## Five-Year Summary

Victor Company of Japan, Limited
Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars (Note A) |
|---|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | 1996 | 1995 | **1999** |
| **For the year** | | | | | | |
| Net sales | **¥946,617** | ¥916,306 | ¥890,373 | ¥806,551 | ¥767,218 | **$7,823,281** |
| Overseas | **566,551** | 526,285 | 484,394 | 409,358 | 403,879 | **4,682,240** |
| Domestic | **380,066** | 390,021 | 405,979 | 397,193 | 363,339 | **3,141,041** |
| Cost of sales | **642,140** | 629,859 | 607,383 | 548,728 | 520,751 | **5,306,942** |
| Selling, general and administrative expenses | **305,698** | 276,431 | 271,482 | 252,815 | 246,547 | **2,526,430** |
| Income (Loss) before income taxes and minority interests | **(3,671)** | 6,223 | 12,139 | 10,148 | 7,099 | **(30,339)** |
| Income taxes | **4,466** | 10,796 | 7,141 | 3,135 | 6,197 | **36,909** |
| Net income (loss) | **(8,315)** | (4,703) | 4,586 | 4,343 | 591 | **(68,719)** |
| Depreciation & amortization | **30,513** | 24,008 | 27,212 | 28,475 | 30,333 | **252,174** |
| Capital expenditures | **28,815** | 36,651 | 31,552 | 30,479 | 28,151 | **238,141** |
| R&D expenditures | **41,660** | 37,649 | 39,563 | 38,500 | 36,274 | **344,298** |
| | Millions of yen | | | | | Thousands of U.S. dollars (Note A) |
| **At year-end** | | | | | | |
| Working capital | **¥142,628** | ¥124,395 | ¥160,869 | ¥123,357 | ¥133,103 | **$1,178,744** |
| Stockholders' equity | **232,162** | 243,086 | 250,418 | 247,891 | 242,745 | **1,918,694** |
| Total assets | **588,001** | 624,050 | 603,920 | 561,654 | 520,699 | **4,859,512** |
| | Yen | | | | | U.S. dollars (Note A) |
| **Per share** | | | | | | |
| Net income (loss) | **¥ (32.7)** | ¥ (18.5) | ¥ 18.0 | ¥ 17.1 | ¥ 2.3 | **$ (0.27)** |
| Cash dividends (Note B) | **5.0** | 7.0 | 7.0 | 5.0 | — | **0.04** |

*Notes: A. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥121 to U.S.$1, the approximate rate prevailing on March 31, 1999.*
*B. Cash dividends represent amounts applicable to the respective years.*

## Financial Contents

## Analysis of Income

For the fiscal year ended March 31, 1999, JVC's **consolidated net sales** totaled ¥946,617 million (US$7,823.3 million), an increase of 3.3% from the previous fiscal year. By category, Entertainment posted robust growth, while Consumer Electronics and Components & Devices contributed substantially to sales growth. Sales of Professional Electronics, however, were lower compared with the previous fiscal year.

**By geographic region, sales** in Japan declined 2.6% to ¥380,066 million (US$3,141.0 million) on account of weak consumption and a fall in public and private capital investment. Overseas sales rose 7.7% to ¥566,551 million (US$4,682.2 million). Sales grew steadily in North America and Europe. Sales in emerging markets in Asia, Russia and Brazil, however, dropped sharply owing to lackluster economic conditions started by currency crises in the fall of 1997. Sales advanced 11.3% in the Americas and 13.5% in Europe, while decreasing 6.7% in Asia. The overseas sales ratio increased 2.5 percentage points to 59.9%.

With an increasing overseas sales ratio, fluctuations in the exchange rate had a greater impact on net sales. The yen depreciated to ¥146 per US$1 in the first half of the term under review, and appreciated from the fall to winter to ¥108 at the beginning of 1999. Prices have been reduced to raise competitiveness during periods of depreciation, and price competition persisted throughout periods of appreciation. Recognizing the urgency of this situation, the Company is building a strong corporate foundation to minimize the effect of exchange rate fluctuations.

To lower its exposure to intense price competition throughout the world for conventional audiovisual products, JVC aimed to boost its lineup of high-value-added products in Consumer Electronics and increase the contribution of Professional Electronics, Components & Devices and Entertainment businesses to net sales. However, the sales ratio of non-Consumer Electronics businesses decreased 0.8 percentage point to 35.3% on account of a drop in domestic private capital investment and a decline in sales of Professional Electronics due to the lackluster karaoke industry. The sales ratio of high-value-added consumer electronics, however, climbed 4.0 percentage points to 20%. The sales performance of each business was as follows.

