Five-Year Summary

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	1998	1997	**2001**
For the year:						
Net sales	**¥934,350**	¥870,235	¥946,617	¥916,306	¥890,373	**$7,535,081**
Overseas	**567,977**	545,316	566,551	526,285	484,394	**4,580,460**
Domestic	**366,373**	324,919	380,066	390,021	405,979	**2,954,621**
Cost of sales	**641,209**	600,506	642,140	629,859	607,383	**5,171,041**
Selling, general and administrative expenses	**287,449**	277,748	305,698	276,431	271,482	**2,318,137**
Operating Income (loss)	**5,692**	(8,019)	(1,221)	10,016	11,508	**45,903**
Income (Loss) before income taxes and minority interests	**9,444**	6,088	(3,671)	6,223	12,139	**76,161**
Income taxes	**7,238**	11,295	4,466	10,796	7,141	**58,371**
Net income (loss)	**2,498**	(5,341)	(8,315)	(4,703)	4,586	**20,145**
Depreciation and amortization	**28,085**	28,590	30,513	24,008	27,212	**226,492**
Capital expenditures	**31,127**	24,336	28,815	36,651	31,552	**251,024**
R&D expenditures	**44,094**	43,351	41,660	37,649	39,563	**355,597**

	Millions of yen					Thousands of U.S. dollars (Note 1)
At year-end:						
Working capital	**¥150,067**	¥127,709	¥142,628	¥124,395	¥160,869	**$1,210,218**
Stockholders' equity	**180,515**	199,164	232,162	243,086	250,418	**1,455,766**
Total assets	**586,628**	540,359	588,001	624,050	603,920	**4,730,871**

	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss)	**¥ 9.8**	¥ (21.0)	¥ (32.7)	¥ (18.5)	¥ 18.0	**$ 0.08**
Cash dividends (Note 2)	**3.0**	—	5.0	7.0	7.0	**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 the respective years.

Contents

Management's Discussion and Analysis

GROUP OVERVIEW

The JVC Group consists of Victor Company of Japan, Limited (JVC), which is a subsidiary of Matsushita Electric Industrial Co., Ltd., and 147 companies. The Group's main lines of business are the creation, production and marketing of audiovisual (AV) equipment; information and communications equipment; sound, image, data and other recording and playback media; and pre-recorded media.

JVC's consolidated financial statements for fiscal 2000, ended March 31, 2001, comprise the accounts of 78 consolidated subsidiaries and 2 equity-method affiliates. In the year under review, 6 subsidiaries were included within the scope of consolidation for the first time: World Parts Co., Ltd., JVC Logistics Europe N.V., P.T. JVC Indonesia, JVC Skandinavia AB, JVC Korea Co., Ltd. and Fujian JVC Electronics Co., Ltd. On the other hand, Victor Media Products Co., Ltd., which was previously classified as a consolidated subsidiary, was eliminated from the scope of consolidation, as was Universal Victor Co., Ltd., which was previously classified as an equity-method affiliate.

NET SALES AND EARNINGS

Consolidated net sales increased 7.4% to ¥934.3 billion (US$7,535.1 million) due to higher sales of digital and networking products and an increase in consignment sales for Universal Music K.K.

By geographical segment, sales in Japan rose 9.2% to ¥454.6 billion (US$3,666 million) for similar reasons to the overall increase in consolidated net sales. In the Americas, sales increased 4.7% to ¥261.2 billion (US$2,106 million), supported by the vibrant U.S. economy in the year's first half. Sales in Europe increased 3.8% to ¥151.3 billion (US$1,220 million) and sales in Asia rose 14.4% to ¥67.3 billion (US$543 million), both on account of healthy market conditions.

During the year, the average yen exchange rate against the U.S. dollar and euro changed from ¥112 to ¥111 and ¥115 to ¥100, respectively, due to the yen's appreciation. The appreciation of the yen had the net effect of reducing consolidated net sales by ¥28.0 billion in relation to the previous fiscal year.

NET SALES BY SEGMENT

Billions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment Softwares & Medias business	Other business	Total
2001						
Sales	**¥598.6**	**¥83.9**	**¥61.5**	**¥183.3**	**¥7.0**	**¥934.3**
Percentage	**64.1%**	**9.0%**	**6.6%**	**19.6%**	**0.7%**	**100.0%**
Change	**5.5%**	**(4.6)%**	**(5.2)%**	**28.3%**	**1.4%**	**7.4%**
Domestic Sales	**¥127.3**	**¥57.8**	**¥10**	**¥165.3**	**¥5.9**	**¥366.3**
Change	**10.6%**	**(9.8)%**	**(45.9)%**	**35.2%**	**20.4%**	**12.7%**
Overseas Sales	**¥471.3**	**¥26.1**	**¥51.5**	**¥ 18**	**¥1.1**	**¥568.0**
Change	**4.2%**	**(9.7)%**	**11.0%**	**(12.6)%**	**(45.0)%**	**4.2%**
2000						
Sales	¥567.6	¥87.9	¥64.9	¥142.9	¥6.9	¥870.2
Percentage	65.2%	10.1%	7.5%	16.4%	0.8%	100.0%
Major Products	VCRs, camcorders, 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	

The cost of sales increased 6.8%, in line with higher net sales, to ¥641.2 billion (US$5,171.0 million). The cost of sales ratio improved by 0.4 of a percentage point to 68.6%, however, thanks to structural reforms implemented since last year and other efforts to limit growth in the cost of sales.

Selling, general and administrative (SG&A) expenses also tracked the growth in net sales, rising 3.5% to ¥287.4 billion (US$2,318.1 million). As a percentage of net sales, SG&A expenses improved 1.1 percentage points to 30.8%.

As a result of the above, JVC reversed a fiscal 1999 operating loss of ¥8.0 billion to post operating income of ¥5.7 billion (US$45.9 million).

In other income and expenses, JVC booked expenses for a special retirement program and took restructuring charges, including costs for business structural reforms. These expenses were offset by gains on the sale of shares and the sale of property, plant and equipment.

