Five-Year Summary

Victor Company of Japan, Limited
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note A)
	1998	1997	1996	1995	1994	**1998**
For the year						
Net sales	**¥916,306**	¥890,373	¥806,551	¥767,218	¥726,550	**$6,941,712**
Overseas	**526,285**	484,394	409,358	403,879	384,532	**3,987,008**
Domestic	**390,021**	405,979	397,193	363,339	342,018	**2,954,704**
Cost of sales	**629,859**	607,383	548,728	520,751	535,354	**4,771,659**
Selling, general and administrative expenses	**276,414**	271,467	252,650	246,547	224,336	**2,094,045**
Income (loss) before income taxes, minority interests and equity in income (loss)	**5,928**	10,386	11,514	7,728	(19,116)	**44,909**
Income taxes	**10,796**	7,141	3,135	6,197	(20)	**81,788**
Net income (loss)	**(4,703)**	4,586	4,343	591	(19,588)	**(35,629)**
Depreciation & amortization	**24,008**	27,212	28,475	30,333	29,212	**181,879**
Capital expenditures	**36,651**	31,552	30,479	28,151	25,966	**277,659**
R&D expenditures	**37,649**	39,563	38,500	36,274	35,658	**285,220**

	Millions of yen					Thousands of U.S. dollars (Note A)
At year-end						
Working capital	**¥124,395**	¥160,869	¥123,357	¥133,103	¥133,750	**$ 942,386**
Stockholders' equity	**243,086**	250,418	247,891	242,745	241,664	**1,841,561**
Total assets	**624,050**	603,920	561,654	520,699	508,213	**4,727,651**

	Yen					U.S. dollars (Note A)
Per share						
Net income (loss)	**¥ (18.5)**	¥ 18.0	¥ 17.1	¥ 2.3	¥ (77.1)	**$ (0.14)**
Cash dividends (Note B)	**7.0**	7.0	5.0	—	—	**0.05**

Notes: A. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥132 to U.S.$1, the approximate rate prevailing on March 31, 1998.
B. Cash dividends represent amounts applicable to the respective years.

Financial Contents

Sales

For the fiscal year ended March 31, 1998, JVC's consolidated net sales totaled ¥916,306 million (US$6,941.7 million), an increase of 2.9% from the previous fiscal year. By category, Consumer Electronics contributed substantially to sales growth. Sales of Professional Electronics remained almost unchanged from the previous fiscal year. Sales of Components & Devices declined, while sales of Entertainment rose.

To reduce exposure to conventional AV products undergoing severe price competition around the world, JVC emphasized high-value-added products in its Consumer Electronics business, and focused efforts on expanding sales among its three non-Consumer Electronics businesses: Professional Electronics, Components & Devices and Entertainment. However, the ratio of sales in non-Consumer Electronics businesses fell to 36.1% from 37.9% in the previous term. This is the result of sales growth in Consumer Electronics, centered on high-value-added products, and stagnant market conditions for strategic products in Professional Electronics and Components & Devices.

By geographic region, sales in Japan decreased 3.9% to ¥390,021 million (US$2,954.7 million). Overseas sales advanced 8.6% to ¥526,285 million (US$3,987.0 million). Although the Japanese economy continued its unprecedented decline, firm overseas sales in the primary markets of the United States and Europe and an enhanced sales and marketing structure that adheres closely to each region contributed to increased revenue.

The sales performance of each business was as follows:

Consumer Electronics

In Consumer Electronics, the main products include VCRs, camcorders, televisions, audio products, telephones and related products.

Sales of Consumer Electronics grew 5.8% to ¥585,245 million (US$4,433.7 million). This represented 63.9% of consolidated net sales, an increase of 1.8 percentage points from the previous fiscal year. Amid declining world prices for existing AV products, sales of the New AV lineup of high-value-added digital products, including digital camcorders, HDTVs and MD audio products, expanded to ¥64 billion from ¥55 billion in the previous fiscal year, contributing substantially to increased revenues. The spring 1999 scheduled domestic release of the D-VHS home-use digital VCR, which was launched first in the United States, will further enhance JVC's lineup of New AV products.

Professional Electronics

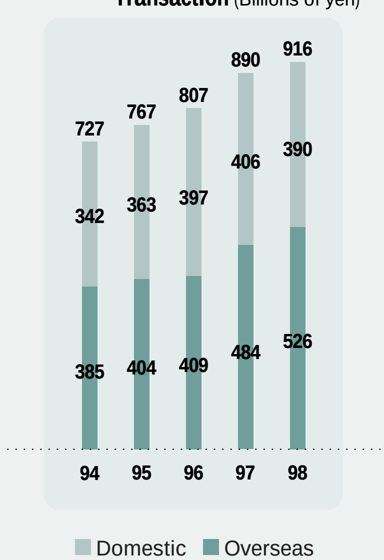
The Professional Electronics business provides professional-use AV systems, information communication systems and security systems to broadcasting stations and companies as well as public, educational and recreational facilities.

Sales of Professional Electronics slipped 0.5% to ¥118,783 million (US$899.9 million), accounting for 13.0% of net sales, down 0.4 percentage point. Amid sluggish capital investment and lackluster overall demand in Japan, the Digital-S video system significantly expanded its share in the world market for broadcasting stations, partially offsetting the decline in domestic sales. The advent of full-scale digital broadcasting in 1998 is predicted to greatly expand the scale of business in this category.

