The Perfect Experience

Victor Company of Japan, Limited
Annual Report 2003
For the year ended March 31, 2003

Three Initiatives, One Goal

3 → 1

Brand Statement

— Our new promise —

The Perfect Experience

The thinking behind the JVC brand statement

To create truly moving experiences and provide total satisfaction for our customers

Using our superior technologies to create new products, JVC promises to:
• Inspire people
• Expand the possibilities for creative expression
• Provide customers with the potential for personal enrichment
• Provide customers with a lifetime of satisfaction

Contents

Cautionary Note: Forward-Looking Statements

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

Three Initiatives, One Goal

In fiscal 2003, ended March 31, 2003, we successfully turned the company around and returned to profitability for the first time in five years. Operating income and net income were back in positive territory on both a consolidated and non-consolidated basis. These results clearly vindicate the bold reforms we carried out in the past two years to fundamentally rebuild our management structure. Every JVC employee made a vital contribution to driving this turnaround.

However, much remains for us to do as we build on new momentum running through the company. With renewed confidence, we will work to realize our three key initiatives—reengineer our business structure, change our product lineup, and revitalize our corporate culture. And the goal? Nothing less than offering customers The Perfect Experience by transforming the Victor Company of Japan, Limited (JVC) into a high-performance global company.

Financial Highlights

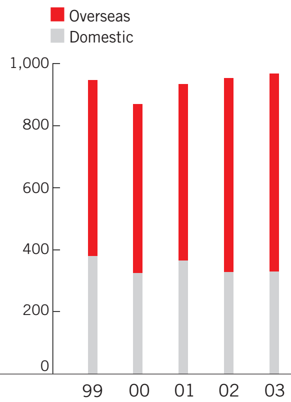
Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
For the year:				
Net sales	**¥967,640**	¥954,172	¥934,350	**$8,063,667**
Overseas	**638,092**	626,209	567,977	**5,317,433**
Domestic	**329,548**	327,963	366,373	**2,746,234**
Net income (loss)	**6,336**	(44,572)	2,498	**52,800**
Capital expenditures	**21,036**	21,175	31,127	**175,300**
Depreciation and amortization	**25,250**	28,000	28,085	**210,417**
At year-end:				
Stockholders' equity	**¥146,410**	¥146,246	¥180,515	**$1,220,083**
Total assets	**479,750**	513,365	586,628	**3,997,917**

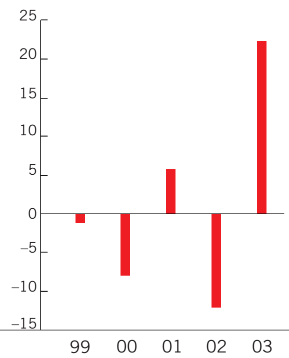
	Yen			U.S. dollars (Note 1)
Per share:				
Net income (loss) (Note 2)	**¥ 24.9**	¥ (175.3)	¥ 9.8	**$ 0.21**
Diluted net income (Note 2)	**23.5**	—	—	**0.20**
Cash dividends (Note 3)	**—**	—	3.0	—

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥120 to U.S.$1, the approximate rate prevailing on March 31, 2003.
2. Net income (loss) per share of common stock for the years ended March 31, 2002 and 2001 have not been recalculated using the new accounting standard, which is effective April 1, 2002.
3. Cash dividends represent amounts applicable to respective years.

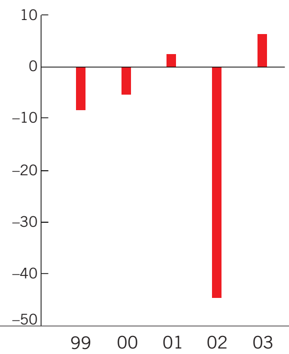
NET SALES
(Billions of yen)



OPERATING INCOME (LOSS)
(Billions of yen)



NET INCOME (LOSS)
(Billions of yen)



To Our Customers, Employees and Stockholders

A Fundamental Change In Approach

Masahiko Terada
President

A Fundamental Change in Approach

I have now served as the president of JVC for two years. In that time, we launched a range of bold reforms designed to build a robust corporate structure that will serve JVC well into the future. In the previous fiscal year, the first year of our reform program, we gave priority to building a healthy financial base by dealing with underperforming assets that had a negative impact on results. This led to a substantial net loss in the previous year. During fiscal 2003, though, supported by a stronger financial position, we made real progress in realigning our operating structure and turning the company around. Our efforts included reforming JVC's employment structure and improving core elements of our day-to-day operations by reviewing operating bases, and reorganizing our manufacturing, purchasing, retailing and logistics networks using cross functional teams. This resulted in a more robust earnings structure by reducing fixed assets and inventories, and improving working capital. Our management approach is now more focused, and results for the year reveal that we pared back total assets by more than ¥100 billion. In conjunction with these steps, improvements that eliminate inefficiencies in our core product cycle—from research and development right through to manufacturing and retailing—meant we could rapidly and accurately launch a range of 75th anniversary commemorative products incorporating our renowned technological strengths and innovative product design. These improvements won plaudits from customers, demonstrating how we have successfully created a virtuous cycle.

An Evolving JVC

In fiscal 2003, net sales rose 1.4% or ¥13.5 billion to ¥967.6 billion, representing our best-ever sales performance. We also posted an increase in operating income of ¥34.4 billion, to ¥22.3 billion, reversing the operating loss of ¥12.1 billion in the previous year. Moreover, JVC returned to bottom-line profitability, recording net income of ¥6.3 billion. This represented a significant ¥50.9 billion improvement on the previous year's net loss of ¥44.6 billion.

Despite these results, our reforms are still underway and there is much left to do to ensure a robust and sustained turnaround. We stand at the start line of a more fundamental revolution at JVC that will see greater employee involvement in management, complete reform of our management framework, and the creation of a powerful earnings structure based on a lineup of high value-added products. Change is already underway, including revitalizing our corporate culture. In the past, each organization within JVC was more likely to prioritize its own objectives, leading to a lack of cooperation among internal business units. Now, however, due to reforms enacted over the past two years, JVC employees are more likely to look at the bigger picture and make decisions that benefit the company as a whole. This new mindset is changing the company and enabling us to eliminate practices that held back profitability, as well as allowing us to deal with gaps and waste in our organization. Moreover, as we seek to become a high performance global company, progress in revitalizing our corporate culture underpins our ongoing preparations to move into new fields where we can leverage our core strengths. Indeed, entering new fields, something I will personally oversee, will be key to ensuring the future growth of JVC.

Products too, are vital to our future. Based on our vision of creating new ways to communicate through music and images, we strive to manufacture high value-added products to win greater market share and generate profits that reflect our products' enhanced value. A new system underpins this approach that allows us to launch products more efficiently and accurately, thanks to a complete overhaul of our core product cycle, from production right through to retailing. This system is now settling down, and will play a crucial role in generating "Only One" products designed to stand out in the market and capture greater share in our five priority business areas. We plan to introduce these "Only One" products in as many global markets and product categories as possible.

Creating "Only One" Products in Five Priority Business Areas

JVC is focusing on five priority business areas where demand is expected to grow—high-definition displays, digital high-density storage, network AV systems, Components & Devices, and Software & Media. Recently, demand is shifting toward products that demonstrate two qualities: superior performance and digital technology. Our expertise in high-quality visual and audio technology puts us in an ideal position to benefit from this trend. We now direct our energies into developing and marketing a family of "Only One" products based on this approach, all of which can become market leaders or significantly increase market share in their respective product category.

We are launching these products in conjunction with strategies tailored to specific regional markets aimed at raising JVC brand value on a global scale. In the US, we are building closer relationships with retailers such as regional volume retailers and specialist audiovisual chains, to put in place a strong network capable of carefully explaining and selling our "Only One" products. In Europe, we hope to capitalize on number of awards bestowed upon JVC products by the influential European Imaging and Sound Association (EISA) to expand sales, and bolster our presence in growing markets such as southern and eastern Europe and Russia. In Asia, and the key Chinese market, we will work to grow sales of televisions, camcorders and car AV systems. And in our home market, centered on our range of "Digital High-definition Universe"[1] products, we will implement a sales strategy carefully matched to each distribution channel to capture a greater market share.

1 Known as "Digital Hi-vision World" in Japan

Sustained Growth Driven by Technological Capabilities

For JVC to transform itself into a high-performance global company, it must create a portfolio of distinctive products that customers really want. This is where our advanced technological capabilities will play a crucial role in attracting customer attention. Here we will leverage high-quality picture technology, like Digital Image Scaling Technology (DIST)[2] , high-quality sound technology such as CC Converters, DD Speakers and digital compression, and sophisticated volume production technology. Using these strengths, we will develop products that satisfy demand for premium audio and visual quality, and launch new high value-added products based on careful assessment of market trends. We will support this approach with manufacturing reforms to ensure we launch new products in a more rapid and flexible manner, thereby ensuring we capitalize on every market opportunity.

2 Known as Digital Emotion Technology (DET) in Japan

Building a Responsive and Lean Value Chain

JVC shuns a vertically integrated manufacturing approach based on in-house sourcing of all semiconductors and components, in favor of a more dispersed, specialized structure. More specifically, this means we combine the resources of key suppliers of materials and components with our own technological expertise to create a responsive and lean value chain unique to JVC. We produce key devices that add the most value and make our products different, but we also use a global procurement framework to identify and source the best core components for our products.

Fostering closer relationships with global partners means we reduce lead times, pare back costs, and enhance quality, to ultimately offer an even higher level of customer satisfaction. And we take the same approach in retailing too, by creating mutually beneficial partnerships with retailers.

Leveraging Today's Technology and Creating Tomorrow's

JVC's volume production technology is a vital factor in efficiently combining numerous vendor components into "Only One" products. Technology is at the heart of our corporate DNA, and our goal is to build a company that draws out this fundamental strength.

Competition is intensifying in our operating climate at an eye-opening pace, as new players from China and South Korea gain strength and confidence. I am convinced our proprietary "black box" technology is the key to taking on and overcoming this new competition. However, at JVC we were too preoccupied with technology as an R&D tool, failing to place enough importance on the crucial role of technology in transforming components into finished goods, and finished goods into products that sell. We are therefore redefining technology's position within our organization, based on a long-term outlook. Essentially, this will strengthen technology to fulfill three roles: as a generator of cash flow to support the JVC of today; as the driving force behind the JVC of tomorrow; and as the central supporting element of JVC's operations five to ten years into the future. Balancing these three roles and enhancing our technological capabilities will be crucial for management going forward.

Moving Closer to Our Ultimate Goal With Our Three Key Initiatives

In January 2003 we announced a new brand statement—The Perfect Experience. This statement represents our undertaking to do all we can to enhance our technologies, products and services so customers enjoy truly moving experiences through music and images. Essential to realizing this ambitious task are three initiatives examined in more detail on the following pages: to reengineer our business structure, change our product lineup, and revitalize our corporate culture. With every single employee pulling as one, this will enable us to fulfill our commitment to offer customers The Perfect Experience by transforming JVC into a high-performance global company.

I believe companies can achieve success no matter what stage of growth they reach. Based on the considerable progress we demonstrated in the past year, I am confident JVC will reap the rewards of all its efforts to date. Your continuing support will be a vital element of this process.

July 2003

M. Terada

Masahiko Terada
President

Three Initiatives:
Reengineer Change Revitalize 3→1

→Initiative One:

Reengineer Our Business Structure—We implemented a range of reforms in the past year to reorganize our operating bases, reform our employment structure, and improve core elements of our day-to-day operations by rebuilding our manufacturing, purchasing, retailing and logistics frameworks. This has resulted in a leaner and more flexible operating structure capable of responding rapidly to changes in our environment. This new stance also allows us to quickly cover resource deficiencies, an unavoidable issue for a company our size. Another advantage is our ability to maintain a suitable inventory level while retaining the flexibility to raise output during periods of high demand. We accomplished this by leveraging our network of global procurement partners to create an optimal manufacturing framework. In short, we can now more accurately time the development and launch of products to satisfy projected demand. The benefits of reengineering our business structure are already clear—in fiscal 2003 we saw real success in increasing cash flows. Reducing lead-times generated additional cash, based on a more efficient 6-month manufacturing cycle, and further reductions in inventories.

