Masahiko Terada, President

To Our Customers, Employees and Stockholders

Focusing On What We Do Best

JVC punctuated successive years of net losses in fiscal 2001, ended March 31, 2001. While we saw growth on both our top and bottom lines, we still have some fundamental issues to tackle. One is ensuring sustainable growth over the long term. Another is reinventing JVC to strengthen our balance sheet.

TOP- AND BOTTOM-LINE GROWTH, BUT REALITIES TO FACE

- Consolidated net sales rose 7.4% to ¥934.3 billion (US$7,535 million) over the previous fiscal year.
- Higher sales were achieved in digital and networking products—a key area of focus for JVC in our drive to transform into a "Digital & Network Company."
- Operating income moved into the black and net income increased to ¥2.5 billion (US$20 million), reversing a year-ago loss of ¥5.3 billion.

On June 28, 2001, I was elected as a director of Victor Company of Japan, Limited (JVC) at the annual meeting of stockholders and appointed president at a subsequent Board of Directors' meeting. I have taken the helm at a transitional time in the history of JVC. While our financial results improved strongly in the past fiscal year, we still have a number of fundamental issues to resolve, such as ensuring sustainable growth over the long term and reinventing JVC to strengthen our balance sheet.

"Value Creation 21," a three-year plan (fiscal 2002 to fiscal 2004) launched this fiscal year, points us in this direction and shifts our focus back to what we do best. The plan bears the same name as the initiative presently being implemented by Matsushita Electric Industrial Co., Ltd., which holds 52.4% of JVC's outstanding shares. Parallel is the operative word. That's because while running JVC in harmony with Matsushita Group strategy, we will implement reforms at JVC toward independently established goals. This parallel approach signifies our commitment to remaining a company with the authority to make the independent decisions required to run our business, while at the same time being a key member of the Matsushita Group. Our ultimate goal is to raise our corporate value in both contexts.

"VALUE CREATION 21" BASIC STRATEGY—FROM DECONSTRUCTION TO CREATION

PRACTICING THOROUGH CAPITAL COST MANAGEMENT

JVC has in the past had a strong balance sheet. In recent times, however, that strength has been gradually undermined by insufficient recognition of the importance of capital cost management (CCM) and cash flows. At present, our profits aren't covering the cost of capital. Correcting our inventory overhang is the most immediate challenge we face in redressing the balance. This will be achieved by shortening lead-times and practicing thoroughgoing management. Shrinking investment assets will also be instrumental in managing our capital cost more effectively. Here, we will reorganize factories, overhaul business structures and unwind cross-shareholdings. The freed up resources will be channeled into growth businesses, particularly Digital and Networking (D&N) business.

Tightening our focus on product lines that generate earnings and trimming fixed costs will contribute positively to CCM, too. To this end, we plan to rightsize or withdraw from unprofitable businesses and undertake strict profit management on an individual product model basis. Thus we are tackling CCM from multiple angles, eliminating management, quality control and production losses, and trimming our headcount to reduce personnel expenses. These actions demonstrate our resolve to meeting stakeholders' expectations by delivering positive CCM in fiscal 2004.

ACCELERATING CREATION THROUGH COOPERATION—A GROWTH DRIVER WITHIN THE MATSUSHITA GROUP

Another reality we must face is our insufficient resources in certain areas. Striking up alliances and deepening ties with strategic partners are answers to this problem. Heretofore, we have promoted a strategy with a high degree of independence within the Matsushita Group. That strategy has been rooted in our sophisticated technology and wealth of entertainment content. We have pursued a relationship founded on "mutual development through competition." This approach was adopted at a time when our markets were growing and our products gaining a foothold. But times have changed—and so too market dynamics. Our traditional markets, while considerable in size, are at saturation point. We have entered an era of replacement demand and demand for added value. The scale and speed of change is also building as digital technology, networking and globalization reshape our markets. As this evolution has taken place, we have increasingly confronted situations where our lack of resources prevents an effective response.

That's why we intend to identify more closely with Matsushita, with whom we feel we can capture the greatest synergies. In particular, we want to eliminate inefficient duplication and cannibalization of our respective products. Encompassing use of each other's human resources and management infrastructure, our partnership with Matsushita will extend from technological development to production. As the partnership gathers momentum, we will broaden its scope and depth.

