clear Motion Drive, which plays an instrumental role in setting our LCD TVs apart from the competition by achieving crystal clear reproduction of fast-moving images, to include full HD models as well as 32-inch models of product lines for which the drivers are already in use in larger models.

Turning to regional strategies, JVC will strive to enhance sales in Europe where the Company is securing a market position via its H/L strategy to raise the portion of net sales of our LCD TV business accounted for by this region to 60% in fiscal 2007. In addition, we will establish a solid procurement framework for panels to ensure that quality, volume, and cost needs are met by forging additional alliances with panel manufacturers. Through these initiatives, we aim to improve earnings and develop LCD TVs as a growth engine for the Company's operations.

LCD TVs Equipped with a Clear Motion Drive

Armed with the world's fastest* Clear Motion Drive, these LCD TVs keep up with fast-paced action to deliver sharp, realistic images.

*At 120Hz, this is the fastest driver used in the world for household LCD TVs. (Based on the Company's findings)

Video Cameras

Recordable media for video cameras is shifting from conventional videotapes to DVDs, solid-state memory, and other new forms of media at dizzying speed. In this setting, JVC turned its attention to the outstanding features of hard disks—compact size, high capacity, and high-speed access—and in fiscal 2005 became the first to bring hard disk camcorders to the market with the launch of "Everio." In fiscal 2006, the Company built on this success with the introduction of its second generation of "Everio" camcorders with built-in hard disk drives, winning over numerous customers worldwide with new groundbreaking ways to use video cameras. As a result, tremendous growth was reported in sales of "Everio" products, making for highly profitable video camera operations, which helped to support the Company's revenue base along with car AV systems.

The popularity of "Everio" camcorders has put hard disk-based video cameras on the market's product category map. However, competition is expected to heat up in the future as a spate of new players emerges to vie for a share of the expanding market. In this business climate, JVC will accelerate its shift from conventional videotapes to hard disks, reinforce its product lineup to meet diverse user needs, and enhance its DVD burner and other peripherals to improve its market position. In addition, we will lead the industry as a pioneer in hard disk camcorders, offering customers a more enjoyable, convenient AV life.

"Everio" Hard Disk Camcorders

These camcorders are the first in the world[1] to offer easy, direct DVD burning[2] when used in combination with the "Everio" SHARE STATION (sold separately).

Notes: 1. As of February 2006, for household-use camcorders (according to Company data)
2. Not compatible with certain models

SHARE STATION DVD Burner for "Everio*" Series Camcorders

No computer needed. Just connect this DVD burner to an "Everio*" camcorder with a USB cable and enjoy.

* Not compatible with certain models.

Car AV Systems

In car AV equipment, factory-installed products gained a larger share of the market, mainly in developed countries, and there was contraction in the after-market. Against this backdrop, JVC's car AV systems business shifted the focus of its lineup from audio products to visual products while working to offer even greater added value and expand sales.

In fiscal 2006, the Company's DVD/CD receiver with a built-in 3-inch LCD monitor (KD-AVX1) was a huge hit in Europe and the United States, helping to boost the percentage of car AV systems sales accounted for by visual products to around 20%. In addition, we strengthened our brand image by launching a stream of distinct products that offer superior added value, including wood cone car speakers that employ JVC's proprietary technology. As for performance by region, although we struggled in the key market of North America, we captured a larger market share in Europe and did even better than expected in Asia, excluding Japan.

In fiscal 2007, JVC will endeavor to enhance its product offerings, primarily DVD receivers; strengthen its presence in the car AV market; and expand sales. In April 2006, we established a sales company specializing in car AV systems in the United States to bolster the development of new sales channels, including specialty stores, in North America. In the growing market for factory-installed car AV system, we will establish a foothold in the secondary market for factory-installed products in countries in Asia outside of Japan, from which we will gradually build up sales.

Car AV systems is one of JVC's businesses that consistently generates revenues. Going forward, we will work to fortify this revenue base by leveraging new product categories and sales channels to expand sales.

DVD/CD Receiver

This DVD-CD receiver with a 3.5-inch wide monitor features a true-to-life 5.1 channel surround sound processor.

Audio

In fiscal 2006, the audio market changed dramatically with digital audio players gaining ground worldwide while retail prices, mainly those for home theater systems overseas, plummeted and markets for MD compact component systems and other existing product categories in which the Company excels continued to contract. Consequently, JVC's audio operations had a tough time generating sales and profits.

In fiscal 2007, our top priority will be to rebuild operations. To accomplish this, we will focus on introducing a steady stream of high-value-added products that live up to the JVC name and clearly demonstrate our ability to innovate—products like our audio systems featuring wood cone speakers. In the home theater market, we will strive to boost sales, concentrating on products equipped with our proprietary front surround sound systems, while bringing to market uncompromising home theater systems that marry audio products, which leverage JVC's high-quality sound technologies, with such large-screen, high-definition displays as HD-ILA hybrid projection TVs to recreate the power of the movie theater experience.

In the digital audio player market, which is projected to continue to grow in the future, JVC will leverage its "K2" high-quality sound technology to create cutting-edge audio systems with networking capabilities.

In addition, JVC will strive to increase profitability in fiscal 2006 by offering products with exceptional added value and improving operational efficiency through the consolidation of production sites.

DVD Compact Component System

This groundbreaking DVD compact component system takes the superb sound achieved through wood cone speakers to the next level.

JVC Technology

Wood Cone Speakers

Drawing on sound technology expertise gained over the years, JVC employed proprietary production technologies to create the world's first* speakers with wood diaphragms. These speakers harness the outstanding acoustical qualities of wood, which trump conventional materials used in speaker diaphragms, to achieve natural sound reproduction that is true to its source, be it a musical instrument, a vocalist, or Mother Nature. Our wood cone speakers exemplify our passion for stellar sound reproduction.

*As of March 25, 2003, for speakers manufactured using mass-production technologies

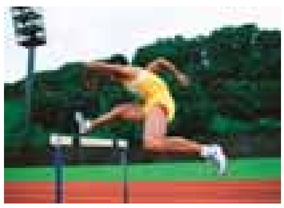
High-Speed LCD Driver

Unlike conventional drivers that produce images at the speed of 60 frames per second, our high-speed driver uses a high-precision interpolation algorithm to produce images at 120 frames per second, dramatically reducing the blurring and ghosting that is common in conventional LCD TVs. With this technological innovation, such fast-moving images as newscast tickers, action scenes, and sports games come through crystal clear.

Conventional LCD Drivers

Motion is blurred with ghosting effects

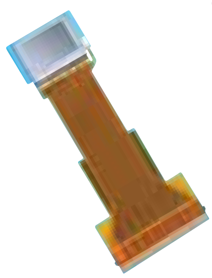
High-Speed LCD Drivers



Motion comes through crystal clear

Reflective LCD Device "D-ILA"

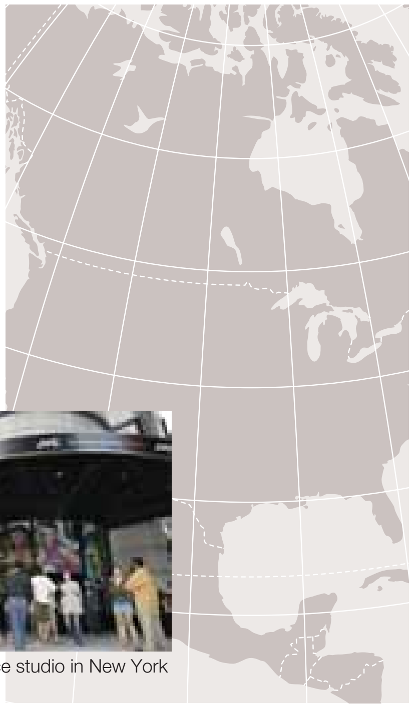
JVC's proprietary reflective LCD device is a microdisplay device for projectors that strikes a balance between high luminosity and high definition.



Characteristics

- High aperture ratio delivers amazingly smooth images
- Production of natural images with depth
  —High contrast and high-speed response
- Outstanding reliability and longer operating life

Americas



In the fiscal year under review, although we achieved robust sales of “Everio” hard disk camcorders and DVCs, bolstered our lineup of HD-ILA hybrid projection TVs and expanded sales channels for these products, and saw growth in the LCD TV market, sales in the Americas remained unchanged from the previous fiscal year due to such factors as lower sales stemming from contraction in the CRT TV market, the streamlining of our DVD recorder offerings, and shrinkage in the audio market.

In fiscal 2007, JVC will bolster its channel strategies for each product. As for HD-ILA hybrid projection TVs, the Company will raise the percentage of sets sold through warehouse clubs as a key step in the rebuilding of display operations. Turning to video cameras, which performed well in fiscal 2006, JVC will establish a strong position for these products at leading and local mass market retailers to further expand sales.

Promotional bus tour for HD-ILA hybrid projection TVs and “Everio” camcorders

JVC billboard in New York’s Times Square

The Perfect Experience studio in New York

Europe

In fiscal 2006, the European economy as a whole showed signs of improvement, and the consumer electronics industry expanded roughly 6% from the previous year on the back of growth in such products as flat-panel TVs and digital audio players. However, there was double-digit, year-on-year contraction in all of the markets in which JVC excels, including video cameras and home audio products. Although the Company recorded major growth in sales of video cameras and LCD TVs, this was not enough to offset such factors as a decline in sales of conventional audio products and CRT TVs stemming from market shrinkage and the streamlining of DVD recorder offerings. Accordingly, sales for the region fell 14% from the previous fiscal year.

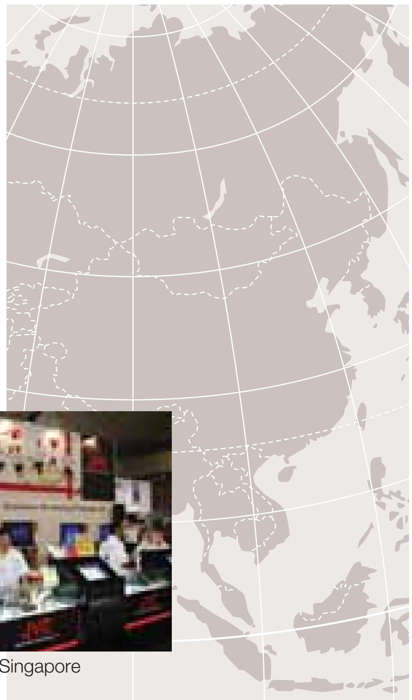
In fiscal 2007, we will focus our sales activities in Europe on LCD TVs. We aim to boost sales by strengthening our H/L strategy and increasing the percentage of sales generated via buying groups and independent retail chains. In addition, we will work to generate growth in sales of video cameras through the development of partnerships with pan-European dealers and new sales channels, concentrating on “Everio” hard disk camcorders.

Outdoor advertising campaign in France for “Everio” camcorders

Meeting for key dealers in Europe

JVC Benelux B.V. sponsors MF1 driver Christijan Albers

Asia and the Middle East



In fiscal 2006, sales in Asia and the Middle East remained stable from the previous fiscal year as robust sales of car AV systems, LCD TVs, and video cameras offset lower sales of CRT TVs.

In fiscal 2007, JVC will take full advantage of its R&D center in this region, fine-tuning its product offerings, including video cameras, home audio products, and TVs, to better meet local needs while enlisting the cooperation of dealers to strengthen country- and product-based strategies. The Company will also roll out country-based promotional campaigns and shore up store displays to further increase sales of "Everio" hard disk camcorders—a key product exhibiting a strong performance.

Meeting for distributors in the Middle East and Africa

"Bringing the 'Everio' Experience to One Million People" campaign in China

Exhibition and sale in Singapore

Japan

In fiscal 2006, growth in sales of LCD TVs and a strong showing by video cameras owing to the stellar performance of "Everio" hard disk camcorders were hampered by the streamlining of the DVD recorder lineup as well as lower sales of audio products stemming from the rapid shift in the market to digital audio players. Consequently, sales in Japan were down, compared with the previous fiscal year.

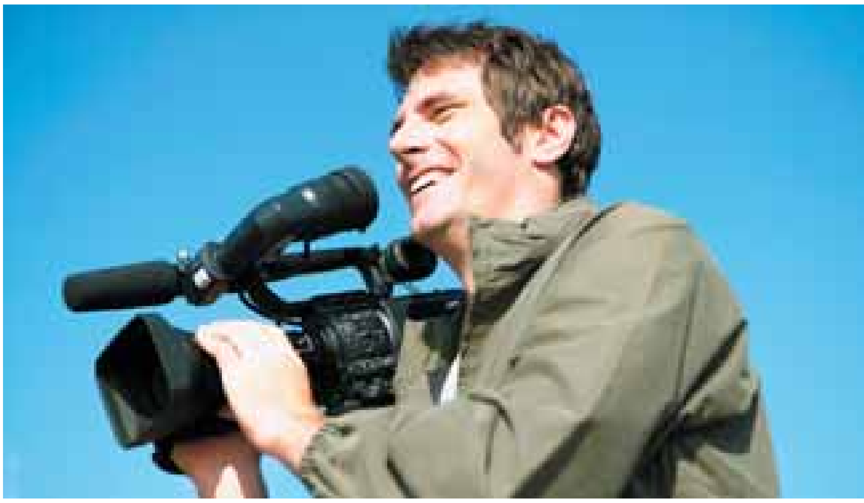
In fiscal 2007, JVC will strive to improve profitability by boosting sales of products with outstanding added value in lieu of pursuing the expansion of operations. To accomplish this, we will strengthen sales channel-based initiatives at stores to convey our distinct products' strengths to customers with the aim of increasing sales. Specifically, we will work to showcase our displays' large screens, full HD, and fast response as well as expand sales of "Everio" hard disk camcorders equipped with 3CCD technology—a strategic product that we plan to use to establish a solid position in the market for video cameras with high pixel counts. In addition, we will reinforce our framework for following up on existing sales channels and work to enhance sales of truly unique products that meet user needs.

Kohmi Hirose concertgoers check out "alneo" digital audio player headphones on display.

Members of the press gather to try out "Everio" camcorders.

JVC booth at CEATEC 2005

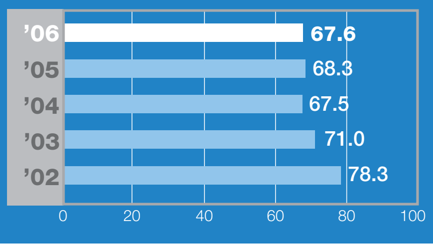
Professional Electronics



% of Total FY2006 Sales

8.4%

Sales (Billions of yen)



Anchored in strong products featuring proprietary differentiating technologies, this segment specializes in two key areas—security products for which the Company has long enjoyed a robust sales foundation and presentation systems, including professional cameras. Going forward, we will strengthen cooperation with the Consumer Electronics business segment by developing core technologies and components while working to achieve our targets and moving forward with initiatives in the high-end consumer market.