Ongoing Reform of the JVC Business Structure

	Progress in Fiscal 2003	Measures and Objectives for Fiscal 2004
Cost Reduction	• Centralization of purchasing functions for consumer electronics • Reducing number of domestic suppliers gets underway • Component procurement from China begins; establishment of a Parts Laboratory Center in Shanghai • Global procurement costs reduced to ¥44.6 billion	• Formulate supplier policy to ensure stable procurement of key devices • Active promotion of measures started in fiscal 2003 (Value engineering/integration of domestic suppliers/ development and procurement of components in China) • Reduce global procurement costs to ¥37.1 billion
Manufacturing Reform	• Progress towards realizing a 6-month manufacturing cycle • Mother base production system launched	• Further advance design process reform (2nd year) • Accelerate roll out of mother base production system • Strengthen volume production technology
Logistics Reform	• Realignment of logistics bases · US: Steps toward reducing bases from 5 to 3 · Europe: Reduction of Northern European bases from 3 to 1 · Japan: New operational framework for facility in Yokohama	• Realize leaner logistics framework · US: Realignment to 3 bases by fiscal 2005 · Europe: Integrate logistic bases for professional electronics; integrate inventory warehousing for 3 sales companies · Japan: Reduce inventory warehouses in the Yokohama area from 9 to 3 • Begin logistics system reform for consumer electronics
Supply Chain Management	• Initial steps taken to create a SCM system for consumer electronics including creation of guidelines; specialist framework; information system	• Bring SCM system for consumer electronics online/introduce more responsive management system based on weekly timetabling **Target dates** May 2003: 4 factories in Japan and Asia September 2003: 6 factories in US/Europe/Asia (entire consumer electronics manufacturing network)

→Initiative Two:

Change Our Product Lineup—There is a major transformation underway in home electronics retailing: stores increasingly stock their shelves with value-added products more likely to sell than high-volume, low-margin products of the past. JVC will tap this demand with “Only One” products that showcase the value of the JVC brand. And as we work to realize our vision of creating new ways to communicate through music and images, we no longer attempt to launch multiple products in a wide range of categories. Instead, we have chosen a more challenging route. Our new objective is to reduce our lineup and launch value-added products not subject to price competition. We will use these products to capture market share and generate profits commensurate with their enhanced value. Based on this strategy, we aim to raise JVC’s profile. Ultimately, we hope to create a global brand synonymous with quality and value, develop a reservoir of expertise that transcends digital technology, and create a corporate culture that cares about details. Our overriding motivation is to create “Only One” products that are leaders in their markets.

High-definition (HD) Displays	• Rear Projection TVs • PDPs • LCDs • D-ILA Projectors	• As core products in our "Digital High-definition Universe" concept, leveraging advanced picture quality centered on DIST technology to expand sales
Digital High-density Storage	• Digital High-Definition Recorders • DVD Recorders	• Using D-VHS, a high-definition recording media, to set JVC apart in the market and grow sales • New moves into the DVD recorder markets in Japan, the US and Europe
Network AV Systems	• World's first High-Definition camcorder for the consumer market • Dome Color Security Cameras • MP3 compatible car AV systems	• Strategy aimed at capturing the leading market share for DVC camcorders • Launched the world's first high-definition camcorder for the consumer market • Actively expanding the car AV business
Components & Devices	• Fluid dynamic bearing motors for HDDs • Dual-wavelength hologram optical pickups	• Full-scale entry into the market for fluid dynamic bearing motors for HDDs and dual-wavelength hologram optical pickups • Boosting profitability in the deflection yoke business and expanding consumer product applications
Software & Media	• Mini-DV High-Definition Tape • Software Business Activity · MINMI New Album: *Miracle* · Southern All Stars 25th Anniversary Events	• Shifting to digital media and expanding sales channels • Moving away from a focus on prerecorded software to become a "Matrix Music Company" that leverages content rights and its human network of professionals and artists

→Initiative Three:

Revitalize Our Corporate Culture—In order to bring about a real and sustained recovery, JVC must fundamentally improve its balance sheets, and generate strong cash flow to drive forward future growth. Cultivating a workforce steeped in creativity with the courage to take on new challenges, as well as a corporate culture that leads to more responsive management, will be crucial to achieve these objectives. Based on enhanced communication across all levels of the company and frank and open discussion, JVC is now working to revitalize its corporate culture. The results are already showing through, with an organization where all our people are more closely involved in management and more committed to customer needs.

As member of the Matsushita Group, JVC's operations have traditionally been divided across a number of its parent company's business segments. However, following group reorganization in January 2003, JVC became an independent business segment in its own right. As a result, our role and responsibilities within the Matsushita Group are defined more clearly. We believe this is a positive move for both JVC and its shareholders as it allows us more freedom to operate as a self-reliant company, guided by our own decision-making criteria. Despite this greater independence, we will maintain strong links with Matsushita by sharing technology, logistic networks and procurement resources and by supplying products to one another. We will also take steps to further deepen ties with the Matsushita Group.

One Goal: The Perfect Experience

Our goal is to offer The Perfect Experience—our promise to enhance our technologies, products and services so that customers enjoy truly moving experiences through music and images—by transforming JVC into a high-performance global company.

Management Team

President
1. **Masahiko Terada**

Senior Managing Directors
2. **Namio Yamaguchi**
In charge of technology; General Manager, Technology Development Division; in charge of ILA Center
3. **Masato Yamauchi**
In charge of Personnel and General Affairs, Legal & Intellectual Property, Environment Administration and Customer Satisfaction; General Manager, Personnel and General Affairs Division
4. **Eiichi Tsuchiya**
President, AV & Multimedia Company; in charge of VHS Standard Center and Production Engineering

Managing Directors
5. **Shigeharu Tsuchitani**
President, Americas Company, JVC Americas Corporation
6. **Masatoshi Hirabayashi**
Executive Vice President, AV & Multimedia Company; in charge of Business Solutions Marketing
7. **Yukihiro Tanii**
In charge of Corporate Accounting & Finance, Facility Management, Information System, Logistics, and Interior Furniture Business

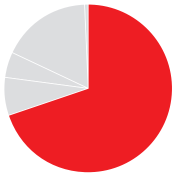
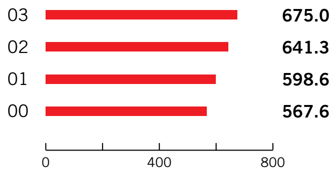
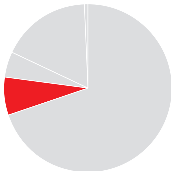
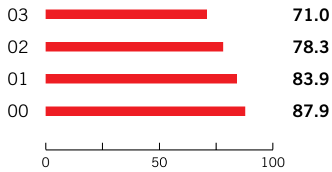
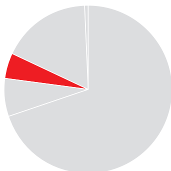
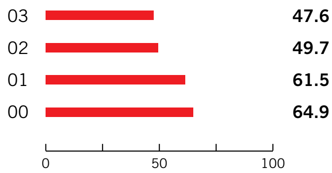
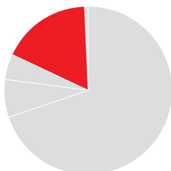
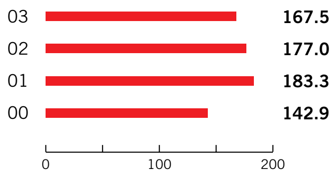
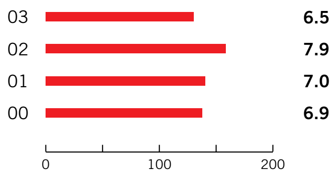
Directors
8. **Hideo Aiso**
(President, Tokyo University of Technology)
9. **Itaru Ozaki**
Executive Vice President, AV & Multimedia Company; General Manager, International Sales Division, AV & Multimedia Company
10. **Katsuhisa Muto**
Executive Vice President, AV & Multimedia Company
11. **Tetsuo Kashiwagi**
President, Components & Device Company
12. **Hiroshi Fujisawa**
President, Media Company
13. **Toyoharu Honda**
General Manager, Professional Products, Systems & Network Sector; President, Victor Data Systems Co., Ltd.
14. **Kunihiko Sato**
President, Europe Company, JVC Europe Ltd., JVC Professional Europe Ltd.
15. **Shingo Kawata**
Executive Vice President, AV & Multimedia Company; In charge of Optical Disc Business
16. **Shozo Saito**
General Manager, Consumer Marketing Div., AV & Multimedia Company
17. **Yutaka Ichijo**
In charge of Corporate Planning and Investor Relations; General Manager, Corporate Planning Headquarters; General Manager, Corporate Communications Dept.

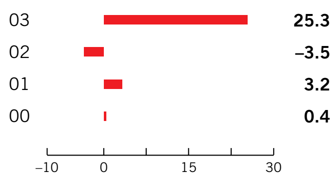
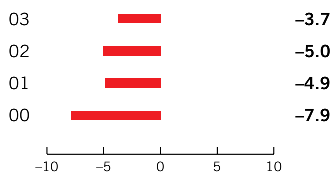
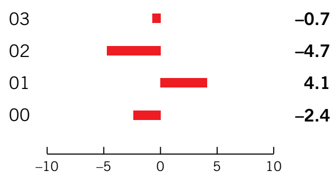
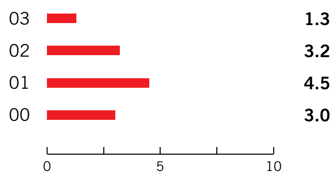
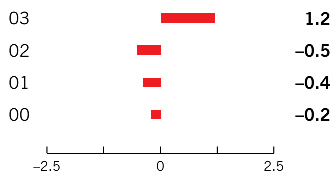
Corporate Auditors
18. **Takao Aida**
19. **Hajime Takashima**

Makoto Matsuo*
(Attorney-at-Law)
Fujio Nakajima*
(Executive Officer, Senior Vice President, Panasonic AVC Networks Company)

*Not present in the above photo

JVC at a Glance

Segment	% of Total FY 2003 Sales	Sales (Billions of yen)
Consumer Electronics	 69.8%	 03 675.0 02 641.3 01 598.6 00 567.6 0 400 800
Professional Electronics	 7.3%	 03 71.0 02 78.3 01 83.9 00 87.9 0 50 100
Components & Devices	 4.9%	 03 47.6 02 49.7 01 61.5 00 64.9 0 50 100
Software & Media	 17.3%	 03 167.5 02 177.0 01 183.3 00 142.9 0 100 200
Others	0.7%	 03 6.5 02 7.9 01 7.0 00 6.9 0 100 200

Operating Income (Billions of yen)	Major Products	Highlights
	• VCRs • Camcorders • Televisions • Audito component systems • Car AV systems • DVD players	• Higher domestic and overseas sales • Visual products such as high-definition TVs and Plasma TVs performed well in Japan • Fifth year of consecutive double-digit growth in Europe on a local currency basis
	• Professional camcorders • Information systems • D-ILA projectors • Security systems	• Strong showing from optical wireless LAN systems • Challenging operating environment in the U.S. and Europe leads to lower overseas sales
	• Deflection yokes • Optical pickups • Motors • PWBs	• A strong performance by motors, but "VIL" PWBs and deflection yokes had a difficult year • Withdrawal from magnetic head business and crystal quartz device business
	• Audio and visual software including CDs, DVDs and videotapes • Recordable media	• Higher consignment sales were offset by a downturn in the domestic music industry, leading to a drop in sales and operating income
	• Interior furniture	

Business Segment Overview

Consumer Electronics

The consumer electronics segment derives the majority of its earnings from the development, manufacture and sale of audio and visual products. Products in this segment account for about 70% of total sales. Overseas markets account for more than 80% of segment sales, reflecting the popularity of JVC products outside Japan. Consumer electronics performed well in fiscal 2003, achieving an operating margin of 3.7% and making a significant contribution to JVC's return to profitability.

JVC's Primary Growth Driver

JVC has prioritized developing products that incorporate higher levels of added value for some time. The benefits of this strategy began to show through in fiscal 2003. Large sales increases were recorded by relatively new products such as high definition TVs and plasma display panel (PDP) TVs. At the same time, well established products such as digital video cameras, car AV equipment and other audio products, all of which have high profit margins, turned in a strong performance. This led to operating income in this segment of ¥25.3 billion. As part of a global program to realign manufacturing bases over a number of years, we positioned the Yokosuka Plant in Japan as the nucleus of all consumer electronics production, what we at JVC call the "mother base" of manufacturing. Its primary mission is making "Only One" products—items unique to JVC. As we enact more structural reforms, we will continue introducing strategic products that take JVC to the next phase of growth.

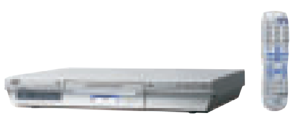
Competing Against Time in Multiple Geographies

An October 2002 reorganization gave the consumer electronics segment an operating structure based on product category, with eight separate management units for each product category. Our previous system had centered on two business units, each responsible for a number of audio or video product categories. This new system means we can conduct all development, manufacturing and sales for each product within each of these new units, allowing us to respond to shifts in market trends much more rapidly and save time in product development. Another advantage is managing operating results in smaller units. As a semiautonomous profit center, each of the eight units has its own management and operating targets. To save costs, we have also centralized the units' common administrative functions. This gives JVC's consumer electronics segment the optimal structure for allocating resources and executing strategies. We are now using this structure to build a more powerful product portfolio, based on the objective of developing products that rank among the top three in their respective categories in all five of JVC's major markets: Japan, the US, Europe, Asia and China.

A Commanding Market Presence Through "Only One" Products

Two elements are essential for creating "Only One" products that stand out in the market. First are core technologies. Second are supplier partners that recognize the value embodied in these products. JVC will actively disclose its future product line and technology strategies to form closer ties with numerous partners in a dispersed, specialized supply chain. As part of creating "Only One" products, we also revised our previous strategy of offering a full model selection in each category. Our new approach focuses resources on carefully chosen products.

