

To Our Customers, Employees and Stockholders

A Fundamental Change In Approach



Masahiko Terada
President

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I have now served as the president of JVC for two years. In that time, we launched a range of bold reforms designed to build a robust corporate structure that will serve JVC well into the future. In the previous fiscal year, the first year of our reform program, we gave priority to building a healthy financial base by dealing with underperforming assets that had a negative impact on results. This led to a substantial net loss in the previous year. During fiscal 2003, though, supported by a stronger financial position, we made real progress in realigning our operating structure and turning the company around. Our efforts included reforming JVC's employment structure and improving core elements of our day-to-day operations by reviewing operating bases, and reorganizing our manufacturing, purchasing, retailing and logistics networks using cross functional teams. This resulted in a more robust earnings structure by reducing fixed assets and inventories, and improving working capital. Our management approach is now more focused, and results for the year reveal that we pared back total assets by more than ¥100 billion. In conjunction with these steps, improvements that eliminate inefficiencies in our core product cycle—from research and development right through to manufacturing and retailing—meant we could rapidly and accurately launch a range of 75th anniversary commemorative products incorporating our renowned technological strengths and innovative product design. These improvements won plaudits from customers, demonstrating how we have successfully created a virtuous cycle.

An Evolving JVC

In fiscal 2003, net sales rose 1.4% or ¥13.5 billion to ¥967.6 billion, representing our best-ever sales performance. We also posted an increase in operating income of ¥34.4 billion, to ¥22.3 billion, reversing the operating loss of ¥12.1 billion in the previous year. Moreover, JVC returned to bottom-line profitability, recording net income of ¥6.3 billion. This represented a significant ¥50.9 billion improvement on the previous year's net loss of ¥44.6 billion.

Despite these results, our reforms are still underway and there is much left to do to ensure a robust and sustained turnaround. We stand at the start line of a more fundamental revolution at JVC that will see greater employee involvement in management, complete reform of our management framework, and the creation of a powerful earnings structure based on a lineup of high value-added products. Change is already underway, including revitalizing our corporate culture. In the past, each organization within JVC was more likely to prioritize its own objectives, leading to a lack of cooperation among internal business units. Now, however, due to reforms enacted over the past two years, JVC employees are more likely to look at the bigger picture and make decisions that benefit the company as a whole. This new mindset is changing the company and enabling us to eliminate practices that held back profitability, as well as allowing us to deal with gaps and waste in our organization. Moreover, as we seek to become a high performance global company, progress in revitalizing our corporate culture underpins our ongoing preparations to move into new fields where we can leverage our core strengths. Indeed, entering new fields, something I will personally oversee, will be key to ensuring the future growth of JVC.

Products too, are vital to our future. Based on our vision of creating new ways to communicate through music and images, we strive to manufacture high value-added products to win greater market share and generate profits that reflect our products' enhanced value. A new system underpins this approach that allows us to launch products more efficiently and accurately, thanks to a complete overhaul of our core product cycle, from production right through to retailing. This system is now settling down, and will play a crucial role in generating "Only One" products designed to

stand out in the market and capture greater share in our five priority business areas. We plan to introduce these “Only One” products in as many global markets and product categories as possible.

Creating “Only One” Products in Five Priority Business Areas

JVC is focusing on five priority business areas where demand is expected to grow—high-definition displays, digital high-density storage, network AV systems, Components & Devices, and Software & Media. Recently, demand is shifting toward products that demonstrate two qualities: superior performance and digital technology. Our expertise in high-quality visual and audio technology puts us in an ideal position to benefit from this trend. We now direct our energies into developing and marketing a family of “Only One” products based on this approach, all of which can become market leaders or significantly increase market share in their respective product category.

We are launching these products in conjunction with strategies tailored to specific regional markets aimed at raising JVC brand value on a global scale. In the US, we are building closer relationships with retailers such as regional volume retailers and specialist audiovisual chains, to put in place a strong network capable of carefully explaining and selling our “Only One” products. In Europe, we hope to capitalize on number of awards bestowed upon JVC products by the influential European Imaging and Sound Association (EISA) to expand sales, and bolster our presence in growing markets such as southern and eastern Europe and Russia. In Asia, and the key Chinese market, we will work to grow sales of televisions, camcorders and car AV systems. And in our home market, centered on our range of “Digital High-definition Universe”¹ products, we will implement a sales strategy carefully matched to each distribution channel to capture a greater market share.

¹ Known as “Digital Hi-vision World” in Japan

Sustained Growth Driven by Technological Capabilities

For JVC to transform itself into a high-performance global company, it must create a portfolio of distinctive products that customers really want. This is where our advanced technological capabilities will play a crucial role in attracting customer attention. Here we will leverage high-quality picture technology, like Digital Image Scaling Technology (DIST)², high-quality sound technology such as CC Converters, DD Speakers and digital compression, and sophisticated volume production technology. Using these strengths, we will develop products that satisfy demand for premium audio and visual quality, and launch new high value-added products based on careful assessment of market trends. We will support this approach with manufacturing reforms to ensure we launch new products in a more rapid and flexible manner, thereby ensuring we capitalize on every market opportunity.

² Known as Digital Emotion Technology (DET) in Japan

Building a Responsive and Lean Value Chain

JVC shuns a vertically integrated manufacturing approach based on in-house sourcing of all semiconductors and components, in favor of a more dispersed, specialized structure. More specifically, this means we combine the resources of key suppliers of materials and components with our own technological expertise to create a responsive and lean value chain unique to JVC. We produce key devices that add the most value and make our products different, but we also use a global procurement framework to identify and source the best core components for our products.

Fostering closer relationships with global partners means we reduce lead times, pare back costs, and enhance quality, to ultimately offer an even higher level of customer satisfaction. And we take the same approach in retailing too, by creating mutually beneficial partnerships with retailers.

Leveraging Today's Technology and Creating Tomorrow's

JVC's volume production technology is a vital factor in efficiently combining numerous vendor components into "Only One" products. Technology is at the heart of our corporate DNA, and our goal is to build a company that draws out this fundamental strength.

Competition is intensifying in our operating climate at an eye-opening pace, as new players from China and South Korea gain strength and confidence. I am convinced our proprietary "black box" technology is the key to taking on and overcoming this new competition. However, at JVC we were too preoccupied with technology as an R&D tool, failing to place enough importance on the crucial role of technology in transforming components into finished goods, and finished goods into products that sell. We are therefore redefining technology's position within our organization, based on a long-term outlook. Essentially, this will strengthen technology to fulfill three roles: as a generator of cash flow to support the JVC of today; as the driving force behind the JVC of tomorrow; and as the central supporting element of JVC's operations five to ten years into the future. Balancing these three roles and enhancing our technological capabilities will be crucial for management going forward.

Moving Closer to Our Ultimate Goal With Our Three Key Initiatives

In January 2003 we announced a new brand statement—The Perfect Experience. This statement represents our undertaking to do all we can to enhance our technologies, products and services so customers enjoy truly moving experiences through music and images. Essential to realizing this ambitious task are three initiatives examined in more detail on the following pages: to reengineer our business structure, change our product lineup, and revitalize our corporate culture. With every single employee pulling as one, this will enable us to fulfill our commitment to offer customers The Perfect Experience by transforming JVC into a high-performance global company.

I believe companies can achieve success no matter what stage of growth they reach. Based on the considerable progress we demonstrated in the past year, I am confident JVC will reap the rewards of all its efforts to date. Your continuing support will be a vital element of this process.

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Masahiko Terada
President