**Sales of Consumer Electronics** expanded 4.6% to ¥612,340 million (US$5,060.7 million), representing 64.7% of net sales, an increase of 0.8 percentage point. Although sales of conventional products were adversely affected by sluggish domestic consumer spending and price competition, demand for such high-value-added products as DVC, S-VHS ET and car audio systems was strong.

**Sales of Professional Electronics** fell 9.4% to ¥107,642 million (US$889.6 million), or a decline of 1.6 percentage points to 11.4% of net sales. Overseas, demand was

### NET SALES BY CATEGORY

(Millions of yen)

| | Consumer Electronics | Professional Electronics | Components & Devices | Entertainment | Other | Total |
|---|---|---|---|---|---|---|
| 1999 | 612,340 | 107,642 | 73,693 | 148,934 | 4,005 | 946,617 |
| | 64.7% | 11.4% | 7.8% | 15.7% | 0.4% | 100% |
| 1998 | 585,245 | 118,783 | 70,843 | 136,702 | 4,730 | 916,306 |
| | 63.9% | 13.0% | 7.7% | 14.9% | 0.5% | 100% |
| Change | 4.6% | (9.4)% | 4.0% | 8.9% | (15.3)% | 3.3% |
| 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 build-up multilayer printed wiring boards | Audio and visual software including CDs, DVDs and videotapes | Interior furniture | |

robust for ILA presentation systems and favorable for professional video systems. In Japan, sales dropped on account of a fall in capital investment in the private sector and lackluster sales in the karaoke industry.

**Sales of Components & Devices** increased 4.0% to ¥73,693 million (US$609.0 million), accounting for 7.8% of net sales, up 0.1 percentage point. On a volume basis, sales surged for such core products as motors and deflection yokes. A drop in prices, however, led to sales approximately the same as the previous fiscal year. Sales in the fast-growing business for high-density build-up multilayer printed wiring boards skyrocketed almost three times higher than the previous year.

**Sales in the Entertainment business** climbed 8.9% to ¥148,934 million (US$1,230.9 million), a 0.8 percentage point increase to 15.7% of net sales. Sales of CDs in Japan recorded new highs on account of four albums breaking through the million unit mark. Sales of the video *Titanic* also contributed substantially to the increase in sales.

Although net sales rose 3.3%, cost of sales was down 0.9 percentage point to 67.8% owing to lower costs and favorable exchange rates.

Selling, general and administrative (SG&A) expenses to net sales increased 2.1 percentage points to 32.3%. Although reductions in fixed costs are progressing through Companywide efforts, sales promotion expenses have increased dramatically alongside price competition.

An operating loss of ¥1,221 million (US$10.1 million) was recorded. By segment, operating losses were recorded in the Americas and Asia on account of worsening market conditions in Latin America, a downtrend in movie operations in the United States and weak sales in emerging markets.

An unrealized gain from appreciation of trading securities was registered in other income. Marketable securities held by a subsidiary in the United States were revalued. Other expenses included a loss incurred to strengthen operations in China, an exchange rate loss at a subsidiary in Brazil from a drop in the real, and a loss from downsizing a music production and sales subsidiary in the United States.

Net interest expense (interest expense plus interest and dividend income) was ¥5,972 million (US$49.4 million), an increase of ¥2,663 million due to a rise in interest-bearing debt.

Loss before income taxes and minority interests amounted to ¥3,671 million (US$30.3 million). Income taxes totaled ¥6,443 million (US$53.2 million), of which ¥1,977 million was carried forward to the next fiscal year through tax-effect accounting. As a result, a net loss of ¥8,315 million (US$68.7 million) was recorded. Net loss per share of common stock was ¥32.7 (US$0.27). Cash dividends applicable to the year were ¥5.0 (US$0.04).

### Cash Flow Analysis

Capital expenditures during the year were ¥28,815 million (US$238.1 million), lower than depreciation and amortization of ¥30,513 million (US$252.2 million).

**Net cash provided by operating activities** was virtually the same as the previous fiscal year. Although this term's net loss and a decrease in notes and accounts payable accounted for a decrease in cash, these factors were offset by an increase in depreciation and amortization due to aggressive investment in the previous term, a decrease in notes and accounts receivable and a decrease in inventories.

**Net cash used in investing activities** decreased to ¥12,943 million (US$107.0 million) on account of holding capital expenditures within depreciation and amortization and a decrease in marketable and investment securities.