Income before income taxes and minority interests was ¥9.4 billion (US$76.2 million), up 55.2% year on year. Net income was ¥2.5 billion (US$20.1 million), compared with a net loss of ¥5.3 billion in the previous fiscal year. Accordingly, net income per share was ¥9.8, compared with a net loss per share of ¥21.0 in fiscal 1999. ROE was 1.38%, compared with –2.68%.

SEGMENT INFORMATION

Sales of Consumer Electronics increased 5.5% to ¥598.6 billion (US$4,828 million). This principally reflected sharp growth in DVD players accompanying the rising popularity of DVD software, as well as strong demand for digital video camcorders, micro component systems and car audio systems destined for overseas. Segment operating income increased from ¥0.4 billion to ¥3.2 billion (US$26 million).

Sales of Professional Electronics declined 4.5% to ¥83.9 billion (US$677 million) due primarily to fierce competition overseas in digital video decks for broadcasting and delays in rolling out new D-ILA (Direct-Drive Image Light Amplifier) projectors. Offsetting these decreases somewhat were higher sales of professional audio systems and security camera systems as more large-scale retail stores were opened, and solid demand for satellite distribution systems, uplink converters for BS digital broadcasters and other new products. The segment posted an operating loss of ¥4.9 billion (US$40 million), compared with an operating loss of ¥7.9 billion in the previous fiscal year.

Sales of Components & Devices decreased 5.1% to ¥61.5 billion (US$496 million) due to a number of factors. Firstly, sales of deflection yokes dropped because of a slowdown in demand in the U.S. PC market. Sales were also hurt by lower orders as customers moved production overseas and by falling prices. Contrastingly, sales of high-density build-up multilayer printed wiring boards (“VIL” PWBs) rose 35%, despite a downturn in the mobile phone market. Motors used predominantly in floppy disk drives (FDDs), meanwhile, posted steady sales, despite falling sales prices and the yen’s strength. The segment recorded operating income of ¥4.1 billion (US$33 million), reversing a previous-year operating loss of ¥2.4 billion.

Sales of Entertainment Softwares & Medias climbed 28.2% to ¥183.3 billion (US$1,478 million). This reflected strong sales of hit albums from the “Southern All Stars” and “SMAP,” higher consignment sales for Universal Music K.K. and the contribution of domestic subsidiary Teichiku Entertainment, Inc. Segment operating income increased from ¥3.0 billion to ¥4.5 billion (US$36 million).

Sales of Other increased 0.6% to ¥7.0 billion (US$56 million) due to robust sales for interior furniture. Even so, the segment operating loss widened from ¥0.19 billion to ¥0.37 billion (US$3 million).

FINANCIAL POSITION

Total assets as of March 31, 2001 stood at ¥586.6 billion (US$4,730.9 million), up ¥46.3 billion from a year ago. Total current assets were ¥411.1 billion (US$3,315.5 million), an increase of ¥60.6 billion. Marketable securities decreased ¥17.8 billion, reflecting the reclassification of ¥6.0 billion to investment securities due to the application of new accounting standards for financial instruments. Inventories increased ¥38.3 billion to ¥155.3 billion (US$1,252.8 million).

Investments and advances and other assets increased ¥11.1 billion to ¥55.4 billion (US$446.8 million). This chiefly reflected the previously mentioned reclassification of marketable securities of ¥6.0 billion as investment securities, which totaled ¥32.6 billion (US$262.9 million) as of March 31, 2001. Furthermore, foreign currency translation adjustments, which were included in assets in fiscal 1999, were transferred to stockholders' equity and minority interests due to revisions to rules governing the preparation of consolidated financial statements. This change had the effect of reducing foreign currency translation adjustments in assets by ¥29.6 billion (US$238.7 million).

Property, plant and equipment increased ¥4.5 billion to ¥117.6 billion (US$948.3 million), due partly to a ¥2.0 billion increase in machinery and equipment and vehicles as JVC made investments in the digital and networking area with the view to transforming the structure of its operations.

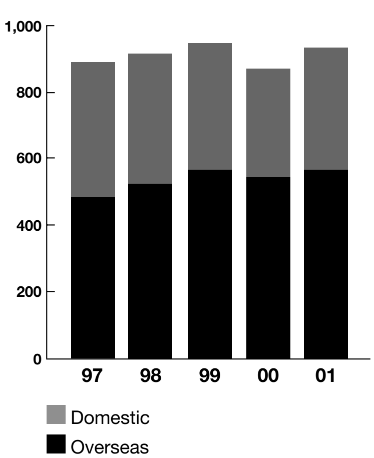
Total current liabilities rose ¥38.2 billion to ¥261.0 billion (US$2,105.2 million), mainly due to an increase in notes and accounts payable as well as the transfer of ¥10.3 billion in bonds that are due for redemption within a year to current portion of long-term debt. The current ratio was 1.57, the same as in the previous fiscal year.

Long-term liabilities were ¥140.0 billion (US$1,129 million), up ¥27.3 billion, and interest-bearing debt was ¥183.8 billion (US$1,482.3 million).

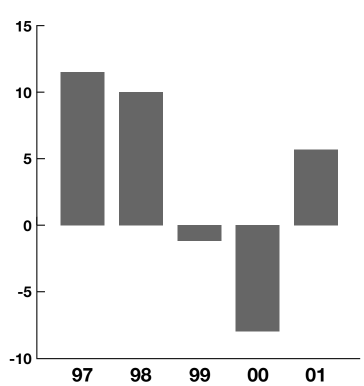
Consequently, total liabilities were ¥401.0 billion (US$3,234 million), a ¥65.5 billion year-on-year increase.

Stockholders' equity decreased ¥18.7 billion to ¥180.5 billion (US$1,455.8 billion), reflecting two main factors. One was the inclusion of foreign currency translation adjustments in stockholders' equity due to the adoption of an accounting standard for foreign currency-denominated transactions

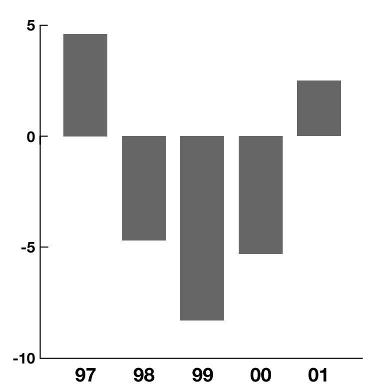
NET SALES
(Billions of yen)



OPERATING INCOME (LOSS)
(Billions of yen)



NET INCOME (LOSS)
(Billions of yen)



effective from the year under review. The other was the recording of an unrealized holding gain of securities resulting from the application of accounting standards for financial instruments. As a result of these and other factors, stockholders' equity as a percentage of total assets fell 6.1 percentage points to 30.8%.

