

Fiscal 2000: Aiming to Lessen Dependence on the Low Profit Margin Business of Consumer Electronics



To our shareholders and investors: I am pleased to present this report on our current position, our efforts in reinforcing management and our objective of achieving ¥1 trillion in consolidated net sales by fiscal 2003.

Fiscal 2000 Results During fiscal 2000, ended March 31, 2000, Victor Company of Japan, Limited (JVC) recorded consolidated net sales of ¥870,235 million (US\$8,209.8 million), an operating loss of ¥8,019 million (US\$75.7 million) and a net loss of ¥5,341 million (US\$50.4 million), results substantially below performance estimates stated in last year's annual report.

Since I was appointed president, we have advanced efforts toward reinvigorating JVC in line with the medium-term management plans "Victor Vision" and "Re-Value 21." From these efforts, we determined that securing high profits is difficult in the extremely competitive field of consumer electronics, and we must realign the business structure by expanding professional systems, components and software operations, which have higher profit margins than consumer electronics.

However, growth in these operations has stagnated, and the revenue structure—dependent on consumer electronics operations—remains virtually unchanged. Domestic sales in consumer electronics operations were stagnant due to the economic recession in Japan. Although sales were favorable overseas, results were diluted by a corporate structure swayed by currency fluctuations.

The primary factor behind the fall in revenue during fiscal 2000 was the adverse impact of currency fluctuations. On a local currency basis, however, consumer electronics achieved strong growth. Overseas net sales grew 15% overall, with gains of 12% in North America, 18% in Europe and 19% in Asia. Consumer electronics accounted for 67.2% of total net sales, an increase of 2.5 percentage points, owing to strong demand overseas. Overseas sales represented 62.7% of total net sales, up 2.8 percentage points. As a result, consolidated net sales for the fiscal year under review, after removing the impact of currency fluctuations, would have increased 2.0%, compared with actual negative growth of 8.1%.

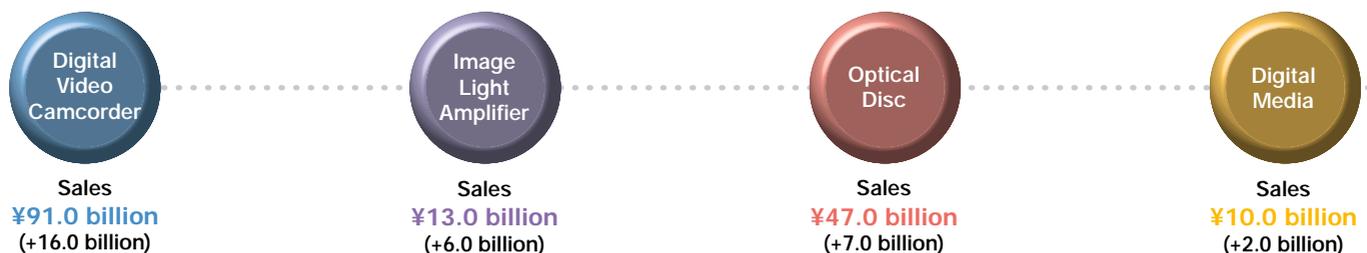
Fiscal 2001 Objective: Reinforce Management by Strengthening High-Value-Added Digital and Networking Products

Movements in currency exchange rates also influenced profitability. Expenses were recorded, applying downward pressure on profits, as a result of reviewing unprofitable businesses in fiscal 2000. Major expenses included the liquidation of projector operations at a subsidiary in the United States, a switchover to high-value-added TV models at a plant in the United Kingdom and investment to strengthen the structure of a sales subsidiary in Brazil. Although personnel expenses declined on account of progress in reducing personnel in Japan, expenses were incurred for special severance payments.

Efforts in Fiscal 2001 Due to the downturn in performance in fiscal 2000, JVC is prioritizing efforts to bolster the soundness of management and eliminate losses. First, the Company will promote improvements to profit margins by expanding its high-value-added digital and networking product lineup. Fiscal 2001 is expected to be a year of significant advances in digitization and networking in Japan, as broadcast satellite (BS) digital broadcasting will begin in December 2000 and the household penetration rate of PCs is projected to exceed 40%. Targeting these growth markets, JVC aims to boost sales of digital and networking products.

In the current fiscal year, JVC will focus efforts on mini digital video (DV) camcorders, which grew 67% on a unit base in fiscal 2000. Including professional DV, our goal is net sales of ¥91 billion, an increase of 21% compared with the previous fiscal year. The Company is bolstering production capacity more than 60% in line with the objective of increasing its mini DV camcorder share of the world market from 27% to 35%. The Company will also concentrate efforts on TVs and projectors that employ Direct-Drive Image Light Amplifier (D-ILA) devices, which were developed by JVC and realize bright, high-definition images; such optical discs as CDs and DVDs; D-VHS,