**Net cash provided by financing activities** remained relatively unchanged from the previous term. Efforts were made to decrease short-term bank loans and acquire long-term stable funds through an issuance of bonds.

As a result, cash at end of the year increased ¥9,740 million (US$80.5 million) to ¥80,888 million (US$668.5 million).

### Financial Position

**Total assets** decreased ¥36,049 million (US$297.9 million) to ¥588,001 million (US$4,859.5 million) as a result of efforts to reduce assets to improve asset efficiency.

Total current assets declined ¥26,770 million (US$221.2 million) owing to a reduction in inventories and a decrease in notes and accounts receivable. Total current liabilities fell ¥45,004 million (US$371.9 million) due to decreases in bank loans and notes and accounts payable. As a result, working capital rose ¥18,234 million to ¥142,628 million (US$1,178.7 million). The current ratio improved from 1.44 to 1.59.

**Interest-bearing debt** advanced ¥4,602 million to ¥165,811 million (US$1,370.3 million) owing to an increase in the number of consolidated subsidiaries. In consideration of the Company's financial position, bank loans were decreased and direct procurement of funds was increased.

**Stockholders' equity** fell ¥10,924 million to ¥232,162 million (US$1,918.7 million) as a result of allocation of retained earnings following the net loss during the term. As the reduction in liabilities was greater than the decline in stockholders' equity, stockholders' equity as a percentage of total assets was 39.5% compared with 39.0% in the previous fiscal year. Stockholders' equity per share was ¥913.20 (US$7.55).

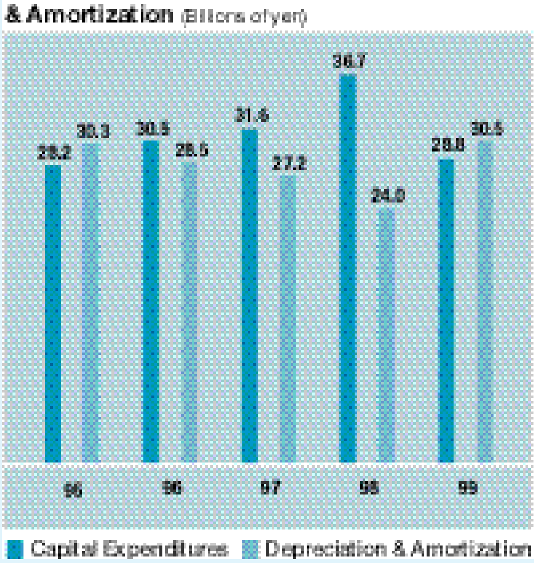
### Year 2000 Preparations

JVC recognizes the seriousness of the Year 2000 (Y2K) problem, and is promoting Y2K readiness primarily through the Committee for Year 2000 Problems. The Committee comprises five smaller committees representing products, information systems, production materials, production facilities and buildings. Duties include checking the status of current preparations, execution of preparations, in-house and affiliate awareness programs and the formation of a risk management plan for contingencies. Progress is reported to Company management and conferences are held concerning preparations as necessary.

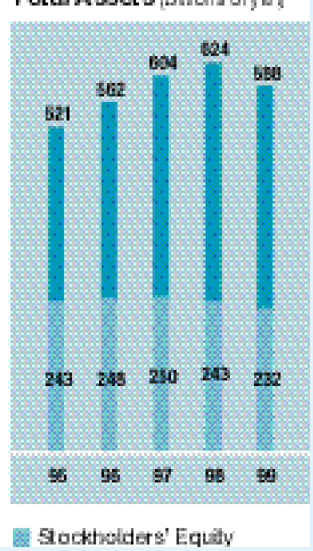
A review of all Company products sold since January 1992 for Y2K compliance has been completed. Information regarding products that require attention is available on the Company's web site and from other sources. Ongoing preparations of in-house information systems began in 1996 and are scheduled for completion in August 1999. Primary Group companies in Japan and overseas are also implementing similar preparations. Preparations of other production facilities, production materials and buildings are underway with completion planned for September 1999.

While it is difficult to pin down Y2K costs, expenditures of ¥2,700 million are allocated for the Group, including in-house preparation costs. Approximately 70% of this amount has been accounted for up to the fiscal year under review. These expenditures are not expected to adversely affect future business performance.

