JVC

VICTOR COMPANY OF JAPAN, LIMITED

Annual Report 1998

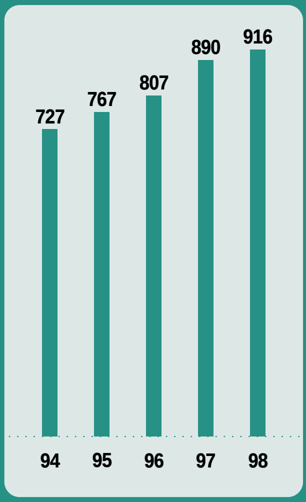
Financial Highlights

Victor Company of Japan, Limited

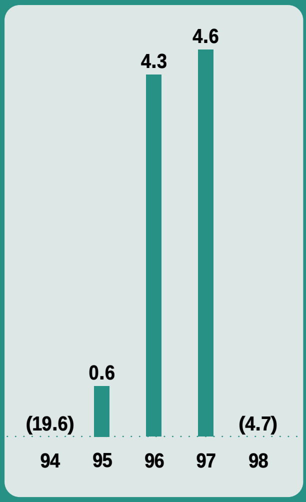
	Millions of yen			Thousands of U.S. dollars (Note A)
	1998	1997	1996	**1998**
Net sales	**¥916,306**	¥890,373	¥806,551	**$6,941,712**
Overseas	**526,285**	484,394	409,358	**3,987,008**
Domestic	**390,021**	405,979	397,193	**2,954,704**
Net income (loss)	**(4,703)**	4,586	4,343	**(35,629)**
	Yen			U.S. dollars (Note A)
Per share:				
Net income (loss)	**¥ (18.5)**	¥ 18.0	¥ 17.1	**$ (0.14)**
Cash dividends (Note B)	**7.0**	7.0	5.0	**0.05**
	Millions of yen			Thousands of U.S. dollars (Note A)
Stockholders' equity	**¥243,086**	¥250,418	¥247,891	**$1,841,561**
Total assets	**624,050**	603,920	561,654	**4,727,651**
Capital expenditures	**36,651**	31,552	30,479	**277,659**
Depreciation & amortization	**24,008**	27,212	28,475	**181,879**

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

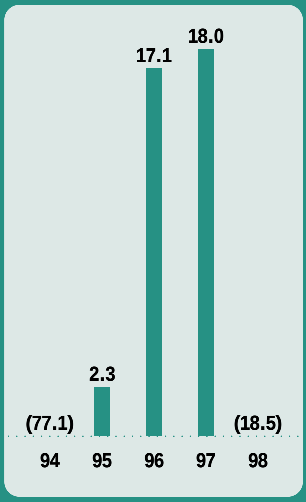
Net Sales (Billions of yen)



Net Income (Loss) (Billions of yen)



Net Income (Loss) per Share (Yen)



JVC is a world leader in audio-visual and related software products. The Company is being transformed from an audiovisual innovator to a digital systems integrator. Its position as one of the few companies in the world with large-scale operations in both hardware and software, along with the innovative technology that led to the development of VHS, provides JVC with a competitive advantage in the development of digital systems. Based on these strengths, JVC looks forward to a new stage of growth in the multimedia age.

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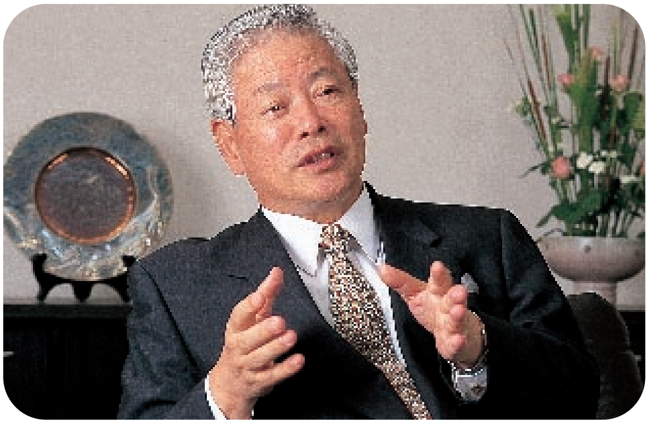


During the fiscal year ended March 31, 1998, JVC implemented several changes to fortify its position as a highly competitive global company in the multimedia era.

The Company made substantial progress in strategically shifting to a lineup of high-value-added digital products for the multimedia era in its Consumer Electronics, Professional Electronics, Components & Devices, and Entertainment businesses. We also continued to establish our global network and to achieve a more streamlined and efficient management structure.

Environment and Performance

Around the world, the electronics industry saw signs of the anticipated full-scale arrival of the multimedia era. Market growth continued for products that communicate in the universal language of this era–digital–including such audiovisual (AV) products as digital camcorders and minidiscs (MDs). On the contrary, world prices fell for conventional products.

The unprecedented downturn in the Japanese economy adversely affected JVC despite the Company's early start in globalization and high ratio of overseas sales to consolidated net sales. Lower consumer demand and a reduction in public investment led to a significant decline in domestic demand for Consumer and Professional Electronics. In addition, orders fell in Components & Devices business as a result of personal computer inventory adjustments due to weak demand. Overseas, demand in the United States and Europe, JVC's principal markets, remained strong.

Amid this business environment, JVC worked to build an operating structure that does not rely excessively on conventional types of AV equipment, which are undergoing an inevitable fall in prices. Guided by the "Victor Vision" three-year plan, which entered its final year this term, the Company applied its competitive edge to the multimedia era with timely product development and market introductions.

In Consumer Electronics, the Company bolstered its New AV lineup of high-value-added digital products. New AV, comprising such products as digital camcorders, MD audio products and high-definition televisions (HDTVs), accounted for 16% of Consumer Electronics sales, up from 14% in the previous fiscal year. Orders have expanded substantially in strategic businesses, which are predicted to grow sharply, for such Professional Electronics products as the direct-drive image light amplifier (D-ILA) multimedia projector and the Digital-S video system as well as such Components & Devices products as high-precision build-up multilayer boards.

Consolidated net sales rose 2.9% to ¥916,306 million (US$6,941.7 million) compared with the previous fiscal year. Domestic sales were ¥390,021 million (US$2,954.7 million), down 3.9%, and overseas sales amounted to ¥526,285 million (US$3,987.0 million), an increase of 8.6%.

Adversely affected by a fall in product prices, operating income declined 12.9% to ¥10,033 million (US$76.0 million). A consolidated net loss of ¥4,703 million (US$35.6 million) was recorded compared with consolidated net income of ¥4,586 million during the previous fiscal year. This decline was the result of extraordinary losses from the liquidation of assets that restricted the future growth of JVC, comprising a loss on the liquidation of a factory in France, a loss on the decrease in fixed assets associated with the merger of marketing companies in France, and deferred tax payments incurred on the liquidation of a tape manufacturing company in Germany in 1993.

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

The phrase "Re-Value" is meant to realize a new value structure while identifying the fields in which JVC can maximize its competitive edge in the coming age.

