JVC KENWOOD HOLDINGS

Annual Report 2008

Financial Section for JVC

JVC KENWOOD Holdings, Inc

JVC The Perfect Experience

CONTENTS

Corporate Data (As of March 31, 2008)

Corporate Name	Victor Company of Japan, Limited
Date of Incorporation	September 13, 1927
Capital	¥51,615 million
Location	•Head Office 3-12, Moriya-cho, Kanagawa-ku, Yokohama, 221-8528, Japan •Show room (Nipper's GINZA) Victor Building 1F, 1-7-1, Shinbashi, Minato-ku, Tokyo, 105-0004, Japan Phone: +81-3-3289-2855
URL	http://www.victor.co.jp/english/worldwide/

Management Team (As of 27 June, 2008)

Directors and Auditors

President and Representative Director	Kunihiko Sato
Managing Director, Member of the Board	Ryuhei Nakazawa (Promotion)
Managing Director, Member of the Board	Hiroyuki Takekura
Managing Director, Member of the Board	Keiichiro Doi
Managing Director, Member of the Board	Hidetoshi Yoshida
Managing Director, Member of the Board	Masaaki Takeda
Director, Member of the Board	Hiromi Minakawa
Director, Member of the Board	Naomasa Mizuno
Director, Member of the Board	Yoshikazu Yamamoto
Director, Member of the Board	Masahiko Tsuruta
Director, Member of the Board	Manabu Saito
Director, Member of the Board	Motoyoshi Adachi
Director, Member of the Board	Nobuo Hori
Statutory Auditor	Shigeharu Tsuchitani
Statutory Auditor	Kazuo Suetake
Statutory Auditor (External)	Makoto Matsuo
Statutory Auditor (External)	Yoshiaki Nakagawa
Statutory Auditor (External)	Noriyuki Shouyama

*Refer to the Annual Report 2008 Company Profile Section for information on the management structure prior to October 1, 2008.

Financial Highlights

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

	2004/3	2005/3	2006/3	2007/3	**2008/3**
Net sales (Millions of yen)	921,978	840,591	806,900	742,686	**658,449**
Operating income (loss) (Millions of yen)	25,151	10,370	(6,891)	(5,657)	**3,262**
Ordinary income (loss) (Millions of yen)	20,185	7,282	(15,039)	(11,695)	**(7,952)**
Net income (loss) (Millions of yen)	15,609	(1,858)	(30,608)	(7,892)	**(47,522)**
Net income (loss) per share (Yen)	61	(8)	(121)	(31)	**(147)**
Diluted net income (loss) per share (Yen)	58	—	—	—	**—**
Total assets (Millions of yen)	507,117	466,549	446,812	420,708	**315,004**
Interest-bearing debt (Millions of yen)	132,497	120,831	123,676	120,481	**69,646**
Net debt (Millions of yen)	31,150	58,147	63,549	50,459	**26,211**
Net assets (Millions of yen)	159,326	158,236	136,289	133,786	**114,127**
Stockholder's equity ratio (%)	31.4	33.9	30.5	31.1	**35.5**
Return on equity (%)	10.2	(1.2)	(20.8)	(5.9)	**(39.2)**
Stockholder's equity ratio at market value (%)	52.7	45.0	38.9	37.1	**27.0**
Net assets per share (Yen)	626.79	622.55	536.61	515.22	**309.03**
Retained earnings (Millions of yen)	79,622	77,145	45,166	37,274	**(10,249)**
Cash flow to interest-bearing debt ratio (year)	3.3	—	5.3	10.4	**—**
Interest coverage ratio	14.0	—	7.8	2.9	**—**
Cash flows from operating activities (Millions of yen)	40,727	(6,233)	23,590	12,093	**(9,223)**
Cash flows from investing activities (Millions of yen)	(15,837)	(13,862)	(25,320)	405	**3,880**
Cash flows from financing activities (Millions of yen)	(9,376)	(15,614)	(2,811)	(4,949)	**(18,370)**
Number of employees	35,580	34,493	30,481	26,851	**19,044**

Disclaimer

Forward-looking statements and charts contained in our documents are based on currently available information and therefore actual results may significantly differ from projected figures depending on various factors. Please do not make any material judgments based on the projections contained herein alone. Our core businesses deals with the rapidly changing electronics sector and factors including technology, demand, price, competitive environment, changes in economic environment, exchange rate fluctuations and many other factors may adversely impact to management results or the financial condition of the company. For details on risks and uncertainties related to our results, financial conditions and other matters deemed important for investment decisions, please refer to "Business and Other Risks" contained in the "Consolidated Annual Summary Report" of Kenwood.

10-Year Summary

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

	Millions of yen				
	2008	2007	2006	2005	2004
For the year:					
Net sales	**¥658,449**	¥742,686	¥806,900	¥840,591	¥921,978
Overseas	**462,304**	513,107	547,784	567,565	619,962
Domestic	**196,145**	229,579	259,116	273,026	302,016
Cost of sales	**436,525**	502,923	551,261	564,977	629,125
Selling, general and administrative expenses	**218,662**	245,420	262,530	265,244	267,702
Operating income (loss)	**3,262**	(5,657)	(6,891)	10,370	25,151
Income (Loss) before income taxes and minority interests	**(32,082)**	2,564	(22,101)	4,728	14,106
Income taxes	**15,478**	10,739	9,129	6,200	(1,926)
Net income (loss)	**(47,522)**	(7,892)	(30,608)	(1,858)	15,609
Depreciation and amortization	**25,859**	26,638	26,848	23,422	22,735
Capital expenditures	**21,907**	25,186	29,490	28,959	25,900
R&D expenditures	**32,967**	36,226	38,724	39,336	40,574

	Millions of yen				
At year-end:					
Working capital	**¥69,431**	¥54,518	¥69,927	¥87,825	¥147,225
Stockholder's equity	**125,854**	138,386	136,289	158,236	159,326
Net assets	**114,127**	133,786	—	—	—
Total assets	**315,004**	420,708	446,812	466,549	507,117

	Yen				
Per share:					
Net income (loss) (Note 2)	**¥(147.1)**	¥(31.1)	¥(120.5)	¥(7.7)	¥61.1
Diluted net income(loss) (Note 3)	—	—	—	—	57.9
Cash dividends (Note 4)	—	—	—	5.0	5.0

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥100 to US$1, the approximate rate prevailing on March 31, 2008.

2. Net income (loss) per share of common stock for the years ended March 31 from 1999 to 2002 have not been recalculated using the new accounting standard, which is effective April 1, 2002.

3. The Company did not have securities that could potentially dilute net income per common share in the years ended March 31, 2006, 2007 and 2008, and diluted net income per share is not disclosed due to a net loss in the year ended March 31, 2005.

4. Cash dividends represent amounts applicable to the respective years.

2003	2002	2001	2000	1999	2008
Millions of yen					Thousands of U.S.dollars (Note 1)
¥967,640	¥954,172	¥934,350	¥870,235	¥946,617	**$6,584,490**
638,092	626,209	567,977	545,316	566,551	**4,623,040**
329,548	327,963	366,373	324,919	380,066	**1,961,450**
668,821	684,458	641,209	600,506	642,140	**4,365,250**
276,520	281,808	287,449	277,748	305,698	**2,186,620**
22,299	(12,094)	5,692	(8,019)	(1,221)	**32,620**
10,064	(38,446)	9,444	6,088	(3,671)	**(320,820)**
3,568	5,985	7,238	11,295	4,466	**154,780**
6,336	(44,572)	2,498	(5,341)	(8,315)	**(475,220)**
25,250	28,000	28,085	28,590	30,513	**258,590**
21,036	21,175	31,127	24,336	28,815	**219,070**
40,973	40,981	44,094	43,351	41,660	**329,670**

Millions of yen					Thousands of U.S. dollars (Note 1)
¥149,172	¥118,948	¥150,067	¥127,709	¥142,628	**$694,310**
146,410	146,246	180,515	199,164	232,162	**1,258,540**
—	—	—	—	—	**1,141,270**
479,750	513,365	586,628	540,359	588,001	**3,150,040**

Yen					U.S .dollars (Note 1)
¥24.9	¥(175.3)	¥9.8	¥(21.0)	¥(32.7)	**$(1.47)**
23.5	—	—	—	—	—
—	—	3.0	—	5.0	—

Management Policies

(1) Basic management policies of the Company

As suggested by its basic management slogan, "Contribute to the culture and serve the society", JVC (hereinafter referred to as the "Company") manages its businesses based on the philosophies of enriching the lives of people throughout society and helping enhance their culture. With delivery of "'The Perfect Experience' – truly moving experiences and satisfaction" as its brand statement, the Company aims to propose new forms of communication based on its high-quality technologies and products, and to deliver music and images that touch people's hearts.

