MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

During fiscal 2002, ended March 31, 2002, the U.S. economy slowed after the bursting of the IT bubble. The operating environment deteriorated rapidly following the September 11 terrorist attacks. Feeling the impact of the downturn in the U.S., economies in Europe and Asia outside Japan also lost speed. In Japan, stagnant personal consumption and slumping IT-related demand conspired to prolong the economic malaise.

NET SALES

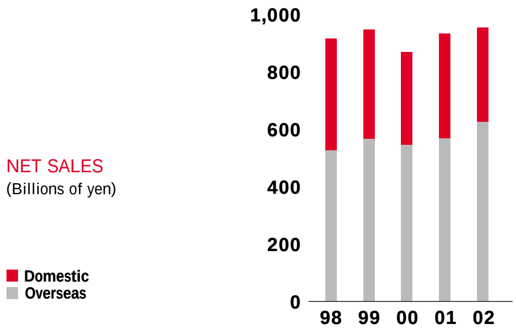
Net sales increased 2.1% year on year, or ¥19.8 billion, to ¥954.2 billion (US$7,174 million). By geographic segment, sales in Japan fell 12.5% to ¥397.6 billion (US$2,990 million), attributable to weak consumer spending and falling prices. Although there were some difficulties in the U.S. market due to the slowing economy and the fallout from the terrorist attacks, sales climbed 8.3% year on year to ¥282.8 billion (US$2,127 million), helped by

NET SALES BY SEGMENT

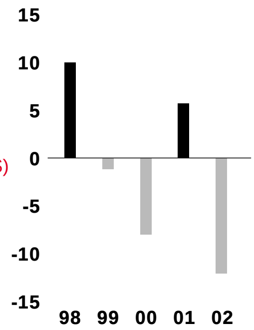
Billions of yen

	Consumer electronics business	Professional electronics business	Components & Devices business	Entertainment Softwares & Medias business	Other business	Total
2002						
Sales	**¥641.3**	**¥ 78.3**	**¥ 49.7**	**¥177.0**	**¥ 7.9**	**¥954.2**
Percentage	**67.2 %**	**8.2 %**	**5.2 %**	**18.6 %**	**0.8 %**	**100.0 %**
Change	**7.1 %**	**(6.6)%**	**(19.2)%**	**(3.4)%**	**11.4 %**	**2.1 %**
Domestic Sales	**¥115.0**	**¥ 51.8**	**¥ 4.5**	**¥149.6**	**¥ 7.1**	**¥328.0**
Change	**(9.7)%**	**(10.3)%**	**(55.2)%**	**(9.5)%**	**18.6 %**	**(10.5)%**
Overseas Sales	**¥526.3**	**¥ 26.5**	**¥ 45.2**	**¥ 27.4**	**¥ 0.8**	**¥626.2**
Change	**11.7 %**	**1.5 %**	**(12.2)%**	**52.2 %**	**(27.3)%**	**10.2 %**
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 %
Major Products	VCRs, camcorders, televisions, stereo systems, car audio systems, DVD players, 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, recording media	Interior furniture	

NET SALES
(Billions of yen)



OPERATING INCOME (LOSS)
(Billions of yen)



strong sales of DVD players and color televisions, and favorable exchange rates. Amid weak market growth in Europe, JVC achieved a substantial increase in sales of DVD players and double-digit growth in sales of digital video camcorders (DVCs), color televisions and car audio systems. This propelled sales in Europe to ¥191.6 billion (US$1,441 million), a 26.7% increase over the previous year. Conditions were also challenging in Asia, particularly in the Middle and Near East, due to the effects of the terrorist attacks. Even still, sales in the region increased 22.1% to ¥82.1 billion (US$617 million), boosted by rising sales of DVD players and DVCs.

COST OF SALES AND SG&A

Cost of sales increased 6.7% year on year, or ¥43.2 billion, to ¥684.5 billion (US$5,146 million), while the cost of sales ratio deteriorated slightly from 68.6% to 71.7%.

Selling, general and administrative (SG&A) expenses declined 2.0%, or ¥5.6 billion, to ¥281.8 billion (US$2,119 million). As a percentage of net sales, SG&A expenses fell to 29.5% from 30.8% in the previous year.

OPERATING INCOME (LOSS)

The company recorded an operating loss of ¥12.1 billion (US$91 million), a ¥17.8 billion deterioration from the operating income in the previous fiscal year. Efforts to improve the company's cost structure, including reducing fixed costs and material costs, failed to show through as the benefits were more than offset by the effects of the weak Japanese and U.S. markets, the inability to meet sales targets due to the slump in IT-related demand and falling prices.