From "Victor Vision" to "Re-Value 21"

In January 1998, JVC announced "Re-Value 21," a three-year plan that extends until March 2001. As the successor to "Victor Vision," which guided the Company to a path of recovery, "Re-Value 21" is JVC's new guideline to strengthen strategic businesses, promote globalization and carry out restructuring. The phrase "Re-Value" is meant to realize a new value structure while identifying the fields in which JVC can maximize its competitive edge in the coming multimedia era and the age of megacompetition.

In the multimedia era, digital-related technology is expected to produce substantial advantages for JVC. In the world of multimedia, a universal language–digital–bridges the gaps among various media, merging the fields of information, telecommunications and broadcasting. JVC possesses the most advanced digital technology in the world, including high-precision imaging technology, software control technology and highly effective coding technology

essential to the efficient recording, playback and transmission of moving image data.

The ability to provide content is an important prerequisite for competitiveness in the development of multimedia businesses. In new business development, represented by digital broadcasting-related and DVD businesses, effective utilization of JVC's strong software business is expected to provide substantial advantages.

To effectively use these competitive advantages, JVC will selectively distribute management resources and create new business opportunities in the value-added high-growth market of multimedia-related businesses.

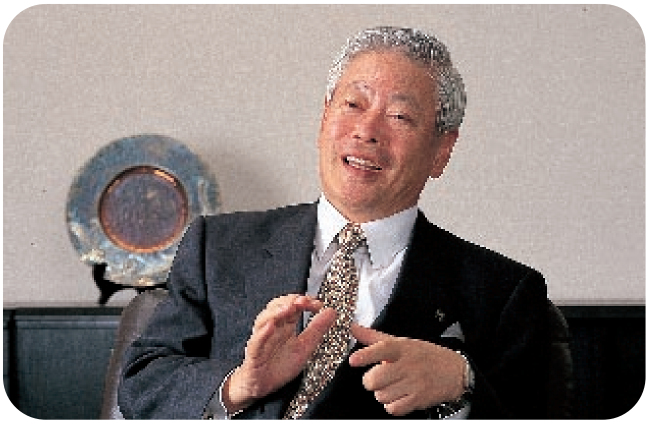
In Consumer Electronics, our New AV lineup of high-value-added digital products continued to grow steadily. A hit product worldwide for its high image and sound quality, portability and connectivity to other digital equipment, the digital camcorder is expected to grow as a personal image recording device in the multimedia era. In addition, in the fall of 1997, our New AV lineup was strengthened with the announcement of the D-VHS standard in the United States. D-VHS has attracted attention as a new standard video format for home use in digital broadcasting.

In Professional Electronics, market share of the Digital-S professional video system, developed on the VHS format, is dramatically expanding in broadcasting, as exemplified by its use at Fox Television in the United States and the British Broadcasting Corporation (BBC) in the United Kingdom. In third-generation displays, the image light amplifier (ILA) projector system, which boasts an overwhelming share of the large-screen market, is rapidly approaching commercialization as a consumer product with the development of ILA devices featuring smaller sizes and lower costs. In addition, latent demand is expected to emerge for the wireless optical local area network (LAN) system, which offers significant advantages in building flexible networks in offices.

In Components & Devices business, we are expanding our scope of operations through outside sales of components based on the technological breakthroughs that made possible such products as the VHS videocassette recorder and digital camcorder. Our lineup of strategic products was joined by high-precision build-up multilayer boards, for which robust demand is forecast, as an indispensable component of small and lightweight digital equipment in the information and telecommunications-related fields.

In Entertainment, JVC is enhancing its ability to provide content in entertainment, information and education, based on a strategy that integrates its hardware business, to establish multimedia as a third business pillar in addition to its core audio and visual software businesses.

In the fall of 1998 in the United States, digital HDTV broadcasts will be initiated in the four large terrestrial networks and in cable television (CATV), which is installed in approximately 60% of all households. JVC possesses such strategic products as the Digital-S system, Moving Picture Image Coding Experts Group (MPEG)



encoders, the ILA projector system and D-VHS that can attain market leadership in each digital broadcasting stage, from archiving and editing to transmission, reception and recording. JVC sees this historical change as the "Big Bang in Broadcasting" and a golden business opportunity.

Fortifying Our Foundation as a Global Company

An important theme in "Re-Value 21" is the construction of JVC's global network in five business spheres: Japan, the Americas, Europe, Asia and China. Each sphere has a localized management team that carries out total strategic planning in development, production and marketing. In April 1998, we established JVC Europe Ltd. in London as headquarters for European operations, joining JVC Americas Corp., JVC ASIA Pte. Ltd. and JVC (China) Investment Co., Ltd. in the creation of a locally managed business structure of four overseas regional headquarters.

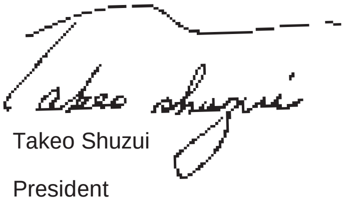
JVC promotes production in optimal locations for the construction of a worldwide structure neutral to exchange rate fluctuations while taking into account such factors as market access, parts procurement, technological capabilities, distribution and operating costs. As a result, the overseas production ratio increased to 41% from 36%, and the local procurement ratio edged up to 24% from 23% in the previous fiscal year.

Pride in the JVC Brand Name

Beginning with VHS, the de facto standard in videocassette recorders, the JVC brand name has provided audio and visual entertainment through excellent audiovisual systems. The JVC brand name is widely known and respected in homes, workplaces and schools around the world.

As a global company proud of contributing to the creation of audio and visual culture, JVC aims to leap ahead in the 21st century. Digital technology and business development combining software and hardware offer considerable competitive advantages in the multimedia era for next-generation products. JVC will further strengthen its business structure to apply its competitive advantage in a concentrated and effective manner for the creation of new value.

We thank our investors, customers and associates for their continued support.



Takeo Shuzui
President

Digital camcorders, when combined with such digital equipment as computers and printers, draw out the full potential of multimedia.

Wide-screen television

Digital still camera

JLIP image editing system

Portable video printer

JVC's AV business is undergoing a tremendous transformation amid the convergence of such media as communications, broadcasting and computers into multimedia. Through the promotion of the "Victor Vision" mid-term plan, New AV, the Company's line of strategic high-value-added digital products, has accounted for a rising portion of Consumer Electronics sales–16% in fiscal 1998 compared with 4% in fiscal 1996.

Video

In video operations, JVC is furthering the diffusion of VHS, the JVC-developed de facto standard for videocassette recorders, and camcorders based on the DV format.

The VHS videocassette recorder is the foremost communications infrastructure of the 20th century, with more than 650 million units produced and approximately 20 billion video tapes in existence. As the inventor of the VHS format, JVC has driven its performance higher to fulfill the needs of the times.

JVC advances VHS technology in response to the needs of the era with S-VHS ET (left) and D-VHS VCRs.

In October 1997, JVC announced a D-VHS format VCR for the U.S. market. D-VHS is a new VHS format that offers digital bit stream recording and playback of high-quality images and sound of digital broadcasting. Evolving from the original VHS format, D-VHS maintains backward compatibility with the vast library of conventional VHS software. Production facilities and technologies used to make VHS products can be adapted for the production of D-VHS products, which makes possible production at prices conducive to the popularization of D-VHS.

