Five-Year Summary

Victor Company of Japan, Limited
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note A)
	2000	1999	1998	1997	1996	**2000**
For the year						
Net sales	**¥870,235**	¥946,617	¥916,306	¥890,373	¥806,551	**$8,209,764**
Overseas	**545,316**	566,551	526,285	484,394	409,358	**5,144,491**
Domestic	**324,919**	380,066	390,021	405,979	397,193	**3,065,273**
Cost of sales	**600,506**	642,140	629,859	607,383	548,728	**5,665,151**
Selling, general and administrative expenses	**277,748**	305,698	276,431	271,482	252,815	**2,620,264**
Income (Loss) before income taxes and minority interests	**6,088**	(3,671)	6,223	12,139	10,148	**57,434**
Income taxes	**11,295**	4,466	10,796	7,141	3,135	**106,557**
Net income (loss)	**(5,341)**	(8,315)	(4,703)	4,586	4,343	**(50,387)**
Depreciation & amortization	**28,590**	30,513	24,008	27,212	28,475	**269,717**
Capital expenditures	**24,336**	28,815	36,651	31,552	30,479	**229,585**
R&D expenditures	**43,351**	41,660	37,649	39,563	38,500	**408,972**

	Millions of yen					Thousands of U.S. dollars (Note A)
At year-end						
Working capital	**¥127,709**	¥142,628	¥124,395	¥160,869	¥123,357	**$1,204,802**
Stockholders' equity	**199,164**	232,162	243,086	250,418	247,891	**1,878,906**
Total assets	**540,359**	588,001	624,050	603,920	561,654	**5,097,726**

	Yen					U.S. dollars (Note A)
Per share						
Net income (loss)	**¥ (21.0)**	¥ (32.7)	¥ (18.5)	¥ 18.0	¥ 17.1	**$ (0.20)**
Cash dividends (Note B)	**—**	5.0	7.0	7.0	5.0	**—**

Notes: A. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106 to U.S.$1, the approximate rate prevailing on March 31, 2000.
B. Cash dividends represent amounts applicable to the respective years.

Financial Contents

Analysis of Income For the fiscal year ended March 31, 2000, JVC posted consolidated net sales of ¥870,235 million (US$8,209.8 million), a decrease of 8.1% compared with the previous fiscal year. In Japan, total sales fell 14.5%, adversely affected by lower prices, a slowdown in consumer spending and weak private capital investment. Overseas, total sales decreased 3.7% due to the strong yen despite favorable demand in Europe and the United States.

By category, **sales of Consumer Electronics** declined 4.5% to ¥584,934 million (US$5,518.2 million), accounting for 67.2% of net sales, up 2.5 percentage points. Overseas sales of Consumer Electronics, which make up 51.2% of net sales, achieved strong sales on a local currency basis, buoyed by robust sales of DVC and DVD players. Overseas sales of the segment grew 15% overall, with sales increasing 12% in North America, 18% in Europe and 19% in Asia on a local currency basis. Adversely affected by currency fluctuations, however, overseas sales in the segment declined 2.8% compared with the previous fiscal year. In Japan, such high-value-added products as DVC and D-VHS grew in terms of units sold. However, domestic sales of the segment fell 9.4%, owing to an overall decline in the industry from weak consumer spending, lower prices and a sharp fall in TVs and inexpensive VTRs.

Sales of Professional Electronics decreased 18.0% to ¥88,311 million (US$833.1 million), representing 10.1% of net sales, down 1.3 percentage points. Despite firm demand for surveillance cameras, domestic sales fell 18.8% due to lack-luster demand for D-ILA projectors, optical communications systems and karaoke systems, adversely affected by weak private capital investment. Although sales of the PROFESSIONAL DV series increased in the second half of the term, overseas sales decreased 16.4%, owing to inventory adjustments, price competition and currency fluctuations.

NET SALES BY CATEGORY

(Billions of yen)

	Consumer Electronics	Professional Electronics	Components & Devices	Entertainment	Other	Total
2000	584.9 67.2%	88.3 10.1%	66.8 7.7%	125.2 14.4%	5.0 0.6%	870.2 100.0%
Change	(4.5)%	(18.0)%	(9.4)%	(16.0)%	25.5%	(8.1)%
Domestic Sales Change	139.1 (9.4)%	56.2 (18.8)%	14.2 (25.3)%	110.4 (18.2)%	5.0 47.1%	324.9 (14.5)%
Overseas Sales Change	445.8 (2.8)%	32.1 (16.4)%	52.6 (3.8)%	14.8 5.7%	0.0 –	545.3 (3.7)%
1999	612.3 64.7%	107.6 11.4%	73.7 7.8%	148.9 15.7%	4.0 0.4%	946.6 100.0%
Major Products	VCRs, camcorders, videotapes, televisions, stereo systems, car audio systems, CD radio cassette tape players and telephones	Professional-use and educational-use systems, information systems, karaoke systems and projectors	Components for use in computer displays, video heads, motors and “VIL” PWBs	Audio and visual software including CDs, DVDs and videotapes	Interior furniture	

Sales of Components & Devices were down 9.4% to ¥66,791 million (US$630.1 million), making up 7.7% of net sales, a decline of 0.1 percentage point from a year earlier. Domestic sales dropped 25.3% as demand for deflection yokes fell sharply, adversely affected by a decrease in orders as customers shifted manufacturing overseas. Overseas sales, which grew 6% on a local currency basis due to large gains in "VIL" PWBs, declined 3.8% due to the adverse effects of currency fluctuations.