(2) Medium- and long-term management strategies and associated challenges

The Company stepped up initiatives to strengthen itself through restructuring operations and reforming management practices based on Action Plan 2007, a reconstruction plan announced in July 2007. As a result of these efforts, the Company achieved operating income on a full-term basis in fiscal 2008. However, challenges remained, including a year-on-year net sales decline and an uphill battle in the LCD TV business.

In view of these results, the Company established a medium-term management plan for the period until fiscal 2011 in order to normalize its management at an early point and set itself on a path of growth.

The Company will enforce actions for finishing and continuing structural reforms and steps for promoting growth strategies as two pillars of this new medium-term plan.

With regard to structural reforms, the Company will drastically reform its LCD TV business, which is suffering from declining profits, through measures that include downsizing this business for the domestic consumer

NET SALES BY SEGMENT

Billions of yen

	Consumer electronics business	Entertainment business	Professional electronics business	Components & Devices business	Other business	Total
2008						
Sales	**¥469.5**	**¥71.1**	**¥65.2**	**¥36.5**	**¥16.1**	**¥658.4**
Percentage	**71.3%**	**10.8%**	**9.9%**	**5.5%**	**2.5%**	**100.0%**
Change	**(13.6)%**	**(13.6)%**	**1.9%**	**2.4%**	**(7.8)%**	**(11.3)%**
Domestic Sales	**¥83.3**	**¥57.9**	**¥36.1**	**¥3.4**	**¥15.4**	**¥196.1**
Change	**(16.9)%**	**(16.8)%**	**(8.8)%**	**16.5%**	**(10.7)%**	**(14.6)%**
Overseas Sales	**¥386.2**	**¥13.2**	**¥29.1**	**¥33.1**	**¥0.7**	**¥462.3**
Change	**(12.8)%**	**3.6%**	**19.3%**	**1.1%**	**211.0%**	**(9.9)%**
2007						
Sales	¥543.3	¥82.3	¥64.0	¥35.6	¥17.5	¥742.7
Percentage	73.2%	11.0%	8.6%	4.8%	2.4%	100.0%
Major Products	LCD TVs, projection TVs, CRT TVs, projectors, camcorders, VCRs, DVD players, DVD recorders, audio systems, and car AV systems	Audio and visual software including CDs and DVDs	Professional surveillance equipment, professional audio equipment, professional video equipment, and professional projectors	Motors, optical pickups, high-density printed wiring boards (PWBs)	Recording media, Interior furniture, production facilities	

market and terminating LCD TV production at self-operated plants in Europe.

The Company will continue to strengthen its business portfolio and make all operations profitable. It will redouble its efforts to improve its financial structure, for instance by remedying inventories and reducing interest-bearing debts started in fiscal 2008, to realize a shift to a high-profit structure.

With respect to growth strategies, in fiscal 2009 the Company will bolster its overseas operations, concretize growth businesses, and make investments. The Company plans to reap the rewards of these initiatives and enable its next set of growth strategies by fiscal 2011.

Overview of Fiscal 2008

In fiscal 2008 ended March 31, 2008, consolidated net sales declined 11.3% from the previous year, to ¥658.4 billion. In Japan, sales fell 14.6%, to ¥196.1 billion, attributable to a decline in sales in the Consumer and Professional Electronics segments and stagnation in the Entertainment segment. Overseas sales dropped 9.9%, to ¥462.3 billion, owing to overall weakness in the Consumer Electronics segment, despite positive factors such as growth in the Professional Electronics segment mainly in the United States and firm demand for optical pickups for automobiles in the Components & Devices segment.

The cost of sales fell 13.2%, to ¥436.5 billion, and the gross profit margin improved from 32.3% in the previous fiscal year, to 33.7%. Selling, general and administrative (SG&A) expenses shrank 10.9%, to ¥218.7 billion.

The factors depressing earnings were declines in the selling prices in each segment associated with shrinking sales and intensified competition, particularly the Consumer Electronics segment in Japan and abroad. However, due to positive factors such as the emergence of the significant effect of fixed cost reductions through structural reforms undertaken on schedule along with the Action Plan 2007 we announced in July 2007, the promotion of sales initiatives focusing on earnings, and a decline in cost of sales as a result of a reduction in procurement costs, the Company recorded operating income of ¥3.3 billion, moving into the black for the first time in three years, for a ¥8.9 billion improvement from a year earlier.

As for other income (expenses), the Company booked ¥15 billion in employment restructuring charges, ¥4.6 billion in interest expenses, and ¥8.7 billion in loss on impairment of fixed assets. Loss before income taxes and minority interests was ¥32.1 billion, which represents ¥34.6 billion decline from the previous year.

Reflecting corporate taxes of ¥15.5 billion resulting from a reevaluation of deferred tax assets among other factors, the Company recorded a net loss of ¥47.5 billion for the fiscal year under review, compared with a net loss of ¥7.9 billion in fiscal 2007.

In view of this weak performance in fiscal 2008, the management regrets to report that it has decided to temporarily suspend the distribution of cash dividends.

Segment Information

Consumer Electronics

Segment sales of Consumer Electronics fell 13.6%, to ¥469.5 billion, and the segment posted an operating income of ¥4.2 billion, which is a ¥7.6 billion improvement from an operating loss of ¥3.4 billion in the previous year. Domestic sales declined from the previous year, reflecting the challenges that confronted the segment mainstay products, such as camcorders, LCD TVs and audio products as a result of the tougher market competition, in addition to lower sales of the DVD recorder lineup as they were whittled back. In the United States, while LCD TVs sales remained firm and sales of AV accessories such as headphones grew significantly, the shrinking market for CRT TVs and sagging sales of D-ILA rear projection TVs caused overall segment sales in the United States to contract compared with the prior-year level. In Europe, total segment sales were down compared with the level of the previous year, reflecting slower growth of camcorders and LCD TVs and the shrinkage of the CRT TV market. In Asia excluding Japan, total segment sales also fell as an increase in car electronics systems and LCD TVs did not fully counter slumping sales of CRT TVs.

However, the segment operating income was increased from the previous year, due to higher profitability from three products of camcorders, car electronics systems and AV accessories, despite the fall in overall segment sales.

Entertainment

Segment sales fell 13.6%, to ¥71.1 billion, but operating income increased ¥0.5 billion, to an operating income of ¥0.5 billion. Although the Company posted higher sales in the field of electronic distribution, as the industry as a whole moved toward the electronic distribution of music from software packages, segment sales declined, reflecting fewer large hits compared with the previous year, in addition to the shrinking market of package software.

Professional Electronics

Segment sales rose 1.9%, to ¥65.2 billion, but operating income increased ¥1.4 billion, to ¥2.4 billion. Overseas sales of D-ILA front projectors showed high growth in the United States and Europe, and sales of HDV camera recorders targeting professional users remained solid. However, sales in Japan declined with surveillance camera systems and commercial-use audio equipment having a tough time as a result of intensified sales campaigns in the electric equipment industry, despite growth in sales of commercial-use displays.

Components & Devices

Segment sales rose 2.4%, to ¥36.5 billion, however, the segment posted an operating loss of ¥2.0 billion, a ¥0.9 billion decline. Although the termination of the deflection yoke business held down sales, segment sales increased due to growth in optical pickups used in vehicles and the firm performance of hard disk drive motors.

Other

Other segment sales dropped 7.8%, to ¥16.1 billion.

Financial Position

Total assets as of March 31, 2008 were ¥315.0 billion, decreased by ¥105.7 billion, or 25.1%, compared with the balance as of the beginning of the year. Total current assets declined ¥83.0 billion, to ¥220.9 billion, mainly because cash and cash equivalents, inventories, notes and accounts receivable dropped. Property, plant and equipment slipped

¥30.8 billion, to ¥64.3 billion, mainly reflecting the sales of real estate, write-off of business assets and idle assets, and the transfer of some of the Components & Devices business, in addition to depreciation. Investments and advances decreased ¥3.8 billion, largely as a result of sales of investment securities.

Total liabilities declined 30.0%, or ¥86.0 billion, to ¥200.9 billion. Current liabilities decreased ¥97.9 billion, to ¥151.5 billion, primarily because of the repayment of bank loans and the current portion of long-term debt, as well as the redemption of corporate bonds due within one year. Total long-term liabilities increased ¥11.8 billion, to ¥49.4 billion, reflecting the repayment of the No.5 unsecured bond and the issuance of No.7, No.8 and No.9 unsecured bonds.

Net assets decreased 14.7%, or ¥19.7 billion, to ¥114.1 billion.

Cash Flows

Net cash used in operating activities amounted to ¥9.2 billion, compared with an inflow of ¥12.1 billion in the previous fiscal year, as a decrease in notes and accounts payable, and disbursement associated with structural reforms exceeded a decrease in inventories, notes and accounts receivable, and depreciation.