D-VHS meets the necessary qualifications to become the world standard in next-generation VCRs. As satellite and terrestrial broadcasting in North America, Europe, Japan and Asia gradually become digitized, JVC will introduce its D-VHS VCRs in line with each market's progress toward digital broadcasting.

JVC continues to add value to the S-VHS format. In April 1998, S-VHS ET technology was announced as an extension of S-VHS, making possible high-quality 400-line resolution S-VHS recording on standard VHS tapes. As of 1997, the S-VHS format holds an 11% share of the domestic market. The release of S-VHS ET is expected to increase market share of the S-VHS format and strengthen JVC's position in the market.

Since their release in 1995, sales of DV format digital camcorders have continued to achieve dramatic growth, with their share of the domestic camcorder market forecasted to expand from 66% in 1997 to 80% in 1998.

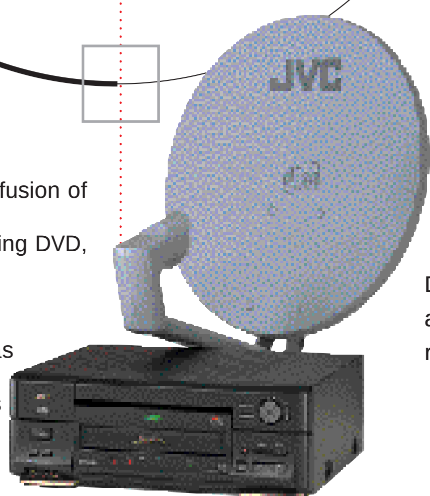
In 1995, JVC released the epoch-making GR-DV1 digital camcorder, beginning a new trend in camcorders. Since then, JVC has led growth in the DV camcorder market by introducing models teeming with such advances that usher in the multimedia camcorder as unparalleled high-quality images, excellent portability, creative editing functions and connectivity to other digital equipment.

In 1998, JVC released the GR-DVY, the world's smallest and lightest DV camcorder with an LCD monitor, further identifying the JVC brand name with DV camcorders. In addition to the GR-DVY, JVC released a pocket video printer and digital still cameras. JVC calls these products Pocket Communications Tools for the digital age.

Television

JVC is a pioneer in the development of wide-screen TVs with a 16:9 aspect ratio and is expanding the market with its competitive products. The domestic market is forecast to grow to approximately 1.85 million units in fiscal 1998. Replacement demand for

Robust growth is expected in wide-screen TVs as the ideal format for digital broadcasting and high-definition image software.



wide-screen TVs is expected to expand along with the diffusion of wide-screen images in high-quality visual software, including DVD, and satellite and terrestrial digital broadcasting.

JVC's technological prowess in wide-screen TVs has garnered widespread approval in Japan and overseas, as demonstrated by the AV-32WP model that received the European Television of the Year award in 1997. In 1998, a flat wide-screen TV, for which demand is rapidly growing, was added to the product lineup. This product will further enhance market recognition of JVC as the leading supplier of large-screen high-quality image viewing products.

JVC's D-ILA multimedia projector is expected to attract sales growth as a large-screen high-end projector for multimedia use. D-ILA is a successor to the ILA Super Projector, which boasts a 40% share of the domestic high-end professional market, with emphasis placed on use with HDTV, personal computers and workstations. A more compact size and improvements in cost performance add to an impressive list of features, including

Our DVD business develops and supplies high-quality products befitting the JVC brand name.

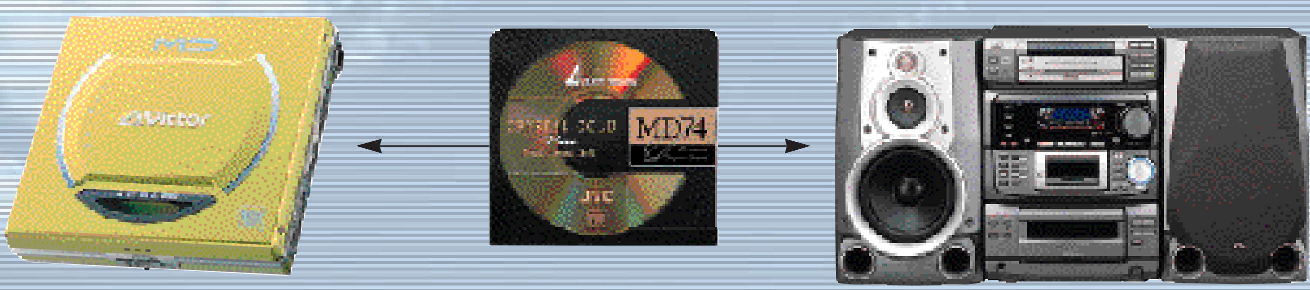
high-resolution images equal to the full 1365 x 1024 dot resolution of a personal computer, the brightness of 1,000 ANSI lumen enabling projection up to 527 inches, and setup flexibility afforded by its 13 kilogram weight and compact size. Realizing these features with market-leading cost performance, the D-ILA has cleared all the hurdles required to become the new standard in multimedia projectors.

Audio

JVC products received the top recommendation in 10 categories of the summer 1998 “Best Buy” issue of *HiVi*, Japan’s leading audio-video magazine. The advanced technologies that give JVC products the edge over other companies are expected to make great contributions to their competitiveness in such strategic business fields as MD and DVD.

The domestic MD market has expanded from one million units in 1995 to more than five million units in 1997. The MD is expected to supplant a substantial share of the cassette tape market in Japan and overseas with its ability to record and playback digital sound with no loss in quality and random access. JVC is strengthening competitiveness in MD operations, which already boast a leading share of the market, with a complete lineup of MD products ranging from portable models and radio cassette decks to minicomponent systems and car audio systems that meet the needs of consumers aiming to replace their cassette players.

JVC is also strengthening its DVD hardware and software operations. In software, our production facility in Sacramento, California in the United States is operating at full capacity. In hardware, we will bolster our lineup of high-quality products worthy of the JVC brand name.



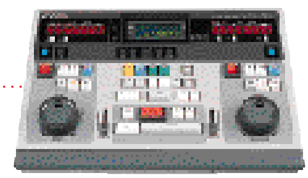
JVC develops products with the popular MD format, including portable models and minicomponent systems.

Digital-S videocassette player

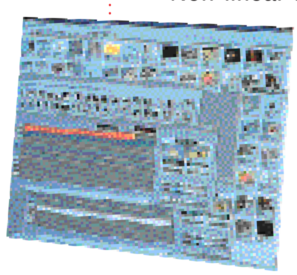
To fulfill the digitization needs of broadcasting stations, JVC offers fully digital systems, from recording to editing and broadcasting, based on the Digital-S video system.

