JVC
The Perfect Experience

The Perfect Experience

Victor Company of Japan, Limited

Annual Report 2007

For the year ended March 31, 2007

The Perfect Experience

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

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

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

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

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 undertakings 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.

Contents

Performance & Strategy

Victor Company of Japan, Limited (JVC), devised its Action Plan 2007 to step up business and management structural reforms by returning to positive operating income in fiscal 2008, building a strong management foundation in fiscal 2009, and switching to a growth strategy in fiscal 2010.

Corporate Social Responsibility

In keeping with our basic philosophy to enrich the lives of people and manage our businesses so as to support cultural advancement, we engage in many activities, such as environmental conservation and supporting culture and the arts. Our goal is to be a good corporate citizen and a trusted member of the international community.

Corporate Information

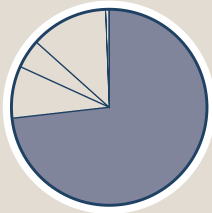
The year 2007 marks the 80th year of JVC's founding. We are striving to transform JVC into both a technology and marketing powerhouse to revive and protect the JVC brand, and thereby live up to the expectations of our stakeholders.

Financial Information

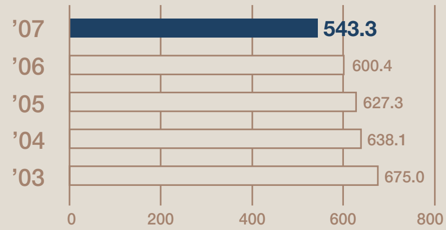
In fiscal 2007, JVC recorded net sales of ¥742.7 billion, an operating loss of ¥5.7 billion, and a net loss of ¥7.9 billion. We issued new shares to third parties in August 2007 to bolster our stockholders' equity and fund structural reforms.

Segment	Percent of Total Fiscal 2007 Sales	Sales (Billions of Yen)

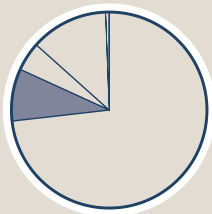
Consumer Electronics



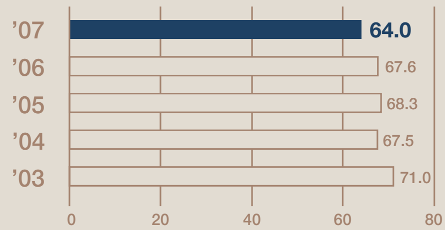
73.2%



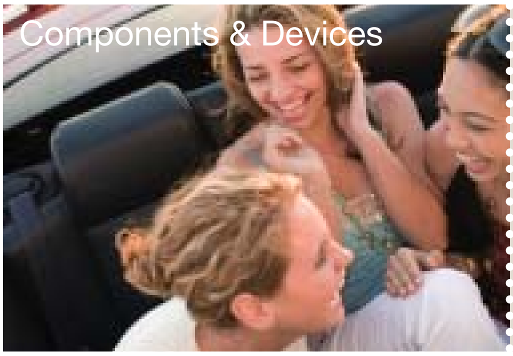
Professional Electronics

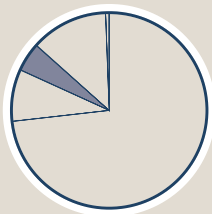


8.6%

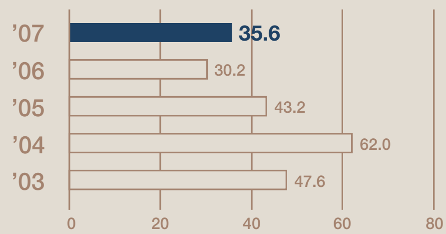


Components & Devices

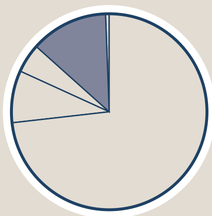




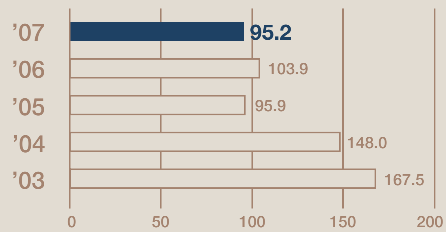
4.8%



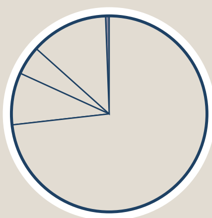
Software & Media



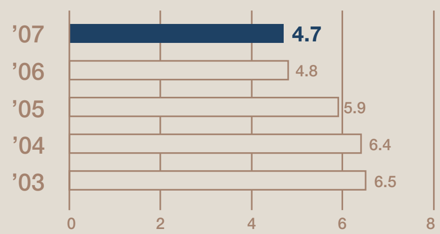
12.8%



Other



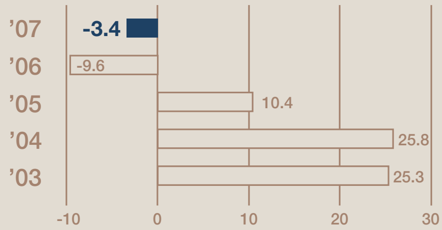
0.6%



Operating Income (Loss)
(Billions of Yen)

Major Products

Highlights



- LCD TVs, projection TVs, CRT TVs, and projectors
- Digital video cameras
- Car electronics
- Audio systems
- DVD players/recorders
- VCRs

- While sales of hard disk camcorders are robust worldwide, sales of displays and audio products are weak, and overall segment sales fell due to the adverse impact from paring down the lineup of DVD recorders and a contraction in the CRT TV market.

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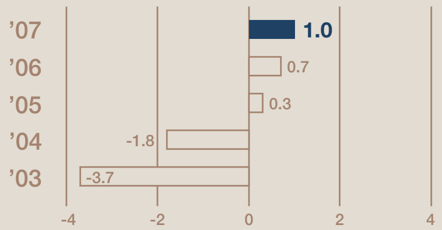

- Video surveillance equipment
- Audio equipment
- Video equipment
- Projectors

- Although sales of security products and professional high-definition video camcorders were brisk worldwide, domestic sales of professional audio equipment slumped and overall segment sales declined.

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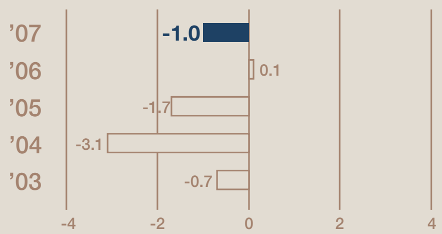

- Motors
- Optical pickups
- High-density multilayer printed wiring boards (PWBs)
- Deflection yokes

- While deflection yoke sales flagged, overall segment sales rose on growth in fluid dynamic bearings (FDBs) for hard disk drives and optical pickups for automobile disc players.

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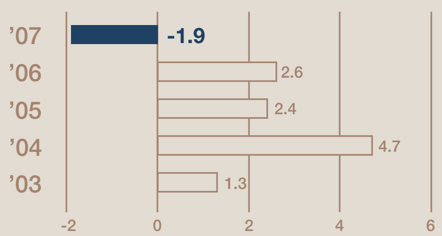

- Recordable media
- Prerecorded audio and visual software, including CDs, DVDs, and videotapes

- In recording media, sales of digital video camera (DVC) tapes contracted, and sales were weak due to a decline in selling prices for DVD-RWs and other products.
- In the music entertainment software business, sales were brisk in the first half but declined in the second half due to a lack of hit releases.

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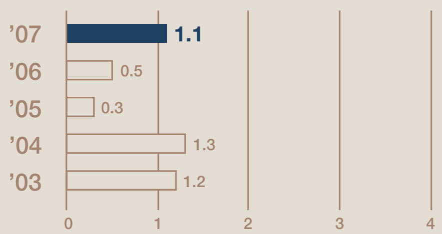


- Interior furniture
- Production facilities

Fiscal 2007 Highlights

- Hard Disk Camcorder Everio GZ-MG505, GZ-MG47 Introduced (May 2006)
- Single-Sided, Dual-Layer Recordable DVD-R Disc VD-R215PA/PA3 and Single-Sided Dual-Layer DVD-R Disc VD-R55A/A3 for Camcorders Introduced (August 2006)
- JVC Earns Top European Prizes in Three European Imaging and Sound Association (EISA) Divisions and One Technical Image Press Association (TIPA) Division (August 2006)
- JVC Develops “Near Speaker Surround” Technology (September 2006)
- Digital High-Definition (HD) LCD Televisions LT-42LH800 and LT-37LH800 with Digital Tuners for Terrestrial, Broadcasting Satellite (BS), and 110-Degree Commercial Satellite (CS) Broadcasts Introduced (September 2006)
- JVC Awarded Prestigious Institute of Electrical and Electronics Engineers (IEEE) Milestone for Development of VHS Video (October 2006)
- D-ILA HD Home Theater Projection System DLA-HD1 Introduced (November 2006)
- Compact Component System EX-A3 Introduced (January 2007)
- Digital HD LCD Televisions LT-42LC95, LT-37LC95, and LT-32LC95 with Digital Tuners for Terrestrial, BS, and 110-Degree CS Broadcasts Introduced (January 2007)
- HD Hard Disk Camcorder Everio GZ-HD7 Introduced (February 2007)
- JVC Cooperates with Milestone Systems A/S on Technology Development and Marketing to Boost IP Security Solutions Business (February 2007)

For specifics on the topics listed above, please see the following pages on our website:
Jan.-Feb. 2007: http://www.jvc-victor.co.jp/english/press/2007/index.html
Apr.-Dec. 2006: http://www.jvc-victor.co.jp/english/press/2006/index.html

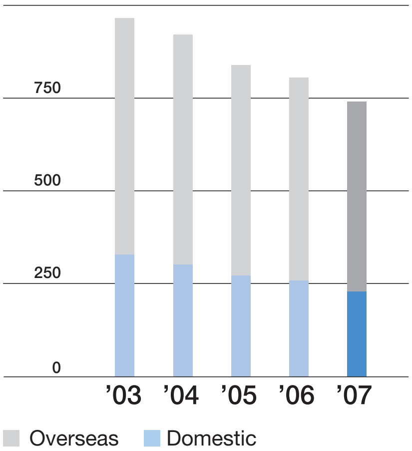
Financial Highlights

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

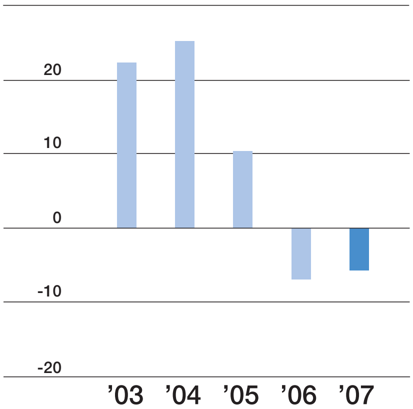
	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
For the year:				
Net sales	**¥742,686**	¥806,900	¥840,591	**$6,293,949**
Overseas	**513,107**	547,784	567,565	**4,348,364**
Domestic	**229,579**	259,116	273,026	**1,945,585**
Net income (loss)	**(7,892)**	(30,608)	(1,858)	**(66,881)**
Capital expenditures	**25,186**	29,490	28,959	**213,441**
Depreciation and amortization	**26,638**	26,848	23,422	**225,746**
At year-end:				
Stockholders’ equity (Note 2)	**¥130,840**	¥136,289	¥158,236	**$1,108,814**
Total assets	**420,708**	446,812	466,549	**3,565,323**
	Yen			U.S. dollars (Note 1)
Per share:				
Net income (loss)	**¥ (31.1)**	¥ (120.5)	¥ (7.7)	**$ (0.26)**
Diluted net income (Note 3)	**—**	—	—	**—**
Cash dividends (Note 4)	**—**	—	5.0	**—**

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥118 to U.S.$1, the approximate rate prevailing on March 31, 2007.
2. Stockholders’ equity = Total net assets - Minority interests (as recorded on the balance sheets).
3. The Company did not have securities that could potentially dilute net income per common share in the years ended March 31, 2006 and 2007, and diluted net income per share is not disclosed because there was a net loss in the year ended March 31, 2005.
4. Cash dividends represent amounts applicable to respective years.

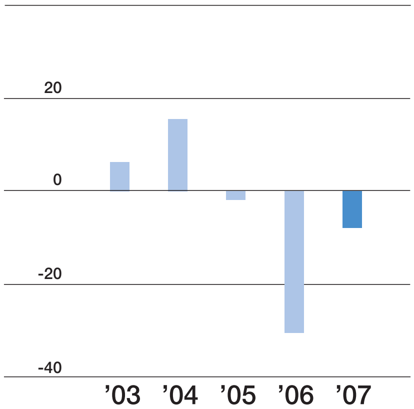
Net Sales
(Billions of yen)



Operating Income (Loss)
(Billions of yen)



Net Income (Loss)
(Billions of yen)



The Perfect Experience

Completing Our Reconstruction Plan: Restoring Strength and Appeal to the JVC Brand

In June 2007, I, Kunihiko Sato, assumed the responsibilities of president and representative director of Victor Company of Japan, Limited (JVC). The year 2007 marks the 80th year since JVC's founding, but our performance has been unfavorable over the past several years. As I have worked for JVC for nearly 40 years, I feel a grave responsibility to see our reconstruction plan through to completion.

Shifting Focus from Operational Reforms to Business Structural Reforms

In fiscal 2007, ended March 31, 2007, consolidated net sales declined 8.0%, to ¥742.7 billion, from the previous fiscal year. The Company recorded an operating loss of ¥5.7 billion, versus an operating loss of ¥6.9 billion a year earlier, and a net loss of ¥7.9 billion, versus a net loss of ¥30.6 billion a year earlier.

One of the main reasons for the slow recovery in our earnings was the weak performance of our display business in Japan and the Americas. Sales of our HD-ILA rear projection TVs in the Americas were weak, negatively impacted by the sharp decline in selling prices for digital rear projection TVs and plasma and other flat-panel TVs. Likewise, sales of our LCD TVs in Japan were below expectations, hurt by an inability to attract sufficient consumer interest, despite offering picture quality that ranks among the industry's best. Our performance was also hurt by the sales decline following the paring down of DVD recorder models, sagging audio systems sales, and a drop in selling prices for recordable media. As a result, the Company recorded an operating loss for a second successive year and a net loss for a third consecutive year.

We pressed forward with management reforms, centering on a series of operational reforms for several years through fiscal 2007, but as our sagging earnings show, we could not strengthen our business fundamentally. In light of this, we devised a reconstruction plan as a management reform blueprint that takes further the business structural reforms we announced in May 2007. Soon after, in July, we released our Action Plan 2007 to ensure the achievement of the reconstruction plan. We will rebuild and restore the confidence of the market under Action Plan 2007 with the following goals: return to positive operating income in fiscal 2008, build a strong management foundation in fiscal 2009, and switch to a growth strategy in fiscal 2010.

Measures to Accomplish Rebuilding under Action Plan 2007

Action Plan 2007 is based on our recognition that to win amid mounting competition in the digital era we must focus on bolstering business and management structural reforms.

Business Reforms

We will carry out a fundamental review of the business structure of the entire Group and reorganize so that it can grow and be profitable. Together with the consumer electronics and music entertainment software businesses at the core of our corporate identity, the professional electronics business is also a key operation, and we will increase our focus on all these businesses.

In the consumer electronics business, we aim to improve our earnings by strengthening the cost competitiveness of our display and audio businesses. In particular, we can leverage our strength in high-quality picture and sound technologies across our whole lineup in the display business—the main driver of AV sales and the largest growth market—to establish a strong reputation that will lead consumers to ask for high-quality JVC products. To measure up to the demands of this market, we will concentrate on LCD TVs to rebuild our display business swiftly.

We will also build up our lineup of front projectors, which we see as a pillar of our ILA (Image Light Amplifier) business. However, we plan to fundamentally reassess the basic strategy of our rear projection TV business, including next-generation models. We look to strengthen our main profitable businesses, such as video cameras and car electronics systems, and expand their sales by directing a large portion of our management resources to them.

In the music entertainment software business, we finished reorganizing and consolidating operations to derive synergies from all points along its path, from content development through distribution. This allows us to take advantage of business opportunities in the copyright and image content businesses and the growing online distribution market.