**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, 1999, 1998 and 1997

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** |
| **Net sales** | **¥946,617** | ¥916,306 | ¥890,373 | **$7,823,281** |
| **Costs and expenses:** | | | | |
| Cost of sales | **642,140** | 629,859 | 607,383 | **5,306,942** |
| Selling, general and administrative expenses | **305,698** | 276,431 | 271,482 | **2,526,430** |
| | **947,838** | 906,290 | 878,865 | **7,833,372** |
| **Operating income (loss)** | **(1,221)** | 10,016 | 11,508 | **(10,091)** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | **2,407** | 1,937 | 2,418 | **19,893** |
| Unrealized gain from appreciation of trading securities | **2,325** | — | — | **19,215** |
| Equity in income of affiliated companies (Note 6) | **453** | 295 | 1,754 | **3,744** |
| Interest expense | **(8,379)** | (5,246) | (4,864) | **(69,248)** |
| Gain on sales of investment securities | **530** | 893 | 34 | **4,380** |
| Loss on liquidation of subsidiaries | **(2,293)** | — | (364) | **(18,950)** |
| Loss from financial support of affiliated companies | **(1,122)** | (1,356) | (1,022) | **(9,273)** |
| Restructuring charges | **(537)** | (2,063) | — | **(4,438)** |
| Other, net | **4,166** | 1,747 | 2,676 | **34,429** |
| | **(2,450)** | (3,793) | 631 | **(20,248)** |
| **Income (Loss) before income taxes and minority interests** | **(3,671)** | 6,223 | 12,139 | **(30,339)** |
| **Income taxes** (Note 7)**:** | | | | |
| Current | **6,443** | 7,488 | 6,624 | **53,248** |
| Deferred | **(1,977)** | 3,308 | 517 | **(16,339)** |
| | **4,466** | 10,796 | 7,141 | **36,909** |
| **Income (Loss) before minority interests** | **(8,137)** | (4,573) | 4,998 | **(67,248)** |
| **Minority interests** | **(178)** | (130) | (413) | **(1,471)** |
| **Net income (loss)** | **¥ (8,315)** | ¥ (4,703) | ¥ 4,586 | **$ (68,719)** |

| | Yen | | | U.S. dollars (Note 2) |
|---|---|---|---|---|
| **Amounts per share of common stock:** | | | | |
| Net income (loss) | **¥ (32.7)** | ¥ (18.5) | ¥ 18.0 | **$ (0.27)** |
| Diluted net income | **—** | — | 17.2 | **—** |
| Cash dividends applicable to the year | **5.0** | 7.0 | 7.0 | **0.04** |

*See accompanying notes.*

## Consolidated Balance Sheets

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

| Assets | Millions of yen 1999 | Millions of yen 1998 | Thousands of U.S. dollars (Note 1) 1999 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash | **¥ 80,888** | ¥ 71,148 | **$ 668,496** |
| Marketable securities (Note 5) | **12,395** | 15,360 | **102,438** |
| Notes and accounts receivable: | | | |
| Trade | **117,778** | 124,618 | **973,372** |
| Unconsolidated subsidiaries and affiliated companies | **1,012** | 2,305 | **8,364** |
| Allowance for doubtful accounts | **(5,024)** | (3,637) | **(41,521)** |
| Inventories (Notes 4 and 9) | **128,579** | 149,625 | **1,062,636** |
| Deferred income taxes | **19,111** | 18,323 | **157,942** |
| Other current assets | **28,613** | 32,380 | **236,471** |
| Total current assets | **383,352** | 410,122 | **3,168,198** |
| **Investments and advances:** | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies | **9,403** | 16,441 | **77,711** |
| Other (Notes 5 and 9) | **23,988** | 27,361 | **198,248** |
| Total investments and advances | **33,391** | 43,802 | **275,959** |
| **Property, plant and equipment:** | | | |
| Land | **30,677** | 30,337 | **253,529** |
| Buildings | **110,020** | 106,536 | **909,256** |
| Machinery and equipment (Note 9) | **244,871** | 243,828 | **2,023,728** |
| Construction in progress | **7,340** | 11,880 | **60,661** |
| | **392,908** | 392,581 | **3,247,174** |
| Less accumulated depreciation | **272,219** | 265,541 | **2,249,744** |
| Net property, plant and equipment | **120,689** | 127,040 | **997,430** |
| **Deferred income taxes** | **16,913** | 15,922 | **139,777** |
| **Other assets** | **15,100** | 15,733 | **124,793** |
| **Foreign currency translation adjustments** | **18,556** | 11,431 | **153,355** |
| | **¥588,001** | ¥624,050 | **$4,859,512** |