Digital-S videocassette recorder

Editing control unit



Non-linear editing system

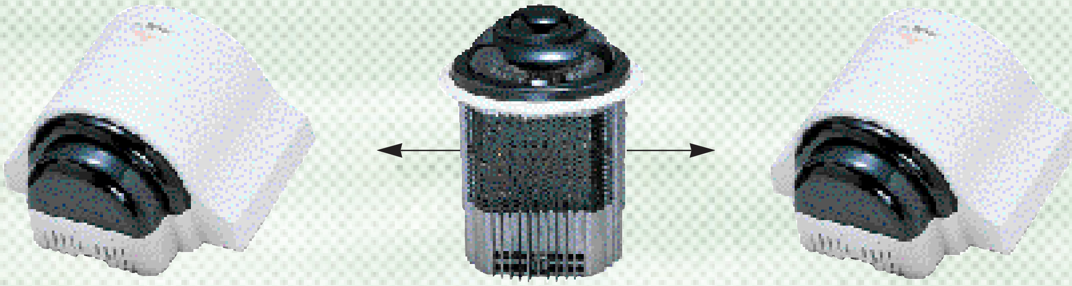


In Professional Electronics, JVC provides AV systems and information systems to users, including public and educational institutions, corporations and amusement facilities. In the midst of dynamic change in the broadcasting, information and communications environments, demand is sharply increasing for systems that can effectively and effortlessly manipulate digital data. As a solution to these needs, JVC is strategically promoting the Digital-S video system, the ILA projector system and the wireless optical LAN system.

Digital-S System

With the advent of digital broadcasting, JVC's professional Digital-S video system is attracting great interest among broadcasters in Japan and overseas. Since its introduction in 1996, more than 8,000 units have been sold and over 150 broadcasting stations throughout the world now use the format, including Fox Television in the United States and the British Broadcasting Corporation (BBC) in the United Kingdom.

The merits of Digital-S begin with high-quality digital images demanded by broadcasting stations made available in a VHS format. Digital-S can replay a vast library of existing VHS images. In addition, a complete recording, playback and editing system is



JVC's wireless optical LAN system is gaining ground in the office. We are advancing R&D to apply it to the home as well.

attainable with impressive cost performance for not only broadcasting stations but also for image production studios and corporations. This is achieved by taking advantage of established VHS production facilities and technology.

Digital data created with Digital-S is compressed and transmitted from broadcasting stations with a Moving Picture Image Coding Experts Group 2 (MPEG-2) encoder. JVC is widely recognized by broadcasters as a pioneer in high-performance digital image compression. Our competitive edge is further enhanced through an alliance with DiviCom, Inc. in the United States, a leading global provider of standards-based MPEG-2 encoding products and systems for digital video broadcasting.

ILA Projector System

The ILA projector big-screen image system was developed as the third-generation of displays, following the cathode-ray tube (CRT) and the liquid crystal display (LCD). Demand is growing for the system owing to its display that is five times brighter than that of a CRT projector and its clear 1,500-line resolution. In the market for professional large-screen display systems, the ILA maintains a global market share of more than 50%.

In November 1997, JVC announced a more compact and inexpensive ILA projector system. We will boost its expanding scale of operations in the semiprofessional and personal use fields.

The new ILA projector system that is smaller and less expensive than before was made possible through the development of new components.

Wireless Optical LAN System

The wireless optical LAN system transmits data by way of infrared light. Wireless optical LANs offer the same high-speed 10 Mbps communications as provided by a conventional wired LAN, but do not require the laying of cables to construct a network or to change the layout, which is a major advantage. Robust sales growth in these systems is expected against a sharp increase in the use of LANs in offices. The JVC wireless optical LAN system was approved as Japan's standard at a conference attended by representatives from a majority of Japan's broadcasting and telecommunications companies.

In January 1998, JVC established a High-Speed Infrared Transmission System (HITS) research center with government and private sector cooperation to promote system development of a wireless network for home use based on JVC's optical LAN technology.

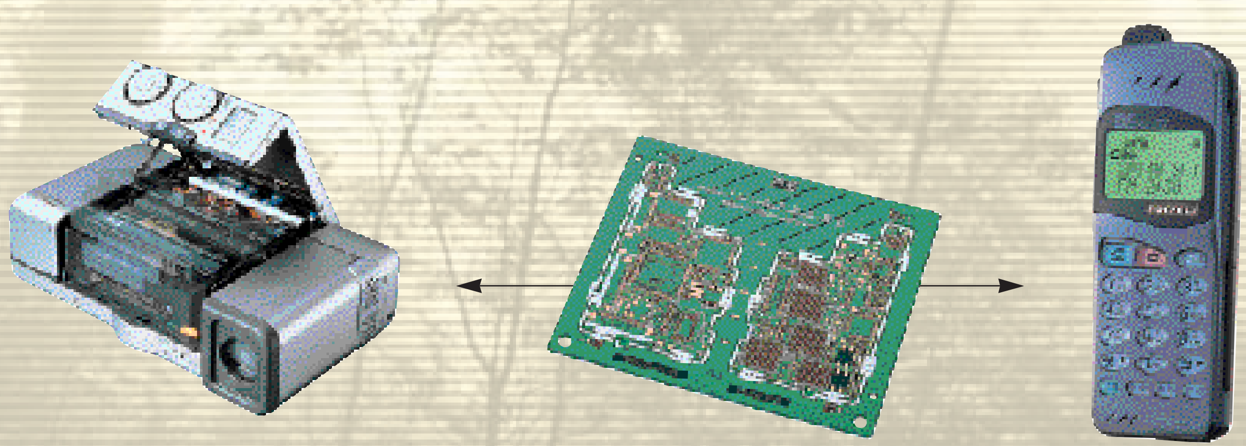
Components & Devices is a mission-critical pillar of operations that supports the future of JVC. Our Components & Devices technology has contributed to the development of the world's most advanced products, including the VHS platform and the digital camcorder. Taking advantage of this technological strength, JVC is dramatically expanding outside sales. The ratio of external sales has expanded from 78% in 1995 to 90% in 1998. This competitive advantage is unmatched by any other component manufacturer.

The information- and communications-related field is expected to accelerate growth in Components & Devices operations. JVC is one of the world's leading producers of the deflection yoke, a fundamental component of CRTs for personal computer displays. Other highly competitive products include basic components for such optical storage systems as CD-ROM drives, highly accurate motors for floppy disk and hard disk drives, and build-up multilayer boards.

Information- and Communications-Related Products

In information- and communications-related products, sharp growth is expected in high-density build-up multilayer boards, a strategic part of operations. GR-DV1 and GR-DVX, the world's smallest and lightest digital camcorders, were made possible through JVC's build-up boards. Demand is rapidly increasing for build-up boards as a key component in AV digital products, notebook computers, portable information devices and mobile communications devices, which require more compactness and density. In response to this demand, JVC established an advanced production line in July 1997.

Components for high-capacity random access memory mediums, including CD-ROM and DVD-ROM drive mechanisms, optical pick-ups and motors for data storage devices, show promise as fields of growth. JVC will respond to rising demand for higher levels of precision and speed in these devices.



Demand is sharply increasing for our high-precision build-up multilayer boards, which are used in digital equipment.

JVC has led the domestic software industry as one of Japan's few software groups that carry out integrated operations covering content creation and production, compact disc (CD) manufacturing and video tape duplication, logistics and distribution. At present, JVC is bolstering multimedia software operations as a third business pillar in addition to its audio and visual software operations.