In the professional electronics business, we will strengthen our sales of security and professional audio products and also reap synergies between the consumer video camera and professional video camera businesses to boost global sales.

In the components & devices business and the recordable media business, we will review each field again and consider selling some portions.

As outlined above, we will reevaluate our entire business portfolio so as to further step up the selectivity and focus of our operations.

Management Reforms

To recover our earnings power swiftly, we will bolster management structural reforms by further strengthening efforts to realize a robust management structure and operations that can move quickly. Along with business structural reforms and employment structural reforms, including moves to streamline back-office functions, as supplemental measures we are studying whether to halve both the number of departments in the Head Office and the number of production sites worldwide. In addition, we are reviewing salaries and allowances in some fields for a fixed period as an emergency measure.

Becoming a Technology and Marketing Powerhouse to Return to Sales Growth

To rebuild our operations, we must end the year-on-year downtrend in our net sales and return to a growth path. While our products garnered strong reviews, over the past several years this did not translate into sales growth. In view of this, we will again work to shore up our marketing activities, which some consider a weak point for JVC. We are pushing ahead with the following priority measures, with the goal of changing public perceptions of JVC from a technology powerhouse to both a technology and marketing powerhouse.

Ensuring sales growth in the launch phase: Product life cycles are becoming much shorter due to the rapid advance of digital technologies and the growing diversity of consumer preferences and tastes. To expand sales, it is vital to cover all the bases in launch-phase marketing activities. In view of this, we are negotiating with distributors and retailers and discussing ideas for sales strategies with them at an earlier stage than we did previously. We are building on progress made in adopting a time-to-market approach in the current operational reforms and further applying this approach to bring products to market on a timely basis.

Bolstering profile-raising activities for key products: Even when we were able to introduce products quickly and efficiently, we did not go far enough in communicating and educating consumers about the superior features/benefits and specifications of our products. Going forward, we will strengthen our prelaunch product announcement activities based on annual sales and promotional plans and work to obtain market recognition of the advantages of our products by strengthening in-shop events, and thereby spur sales growth. We will use these measures effectively to reinforce our profile-raising activities by linking them to marketing activities to boost launch-phase sales and expanding our sales network.

Forming strategic tie-ups with retailers and distributors: In Japan and the Americas, we will move ahead with marketing activities specifically geared to each retail channel and extending our sales network. To do this, we are shoring up our structure through

“We intend to make JVC a technology and marketing powerhouse and return to sales growth.”

Action Plan 2007

Return to positive operating income in fiscal 2008 → **Build a strong management foundation** in fiscal 2009 → **Switch to a growth strategy** in fiscal 2010

Further reinforce reforms first laid out in the reconstruction plan to ensure the following steps are attained

		Reconstruction Plan (Announced in May 2007)	Action Plan 2007 (Announced in July 2007)
Bolster business structural reforms	**Increase cost competitiveness and improve income**		
	Display Business	• Set ourselves apart from our competitors with superior technologies • Work to lower costs • Strengthen our marketing strategy	• Discontinue the production and sales of unprofitable models in domestic and European markets • Supply the U.K. market with products made at plants in the United Kingdom; accelerate our use of an electronics manufacturing service (EMS) to supply the continental European market • Bolster the four-region management system—the Americas, Europe, Japan, and Asia and Other Areas—through the unification of regional production and sales
	Audio Business	• Restructure product strategies, including those for home theater systems and micro component systems with built-in memory	• Rebuild our sales strategies, especially for Japan and the United States • Step up cost-cutting efforts through collaboration between the Malaysian manufacturing site and our business segments
	Emphasize selectivity and focus in business portfolio and work to contain earnings erosion		
	ILA Business	• Reassess basic strategy	• Foster growth of front projectors aimed at consumers in Japan and elsewhere as the mainstay of the ILA business • Review the basic strategy for rear projection TVs, including the development of next-generation models
	Components & Devices/Recordable Media Businesses	• Take the next step in assessing whether to remain in or spin off each business	• Review each business segment, including the sale or transfer of each business
	Expand sales at businesses that are sources of consolidated earnings		
	Camcorder Business	• Aim to be a global leader in new media by pulling away from our rivals in hard disk camcorders	• Further boost already strong sales in Japan and elsewhere through the early launch of models originally planned for release in fiscal 2008 by dedicating development resources to this product category
	Car Electronics Business	• Maintain and strengthen our presence in existing fields (CD receivers) • Accelerate shift into new fields such as visual / navigation systems	• Strive to foster sales of aftermarket products in emerging markets and strengthen efforts in the OEM business • Bolster competitive strength in software development and manufacturing costs through collaboration with Kenwood Corporation
	Achieve consistent profitability via systematic advancement of reconstruction plan		
	Entertainment Business*	• Aim to improve corporate value by improving management synergies derived from strategic realignment and consolidation of overall operations • Establish a fulfillment structure aimed at achieving synergies, from content development through delivery	
	Professional Electronics Business	• Concentrate on security products and professional audio equipment; strengthen collaboration between the professional camcorder and consumer camcorder businesses • Strengthen overseas businesses, especially in security and professional creation products	
Bolster management structural reforms	**Employment Structural Reform**	• Expand scale	• Increase the planned employment structural reduction for non-consolidated employees to 1,150 from about 1,000 currently • Transfer around 800 non-consolidated employees to affiliates, as originally planned
	Manufacturing Site Reform	• Reassess basic strategy	• Study the reorganization of production sites, with a view to reducing the number by half as a medium-term measure, while putting a renewed emphasis on selectivity and focus with the aim of reinforcing cost competitiveness
	Additional Measures		• Implement structural reforms at headquarters to halve the number of current departments for the purpose of streamlining Head Office functions • Consider taking additional emergency measures, including the review of wages and benefits for a specified period

* From fiscal 2007, the Software & Media segment has been reorganized and the classification revised to the Entertainment segment. This reclassification clearly identifies the Entertainment segment as a key segment in the place of the former Software & Media segment. As a result of this reclassification, we have transferred the recordable media business, which had been included in the Software & Media segment, to the Other segment.

"Offering people fresh and exciting experiences in sound and video for a new era through our cutting-edge, original technologies"

organizational reforms. In Europe, we will follow specialist retailers in each country by leveraging our strong marketing network in this region, and enlarge the role of the European head office as a liaison in responding to the buying centers of leading European retailers.

Developing new channels and marketing regions: In emerging markets, we will press ahead with our "Challenge 5 (C5) Project" by using our production and marketing infrastructure effectively to expand sales in high-growth markets, such as India and Turkey as well as Central and South America.

Tackling New Challenges while Leveraging Our Corporate "DNA"

In the 80 years since our founding, we have worked consistently to be an innovator in sound and image technologies, and in each era we have delivered high-value-added products based on highly acclaimed, cutting-edge and original technologies. The corporate culture shaped by this heritage is our DNA, our corporate identity, and we believe this is one key source of our competitive strength in today's rapidly evolving business environment.

Our brand statement, to deliver "The Perfect Experience"—truly moving experiences and total customer satisfaction—underscores our commitment to offering people new ways to communicate through music and video. We will continue to make this principle a high priority as we move forward to tackle the challenges of the new era.

Restoring Strength and Appeal to the JVC Brand

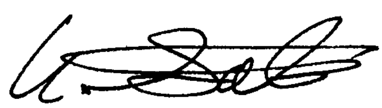
In August 2007, we increased the Company's capital by issuing 61,539,000 common shares to Kenwood Corporation for ¥20 billion and 46,154,000 common shares to several investment funds managed by SPARX International (Hong Kong) Limited, an asset management company owned by the SPARX Group, for ¥15 billion. Through this third-party allotment, we were able to bolster our stockholders' equity and secure funding for structural reforms. As a result of this allotment, JVC was converted from a consolidated subsidiary of Matsushita Electric Industrial Co., Ltd. (MEI), into an equity-method affiliate of MEI, but MEI will continue to support JVC as our largest stockholder.

Respecting the brands each has developed over many years, JVC and Kenwood will, as equal partners in spirit, start to collaborate in the car electronics systems and audio businesses from October 1, 2007. The goal of this collaboration is to derive the benefits of stronger cost and product competitiveness from greater scale in R&D, materials procurement, and production and make more effective use of the resources of the two companies. Moreover, to reap sizable synergies across the entire operations of the two companies and to enhance the corporate value of each, JVC and Kenwood will launch the Management Integration Study Committee, which will consider specific issues, with the aim of management integration in 2008.

I believe JVC is always ready for challenges, as an organization that creates new products and product categories. The JVC brand has over the years become a "familiar face" to consumers around the world, and in working to restore strength and appeal to the JVC brand we will do our utmost to meet the expectations of our stakeholders.

Last, I want to thank all our stakeholders for their support and understanding, and we ask for their continued support going forward.

September 2007



Kunihiko Sato, President and Representative Director

Our Potential

- Our high-quality image and sound technologies stem from our technology-driven corporate culture that is built on many years of experience.
- Our brand power is underpinned by our global production and sales networks.
- Our business model combines entertainment software and hardware and links together what is created from these.

Our Foundation

JVC's Brand Statement
"The Perfect Experience"
Our commitment is to deliver truly moving experiences and total customer satisfaction.

Business Vision
Creating new ways to communicate through music and images
We at JVC seek to offer people new ways to communicate with each other while inspiring them with richer experiences through music and images.

Market Expectations

- Offer trailblazing AV products using our advanced technologies
- Retain the policy of compatibility continuation and storage culture that VHS built
- Provide products that have different features from those of major manufacturers
- Offer distinctive products through our unique business model combining entertainment software and hardware

What We Aim to Be

1 | Returning to the original passion of JVC's founder of creating stellar sound and color reproduction, we seek to offer new experiences in the era of high-definition.

2 | As consumption patterns grow more diverse, we want to become the maker of choice for consumers with sophisticated tastes and sensibilities, even in small market niches.

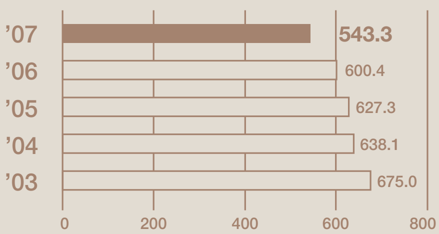
Consumer Electronics

The goal of the Consumer Electronics segment, an integral part of JVC's corporate identity, is to deliver truly moving experiences and total customer satisfaction through high-quality sound and images. In fiscal 2007, ended March 31, 2007, the Consumer Electronics segment posted sales of ¥543.3 billion, or 90% of the year-earlier level, and accounted for 73% of total Group sales. In addition, the segment reported an operating loss of ¥3.4 billion, an improvement of ¥6.2 billion from the prior-year loss.

Share of Total FY2007 Sales

73.2%

Sales (Billions of yen)



LCD TVs

Our LCD TV business is pushing ahead with two product lineups. Our high-end line offers greater added value through the use of exclusive, cutting-edge JVC technologies that deliver high picture and sound quality and fast frame rates for LCDs. Our basic line comprises models aimed at securing sufficient volumes to forestall price erosion and support our high-end line.

In fiscal 2007, for our high-end lineup, we strengthened our full high-definition (full HD) models and introduced a lineup of LCD TVs with a frame rate of 120 frames per second (120Hz, 100Hz in PAL countries)—an industry first—to deliver crisper fast-action images. These models spurred sharp growth in our European sales, but we were unable to expand our overall LCD TV sales due to a lack of consumer-inspiring features in Japan and our emphasis on profit improvement over sales volume in the United States.

Meanwhile, we were able to keep reducing costs on several fronts, including design, production, and procurement, through an array of measures. These included developing chassis with far fewer parts, starting to consign production to a site in Hungary to lower production costs, and forming alliances among LCD TV manufacturers to procure panels by strengthening partnerships, including the establishment of relationships with new panel manufacturers.

In fiscal 2008, we plan to extend our LCD TV lineup by introducing the first large-screen full HD models with 120Hz frame rates—ranging from a 37-inch model up to a 47-inch model. We will also seek to differentiate our lineup even more through an exclusive JVC high-speed processor, a newly developed high-image-quality engine that delivers even better picture quality than the prior version.

Concurrently, we intend to end production and sales of unprofitable products in Europe and Japan, use our U.K. plant to supply the U.K. market exclusively, and accelerate our use of consigned production to supply markets in continental Europe. Moreover, we will bolster the four-region management system—for the Americas, Europe, Japan, and Asia and Other Areas—through unifying regional production and sales so as to respond more swiftly to market changes.

HD LCD TV with Full HD Clear Motion Drive II

A high-resolution motion interpolation algorithm and fast double frame rate render complicated images in higher resolutions without blurring.

D-ILA Equipped Products

The mainstays of the D-ILA (Direct-drive Image Light Amplifier) business are rear projection TVs and front projectors that use JVC's original in-house-manufactured reflective LCD device "D-ILA" as the key device.

In fiscal 2007, our goal was to boost sales further by extending our lineup with the launch of rear projection full HD TVs and new models with much slimmer bodies, but sales of our rear projection TVs flagged as a result of the decline in plasma display panel (PDP) TV selling prices during year-end sales campaigns in North America. We entered the consumer market for front projectors with the launch of the DLA-HD1. This model was well received for its high picture quality in particular by specialist retailers, who drive the high-end consumer electronics market. With an industry-best contrast ratio of 15,000:1, the DLA-HD1 system is off to a strong start.

For fiscal 2008, we plan to broaden our lineup of front projectors, which we see as a pillar of our ILA business, in an effort to boost sales. Conversely, we plan to fundamentally reassess the basic strategy for our rear projection TV business, including the development of next-generation models.

Video Cameras

Underpinned by the core Everio lineup of hard disk camcorders, a product category JVC pioneered, the video camera business is the Company's largest source of earnings.

In fiscal 2007, sales of Everio products were robust worldwide. In March 2007, JVC was able to introduce the world's first high-definition hard disk camcorder targeted at consumers. Offering full HD 1920x1080i video quality, the new HD Everio GZ-HD7 is fitted with a 60GB built-in hard disk drive that can record full HD footage for up to five hours. In response to the rapid proliferation of HD broadcasts and TVs, we will continue to extend our lineup of HD camcorders.

That said, in fiscal 2008, sparked by the entry of rival makers into the hard disk camcorder category, we expect market expansion to be accompanied by fiercer competition for market share. Our aim is to be the global market-share leader by augmenting our hard disk camcorder lineup with products that respond to diverse user needs. Therefore, we will also work to strengthen and expand our lineup of peripheral equipment, such as DVD burners that enable users to save their recordings from the hard disk camcorder to DVD discs easily without using a PC. JVC will continue to lead the industry as a pioneer in hard disk camcorders.

Full HD D-ILA Front Projector

Thanks to a native contrast ratio of 15,000:1, the highest in the industry for a home theater projection system on introduction*, the DLA-HD1 remains unique in realizing true black reproduction even with the brightest highlights in the same scene. The high native contrast was achieved by combining newly developed 0.7-inch full HD D-ILA devices with a new optical engine that uses wire grid polarizers.

* As of November 14, 2006, according to JVC research

Full HD Hard Disk Camcorder

The HD Everio GZ-HD7 is the world's first** consumer HD hard disk camcorder. It records full HD 1920x1080i video quality for up to five hours and uses a high-performance Fujinon lens.

** As of the launch on March 16, 2007, according to JVC research

Car Electronics

In addition to the mainstay line of car CD receivers, the car electronics equipment business is expanding its lineup of visual products, such as DVD receivers. Sales in this business are expanding, particularly in the overseas aftermarket.

In fiscal 2007, sales of the AVX series of car stereos with built-in LCD screens and of DVD receivers were robust, and we introduced an in-house-developed portable navigation system. In North America, we established a specialist car electronics system marketing company in April 2006 to strengthen our sales network. We trailed our rivals, however, in introducing car CD receivers in high-volume price zones with adapters for digital audio players and were thus unable to expand sales.

In fiscal 2008, we plan to take steps to make our lineup of car CD receivers and DVD receivers more attractive by enhancing their compatibility with mobile phones and digital audio players. We will also widen our domain of products by introducing a JVC-developed hard disk drive navigation system into the European and U.S. markets. Moreover, we will step up our push into emerging markets, including Central America, Russia, and India, as well as our efforts in the OEM business.