CASH FLOWS

Operating activities used net cash of ¥26.4 billion (US$213.0 million). This was mainly due to an increase in inventories, reflecting the effects of the slowdown in the U.S. economy at the start of 2001, and an increase in notes and accounts receivable resulting from higher sales in March.

Investing activities used net cash of ¥7.9 billion (US$63.4 million), reflecting mainly cash used for the purchases of property, plant and equipment offset to a large extent by net proceeds from sales of marketable securities.

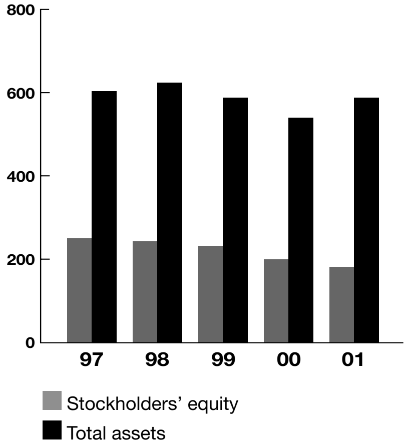
Financing activities provided net cash of ¥35.2 billion (US$283.9 million). This reflected a net increase in short-term bank loans and proceeds from the issuance of bonds to fund upcoming redemptions of bonds, offset in part by a decrease in commercial paper.

As a result of the foregoing, cash and cash equivalents at end of the year were ¥79.3 billion (US$639.1 million), ¥7.7 billion higher than a year ago.

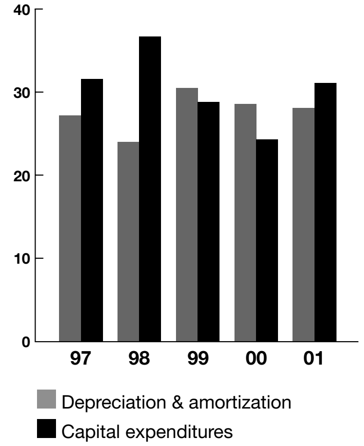
Notes: 1. Effective from the fiscal year ended March 31, 2001, JVC has 5 business segments—Consumers Electronics, Professional Electronics, Components & Devices, Entertainment Softwares & Medias, and Other—reflecting the adoption of a "Company-in-Company" system in April 2000. Previously, there were 2 business segments: Audiovisual and Information-related Businesses, and Entertainment Business. Segment information for the previous fiscal year has been restated to conform with the presentation in the year under review.

2. The Company prepared the 2001 and 2000 consolidated statements of cash flows in accordance with accounting standards that took effect on April 1, 1999. The 1999 consolidated statement of cash flows has not been restated.

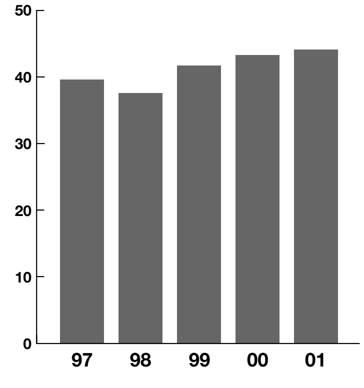
STOCKHOLDERS' EQUITY/ TOTAL ASSETS
(Billions of yen)



DEPRECIATION AND AMORTIZATION/ CAPITAL EXPENDITURES
(Billions of yen)



R&D EXPENDITURES
(Billions of yen)



Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2001	2000	2001
Current assets:			
Cash and time deposits (including time deposits with maturities over three months of ¥108 million (US$871 thousand) in 2001 and ¥208 million in 2000)	¥ 79,359	¥ 71,793	$ 639,992
Marketable securities (Note 5)	4,767	22,583	38,444
Notes and accounts receivable:			
Trade	131,321	105,751	1,059,040
Unconsolidated subsidiaries and affiliated companies	732	1,033	5,903
Allowance for doubtful accounts	(4,836)	(5,172)	(39,000)
Inventories (Note 4)	155,344	117,037	1,252,774
Deferred tax assets (Note 6)	15,487	12,219	124,895
Other current assets	28,942	25,296	233,404
Total current assets	411,116	350,540	3,315,452
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliated companies	4,535	4,637	36,573
Other (Notes 5 and 8)	37,694	25,864	303,983
Total investments and advances	42,229	30,501	340,556
Property, plant and equipment:			
Land	30,411	29,954	245,250
Buildings	112,001	108,505	903,234
Machinery and equipment (Note 8)	255,777	244,923	2,062,718
Construction in progress	6,082	5,241	49,048
	404,271	388,623	3,260,250
Less accumulated depreciation	286,676	275,576	2,311,903
Net property, plant and equipment	117,595	113,047	948,347
Deferred tax assets (Note 6)	2,512	2,810	20,258
Other assets	13,176	13,834	106,258
Foreign currency translation adjustments	—	29,627	—
	¥586,628	¥540,359	$4,730,871

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Bank loans (Note 7)	**¥ 48,247**	¥ 41,982	**$ 389,089**
Current portion of long-term debt (Note 7)	**11,732**	479	**94,613**
Notes and accounts payable:			
Trade	**137,394**	117,968	**1,108,016**
Construction	**4,555**	3,085	**36,734**
Unconsolidated subsidiaries and affiliated companies	**12,215**	8,076	**98,508**
Accrued income taxes (Note 6)	**4,876**	4,715	**39,323**
Accrued expenses (Note 8)	**19,810**	21,641	**159,758**
Other current liabilities	**22,220**	24,885	**179,193**
Total current liabilities	**261,049**	222,831	**2,105,234**
Long-term debt (Notes 7 and 8)	**117,593**	89,435	**948,331**
Employees' retirement benefits (Note 9)	**20,746**	20,819	**167,306**
Other long-term liabilities	**1,638**	2,438	**13,210**
Minority interests	**5,087**	5,672	**41,024**
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	**275,121**
Additional paid-in capital	**67,216**	67,216	**542,065**
Retained earnings	**100,316**	97,834	**809,000**
Net unrealized holding gains on securities	**285**	—	**2,298**
Foreign currency translation adjustments	**(21,413)**	—	**(172,686)**
	180,519	199,165	**1,455,798**
Treasury stock, at cost	**(4)**	(1)	**(32)**
Total stockholders' equity	**180,515**	199,164	**1,455,766**
	¥586,628	¥540,359	**$4,730,871**

Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Net sales	**¥934,350**	¥870,235	¥946,617	**$7,535,081**
Costs and expenses:				
Cost of sales	**641,209**	600,506	642,140	**5,171,041**
Selling, general and administrative expenses	**287,449**	277,748	305,698	**2,318,137**
	928,658	878,254	947,838	**7,489,178**
Operating income (loss)	**5,692**	(8,019)	(1,221)	**45,903**
Other income (expenses):				
Interest and dividend income	**2,509**	2,408	2,407	**20,234**
Unrealized gain from appreciation of trading securities	**9,749**	16,386	2,325	**78,621**
Equity in income of affiliated companies	**173**	36	453	**1,395**
Interest expense	**(5,383)**	(6,178)	(8,692)	**(43,411)**
Gain on sales of investment securities	**1,450**	6,330	530	**11,694**
Loss on liquidation of subsidiaries and affiliated company	**(656)**	(451)	(2,293)	**(5,290)**
Loss from financial support of affiliated companies	**—**	—	(1,122)	**—**
Restructuring charges	**(2,197)**	(2,662)	(537)	**(17,718)**
Other, net	**(1,893)**	(1,762)	4,479	**(15,267)**
	3,752	14,107	(2,450)	**30,258**
Income (Loss) before income taxes and minority interests	**9,444**	6,088	(3,671)	**76,161**
Income taxes (Note 6):				
Current	**14,319**	8,622	6,443	**115,476**
Deferred	**(7,081)**	2,673	(1,977)	**(57,105)**
	7,238	11,295	4,466	**58,371**
Income (Loss) before minority interests	**2,206**	(5,207)	(8,137)	**17,790**
Minority interests	**292**	(134)	(178)	**2,355**
Net income (loss)	**¥ 2,498**	¥ (5,341)	¥ (8,315)	**$ 20,145**

	Yen			U.S. dollars (Note 2)
Amounts per share of common stock:				
Net income (loss)	**¥ 9.8**	¥ (21.0)	¥ (32.7)	**$ 0.08**
Cash dividends applicable to the year	**3.0**	—	5.0	**0.02**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	254,230	¥ 34,115	¥ 67,216	¥ 141,784	¥ —	¥ —	¥(29)
Net loss	—	—	—	(8,315)	—	—	—
Treasury stock	—	—	—	—	—	—	28
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	¥ —	¥ —	¥ (1)
Cumulative effect of adopting deferred income tax accounting	—	—	—	(27,259)	—	—	—
Net loss	—	—	—	(5,341)	—	—	—
Treasury stock	—	—	—	—	—	—	0
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	¥ —	¥ —	¥ (1)
Net income	**—**	**—**	**—**	**2,498**	**—**	**—**	**—**
Adjustment from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(21,413)**	**—**
Adoption of new accounting standard for financial instruments	**—**	**—**	**—**	**—**	**285**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Adjustment due to change in number of consolidated subsidiaries	**—**	**—**	**—**	**17**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(33)**	**—**	**—**	**—**
Balance at March 31, 2001	**254,230**	**¥34,115**	**¥67,216**	**¥100,316**	**¥285**	**¥(21,413)**	**¥ (4)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$ 275,121	$ 542,065	$ 788,984	$ —	$ —	$ (9)
Net income	**—**	**—**	**20,145**	**—**	**—**	**—**
Adjustment from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**(172,686)**	**—**
Adoption of new accounting standard for financial instruments	**—**	**—**	**—**	**2,298**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(23)**
Adjustment due to change in number of consolidated subsidiaries	**—**	**—**	**137**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**(266)**	**—**	**—**	**—**
Balance at March 31, 2001	**$275,121**	**$542,065**	**$809,000**	**$2,298**	**$(172,686)**	**$(32)**

See accompanying notes.

Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 9,444**	¥ 6,088	**$ 76,161**
Depreciation and amortization	**27,047**	28,953	**218,121**
Interest and dividend income	**(2,509)**	(2,408)	**(20,234)**
Interest expense	**5,383**	6,178	**43,411**
Unrealized gain from appreciation of trading securities	**(9,749)**	(16,386)	**(78,621)**
Gain on sales of investment securities	**(1,450)**	(6,330)	**(11,694)**
Decrease (Increase) in notes and accounts receivable	**(18,046)**	5,069	**(145,532)**
Decrease (Increase) in inventories	**(29,751)**	3,667	**(239,927)**
Increase in notes and accounts payable	**8,737**	10,634	**70,460**
Other	**1,527**	(5,441)	**12,315**
Sub-total	**(9,367)**	30,024	**(75,540)**
Interest and dividends received	**2,433**	2,307	**19,621**
Interest paid	**(5,143)**	(6,180)	**(41,476)**
Income taxes paid	**(14,330)**	(7,389)	**(115,565)**
Net cash (used in) provided by operating activities	**(26,407)**	18,762	**(212,960)**
Cash flows from investing activities:			
Purchases of time deposits	**(8,150)**	—	**(65,726)**
Purchases of property, plant and equipment	**(28,942)**	(23,121)	**(233,403)**
Proceeds from sales of property, plant and equipment	**4,883**	319	**39,379**
Purchases of marketable securities	**(43,687)**	(59,983)	**(352,315)**
Sales of marketable securities	**63,612**	66,813	**513,000**
Purchases of investment securities	**(3,552)**	(10,809)	**(28,645)**
Sales of investment securities	**6,714**	11,999	**54,145**
Other	**1,255**	614	**10,121**
Net cash used in investing activities	**(7,867)**	(14,168)	**(63,444)**
Cash flows from financing activities:			
Proceeds from long-term loans	**1**	3,603	**8**
Repayments of long-term loans	**(1,577)**	(316)	**(12,718)**
Proceeds from issuance of bonds	**37,372**	—	**301,387**
Redemption of bonds	**—**	(9,040)	**—**
Increase (Decrease) in short-term bank loans, net	**6,300**	(15,549)	**50,806**
Increase (Decrease) in commercial paper, net	**(7,661)**	10,884	**(61,782)**
Cash dividends paid	**(255)**	(632)	**(2,055)**
Other	**1,025**	315	**8,266**
Net cash provided by (used in) financing activities	**35,205**	(10,735)	**283,912**
Effect of exchange rate changes on cash and cash equivalents	**6,675**	(4,188)	**53,831**
Effect of changes in number of consolidated subsidiaries and companies accounted for based on the equity method	**60**	1,764	**484**
Net increase (decrease) in cash and cash equivalents	**7,666**	(8,565)	**61,823**
Cash and cash equivalents at beginning of the year	**71,585**	80,150	**577,298**
Cash and cash equivalents at end of the year	**¥ 79,251**	¥ 71,585	**$ 639,121**