In terms of products, JVC and Matsushita will cooperate on the development of digital TVs and next-generation videodisk recorders/players (VDR), as well as other synergistic products. JVC and Matsushita will also make use of each other's production bases. On the sales front, we will continue to position our established brands—Victor and JVC—differently from Matsushita's. Our brands are an important intangible asset, one that we intend to nurture and grow. We are confident that our strategy will create corporate value and generate earnings that contribute to higher earnings in the Matsushita Group.

D&N STRATEGY
HIGH PERFORMANCE, HIGH-VALUE-ADDED CONSUMER ELECTRONICS

Our product mix is also targeted for improvement. In the year ended March 31, 2001, the Consumer Electronics segment accounted for 64.1% of net sales, but a mere 0.6% of operating

Financial Highlights

Victor Company of Japan, Limited and its consolidated subsidiaries Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
For the year:				
Net sales	**¥934,350**	¥870,235	¥946,617	**$7,535,081**
Overseas	**567,977**	545,316	566,551	**4,580,460**
Domestic	**366,373**	324,919	380,066	**2,954,621**
Net income (loss)	**2,498**	(5,341)	(8,315)	**20,145**
Capital expenditures	**31,127**	24,336	28,815	**251,024**
Depreciation and amortization	**28,085**	28,590	30,513	**226,492**
At year-end:				
Stockholders' equity	**¥180,515**	¥199,164	¥232,162	**$1,455,766**
Total assets	**586,628**	540,359	588,001	**4,730,871**
	Yen			U.S. dollars (Note 1)
Per share:				
Net income (loss)	**¥ 9.8**	¥ (21.0)	¥ (32.7)	**$ 0.08**
Cash dividends (Note 2)	**3.0**	—	5.0	**0.02**

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥124 to U.S.$1, the approximate rate prevailing on March 31, 2001.
2. Cash dividends represent amounts applicable to respective years.

income. This level of earnings is unacceptable given the substantial resources we allocate to this segment. The poor performance of the Consumer Electronics segment reflects falling sales prices and the maturity of the market for existing consumer electronics, notably consumer AV products. The rapid emergence of companies whose strength is low prices characterizes the market. In view of these circumstances, one might think that JVC has a smaller role to play in the industry. But I have a different take on the situation. As a whole, the market for consumer electronics is soft. But demand for products offering high performance, high added value and new value is growing. We must allocate more resources to these growth areas. With this in mind, we are advocating a Digital and Networking (D&N) Strategy to drive growth. As part of this strategy, we will restructure development and sales systems for consumer electronics. Key products in the D&N business include mini digital (DV) camcorders, D-VHS, Direct-Drive Image Light Amplifier (D-ILA) projectors and hybrid TVs with built-in hard disk drives. Our target is to grow D&N products to account for at least 70% of consumer electronics products in fiscal 2004.

A VALUE CHAIN FROM COMPONENTS TO ENTERTAINMENT CONTENT

Components & devices (C&D) and content & media are two integral parts of our D&N strategy and overall value chain. Both are core competencies.

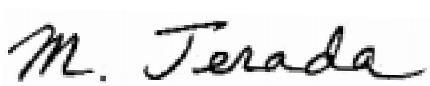
In picture-related technology, JVC is a beacon of excellence. Our sophisticated technology includes high-density build-up multilayer printed wiring boards (“VIL” PWBs), semiconductor package substrates that contribute to advances in VIL PWBs, Direct-Drive Image Light Amplifier (D-ILA) devices and high-value-added deflection yokes. Adding another dimension is our high share in Japan’s music market. We have a rich storehouse of content featuring music, visual and other forms of entertainment.

Our consumer and professional electronics are in every practical sense positioned in the mid-stream, between C&D and content & media. Trying to compete with late entrants and other rival companies and earn profits on the strength of such products alone would be a fruitless exercise. We must leverage our collective strengths to be competitive. Our edge lies in incorporating upstream (C&D) and downstream (content & media) elements in mid-stream operations (hardware) to create a powerful value chain. This is the most effective way to raise our overall brand value.

IN CONCLUSION

Our management mission is highly challenging, but extremely well defined. Successful execution of the three central elements of our medium-term management plan—raising the ratio of D&N products in the consumer electronics product mix, reallocating resources to C&D operations and expanding our content & media operations—will restore our competitiveness and profitability to the levels expected of a global company. I trust that management and employees, whose actions will be key to accomplishing our reform measures, will share this common vision for JVC. I want my term as president to be looked upon as a period of reemergence for JVC as a high-performance, global company with a highly efficient management framework and corporate culture.

August 2001



Masahiko Terada
President