Today, camcorders, displays and DVD decks make up JVC's core product categories. Clear strategies exist for each. In camcorders, our goal is to be number one worldwide in Mini-DV.



DVD Recorders
Superior picture quality and multi-format recording and playback capabilities

Plasma TVs (PDPs)
Incorporating unique JVC DIST/DET technology to realize high-resolution picture quality by making scanning lines almost invisible

D-VHS High-Definition Digital Video Recorders
The world's first high-definition video recorder for the consumer market

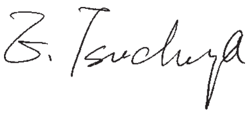
High-Definition Digital Video Cameras
High-definition video cameras for the consumer market, another world first for JVC

In displays, we aim to boost market share with high-definition display products. And in DVD products, we are moving into the DVD recorder market to spur growth. We have a major advantage as the only company in the world to offer consumers equipment for viewing, recording and creating high-definition material. We collectively promote this strength as JVC's "Digital High-definition Universe." Success will depend on further refining sound and picture quality, two traditional JVC strengths. Equally vital is forming partnerships. The high-definition and partnership strategies are already yielding results. The GR-HD1 high-definition digital video camera, which debuted in March 2003, was extremely well received. We had another hit with our recently introduced Plasma TVs (available in 35-inch and 42-inch models). Their superior picture quality clearly give them an edge in the market, indicating these TVs will further lift segment sales and earnings in fiscal 2004. We injected distinctive technology in all these recently launched products to give them new levels of value. At the same time, we created an even more profitable operating structure by making significant improvements in three crucial areas: manufacturing costs, product quality and logistics.

Transferring the "Only One" Concept to Established Products

As JVC puts more emphasis on new value-added, high-margin products, we are also applying the same themes to established products. We are reducing output of low-end models that contribute little to earnings by halting or, in a minority of cases, outsourcing production to other companies. However, in mature markets certain JVC products retain a clear competitive edge and contribute to earnings. Car AV products are a prime example. Although competing in a mature market with intense price competition, we achieved double-digit growth in this product category in fiscal 2003. This was achieved by stressing the outstanding audio quality and stylish design of our products, inspired by the core qualities of the JVC brand. Another example are VHS-DVD combo decks. As we reduce manufacturing expenses and promote these products' dual-functionality in order to create new sources of demand, we expect these VHS-DVD combo decks to continue contributing to segment earnings.

By implementing the "Only One" strategy and other core initiatives, the consumer electronics segment plans to further enhance the value of the JVC brand and boost sales and earnings.



Eiichi Tsuchiya
President, AV & Multimedia Company

Digital Video Cameras
Compact and easy to use, these products incorporate JVC's own CCD megapixel technology for superior quality

DVD Digital Home Cinema Systems
The ultimate experience in home entertainment

Car Navigation/CD Receivers
A combination of turn-by-turn navigation and music CD enjoyment in a single compact package

Pure Digital Micro Systems
High-powered and compact, the digital amplifier combines with the direct drive pole speakers to create a sound field of astounding quality

Professional Electronics

This segment develops, manufactures and sells cameras, video decks, audio equipment, displays and a range of other audio and visual equipment for professional users. Business activities also extend to designing and providing complete systems made up of this equipment. In fiscal 2003, segment sales were down year on year due to delays in introducing some new products and other factors that impacted on sales. As a result, the segment posted an operating loss, while segment sales fell to 7% of total sales.

Rebuilding and Refocusing

The professional equipment segment struggled during fiscal 2003. At the heart of the problem was a strategy out of synch with market trends. To correct the problem, we launched a three-year program that will tightly focus resources on newly rebuilt business domains. We already announced our intention to establish solid positions in the security and presentation markets. In conjunction with this decision, we are consolidating the domestic manufacturing of these products at a single location and increasing overseas production. In another move to boost profitability, we cut the number of professional equipment models we supply from 2,200 to 1,100.

Security Systems

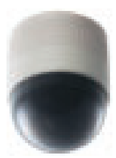
We believe security systems represent the next growth opportunity for our professional equipment. One reason is that demand for surveillance systems continues to expand. Another is that our superior audio and video technologies dovetail well with requirements for security systems. This market is diversifying as systems incorporate more advanced data management technology, become network integrated, and adopt a range of other new functions to meet user demands. To succeed, we must offer products backed by core technologies that meet each of these demands, including the ability to function as an integral part of a network. One such product is our 16-channel digital video recorder, which features MPEG2 compression technology, a JVC strength, and high-resolution image storage. Another is a digital camera, scheduled for release later in 2003, which can generate clear images even when shooting in strong light conditions. Supported by this initial progress, we will develop more products and systems that clearly set us apart in the surveillance equipment market.

Presentation Systems

We have a high profile in the presentation equipment market. Our flagship product is the D-ILA projector, an “Only One” product boasting outstanding resolution and vivid color imaging. New projector products launched in March 2003 generated sales well above our forecasts and were well received by the market. Other operating highlights included market share gains by two important products: digital signal encoding/decoding systems for broadcasters, a traditional JVC strength, ahead of the rollout of digital terrestrial broadcasting in Japan at the end of 2003; and DV video camcorders due to a broader lineup. With digital broadcasting now becoming a reality in Japan, local governments, universities and other institutions are looking into adopting sophisticated, interactive video systems. Another promising growth market for these systems is online education, which makes use of fiber-optic LAN technology. This form of education is currently being promoted by two Japanese Government ministries.

In both the security and presentation markets, we plan to set ourselves apart from our rivals by supplying products built around sophisticated technology, as well as by offering total system solutions that incorporate our new products. The current fiscal year will see an upgraded product line, making possible even more attractive solutions for application-specific systems and, ultimately, driving a turnaround in this segment.

Toyoharu Honda
General Manager, Professional Products, Systems & Network Sector



Preset Dome Color Cameras
Easy-to-install, high-resolution security cameras offering comprehensive manned or automatic surveillance of indoor environments

High-definition Digital Camcorders
The first affordable high-definition professional camcorder on the market. 720/30p HD recording on Mini-DV tape; 1080i/720p/NTSC playback; XLR x 2 audio inputs

D-ILA Ultra-High Resolution (QXGA) Projector
The world’s first projector able to deliver the long-awaited ultra-high resolution images that match the depth and true-to-life presence of film

Professional DV Camcorders
Superior performance and a comprehensive range of specifications make these camcorders the new standard for professional image capture

Components & Devices

The development, manufacture and sale of electronic components and devices accounts for 5% of JVC's total sales. The segment reported another loss in fiscal 2003 as the extended downturn in the IT industry and the cost of restructuring measures to build a profitable operating base held back performance. With the benefits of these actions now showing through, this segment is on the path back to profitability.

Specializing in the Development and Manufacture of Key Devices

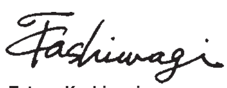
Until recently, this segment mainly manufactured products for external customers. Although these activities remain important, from now on the segment will almost exclusively supply key devices needed to create distinctive, value-added JVC products. JVC will sell these devices to other companies when they become accepted as the industry standard. We decided to cease manufacturing and selling components where we don't have a competitive edge. This included withdrawing from the magnetic head and crystal quartz device businesses. What remains is a portfolio of profitable and competitive products that includes deflection yokes for high-resolution computer monitors, high-density build-up multilayer printed wiring boards, motors for optical and hard disk drives, and optical pickups.

Poised for a Return to Profitability in the Current Fiscal Year

We are currently making our key device business more cost-competitive. In deflection yokes, for instance, we are realigning manufacturing bases and paring back fixed costs to make this segment more competitive. Although LCD technology is rapidly becoming the de facto standard in the PC monitor market, demand for high-resolution CRTs is certain to remain for some time. By rigorously controlling expenses, we are determined to remain a leading supplier of deflection yokes as market contraction leaves only a few surviving manufacturers. We expect substantial growth in high-density build-up multilayer printed wiring boards. Originally used mainly in mobile phones, these boards are now found in digital still cameras (DSCs) and digital video cameras (DVCs). We are confident that through the above steps, we have established a profit structure that will benefit directly from closing unprofitable operations and investing in key device categories to become ultimately more cost competitive.

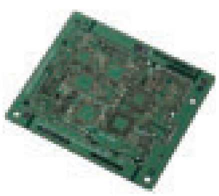
Investment in Next-Generation Key Devices

Opto-electronics components for Blu-ray Disc equipment is an attractive new field for JVC. With exclusive technology for optical pickups, we are in an excellent position to develop "Only One" products in this field. Sales to external customers could become a major earnings source going forward. Another new technology poised to create future "Only One" products is the fluid dynamic bearings of our HDD motors, produced using an exclusive and trusted JVC technique. We are now investing in additional production capacity to begin full-scale motor production in the following fiscal year. At this early stage, investing in these key devices has yielded no immediate returns. We are confident though that this investment will translate into substantial earnings as the segment's key devices play a growing role in JVC's new products.



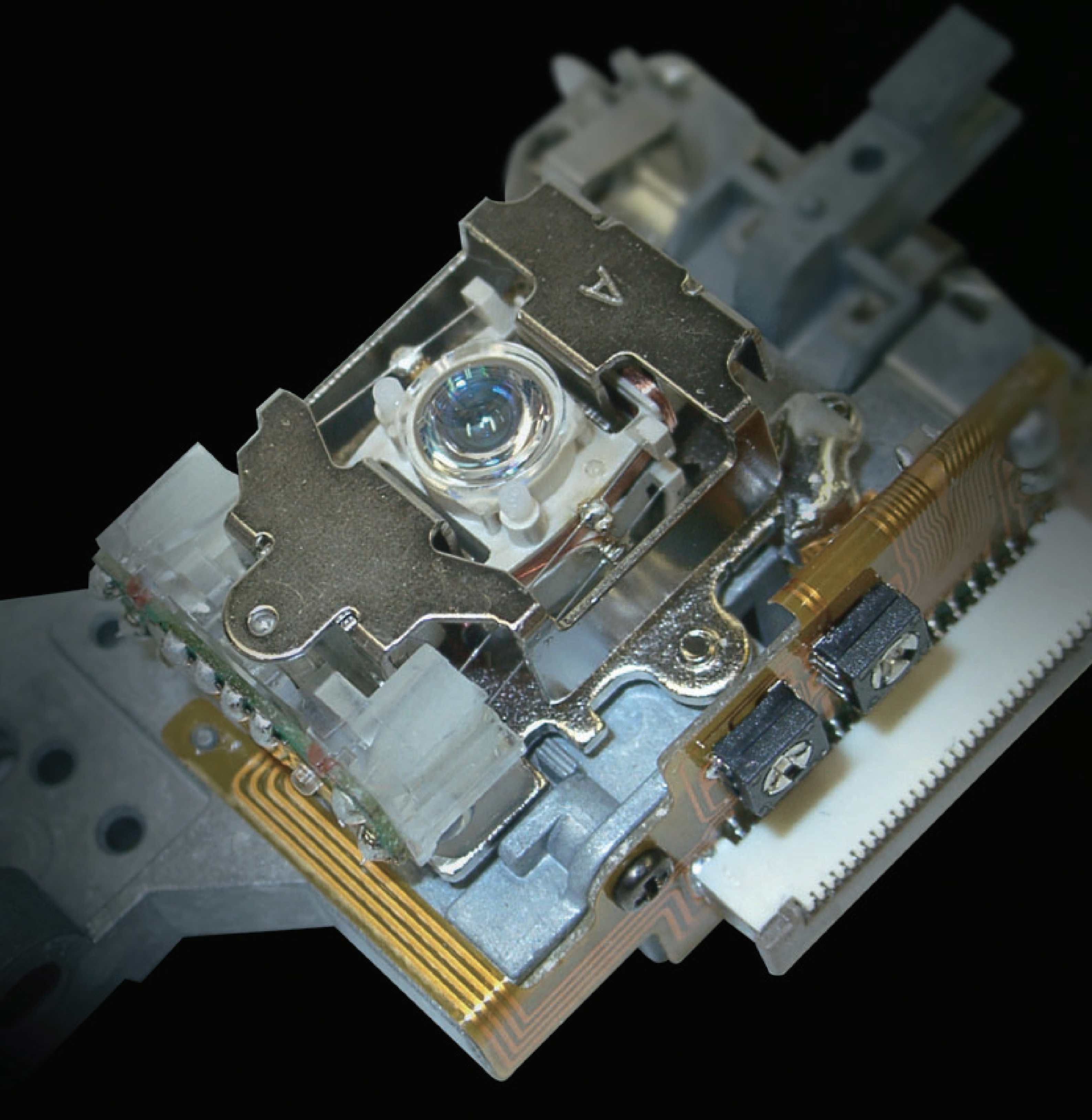
Tetsuo Kashiwagi
President, Components & Device Company

HDD Motors
Ultra-high precision bearings and assembly technology result in low noise, long-life, shock resistant HDDs



M-VIL High-density Build-up Multilayer PWBs
JVC's advanced manufacturing techniques have not only helped to increase the density and reduce the size of volume production PWBs, they have also led to enhancements in semiconductor and component mounting quality

Deflection Yokes
JVC's deflection yokes are ideal for high-resolution CRTs such as PC monitors, thanks to their high-speed scanning capabilities and environmentally safe design



Optical Pickups
JVC's optical pickups, key components in optical disk drives, have gained a reputation for reliability in the industry

Software & Media

With expertise in areas from artist development to the manufacture and sale of recorded media, this segment boasts a complete and integrated value chain. The media business mainly manufactures and sells recordable media and prerecorded software such as CDs and DVDs. The software business primarily identifies and develops promising artists, and also produces, distributes and sells content. The Software & Media segment accounted for 17% of total fiscal 2003 sales. Weakness in Japan's market for music CDs caused segment sales to decline 5% and dragged operating income down by 59% during the year under review.