HDD Navigation DVD/CD Receiver

This all-in-one model combines a navigation system, iPod-ready and DVD audio/video capabilities, an improved graphic user interface, and a high-visibility, 3.5-inch wide monitor.

Audio

The audio business reflects our passion for stellar sound reproduction, and through the application of exclusive JVC technologies such as our "K2" high-quality sound technology, wood cone speakers, and front surround sound systems for home theaters, we seek to provide products that stand apart from those of our rivals.

In fiscal 2007, we continued to introduce high-value-added products. These include a compact component system with JVC's exclusive wood cone speakers, a high-grade home theater system that allows users to enjoy a surround-sound environment with only front speakers, and a micro component system with built-in memory that provides superior sound quality. Even so, overall sales in the audio business were weak due to shrinking markets for existing product categories such as micro component minidisc (MD) systems.

In fiscal 2008, we plan to step up sales of high-grade home theater systems and to respond to the networking trend in audio equipment by strengthening the interoperability of micro component systems with mobile phones. We will also work to develop new sales channels that fit our strategy of increasing the value added to products, focusing in particular on Japan and the United States. Furthermore, we will step up cost-reduction activities that the Malaysian manufacturing site and audio business are working together to achieve.

Micro Component System with Built-in Memory

The UX-DM8's 1GB of built-in memory can store approximately 500 songs*. This micro component system comes with "K2" technology, a group of JVC exclusive technologies that deliver superior sound quality for both compressed and CD audio. In its oblique hybrid cone speakers, the voice coil is positioned off-center to dampen high- and middle-frequency resonance.

* Assumes use of the 64 kbps LP mode for songs lasting four minutes each

Consumer Electronics: Performance and Future Strategies by Region

Americas

In fiscal 2007, ended March 31, 2007, sales of HD-ILA rear projection TVs were hurt by the sharp decline in selling prices. This, together with the contraction in the CRT TV market, a decline in sales of our DVD recorder lineup, and a downturn in audio product sales, caused overall sales in the Americas to fall sharply despite a surge in sales of Everio hard disk camcorders.

In fiscal 2008, we will take steps to fully implement our strategy of two LCD TV lineups—high-value-added models in one and basic models in the other—and reenter the market. Moreover, we are reworking our basic strategy for HD-ILA rear projection TVs. We plan to broaden our lineup of front projectors, which are off to a strong start, and look to promote the growth of these systems by developing new sales channels focused on specialist retailers carrying high-end AV products. Moreover, in our U.S. operations, we will take steps to reform the organization to reinforce sales activities carefully designed for each distribution channel, along with expanding our sales network.

JVC globe in New York's Times Square


JVC's car audio booth at CES

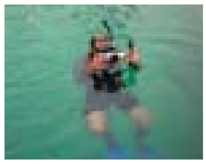

American road show

Asia and Other Areas

In fiscal 2007, despite growth in hard disk camcorders and LCD TVs and firm sales of car audio systems, overall sales in this region were down due to a sharp drop in sales stemming from the contraction of the CRT TV market and weak audio equipment sales.

In fiscal 2008, our goal is to press forward with marketing efforts finely tuned to cater to each region. To do this, we will reinforce our sales network and work to further expand sales in markets such as the Middle East, where our products are marketed through agents. Concerning emerging markets, as part of the "Challenge 5 (C5) Project" we will harness production and marketing infrastructure to target sales growth in India, Turkey, and other areas, where we think growth prospects are promising. In China, we will work to increase the number of high-volume retailers of consumer electronics, retailers of PCs and IT equipment, and other sales routes that distribute our products, with a particular emphasis on video cameras and audio equipment.


Dealer seminar in India


Everio marine promotion for the Middle East


Participants try their hand at filming at the JVC video festival tour in China.

Europe

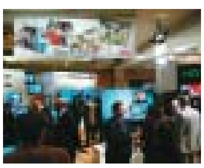
In fiscal 2007, despite growth in LCD TVs and hard disk camcorders, sales in Europe fell due to large declines in sales of DVD recorders, CRT TVs, and audio equipment.

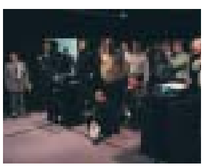
In fiscal 2008, we will work to increase the name recognition of our LCD TVs, which are driving sales growth in this region. To do this, we will use product strategies devised for each region and distribution channel and step up product announcement activities. We will also strive to enhance profitability by ending production and sales of unprofitable models.

We plan to bolster manufacturer-retailer alliances by tracking buying groups in each country through the effective use of our marketing network, one of our strengths in Europe, and by strengthening the role of the European head office as a liaison in responding to the buying centers of leading European retailers.

In the Russian market, where we are working to expand operations, we will continue to step up local production and augment our sales network, which spans 14 cities with populations of one million or more.


JVC ad on a minibus in Russia

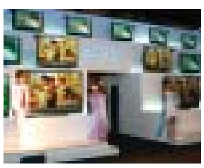

Meeting for key dealer in Europe

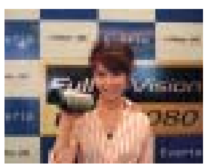

Product demonstration for European press

Japan

In fiscal 2007, while sales in the video camera business grew thanks to brisk sales of hard disk camcorders, sales in Japan flagged due to weakness attendant with the shrinking market for component MD systems in audio equipment and weak sales of LCD TVs.

In fiscal 2008, boosting sales will be our biggest initiative. To do this, we will ensure launch-phase product programs are implemented throughout our marketing activities, especially for high-value-added products such as our lineup of Everio hard disk camcorders with full HD capabilities and our full HD LCD TVs with fast frame rates. Other measures include augmenting profile-raising activities for core products and strengthening our structure through reorganization to realize marketing activities carefully designed for each retail channel.


JVC's booth at CEATEC 2006


Presentation for launch of full HD Everio GZ-HD7


Classroom for wood cone speaker assembly

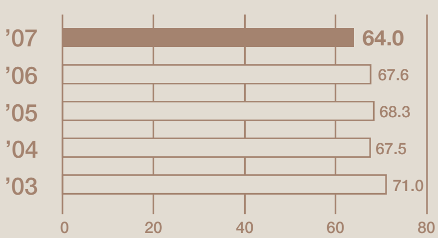
Professional Electronics

Anchored with high-value-added products featuring proprietary, differentiating technologies, this segment specializes in three areas—security products, professional audio systems, and professional creation products. We will bolster our sales foundation for security products and professional audio systems and strengthen collaboration with the consumer video camera business in professional creation products. In fiscal 2007, although sales were just 95% of the level a year earlier, at ¥64.0 billion, operating income increased ¥300 million, to ¥1.0 billion.

Share of Total FY2007 Sales

8.6%

Sales (Billions of yen)



In fiscal 2007, security products stood as one of the Professional Electronics segment's mainstay businesses, and greater safety needs worldwide continued to spur demand growth. The emergence, however, of Asian makers based in China, South Korea, and other countries as well as the entry into this product category of makers from other sectors continued to drive price competition and an attendant decline in selling prices. Amid this environment, sales of security products rose year on year thanks to a strong showing in security systems for pachinko gaming parlors and brisk worldwide sales of analog cameras.

In professional audio systems, such as speakers and amplifiers, although construction investment in Japan was flat, demand from rural areas shrank, sparking stiffer price competition. In the face of these trends, our sales in this product category edged down, as we were slow to shift the product development focus to private-sector demand and improve our sales capabilities in major urban centers.

In professional creation products, supported by a steep climb in the use of high-definition (HD) technologies in the professional market, worldwide sales of Pro HD camcorders and creation products were solid thanks to a stronger lineup and the addition of new features and functions. Domestic demand for encoders for terrestrial digital broadcasting fell back, however, and overall sales in this product category dropped.

In fiscal 2008, for security products, we will continue to push hard in Internet protocol (IP) security systems through our alliance with Belgium-based Milestone Systems A/S and other avenues and develop business with large users worldwide in particular.

In professional audio systems, we will apply sales synergies through joint marketing with our security products. We will strengthen merchandise targeted at the private sector to boost sales of intercom systems in particular.

In professional creation products, we will harness our video camera technologies in consumer electronics, our sound and imaging technologies, and our network technologies to cement the market foundation we have built in professional Pro HD camcorders and boost synergies with other categories.

3-CCD Pro HD Camcorder (New Model)

Using 720p 50/60 recording formats to deliver even smoother video imaging, our new-model professional HDV camcorders offer HD-SDI output, a serial digital interface used for broadcast-grade video, and other improvements for television broadcasters.

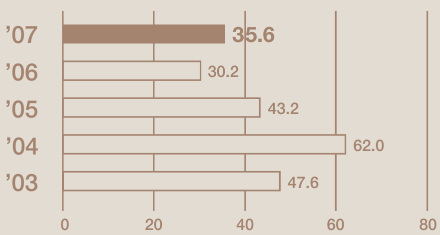
Components & Devices

The Components & Devices segment's strong reputation in the market stems from high-performance, high-quality parts that leverage JVC's original technologies and manufacturing processes. The Components & Devices segment helps create high-value-added products by leveraging the Company's storehouse of technologies. In fiscal 2007, sales rose 18% year on year, to ¥35.6 billion, but the segment booked an operating loss of ¥1.0 billion, ¥1.1 billion worse than a year earlier.

Share of Total FY2007 Sales

4.8%

Sales (Billions of yen)



The mainstay motors business of our Components & Devices segment secured new clients due to the outstanding quality and reliability of its fluid dynamic bearing (FDB) motors for 3.5-inch hard disk drives (HDDs). Our optical pickups for car CD receivers were well received in the market due to their quality. In addition to the growing sales of optical pickups, we are further developing optical pickups for car DVD receivers so as to expand sales of this component as well.

We created a new market for our high-density Victor Interconnected Layers (VIL) printed wiring boards by leveraging their high-density, high-precision properties to enter the market for module boards.

In fiscal 2008, we will expand operations focusing on motors and optical pickups.

To expand and strengthen our motor operations, we will further promote sales and augment our development application capabilities for 3.5-inch HDDs, enter the market for 2.5-inch HDDs, and press forward to develop low-cost motors for slim optical disk drives (ODDs).

To expand optical pickup sales, we will reinforce the development of optical pickups with stronger cost competitiveness and improve the performance of optical pickups equipped with our original hologram device for car CD and DVD receivers. In high-density multilayer VIL boards, we will continue to develop new markets and expand sales while improving productivity to enhance earnings.

We made progress in our deflection yoke business through bolstering the cost structure by consolidating production sites in response to the sharp market contraction. However, we finally decided to exit this business in view of declining demand for CRTs.

HDD FDB Motor

FDB motors are non-contact spindle motors that use lubricant oil in the bearing sleeve to create smaller HDDs with faster spin rates and lower noise output. The combination of JVC's exclusive, ultra-precise processing technology and cleaning processes enables us to mass-produce the world's highest-specification motors. As the adoption rate of FDB motors in PC HDDs and digital AV equipment increases, we are working full force to develop products for even smaller high-capacity HDDs.

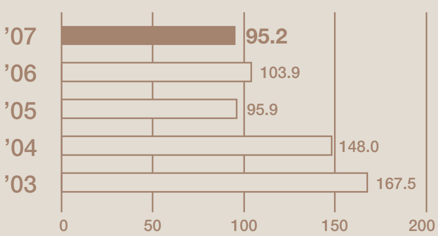
Software & Media

The music entertainment software business plans and produces music and video content, and the media business manufactures and sells recordable media and prerecorded content. In fiscal 2007, sales of the Software & Media segment were 92% of the level a year earlier, at ¥95.2 billion. The segment booked an operating loss of ¥1.9 billion, a ¥4.5 billion deterioration from the figure a year before.

Share of Total FY2007 Sales

12.8%

Sales (Billions of yen)



Music Entertainment Software Business

JVC's music entertainment software business comprises a number of key companies, including Victor Entertainment, Inc., and Teichiku Entertainment, Inc., which produce and sell music software.

In fiscal 2007, music CD production costs in Japan fell against the level a year earlier and sales of prerecorded music DVDs inched down. Against this backdrop, despite hits by pop-rock bands Remioromen and SMAP, overall sales at Victor Entertainment were slack due to a lack of hit releases in the second half. Sales increased at Teichiku Entertainment on the strength of a major hit by singer Masafumi Akikawa and other releases.

In fiscal 2008, the music entertainment software business is reorganizing the structure and functions of its entire operations. Victor Entertainment concentrates on music content planning, production, and marketing, and is increasing investment in order to discover new artists and produce hit releases.

Formed on April 1, 2007, JVC Entertainment, Inc., unified the video content planning and production operations that had been dispersed within the Company. It plans to capitalize on major business opportunities with the addition of advertising and electronic distribution businesses.

Teichiku Entertainment is doing well and continues to strengthen its presence in original music and movies.

SMAP
Pop Up! SMAP

Remioromen
HORIZON

Masafumi Akikawa
Sen no Kaze ni Notte
(A Thousand Wings)

Media Business

Recordable media's changeover to discs from tapes accelerated in fiscal 2007. The digital video camera (DVC) market shrank accordingly. While unit sales of DVD-related products grew, the decline in prices gathered speed. These trends also contributed to the decline in sales for the recordable media business.

Despite the negative impact caused by the rapid spread of music software downloading and the slump in overseas game software, overall sales of prerecorded software edged down only slightly thanks to our solid showing in DVD software.

In fiscal 2008, we will shift to higher-value-added products in the recordable media business, including dual-layer DVD "DL" and 8cm DVDs. We will restructure our sales organization in Japan and worldwide, press ahead with sweeping structural reforms in response to the rapidly evolving market, and reinforce our competitive strengths.

In prerecorded software, we will enhance corporate value through management that derives synergies from Group software companies, including Victor Entertainment.

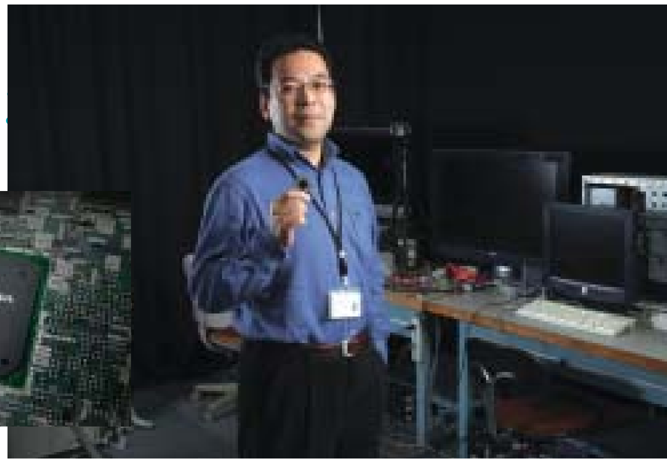
DVD-RW Disk

Our 8cm DVD-RW disks for video cameras use JVC's original Ultra Hard Coat disk surface protection technology and deliver outstanding quality and reliability through integrated domestic production.

R&D

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

Mariko Fukushima
Engineering Dept., Camcorder Category



Junichi Hasegawa Manager, Engineering Dept., Display Category

Constantly Strengthening Our Capacity for the New Digital Era

To achieve sustainable growth in the future, JVC must press forward with R&D that creates new value through producing sound and images of unprecedented quality, and then convert this result into new products in a timely manner.

Our track record in developing new technologies is strong, as exemplified by the high-value-added products introduced in fiscal 2007. Among these products are:

- The world's first high-definition hard disk drive camcorder targeted at consumers, with full HD 1920x1080i video quality.
- The new full HD LCD TV models, which have a 120Hz (100Hz in PAL countries) frame rate combined with exclusive JVC high-quality image processing technology to limit the blurring of moving images.
- A full HD D-ILA front projector equipped with JVC's unique D-ILA high-resolution micro-display device.

Furthermore, the JVC Technology Expert Group (JTEG) was started three years ago to bring together in-house experts in high-quality audio and visual, high-density recording and playback, optical, and other technologies that are key to the Company's operations. This has become a powerful force for product development unlike anything seen before. Group members work actively to enhance their skills so as to develop next-generation products, disseminate their sophisticated technological expertise, and contribute to developing their successors.

