



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 minidisks (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).

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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.

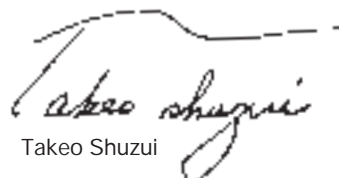
JVC promotes production in optimal locations for the construction of a worldwide structure neutral to exchange rate fluctuations while taking into account such factors as market access, parts procurement, technological capabilities, distribution and operating costs. As a result, the overseas production 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