In fiscal 2006, although sales edged down 1% from the previous fiscal year, to ¥67.6 billion, operating income advanced ¥0.4 billion, to ¥0.7 billion. In security products, one of the Professional Electronics segment’s mainstay businesses, market expansion spurred by growing worldwide demand for higher safety was countered by fiercer competition and falling prices due to a rise in market participation. In addition, a clear shift in demand arose in Japan, where private-sector demand grew and public-sector demand was sluggish. Although JVC spiced up its product lineup with such additions as hard disk recorders with a built-in DVD drive and shifted the focus of its product development and marketing activities to the private sector, these initiatives were not sufficient enough to avoid a slight downturn in the performance of security products. Presentation systems, however, achieved double-digit sales growth, supported by the launch of professional HDV high-definition camera recorders. These HDV camera recorders rapidly captured an approximately 15% worldwide share of the market for similar products, gaining a foothold for fiscal 2007 and beyond.

In fiscal 2007, we will rework this segment to establish security systems, professional audio systems, and “creation” products as areas of focus while endeavoring to expand these core operations and strengthen our earning power. As for security systems, we will strive to achieve double-digit, year-on-year growth in sales and earnings by bolstering our lineup of high-definition surveillance cameras with networking capabilities, further concentrating our domestic sales force in the Tokyo metropolitan area, accelerating the shift in our focus to private-sector demand in Japan, and building relationships with major overseas partners. In professional audio systems, we will also reinforce private-sector product offerings while working to generate sales synergies with the security systems business, with the aim of boosting sales and earnings, mainly in the retail industry. Turning to the “creation” products business, JVC will strive to achieve double-digit growth in sales and marked improvement in revenues by bolstering its lineup of professional HDV camera recorders and enhancing its offerings for new markets as well as shoring up its editing equipment and other peripherals operations by forging alliances with software companies, increasing market recognition, and enhancing product usability.

Professional HDV High-Definition Camera Recorder

JVC offers a compact, high-performance HD solution that meets the video production needs of today.

Hard Disk Recorder with Built-in DVD Drive

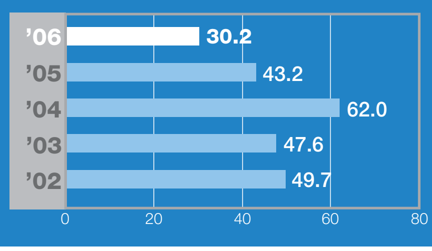
Records high-definition surveillance camera images that can be replayed on most DVD players, thanks to its DVD-Video format compatibility.

Components & Devices

% of Total FY2006 Sales

3.7%

Sales (Billions of yen)



The Components & Devices segment enjoys a strong reputation in the market for its high-performance, high-quality parts that leverage JVC's original technologies and manufacturing processes. Going forward, this segment will support the Company's core Consumer Electronics segment, mainly through the provision of key components, while making the most of this strength.

In fiscal 2006, although sales fell 30%, to ¥30.2 billion, the Components & Devices segment generated operating income of ¥0.1 billion, reflecting a ¥1.8 billion improvement and a return to profitability for the first time in five years. The segment's mainstay motors gained substantial ground, encouraged by such factors as strong sales of motors for 3.5-inch hard disk drives (HDDs) and expansion of retail channels for motors for slim optical disk drives (ODDs). In addition, we succeeded in beating our revenue targets for optical pickups, mainly owing to robust sales of optical pickups for car CD receivers and the launch of optical pickups for car DVD receivers. Meanwhile, we consolidated manufacturing bases for deflection yokes in response to contraction in the market for these products and took other steps to shore up the segment's foundation. In addition, we resolved manufacturing issues pertaining to multi-layer build-up boards, regaining customer confidence and substantially reducing the operating loss for boards.

In fiscal 2007, we will work to further expand operations, focusing on motors. Specifically, we will strive to boost sales of motors for 3.5-inch HDDs and develop motors for 2.5-inch HDDs and slim ODDs as mainstay products.

In addition, JVC will proactively develop optical pickups for car CD and DVD receivers equipped with its original hologram device. In deflection yokes, we will push ahead with structural adjustments in response to changes in demand amid a shrinking market. As for build-up boards, we will introduce module boards that leverage our high-density laminate technologies while breaking into new territory with the aim of turning a profit for the year. Furthermore, we will shore up the segment's development framework by increasing the number of engineers to work on motors and optical pickups to accelerate our growth strategies.

Motors for Hard Disk Drives

JVC has leveraged ultrahigh precision bearings and assembly technology to create low-noise, long-life, shock-resistant motors for hard disk drives.

Optical Pickups for Car CD Receivers

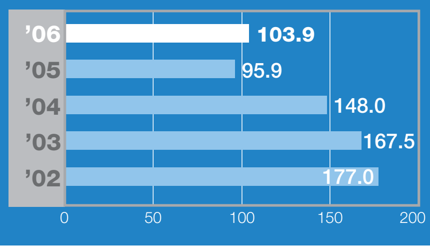
This high-performance optical pickup offers industry-leading heat and vibration resistance and outstanding reliability.

Software & Media

% of Total FY2006 Sales

12.9%

Sales (Billions of yen)



The Consumer Electronics segment is the primary engine driving us toward our goal of becoming a top niche player, the Music Entertainment business is our main source of fuel, and the Media business generates synergies with these two core businesses by manufacturing and selling recordable media and pre-recorded software. Recordable media ties in with such products in the Consumer Electronics segment as recorders and video cameras while pre-recorded software forms a value chain with the Music Entertainment business.

In fiscal 2006, sales for the segment climbed 8%, to ¥103.9 billion, and operating income rose ¥0.2 billion, to ¥2.6 billion.

Media Business

In fiscal 2006, the tide turned even faster toward digital recordable media, and, although the quantity of DVD recordable media sold grew, prices continued to fall. This did not bode well for JVC's flagship DVD-RW media, and, as a result, total sales of recordable media edged down from the previous fiscal year.

Despite a sharp downturn in sales in North America, total sales of pre-recorded software held steady from the previous fiscal year as a result of growth in sales of music software in Japan, including sales of products produced by the Company's artists.

In fiscal 2007, the market for recordable DVD media is projected to grow more than 40% year on year on a quantity basis. In this operating environment, JVC will concentrate on developing such high-value-added DVD media as the world's first dual-layer DVD-RW discs, 8cm DVD discs for video cameras, and other high-durability, high-grade DVD discs to bolster sales while working to expand sales channels.

In addition, we will employ small-lot, multi-product manufacturing, which is becoming mainstream, to enhance the efficiency of our pre-recorded software operations.

DVD-RW Discs (12cm)

JVC's years of experience in disc molding and recording layer formation technologies are the foundation for these high-quality DVD-RW discs that deliver reliable and stable recording performance.

Mini-DV Tapes

These high-quality mini-DV tapes with unique JVC technology bring out the best performance in any mini-DV camcorder.

DVD-RW Discs (8cm)

These 8cm DVD-RW discs feature JVC's original Ultra Hard Coat surface protection technology and are manufactured in Japan to ensure outstanding reliability and quality.

Music Entertainment Business

JVC's Music Entertainment business comprises a number of key companies, including Victor Entertainment, Inc., and Teichiku Entertainment, Inc., which produce and sell music and video content, and Nippon Record Center Co., Ltd., a logistics company.

In fiscal 2006, music CD production costs in Japan rose for the first time in seven years, signaling that the downturn is nearing an end. Although sales of pre-recorded DVDs reached an all-time high, the rate of growth for these products is slowing. There was, however, marked growth in the music distribution market—mainly for mobile phones.

In this period of transformation, Victor Entertainment released new albums by such major artists as the Southern All Stars, SMAP, Dragon Ash, and Love Psychedelico and saw its artist Remioromen become a smashing success, and Teichiku Entertainment launched new hits by the popular artists Kimimaro Ayanokouji, Kanjani Eight, and Nakanomori BAND, contributing to year-on-year growth in sales for the Software business.

In fiscal 2007, the Software business will build on the reinforcements made to its profit structure over the past three years through structural reforms, working to establish an even stronger revenue base by expanding the focus of its operations from pre-recorded music software to a wide range of entertainment products and developing one-source, multiuse licensing operations.

In addition to seasoned artists, Victor Entertainment is developing such new talent as Haruka Ayase, Shonen Kamikaze, SunMin, and Yadokari, and Teichiku Entertainment is developing such new names as indigo blue, Takeshi Matsubara, and Shota Nagayama, with an eye to turning these artists into huge stars that will produce blockbuster hits. Furthermore, we are working to achieve even greater growth by boosting music distribution sales. In this way, we have positioned "discovery" and "development" of artists at the heart of the Software business and will strengthen these core functions to transform the business into a community of creative producers.

Moreover, as one of the few companies with both hardware and software offerings, JVC will promote collaboration between its businesses to create new added value that highlights the Company's strengths.

CD: Southern All Stars
Killer Street

CD: SMAP
Sample Bang!

CD: Remioromen
"Konayuki" (Powder Snow)

CD: Kanjani Eight
Osaka Obachan Rock/Osaka Romanesque

R&D

JVC uses its superior technologies to inspire people, expand the possibilities for creative expression, and create new ways to communicate. Our technologies bring forth the energy, rhythm, and emotion of audiovisual content, transversing time and space to join minds and hearts by putting amazing experiences that last a lifetime within reach. The ultimate goal of all of our R&D activities is to deliver truly moving experiences.

Constantly Strengthening Our Capacity for Technological Innovation

To achieve sustainable growth in the future, JVC must continue to develop and commercialize technologies that produce sound and images of unprecedented quality.

In fiscal 2006, we used our proprietary technologies to develop a new dedicated image processor Genessa/D.I.S.T DynaPix LSI and such high-value-added products as full high-definition HD-ILA hybrid projection TVs equipped with a D-ILA high-definition microdisplay device. In addition, we successfully developed numerous new optical disk media technologies, including DVD and Blu-ray technologies.

Furthermore, the JVC Technology Expert Group (JTEG), which was established in fiscal 2005 to bring together in-house experts in high-quality audio and visual, high-density recording and playback, optical, and other technologies that are key to the Company's operations, has turned out to be a powerful force in the development of products unlike anything seen before. As of March 2006, JTEG comprised 20 members specializing in seven fields. Everyday, group members work to enhance their skills as well as promote the transmission of their sophisticated technological know-how and contribute to the development of successors.

Speeding Up Development of Consumer Electronics Technologies

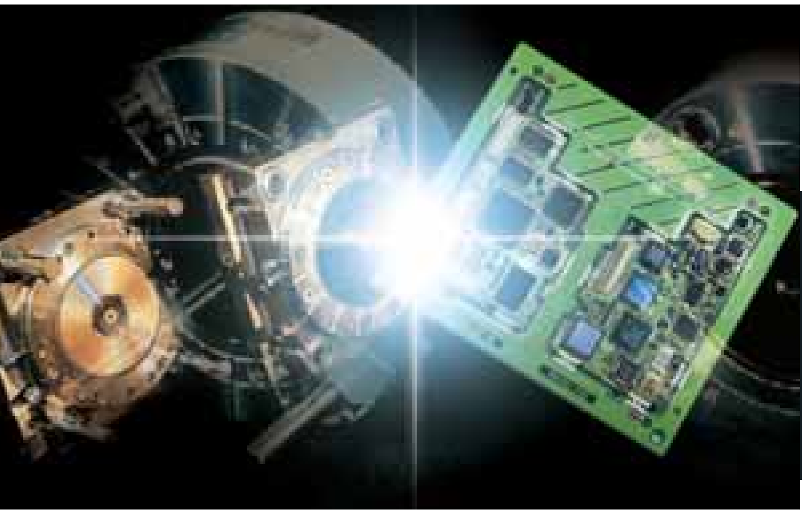
JVC employs a system that manages R&D themes according to three specific time frames—our immediate future to support the JVC of today, 3 to 5 years from now to create the technology of tomorrow, and 5 to 10 years hence—with the aim of delivering a steady stream of trailblazing products.

The technology department of each business group is in charge of developing technologies for the immediate future. Engineers from the business group in charge of consumer electronics equipment used to be dispersed among the JVC Head Office and two plants. However, in April 2005, JVC gathered approximately 1,000 engineers at its new technology center Techno WING, which is located adjacent to the Head Office. We did this to encourage more active communication among engineers and between engineers and members from such upstream departments as the marketing and design departments and such downstream departments as the sales department as well as to promote the sharing of information, skills, and implicit knowledge. This, in turn, has facilitated the rapid creation of products that meet market needs and wants.

In addition, we are promoting the flexible, efficient use of resources by focusing on select development themes. We are appropriately allocating resources and picking up the pace of our R&D activities to launch distinct products that offer superior added value, including hard disk camcorders that offer new possibilities for use, next-generation optical disc products, and car DVD receivers with built-in LCDs.

Rebuilding the Development Framework

In fiscal 2007, JVC's top objective in continuing and strengthening operational reforms is to reinforce its capacity for technological innovation. In April 2006, the Company reconstructed its development framework to link core technological development with growth strategies to solidify its position as a technological powerhouse and accelerate growth strategies via technologies that deliver high-quality sound and images.



Specifically, along with the elimination of the in-house company system, we realigned the Head Office's technology-related departments according to function and placed them under the unified control of technology officers. This resulted in the creation of three key divisions—the Future Core Technology Development Division, the Technology Infrastructure Reinforcement Division, and the Companywide Technology Strategy Planning Division.

The Future Core Technology Development Division encompasses the development of key technologies at the Technology Development Division's corporate laboratories that will support the Company today and into the future. To date, the Technology Development Division's development activities have been divided among the Future Product Development Center, which focused on the development of products to be introduced in 2 to 3 years, and the Core Technology Development Center, which concentrated on core technologies to be completed 3 years into the future and applied in products to be launched 5 and 10 years down the line. However, we have newly established a Consumer AV Development Center to head the development of core technologies for new consumer AV equipment. By integrating laboratories directly linked to the product development of business departments within the Technology Development Division's Consumer AV Development Center, we aim to strengthen our development capabilities—from basic R&D through product commercialization—and harness our collective strengths to facilitate the creation of unique products.

The Technology Infrastructure Reinforcement Division is responsible for the reworking of product commercialization processes and support business functions, the enhancement of initiatives to further develop the skills of technological personnel, and similar activities. In April 2006, JVC established an Engineering Innovation Promotion Center to specialize in Companywide technology development process reform. This center will lead development process innovation for the true digital era so that we can meet our time-to-market targets.

Last, the Companywide Technology Strategy Planning Division will establish the direction of technological development and encompasses departments in charge of engineering planning within the Corporate Planning Headquarters. These three divisions will work closely together to ensure that everyone in the Company is on the same page when in comes to technological development to promote the creation of groundbreaking products and leverage JVC's technological prowess to get the Company back on the path to growth.

Doing Our Part to Protect the Environment

Guided by our basic management slogan, "Contributing to culture and serving society through our products and business practices," efforts to protect the global environment are incorporated in all our business activities. Since formulating JVC's Basic Environmental Policy in 1992, we have carried out a range of initiatives designed to help realize a sustainable society.

Environmental Management

JVC's environmental protection initiatives are underpinned by the JVC Environmental Committee, which is chaired by the president of JVC; the Environmental Administration, which is headed by executive officers; and a number of specialist subcommittees. Initiatives and policies adopted by the JVC Environmental Committee are introduced at the managerial level by the Environmental Administration and put into practice by the subcommittees.