SEGMENT INFORMATION

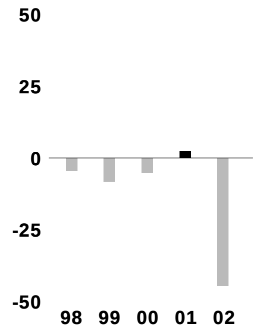
CONSUMER ELECTRONICS

Sales of Consumer electronics rose 7.1%, or ¥42.7 billion, to ¥641.3 billion (US$4,822 million), helped by favorable exchange rates, although operating income declined ¥6.6 billion to a loss of ¥3.5 billion (US$26 million). The segment continued to battle with the twin problems of anemic consumer spending and falling prices in Japan, although JVC did rack up healthy sales of a new model that combines a VHS video deck and a DVD player. Overseas, the European and Asian markets held up well, thanks to rising sales of DVD players, car audio systems, color televisions and DVCs, while demand in the U.S. was hit by the slowing economy and the terrorist attacks.

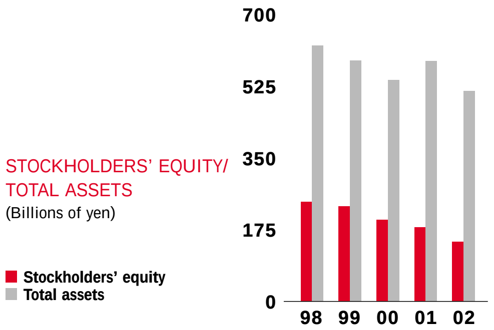
PROFESSIONAL ELECTRONICS

During fiscal 2002, sales of Professional electronics products fell 6.6%, or ¥5.6 billion, to ¥78.3 billion (US$589 million), while the operating loss increased ¥0.1 billion to ¥5.0 billion (US$38 million). In Japan, strong demand for security systems continued to buoy sales of security camera systems, while the shift to digital broadcasting boosted demand for

NET INCOME (LOSS)
(Billions of yen)



STOCKHOLDERS' EQUITY/
TOTAL ASSETS
(Billions of yen)



encoders and format converters from television broadcasters. In contrast, JVC struggled with weakening demand in the markets for professional audio systems, karaoke systems and Direct-Drive Image Light Amplifier (D-ILA) projectors. Overseas, the Professional electronics segment was affected by the deteriorating U.S. market, just as consumer electronics were, with professional camcorders and D-ILA projectors facing an uphill battle.

COMPONENTS & DEVICES

Components & Devices recorded a 19.2%, or ¥11.8 billion, decline in sales year on year, to ¥49.7 billion (US$374 million), while operating income fell ¥8.9 billion to a loss of ¥4.7 billion (US$36 million). High-density build-up multilayer printed wiring boards ("VIL" PWBs), deflection yokes and other products could not escape the impact of depressed mobile phone and PC markets and falling prices. However, there were a few bright spots—motors for hard disk drives (HDDs) and optical disc products, and optical pickups for car CD players.

ENTERTAINMENT SOFTWARES & MEDIAS

Sales in this segment fell 3.4%, or ¥6.3 billion, to ¥177.0 billion (US$1,331 million). Despite hit records from artists such as Keisuke Kuwata and Dragon Ash, sales fell due to the industry-wide slump in softwares and medias. The segment posted operating income of ¥3.2 billion (US$24 million), ¥1.2 billion less than in the previous fiscal year.

OTHER

Sales increased 11.4%, or ¥0.8 billion, to ¥7.9 billion (US$59 million), while the operating loss increased ¥0.1 billion to ¥0.5 billion (US$3.6 million).

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS

Income before income taxes and minority interests fell ¥47.9 billion year on year to a loss of ¥38.4 billion (US$289 million). This decline was primarily due to restructuring charges and loss from write-down of investment in securities.

NET INCOME (LOSS)

Net income fell ¥47.1 billion to a net loss of ¥44.6 billion (US$335 million). As a result, net income per share of ¥9.8 in the previous fiscal year became a net loss of ¥175.3. ROE was negative 27.3%, a deterioration of 28.6 percentage points.

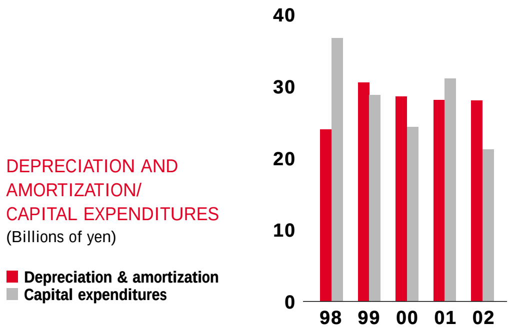
Consequently, the company made the difficult decision not to pay a dividend for the year.