Net cash provided by investing activities came to ¥3.9 billion, compared with an inflow of ¥0.4 billion in the previous fiscal year, as proceeds mainly from sales of property, plant and equipment and marketable securities and business transfer exceeded purchase of property, plant and equipment such as production facilities.

Net cash used in financing activities totaled ¥18.4 billion, compared with an outflow of ¥4.9 billion in the previous fiscal year, as the repayment of loans and redemption of bonds exceeded an increase in borrowings and proceeds from the issuance of bonds and stocks. The Company issued new shares worth ¥35 billion to third parties in August 2007.

As a result, cash and cash equivalents at the end of fiscal 2008 came to ¥43.4 billion, down ¥26.6 billion from the beginning of the year.

Capital Expenditures/ Depreciation and Amortization

In fiscal 2008, capital expenditures decreased to ¥21.9 billion by 13.0% from the previous fiscal year. The Company's investment chiefly went to production facilities in Yokosuka Plant, production facilities for camcorders in Malaysian Plant and production facilities for car audio systems in Indonesian Plant.

Depreciation and amortization decreased 2.9%, to ¥25.9 billion.

R&D Expenditures

In fiscal 2008, R&D expenditures amounted to ¥33.0 billion, representing 9.0% decline from the previous fiscal year, and the ratio to net sales of 5.0%.

Personnel

The number of JVC employees on a consolidated basis at fiscal year-end totaled 19,044, a decrease of 7,807 employees compared with the previous fiscal year-end due to the employment restructuring and business transfer of the Motor and Circuit division.

Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents (Note 19)	**¥43,435**	¥70,023	**$434,350**
Notes and accounts receivable:			
Trade	**82,200**	103,003	**822,000**
Non-consolidated subsidiaries and affiliated companies	**204**	162	**2,040**
Allowance for doubtful accounts	**(2,940)**	(3,501)	**(29,400)**
Inventories (Note 5)	**78,468**	103,775	**784,680**
Deferred tax assets (Note 8)	**2,896**	13,067	**28,960**
Other current assets	**16,628**	17,318	**166,280**
Total current assets	**220,891**	303,847	**2,208,910**
Investments and advances:			
Investment securities (Note 6)	**3,403**	7,161	**34,030**
Other	**1,137**	1,161	**11,370**
Total investments and advances	**4,540**	8,322	**45,400**
Property, plant and equipment:			
Land	**22,587**	24,271	**225,870**
Buildings and structures	**84,051**	99,551	**840,510**
Machinery and equipment	**206,381**	255,527	**2,063,810**
Construction in progress	**3,335**	6,978	**33,350**
	316,354	386,327	**3,163,540**
Less accumulated depreciation	**(252,047)**	(291,257)	**(2,520,470)**
Net property, plant and equipment	**64,307**	95,070	**643,070**
Non current other assets:			
Deferred tax assets (Note 8)	**1,158**	2,003	**11,580**
Prepaid pension cost	**11,984**	—	**119,840**
Allowance for doubtful accounts	**(707)**	(743)	**(7,070)**
Other assets	**12,831**	12,209	**128,310**
Total other assets	**25,266**	13,469	**252,660**
Total assets	**¥315,004**	¥420,708	**$3,150,040**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Bank loans (Note 9)	**¥27,046**	¥79,040	**$270,460**
Current portion of long-term debt (Note 9)	**1,040**	14,747	**10,400**
Notes and accounts payable:			
Trade	**47,433**	67,151	**474,330**
Non-consolidated subsidiaries and affiliated companies	**1,477**	1,660	**14,770**
Accrued income taxes	**1,860**	2,881	**18,600**
Accrued expenses (Note 8)	**62,591**	68,984	**625,910**
Other current liabilities (Note 10)	**10,013**	14,867	**100,130**
Total current liabilities	**151,460**	249,330	**1,514,600**
Long-term liabilities:			
Long-term debt (Note 9)	**41,560**	26,695	**415,600**
Employees' severance and retirement benefits (Note 12)	**5,507**	7,684	**55,070**
Retirement benefits for directors and operating officers (Note 3)	**270**	―	**2,700**
Deferred tax liabilities (Note8)	**357**	1,530	**3,570**
Other long-term liabilities	**1,723**	1,683	**17,230**
Total long-term liabilities	**49,417**	37,592	**494,170**
Contingent liabilities (Note 13)			
Net assets (Note 14):			
Stockholder's equity :			
Common stock ;			
Authorized 800,000,000 shares			
Issued 361,923,058 shares	**51,616**	34,115	**516,160**
Capital surplus	**84,716**	67,216	**847,160**
Retained earnings	**(10,249)**	37,274	**(102,490)**
Treasury stock, at cost	**(229)**	(219)	**(2,290)**
Total stockholders' equity	**125,854**	138,386	**1,258,540**
Valuation and translation adjustments :			
Net unrealized holding gains on available-for-sale securities (Note 6)	**424**	2,655	**4,240**
Net unrealized gains on hedging derivatives	**90**	766	**900**
Foreign currency translation adjustments	**(14,622)**	(10,967)	**(146,220)**
Total valuation and translation adjustments	**(14,108)**	(7,546)	**(141,080)**
Minority interests	**2,381**	2,946	**23,810**
Total net assets	**114,127**	133,786	**1,141,270**
Total liabilities and net assets	**¥315,004**	¥420,708	**¥3,150,040**

See accompanying notes.

Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note1)
	2008	2007	2006	**2008**
Net sales	**¥658,449**	¥742,686	¥806,900	**$6,584,490**
Costs and expenses:				
Cost of sales	**436,525**	502,923	551,261	**4,365,250**
Selling, general and administrative expenses	**218,662**	245,420	262,530	**2,186,620**
	655,187	748,343	813,791	**6,551,870**
Operating income (loss)	**3,262**	(5,657)	(6,891)	**32,620**
Other income (expenses):				
Interest and dividend income	**1,830**	1,772	886	**18,300**
Equity in income (loss) of affiliated companies	**(148)**	–	–	**(1,480)**
Interest expense	**(4,634)**	(4,238)	(3,040)	**(46,340)**
Gain on sales of investment securities	**4,233**	3,620	2	**42,330**
Loss on liquidation of subsidiaries and affiliated companies	**(1,253)**	–	–	**(12,530)**
Loss on business transfer of Circuit division (Note 21)	**(2,118)**	–	–	**(21,180)**
Loss on foreign currency exchange in capital reduction of affiliated companies	**(2,598)**	–	–	**(25,980)**
Restructuring charges of affiliated companies	**(2,686)**	(1,708)	(2,466)	**(26,860)**
Loss from write-down of investment in securities	**(27)**	(273)	(300)	**(270)**
Special retirement payments	**(15,002)**	–	(6,544)	**(150,020)**
Loss on impairment of fixed assets (Note 18)	**(8,715)**	(1,805)	–	**(87,150)**
Gain and loss on sales and disposal of property, plant and equipment	**9,784**	16,501	2,463	**97,840**
Loss on disposal of inventories	**(3,613)**	(2,194)	–	**(36,130)**
Loss on foreign currency exchange	**(2,159)**	(702)	–	**(21,590)**
Other, net (Note 7)	**(8,238)**	(4,946)	(6,211)	**(82,380)**
	(35,344)	8,221	(15,210)	**(353,440)**
Income (loss) before income taxes and minority interests	**(32,082)**	2,564	(22,101)	**(320,820)**
Income taxes (Note 8):				
Current	**3,804**	4,451	2,863	**38,040**
Deferred	**11,674**	6,288	6,266	**116,740**
	15,478	10,739	9,129	**154,780**
Income (Loss) before minority interests	**(47,560)**	(8,175)	(31,230)	**(475,600)**
Minority interests	**38**	283	622	**380**
Net income (loss)	**¥(47,522)**	¥(7,892)	¥(30,608)	**$(475,220)**

	Yen			U.S. dollars (Note1)
Amounts per share of common stock :				
Net income (loss)	**¥(147.1)**	¥(31.1)	¥(120.5)	**$(1.47)**
Diluted net income	—	—	—	—
Cash dividends applicable to the year	—	—	—	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Number of shares of common stock (Thousands)	Millions of yen								
		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, 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**
Issuance of new shares	107,693	17,501	17,500	–	–	–	–	–	–	35,001
Net income (loss)		–	–	(47,522)	–	–	–	–	–	(47,522)
Treasury stock (net)		–	–	(1)	(10)	–	–	–	–	(11)
Decrease due to changes in fair market values of available-for-sale securities		–	–	–	–	(2,231)	–	–	–	(2,231)
Foreign currency translation adjustments		–	–	–	–	–	–	(3,655)	–	(3,655)
Other changes		–	–	–	–	–	(676)	–	(565)	(1,241)
Balance at March 31, 2008	361,923	**¥51,616**	**¥84,716**	**¥(10,249)**	**¥(229)**	**¥424**	**¥90**	**¥(14,622)**	**¥2,381**	**¥114,127**