In line with our commitment to sustainable environmental protection activities, we have worked to attain ISO 14001 certification, the internationally recognized standard for environmental management. Our plant in Hachioji led the way in achieving certification in 1997, followed by all our other manufacturing facilities around the world. The JVC Head Office, our research facilities, and all of our domestic sales and service centers have also earned environmental management certification. In fiscal 2006, our distribution subsidiary Victor Logistics, Inc., was awarded ISO 14001 certification.

Green Plan 2010

In fiscal 2005, JVC formulated Green Plan 2010, a medium- to long-term environmental management plan that sets out objectives to be achieved by fiscal 2011. Under this plan, the Company is working to meet the specific environmental goals established for each fiscal year, including targets related to green products and clean factories.

1. Green Products

At JVC, products that are designed in an environmentally friendly manner and meet our original environmental standards are designated "green products." Environmentally friendly design themes include the development of products that conserve energy, the introduction of design systems that accommodate recycling, and the creation of products that do not contain hazardous substances. In fiscal 2006, 89% of our products delivered superior performance in these areas, substantially exceeding our goal of 70% (percentage of all products that are green products on a monetary basis). In fiscal 2007, we will continue to work to develop green products.

1) Product-based measures to conserve energy and prevent global warming

In fiscal 2006, JVC achieved an average 30% improvement in energy efficiency for all of the products manufactured by the Company, compared with fiscal 2001. In addition, one of our green products—HD-61 MD60, a hybrid projection TV equipped with our proprietary D-ILA device—received the Fiscal 2005 Energy Conservation Grand Prize's Chairman's Award (award for equipment and systems that conserve energy) from the Energy Conservation Center, Japan in recognition of its superior energy conservation properties.

2) Not using hazardous substances

JVC compiled information on chemical substances contained in components in its GP-Web System database to promote efficient design and purchasing activities. In fiscal 2006, we continued to hold informational meetings on the system for overseas vendors, successfully enlisting their cooperation and putting the GP-Web System into operation. This system will help JVC to ensure that it does not buy, use, or produce such hazardous substances as those restricted by the EU's Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directive or Japan's J-Moss directive pertaining to the use of labels to indicate the presence of specified chemicals in electrical and electronic equipment.

3) Promoting recycling and increasing recycling efficiency

In fiscal 2006, JVC achieved its target of a 50% improvement in resource efficiency, an indicator of the efficiency of resource recycling, compared with fiscal 2001. However, starting in fiscal 2007, we expect to incur annual recycling costs of approximately

One concern that people have with large-screen TVs is the electricity bill. However, our HD-ILA hybrid projection TV HD-61MD60 uses a mere 198 watts of electricity—less than half the electricity used by our 50V plasma TV—and delivers bright, vivid, high-resolution images.

	61V HD-ILA Hybrid Projection TV	40V LCD TV	50V Plasma TV
Power consumption	(198W)	(256W)	(490W)
Screen brightness	800 candela	500 candela	450 candela

€3.9 million as a result of the February 2003 implementation of the EU's Waste Electrical and Electronic Equipment (WEEE) recycling directive. Going forward, we will work to reduce our recycling costs through further improvements in resource efficiency.

2. Clean Factories

At JVC, factories that meet certain standards pertaining to the prevention of global warming, the reduction of waste, the reduction of chemical emissions, the effective use of water resources, and other environmental initiatives are designated "clean factories." All of our clean factories have achieved the targets set out in Green Plan 2010, with the exception of objectives pertaining to the reduction of chemical emissions.

1) Factory-based measures to conserve energy and prevent global warming

Under Green Plan 2010, JVC established the target of reducing the annual CO_2 emissions of its factories 10% from the fiscal 2001 level by fiscal 2011. In fiscal 2006, we curbed emissions 14%, substantially exceeding our target years ahead of plan. Going forward, we will continue to work to maintain this level.

2) Logistics-based energy conservation

In fiscal 2007, measures to reduce CO_2 emissions generated via logistics activities will go into full swing with the enforcement of Japan's Revised Energy Conservation Law. To date, we have taken steps to revise shipping methods, including promoting the direct shipment of containers from overseas to their final destination and the employment of cooperative distribution with other companies, and have strived to improve load efficiency by minimizing the use of packaging materials, changing to better modes of packing, and increasing the number of pallet stacks. In addition, we have been working to ascertain the amount of CO_2 emissions generated through logistics activities and make this information visible as part of efforts to gain a clear understanding of distribution activities as a whole so that we can form plans for the reduction of CO_2 emissions.

3) Waste reduction

In fiscal 2006, JVC reduced the total volume of waste generated by the Group in Japan, including waste generated by affiliates, a substantial 81.9% from the previous fiscal year. This accomplishment is primarily attributable to the use of an in-house developed process to detoxify effluent discharged from the Head Office's Yokohama Factory during the board production process, enabling the effluent, which was previously outsourced for treatment, to be released into Tokyo Bay. This development not only signifies progress with regard to effluents; it also represents a substantial reduction in the Company's environmental impact. In addition, JVC achieved a recycling rate of 99.6%.

Team Minus 6%

As a participant in "Team Minus 6%," a national project to prevent global warming, JVC is working to help achieve a 6% reduction in greenhouse gas emissions. The Company's efforts include the conservative use of air conditioning and heating, allowing employees to wear seasonable attire, conserving water, turning off neon signs and other lighted displays when not required, promoting the use of eco-cars for Company vehicles, and encouraging employees to lead environment-friendly lives.

Team Minus 6% logo

Disclosure of Environmental Information

JVC makes information on its environmental activities available through its annual *Environmental Sustainability Report* as well as the "Environmental Activities" section of its corporate website. In fiscal 2004, JVC issued its first *Environmental Sustainability Report,* available only in paper form in the Japanese language. In fiscal 2006, the Company launched an English-language version of the report and began posting an electronic version of the Japanese-language and English-language *Environmental Sustainability Report* on its website.

URL: Japanese language: http://www.victor.co.jp/company/environ/index.html
English language: http://www.victor.co.jp/english/company/environ/index.html

An Avid Supporter of Culture and the Arts

"JVC is committed to ensuring as many people as possible have the opportunity to share the inspiration and excitement that sports and the arts can offer. This thinking has underpinned our wide-ranging cultural activities over many years, mainly in the form of support for music, the arts, and sports. In addition, it is vital for corporations to form ties with local communities and society as a whole. JVC has taken this to heart and is working through various initiatives to establish meaningful relationships with local communities and society in general."

Photo by Action Images/Lee Smith


Jamie Cullum at the 2005 JVC North Sea Jazz Festival


Tokyo Video Festival 2006

Sponsoring Sporting Events: International Soccer Tournaments

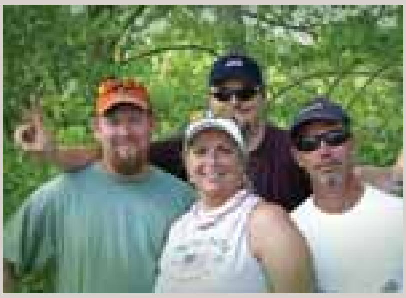
JVC lends its hand to a range of sports in numerous countries around the world so that as many people as possible can enjoy the inspiration and excitement that sports offer, or what we like to call "The Perfect Experience." In particular, we have been closely involved in the UEFA European Football Championship. An official partner since the 1980 UEFA tournament held in Italy, JVC has provided comprehensive support for this major soccer event for more than two decades to deliver to people the excitement and passion of one of the world's most loved sports. One of the ways we help out is by providing equipment required to hold the championships, primarily audio and visual equipment. In addition, JVC's AV products bring the game to fans who are unable to root for their team from the stands because the venue is too far away. We aspire to develop high-definition technologies and products that deliver the inspiration and excitement of sports by making viewers feel as if they can actually hear the crowd's cheers and feel the players' emotions.

Inspiration through Music: JVC Jazz Festivals

With the love of music in its corporate heart, JVC has been offering the JVC Jazz Festival since 1984 to give audiences worldwide a chance to enjoy live jazz. This program has been one of JVC's contributions to the world's music culture. Jazz musicians create soulful tunes out of their own imagination, their own inspiration. Melodies travel new, unexpected, and surprising paths, making no two performances exactly the same. It is what sets jazz apart as a musical movement, and it is why jazz has thrilled, excited, and captured the minds of music lovers the world over. The spirit of jazz resonates with our corporate values, which is why JVC has sponsored over 160 major jazz festivals, where countless musicians have brought the splendor of live music to audiences of more than four million. Going forward, JVC will continue to deliver the thrill of jazz to music enthusiasts around the world.

Expanding Video Culture: Tokyo Video Festival

Since 1978, JVC has held the Tokyo Video Festival, a venerable international video competition for professionals and amateurs alike. To date, the festival has attracted entries of more than 44,000 works from 90 countries and regions around the world. In 2006, the Video Grand Prize was awarded to "Fledge," a work that focuses on the dynamic lifestyle of a high school student turned mother—a friend who comes together with the author to speak to viewers, and the JVC Grand Prize was awarded to "Family," a documentary that depicts changing family relationships in contemporary South Korean society through the interactions of a family that has come together to make the traditional Korean dish kimchi. One thing that makes the Tokyo Video Festival unique is its concept. It is a video communication festival for people to communicate and express themselves



through works of art. The Tokyo Video Festival provides an opportunity for people who have never picked up a video camera before to experience the fun of filming and the joy of being shot. Through the festival, JVC aims to promote video software production as one way to enjoy video technology and introduce new film creations to the world.

Contributing to Society

JVC is committed to being a good corporate citizen. We want to be a company that makes people's lives better and inspires the confidence of the international community. Here, we have provided an overview of just a few of the things that we are doing to make a difference.

In Thailand, JVC helps to raise funds for sight-impaired individuals by taking part in ongoing fund-raising activities at local schools implemented by around 800 individuals and sponsored by the Thailand Association of the Blind. Specifically, we place donation boxes at the entrances of our offices and in Company cafeterias where employees interested in the cause can make contributions.

In China's Beijing, JVC raised funds to support efforts to rebuild earthquake and tsunami stricken areas. The Company donated the money it collected to victims through the Beijing Red Cross. In addition, we have been lending a hand to the less fortunate in this region through our "Yang Guang charity", donations of medicine and daily necessities to orphanages, and group medical examinations for children since 2003.

In Mexico, employees and their families answered JVC's call to clean up the shore as part of efforts to protect the natural environment, collecting around a ton of garbage. In Japan as well, employees at each office take part in cleanup activities in the vicinity of their respective workplace once every two months.

Every spring, the American Cancer Society holds its Relay for Life fund-raising campaign, using the money collected for research. For about 15 years, in Alabama, JVC has taken part in this campaign together, earning a reputation as an outstanding support group. In addition, employees engage in diverse volunteer activities throughout the year.

JVC will continue to lend its support to activities that make a difference.

Management Team

President and Representative Managing Director

1 **Masahiko Terada**

Senior Managing Director and Representative Managing Director

2 **Namio Yamaguchi**
In charge of Technology and Intellectual Property; General Manager, Technology Development Division; General Manager, ILA Business Group

Senior Managing Director

3 **Kunihiko Sato**
In charge of Global Consumer Marketing; General Manager, Global Marketing Division

Managing Directors

4 **Shigeharu Tsuchitani**
President, Americas Company, JVC Americas Corp.

5 **Masatoshi Hirabayashi**
General Manager, Display Business Group; In charge of Consumer Production, SCM, and Customer Satisfaction

6 **Yukihiro Tanii**
In charge of Corporate Accounting & Finance, Facility Management, Information Systems, Logistics, and Interior Furniture Business; General Manager, Corporate Facility Management Department

7 **Yutaka Ichijo**
In charge of Human Resources, General Affairs, Legal, Investor Relations, and Corporate Communications

8 **Goro Saito**
In charge of Corporate Planning; General Manager, Corporate Planning Headquarters; In charge of Global Strategic Procurement and Environment Administration

Directors

9 **Hideo Aiso** (Part-time)
(President, Tokyo University of Technology)

10 **Hiroshi Fujisawa**
General Manager, Media Products Business Group

11 **Shingo Kawata**
Deputy General Manager, Technology Development Division; General Manager, Consumer AV Development Center, Technology Development Division

12 **Masuichiro Mimura**
General Manager, Home AV Business Group; General Manager, Digital Video Storage Division, Home AV Business Group; General Manager, Mobile Entertainment Business Group

13 **Yoshitaka Iriuchijima**
General Manager, Components & Device Business Group;
In charge of Production Engineering; General Manager, Production Engineering Division

14 **Takuo Ishida**
General Manager,
Consumer Marketing Division

15 **Hiroyuki Takekura**
General Manager, Professional Systems Business Group

16 **Keiichiro Doi**
Deputy General Manager, Technology Development Division; General Manager, Core Technology Development Center, Technology Development Division

17 **Hidetoshi Yoshida**
President, Europe Company, JVC Europe Ltd. and JVC International (Europe) GmbH

Corporate Auditors

18 **Akio Mutai**

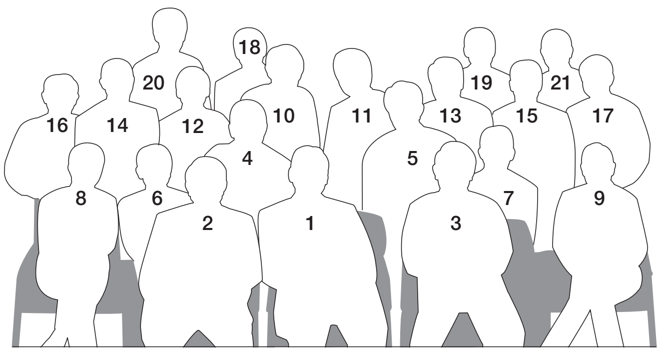
19 **Kazuo Suetake**

※ **Makoto Matsuo** (Part-time)
(Attorney-at-Law, Momo-o, Matsuo & Namba Law Firm)

20 **Yoshiaki Nakagawa** (Part-time)
Councilor, Corporate Accounting Group, Matsushita Electric Industrial Co., Ltd.

21 **Noriyuki Shoyama** (Part-time)
Standing Statutory Auditor, The Shinsen Company, Ltd.

※not present in the above photo



Our Basic Stance

JVC aspires to be an outstanding global company and is committed to conducting its operations in a manner that is fair and highly transparent to all stakeholders.

Measures put forth by the Company to enhance corporate governance include the appointment of outside directors and auditors, the disclosure of information via a wide range of media, and the establishment of a Corporate Ethics Office to promote legal compliance.

Frameworks and Policies

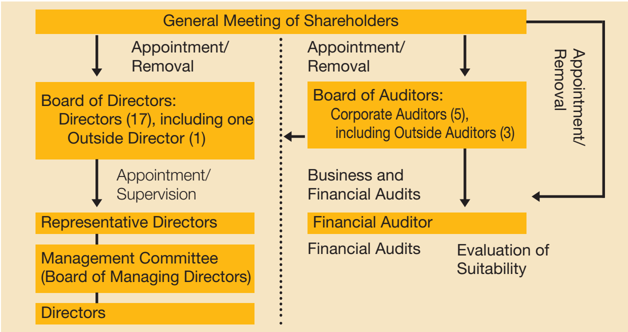
Supported by the Management Committee, the Board of Directors is responsible for management decision making and the execution of operations. In addition, JVC employs a business group system and a regional company system to speed up management processes.