*See accompanying notes.*

| Liabilities and stockholders' equity | Millions of yen 1999 | Millions of yen 1998 | Thousands of U.S. dollars (Note 1) 1999 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Bank loans (Note 8) | **¥ 61,052** | ¥ 69,883 | **$ 504,562** |
| Current portion of long-term debt (Note 8) | **15,733** | 20,431 | **130,025** |
| Notes and accounts payable: | | | |
| Trade | **112,278** | 133,233 | **927,917** |
| Construction | **3,100** | 5,557 | **25,620** |
| Unconsolidated subsidiaries and affiliated companies | **7,517** | 11,402 | **62,124** |
| Accrued income taxes (Note 7) | **3,771** | 5,895 | **31,165** |
| Accrued expenses (Note 9) | **19,827** | 20,450 | **163,860** |
| Other current liabilities | **17,446** | 18,877 | **144,182** |
| Total current liabilities | **240,724** | 285,728 | **1,989,455** |
| **Long-term debt** (Notes 8 and 9) | **89,026** | 70,895 | **735,752** |
| **Employees' retirement benefits** | **21,037** | 19,718 | **173,859** |
| **Other long-term liabilities** | **874** | 1,058 | **7,223** |
| **Minority interests** | **4,178** | 3,565 | **34,529** |
| **Contingent liabilities** (Note 10) | | | |
| **Stockholders' equity** (Note 11): | | | |
| Common stock, par value ¥50 per share; | | | |
| Authorized—800,000,000 shares | | | |
| Issued—254,230,058 shares | **34,115** | 34,115 | **281,942** |
| Additional paid-in capital | **67,216** | 67,216 | **555,504** |
| Retained earnings | **130,832** | 141,784 | **1,081,256** |
| | **232,163** | 243,115 | **1,918,702** |
| Treasury stock, at cost | **(1)** | (29) | **(8)** |
| Total stockholders' equity | **232,162** | 243,086 | **1,918,694** |
| | **¥588,001** | ¥624,050 | **$4,859,512** |

## Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited

Years ended March 31, 1999, 1998 and 1997

| | Shares of common stock (thousands) | Millions of yen | | |
|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Retained earnings |
| **Balance at March 31, 1996** | 254,205 | ¥34,114 | ¥67,163 | ¥146,619 |
| 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) |
| Bonuses to directors and statutory auditors | — | — | — | (71) |
| **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 statutory 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 statutory auditors | **—** | **—** | **—** | **(92)** |
| **Balance at March 31, 1999** | **254,230** | **¥34,115** | **¥67,216** | **¥130,832** |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings |
| **Balance at March 31, 1998** | $281,942 | $555,504 | $1,171,769 |
| Net loss | **—** | **—** | **(68,719)** |
| Adjustment due to change in number of consolidated subsidiaries | **—** | **—** | **(5,347)** |
| Adjustment due to change in number of affiliated companies | **—** | **—** | **(984)** |
| Cash dividends paid ($0.06 per share) | **—** | **—** | **(14,703)** |
| Bonuses to directors and statutory auditors | **—** | **—** | **(760)** |
| **Balance at March 31, 1999** | **$281,942** | **$555,504** | **$1,081,256** |