Digital & Network Product Lineup JVC Focuses in Fiscal 2001



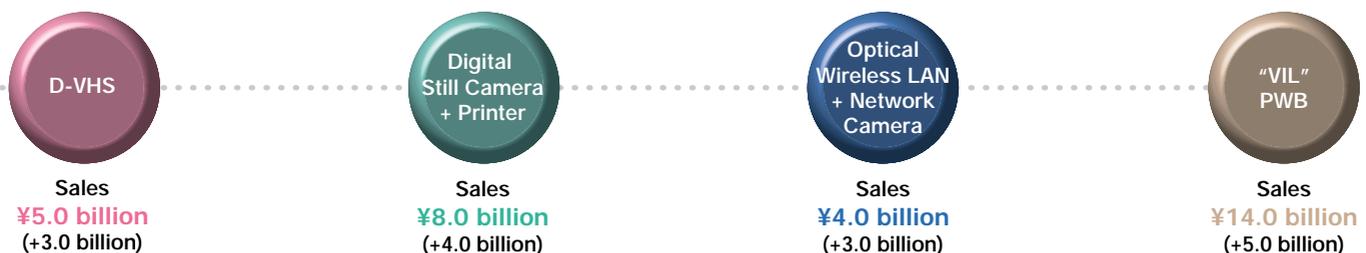


which enables digital recording and also keeps compatibility with conventional VHS; and high-density build-up multilayer printed wiring boards ("VIL" PWBs), which grew 81% in fiscal 2000. JVC expects an increase in profits during the current term due to lower costs of sales and higher revenues realized on a rise in the percentage of high-value-added products to net sales.

JVC introduced a "Company-in-Company" system to strengthen its digital and networking products. By business field, we established the AV & Multimedia Company, Components and Device Company, Entertainment Software Company and Media Products Company. With the transfer of broad authority, each company is able to swiftly execute strategies in development, production, marketing and customer service in accordance with their respective strengths, market trends and customer needs. With this structure, JVC aims to thoroughly improve workflow and efficiency while targeting autonomous management and maximum profitability. The Company aims to improve profitability in professional electronics operations by increasing efficiency by integrating divisions. To promote marketing strategies tailored to overseas regions, JVC will launch an Americas Company, Europe Company and Asia & Middle East Company. We are examining developments in China while monitoring market trends.

On introducing the "Company-in-Company" system, we divided the Research and Development Division into the Corporate Laboratory and Company Laboratories. By enhancing the flow of research and development results into business, we plan to increase profitability. Engineers, formerly assigned to divisions by product line, now develop products in Company Laboratories. The Corporate Laboratory focuses on medium- and long-term research and development projects that share common themes in all companies.

While reorganizing to enhance digital and networking products, JVC is strengthening overseas production



Fiscal 2003 Objective: Revitalize the Profit Structure and Achieve ¥1 Trillion in Consolidated Net Sales

during the current fiscal year to increase profitability. The Company will transfer production of VHS-C camcorders, TV components and professional system cameras overseas in an attempt to reduce cost of sales by increasing overseas production as a percentage of cost of sales from 53% to 60%.

To increase profits, the Company is proceeding with a program to reduce personnel to a 10,000-employee structure on a non-consolidated basis by March 2001. Although currency fluctuations are expected to adversely effect income during the current term, we anticipate an overall increase in profits due to the absence of a charge for restructuring subsidiaries in fiscal 2000. As a result, JVC forecasts net income of ¥3 billion in fiscal 2001.

Objectives for Fiscal 2003 Our mid-term objective is to achieve ¥1 trillion in consolidated net sales in fiscal 2003. Management has prioritized ROE and ROA as primary numerical targets in increasing asset efficiency. The major focus of our efforts is switching to a business structure with profit margins higher than that of consumer electronics, centered on components operations and entertainment operations. JVC will focus on fields of growth and promote the aggressive development of high-value-added products, aiming for consumer electronics, components and entertainment operations to each contribute 30% to operating income, with professional systems making up the remaining 10%.

We expect components operations to have a high operating profit margin. Demand is steadily rising for "VIL" PWBs targeting the mobile phone market. High-value-added deflection yokes are poised to further increase their share of the market. Amid progress in higher frequencies and more compactness in various equipment, Semiconductor Package Substrates, which mount unpackaged semiconductor chips on "VIL" PWBs, are also a promising product.

Entertainment operations are also likely to secure a high operating profit margin. With strengths in both hardware and software, JVC offers total content solutions through its broadcasting and distribution businesses, which provide services ranging from content to production support and systems, and through its lineup of digital



networking products for distributing content. We expect our music operations to expand through our alliance with Universal Music Group. The Company will reinforce image and video operations based on the anticipation of strong growth in demand for image content as media types and the number of channels increase.

In consumer electronics and professional systems, JVC will advance its digital and networking product lineup, and promote high-value-added products related to the concepts mobile, digital and networking. We will aggressively develop digital audio equipment, integrated home servers utilizing our strong points in D-VHS and hard disk drives (HDDs), and multimedia displays based on ILA technology. In addition, the Company will strengthen efforts in mobile networking. JVC will provide new added value by connecting such mobile terminals as mini DV camcorders, digital still cameras and mobile PCs—JVC's areas of expertise—through infrared wireless local area networks (LAN) and 5.2 GHz band radio wave communications technology.

In the networked society, JVC aims to be a corporation sensitive to user needs. Realizing through network-compatible products an environment where anyone, anywhere at anytime can acquire information in an optimal format, the Company aims to provide the information users need through content, services, solutions and networks.

With an eye on fields of growth, JVC plans to increase profit margins by rapidly releasing products that utilize the uniqueness and strengths of the Company. At the same time, we will strive to break through the ¥1 trillion net sales mark by fiscal 2003 in our aim to achieve outstanding growth in the 21st century.

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

A handwritten signature in black ink, reading "Takeo Shuzui". The signature is written in a cursive, flowing style.

Takeo Shuzui
President