Accelerating Development of Consumer Electronics Technologies

JVC manages R&D themes according to three specific time frames—1 year or less to support the JVC of today, 3 to 5 years from now to create the technology of tomorrow, and 5 to 10 years in the future—in order to deliver a steady stream of trailblazing, "Only One" products.

The technology department of each business group is in charge of developing technologies for the immediate future. Engineers from the business group in charge of consumer electronics equipment had been dispersed between the JVC Head Office and two plants, but in 2005 most moved to the new technology center Techno WING located adjacent to the Head Office. We did this for more active communication among engineers. It fosters new channels of communication by allowing engineers to go beyond customary departmental boundaries and work closely with managers in such upstream departments as marketing and design and such downstream departments as sales. This arrangement encourages engineers and staff in other departments to share information, skills, and implicit knowledge, thereby facilitating the rapid creation of products that meet market needs and wants.

In fiscal 2007, we completed a new 10-meter electromagnetic darkroom inside the recently built quality assurance facility, which is adjacent to the Techno WING. This reinforces our design capabilities in the field of electromagnetic compatibility (EMC) and creates a cutting-edge development environment.

In addition, we focus on select development themes to promote the flexible and efficient use and management of resources. We are allocating resources appropriately and accelerating our pace of R&D activity to launch distinctive products that offer superior added value. This includes hard disk camcorders that offer new possibilities for shooting and sharing experiences, HD projectors that create images so visually arresting they make viewers feel they have been transported to the scene on the screen, DVD receivers with built-in LCDs, and systems featuring next-generation optical discs.

Building a Development Framework Geared to the New Digital Era

JVC's top operational priority is to strengthen its R&D capabilities for the new digital era. In April 2006, the Company redesigned its development framework to link core technological development with growth strategies to solidify its position as a technological powerhouse and accelerate growth via technologies that deliver high-quality sound and images.

Specifically, we realigned the Head Office's technology-related departments according to function and placed them under the unified control of technology officers. This resulted in the creation of three key divisions.

(1) The Future Core Technology Development Division works to develop key technologies at the division's corporate laboratories that will support the Company today and into the future. Specifically, the Future Product Development Center focuses on the development of products to be introduced in 2 to 3 years and the Core Technology Development Center concentrates on core technologies to be completed 3 years in the future and applied to products to be launched 5 to 10 years down the line.

In addition, we set up the Consumer AV Development Center in Yokohama in 2006 to focus on developing core consumer electronics technologies that are directly linked to each business department's product development, and we established the similar Car & AV System Development Center in Maebashi in February 2007. By integrating the laboratories directly linked to the business departments' product development with the two centers in the Future Core Technology Development Division, we will strengthen our development capabilities—from basic R&D through new product creation—and harness our collective strengths to accelerate new product development.

(2) The Technology Infrastructure Reinforcement Division is responsible for revamping product commercialization processes and support business functions, enhancing initiatives to further develop the skills of technical personnel, and other related activities.

Its Engineering Innovation Promotion Center, established in April 2006, specializes in reforming the Companywide technology development process and is making headway toward achieving time-to-market targets through innovative development processes for the true digital era.

The division started the Design Environment Reform Project in fiscal 2007, which is the centerpiece of work to revamp product commercialization processes. With this project, we will speed up making work processes more efficient and transparent and constantly strive to strengthen reform initiatives.

(3) The Companywide Technology Strategy Planning Division sets the direction of technological development—such as a focus on systems—that is advanced by the departments in charge of engineering planning.

To create groundbreaking products under our Action Plan 2007, these three divisions will work together closely to ensure everyone is on the same page regarding technological development. Moreover, this cooperation, together with synergies from collaboration with Kenwood on technology development, will enable our businesses to return to robust growth in the future.

Environmental Activities

JVC's basic management philosophy, "Contributing to culture and serving society through our products and business practices," guides our efforts to protect the global environment and is incorporated into all our business activities. We have carried out a range of initiatives designed to help realize a sustainable society since formulating JVC's Basic Environmental Policy in 1992.

Environmental Management

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

Green Plan 2010 (GP2010)

In fiscal 2005, JVC formulated the Green Plan 2010, a medium- to long-term environmental management plan that sets out objectives to be achieved by fiscal 2011. Under this plan, the Company works actively to meet the specific environmental goals established for each fiscal year, including targets related to "green products" (products with designs that are environment friendly) and "clean factories" (operating sites that take into account environmental considerations).

Progress in Fiscal 2007

We designate products that we design in an environment-friendly manner and that meet JVC's original environmental standards as "green products." In fiscal 2007, 85% of our products delivered superior performance in these areas, substantially exceeding our goal of 74% (percentage of all products that are "green products" on the basis of quantity).

Thanks in particular to products such as digital video cameras, hard disk motors, and car CD receivers, we made substantial progress in energy conservation and effective resource utilization.

Our designated "clean factories" meet certain standards pertaining to preventing global warming, reducing waste, curtailing chemical emissions, using water resources effectively, and other environmental initiatives. In fiscal 2007, all 10 of our factories in Japan achieved these standards. In fiscal 2008, we are working toward achieving these standards at our overseas factories as well.

We make information on environmental activities available through the JVC annual *Environmental Sustainability Report* as well as the "Environmental Activities" section of the corporate website. JVC's first *Environmental Sustainability Report* in fiscal 2004 was only available in Japanese in paper form. In fiscal 2006, we launched an English version of the report and began posting an electronic version on the corporate website in both Japanese and English.

URL: Japanese: www.victor.co.jp/company/environ
English: www.victor.co.jp/english/company/environ

Waste Reduction

In fiscal 2007, compared with that of fiscal 2001, JVC reduced the total volume of waste generated by the Group in Japan, including waste generated by affiliates, by a substantial 63.9%.

We attribute this accomplishment primarily to an in-house-developed process to detoxify effluent discharged from the Head Office's Yokohama Plant during the board production process. This allows JVC to release the effluent, which was previously outsourced for treatment, into Tokyo Bay.

This represents not only progress with regard to effluent but also a substantial reduction in the Company's environmental impact. As a result, JVC achieved a recycling rate of 99.97%. The Yokohama Plant was given the 3R (Reduce, Reuse, Recycle) Promotion Council Chairman's Prize for this accomplishment.

An Avid Supporter of Culture and the Arts

JVC is committed to ensuring as many people as possible have the opportunity to share the inspiration and excitement that sports and the arts can offer. This thinking has underpinned our wide-ranging cultural activities over many years, mainly in the form of support for music, the arts, and sports.

It is vital for corporations to form ties with local communities and society. Taking this to heart, JVC works through various initiatives to establish meaningful relationships with local communities and society in general.

Sponsoring Sporting Events: International Soccer Tournaments

JVC lends its hand to a range of sports in numerous countries around the world so that as many people as possible can enjoy the inspiration and excitement that sports offer—part of what we like to call "The Perfect Experience."

In particular, we have been closely involved in the UEFA European Football Championship. An official partner since the 1980 UEFA tournament held in Italy, JVC has provided comprehensive support for this major soccer event, primarily by providing audio and visual equipment required to hold the championship.

We aspire to develop high-definition technologies and products that deliver the inspiration and excitement of sports by making viewers feel as if they are actually right there to hear the crowd's cheers and feel the players' emotions.

Inspiration through Music: JVC Jazz Festivals

With the love of music in its corporate heart, JVC has sponsored the well-known JVC International Jazz Festival series since 1984. These events provide audiences worldwide opportunities to enjoy the always new sensations and excitement of jazz through our products. This program has been one of JVC's contributions to world music culture. To date, JVC has supported over 170 jazz festivals where more than four million people have enjoyed the splendor of live music. JVC will continue to deliver the thrill of live jazz to music enthusiasts.

Expanding Video Culture: Tokyo Video Festival

Since 1978, JVC has held the Tokyo Video Festival (TVF), one of the world's largest video competitions. To date, the festival has attracted more than 48,000 video entries from 95 countries and regions around the world. For example, in TVF 2007, held in March 2007, an entry submitted by a Japanese high-school broadcasting club was among the three Japanese and international winners of the JVC Grand Prize, and was featured widely in newspapers and other media outlets.

The TVF provides an opportunity for anyone to experience the fun of filming and the joy of video creation. JVC will continue to sponsor the TVF as a festival that broadens the scope of those who can contribute to video culture.

Contributing to Society

JVC is committed to being a good corporate citizen and a trusted member of the international community.

- In Vietnam, a total of 200 JVC employees support tree-planting efforts that began in 2002 to preserve the scenery and natural environment of the ancient city of Hue, which has several World Heritage sites.
- In the Czech Republic, we support an annual festival held at nursing care facilities that are opened to the public. Called "Between the Fences," this festival allows people with disabilities to interact and develop deeper bonds.
- In the United States, the American Cancer Society holds "Relay for Life" events as fund-raising campaigns. JVC has taken part in these campaigns for about 15 years, earning a reputation as an outstanding support group.

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

Management Team

President and Representative Director

1 Kunihiko Sato

Senior Managing Director and Representative Director

2 Masatoshi Hirabayashi
In charge of Display Business, ILA Business, Business Restructuring, Consumer Production, SCM and Customer Satisfaction

Managing Directors

3 Yutaka Ichijo
In charge of Legal, Corporate Ethics, General Affairs, Environment Administration and Logistics

4 Goro Saito
In charge of Corporate Planning, Public Relations, Investor Relations and Business Affairs

5 Ryuhei Nakazawa
In charge of AV Business, Global Strategic Procurement and Entertainment Software & Software Media Business

Directors

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

7 Yoshitaka Iriuchijima
General Manager, Components & Devices Business Group; in charge of Production Engineering; General Manager, Production Engineering Division

8 Hiroyuki Takekura
General Manager, Professional Systems Business Group

9 Keiichiro Doi
In charge of Technology and Intellectual Property; General Manager, Technology Development Division; General Manager, Core Technology Development Center, Technology Development Division

10 Hidetoshi Yoshida
President, Europe Company, JVC Europe Ltd. and JVC Logistics Europe N.V.

11 Hiromi Minakawa
General Manager, Display Category, Display Business Group

12 Masaaki Takeda
General Manager, Corporate Accounting & Finance Div.; General Manager, Corporate Facility Management Dept.; in charge of Information Systems, Affiliate Group Management; Managing Director, JVC Forex (U.K.) Ltd.

13 Naomasa Mizuno
General Manager, Human Resources Div.

Corporate Auditors

14 Shigeharu Tsuchitani

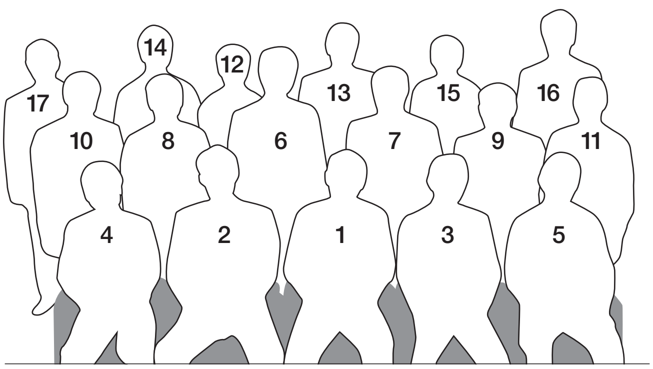
15 Kazuo Suetake

Makoto Matsuo* (Outside Auditor)
(Attorney-at-Law, Momo-o, Matsuo & Namba law firm)

16 Yoshiaki Nakagawa (Outside Auditor)
Councilor, Corporate Accounting Group, Matsushita Electric Industrial Co., Ltd.

17 Noriyuki Shouyama (Outside Auditor)
Standing Statutory Auditor, The Shinsen Company, Ltd.

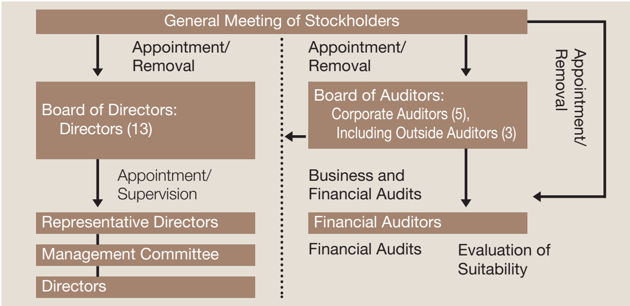
*Not present in the above photo



Our Basic Stance

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

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



Frameworks and Policies

Supported by the Management Committee, the Board of Directors is responsible for management decision making and the execution of operations, while the Management Committee supports the board's activities as an advisory body. In addition, JVC employs a business group system and a regional company system to speed up management processes.

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

JVC has adopted a business group system to implement oversight on a more manageable scale. Individuals in charge of business groups, and board members in charge of these groups, are responsible for carrying out business operations in a timely and appropriate manner and have been delegated sufficient authority to carry out their responsibilities.

Two statutory auditors and three outside auditors provide rigorous, objective oversight of various aspects of operations from an expert's point of view, including the execution of operations by the Board of Directors.

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

Our compliance activities are headed by the Corporate Ethics Office, which employs experts from outside the Company and lawyers as well. They work to keep the JVC Business Conduct Guidelines up to date, establish separate Company rules for major themes relating to business conduct, and promote the understanding of personal information issues among employees.

Basic Policies on Internal Control Systems

At the regular Board of Directors' meetings held in May 2006 and March 2007, the Company adopted resolutions pertaining to basic policies on internal control systems as well as policies regarding the improvement of such systems. Basic policies comprise (1) compliance with the *JVC Brand Book,* which sets out specific guidelines for putting management principles into practice; (2) the formulation of ethical guidelines for members of the Board of Directors; (3) proper oversight of management decision making and directors' execution of operations as stipulated in the Board of Directors' Regulations; and (4) oversight of directors' execution of operations from an independent standpoint by auditors.