See accompanying notes.

Consolidated Statement of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Year ended March 31, 1999

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

See accompanying notes.

Notes to Consolidated Financial Statements

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2001, 2000 and 1999

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 appropriate Local Finance Bureau of the Ministry of Finance 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 stockholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The Company prepared the 2001 and 2000 consolidated cash flow statements 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 consolidated statement of cash flows have not been restated. Significant differences in the consolidated statement of cash flows for 2001 and 2000 and those for 1999 include the use of pretax income in 2001 and 2000 instead of net loss in 1999, additional disclosure in cash flows from operating activities in 2001 and 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, 2001, which was ¥124 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 except for those hedged by foreign currency forward contracts, which are recorded at contract rates. Prior to April 1, 2000, non-current assets and liabilities denominated in foreign currencies were translated at historical exchange rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries (the "Companies") adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was immaterial.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates.

Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in the stockholders' equity and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

Cash and cash equivalents

In preparing the consolidated statements of cash flows for the years ended March 31, 2001, and 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 statement of cash flows for 1999 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.

Securities
Prior to April 1, 2000, publicly-traded securities were stated at the lower of cost or market, and the other securities were stated at cost. Cost was determined using the moving-average method. Securities of consolidated subsidiaries in the United States were accounted for in accordance with the Statement of Financial Accounting Standards No. 115 by the Financial Accounting Standards Board.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. The Companies had no held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value, Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average costs. Other securities with no available fair market value are stated at moving-average costs.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly.

As a result of adopting the new accounting standard for financial instruments, income before income taxes increased by ¥1,484 million ($11,968 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, trading securities as well as available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and advances. As a result, at April 1, 2000, securities in current assets decreased by ¥6,013 million ($48,492 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Derivatives and hedge accounting
The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized in the period which includes the inception date.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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 other assets in 2001 and 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 2001 and 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. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement basis 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 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 and ¥14,729 million, respectively, deferred tax liabilities and long-term deferred tax liabilities at that date were increased by ¥460 million and ¥44 million, respectively, net loss for the year ended March 31, 2000 was decreased by ¥1,959 million, and the retained earnings at April 1, 1999 was decreased by ¥27,259 million.

Employees' severance and retirement benefits
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 the current rates of their pay and length of service.

At March 31, 2000, employees' retirement benefits were 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.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilties for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥41,686 million ($336,177 thousand). The net transition obligation will be recognized in expenses in equal amounts primarily over 15 years commencing with the year ended March 31, 2001. Prior service costs are recognized in income or expenses using the straight-line method over 10 years, and actuarial gains and losses are recognized in expenses using the straight-line method over 10 years commencing with the succeeding period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥595 million ($4,798 thousand), and income before income taxes decreased by ¥557 million ($449 thousand) compared with what would have been recorded under the previous accounting standard.

Effect on segment information, see Note 15.

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 result of computation for the year ended March 31, 2001, and as the Company reported net losses for the years ended March 31, 2000, and 1999, 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 2001 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, 2001, 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, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due from Matsushita	**¥ 239**	¥ 298	**$ 1,927**
Due to Matsushita	**2,781**	3,030	**22,427**

Sales to and purchases from Matsushita for the years ended March 31, 2001, 2000 and 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Net sales	**¥ 1,148**	¥ 900	¥ 1,352	**$ 9,258**
Net purchases	**36,898**	35,879	30,558	**297,565**

4. INVENTORIES

Inventories at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods	¥108,660	¥ 74,953	$ 876,290
Work in process	17,039	17,143	137,411
Raw materials and supplies	29,645	24,941	239,073
	¥155,344	¥117,037	$1,252,774

5. SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

(a) Trading securities

	Millions of yen	Thousands of U.S. dollars
Book value	¥2,464	$19,871
Amount of net unrealized gains or losses included in the income statement	114	919

(b) Available-for-sale securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with available fair values exceeding acquisition costs			
Equity securities	¥ 3,099	¥ 5,456	¥ 2,357
Bonds	3,296	3,307	11
Total	¥ 6,395	¥ 8,763	¥ 2,368
Securities with available fair values not exceeding acquisition costs			
Equity securities	¥12,138	¥10,530	¥(1,608)
Bonds	7,300	7,207	(93)
Others	457	281	(176)
Total	¥19,895	¥18,018	¥(1,877)
Total	¥26,290	¥26,781	¥ 491

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with available fair values exceeding acquisition costs			
Equity securities	$ 24,992	$ 44,000	$ 19,008
Bonds	26,580	26,669	89
Total	$ 51,572	$ 70,669	$ 19,097
Securities with available fair values not exceeding acquisition costs			
Equity securities	$ 97,887	$ 84,919	$(12,968)
Bonds	58,871	58,121	(750)
Others	3,686	2,266	(1,420)
Total	$160,444	$145,306	$(15,138)
Total	$212,016	$215,975	$ 3,959