Since fiscal 2000, the Company has appointed one outside director to its Board of 17 directors. The objective insight obtained from the outside director helps the Board of Directors to make better, more informed decisions.

The Management Committee is an organization that is overseen by the Representative Directors and designed to promote flexible decision making and the accurate communication of management information. Board of Managing Directors' meetings are held once or twice a month and are attended by Managing Directors, Senior Managing Directors, Representative Directors, business group representatives, and the auditor.

In fiscal 2006, JVC eliminated its in-house company system and introduced a business group system to implement oversight on a more manageable scale. Individuals in charge of business groups are responsible for carrying out business operations in a timely and appropriate manner and have been delegated sufficient authority to achieve this task.

Two statutory auditors and three outside auditors provide rigorous, objective oversight of various aspects of operations, including the execution of operations by the Board of Directors.



JVC is committed to promoting accountability and proactively provides information on its corporate activities and results through various forms of media, including the Company's annual report, environmental report, and other publications as well as its website.

Our compliance activities are headed by the Corporate Ethics Office, which employs experts from outside the Company and lawyers as well as is working to keep the JVC Business Conduct Guidelines up to date, establish job-specific business conduct guidelines, and promote the understanding of personal information issues among employees.

Basic Policies on Internal Control Systems

At the regular Board of Directors' meeting held in May 2006, the Company adopted a resolution pertaining to basic policies on internal control systems as well as policies regarding the improvement of such systems. Basic policies comprise (1) compliance with the JVC *Brand Book,* which sets out specific guidelines for putting management principles into practice; (2) proper oversight of management decision making and directors' execution of operations as stipulated in the Board of Directors' Regulations; and (3) oversight of directors' execution of operations from an independent standpoint by auditors.

JVC is reinforcing corporate governance to maximize shareholder value and ensure that it remains highly valued by the market and society, both in Japan and abroad.

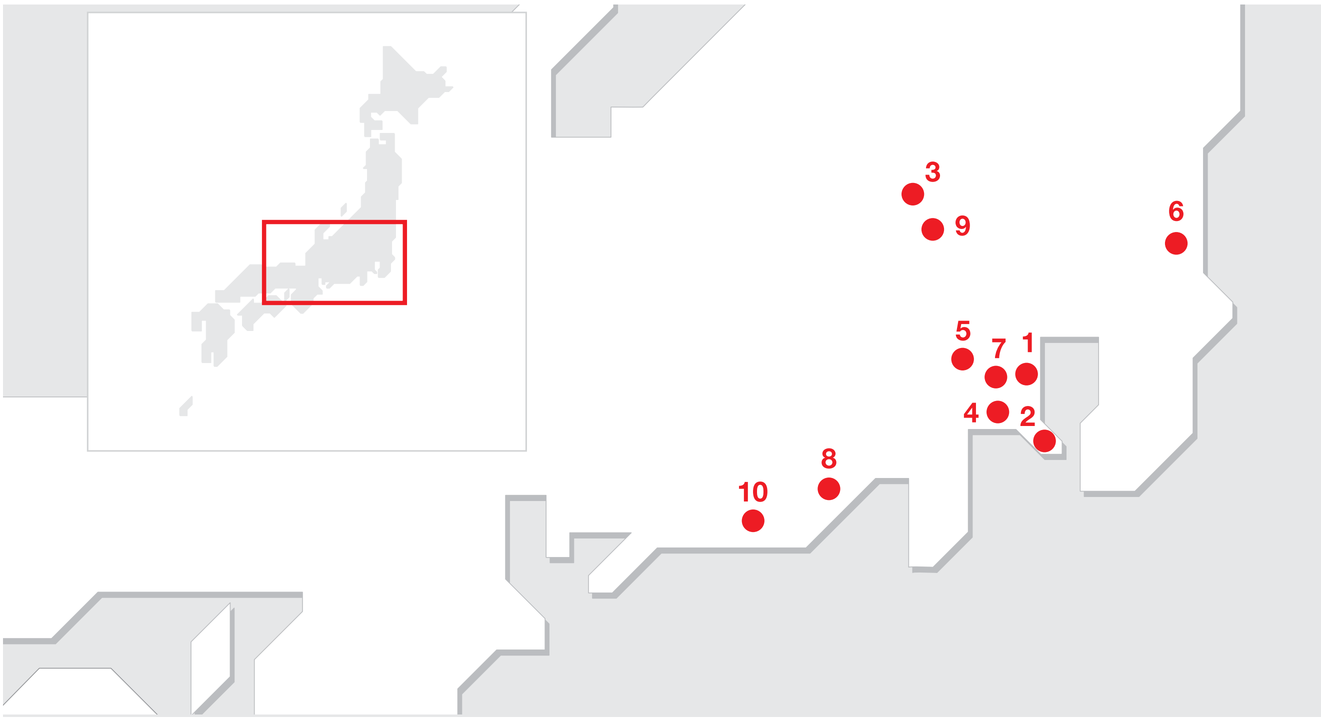
Organization Chart

(As from April 1, 2006)
Victor Company of Japan, Limited (JVC)

- **President**
  - **Auditors' Office**
  - Secretary Office
  - Corporate Planning Headquarters
  - SCM Promotion Office
  - Integrated AV System Strategy Div.
  - Human Resources Div.
  - General Affairs Div.
  - Corporate Accounting & Finance Div.
  - Corporate Facility Management Dept.
  - Information Systems Development Office
    - Corporate Information System & Network Center
  - Corporate Communications Dept.
  - Legal & Intellectual Property Dept.
  - Business Affairs Dept.
  - Environmental Administration Div.
  - Customer Satisfaction Div.
  - Design Center
  - Logistics Div.
  - Technology Development Div.
  - Engineering Innovation Promotion Center
  - Production Engineering Div.
    - Factory System Div.
  - Global Strategic Procurement Center
  - Consumer Strategic Marketing Dept.
  - Consumer Production and Manufacturing Center
  - Consumer Marketing Div.
  - Global Marketing Div.
  - System Products Sales Div.
  - Business Solution Div.
  - Americas Company
  - Europe Company
  - Asia & the Middle East Company
  - Corporate Management Division for China
  - **ILA Business Group**
    - ILA Center
    - ILA Display Category
  - **Display Business Group**
    - Display Category
  - **Home AV Business Group**
    - Audio/Video Systems Category
  - **Portable AV Business Group**
    - Camcorder Category
    - Accessories Category
  - **Mobile Entertainment Business Group**
    - Mobile Entertainment Category
  - **Professional Systems Business Group**
    - Professional Products & Systems Marketing Div.
    - Engineering Dept.
    - Production Dept.
  - **Components & Device Business Group**
    - Motor Div.
    - Circuit Board Div.
    - Display & Optical Component Div.
  - **Media Products Business Group**
    - Soft Media Business Center
    - Recording Media Business Center
  - **Entertainment Software Business Group**

JVC Group (Japan)

(As of July 2006)



Main Japanese Manufacturing Sites

	Plant	Location	Main Products
1	Head Office & Yokohama Plant	Yokohama-city, Kanagawa Pref.	High-density, multi-layer printed wiring boards, D-ILA devices
2	Yokosuka Plant	Yokosuka-city, Kanagawa Pref.	Video cameras, LCD TVs, HD-ILA hybrid projection TVs
3	Maebashi Plant	Maebashi-city, Gunma Pref.	Audio equipment
4	Yamato Plant	Yamato-city, Kanagawa Pref.	DVD discs (pre-recorded), electronics components (optical pickups, FA and molds)
5	Hachioji Plant	Hachioji-city, Tokyo	Professional, educational, and information-related equipment
6	Mito Plant	Mito-city, Ibaraki Pref.	Recording media products, pre-recorded software (videotapes)
7	Rinkan Plant	Yamato-city, Kanagawa Pref.	CD and DVD discs (pre-recorded)
8	Fujieda Plant	Fujieda-city, Shizuoka Pref.	Electronic components (motors)
9	Victor Isesaki Electronics Co., Ltd.	Isesaki-city, Gunma Pref.	Electronic components (PWBs)
10	Victor Interior Furniture Co., Ltd.	Fukuroi-city, Shizuoka Pref.	Home furniture

Japan Research and Development Center

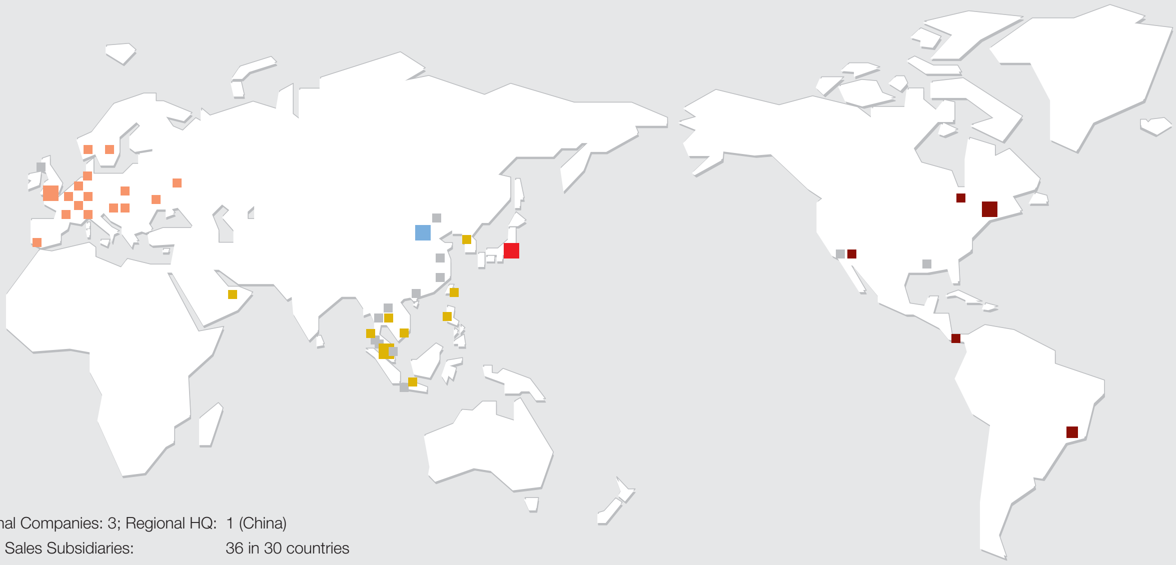
Name	Location
Kurihama R&D Center	Yokosuka-city, Kanagawa Pref.

Main Japanese Consolidated Subsidiaries

Company Name	Location	Business
Sanin Victor Sales Co., Ltd.	Matsue-city, Shimane Pref.	Wholesale
Okinawa Victor Sales Co., Ltd.	Ginowan-city, Okinawa Pref.	Wholesale
Victor Arcs Co., Ltd.	Minato-ku, Tokyo	Sales of professional audio and visual equipment
Victor Isesaki Electronics Co., Ltd.	Isesaki-city, Gunma Pref.	Manufacturing and sales of PWBs
Victor Interior Furniture Co., Ltd.	Fukuroi-city, Shizuoka Pref.	Manufacturing and sales of home furniture
Victor Entertainment, Inc.	Minato-ku, Tokyo	Planning and sales of audio and video software, etc.
Teichiku Entertainment, Inc.	Shibuya-ku, Tokyo	Planning and sales of audio and video software, etc.
JVC Entertainment Networks, Inc.	Minato-ku, Tokyo	Entertainment service (talent management, music publishing, concert promotion, marketing, etc.)
Nippon Record Center Co., Ltd.	Atsugi-city, Kanagawa Pref.	Logistics of audio software, etc.
Victor Finance Co., Ltd.	Yokohama-city, Kanagawa Pref.	Finance and business consulting
Victor Real Estate Co., Ltd.	Minato-ku, Tokyo	Management, sales, purchase, and leasing of real estate
Victor Service & Engineering Co., Ltd.	Bunkyo-ku, Tokyo	Repair of electric equipment
Victor Networks Co., Ltd.	Minato-ku, Tokyo	Planning and development of information-providing services for mobile phones
Victor Logistics, Inc.	Yokohama-city, Kanagawa Pref.	Logistics
Victor Parts & Technical Support, Inc.	Yokohama-city, Kanagawa Pref.	Sales and logistics of repair parts

JVC Group (Global)

(As of July 2006)



Regional Companies: 3; Regional HQ: 1 (China)
Global Sales Subsidiaries: 36 in 30 countries
Global Manufacturing Sites: 13 in 8 countries
Main Japanese Manufacturing Sites: 10
Number of Employees (Consolidated): 30,481 (as of March 31, 2006)

Global Manufacturing Sites

Company Name	Location	Main Products
JVC Manufacturing U.K. Ltd.	East Kilbride, United Kingdom	TVs
JVC Disc America, Co.	Tuscaloosa, Alabama, U.S.A.	CDs, DVDs (pre-recorded software)
JVC Industrial de Mexico, S.A. de C.V.	Tijuana, Mexico	TVs
JVC Electronics Singapore Pte. Ltd.	Singapore	Audio products
JVC Electronics Malaysia Sdn. Bhd.	Selangor, Malaysia	Audio products
JVC Video Malaysia Sdn. Bhd.	Selangor, Malaysia	Camcorders
JVC Manufacturing (Thailand) Co., Ltd.	Navanakorn, Thailand	TVs, Professional products
JVC Components (Thailand) Co., Ltd.	Nakhonratchasima, Thailand	Electronic components (motors, optical pickups, etc.)
P.T. JVC Electronics Indonesia	West Java, Indonesia	Audio products, Car AV products
JVC Beijing Electronic Industries Co., Ltd.	Beijing, China	Camcorders, VCRs, DVD recorders, TVs
JVC Shanghai Electronics Co., Ltd.	Shanghai, China	Audio products, DVD players
Fujian JVC Electronics Co., Ltd.	Fujian, China	Electronic components (deflection yokes)
JVC Guangzhou Electronics Co., Ltd.	Guangzhou, China	Electronic components (motors)

Europe Area: Regional Company and Sales Subsidiaries

Company Name	Location
Regional Company	
JVC Europe Ltd.	United Kingdom
Sales Subsidiaries	
JVC (U.K.) Ltd.	United Kingdom
JVC Professional Europe Ltd.	United Kingdom
JVC France S.A.S.	France
JVC Deutschland GmbH	Germany
JVC Professional Europe Ltd., Frankfurt Branch	Germany
JVC Italia S.p.A.	Italy
JVC Professional Europe Ltd., Milano Branch	Italy
JVC España, S.A.	Spain
JVC Benelux B.V.	The Netherlands
JVC Professional Belgium S.A./N.V.	Belgium
JVC Danmark A/S	Denmark
JVC Skandinavia AB	Sweden
JVC Svenska AB	Sweden
JVC Norge A/S	Norway
JVC Schweiz AG	Switzerland
JVC Austria GmbH	Austria
JVC International (Europe) GmbH	Austria
JVC Polska Sp. Zo. o.	Poland
JVC Czech spol. s.r.o.	Czech Republic
OOO JVC CIS	Russia

Americas Area: Regional Company and Sales Subsidiaries

Company Name	Location
Regional Company	
JVC Americas Corp.	U.S.A.
Sales Subsidiaries	
JVC Company of America	U.S.A.
JVC Professional Products Company	U.S.A.
JVC Mobile Company of America	U.S.A.
JVC Canada Inc.	Canada
JVC de Mexico, S.A. de C.V.	Mexico
JVC Latin America, S.A.	Panama
JVC do Brasil Ltda.	Brazil

Asia, Oceania, the Middle East and Africa: Regional Company and Sales Subsidiaries

Company	Location
Regional Company	
JVC Asia Pte. Ltd.	Singapore
Sales Subsidiaries	
JVC Asia Pte. Ltd., Sales & Service Division	Singapore
JVC Sales & Service (Malaysia) Sdn. Bhd.	Malaysia
JVC Sales & Service (Thailand) Co., Ltd.	Thailand
JVC (Philippines), Inc.	Philippines
JVC Vietnam Limited	Vietnam
P.T. JVC Indonesia	Indonesia
JVC Taiwan Corp.	Taiwan
JVC Korea Co., Ltd.	Korea
JVC Gulf FZE	U.A.E.