Sales in the Entertainment business decreased 16.0% to ¥125,173 million (US$1,180.9 million), a 1.3 percentage point decrease to 14.4% of net sales. Although new singers debuted in music operations, domestic sales were down 18.2%, as there were no runaway hit movies like *Titanic* last year. Overseas sales increased 5.7%, despite currency fluctuations, on substantial growth in music CDs, especially in the United States.

JVC advanced efforts to improve cost of sales and reduce inventory. Adversely affected by a decline in prices, however, cost of sales was 69.0% of net sales, an increase of 1.2 percentage points. Selling, general and administrative (SG&A) expenses to net sales increased 0.4 percentage point to 31.9%, owing to reductions in selling and personnel expenses. An operating loss of ¥8,019 million (US$75.7 million) was recorded, partially due to the rise in cost of sales to net sales.

In other income and expenses, expenses were recorded for restructuring subsidiaries, including 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. An unrealized gain from appreciation of trading securities possessed by a subsidiary in the United States substantially contributed to other income.

Net interest expense (interest expense plus interest and dividend income) was ¥3,770 million (US$35.6 million), a decrease of ¥2,515 million owing to reductions in interest-bearing debt.

Income before income taxes and minority interests amounted to ¥6,088 million (US$57.4 million). Income taxes totaling ¥11,295 million (US$106.6 million) led to a net loss of ¥5,341 million (US$50.4 million). Net loss per share was ¥21.0 (US$0.20). In consideration of performance during the fiscal year under review, management decided to suspend cash dividends for the year.

Cash Flow Analysis Purchases of property, plant and equipment during the year were ¥23,121 million (US$218.1 million), with investment concentrated on digital and networking operations. Purchases of property, plant and equipment were lower than depreciation and amortization of ¥28,953 million (US$273.1 million). The Company prepared the 2000 consolidated statement of cash flows in accordance with new accounting regulations. The 1999 and 1998 consolidated statements of cash flows have not been restated.

Net cash provided by operating activities totaled ¥18,762 million (US$177.0 million). This was the result of an increase in income before income taxes and minority interests, decrease in inventories and notes and accounts receivable, as well as an increase in notes and accounts payable.

Net cash used in investing activities amounted to ¥14,168 million (US$133.7 million). Sales of marketable securities partially offset purchases of property, plant and equipment.

Net cash used in financing activities was ¥10,735 million (US$101.3 million). Major uses of cash were for the redemption of bonds and a decrease in short-term bank loans, net, which was partially offset by an increase in commercial paper, net.

As a result, free cash flows totaled ¥4,594 million (US$43.3 million). Cash and cash equivalents at end of the year decreased 10.7% to ¥71,585 million (US$675.3 million) compared with cash and cash equivalents at beginning of the year.

Financial Position Total assets decreased ¥47,642 million (US$449.5 million) to ¥540,359 million (US$5,097.7 million) as a result of efforts to reduce assets to improve asset efficiency.

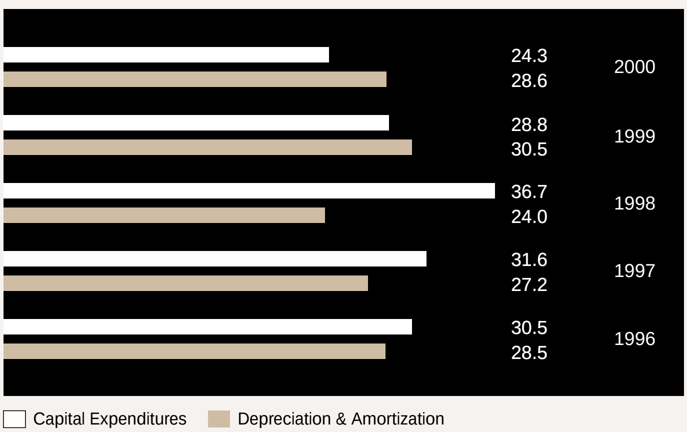
Total current assets declined ¥32,812 million (US$309.5 million), owing to a reduction in inventories and a decrease in notes and accounts receivable. Total current liabilities decreased ¥17,893 million (US$168.8 million) as debt was repaid. As a result, working capital fell ¥14,919 million (US$140.7 million) to ¥127,709 million (US$1,204.8 million) compared with the previous fiscal year. The current ratio decreased from 1.59 to 1.57.

Interest-bearing debt decreased ¥33,370 million (US$314.8 million) to ¥131,896 million (US$1,244.3 million).

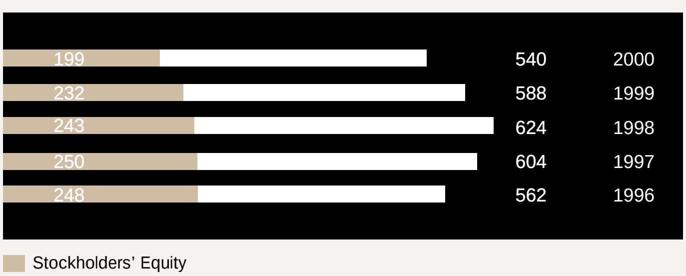
Stockholders' equity fell ¥32,998 million (US$311.3 million) to ¥199,164 million (US$1,878.9 million) on account of a reduction in consolidated retained earnings in accordance with the application of tax-effect accounting and the net loss recorded during the term. Stockholders' equity as a percentage of total assets was 36.9% compared with 39.5% in the previous fiscal year. Stockholders' equity per share was ¥783.41 (US$7.39).