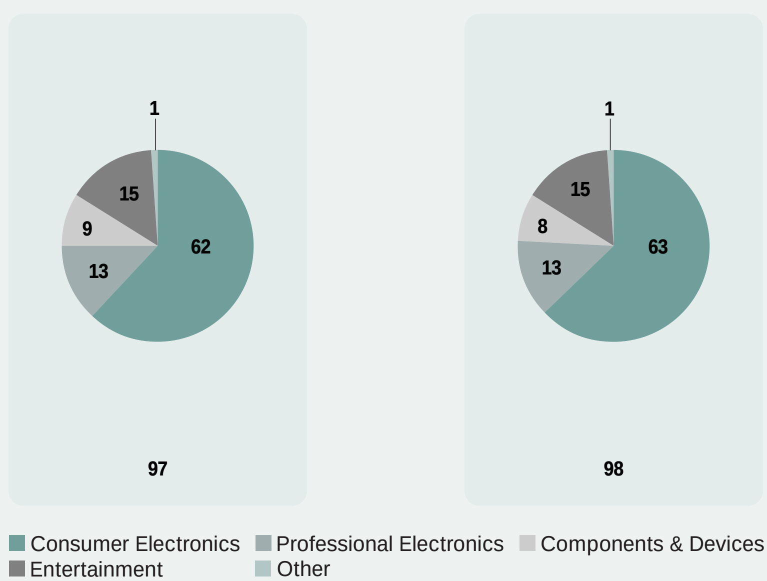
Components & Devices

Among the main products in Components & Devices are deflection

Net Sales by Type of Transaction (Billions of yen)



Breakdown of Net Sales (%)



yokes for use in computer displays, video heads, motors, CD-ROM drive mechanisms, optical pick-ups and build-up multilayer boards.

Sales of Components & Devices fell 9.6% to ¥70,843 million (US$536.7 million), or 7.7% of net sales, down 1.1 percentage points from the previous fiscal year. Weak demand for personal computers caused a decline in orders for products, including deflection yokes used in computer displays. However, demand is expanding for such strategic products as build-up multilayer boards for the multimedia market, leading to predictions of a recovery in sales in the next fiscal year.

Entertainment

The Entertainment business offers such audio and visual software as CDs and videotapes, and engages in film distribution and game software operations in the domestic market.

Sales in the Entertainment business rose 1.4% to ¥136,702 million (US$1,035.6 million), accounting for 14.9% of net sales, compared with 15.1% in the previous fiscal year. Overall sales in this business's mainstay AV software operations were firm. The Company is planning business expansion in multimedia-related software operations to establish it as a third business pillar in the 21st century.

Earnings

The cost of sales ratio was 68.7%, a rise of 0.5 percentage point. JVC lowered costs by optimizing its worldwide production network, and made progress in shifting to high-value-added digital products. However, these efforts failed to offset the adverse effects of declining prices for mainstream AV products.

Selling, general and administrative (SG&A) expenses as a percentage of net sales improved 0.3 percentage point to 30.2%, an indication of economies of scale and focused restructuring implemented by management in recent years.

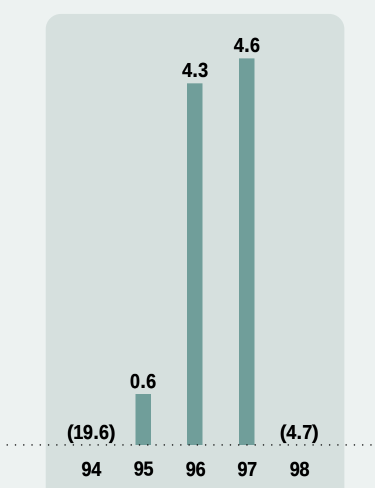
As a result, operating income decreased 12.9% to ¥10,033 million (US$76.0 million).

JVC recorded other expenses of ¥4,105 million (US$31.1 million) compared with other expenses of ¥1,137 million in the previous fiscal year. The primary factors behind the increase were the liquidation of unprofitable factories and the consolidation of marketing companies, resulting in a restructuring cost of ¥2,063 million (US$15.6 million) for overseas subsidiaries. Management believes these adverse factors were temporary and does not expect them to recur in following terms. In addition, net interest expense (interest expense plus interest and dividend income) increased 35.3% to ¥3,309 million (US$25.1 million) owing to an increase in interest-bearing debt.

Income before income taxes and other adjustments decreased 42.9% to ¥5,928 million (US$44.9 million). Income taxes, however, increased to ¥10,796 million (US$81.8 million) from ¥7,141 million in the previous fiscal year. A principal reason behind this was higher consolidated tax liability, which does not precisely reflect changes in income before income taxes because Japanese accounting standards do not recognize tax payments on a consolidated basis. Another reason was the completion of tax payments, which were accounted for as deferred income taxes during the fiscal year, of approximately ¥3,000 million (US$22.7 million) incurred on the liquidation of a German factory in 1993.

As a result, a net loss of ¥4,703 million (US$35.6 million) was recorded compared with net income of ¥4,586 million in the

Net Income (Loss) (Billions of yen)



previous fiscal year. Net loss per share of common stock was ¥18.5 (US$0.14) compared with net income per share of common stock of ¥18.0 in the previous fiscal year.

Cash dividends applicable to the year were maintained at ¥7.0 (US$0.05).

Cash Flow Analysis

Capital expenditures during the year increased to ¥36,651 million (US$277.7 million), exceeding depreciation and amortization of ¥24,008 million (US$181.9 million). Capital expenditures were focused on increasing digitization and multimedia functions in Consumer Electronics and Professional Electronics through strengthened product development and production capacity. Investments were also made to promote the construction of an optimal worldwide production network, enhanced by the establishment of P.T. JVC Electronics Indonesia, to raise production capacity in audiovisual equipment and in components and devices, and to upgrade JVC's global information and distribution networks.