In the software business, JVC withdrew from the movie business and divested its game business to improve profitability. We are now concentrating this business on music content to boost earnings.

MEDIA BUSINESS

Renewed Focus on Core Strengths and Growth Strategies

Our main media business activity is manufacturing and selling blank recordable media and recorded media on CD, DVD and tape formats. Recorded media contgent includes material owned by JVC as well as material acquired through deals with content partners.

Our DVD-RW discs have earned a reputation for reliability in Japan and overseas, thanks to their extremely low error rate during playback and recording. In Japan, we have a market share of about 60% on a shipment basis. To cement our DVD products as the de facto standard in the domestic market, we are now investing in additional capacity that will raise monthly DVD output from the past fiscal year's 450,000 units to one million units this year. Mini-DV tape is another important product in this business. This tape, a global product, is currently the only cost-efficient media capable of high-definition recording and playback. We expect growth in demand for this tape as our digital video cameras capture a growing share of the camcorder market share and we make further technological advances in the DVC format. We also started developing new media for technologies such as Blu-ray Discs and advanced optical discs. Sales in the next year or two will depend on the market acceptance rate for related hardware devices.

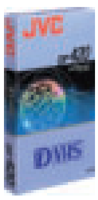
In recorded media, we make the most of our powerful value chain in the content business, applying our exclusive Digital K2 audio technology from the mastering stage onward to deliver sound quality incredibly close to the orginal. We also quickly adapt technology and distribution techniques to changes in customer needs.

Structural Reform and Cost Reduction Benefits

Falling sales prices for recordable media and recorded media exert increasing pressure on profit margins. Survival requires a constant search for further cost savings. During the past fiscal year, we took a number of steps, including closing a U.S. disc factory to consolidate all disc production at a single location, and initiating employment structure reform. At media factories, we reduced the level of defects and established a highly flexible manufacturing system. For example, we now produce small volumes of recorded media at a profit, which is certain to lead to higher earnings. In audiotape, a market with a dwindling number of players, we cut costs to the point where we benefit as one of the few remaining manufacturers.

The emergence of new forms of media offering even higher recording speeds and densities presents numerous opportunities for JVC's media business. Having completed the groundwork to capitalize on these trends, we now look forward to using these new technologies to generate higher sales and earnings.

Hiroshi Fujisawa
President, Media Company



D-VHS Tapes
The digital version of the de facto VHS standard invented by JVC

Mini-DV Tapes
Highly functional digital cassette tape using technology unique to JVC

Mini-DV Digital Hi-Vision Tapes
Realizing high-definition recordings on Mini-DV tape

DVD-RW Discs
Based on industry-leading technology, these products offer high-quality image recording and playback time and again

DVD-R Discs
Reliable and durable, the ideal choice for permanent image storage

DVD-RAM Discs
Durable, versatile and boasting a vast storage capacity, these discs meet all the needs of rewritable media users

SOFTWARE BUSINESS

Victor Entertainment, Inc., a wholly owned subsidiary, is the nucleus of JVC's software operations. This company's mission is *to make people happy through music by nurturing a "human network" that creates dreams and excitement.* The company's stable of performers includes many well-known Japanese artists. Maximizing its library of music content, Victor Entertainment produces and promotes high-quality, highly marketable products. To increase earnings from content rights, the company actively searches for promising artists and nurtures their development.

Raising Earnings by Leveraging Software Rights Assets

The majority of sales and earnings in the software business are derived from music sales through various channels. Selling our own content is just one part of this business. We are also Japan's leading distributor of music and video software, thanks to our extensive library of JVC-produced content, as well as deals with content partners to supply independently produced material. For many years, marketing activities for the software business were structured to support mega-hits that break through the one-million mark. We are currently changing this approach. Our goal is to create a structure that generates earnings from a large number of medium-scale hits by accurately managing the breakeven point for each release. Accomplishing this will depend greatly on our ability to acquire content rights to generate future profits. This is why we plan to increase investments in Japan and overseas for locating promising artists at an early stage in their careers. Mentoring their development will give us a growing range of rights to distribute, a process that will directly translate into higher sales and earnings. Our unique JVC corporate culture gives us enormous advantage here. We offer artists the support of a globally respected brand, a producer of recorded and recordable media, and a manufacturer of quality audio and visual products. We will make full use of these attributes to heighten Victor Entertainment's profile as a source of total entertainment that creates dreams and excitement for people worldwide.

Our Objective: Becoming a "Matrix Music Company"

During the past fiscal year, Victor Entertainment established a more profitable operating structure by lowering the breakeven point. The main factor was a change in the company's employment structure to enhance productivity. Also, with a greater degree of concentration on music content business, we rely less on sales of other prerecorded software. Now we are shifting to matrix style operations to boost earnings. Here, the greater proportion of earnings come from content created by a "human network" of professionals and artists we manage as well as their JVC-controlled publishing rights. We maximize these assets in many ways: sales of compilation albums and other recorded media featuring our own artists; Internet music distribution services; artist management; music publishing; and much more. Opportunities for new businesses exist as well. Through alliances and joint ventures, we will create new markets and effectively demonstrate our diverse strengths.

Toshiaki Shibuya
President & Chief Executive Officer, Victor Entertainment, Inc.

Movie Release
Dawn of a New Day—The Man Behind VHS
How JVC invented the VHS video

Hit CDs (from left)
SMAP: *MIJ*
Keisuke Kuwata: *Top of the Pops*
MINMI: *Miracle*

Popular DVDs (from left)
SMAP: *Clip SMAP*
Keisuke Kuwata: *Keisuke-san Video mo Iroiro to Taihen ne*
UA: *Sora no Koya*

Keisuke Kuwata: ***Rock and Roll Hero***

JVC's Contribution to Culture and the Arts

Art and sports are the ultimate expressions of human creativity, embodying the power to attract audiences like none other. At JVC, we wish to share the thrills and excitement with people around the world. Which is why, for many years, we have actively supported a wide variety of cultural events such as musical, artistic, cultural and sporting events. And from now on, we intend to continue growing as a leading corporation in contributing to world culture.

Holding the JVC Jazz Festivals

At JVC, we naturally have a strong commitment to supporting musical events and artists. In 1984 we began holding the JVC International Jazz Festival, a series of global events held annually that give people the chance to enjoy extraordinary music performed by a lineup of legendary musicians. In the past 20 years, our support helped this event to become a firm fixture on the music calendar.

Sponsoring the Tokyo Video Festival

JVC has sponsored this venerable international video competition for professionals and amateurs since 1978. Since the festival began, organizers have accepted more than 37,000 works from 87 countries and regions, with many awarded prizes for extraordinary quality. Thanks to entries from countries with different cultural heritages, video creators from all over the world share the joys of visual creativity, experience cultural exchange, and contribute to the development of visual culture.

Supporting the World's Football Events

JVC supports many different sports in many different parts of the world. As a leading sponsor of the 2002 FIFA World Cup™ Korea/Japan, JVC helped the world's football fans to enjoy the biggest football tournament on the planet. And, ever since becoming an official partner of the UEFA European Football Championship in 1980, our relationship with football has involved various events. This stems from our wish to share the excitement of football with as many people as possible. By supplying the official products for these events, we also help bring the excitement of the arena into people's homes. That is why we go beyond being a sponsor in name only, and actively support the events behind the scenes by supplying TV monitors and CCTV equipment to the venues.

JVC International Jazz Festival

JVC Tokyo Video Festival

UEFA EURO 2004™

Financial Section

Contents

Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2000	1999	**2003**
For the year:						
Net sales	**¥967,640**	¥954,172	¥934,350	¥870,235	¥946,617	**$8,063,667**
Overseas	**638,092**	626,209	567,977	545,316	566,551	**5,317,433**
Domestic	**329,548**	327,963	366,373	324,919	380,066	**2,746,234**
Cost of sales	**668,821**	684,458	641,209	600,506	642,140	**5,573,509**
Selling, general and administrative expenses	**276,520**	281,808	287,449	277,748	305,698	**2,304,333**
Operating income (loss)	**22,299**	(12,094)	5,692	(8,019)	(1,221)	**185,825**
Income (Loss) before income taxes and minority interests	**10,064**	(38,446)	9,444	6,088	(3,671)	**83,867**
Income taxes	**3,568**	5,985	7,238	11,295	4,466	**29,733**
Net income (loss)	**6,336**	(44,572)	2,498	(5,341)	(8,315)	**52,800**
Depreciation and amortization	**25,250**	28,000	28,085	28,590	30,513	**210,417**
Capital expenditures	**21,036**	21,175	31,127	24,336	28,815	**175,300**
R&D expenditures	**40,973**	40,981	44,094	43,351	41,660	**341,442**

	Millions of yen					Thousands of U.S. dollars (Note 1)
At year-end:						
Working capital	**¥149,172**	¥118,948	¥150,067	¥127,709	¥142,628	**$1,243,100**
Stockholders' equity	**146,410**	146,246	180,515	199,164	232,162	**1,220,083**
Total assets	**479,750**	513,365	586,628	540,359	588,001	**3,997,917**

	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss) (Note 2)	**¥ 24.9**	¥ (175.3)	¥ 9.8	¥ (21.0)	¥ (32.7)	**$ 0.21**
Diluted net income (Note 2)	**23.5**	—	—	—	—	**0.20**
Cash dividends (Note 3)	**—**	—	3.0	—	5.0	**—**

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥120 to U.S.$1, the approximate rate prevailing on March 31, 2003.
2. Net income (loss) per share of common stock for the years ended March 31, 2002 and 2001 have not been recalculated using the new accounting standard, which is effective April 1, 2002.
3. Cash dividends represent amounts applicable to the respective years.

Management's Discussion and Analysis

Overview

During fiscal 2003, ended March 31, 2003, full-scale recovery in the US was stalled by a number of high-profile business failures and weaker consumer spending. This combined with the impact of the war in Iraq to cloud the U.S. in uncertainty. Although there was evidence of a mild recovery in Europe, the economy lost momentum from the summer of 2002, with the slowdown in Germany most prominent. In Japan, the economy remained mired in a slump with no signs of a recovery as stock prices plummeted and consumer spending deteriorated.

Net Sales

Net sales rose 1.4%, or ¥13.5 billion, to ¥967.6 billion. By geographic segment, sales in Japan were held to a 2.0% increase at ¥405.7 billion, primarily due to anemic consumer spending and falling prices. This outweighed an upturn in demand related to the 2002 FIFA World Cup™ Korea/Japan. In the U.S., stronger sales of televisions, car AV systems and video recorders failed to offset the effects of weakening consumer sentiment and a slowdown in the economy in the latter half of the year. As a result, sales in the U.S. dropped 8.4% to ¥259.0 billion. In Europe, sales of DVD players sold as individual units and as part of digital theater systems, broke through the one million-unit barrier. This combined with

Net Sales by Segment

Billions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total
2003						
Sales	**¥675.0**	**¥71.0**	**¥47.6**	**¥167.5**	**¥ 6.5**	**¥967.6**
Percentage	**69.8%**	**7.3 %**	**4.9 %**	**17.3 %**	**0.7 %**	**100.0%**
Change	**5.3%**	**(9.3)%**	**(4.2)%**	**(5.4)%**	**17.7 %**	**1.4%**
Domestic Sales	**¥122.1**	**¥48.5**	**¥ 3.6**	**¥149.1**	**¥ 6.2**	**¥329.5**
Change	**6.2%**	**(6.4)%**	**(20.0)%**	**(0.3)%**	**(12.7)%**	**0.5%**
Overseas Sales	**¥552.9**	**¥22.5**	**¥44.0**	**¥ 18.4**	**¥ 0.3**	**¥638.1**
Change	**5.1%**	**(15.1)%**	**(2.7)%**	**(32.8)%**	**62.5 %**	**1.9%**
2002						
Sales	¥641.3	¥78.3	¥49.7	¥177.0	¥ 7.9	¥954.2
Percentage	67.2%	8.2 %	5.2 %	18.6 %	0.8 %	100.0%
Major Products	VCRs, camcorders, televisions, stereo systems, car AV systems, DVD players, CD radio cassette tape players and telephones	Professional-use and educational-use systems, information systems, karaoke systems and projectors	Components for use in computer displays, optical pickups, motors and "VIL" PWBs	Audio and visual software including CDs, DVDs and videotapes recording media	Interior furniture production facilities	

healthy sales of televisions, car AV systems and video recorders to drive double-digit sales growth on a local currency-basis for the fifth consecutive year; sales in Europe rose 15.0% year on year, to ¥220.4 billion. Sales in Asia remained flat, at ¥82.5 billion, as lower demand for Hi-Fi audio components and video recorders negated growth in DV camcorders and car AV systems.