Forward-Looking Statements When included in this annual report, the words "will," "should," "expects," "intends," "anticipates," "estimates,"and similar expressions, among others, identify forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the date of this annual report. The Company expressly disclaims any obligations or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

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, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Net sales	**¥870,235**	¥946,617	¥916,306	**$8,209,764**
Costs and expenses:				
Cost of sales	**600,506**	642,140	629,859	**5,665,151**
Selling, general and administrative expenses	**277,748**	305,698	276,431	**2,620,264**
	878,254	947,838	906,290	**8,285,415**
Operating income (loss)	**(8,019)**	(1,221)	10,016	**(75,651)**
Other income (expenses):				
Interest and dividend income	**2,408**	2,407	1,937	**22,717**
Unrealized gain from appreciation of trading securities	**16,386**	2,325	—	**154,585**
Equity in income of affiliated companies	**36**	453	295	**340**
Interest expense	**(6,178)**	(8,692)	(5,671)	**(58,283)**
Gain on sales of investment securities	**6,330**	530	893	**59,717**
Loss on liquidation of subsidiaries	**(451)**	(2,293)	—	**(4,255)**
Loss from financial support of affiliated companies	**—**	(1,122)	(1,356)	**—**
Restructuring charges	**(2,662)**	(537)	(2,063)	**(25,113)**
Other, net	**(1,762)**	4,479	2,172	**(16,623)**
	14,107	(2,450)	(3,793)	**133,085**
Income (Loss) before income taxes and minority interests	**6,088**	(3,671)	6,223	**57,434**
Income taxes (Note 6)**:**				
Current	**8,622**	6,443	7,488	**81,340**
Deferred	**2,673**	(1,977)	3,308	**25,217**
	11,295	4,466	10,796	**106,557**
Loss before minority interests	**(5,207)**	(8,137)	(4,573)	**(49,123)**
Minority interests	**(134)**	(178)	(130)	**(1,264)**
Net loss	**¥ (5,341)**	¥ (8,315)	¥ (4,703)	**$ (50,387)**

	Yen			U.S. dollars (Note 2)
Amounts per share of common stock:				
Net loss	**¥ (21.0)**	¥ (32.7)	¥ (18.5)	**$ (0.20)**
Cash dividends applicable to the year	**—**	5.0	7.0	**—**

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

Victor Company of Japan, Limited
March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2000**	1999	**2000**
Current assets:			
Cash and time deposits (including time deposits with maturities over three months of ¥208 million (US$1,962 thousand) in 2000 and ¥738 million in 1999)	**¥ 71,793**	¥ 80,888	**$ 677,292**
Marketable securities (Note 5)	**22,583**	12,395	**213,047**
Notes and accounts receivable:			
Trade	**105,751**	117,778	**997,651**
Unconsolidated subsidiaries and affiliated companies	**1,033**	1,012	**9,745**
Allowance for doubtful accounts	**(5,172)**	(5,024)	**(48,792)**
Inventories (Note 4)	**117,037**	128,579	**1,104,123**
Deferred tax assets (Note 6)	**12,219**	19,111	**115,274**
Other current assets	**25,296**	28,613	**238,641**
Total current assets	**350,540**	383,352	**3,306,981**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliated companies	**4,637**	9,403	**43,745**
Other (Notes 5 and 8)	**25,864**	23,988	**244,000**
Total investments and advances	**30,501**	33,391	**287,745**
Property, plant and equipment:			
Land	**29,954**	30,677	**282,585**
Buildings	**108,505**	110,020	**1,023,632**
Machinery and equipment (Note 8)	**244,923**	244,871	**2,310,594**
Construction in progress	**5,241**	7,340	**49,444**
	388,623	392,908	**3,666,255**
Less accumulated depreciation	**275,576**	272,219	**2,599,774**
Net property, plant and equipment	**113,047**	120,689	**1,066,481**
Deferred tax assets (Note 6)	**2,810**	16,913	**26,509**
Other assets	**13,834**	15,100	**130,510**
Foreign currency translation adjustments	**29,627**	18,556	**279,500**
	¥540,359	¥588,001	**$5,097,726**

See accompanying notes.

Liabilities and stockholders' equity	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current liabilities:			
Bank loans (Note 7)	**¥ 41,982**	¥ 61,052	**$ 396,057**
Current portion of long-term debt (Note 7)	**479**	15,733	**4,519**
Notes and accounts payable:			
Trade	**117,968**	112,278	**1,112,905**
Construction	**3,085**	3,100	**29,104**
Unconsolidated subsidiaries and affiliated companies	**8,076**	7,517	**76,189**
Accrued income taxes (Note 6)	**4,715**	3,771	**44,481**
Accrued expenses (Note 8)	**21,641**	19,827	**204,160**
Other current liabilities	**24,885**	17,446	**234,764**
Total current liabilities	**222,831**	240,724	**2,102,179**
Long-term debt (Notes 7 and 8)	**89,435**	88,481	**843,726**
Employees' retirement benefits	**20,819**	21,037	**196,406**
Other long-term liabilities	**2,438**	1,419	**23,000**
Minority interests	**5,672**	4,178	**53,509**
Contingent liabilities (Note 9)			
Stockholders' equity (Note 10):			
Common stock, par value ¥50 per share;			
Authorized—800,000,000 shares			
Issued—254,230,058 shares	**34,115**	34,115	**321,840**
Additional paid-in capital	**67,216**	67,216	**634,113**
Retained earnings	**97,834**	130,832	**922,962**
	199,165	232,163	**1,878,915**
Treasury stock, at cost	**(1)**	(1)	**(9)**
Total stockholders' equity	**199,164**	232,162	**1,878,906**
	¥540,359	¥588,001	**$5,097,726**

Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited
Years ended March 31, 2000, 1999 and 1998

	Shares of common stock (thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	254,229	¥34,115	¥67,216	¥149,088
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)
Bonuses to directors and corporate auditors	—	—	—	(94)
Balance at March 31, 1998	254,230	¥34,115	¥67,216	¥141,784
Net loss	—	—	—	(8,315)
Adjustment due to change in number of consolidated subsidiaries	—	—	—	(647)
Adjustment due to change in number of affiliated companies	—	—	—	(119)
Cash dividends paid (¥7.0 per share)	—	—	—	(1,779)
Bonuses to directors and corporate auditors	—	—	—	(92)
Balance at March 31, 1999	254,230	¥34,115	¥67,216	¥130,832
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**—**	**(27,259)**
Net loss	**—**	**—**	**—**	**(5,341)**
Cash dividends paid (¥1.5 per share)	**—**	**—**	**—**	**(381)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(17)**
Balance at March 31, 2000	**254,230**	**¥34,115**	**¥67,216**	**¥ 97,834**

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	$321,840	$634,113	$1,234,264
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**(257,160)**
Net loss	**—**	**—**	**(50,387)**
Cash dividends paid ($0.01 per share)	**—**	**—**	**(3,594)**
Bonuses to directors and corporate auditors	**—**	**—**	**(161)**
Balance at March 31, 2000	**$321,840**	**$634,113**	**$ 922,962**

See accompanying notes.

Victor Company of Japan, Limited
Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 6,088	$ 57,434
Depreciation and amortization	28,953	273,142
Interest and dividends income	(2,408)	(22,717)
Interest expense	6,178	58,283
Unrealized gain from appreciation of trading securities	(16,386)	(154,585)
Gain on sales of investment securities	(6,330)	(59,717)
Decrease in notes and accounts receivable	5,069	47,821
Decrease in inventories	3,667	34,594
Increase in notes and accounts payable	10,634	100,321
Other	(5,441)	(51,331)
Sub-total	30,024	283,245
Interest and dividends received	2,307	21,764
Interest paid	(6,180)	(58,302)
Income taxes paid	(7,389)	(69,707)
Net cash provided by operating activities	18,762	177,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23,121)	(218,123)
Proceeds from sales of property, plant and equipment	319	3,009
Purchases of marketable securities	(59,983)	(565,877)
Sales of marketable securities	66,813	630,311
Purchases of investment securities	(10,809)	(101,972)
Sales of investment securities	11,999	113,198
Other	614	5,793
Net cash used in investing activities	(14,168)	(133,661)
Cash flows from financing activities:		
Proceeds from long-term loans	3,603	33,991
Repayments of long-term loans	(316)	(2,981)
Redemption of bonds	(9,040)	(85,283)
Decrease in short-term bank loans, net	(15,549)	(146,689)
Increase in commercial paper, net	10,884	102,679
Cash dividends paid	(632)	(5,962)
Other	315	2,971
Net cash used in financing activities	(10,735)	(101,274)
Effect of exchange rate changes on cash and cash equivalents	(4,188)	(39,509)
Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method	1,764	16,642
Net decrease in cash and cash equivalents	(8,565)	(80,802)
Cash and cash equivalents at beginning of the year	80,150	756,132
Cash and cash equivalents at end of the year	¥ 71,585	$ 675,330

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited
Years ended March 31, 1999 and 1998

	Millions of yen	
	1999	1998
Cash flows from operating activities:		
Net loss	¥ (8,315)	¥ (4,703)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	30,513	24,008
Unrealized gain from appreciation of trading securities	(2,325)	—
Equity in income of affiliated companies	(453)	(295)
Loss (Gain) on disposal of property, plant and equipment, net	(1,087)	199
Deferred income taxes	(1,977)	3,755
Bonuses to directors and statutory auditors	(92)	(94)
Changes in operating assets and liabilities:		
Decrease (Increase) in notes and accounts receivable	13,423	(2,074)
Decrease (Increase) in inventories	17,012	(20,689)
Decrease (Increase) in other current assets	4,449	(532)
Increase (Decrease) in notes and accounts payable	(30,241)	15,108
Increase (Decrease) in accrued income taxes	(2,144)	1,420
Increase in other current liabilities	1,788	2,448
Other	1,027	2,068
Net cash provided by operating activities	21,578	20,619
Cash flows from investing activities:		
Capital expenditures	(28,815)	(36,651)
Proceeds from sales of fixed assets	5,382	2,027
Decrease (Increase) in marketable securities	6,366	(1,776)
Decrease in investment securities	2,203	3,079
Decrease (Increase) in investment in and advances to non-consolidated subsidiaries and affiliated companies	209	(4,137)
Other	1,712	754
Net cash used in investing activities	(12,943)	(36,704)
Cash flows from financing activities:		
Proceeds from long-term loans	6,526	—
Repayments of long-term loans	(7,830)	(2,572)
Proceeds from issuance of bonds	30,094	—
Redemption of bonds	(20,431)	(1,494)
Increase (Decrease) in short-term bank loans	(1,536)	13,357
Decrease in commercial paper	(3,612)	(6,869)
Cash dividends paid	(1,779)	(2,033)
Net cash provided by financing activities	1,432	389
Effect of exchange rate changes on cash and time deposits	(2,193)	567
Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method	1,866	1,480
Net increase (decrease) in cash and time deposits	9,740	(13,649)
Cash and time deposits at beginning of the year	71,148	84,797
Cash and time deposits at end of the year	¥ 80,888	¥ 71,148

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Victor Company of Japan, Limited (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 and 1998 consolidated statements of cash flows have not been restated. Significant differences in the consolidated statement of cash flows for 2000 and those for 1999 and 1998 include the use of pretax income in 2000 instead of net loss in 1999 and 1998, additional disclosure in cash flows from operating activities in 2000 of interest expense, income tax expense, interest and dividend income, interest and dividend received and income taxes paid.