Net cash provided by operating activities was ¥22,099 million (US$167.4 million) compared with ¥27,740 million in the previous fiscal year. This includes net loss of ¥4,703 million (US$35.6 million) and depreciation and amortization of ¥24,008 million (US$181.9 million).

Net cash used in investing activities was ¥36,704 million (US$278.1 million), compared with ¥39,167 million in the previous term. Capital expenditures of ¥36,651 million (US$277.7 million) made up the largest use of cash.

Net cash provided by financing activities was ¥389 million (US$2.9 million) compared with ¥33,493 million in the previous fiscal year. During the previous term, the Company issued bonds of ¥40,000 million for the promotion of "Victor Vision." Capital requirements during the term under review were met primarily through cash flow and cash on hand.

As a result, cash at end of the year was ¥71,148 million (US$539.0 million), a decrease of 16.1% from the previous fiscal year.

Financial Position

A number of events, including those mentioned previously, affected JVC's financial position.

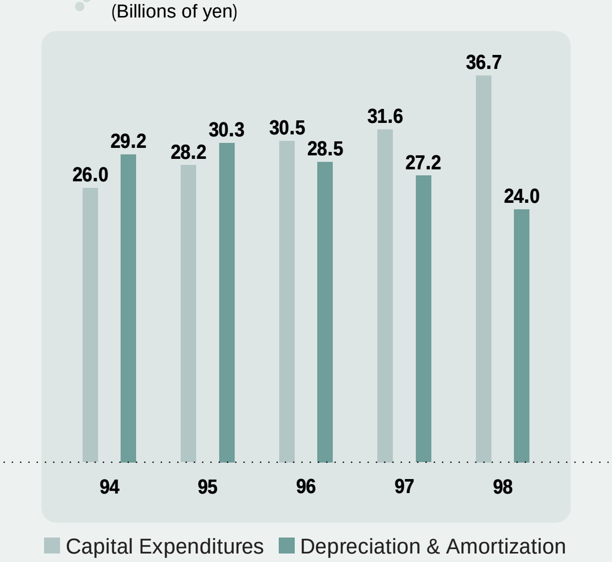
Total assets increased 3.3% to ¥624,050 million (US$4,727.7 million).

Working capital fell 22.7% to ¥124,395 million (US$942.4 million). Total current assets rose 3.7% to ¥410,122 million (US$3,107.0 million). As stated previously, cash decreased ¥13,649 million (US$103.4 million). Total current liabilities climbed 21.7% to ¥285,728 million (US$2,164.6 million). Consequently, the current ratio declined to 1.44 from 1.69.

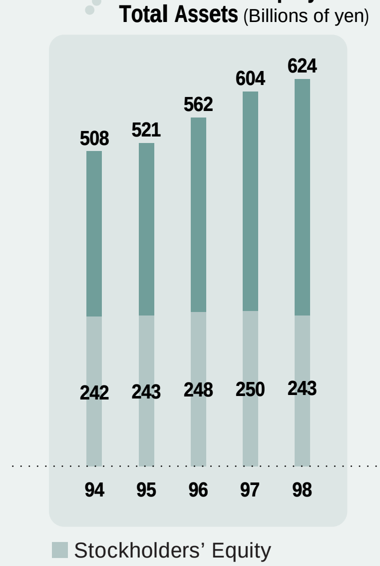
Interest-bearing debt advanced 7.3% to ¥161,209 million (US$1,221.3 million). Bank loans rose 26.6% to ¥69,883 million (US$529.4 million).

Stockholders' equity decreased 2.9% to ¥243,086 million (US$1,841.6 million). This was the result of lower retained earnings following the net loss during the term. As a result, stockholders' equity as a percentage of total assets was 39.0%, compared with 41.5% in the previous fiscal year. Stockholders' equity per share decreased 2.9% to ¥956.2 (US$7.24).

Capital Expenditures/Depreciation & Amortization (Billions of yen)



Stockholders' Equity/ Total Assets (Billions of yen)



Consolidated Statements of Operations

Victor Company of Japan, Limited

Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	**1998**
Net sales	**¥916,306**	¥890,373	¥806,551	**$6,941,712**
Costs and expenses:				
Cost of sales	**629,859**	607,383	548,728	**4,771,659**
Selling, general and administrative expenses	**276,414**	271,467	252,650	**2,094,045**
	906,273	878,850	801,378	**6,865,704**
Operating income	**10,033**	11,523	5,173	**76,008**
Other income (expense):				
Interest and dividend income	**1,937**	2,418	2,288	**14,674**
Interest expense	**(5,246)**	(4,864)	(5,157)	**(39,742)**
Gain on sales of investment securities	**893**	34	1,733	**6,765**
Gain on subsidy for restructuring of a subsidiary	**—**	—	3,744	**—**
Loss on support of affiliated companies	**(1,356)**	(1,022)	(2,674)	**(10,273)**
Loss on liquidation and dissolution of subsidiaries	**—**	(364)	(43)	**—**
Restructuring cost	**(2,063)**	—	—	**(15,629)**
Foreign currency translation adjustments	**—**	—	(769)	**—**
Other, net	**1,730**	2,661	7,219	**13,106**
	(4,105)	(1,137)	6,341	**(31,099)**
Income before income taxes, minority interests and equity in income (loss)	**5,928**	10,386	11,514	**44,909**
Income taxes (Note 7)**:**				
Current	**7,488**	6,624	4,115	**56,727**
Deferred	**3,308**	517	(980)	**25,061**
	10,796	7,141	3,135	**81,788**
Income (loss) before minority interests and equity in income (loss)	**(4,868)**	3,245	8,379	**(36,879)**
Minority interests	**(130)**	(413)	(2,670)	**(985)**
Equity in income (loss) of unconsolidated subsidiaries and affiliated companies	**295**	1,754	(1,366)	**2,235**
Net income (loss)	**¥ (4,703)**	¥ 4,586	¥ 4,343	**$ (35,629)**
	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss)	**¥ (18.5)**	¥ 18.0	¥ 17.1	**$ (0.14)**
Diluted net income	**—**	17.2	—	**—**
Cash dividends applicable to the year	**7.0**	7.0	5.0	**0.05**

See accompanying notes.