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

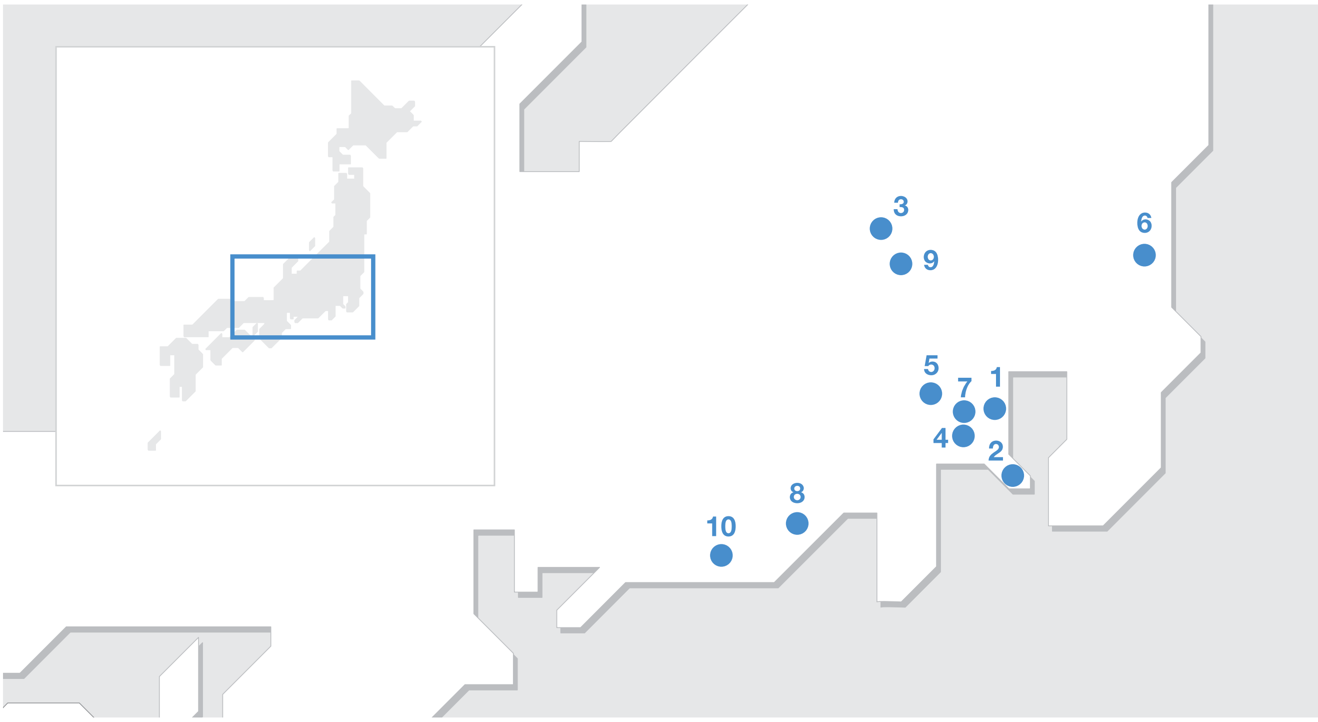
Organization Chart (As of April 1, 2007)

Victor Company of Japan, Limited (JVC)

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

JVC Group (Japan)

(As of August 2007)



Main Japanese Manufacturing Sites

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

Japan Research and Development Center

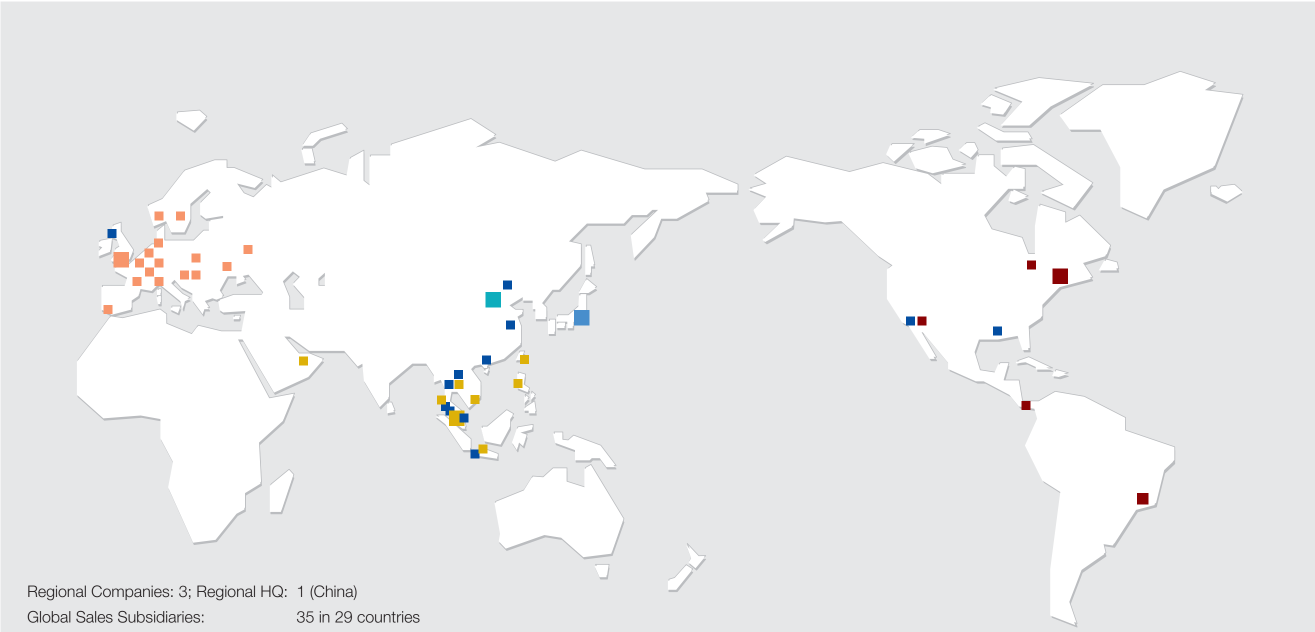
Name	Location
Kurihama R&D Center	Yokosuka, Kanagawa

Main Japanese Consolidated Subsidiaries

Company Name	Location	Business
Sanin Victor Sales Co., Ltd.	Matsue, Shimane	Wholesale
Okinawa Victor Sales Co., Ltd.	Ginowan, Okinawa	Wholesale
Victor Arcs Co., Ltd.	Minato-ku, Tokyo	Sales of professional audio and visual equipment
Victor Isesaki Electronics Co., Ltd.	Isesaki, Gunma	Manufacturing and sales of PWBs
Victor Interior Furniture Co., Ltd.	Fukuroi, Shizuoka	Manufacturing and sales of home furniture
Victor Entertainment, Inc.	Minato-ku, Tokyo	Planning, production, and sales of audio and video software, etc.
Teichiku Entertainment, Inc.	Shibuya-ku, Tokyo	Planning and sales of audio and video software, etc.
JVC Entertainment, Inc.	Minato-ku, Tokyo	Network business; development, fostering, planning, and production of content; merchandising, advertising
Nippon Record Center Co., Ltd.	Atsugi, Kanagawa	Logistics of audio software, etc.
Victor Finance Co., Ltd.	Yokohama, Kanagawa	Finance and business consulting
Victor Facility Management Co., Ltd.	Minato-ku, Tokyo	Management, sales, purchase, and leasing of real estate
Victor Service & Engineering Co., Ltd.	Urayasu, Chiba	Repair of electric equipment
Victor Logistics, Inc.	Yokohama, Kanagawa	Logistics
Victor Parts & Technical Support, Inc.	Yokohama, Kanagawa	Sales and logistics of repair parts

JVC Group (Global)

(As of August 2007)



Regional Companies: 3; Regional HQ:	1 (China)
Global Sales Subsidiaries:	35 in 29 countries
Global Manufacturing Sites:	11 in 8 countries
Main Japanese Manufacturing Sites:	10
Number of Employees (Consolidated):	26,851 (As of March 31, 2007)

● Global Manufacturing Sites

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

● Europe: Regional Company and Sales Subsidiaries

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

Americas: Regional Company and Sales Subsidiaries

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

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

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

China: Regional HQ

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

Other Main Global Subsidiaries

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

Global Software-Related Companies

Company Name	Location	Business
JVC Entertainment (Korea) Inc.	Korea	Planning and production of audiovisual software, etc.

Main Global Liaison Offices

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

Global Service and Technical Centers

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

Global Research and Development Centers

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

1927	● Victor Talking Machine Company of Japan, Limited, established
1939	● Produced Japan's first TV receiver
1954	● Produced Japan's first EP record
1956	● Developed 45/45 stereo record format
1958	● Produced Japan's first stereo LP record
	● Introduced STL-1S, Japan's first 45/45 stereo record player
1960	● Introduced 21CT-11B, JVC's first color TV
1963	● Introduced KV-200, the world's smallest 2-head professional VCR
1971	● Introduced CD-4, 4-channel stereo record
1976	● Introduced HR-3300, the world's first VHS home video recorder
1978	● Held the first JVC Tokyo Video Festival
1980	● Started to sponsor the UEFA European Football Championship
1984	● Held the first JVC Jazz Festival
	● Introduced GR-C1, a single-unit video camera
1986	● Introduced GR-C7, the world's smallest and lightest VHS-C video camera
1987	● Introduced HR-S7000, the world's first S-VHS video recorder
1990	● Introduced HR-SC1000, the world's first VHS/VHS-C-compatible video recorder
1991	● Introduced AV-36W1, first 16:9 TV in the industry
1993	● Introduced high-definition TV
	● Introduced HR-W1, the world's first high-definition home video recorder
	● Introduced GR-DV1, the world's first pocket-sized digital video camera
1998	● Introduced DLA-G10, full S-XGA high-definition D-ILA multimedia projector
2002	● Introduced AV-36/32Z1500, TVs equipped with D.I.S.T. (digital image scaling technology)
	● Introduced PD-42/35DT3, plasma display
2003	● Introduced GR-HD1, high-definition digital video camera
	● Introduced EX-A1, compact component system
2004	● Sponsored UEFA EURO 2004™
	● Introduced HD-ILA hybrid projection TV, HD-61MD60/52MD60, in North America
	● Introduced hard disk camcorder, Everio GZ-MC200/MC100
2005	● Introduced digital audio players, XA-AL55 and XA-MP101/MP51
	● Introduced professional HDV camcorder, GY-HD100
	● JVC co-developed high-quality audio compression technology "net K2" with Victor Entertainment, Inc.
	● Introduced LT-37LC70, 37-inch LCD TV featuring the industry's first high-speed LCD driver
	● Introduced three LCD TV models equipped with new Genessa "Image Intelligence" technology
2006	● Introduced two third-generation Everio hard disk camcorders, GZ-MG77 and GZ-MG67, and dedicated DVD writer CU-VD10 for Everio series camcorders
	● JVC awarded prestigious IEEE milestone for development of VHS video
2007	● Introduced DLA-HD1, a full HD D-ILA home theater projection system with the industry's highest native contrast ratio
	● Introduced Everio GZ-HD7, the world's first full HD hard disk camcorder targeted at consumers


The first image to be projected on a CRT, the Japanese character "イ"

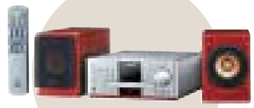

1958 STL-1S


1976 HR-3300


1986 GR-C7


1995 GR-DV1


2003 GR-HD1


2003 EX-A1


2004 HD-61MD60


2004 GZ-MC200


2006 GZ-MG77/67


2007 DLA-HD1


2007 GZ-HD7

Contents

10-Year Summary

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

	2007	2006	2005	2004
For the year:				
Net sales	**¥742,686**	¥806,900	¥840,591	¥921,978
Overseas	**513,107**	547,784	567,565	619,962
Domestic	**229,579**	259,116	273,026	302,016
Cost of sales	**502,923**	551,261	564,977	629,125
Selling, general and administrative expenses	**245,420**	262,530	265,244	267,702
Operating income (loss)	**(5,657)**	(6,891)	10,370	25,151
Income (Loss) before income taxes and minority interests	**2,564**	(22,101)	4,728	14,106
Income taxes	**10,739**	9,129	6,200	(1,926)
Net income (loss)	**(7,892)**	(30,608)	(1,858)	15,609
Depreciation and amortization	**26,638**	26,848	23,422	22,735
Capital expenditures	**25,186**	29,490	28,959	25,900
R&D expenditures	**36,226**	38,724	39,336	40,574

	2007	2006	2005	2004
At year-end:				
Working capital	**¥ 54,518**	¥ 69,927	¥ 87,825	¥147,225
Stockholders' equity (Note 2)	**130,840**	136,289	158,236	159,326
Total assets	**420,708**	446,812	466,549	507,117

	2007	2006	2005	2004
Per share:				
Net income (loss) (Note 3)	**¥ (31.1)**	¥ (120.5)	¥ (7.7)	¥ 61.1
Diluted net income (Note 4)	**—**	—	—	57.9
Cash dividends (Note 5)	**—**	—	5.0	5.0

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥118 to U.S.$1, the approximate rate prevailing on March 31, 2007.
2. Stockholders' equity = Total net assets - Minority interests (as recorded on the balance sheets).
3. Net income (loss) per share of common stock for the years ended March 31 from 1998 to 2002 have not been recalculated using the new accounting standard, which was effective April 1, 2002.
4. The Company did not have securities that could potentially dilute net income per common share in the years ended March 31, 2006 and 2007, and diluted net income per share is not disclosed because there was a net loss in the year ended March 31, 2005.
5. Cash dividends represent amounts applicable to the respective years.

Millions of yen						Thousands of U.S. dollars (Note 1)
2003	2002	2001	2000	1999	1998	**2007**
¥967,640	¥954,172	¥934,350	¥870,235	¥946,617	¥916,306	**$6,293,949**
638,092	626,209	567,977	545,316	566,551	526,285	**4,348,364**
329,548	327,963	366,373	324,919	380,066	390,021	**1,945,585**
668,821	684,458	641,209	600,506	642,140	629,859	**4,262,059**
276,520	281,808	287,449	277,748	305,698	276,431	**2,079,831**
22,299	(12,094)	5,692	(8,019)	(1,221)	10,016	**(47,941)**
10,064	(38,446)	9,444	6,088	(3,671)	6,223	**21,729**
3,568	5,985	7,238	11,295	4,466	10,796	**91,008**
6,336	(44,572)	2,498	(5,341)	(8,315)	(4,703)	**(66,881)**
25,250	28,000	28,085	28,590	30,513	24,008	**225,746**
21,036	21,175	31,127	24,336	28,815	36,651	**213,441**
40,973	40,981	44,094	43,351	41,660	37,649	**307,000**

Millions of yen						Thousands of U.S. dollars (Note 1)
2003	2002	2001	2000	1999	1998	**2007**
¥149,172	¥118,948	¥150,067	¥127,709	¥142,628	¥124,395	**$ 462,017**
146,410	146,246	180,515	199,164	232,162	243,086	**1,108,814**
479,750	513,365	586,628	540,359	588,001	624,050	**3,565,323**

Yen						U.S. dollars (Note 1)
2003	2002	2001	2000	1999	1998	**2007**
¥ 24.9	¥ (175.3)	¥ 9.8	¥ (21.0)	¥ (32.7)	¥ (18.5)	**$ (0.26)**
23.5	—	—	—	—	—	**—**
—	—	3.0	—	5.0	7.0	**—**

Overview of Fiscal 2007

In fiscal 2007, ended March 31, 2007, consolidated net sales fell 8.0%, to ¥742.7 billion. In Japan, video camera sales and sales at the Components & Devices segment grew, but domestic sales contracted 11.4% compared with the previous fiscal year, to ¥229.6 billion, due to declining sales of LCD TVs, audio products, DVD recorders, and other consumer electronics as well as the slump at the Software & Media segment. Regarding overseas sales, growth in sales of HDD camcorders and LCD TVs was not sufficient to counter declining sales of D-ILA hybrid projection TVs, CRT TVs, and audio products in the Americas, and, as a result, overseas sales dropped 6.3%, to ¥513.1 billion.

Cost of sales decreased 8.8%, to ¥502.9 billion, and the gross profit margin improved from 31.7% in the previous fiscal year to 32.3%. Selling, general and administrative (SG&A) expenses shrank 6.5%, to ¥245.4 billion.

The factors depressing earnings were sharp declines in the selling prices of LCD TVs, D-ILA hybrid projection TVs, and other digital consumer electronics as well as recordable media products and shrinking sales of audio products and CRT TVs. While there were such positive factors as the margin improvement that reflected the shift to high-value-added products, such as hard disk camcorders, the decline in the cost of sales due to lower procurement costs, and reductions to fixed costs, these did not fully offset the

NET SALES BY SEGMENT

	Billions of yen					
	Consumer electronics business	Professional electronics business	Components & Devices business	Software & Media business	Other business	Total
2007						
Sales	**¥543.3**	**¥64.0**	**¥35.6**	**¥95.2**	**¥4.6**	**¥742.7**
Percentage	**73.2%**	**8.6%**	**4.8%**	**12.8%**	**0.6%**	**100.0%**
Change	**(9.5)%**	**(5.3)%**	**17.7%**	**(8.4)%**	**(1.6)%**	**(8.0)%**
Domestic Sales	**¥100.3**	**¥39.6**	**¥2.9**	**¥82.2**	**¥4.6**	**¥229.6**
Change	**(15.6)%**	**(11.0)%**	**31.8%**	**(7.5)%**	**(2.1)%**	**(11.4)%**
Overseas Sales	**¥443.0**	**¥24.4**	**¥32.7**	**¥13.0**	**¥0.0**	**¥513.1**
Change	**(8.0)%**	**6.1%**	**16.8%**	**(13.9)%**	**(100.0)%**	**(6.3)%**
2006						
Sales	¥600.4	¥67.6	¥30.2	¥103.9	¥4.8	¥806.9
Percentage	74.4%	8.4%	3.7%	12.9%	0.6%	100.0%
Major Products	LCD TVs, projection TVs, plasma TVs, CRT TVs, camcorders, VCRs, DVD players, DVD recorders, audio systems, and car AV systems	Professional surveillance equipment, professional audio equipment, professional video equipment, and professional projectors	Motors, optical pickups, "VIL" PWBs, and components for use in computer displays	Audio and visual software including CDs, DVDs and videotapes, and recording media	Interior furniture production facilities	

aforementioned negative factors. Consequently, the Company recorded an operating loss of ¥5.7 billion in the fiscal year under review, for a ¥1.2 billion improvement from the ¥6.9 billion operating loss a year earlier.