The translation 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, 2000, which was ¥106 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Previously, only majority-owned companies were consolidated. The prior years' consolidated financial statements have not been restated.

The effect of applying this rule to the Company's consolidated financial statements was immaterial.

Investments in certain unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are, with minor exceptions, stated at their underlying net equity value after elimination of unrealized 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.

The differences between acquisition cost and underlying net equity at the time of acquisition are generally being amortized on the 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 for the respective periods. Foreign currency items with forward exchange contracts are translated at the contracted rates.

Translation of foreign currency financial statements

In accordance with the Accounting Standards for Foreign Currency Translations, assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Stockholders' equity is translated at historical exchange rates.

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

Differences resulting from translation of the balance sheet of foreign consolidated subsidiaries are debited or credited to "foreign currency translation adjustments" in the accompanying balance sheets.

Cash and cash equivalents

In preparing the consolidated statement of cash flows for the year ended March 31, 2000, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents. Consolidated statements of cash flows for 1999 and 1998 used cash and time deposits instead of cash and cash equivalents.

Inventories

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

Marketable securities and investment securities

Securities quoted on stock exchanges are stated at the lower of moving average cost or market. All other securities are stated at cost or less, reflecting write-downs based on significant impairment of the underlying equity, if not considered recoverable. Securities held by the consolidated subsidiaries in the United States are accounted for based on the Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debts and Equity Securities.

Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed primarily by the declining-balance method based on the estimated useful lives of the assets.

The ranges of useful lives for computing depreciation are generally as follows:

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

Expenditures for maintenance and repairs are charged to income as incurred.

Software costs

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2000. Software costs are amortized using the straight-line method over the estimated useful lives (three to five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

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 expenditures for new products or improvement of existing products are charged to income as incurred.

Income taxes

The Company provided income taxes at the amounts currently payable for the years ended March 31, 1999 and 1998. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as a cumulative adjustment of ¥27,259 million ($257,160 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

As a result of adopting the tax effect accounting, deferred tax assets and long-term deferred tax assets at March 31, 2000 were decreased by ¥6,170 million ($58,208 thousand) and ¥14,729 million ($138,953 thousand), respectively, deferred tax liabilities and long-term deferred tax liabilities at that date were increased by ¥460 million ($4,340 thousand) and ¥44 million ($415 thousand), respectively, net loss for the year ended March 31, 2000 was decreased by ¥1,959 million ($18,481 thousand), and the retained earnings at April 1, 1999 was decreased by ¥27,259 million ($257,160 thousand).

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 85% 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 assumes dilution that could occur if convertible bonds or similar securities were converted into common stock exercised to result in the issuance of common stock. As the Company reported net losses for the years ended March 31, 2000, 1999, and 1998, inclusion of potential common shares would have an antidilutive effect on per share amounts. Accordingly, the Company's basic and diluted earnings per share computations are the same for the periods presented.

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. 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, 2000, Matsushita held 133,227 thousand shares of common stock of the Company, 52.40% of the total outstanding shares.

Major account balances with Matsushita at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due from Matsushita	**¥ 298**	¥ 167	**$ 2,811**
Due to Matsushita	**3,030**	3,011	**28,585**

Sales to and purchases from Matsushita for the years ended March 31, 2000, 1999 and 1998 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Net sales	**¥ 900**	¥ 1,352	¥ 1,125	**$ 8,491**
Net purchases	**35,879**	30,558	33,225	**338,481**

4. INVENTORIES

Inventories at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Finished goods	**¥ 74,953**	¥ 87,851	**$ 707,104**
Work in process	**17,143**	17,834	**161,727**
Raw materials and supplies	**24,941**	22,894	**235,292**
	¥117,037	¥128,579	**$1,104,123**

5. MARKETABLE EQUITY SECURITIES

The aggregate book value, 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, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Marketable securities:			
Book value	**¥15,295**	¥ 2,689	**$144,292**
Market value	**16,029**	2,898	**151,217**
Unrealized gains	**¥ 734**	¥ 209	**$ 6,925**
Investments and advances—other:			
Book value	**¥15,120**	¥10,137	**$142,642**
Market value	**22,864**	21,112	**215,699**
Unrealized gains	**¥ 7,744**	¥10,975	**$ 73,057**

6. 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 referred to above which, in the aggregate, resulted in statutory tax rates of approximately 42% for the year ended March 31, 2000, 48% for the year ended March 31, 1999 and 51% for the year ended March 31, 1998. Foreign subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax for financial statement purposes for the year ended March 31, 2000:

Statutory tax rate	42.0%
Lower tax rates of overseas subsidiaries	(11.3)%
Expenses not deductible for tax purposes	53.0%
Effect of changes in valuation allowance for deferred tax assets	93.6%
Other	8.2%
Effective tax rate	185.5%

Significant components of the Company's deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Deferred tax assets:		
Loss on devaluation of inventory	**¥ 5,464**	**$ 51,547**
Accrued expenses not deductible for tax purposes	**4,264**	**40,227**
Depreciation	**8,372**	**78,981**
Retirement and severance benefits	**2,811**	**26,519**
Tax loss carryforwards	**12,591**	**118,783**
Other	**8,121**	**76,613**
Total gross deferred tax assets	**41,623**	**392,670**
Less valuation allowance	**26,206**	**247,226**
Net deferred tax assets	**¥15,417**	**$145,444**
Deferred tax liabilities:		
Unrealized gain from appreciation of trading securities	**¥(4,223)**	**$(39,840)**
Other	**(897)**	**(8,462)**
Total gross deferred tax assets	**¥(5,120)**	**$(48,302)**
Net deferred tax assets	**¥10,297**	**$ 97,142**

7. 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, 2000 and 1999 ranged from 0.73% to 23.64% and from 0.575% to 19.0%, respectively.