Consolidated Balance Sheets

Victor Company of Japan, Limited
March 31, 1998 and 1997

Assets	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 1) 1998
Current assets:			
Cash	**¥ 71,148**	¥ 84,797	**$ 539,000**
Marketable securities (Note 6)	**15,360**	13,584	**116,364**
Notes and accounts receivable:			
Trade	**124,618**	120,048	**944,076**
Unconsolidated subsidiaries and affiliated companies	**2,305**	2,686	**17,462**
Allowance for doubtful accounts	**(3,637)**	(3,070)	**(27,553)**
Inventories (Notes 3, 5 and 9)	**149,625**	127,449	**1,133,523**
Deferred income taxes	**18,323**	19,472	**138,811**
Other current assets	**32,380**	30,612	**245,302**
Total current assets	**410,122**	395,578	**3,106,985**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliated companies	**16,441**	15,899	**124,553**
Other (Notes 6 and 9)	**27,361**	29,926	**207,280**
Total investments and advances	**43,802**	45,825	**331,833**
Property, plant and equipment:			
Land	**30,337**	29,534	**229,825**
Buildings	**106,536**	101,967	**807,091**
Machinery and equipment (Note 9)	**243,828**	247,079	**1,847,182**
Construction in progress	**11,880**	7,987	**90,000**
	392,581	386,567	**2,974,098**
Less accumulated depreciation	**265,541**	268,054	**2,011,674**
Net property, plant and equipment	**127,040**	118,513	**962,424**
Deferred income taxes	**15,922**	18,529	**120,621**
Other assets	**15,733**	15,669	**119,189**
Foreign currency translation adjustments	**11,431**	9,806	**86,599**
	¥624,050	¥603,920	**$4,727,651**

See accompanying notes.

Liabilities and stockholders' equity	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 1) 1998
Current liabilities:			
Bank loans (Note 8)	**¥ 69,883**	¥ 55,182	**$ 529,417**
Current portion of long-term debt (Note 8)	**20,431**	—	**154,780**
Notes and accounts payable:			
Trade	**133,233**	117,973	**1,009,341**
Construction	**5,557**	4,571	**42,098**
Unconsolidated subsidiaries and affiliated companies	**11,402**	9,794	**86,379**
Accrued income taxes (Note 7)	**5,895**	4,478	**44,659**
Accrued expenses (Note 9)	**20,450**	19,899	**154,924**
Other current liabilities	**18,877**	22,812	**143,008**
Total current liabilities	**285,728**	234,709	**2,164,606**
Long-term debt (Notes 8 and 9)	**70,895**	95,058	**537,083**
Employees' retirement benefits	**19,718**	19,187	**149,379**
Other long-term liabilities	**1,058**	852	**8,015**
Minority interests	**3,565**	3,696	**27,007**
Contingent liabilities (Note 11)			
Stockholders' equity:			
Common stock, par value ¥50 per share;			
Authorized—800,000,000 shares			
Issued—254,230,058 in 1998 and 254,229,386 shares in 1997	**34,115**	34,115	**258,447**
Additional paid-in capital	**67,216**	67,216	**509,212**
Legal reserve (Note 10)	**5,156**	4,945	**39,061**
Retained earnings (Note 10)	**136,628**	144,143	**1,035,061**
	243,115	250,419	**1,841,781**
Treasury stock, at cost	**(29)**	(1)	**(220)**
Total stockholders' equity	**243,086**	250,418	**1,841,561**
	¥624,050	¥603,920	**$4,727,651**

Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited
Years ended March 31, 1998, 1997 and 1996

		Millions of yen			
	Shares of common stock (thousands)	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1995	254,192	¥34,113	¥67,136	¥4,747	¥136,757
Net income	—	—	—	—	4,343
Adjustment due to change in number of consolidated subsidiaries	—	—	—	—	(364)
Adjustment due to change in number of affiliated companies	—	—	—	—	302
Common stock issued upon conversion of bonds	13	1	27	—	—
Bonuses to directors and statutory auditors	—	—	—	—	(1)
Foreign currency translation adjustments	—	—	—	—	835
Balance at March 31, 1996	254,205	34,114	67,163	4,747	141,872
Net income	—	—	—	—	4,586
Adjustment due to merger with an unconsolidated subsidiary	—	—	—	—	124
Adjustment due to change in number of consolidated subsidiaries	—	—	—	—	(263)
Common stock issued upon conversion of bonds	24	1	53	—	—
Cash dividends paid (¥7.5 per share)	—	—	—	—	(1,907)
Transfer to legal reserve (Note 10)	—	—	—	198	(198)
Bonuses to directors and statutory auditors	—	—	—	—	(71)
Balance at March 31, 1997	254,229	34,115	67,216	4,945	144,143
Net loss	—	—	—	—	(4,703)
Adjustment due to change in number of consolidated subsidiaries	—	—	—	—	(377)
Adjustment due to change in number of affiliated companies	—	—	—	—	(97)
Common stock issued upon conversion of bonds	1	0	0	—	—
Cash dividends paid (¥8.0 per share)	—	—	—	—	(2,033)
Transfer to legal reserve (Note 10)	—	—	—	211	(211)
Bonuses to directors and statutory auditors	—	—	—	—	(94)
Balance at March 31, 1998	254,230	¥34,115	¥67,216	¥5,156	¥136,628