LIQUIDITY AND SOURCES OF FUNDS

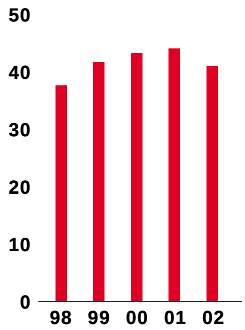
ASSETS, LIABILITIES AND CAPITAL

Total assets as of March 31, 2002 stood at ¥513.4 billion (US$3,860 million), a 12.5%, or ¥73.3 billion decline from one year earlier. This was the result of efforts to reduce assets by cutting back

DEPRECIATION AND AMORTIZATION/ CAPITAL EXPENDITURES
(Billions of yen)



R&D EXPENDITURES
(Billions of yen)



inventories, selling cross-shareholdings and reducing debt by more effectively utilizing Group funds. Total current assets fell 10.8%, or ¥44.5 billion, to ¥366.6 billion (US$2,756 million). This was primarily due to an 18.8%, or ¥29.3 billion decline in inventories to ¥126.1 billion (US$948 million).

Investments and advances declined 50.9%, or ¥21.5 billion, to ¥20.8 billion (US$156 million). This was mainly attributable to sales of cross-shareholdings.

Property, plant and equipment (less accumulated depreciation) fell 5.9%, or ¥6.9 billion, to ¥110.6 billion (US$832 million), chiefly reflecting lower capital expenditures.

Total current liabilities fell 5.1%, or ¥13.4 billion, to ¥247.7 billion (US$1,862 million), as notes and accounts payable-trade decreased 11.7%, or ¥16.1 billion, to ¥121.3 billion (US$912 million), and bank loans were also lower, declining 25.4%, or ¥12.3 billion, to ¥36.0 billion (US$271 million). The current portion of long-term debt increased ¥15.4 billion (US$116 million) and accrued restructuring charges were ¥13.4 billion (US$101 million).

Long-term debt was ¥89.9 billion (US$676 million), 23.6%, or ¥27.7 billion lower than one year earlier. This mainly reflected the transfer to current liabilities of convertible bonds due for redemption within one year.

Stockholders' equity decreased 19.0%, or ¥34.3 billion, to ¥146.2 billion (US$1,100 million), mainly due to the net loss of ¥44.6 billion (US$335 million). As a result of this and other factors, stockholders' equity as a percentage of total assets fell from 30.8% to 28.5%.

CASH FLOWS

Operating activities provided net cash of ¥28.1 billion (US$211 million), compared with net cash used of ¥26.4 billion last year. This was mainly due to efforts to reduce inventories, which largely offset the loss before income taxes and minority interests.

Investing activities used net cash of ¥5.6 billion (US$42 million), less than the ¥7.9 billion used last year, mainly due to efforts to reduce capital expenditures. Purchases of property, plant and equipment during the year amounted to ¥22.9 billion (US$172 million).

Financing activities used net cash of ¥34.7 billion (US$261 million), compared with cash provided of ¥35.2 billion last year. This mainly reflects cash used to reduce short-term bank loans by effectively using JVC Group funds, the redemption of bonds and net decrease in commercial paper. Consequently, interest-bearing debt was reduced by ¥30.0 billion (US$226 million).

As a result of the foregoing, cash and cash equivalents at the end of the year were ¥69.3 billion (US$521 million), 12.6%, or ¥10.0 billion lower than a year ago.

R&D ACTIVITIES

The company's R&D organization comprises the Technology Development Division, which functions as the JVC Group's corporate laboratory, laboratories administered by each Group company and the Technology Section in the Operations Division. The Technology Development Division is responsible for developing core technology, systems technology and next-generation devices that embody the company's long-term vision, and for accumulating LSI design and development technologies needed for next-generation products. Each Group company laboratory is responsible for next-generation product development in their respective fields, including systems, hardware, software and devices in the areas of digital audio-visual products, multimedia, digital broadcasting and communications networks. The Technology Section in the Operations Division, works closely with Group companies to design and commercialize products developed by Group company R&D organizations. Overseas, the JVC Laboratory of America and the JVC Singapore R&D Center, are mainly involved in the development of networks and software. JVC is currently strengthening its international R&D structure.

R&D costs decreased 7.1%, or ¥3.1 billion, to ¥41.0 billion (US$308 million). The ratio of R&D costs to net sales fell from 4.7% in the previous fiscal year, to 4.3%.

PERSONNEL

As of March 31, 2002, the number of employees at consolidated Group companies totaled 34,183, a decline of 1,371 from the previous year. This decrease reflected efforts to reorganize the company's facilities through selection and concentration.