As for other income (expenses), the Company booked ¥1.7 billion in restructuring charges associated with overseas subsidiaries, ¥4.2 billion in interest expense, and ¥1.8 billion in expenses for asset write-offs. Income before income taxes and minority interests was ¥2.6 billion, which represents a ¥24.7 billion improvement from the prior fiscal year.

Reflecting higher corporate, inhabitant, and enterprise taxes as well as the reevaluation of deferred tax assets and other factors, income taxes amounted to ¥10.7 billion, and the Company recorded a net loss of ¥7.9 billion for the fiscal year under review, compared with a net loss of ¥30.6 billion in fiscal 2006.

In view of this weak performance in fiscal 2007, the Company has regretfully decided to temporarily suspend the distribution of cash dividends.

SEGMENT INFORMATION

Consumer Electronics

Sales in this segment fell 9.5%, to ¥543.3 billion, and the segment posted an operating loss of ¥3.4 billion, which is a ¥6.2 billion improvement from the year earlier. In Japan, the Company's share of the camcorder market increased, and its camcorder sales grew thanks to its hard disk camcorder models, but the whittling back of the DVD recorder lineup led to lower sales in this category, and sales of audio products and LCD TVs also declined. Consequently, total domestic segment sales were down compared with the year-earlier level. In the United States, while HDD camcorder sales were brisk, sagging sales of D-ILA hybrid projection TVs and audio products, coupled with the shrinking market for CRT TVs, caused overall segment sales in the United States to contract compared with the prior-year level. In Europe, despite brisk sales of HDD camcorders and LCD TVs, total segment sales in the region were down compared with the level of the previous year, reflecting a falloff in sales of DVD recorders, a product category where the lineup was cut back, weak sales of audio products, and a downturn in CRT TV sales. In Asia excluding Japan, total segment sales also dropped as an increase in HDD camcorder sales and a sharp expansion in LCD TV sales did not fully counter slumping sales of CRT TVs and audio products.

Professional Electronics

Sales decreased 5.3%, to ¥64.0 billion, but operating income increased ¥300 million, to ¥1.0 billion. Overseas sales of high-definition video camera recorders targeted at professional users and security-related equipment were robust, but segment sales declined due to sluggish domestic sales of commercial-use audio equipment.

Components & Devices

Segment sales rose 17.7%, to ¥35.6 billion, and the segment posted an operating loss of ¥1.0 billion, a ¥1.1 billion turnaround compared with operating income of ¥0.1 billion in the prior fiscal year. Higher segment sales reflected growth in sales of hard disk drive motors and optical pickups used in vehicles.

Software & Media

Segment sales fell 8.4%, to ¥95.2 billion, and operating income dropped ¥4.5 billion, to an operating loss of ¥1.9 billion. Although releases by popular artists signed to our labels fared well, none of them became blockbuster hits, and the downtrend in recordable media product selling prices resulted in a decline in segment sales.

Other

Sales in the Other segment dropped 1.6%, to ¥4.6 billion.

Financial Position

Total assets as of March 31, 2007, were ¥420.7 billion, down ¥26.1 billion, or 5.8%, from the end of the previous fiscal year. Total current assets declined ¥14.7 billion, to ¥303.8 billion, despite a ¥9.9 billion increase in cash and deposits compared with the level at the prior fiscal year-end, mainly because inventories fell ¥15.3 billion and deferred tax assets dropped ¥7.2 billion. Property, plant and equipment slipped ¥2.3 billion, to ¥95.1 billion, mainly reflecting the write-off of idle assets. Investments and advances decreased ¥8.2 billion, largely as a result of sales of investment securities.

Total liabilities declined 6.6%, or ¥20.4 billion, to ¥286.9 billion. Current liabilities increased ¥700 million, to ¥249.3 billion, and short-term borrowings rose ¥15.7 billion, as the maturity of some corporate bonds and long-term borrowings declined to one year or less and they were moved into the short-term borrowings classification. Total long-term liabilities fell ¥21.2 billion, to ¥37.6 billion, reflecting the transfer of some corporate bonds to the “due within one year” category and a decline in long-term borrowings.

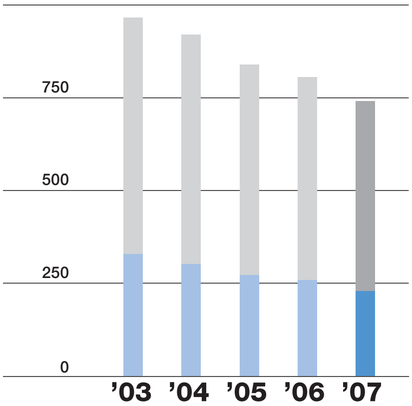
Stockholders’ equity (total net assets minus minority interests) decreased 4.0%, or ¥5.5 billion, to ¥130.8 billion.

Cash Flows

Net cash provided by operating activities amounted to ¥12.1 billion, compared with an inflow of ¥23.6 billion in the previous fiscal year, as the net loss in the fiscal year under review was offset by depreciation and a decline in inventories.

Net Sales

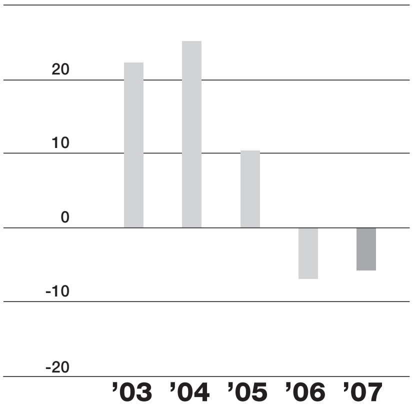
(Billions of yen)



Overseas
Domestic

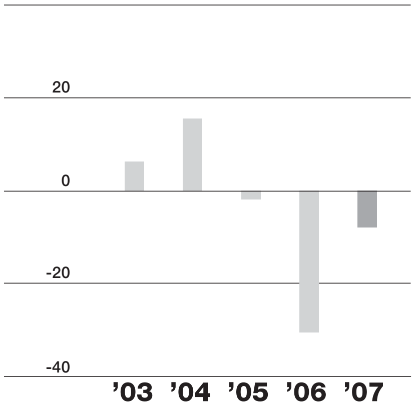
Operating Income (Loss)

(Billions of yen)



Net Income (Loss)

(Billions of yen)



Net cash provided by investing activities came to ¥400 million, compared with an outflow of ¥25.3 billion in the previous fiscal year, as proceeds mainly from sales of property, plant and equipment and marketable securities exceeded capital spending on property, plant and equipment.

Net cash used in financing activities totaled ¥4.9 billion, compared with an outflow of ¥2.8 billion in the previous fiscal year. Although short-term loans increased ¥11.3 billion, net, and proceeds from long-term loans came to ¥13.5 billion, cash outflows for long-term loan repayments and corporate bond redemptions came to ¥52.4 billion.

As a result, cash and cash equivalents at the end of fiscal 2007 came to ¥70.0 billion, up ¥9.9 billion from the end of the previous fiscal year.

Capital Expenditures/Depreciation and Amortization

In fiscal 2007, capital expenditures decreased 14.6% from the previous fiscal year, to ¥25.2 billion. The Company's investment chiefly went to production facilities for LCD TVs and camcorders.

Depreciation and amortization decreased 0.8%, to ¥26.6 billion.

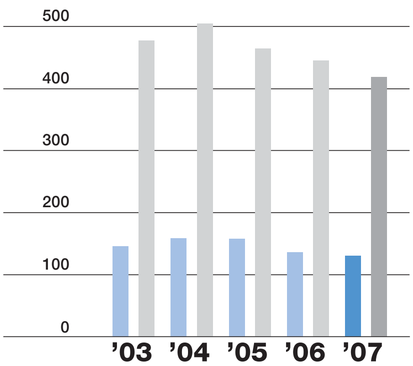
R&D Expenditures

In fiscal 2007, R&D expenditures amounted to ¥36.2 billion, representing a 6.5% decline from the previous fiscal year and a ratio to net sales of 4.9%.

Personnel

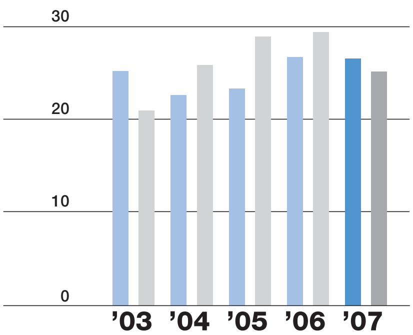
The number of JVC employees on a consolidated basis at fiscal year-end totaled 26,851, a decrease of 3,630 employees compared to the previous fiscal year-end.

Stockholders' Equity/ Total Assets
(Billions of yen)



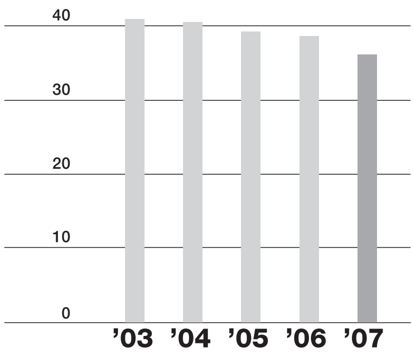
■ Stockholders' equity (Total net assets minus minority interests)
■ Total assets

Depreciation and Amortization/ Capital Expenditures
(Billions of yen)



■ Depreciation and amortization
■ Capital expenditures

R&D Expenditures
(Billions of yen)



Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2007 and 2006

ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and cash equivalents	**¥ 70,023**	¥ 60,127	**$ 593,415**
Notes and accounts receivable:			
Trade	**103,003**	103,043	**872,907**
Non-consolidated subsidiaries and affiliated companies	**162**	92	**1,373**
Allowance for doubtful accounts	**(3,501)**	(4,064)	**(29,669)**
Inventories (Note 5)	**103,775**	119,095	**879,449**
Deferred tax assets (Note 8)	**13,067**	20,271	**110,737**
Other current assets	**17,318**	19,954	**146,763**
Total current assets	**303,847**	318,518	**2,574,975**
Investments and advances:			
Investment securities (Note 6)	**7,161**	14,955	**60,686**
Other	**1,161**	1,578	**9,839**
Total investments and advances	**8,322**	16,533	**70,525**
Property, plant and equipment:			
Land	**24,271**	25,119	**205,686**
Buildings and structures	**99,551**	99,435	**843,653**
Machinery and equipment	**255,527**	252,355	**2,165,483**
Construction in progress	**6,978**	8,121	**59,136**
	386,327	385,030	**3,273,958**
Less accumulated depreciation	**(291,257)**	287,645	**(2,468,280)**
Net property, plant and equipment	**95,070**	97,385	**805,678**
Other assets:			
Deferred tax assets (Note 8)	**2,003**	1,672	**16,975**
Other assets	**11,466**	12,704	**97,170**
Total other assets	**13,469**	14,376	**114,145**
Total assets	**¥420,708**	¥446,812	**$3,565,323**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Bank loans (Note 9)	**¥ 79,040**	¥ 63,322	**$ 669,831**
Current portion of long-term debt (Note 9)	**14,747**	20,139	**124,975**
Notes and accounts payable:			
Trade	**67,151**	78,051	**569,076**
Non-consolidated subsidiaries and affiliated companies	**1,660**	1,698	**14,068**
Accrued income taxes (Note 8)	**2,881**	2,834	**24,415**
Accrued expenses	**68,984**	68,541	**584,610**
Other current liabilities (Note 10)	**14,867**	14,006	**125,992**
Total current liabilities	**249,330**	248,591	**2,112,967**
Long-term liabilities:			
Long-term debt (Note 9)	**26,695**	40,215	**226,229**
Employees' severance and retirement benefits (Note 12)	**7,684**	12,606	**65,119**
Deferred tax liabilities (Note 8)	**1,530**	4,188	**12,966**
Other long-term liabilities	**1,683**	1,738	**14,263**
Total long-term liabilities	**37,592**	58,747	**318,577**
Contingent liabilities (Note 13)			
Net assets:			
Stockholders' equity (Note 14):			
Common stock;			
Authorized 800,000,000 shares			
Issued 254,230,058 shares	**34,115**	34,115	**289,110**
Capital surplus	**67,216**	67,216	**569,627**
Retained earnings	**37,274**	45,166	**315,882**
Treasury stock, at cost	**(219)**	(199)	**(1,857)**
Total stockholders' equity	**138,386**	146,298	**1,172,762**
Valuation and translation adjustments:			
Net unrealized holding gains on available-for-sale securities (Note 6)	**2,655**	6,247	**22,500**
Net unrealized gains on hedging derivatives	**766**	—	**6,492**
Foreign currency translation adjustments	**(10,967)**	(16,256)	**(92,941)**
Total valuation and translation adjustments	**(7,546)**	(10,009)	**(63,949)**
Minority interests	**2,946**	3,185	**24,966**
Total net assets	**133,786**	139,474	**1,133,779**
Total liabilities and net assets	**¥420,708**	¥446,812	**$3,565,323**

See accompanying notes.

Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Net sales	¥742,686	¥806,900	¥840,591	$6,293,949
Costs and expenses:				
Cost of sales	502,923	551,261	564,977	4,262,059
Selling, general and administrative expenses	245,420	262,530	265,244	2,079,831
	748,343	813,791	830,221	6,341,890
Operating income (loss)	(5,657)	(6,891)	10,370	(47,941)
Other income (expenses):				
Interest and dividend income	1,772	886	688	15,017
Equity in income (loss) of affiliated companies	—	—	32	—
Interest expense	(4,238)	(3,040)	(3,092)	(35,915)
Gain on sales of investment securities	3,620	2	3,911	30,678
Loss on liquidation of subsidiaries and affiliated companies	—	—	(16)	—
Restructuring charges	(1,708)	(2,466)	(57)	(14,475)
Loss from write-down of investment in securities	(273)	(300)	(349)	(2,314)
Prior period patent royalty	—	—	(263)	—
Special retirement payments	—	(6,544)	(6,530)	—
Loss on impairment of fixed assets (Note 18)	(1,805)	—	—	(15,297)
Gain and loss on sales and disposal of property, plant and equipment	16,501	2,463	1,144	139,839
Other, net (Note 7)	(5,648)	(6,211)	(1,110)	(47,863)
	8,221	(15,210)	(5,642)	69,670
Income (Loss) before income taxes and minority interests	2,564	(22,101)	4,728	21,729
Income taxes (Note 8):				
Current	4,451	2,863	5,317	37,720
Deferred	6,288	6,266	883	53,288
	10,739	9,129	6,200	91,008
Income (Loss) before minority interests	(8,175)	(31,230)	(1,472)	(69,279)
Minority interests	283	622	(386)	2,398
Net income (loss)	¥ (7,892)	¥ (30,608)	¥ (1,858)	$ (66,881)

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock (Note 2):				
Net income (loss)	¥ (31.1)	¥ (120.5)	¥ (7.7)	$ (0.26)
Diluted net income (Note 2)	—	—	—	—
Cash dividends applicable to the year	—	—	5.0	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