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1997	$258,447	$509,212	$37,462	$1,091,992
Net income	—	—	—	(35,629)
Adjustment due to change in number of consolidated subsidiaries	—	—	—	(2,856)
Adjustment due to change in number of affiliated companies	—	—	—	(735)
Common stock issued upon conversion of bonds	0	0	—	—
Cash dividends paid ($0.06 per share)	—	—	—	(15,402)
Transfer to legal reserve (Note 10)	—	—	1,599	(1,599)
Bonuses to directors and statutory auditors	—	—	—	(712)
Balance at March 31, 1998	$258,447	$509,212	$39,061	$1,035,061

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited
Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	**1998**
Cash flows from operating activities:				
Net income (loss)	**¥ (4,703)**	¥ 4,586	¥ 4,343	**$ (35,629)**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**24,008**	27,212	28,475	**181,879**
Equity in loss (income) of unconsolidated subsidiaries and affiliated companies	**(295)**	(1,754)	1,366	**(2,235)**
Loss (gain) on disposal of property, plant and equipment, net	**199**	(180)	(1,765)	**1,508**
Loss on liquidation and dissolution of subsidiaries	**—**	255	43	**—**
Loss on support of affiliated companies	**—**	529	2,674	**—**
Gain on subsidy for restructuring of a subsidiary	**—**	—	(3,744)	**—**
Deferred income taxes	**3,755**	(57)	(1,385)	**28,447**
Bonuses to directors and statutory auditors	**(94)**	(71)	(1)	**(712)**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	**(2,074)**	(9,666)	(21,736)	**(15,712)**
Decrease (increase) in inventories	**(20,689)**	13,695	(21,046)	**(156,735)**
Increase in other current assets	**(532)**	(1,549)	(5,281)	**(4,030)**
Increase (decrease) in notes and accounts payable	**15,108**	(9,607)	19,972	**114,455**
Increase in accrued income taxes	**1,420**	1,079	25	**10,758**
Increase (decrease) in other current liabilities	**2,448**	(290)	1,238	**18,545**
Effect of changes in number of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies	**1,480**	634	(4,764)	**11,212**
Other	**2,068**	2,924	3,826	**15,666**
Net cash provided by operating activities	**22,099**	27,740	2,240	**167,417**
Cash flows from investing activities:				
Capital expenditures	**(36,651)**	(31,552)	(30,479)	**(277,659)**
Proceeds from sales of fixed assets	**2,027**	1,834	5,560	**15,356**
Decrease (increase) in marketable securities	**(1,776)**	(4,019)	10,438	**(13,455)**
Decrease (increase) in investment securities	**3,079**	(8,866)	(1,398)	**23,326**
Decrease (increase) in investment in and advances to unconsolidated subsidiaries and affiliated companies	**(4,137)**	151	(4,799)	**(31,341)**
Other	**754**	3,285	(4,339)	**5,712**
Net cash used in investing activities	**(36,704)**	(39,167)	(25,017)	**(278,061)**
Cash flows from financing activities:				
Proceeds from long-term loans	**—**	1,813	—	**—**
Repayments of long-term loans	**(2,572)**	(3,697)	(1,622)	**(19,485)**
Proceeds from issuance of bonds	**—**	40,000	—	**—**
Repayments of bonds	**(1,494)**	(5,827)	—	**(11,318)**
Increase (decrease) in short-term bank loans	**13,357**	(551)	15,487	**101,190**
Increase (decrease) in commercial paper	**(6,869)**	3,662	(833)	**(52,038)**
Cash dividends paid	**(2,033)**	(1,907)	(23)	**(15,402)**
Net cash provided by financing activities	**389**	33,493	13,009	**2,947**
Effect of exchange rate changes on cash	**567**	1,452	(3,621)	**4,295**
Net increase (decrease) in cash	**(13,649)**	23,518	(13,389)	**(103,402)**
Cash at beginning of the year	**84,797**	61,279	74,668	**642,402**
Cash at end of the year	**¥ 71,148**	¥ 84,797	¥ 61,279	**$ 539,000**

See accompanying notes.

1. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been translated into English from those in Japanese which have been filed with the Ministry of Finance and the Tokyo Stock Exchange. They reflect certain changes in classification and form of presentation to make the consolidated financial statements more meaningful and informative for readers outside Japan.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1998, which was ¥132 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.

Certain reclassifications have been made in the 1997 and 1996 financial statements to comform to the presentation for 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

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

Foreign currency translation

Current assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet dates, and non-current assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Resulting exchange gains or losses are credited or charged to income as incurred.

Foreign currency items with forward exchange contracts are translated at the contracted rates. Gains on long-term forward exchange contracts are allocated to income over the life of the forward exchange contract. The related tax effect on the gains is also recognized.

Translation of foreign currency financial statements

Through 1996, monetary current assets and liabilities and net income were translated at exchange rates prevailing at the balance sheet dates. Non-monetary current assets and liabilities, non-current assets and liabilities and common stock were translated at historical exchange rates. Revenue and expenses, except for depreciation which was translated at historical exchange rates, were translated at average exchange rates during the respective years.

Differences resulting from translation of the balance sheets of foreign consolidated subsidiaries were charged or credited to "foreign currency translation adjustments" in the accompanying balance sheets except that the differences resulting from translation of opening retained earnings were charged or credited directly to retained earnings. Differences resulting from translation of the statements of income of foreign consolidated subsidiaries were included in "foreign currency translation adjustments" in the accompanying statements of income.

From 1997, according to the revised Accounting Standards for Foreign currency translations, assets and liabilities have been translated at exchange rates prevailing at the balance sheet dates. Stockholders' equity has been translated at historical exchange rates.