Long-term debt at March 31, 2000 and 1999 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
1.5% unsecured convertible bonds due 2005	**¥11,483**	¥ 11,483	**$108,330**
0.35% unsecured convertible bonds due 2002	**19,999**	19,999	**188,670**
0.55% unsecured convertible bonds due 2005	**20,000**	20,000	**188,679**
4.3% Eurobonds due 2000	**—**	9,765	**—**
1.375% unsecured bonds due 2001	**5,000**	5,000	**47,170**
1.75% unsecured bonds due 2003	**5,000**	5,000	**47,170**
2.15% unsecured bonds due 2005	**10,000**	10,000	**94,339**
1.30% guaranteed notes due 2001	**4,561**	5,180	**43,028**
1.61% guaranteed notes due 2002	**4,327**	4,914	**40,821**
Loans, primarily from banks with interest principally at 0.79% to 9.20%			
Secured	**221**	379	**2,085**
Unsecured	**9,323**	12,494	**87,953**
	89,914	104,214	**848,245**
Less current portion	**479**	15,733	**4,519**
	¥89,435	¥ 88,481	**$843,726**

The 1.5% 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% of the principal amount, respectively. The price at which shares of common stock shall be issued upon conversion is ¥2,867 ($27.05) per share, subject to adjustment under certain circumstance. 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 ($14.03) per share, subject to adjustment under certain circumstance.

The aggregate annual maturities of long-term debt at March 31, 2000 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 479	$ 4,519
2002	11,187	105,538
2003	26,149	246,689
2004	7,274	68,622
2005	12,970	122,358
Thereafter	31,855	300,519
	¥89,914	$848,245

8. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt and accrued expenses at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Investments	¥ 8	$ 75
Machinery and equipment	221	2,085
	¥229	$2,160

9. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥ 6,119	$ 57,726
As guarantor for loans to employees	17,209	162,350
As guarantor for loan to affiliated company and lease obligations of affiliated company and others	1,125	10,613
	¥24,453	$230,689

10. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Code.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its consolidated subsidiaries uses derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Company and its consolidated subsidiaries are forward exchange contracts, option contracts and interest rate swap contracts.

These derivative financial transactions are utilized solely for hedging purposes under the internal control rules and executed by the Company's accounting department and those authorized by the Director responsible for accounting matters under the supervision by the Board of Directors. The Company does not anticipate any credit loss from nonperformance by the counterparties to the forward exchange contracts, option contracts and interest rate swap contracts.

The outstanding contract amounts of derivative financial transactions, their book values and their market values at March 31, 2000 are summarized as follows:

	Millions of yen		
March 31, 2000	Contract amount	Market value	Unrealized gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	**¥51,691**	**¥51,430**	**¥261**
To sell Euros	**14,828**	**13,909**	**919**
To sell Sterling pounds	**3,883**	**3,718**	**165**
To sell Canadian dollars	**2,500**	**2,399**	**101**
To sell Singapore dollars	**2,400**	**2,347**	**53**
To sell Others	**596**	**562**	**34**
To buy U.S. dollars	**15,342**	**15,037**	**(305)**
To buy Singapore dollars	**312**	**312**	**0**
To buy Thai bahts	**1,570**	**1,604**	**34**

	Thousands of U.S. dollars		
March 31, 2000	Contract amount	Market value	Unrealized gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	**$487,651**	**$485,189**	**$2,462**
To sell Euros	**139,887**	**131,217**	**8,670**
To sell Sterling pounds	**36,632**	**35,075**	**1,557**
To sell Canadian dollars	**23,585**	**22,632**	**953**
To sell Singapore dollars	**22,642**	**22,142**	**500**
To sell Others	**5,623**	**5,302**	**321**
To buy U.S. dollars	**144,735**	**141,858**	**(2,877)**
To buy Singapore dollars	**2,943**	**2,943**	**0**
To buy Thai bahts	**14,811**	**15,132**	**321**

	Millions of yen			
March 31, 2000	Contract amount	Book value	Market value	Unrealized gain (loss)
Option contracts:				
Call:				
To sell U.S. dollars	**¥12,965**	**¥49**	**¥132**	**¥ (83)**
To sell Euros	**2,153**	**16**	**10**	**6**
Put:				
To sell U.S. dollars	**3,749**	**20**	**111**	**(91)**
To sell Euros	**985**	**11**	**9**	**2**
Call:				
To buy U.S. dollars	**1,260**	**—**	**11**	**11**
Put:				
To buy U.S. dollars	**12,938**	**74**	**203**	**129**
To buy Euros	**2,153**	**27**	**25**	**(2)**

March 31, 2000	Thousands of U.S. dollars Contract amount	Book value	Market value	Unrealized gain (loss)
Option contracts:				
Call:				
To sell U.S. dollars	**$122,311**	**$462**	**$1,245**	**$(783)**
To sell Euros	**20,311**	**151**	**94**	**57**
Put:				
To sell U.S. dollars	**35,368**	**189**	**1,047**	**(858)**
To sell Euros	**9,292**	**104**	**85**	**19**
Call:				
To buy U.S. dollars	**11,887**	**—**	**104**	**104**
Put:				
To buy U.S. dollars	**122,057**	**698**	**1,915**	**1,217**
To buy Euros	**20,311**	**255**	**236**	**(19)**