China Area: Regional HQ

Company Name	Location
China Area: Regional HQ	
JVC (China) Investment Co., Ltd.	China

Other Main Global Subsidiaries

Company Name	Location	Business
JVC Forex (U.K.) Ltd.	United Kingdom	Management of JVC's European subsidiaries' foreign exchange transactions
JVC Logistics Europe N.V.	Belgium	Merchandise stock center for the distribution of JVC products to European sales companies
JVC Industrial America, Inc.	U.S.A.	Management of imports and exports in U.S.A.
JVC America, Inc.	U.S.A.	Administrating media companies in U.S.A.
JVC Finance of America	U.S.A.	Issuance of commercial paper
JVC Trading (Shanghai) Co., Ltd.	China	Import and distribution of service parts
JVC Shanghai System Development Engineering Co., Ltd.	China	Integration and maintenance of professional systems
Beijing JVC AV Equipment Co., Ltd.	China	Manufacturing and sales of professional products
Beijing Kelin JVC Electronic System Engineering Co., Ltd.	China	Integration and maintenance of professional systems
JVC Purchasing Center (H.K.), Ltd.	Hong Kong	Procurement of manufacturing parts
Kuang Yuan Co., Ltd.	Taiwan	Sales of electronic components and devices
JVC Procurement Asia (A Division Company of JVC Electronics Singapore Pte. Ltd.)	Singapore	International procurement office (IPO) of components
JVC Electronics (Thailand) Co., Ltd.	Thailand	Production of consumer products

Global Software Related Companies

Company Name	Location	Business
JVC Entertainment (Korea) Inc.	Korea	Planning and production of audiovisual software, etc.
JVC Entertainment (Hong Kong), Ltd.	Hong Kong	Planning and production of music software in Hong Kong

Main Global Liaison Offices

Company Name	Location
JVC Latin America Liaison Office	Panama
JVC Legal Liaison Office (Europe)	United Kingdom
JVC International (Europe) GmbH, Moscow Representative Office	Russia
JVC International (Europe) GmbH, Hungarian Information & Service Office	Hungary
JVC International (Europe) GmbH, Kiev Representative Office	Ukraine
JVC España, S.A., Portugal Branch	Portugal
JVC Gulf FZE, Tehran Branch	Iran

Global Service and Technical Centers

Company Name	Location
JVC Technology Center Europe GmbH	Germany
JVC Video Manufacturing Europe GmbH	Germany
JVC Service and Engineering Company of America	U.S.A.
JVC Tongguang Beijing Technical Center	China

Global Research and Development Centers

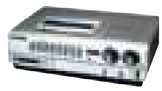
Company Name	Location
JVC Laboratory of America	U.S.A.
JVC Singapore R&D Center	Singapore
JVC Asia Laboratories of Singapore	Singapore
JVC Malaysia R&D Center	Malaysia
JVC (Beijing) Research & Development Center, Ltd.	China

History of JVC

1927	● Victor Talking Machine Company of Japan, Limited established
1939	● Produced Japan’s first TV receiver
1954	● Produced Japan’s first EP record
1956	● Developed 45/45 stereo record format
1958	● Produced Japan’s first stereo LP record
	● Introduced STL-1S, Japan’s first 45/45 stereo record player
1960	● Introduced 21CT-11B, JVC’s first color TV set
1963	● Introduced KV-200, the world’s smallest 2-head professional VCR
1971	● Introduced CD-4, 4-channel stereo record
1976	● Introduced HR-3300, the world’s first VHS home video recorder
1978	● Held the first JVC Tokyo Video Festival
1980	● Started to sponsor the UEFA European Football Championship
1984	● Held the first JVC Jazz Festival
	● Introduced GR-C1, a single-unit video camera
1986	● Introduced GR-C7, the world’s smallest and lightest VHS-C video camera
1987	● Introduced HR-S7000, the world’s first S-VHS video recorder
1990	● Introduced HR-SC1000, the world’s first VHS/VHS-C compatible video recorder
1991	● Introduced AV-36W1, first multi-wide vision TV in the industry
1993	● Introduced high-definition TV
	● Introduced HR-W1, the world’s first high-definition home video recorder
	● Introduced GR-DV1, the world’s first pocket-sized digital video camera
1998	● Introduced DLA-G10, full S-XGA high-definition D-ILA multimedia projector
2002	● Introduced AV-36/32Z1500, TVs equipped with D.I.S.T. (digital image scaling technology)
	● Introduced PD-42/35DT3, plasma display
2003	● Introduced GR-HD1, high-definition digital video camera
	● Introduced EX-A1, compact component system
2004	● Sponsored UEFA EURO 2004™
	● Introduced HD-ILA hybrid projection TV in North America
	● Introduced hard disk camcorder “Everio” GZ-MC200/MC100
2005	● JVC becomes UEFA EUROTOP Official Partner
	● Introduced digital audio players XA-AL55 and XA-MP101/MP51
	● Introduced professional HDV high-definition camera recorder GY-HD100
	● JVC co-develops high-quality audio compression technology “net K2” with Victor Entertainment, Inc.
	● Introduced LT-37LC70, 37-inch LCD TV featuring the industry’s first high-speed LCD driver
	● Introduced three LCD TV models equipped with new Genessa “Image Intellegence” technology
2006	● Introduced two third-generation “Everio” hard disk camcorders GZ-MG77 and GZ-MG67 and SHARE STATION DVD burner CU-VD10 for “Everio” series camcorders

The first image to be projected on a cathode ray tube, the Japanese character “イ”

1958
STL-1S

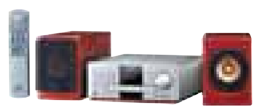


1976
HR-3300

1986
GR-C7

1995
GR-DV1

2003
GR-HD1



2003
EX-A1

2004
HD-ILA hybrid projection TV

2004
GZ-MC200

2006
GZ-MG77/67

Financial Section

Contents

10-Year Summary

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31

	2006	2005	2004	2003
For the year:				
Net sales	**¥806,900**	¥840,591	¥921,978	¥967,640
Overseas	**547,784**	567,565	619,962	638,092
Domestic	**259,116**	273,026	302,016	329,548
Cost of sales	**551,261**	564,977	629,125	668,821
Selling, general and administrative expenses	**262,530**	265,244	267,702	276,520
Operating income (loss)	**(6,891)**	10,370	25,151	22,299
Income (Loss) before income taxes and minority interests	**(22,101)**	4,728	14,106	10,064
Income taxes	**9,129**	6,200	(1,926)	3,568
Net income (loss)	**(30,608)**	(1,858)	15,609	6,336
Depreciation and amortization	**26,848**	23,422	22,735	25,250
Capital expenditures	**29,490**	28,959	25,900	21,036
R&D expenditures	**38,724**	39,336	40,574	40,973

	2006	2005	2004	2003
At year-end:				
Working capital	**¥ 69,927**	¥ 87,825	¥147,225	¥149,172
Stockholders' equity	**136,289**	158,236	159,326	146,410
Total assets	**446,812**	466,549	507,117	479,750

	2006	2005	2004	2003
Per share:				
Net income (loss) (Note 2)	**¥ (120.5)**	¥ (7.7)	¥ 61.1	¥ 24.9
Diluted net income (Note 2)	**—**	—	57.9	23.5
Cash dividends (Note 3)	**—**	5.0	5.0	—

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥117 to U.S.$1, the approximate rate prevailing on March 31, 2006.
2. Net income (loss) per share of common stock for the years ended March 31 from 1997 to 2002 have not been recalculated using the new accounting standard, which was effective April 1, 2002.
3. Cash dividends represent amounts applicable to the respective years.

Millions of yen						Thousands of U.S. dollars (Note 1)
2002	2001	2000	1999	1998	1997	**2006**
¥954,172	¥934,350	¥870,235	¥946,617	¥916,306	¥890,373	**$6,896,581**
626,209	567,977	545,316	566,551	526,285	484,394	**4,681,915**
327,963	366,373	324,919	380,066	390,021	405,979	**2,214,666**
684,458	641,209	600,506	642,140	629,859	607,383	**4,711,632**
281,808	287,449	277,748	305,698	276,431	271,482	**2,243,846**
(12,094)	5,692	(8,019)	(1,221)	10,016	11,508	**(58,897)**
(38,446)	9,444	6,088	(3,671)	6,223	12,139	**(188,897)**
5,985	7,238	11,295	4,466	10,796	7,141	**78,026**
(44,572)	2,498	(5,341)	(8,315)	(4,703)	4,586	**(261,607)**
28,000	28,085	28,590	30,513	24,008	27,212	**229,470**
21,175	31,127	24,336	28,815	36,651	31,552	**252,051**
40,981	44,094	43,351	41,660	37,649	39,563	**330,974**

Millions of yen						Thousands of U.S. dollars (Note 1)
2002	2001	2000	1999	1998	1997	**2006**
¥118,948	¥150,067	¥127,709	¥142,628	¥124,395	¥160,869	**$ 597,667**
146,246	180,515	199,164	232,162	243,086	250,418	**1,164,863**
513,365	586,628	540,359	588,001	624,050	603,920	**3,818,906**

Millions of yen						U.S. dollars (Note 1)
2002	2001	2000	1999	1998	1997	**2006**
¥ (175.3)	¥ 9.8	¥ (21.0)	¥ (32.7)	¥ (18.5)	¥ 18.0	**$ (1.03)**
—	—	—	—	—	17.2	**—**
—	3.0	—	5.0	7.0	7.0	**—**

Overview of Fiscal 2006

In fiscal 2006, ended March 31, 2006, consolidated net sales declined 4.0%, to ¥806.9 billion. In Japan, rising sales of LCD TVs, video cameras, and other consumer electronics products and hit releases of entertainment software products had a positive effect on net sales, but lower sales of DVD recorders and professional electronics products caused domestic sales to contract 5.1%, to ¥259.1 billion. Regarding overseas sales, sales were up in the United States, and increased overseas sales were recorded of such products as LCD TVs, D-ILA hybrid projection TVs, and camcorders, but these factors were more than offset by drops in overseas sales of CRT TVs, DVD recorders, and audio products, causing total overseas sales to shrink 3.5%, to ¥547.8 billion.

Cost of sales decreased 2.4%, to ¥551.3 billion, and the gross profit margin declined from 32.8% in the previous fiscal year to 31.7%. Selling, general and administrative (SG&A) expenses slipped 1.0%, to ¥262.5 billion.

The Components & Devices segment regained its operating profitability, and operating profit rose in the Professional Electronics and Software & Media segments. However, sales in the Consumer Electronics segment were negatively affected by such factors as quality problems with certain DVD recorder models that led to a drop in the number of products in the DVD recorder product lineup and a fall in DVD recorder sales, a delay in LCD TV development during the interim period that led to the loss of marketing opportunities, and the intensification of market competition

NET SALES BY SEGMENT

Billions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total
2006						
Sales	**¥600.4**	**¥67.6**	**¥30.2**	**¥103.9**	**¥4.8**	**¥806.9**
Percentage	**74.4%**	**8.4%**	**3.7%**	**12.9%**	**0.6%**	**100.0%**
Change	**(4.3)%**	**(1.1)%**	**(29.9)%**	**8.4%**	**(19.2)%**	**(4.0)%**
Domestic Sales	**¥118.8**	**¥44.6**	**¥2.2**	**¥ 88.8**	**¥4.7**	**¥259.1**
Change	**(12.2)%**	**(4.5)%**	**(40.5)%**	**8.8%**	**(17.5)%**	**(5.1)%**
Overseas Sales	**¥481.6**	**¥23.0**	**¥28.0**	**¥ 15.1**	**¥0.1**	**¥547.8**
Change	**(2.1)%**	**6.5%**	**(29.1)%**	**5.6%**	**(50.0)%**	**(3.5)%**
2005						
Sales	¥627.3	¥68.3	¥43.2	¥95.9	¥5.9	¥840.6
Percentage	74.6%	8.1%	5.1%	11.4%	0.8%	100.0%
Major Products	LCD TVs, projection TVs, Plasma TVs, CRT TVs, camcorders, VCRs, DVD players, DVD recorders, audio systems, and car AV systems	Professional surveillance equipment, professional audio equipment, professional video equipment, and professional projectors	Motors, optical pickups, "VIL" PWBs, and components for use in computer displays	Audio and visual software including CDs, DVDs and videotapes, and recording media	Interior furniture production facilities	

that caused a rapid drop in selling prices. The negative impact of such factors was greater than expected. The Company implemented such countermeasures as those aimed at cutting variable and fixed costs, but these measures were not sufficient to offset the profitability drop in the Consumer Electronics segment. Consequently, operating income decreased by a margin of ¥17.3 billion, to an operating loss of ¥6.9 billion.

As for other income (expenses), the Company posted ¥6.5 billion in special retirement payments associated with structural reforms, ¥2.5 billion in restructuring charges associated with overseas subsidiaries, and ¥3.0 billion in interest expense. Income before income taxes and minority interests decreased ¥26.8 billion, to a loss of ¥22.1 billion.

Reflecting the reevaluation of deferred tax assets and other factors, income taxes amounted to ¥9.1 billion, and the Company recorded a net loss of ¥30.6 billion for the fiscal year under review, compared with a net loss of ¥1.9 billion in fiscal 2005.

In view of this weak performance in fiscal 2006, the Company has regretfully decided to temporarily suspend the distribution of cash dividends.