*See accompanying notes.*

## Consolidated Statements of Cash Flows

Victor Company of Japan, Limited

Years ended March 31, 1999, 1998 and 1997

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** |
| **Cash flows from operating activities:** | | | | |
| Net income (loss) | **¥ (8,315)** | ¥ (4,703) | ¥ 4,586 | **$ (68,719)** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **30,513** | 24,008 | 27,212 | **252,174** |
| Unrealized gain from appreciation of trading securities | **(2,325)** | — | — | **(19,215)** |
| Equity in income of affiliated companies | **(453)** | (295) | (1,754) | **(3,744)** |
| Loss (Gain) on disposal of property, plant and equipment, net | **(1,087)** | 199 | (180) | **(8,983)** |
| Loss from financial support of affiliated companies | **—** | — | 529 | **—** |
| Deferred income taxes | **(1,977)** | 3,755 | (57) | **(16,339)** |
| Bonuses to directors and statutory auditors | **(92)** | (94) | (71) | **(760)** |
| Changes in operating assets and liabilities: | | | | |
| Decrease (Increase) in notes and accounts receivable | **13,423** | (2,074) | (9,666) | **110,934** |
| Decrease (Increase) in inventories | **17,012** | (20,689) | 13,695 | **140,595** |
| Decrease (Increase) in other current assets | **4,449** | (532) | (1,549) | **36,768** |
| Increase (Decrease) in notes and accounts payable | **(30,241)** | 15,108 | (9,607) | **(249,926)** |
| Increase (Decrease) in accrued income taxes | **(2,144)** | 1,420 | 1,079 | **(17,719)** |
| Increase (Decrease) in other current liabilities | **1,788** | 2,448 | (290) | **14,777** |
| Other | **1,027** | 2,068 | 3,179 | **8,488** |
| **Net cash provided by operating activities** | **21,578** | 20,619 | 27,106 | **178,331** |
| **Cash flows from investing activities:** | | | | |
| Capital expenditures | **(28,815)** | (36,651) | (31,552) | **(238,141)** |
| Proceeds from sales of fixed assets | **5,382** | 2,027 | 1,834 | **44,479** |
| Decrease (Increase) in marketable securities | **6,366** | (1,776) | (4,019) | **52,612** |
| Decrease (Increase) in investment securities | **2,203** | 3,079 | (8,866) | **18,207** |
| Decrease (Increase) in investment in and advances to non-consolidated subsidiaries and affiliated companies | **209** | (4,137) | 151 | **1,727** |
| Other | **1,712** | 754 | 3,285 | **14,149** |
| **Net cash used in investing activities** | **(12,943)** | (36,704) | (39,167) | **(106,967)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from long-term loans | **6,526** | — | 1,813 | **53,934** |
| Repayments of long-term loans | **(7,830)** | (2,572) | (3,697) | **(64,711)** |
| Proceeds from issuance of bonds | **30,094** | — | 40,000 | **248,711** |
| Repayments of bonds | **(20,431)** | (1,494) | (5,827) | **(168,851)** |
| Increase (Decrease) in short-term bank loans | **(1,536)** | 13,357 | (551) | **(12,694)** |
| Increase (Decrease) in commercial paper | **(3,612)** | (6,869) | 3,662 | **(29,851)** |
| Cash dividends paid | **(1,779)** | (2,033) | (1,907) | **(14,703)** |
| **Net cash provided by financing activities** | **1,432** | 389 | 33,493 | **11,835** |
| **Effect of exchange rate changes on cash** | **(2,193)** | 567 | 1,452 | **(18,124)** |
| **Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method** | **1,866** | 1,480 | 634 | **15,421** |
| **Net increase (decrease) in cash** | **9,740** | (13,649) | 23,518 | **80,496** |
| **Cash at beginning of the year** | **71,148** | 84,797 | 61,279 | **588,000** |
| **Cash at end of the year** | **¥ 80,888** | ¥ 71,148 | ¥ 84,797 | **$ 668,496** |

*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 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

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, 1999, which was ¥121 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.

Investments in certain unconsolidated subsidiaries and affiliated companies 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. 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*

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.

### *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 moving average cost or market. All other securities are valued at cost or less, reflecting write-downs based on impairment of the underlying equity. 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.

### *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***
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 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.

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 1999 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, 1999, 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, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Due from Matsushita | **¥ 167** | ¥ 112 | **$ 1,380** |
| Due to Matsushita | **3,011** | 3,238 | **24,884** |

Sales to and purchases from Matsushita for the years ended March 31, 1999, 1998 and 1997 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** |
| Net sales | **¥ 1,352** | ¥ 1,125 | ¥ 1,558 | **$ 11,174** |
| Net purchases | **30,558** | 33,225 | 34,965 | **252,545** |

## 4. INVENTORIES

Inventories at March 31, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Finished goods | **¥ 87,851** | ¥101,254 | **$ 726,041** |
| Work in process | **17,834** | 20,681 | **147,388** |
| Raw materials and supplies | **22,894** | 27,690 | **189,207** |
| | **¥128,579** | ¥149,625 | **$1,062,636** |

## 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, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Marketable securities: | | | |
| Book value | **¥ 2,689** | ¥ 112 | **$ 22,223** |
| Market value | **2,898** | 513 | **23,950** |
| Unrealized gains | **¥ 209** | ¥ 401 | **$ 1,727** |
| Investments and advances—other: | | | |
| Book value | **¥10,137** | ¥10,484 | **$ 83,776** |
| Market value | **21,112** | 19,737 | **174,479** |
| Unrealized gains | **¥10,975** | ¥ 9,253 | **$ 90,703** |

## 6. EQUITY IN INCOME OF AFFILIATED COMPANIES

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, equity in income of affiliated companies is included in other income (expenses). Prior year amounts, which were presented between income taxes and net income (loss), have been reclassified to conform to the 1999 presentation.