	Thousands of U.S. dollars (Note1)								
	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, 2007	$341,150	$672,160	$372,740	$(2,190)	$26,550	$7,660	$(109,670)	$29,460	$1,337,860
Issuance of new shares	175,010	175,000	–	–	–	–	–	–	350,010
Net income (loss)	–	–	(475,220)	–	–	–	–	–	(475,220)
Treasury stock (net)	–	–	(10)	(100)	–	–	–	–	(110)
Decrease due to changes in fair market values of available-for-sale securities	–	–	–	–	(22,310)	–	–	–	(22,310)
Foreign currency translation adjustments	–	–	–	–	–	–	(36,550)	–	(36,550)
Other changes	–	–	–	–	–	(6,760)	–	(5,650)	(12,410)
Balance at March 31, 2008	**$516,160**	**$847,160**	**$(102,490)**	**$(2,290)**	**$4,240**	**$900**	**$(146,220)**	**$23,810**	**$1,141,270**

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note1)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income (Loss) before income taxes and minority interests	**¥(32,082)**	¥2,564	¥(22,101)	**$(320,820)**
Depreciation	**22,949**	23,340	24,044	**229,490**
Loss on impairment of fixed assets	**8,715**	1,805	—	**87,150**
Interest and dividend income	**(1,830)**	(1,772)	(886)	**(18,300)**
Interest expense	**4,634**	4,238	3,040	**46,340**
Special retirement payments	**15,002**	—	—	150,020
Gain on sales of investment securities	**(4,233)**	(3,620)	(2)	**(42,330)**
Gain on sales of property, plant and equipment	**(11,202)**	(17,225)	(3,193)	**(112,020)**
Decrease in notes and accounts receivable	**8,879**	5,058	10,466	**88,790**
Decrease in inventories	**16,923**	19,670	11,759	**169,230**
Increase (Decrease) in notes and accounts payable	**(8,759)**	(14,154)	5,041	**(87,590)**
Other	**(5,996)**	(780)	2,088	**(59,960)**
Sub-total	**13,000**	19,124	30,256	**130,000**
Interest and dividends received	**1,830**	1,772	886	**18,300**
Interest paid	**(4,512)**	(4,240)	(3,017)	**(45,120)**
Restructuring charges paid	**(14,863)**	—	—	**(148,630)**
Income taxes paid	**(4,678)**	(4,563)	(4,535)	**(46,780)**
Net cash provided by (used in) operating activities	**(9,223)**	12,093	23,590	**(92,230)**
Cash flows from investing activities:				
Purchases of property, plant and equipment	**(19,375)**	(21,460)	(27,525)	**(193,750)**
Proceeds from sales of property, plant and equipment	**14,900**	18,844	6,517	**149,000**
Proceeds from transfer of business	**10,293**	—	—	**102,930**
Purchases of investment securities	**(22)**	(24)	(52)	**(220)**
Proceeds from sales of investment securities	**4,437**	5,242	36	**44,370**
Payments for investments in subsidiaries	**(950)**	—	(278)	(9,500)
Proceeds from sales of investment in subsidiaries results in change in scope of consolidation	**293**	593	—	2,930
Payments for long-term prepaid expenses	**(3,242)**	—	—	**(32,420)**
Other	**(2,454)**	(2,790)	(4,018)	**(24,540)**
Net cash provided by (used in) investing activities	**3,880**	405	(25,320)	**38,800**
Cash flows from financing activities:				
Proceeds from issuance of new shares	**34,813**	—	—	**348,130**
Proceeds from long-term loans	—	13,500	30,000	—
Repayments of long-term loans	**(11,364)**	(32,443)	(20,133)	**(113,640)**
Proceeds from issuance of bonds	**22,318**	19,902	—	**223,180**
Redemption of bonds	**(10,480)**	(20,000)	(36,120)	**(104,800)**
Increase (decrease) in short-term bank loans, net	**(49,636)**	11,311	25,995	**(496,360)**
Cash dividends paid	—	—	(1,270)	—
Proceeds (payments) from the stock lending	**(2,860)**	3,617	—	**(28,600)**
Other	**(1,161)**	(836)	(1,283)	**(11,610)**
Net cash provided by (used in) financing activities	**(18,370)**	(4,949)	(2,811)	**(183,700)**
Effect of exchange rate changes on cash and cash equivalents	**(2,875)**	2,075	1,983	**(28,750)**
Net increase (decrease) in cash and cash equivalents	**(26,588)**	9,624	(2,558)	**(265,880)**
Cash and cash equivalents at beginning of the year	**70,023**	60,127	62,685	**700,230**
Effect of changes in the number of consolidated subsidiaries and companies accounted for by the equity method	—	272	—	—
Cash and cash equivalents at end of the year (Note 19)	**¥43,435**	¥70,023	¥60,127	**$434,350**

See accompanying notes.

Notes to Consolidated Financial Statements

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

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 Financial Instruments 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 Financial Instruments 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 translations 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, 2008, which was ¥100 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 adjustment” in net assets.

Cash and cash equivalents

In preparing the consolidated statements of cash flows for the years ended March 31, 2008, 2007 and 2006, 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 its consolidated subsidiaries (“the Companies”) 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 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.

Deferred share issue expenses
Share issue expenses are amortized over 3 years on the straight-line basis.

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
Current and future income tax consequences 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.

Retirement benefits for directors and operating officers

The estimated amounts based on the Company's prescribed calculation are recorded to reserve for retirement benefits for directors and operating officers.

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, 2007 and 2008, and diluted net income per share is not disclosed because there was a net losses 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).

Business combination and business separation

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the 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).

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 adoption of the New Accounting Standards had no impact on the consolidated statements of operations for the years ended March 31, 2006, 2007 and 2008.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Companies 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 and 2008 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.

3. CHANGE IN ACCOUNTING METHOD

Retirement benefits for directors and operating officers

Retirement benefits for directors and operating officers were previously charged to income when paid. Effective for the year ended March 31, 2008, due to the application of "Auditing Treatment relating to Reserve defined under the Special Tax Measurement Law, Reserve defined under the Special Law and Reserve for Director and Corporate Auditor Retirement Benefits" (the Japanese institute of Certified Public Accountants' Auditing and Assurance Practice Committee Report No. 42, April 13, 2007), an amount was accrued to the reserve for retirement benefits for directors and operating officers at the end of the period, based on the Company's prescribed calculation methods. Provision for the reserve amounting to ¥457 million was incurred for the year ended March 31, 2008. Of this total, ¥92 million for current year is included in selling, general and administrative expenses, while ¥365 million for prior period is included in "Other, net".

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

The Company's status changed from a consolidated subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita") to an equity-method associated company of Matsushita after the issuance of new stock through third party allotments on August 10, 2007. At March 31, 2008, Matsushita held 133,227 thousand shares of common stock of the Company, 36.81% of the total outstanding shares.

Transactions between the Company and Matsushita for the years ended March 31, 2008, 2007 and 2006, and the account balances between the two companies at March 31, 2008 and 2007 are not material.

5. INVENTORIES

Inventories as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished goods	**¥60,611**	¥83,156	**$606,110**
Work in process	**4,578**	6,606	**45,780**
Raw materials and supplies	**13,279**	14,013	**132,790**
	¥78,468	¥103,775	**$784,680**

6. INVESTMENT SECURITIES

The following tables summarize acquisition costs and book values of securities with available fair values as of March 31, 2008 and 2007:

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

	Millions of yen			Millions of yen		
	2008			**2007**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with available fair values exceeding acquisition costs:						
Equity securities	**¥1,069**	**¥1,820**	**¥751**	¥1,001	¥5,485	¥4,484
Securities with available fair values not exceeding acquisition costs:						
Equity securities	**146**	**110**	**(36)**	398	375	(23)
Total	**¥1,215**	**¥1,930**	**¥715**	¥1,399	¥5,860	¥4,461

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
2008			
Securities with available fair values exceeding acquisition costs:			
Equity securities	**$10,690**	**$18,200**	**$7,510**
Securities with available fair values not exceeding acquisition costs:			
Equity securities	**1,460**	**1,100**	**(360)**
Total	**$12,150**	**$19,300**	**$7,150**

The following tables summarize book values as of March 31, 2008 and 2007 of securities with no available fair values.

(2) Securities with no available fair values

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
	Book value	Book value	Book value
1. Available-for sale securities			
Unlisted equity securities	**¥855**	¥947	**$8,550**
Unlisted foreign debt securities	**7**	7	**70**
2. Subsidiaries and affiliated companies	**611**	347	**6,110**
Total	**¥1,473**	¥1,301	**$14,730**

(3) Available-for-sale securities sold in each of the years ended March 31, 2008, 2007 and 2006 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Sales	**¥4,437**	¥5,242	¥36	**$44,370**
Gains	**4,233**	3,620	2	**42,330**
Losses	**8**	12	0	**80**

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 theree-month 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 rate of approximately 40.6% for the years ended March 31, 2008, 2007 and 2006. 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 year ended March 31, 2007.