Cost of Sales and SG&A

Cost of sales declined 2.3%, or ¥15.6 billion, to ¥668.8 billion. Consequently, the cost of sales ratio declined from 71.7% in the previous year, to 69.1%.

Selling, general and administrative (SG&A) expenses fell 1.9%, or ¥5.3 billion, to ¥276.5 billion. As a percentage of net sales, SG&A expenses continued to fall, from 29.5% in fiscal 2002, to 28.6%.

Operating Income (Loss)

The company recorded operating income of ¥22.3 billion, a ¥34.4 billion reversal from the operating loss in the previous year. This was chiefly due to efforts to pare materials and other costs, the positive effects of business restructuring, beneficial movements in exchange rates and royalty income.

SEGMENT INFORMATION

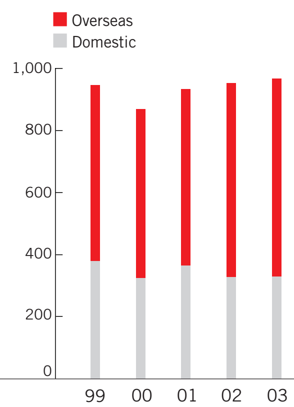
Consumer Electronics

Favorable exchange rates played a part in the 5.3%, or ¥33.6 billion, increase in segment sales, to ¥675.0 billion. Consumer Electronics posted operating income of ¥25.3 billion, a ¥28.7 billion turnaround from the operating loss in the previous year. In Japan, sales of DV camcorders grew, while visual products, such as high-definition televisions and Plasma Display Panels (PDPs), posted a strong performance. Overseas, sales of DVD players, car AV systems and projection televisions rose, but sales declined in America, against strong results in Europe and Asia.

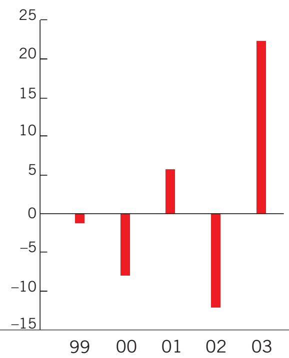
Professional Electronics

Sales in this segment fell 9.3%, or ¥7.4 billion, to ¥71.0 billion, while the operating loss narrowed to ¥3.7 billion. In Japan, although optical wireless LAN systems gained ground, overall sales declined due to a general market downturn in which Direct-Drive Image Light Amplifier (D-ILA) projectors and security products, such as camera systems, faced stiff competition. Overseas, competition was intense in the Americas and Europe, with sales of professional camcorders and D-ILA projectors falling, dragging down sales below fiscal 2002 levels.

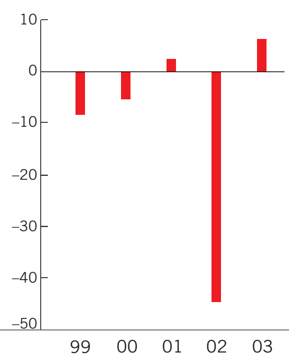
NET SALES
(Billions of yen)



OPERATING INCOME (LOSS)
(Billions of yen)



NET INCOME (LOSS)
(Billions of yen)



Components & Devices

Healthy sales of motors for electronic devices could not cancel out the impact of the protracted slump in the IT sector, which continued to depress demand for high-density build-up multilayer printed wiring boards (“VIL” PWBs) and deflection yokes. As a result, this segment posted a 4.2%, or ¥2.1 billion, decline in sales, to ¥47.6 billion, and an operating loss of ¥0.7 billion.

Software & Media

Sales in this segment declined 5.4%, or ¥9.5 billion, to ¥167.5 billion, while operating income fell ¥1.9 billion, to ¥1.3 billion. Sales fell due to the industry-wide downturn in software and the effects of delays in the launch of music content. The decline was checked by higher sales of software and media consigned from other companies.

Other

Sales dropped 17.7%, or ¥1.4 billion, to ¥6.5 billion, while operating income grew ¥1.7 billion, to ¥1.2 billion, reversing the previous year’s operating loss.

Income (Loss) Before Income Taxes and Minority Interests

Income before income taxes and minority interests grew ¥48.5 billion year on year, to ¥10.1 billion, due to the turnaround in operating income and lower restructuring charges.

Income Taxes

Income taxes fell 40.4%, or ¥2.4 billion, to ¥3.6 billion. This represented an effective tax rate of 35.5%.

Net Income (Loss)

Net income was ¥6.3 billion, a ¥50.9 billion improvement from fiscal 2002’s net loss. Consequently, the company reversed the net loss per share of ¥175.3 in the previous fiscal year to post net income per share of ¥24.9. ROE also rose from negative 27.3% to 4.3% in the year under review. Despite this improved performance, the company made the difficult decision not to pay a dividend for fiscal 2003.

LIQUIDITY AND SOURCES OF FUNDS

Assets, Liabilities and Capital

Total assets as of March 31, 2003 stood at ¥479.7 billion, a 6.5%, or ¥33.6 billion decline from a year ago. This was mainly the result of steps to pare back total assets by reducing inventories and improve working capital. Total current assets fell 2.9%, or ¥10.5 billion, to ¥356.1 billion, mainly reflecting an 11.7%, or ¥14.8 billion, reduction in inventories at the end of the period, to ¥111.3 billion.

Investments and advances fell 55.0%, or ¥11.4 billion, to ¥9.3 billion, primarily reflecting the sale and write down of investment securities.

Property, plant and equipment (less accumulated depreciation) at the end of the fiscal year was 10.6%, or ¥11.8 billion, lower than the previous fiscal year-end, at ¥98.9 billion. This was chiefly attributable to lower capital expenditures and the sale of fixed assets.

Total current liabilities fell 16.5%, or ¥40.7 billion, to ¥206.9 billion, reflecting the redemption of bonds due within one year, a decline in short-term debt and a decrease in reserves for business restructuring.

Total long-term liabilities increased 6.6%, or ¥7.6 billion, to ¥122.3 billion, mainly due to a rise in long-term debt.

Stockholders' equity was up 0.1%, or ¥0.2 billion, to ¥146.4 billion. Stockholders' equity as a percentage of total assets increased to 30.5%, compared with 28.5% at the previous fiscal year-end.

Cash Flows

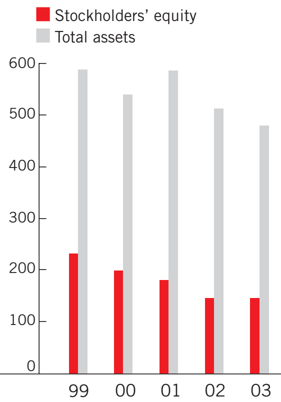
Operating activities provided net cash of ¥35.8 billion, reflecting the reduction of inventories and improvements in working capital, and other factors that generated funds.

Net cash used by investing activities rose ¥6.9 billion, to ¥12.5 billion. This increase was mainly attributable to payments of ¥18.5 billion for the acquisition of property, plant and equipment, which outweighed cash inflows of ¥6.4 billion from the sale of fixed assets.

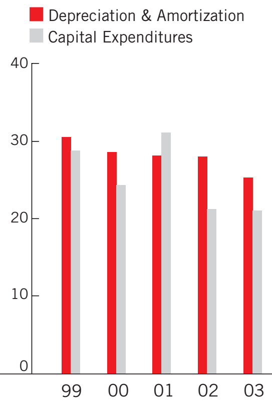
Financing activities used net cash of ¥7.3 billion, primarily for the redemption of bonds. This led to a reduction in interest-bearing debt of ¥10.3 billion.

As a result of the foregoing, cash and cash equivalents at the end of the year stood at ¥83.4 billion, 20.4%, or ¥14.1 billion, higher than a year ago.

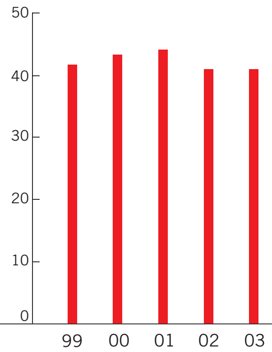
STOCKHOLDERS' EQUITY/
TOTAL ASSETS
(Billions of yen)



DEPRECIATION & AMORTIZATION/
CAPITAL EXPENDITURES
(Billions of yen)



R&D EXPENDITURES
(Billions of yen)



CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION

Capital expenditures totaled ¥21.0 billion, a 0.7%, or ¥0.1 billion, decrease compared with the previous fiscal year. This decline represented greater selectivity in the company's investment strategy.

As a result, depreciation decreased 9.8%, or ¥2.7 billion, to ¥25.2 billion.

R&D COSTS

R&D costs for fiscal 2003 were ¥41.0 billion, the same as in fiscal 2002. Consequently, the ratio of R&D costs to net sales was 4.2%.

The company's R&D organization comprises the Technology Development Division, which functions as the JVC Group's corporate laboratory, and a Development Division and an Engineering Division in each Group company. The Technology Development Division is responsible for developing group-wide core technology, systems technology and next-generation devices that embody the company's long-term vision, and for accumulating LSI design and development technologies needed for future products. Each Development Division is responsible for next-generation product development in five priority business areas: high-definition displays, digital high-density storage, network AV systems, Components & Devices, and Software & Media. The Engineering Division is responsible for the design and commercialization of products. Overseas, the JVC North America R&D Center and the JVC Singapore R&D Center are mainly involved in the development of software for digital AV equipment based on market developments in their respective operating regions. JVC is currently implementing initiatives to strengthen its international R&D network.

PERSONNEL

Owing to new consolidations during fiscal 2003, which resulted in the addition of 2,087 personnel to the JVC Group, the number of employees on a consolidated basis at fiscal year-end stood at 34,492, an aggregate increase of 309 employees compared to the previous fiscal year-end.

Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Current assets:			
Cash and time deposits (including time deposits with maturities over three months of ¥8,105 million (US$67,542 thousand) in 2003 and ¥5,105 million in 2002)	**¥ 91,517**	¥ 74,376	**$ 762,642**
Marketable securities (Note 6)	**—**	2,802	**—**
Notes and accounts receivable:			
Trade	**113,405**	125,617	**945,042**
Non-consolidated subsidiaries and affiliated companies	**397**	735	**3,308**
Allowance for doubtful accounts	**(5,532)**	(4,797)	**(46,100)**
Inventories (Note 5)	**111,256**	126,063	**927,133**
Deferred tax assets (Note 7)	**19,364**	17,143	**161,367**
Other current assets	**25,674**	24,660	**213,950**
Total current assets	**356,081**	366,599	**2,967,342**
Investments and advances:			
Investments in and advances to non-consolidated subsidiaries and affiliated companies (Note 6)	**1,834**	3,164	**15,283**
Other (Note 6)	**7,507**	17,588	**62,559**
Total investments and advances	**9,341**	20,752	**77,842**
Property, plant and equipment:			
Land (Note 9)	**29,344**	30,044	**244,533**
Buildings (Note 9)	**110,381**	113,913	**919,842**
Machinery and equipment	**240,646**	257,744	**2,005,383**
Construction in progress	**4,642**	3,478	**38,684**
	385,013	405,179	**3,208,442**
Less accumulated depreciation	**286,129**	294,530	**2,384,409**
Net property, plant and equipment	**98,884**	110,649	**824,033**
Deferred tax assets (Note 7)	**3,083**	2,696	**25,692**
Other assets	**12,361**	12,669	**103,008**
	¥479,750	¥513,365	**$3,997,917**

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Bank loans (Note 8)	**¥ 25,376**	¥ 35,994	**$ 211,467**
Current portion of long-term debt (Note 8)	**12,727**	27,168	**106,058**
Notes and accounts payable:			
Trade	**128,895**	121,301	**1,074,125**
Construction	**2,186**	1,704	**18,217**
Non-consolidated subsidiaries and affiliated companies	**2,233**	7,988	**18,608**
Accrued income taxes (Note 7)	**3,905**	5,754	**32,542**
Accrued expenses	**18,327**	19,204	**152,725**
Accrued restructuring charges	**873**	13,423	**7,275**
Other current liabilities	**12,387**	15,115	**103,225**
Total current liabilities	**206,909**	247,651	**1,724,242**
Long-term debt (Notes 8 and 9)	**105,468**	89,872	**878,900**
Employees' retirement benefits (Note 10)	**14,058**	22,551	**117,150**
Other long-term liabilities	**2,728**	2,231	**22,734**
Minority interests	**4,177**	4,814	**34,808**
Contingent liabilities (Note 11)			
Stockholders' equity (Note 12)**:**			
Common stock;			
Authorized 800,000,000 shares			
Issued 254,230,058 shares	**34,115**	34,115	**284,292**
Capital Surplus	**67,216**	67,216	**560,133**
Retained earnings	**63,865**	57,559	**532,208**
Net unrealized holding gains on securities	**518**	977	**4,317**
Foreign currency translation adjustments	**(19,198)**	(13,609)	**(159,983)**
	146,516	146,258	**1,220,967**
Treasury stock, at cost	**(106)**	(12)	**(884)**
Total stockholders' equity	**146,410**	146,246	**1,220,083**
	¥479,750	¥513,365	**$3,997,917**

Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
Net sales	**¥967,640**	¥954,172	¥934,350	**$8,063,667**
Costs and expenses:				
Cost of sales	**668,821**	684,458	641,209	**5,573,509**
Selling, general and administrative expenses	**276,520**	281,808	287,449	**2,304,333**
	945,341	966,266	928,658	**7,877,842**
Operating income (loss)	**22,299**	(12,094)	5,692	**185,825**
Other income (expenses):				
Interest and dividend income	**949**	1,108	2,509	**7,908**
Unrealized gain (loss) from changes in fair market values of trading securities	**—**	(280)	9,749	**—**
Equity in income of affiliated companies	**70**	63	173	**583**
Interest expense	**(3,403)**	(4,447)	(5,383)	**(28,358)**
Gain on sales of investment securities	**318**	1,099	1,450	**2,650**
Gain on return of substitutional portion of Employees' Pension Insurance	**3,456**	—	—	**28,800**
Loss on liquidation of subsidiaries and affiliated companies	**(170)**	(1,059)	(656)	**(1,417)**
Restructuring charges	**(3,785)**	(13,423)	(2,197)	**(31,541)**
Loss from write-down of investment in securities	**(5,408)**	(7,691)	(739)	**(45,067)**
Other, net	**(4,262)**	(1,722)	(1,154)	**(35,516)**
	(12,235)	(26,352)	3,752	**(101,958)**
Income (Loss) before income taxes and minority interests	**10,064**	(38,446)	9,444	**83,867**
Income taxes (Note 7)**:**				
Current	**6,706**	7,438	14,319	**55,883**
Deferred	**(3,138)**	(1,453)	(7,081)	**(26,150)**
	3,568	5,985	7,238	**29,733**
Income (Loss) before minority interests	**6,496**	(44,431)	2,206	**54,134**
Minority interests	**(160)**	(141)	292	**(1,334)**
Net income (loss)	**¥ 6,336**	¥ (44,572)	¥ 2,498	**$ 52,800**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock (Note 2)**:**				
Net income (loss)	**¥ 24.9**	¥ (175.3)	¥ 9.8	**$ 0.21**
Diluted net income	**23.5**	—	—	**0.20**
Cash dividends applicable to the year	**—**	—	3.0	**—**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

		Millions of yen					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	254,230	¥34,115	¥67,216	¥ 97,834	¥ —	¥ —	¥ (1)
Net income	—	—	—	2,498	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	(21,413)	—
Adoption of new accounting standard for financial instruments	—	—	—	—	285	—	—
Treasury stock	—	—	—	—	—	—	(3)
Adjustment due to change in the number of consolidated subsidiaries	—	—	—	17	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(33)	—	—	—
Balance at March 31, 2001	254,230	¥34,115	¥67,216	¥100,316	¥ 285	¥(21,413)	¥ (4)
Net income	—	—	—	(44,572)	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	7,804	—
Net changes	—	—	—	—	692	—	—
Treasury stock	—	—	—	—	—	—	(8)
Adjustment due to change in the number of consolidated subsidiaries	—	—	—	2,602	—	—	—
Cash dividends paid (¥3.0 per share)	—	—	—	(762)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(25)	—	—	—
Balance at March 31, 2002	254,230	¥34,115	¥67,216	¥ 57,559	¥ 977	¥(13,609)	¥ (12)
Net income	—	—	—	6,336	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	(5,589)	—
Net changes	—	—	—	—	(459)	—	—
Treasury stock	—	—	—	—	—	—	(94)
Bonuses to directors and corporate auditors	—	—	—	(30)	—	—	—
Balance at March 31, 2003	**254,230**	**¥34,115**	**¥67,216**	**¥ 63,865**	**¥ 518**	**¥(19,198)**	**¥(106)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$284,292	$560,133	$479,658	$ 8,142	$(113,408)	$(100)
Net income	—	—	52,800	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	(46,575)	—
Net changes	—	—	—	(3,825)	—	—
Treasury stock	—	—	—	—	—	(784)
Bonuses to directors and corporate auditors	—	—	(250)	—	—	—
Balance at March 31, 2003	**$284,292**	**$560,133**	**$532,208**	**$ 4,317**	**$(159,983)**	**$(884)**

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
Cash flows from operating activities:				
Income (Loss) before income taxes and minority interests	**¥ 10,064**	¥(38,446)	¥ 9,444	**$ 83,867**
Depreciation and amortization	**24,062**	26,826	27,047	**200,517**
Interest and dividend income	**(949)**	(1,108)	(2,509)	**(7,908)**
Interest expense	**3,403**	4,447	5,383	**28,358**
Unrealized loss (gain) from changes in fair market values of trading securities	**—**	280	(9,749)	**—**
Increase (Decrease) in accrued restructuring charges	**(12,550)**	13,423	—	**(104,583)**
Gain on sales of investment securities	**(318)**	(1,099)	(1,450)	**(2,650)**
Decrease (Increase) in notes and accounts receivable	**15,211**	12,055	(18,046)	**126,758**
Decrease (Increase) in inventories	**18,062**	35,370	(29,751)	**150,517**
Increase (Decrease) in notes and accounts payable	**(6,983)**	(18,224)	8,737	**(58,192)**
Other	**(3,287)**	4,920	1,527	**(27,392)**
Sub-total	**46,715**	38,444	(9,367)	**389,292**
Interest and dividends received	**962**	1,178	2,433	**8,017**
Interest paid	**(3,447)**	(4,539)	(5,143)	**(28,725)**
Income taxes paid	**(8,452)**	(7,001)	(14,330)	**(70,434)**
Net cash provided by (used in) operating activities	**35,778**	28,082	(26,407)	**298,150**
Cash flows from investing activities:				
Purchases of time deposits	**(8,000)**	—	(8,150)	**(66,667)**
Sales of time deposits	**5,000**	3,000	—	**41,667**
Purchases of property, plant and equipment	**(18,517)**	(22,853)	(28,942)	**(154,308)**
Proceeds from sales of property, plant and equipment	**6,440**	2,710	4,883	**53,667**
Purchases of marketable securities	**—**	(13,006)	(43,687)	**—**
Proceeds from sales of marketable securities	**2,804**	18,166	63,612	**23,367**
Purchases of investment securities	**(53)**	(719)	(3,552)	**(442)**
Proceeds from sales of investment securities	**3,468**	5,285	6,714	**28,900**
Additional investment in newly consolidated entity	**(421)**	—	—	**(3,508)**
Other	**(3,208)**	1,799	1,255	**(26,734)**
Net cash used in investing activities	**(12,487)**	(5,618)	(7,867)	**(104,058)**
Cash flows from financing activities:				
Proceeds from long-term loans	**30,005**	1,230	1	**250,042**
Repayments of long-term loans	**(1,715)**	(4,254)	(1,577)	**(14,292)**
Proceeds from issuance of bonds	**—**	—	37,372	**—**
Redemption of bonds	**(24,970)**	(10,101)	—	**(208,083)**
Increase (Decrease) in short-term bank loans, net	**(9,719)**	(15,208)	6,300	**(80,992)**
Decrease in commercial paper, net	**(734)**	(5,527)	(7,661)	**(6,117)**
Cash dividends paid	**(168)**	(970)	(255)	**(1,400)**
Other	**(36)**	121	1,025	**(300)**
Net cash provided by (used in) financing activities	**(7,337)**	(34,709)	35,205	**(61,142)**
Effect of exchange rate changes on cash and cash equivalents	**(1,813)**	2,136	6,675	**(15,108)**
Effect of changes in the number of consolidated subsidiaries and companies accounted for based on the equity method	**—**	129	60	**—**
Net increase (decrease) in cash and cash equivalents	**14,141**	(9,980)	7,666	**117,842**
Cash and cash equivalents at beginning of the year	**69,271**	79,251	71,585	**577,258**
Cash and cash equivalents at end of the year	**¥ 83,412**	¥ 69,271	¥ 79,251	**$ 695,100**

See accompanying notes.

Notes to Consolidated Financial Statements

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Victor Company of Japan, Limited (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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 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, using the prevailing exchange rate at March 31, 2003, which was ¥120 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions, 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 intercompany profits and losses. The Company's investments in its remaining subsidiaries and affiliated companies are immaterial in the aggregate, and are stated at cost or less.

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

Foreign currency translation

Current assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet dates except for those hedged by foreign currency forward contracts, which are recorded at contract rates. Prior to April 1, 2000, non-current assets and liabilities denominated in foreign currencies were translated at historical exchange rates.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries (the "Companies") adopted the revised accounting standard for foreign currency translation, (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was not material.

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.

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in the stockholders' equity and minority interests. They were previously included in assets or liabilities.

Cash and cash equivalents

In preparing the consolidated statements of cash flows for the years ended March 31, 2003, 2002 and 2001, 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.

Securities

Prior to April 1, 2000, publicly-traded securities were stated at the lower of cost or market, and the other securities were stated at cost. Cost was determined using the moving-average method. Securities of consolidated subsidiaries in the United States were accounted for in accordance with the Statement of Financial Accounting Standards No. 115 issued by the Financial Accounting Standards Board.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments "issued by the Business Accounting Deliberation Council on January 22, 1999).

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. The Companies had no held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using 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 unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' 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 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 net asset value declines significantly.

As a result of adopting the new accounting standard for financial instruments, in the year ended March 31, 2001, income before income taxes increased by ¥1,484 million.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to 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.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized in the period which includes the inception date.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Property, plant and equipment

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

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

Finance leases

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

Research and development

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

Income taxes

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 operating loss and foreign tax credit carry forwards. 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 has 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 pay and length of service.

At March 31, 2000, employees' retirement benefits were principally stated at 40% (100% for certain employees whose age reached 55) of the amount which would be required to be paid (less the amount which is expected to be covered by the pension plans) if all eligible employees voluntarily terminated their employment at the balance sheet date, plus the unamortized balance of certain previously accumulated amounts.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, 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 the plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of pension 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.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥595 million, and income before income taxes decreased by ¥557 million compared with what would have been recorded under the previous accounting standard.

Effect on segment information is described in Note 15.

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. As a result of computation for the year ended March 31, 2001, and as the Company reported net losses for the year ended March 31, 2002, inclusion of potential common shares would have an antidilutive effect on per share amounts. Accordingly, the Company's basic and diluted earnings per share computations are the same for the periods presented.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of the new accounting standard was not material. Such amounts for the years ended March 31, 2002 and 2001 have not been recalculated using the new accounting standard.

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

Accounting standard for treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The adoption of the new accounting standard had no impact on net income. However, as a result of adopting this new accounting standard and application of the related revised disclosure requirements, stockholders' equity accounts in the accompanying balance sheet as of March 31, 2003 are presented differently from prior years. Presentation of the stockholders' equity accounts as of March 31, 2002 has been changed to conform to the presentation for 2003.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3. CHANGE IN ACCOUNTING METHOD

The Company changed the method of accounting for royalty income and related expenses. Under the former method, the net amount of the two items was included in the income statement as royalty income—net, under other income (expenses). Effective April 1, 2002, royalty income is included in net sales, and the related expenses are included in selling, general and administrative expenses.

This change reflects the recognition that royalty income is directly attributable to the Company's principal operating activities, in light of the increasing number of technological alliances with partners both in Japan and overseas, and their growing strategic significance. Therefore, royalty income and the related expenses will be disclosed more appropriately under the new presentation method. As a result of the change, net sales, selling, general and administrative expenses and operating income increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand) and ¥3,290 million ($27,417 thousand), respectively, and other income decreased by ¥3,290 million ($27,417 thousand), compared with what would have been reported under the former accounting policies. Income before income taxes and minority interests was unaffected by this change.

Details of the impact on segment information are described in Note 15.

4. RELATIONSHIP WITH MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). At March 31, 2003, Matsushita held 133,227 thousand shares of common stock of the Company, 52.40% of the total outstanding shares.

Transactions between the Company and Matsushita for the years ended March 31, 2003, 2002 and 2001, and the account balances between the two companies at March 31, 2003 and 2002 are not material.