## 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 referred to above which, in the aggregate, resulted in normal effective tax rates of approximately 48% for the year ended March 31, 1999 and 51% for the years ended March 31, 1998 and 1997. 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 mainly because of (1) tax reductions 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, 1999 and 1998 ranged from 0.575% to 19.0% and from 1.2% to 20.0%, respectively.

Long-term debt at March 31, 1999 and 1998 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| 1.4% unsecured convertible bonds due 1999 | **¥ —** | ¥20,431 | **$ —** |
| 1.5% unsecured convertible bonds due 2005 | **11,483** | 11,483 | **94,901** |
| 0.35% unsecured convertible bonds due 2002 | **19,999** | 19,999 | **165,281** |
| 0.55% unsecured convertible bonds due 2005 | **20,000** | 20,000 | **165,289** |
| 4.3% Eurobonds due 2000 | **9,765** | 10,700 | **80,702** |
| 1.375% unsecured bonds due 2001 | **5,000** | — | **41,322** |
| 1.75% unsecured bonds due 2003 | **5,000** | — | **41,322** |
| 2.15% unsecured bonds due 2005 | **10,000** | — | **82,645** |
| 1.30% guaranteed notes due 2001 | **5,180** | — | **42,810** |
| 1.61% guaranteed notes due 2002 | **4,914** | — | **40,612** |
| Loans, primarily from banks with interest principally at 1.44% to 8.95% | | | |
| Secured | **379** | 561 | **3,132** |
| Unsecured | **12,494** | 7,503 | **103,256** |
| Other | **545** | 649 | **4,505** |
| | **104,759** | 91,326 | **865,777** |
| Less current portion | **15,733** | 20,431 | **130,025** |
| | **¥ 89,026** | ¥70,895 | **$735,752** |

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 ($23.69) 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 ($12.29) per share, subject to adjustment under certain circumstance.

The aggregate annual maturities of long-term debt at March 31, 1999 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2000 | ¥ 15,733 | $130,025 |
| 2001 | 26 | 215 |
| 2002 | 10,585 | 87,479 |
| 2003 | 24,939 | 206,108 |
| 2004 | 8,920 | 73,719 |
| Thereafter | 44,556 | 368,231 |
| | ¥104,759 | $865,777 |

## 9. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt and accrued expenses at March 31, 1999:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Investments | ¥ 8 | $ 66 |
| Machinery and equipment | 379 | 3,132 |
| Finished goods | 145 | 1,198 |
| | ¥532 | $4,396 |

## 10. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 1999 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| As endorser of export bills discounted with banks | ¥ 9,574 | $ 79,124 |
| As guarantor for loans to employees | 17,573 | 145,231 |
| As guarantor for loans to affiliated companies | 759 | 6,273 |
| | ¥27,906 | $230,628 |

## 11. 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.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for the years ended March 31, 1998 and 1997 have been reclassified to conform to the 1999 presentation.

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

## 12. FORWARD FOREIGN EXCHANGE CONTRACTS — THE COMPANY ONLY

At March 31, 1999, 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, 1999 were ¥40,852 million and ¥40,081 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, 1999 were ¥23,105 million and ¥22,993 million, respectively.

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

## 13. LEASE INFORMATION

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 leases is as follows.

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

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| 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 | 141 | 93 |
| Software | 153 | 73 | 80 |
| | ¥19,572 | ¥9,305 | ¥10,267 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| Buildings and structures | $ 11,033 | $ 3,190 | $ 7,843 |
| Vehicles, machinery and equipment | 53,347 | 27,216 | 26,131 |
| Tools, furniture and fixtures | 94,174 | 44,727 | 49,447 |
| Leasehold rights | 1,934 | 1,165 | 769 |
| Software | 1,264 | 603 | 661 |
| | $161,752 | $76,901 | $84,851 |

Assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 1998 were not required to be disclosed.

(2) Future minimum lease payments at March 31, 1999 and 1998 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Due within one year | **¥ 3,802** | ¥3,450 | **$31,421** |
| Due after one year | **6,463** | 5,493 | **53,414** |
| | **¥10,265** | ¥8,943 | **$84,835** |

(3) Lease payments and assumed depreciation charges for the year ended March 31, 1999, 1998 and 1997 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** |
| Lease payments | **¥3,276** | ¥3,352 | ¥3,353 | **$27,074** |
| Assumed depreciation charges | **3,276** | — | — | **27,074** |

Assumed depreciation charges were not required to be disclosed in 1998 or 1997.