Information for the years ended March 31, 2008 and 2006 are not prepared as the Company incurred loss before income taxes and minority interests.

	2007
Statutory tax rate :	40.6 %
Lower tax rates of overseas subsidiaries	39.5 %
Permanent nondeductible differences	25.1 %
Effect of changes in valuation allowance for deferred tax assets	252.5 %
Foreign tax credit	46.0 %
Permanent differences not recognized for tax purposes	(7.2) %
Per capita portion of inhabitants' taxes	5.8 %
Other	16.5 %
Effective tax rate	418.8 %

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Loss on devaluation of inventory	**¥4,227**	¥5,149	**$42,270**
Accrued expenses not deductible for tax purposes	**7,037**	7,058	**70,370**
Depreciation	**8,579**	9,774	**85,790**
Retirement and severance benefits	**539**	1,736	**5,390**
Tax loss carryforwards	**36,252**	29,107	**362,520**
Loss on devaluation of investment securities	**607**	1,195	**6,070**
Other	**5,545**	5,810	**55,450**
Total gross deferred tax assets	**62,786**	59,829	**627,860**
Valuation allowance	**(56,043)**	(43,617)	**(560,430)**
Net deferred tax assets	**6,743**	16,212	**67,430**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(261)**	(1,812)	**(2,610)**
Prepaid pension costs	**(2,499)**	-	**(24,990)**
Other	**(492)**	(870)	**(4,920)**
Total gross deferred tax liabilities	**(3,252)**	(2,682)	**(32,520)**
Net deferred tax assets	**¥3,491**	¥13,530	**$34,910**

Net deferred taxes as of March 31, 2008 and 2007 are recorded in the consolidated balance sheets as follows:

		Millions of yen		Thousands of U.S. dollars
		2008	2007	**2008**
Current assets -	Deferred tax assets	**¥2,896**	¥13,067	**$28,960**
Other assets -	Deferred tax assets	**1,158**	2,003	**11,580**
Current liabilities -	Accrued expenses	**206**	10	**2,060**
Long-term liabilities -	Deferred tax liabilities	**357**	1,530	**3,570**
Net deferred tax assets		**¥3,491**	¥13,530	**$34,910**

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, 2008 and 2007 range from 2.00% to 15.55% and from 1.68% to 16.70% , respectively.

Long-term debt at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
1.89% unsecured bonds due in 2007	**¥ -**	¥10,000	-
2.00% unsecured bonds due in 2009	**20,000**	20,000	**200,000**
2.66% unsecured bonds due in 2012	**12,000**	-	**120,000**
Floating rate unsecured bonds due in 2012	**8,000**	-	**80,000**
2.12% unsecured bonds due in 2010	**2,520**	-	**25,200**
Loans, primarily from banks with interest principally at 4.98% to 5.40%			
Unsecured	**80**	11,442	**800**
	42,600	41,442	**426,000**
Less current portion	**1,040**	14,747	**10,400**
	¥41,560	¥26,695	**$415,600**

The aggregate annual maturities of long-term debt at March 31, 2008 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥1,040	$10,400
2010	20,960	209,600
2011	600	6,000
2013	20,000	200,000
	¥42,600	$426,000

10. SECURITY DEPOSIT

Investment securities include loaned securities of ￥917 million ($9,170 thousand); deposited cash of ￥757 million ($7,570 thousand) as collateral was posted under the current liabilities as other current liabilities for the year ended March 31, 2008.

11. FINANCIAL COVENANTS

The Company 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, 2008.

Commitment Agreement of Syndicated Loans

The outstanding balance of the commitment as of March 31, 2008 was as follows:

	Millions of yen	Thousands of U.S. dollars
Total committed line of credit	¥30,000	$300,000
Executed amount	9,747	97,470
Unexecuted amount	¥20,253	$202,530

The above agreement is subject to the following financial covenants.

The amount of total stockholders' equity (sum of common stock, capital surplus, retained earnings, less the amount of treasury stock) shall be 120 billion yen or more on the consolidated balance sheet as of March 31,2008.

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 2008 and 2007 and the related expenses for 2008, 2007 and 2006, which were determined based on the amounts obtained by actuarial calculations, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation:			
Projected benefit obligation	**¥(107,267)**	¥(127,320)	**($1,072,670)**
Unamortized prior service costs	**(10,534)**	(14,104)	**(105,340)**
Unamortized actuarial differences	**16,180**	4,757	**161,800**
Less fair value of plan assets	**98,418**	116,158	**984,180**
Less unrecognized net transition obligation	**9,680**	12,825	**96,800**
Prepaid pension costs	**(11,984)**	—	**(119,840)**
Liability for severance and retirement benefits	**¥(5,507)**	¥(7,684)	**($55,070)**

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Severance and retirement benefits expenses:				
Service costs	**¥4,341**	¥4,989	¥4,845	**$43,410**
Interest costs on projected benefit obligation	**3,141**	3,356	3,490	**31,410**
Expected return on plan assets	**(5,638)**	(6,101)	(2,426)	**(56,380)**
Amortization of net transition obligation	**1,530**	1,603	1,588	**15,300**
Amortization of actuarial differences	**2,162**	2,213	3,335	**21,620**
Amortization of prior service costs	**(1,794)**	(1,881)	(1,881)	**(17,940)**
Total	**¥3,742**	¥4,179	¥8,951	**$37,420**

The additional retirement payments amounting to ¥20,206 million ($202,060 thousand), which are included in "Loss on liquidation of subsidiaries and affiliated companies", "Restructuring charges" and "Special retirement payments", and ¥6,544 million which were expensed in 2008 and 2006, 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 5.0% in 2008, 2.7% and 5.5% in 2007, and 2.7% and 3.0% in 2006, 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.

The Company records the net amount, ¥290 million ($2,900 thousand), of loss on termination of the projected benefit obligation amounting of ¥543 million ($5,430 thousand), the lump sum write-off of the unrecognized net transition obligation at the time of the amendment of the accounting policy amounting of ¥1,614 million ($16,140 thousand), the lump sum write-off of unrecognized actuarial differences amounting of ¥997 million ($9,970 thousand) and the lump sum write-off of prior service costs (gain) ¥1,777 million ($17,770 thousand) as “Other, net” reflecting that simultaneous retirement, etc., which the Company instituted under the employment structural reforms, falls under mass retirement under the “Accounting for transfer between pension plans" ("the Financial Accounting Standard Implementation Guidance No. 1 " issued by the Accounting Standards Board of Japan on January 31, 2002)

13. CONTINGENT LIABILITIES

The contingent liabilities of the Companies at March 31, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥72	$720
As guarantor for loans to employees	1,417	14,170
As guarantor for loan to affiliated company	5,369	53,690
	¥6,858	$68,580

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 Companies 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
Interest rate cap contracts	Interest on bonds

The Companies evaluate effectiveness of hedge 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, 2008 and 2007, 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) The summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment losses and net book value at March 31, 2008 and 2007 is as follows:

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
2008:				
Buildings and structures	**¥1,549**	**¥912**	**¥ -**	**¥637**
Machinery and equipment	**6,767**	**3,662**	**186**	**2,919**
Others	**188**	**105**	**4**	**79**
	¥8,504	**¥4,679**	**¥190**	**¥3,635**

	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

	Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
2008：				
Buildings and structures	**$15,490**	**$9,120**	**$ -**	**$6,370**
Machinery and equipment	**67,670**	**36,620**	**1,860**	**29,190**
Others	**1,880**	**1,050**	**40**	**790**
	$85,040	**$46,790**	**$1,900**	**$36,350**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2008 and 2007 are as follows:

Finance leases	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Due within one year	**¥1,969**	¥2,384	**$19,690**
Due after one year	**1,913**	3,091	**19,130**
	¥3,882	¥5,475	**$38,820**
Accumulated impairment loss on leased property	**¥190**	58	**$1,900**

Operating leases	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Due within one year	**¥933**	¥948	**$9,330**
Due after one year	**1,498**	2,020	**14,980**
	¥2,431	¥2,968	**$24,310**

(3) Lease payments, Reversal of allowance for impairment loss on leased property, assumed depreciation charges, assumed interest charges and impairment losses for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Millions of yen 2008	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2008
Lease payments	**¥1,978**	¥3,535	¥3,281	**$19,780**
Reversal of allowance for impairment loss on leased property	**33**	-	-	**330**
Assumed depreciation charges	**1,781**	2,986	2,850	**17,810**
Assumed interest charges	**187**	383	206	**1,870**
Impairment losses	**164**	58	-	**1,640**

(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, 2008 and 2007 are as follows:

Non-capitalized finance leases	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Due within one year	**¥67**	¥54	**$670**
Due after one year	**77**	156	**770**
	¥144	¥210	**$1,440**

17. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2008, 2007 and 2006 is shown in the tables below.