The following tables summarize acquisition costs, book values and available fair value of securities not stated at fair values as of March 31, 2001:

(a) Available-for-sale securities

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥2,559	$20,637
Non-listed foreign equity securities	2,502	20,177
Subsidiaries and affiliated companies	3,015	24,315
Total	¥8,076	$65,129

Available-for-sale securities with maturities are as follows:

	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities					
Government bonds	¥ 304	¥ 1	¥ —	¥ —	¥ 305
Corporate bonds	—	—	996	—	996
Others	1,997	5,242	—	1,974	9,213
Others	—	—	281	—	281
Total	¥2,301	¥5,243	¥1,277	¥1,974	¥10,795

	Thousands of U.S. dollars				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities					
Government bonds	$ 2,452	$ 8	$ —	$ —	$ 2,460
Corporate bonds	—	—	8,032	—	8,032
Others	16,105	42,274	—	15,919	74,298
Others	—	—	2,266	—	2,266
Total	$18,557	$42,282	$10,298	$15,919	$87,056

Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥16,160 million ($130,323 thousand) and the gains amounted to ¥1,450 million ($11,694 thousand) and the losses amounted to ¥640 million ($5,161 thousand).

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 was as follows:

	Millions of yen
	2000
Marketable securities:	
Book value	¥15,295
Market value	16,029
Unrealized gains	¥ 734
Investments and advances other:	
Book value	¥15,120
Market value	22,864
Unrealized gains	¥ 7,744

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 42.0% for the years ended March 31, 2001, and 2000 and 47.6% for the year ended March 31, 1999. 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, 2001and 2000 were as follows:

	2001	2000
Statutory tax rate	**42.0 %**	42.0 %
Lower tax rates of overseas subsidiaries	**(7.4)%**	(11.3)%
Expenses not deductible for tax purposes	**20.0 %**	53.0 %
Effect of changes in valuation allowance for deferred tax assets	**(13.7)%**	93.6 %
Other	**35.8 %**	8.2 %
Effective tax rate	**76.7 %**	185.5 %

Significant components of the Company's deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Loss on devaluation of inventory	**¥ 4,939**	¥ 5,464	**$ 39,831**
Accrued expenses not deductible for tax purposes	**6,479**	4,264	**52,250**
Depreciation	**7,938**	8,372	**64,016**
Retirement and severance benefits	**3,474**	2,811	**28,016**
Tax loss carryforwards	**11,009**	12,591	**88,782**
Other	**9,657**	8,121	**77,879**
Total gross deferred tax assets	**43,496**	41,623	**350,774**
Less valuation allowance	**24,912**	26,206	**200,903**
Net deferred tax assets	**¥18,584**	¥15,417	**$149,871**
Deferred tax liabilities:			
Unrealized gain from appreciation of trading securities	**¥ (787)**	¥ (4,223)	**$ (6,347)**
Other	**(670)**	(897)	**(5,403)**
Total gross deferred tax assets	**¥ (1,457)**	¥ (5,120)	**$ (11,750)**
Net deferred tax assets	**¥17,127**	¥10,297	**$138,121**

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, 2001 and 2000 ranged from 0.78% to 20.57% and from 0.73% to 23.64%, respectively.

Long-term debt at March 31, 2001 and 2000 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
1.5% unsecured convertible bonds due 2005	**¥ 11,483**	¥11,483	**$ 92,605**
0.35% unsecured convertible bonds due 2002	**19,999**	19,999	**161,282**
0.55% unsecured convertible bonds due 2005	**20,000**	20,000	**161,290**
1.375% unsecured bonds due 2001	**5,000**	5,000	**40,323**
1.75% unsecured bonds due 2003	**5,000**	5,000	**40,323**
2.15% unsecured bonds due 2005	**10,000**	10,000	**80,645**
1.68% unsecured bonds due 2006	**20,000**	—	**161,290**
1.89% unsecured bonds due 2007	**10,000**	—	**80,645**
1.30% guaranteed notes due 2001	**5,324**	4,561	**42,936**
1.61% guaranteed notes due 2002	**5,050**	4,327	**40,726**
1.50% guaranteed notes due 2005	**8,260**	—	**66,613**
Loans, primarily from banks with interest principally at 0.86% to 9.20%			
Secured	**221**	221	**1,782**
Unsecured	**8,988**	9,323	**72,484**
	129,325	89,914	**1,042,944**
Less current portion	**11,732**	479	**94,613**
	¥117,593	¥89,435	**$ 948,331**

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 ($23.12) per share, subject to adjustment under certain circumstances. 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 ($11.99) per share, subject to adjustment under certain circumstances.

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 11,732	$ 94,613
2003	27,050	218,145
2004	7,334	59,145
2005	13,052	105,258
2006	39,863	321,476
Thereafter	30,294	244,307
	¥129,325	$1,042,944

8. PLEDGED ASSETS

The following assets were pledged as collateral for current portion of long-term debt and accrued expenses at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Investments	¥ 1	$ 8
Machinery and equipment	110	887
	¥111	$895

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2, Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard ("Opinion on Setting Accounting Standard for Employees' Severance and Retirement Benefits"). Liability for employees' retirement benefits included in liabilities in the consolidated balance sheet and the related expenses for 2001, which were determined based on the amounts obtained by actuarial calculations, were as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation:		
Projected benefit obligation	¥(226,706)	$(1,828,274)
Unamortized prior service costs	(8,899)	(71,766)
Unamortized actuarial differences	16,097	129,815
Less fair value of pension assets	159,855	1,289,153
Less unrecognized net transition obligation	38,907	313,766
Liability for severance and retirement benefits	¥ (20,746)	$ (167,306)
Serverance and retirement benefits expenses:		
Service costs	¥ 7,044	$ 56,806
Interest costs on projected benefit obligation	8,923	71,960
Expected return on plan assets	(4,499)	(36,282)
Amortization of net transition obligation	2,779	22,411
Serverance and retirement benefits expenses	¥ 14,247	$ 114,895

Not included in the above table is special retirement payments amounting to ¥3,595 million ($28,992 thousand), which was expensed in 2001.

