

ENTERTAINMENT

With a focus on digitization in entertainment operations, JVC promotes expanding content and acquiring rights to works. Through an alliance with the world powerhouse Universal Music Group in March 2000, JVC joined the top echelon of the music industry in the Japanese market. Content was enhanced in October 1999 with the acquisition of a controlling stake in Teichiku Entertainment, Inc., which is a leader in *enka*, traditional Japanese songs. BS digital broadcasting of an audio channel scheduled to start in December 2000 presents an excellent opportunity for JVC to create programming for the audio channel and market the Company's abundant selection of music titles.

The Japanese music market is gradually bipolarizing into works that become hit products and works tailored to the diversified tastes of listeners in various music genres and titles. Reinforcing its music title development structure in this operating environment, JVC formed a strategic business alliance with Universal Music Group based on the mutual understanding of the necessity to increase efficiency and lower costs by integrating marketing, production and distribution and utilize the benefits of scale. In May 2000, the production and advertising functions of Universal-Victor, Inc. were integrated with Universal Music K.K., strengthening the production environment further, and Victor Entertainment, Inc. was consigned to market all Universal Music products. Becoming a leading coalition in the music field in Japan, we significantly improved our capability to influence the industry.

In response to individual needs, JVC is promoting music that stimulates latent demand through the launch of new recording labels. We launched the Rewind Recordings label in a tie-up with a street music production company, and the AOSIS label through Victor Entertainment, Inc. to target the market for mid-age and elder-age groups, which have been slow to develop in Japan. In production, earnings and expenses according to work are coming under control after years of endeavors as producers selectively concentrate on promising artists.



AUDIO CD
"Viva La Revolution" by Dragon Ash, one of the many hit albums from Japanese artists in 1999.



AOYAMA STUDIO
This is the control room of Studio 402 inside Victor Entertainment Inc.'s Aoyama Studio, one of the prominent music studios in Japan.

Expanding Content and Bolstering Acquisition of Rights

Monitoring trends in Internet music distribution, we are accelerating the acquisition of rights to works. In Japan, there are numerous cases where music production companies use their considerable influence to control master recording rights. In particular, the room to maneuver between recording companies and independent artist production companies is shrinking. JVC has never handled works the Company cannot obtain rights to. From now on, however, we plan to acquire a variety of rights, including rights that permit the transmission of music titles. To accomplish this objective, we entered artist management operations and have already recruited promising new talent.

Monitoring trends in Internet music distribution, based on knowledge of content and listener tastes, JVC is aiming to create a music distribution system as a new business able to secure suitable profits, which is essential to fostering the music business. JVC has taken the initiative in creating a business model for music distribution by starting trials in cooperation with NTT Communications Corporation and other technology companies.

JVC views the rapid growth in the Internet, BS digital broadcasting and such new media as DVD as an opportunity to expand business. Consigned to sell the works of three major studios comprising Universal Studios, Paramount Pictures and 20th Century Fox, our video sales in Japan enjoy a leading share of the business. With its core business in buying rights to international movies, theatrical distribution and packaging prerecorded videos, the visual software production division controls the rights to titles it developed and produced, and plans to expand operations by making inroads in Japanese movies and TV program production. As the scale of production increases financially, we are working to minimize risks and focus on superior works, as we are doing in music operations.

We are also aggressively advancing game operations. JVC sells software for all game machine platforms, and software created and licensed overseas by the Company has been highly rated.

MEDIA

One strength of JVC media operations is its tailored services for providing solutions in every aspect of media production. With a foundation in manufacturing all types of media, including CDs and DVDs, JVC is a media department store with a support structure for post-production and fulfillment operations. Responding to customer needs, our post-production operations



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Growth Supported by the Age of Content

provide packaging services for editing and creating post-production materials, and our fulfillment operations offer services for peripheral work generated in content creation, including distribution, delivery, warehousing and printing services. JVC receives the support of its customers for its efforts to provide exciting services in packaged media for the enjoyment of culture.

Last year, one of our companies in the United States experienced extraordinary growth. JVC Disc America Co., which develops its own customers, achieved sales and profits that exceeded initial expectations on the back of the favorable U.S. economy and the hit songs of its client recording companies. Our fulfillment operations continue to grow as one of the top three businesses in the fulfillment industry in the United States, and we plan to expand the business further. We commenced fulfillment operations in the United States in 1996, when the PC penetration rate was 40%. Operations were expanded to provide comprehensive services for delivering PC games created by individuals to customers, for which a distribution infrastructure did not exist. In Japan, the penetration rate of PCs is expected to exceed 40% this year, leading to a period of substantial growth for fulfillment operations.

In the audio CD media market in Japan, three powerful alliances are forming, one including JVC, in accordance with restructuring in the music industry. JVC's market share in the industry will increase during the current term due to the Company receiving consignment of Universal Music Group's media production operations.

The spread of PCs is expected to spur growth in the CD market. With the coming age of the Internet in the United States, a demand for CDs is anticipated to increase as major Internet service providers distribute connection software on large volumes of CDs as a means to promote sales. Music distribution via the Internet is creating demand for CD purchases as mid-age and elder-age groups, which were not a promising market until now, listen to music samples over networks. This year, shipments of PCs that incorporate CD-R drives, now at approximately 15% of the total penetration rate, will grow substantially, stimulating significant gains in growth of CD-R/RW media.

Released at the beginning of the Internet age, "hybrid cards" combine both read-only-memory (CD-ROM) and recordable (CD-R) areas on a single disc. Hybrid cards are being promoted for applications that include electronic commerce and the clinical records of hospitals. Demand for conventional disc-shaped hybrid discs is expected to increase as a media for recording game software results.



AUDIO CDS, VIDEO CASSETTES, DVDS AND COMPUTER GAMES
JVC is involved in every major media for entertainment, including content creation, mastering and distribution.



HYBRID CARDS (Japan model)
JVC holds a patent to this card-shaped optical disc, which features areas dedicated to both playback and recording. It can be used in a normal CD-ROM drive.