(1) Business segment information is as follows:

	Millions of yen							
	Consumer electronics business	Entertainment business	Professional electronics business	Components & Devices business	Other business	Total	Eliminations and unallocation	Consolidated total
2008:								
Sales								
External sales	**¥469,501**	**¥71,125**	**¥65,206**	**¥36,456**	**¥16,161**	**¥658,449**	**¥ -**	**¥658,449**
Intersegment sales	**12,916**	**147**	**2,401**	**3,371**	**8,422**	**27,257**	**(27,257)**	**-**
Total sales	**482,417**	**71,272**	**67,607**	**39,827**	**24,583**	**685,706**	**(27,257)**	**658,449**
Operating expenses	**478,254**	**70,784**	**65,256**	**41,780**	**25,285**	**681,359**	**(26,172)**	**655,187**
Operating income (loss)	**¥4,163**	**¥488**	**¥2,351**	**¥(1,953)**	**¥(702)**	**¥4,347**	**¥(1,085)**	**¥3,262**
Identifiable assets	**¥178,797**	**¥57,290**	**¥27,959**	**¥10,181**	**¥46,397**	**¥320,624**	**¥(5,620)**	**¥315,004**
Depreciation and amortization	**16,390**	**2,075**	**872**	**4,240**	**1,790**	**25,367**	**492**	**25,859**
Impairment of fixed assets	**6,629**	**-**	**-**	**725**	**1,361**	**8,715**	**-**	**8,715**
Capital expenditures	**14,191**	**1,446**	**807**	**3,789**	**1,203**	**21,436**	**471**	**21,907**

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

	Millions of yen							
	Consumer electronics business	Entertainment business	Professional electronics business	Components & Devices business	Other business	Total	Eliminations and unallocation	Consolidated total
2006:								
Sales								
External sales	¥600,397	¥88,810	¥67,563	¥30,248	¥19,882	¥806,900	¥ -	¥806,900
Intersegment sales	13,411	5,984	1,305	4,140	5,816	30,656	(30,656)	-
Total sales	613,808	94,794	68,868	34,388	25,698	837,556	(30,656)	806,900
Operating expenses	623,364	91,550	68,148	34,277	25,903	843,242	(29,451)	813,791
Operating income (loss)	¥(9,556)	¥3,244	¥720	¥111	¥(205)	¥(5,686)	¥(1,205)	¥(6,891)
Identifiable assets	¥280,485	¥78,774	¥36,846	¥26,298	¥31,621	¥454,024	(7,212)	¥446,812
Depreciation and amortization	17,908	2,580	860	2,905	1,858	26,111	737	26,848
Capital expenditures	20,781	2,458	1,140	3,314	997	28,690	800	29,490

	Thousands of U.S.dollars							
	Consumer electronics business	Entertainment business	Professional electronics business	Components & Devices business	Other business	Total	Eliminations and unallocation	Consolidated total
2008:								
Sales								
External sales	**$4,695,010**	**$711,250**	**$652,060**	**$364,560**	**$161,610**	**$6,584,490**	**$ —**	**$6,584,490**
Intersegment sales	**129,160**	**1,470**	**24,010**	**33,710**	**84,220**	**272,570**	**(272,570)**	**—**
Total sales	**4,824,170**	**712,720**	**676,070**	**398,270**	**245,830**	**6,857,060**	**(272,570)**	**6,584,490**
Operating expenses	**4,782,540**	**707,840**	**652,560**	**417,800**	**252,850**	**6,813,590**	**(261,720)**	**6,551,870**
Operating income (loss)	**$41,630**	**$4,880**	**$23,510**	**$(19,530)**	**$(7,020)**	**$43,470**	**$(10,850)**	**$32,620**
Identifiable assets	**$1,787,970**	**$572,900**	**$279,590**	**$101,810**	**$463,970**	**$3,206,240**	**$(56,200)**	**$3,150,040**
Depreciation and amortization	**163,900**	**20,750**	**8,720**	**42,400**	**17,900**	**253,670**	**4,920**	**258,590**
Impairment of fixed assets	**66,290**	**—**	**—**	**7,250**	**13,610**	**87,150**	**—**	**87,150**
Capital expenditures	**141,910**	**14,460**	**8,070**	**37,890**	**12,030**	**214,360**	**4,710**	**219,070**

Corporate assets as of March 31, 2008, 2007 and 2006 were ￥32,832 million ($328,320 thousand), ￥44,630 million and ￥53,918 million, respectively, and were mainly comprised of the Company's cash and cash equivalents, investment securities and general corporate assets.

(Change of segmentation)

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

"Consumer electronics business", "Entertainment business", "Professional electronics business", "Components & Devices 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 categories of the recording media is transferred from the "Software & Media business" to the "Other business".

(2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2008:							
Sales							
External sales	**¥225,237**	**¥149,763**	**¥183,883**	**¥99,566**	**¥658,449**	**¥ -**	**¥658,449**
Intersegment sales	**165,745**	**252**	**1,157**	**123,194**	**290,348**	**(290,348)**	**—**
Total sales	**390,982**	**150,015**	**185,040**	**222,760**	**948,797**	**(290,348)**	**658,449**
Operating expenses	**386,938**	**149,104**	**185,225**	**223,467**	**944,734**	**(289,547)**	**655,187**
Operating income (loss)	**¥4,044**	**¥911**	**¥(185)**	**¥(707)**	**¥4,063**	**¥(801)**	**¥3,262**
Identifiable assets	**¥228,710**	**¥41,488**	**¥69,391**	**¥64,260**	**¥403,849**	**¥(88,845)**	**¥315,004**

	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

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2008:							
Sales							
External sales	**$2,252,370**	**$1,497,630**	**$1,838,830**	**$995,660**	**$6,584,490**	**$ —**	**$6,584,490**
Intersegment sales	**1,657,450**	**2,520**	**11,570**	**1,231,940**	**2,903,480**	**(2,903,480)**	**—**
Total sales	**3,909,820**	**1,500,150**	**1,850,400**	**2,227,600**	**9,487,970**	**(2,903,480)**	**6,584,490**
Operating expenses	**3,869,380**	**1,491,040**	**1,852,250**	**2,234,670**	**9,447,340**	**(2,895,470)**	**6,551,870**
Operating income (loss)	**$40,440**	**$9,110**	**$(1,850)**	**$(7,070)**	**$40,630**	**$(8,010)**	**$32,620**
Identifiable assets	**$2,287,100**	**$414,880**	**$693,910**	**$642,600**	**$4,038,490**	**$(888,450)**	**$3,150,040**

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

	Millions of yen				
	Americas	Europe	Asia	Other areas	Total
2008:					
Overseas sales	**¥155,963**	**¥187,976**	**¥110,806**	**¥7,559**	**¥462,304**
Consolidated sales					**¥658,449**
Ratio of overseas sales to consolidated sales	**23.7%**	**28.6%**	**16.8%**	**1.1%**	**70.2%**
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%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other areas	Total
2008:					
Overseas sales	**$1,559,630**	**$1,879,760**	**$1,108,060**	**$75,590**	**$4,623,040**
Consolidated sales					**$6,584,490**
Ratio of overseas sales to consolidated sales	**23.7%**	**28.6%**	**16.8%**	**1.1%**	**70.2%**

18. IMPAIRMENT OF FIXED ASSETS

During the fiscal year ended March 31, 2008, the Companies recognized loss on impairment totaling ¥8,715 million ($87,150 thousand) on the following fixed assets.