SEGMENT INFORMATION

Consumer Electronics

Sales in this segment declined 4.3%, to ¥600.4 billion, and operating income fell ¥19.9 billion, to an operating loss of ¥9.6 billion. In Japan, the Company launched HD-ILA hybrid projection TVs and strengthened its lines of LCD TVs and HDD camcorders, but the DVD recorder quality problems, the resulting decreases in the number of DVD recorder models marketed and in net sales of DVD recorders, and a drop in sales of MD-related audio products caused total domestic segment sales to drop below the fiscal 2005 level. In Asia excluding Japan, the Company recorded higher sales of car AV systems and LCD TVs. In the United States, higher sales of HD-ILA hybrid projection TVs, video cameras, and LCD TVs offset a fall in sales of CRT TVs and the reduction to the number of DVD recorders in the marketing lineup, keeping overall segment sales in the United States to approximately the same level in local currency as in the previous fiscal year. In Europe, increases were achieved in sales of LCD TVs, video cameras, as well as car AV systems and other products. However, losses associated with the loss of marketing opportunities due to the delay in developing LCD TVs during the interim period, the sales decrease due to the lower number of DVD recorder models, and a large drop in sales of CRT TVs caused a fall in total segment sales in Europe.

Professional Electronics

Sales decreased 1.1%, to ¥67.6 billion, but operating income increased ¥0.4 billion, to ¥0.7 billion. Overseas sales of professional HDV camera recorders and security products were robust, but segment sales declined due to drops in domestic sales of surveillance camera systems and other security products.

Components & Devices

Segment sales dropped 29.9%, to ¥30.2 billion; however, due to a major improvement in the structure and efficiency of operations, operating income totaled ¥0.1 billion, compared with the operating loss of ¥1.7 billion in the previous fiscal year. Although sales of hard disk drive motors were robust, segment sales decreased due to the rapid shrinkage of the deflection yoke market and to efforts to restructure and more-tightly focus its operations by concentrating them in strategic areas.

Software & Media

Sales grew 8.4%, to ¥103.9 billion, and operating income rose ¥0.2 billion, to ¥2.6 billion. Despite severe challenges stemming from falls in recordable media product selling prices, a continued series of hits by popular artists supported a rise in segment sales.

Other

Sales in the Other segment dropped 19.2%, to ¥4.8 billion.

Financial Position

Total assets as of March 31, 2006, were ¥446.8 billion, down ¥19.7 billion, or 4.2%, from the end of the previous fiscal year. Total current assets declined ¥24.4 billion, to ¥318.5 billion, mainly because notes and accounts receivable decreased ¥5.8 billion and inventories declined ¥5.6 billion. Property, plant and equipment rose ¥1.1 billion, to ¥97.4 billion, mainly reflecting investments related to the new technology center building in the Company's Head Office complex in Yokohama. Investments and advances increased ¥4.9 billion, largely as a result of changes in the market prices of investment securities.

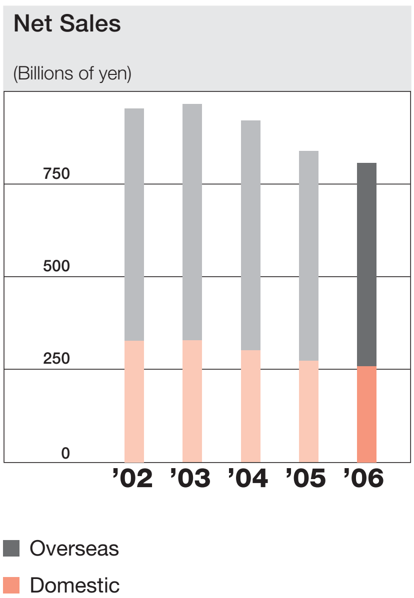
Total liabilities edged up 0.9%, or ¥2.9 billion, to ¥307.3 billion.

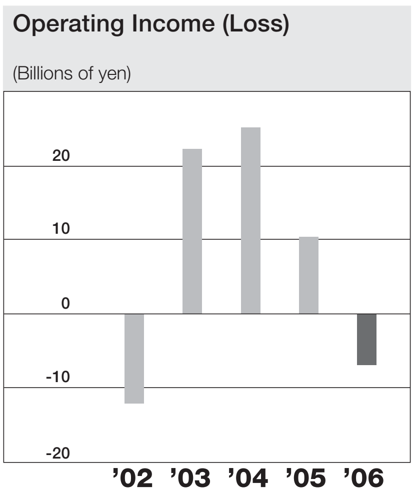
Although current liabilities declined ¥6.5 billion, to ¥248.6 billion, notes and accounts payable rose ¥9.9 billion. Convertible bonds and bonds due within one year fell ¥19.5 billion due to the redemption of convertible bonds. Total long-term liabilities increased ¥9.4 billion, to ¥58.7 billion, as a ¥20.0 billion drop due to the shift of bonds to the "due within one year" item was more than offset by a ¥29.9 billion rise due to new borrowings.

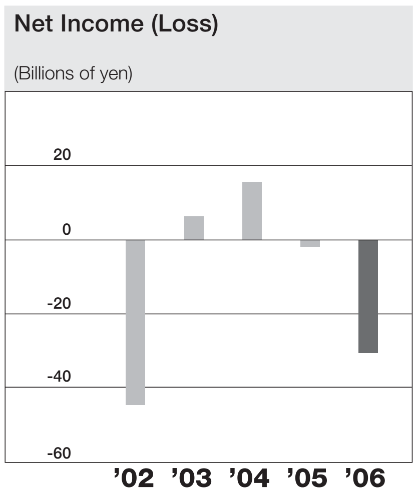
Stockholders' equity decreased 13.9%, or ¥21.9 billion, to ¥136.3 billion, and stockholders' equity as a percentage of total assets declined to 30.5%, compared with 33.9% at the previous fiscal year-end.

Cash Flows

Net cash provided by operating activities amounted to ¥23.6 billion, compared with an outflow of ¥6.2 billion in the previous fiscal year, as the loss before income taxes and minority interests was offset by depreciation and decreases in inventories and notes and accounts receivable.







Net cash used in investing activities came to ¥25.3 billion, up from ¥13.9 billion in the previous fiscal year, primarily due to purchases of property, plant and equipment amounting to ¥27.5 billion.

Net cash used in financing activities totaled ¥2.8 billion, down from ¥15.6 billion in the previous fiscal year. This was largely a result of a ¥26.0 billion rise in short-term bank loans, net, and ¥30.0 billion in proceeds from long-term loans, which largely offset ¥56.3 billion in repayments of long-term loans and redemption of bonds.

As a result, cash and cash equivalents at the end of fiscal 2006 came to ¥60.1 billion, down ¥2.6 billion from the end of the previous fiscal year.

Capital Expenditures/Depreciation and Amortization

In fiscal 2006, capital expenditures rose 1.8% from the previous fiscal year, to ¥29.5 billion. This increase primarily reflects investments in development facilities related to the shift to a new technology center building at the Company's Head Office complex in Yokohama aimed at strengthening product development capabilities and investments in production facilities at the Company's Yokosuka Plant for HD-ILA hybrid projection TV devices.

Depreciation and amortization increased 14.6%, to ¥26.8 billion.

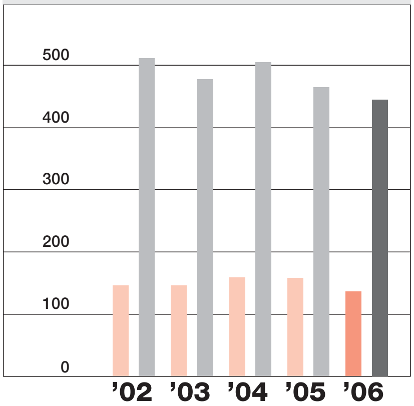
R&D Expenditures

In fiscal 2006, R&D expenditures amounted to ¥38.7 billion, representing a 1.6% decline from the previous fiscal year and a ratio to net sales of 4.8%.

Personnel

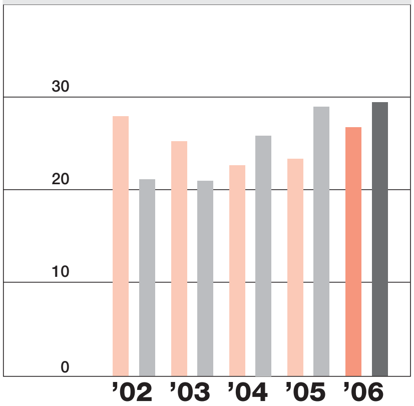
The number of JVC employees on a consolidated basis at fiscal year-end totaled 30,481, a decrease of 4,012 employees compared to the previous fiscal year-end, which was mainly due to structural reform.

Stockholders' Equity/ Total Assets
(Billions of yen)



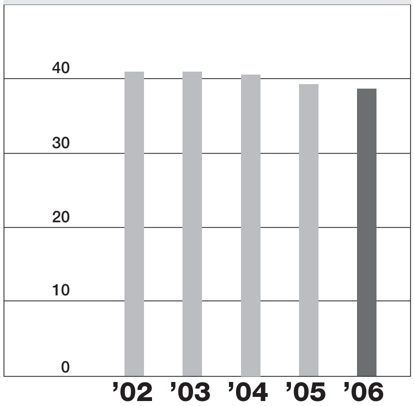
Stockholders' equity
Total assets

Depreciation and Amortization/ Capital Expenditures
(Billions of yen)



Depreciation and amortization
Capital expenditures

R&D Expenditures
(Billions of yen)



Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current assets:			
Cash and cash equivalents	¥ 60,127	¥ 62,685	$ 513,906
Notes and accounts receivable:			
Trade	103,043	108,870	880,709
Non-consolidated subsidiaries and affiliated companies	92	14	786
Allowance for doubtful accounts	(4,064)	(3,935)	(34,735)
Inventories (Note 5)	119,095	124,705	1,017,906
Deferred tax assets (Note 8)	20,271	21,538	173,256
Other current assets	19,954	29,022	170,548
Total current assets	318,518	342,899	2,722,376
Investments and advances:			
Investments in and advances to non-consolidated subsidiaries and affiliated companies (Note 6)	1,064	890	9,094
Investment securities (Note 6)	14,671	9,992	125,393
Other	798	709	6,821
Total investments and advances	16,533	11,591	141,308
Property, plant and equipment:			
Land	25,119	25,634	214,692
Buildings and structures	99,435	97,964	849,872
Machinery and equipment	252,355	234,230	2,156,880
Construction in progress	8,121	12,064	69,411
	385,030	369,892	3,290,855
Less accumulated depreciation	287,645	273,654	2,458,505
Net property, plant and equipment	97,385	96,238	832,350
Other assets:			
Deferred tax assets (Note 8)	1,672	4,725	14,291
Other assets	12,704	11,096	108,581
Total other assets	14,376	15,821	122,872
	¥446,812	¥466,549	$3,818,906

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Bank loans (Note 9)	**¥ 63,322**	¥ 34,252	**$ 541,214**
Current portion of long-term debt (Note 9)	**20,139**	56,235	**172,128**
Notes and accounts payable:			
Trade	**78,051**	69,220	**667,103**
Non-consolidated subsidiaries and affiliated companies	**1,698**	586	**14,513**
Accrued income taxes (Note 8)	**2,834**	4,057	**24,222**
Accrued expenses	**68,541**	72,718	**585,821**
Other current liabilities	**14,006**	18,006	**119,708**
Total current liabilities	**248,591**	255,074	**2,124,709**
Long-term liabilities:			
Long-term debt (Note 9)	**40,215**	30,345	**343,718**
Employees' severance and retirement benefits (Note 10)	**12,606**	16,484	**107,744**
Deferred tax liabilities	**4,188**	757	**35,795**
Other long-term liabilities	**1,738**	1,789	**14,855**
Total long-term liabilities	**58,747**	49,375	**502,112**
Minority interests	**3,185**	3,864	**27,222**
Contingent liabilities (Note 11)			
Stockholders' equity (Note 12):			
Common stock;			
Authorized 800,000,000 shares			
Issued 254,230,058 shares	**34,115**	34,115	**291,581**
Capital surplus	**67,216**	67,216	**574,496**
Retained earnings	**45,166**	77,146	**386,034**
Net unrealized holding gains on available-for-sale securities (Note 6)	**6,247**	3,371	**53,393**
Foreign currency translation adjustments	**(16,256)**	(23,434)	**(138,940)**
	136,488	158,414	**1,166,564**
Treasury stock, at cost	**(199)**	(178)	**(1,701)**
Total stockholders' equity	**136,289**	158,236	**1,164,863**
	¥446,812	¥466,549	**$3,818,906**

See accompanying notes.

Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Net sales	**¥806,900**	¥840,591	¥921,978	**$6,896,581**
Costs and expenses:				
Cost of sales	**551,261**	564,977	629,125	**4,711,632**
Selling, general and administrative expenses	**262,530**	265,244	267,702	**2,243,846**
	813,791	830,221	896,827	**6,955,478**
Operating income (loss)	**(6,891)**	10,370	25,151	**(58,897)**
Other income (expenses):				
Interest and dividend income	**886**	688	711	**7,573**
Equity in income (loss) of affiliated companies	**—**	32	(24)	**—**
Interest expense	**(3,040)**	(3,092)	(2,840)	**(25,983)**
Gain on sales of investment securities	**2**	3,911	280	**17**
Loss on liquidation of subsidiaries and affiliated companies	**—**	(16)	(0)	**—**
Restructuring charges	**(2,466)**	(57)	(3,812)	**(21,077)**
Loss from write-down of investment in securities	**(300)**	(349)	(282)	**(2,564)**
Prior period patent royalty	**—**	(263)	(2,736)	**—**
Special retirement payments	**(6,544)**	(6,530)	(452)	**(55,932)**
Gain and loss on sales and disposal of property, plant and equipment	**2,463**	1,144	875	**21,051**
Other, net (Note 7)	**(6,211)**	(1,110)	(2,765)	**(53,085)**
	(15,210)	(5,642)	(11,045)	**(130,000)**
Income (Loss) before income taxes and minority interests	**(22,101)**	4,728	14,106	**(188,897)**
Income taxes (Note 8):				
Current	**2,863**	5,317	4,814	**24,470**
Deferred	**6,266**	883	(6,740)	**53,556**
	9,129	6,200	(1,926)	**78,026**
Income (Loss) before minority interests	**(31,230)**	(1,472)	16,032	**(266,923)**
Minority interests	**622**	(386)	(423)	**5,316**
Net income (loss)	**¥(30,608)**	¥ (1,858)	¥ 15,609	**$ (261,607)**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock (Note 2):				
Net income (loss)	**¥ (120.5)**	¥ (7.7)	¥ 61.1	**$ (1.03)**
Diluted net income	**—**	—	57.9	**—**
Cash dividends applicable to the year	**—**	5.0	5.0	**—**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

		Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total
Balance at March 31, 2003	254,230	¥34,115	¥67,216	¥63,865	¥ 518	¥(19,198)	¥(106)	¥146,410
Net income	—	—	—	15,609	—	—	—	15,609
Foreign currency translation adjustments	—	—	—	—	—	(7,032)	—	(7,032)
Adjustment due to change in the number of consolidated subsidiaries	—	—	—	148	—	—	—	148
Net changes	—	—	—	—	4,225	—	—	4,225
Treasury stock (net)	—	—	1	—	—	—	(35)	(34)
Balance at March 31, 2004	254,230	¥34,115	¥67,217	¥79,622	¥4,743	¥(26,230)	¥(141)	¥159,326
Net income (loss)	—	—	—	(1,858)	—	—	—	(1,858)
Foreign currency translation adjustments	—	—	—	—	—	2,796	—	2,796
Adjustment due to change in the number of consolidated subsidiaries	—	—	—	740	—	—	—	740
Net changes	—	—	—	—	(1,372)	—	—	(1,372)
Treasury stock (net)	—	—	(1)	—	—	—	(37)	(38)
Cash dividends paid (¥5.0 per share)	—	—	—	(1,270)	—	—	—	(1,270)
Bonuses to directors and corporate auditors	—	—	—	(88)	—	—	—	(88)
Balance at March 31, 2005	254,230	¥34,115	¥67,216	¥77,146	¥3,371	¥(23,434)	¥(178)	¥158,236
Net income (loss)	**—**	**—**	**—**	**(30,608)**	**—**	**—**	**—**	**(30,608)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**7,178**	**—**	**7,178**
Net changes	**—**	**—**	**—**	**—**	**2,876**	**—**	**—**	**2,876**
Treasury stock (net)	**—**	**—**	**—**	**(1)**	**—**	**—**	**(21)**	**(22)**
Cash dividends paid (¥5.0 per share)	**—**	**—**	**—**	**(1,270)**	**—**	**—**	**—**	**(1,270)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(101)**	**—**	**—**	**—**	**(101)**
Balance at March 31, 2006	**254,230**	**¥34,115**	**¥67,216**	**¥45,166**	**¥6,247**	**¥(16,256)**	**¥(199)**	**¥136,289**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total
Balance at March 31, 2005	$291,581	$574,496	$659,368	$28,812	$(200,291)	$(1,521)	$1,352,445
Net income (loss)	**—**	**—**	**(261,607)**	**—**	**—**	**—**	**(261,607)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**61,351**	**—**	**61,351**
Net changes	**—**	**—**	**—**	**24,581**	**—**	**—**	**24,581**
Treasury stock (net)	**—**	**—**	**(9)**	**—**	**—**	**(180)**	**(189)**
Cash dividends paid ($0.05 per share)	**—**	**—**	**(10,855)**	**—**	**—**	**—**	**(10,855)**
Bonuses to directors and corporate auditors	**—**	**—**	**(863)**	**—**	**—**	**—**	**(863)**
Balance at March 31, 2006	**$291,581**	**$574,496**	**$386,034**	**$53,393**	**$(138,940)**	**$(1,701)**	**$1,164,863**

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Cash flows from operating activities:				
Income (Loss) before income taxes and minority interests	**¥(22,101)**	¥ 4,728	¥14,106	**$(188,897)**
Depreciation	**24,044**	21,952	21,461	**205,504**
Interest and dividend income	**(886)**	(688)	(711)	**(7,573)**
Interest expense	**3,040**	3,092	2,840	**25,983**
Increase (Decrease) in accrued restructuring charges	**—**	(3,136)	2,263	**—**
Gain on sales of investment securities	**(2)**	(3,911)	(280)	**(17)**
Decrease in notes and accounts receivable	**10,466**	1,313	10,157	**89,453**
Decrease (Increase) in inventories	**11,759**	8,083	(23,463)	**100,504**
Increase (Decrease) in notes and accounts payable	**5,041**	(22,478)	13,917	**43,085**
Other	**(1,105)**	(7,285)	6,971	**(9,444)**
Sub-total	**30,256**	1,670	47,261	**258,598**
Interest and dividends received	**886**	700	721	**7,573**
Interest paid	**(3,017)**	(3,108)	(2,913)	**(25,786)**
Income taxes paid	**(4,535)**	(5,495)	(4,342)	**(38,761)**
Net cash provided by (used in) operating activities	**23,590**	(6,233)	40,727	**201,624**
Cash flows from investing activities:				
Purchases of time deposits	**—**	(50)	(9,100)	**—**
Withdrawal of time deposits	**—**	4,155	13,100	**—**
Purchases of property, plant and equipment	**(27,525)**	(26,849)	(21,124)	**(235,256)**
Proceeds from sales of property, plant and equipment	**6,517**	5,199	5,132	**55,701**
Purchases of investment securities	**(52)**	(114)	(1,465)	**(444)**
Proceeds from sales of investment securities	**36**	5,541	886	**308**
Payments for investments in subsidiaries	**(278)**	—	—	**(2,376)**
Other	**(4,018)**	(1,744)	(3,266)	**(34,343)**
Net cash used in investing activities	**(25,320)**	(13,862)	(15,837)	**(216,410)**
Cash flows from financing activities:				
Proceeds from long-term loans	**30,000**	—	—	**256,410**
Repayments of long-term loans	**(20,133)**	(5,987)	(8,046)	**(172,077)**
Redemption of bonds	**(36,120)**	(10,968)	(6,519)	**(308,718)**
Increase in short-term bank loans, net	**25,995**	3,673	5,367	**222,179**
Cash dividends paid	**(1,270)**	(1,629)	(144)	**(10,855)**
Other	**(1,283)**	(703)	(34)	**(10,965)**
Net cash used in financing activities	**(2,811)**	(15,614)	(9,376)	**(24,026)**
Effect of exchange rate changes on cash and cash equivalents	**1,983**	879	(2,571)	**16,949**
Net increase (decrease) in cash and cash equivalents	**(2,558)**	(34,830)	12,943	**(21,863)**
Cash and cash equivalents at beginning of the year	**62,685**	97,242	83,412	**535,769**
Effect of changes in the number of consolidated subsidiaries and companies accounted for by the equity method	**—**	273	887	**—**
Cash and cash equivalents at end of the year	**¥60,127**	¥62,685	¥97,242	**$513,906**

See accompanying notes.

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of Victor Company of Japan, Limited ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 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 inter-company transactions, account balances and unrealized profits have been eliminated.

Investments in certain non-consolidated 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 inter-company profits. 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

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet dates except for those hedged by foreign currency forward contracts, which are recorded at contract rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for stockholders' equity accounts, which are translated at the historical rates.

Statements of operations of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

The Company reports foreign currency translation adjustments in the stockholders' equity and minority interests.

Cash and cash equivalents

In preparing the consolidated statements of cash flows for the years ended March 31, 2006, 2005 and 2004, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Inventories

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

Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts in an amount sufficient to cover probable losses on collection. It consists of an estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of collection losses with respect to the other receivables.

Securities

Securities are classified as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories ("available-for-sale securities").

The Company and its consolidated subsidiaries ("the Companies") had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by non-consolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by non-consolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event when net asset value declines significantly.

Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method based on the estimated useful lives of the assets. Certain consolidated overseas subsidiaries use the straight-line method.

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

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

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 expenditures

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

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carried forward and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Employees' severance and retirement benefits

The Company and some domestic subsidiaries have funded pension plans and unfunded benefit plans to provide retirement benefits for substantially all employees.

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 the current rates of their salary and length of service.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company provided allowance for employees' severance and retirement benefits as of the balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of plan assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is recognized in expenses in equal amounts primarily over 15 years commencing with the year ended March 31, 2001.

Prior service costs are recognized in income or expenses using the straight-line method over 10 years, and actuarial gains and losses are recognized in expenses using the straight-line method over 10 years commencing with the succeeding period.

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 resulting in the issuance of common stock. The Company did not have securities that could potentially dilute net income per common share in the year ended March 31, 2006 and diluted net income per share is not disclosed because there was a net loss in the year ended March 31, 2005.

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 2006 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3 CHANGE IN ACCOUNTING METHOD

In the fiscal year ended March 31, 2006, the Company and consolidated domestic companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the "Implementation guidance for the accounting standard for impairment of fixed assets" (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). This change had no effect to the consolidated statements of operations for the year ended March 31, 2006.

4 RELATIONSHIP WITH MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). At March 31, 2006, Matsushita held 133,227 thousand shares of common stock of the Company, 52.67% of the total outstanding shares.

Transactions between the Company and Matsushita for the years ended March 31, 2006, 2005 and 2004, and the account balances between the two companies at March 31, 2006 and 2005 are not material.

5 INVENTORIES

Inventories as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished goods	**¥ 91,687**	¥ 93,764	**$ 783,650**
Work in process	**9,295**	11,979	**79,444**
Raw materials and supplies	**18,113**	18,962	**154,812**
	¥119,095	¥124,705	**$1,017,906**

6 SECURITIES

The following tables summarize acquisition costs and book values of securities with available fair values as of March 31, 2006 and 2005:

(1) Available-for-sale securities with available fair values

	Millions of yen		
	Acquisition cost	Book value	Difference
2006:			
Securities with available fair values exceeding acquisition costs:			
Equity securities	**¥2,966**	**¥13,461**	**¥10,495**
Securities with available fair values not exceeding acquisition costs:			
Equity securities	**8**	**7**	**(1)**
Total	**¥2,974**	**¥13,468**	**¥10,494**

	Millions of yen		
	Acquisition cost	Book value	Difference
2005:			
Securities with available fair values exceeding acquisition costs:			
Equity securities	¥2,797	¥8,452	¥5,655
Securities with available fair values not exceeding acquisition costs:			
Equity securities	63	50	(13)
Total	¥2,860	¥8,502	¥5,642

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
2006:			
Securities with available fair values exceeding acquisition costs:			
Equity securities	**$25,351**	**$115,051**	**$89,700**
Securities with available fair values not exceeding acquisition costs:			
Equity securities	**68**	**60**	**(8)**
Total	**$25,419**	**$115,111**	**$89,692**

The following tables summarize book values as of March 31, 2006 and 2005 of securities with no available fair values.

(2) Securities with no available fair values

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
	Book value	Book value	Book value
1. Available-for-sale securities			
Unlisted equity securities	**¥1,195**	¥1,482	**$10,213**
Unlisted foreign debt securities	**7**	8	**60**
2. Subsidiaries and affiliated companies	**285**	269	**2,436**
Total	**¥1,487**	¥1,759	**$12,709**

(3) Available-for-sale securities sold in the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Sales	**¥36**	¥5,541	¥886	**$308**
Gains	**2**	3,911	280	**17**
Losses	**0**	7	6	**0**

7 OTHER EXPENSES

Commencing in the year ended March 31, 2006, subsidiaries with the fiscal year-end of December 31 closed their books and prepared their financial statements for consolidation purposes as of the consolidated fiscal year-end of March 31. While the consolidated results of operations for the year ended March 31, 2006 include 15 months of operations from January 1, 2005 to March 31, 2006 for these subsidiaries, net loss for the stub period from January 1, 2005 to March 31, 2005 for these subsidiaries amounting to ¥1,451 million is included in "Other, net" as a lump-sum loss amount.

8 INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in the statutory tax rates of approximately 40.6% for the years ended March 31, 2006 and 2005 and 42.0% for the year ended March 31, 2004. Consolidated overseas subsidiaries are subject to income taxes regulation of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2005 and 2004. Information for 2006 was not prepared as the Company incurred a loss before income taxes and minority interests in the year ended March 31, 2006.

	2005	2004
Statutory tax rate:	40.6 %	42.0 %
Lower tax rates of overseas subsidiaries	(19.4)%	(8.7)%
Expenses not deductible for tax purposes	50.0 %	4.9 %
Effect of changes in valuation allowance for deferred tax assets	(34.7)%	(47.1)%
Effect of changes in tax rates	—	4.1 %
Foreign tax credit	22.0 %	10.0 %
Effect of dividend income elimination	49.6 %	—
Other	23.0 %	(18.9)%
Effective tax rate	131.1 %	(13.7)%

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Loss on devaluation of inventory	**¥ 5,389**	¥ 3,479	**$ 46,060**
Accrued expenses not deductible for tax purposes	**6,572**	7,111	**56,171**
Depreciation	**8,799**	9,186	**75,205**
Retirement and severance benefits	**3,914**	4,907	**33,453**
Tax loss carryforwards	**27,486**	16,538	**234,923**
Other	**9,270**	10,274	**79,231**
Total gross deferred tax assets	**61,430**	51,495	**525,043**
Valuation allowance	**(38,463)**	(22,745)	**(328,744)**
Net deferred tax assets	**22,967**	28,750	**196,299**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(4,246)**	(2,269)	**(36,291)**
Other	**(993)**	(1,021)	**(8,487)**
Total gross deferred tax liabilities	**(5,239)**	(3,290)	**(44,778)**
Net deferred tax assets	**¥17,728**	¥25,460	**$151,521**

9 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, 2006 and 2005 range from 0.01% to 17.35% and from 0.01% to 12.81%, respectively.

Long-term debt at March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
0.55% unsecured convertible bonds due in 2005	**¥ —**	¥19,528	**$ —**
2.15% unsecured bonds due in 2005	**—**	9,500	**—**
1.68% unsecured bonds due in 2006	**20,000**	20,000	**170,940**
1.89% unsecured bonds due in 2007	**10,000**	10,000	**85,470**
1.50% guaranteed notes due in 2005	**—**	7,073	**—**
Loans, primarily from banks with interest principally at 1.19% to 6.10%:			
Unsecured	**30,354**	20,479	**259,436**
	60,354	86,580	**515,846**
Less current portion	**20,139**	56,235	**172,128**
	¥40,215	¥30,345	**$343,718**

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥20,139	$172,128
2008	10,142	86,684
2009	30,073	257,034
	¥60,354	$515,846

10 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme enacted by the national government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the substitutional portion of the government's scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Liability for employees' retirement benefits included in liabilities in the consolidated balance sheets for 2006 and 2005 and the related expenses for 2006, 2005 and 2004, which were determined based on the amounts obtained by actuarial calculations, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation:			
Projected benefit obligation	**¥(129,213)**	¥(133,997)	**$(1,104,385)**
Unamortized prior service costs	**(15,985)**	(17,866)	**(136,624)**
Unamortized actuarial differences	**6,693**	21,893	**57,205**
Less fair value of plan assets	**111,471**	97,470	**952,744**
Less unrecognized net transition obligation	**14,428**	16,016	**123,316**
Liability for severance and retirement benefits	**¥ (12,606)**	¥ (16,484)	**$ (107,744)**

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Severance and retirement benefits expenses:				
Service costs	**¥4,845**	¥ 5,581	¥ 6,973	**$41,410**
Interest costs on projected benefit obligation	**3,490**	3,774	4,795	**29,829**
Expected return on plan assets	**(2,426)**	(2,348)	(2,000)	**(20,735)**
Amortization of net transition obligation	**1,588**	1,598	1,603	**13,573**
Amortization of actuarial differences	**3,335**	3,608	5,039	**28,504**
Amortization of prior service costs	**(1,881)**	(940)	—	**(16,077)**
Total	**¥8,951**	¥11,273	¥16,410	**$76,504**

The special retirement payments amounting to ¥6,544 million ($55,932 thousand), ¥6,530 million and ¥452 million which were expensed in 2006, 2005 and 2004, respectively, are not included in the above table.

The discount rate and the rate of expected return on plan assets used by the Company are 2.7% and 3.0%, respectively, in 2006, 2005 and 2004.