		Millions of yen								
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Net unrealized gains on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	254,230	¥34,115	¥67,217	¥79,622	¥(141)	¥4,743	¥ —	¥(26,230)	¥4,161	¥163,487
Net income (loss)	—	—	—	(1,858)	—	—	—	—	—	(1,858)
Cash dividends paid (¥5.0 per share)	—	—	—	(1,270)	—	—	—	—	—	(1,270)
Bonuses to directors and corporate auditors	—	—	—	(88)	—	—	—	—	—	(88)
Adjustment due to change in the scope of consolidated subsidiaries	—	—	—	740	—	—	—	—	—	740
Treasury stock (net)	—	—	(1)	—	(37)	—	—	—	—	(38)
Decrease due to changes in fair market values of available-for-sale securities	—	—	—	—	—	(1,372)	—	—	—	(1,372)
Foreign currency translation adjustments	—	—	—	—	—	—	—	2,796	—	2,796
Other changes	—	—	—	—	—	—	—	—	(297)	(297)
Balance at March 31, 2005	254,230	¥34,115	¥67,216	¥77,146	¥(178)	¥3,371	¥ —	¥(23,434)	¥3,864	¥162,100
Net income (loss)	—	—	—	(30,608)	—	—	—	—	—	(30,608)
Cash dividends paid (¥5.0 per share)	—	—	—	(1,270)	—	—	—	—	—	(1,270)
Bonuses to directors and corporate auditors	—	—	—	(101)	—	—	—	—	—	(101)
Treasury stock (net)	—	—	—	(1)	(21)	—	—	—	—	(22)
Increase due to changes in fair market values of available-for-sale securities	—	—	—	—	—	2,876	—	—	—	2,876
Foreign currency translation adjustments	—	—	—	—	—	—	—	7,178	—	7,178
Other changes	—	—	—	—	—	—	—	—	(679)	(679)
Balance at March 31, 2006	254,230	¥34,115	¥67,216	¥45,166	¥(199)	¥6,247	¥ —	¥(16,256)	¥3,185	¥139,474
Net income (loss)	**—**	**—**	**—**	**(7,892)**	**—**	**—**	**—**	**—**	**—**	**(7,892)**
Treasury stock (net)	**—**	**—**	**—**	**(0)**	**(20)**	**—**	**—**	**—**	**—**	**(20)**
Decrease due to changes in fair market values of available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(3,592)**	**—**	**—**	**—**	**(3,592)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,289**	**—**	**5,289**
Other changes	**—**	**—**	**—**	**—**	**—**	**—**	**766**	**—**	**(239)**	**527**
Balance at March 31, 2007	**254,230**	**¥34,115**	**¥67,216**	**¥37,274**	**¥(219)**	**¥2,655**	**¥766**	**¥(10,967)**	**¥2,946**	**¥133,786**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on available-for-sale securities	Net unrealized gains on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$289,110	$569,627	$382,763	$(1,686)	$52,941	$ —	$(137,763)	$26,992	$1,181,984
Net income (loss)	**—**	**—**	**(66,881)**	**—**	**—**	**—**	**—**	**—**	**(66,881)**
Treasury stock (net)	**—**	**—**	**(0)**	**(171)**	**—**	**—**	**—**	**—**	**(171)**
Decrease due to changes in fair market values of available-for-sale securities	**—**	**—**	**—**	**—**	**(30,441)**	**—**	**—**	**—**	**(30,441)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**44,822**	**—**	**44,822**
Other changes	**—**	**—**	**—**	**—**	**—**	**6,492**	**—**	**(2,026)**	**4,466**
Balance at March 31, 2007	**$289,110**	**$569,627**	**$315,882**	**$(1,857)**	**$22,500**	**$6,492**	**$ (92,941)**	**$24,966**	**$1,133,779**

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Cash flows from operating activities:				
Income (Loss) before income taxes and minority interests	¥ 2,564	¥(22,101)	¥ 4,728	$ 21,729
Depreciation	23,340	24,044	21,952	197,797
Loss on impairment of fixed assets	1,805	—	—	15,297
Interest and dividend income	(1,772)	(886)	(688)	(15,017)
Interest expense	4,238	3,040	3,092	35,915
Increase (Decrease) in accrued restructuring charges	—	—	(3,136)	—
Gain on sales of investment securities	(3,620)	(2)	(3,911)	(30,678)
Gain on sales of property, plant and equipment	(17,225)	(3,193)	(1,949)	(145,975)
Decrease (Increase) in notes and accounts receivable	5,058	10,466	1,313	42,864
Decrease (Increase) in inventories	19,670	11,759	8,083	166,695
Increase (Decrease) in notes and accounts payable	(14,154)	5,041	(22,478)	(119,949)
Other	(780)	2,088	(5,336)	(6,610)
Sub-total	19,124	30,256	1,670	162,068
Interest and dividends received	1,772	886	700	15,017
Interest paid	(4,240)	(3,017)	(3,108)	(35,932)
Income taxes paid	(4,563)	(4,535)	(5,495)	(38,669)
Net cash provided by (used in) operating activities	12,093	23,590	(6,233)	102,484
Cash flows from investing activities:				
Purchases of time deposits	—	—	(50)	—
Withdrawal of time deposits	—	—	4,155	—
Purchases of property, plant and equipment	(21,460)	(27,525)	(26,849)	(181,864)
Proceeds from sales of property, plant and equipment	18,844	6,517	5,199	159,695
Purchases of investment securities	(24)	(52)	(114)	(203)
Proceeds from sales of investment securities	5,242	36	5,541	44,424
Payments for investments in subsidiaries	—	(278)	—	—
Proceeds from sales of investment in subsidiaries results in change in scope of consolidation	593	—	—	5,025
Other	(2,790)	(4,018)	(1,744)	(23,645)
Net cash provided by (used in) investing activities	405	(25,320)	(13,862)	3,432
Cash flows from financing activities:				
Proceeds from long-term loans	13,500	30,000	—	114,407
Repayments of long-term loans	(32,443)	(20,133)	(5,987)	(274,941)
Proceeds from issuance of bonds	19,902	—	—	168,661
Redemption of bonds	(20,000)	(36,120)	(10,968)	(169,492)
Increase in short-term bank loans, net	11,311	25,995	3,673	95,856
Cash dividends paid	—	(1,270)	(1,629)	—
Proceeds from the stock lending	3,617	—	—	30,653
Other	(836)	(1,283)	(703)	(7,085)
Net cash provided by (used in) financing activities	(4,949)	(2,811)	(15,614)	(41,941)
Effect of exchange rate changes on cash and cash equivalents	2,075	1,983	879	17,584
Net increase (decrease) in cash and cash equivalents	9,624	(2,558)	(34,830)	81,559
Cash and cash equivalents at beginning of the year	60,127	62,685	97,242	509,551
Effect of changes in the number of consolidated subsidiaries and companies accounted for by the equity method	272	—	273	2,305
Cash and cash equivalents at end of the year	¥70,023	¥60,127	¥62,685	$593,415

See accompanying notes.

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant inter-company transactions, account balances and unrealized profits have been eliminated.

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

Foreign currency translation

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

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for net assets 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.

Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" in net assets.

Cash and cash equivalents

In preparing the consolidated statements of cash flows for the years ended March 31, 2007, 2006 and 2005, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Inventories

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

Allowance for doubtful accounts

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

Securities

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

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

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

Derivatives and hedge accounting

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

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

Property, plant and equipment

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

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

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

Finance leases

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

Deferred bond issue expenses

Bond issue expenses are amortized over 3 years on the straight-line basis as permitted by the Japanese Corporate Law.

Research and development expenditures

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

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carried forward and foreign tax credit carried forward. 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.

Employees' severance and retirement benefits

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

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

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

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

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

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

Amounts per share of common stock

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

Diluted net income per share assumes dilution that could occur if convertible bonds or similar securities were converted into common stock resulting in the issuance of common stock. The Company did not have securities that could potentially dilute net income per share in the year ended March 31, 2006 and 2007, and diluted net income per share is not disclosed because there was a net loss in the year ended March 31, 2005.

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

Impairment of fixed assets

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

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. There were no effects on total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Furthermore, the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 have been modified to the forms of the consolidated statement of changes in net assets for 2007.

3 CHANGES IN ACCOUNTING METHOD

Business combination and business separation

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Opinion Concerning Establishment of Accounting Standard for Business Combinations" issued by the Business Accounting Deliberation Council on October 31, 2003 and "Accounting Standard for Business Separations" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for business combinations and separations (the Financial Accounting Standard Implementation Guidance No. 10 issued by the Accounting Standards Board of Japan on December 22, 2006).

4 RELATIONSHIP WITH MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). At March 31, 2007, Matsushita held 133,227 thousand shares of common stock of the Company, 52.7% of the total outstanding shares.

Transactions between the Company and Matsushita for the years ended March 31, 2007, 2006 and 2005, and the account balances between the two companies at March 31, 2007 and 2006 are not material.

5 INVENTORIES

Inventories as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished goods	**¥ 83,156**	¥ 91,687	**$704,712**
Work in process	**6,606**	9,295	**55,983**
Raw materials and supplies	**14,013**	18,113	**118,754**
	¥103,775	¥119,095	**$879,449**

6 INVESTMENT SECURITIES

The following tables summarize acquisition costs and book values of securities with available fair values as of March 31, 2007 and 2006:

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

	Millions of yen		
	Acquisition cost	Book value	Difference
2007:			
Securities with available fair values exceeding acquisition costs:			
Equity securities	**¥1,001**	**¥5,485**	**¥4,484**
Securities with available fair values not exceeding acquisition costs:			
Equity securities	**398**	**375**	**(23)**
Total	**¥1,399**	**¥5,860**	**¥4,461**

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

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
2007:			
Securities with available fair values exceeding acquisition costs:			
Equity securities	**$ 8,483**	**$46,483**	**$38,000**
Securities with available fair values not exceeding acquisition costs:			
Equity securities	**3,373**	**3,178**	**(195)**
Total	**$11,856**	**$49,661**	**$37,805**

The following tables summarize book values as of March 31, 2007 and 2006 of securities with no available fair values.

(2) Securities with no available fair values

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
	Book value	Book value	Book value
1. Available-for-sale securities			
Unlisted equity securities	**¥ 947**	¥1,195	**$ 8,025**
Unlisted foreign debt securities	**7**	7	**59**
2. Subsidiaries and affiliated companies	**347**	285	**2,941**
Total	**¥1,301**	¥1,487	**$11,025**

(3) Available-for-sale securities sold in each of the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Sales	**¥5,242**	¥36	¥5,541	**$44,424**
Gains	**3,620**	2	3,911	**30,678**
Losses	**12**	0	7	**102**

7 OTHER EXPENSES

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

8 INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants’ taxes which, in the aggregate, result in the statutory tax rates of approximately 40.6% for the years ended March 31, 2007, 2006 and 2005. Consolidated overseas subsidiaries are subject to income taxes regulation of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Companies’ effective tax rate for financial statement purposes for the years ended March 31, 2007 and 2005.

Information for 2006 is not prepared as the Company incurred a loss before income taxes and minority interests in the year ended March 31, 2006.

	2007	2005
Statutory tax rate:	**40.6 %**	40.6 %
Lower tax rates of overseas subsidiaries	**39.5 %**	(19.4)%
Expenses not deductible for tax purposes	**25.1 %**	50.0 %
Effect of changes in valuation allowance for deferred tax assets	**252.5 %**	(34.7)%
Foreign tax credit	**46.0 %**	22.0 %
Expenses not taxable for tax purposes	**(7.2)%**	49.6 %
Per capita portion of inhabitants' taxes	**5.8 %**	—
Other	**16.5 %**	23.0 %
Effective tax rate	**418.8 %**	131.1 %

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Loss on devaluation of inventory	**¥ 5,149**	¥ 5,389	**$ 43,636**
Accrued expenses not deductible for tax purposes	**7,058**	6,572	**59,814**
Depreciation	**9,774**	8,799	**82,831**
Retirement and severance benefits	**1,736**	3,914	**14,712**
Tax loss carryforwards	**29,107**	27,486	**246,669**
Loss on devaluation of investment securities	**1,195**	—	**10,127**
Other	**5,810**	9,270	**49,236**
Total gross deferred tax assets	**59,829**	61,430	**507,025**
Valuation allowance	**(43,617)**	(38,463)	**(369,635)**
Net deferred tax assets	**16,212**	22,967	**137,390**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(1,812)**	(4,246)	**(15,356)**
Other	**(870)**	(993)	**(7,373)**
Total gross deferred tax liabilities	**(2,682)**	(5,239)	**(22,729)**
Net deferred tax assets	**¥13,530**	¥17,728	**$114,661**

Net deferred taxes as of March 31, 2007 and 2006 are recorded in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current assets—Deferred tax assets	**¥13,067**	¥20,271	**$110,737**
Other assets—Deffered tax assets	**2,003**	1,672	**16,975**
Current liabilities—Accrued expenses	**10**	27	**85**
Long-term liabilities—Deferred tax liabilities	**1,530**	4,188	**12,966**
Net deferred tax assets	**¥13,530**	¥17,728	**$114,661**

9 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans of certain of the Company's consolidated subsidiaries consist of notes maturing generally in three months. The applicable annual interest rates on short-term bank loans outstanding at March 31, 2007 and 2006 range from 1.68% to 16.70% and from 0.01% to 17.35%, respectively.

Long-term debt at March 31, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
1.68% unsecured bonds due in 2006	**¥ —**	¥20,000	**$ —**
1.89% unsecured bonds due in 2007	**10,000**	10,000	**84,746**
2.00% unsecured bonds due in 2009	**20,000**	—	**169,492**
Loans, primarily from banks with interest principally at 1.70% to 6.10%			
Unsecured	**11,442**	30,354	**96,966**
	41,442	60,354	**351,204**
Less current portion	**14,747**	20,139	**124,975**
	¥26,695	¥40,215	**$226,229**

The aggregate annual maturities of long-term debt at March 31, 2007 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥14,747	$124,975
2009	24,670	209,068
2010	2,025	17,161
	¥41,442	$351,204

10 SECURITY DEPOSIT

Investment securities include loaned securities of ¥4,824 million ($40,881 thousand); deposited cash of ¥3,617 million ($30,653 thousand) as collateral was posted under the current liabilities as other current liabilities for the year ended March 31, 2007.

11 FINANCIAL COVENANTS

The Company has concluded syndicated loan agreements with its banks to establish efficient fund procurement in order to secure its working capital in the year ended March 31, 2007.

(1) Commitment Agreement of Syndicated Loans
The outstanding balance of the commitment as of March 31, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Total committed line of credit	¥39,600	$335,593
Executed amount	29,520	250,169
Unexecuted amount	¥10,080	$ 85,424

The above agreement is subject to the following financial covenants.

- At the end of each fiscal year, total stockholders' equity (common stock, capital surplus, retained earnings, and treasury stock) shall be ¥120 billion or more on the consolidated balance sheet.

(2) Syndicated loan agreement
The total amount of executed loans as of March 31, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Executed amount	¥11,205	$94,958

The above agreement is subject to the following financial covenants.

- The amount of the total net assets on the consolidated balance sheet shall be maintained at 75% or more of the amount in the year ended March 31, 2006.
- Consolidated ordinary losses on the consolidated statement of operations shall not be reported for two consecutive years ending March 31, 2007 and 2008.

12 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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

Obligation for employees' retirement benefits included in liabilities in the consolidated balance sheets for 2007 and 2006 and the related expenses for 2007, 2006 and 2005, which were determined based on the amounts obtained by actuarial calculations, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation:			
Projected benefit obligation	**¥(127,320)**	¥(129,213)	**$(1,078,983)**
Unamortized prior service costs	**(14,104)**	(15,985)	**(119,526)**
Unamortized actuarial differences	**4,757**	6,693	**40,314**
Less fair value of plan assets	**116,158**	111,471	**984,390**
Less unrecognized net transition obligation	**12,825**	14,428	**108,686**
Liability for severance and retirement benefits	**¥ (7,684)**	¥ (12,606)	**$ (65,119)**

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Severance and retirement benefits expenses:				
Service costs	**¥4,989**	¥4,845	¥ 5,581	**$42,279**
Interest costs on projected benefit obligation	**3,356**	3,490	3,774	**28,441**
Expected return on plan assets	**(6,101)**	(2,426)	(2,348)	**(51,703)**
Amortization of net transition obligation	**1,603**	1,588	1,598	**13,585**
Amortization of actuarial differences	**2,213**	3,335	3,608	**18,754**
Amortization of prior service costs	**(1,881)**	(1,881)	(940)	**(15,941)**
Total	**¥4,179**	¥8,951	¥11,273	**$35,415**

The special retirement payments amounting to ¥6,544 million and ¥6,530 million which were expensed in 2006 and 2005, respectively, are not included in the above table.

The discount rate and the rate of expected return on plan assets used by the Company are 2.7% and 5.5% in 2007, and 2.7% and 3.0% in 2006 and 2005, respectively.