Use	Business group	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Business assets:	Audio systems:	Maebashi (Gunma)	Die and molds, intangible assets, and others	¥644	$6,440
	Display :	Yokohama (Kanagawa)	Die and molds, buildings, and others	1,910	19,100
		Yokosuka (Kanagawa)	Die and molds, machinery and equipment, and others	496	4,960
		Isesaki (Gunma)	Buildings, machinery and equipment, and tools and furniture	153	1,530
		East Kilbride, Scotland (U.K.)	Machinery and equipment, die and molds, and others	1,713	17,130
	Recording media:	Mito (Ibaraki)	Machinery and equipment, tools and furniture, and others	1,361	13,610
Idle assets:	D-ILA hybrid projection TVs:	Yokohama (Kanagawa)	Die and molds, buildings, and others	178	1,780
		Yokosuka (Kanagawa)	Machinery and equipment, die and molds, and others	616	6,160
		San Diego, California (U.S.A.)	Die and molds, tools and furniture, and machinery and equipment	449	4,490
		Tijuana (Mexico)	Structures, tools and furniture, and machinery and equipment	64	640
		Beijing (China)	Tools and furniture, and die and molds	14	140
	DVD pickups:	Yamato (kanagawa)	Machinery and equipment and die and molds	724	7,240
	DVD recorders:	Yokohama (Kanagawa)	Machinery and equipment	19	190
		Yokosuka (Kanagawa)	Die and molds, and machinery and equipment	374	3,740
Total				¥8,715	$87,150

(Circumstances leading to the impairment)
Audio systems business group recognized impairment losses due to a rapid change in the market and delayed recovery in profitability. Display business group recognized impairment losses due to price markdowns, downward rigidity of liquid crystal panel price, and increased investment cost of research and development. Domestic and overseas consolidated subsidiaries of display business group recognized impairment losses due to business restructuring and production shifts. Recording media business group recognized impairment losses due to intensified price decline by overseas competitors and rising price of raw materials. The Company and consolidated overseas subsidiaries recognized impairment losses on the idle assets of D-ILA hybrid projection TV business group, DVD pickup business group, and DVD recorder business group as a result of lowered facility utilization, and reviewed business and development strategy.

(Grouping of assets)
The Companies' business assets are grouped based on the business segmentation, with consideration for management unit and identifiable cash-generating unit. Idle assets are grouped on individual asset base. Headquarters are classified as corporate assets as they do not have identifiable cash flows independent of other asset groups. In addition, asset grouping is principally based on the accounting unit for the consolidated subsidiaries.

(Recoverable amount)
Carrying amounts of the idle assets were fully reduced and recognized as impairment losses, as the recoverability of the idle assets were not expected. Recoverable amounts of the business assets were measured either by reasonably assessed fair value less costs to sell, or value in use. Since the estimates of future cash flows as value in use were negative, impairment losses were measured on the basis that the recoverable amounts were zero.

19. CASH FLOW INFORMATION

The reconciliation of cash and cash equivalents shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statement of cash flows as of March 31, 2008 and 2007 are mutually tied.

20. RELATED PARTY TRANSACTIONS

The related party transaction for the year ended March 31, 2008 is as follows:

(1) Related party

Relationship	Major share holder
Name of company	Kenwood Corporation
Address	Hachioji (Tokyo)
Common stock	11,059 million yen
Major business	Manufacture and sale of audio and visual products
Ownership of voting interests	17.0 %
Concurrent appointment of directors, etc	None
Business relations	None

(2) Transaction

Details of the transaction	Third party allotment
Amount of the transaction	20,000 million yen
Accounts	Common stock: 10,000 million yen (as of March 31, 2008) Capital surplus: 10,000 million yen (as of March 31, 2008)

21. BUSINESS COMBINATIONS AND BUSINESS SEPARATIONS

1. Merger of a significant consolidated subsidiary

(1) Names of combined parties, details of the business, main reason for the business combination, date of combination, and the overview of the business combination including legal form

(i) Names of combined parties

Acquiring company	JVC Americas Corp.
Acquired company	US JVC Corp.

(ii) Details of the business

JVC Americas Corp.	regional company of the Americas
US JVC Corp.	a United States regional company

(iii) Main reason for the business combination

The administrative function in US JVC Corp. were transferred to JVC Americas Corp.

(iv) Date of combination

April 15, 2007

(v) Overview of the business combination including legal form

Transaction under common control that an acquiring company, JVC Americas Corp., owns all interests in an acquired company, US JVC Corp..

(2) Overview of the accounting treatment conducted

Transactions were eliminated as intercompany transactions under the common control.

2. Spin-off of the Motor Division

(1) Name of the recipient of the business transfer, details of the transferred business, main reason for the business transfer, date of transfer and the overview of the business transfer including legal form

(i) Name of the recipient of the business transfer

Japan Industrial Partners, Inc.

(ii) Details of the transferred business

Manufacture and sale of spindle motors mounted on hard disk drives (HDD) and floppy disk drives (FDD) and development of related technologies

(iii) Main reason for the business transfer

The Company demerged the Motor Division as part of the fundamental structural reform of the components business based on its management reconstruction plan, Action Plan 2007.

(iv) Date of transfer

March 31, 2008

(v) Overview of the business transfer including legal form

The Company demerged the Motor Division to JVC Motor Company, Limited (hereinafter “JVC Motor”), a newly established company with a 100% investment of the Company, and then transferred all shares in JVC Motor to a new company established by Japan Industrial Partners, Inc.

(2) Overview of the accounting treatment conducted

(i) Net transfer gain or loss	89 million yen
(ii) Type of consideration	Cash

(iii) Book value of assets and liabilities related to the business transfer and their breakdowns

Assets		21,617	million yen
(Main comprising items)	Current assets	14,227	million yen
	Fixed assets	7,390	million yen
Liabilities		16,930	million yen
(Main comprising items)	Current liabilities	16,373	million yen
	Long-term liabilities	557	million yen

* Net transfer gain or loss above is included in “Other, net”.
* Net transfer gain or loss above includes a ¥16 million loss on impairment of fixed assets.
* Net transfer gain or loss could be revised in accordance with relevant provisions of the transfer agreement.

(3) Name of the business segment that included the transferred business

Components & Devices

(4) Estimated amount of the transferred business recorded in consolidated statements of operations

Net sales	24,957	million yen
Operating income	(867)	million yen

3. Spin-off of the Circuit Board Business

(1) Name of the recipient of the business transfer, details of the transferred business, main reason for the business transfer, date of transfer and the overview of the business transfer including legal form

(i) Name of the recipient of the business transfer

Meiko Electronics Co., Ltd.

(ii) Details of the transferred business

Design, manufacture, and sale of high-density build-up multilayer boards (VIL boards) and development of related technologies

(iii) Main reason for the business transfer

The Company demerged the Circuit Board business as part of the fundamental structural reform of the components business based on its management reconstruction plan, Action Plan 2007.

(iv) Date of transfer

March 31, 2008

(v) Overview of the business transfer including legal form

The Company transferred inventories and fixed assets of the Circuit Board business it owned to Meiko Electronics Co., Ltd.

(2) Overview of the accounting treatment conducted

(i) Net transfer loss	(2,118) million yen
(ii) Type of consideration	Cash

(iii) Book value of assets and liabilities related to the business transfer and their breakdowns

Assets		1,155	million yen
(Main comprising items)	Inventories	298	million yen
	Fixed assets	857	million yen
Liabilities		-	million yen

* Net transfer loss above is included in “Loss on business transfer of Circuit division”.
* Net transfer loss above includes a ¥194 million loss on impairment of fixed assets.

(3) Name of the business segment that included the transferred business

Components & Devices

(4) Estimated amount of the transferred business recorded in consolidated statements of operations

Net sales	3,340	million yen
Operating income	(1,670)	million yen

4. Spin-off of the Software & Media Business

(1) Name of the recipient of the business transfer, details of the transferred business, main reason for the business transfer, date of transfer and the overview of the business transfer including legal form

(i) Name of the recipient of the business transfer

Victor Creative Media Co., Ltd.

(ii) Details of the transferred business

Development, manufacture and sale of recorded optical discs and related incidental businesses

(iii) Main reason for the business transfer

The Company demerged the Software & Media business for the purpose of conducting mobile and compact management, thereby increasing its ability to provide services to customers by working to construct alliances in the industry and achieve a stable customer base, by bolstering cooperation with different industry sectors such as the network business, and by the acquisition of new customers, technologies and human resources.

(iv) Date of transfer

December 3, 2007

(v) Overview of the business transfer including legal form

The Company implemented a simplified demerger as a transaction under common control with the Company being the transferring company and Victor Creative Media Co., Ltd., established as a wholly owned subsidiary of the Company, being the succeeding company.

(2) Overview of the accounting treatment conducted

Since the spin-off of the Software & Media business is considered a transaction under the common control, it will be eliminated as an intercompany transaction.

(3)Assets, liabilities and net assets of the succeeding company

Assets		5,016	million yen
Liabilities		2,816	million yen
Net assets	Common stock	1,100	million yen
	Capital surplus	1,100	million yen

22. SUBSEQUENT EVENTS

1. Shutdown of a significant consolidated subsidiary

At a meeting of the Board of Directors held on April 25, 2008, the Company decided to terminate the production activities of JVC Manufacturing U.K. Limited, a subsidiary of the Company in the United Kingdom.

(Reason for the decision)

The subsidiary was established in December 1987 as a production base of TV-related products for the European region and had been manufacturing CRT TVs and LCD TVs, etc.

However, the management have concluded that the continuation of production in the United Kingdom will be difficult in the future given the deterioration of profitability due to the falling prices with the market competition being intensified along with the rapid shift to LCD TVs over the last several years and decided to terminate the production activities at the end of July 2008. In line with this, the production of LCD TVs for the European region will be shifted to outsourcing in the East European region going forward.