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

Differences resulting from translation of the balance sheets of foreign consolidated subsidiaries have been charged or credited to "foreign currency translation adjustments" in the accompanying balance sheets. The amounts for 1997 are based on the revised accounting standards. Assuming the amounts for 1996 were translated into Japanese yen in the same manner as those for 1997, operating income would decrease by ¥394 million, income before income taxes, minority interests and equity in income (loss) would increase by ¥189 million, and net income would increase by ¥479 million.

Inventories

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

Marketable securities and investment securities

Securities quoted on stock exchanges are stated at the lower of average cost or market. Non-quoted securities are valued at cost or less, reflecting write-downs based on impairment of the underlying equity.

Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is determined primarily by the declining-balance method based on the estimated useful lives of the assets. The ranges of useful lives used in the computation of depreciation are generally as follows:

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

Expenditure for maintenance and repairs is charged to income as incurred.

Finance leases

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

Research and development

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

Income taxes

Current income taxes are provided for the amounts currently payable for each year based on taxable income. Deferred income taxes are provided on significant temporary differences between income for financial reporting purposes and income for taxation purposes.

No provision for income taxes is made on undistributed earnings of foreign subsidiaries and affiliated companies as the Company considers that such earnings are permanently reinvested.

Employees' retirement benefits and pension plans

The Company has funded pension plans and unfunded benefit plans to provide retirement benefits for substantially all employees. Approximately 87% of total retirement benefits for employees is covered by funded pension plans.

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

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

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

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

Amounts per share of common stock

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

Diluted net income per share of the common stock for the year ended March 31, 1996 was not shown since the outstanding convertible bonds had no dilutive effect on the net income per share data for 1996.

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

3. CHANGE IN ACCOUNTING POLICY

In the year ended March 31, 1996, one of domestic consolidated subsidiaries changed its accounting for production cost of karaoke software from direct charging to income when announced to sell to capitalizing to inventories and amortizing by the declining balance method over two years. This change was made to get better matching of cost with revenue under the condition that the software is expected to be sold continuously and the sales volume is expected to increase. This change resulted in increases in operating income and income before income taxes, minority interests and equity in loss by ¥863 million, respectively. As to effect on segment information, see Note 14.

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

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). The Company's relationship with Matsushita dates back to 1954 when Matsushita acquired a controlling equity interest in the Company. Since then the Company has pursued an independent management policy in all aspects of its operations based on the principle of "mutual development through competition." There is no relationship of financial assistance between the two companies. Each company has a right of access to the technology developed by the other. At March 31, 1998, Matsushita held 133,227 thousand shares of common stock of the Company, 52.40% of the total outstanding shares.

Main account balances with Matsushita at March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Due from Matsushita	**¥ 112**	¥ 136	**$ 848**
Due to Matsushita	**3,238**	2,807	**24,530**

Sales to and purchases from Matsushita for the years ended March 31, 1998, 1997 and 1996, were as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	**1998**
Net sales	**¥ 1,125**	¥ 1,558	¥ 2,231	**$ 8,523**
Net purchases	**33,225**	34,965	34,273	**251,705**

5. INVENTORIES

Inventories at March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Finished goods	**¥101,254**	¥ 88,749	**$ 767,076**
Work in process	**20,681**	18,040	**156,674**
Raw materials and supplies	**27,690**	20,660	**209,773**
	¥149,625	¥127,449	**$1,133,523**

6. MARKETABLE EQUITY SECURITIES

The aggregate cost, market value and unrealized gains pertaining to marketable equity securities included in "marketable securities" and "investments and advances — other" in the accompanying consolidated balance sheets at March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Marketable securities:			
Cost	**¥ 112**	¥ 307	**$ 848**
Market value	**513**	1,925	**3,886**
Unrealized gains	**¥ 401**	¥ 1,618	**$ 3,038**
Investments and advances—other:			
Cost	**¥10,484**	¥11,760	**$ 79,424**
Market value	**19,737**	26,632	**149,523**
Unrealized gains	**¥ 9,253**	¥14,872	**$ 70,099**

7. INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants taxes.

The Company and its domestic consolidated subsidiaries are subject to the income taxes mentioned above which, in the aggregate, resulted in normal effective tax rate of approximately 51% for the years ended March 31, 1998, 1997 and 1996. Foreign subsidiaries are subject to income taxes of the countries in which they domicile.

The actual effective tax rates differ from the normal effective rate because of mainly (1) tax reduction for dividend income received from Japanese companies and (2) expenses not deductible for income tax purposes.

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

Short-term bank loans of certain of the Company's consolidated subsidiaries consist of notes maturing generally in three months. The applicable annual interest rates on short-term bank loans outstanding at March 31, 1998 and 1997, ranged from 1.2% to 20.0% and from 1.0% to 11.2%, respectively.

Long-term debt at March 31, 1998 and 1997, was as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
1.4% unsecured convertible bonds due 1999	**¥20,431**	¥20,431	**$154,780**
1.5% unsecured convertible bonds due 2005	**11,483**	12,977	**86,992**
0.35% unsecured convertible bonds due 2002	**19,999**	20,000	**151,507**
0.55% unsecured convertible bonds due 2005	**20,000**	20,000	**151,515**
4.3% Eurobonds due 2000	**10,700**	10,052	**81,061**
Loans, primarily from banks with interest principally at 2.20% to 8.95%			
Secured	**561**	613	**4,250**
Unsecured	**7,503**	10,081	**56,841**
Other	**649**	904	**4,917**
	91,326	95,058	**691,863**
Less current portion	**20,431**	—	**154,780**
	¥70,895	¥95,058	**$537,083**

The 1.5% and 1.4% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 107% to 100% and 104% to 100% of the principal amount, respectively. For both issues, the price at which shares of common stock shall be issued upon conversion is ¥2,867 ($21.72) per share, subject to adjustment under certain circumstances.