Audio and Visual Software

In music operations, the JVC Group has signed numerous popular Japanese artists including the Southern All Stars, which are expected to reach sales of a million units. The JVC Group is also supporting such budding artists as UA and Kiroro.

In video operations, JVC wields a strong competitive edge in videotape sales. With distribution rights in Japan for movies produced by such major studios as Universal, Paramount and Twentieth Century Fox, the JVC software group is among the top videotape distributors in Japan, represented by an 18.4% share of the domestic market according to a 100-product Nikkei survey.

In addition, JVC forms partnerships with such prominent independent directors as Luc Besson, director of the 1997 hit movie *Fifth Element*. These long-term strategic partnerships are showing steady results.

Multimedia-Related Software

JVC has operations in a wide range of multimedia-related fields. In the video game business, for example, Victor Interactive Software Co., Ltd. creates and sells enticing game software on a variety of platforms.

JVC aims to create businesses that take full advantage of the merits provided in its software and hardware operations. New multimedia-related businesses focus on sales of CD-ROM and DVD-ROM packaged media and non-packaged content creation for distribution over communications lines. JVC plans to construct a content library complete with such entertainment as video, music, karaoke and games, as well as such non-entertainment as "edutainment" and culture programs. JVC is also promoting the development of practical content for on-line shopping.

The American hit movie directed by Ridley Scott, *G.I. Jane* was released in 1998 in Japan through JVC's distribution network.

Lost in Space, directed by Stephen Hopkins, will be released in Japan in late 1998 through JVC's distribution network.

JVC's Entertainment business is a leader in the distribution of image and audio software in Japan.

Global Marketing

JVC is building infrastructure to maintain close contact with various regions of the world, including the major markets of Japan, Europe and North America as well as the emerging markets of Asia, Central and South America and Eastern Europe. Emerging markets in particular are building capabilities as manufacturing bases and turning into key regions with high consumption potential.

JVC is constructing a global network in five business spheres: Japan, the Americas, Europe, Asia and China. JVC ASIA Pte. Ltd. was established in Singapore in 1995, JVC (China) Investment Co., Ltd. in 1996, and JVC Americas Corp. in 1997. With the establishment of JVC Europe Ltd. in the United Kingdom in 1998, JVC completed a localized management structure comprising four regional headquarters to oversee operating strategies ranging from R&D, marketing, after-sales service, fund procurement to management.

Established in Mexico in 1996, JVC Industrial de Mexico, S.A. de C.V. is a TV production base for the North American and Latin American markets, forming a strategic link in JVC's optimized world production structure.

In November 1997, JVC Beijing Electronic Industries Co., Ltd. in China completed a new factory for VCRs and camcorders.

World Production Structure in Optimal Locations

JVC aims to construct a world production structure in optimal locations, taking into account parts procurement, production costs, market strategy and technological ability, to supply JVC brand-name products to the world. JVC's overseas production ratio grew from 36% to 41% and its local procurement ratio from 23% to 24%, contributing to higher resistance to exchange rate fluctuations and to greater cost competitiveness.

JVC recently established a television factory in Mexico, a Components & Devices factory in Thailand, and a DVD disc factory in the United States. These new facilities are solidifying a position as critical production bases.

In February 1997, we established P.T. JVC Electronics Indonesia, an audio and visual product manufacturing company. The company's audio product factory began operations in November 1997 to meet increasing demand in Indonesia and to optimize JVC's world production structure for audio products.

In November 1997, we completed a new VCR and camcorder factory in China for JVC Beijing Electronic Industries Co., Ltd. With the completion of this factory, production capability of the company expanded to one million units annually, strengthening our response to increasing demand for VCRs in China.

Five-Year Summary

Victor Company of Japan, Limited
Years ended March 31

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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.

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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

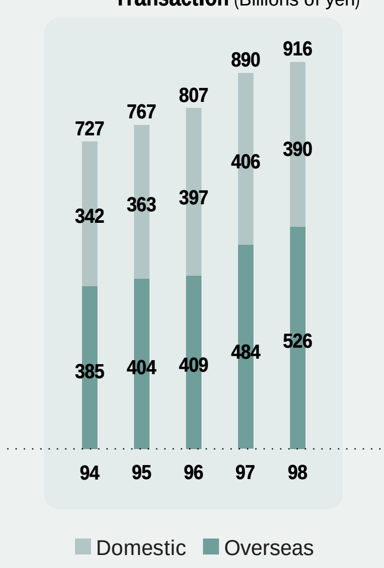
The Professional Electronics business provides professional-use AV systems, information communication systems and security systems to broadcasting stations and companies as well as public, educational and recreational facilities.

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.

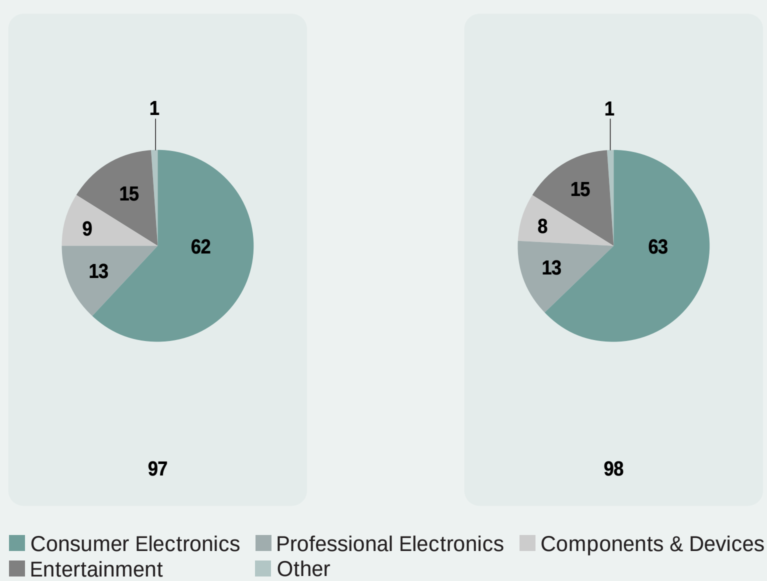
Components & Devices

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.

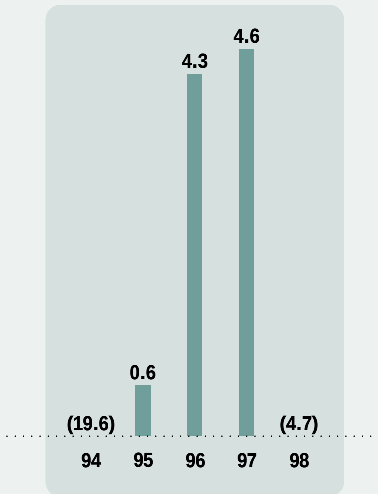
As a result, operating income decreased 12.9% to ¥10,033 million (US$76.0 million).

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.