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

13 CONTINGENT LIABILITIES

The contingent liabilities of the Companies at March 31, 2007 are as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥ 407	$ 3,449
As guarantor for loans to employees	1,660	14,068
	¥2,067	$17,517

14 NET ASSETS

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

15 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

The Companies evaluate the effectiveness of hedges 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.

As the Companies applied hedge accounting to all derivatives at March 31, 2007 and 2006, market value information is not disclosed.

16 LEASE INFORMATION

Lessee:

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

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment losses and net book value at March 31, 2007 and 2006 is as follows:

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
2007:				
Buildings and structures	**¥ 1,542**	**¥ 845**	**¥—**	**¥ 697**
Machinery and equipment	**8,967**	**4,256**	**58**	**4,653**
Others	**251**	**166**	**—**	**85**
	¥10,760	**¥5,267**	**¥58**	**¥5,435**

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

	Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
2007:				
Buildings and structures	**$13,068**	**$ 7,161**	**$ —**	**$ 5,907**
Machinery and equipment	**75,992**	**36,068**	**492**	**39,432**
Others	**2,127**	**1,407**	**—**	**720**
	$91,187	**$44,636**	**$492**	**$46,059**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
Finance leases	**2007**	2006	**2007**
Due within one year	**¥2,384**	¥2,019	**$20,203**
Due after one year	**3,091**	3,115	**26,195**
	¥5,475	¥5,134	**$46,398**
Accumulated impairment loss on leases	**¥ 58**	¥ —	**$ 492**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2007**	2006	**2007**
Due within one year	**¥ 948**	¥1,216	**$ 8,034**
Due after one year	**2,020**	1,085	**17,119**
	¥2,968	¥2,301	**$25,153**

(3) Lease payments, assumed depreciation charges, assumed interest charges and impairment losses for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Lease payments	¥3,535	¥3,281	¥3,790	$29,958
Assumed depreciation charges	2,986	2,850	3,381	25,305
Assumed interest charges	383	206	277	3,246
Impairment losses	58	—	—	492

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

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

Lessor:

The Companies lease certain equipment under non-capitalized finance leases, as lessees. And the Companies lease those equipment under non-capitalized finance leases, as lessors. Future minimum lease receipts under these non-capitalized finance leases at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
Non-capitalized finance leases	2007	2006	2007
Due within one year	¥ 54	¥106	$ 458
Due after one year	156	232	1,322
	¥210	¥338	$1,780

17 SEGMENT INFORMATION

Information by segment for the years ended March 31, 2007, 2006 and 2005 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
2007:								
Sales								
External sales	¥543,255	¥63,962	¥35,613	¥ 95,183	¥ 4,673	¥742,686	¥ —	¥742,686
Intersegment sales	12,326	2,306	3,859	4,850	5,056	28,397	(28,397)	—
Total sales	555,581	66,268	39,472	100,033	9,729	771,083	(28,397)	742,686
Operating expenses	558,969	65,291	40,479	101,918	8,591	775,248	(26,905)	748,343
Operating income (loss)	¥ (3,388)	¥ 977	¥ (1,007)	¥ (1,885)	¥ 1,138	¥ (4,165)	¥ (1,492)	¥ (5,657)
Identifiable assets	¥240,293	¥31,271	¥33,841	¥ 82,272	¥25,708	¥413,385	¥ 7,323	¥420,708
Depreciation and amortization	17,316	985	3,525	3,227	804	25,857	781	26,638
Impairment of fixed assets	1,805	—	—	—	—	1,805	—	1,805
Capital expenditures	15,433	1,130	4,895	2,215	831	24,504	682	25,186

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

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

	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
2007:								
Sales								
External sales	**$4,603,856**	**$542,051**	**$301,805**	**$806,636**	**$ 39,601**	**$6,293,949**	**$ —**	**$6,293,949**
Intersegment sales	**104,458**	**19,542**	**32,703**	**41,101**	**42,849**	**240,653**	**(240,653)**	**—**
Total sales	**4,708,314**	**561,593**	**334,508**	**847,737**	**82,450**	**6,534,602**	**(240,653)**	**6,293,949**
Operating expenses	**4,737,026**	**553,313**	**343,042**	**863,712**	**72,806**	**6,569,899**	**(228,009)**	**6,341,890**
Operating income (loss)	**$ (28,712)**	**$ 8,280**	**$ (8,534)**	**$ (15,975)**	**$ 9,644**	**$ (35,297)**	**$ (12,644)**	**$ (47,941)**
Identifiable assets	**$2,036,381**	**$265,008**	**$286,788**	**$697,220**	**$217,866**	**$3,503,263**	**$ 62,060**	**$3,565,323**
Depreciation and amortization	**146,746**	**8,347**	**29,873**	**27,347**	**6,814**	**219,127**	**6,619**	**225,746**
Impairment of fixed assets	**15,297**	**—**	**—**	**—**	**—**	**15,297**	**—**	**15,297**
Capital expenditures	**130,788**	**9,576**	**41,483**	**18,771**	**7,043**	**207,661**	**5,780**	**213,441**

Corporate assets as of March 31, 2007, 2006 and 2005 were ¥44,630 million ($378,220 thousand), ¥53,918 million and ¥54,919 million, respectively, and were mainly comprised of the Company's cash and cash equivalents, investment securities and general corporate assets.

(2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2007:							
Sales							
External sales	**¥261,415**	**¥178,387**	**¥201,505**	**¥101,379**	**¥ 742,686**	**¥ —**	**¥742,686**
Intersegment sales	**177,017**	**1,153**	**1,723**	**147,355**	**327,248**	**(327,248)**	**—**
Total sales	**438,432**	**179,540**	**203,228**	**248,734**	**1,069,934**	**(327,248)**	**742,686**
Operating expenses	**438,105**	**183,451**	**204,641**	**249,298**	**1,075,495**	**(327,152)**	**748,343**
Operating income (loss)	**¥ 327**	**¥ (3,911)**	**¥ (1,413)**	**¥ (564)**	**¥ (5,561)**	**¥ (96)**	**¥ (5,657)**
Identifiable assets	**¥267,235**	**¥ 61,973**	**¥ 79,978**	**¥100,629**	**¥ 509,815**	**¥ (89,107)**	**¥420,708**

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

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

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2007:							
Sales							
External sales	**$2,215,382**	**$1,511,754**	**$1,707,669**	**$ 859,144**	**$6,293,949**	**$ —**	**$6,293,949**
Intersegment sales	**1,500,144**	**9,771**	**14,602**	**1,248,771**	**2,773,288**	**(2,773,288)**	**—**
Total sales	**3,715,526**	**1,521,525**	**1,722,271**	**2,107,915**	**9,067,237**	**(2,773,288)**	**6,293,949**
Operating expenses	**3,712,754**	**1,554,669**	**1,734,246**	**2,112,695**	**9,114,364**	**(2,772,474)**	**6,341,890**
Operating income (loss)	**$ 2,772**	**$ (33,144)**	**$ (11,975)**	**$ (4,780)**	**$ (47,127)**	**$ (814)**	**$ (47,941)**
Identifiable assets	**$2,264,703**	**$ 525,195**	**$ 677,780**	**$ 852,788**	**$4,320,466**	**$ (755,143)**	**$3,565,323**

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

	Millions of yen				
	Americas	Europe	Asia	Other areas	Total
2007:					
Overseas sales	**¥183,512**	**¥205,411**	**¥117,241**	**¥6,943**	**¥513,107**
Consolidated sales					**¥742,686**
Ratio of overseas sales to consolidated sales	**24.7%**	**27.7%**	**15.8%**	**0.9%**	**69.1%**
2006:					
Overseas sales	¥218,603	¥206,870	¥113,482	¥8,829	¥547,784
Consolidated sales					¥806,900
Ratio of overseas sales to consolidated sales	27.1%	25.6%	14.1%	1.1%	67.9%
2005:					
Overseas sales	¥204,650	¥235,411	¥119,578	¥7,926	¥567,565
Consolidated sales					¥840,591
Ratio of overseas sales to consolidated sales	24.4%	28.0%	14.2%	0.9%	67.5%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other areas	Total
2007:					
Overseas sales	**$1,555,186**	**$1,740,771**	**$993,568**	**$58,839**	**$4,348,364**
Consolidated sales					**$6,293,949**
Ratio of overseas sales to consolidated sales	**24.7%**	**27.7%**	**15.8%**	**0.9%**	**69.1%**

18 IMPAIRMENT OF FIXED ASSETS

During the fiscal year ended March 31, 2007, the Companies recognized loss on impairment totaling ¥1,805 million ($15,297 thousand) on the following fixed assets.

Location	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Yokohama (Kanagawa)	Idle properties	Die and molds, machinery and equipment and others	¥519	$4,398
Yokosuka (Kanagawa)	Idle properties	Tools, furniture and fixtures, die and molds and others	231	1,958
San Diego, California (USA)	Assets used for business	Die and molds, machinery and equipment and others	855	7,246
Tijuana (Mexico)	Assets used for business	Buildings, land and others	200	1,695

(Grouping method)
For assets used for business, grouping is based on the business segmentation, while considering the management control unit, and for idle properties, each property is considered to constitute a group.

Headquarters were classified as corporate assets because they do not generate cash flows independent of other assets or group of assets.

In addition, asset grouping is principally based on the accounting unit for the consolidated companies.

(History of recognition of impairment loss)
Idle properties were recognized as loss on impairment due to reduction of the DVD business. Assets used for business were recognized as loss on impairment owing to decrease in estimated future cash flows caused by reducing of working levels.

(Calculation method of carrying amounts)
For idle properties, with its unrecoverability, entire carrying amounts were reduced and the amounts were recorded as loss on impairment. And for assets used for business, difference between their carrying amounts and appraisal value prepared by real estate appraisers were recorded as loss on impairment.

19 SUBSEQUENT EVENTS

(1) Capital reduction of important consolidated subsidiaries

A resolution of capital reduction of JVC Entertainment, Inc., a subsidiary in the United States, was approved at the Board of Directors Meeting on March 27, 2007, and implemented on April 10, 2007.

(Reason for capital reduction)

JVC Entertainment, Inc. was established as an investment corporation of JVC in accordance with the Company's move into the motion picture business.

Nevertheless, JVC Entertainment, Inc. has been in a dormant state after JVC's withdrawal from the motion picture business, therefore its capital was reduced to the minimum required level.

(Amount of capital reduction)

US$100,000 thousand

(Impact of the above event on consolidated profit/loss)

Extraordinary losses of ¥2.5 billion were incurred due to the difference of exchange rates between the time of investment and capital reduction.

(2) Merger of important subsidiaries

A resolution of a merger of US JVC CORP. with JVC Americas Corp. was approved at the Board of Directors Meeting on March 27, 2007, and implemented in April. The details of this business combination involved in this merger are as follows:

- Names of combined parties and description of business
  US JVC CORP. (a United States regional company) and JVC Americas Corp. (a regional company of the Americas)
- Legal structure of the business combination
  Transaction under common control
- Name of company after business combination
  JVC Americas Corp.
- Summary of transactions
  The administrative functions in US JVC CORP. were transferred to JVC Americas Corp.
- Date of merger
  April 15, 2007
- Summary of accounting procedure
  An accounting policy for a commonly-controlled business combination involving entities under common control was adopted for this merger, based on the accounting standards, "Opinion Concerning Establishment of Accounting Standard for Business Combinations" issued by the Business Accounting Deliberation Council on October 31, 2003 and the implementation guidance for the accounting standard for business combinations and separations (the Financial Accounting Standard Implementation Guidance No. 10 issued by the Accounting Standards Board of Japan on December 22, 2006).

(3) Change of segmentation

From the fiscal year ending March 31, 2008, the Company changed its business segments as follows;

"Consumer electronics business", "Professional electronics business", "Components & Devices business", "Entertainment business" and "Other business".

Until the year ended March 31, 2007, the Company reported its business segment information as "Consumer electronics business", "Professional electronics business", "Components & Devices business", "Software & Media business" and "Other business".

In connection with the change, the product category of the recording media is transferred from the "Software & Media business" to the "Other business".

Had the new business segmentation been adopted, the business segment information for the year ended March 31, 2007 would have been as follows:

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment business	Other business	Total	Eliminations and unallocation	Consolidated total
2007:								
Sales								
External sales	¥543,255	¥63,962	¥35,613	¥82,331	¥17,525	¥742,686	¥ —	¥742,686
Intersegment sales	12,326	2,306	3,859	4,210	5,659	28,360	(28,360)	—
Total sales	555,581	66,268	39,472	86,541	23,184	771,046	(28,360)	742,686
Operating expenses	558,969	65,291	40,479	86,513	23,963	775,215	(26,872)	748,343
Operating income (loss)	¥ (3,388)	¥ 977	¥ (1,007)	¥ 28	¥ (779)	¥ (4,169)	¥ (1,488)	¥ (5,657)
Identifiable assets	¥240,293	¥31,271	¥33,841	¥68,649	¥39,287	¥413,341	¥ 7,367	¥420,708
Depreciation and amortization	17,316	985	3,525	2,382	1,649	25,857	781	26,638
Impairment of fixed assets	1,805	—	—	—	—	1,805	—	1,805
Capital expenditures	15,433	1,130	4,895	1,276	1,770	24,504	682	25,186

	Thousands of U.S. dollars							
	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment business	Other business	Total	Eliminations and unallocation	Consolidated total
2007:								
Sales								
External sales	$4,603,856	$542,051	$301,805	$697,720	$148,517	$6,293,949	$ —	$6,293,949
Intersegment sales	104,458	19,542	32,703	35,678	47,958	240,339	(240,339)	—
Total sales	4,708,314	561,593	334,508	733,398	196,475	6,534,288	(240,339)	6,293,949
Operating expenses	4,737,026	553,313	343,042	733,161	203,076	6,569,618	(227,728)	6,341,890
Operating income (loss)	$ (28,712)	$ 8,280	$ (8,534)	$ 237	$ (6,601)	$ (35,330)	$ (12,611)	$ (47,941)
Identifiable assets	$2,036,381	$265,008	$286,788	$581,771	$332,942	$3,502,890	$ 62,433	$3,565,323
Depreciation and amortization	146,746	8,347	29,873	20,186	13,975	219,127	6,619	225,746
Impairment of fixed assets	15,297	—	—	—	—	15,297	—	15,297
Capital expenditures	130,788	9,576	41,483	10,814	15,000	207,661	5,780	213,441

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

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Victor Company of Japan, Limited and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following points described in the Note 19 to the consolidated financial statements, which states that:

— the Company decided a resolution of capital reduction of JVC Entertainment Inc., a subsidiary in the United States, and implemented on April 10, 2007.

— the Company changed its business segments, from the fiscal year ending March 31, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan

June 27, 2007

Corporate Data

JVC

Victor Company of Japan, Limited

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Investor Relations, Corporate Planning Group,
Corporate Planning Headquarters
Telephone: +81-45-450-1445
Facsimile: +81-45-450-1425

Date of Establishment:

September 13, 1927

Number of Employees:

26,851

Paid-in Capital:

¥34,115 million

Number of Shares of Common Stock Issued:

254,230,058 shares

Number of Stockholders:

15,500

Stock Exchange Listings:

Tokyo Stock Exchange
Osaka Securities Exchange

Transfer Agent and Registrar:

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

Annual Meeting of Stockholders:

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

Auditor:

KPMG AZSA & Co.

Principal Consolidated Subsidiaries:

Domestic

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

Overseas

JVC Americas Corp.
JVC America, Inc.
JVC Industrial America, Inc.
JVC Canada Inc.
JVC Europe Ltd.
JVC (U.K.) Ltd.
JVC Manufacturing U.K. Ltd.
JVC France S.A.S.
JVC Italia S.p.A.
JVC España, S.A.
JVC Deutschland GmbH
JVC Benelux B.V.
JVC International (Europe) GmbH
JVC Asia Pte. Ltd.
JVC Electronics Singapore Pte. Ltd.
JVC Manufacturing 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 (China) Investment Co., Ltd.
JVC Beijing Electronic Industries Co., Ltd.

Note: JVC's fiscal 2007 consolidated financial statements comprise the accounts of 15 domestic and 56 overseas companies, including principal subsidiaries.

(As of March 2007)

Victor Company of Japan, Limited Annual Report 2007

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