The estimated amount of all retirement benefits to be prepaid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

11 CONTINGENT LIABILITIES

The contingent liabilities of the Companies at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥ 476	$ 4,068
As guarantor for employees' loans	1,884	16,103
	¥2,360	$20,171

12 STOCKHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be designated as common stock. The portion which is to be designated as common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as common stock are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of the legal earnings reserve and additional paid-in capital equals 25% of common stock.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors.

On condition that the total amount of the legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions or certain other purposes by the resolution of the stockholders' meeting. The legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after the stockholders' approval has been obtained.

The Japanese Company Law became effective on May 1, 2006, and superseded the Code. This change had no effect to the consolidated statements for the year ended March 31, 2006.

13 DERIVATIVE FINANCIAL INSTRUMENTS

The Companies use 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, currency option contracts and interest rate swap contracts.

The Company and certain of its overseas subsidiaries have established regulations for financial transactions that specify the persons with approval authority for derivative transactions. These derivative transactions are executed and managed by the Company's accounting department and the member of the Board of Directors in charge of finance. The results of all such transactions are reported to the Director in charge of finance.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Forward exchange contracts and currency option contracts	Foreign currency trade receivables and trade payables, future transaction denominated in a foreign currency
Interest rate swap contracts	Interest on bonds

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

The following tables summarize fair value information as of March 31, 2005 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen		
March 31, 2005	Contract amount	Fair value	Recognized gain (loss)
Swap contracts:			
Receive floating/pay fixed	**¥7,159**	**¥98**	**¥98**

The fair value of interest swap contracts is estimated based on the quotes obtained from financial institutions.

As the Companies applied hedge accounting to all derivatives in 2006, market value information for 2006 is not disclosed.

14 LEASE INFORMATION

Lessee:

The Companies use certain buildings, 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, 2006 and 2005 is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
2006:			
Buildings and structures	**¥ 1,623**	**¥ 923**	**¥ 700**
Machinery and equipment	**11,235**	**6,882**	**4,353**
Others	**242**	**158**	**84**
	¥13,100	**¥7,963**	**¥5,137**

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
2005:			
Buildings and structures	¥ 1,612	¥ 782	¥ 830
Machinery and equipment	15,842	9,945	5,897
Others	520	362	158
	¥17,974	¥11,089	¥6,885

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
2006:			
Buildings and structures	**$ 13,872**	**$ 7,889**	**$ 5,983**
Machinery and equipment	**96,026**	**58,821**	**37,205**
Others	**2,068**	**1,350**	**718**
	$111,966	**$68,060**	**$43,906**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
Finance leases	**2006**	2005	**2006**
Due within one year	**¥2,019**	¥3,054	**$17,256**
Due after one year	**3,115**	3,899	**26,624**
	¥5,134	¥6,953	**$43,880**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2006**	2005	**2006**
Due within one year	**¥1,216**	¥1,311	**$10,393**
Due after one year	**1,085**	1,306	**9,274**
	¥2,301	¥2,617	**$19,667**

(3) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Lease payments	**¥3,281**	¥3,790	¥4,041	**$28,043**
Assumed depreciation charges	**2,850**	3,381	3,660	**24,359**
Assumed interest charges	**206**	277	334	**1,761**

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

(5) The excess amount of total lease payments over acquisition cost of leased property is deemed as accumulated interest expenses and allocated for each period on the basis of the interest method.

Lessor:

The Companies lease certain equipment under non-capitalized finance leases, as lessees. And the Companies lease those equipment under non-capitalized finance leases, as lessors. Future minimum lease receipts under these non-capitalized finance leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
Non-capitalized finance leases	**2006**	2005	**2006**
Due within one year	**¥106**	¥341	**$ 906**
Due after one year	**232**	341	**1,983**
	¥338	¥682	**$2,889**

15 SEGMENT INFORMATION

Information by segment for the years ended March 31, 2006, 2005 and 2004 is shown in the tables below.

(1) Business segment information is as follows:

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2006:								
Sales								
External sales	**¥600,397**	**¥67,563**	**¥30,248**	**¥103,943**	**¥ 4,749**	**¥806,900**	**¥ —**	**¥806,900**
Intersegment sales	**13,411**	**1,305**	**4,140**	**6,738**	**5,000**	**30,594**	**(30,594)**	**—**
Total sales	**613,808**	**68,868**	**34,388**	**110,681**	**9,749**	**837,494**	**(30,594)**	**806,900**
Operating expenses	**623,364**	**68,148**	**34,277**	**108,116**	**9,278**	**843,183**	**(29,392)**	**813,791**
Operating income (loss)	**¥ (9,556)**	**¥ 720**	**¥ 111**	**¥ 2,565**	**¥ 471**	**¥ (5,689)**	**¥ (1,202)**	**¥ (6,891)**
Identifiable assets	**¥280,485**	**¥36,846**	**¥26,298**	**¥ 84,828**	**¥24,779**	**¥453,236**	**¥ (6,424)**	**¥446,812**
Depreciation & amortization	**17,908**	**860**	**2,905**	**3,584**	**853**	**26,110**	**738**	**26,848**
Capital expenditures	**20,781**	**1,140**	**3,314**	**2,854**	**602**	**28,691**	**799**	**29,490**

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2005:								
Sales								
External sales	¥627,286	¥68,348	¥43,150	¥ 95,928	¥ 5,879	¥840,591	¥ —	¥840,591
Intersegment sales	3,520	2,221	2,107	6,788	3,782	18,418	(18,418)	—
Total sales	630,806	70,569	45,257	102,716	9,661	859,009	(18,418)	840,591
Operating expenses	620,424	70,282	46,990	100,339	9,337	847,372	(17,151)	830,221
Operating income (loss)	¥ 10,382	¥ 287	¥ (1,733)	¥ 2,377	¥ 324	¥ 11,637	¥ (1,267)	¥ 10,370
Identifiable assets	¥293,932	¥37,675	¥26,817	¥ 82,532	¥24,077	¥465,033	¥ 1,516	¥466,549
Depreciation & amortization	15,223	885	2,959	3,682	479	23,228	194	23,422
Capital expenditures	20,749	937	3,272	3,794	172	28,924	35	28,959

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2004:								
Sales								
External sales	¥638,091	¥67,545	¥62,035	¥148,016	¥ 6,291	¥921,978	¥ —	¥921,978
Intersegment sales	4,685	3,456	2,571	7,976	3,190	21,878	(21,878)	—
Total sales	642,776	71,001	64,606	155,992	9,481	943,856	(21,878)	921,978
Operating expenses	616,958	72,768	67,721	151,342	8,180	916,969	(20,142)	896,827
Operating income (loss)	¥ 25,818	¥ (1,767)	¥ (3,115)	¥ 4,650	¥ 1,301	¥ 26,887	¥ (1,736)	¥ 25,151
Identifiable assets	¥262,688	¥44,525	¥37,762	¥ 89,306	¥23,651	¥457,932	¥49,185	¥507,117
Depreciation & amortization	13,981	1,252	3,085	3,540	507	22,365	370	22,735
Capital expenditures	17,230	841	4,421	2,956	306	25,754	146	25,900

	Thousands of U.S. dollars							
	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2006:								
Sales								
External sales	**$5,131,598**	**$577,462**	**$258,530**	**$888,402**	**$ 40,589**	**$6,896,581**	**$ —**	**$6,896,581**
Intersegment sales	**114,624**	**11,153**	**35,385**	**57,589**	**42,736**	**261,487**	**(261,487)**	**—**
Total sales	**5,246,222**	**588,615**	**293,915**	**945,991**	**83,325**	**7,158,068**	**(261,487)**	**6,896,581**
Operating expenses	**5,327,897**	**582,461**	**292,966**	**924,068**	**79,300**	**7,206,692**	**(251,214)**	**6,955,478**
Operating income (loss)	**$ (81,675)**	**$ 6,154**	**$ 949**	**$ 21,923**	**$ 4,025**	**$ (48,624)**	**$ (10,273)**	**$ (58,897)**
Identifiable assets	**$2,397,308**	**$314,923**	**$224,769**	**$725,026**	**$211,786**	**$3,873,812**	**$ (54,906)**	**$3,818,906**
Depreciation & amortization	**153,060**	**7,350**	**24,829**	**30,632**	**7,291**	**223,162**	**6,308**	**229,470**
Capital expenditures	**177,615**	**9,744**	**28,325**	**24,393**	**5,145**	**245,222**	**6,829**	**252,051**

(2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2006:							
Sales							
External sales	**¥300,719**	**¥214,372**	**¥200,576**	**¥ 91,233**	**¥ 806,900**	**¥ —**	**¥806,900**
Intersegment sales	**210,340**	**633**	**1,428**	**175,893**	**388,294**	**(388,294)**	**—**
Total sales	**511,059**	**215,005**	**202,004**	**267,126**	**1,195,194**	**(388,294)**	**806,900**
Operating expenses	**507,015**	**221,359**	**205,479**	**265,369**	**1,199,222**	**(385,431)**	**813,791**
Operating income (loss)	**¥ 4,044**	**¥ (6,354)**	**¥ (3,475)**	**¥ 1,757**	**¥ (4,028)**	**¥ (2,863)**	**¥ (6,891)**
Identifiable assets	**¥305,311**	**¥ 67,503**	**¥ 86,717**	**¥ 94,587**	**¥ 554,118**	**¥(107,306)**	**¥446,812**

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2005:							
Sales							
External sales	¥312,827	¥201,113	¥228,875	¥ 97,776	¥ 840,591	¥ —	¥840,591
Intersegment sales	206,559	82	1,518	203,456	411,615	(411,615)	—
Total sales	519,386	201,195	230,393	301,232	1,252,206	(411,615)	840,591
Operating expenses	517,046	201,241	227,371	296,551	1,242,209	(411,988)	830,221
Operating income (loss)	¥ 2,340	¥ (46)	¥ 3,022	¥ 4,681	¥ 9,997	¥ 373	¥ 10,370
Identifiable assets	¥308,060	¥ 74,275	¥ 87,859	¥ 91,740	¥ 561,934	¥ (95,385)	¥466,549

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2004:							
Sales							
External sales	¥352,485	¥218,877	¥243,061	¥107,555	¥ 921,978	¥ —	¥921,978
Intersegment sales	271,194	965	1,638	193,209	467,006	(467,006)	—
Total sales	623,679	219,842	244,699	300,764	1,388,984	(467,006)	921,978
Operating expenses	608,592	222,343	237,922	294,810	1,363,667	466,840	896,827
Operating income (loss)	¥ 15,087	¥ (2,501)	¥ 6,777	¥ 5,954	¥ 25,317	¥ (166)	¥ 25,151
Identifiable assets	¥318,387	¥ 70,799	¥ 89,361	¥100,249	¥ 578,796	¥ (71,679)	¥507,117

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2006:							
Sales							
External sales	**$2,570,248**	**$1,832,239**	**$1,714,325**	**$ 779,769**	**$ 6,896,581**	**$ —**	**$6,896,581**
Intersegment sales	**1,797,777**	**5,411**	**12,205**	**1,503,359**	**3,318,752**	**(3,318,752)**	**—**
Total sales	**4,368,025**	**1,837,650**	**1,726,530**	**2,283,128**	**10,215,333**	**(3,318,752)**	**6,896,581**
Operating expenses	**4,333,460**	**1,891,958**	**1,756,231**	**2,268,111**	**10,249,760**	**(3,294,282)**	**6,955,478**
Operating income (loss)	**$ 34,565**	**$ (54,308)**	**$ (29,701)**	**$ 15,017**	**$ (34,427)**	**$ (24,470)**	**$ (58,897)**
Identifiable assets	**$2,609,495**	**$ 576,949**	**$ 741,171**	**$ 808,436**	**$ 4,736,051**	**$ (917,145)**	**$3,818,906**

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

	Millions of yen				
	Americas	Europe	Asia	Other areas	Total
2006:					
Overseas sales	**¥218,603**	**¥206,870**	**¥113,482**	**¥8,829**	**¥547,784**
Consolidated sales					**¥806,900**
Ratio of overseas sales to consolidated sales	**27.1%**	**25.6%**	**14.1%**	**1.1%**	**67.9%**
2005:					
Overseas sales	¥204,650	¥235,411	¥119,578	¥7,926	¥567,565
Consolidated sales					¥840,591
Ratio of overseas sales to consolidated sales	24.4%	28.0%	14.2%	0.9%	67.5%
2004:					
Overseas sales	¥225,849	¥247,493	¥140,424	¥6,196	¥619,962
Consolidated sales					¥921,978
Ratio of overseas sales to consolidated sales	24.5%	26.8%	15.2%	0.7%	67.2%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other areas	Total
2006:					
Overseas sales	**$1,868,402**	**$1,768,120**	**$969,932**	**$75,461**	**$4,681,915**
Consolidated sales					**$6,896,581**
Ratio of overseas sales to consolidated sales	**27.1%**	**25.6%**	**14.1%**	**1.1%**	**67.9%**

Independent Auditors' Report

To the Board of Directors of Victor Company of Japan, Limited

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Victor Company of Japan, Limited and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan

June 28, 2006

Corporate Data

JVC

Victor Company of Japan, Limited

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Corporate Planning Headquarters
Telephone: +81-45-450-1445
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http://www.jvc-victor.co.jp/

Date of Establishment:

September 13, 1927

Number of Employees:

30,481

Paid-in Capital:

¥34,115 million

Number of Shares of Common Stock Issued:

254,230,058 shares

Number of Stockholders:

16,669

Stock Exchange Listings:

Tokyo Stock Exchange
Osaka Securities Exchange

Transfer Agent and Registrar:

The Sumitomo Trust & Banking Co., Ltd.
4-5-33, Kitahama,
Chuo-ku, Osaka 541-0041, Japan

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:

KPMG AZSA & Co.

Principal Consolidated Subsidiaries:

Domestic

Victor Entertainment, Inc.
Teichiku Entertainment, Inc.
Victor Service & Engineering Co., Ltd.
Victor Real Estate Co., Ltd.
Victor Finance Co., Ltd.
Victor Logistics, Inc.
Nippon Record Center Co., Ltd.

Overseas

JVC Americas Corp.
JVC America, Inc.
JVC Industrial America, Inc.
JVC Canada Inc.
JVC Europe Ltd.
JVC (U.K.) Ltd.
JVC Manufacturing U.K. Ltd.
JVC France S.A.S.
JVC Italia S.p.A.
JVC España, S.A.
JVC Deutschland GmbH
JVC Benelux B.V.
JVC International (Europe) GmbH
JVC Asia Pte. Ltd.
JVC Electronics Singapore Pte. Ltd.
JVC Electronics Malaysia Sdn. Bhd.
JVC Video Malaysia Sdn. Bhd.
JVC Sales & Service (Thailand) Co., Ltd.
JVC Manufacturing (Thailand) Co., Ltd.
JVC Components (Thailand) Co., Ltd.
P.T. JVC Electronics Indonesia
JVC Gulf FZE
JVC Korea Co., Ltd.
JVC (China) Investment Co., Ltd.
JVC Beijing Electronic Industries Co., Ltd.
JVC Shanghai Electronics Co., Ltd.

Note: JVC's fiscal 2006 consolidated financial statements comprise the accounts of 17 domestic and 55 overseas companies, including principal subsidiaries.

(As of March 2006)

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