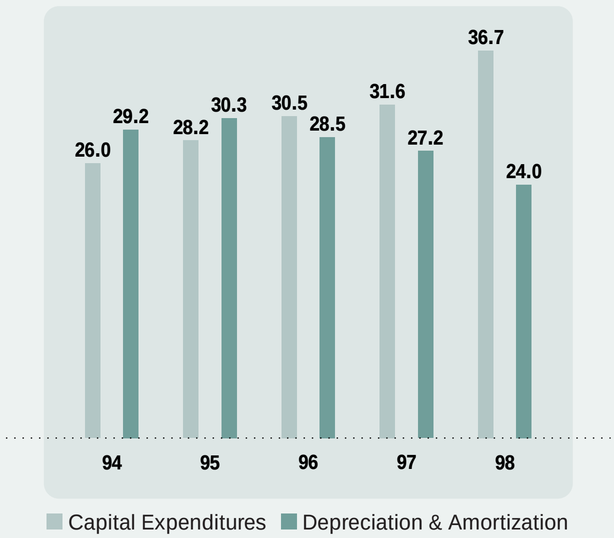
Total assets increased 3.3% to ¥624,050 million (US$4,727.7 million).

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.

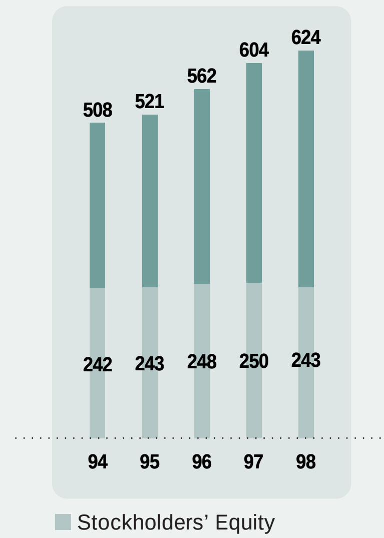
Interest-bearing debt advanced 7.3% to ¥161,209 million (US$1,221.3 million). Bank loans rose 26.6% to ¥69,883 million (US$529.4 million).

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**1998**	1997	**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:

	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
	Millions of yen						
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**

	Japan	Overseas	Total	Elimination and unallocation	Consolidated total
	Millions of yen				
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

	Japan	Overseas	Total	Elimination and unallocation	Consolidated total
	Millions of yen				
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

	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
	Thousands of U.S. dollars						
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:

1998	Americas	Europe	Asia	Other area	Total
	Millions of yen				
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%**

1998	Americas	Europe	Asia	Other area	Total
	Thousands of U.S. dollars				
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.

Tokyo, Japan
June 26, 1998

OVERSEAS SUBSIDIARIES AND AFFILIATES

JVC Americas Corp.
US JVC Corp.
JVC Company of America
JVC Professional Products Company
JVC Finance of America
41 Slater Drive, Elmwood Park, New Jersey 07407, U.S.A.
Telephone: 201-794-3900
JVC Service & Engineering Company of America
107 Little Falls Road, Fairfield, New Jersey 07004, U.S.A.
Telephone: 201-808-2100
JVC Laboratory of America
2903 Bunker Hill Lane, Suite #102, Santa Clara,
California 95054, U.S.A.
Telephone: 408-988-4515

JVC America, Inc.
JVC Magnetics America, Co.
#1 JVC Road, Tuscaloosa, Alabama 35405, U.S.A.
Telephone: 205-556-7111
JVC Disc America, Co.
#2 JVC Road, Tuscaloosa, Alabama 35405, U.S.A.
Telephone: 205-556-7111

JVC Industrial America, Inc.
2320 Paseo De Las Americas, Suite 205, San Diego,
California 92173, U.S.A.
Telephone: 619-661-5300

JVC Entertainment, Inc.
2029 Century Park East, Suite 970, Los Angeles,
California 90067, U.S.A.
Telephone: 310-286-7212

Hughes-JVC Technology Corporation
2310 Camino Vida Roble, Carlsbad, California 92009, U.S.A.
Telephone: 619-929-5300

JVC Canada Inc.
21 Finchdene Square, Scarborough, Ontario M1X 1A7, Canada
Telephone: 416-293-1311

JVC Latin America S.A.
Torre Global Bank, Piso 12, Ave, Nicanor de Obarrio
(Calle 50) Apartado 5313, Zona 5, Panamá,
Republica de Panama
Telephone: 263-3977

JVC de Mexico S.A. de C.V.
Av. Insurgentes Sur 670 8-Piso Col. del valle Mexico,
D.F. 03100
Telephone: 5-669-0637

JVC Industrial de Mexico, S.A. de C.V.
Av. Sor Juana Inés De La Cruz #19710,
Parque Industrial La Frontera, Tijuana, B.C. 22515, Mexico
Telephone: 619-671-1120

JVC do Brasil Ltda.
Av. das Nações Unidas, 12, 995, 5°A Cj.51,
CEP 04578-000-Brooklin Novo, São Paulo-SP, Brasil
Telephone: 011-5505-0939

JVC Europe Ltd.
JVC (U.K.) Ltd.
JVC Forex (U.K.) Ltd.
JVC House, JVC Business Park,
12 Priestley Way, London NW2 7BA, United Kingdom
Telephone: 0181-450-3282

JVC International (Europe) Ltd.
c/o JVC (U.K.) Ltd.
JVC House, JVC Business Park,
12 Priestley Way, London NW2 7BA, United Kingdom
Telephone: 0181-208-7592

JVC Professional Products (U.K.) Ltd.
Ullswater House, Kendal Avenue, London W3 0XA,
United Kingdom
Telephone: 0181-896-6000

JVC Manufacturing U.K. Ltd.
2, Glenburn Road, College Milton Industrial Estate,
East Kilbride, G74 5BA, Scotland, United Kingdom
Telephone: 013552-41166

JVC Finance B.V.
Officia 1, De Boelelaan 7, 1083 HJ Amsterdam,
The Netherlands

JVC Deutschland GmbH
Grüner Weg 12, (Postfach 100562), 61169 Friedberg/
Hessen, F.R. Germany
Telephone: 06031-9390

JVC Professional Products GmbH
Grüner Weg 10, (Postfach 100561), 61169 Friedberg/
Hessen, F.R. Germany
Telephone: 06031-6050

JVC Video Manufacturing Europe GmbH
Quickborner Strasse 78-80, 13439 Berlin, F.R. Germany
Telephone: 030-41902353

JVC Technology Center Europe GmbH
Grüner Weg 12, 61169 Friedberg/Hessen, F.R. Germany
Telephone: 06031-939-200

JVC France S.A.
102, Boulevard Héloise, 95104 Argenteuil, Cedex, France
Telephone: 01-39-96-33-33

JVC Austria GmbH
Slamastrasse 43 A-1230, Wien, Austria
Telephone: 0222-610370

JVC Nederland B.V.
JVC Plein, De Heyderweg 2, 2314 XZ Leiden,
P.O. Box 515, 2300 AM Leiden, The Netherlands
Telephone: 071-5453333

JVC Belgium S.A./N.V.
Rue de la Petite Ile 3, Klein-Eilandstraat,
Bruxelles 1070 Brussel, Belgium
Telephone: 02-529-4211

JVC Italia S.p.A.
Via Cassanese 224 Palazzo Tiepolo,
20090 Segrate-Milano Oltre, Italy
Telephone: 02-2699161

JVC Professional Products Italia S.p.A.
Via Mario Pannunzio 4, 20156 Milano, Italy
Telephone: 02-38-05-01