The discount rate and the rate of expected return on plan assets used by the Company are 4.0% and 3.0%, respectively. The estimated amount of all retirement benefits to be paid at future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized in income or expense using the straight-line method over 10 years, and actuarial gains and losses are recognized in income or expense using the straight-line method over 10 years commencing with the succeeding period.

10. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of export bills discounted with banks	¥24,901	$200,815
As guarantor for loans to employees	16,497	133,040
As guarantor for loan to affiliated company and lease obligations of affiliated company and others	3,523	28,411
	¥44,921	$362,266

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.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

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.

12. 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 executed and managed by the Company's accounting department and are authorized by the Director responsible for accounting matters under the supervision by the Board of Directors.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedging items:
Forward exchange contracts and option contracts	Foreign currency trade receivables and trade payables, future transaction denominated in a foreign currency
Interest rate swap contracts	Interest on bonds and notes

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

The following tables summarize market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen		
March 31, 2001	Contract amount	Market value	Recognized gain (loss)
Swap contracts:			
Receive fix/pay floating	**¥5,000**	**¥(1)**	**¥(1)**
Pay fix/receive floating	**5,000**	**1**	**1**

	Thousands of U.S. dollars		
March 31, 2001	Contract amount	Market value	Recognized gain (loss)
Swap contracts:			
Receive fix/pay floating	**$40,323**	**$(8)**	**$(8)**
Pay fix/receive floating	**40,323**	**8**	**8**

The outstanding contract amounts of derivative financial transactions, their book values and their market values at March 31, 2000 were 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

	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)

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

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.

13. LEASE INFORMATION

The Companies 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.

Lessee:

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2001 and 2000 is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
2001:			
Buildings and structures	**¥ 1,975**	**¥1,023**	**¥ 952**
Vehicles, machinery and equipment	**9,119**	**3,341**	**5,778**
Tools, furniture and fixtures	**11,361**	**5,446**	**5,915**
Leasehold rights	**122**	**56**	**66**
Software	**115**	**83**	**32**
	¥22,692	**¥9,949**	**¥12,743**

	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

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
2001:			
Buildings and structures	**$ 15,927**	**$ 8,250**	**$ 7,677**
Vehicles, machinery and equipment	**73,540**	**26,944**	**46,596**
Tools, furniture and fixtures	**91,621**	**43,919**	**47,702**
Leasehold rights	**984**	**452**	**532**
Software	**928**	**669**	**259**
	$183,000	**$80,234**	**$102,766**

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2001 and 2000 are as follows:

Non-capitalized finance leases	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
Due within one year	¥ 4,377	¥3,694	$ 35,298
Due after one year	8,365	6,068	67,460
	¥12,742	¥9,762	$102,758

Operating leases	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
Due within one year	¥ 911	¥1,125	$ 7,347
Due after one year	1,355	1,824	10,927
	¥2,266	¥2,949	$18,274

(3) Lease payments and assumed depreciation charges for the year ended March 31, 2001 and 2000 are as follows:

	Millions of yen 2001	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2001
Lease payments	¥3,018	¥3,119	¥3,276	$24,339
Assumed depreciation charges	3,018	3,119	3,276	24,339

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

Lessor:

The Company and its subsidiary lease certain equipment under non-capitalized finance leases, as lessees, and lease those equipment under non-capitalized finance leases, as lessors. Future minimum lease receipts under these non-capitalized finance and operating leases at March 31, 2001 are as follows:

Non-capitalized finance leases	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
Due within one year	¥1,425	¥ 792	$11,492
Due after one year	1,958	1,141	15,790
	¥3,383	¥1,933	$27,282

Operating leases	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
Due within one year	¥270	¥312	$2,178
Due after one year	281	481	2,266
	¥551	¥793	$4,444

14. SUBSEQUENT EVENTS

On June 28, 2001, the Company's stockholders of Authorized (1) payment of a cash dividend to stockholdes of record on March 31, 2001 of ¥3.0 ($0.02) per share, totaling ¥762 million ($6,146 thousand), and (2) transfer to legal reserve of ¥76 million ($613 thousand) from retained earnings.

15. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2001, 2000 and 1999 is shown in the tables below.

1) Business segment information is as follows:

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment Softwares & Medias business	Other business	Total	Eliminations and unallocation	Consolidated total
2001:								
Sales								
External sales	¥598,636	¥83,915	¥61,544	¥183,256	¥ 6,999	¥934,350	¥ —	¥934,350
Intersegment sales	3,521	3,597	2,647	9,039	2,926	21,730	(21,730)	—
Total sales	602,157	87,512	64,191	192,295	9,925	956,080	(21,730)	934,350
Operating expenses	598,991	92,416	60,056	187,837	10,296	949,596	(20,938)	928,658
Operating income (loss)	¥ 3,166	¥ (4,904)	¥ 4,135	¥ 4,458	¥ (371)	¥ 6,484	¥ (792)	¥ 5,692
Identifiable assets	¥290,251	¥50,002	¥34,643	¥119,123	¥16,427	¥510,446	¥ 76,182	¥586,628
Depreciation & amortization	14,847	2,240	5,167	4,666	808	27,728	357	28,085
Capital expenditures	16,149	2,132	4,988	7,254	570	31,093	34	31,127

Following the changes of management jurisdiction due to the introduction of an in-house company system in April 2000, the Company has recognized its industrial segments.

The previous two segments of Audiovisual and information-related business and Entertainment business have been changed into five segments—Consumer electronics business, Professional electronics business, Components & Devices business, Entertainment Softwares & Medias business and Other.

Consolidated financial data for the year ended March 31, 2000, reclassified to conform with the current segments is as follows.