5. INVENTORIES

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥ 77,378**	¥ 85,815	**$644,817**
Work in process	**10,391**	13,166	**86,592**
Raw materials and supplies	**23,487**	27,082	**195,724**
	¥111,256	¥126,063	**$927,133**

6. SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2003 and 2002:

(a) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Book value	**¥ —**	¥ —	**$ —**
Amount of net unrealized gains or losses included in the income statement	**—**	(280)	**—**

(b) Available-for-sale securities

	Millions of yen		
	Acquisition cost	Book value	Difference
2003:			
Securities with available fair values exceeding acquisition costs			
Equity securities	**¥ 406**	**¥1,474**	**¥1,068**
Securities with available fair values not exceeding acquisition costs			
Equity securities	**¥4,212**	**¥4,018**	**¥ (194)**
Total	**¥4,618**	**¥5,492**	**¥ 874**

	Millions of yen		
	Acquisition cost	Book value	Difference
2002:			
Securities with available fair values exceeding acquisition costs			
Equity securities	¥ 5,941	¥ 8,458	¥2,517
Bonds	1,801	1,801	—
Total	¥ 7,742	¥10,259	¥2,517
Securities with available fair values not exceeding acquisition costs			
Equity securities	¥ 4,310	¥ 3,561	¥ (749)
Bonds	4,002	3,941	(61)
Total	¥ 8,312	¥ 7,502	¥ (810)
Total	¥16,054	¥17,761	¥1,707

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
2003:			
Securities with available fair values exceeding acquisition costs			
Equity securities	**$ 3,383**	**$12,283**	**$ 8,900**
Securities with available fair values not exceeding acquisition costs			
Equity securities	**$35,100**	**$33,483**	**$(1,617)**
Total	**$38,483**	**$45,766**	**$ 7,283**

The following tables summarize acquisition costs, book values and available fair value of securities not stated at fair values as of March 31, 2003 and 2002:

(a) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
	Book value	Book value	Book value
Non-listed equity securities	**¥2,008**	¥2,196	**$16,733**
Non-listed foreign debt securities	**2**	2	**17**
Subsidiaries and affiliated companies	**916**	2,040	**7,633**
Total	**¥2,926**	¥4,238	**$24,383**

In the year ended March 31, 2002, the Company re-examined the intent of holding securities and decided not to sell any securities that were previously classified as trading securities, until such time as the Company finds it appropriate to do so. Those securities were reclassified from trading securities to available-for-sale securities.

As a result, securities in current assets decreased by ¥2,426 million and investment securities increased by the same amount at March 31, 2002. Also, due to the classification change, both of unrealized loss and loss before income taxes and minority interests in the consolidated statement of operations for the year ended March 31, 2002 decreased by ¥230 million, and net unrealized holding gains on securities in the consolidated balance sheet as of that date decreased by ¥145 million compared with what would have been reported if not for the classification change.

The Company and consolidated subsidiaries had no available-for-sale securities with maturities at March 31, 2003. Such securities as of March 31, 2002 were as follows:

	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
2002:					
Available-for-sale securities					
Government bonds	¥ 1	¥ —	¥ —	¥ —	¥ 1
Corporate bonds	—	—	991	—	991
Others	2,801	—	—	—	2,801
Total	¥2,802	¥ —	¥991	¥ —	¥3,793

Available-for-sale securities sold in the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Sales	**¥6,247**	¥19,640	¥16,160	**$52,058**
Gains	**318**	763	1,450	**2,650**
Losses	**15**	358	640	**125**

7. INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants' taxes. The Company and consolidated domestic subsidiaries are subject to income taxes referred to above, which in the aggregate, result in the statutory tax rate of approximately 42.0%. Foreign subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax for financial statement purposes for the year ended March 31, 2003.

	2003	2001
Statutory tax rate	**42.0 %**	42.0 %
Lower tax rates of overseas subsidiaries	**(10.3)%**	(7.4)%
Expenses not deductible for tax purposes	**7.9 %**	20.0 %
Effect of changes in valuation allowance for deferred tax assets	**(71.9)%**	(13.7)%
Reduction of deferred tax assets due to the change in tax rates	**10.2 %**	—
Other	**57.5 %**	35.8 %
Effective tax rate	**35.4 %**	76.7 %

Information for 2002 was not prepared as the Company incurred a net loss in the year ended March 31, 2002.

The effective tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced effective tax rate of 40.6% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred tax assets, income taxes-deferred and net unrealized holding gains on securities increased by ¥9 million ($75 thousand), ¥3 million ($25 thousand) and ¥12 million ($100 thousand) compared with what would have been reported using the currently effective tax rate of 42.0%.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Loss on devaluation of inventory	**¥ 5,365**	¥ 5,465	**$ 44,708**
Accrued expenses not deductible for tax purposes	**7,887**	5,956	**65,725**
Accrual for losses on business restructuring	**367**	5,597	**3,058**
Depreciation	**8,378**	8,028	**69,817**
Retirement and severance benefits	**2,383**	5,101	**19,858**
Tax loss carry forwards	**23,275**	21,767	**193,958**
Other	**12,665**	13,640	**105,543**
Total gross deferred tax assets	**60,320**	65,554	**502,667**
Less valuation allowance	**(37,026)**	(44,628)	**(308,550)**
Net deferred tax assets	**¥23,294**	¥20,926	**$194,117**
Deferred tax liabilities:			
Unrealized gain from changes in fair market values of trading securities	**—**	¥ (944)	**—**
Net unrealized holding gains on securities	**(356)**	(670)	**(2,967)**
Other	**(1,077)**	(823)	**(8,975)**
Total gross deferred tax assets	**¥ (1,433)**	¥ (2,437)	**$ (11,942)**
Net deferred tax assets	**¥21,861**	¥18,489	**$182,175**

8. 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, 2003 and 2002 ranged from 1.26% to 26.42% and from 0.50% to 24.30% , respectively.

Long-term debt at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
1.5% unsecured convertible bonds due in 2005	**¥ 11,483**	¥ 11,483	**$ 95,692**
0.35% unsecured convertible bonds due in 2002	**—**	19,999	**—**
0.55% unsecured convertible bonds due in 2005	**20,000**	20,000	**166,667**
1.75% unsecured bonds due in 2003	**5,000**	5,000	**41,667**
2.15% unsecured bonds due in 2005	**10,000**	10,000	**83,333**
1.68% unsecured bonds due in 2006	**20,000**	20,000	**166,667**
1.89% unsecured bonds due in 2007	**10,000**	10,000	**83,333**
1.61% guaranteed notes due in 2002	**—**	5,432	**—**
1.50% guaranteed notes due in 2005	**7,206**	8,883	**60,050**
Loans, primarily from banks with interest principally at 0.82% to 7.00%			
Secured	**322**	328	**2,683**
Unsecured	**34,184**	5,915	**284,866**
	118,195	117,040	**984,958**
Less current portion	**12,727**	27,168	**106,058**
	¥105,468	¥ 89,872	**$878,900**

The 1.5% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 107% to 100% of the principal amount. The price at which shares of common stock shall be issued upon conversion is ¥2,867 ($23.89) per share, subject to adjustment under certain circumstances. The 0.55% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 103% to 100% of the principal amount. The price at which shares of common stock shall be issued upon conversion is ¥1,487 ($12.39) per share, subject to adjustment under certain circumstances.

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 12,727	$106,058
2005	17,498	145,817
2006	57,337	477,808
2007	20,134	167,783
2008	10,136	84,467
Thereafter	363	3,025
	¥118,195	$984,958

9. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt, including current portion, at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Buildings	467	3,892
Land	180	1,500
	¥647	$5,392

10. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2, Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard ("Opinion on Setting Accounting Standard for Employees' Severance and Retirement Benefits").

(Return of substitutional portion of Employees' Pension Insurance)

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the 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.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on July 1, 2002 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government.

The Company and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2003, the Company and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥3,456 million ($28,800 thousand), which was calculated based on the amounts of the substitutional portion of the projected benefit obligations, the related pension assets, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥65,305 million ($544,208 thousand) as at March 31, 2003.

Liability for employees' retirement benefits included in liabilities in the consolidated balance sheets for 2003 and 2002 and the related expenses for 2003, 2002 and 2001, which were determined based on the amounts obtained by actuarial calculations, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation:			
Projected benefit obligation	**¥(164,185)**	¥(252,417)	**$(1,368,208)**
Unamortized prior service costs	**—**	(8,009)	**—**
Unamortized actuarial differences	**55,865**	42,321	**465,542**
Less fair value of pension assets	**75,037**	159,425	**625,308**
Less unrecognized net transition obligation	**19,225**	36,129	**160,208**
Liability for severance and retirement benefits	**(14,058)**	(22,551)	**(117,150)**

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Severance and retirement benefits expenses:				
Service costs	**¥ 7,103**	¥ 8,200	¥ 7,044	**$ 59,192**
Interest costs on projected benefit obligation	**6,383**	8,884	8,923	**53,192**
Expected return on plan assets	**(3,080)**	(4,499)	(4,499)	**(25,667)**
Amortization of net transition obligation	**1,994**	2,779	2,779	**16,617**
Amortized actuarial differences	**3,151**	1,610	—	**26,258**
Amortized prior service costs	**(297)**	(890)	—	**(2,475)**
Severance and retirement benefits expenses	**15,254**	16,084	14,247	**127,117**
Gain on return of substitutional portion of Employees' Pension Insurance	**3,456**	—	—	**28,800**
Total	**¥11,798**	¥16,084	¥14,247	**$ 98,317**

Not included in the above table is special retirement payments amounting to ¥4,260 million ($35,500 thousand), ¥1,199 million and ¥3,595 million which were expensed in 2003, 2002 and 2001.

The discount rate and the rate of expected return on plan assets used by the Company are 3.0% and 3.0% in 2003, and 3.5% and 3.0% in 2002, and 4.0% and 3.0% in 2001, respectively.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized in income or expense using the straight-line method over 10 years, and actuarial gains and losses are recognized in income or expense using the straight-line method over 10 years commencing with the following period.

11. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥4,794	$39,950
As guarantor for loans to employees	2,422	20,183
As guarantor for lease obligations of affiliated company and others	1,126	9,384
	¥8,342	$69,517

12. STOCKHOLDERS' EQUITY

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

Effective October 1, 2001, 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 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 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 stockholders' meeting. 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.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

These derivative financial transactions are executed and managed by the Company's accounting department and are authorized by the Director responsible for accounting matters under the supervision by the Board of Directors.

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

Hedging instruments:	Hedged items:
Forward exchange contracts and 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 market value information as of March 31, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen		
March 31, 2003	Contract amount	Market value	Recognized gain (loss)
Swap contracts:			
Receive floating/pay fixed	**¥8,013**	**¥(530)**	**¥(530)**

As the company applied hedge accounting to all derivatives in 2002, market value information for 2002 is not disclosed.

March 31, 2003	Contract amount (Thousands of U.S. dollars)	Market value	Recognized gain (loss)
Swap contracts:			
Receive floating/pay fixed	**$66,775**	**$(4,417)**	**$(4,417)**

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

14. LEASE INFORMATION

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

Lessee:

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2003 and 2002 is as follows:

	Acquisition cost (Millions of yen)	Accumulated depreciation	Net book value
2003:			
Buildings and structures	**¥ 1,505**	**¥ 687**	**¥ 818**
Vehicles, machinery and equipment	**7,315**	**3,621**	**3,694**
Tools, furniture and fixtures	**10,922**	**5,282**	**5,640**
Leasehold rights	**399**	**219**	**180**
Software	**128**	**51**	**77**
	¥20,269	**¥9,860**	**¥10,409**

	Acquisition cost (Millions of yen)	Accumulated depreciation	Net book value
2002:			
Buildings and structures	¥ 1,223	¥ 446	¥ 777
Vehicles, machinery and equipment	7,882	3,688	4,194
Tools, furniture and fixtures	12,575	6,221	6,354
Leasehold rights	183	79	104
Software	56	27	29
	¥21,919	¥10,461	¥11,458

	Acquisition cost (Thousands of U.S. dollars)	Accumulated depreciation	Net book value
2003:			
Buildings and structures	**$ 12,542**	**$ 5,725**	**$ 6,817**
Vehicles, machinery and equipment	**60,958**	**30,175**	**30,783**
Tools, furniture and fixtures	**91,017**	**44,017**	**47,000**
Leasehold rights	**3,325**	**1,825**	**1,500**
Software	**1,067**	**425**	**642**
	$168,909	**$82,167**	**$86,742**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 3,768**	¥ 4,346	**$31,400**
Due after one year	**7,108**	7,561	**59,233**
	¥10,876	¥11,907	**$90,633**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2003**	2002	**2003**
Due within one year	**¥1,506**	¥1,053	**$12,550**
Due after one year	**2,654**	1,941	**22,117**
	¥4,160	¥2,994	**$34,667**

(3) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Lease payments	**¥3,727**	¥4,253	¥3,018	**$31,058**
Assumed depreciation charges	**3,367**	3,780	3,018	**28,058**
Assumed interest charges	**290**	466	—	**2,417**

(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 Company and its subsidiary lease certain equipment under non-capitalized finance leases, as lessees and lease that equipment under non-capitalized finance leases, as lessors. Future minimum lease receipts under these non-capitalized finance and operating leases at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
Non-capitalized finance leases	**2003**	2002	**2003**
Due within one year	**¥ 683**	¥1,031	**$ 5,692**
Due after one year	**778**	1,093	**6,483**
	¥1,461	¥2,124	**$12,175**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2003**	2002	**2003**
Due within one year	**¥15**	¥38	**$125**
Due after one year	**—**	17	**—**
	¥15	¥55	**$125**

15. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2003, 2002 and 2001 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
2003:								
Sales								
External sales	**¥674,970**	**¥70,953**	**¥47,576**	**¥167,525**	**¥ 6,616**	**¥967,640**	**¥ —**	**¥967,640**
Intersegment sales	**2,722**	**4,141**	**2,003**	**7,193**	**3,512**	**19,571**	**(19,571)**	**—**
Total sales	**677,692**	**75,094**	**49,579**	**174,718**	**10,128**	**987,211**	**(19,571)**	**967,640**
Operating expenses	**652,408**	**78,791**	**50,292**	**173,425**	**8,951**	**963,867**	**(18,526)**	**945,341**
Operating income (loss)	**¥ 25,284**	**¥ (3,697)**	**¥ (713)**	**¥ 1,293**	**¥ 1,177**	**¥ 23,344**	**¥ (1,045)**	**¥ 22,299**
Identifiable assets	**¥245,794**	**¥44,267**	**¥29,727**	**¥ 94,795**	**¥20,692**	**¥435,275**	**¥ 44,475**	**¥479,750**
Depreciation & amortization	**13,910**	**1,645**	**4,441**	**4,324**	**639**	**24,959**	**291**	**25,250**
Capital expenditures	**12,719**	**1,516**	**4,747**	**1,631**	**247**	**20,860**	**176**	**21,036**

Millions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2002:								
Sales								
External sales	¥641,329	¥78,344	¥49,701	¥177,004	¥ 7,794	¥954,172	¥ —	¥954,172
Intersegment sales	2,802	4,412	2,432	9,555	3,552	22,753	(22,753)	—
Total sales	644,131	82,756	52,133	186,559	11,346	976,925	(22,753)	954,172
Operating expenses	647,583	87,750	56,863	183,350	11,830	987,376	(21,110)	966,266
Operating income (loss)	¥ (3,452)	¥ (4,994)	¥ (4,730)	¥ 3,209	¥ (484)	¥ (10,451)	¥ (1,643)	¥ (12,094)
Identifiable assets	¥263,357	¥46,418	¥32,216	¥114,121	¥17,981	¥474,093	¥39,272	¥513,365
Depreciation & amortization	15,442	1,764	4,585	5,083	821	27,695	305	28,000
Capital expenditures	10,808	2,300	3,852	2,701	1,449	21,110	65	21,175

Millions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total	Eliminations and unallocation	Consolidated total
2001:								
Sales								
External sales	¥598,636	¥83,915	¥61,544	¥183,256	¥ 6,999	¥934,350	¥ —	¥934,350
Intersegment sales	3,521	3,597	2,647	9,039	2,926	21,730	(21,730)	—
Total sales	602,157	87,512	64,191	192,295	9,925	956,080	(21,730)	934,350
Operating expenses	598,991	92,416	60,056	187,837	10,296	949,596	(20,938)	928,658
Operating income (loss)	¥ 3,166	¥ (4,904)	¥ 4,135	¥ 4,458	¥ (371)	¥ 6,484	¥ (792)	¥ 5,692
Identifiable assets	¥290,251	¥50,002	¥34,643	¥119,123	¥16,427	¥510,446	¥76,182	¥586,628
Depreciation & amortization	14,847	2,240	5,167	4,666	808	27,728	357	28,085
Capital expenditures	16,149	2,132	4,988	7,254	570	31,093	34	31,127

								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
2003:								
Sales								
External sales	**$5,624,750**	**$591,275**	**$396,467**	**$1,396,042**	**$ 55,133**	**$8,063,667**	**$ —**	**$8,063,667**
Intersegment sales	**22,683**	**34,508**	**16,692**	**59,942**	**29,267**	**163,092**	**(163,092)**	**—**
Total sales	**5,647,433**	**625,783**	**413,159**	**1,455,984**	**84,400**	**8,226,759**	**(163,092)**	**8,063,667**
Operating expenses	**5,436,733**	**656,591**	**419,100**	**1,445,208**	**74,593**	**8,032,225**	**(154,383)**	**7,877,842**
Operating income (loss)	**$ 210,700**	**$ (30,808)**	**$ (5,941)**	**$ 10,776**	**$ 9,807**	**$ 194,534**	**$ (8,709)**	**$ 185,825**
Identifiable assets	**$2,048,283**	**$368,892**	**$247,725**	**$ 789,958**	**$172,434**	**$3,627,292**	**$370,625**	**$3,997,917**
Depreciation & amortization	**115,917**	**13,708**	**37,008**	**36,033**	**5,326**	**207,992**	**2,425**	**210,417**
Capital expenditures	**105,992**	**12,633**	**39,558**	**13,592**	**2,058**	**173,833**	**1,467**	**175,300**

As explained in Note 2 "Employees' retirement benefits and pension plans", effective April 1, 2000, the Company adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998. As a result, operating income of Consumer electronics business decreased by ¥235 million, operating loss of Professional electronics business increased by ¥83 million, operating income of Components & Devices business decreased by ¥70 million, operating income of Entertainment Software & Media business decreased by ¥145 million, operating loss of Other business increased by ¥20 million and unallocated operating expenses increased by ¥1 million.

As explained in Note 3 "CHANGE IN ACCOUNTING METHOD", effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, external sales, operating expenses and operating income of Consumer electronics business increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand), ¥3,290 million ($27,417 thousand), respectively.

2) Geographical segment information is as follows:

							Millions of yen
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2003:							
Sales							
External sales	**¥405,734**	**¥259,043**	**¥220,378**	**¥ 82,485**	**¥ 967,640**	**¥ —**	**¥967,640**
Intersegment sales	**261,732**	**155**	**1,204**	**201,717**	**464,808**	**(464,808)**	**—**
Total sales	**667,466**	**259,198**	**221,582**	**284,202**	**1,432,448**	**(464,808)**	**967,640**
Operating expenses	**656,536**	**256,500**	**215,806**	**279,253**	**1,408,095**	**(462,754)**	**945,341**
Operating income	**¥ 10,930**	**¥ 2,698**	**¥ 5,776**	**¥ 4,949**	**¥ 24,353**	**¥ (2,054)**	**¥ 22,299**
Identifiable assets	**¥317,020**	**¥ 78,768**	**¥ 76,406**	**¥ 87,126**	**¥ 559,320**	**¥ (79,570)**	**¥479,750**

							Millions of yen
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2002:							
Sales							
External sales	¥397,635	¥282,828	¥191,591	¥ 82,118	¥ 954,172	¥ —	¥954,172
Intersegment sales	246,654	248	1,036	166,361	414,299	(414,299)	—
Total sales	644,289	283,076	192,627	248,479	1,368,471	(414,299)	954,172
Operating expenses	663,129	280,245	188,945	244,906	1,377,225	(410,959)	966,266
Operating income (loss)	¥ (18,840)	¥ 2,831	¥ 3,682	¥ 3,573	¥ (8,754)	¥ (3,340)	¥ (12,094)
Identifiable assets	¥338,843	¥ 93,275	¥ 72,262	¥ 75,958	¥ 580,338	¥ (66,973)	¥513,365

	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
							Millions of yen
2001:							
Sales							
External sales	¥454,626	¥261,185	¥151,269	¥ 67,270	¥ 934,350	¥ —	¥934,350
Intersegment sales	263,473	182	873	170,233	434,761	(434,761)	—
Total sales	718,099	261,367	152,142	237,503	1,369,111	(434,761)	934,350
Operating expenses	716,531	258,272	150,301	236,238	1,361,342	(432,684)	928,658
Operating income	¥ 1,568	¥ 3,095	¥ 1,841	¥ 1,265	¥ 7,769	¥ (2,077)	¥ 5,692
Identifiable assets	¥379,008	¥ 99,105	¥ 67,343	¥ 75,655	¥ 621,111	¥ (34,483)	¥586,628

	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
							Thousands of U.S. dollars
2003:							
Sales							
External sales	**$3,381,117**	**$2,158,692**	**$1,836,483**	**$ 687,375**	**$ 8,063,667**	**$ —**	**$8,063,667**
Intersegment sales	**2,181,100**	**1,292**	**10,033**	**1,680,975**	**3,873,400**	**(3,873,400)**	**—**
Total sales	**5,562,217**	**2,159,984**	**1,846,516**	**2,368,350**	**11,937,067**	**(3,873,400)**	**8,063,667**
Operating expenses	**5,471,133**	**2,137,500**	**1,798,383**	**2,327,109**	**11,734,125**	**(3,856,283)**	**7,877,842**
Operating income	**$ 91,084**	**$ 22,484**	**$ 48,133**	**$ 41,241**	**$ 202,942**	**$ (17,117)**	**$ 185,825**
Identifiable assets	**$2,641,833**	**$ 656,400**	**$ 636,717**	**$ 726,050**	**$ 4,661,000**	**$ (663,083)**	**$3,997,917**

As explained in Note 2 "Employees' retirement benefits and pension plans", effective April 1, 2000, the Company adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998. As a result, operating income of Japan decreased by ¥555 million and unallocated operating expenses increased by ¥1 million.

As explained in Note 3 "CHANGE IN ACCOUNTING METHOD", effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, external sales, operating expenses and operating income of Japan increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand), ¥3,290 million ($27,417 thousand), respectively.

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

	Americas	Europe	Asia	Other area	Total
					Millions of yen
2003:					
Overseas sales	**¥268,674**	**¥229,222**	**¥133,024**	**¥7,172**	**¥638,092**
Consolidated sales					**¥967,640**
Ratio of overseas sales to consolidated sales	**27.8%**	**23.7%**	**13.7%**	**0.7%**	**65.9%**
2002:					
Overseas sales	¥299,512	¥197,621	¥123,883	¥5,193	¥626,209
Consolidated sales					¥954,172
Ratio of overseas sales to consolidated sales	31.4%	20.7%	13.0%	0.5%	65.6%
2001:					
Overseas sales	¥284,165	¥163,521	¥115,487	¥4,804	¥567,977
Consolidated sales					¥934,350
Ratio of overseas sales to consolidated sales	30.4%	17.5%	12.4%	0.5%	60.8%

	Americas	Europe	Asia	Other area	Total
					Thousands of U.S. dollars
2003:					
Overseas sales	**$2,238,950**	**$1,910,183**	**$1,108,533**	**$59,767**	**$5,317,433**
Consolidated sales					**$8,063,667**
Ratio of overseas sales to consolidated sales	**27.8%**	**23.7%**	**13.7%**	**0.7%**	**65.9%**

As explained in Note 3 "CHANGE IN ACCOUNTING METHOD", effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, total overseas sales increased by ¥3,365 million ($28,042 thousand), and overseas sales of Americas, Europe and Asia increased by ¥2,741 million ($22,842 thousand), ¥69 million ($575 thousand), and ¥555 million ($4,625 thousand), respectively.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited (a Japanese corporation) and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion we draw attention to the following, as discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, Victor Company of Japan, Limited and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments and employees' severance and retirement benefits and the revised Japanese accounting standard for foreign currency translation. Also, as discussed in Note 3, effective April 1, 2002, Victor Company of Japan, Limited changed the method of accounting for royalty income and related expenses.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

Corporate Data

JVC was established in Yokohama, Japan in 1927 as the Japanese subsidiary of the US firm Victor Talking Machine Company. Born as a company that manufactured phonographs, we offered a rare combination of hardware and software production capability, such as pressing the first record in Japan. Subsequently, as evidenced by the production of the world's first VHS video deck, JVC has developed into a leading technological innovator in the audio-visual industry, creating new products that are a step ahead of the times for a worldwide audience.

JVC
Victor Company of Japan, Limited

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Yokohama, Kanagawa 221-8528, Japan
Telephone: +81-45-450-1445
(Corporate Planning Headquarters)
Facsimile: +81-45-450-1425
http://www.jvc-victor.co.jp/

Date of Establishment:
September 13, 1927

Number of Employees:
34,492*

Paid-in Capital:
¥34,115 million

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

Number of Stockholders:
14,949*

Stock Exchange Listings:
Tokyo Stock Exchange
Osaka Securities Exchange

Transfer Agent and Registrar:
The Sumitomo Trust & Banking Co., Ltd.

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

Auditor:
Asahi & Co

Principal Consolidated Subsidiaries:

DOMESTIC
Victor Entertainment, Inc.
Teichiku Entertainment, Inc.
Victor Leisure System Co., Ltd.
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 Entertainment, Inc.
JVC Canada Inc.
JVC Europe Limited
JVC (U.K.) Limited
JVC Manufacturing U.K. Limited
JVC France S.A.S.
JVC Italia S.p.A.
JVC España S.A.
JVC Deutschland GmbH
JVC Video Manufacturing Europe GmbH
JVC Belgium S.A./N.V.
JVC Nederland 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 2003 consolidated financial statements comprise the accounts of 20 domestic and 59 overseas companies, including principal subsidiaries.

(As of July 2003)

*As of March 2003

VICTOR COMPANY OF JAPAN, LIMITED

This annual report was printed on recycled paper.

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