JVC España S.A.
TRA Gacia Manresa, KM14 750 Edificio Can Castanyer
08190 Sant Cugat del Valles, Barcelona, Spain
Telephone: 93-565-3210

JVC Svenska AB
Veddestavägen 15, S-175 62 Järfälla,
Stockholm, Sweden
Telephone: 08-7950400

JVC Norge A/S
P.O. Box 2012, Postterminalen 3103 Tonsberg, Norway
Telephone: 333-65200

JVC Danmark A/S
Helgeshoj Allé 30 DK-2630 Tástrup, Denmark
Telephone: 43-509000

JVC Czech spol. sr. o.
Kanceler Kolma 7/673, 190 00 Praha 9, Czech
Telephone: 02-684-4094

JVC Polska Sp. zo. o.
01-217 Warzawa, ul Kolejowa 15/7, Polska
Telephone: 022-632-1101

JVC ASIA Pte. Ltd.
JVC Asia Pte. Ltd. Sales & Services Division
101 Thomson Road, #28-03 United Square,
Singapore 307591, Republic of Singapore
Telephone: 255-8728
JVC Procurement Asia
71, Ayer Rajah Crescent, #02-05 Singapore 139951
Telephone: 775-0292

JVC Electronics Singapore Pte. Ltd.
79, Ayer Rajah Industrial Estate, Singapore 0513,
Republic of Singapore
Telephone: 776-4711

JVC Sales & Services (Malaysia) Sdn. Bhd.
5, Jalan U1/23, Seksyen U1, Hicom Glenmarie
Industrial Park, 40150 Shah Alam, Selangor, Malaysia
Telephone: 03-703-3222

JVC Electronics Malaysia Sdn. Bhd.
Lot No. 1, Persiaran Jubli Perak, Seksyen 22,
40000 Shah Alam, Selangor Darul Ehsan, Malaysia
Telephone: 03-541-3377

Philips and JVC Video Malaysia Sdn. Bhd.
Lot No. 3, Persiaran Jubli Perak, Jalan 22/1,
Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan,
Malaysia
Telephone: 03-541-6688

JVC (Philippines), Inc.
Jannov Plaza, 2295 Pasong Tamo Extension,
Makati City 1200, Metro-Manila, Philippines
Telephone: 2-893-9847

JVC Vietnam Ltd.
6 Pham Van Hai Street, Tai Binh District,
Ho Chi Minh City, Vietnam
Telephone: 08-844-8702

JVC Nova Magnetics Limited
12th Floor, Amba Deep, 14, Kasturba Gandhi Maro,
New Delhi-110 001, India
Telephone: 011-3327890

JVC Gulf Fze
Lob 7, Jebel Ali Free Zone, P.O. Box 61161,
Jebel Ali, Dubai, U.A.E.
Telephone: 04-817670

JVC Manufacturing (Thailand) Co., Ltd.
Navanakorn Industrial Estate, Zone 3, 107 Moo 18,
Tambol Klong 1, Amphur Klong Luang,
Pathumthani 12120, Thailand
Telephone: 02-529-2105

JVC Sales & Service (Thailand) Co., Ltd.
10th Floor, Síno-Thai Tower, 32/31 Asoke Road,
Súkhumvit 21, Bangkok 10110, Thailand
Telephone: 02-260-1249

JVC Electronics (Thailand) Co., Ltd.
67/21 Moo 12 Phahonyotin Road, Khlong 1 Subdistrict,
Khlong Luang District, Pathumthani 12120, Thailand
Telephone: 02-529-3112

JVC Components (Thailand) Co., Ltd.
Suranaree Industrial Zone 555, Moo 6,
Tambol Nongbuasala Amphur Muang,
Nakhorratchasima-province 30000, Thailand
Telephone: 044-212-905

P.T. JVC Electronics Indonesia
c/o Suryacipta Marketing Office 1FL JL.,
Surya Lestari Blok C-3, Kota Industri Suryacipta,
Teluk Jambe, Karawang, 41361 Indonesia
Telephone: 267-409-770

JVC Taiwan Corp.
Room A, 14th Floor No. 99, Fu Hsin N. Rd. Taipei,
Taiwan, R.O.C.
Telephone: 02-2715-4217

Kuang Yuan Co., Ltd.
5th Fl., No. 174, SEC, 2 Min-Seng Road, Taipei,
Taiwan, R.O.C.
Telephone: 02-501-4122

JVC (China) Investment Co., Ltd.
No. 316 Beijing Kelun Building, 12A Guanghua Lu,
Chao Yang District, Beijing, 100020, China
Telephone: 010-6593-3031

JVC Shanghai Electronics Co., Ltd.
68 Ri-Jing Road, Wai Gaoqiao Free Trade Zone,
PuDong, New Area, Shanghai, 200135, China
Telephone: 021-5867-1908

JVC Trading (Shanghai) Co., Ltd.
No. 18, Aona Road, Wai Gaoqiao Free Trade Zone,
PuDong, New Area, Shanghai, China
Telephone: 021-5866-0124

JVC Beijing Electronic Industries Co., Ltd.
LinHe Industrial Development Zone, Shunyi County,
Beijing, 101300, China
Telephone: 010-6942-9201, 02, 03, 04

JVC Guangzhou Electronics Co., Ltd.
Press Center Bldg. 4F, Guangzhou,
Semiconductor Devices Factory Shicha Road,
Shijing, Guangzhou,
510430, China
Telephone: 020-8640-1717

JVC Wuhan Electronic Industries Co., Ltd.
126, Zhong Bei Road, Wuchang Wuhan, 430077, China
Telephone: 027-682-3364, 3365

JVC Fujian Electronics Co., Ltd.
Gongbei Road, Yanshen District,
Kuaian Economic Technology Development Zone,
Fuzhou City, Fujian, China
Telephone: 0591-3971031

JVC Shanghai System Development Engineering Co., Ltd.
7F, Gaifu-Dalou, 420, Xijiangwan-Lu, Shanghai 200083, China
Telephone: 021-5666-7261

JVC Purchasing Center (H.K.) Ltd.
Room 13012, 13/F., Asia Terminals Centre 8,
Berth 3, Kwai Chung Container Terminal,
Kwai Chung, N.T., Hong Kong
Telephone: 2612-0363

LIAISON OFFICES

JVC Latin America Liaison Office
Torre Global Bank, Piso 12, Ave, Nicanor de Obarrio
(Calle 50) Apartado 4723, Zona 5, Panamá,
Republica de Panama
Telephone: 263-9894

JVC Moscow Representative Office
Parus Business Centre Room 6 (5th) 1st
Tverskaya-Yamskaya Str. Dom 23, Moscow,
125047 Russia
Telephone: 501-252-7978

JVC Hungarian Information & Service Office
1133 Budapest Váci út 110,
International Trade Center D-101, Hungary
Telephone: 01-267-1855

JVC Legal Liaison Office (Europe)
c/o JVC Belgium S.A./N.V.
Rue de la Petite Ile 3, Klein-Eilandstraat,
Bruxelles 1070 Brussel, Belgium
Telephone: 02-520-9723