March 31, 2000	Millions of yen Contract amount	Market value	Unrealized gain (loss)
Swap contracts:			
Receive fix/pay floating	**¥9,561**	**¥(10)**	**¥(10)**
Pay fix/receive floating	**5,000**	**2**	**2**

March 31, 2000	Thousands of U.S. dollars Contract amount	Market value	Unrealized gain (loss)
Swap contracts:			
Receive fix/pay floating	**$90,198**	**$(94)**	**$(94)**
Pay fix/receive floating	**47,170**	**19**	**19**

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

The fair value of forward exchange contracts are estimated based on market prices for contracts with similar terms.

The fair value of option contracts and interest rate swap contracts are estimated based on the quotes obtained from financial institutions.

12. LEASE INFORMATION

The Company and its consolidated subsidiaries lease certain buildings and structures, vehicles, machinery and equipment and other assets under non-capitalized finance and operating leases. Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance and operating leases is as follows.

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 1999 are as follows:

	Millions of yen Acquisition cost	Accumulated depreciation	Net book value
2000:			
Buildings and structures	**¥ 2,035**	**¥1,226**	**¥ 809**
Vehicles, machinery and equipment	**5,738**	**2,849**	**2,889**
Tools, furniture and fixtures	**11,699**	**5,742**	**5,957**
Leasehold rights	**109**	**66**	**43**
Software	**167**	**103**	**64**
	¥19,748	**¥9,986**	**¥9,762**

	Millions of yen Acquisition cost	Accumulated depreciation	Net book value
1999:			
Buildings and structures	¥ 1,335	¥ 386	¥ 949
Vehicles, machinery and equipment	6,455	3,293	3,162
Tools, furniture and fixtures	11,395	5,412	5,983
Leasehold rights	234	142	92
Software	153	74	79
	¥19,572	¥9,307	¥10,265

	Thousands of U.S. dollars Acquisition cost	Accumulated depreciation	Net book value
2000:			
Buildings and structures	**$ 19,198**	**$11,566**	**$ 7,632**
Vehicles, machinery and equipment	**54,132**	**26,877**	**27,255**
Tools, furniture and fixtures	**110,368**	**54,170**	**56,198**
Leasehold rights	**1,028**	**623**	**405**
Software	**1,576**	**972**	**604**
	$186,302	**$94,208**	**$92,094**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
Non-capitalized finance leases	**2000**	1999	**2000**
Due within one year	**¥3,694**	¥ 3,802	**$34,849**
Due after one year	**6,068**	6,463	**57,245**
	¥9,762	¥10,265	**$92,094**

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2000**	1999	**2000**
Due within one year	**¥1,125**	¥ 670	**$10,613**
Due after one year	**1,824**	971	**17,208**
	¥2,949	¥1,641	**$27,821**

(3) Lease payments and assumed depreciation charges for the year ended March 31, 2000, 1999 and 1998 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Lease payments	**¥3,119**	¥3,276	¥3,352	**$29,425**
Assumed depreciation charges	**3,119**	3,276	—	**29,425**

Assumed depreciation charges were not required to be disclosed in 1998.

(4) Assumed depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

13. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2000, 1999 and 1998 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
2000:					
Sales					
External sales	**¥745,062**	**¥125,173**	**¥870,235**	**¥ —**	**¥ 870,235**
Intersegment sales	**355**	**1,601**	**1,956**	**(1,956)**	**—**
Total sales	**745,417**	**126,774**	**872,191**	**(1,956)**	**870,235**
Operating expenses	**756,041**	**123,219**	**879,260**	**(1,006)**	**878,254**
Operating income (loss)	**¥ (10,624)**	**¥ 3,555**	**¥ (7,069)**	**¥ (950)**	**¥ (8,019)**
Identifiable assets	**¥378,737**	**¥ 84,693**	**¥463,430**	**¥ 76,929**	**¥ 540,359**
Depreciation & amortization	**24,544**	**3,671**	**28,215**	**375**	**28,590**
Capital expenditures	**21,529**	**2,655**	**24,184**	**152**	**24,336**
1999:					
Sales					
External sales	¥797,682	¥148,935	¥946,617	¥ —	¥946,617
Intersegment sales	55	1,330	1,385	(1,385)	—
Total sales	797,737	150,265	948,002	(1,385)	946,617
Operating expenses	802,298	145,715	948,013	(175)	947,838
Operating income (loss)	¥ (4,561)	¥ 4,550	¥ (11)	¥ (1,210)	¥ (1,221)
Identifiable assets	¥407,814	¥ 76,738	¥484,552	¥103,449	¥588,001
Depreciation & amortization	26,542	3,622	30,164	349	30,513
Capital expenditures	25,093	3,444	28,537	278	28,815
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	774,720	133,111	907,831	(1,541)	906,290
Operating income	¥ 4,883	¥ 5,560	¥ 10,443	¥ (427)	¥ 10,016
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