The 0.35% and 0.55% unsecured convertible bonds are redeemable prior to their stated maturity, in whole or in part, at the option of the Company at prices ranging from 102% to 100% and 103% to 100% of the principal amount, respectively. For both issues, the price at which shares of common stock shall be issued upon conversion is ¥1,487 ($11.27) per share, subject to adjustment under certain circumstances.

The aggregate annual maturities of long-term debt at March 31, 1998, were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥20,431	$154,780
2000	18,233	138,129
2001	30	227
2002	591	4,477
2003	20,029	151,735
Thereafter	32,012	242,515
	¥91,326	$691,863

9. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt and accrued expenses at March 31, 1998:

	Millions of yen	Thousands of U.S. dollars
Investments	¥ 8	$ 61
Machinery and equipment	561	4,250
Finished goods	166	1,257
	¥735	$5,568

10. LEGAL RESERVE AND RETAINED EARNINGS

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and bonuses to directors and statutory auditors for each fiscal year shall be appropriated and set aside as a legal reserve until such reserve equals 25% of common stock. This legal reserve is not available for dividends, but may be used to reduce a deficit by resolution of a stockholders' meeting or may be capitalized by resolution of the Board of Directors.

Consolidated retained earnings included legal reserves and retained earnings of consolidated subsidiaries, which were earned after acquisition.

11. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 1998, were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥ 4,988	$ 37,788
As guarantor for loans of employees	17,579	133,174
	¥22,567	$170,962

12. FORWARD FOREIGN EXCHANGE CONTRACTS — THE COMPANY ONLY

At March 31, 1998, the Company had contracts to sell various foreign currencies, mainly U.S. dollars. The aggregate contract amount and fair value of forward foreign exchange contracts equivalent in Japanese yen at March 31, 1998, were ¥54,613 million and ¥56,047 million, respectively.

The Company also had contracts to purchase various foreign currencies, mainly U.S. dollars. The aggregate contract amount and fair value of forward foreign exchange contracts equivalent in Japanese yen at March 31, 1998, were ¥32,119 million and ¥33,550 million, respectively.

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

13. SUBSEQUENT EVENTS

On June 26, 1998, the Company's stockholders authorized (1) payment of a cash dividend to stockholders of record on March 31, 1998 of ¥3.5 ($0.03) per share, totaling ¥890 million ($6,742 thousand), (2) payment of bonuses to directors and statutory auditors of ¥72 million ($545 thousand) and (3) transfer to legal reserve of ¥96 million ($727 thousand) from retained earnings.

14. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate primarily in the audiovisual and information-related business and entertainment business. As explained in Note 2, the amounts for 1997 are based on revised accounting standards. Assuming the amounts for 1996 are translated into Japanese yen based on the same manner as those for 1997, operating income (loss) of the Audiovisual and information-related business segment and the Entertainment business segment would increase by ¥829 million and ¥435 million, respectively. Also, assets of the Audiovisual and information-related business segment and the Entertainment business segment would decrease by ¥172 million and ¥787 million, respectively.

As explained in Note 3, a consolidated subsidiary changed its accounting for the production cost of karaoke software in 1996. As a result, operating expenses of Entertainment business segment decreased by ¥863 million and operating income increased by the same amount for the year ended March 31, 1996.

Information by segment for the years ended March 31, 1998, 1997 and 1996 is shown in the tables below.

1) Business segment information is as follows:

	Millions of yen				
	Audiovisual and information-related business	Entertainment business	Total	Eliminations and unallocation	Consolidated total
1998:					
Sales					
External sales	**¥779,603**	**¥136,703**	**¥916,306**	**¥ —**	**¥916,306**
Intersegment sales	**—**	**1,968**	**1,968**	**(1,968)**	**—**
Total sales	**779,603**	**138,671**	**918,274**	**(1,968)**	**916,306**
Operating expenses	**774,690**	**133,124**	**907,814**	**(1,541)**	**906,273**
Operating income	**¥ 4,913**	**¥ 5,547**	**¥ 10,460**	**¥ (427)**	**¥ 10,033**
Identifiable assets	**¥431,647**	**¥ 84,056**	**¥515,703**	**¥108,347**	**¥624,050**
Depreciation & amortization	**19,733**	**3,695**	**23,428**	**580**	**24,008**
Capital expenditures	**33,637**	**2,829**	**36,466**	**185**	**36,651**
1997:					
Sales					
External sales	¥755,576	¥134,797	¥890,373	¥ —	¥890,373
Intersegment sales	—	2,868	2,868	(2,868)	—
Total sales	755,576	137,665	893,241	(2,868)	890,373
Operating expenses	753,867	127,799	881,666	(2,816)	878,850
Operating income	¥ 1,709	¥ 9,866	¥ 11,575	¥ (52)	¥ 11,523
Identifiable assets	¥377,693	¥ 88,374	¥466,067	¥137,853	¥603,920
Depreciation & amortization	15,273	3,940	19,213	799	20,012
Capital expenditures	17,622	5,126	22,748	804	23,552
1996:					
Sales					
External sales	¥673,016	¥133,535	¥806,551	¥ —	¥806,551
Intersegment sales	—	3,357	3,357	(3,357)	—
Total sales	673,016	136,892	809,908	(3,357)	806,551
Operating expenses	675,347	129,388	804,735	(3,357)	801,378
Operating income (loss)	¥ (2,331)	¥ 7,504	¥ 5,173	¥ —	¥ 5,173
Identifiable assets	¥347,466	¥ 77,858	¥425,324	¥136,330	¥561,654
Depreciation & amortization	12,218	3,798	16,016	1,050	17,066
Capital expenditures	17,496	5,010	22,506	1,657	24,163