JVC Guangzhou Liaison Office
Room 2210,
22/F South Tower Guangzhou World Trade Centre,
Complex No. 371-375, Huan Shi Dong Road Guangzhou,
510095, China
Telephone: 020-8778-7678

TECHNICAL CENTRES

European Service Support Centre
European Parts Centre
JVC Business Park, 14 Priestley Way,
London NW2 7BA,
United Kingdom
Telephone: 0181-452-1829

JVC Tong Guang Beijing Technical Centre
Tong Guang Mansion, No. 12, Nong Zhan Guan Nan Lu,
Beijing, 100026, China
Telephone: 6500-3829

FACTORIES

Domestic Plants
Yokohama, Yamato, Maebashi, Iwai, Mito, Hachioji, Koriyama, Okurayama, Isesaki, Fujieda, Yokosuka, Rinkan, Tsurugamine, Utsunomiya

Overseas Manufacturing Facilities
JVC Magnetics America, Co. (Division of JVC America, Inc.)
JVC Disc America, Co. (Division of JVC America, Inc.)
Hughes-JVC Technology Corporation
JVC Industrial de Mexico, S.A. de C.V.
JVC Manufacturing U.K. Ltd.
JVC Video Manufacturing Europe GmbH
JVC Electronics Singapore Pte. Ltd.
JVC Electronics Malaysia Sdn. Bhd.
Philips and JVC Video Malaysia Sdn. Bhd.
JVC Manufacturing (Thailand) Co., Ltd.
JVC Electronics (Thailand) Co., Ltd.
JVC Components (Thailand) Co., Ltd.
P.T. JVC Electronics Indonesia
Kuang Yuan Co., Ltd.
JVC Shanghai Electronics Co., Ltd.
JVC Beijing Electronic Industries Co., Ltd.
JVC Guangzhou Electronics Co., Ltd.
JVC Wuhan Electronic Industries Co., Ltd.
JVC Fujian Electronics Co., Ltd.

(As of July 1998)

Directors and Corporate Auditors

Takeo Shuzui
President

Hirotada Sasaki
Senior Managing Director

Hiroki Shimizu
Senior Managing Director

Masahiro Fujimoto
Managing Director

Hideki Gomi
Managing Director

Yasushi Ebi
Managing Director

Akira Ochida
Managing Director

Takao Aida
Managing Director

Masato Yamauchi
Managing Director

President
Takeo Shuzui*

Senior Managing Directors
Hirotada Sasaki*
Technology, Systems Business, Production Administration Division;
General Manager, Multimedia Business Division; President, HITS Laboratories, Inc.

Hiroki Shimizu*
AV & Multimedia Business, International Business (Consumer, Administration),
ILA, Optical Disc Business, VHS Standard Center

Managing Directors
Masahiro Fujimoto*
Corporate Planning, Business Affairs, Public Relations, Design Center;
Deputy General Manager, Multimedia Business Division

Hideki Gomi*
Professional Products & Systems, Professional Products & Systems Marketing;
General Manager, International Professional Systems Marketing Division,
Information & Communication Business Center, Multimedia Business Solution Division

Yasushi Ebi*
General Manager, AV & Multimedia Sector

Akira Ochida*
General Manager, Corporate Management Division for America; President,
JVC Americas Corp., JVC America Inc.

Takao Aida*
Corporate Accounting & Finance, General Affairs and Information Systems;
General Manager, Corporate Accounting & Finance Division

Masato Yamauchi*
Personnel, Legal, Customer Satisfaction, Logistics; General Manager,
Corporate Personnel Division

Directors
Masani Hoshino
New Business Development in Technology Development Division;
General Manager, Environmental Administration Division, Disc Business
Promotion Office of Multimedia Business Division

Yasuo Omori
General Manager, Technology Development Division; In charge of Intellectual Property

Hajime Takashima
General Manager, Components and Device Sector, Electronic Device Division,
Parts Development Center and Components & Device Marketing Division;
In charge of Production Engineering Division

Shuji Kurita
General Manager, Professional Products & Systems Marketing Division

Motoo Nishimura
Media and Software Business; President, Victor Entertainment, Inc.

Fusao Kishi
General Manager, TV Division of AV & Multimedia Sector, Display Business
Promotion Office of Multimedia Business Division

Itaru Ozaki
Asia, the Middle East and China; General Manager, Corporate Management Division
for China, JVC Beijing Liaison Office; President, JVC (China) Investment Co., Ltd.

Noritsugu Enami
General Manager, International Sales Division of AV & Multimedia Sector

Corporate Auditors (Full-time)
Kazuo Norioka
Nobukazu Kaneko

Corporate Auditors
Tetsuya Kawakami
Hideo Aiso

*Representative Director

(As of July 1998)

Corporate Data

JVC
Victor Company of Japan, Limited

Head Office:
12, Moriya-cho 3-chome, Kanagawa-ku,
Yokohama, Kanagawa 221-8528, Japan
Telephone: 045-450-2837
(Corporate Accounting & Finance Division)
Cable Address: VICTOREXPORT TOKYO
Telex: VICTOR A J26222
Facsimile: 045-450-1574

Date of Establishment:
September 13, 1927

Number of Employees:
31,040*

Paid-in Capital:
¥34,115 million

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

Number of Stockholders:
17,808*

Stock Exchange Listings:
Tokyo Stock Exchange
Osaka Securities Exchange

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

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

Auditor:
Asahi & Co., A Member Firm of Andersen Worldwide SC.

Principal Consolidated Subsidiaries:

Domestic
Victor Entertainment, Inc.
Victor Media Products, Inc.
Victor Interactive Software, Inc.
Victor Leisure System Co., Ltd.
JVC Advanced Media Co., Ltd.
Victor Arcs Co., Ltd.
Sanin Victor Sales Co., Ltd.
Okinawa Victor Sales Co., Ltd.
Victor Service & Engineering Co., Ltd.
Victor Data Systems Co., Ltd.
Victor Real Estate Co., Ltd.
Victor Finance Co., Ltd.
Victor Logistics, Inc.

Overseas
JVC Americas Corp.
US JVC Corp.
JVC Canada Inc.
JVC Europe Ltd.
JVC (U.K.) Ltd.
JVC Deutschland GmbH
JVC France S.A.
JVC Nederland B.V.
JVC Belgium S.A./N.V.
JVC Italia S.p.A.
JVC España S.A.
JVC Asia Pte. Ltd.
JVC America, Inc.
JVC Manufacturing U.K. Ltd.
JVC Video Manufacturing Europe GmbH
JVC Electronics Singapore Pte. Ltd.
JVC Electronics Malaysia Sdn. Bhd.
JVC Manufacturing (Thailand) Co., Ltd.
JVC Components (Thailand) Co., Ltd.
JVC Finance B.V.
JVC Entertainment, Inc.
JVC (China) Investment Co., Ltd.

Note: JVC's fiscal 1998 consolidated financial statements comprise the accounts of 21 domestic and 42 overseas companies, including these principal subsidiaries

(As of July 1998)

**As of March 1998*

JVC

VICTOR COMPANY OF JAPAN, LIMITED

PRINTED IN JAPAN