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

## 14. SUBSEQUENT EVENT

On June 29, 1999, the Company's stockholders authorized payment of a cash dividend to stockholders of record on March 31, 1999 of ¥1.5 ($0.01) per share, totaling ¥381 million ($3,152 thousand).

### 15. SEGMENT INFORMATION

Information by segment for the years ended March 31, 1999, 1998 and 1997 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 |
| **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 |
| 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 | 753,895 | 127,787 | 881,682 | (2,817) | 878,865 |
| Operating income | ¥ 1,681 | ¥ 9,878 | ¥ 11,559 | ¥ (51) | ¥ 11,508 |
| 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 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Audiovisual and information-related business | Entertainment business | Total | Eliminations and unallocation | Consolidated total |
| **1999:** | | | | | |
| Sales | | | | | |
| External sales | **$6,592,413** | **$1,230,868** | **$7,823,281** | **$ —** | **$7,823,281** |
| Intersegment sales | **455** | **10,991** | **11,446** | **(11,446)** | **—** |
| Total sales | **6,592,868** | **1,241,859** | **7,834,727** | **(11,446)** | **7,823,281** |
| Operating expenses | **6,630,562** | **1,204,256** | **7,834,818** | **(1,446)** | **7,833,372** |
| Operating income (loss) | **$ (37,694)** | **$ 37,603** | **$ (91)** | **$ (10,000)** | **$ (10,091)** |
| Identifiable assets | **$3,370,364** | **$ 634,198** | **$4,004,562** | **$854,950** | **$4,859,512** |
| Depreciation & amortization | **219,355** | **29,934** | **249,289** | **2,885** | **252,174** |
| Capital expenditures | **207,380** | **28,463** | **235,843** | **2,298** | **238,141** |

2) Geographical segment information is as follows:

| | 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 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Japan | Overseas | Total | Elimination and unallocation | Consolidated total |
| 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 | 690,153 | 461,893 | 1,152,046 | (273,181) | 878,865 |
| Operating income | ¥ 10,335 | ¥ 3,219 | ¥ 13,554 | ¥ (2,046) | ¥ 11,508 |
| Identifiable assets | ¥362,123 | ¥199,058 | ¥ 561,181 | ¥ 42,739 | ¥603,920 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | Americas | Europe | Asia | Total | Elimination and unallocation | Consolidated total |
| **1999:** | | | | | | | |
| Sales | | | | | | | |
| External sales | **$3,924,884** | **$2,177,934** | **$1,289,620** | **$ 430,843** | **$7,823,281** | **$ —** | **$7,823,281** |
| Intersegment sales | **2,038,132** | **6,595** | **1,206** | **1,015,017** | **3,060,950** | **(3,060,950)** | **—** |
| Total sales | **5,963,016** | **2,184,529** | **1,290,826** | **1,445,860** | **10,884,231** | **(3,060,950)** | **7,823,281** |
| Operating expenses | **5,936,330** | **2,193,785** | **1,288,537** | **$1,451,695** | **10,870,347** | **(3,036,975)** | **7,833,372** |
| Operating income (loss) | **$ 26,686** | **$ (9,256)** | **$ 2,289** | **$ (5,835)** | **$ 13,884** | **$ (23,975)** | **$ (10,091)** |
| Identifiable assets | **$3,124,992** | **$ 774,479** | **$ 534,512** | **$ 495,397** | **$4,929,380** | **$ (69,868)** | **$4,859,512** |

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

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Americas | Europe | Asia | Other area | Total |
| **1999** | | | | | |
| Overseas sales | **¥284,099** | **¥165,320** | **¥112,782** | **¥4,350** | **¥566,551** |
| Consolidated sales | | | | | **¥946,617** |
| Percentage of overseas 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 |
| Percentage of overseas sales | 27.8% | 15.9% | 13.2% | 0.5% | 57.4% |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Americas | Europe | Asia | Other area | Total |
| **1999** | | | | | |
| Overseas sales | **$2,347,926** | **$1,336,281** | **$932,083** | **$35,950** | **$4,682,240** |
| Consolidated sales | | | | | **$7,823,281** |
| Percentage of overseas sales | **30.0%** | **17.5%** | **11.9%** | **0.5%** | **59.9%** |

*Total overseas sales in 1997 were ¥484,394 million.*

## 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, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1999, 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, 1999 and 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999 in conformity with accounting principles generally accepted in Japan consistently applied during the periods.

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, 1999

## 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 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 financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.