	Thousands of U.S. dollars				
	Audiovisual and information-related business	Entertainment business	Total	Eliminations and unallocation	Consolidated total
1998:					
Sales					
External sales	**$5,906,083**	**$1,035,629**	**$6,941,712**	**$ —**	**$6,941,712**
Intersegment sales	**—**	**14,909**	**14,909**	**(14,909)**	**—**
Total sales	**5,906,083**	**1,050,538**	**6,956,621**	**(14,909)**	**6,941,712**
Operating expenses	**5,868,864**	**1,008,515**	**6,877,379**	**(11,675)**	**6,865,704**
Operating income	**$ 37,219**	**$ 42,023**	**$ 79,242**	**$ (3,234)**	**$ 76,008**
Identifiable assets	**$3,270,053**	**$ 636,788**	**$3,906,841**	**$820,810**	**$4,727,651**
Depreciation & amortization	**149,492**	**27,993**	**177,485**	**4,394**	**181,879**
Capital expenditures	**254,826**	**21,432**	**276,258**	**1,401**	**277,659**

2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1998:							
Sales							
External sales	**¥496,970**	**¥228,932**	**¥137,625**	**¥ 52,779**	**¥ 916,306**	**¥ —**	**¥916,306**
Intersegment sales	**217,691**	**1,572**	**73**	**103,222**	**322,558**	**(322,558)**	**—**
Total sales	**714,661**	**230,504**	**137,698**	**156,001**	**1,238,864**	**(322,558)**	**916,306**
Operating expenses	**705,853**	**231,665**	**135,584**	**154,860**	**1,227,962**	**(321,689)**	**906,273**
Operating income (loss)	**¥ 8,808**	**¥ (1,161)**	**¥ 2,114**	**¥ 1,141**	**¥ 10,902**	**¥ (869)**	**¥ 10,033**
Identifiable assets	**¥394,610**	**¥100,468**	**¥ 69,601**	**¥ 59,033**	**¥ 623,712**	**¥ 338**	**¥624,050**

	Millions of yen				
	Japan	Overseas	Total	Elimination and unallocation	Consolidated total
1997:					
Sales					
External sales	¥516,911	¥373,462	¥ 890,373	¥ —	¥890,373
Intersegment sales	183,577	91,650	275,227	(275,227)	—
Total sales	700,488	465,112	1,165,600	(275,227)	890,373
Operating expenses	690,167	461,864	1,152,031	(273,181)	878,850
Operating income	¥ 10,321	¥ 3,248	¥ 13,569	¥ (2,046)	¥ 11,523
Identifiable assets	¥362,123	¥199,058	¥ 561,181	¥ 42,739	¥603,920

	Millions of yen				
	Japan	Overseas	Total	Elimination and unallocation	Consolidated total
1996:					
Sales					
External sales	¥494,570	¥311,981	¥ 806,551	¥ —	¥806,551
Intersegment sales	183,402	72,341	255,743	(255,743)	—
Total sales	677,972	384,322	1,062,294	(255,743)	806,551
Operating expenses	673,908	384,590	1,058,498	(257,120)	801,378
Operating income (loss)	¥ 4,064	¥ (268)	¥ 3,796	¥ 1,377	¥ 5,173
Identifiable assets	¥333,300	¥173,385	¥ 506,685	¥ 54,969	¥561,654

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1998:							
Sales							
External sales	**$3,764,924**	**$1,734,333**	**$1,042,614**	**$ 399,841**	**$6,941,712**	**$ —**	**$6,941,712**
Intersegment sales	**1,649,174**	**11,909**	**553**	**781,985**	**2,443,621**	**(2,443,621)**	**—**
Total sales	**5,414,098**	**1,746,242**	**1,043,167**	**1,181,826**	**9,385,333**	**(2,443,621)**	**6,941,712**
Operating expenses	**5,347,371**	**1,755,038**	**1,027,152**	**1,173,182**	**9,302,743**	**(2,437,039)**	**6,865,704**
Operating income (loss)	**$ 66,727**	**$ (8,796)**	**$ 16,015**	**$ 8,644**	**$ 82,590**	**$ (6,582)**	**$ 76,008**
Identifiable assets	**$2,989,470**	**$ 761,121**	**$ 527,280**	**$ 447,220**	**$4,725,091**	**$ 2,560**	**$4,727,651**

3) Overseas sales information by geographic area in 1998 is as follows:

	Millions of yen				
1998	Americas	Europe	Asia	Other area	Total
Overseas sales	**¥255,323**	**¥145,698**	**¥120,925**	**¥4,339**	**¥526,285**
Consolidated sales					**¥916,306**
Percentage of overseas sales	**27.8%**	**15.9%**	**13.2%**	**0.5%**	**57.4%**

	Thousands of U.S. dollars				
1998	Americas	Europe	Asia	Other area	Total
Overseas sales	**$1,934,265**	**$1,103,773**	**$916,099**	**$32,871**	**$3,987,008**
Consolidated sales					**$6,941,712**
Percentage of overseas sales	**27.8%**	**15.9%**	**13.2%**	**0.5%**	**57.4%**

Total overseas sales in 1997 and 1996 were ¥484,394 million and ¥409,358 million, respectively.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Victor Company of Japan, Limited (a Japanese corporation) and subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1998, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Victor Company of Japan, Limited and subsidiaries as of March 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except for the change made as of April 1, 1995, with which we concur, in accounting policy refered to in Note 3.

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

Asahi & Co.

Tokyo, Japan
June 26, 1998