	Millions of yen							
	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment Softwares & Medias business	Other business	Total	Eliminations and unallocation	Consolidated total
2000:								
Sales								
External sales	¥567,585	¥87,891	¥64,857	¥142,943	¥ 6,959	¥870,235	¥ —	¥870,235
Intersegment sales	1,680	3,108	2,241	9,551	2,951	19,531	(19,531)	—
Total sales	569,265	90,999	67,098	152,494	9,910	889,766	(19,531)	870,235
Operating expenses	568,874	98,944	69,463	149,458	10,096	896,835	(18,581)	878,254
Operating income (loss)	¥ 391	¥ (7,945)	¥ (2,365)	¥ 3,036	¥ (186)	¥ (7,069)	¥ (950)	¥ (8,019)
Identifiable assets	¥263,598	¥46,843	¥36,235	¥122,527	¥31,455	¥500,658	¥ 39,701	¥540,359
Depreciation & amortization	14,626	2,771	5,818	4,208	792	28,215	375	28,590
Capital expenditures	12,623	2,303	4,547	3,511	1,200	24,184	152	24,336

	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

	Thousands of U.S. dollars							
	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment Softwares & Medias business	Other business	Total	Eliminations and unallocation	Consolidated total
2001:								
Sales								
External sales	**$4,827,710**	**$676,734**	**$496,323**	**$1,477,871**	**$ 56,443**	**$7,535,081**	**$ —**	**$7,535,081**
Intersegment sales	**28,395**	**29,008**	**21,347**	**72,895**	**23,597**	**175,242**	**(175,242)**	**—**
Total sales	**4,856,105**	**705,742**	**517,670**	**1,550,766**	**80,040**	**7,710,323**	**(175,242)**	**7,535,081**
Operating expenses	**4,830,573**	**745,290**	**484,323**	**1,514,815**	**83,032**	**7,658,033**	**(168,855)**	**7,489,178**
Operating income (loss)	**$ 25,532**	**$ (39,548)**	**$ 33,347**	**$ 35,951**	**$ (2,992)**	**$ 52,290**	**$ (6,387)**	**$ 45,903**
Identifiable assets	**$2,340,734**	**$403,242**	**$279,379**	**$ 960,669**	**$132,476**	**$4,116,500**	**$ 614,371**	**$4,730,871**
Depreciation & amortization	**119,734**	**18,065**	**41,669**	**37,629**	**6,516**	**223,613**	**2,879**	**226,492**
Capital expenditures	**130,234**	**17,193**	**40,226**	**58,500**	**4,597**	**250,750**	**274**	**251,024**

As explained in Note 2 "Employees' retirement benefits and pension plans," effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998. As a result, operating income of Consumer electronics business decreased by ¥235 million ($1,895 thousand), operating loss of Professional electronics business increased by ¥83 million ($669 thousand), operating income of Components & Devices business decreased by ¥70 million ($564 thousand), operating income of Entertainment Softwares & Medias business decreased by ¥145 million ($1,169 thousand), operating loss of Other business increased by ¥20 million ($161 thousand) and unallocated operating expenses increased by ¥1 million ($8 thousand).

2) Geographical segment information is as follows:

	Millions of yen						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2001:							
Sales							
External sales	**¥454,626**	**¥261,185**	**¥151,269**	**¥ 67,270**	**¥ 934,350**	**¥ —**	**¥934,350**
Intersegment sales	**263,473**	**182**	**873**	**170,233**	**434,761**	**(434,761)**	**—**
Total sales	**718,099**	**261,367**	**152,142**	**237,503**	**1,369,111**	**(434,761)**	**934,350**
Operating expenses	**716,531**	**258,272**	**150,301**	**236,238**	**1,361,342**	**(432,684)**	**928,658**
Operating income (loss)	**¥ 1,568**	**¥ 3,095**	**¥ 1,841**	**¥ 1,265**	**¥ 7,769**	**¥ (2,077)**	**¥ 5,692**
Identifiable assets	**¥379,008**	**¥ 99,105**	**¥ 67,343**	**¥ 75,655**	**¥ 621,111**	**¥ (34,483)**	**¥586,628**

	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

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia	Total	Elimination and unallocation	Consolidated total
2001:							
Sales							
External sales	**$3,666,339**	**$2,106,331**	**$1,219,911**	**$ 542,500**	**$ 7,535,081**	**$ —**	**$7,535,081**
Intersegment sales	**2,124,782**	**1,467**	**7,041**	**1,372,847**	**3,506,137**	**(3,506,137)**	**—**
Total sales	**5,791,121**	**2,107,798**	**1,226,952**	**1,915,347**	**11,041,218**	**(3,506,137)**	**7,535,081**
Operating expenses	**5,778,476**	**2,082,839**	**1,212,105**	**1,905,145**	**10,978,565**	**(3,489,387)**	**7,489,178**
Operating income (loss)	**$ 12,645**	**$ 24,959**	**$ 14,847**	**$ 10,202**	**$ 62,653**	**$ (16,750)**	**$ 45,903**
Identifiable assets	**$3,056,516**	**$ 799,234**	**$ 543,089**	**$ 610,121**	**$ 5,008,960**	**$ (278,089)**	**$4,730,871**

As explained in Note 2 “Employees’ retirement benefits and pension plans,” effective April 1, 2000, the Companies adopted the new accounting standard, “Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits,” issued by the Business Accounting Deliberation Council on June 16,1998. As a result, operating income of Japan decreased by ¥555 million ($4,475 thousand) and unallocated operating expenses increased by ¥1 million ($8 thousand).

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

	Millions of yen				
	Americas	Europe	Asia	Other area	Total
2001:					
Overseas sales	**¥284,165**	**¥163,521**	**¥115,487**	**¥4,804**	**¥567,977**
Consolidated sales					**¥934,350**
Ratio of overseas sales to consolidated sales	**30.4%**	**17.5%**	**12.4%**	**0.5%**	**60.8%**
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%

	Thousands of U.S. dollars				
	Americas	Europe	Asia	Other area	Total
2001:					
Overseas sales	**$2,291,653**	**$1,318,718**	**$931,347**	**$38,742**	**$4,580,460**
Consolidated sales					**$7,535,081**
Ratio of overseas sales to consolidated sales	**30.4%**	**17.5%**	**12.4%**	**0.5%**	**60.8%**

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, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2001, 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, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 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, Victor Company of Japan, Limited and subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for employees' severance and retirement benefits, financial instruments and foreign currency translation effective April 1, 2000, and for consolidation, income taxes and research, development and other costs effective April 1, 1999.

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.

Asahi & Co
Tokyo, Japan
June 28, 2001

STATEMENT ON ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

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.