(Overview of the subsidiary)

Company name:	JVC Manufacturing U.K. Limited
Location:	East Kilbride, United Kingdom
Common stock:	10 million pound
Lines of business:	Production of LCD TVs and CRT TVs, etc.

(Effect of this event on earnings)

An amount of ¥2,658 million ($26,580 thousand), the total amount of loss on impairment of fixed assets and write-down of inventories expected to arise from the termination of the production activities of the subsidiary, has already been incorporated in consolidated financial statements for the fiscal year ended March 31, 2008.

2. Resolution on Management Integration with Kenwood Corporation

At a meeting of the Board of Directors held on May 12, 2008, the Company decided to enter into an integration agreement with Kenwood Corporation (“Kenwood”), following a final agreement on the establishment of a joint holding company through a stock transfer and management integration with Kenwood.

(Purpose of the stock transfer)

The Company and Kenwood have passed the resolution on the stock transfer for the purpose of establishing a position as a specialized producer that leads the audio visual industry in the world under a new integrated vision. To this end, the Company will not only maximize the synergy by expanding cooperative activities that have been limited to common businesses such as the development, production, and procurement of car electronics and home audio systems into other current and new business and activity areas including marketing and sales, but also increase the global corporate value and create new corporate values with the both companies as a unit.

(Method of the stock transfer, details of allotment in the stock transfer, and overview of the stock transfer plan)

(i) Method of the stock transfer

The Company and Kenwood plan to conduct a joint stock transfer on October 1, 2008 and become wholly owned subsidiaries of a joint holding company to be established by transferring all outstanding shares of both companies to the joint holding company. Both companies plan to allocate shares to be issued by the joint holding company for the stock transfer to the shareholders of the both companies. However, the schedule and the form of integration may change through consultation of the both companies in the process of carrying forward the procedures in the future.

(ii) Ratio of the stock transfer

Two shares of the joint holding company will be allotted to one share of the Company, and one share of the joint holding company will be allotted to one share of Kenwood. However, if there arises any material change in the conditions for the calculation, the transfer ratios above may change through consultation between the both companies.

(iii) Date of stock transfer

Record date for an ordinary general meeting of shareholders:	March 31, 2008
Board of Directors meeting where the stock transfer was decided:	May 12, 2008
Conclusion of the integration agreement:	May 12, 2008
Preparation of the stock transfer plan:	May 12, 2008
Ordinary general meeting of shareholders where the stock transfer is approved:	June 27, 2008
Date of delisting from the Osaka Securities Exchange:	September 25, 2008 (planned)
Date of delisting from the Tokyo Stock Exchange:	September 25, 2008 (planned)
Date of registration of the joint holding company (effective date):	October 1, 2008 (planned)
Date of listing of the joint holding company:	October 1, 2008 (planned)
Date of delivery of stock certificates:	Late November, 2008 (planned)

(Overview of a company to be newly established due to the stock transfer)

(1) Corporate name	JVC KENWOOD Holdings, Inc.
(2) Head office	3-12 Moriya-cho, Kanagawa-ku, Yokohama-shi, Kanagawa
(3) Representative	Haruo Kawahara, Chairman and Representative Director Kunihiko Sato, President and Representative Director
(4) Common stock	10 billion yen
(5) Lines of business	Control and management of the business activities of companies that operate car electronics, home & mobile electronics, professional systems, and entertainment businesses, etc. by holding shares and equity in these companies

(Overview of the accounting treatment associated with the stock transfer)

The stock transfer falls under the "acquisition" in the Accounting Standard for Business Combinations, and the purchase method will be applied. Therefore, assets and liabilities of the Company, which will become an acquired company, and its subsidiaries are expected to be recorded at the market value in the consolidated financial statements of the joint holding company.

3. Liquidation of a significant consolidated subsidiary

At a meeting of the Board of Directors held on May 20, 2008, the Company decided to liquidate its consolidated subsidiary, Victor Isesaki Electronics Co., Ltd.

(Reason for the decision)

The subsidiary was established in April 1981 as a production base of substrates used for VTR and camcorders produced in Yokosuka Plant of the Company and has been engaging in the production. However, the management have concluded that the continuation of production at the subsidiary will be difficult in the future given that the decline of substrate production and the deterioration of profitability are anticipated following the termination of production of VTR and shrinking sales of LCD TVs in Japan and decided to terminate the production activities at the end of June, 2008. Soon after the termination of production, the Company will liquidate the subsidiary. The substrate production that was planned at the subsidiary is scheduled to be transferred to Yokosuka Plant and plants overseas.

(Overview of the subsidiary)

Corporate name: Victor Isesaki Electronics Co., Ltd.
Head office: 710 Hinode-cho, Isesaki-shi, Gunma
Common stock: 50 million yen
Lines of business: Assembly and adjustment of substrates of LCD TVs and camcorders, etc.

(Effect of this event on earnings)

A ¥682 million ($6,820 thousand) loss on impairment of fixed assets, etc. expected to arise from this event has already been incorporated in consolidated financial statements for the fiscal year ended March 31, 2008.

4. Significant demerger and stock transfer

At a meeting of the Board of Directors held on May 26, 2008, the Company decided to demerge the Recording Media business as of July 1, 2008 into Victor Advanced Media Co., Ltd. (new company) and transfer some of the shares in the new company to Taiyo Yuden Co., Ltd. as follows.

(Purpose of the demerger and transfer of some shares)

The Company is currently reforming its business structure and management foundation by focusing on consumer electronics, professional electronics, and entertainment as the three future core businesses to bolster these businesses in a concentrated manner and fundamentally review other businesses, under its new medium-term management plan. With respect to the Recording Media business, the Company had been considering a fundamental structural reform with an eye on business transfer and spin-off. As a result, the Company has made the decision based on the judgment that the transfer of some shares in the new company above to Taiyo Yuden Co., Ltd. will be optimum for the continuation of the business and that this will lead to the maximum use of the brand, technologies and expertise the Company has cultivated, the handing over of responsibility for supplying products to existing customers, and the job security of employees of the subsidiary.

(Details of the demerged business)

Development, manufacture and sale of recording magnetic tapes and optical discs and related incidental businesses

(Operating results of the demerged business) (Fiscal year ended March 31, 2008)

Millions of yen

	Demerged business (a)	Results of the Companies (b)	Ratio (a/b)
Net sales	16,992	658,449	2.6%
Gross profit	2,495	221,924	1.1%
Operating income (loss)	(2,325)	3,262	-
Ordinary income (loss)	(2,703)	(7,951)	-

(Form of the demerger including legal form)

Transaction under common control (simplified demerger with the subsidiary being a transferring company and the new company being a succeeding company).

(Overview of the succeeding company in the demerger)

Name of the succeeding company:	Victor Advanced Media Co., Ltd.
Total assets:	4,743 million yen
Liabilities:	3,793 million yen
Common stock:	200 million yen
Capital reserve:	750 million yen
Number of employees:	119

(Method of transferring some shares)

The Recording Media business of the Company will be demerged on July 1, 2008, and new company will be established with a 100% investment of the Company. Then, 65% of shares in the new company will be transferred to Taiyo Yuden Co., Ltd.

(Transfer price and settlement method)

The transfer price is planned to be determined based on the assessed value of the business as of the end of September 2008 and settled with cash.

(Overview of the recipient)

Name:	Taiyo Yuden Co., Ltd.
Lines of business:	Manufacture and sale of electronic components including capacitors, ferrite-applied products, modules, and recording products
Established:	March 23, 1950
Head office:	6-16-20 Ueno, Taito-ku, Tokyo
Representative:	Yoshiro Kanzaki, President and Chief Executive Officer
Paid-in capital:	23,555 million yen
Relationship with the Company:	There are no capital and personnel relationships.

(Schedule of the demerger and transfer)

Date of Board of Directors meeting where the demerger was decided:	Monday, May 26, 2008
Date of Conclusion of the demerger agreement:	Monday, May 26, 2008
Date of General meeting of shareholders where the demerger is approved:	* The meeting will not be held since this is a simplified demerger.
Date of Conclusion of the stock transfer agreement:	Monday, May 26, 2008
Scheduled date of demerger (effective date):	Tuesday, July 1, 2008 (planned)
Date of stock transfer:	Wednesday, October 1, 2008 (planned)

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited and consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 22 to the consolidated financial statements, the Company decided to enter into an integration agreement with Kenwood Corporation.
(2) As discussed in Note 22 to the consolidated financial statements, the Company decided to demerge the Recording Media business as of July 1, 2008.
(3) As discussed in Note 17 to the consolidated financial statements, the Company changed its business segments, from the fiscal year ended March 31, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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, 2008

JVC KENWOOD HOLDINGS