	Thousands of U.S. dollars				
	Audiovisual and information-related business	Entertainment business	Total	Eliminations and unallocation	Consolidated total
2000:					
Sales					
External sales	**$7,028,887**	**$1,180,877**	**$8,209,764**	**$ —**	**$8,209,764**
Intersegment sales	**3,349**	**15,104**	**18,453**	**(18,453)**	**—**
Total sales	**7,032,236**	**1,195,981**	**8,228,217**	**(18,453)**	**8,209,764**
Operating expenses	**7,132,462**	**1,162,443**	**8,294,905**	**(9,490)**	**8,285,415**
Operating income (loss)	**$ (100,226)**	**$ 33,538**	**$ (66,688)**	**$ (8,963)**	**$ (75,651)**
Identifiable assets	**$3,572,990**	**$ 798,991**	**$4,371,981**	**$725,745**	**$5,097,726**
Depreciation & amortization	**231,547**	**34,632**	**266,179**	**3,538**	**269,717**
Capital expenditures	**203,104**	**25,047**	**228,151**	**1,434**	**229,585**

2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2000:							
Sales							
External sales	**¥416,271**	**¥249,451**	**¥145,709**	**¥ 58,804**	**¥ 870,235**	**¥ —**	**¥ 870,235**
Intersegment sales	**238,687**	**431**	**183**	**141,377**	**380,678**	**(380,678)**	**—**
Total sales	**654,958**	**249,882**	**145,892**	**200,181**	**1,250,913**	**(380,678)**	**870,235**
Operating expenses	**671,232**	**247,581**	**144,276**	**198,170**	**1,261,259**	**(383,005)**	**878,254**
Operating income (loss)	**¥ (16,274)**	**¥ 2,301**	**¥ 1,616**	**¥ 2,011**	**¥ (10,346)**	**¥ 2,327**	**¥ (8,019)**
Identifiable assets	**¥359,991**	**¥110,231**	**¥ 52,158**	**¥ 57,298**	**¥ 579,678**	**¥ (39,319)**	**¥ 540,359**

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1999:							
Sales							
External sales	¥474,911	¥263,530	¥156,044	¥ 52,132	¥ 946,617	¥ —	¥946,617
Intersegment sales	246,614	798	146	122,817	370,375	(370,375)	—
Total sales	721,525	264,328	156,190	174,949	1,316,992	(370,375)	946,617
Operating expenses	718,296	265,448	155,913	175,655	1,315,312	(367,474)	947,838
Operating income (loss)	¥ 3,229	¥ (1,120)	¥ 277	¥ (706)	¥ 1,680	¥ (2,901)	¥ (1,221)
Identifiable assets	¥378,124	¥ 93,712	¥ 64,676	¥ 59,943	¥ 596,455	¥ (8,454)	¥588,001

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
1998:							
Sales							
External sales	¥496,970	¥228,932	¥137,625	¥ 52,779	¥ 916,306	¥ —	¥916,306
Intersegment sales	217,691	1,572	73	103,222	322,558	(322,558)	—
Total sales	714,661	230,504	137,698	156,001	1,238,864	(322,558)	916,306
Operating expenses	705,765	231,694	135,660	154,860	1,227,979	(321,689)	906,290
Operating income (loss)	¥ 8,896	¥ (1,190)	¥ 2,038	¥ 1,141	¥ 10,885	¥ (869)	¥ 10,016
Identifiable assets	¥394,610	¥100,468	¥ 69,601	¥ 59,033	¥ 623,712	¥ 338	¥624,050

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2000:							
Sales							
External sales	**$3,927,085**	**$2,353,311**	**$1,374,613**	**$ 554,755**	**$ 8,209,764**	**$ —**	**$8,209,764**
Intersegment sales	**2,251,765**	**4,066**	**1,726**	**1,333,745**	**3,591,302**	**(3,591,302)**	**—**
Total sales	**6,178,850**	**2,357,377**	**1,376,339**	**1,888,500**	**11,801,066**	**(3,591,302)**	**8,209,764**
Operating expenses	**6,332,378**	**2,335,669**	**1,361,094**	**1,869,528**	**11,898,669**	**(3,613,254)**	**8,285,415**
Operating income (loss)	**$ (153,528)**	**$ 21,708**	**$ 15,245**	**$ 18,972**	**$ (97,603)**	**$ 21,952**	**$ (75,651)**
Identifiable assets	**$3,396,141**	**$1,039,915**	**$ 492,057**	**$ 540,547**	**$ 5,468,660**	**$ (370,934)**	**$5,097,726**

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

	Millions of yen				
	Americas	Europe	Asia	Other area	Total
2000					
Overseas sales	**¥273,012**	**¥155,440**	**¥112,751**	**¥4,113**	**¥545,316**
Consolidated sales					**¥870,235**
Ratio of overseas sales to consolidated sales	**31.4%**	**17.9%**	**13.0%**	**0.4%**	**62.7%**
1999					
Overseas sales	¥284,099	¥165,320	¥112,782	¥4,350	¥566,551
Consolidated sales					¥946,617
Ratio of overseas sales to consolidated sales	30.0%	17.5%	11.9%	0.5%	59.9%
1998					
Overseas sales	¥255,323	¥145,698	¥120,925	¥4,339	¥526,285
Consolidated sales					¥916,306
Ratio of overseas sales to consolidated sales	27.8%	15.9%	13.2%	0.5%	57.4%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other area	Total
2000					
Overseas sales	**$2,575,585**	**$1,466,415**	**$1,063,689**	**$38,802**	**$5,144,491**
Consolidated sales					**$8,209,764**
Ratio of overseas sales to consolidated sales	**31.4%**	**17.9%**	**13.0%**	**0.4%**	**62.7%**

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, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan 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, 2000 and 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, Victor Company of Japan, Limited and subsidiaries prospectively adopted new Japanese accounting standards for consolidation accounting, income taxes and research and development costs.

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

Asahi & Co.

Tokyo, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standard

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.